

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.'

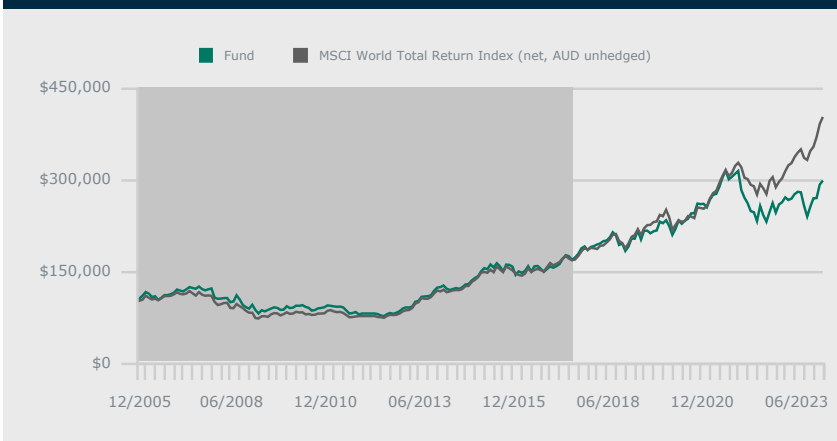
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Mar 2024¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	2.4%	10.2%	3.8%	8%	
Strategy (partial simulation – see below)					6.2%
MSCI World Total Return Index (net, AUD unhedged)	3%	28.4%	14.4%	14%	7.9%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Agilent Technologies Inc	Health Care
Autodesk Inc	Information Technology
CSL Ltd	Health Care
Ecolab Inc	Materials
ICON PLC	Health Care
Linde PLC	Materials
MSA Safety Inc	Industrials
Thermo Fisher Scientific Inc	Health Care
Trane Technologies PLC	Industrials
Xylem Inc/NY	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	3%
Health Care	32.5%
Industrials	29.6%
Information Technology	22.4%
Materials	11.5%
Cash	1.1%

CAPITALISATION BREAKDOWN

2-10bn	21.8%
10-20bn	9.8%
>20bn	67.4%
Cash	1.1%

CUSTOM SECTOR BREAKDOWN

Health	29.1%
Resource Efficiency	27.4%
Sustainable Transport	5.3%
Environmental Services	9.9%
Water Management	10.5%
Safety	8.7%
Cleaner Energy	4.6%
Wellbeing	1.6%
Education	1.8%
Cash	1.1%

REGION BREAKDOWN

North America	43.7%
Europe ex-UK	34.4%
Japan	6.2%
UK	9.6%
Asia Pacific	5%
Cash	1.1%

THE “IPHONE MOMENT” FOR OBESITY TREATMENT

COMMENTARY

With economic sentiment improving and inflation continuing to abate, confidence grew, and growth investment styles were largely favoured. The Fund rose 2.4% driven by the strong performance of multiple companies held in our Health theme.

In this month’s commentary, Ben Klufftinger takes a deep dive into obesity and the long and chequered history of weight-reducing drugs going back as far as the 1940s. He notes that what we are observing now, with the launch of the first-ever obesity drug Wegovy by Novo Nordisk, is nothing short of a revolutionary moment and comparable in impact to the 2007 launch of the iPhone. Wegovy has achieved a weight loss of 15% on average, a level approaching the benefits of rather invasive bariatric surgery results.

Market Review

The MSCI World Index posted positive returns in March, up 3.0%. With economic sentiment improving and inflation continuing to abate, confidence grew, and growth investment styles were largely favoured. However, this picture was quite mixed with some sustainability-led growth areas such as Cleaner Energy having a more difficult time.

Energy (oil and gas) and Materials were the strongest sectors in the global market and Consumer Discretionary and Technology the weakest.

Fund Review

The Fund delivered positive returns of 2.4% over the month.

Lonza, in the Health theme, was the largest positive contributor. Lonza is a Swiss contract drug manufacturing company, with a particular strength in the producing biologic drugs, which mimic the actions of the human body in fighting disease. Lonza acquired a biologics manufacturing facility from Roche, which was seen as a positive deal and increased its mid-term growth expectations.

Health was the best performing theme overall as several other holdings performed well, including Agilent, ICON, Novo Nordisk and Genmab.

Other positive contributions came from Resource Efficiency and Environmental Services. The good contribution in Resource Efficiency was driven by Trane Technologies, a heating and ventilation company specialising in energy- and carbon- saving technologies. The company re-iterated the healthy outlook for some of its end-markets at a conference.

