

**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.'

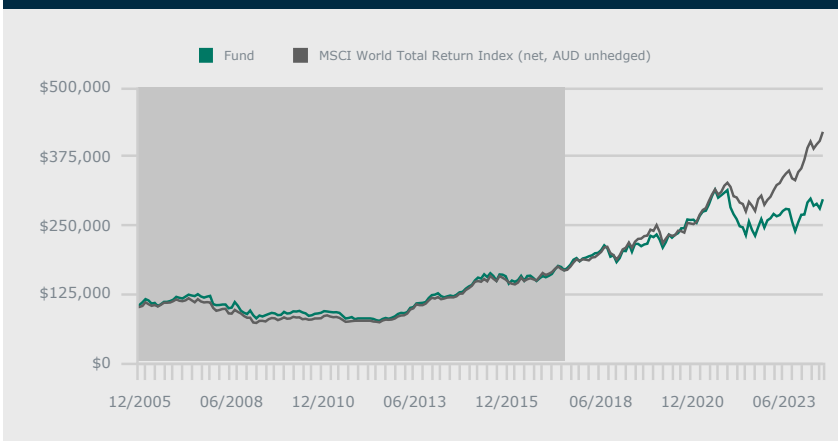
**PERFORMANCE TABLE**

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

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	6.0%	6.3%	-0.6%	6.6%	
Strategy (partial simulation – see below)					6.0%
MSCI World Total Return Index (net, AUD unhedged)	4.1%	22.1%	11.1%	13.3%	8.0%

**PERFORMANCE CHART**

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



**TOP HOLDINGS (ALPHABETICALLY)**

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

**SECTOR BREAKDOWN**

Consumer Discretionary	3.2%
Health Care	32.3%
Industrials	29%
Information Technology	22%
Materials	10.8%
Utilities	1.6%
Cash	1.1%

**CAPITALISATION BREAKDOWN**

2-10bn	20.1%
10-20bn	9.2%
>20bn	69.6%
Cash	1.1%

**CUSTOM SECTOR BREAKDOWN**

Health	28.3%
Resource Efficiency	24.5%
Sustainable Transport	7.4%
Environmental Services	8.7%
Water Management	14.2%
Safety	9.2%
Cleaner Energy	4.4%
Education	2.1%
Cash	1.1%

**REGION BREAKDOWN**

North America	42.8%
Europe ex-UK	36.7%
Japan	5.7%
UK	11.1%
Asia Pacific	2.7%
Cash	1.1%

## US POLITICS SENDS SHOCKWAVES THROUGH THE RENEWABLE ENERGY SECTOR

### COMMENTARY

The Fund delivered positive performance of +6.0% over the month outperforming the MSCI World Index which returned +4.1%. Our Health, Safety and Environmental Services themes performed well as did our bias to mid-cap companies.

In this month's commentary, Ty Lee discusses the renewable energy sector's volatility in the build-up to the US election in November. He examines global developments to support the green energy transition and explains how we have adjusted our exposure to clean energy within the WHEB strategy.

WHEB joined the think tank [Planet Tracker's call](#) on petrochemical companies to transition to safe and environmentally sound practices, by reducing fossil fuel dependency and eliminating hazardous chemicals in plastics.

We recently recorded a YTD Review and 2023 Impact Report Webinar, which is available below for your review. CPD points are applicable for Australian Financial Planners [HERE](#).

### Market Review

Global markets posted a return of +4.1% in July, as measured by the MSCI World Index.

Softer inflation and labour market data from the US heightened expectations of interest rate cuts. Overall, the US market was slightly down, but this masked a style rotation. The most interest rate-sensitive sectors, including cyclical industries, benefited from the change in rate expectations. Small and medium-sized companies did better than larger ones.

Real Estate and Utilities were the strongest sectors in the global market, while Communication Services and Technology were the laggards. Artificial Intelligence (AI)-linked stocks and other larger technology companies sold off as investors became more sceptical about the potential future returns of these investments.

Continental European stocks struggled following a disappointing Purchasing Managers' Index (PMI) print, indicating some slowing in economic growth. Uncertainties around the French election also likely contributed towards weakness. By contrast, UK stocks outperformed following robust service sector PMIs in July, coupled with stronger-than-expected economic growth for the second quarter.

