

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.'

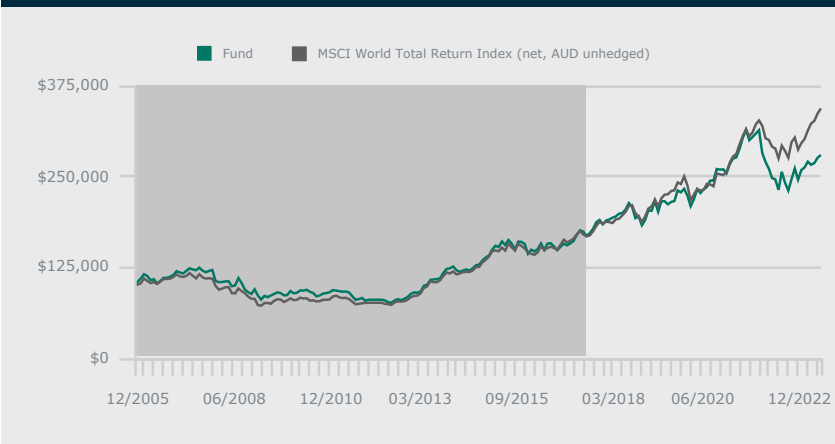
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jul 2023¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	1.4%	9.1%	6.4%	6.4%	
Strategy (partial simulation – see below)					6.0%
MSCI World Total Return Index (net, AUD unhedged)	2.1%	17.5%	14.0%	11.3%	7.3%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Advanced Drainage Systems Inc	Industrials
Ansys	Information Technology
Autodesk Inc	Information Technology
CSL	Health Care
Icon	Health Care
Linde PLC	Materials
Power Integrations Inc	Information Technology
Steris	Health Care
TE Connectivity	Information Technology
Trane Technologies PLC	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	3.8%
Consumer Staples	1.9%
Health Care	28%
Industrials	25%
Information Technology	28.7%
Materials	12.2%
Cash	0.3%

CAPITALISATION BREAKDOWN

2-10bn	23.1%
10-20bn	14.8%
>20bn	61.7%
Cash	0.3%

CUSTOM SECTOR BREAKDOWN

Health	23.5%
Resource Efficiency	25.9%
Sustainable Transport	10.6%
Environmental Services	12.8%
Water Management	7.9%
Safety	6.3%
Cleaner Energy	6.9%
Wellbeing	4.4%
Education	1.4%
Cash	0.3%

REGION BREAKDOWN

North America	61.5%
Europe ex-UK	20.1%
Japan	7.3%
UK	5.1%
Asia Pacific	5.6%
Cash	0.3%

ENVIRONMENTAL POLICIES VS. ECONOMIC REALITIES: UNRAVELLING THE CONUNDRUM AMID A COST OF LIVING CRISIS

COMMENTARY

Global equity market sentiment remained positive in July, buoyed by a drop in developed market inflation and resilient GDP data. This raised hopes for a soft landing and supported a broad rally across most asset classes and regions. The Fund delivered positive returns in July of +1.4%, with Sustainable Transport and Environmental Services outperforming.

In this month's commentary, Ty Lee looks at recent efforts to resist or water-down environmental policies aimed at tackling climate change and other environmental issues, despite the heat wave sweeping across the globe serving as a stark reminder of the urgency of combating climate change.

We recently recorded our latest Impact Report Webinar – The Age of Adoption, which is available below for your review. CPD points are applicable for Australian Financial Planners [HERE](#).



Market Review

Global equity market sentiment remained positive in July, buoyed by a drop in developed market inflation and resilient GDP data. This raised hopes for a soft landing and supported a broad rally across most asset classes and regions.

However, central banks continued to fight inflation, with the US Federal Reserve, the European Central Bank, and the Bank of England all increasing their rates by a quarter of a percentage point in the month.

Economic indicators continued to defy the worst recession fears. In the US, hiring has slowed but is still strong and the unemployment rate is close to a record low. The Eurozone economy grew in the three months to July after stagnating in the previous quarter.

The UK government announced it will commit to 100 new licences for oil and gas exploration in the North Sea, raising concerns about its environmental commitment. There will also be new licenses for carbon capture and storage in the North Sea to mitigate the environmental impact.

Energy and Communication Services were the best performing sectors while Healthcare and Utilities were the weakest. Growth underperformed value in the global market.

Fund Review

The Fund delivered positive returns in July of +1.4%.

Sustainable Transport and Environmental Services were the strongest themes during the month due to holdings in JB Hunt and Smurfit Kappa, respectively. The prospect of an inflecting freight cycle buoyed specialist intermodal shipper JB Hunt. Cardboard packaging maker Smurfit Kappa rose in anticipation of an improvement in demand as consumer confidence slowly rebuilds.

The Wellbeing theme also performed well driven by the position in HelloFresh. The company reported results with much healthier profits than the market expected.