The Environmental Services theme also helped performance, led by recycled packaging company Smurfit Kappa. Containerboard market fundamentals continue to improve as capacity comes out of the market and prices increase. International Paper and Mondi are also bidding for UK peer, DS Smith, resulting in further consolidation which would be positive for the industry.

The Sustainable Transport theme was the main detractor from return. Semiconductor company Infineon Technologies was notably weak. The automotive and industrial value chain the company serves is working through higher inventory levels, as demand for EVs pauses due to higher interest rates and infrastructure concerns. Investors are also concerned that China has urged electric vehicle manufacturers to buy more Chinese chips.

The second largest detractor overall was Steris, within the Safety theme. The company faced headwinds as the market digested US EPA proposals around the regulation of ethylene oxide, used in its sterilisation processes. We are confident that Steris will meet any revised standards.

Outlook

Following the fall in inflation, sentiment in global equities is more positive with markets expecting that central bank tightening is nearing its end. This environment should be more supportive for the generally smaller and more growth-orientated impact stocks we invest in.

Meanwhile, several of our key sustainability markets have cyclical challenges to overcome, as well as repositioning around China's changing role in global manufacturing. We remain convinced that the companies we invest in retain the competitive edge to deliver the transition to a more sustainable economy.

The "iPhone moment" for obesity treatment

By Ben Kluftringer

In early March, Novo Nordisk held its Capital Markets Day which we attended virtually. Quite unusually, the day kicked off with the [CEO interviewing a former obesity trial participant](#), Isabella Davies. Mrs Davies used to be severely obese, almost unable to move without being completely out of breath and suffered from heart failure. In the trial, she lost 30kg of body weight which gave her back her mobility and essentially saved her life. One might be tempted to dismiss this as one of those "sob stories" companies tell to make themselves look good. Maybe. But on second thoughts, obesity does kill and Novo's new "wonder drug" Wegovy will save lives.

Obesity is an epidemic – and it matters

We have written about Wegovy before so here's just a brief recap of the implications of obesity. In 1997, the World Health Organization (WHO) declared obesity an epidemic with very limited effect – the numbers have only got worse since and are still accelerating.

- According to the WHO, in 1990 25% of adults (> 18 years) were overweight and ~8% obese globally (BMI>30kg/m²). By 2022 these numbers increased to 43% overweight and ~16% obese. The deterioration in this data for children is even worse which is an indication of what lies ahead.
- The US is even more extreme. In 1999/2000, 30.5% of its adult population was obese and 4.7% severely obese (BMI > 40kg/m²). Just nine years later, [this rose to 42.4% and 9.2%](#) respectively.

While historically, obesity has been looked upon as a "lifestyle choice", many health organisations are now acknowledging that obesity itself should be considered an illness. The WHO is now stating in its factsheet that "In most cases obesity is a multifactorial disease due to obesogenic environments, psycho-social factors and genetic variants." The American National Institute for Health (NIH) did so already in 1998. The American Obesity Society followed in 2008.

Obesity is a threat to health because it affects the whole body and increases the incidence of a wide range of medical complications including: stroke, idiopathic intracranial hypertension, cataracts, obstructive sleep apnoea, hypoventilation syndrome, coronary artery disease, pancreatitis, diabetes, dyslipidaemia, hypertension, non-alcoholic fatty liver disease, gallbladder disease, polycystic ovarian syndrome, infertility, abnormal menses, cancer (breast, uterus, cervix, prostate, kidney, colon, oesophagus, pancreas, liver), osteoarthritis, gout, venous stasis.

In fact, [there are more than 200 comorbidities associated with obesity!](#)

Research shows that a high BMI is associated with a decreased life expectancy of up to 10 years. For every 5 kg/m² BMI increment above the range of 22.5–25.0 kg/m², there is a [30% increase in overall mortality](#).

Apart from the devastating impact on health and life expectancy, there is also a huge economic impact on the wider health system. In a [much-quoted study from 2022](#), it was estimated that in 2019 the negative impact on global GDP amounted to 2.2%. Unsurprisingly, the highest cost was in the high-income countries costing as much as US\$1110 per capita per annum. This cost is likely to rise further.