### Fund Review

The Fund delivered positive performance of +6.0% over the month outperforming the MSCI World Index.

The Health theme performed very well with positive contributions coming from several names. These included **Lonza**, the Swiss contract development and manufacturing company. It beat profitability expectations with its first-half numbers driven by its most important biologics segment.

The Safety theme also contributed positively due to holdings including **Bureau Veritas**, the French company that is a world leader in testing, inspection and certification. It reported surprisingly strong organic revenue growth well ahead of consensus expectations and raised its 2024 growth outlook.

The Environmental Services theme further helped performance driven by **Arcadis**, which has services that support climate adaptation. The company delivered solid quarterly results driven by continuous strength in the energy transition. The outlook remains positive supported by its strong project pipeline.

On the other side of the ledger, the Sustainable Transport theme was the biggest negative contributor mainly due to the holding in semiconductor maker **Infinion**. Its shares have been adversely affected by one of its peers lowering full-year guidance due to weaker demand in the automotive and industrial markets.

## Outlook

In the short-term, we see divergence in the operating environments of the sectors in which we invest. Some, like electric vehicles, remain more challenged as they adjust to weaker demand. Others are seeing more promising signs. In the Health theme, for example, we see the inventory destocking process coming to an end as orders show signs of improvement. Finally, there are also several sectors where we are seeing strong positive momentum, such as electrification and environmental consulting.

We are also seeing significant political shifts. In Europe, significant gains for right-wing parties have increased concerns about the future of sustainability initiatives. However, there are reasons for optimism, including the UK and French elections which suggest that voters haven't yet given up on climate action. Importantly, all eyes will be on the US election in November.

As in previous quarters, the long-term structural opportunities are being complicated by short-term macro concerns. Although expectations of interest rate increases have been tempered, the direction of change should still favour smaller and more growth-oriented impact stocks even if the timing is uncertain.

## US politics sends shockwaves through the renewable energy sector

By Ty Lee

### US politics sends shockwaves through the renewable energy sector

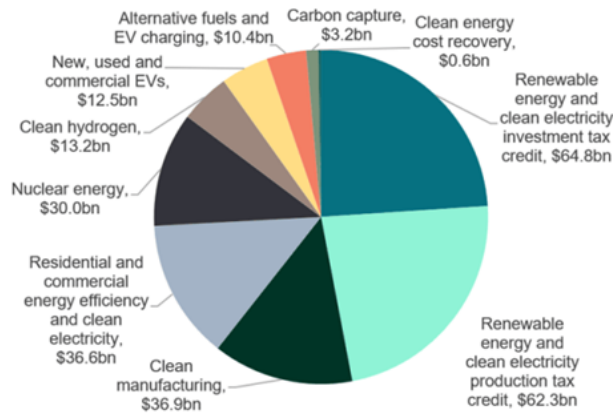
Markets love to react, and sometimes in ways not immediately predictable. The recent attempted assassination of Donald Trump had immediate ramifications for the renewable energy sector. Following the incident, Trump's poll numbers surged, leading to significant volatility in renewable energy stocks. On the first trading day after the attack, shares in wind and solar companies experienced sharp selloffs.

This knee-jerk reaction stemmed from investor concerns about Trump's stance on renewable energy and his determination to dismantle the multi-billion-dollar government subsidy program for green energy, which he has recently criticised as the "green new scam."

### Risks of repealing the Inflation Reduction Act

Among the key green policies in the US, the Inflation Reduction Act (IRA) is a pivotal piece of legislation signed by the US President Biden in August 2022. The IRA offers substantial tax credits to incentivise renewable energy projects.

Figure 1: Green tax credits in the Inflation Reduction Act<sup>1</sup>



Trump has pledged to repeal the IRA if he is re-elected. However, examining Trump’s previous tenure reveals a pattern of unfulfilled promises. For instance, Trump’s effort to repeal and replace the Affordable Care Act (Obamacare) during his presidency was unsuccessful.<sup>2</sup> This example suggests that even if Trump aims to dismantle the IRA, he may face significant obstacles.

