MONTHLY REPORT
MARCH 2023

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.'

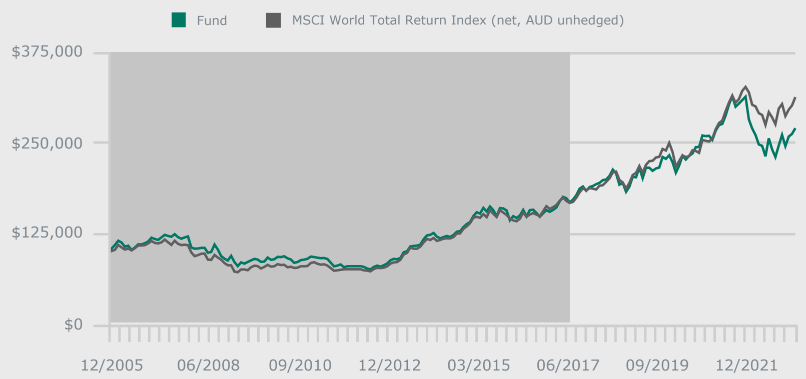
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Mar 2023[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	3.0%	3.6%	8.9%	6.9%	
Strategy (partial simulation – see below)					5.9%
MSCI World Total Return Index (net, AUD unhedged)	3.8%	4.3%	13.0%	11.0%	6.8%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Ansys	Information Technology
CSL	Health Care
Danaher	Health Care
Icon	Health Care
Linde PLC	Materials
Power Integrations Inc	Information Technology
Steris	Health Care
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care
Trane Technologies PLC	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	3.9%
Consumer Staples	1.8%
Health Care	27.2%
Industrials	23.6%
Information Technology	30%
Materials	12.5%
Cash	1%

CAPITALISATION BREAKDOWN

2-10bn	24.8%
10-20bn	22.6%
>20bn	51.6%
Cash	1%

CUSTOM SECTOR BREAKDOWN

Health	23%
Resource Efficiency	25.6%
Sustainable Transport	10.5%
Environmental Services	13.1%
Water Management	7.8%
Safety	5.4%
Cleaner Energy	7.9%
Wellbeing	4.3%
Education	1.5%
Cash	1%

REGION BREAKDOWN

North America	60.5%
Europe ex-UK	20.3%
Japan	7.8%
UK	4.8%
Asia Pacific	5.6%
Cash	1%

MARCH MADNESS – WHAT DOES THE BANKING TURMOIL MEAN FOR SUSTAINABLE INVESTORS?

COMMENTARY

In this month's commentary, Victoria MacLean discusses what the impact of the recent banking turmoil may mean on a longer-term basis for innovation in key areas of the economy relating to sustainability goals, including climate technology and biotechnology. Despite the uncertainty in the banking sector, the MSCI World ended the month up 3.8% and the Fund ended up 3.0%.

Market Review

March was a volatile month, driven by turmoil in the banking sector. In the US, two major mid-market lenders collapsed, and regulators had to step in to guarantee customers' deposits would be safe. In Europe, this was followed by the downfall of Credit Suisse, which forced the Swiss government to broker a deal that saw rival UBS buy the bank for US$3.2bn.

Eurozone consumer price inflation retreated notably in March, almost entirely due to base effects in energy prices, but core inflation rose to a record high.

The last week of the month also saw the Bank of England's report in which the central bank warned the next failure in financial markets may be triggered by corporate credit, following a significant build-up in private debt over the past decade.

The MSCI World ended up 3.8% despite the uncertainty in the banking sector. Unsurprisingly, Financials was the weakest performer over the month, with Technology being the strongest in the global market.

Fund Review

The Fund was up 3.0% over the month, with **First Solar** being the standout performer, continuing to benefit as the only major US solar module manufacturer. The company has now entirely booked out its manufacturing capacity through to 2026 and is taking bookings out to 2029. **Infineon Technologies** also performed well after announcing stronger than expected results for the first quarter and raising its outlook for the full year due to a better-than-expected demand environment.

ICON and **Advanced Drainage Systems** were the weakest performers. The market was nervous that some of ICON's customers (the emerging biopharma companies) would struggle to secure further funding after the SVB insolvency. Advanced Drainage Systems underperformed due to concerns about interest rates slowing levels of new construction, which is a key end market for the company.

Cleaner Energy was the best-performing theme and Environmental Services the weakest on an absolute basis.

Outlook

Sentiment remains cautious. Recent economic data has been solid, and the US Federal Reserve has hinted that interest rate increases may slow from here in the wake of the issues in the banking sector. However, we have yet to see definitive signs of disinflationary traction.

Companies within the portfolio remain resilient in the current environment and notably have very little exposure to the fallout of the banking collapses. While there is uncertainty in the short term, we remain confident in the long-term positioning of our holdings.

