

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 2025¹

| | 1 MTH | 1 YEAR | 3 YEARS P.A. | 5 YEARS P.A. | SINCE INCEPTION P.A. |
|---|-------|--------|--------------|--------------|----------------------|
| WHEB Sustainable Impact Fund | 4.7% | -5.2% | 3.6% | 3.3% | |
| Strategy (partial simulation – see below) | | | | | 5.3% |
| MSCI World Total Return Index (net, AUD unhedged) | 5.3% | 17.5% | 17.4% | 14.9% | 8.3% |

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

| | |
|--------------------------|------------------------|
| Autodesk, Inc. | Information Technology |
| Bureau Veritas SA | Industrials |
| Ecolab Inc. | Materials |
| Infineon Technologies AG | Information Technology |
| Keyence Corporation | Information Technology |
| Linde plc | Materials |
| STERIS plc | Health Care |
| TE Connectivity plc | Information Technology |
| Trimble Inc. | Information Technology |
| Xylem Inc. | Industrials |

SECTOR BREAKDOWN

| | |
|------------------------|-------|
| Consumer Discretionary | 2.6% |
| Health Care | 28.2% |
| Industrials | 30.2% |
| Information Technology | 23.4% |
| Materials | 12.6% |
| Utilities | 1.9% |
| Cash | 1.1% |

CAPITALISATION BREAKDOWN

| | |
|---------|-------|
| 2-10bn | 23.7% |
| 10-20bn | 15.3% |
| >20bn | 60% |
| Cash | 1.1% |

CUSTOM SECTOR BREAKDOWN

| | |
|------------------------|-------|
| Health | 22.8% |
| Resource Efficiency | 23.9% |
| Sustainable Transport | 8.4% |
| Environmental Services | 10.5% |
| Water Management | 16.1% |
| Safety | 11.2% |
| Cleaner Energy | 4.1% |
| Education | 1.9% |
| Cash | 1.1% |

REGION BREAKDOWN

| | |
|---------------|-------|
| North America | 44.7% |
| Europe ex-UK | 35% |
| Japan | 7.4% |
| UK | 10.7% |
| Asia Pacific | 1.1% |
| Cash | 1.1% |

MAY REPORT

COMMENTARY

The past few years have been a tough time to be an impact-driven investor. In this month's article, Ben Klufftinger considers whether extensive dislocation in the market is in fact creating one of the most attractive hunting grounds for investors in more than a decade.

Join the WHEB team, where they will discuss the findings from WHEB's 2024 Impact Report (Focusing on the Future) along with an update on the WHEB sustainable strategy.

The webinar will be followed by audience Q&A, and is CPD accredited for Australian financial advisers. Register [here](#).

Market Review

May was a strong month for global equities. After the shock of US President Trump's tariff announcements at the start of April, news of a pause on those tariffs, and ongoing trade negotiations lifted confidence. Overall, the MSCI World Index rose 5.3%. The US led the way, with its S&P 500 Index up 6.2%.

Under the surface though, the gains were quite skewed, with mega cap technology stocks contributing an outsized portion of the growth. Cyclical sectors such as industrials and financials were also strong, as growth styles outperformed value ones.

Whilst the focus temporarily moved on from tariffs and trade, President Trump was still leading the news cycle. He kept up the breakneck pace of policy change by helping push his "One Big Beautiful Bill" ("OBBB") through the House of Representatives, by the narrowest possible margin of one vote. As we write, the bill is with the Senate.

If passed in its current form, the OBBB will have a powerful direct impact on some sustainability issues. While seeking to preserve the tax cuts from the 2017 "Tax Cuts and Jobs Act", the OBBB plans to effectively gut most of the climate change provisions of President Biden's landmark 2022 "Inflation Reduction Act". The current draft also seeks to dramatically reduce the availability of healthcare for low-income Americans. However, its passage through the Senate is far from assured.

Fund Review

The Fund also rose significantly during the month, increasing 4.7%.