Repealing the IRA would require not just a “Republican sweep” – control of both the presidency and Congress – but also by a healthy margin. A divided Congress or a narrow Republican majority would likely hinder efforts to fully repeal the IRA, similar to the challenges Trump faced in overturning Obamacare with a slim majority during his first term.

This is partly because the current Republican Party is marked by internal rivalries. It is also because the IRA has benefitted Republican-voting “red” states significantly by driving investments in renewable energy manufacturing facilities.<sup>3</sup> These investments have led to job creation and economic growth in these regions. Consequently, an attempt to repeal the IRA could provoke internal conflict within the Republican Party.

### Positive global climate policies

Despite uncertainties surrounding the IRA, global climate policies remain favourable. The recently elected Labour government in the UK has pledged to establish a publicly owned green energy company, Great Britain Energy, to boost clean energy investments. The UK aims to double onshore wind capacity, triple solar power, and quadruple offshore wind capacity by 2030.<sup>4</sup> The UK is the second-largest offshore wind market globally, making its expansion a significant growth driver for the sector.<sup>5</sup>

Similarly, China has pledged to accelerate its renewable energy capacity, targeting 1,200 gigawatts of wind and solar power by 2030.<sup>6</sup> With rapid investment in renewable energy, China is on track to meet this goal by the end of this year, six years ahead of schedule.<sup>7</sup> These global commitments underscore a broader trend towards increased renewable energy investments and supportive policies.

### Market dynamics in the renewable energy sector

Beyond climate policies, the fundamental dynamics of the renewable energy market play a crucial role. Renewables have become the cheapest form of power in many regions due to substantial price declines over the past few decades.<sup>8</sup> Solar energy, in particular, has reached a tipping point where further deployment no longer requires more ambitious policies.<sup>9</sup>

However, several challenges continue to hinder renewable energy adoption:

- Supply chain disruptions: The global supply chain has experienced significant disruptions since the COVID-19 pandemic, affecting the availability and cost of renewable energy components.
- Lengthy permitting processes: Bureaucratic delays and lengthy approval processes have slowed the development of many renewable energy projects.
- Grid infrastructure bottlenecks: Existing grid infrastructure in many areas is inadequate to handle the influx of renewable energy, requiring substantial upgrade.

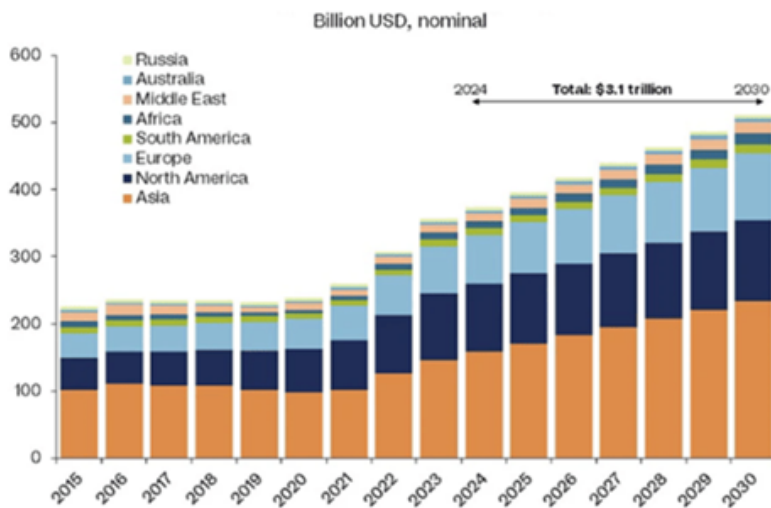
### Efforts to address industry challenges

There are encouraging developments addressing these challenges. Many countries are implementing fast-track permitting processes and reducing bureaucratic hurdles for renewable energy projects. For instance, Germany has introduced reforms to expedite the approval process<sup>10</sup>, while Spain has streamlined its regulatory framework.<sup>11</sup>

In May this year, the European Commission introduced the Net Zero Industry Act, designed to support clean energy industries in the bloc by cutting red tape and accelerating permitting procedures.

Additionally, there is growing recognition of the need for significant investments in grid infrastructure to accommodate renewable energy sources.