Obesity medication existed for decades – but this is its “iPhone moment”

There exists a [long and chequered history of weight-reducing drugs](#) going back as far as the 1940s. And more often than not, the side effects were substantially worse than the rather limited reduction in weight loss achieved, which was in the high single digits percent of body weight at best.

What we are observing now is nothing short of a revolutionary moment comparable in impact to the 2007 launch of the iPhone. This time though it is Novo Nordisk, not Apple, that is the disruptor and the product is the first-ever obesity drug (Wegovy) launched in 2021. [Wegovy achieves a weight loss of 15% on average with 32% of STEP-1 trialists achieving over 20% of their bodyweight](#). This is a level that is approaching the benefits of rather invasive bariatric surgery results.

Wegovy is a drug based on a specific GLP-1 (Glucagon-like peptide) called semaglutide. It is a gut-derived peptide hormone that stimulates the secretion of insulin while sending satiety signals to the brain. Many other GLP-1s exist and have been tried but semaglutide is by far the most effective and according to one expert we spoke to it is unlikely that a better one will be found. Its stunning results have created a frenzy which sometimes borders on the outlandish; for example, we have received broker research exploring the impacts on sectors as disparate as the food packaging sector (people eating less food) to the airline industry (fewer obese passengers).

More seriously, the demand surge for Wegovy has caught everybody by surprise, including Novo Nordisk which quickly ran short of supply. One factor was the unheard-of ‘out-of-pocket’ interest. This represents the patients who are not able to claim for the cost of the medicine on their insurance policies and [makes up nearly 80% of the total demand for the drug](#) in Denmark and other European countries where it had been launched. A key additional benefit of semaglutide is a lowering of inflammation which increases its potency in tackling many of the obesity-related comorbidities more efficiently than just by lowering the bodyweight. It has already shown a 20% reduction in major adverse cardiovascular events (MACE) in the SELECT trial and numerous other indications are currently in trials tackling other cardiovascular diseases (CVD), metabolic dysfunction-associated steatohepatitis (MASH), rare endocrine disorders (RED), Alzheimer’s diseases, and others.

Novo Nordisk is at the centre of this new megatrend

Similar to the first generation of the iPhone, this is just the beginning of the obesity treatment revolution. Novo Nordisk competitor Eli Lilly has just launched a compound drug Zepbound (a different GLP-1 combined with a GIP (Gastric inhibitory polypeptide)) which has shown to produce [even higher weight loss in the SURMOUNT trials](#). Novo Nordisk has its own follow-up drug, Cagrisema, in clinical phase 3 which so far produced results ahead of Wegovy and Zepbound. And so does Eli Lilly with retatrutide, also still in clinical trials. A few other companies like Zealand Pharma and Boehringer Ingelheim are trying to jump on the bandwagon but they appear late to the party. Company and consensus expectations are that the obesity drug market is going to grow in the high double-digit percent annually for the foreseeable future reaching a total market size north of USD\$100bn by 2030 with most of that shared between Novo Nordisk and Eli Lilly.

Just to show what potential competition is up against: Novo Nordisk is currently expanding its Wegovy active pharmaceutical ingredient (API) facility in Danish Kalunborg for USD\$6bn by 170,000m² to reach a total size of 1.6 million m² – this corresponds to half the size of “the City” of London. And there is more to come. At its Capital Markets Day in March 2024, Novo Nordisk made clear that it expects to treat a substantially larger number of patients by 2030 than its current ~40 million. Its parent, the Novo Foundation, recently announced the acquisition of Catalent, a contract manufacturing organisation (CMO) in order to speed up production. And in fact, there is a whole supply chain experiencing accelerating growth to support production including with other CMOs and the drug packaging industry.

So, is this the beginning of the end of the obesity epidemic? It's still way too early to shout “Victory!” There are potential side effects of the medication (like nausea, diarrhoea and vomiting) to keep in mind. And cost. But for the first time in the history of obesity treatment, doctors and patients are actively seeking a drug that can kick-start and turbo-charge the journey towards weight loss. It's hard work without this boost, as the author of this article can confirm after losing 9kg over three months via calorie-counting and an intensive sports regime. But obesity can only be truly beaten if the patient also shifts to a healthy diet and lifestyle at the same time. For many the drug provides the critical boost. Just ask Isabella Davies.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.6376
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 279.4m
FUND INCEPTION DATE	31 October 2007

FUND MANAGERS



Ted Franks
Partner, Head of Investment



Seb Beloe
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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 inception 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.

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