

**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.'

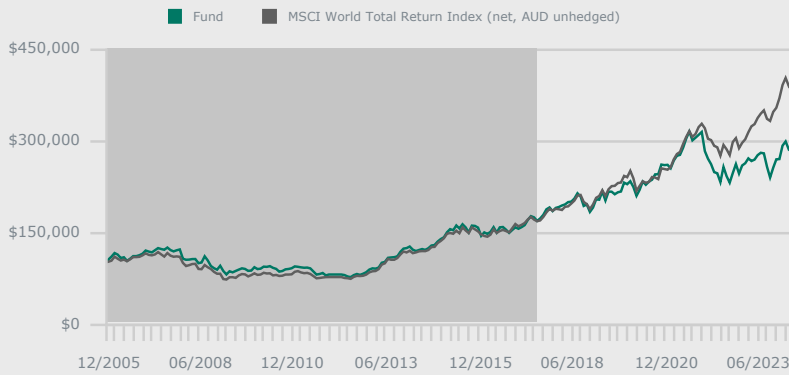
**PERFORMANCE TABLE**

NET PERFORMANCE FOR PERIODS ENDING 31 May 2024<sup>1</sup>

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	1.3%	7.6%	1.5%	7.5%	
Strategy (partial simulation – see below)					5.9%
MSCI World Total Return Index (net, AUD unhedged)	2.0%	21.5%	12.2%	13.7%	7.8%

**PERFORMANCE CHART**

NET PERFORMANCE SINCE INCEPTION<sup>2</sup>



**TOP HOLDINGS (ALPHABETICALLY)**

Agilent Technologies Inc	Health Care
Ecolab Inc	Materials
ICON PLC	Health Care
Infineon Technologies AG	Information Technology
Keyence Corp	Information Technology
Linde PLC	Materials
MSA Safety Inc	Industrials
Schneider Electric SE	Industrials
Thermo Fisher Scientific Inc	Health Care
Xylem Inc/NY	Industrials

**SECTOR BREAKDOWN**

Consumer Discretionary	3.2%
Health Care	31.3%
Industrials	29.7%
Information Technology	23.8%
Materials	11.4%
Cash	0.5%

**CAPITALISATION BREAKDOWN**

2-10bn	21.2%
10-20bn	10.5%
>20bn	67.8%
Cash	0.5%

**CUSTOM SECTOR BREAKDOWN**

Health	27.4%
Resource Efficiency	25%
Sustainable Transport	8%
Environmental Services	9.8%
Water Management	12.9%
Safety	8.9%
Cleaner Energy	5.6%
Education	1.9%
Cash	0.5%

**REGION BREAKDOWN**

North America	42%
Europe ex-UK	38.1%
Japan	5.7%
UK	10.9%
Asia Pacific	2.8%
Cash	0.5%

## AI: DEVELOPING HUMANITY'S SUPERPOWER ABOVE ALL COSTS

### COMMENTARY

Most market indices were up for the month of May, with ongoing investor optimism about the economic outlook supporting risk assets. The fund delivered positive performance over the month of +1.3%. Following falls 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.

This month Katie Woodhouse considers the impact of the increasing importance of AI. While it clearly has the potential to provide solutions that generate real environmental benefits, the current reality is that it's making existing sustainability challenges even greater. She discusses how the potential positive impact of AI will only be realised if AI solutions can be delivered with a dramatically lower greenhouse gas and water footprint. Within WHEB's investment strategy, we explicitly look for businesses that will help make this a reality.

### Market Review

Most market indices were up for the month of May, with ongoing investor optimism about the economic outlook supporting risk assets. The MSCI World Index of stocks was up +2.0%.

US equities were the best performers during the month, supported by better than expected first quarter earnings results across several sectors. The largest technology stocks continued to drive an outsized portion of Index performance, with more than half of the S&P 500's performance attributed to NVIDIA, Apple, Microsoft and Google (all of which do not fit in our universe of companies that solve sustainability challenges).

