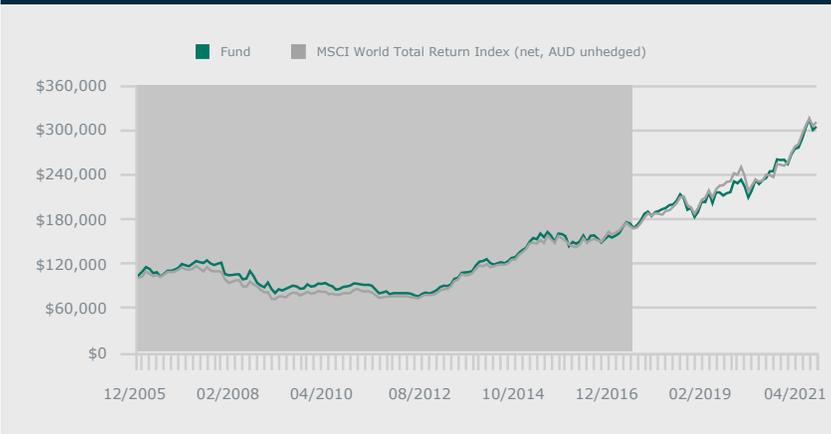


**PENGANA WHEB SUSTAINABLE IMPACT FUND**
**DESCRIPTION**

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 Oct 2021<sup>1</sup>**

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	1.5%	24.5%	16.5%		
Strategy (partial simulation – see below)				15.5%	7.3%
MSCI World Total Return Index (net, AUD unhedged)	1.6%	31.3%	16.0%	15.8%	7.4%

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

**TOP HOLDINGS (ALPHABETICALLY)**

A.O. Smith	Industrials
Ansys	Information Technology
Danaher	Health Care
Ecolab	Materials
Icon	Health Care
Koninklijke DSM	Materials
Linde	Materials
Silicon Laboratories INC	Information Technology
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care

**SECTOR BREAKDOWN**

Consumer Discretionary	6.5%
Health Care	30.1%
Industrials	28.9%
Information Technology	20.2%
Materials	10.6%
Cash	3.7%

**CAPITALISATION BREAKDOWN**

1-2bn	2.6%
2-10bn	20.5%
10-20bn	18.9%
>20bn	54.3%
Cash	3.7%

**CUSTOM SECTOR BREAKDOWN**

Health	22.3%
Resource Efficiency	22.3%
Sustainable Transport	10.7%
Environmental Services	10.4%
Water Management	7%
Safety	6.8%
Cleaner Energy	4.9%
Wellbeing	9.4%
Education	2.6%
Cash	3.7%

**REGION BREAKDOWN**

North America	57.2%
Europe ex-UK	20.3%
Japan	8.5%
UK	5.5%
Emerging Markets - Europe, Middle East & Africa	2.2%
Asia Pacific	2.7%
Cash	3.7%

**STATISTICAL DATA**
**VOLATILITY<sup>3</sup>** 13.1%

**NUMBER OF STOCKS** 44

## GLASGOW, GRETA AND GFANZ

### COMMENTARY

As COP 26 draws to a close, we wanted to share WHEB's first-hand experience of the conference with Managing Partner George Latham and Head of Research Seb Beloe attending the Glasgow event. In this month's commentary they reflect on the achievements at the conference, the powerful role individuals and the private sector can play, and what will actually be delivered.

While at COP26 we participated in the B Corps Go B-ig Breakfast. The [B Corp UK Finance Coalition](#) is aiming to reshape finance through purpose and partnership. As a B Corp ourselves, Partner Seb Beloe, discussed how a B Corp works in practical terms and how focusing on all stakeholders can affect your business. If you'd like to hear more, you can [watch the replay here](#).

In case you missed it:

- Last month we published a white paper ["Impact investing in listed equities – WHEB's perspective"](#).
- The replay for the Q3 2021 webinar is available below.



Inflation dominated news flow in October. Recent data have pointed to continuing inflation, on an increasing range of goods, as well as continuing wage growth. This is casting doubt on United States Federal Reserve Chairman Jerome Powell's view that inflation will quickly return to the 2% goal. Bond yields rose, showing that bond investors think interest rate hikes are coming sooner than previously forecast.