Resource Efficiency and Sustainable Transport, two themes which tend to be biased towards growth and economic sensitivity, were significant positive contributors to return, closely followed by Cleaner Energy.

In Resource Efficiency, spatial technology specialist **Trimble** reported a strong first quarter and reflected good confidence in growth this year. Trimble is finding that its new artificial intelligence tools, in areas such as efficient building design, have helped it to retain customers.

Rockwell Automation also rose rapidly after reporting good numbers. Rockwell is a key US industrial automation company, whose products improve efficiency in a variety of industrial processes. Analysts were watching closely for indications on US growth in its revenue numbers, and Rockwell beat those expectations. It also positively surprised

on its cost control.

In Sustainable Transport, **Infineon** and **TE Connectivity** both contributed positively after their results. They provide semiconductors and connectors, which enable a variety of environmental industrial applications, such as electric vehicles and renewable energy. After a prolonged slowdown, those markets are showing signs of growth again.

All three of our Cleaner Energy stocks, **Nextracker**, **First Solar** and **Vestas**, were positive contributors in the month. They reported resilient underlying trading, and sentiment improved (from a very low base) as the OBBB left their “utility-scale” industry segment relatively less challenged than the residential market.

Health was the only theme to contribute negatively in the month. Another Trump administration policy initiative known as the “Most-Favoured Nation” (“MFN”) provision, is seeking to reduce the amounts the US government pays for innovative drugs. This negatively impacted our drug discovery-related companies, such as **Thermo Fisher** and **ICON**.

Spinal implant specialist **Globus Medical** was the largest single negative contributor after its key growth segment, Enabling Technologies, posted a surprise weak quarter. Enabling Technologies includes robotics and alignment systems to improve spinal surgery outcomes. It is early in its development and we see its high impact leading to good growth in the long term.

Outlook

As we wrote last month, the dramatic stock market movements since January reflect the considerable economic uncertainty brought about by the Trump administration in the US. This is likely to continue at least into the summer with persistent trade and tariff uncertainty, combined with the additional potential volatility from the OBBB.

Our impact investing markets have already had to weather a slew of adverse policy announcements. We are now perhaps beginning to see the end of the worst of this, as many of the big policy moves have been made. With priorities already starting to conflict, we see a path re-emerging for sustainability solutions.

In the meantime, our stocks continue to price in a very negative view of their future prospects. We expect sentiment to slowly turn, and for the opportunity to become increasingly clear from here.

Opportunity Knocks

By Ben Kluftringer

The past few years have been a tough time to be an impact-driven investor. We touched on this in our December strategy update at WHEB’s Annual Investor Conference.¹ In this article, we want to expand on the point that the extensive dislocation in the impact market is creating one of the most attractive hunting grounds for investors in more than a decade.

Impact investing moved out of favour...

Let’s remind ourselves briefly why impact investors in listed equities have struggled over the past 3-4 years after having been the darling in an “ESG and sustainability stampede” just before that.²

- Over the past 4 years, the MSCI World index has been increasingly taken over by the so-called ‘Magnificent Seven’ which have performed very strongly but are not investible for a true impact strategy. Overall, the overlap of the WHEB universe and the MSCI World is minimal, at around 15%.
- The world has seen a deeper pandemic than anticipated, a war in Europe, sky-rocketing inflation, a cost-of-

living crisis, a supply-chain crisis, and the re-election of Donald Trump. A flourishing impact agenda sadly stalled and impact investing fell out of favour. Other topics became more important than saving the planet...

For a fuller discussion of these points please see our article from December [‘It’s always darkest before dawn’](#).

... but the sustainability-issues are as pressing as ever...

As much as the pendulum might have swung a bit too strongly in favour of impact and ESG during the stampede, the current recoil has clearly gone to the opposite extreme which makes us excited about the outlook.