In Europe, PMI (Purchasing Managers Index) data released during the month confirmed that economic confidence is improving.

Regional monetary policy is beginning to diverge. In the US, disinflationary trends are beginning to stall and hopes of an imminent rate cut beginning to fade. In the eurozone, the European Central Bank (ECB) appears to be more confident about the economy's disinflationary path. Expectations of falling interest rates favoured growth styles, which outperformed value styles.

Technology and Utilities were the strongest sectors in the global market while Energy and Consumer Discretionary lagged.

### Fund Review

The fund delivered positive performance over the month of +1.3%.

The Cleaner Energy theme was the largest positive contributor, due to sharp rises in First Solar and NextTracker. There have been several supportive US policy decisions recently to develop the US utility-scale solar market, as well as an increasing number of corporate customers looking to secure clean energy sources.

The Sustainable Transport theme also performed well, driven by the holdings in Infineon and Aptiv. Infineon lowered its full-year guidance due to challenging end markets. This was much anticipated and received positively by investors. Aptiv released better than expected Q1 results in May, with a favourable exit from a joint venture with

Hyundai on autonomous vehicles.

On the other side of the ledger, Daifuku (in the Resource Efficiency theme) was the weakest contribution to returns. The company published a new mid-term plan forecasting strong revenue growth. However, expectations for flat margins as well as short-term headwinds in some segments and regions weighed on the stock. Trimble, another holding in the Resource Efficiency theme, fell in the month. Weak demand in their hardware business, and on concerns relating to the delay of a financial filing, weighed on the stock. We have met with management and continue to believe that Trimble can grow earnings, particularly from their '[Construction One](#)' strategy.

## 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.

## AI: developing humanity's superpower above all costs

By Katie Woodhouse

Barely a day goes by without a fresh news story regarding Artificial Intelligence (AI). Last month, OpenAI released its demo of the latest version of its Chat Bot, ChatGPT 4o, an impressive, if not slightly terrifying, glimpse into the not-so-distant future of AI assistants.<sup>1</sup>

Some of the benefits of AI are clear to see but the famous proverb "with great power comes great responsibility," comes to mind as the race to develop the new technology takes precedence over all other considerations. The societal impact of AI is something that is discussed fiercely in businesses and governments globally. But what are the environmental impacts?

### Racing ahead

Unfortunately, these are not good. According to the International Energy Agency, one query on ChatGPT uses ten times the energy of a standard Google search.<sup>2</sup> These negative impacts of AI were very visible in May when Microsoft published its 2024 Environmental Sustainability Report. This detailed environmental developments at Microsoft since 2020 when the company announced ambitious pledges, including its aim to be carbon negative and water positive by 2030. Since 2020 however, Microsoft has reported a 30% increase in total scope 1, 2 and 3 greenhouse gas (GHG) emissions, and an 87% increase in water consumption.<sup>3</sup> These increased impacts are almost entirely due to the construction of data centres – the critical infrastructure powering AI.

A few months prior to the publication of the report, Microsoft published its AI Sustainability playbook in which the company argued that "AI is a vital tool to help accelerate the deployment of existing sustainability solutions and the development of new ones – faster, cheaper and better".<sup>4</sup> The irony is not lost on us that AI is seen as a game-changer for accelerating climate solutions when it is currently the main cause of surging energy demand and consequent GHG emissions.

Considering the positive stock market reaction whenever a company mentions AI, it begs the question if Microsoft, as well as the other large tech companies, are highlighting a tension between growth and their short-term shareholders' interest and the long-term interests of our planet.