Meanwhile, the stock market brushed off these concerns with the MSCI World delivering 1.6% over the month. The US in particular rallied to a record high. Strong results early in the earnings season contributed to positive sentiment. On average, companies have so far been surprisingly positive despite the supply chain challenges.

The Fund marginally underperformed having returned 1.5%, partly driven by some of the large benchmark names not held within the portfolio. Within the portfolio, positive contributions from our Resource Efficiency and Health themes were offset by underperformance from Wellbeing and Education.

Resource Efficiency was the biggest positive theme. **Silicon Labs** was the top performer as the stock posted a large gain following its results announcements. Its low-power products are used in sustainable applications including smart metering systems, fast-charging for electric vehicles and energy efficient lighting. Revenue growth was strong as the company was able to navigate supply chain issues more successfully than peers. Management also raised guidance for the full year and expressed conviction in their long-term positioning.

Our holdings within the Health theme also contributed positively. Steris was a key driver of outperformance. The company sells sterilising equipment and has benefitted more recently from a recovery in hospital procedures and demand. Thermo Fisher Scientific was also strong over the period. Shares rallied following the company's investor day thanks to an upgrade in long-term guidance on organic revenue growth. This was driven by innovation and strong customer relationships. The company also published its latest Corporate Social Responsibility Report which included a materiality and stakeholder engagement exercise conducted in partnership with an independent third-party advisor.

Within Wellbeing, Orpea and LHC Group were the largest negative contributors. Orpea's share price fell on the back of an article about a potential fraud by the seller of a nursing home Orpea bought in 2007. Orpea has clarified that the investigation is only focused on the seller, but the overhang remained. We recently had an engagement with the company discussing its ESG strategy and on the issue of staff turnover in the industry. We have been pleased by the company's progress in increasing its disclosures, although we continue to encourage them to improve their target setting.

Our Education stocks, Strategic Education and Grand Canyon Education, also underperformed over the month. Both were impacted by a statement from the Federal Trade Commission targeting for-profit education institutions that make exaggerated claims in their marketing. This announcement compounds existing regulatory uncertainty for higher education companies. The focus is likely to be on bad actors in the industry. Our holdings are recognised as high quality and compliance-focused operators so they should be well positioned. However, there is lingering uncertainty as there is a political push for results from the Democrats ahead of elections.

Stock markets continue to show resilience in the face of economic volatility, supply chain challenges and interest-rate uncertainty. However, there are a number of opportunities for more concrete central bank action in the coming period. This could bring increased volatility to markets. We are monitoring how central banks manage the current tensions, as well as how our investments navigate this extraordinary environment.

## Glasgow, Greta and GFANZ



'Keep Glasgow cold, wet and grey' was one of the better placards being waved at the children's protest during the COP26 summit. It was apposite as well given the unseasonably balmy weather at the end of the first week of negotiations.

WHEB was in Glasgow to speak at a couple of events being organised on the fringes of the official COP26 negotiations. We were hoping to learn more about the fleet of initiatives being launched at the event and to play our own small part in creating the '[atmosphere of urgency, action and collaboration](#)' that might help tip the balance in favour of more progress.

Progress so far

While the achievements of the conference have so far been quite mixed, it has catalysed a range of new commitments. WHEB's investment portfolio is a microcosm that illustrates the pace of change. In December 2019, the portfolio contained just one company that had committed to achieve net zero carbon emissions by 2050. By the end of October, less than two years later, nearly 50% of the portfolio had issued this commitment. The majority of these commitments have come in 2021.

However, there is room for scepticism in some of these commitments. Mark Carney's Glasgow Financial Alliance for Net Zero (GFANZ), which announced that financiers managing \$130 trillion were now committed to net zero, drew particular opprobrium. In fact, this is an 'ambition' with [only one third committed to net zero today](#). Still, that equates to nearly \$50 trillion.

The same criticism can be levelled at the Net Zero Asset Manager initiative of which WHEB is a part. This initiative has [220 signatories with \\$57 trillion in assets under management](#). 45 managers have now published reports showing that \$4.2 trillion is currently managed in line with achieving net zero by 2050. Only a handful of managers, including WHEB, manage 100% of their assets in this way.