It’s important to recognise that while many sustainability-related stocks have been hit hard in the current apathy towards this topic, the above mentioned extra-ordinary events and outright policy hostility in the US, the issues these companies are addressing are as pressing as ever. Realistically, the 1.5°C target has slipped out of reach and current policies would lead to a catastrophic temperature increase of 3.1°C.³ The world is getting a taste of the consequences ever more frequently with deadly hurricanes Helene and Milton in Florida (Sept’24), flooding of Valencia in Spain (Oct’24), Southern California wildfires (Jan’25), flooding in Emilia-Romagna in Italy (Mar’25), and the collapse of the Birch glacier in Switzerland obliterating an entire village (May’25) to name just a few. The associated annual insurance payouts for natural disasters are on a steadily rising trajectory (5-7% annual rise) well above inflation.⁴ Munich RE’s annual natural disaster review leaves no doubt what they see as the cause.⁵

... and thankfully the world is not quite standing still

While the Trump administration aims to shoot down the energy transition agenda, many individual US states remain committed to it. A proposed law in the oil state Texas to limit renewable power projects failed to get enough Republican support.⁶ In fact, 24 US states committed to the Paris Agreement goals in January 2025 after President Trump announced the US’ withdrawal.⁷ The net-zero commitments in other parts of the world (e.g., the EU) remain entirely intact.

Sustainable transport is a key enabler of the energy transition. And while there is a lot of noise around Tesla’s electric vehicle (EV) shipments declining strongly in Europe, the underlying EV market has actually started to grow again.⁸

Similarly, there is a lot of concern regarding renewable energy investments in the US on the back of the house-approved reconciliation bill. And quite rightly. But, as we argue further below, while rescinding parts of the Inflation Reduction Act (IRA) will inevitably be a set-back, there is now meaningful resistance to the anti-renewables narrative in the Republican party at state as well as federal level. Secondly, state-level subsidies/tax incentives are unaffected by the bill and the commitment of many large US companies to switch to clean energy remains unchanged. Only pockets (e.g., US airlines) have used Trump’s stance to back away from their own commitments.

Lastly, we shouldn’t forget that our strategy also has a strong commitment to social sustainability themes with health care by far the largest. Here again, President Trump created shock waves in the appointment of Robert Kennedy Jr. as the US Health and Human Services chief and his verbal push for a “most favoured nation” (MFN) approach to drug pricing on 12 May 2025. This approach would potentially upend the current system of drug discovery. The executive order which followed confirmed that there is no realistic plan for immediate implementation of the order, which calmed nerves.⁹ The reality is that these changes will be extremely difficult to implement.

Relative valuations have never been cheaper

Let’s put some meat on the bone and illustrate how these challenges have impacted the valuation of our portfolio

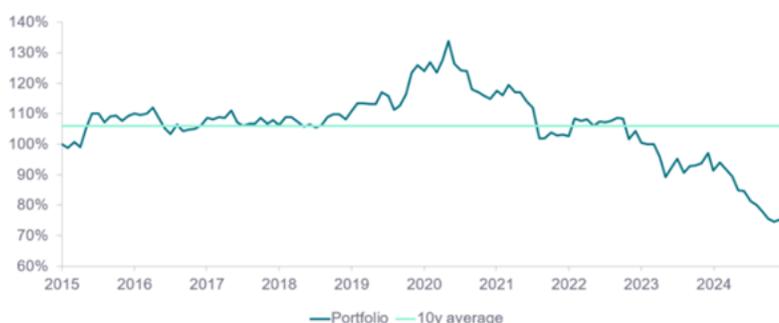
and investment universe. Put simply, valuations have rarely been lower.

This is illustrated below for the portfolio using for example the price book ratio, or multiple, relative to local markets. The price to book ratio is the ratio of the stockmarket value of a company, to the company’s book value (i.e., total net assets on the balance sheet). We then express this as a percentage of the equivalent ratio for the whole of the stock’s local stockmarket.

So, for example, if a US stock as a price to book multiple of 3x, and the market average is 2x, this measure would be 150%. As investor confidence in a stock increases, so its multiple will expand, and if confidence in the rest of the market doesn’t increase by the same amount, so that premium will increase, or any discount decrease.