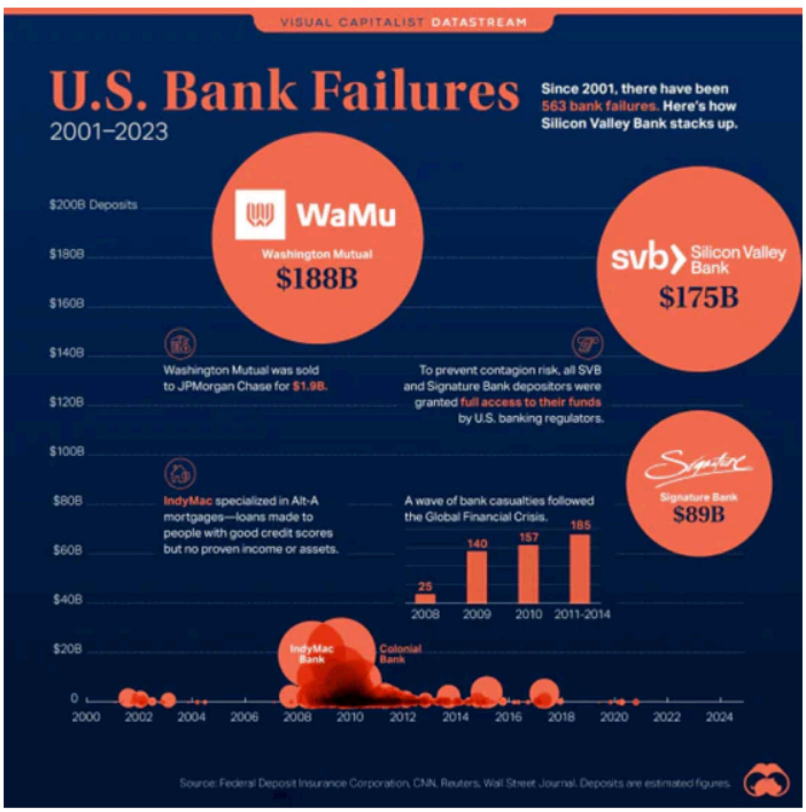
March madness – what does the banking turmoil mean for sustainable investors?

What happened?

On 10th March Silicon Valley Bank (SVB), the 16th largest lender in the US, collapsed. Two days earlier the bank had realised a US$1.8 billion loss selling investments to meet withdrawals. The announcement of a capital raise prompted further withdrawals with panic spreading amongst its venture-capital customers.

Regulators took control of the bank and two days later the Federal Reserve, the Treasury Department, and the Financial Deposit Insurance Corporation unveiled emergency measures to stem the fallout. Importantly, customers were assured they would get their money back.

Second largest bank failure since 2001



Source: Visual Capitalist

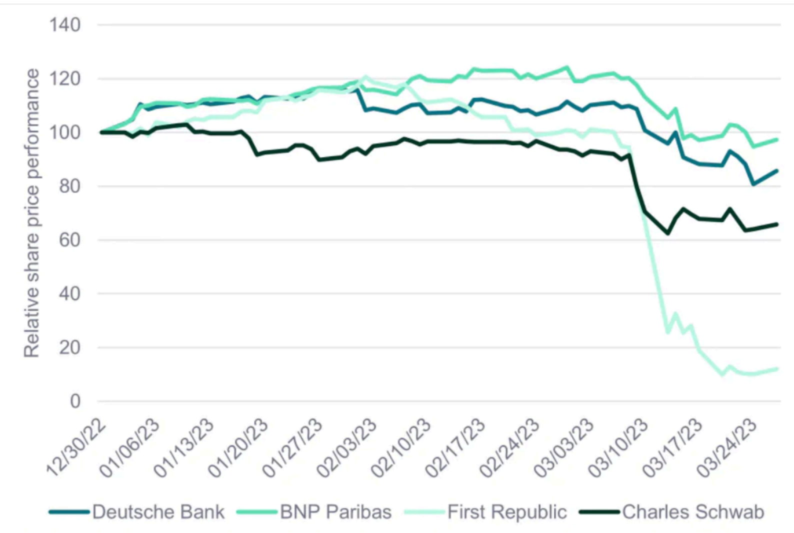
A little over a week later in Europe, Credit Suisse's 167-year history came to an end. The bank had seen outflows of around US$10 billion a day that week. The chairman of Saudi National Bank then triggered a fire sale when he stated on Bloomberg TV that they would not offer additional financial support.

The Swiss National Bank eventually brokered a US$3.2bn takeover by UBS. Shareholders received CHF0.76 per share, about 75% less than they were worth at the start of the month. Low-ranking bonds worth US$17bn were wiped out.

Does it affect WHEB?

There were ripple effects throughout the banking sector, particularly for regional lenders in the US and in Europe most notably for Deutsche Bank which has been seen as another problem child in the industry.

Contagion in the banking sector



Source: Factset data

The WHEB strategy has no direct holdings in banks. The publicly listed banks which are large enough for us to own aren't typically targeting areas of the market with high unmet needs, and as such we don't view them as solving a sustainability challenge.

