PENGANA
CAPITAL GROUP

# MONTHLY REPORT
JANUARY 2024

# PENGANA WHEB SUSTAINABLE IMPACT FUND

## DESCRIPTION

The Pengana WHEB Sustainable Impact Fund invests in companies with activities providing solutions to sustainability challenges. WHEB have identified critical environmental and social challenges facing the global population over coming decades including a growing and ageing population, increasing resource scarcity, urbanisation and globalisation. The Fund invests in companies providing solutions to these sustainability challenges via nine sustainable investment themes – five of these are environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management) and four are social (education, health, safety and well-being). WHEB's mission is 'to advance sustainability and create prosperity through positive impact investments.'

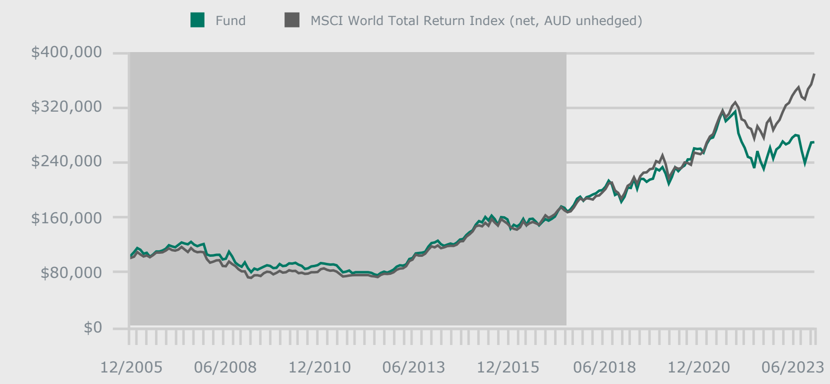
## PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2024[1]

| | 1 MTH | 1 YEAR | 3 YEARS P.A. | 5 YEARS P.A. | SINCE INCEPTION P.A. |
|---|---|---|---|---|---|
| WHEB Sustainable Impact Fund | 0.2% | 4.1% | 1.2% | 7.2% | |
| Strategy (partial simulation – see below) | | | | | 5.6% |
| MSCI World Total Return Index (net, AUD unhedged) | 4.5% | 24.7% | 13.6% | 13.6% | 7.5% |

## PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]




## TOP HOLDINGS (ALPHABETICALLY)

| | |
|---|---|
| Agilent Technologies Inc | Health Care |
| Autodesk Inc | Information Technology |
| CSL Ltd | Health Care |
| Danaher Corp | Health Care |
| Ecolab Inc | Materials |
| Keyence Corp | Information Technology |
| Linde PLC | Materials |
| Thermo Fisher Scientific Inc | Health Care |
| Trane Technologies PLC | Industrials |
| Xylem Inc/NY | Industrials |

## SECTOR BREAKDOWN

| | |
|---|---|
| Consumer Discretionary | 3.2% |
| Health Care | 30.9% |
| Industrials | 29.8% |
| Information Technology | 23.5% |
| Materials | 11.8% |
| Cash | 0.9% |

## CAPITALISATION BREAKDOWN

| | |
|---|---|
| 2-10bn | 25.8% |
| 10-20bn | 11.4% |
| >20bn | 61.9% |
| Cash | 0.9% |

## CUSTOM SECTOR BREAKDOWN

| | |
|---|---|
| Health | 27.3% |
| Resource Efficiency | 26.9% |
| Sustainable Transport | 7% |
| Environmental Services | 11.9% |
| Water Management | 11.5% |
| Safety | 7.5% |
| Cleaner Energy | 3.4% |
| Wellbeing | 1.8% |
| Education | 1.8% |
| Cash | 0.9% |

## REGION BREAKDOWN

| | |
|---|---|
| North America | 45.6% |
| Europe ex-UK | 30.2% |
| Japan | 6.6% |
| UK | 10.5% |
| Asia Pacific | 6.3% |
| Cash | 0.9% |

# STAYING THE COURSE – WHEB REMAINS COMMITTED TO SUSTAINABILITY INVESTING

## COMMENTARY

The MSCI World Index rose 4.5% over January driven by the release of strong US growth data, which fuelled hopes for a 'soft landing' rather than recession. The Fund was up 0.2% for the month due to the strong performance of individual holdings including Lonza (Health) and Autodesk (Resource Efficiency).

In this month's commentary, Seb Beloe looks at how the ESG stampede of the 2020 is now reversing at least US$10bn had been withdrawn from ESG-focused funds in 2023 and what this means for the WHEB investment strategy.

We recently recorded a '2023 In Review' webinar, which is available for your review. CPD points are applicable for Australian Financial Planners HERE.

### Market Review

For the month overall, the MSCI World Index rose 4.5%. This positive performance was driven by the release of strong US growth data, fuelling hopes for a 'soft landing' rather than recession. However, this optimism was slightly tempered at the end of the month when the US Federal Reserve noted that a March interest rate cut was unlikely. The European Central Bank kept rates on hold at its January meeting and re-iterated its commitment to remain data dependent.

In the global market, Japan was the best performing region by some margin, continuing the strong performance seen last year. In terms of sectors, Communication Services and Technology were the best performing while Materials and Real Estate were the laggards. Technology's outperformance was mainly driven by semiconductors and a 'chip rally' – primarily in stocks exposed to artificial intelligence. Cleaner Energy stocks struggled during the month, given their interest rate sensitivity. Large-cap stocks outperformed small and mid-caps globally.