In the chart below, we have tracked this measure for the whole portfolio over a ten year period, having rebased it to 100 at the start of the period. The data is clear: the market’s confidence in our portfolio, and the sustainability themes it represents, grew and grew until 2020.... But since then, has fallen continually, and is now testing new lows. Other valuation metrics show a similar trend.

Figure 1: Portfolio price-to-forward-book ratio, relative to local markets, rebased¹⁰



The cynic might wonder whether this could be due to the WHEB strategy investing increasingly in lower quality names which derated more strongly as a result of those weak fundamentals. This has not been the case – the portfolio fundamentals have remained consistently strong and healthy and in fact mostly ahead of the MSCI World in the latest reported year of 2024.

Figure 2: Portfolio fundamentals – Underlying strength¹¹

| WHEB (portfolio weighted) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | MSCI World (2024) |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| Sales Growth (%) | 6.5% | 15.6% | 6.4% | 9.0% | 22.0% | 10.6% | 0.4% | 0.5% |
| Gross Margin (%) | 31.9% | 32.7% | 32.1% | 34.7% | 41.4% | 39.0% | 43.5% | 34.2% |
| Operating Margin (%) | 11.5% | 12.2% | 10.4% | 10.8% | 12.3% | 13.8% | 15.6% | 13.1% |
| FCF margin (%) | 6.1% | 7.2% | 10.5% | 13.1% | 10.7% | 13.7% | 16.2% | 17.7% |

And the observation of a severe derating of valuation is not portfolio-specific but extends to a number of themes within our investment universe as shown below. For example, relative to its five-year history, the solar sector’s price-to-earnings ratio has halved. The “Electric Vehicles” (EV) sub-theme is not far off that level and neither is “Emission Reductions”. This creates opportunities – we continue to be convinced that the future of electricity generation is renewable, the future of transport is electric,¹² and the transition to a low-carbon economy is imperative to secure a liveable planet.

Figure 3: Value opportunities in the universe¹³

| Sub-theme | NTM P/E | 5-year avg P/E | P/E discount |
|-------------------------|---------|----------------|--------------|
| Solar Power | 16.6x | 33.2x | 50% |
| Electric Vehicles | 12.3x | 23.8x | 48% |
| Emissions Reduction | 14.4x | 26.1x | 45% |
| Bus, Rail & Bicycle | 16.8x | 26.8x | 37% |
| Research & Diagnostics | 23.2x | 36.0x | 36% |
| Sustainable Materials | 20.3x | 29.6x | 31% |
| Efficient Manufacturing | 20.7x | 30.0x | 31% |
| Efficient Buildings | 21.0x | 30.5x | 31% |

Quality companies at very cheap prices

It might be worth going through a few stock examples where we see a large dislocation between the current price and our target price. The common denominator is that while the company is currently experiencing a challenging situation we see this as temporary and expect the valuation gap to narrow over time.

- [Croda](#) is a specialty chemicals company operating in personal care, crop care, health care and industrial end markets. Its raw materials are primarily bio-based avoiding the oil-based alternatives. The company suffered from an extended period of destocking post Covid and weaker economic conditions globally resulting in underutilisation and therefore margin pressures. Croda's product portfolio remains highly relevant and attractive and the company is pursuing more stringent cost management to bolster margins again.
- [First Solar](#) is the world's only significant thin film solar PV panel manufacturer and a key solution provider to the energy transition. It has a sizeable and growing production capacity in the US and therefore greatly benefits from the IRA. However, the election of President Trump and his anti-renewable energy agenda includes the aim to dismantle the IRA. His "One Big Beautiful Bill Act" which got approved by the House has taken its toll on the entire renewable energy space including First Solar. Whether the current version of the Bill is passed is hotly contested and clearly if the Senate is successful in staving off the most aggressive cut-backs RE companies will strongly benefit. However, even in a worst-case scenario in which the Bill passes as is, there is still modest upside to the current valuation, in our view.
- [ICON](#) is a clinical research organisation (CRO) which helps the pharma and biotech industries in developing new therapies more quickly and at a lower cost. There had been a slump in biotech research funding post Covid and green shoots emerging in early 2024 did not prosper as expected. This was combined with large pharma budget constraints this year, taking a toll on the entire CRO market, including ICON's main competitor IQVIA. These are all highly transient obstacles. The underlying drug R&D pipeline is healthy¹⁴ and the outsourcing trend towards CROs remain intact.¹⁵ ICON is a market leader in this space and bound to benefit when the market normalises again.