However, there are indirect effects that are important for us to consider. First is the potential knock-on effect on innovation. Second is the broader implication for market sentiment and central bank policy direction.

Innovation: focus on climate and biotechnology

SVB was a prominent lender to start-ups and it counted over 1,500 companies involved in climate technology as its customers.[1] In the solar industry, SunRun, one of the largest residential installers in the US publicly disclosed exposure to SVB through its credit facilities. The total represented a small proportion of its overall credit but the stock still fell 12% as a result.

What the SunRun exposure hints at is the wider risk to growth in climate technology. The Inflation Reduction Act is in part targeted at bringing clean energy to low-income communities. This market is typically served by local and regional banks.[2] While SunRun is likely large enough to remain viable, smaller developers may face financing challenges. It is possible that larger companies will be able to benefit in the short term by picking up market share. However, if difficulty accessing capital means start-ups are struggling to invest or are simply failing, there is a risk the innovation which is crucial to meeting longer-term climate goals, will be stifled.

Our holdings in the solar industry include **Enphase**, [SolarEdge](), and [First Solar](). None of these companies have significant exposure to SVB. They are impacted by industry growth, and share prices have been volatile as a result of uncertainty in the market. However, First Solar, as an example, has sold out of capacity until 2026. We believe it is highly unlikely the fallout from the banking issues will persist beyond then.

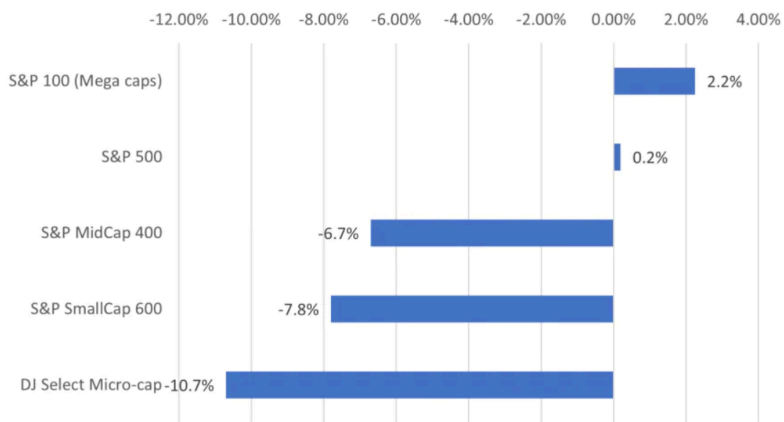
Similar issues face biotech start-ups. About half of all US biotech companies banked with SVB and its collapse will likely make access to funding harder.[3] As with climate technology the real concern is the long-term chilling effect on innovation. This has no immediate impact on our holdings, but companies involved in clinical trials and contract manufacturing, such as ICON and Lonza, could be affected if the overall pipeline starts to slow. From an impact perspective, this could delay potentially life-saving innovations coming to market.

Contagion effect

There have been more immediate implications. Amid the initial chaos, equity markets had their worst week of performance since January and have continued to be volatile since. The main focus has been on the banking sector and what these events could mean for regulation. Sectors such as clean energy and biotechnology have also been volatile as a result of the knock-on effects described above.

What's more surprising perhaps is that markets haven't been weaker. The S&P 500 was broadly flat over the month. However this masks underlying dispersion as small- and mid-caps significantly underperformed large-caps, and in particular the large technology stocks which have been seen as a safe haven.

Index Performance by market cap March 2023



Source: Factset data

There is a broader concern that a tightening in lending activity could create further pressure on economic growth, pushing economies closer to recession. This has resulted in even greater scrutiny on the tone coming from central banks. In the press conference following the Federal Reserve's March meeting, Chairman Powell commented that credit tightening has the same effect as rate hikes, which has been taken as a signal that the policy rate may have peaked.[4]

What does it all mean?

It is unlikely we will know the extent of the impact of the banking turmoil for some time. The path of economic growth is uncertain as is the lending environment. Longer-term there are question marks about financial regulation and risks to innovation in key areas of the economy relating to sustainability goals.

At WHEB, our focus on quality means we typically avoid companies with significant borrowing and we have no investments in banks. That has meant there are no immediate concerns about direct effects on the portfolio. In the short term the portfolio is affected by the negative sentiment towards mid-caps and the general volatility in markets. We will also have to monitor the situation in US climate and biotech funding as that could have indirect consequences for our holdings. However, we remain confident that the strong market positions and differentiated products continue to support the long-term view for these businesses.

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[1] https://www.nytimes.com/2023/03/12/climate/silicon-valley-bank-climate.html

[2] https://www.ft.com/content/5cd9822e-6695-4a07-b261-bad90d8e0bde?shareType=nongift

[3] https://www.reuters.com/business/finance/svb-fall-casts-shadow-early-stage-us-biotech-2023-03-13/

[4] https://www.ft.com/content/92c46ac5-6e67-4620-8798-b95a5a2fba72

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.4856
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 273.8m
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