### People and private sector power

Nonetheless, John Kerry, the US Special Presidential Envoy for Climate, and a veteran of COP negotiations, spoke of his optimism at a Confederation of British Industry (CBI) event at the end of the first week. He put this down to the powerful role of the private sector, which he argued, is ahead of governments in their ambition and in their understanding of the climate challenge.

The same could also be said of young people. The persistent buzz of helicopters on the Friday and over the weekend, was a constant reminder of what is at stake. No panel presentation (or monthly update!) was complete without a reference to Greta Thunberg and the stark injustices of climate change for future generations and poorer nations that she underscores. Their presence is unquestionably having an impact on the negotiations.

### A race to the top

And there has been progress. The International Energy Agency has totted up all the new pledges made at, and in the run-up to, Glasgow and concluded that these now [put the world on track for 1.8°C](#). [These pledges](#) include India's commitment to achieve net zero carbon emissions by 2070 and the commitments made as part of the Global Methane Pledge.

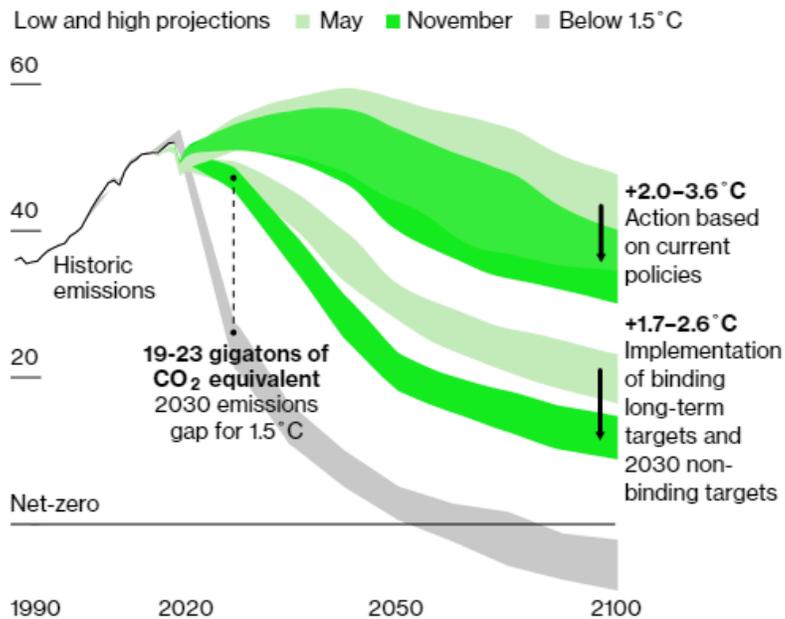
The agenda has also broadened to include wider environmental issues including nature-based solutions and commitments to arrest biodiversity losses. [The panel we participated in](#) called for a change in the constitution of finance institutions to embed purpose and incentivise delivery on wider stakeholder needs including carbon emission reductions alongside financial returns.

### A glass half full

Scepticism is also appropriate about some of these pledges. How many of them will actually deliver real change on the ground is still very much open to debate. [Climate Action Tracker](#), for example, argue that a more sober analysis of country pledges would generate 2.4°C of warming.

## Impact of COP26 on Emissions Pathways

New targets could reduce emissions by 2100 in line with 1.7–2.6 °C warming



Note: November 2021 update  
Source: Climate Action Tracker

[Whether it is 1.8°C or 2.4°C of warming, it is still too much.](#) Too many in Government – and notably in the UK Treasury – continue to see action to reduce greenhouse gas emissions as carrying an unreasonable cost. But as the CBI’s Chief Economist put it on one panel, the costs are really investments that avoid the immeasurably larger costs resulting from inaction.

So, we have seen progress, but just not enough. The Glasgow talks were presented as ‘the last chance saloon’. This may not be entirely true, but if it isn’t, we are getting very close.

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.6736
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 255.33m
FUND INCEPTION DATE	31 October 2007

## FUND MANAGERS



**Ted Franks**  
Partner, Fund Manager



**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. 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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