The data centres required to power AI and cloud-computing are notoriously energy and water intensive. The International Energy Agency (IEA) report that data centre demand comprised 3.6% of total power consumed across the US, Europe and China in 2022. This is forecast to increase to 7% by 2026.<sup>5</sup> To put this in perspective, this is equivalent to the current annual energy usage of Japan.<sup>6</sup> The combined electricity use by Amazon, Microsoft and Google more than doubled between 2017 to 2021.<sup>7</sup> A gold star to whoever can guess which stocks were the most widely held in ESG funds in 2023, according to Morningstar.<sup>8</sup>

### Cleaning up after AI

These huge additional energy demands require substantial investment in new energy infrastructure. Luckily, many of the mega-cap tech companies have ambitious renewable energy targets they are required to meet. While Microsoft is woefully off course in meeting its carbon reduction targets it is nonetheless investing in renewable energy infrastructure. A prime example is the company's huge US\$10bn agreement with Brookfield Renewable Partners for the development of 10.5GW of new clean energy projects, coming in at eight times the size of the previous largest renewable energy agreement.<sup>9</sup>

Microsoft in particular has gone some way to atone for their carbon sins. Last month at the Microsoft Build conference, CEO, Satya Nadella, reaffirmed Microsoft's commitment to power its data centres with 100% renewable energy by 2025.<sup>10</sup> As a result of Nadella's comments, [First Solar](#) and [Nextracker](#), US-based manufacturers of solar panels and tracking systems respectively and both held in the fund, rose 18.5% and 13.6% on the day, with other AI companies in our Cleaner Energy theme not far behind.<sup>11</sup>

Getting this new renewable energy to the data centres will also require substantial upgrades to the grid. This is set to benefit [Schneider Electric](#), a provider of energy management technologies and solutions.

Making sure that any additional energy requirements are met with renewable power is one way of limiting the negative impacts of AI on the environment. Improving the efficiency with which water and energy are used is another. With 40% of the energy usage of data centres used for cooling the equipment, there is significant need for efficiency. [Trane Technologies](#) produce energy-efficient air conditioning systems and related services that are ideal for use in data centres. In the first quarter of 2024, Trane's commercial air conditioning system bookings were up 30% compared to the same quarter in 2023. Similarly, [TE Connectivity](#)'s Thermal Bridge technology can provide double the improvement in thermal resistance when compared to traditional methods – reducing the need for higher speed fans and lowering energy usage in data centres.<sup>12</sup>

As Microsoft argue in their AI Sustainability sourcebook, AI clearly has the potential to provide solutions that generate real environmental benefits. The current reality however is that AI is just making our existing sustainability challenges even greater. Realising the potential positive impact of AI will only be realised if AI solutions can be delivered with a dramatically lower GHG and water footprint. Within WHEB's investment strategy, we explicitly look for businesses that will help make this a reality.

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- 1 <https://chat.chatbotapp.ai/>
- 2 <https://iea.blob.core.windows.net/assets/18f3ed24-4b26-4c83-a3d2-8a1be51c8cc8/Electricity2024-Analysisandforecastto2026.pdf>
- 3 <https://query.prod.cms.rt.microsoft.com/cms/api/am/binary/RW1IMjE>
- 4 <https://blogs.microsoft.com/on-the-issues/2023/11/16/accelerating-sustainability-ai-playbook/>
- 5 <https://www.iea.org/reports/electricity-2024>
- 6 <https://www.ft.com/content/70f3ce57-1d02-4aa9-a94f-d8d728671672>
- 7 <https://www.iea.org/reports/electricity-2024>
- 8 <https://www.morningstar.com/sustainable-investing/what-stocks-do-esg-funds-own-here-are-three>
- 9 <https://www.esgtoday.com/microsoft-signs-largest-ever-corporate-renewable-energy-purchase-deal-with-brookfield/>
- 10 [https://news.microsoft.com/wp-content/uploads/prod/2024/05/Satya-Nadella\\_Transcript\\_KEY01\\_Build2024.pdf](https://news.microsoft.com/wp-content/uploads/prod/2024/05/Satya-Nadella_Transcript_KEY01_Build2024.pdf)
- 11 Factset price data
- 12 <https://www.te.com/en/about-te/perspectives-on-technology/rapid-expansion-of-data-centers.html>

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.5868
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 265.48m
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 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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