In conclusion...

The valuations of impact-related stocks have rarely been cheaper driven down by extraordinary one-off events and a populist political agenda in some key markets. As painful as the past few years have been, we are super excited about the growth and performance prospects across our portfolio and the investment universe¹⁶.

We are not alone in recognising the urgency of taking actions to drive forward sustainability and abate climate change – it has never been greater. Many countries, US states and individual companies remain committed to the environmental agenda despite past and present obstacles. With that backdrop, if the market doesn't think these companies have a bright future, it's a great opportunity. Let's go hunting...

¹ <https://www.whegroup.com/our-thoughts/it-is-always-darkest-before-dawn> (Dec 2024)

² <https://www.whegroup.com/our-thoughts/investing-in-breakthroughs> (Oct 2020)

³ <https://www.unep.org/news-and-stories/press-release/nations-must-close-huge-emissions-gap-new-climate->

[pledges-and](#) (Oct 2024)

⁴ <https://www.swissre.com/dam/jcr:46617c8b-98a4-4d54-b259-f4bdcb0b8/sri-sigma-natural-catastrophes-1-2025.pdf> (Page 3, Apr 2025)

⁵ <https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2025/natural-disaster-figures-2024.html>

⁶ <https://on.ft.com/4klchpr>

⁷ <https://www.esgtoday.com/24-u-s-states-commit-to-paris-agreement-goals-after-trump-exits-accord/>

⁸ <https://www.bloomberg.com/news/newsletters/2025-01-17/why-electric-vehicles-are-poised-for-another-record-year>

⁹ <https://www.whitehouse.gov/presidential-actions/2025/05/delivering-most-favored-nation-prescription-drug-pricing-to-american-patients/>

¹⁰ Note: Mean ratio of price to next reported book value by analysts' estimates, FP WHEB Sustainability Impact Fund, excluding distortions from meaningless denominator in the case of Autodesk. Source: Factset as of 11/06/25.

¹¹ Bloomberg

¹² <https://www.whebgroup.com/our-thoughts/evs-are-dead-long-live-evs>

¹³ Note: Mean ratio of price to next 12 months' earnings (NTM P/E) by analyst consensus based on stocks in the WHEB investment universe as of 08/04/25. Source FactSet

¹⁴ <https://www.deloitte.com/uk/en/about/press-room/global-pharma-rd-returns-rise-as-one-glp-drugs-help-drive-forecast-growth.html>

¹⁵ Alpha-sense expert call from 3 April 2025 with a former Syneos Health employee

¹⁶ Past performance is not a reliable guide to future results. Your capital is at risk.

FEATURES

| | |
|----------------------------|--|
| APIR CODE | HHA0007AU |
| REDEMPTION PRICE | A\$ 1.504 |
| FEES * | Management Fee: 1.35% |
| MINIMUM INITIAL INVESTMENT | \$10,000 |
| FUM AT MONTH END | A\$ 206.22m |
| FUND INCEPTION DATE | 31 October 2007 Relunched on 1 August 2017.* |

FUND MANAGERS



Ted Franks
Managing Director, Fund Manager



Seb Beloe
Managing Director, Head of Impact 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 (shown in the shaded area in the chart) 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 Impact 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 nulled. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Impact Fund's GBP net track record data is historical. Performance figures are calculated using net asset values after all fees and expenses, and assume reinvestment of distributions. 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 relunched 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 Impact 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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