### Fund Review

The Fund was up 0.2% for the month with strong performance from individual holdings including Lonza (Health) and Autodesk (Resource Efficiency). Lonza reported encouraging 4Q23 results, especially in the Biologics segment, and confirmed its medium-term outlook which was taken positively. Autodesk announced price adjustments for FY25. Architecture billings also showed good development in December, which is a key leading indicator for the firm.

The largest detractor from investment performance at a thematic level was Environmental Services. TOMRA was the largest negative within it, reversing the gains from the previous month. TOMRA is a Norwegian company leading in recycling solutions, including reverse vending machines. The long-term trend towards a more circular economy is very clear, but in the short term Tomra does experience cyclical swings.

Cleaner Energy also underperformed, largely due to weakness in solar names SolarEdge and First Solar. Many Cleaner Energy stocks have growth characteristics, which fare better in a low-rate environment.

### Outlook

Following the fall in inflation, sentiment in global equities is more positive with markets expecting that the central bank tightening phase is nearing its end. This environment should be more supportive for the generally smaller and more growth-orientated impact stocks we invest in.  Our faith in the sustainability-led growth drivers and competitive advantages of the companies themselves is as strong as ever.

## Staying the course – WHEB remains committed to sustainability investing

In 1970 Walter Mischel, a professor of psychology at Stanford University conducted a famous experiment now known as the 'Stanford Marshmallow experiment'. The experiment involved offering children a choice between one immediate reward in the shape of a single marshmallow, or two marshmallows if they waited for a short period of time.

Some children were unable to contain their impatience and immediately ate the marshmallow. Others managed to withstand the pain of waiting by creating distractions such as talking to themselves, inventing games, and even trying to fall asleep (as one successfully did). In the end, the second group had their patience rewarded with the two marshmallows.

### Last in, first out

It currently feels like a similar experiment is taking place in financial markets.  Only a few years ago asset managers were falling over themselves to tap into what were seen as lucrative markets for new 'ESG' and sustainability labelled investment funds. We called this the 'ESG stampede' as asset managers launched and sought to rebrand existing funds. In 2020 alone, more than 250 European funds were rebadged as sustainable.

Since then, high interest rates have dampened returns for the mid-cap growth stocks many sustainability fund managers had focused on. ESG has also become a lightning rod for politicians keen to rile their base with the spectre of 'woke capitalism'.  At the same time, regulators have begun to flex their muscles and demand higher regulatory standards for what constitutes sustainability. In so doing, they have increased compliance costs for fund providers.

Perhaps it is to be expected that the pain of waiting for future rewards is too much for many asset managers. Two years on from the ESG stampede, managers are now franticly reversing out of this market. Data reported in late January showed that at least US$10bn had been withdrawn from ESG-focused funds in 2023. Another recent headline claimed 'Groups slam brakes on sustainable fund name changes' in response to slowing demand and higher regulatory costs. A colleague attending a recent fund management conference reported that one very large fund manager has decided 'not to bother' to label any of their ESG-badged funds as sustainable under the FCA's Sustainability Disclosure Requirements (SDR).

### Avoiding the distractions

We view this as largely short-term noise. We know that a large proportion of end investors want to invest in a way that generates a financial return while also supporting positive change in the world. The FCA's Financial Lives survey, for example, found that 81% of adults surveyed would like the way their money is invested to do some good as well as provide a financial return.· The proportion that feels this way may well be diminished during a cost-of-living crisis. It is also likely to vary by gender and age. But research shows again and again that across all periods and in all groups a substantial proportion of those paying into pensions and savings products want to see positive impact.

We also know that the underlying issues that people care about such as inequality, climate change, ill-health and destruction of the natural environment remain profound challenges for the world. Done well and with integrity, sustainability investing is part of the solution to these challenges. What is more, investors can benefit from the value created by companies in these growing markets.

## Sorting the wheat from the chaff

Not everyone is being distracted by the current challenges facing the sustainability investment market. In contrast to many of our asset management peers, clients can trust WHEB to remain totally committed to sustainability impact investing. It is our whole focus and is embedded in our business mission and legal structure. Our approach is to invest in the companies that are most aligned with sustainability. These are companies that derive their growth from solving sustainability challenges. Companies that sell products and services that reduce greenhouse gas emissions or cure life-threatening diseases. We believe companies that enable sustainability will also themselves benefit from growing markets for the products and services that they sell. As owners of these companies, we also help them to maximise their positive sustainability impact by mitigating any negative impacts that they may have.

Like the children in the Stanford marshmallow experiment, our ambition and expectation are that our clients will end up with two marshmallows. A double dividend made up of good financial returns and a positive impact on the world around them.

## FEATURES

| | |
|---|---|
| APIR CODE | HHA0007AU |
| REDEMPTION PRICE | A$ 1.4794 |
| FEES * | Management Fee: 1.35% |
| MINIMUM INITIAL INVESTMENT | $10,000 |
| FUM AT MONTH END | A$ 255.77m |
| FUND INCEPTION DATE | 31 October 2007 |

## FUND MANAGERS

**Ted Franks**
**Partner, Head of Investment**

**Seb Beloe**
**Partner, Head of Research**

1. From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are zeroed. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical. No allowance has been made for buy/sell spreads. Please refer to the PDS for information regarding risks. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.
2. The Fund incepted on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund.
3. Annualised standard deviation since inception.
4. Relative to MSCI World Total Return Index (net, AUD unhedged)

* For further information regarding fees please see the PDS available on our website.

## PENGANA WHEB SUSTAINABLE IMPACT FUND


**PENGANA CAPITAL LIMITED**

ABN 30 103 800 568

AFSL 226566

**CLIENT SERVICE**

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com

PENGANA CAPITAL GROUP

**PENGANA.COM**