Figure 2: Power grid investments by region<sup>12</sup>



### Several countries are committing substantial resources to upgrade their grids:

- United States: Under the Bipartisan Infrastructure Law (a.k.a. the “Infrastructure Investment and Jobs Act – another Biden bill, but much less contentious), the US has allocated over US\$65 billion to modernise its power infrastructure, marking the largest investment in clean energy transmission and grid improvements in American history.<sup>13</sup>
- China: China is investing heavily in its grid infrastructure, including the development of ultra-high voltage transmission lines to efficiently transport renewable energy from remote regions to urban areas.<sup>14</sup>
- Australia: Australia is investing AU\$20 billion in the “Rewiring the Nation” program to upgrade its electricity grid and better integrate renewable energy sources.<sup>15</sup>

### Portfolio positioning and outlook

With over a decade of experience investing in renewable energy, we understand that policy and regulatory changes will not resolve all sector issues overnight. Given the sector's volatility ahead of the US election, we have adjusted our exposure to the Cleaner Energy theme.

We remain selective in our investment choices, reflecting the competitive dynamics within each sub-sector of the renewable energy market. For example, we have sold our position in SolarEdge, which focuses on residential and commercial solar markets, while retaining our investment in [First Solar](#), which targets the utility market.

The renewable energy sector is likely to experience continued volatility leading up to the US election and when it arrives, we do expect a sharp move one way or another. We are of course mindful of the risk of a Republican sweep but the recent nomination of Kamala Harris has changed the odds according to the latest polls.<sup>16</sup> In the event of a divided Congress, renewable energy stocks could see a sharp rebound, as the market may have overreacted to the potential repeal of the IRA under a Trump presidency.

With a longer term lens though, we see that renewables growth will more depend on addressing current challenges such as supply chain disruptions, permitting delays and grid infrastructure constraints. With supportive global policies and a compelling cost advantage, we are backing clean energy to come through those challenges.

1 Congressional Budget Office

2 <https://www.politico.com/news/magazine/2022/04/26/gop-obamacare-aca-health-care-00027585>

3 <https://www.ft.com/content/06fcd3dd-9c39-48d3-bb08-6d75d34b5ed1>

4 <https://labour.org.uk/change/make-britain-a-clean-energy-superpower/>

5 <https://www.thecrownstate.co.uk/news/uk-offshore-wind-industry-gearing-up-for-a-new-era-of-sustainable-growth>

6 <https://dialogue.earth/en/energy/china-can-benefit-from-a-more-ambitious-2030-solar-and-wind-target/>

7 <https://esgnews.com/china-dominates-global-wind-and-solar-energy-construction/>

8 <https://www.irena.org/news/pressreleases/2022/Jul/Renewable-Power-Remains-Cost-Competitive-amid-Fossil-Fuel-Crisis>

9 <https://www.anthropocenemagazine.org/2023/10/the-world-has-already-crossed-a-solar-tipping-point/>

10 <https://www.euronews.com/green/2023/01/31/wind-and-power-projects-in-germany-could-be-approved-faster-under-new-measures>

11 <https://www.fieldfisher.com/en/locations/espana2/actualidad/new-legal-developments-in-the-permitting-of-wind-a>

12 Based on 1.8 degrees Celsius global warming scenario. <https://www.rystadenergy.com/news/power-grids-investments-energy-transition-permitting-policies>

13 <https://www.whitehouse.gov/briefing-room/statements-releases/2021/11/06/fact-sheet-the-bipartisan-infrastructure-deal/>

14 [https://safety4sea.com/wp-content/uploads/2024/04/DNV-Energy\\_Transition\\_Outlook\\_China\\_2024\\_04.pdf](https://safety4sea.com/wp-content/uploads/2024/04/DNV-Energy_Transition_Outlook_China_2024_04.pdf)

15 <https://www.dcceew.gov.au/energy/renewable/rewiring-the-nation>

16 <https://theconversation.com/kamala-harris-edges-ahead-of-donald-trump-in-national-polls-for-us-election-235187>

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.6322
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 268.73m
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.

## PENGANA WHEB SUSTAINABLE IMPACT FUND

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