On the other side of the ledger there were negative contributions from the Safety and Cleaner Energy themes.

Within Safety, MSA Safety performed poorly due to fears of weak demand. Just after the month end, excellent results from the company rebutted this pessimism.

Within Cleaner Energy, SolarEdge and Enphase underperformed. SolarEdge shares were weak due to concerns that high inventory levels in the channel and lower US demand would lead to compressed earnings growth for the duration of the year. Enphase released guidance that disappointed as higher interest rates are dampening demand for residential solar.

This was partially offset by the outperformance of First Solar, also in the theme, which released a strong set of results for Q2 23 and announced a large, long-term contract as well as another new US manufacturing facility.

Outlook

Sentiment around Global Equities remains finely balanced. Expectations are for a further economic slowdown, and the debate is around its pace and duration. Markets also expect further rate increases before the current tightening phase ends.

While there is uncertainty in the short term, we remain confident in the long-term positioning of our holdings. We continue to have conviction that the sustainable-led growth drivers and competitive advantages of the companies we invest in put the portfolio in a good position to deliver outperformance.

Environmental Policies vs. Economic Realities: Unravelling the Conundrum Amid a Cost of Living Crisis

The recent heat wave sweeping across the globe serves as a stark reminder of the urgency of combating climate change. Coincidentally, in recent weeks there have also been efforts to resist or water-down environmental policies aimed at tackling climate change and other environmental issues. As an impact-driven asset management firm, we find these developments concerning. Delaying action will increase the overall cost of tackling climate change. We urge policymakers to take a long-term and holistic approach in formulating sustainable policies to tackle these critical issues.

Recent pushbacks in environmental policies

The expansion of the Ultra Low Emission Zone (ULEZ) in Greater London is one policy that has faced significant pushback. Criticism of the scheme includes limitations caused by vehicle supply chain issues, rising vehicle prices, and the cost-of-living crisis. Similar delays have been observed in other cities like Manchester and Liverpool, where plans for clean air zones were postponed. Internationally, New Jersey's legal action against New York's congestion charge proposal for parts of Manhattan highlights the global nature of this challenge.¹

Furthermore, the UK government is planning to delay a deadline for landlords in England and Wales to meet mandatory efficiency standards for private rental properties.² It is also set to postpone the extended producer responsibility for packaging (EPR) scheme, originally due to be effective in 2014.³ The scheme aims to shift the cost of managing packaging waste from taxpayers to businesses. Unsurprisingly, the UK government saw huge pressure from food producers and retailers, warning that the scheme will increase food and drink prices.

In Europe, a nature restoration law faced significant challenges but was ultimately preserved through the efforts of the European Parliament, albeit in a heavily watered-down form.⁴ Originally intended to restore damaged ecosystems and promote biodiversity across the EU, the law encountered opposition from various stakeholders. Critics argued that the legislation could adversely affect food production and jeopardise the livelihoods of farmers and fishers. All these examples highlight the complexities in balancing environmental goals with economic realities.

The rise of populism and short-termism

The rise of populism has led politicians to avoid short-term pain in order to secure votes. The UK Prime Minister Rishi Sunak's recent threat to delay or even abandon environmental policies that add costs to consumers exemplifies this short-term mentality.⁵ This wavering political environment may deter investors from engaging in sustainability initiatives given the uncertainty surrounding environmental policies.

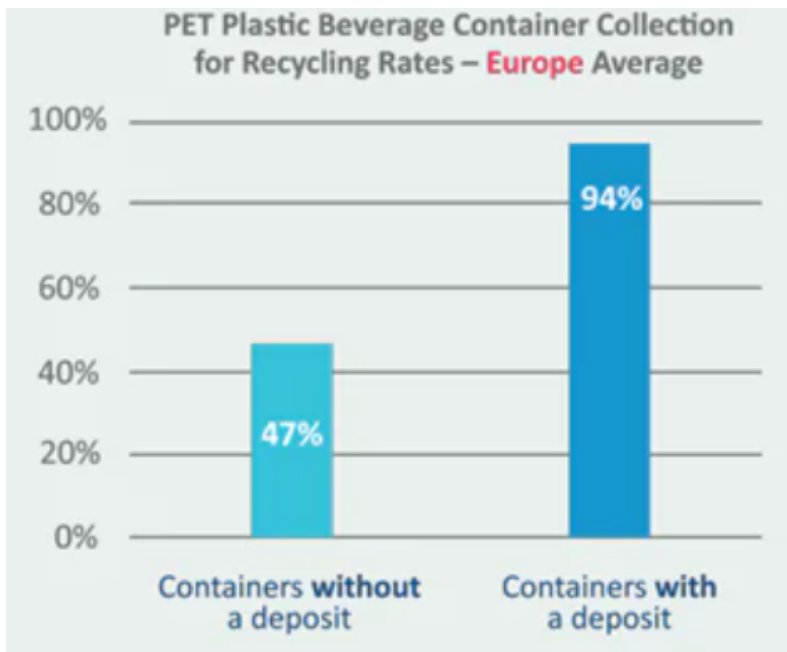
Many environmental policies, such as carbon taxes, sustainable fishing regulations, and bans on single-use plastics, encounter resistance due to perceived short-term economic burdens. Unfortunately, initial spending on these policies is often regarded as an expense rather than an investment, overshadowing their immense long-term benefits.

