MONTHLY REPORT
DECEMBER 2023

PENGANA CAPITAL GROUP

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.'

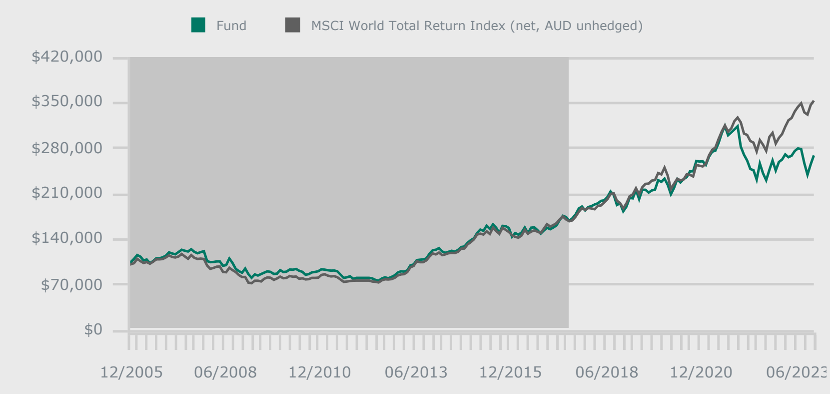
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2023[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	5.4%	9.5%	1.2%	8.0%	
Strategy (partial simulation – see below)					5.6%
MSCI World Total Return Index (net, AUD unhedged)	1.9%	23.0%	11.8%	13.5%	7.3%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

Agilent Technologies Inc	Health Care
ANSYS Inc	Information Technology
Autodesk Inc	Information Technology
CSL Ltd	Health Care
Ecolab Inc	Materials
ICON PLC	Health Care
Linde PLC	Materials
Thermo Fisher Scientific Inc	Health Care
Trane Technologies PLC	Industrials
Xylem Inc/NY	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	3.2%
Health Care	30.1%
Industrials	29.7%
Information Technology	24.7%
Materials	11.7%
Cash	0.6%

CAPITALISATION BREAKDOWN

2-10bn	24.2%
10-20bn	11%
>20bn	64.2%
Cash	0.6%

CUSTOM SECTOR BREAKDOWN

Health	26.7%
Resource Efficiency	27.3%
Sustainable Transport	7.2%
Environmental Services	12%
Water Management	11.5%
Safety	7.3%
Cleaner Energy	3.8%
Wellbeing	1.8%
Education	1.8%
Cash	0.6%

REGION BREAKDOWN

North America	46.3%
Europe ex-UK	30.2%
Japan	6.3%
UK	10.5%
Asia Pacific	6.1%
Cash	0.6%

WHEB'S PERFORMANCE REVIEW OF 2023

COMMENTARY

The Fund delivered positive returns in December of +5.4%, with Resource Efficiency and Health themes excelling, compared to the MSCI World Index which rose +1.9%.

In this month's commentary, Ted Franks provides an update on what was a positive but challenging year for the WHEB investment strategy. He considers wider and more specific headwinds and how amidst these there were still some impact investment themes that prospered.

Market Review

For the month overall, the MSCI World Index rose 1.9%.

December saw a continuation of the equity rally that began in November, fuelled by a shift in interest rate expectations following recent data showing inflation falling faster than expected in Western economies.

Interest rate-sensitive stocks, including small- to mid-cap and growth-oriented impact companies, outperformed during the month, as did some economically sensitive sectors such as semiconductors. The prospect of lower borrowing costs was also supportive for cleaner energy stocks, which tend to have growth characteristics.

Real Estate was the strongest sector over the month, followed by Industrials and Materials, while Energy remained weak, the only sector to post a negative return in the global market.

Fund Review

The fund delivered a strong return of 5.4% in December with positive contributions across sectors.

Resource Efficiency was the best performing theme over the month, with several names contributing positively to returns. The largest positive contributor was Ansys, the market leader in simulation software for product design and optimisation. There were reports that the company was an acquisition target. Silicon Labs, the semiconductor company, also performed well, as there was improving confidence on its medium-term outlook.

The Health and Environmental Services themes further helped performance, with positive contributions from names including CSL, Agilent and Thermo Fisher Scientific in the former, and Advanced Drainage Systems, TOMRA and Croda in the latter.

This was partly offset by poor performance of MSA Safety, a manufacturer and supplier of safety equipment for hazardous conditions. The share price suffered as defensive stocks fell out of favour. For the same reason, Education was the weakest theme over the month.

Outlook

Following the fall in inflation, sentiment in global equities is more positive with markets expecting that the central bank tightening phase is nearing its end. This environment should be more supportive for the generally smaller and more growth-orientated impact stocks we invest in. Our faith in the sustainability-led growth drivers and competitive advantages of the companies themselves is as strong as ever.