The expansion of ULEZ in Greater London serves as a perfect example. While estimated to cost drivers £913 million annually, the benefits of reduced air pollution and improved public health far exceed these costs.⁶ 9,400 premature deaths are attributed to poor air quality in London with a cost of between £1.4 and £3.7 billion a year to the health service.⁷ Addressing vulnerable communities affected by these policies through targeted support is crucial for a successful and equitable transition.

Implications for portfolio companies

At WHEB, we are committed to investing in companies driving the transition to a sustainable world. While some portfolio companies may encounter short-term policy challenges, we believe in the long-term viability of their offerings.

For instance, [Tomra](#), a leading manufacturer of reverse vending machines for deposit return systems (DRSs), often encounters policy challenges. Retailers and drinks suppliers oppose the implementation of DRSs due to short-term operational challenges. Nevertheless, the positive impact of DRSs on recycling has been widely proven across many countries.



Source: Tomra

Our renewable energy companies are also affected by climate change policies. [First Solar](#), a US-based solar module manufacturer, benefits from the US environmental policies thanks to its focus on thin-film technology without the need for polysilicon. It is well aligned with the US policies supporting local production and local sourcing as it has local production capacity and does not rely on the import of polysilicon.

Diversified investment approach

WHEB's diversified portfolio mitigates the impact of sustainability policy fluctuations. Many of our portfolio companies are driven by attractive value propositions. Companies like [Ansys](#), a leader in multi-physics engineering simulation software, thrive as their growth is driven by technology adoption and efficiency improvement. Ansys' software accelerates product time to market, improves resource efficiency, and optimises product quality and safety.

Moreover, some of our companies are dedicated to addressing growing social needs and are less exposed to policy risks. For example, [ICON](#) provides outsourced clinical research services to pharmaceutical and biotechnology companies. Its services help accelerate the development of drugs and medical devices that save lives and improve the quality of life.

The call for long-term and holistic policies

Environmental policies may pose short-term challenges, but their long-term benefits almost always outweigh the initial challenges. To ensure their effectiveness, rigorous impact assessments should be conducted to evaluate the potential benefits and drawbacks of policies with targeted support provided to affected communities.

Throughout history, numerous policy examples that were once highly controversial have now become widely accepted. Policies such as banning smoking in public places, implementing congestion charges, enforcing mandatory seat belt laws, and phasing out lead in petrol. They have demonstrated significant contributions to better public health, reduced ecological damage, increased resilience to climate change, and improved quality of life for future generations.

As we navigate the path towards a sustainable future, there will inevitably be challenges along the way. The implementation of ULEZ in Central London is a compelling case in point. Despite the controversy it faced at the

time, ULEZ has proven its remarkable achievements. Notably, it has successfully reduced toxic air pollution by almost half in central London.⁸ The number of more polluting cars has dropped by 60% since the inner London expansion in October 2021.⁹ The ULEZ policy's success not only showcases the potential for transformative change in sustainability and public health but also reinforces the importance of staying committed to policies that may face initial resistance.

¹ <https://www.politico.com/newsletters/weekly-new-york-new-jersey-energy/2023/07/24/murphy-sues-over-congestion-pricing-00107745>

² <https://www.ft.com/content/f1857432-85ae-4289-9ee6-087a205c9bbf>

³ <https://www.ft.com/content/c7b38af4-e6bb-44a8-802b-10622e44c649>

⁴ https://www.lemonde.fr/en/environment/article/2023/07/13/nature-restoration-law-saved-by-european-parliament-vote-but-in-heavily-watered-down-version_6051991_114.html

⁵ <https://www.bloomberg.com/news/articles/2023-07-24/sunak-warns-uk-climate-goals-must-not-become-hassle-for-voters?srnd=premium>

⁶ <https://www.london.gov.uk/programmes-strategies/environment-and-climate-change/pollution-and-air-quality/ultra-low-emission-zone-ulez-london/ulez-frequently-asked-questions/how-many-londoners-will-be-affected-ulez-expansion>

⁷ <https://www.londoncouncils.gov.uk/node/33227>

⁸ <https://www.london.gov.uk/new-report-reveals-transformational-impact-expanded-ultra-low-emission-zone-so-far>

⁹ Ibid

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.5358
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 277.27m
FUND INCEPTION DATE	31 October 2007

FUND MANAGERS



Ted Franks
Partner, Head of Investment



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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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