WHEB's performance review of 2023

A positive but challenging year

2023 was ultimately a positive year overall for Fund, which returned 9.5%.

This final result masked a relatively high level of volatility, with the Fund hitting a peak of 15.2% in early August and trough of -4.4% in late October.

The path of this volatility matched broader equity markets where, as is often the case with short-term volatile periods, macroeconomic factors played a big part. Specifically, expectations around inflation and interest rates drove large swings in market sentiment.

This was most visible in the first half of the year when many investors expected global interest rates to start to decrease in early 2024 if not before. This supported equity markets in the first part of the year, as lower rates are generally thought to be good for equities.

By mid-year it became clear that this timetable was too ambitious, and equity markets sold off. Then, just as abruptly, confidence returned at the end of October as the US Federal Reserve signalled an end to the current rate-raising cycle prompting a rally into the end of the year.

The Fund's benchmark, the MSCI World Index of stocks, had a stronger year than the Fund overall, returning 23.0%. It also demonstrated less volatility than the Fund falling only 3.5% between August and October, when the Fund lost -14.5%. One reason for this was due to some of the popular characteristics of impact stocks. In particular, their growth orientation, and their size.

Impact stocks favour growth markets

Impact stocks tend to be growth-orientated because the underlying companies are addressing growing markets. The need for sustainability solutions provides a multi-decade runway for expansion. This can mean that the stocks look more expensive relative to short-term earnings. It also means that they are more sensitive to changes in interest rates.

Impact stocks also tend to be smaller than most of the stocks included in the mainstream indices as they are focused on sustainability solutions, rather than diversified into broad sectors. Some sustainability sectors are large and support large businesses, but most are smaller, but growing faster.

In combination, our portfolio is made up of medium-sized, growth-orientated companies which are quite sensitive to interest rate expectations. This made 2023 a difficult and volatile year for many of our stocks.

A market dominated by the "Magnificent Seven"

In addition, recent years have been especially difficult for a lot of global equity strategies, due to the strong performance of a small number of very large stocks. These so-called "Magnificent Seven" are very large US technology stocks that now dominate global equity markets (and the benchmark). As we have often communicated, we don't consider them to offer sustainability solutions. Amongst them, only Tesla qualifies for our impact universe.

In aggregate, these companies had a strong performance in 2023 and their success helped the benchmark to return ahead of the Fund. Looking ahead, this concentration trend may well reverse, as stock markets have never before been so concentrated.

Beyond these shorter-term market headwinds, there were also some fundamental challenges to impact investing in 2023.

Current challenges to impact investing

Most visible was the political resistance to the climate change transition. Populist governments around the world painted decarbonisation as expensive and unfair. They rolled back regulations and removed policy support for green technologies. Rising interest rates also made the installation of renewables more expensive.

This hit some of our investments in our Cleaner Energy theme, such as SolarEdge and Enphase. But it also provided a broad headwind to most of our environmental themes. For example, the slowing phase-out of petrol cars was a problem for our Sustainable Transport theme. This included Aptiv, which specialises in the electrification of vehicles.

Unusually, these shorter-term headwinds in Environmental themes were matched simultaneously in the Social themes. Environmental markets are generally more economically sensitive than social ones, so the two parts of the investment strategy often tend to provide a good balance: when environmental markets are challenged by the economic cycle, the social themes have provided more defensive characteristics.

However, 2023 was notable because our largest social theme, Health, also faced strong headwinds. The pace of pharmaceutical innovation slowed as capital for early-stage research dried up. Three core investments in the life sciences tools sector are Danaher, Agilent and Thermo Fisher and all three had a difficult year as demand slowed.

The long tail of COVID disruption also played out into 2023 in healthcare systems around the world. This created challenges, for example, for the Fund's Australian plasma specialist CSL.

Opportunities remain within testing climates

Against these headwinds, there were still some impact investment themes that prospered. One notable strong thematic area was climate change adaptation. While the political response to climate change has struggled to make progress, global temperatures continue to rise with extreme and erratic weather events becoming more commonplace.

Companies helping communities to adapt to these new conditions saw increasing demand. This included Advanced Drainage Systems, which makes flood management solutions, and efficient cooling systems maker Trane Technologies. Engineering firm Arcadis also enjoyed a growing market for its adaptation advice.

Adaptation will continue to be an important area for the Fund, but the primary emphasis remains on climate mitigation. Despite the challenges of 2023, many of the key debates in this area are now settled, and the path forward is clear. Similarly, although the pace of healthcare innovation has temporarily slowed, the long-term push to find new and better treatments is unchanged. We will continue to invest in high quality companies which can capture these durable long term trends.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.4769
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 256.3m
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 incepted 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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