

‘THERE ARE DECADES WHERE NOTHING HAPPENS, AND THERE ARE WEEKS WHERE DECADES HAPPEN’

In November, global stock markets recorded some of the strongest gains on record on the back of significant progress in the development of a vaccine for Covid-19. As investors became more bullish on the outlook, we saw a meaningful sector and style rotation. This reversed the market-style trends we have seen since the inception of the pandemic.

Whilst still generating a meaningful increase of 6.5% in the month, the Fund gave back some of the relative outperformance of the year and underperformed our benchmark MSCI World Index, which returned 7.5%. Our Health and Resource Efficiency themes have been our two strongest performance contributors year-to-date. Both underperformed this month. On the other hand, our Sustainable Transport and Cleaner Energy themes rose sharply.

Danaher was the worst performer within the Health theme, with **Thermo Fisher** also weak. Their life science products have made a meaningful contribution to COVID-19 testing, and the development of therapies. Both stocks were hit by the positive news around the significant progress in vaccine development.

Resource Efficiency was another theme that didn't keep pace with the wider market rally. **Kingspan** was one of the underperforming stocks in the theme. It is a leading supplier of building insulation materials. The stock fell sharply on reports from the official inquiry into the tragic fire at Grenfell Tower in London in 2017. The inquiry will conclude in January. We are closely following the proceedings and have engaged with the company. Once the inquiry is complete, we will evaluate its findings and review our position.

Our Sustainable Transport theme was the strongest performer this month. The particularly strong performance came from two of our automotive OEM suppliers **Hella** and **Aptiv**. Hella is a leading automotive supplier with a focus on high-efficiency LED lighting. It also produces electronic products including sensors, driver assist systems, and energy management components. Its products help improve automotive fuel efficiency and safety. Aptiv provides advanced safety solutions and signal and power solutions. It is well positioned to benefit from the shift to electrical and autonomous vehicles. The positive developments in Covid-19 vaccines have led to a strong rebound in the cyclical sectors including the automotive sector. Both Hella and Aptiv benefited from this positive sentiment.

Another strong theme this month was Cleaner Energy. The renewable energy sector has performed well this year as many more countries have committed to net-zero carbon emission. **TPI Composites** is one of the companies that benefit from this policy momentum. It is a leading outsourced wind blade manufacturer. The company delivered meaningful margin expansion in recent results due to improved utilisation as a result of growing demand.

This recent sector and style rotation was not a surprise to us. It was reasonable to expect that the arrival of a vaccine would reverse some of the clearest pandemic trends at some point. Despite this, we believe COVID-19 has led to some long-term changes. These include increased health and safety standards and more resilient supply chains. This Fund is well positioned to capture these long-term secular trends.

Vladimir Ilyich Ulyanov, better known by his alias 'Lenin', was reputed to have remarked that 'There are decades where nothing happens, and there are weeks where decades happen'. This certainly feels like a good description of the past few weeks. Paradoxically, while people in many parts of the world have been locked down at home and not able to do very much, an enormous change has been surging through the global economy. The change I am referring to, of course, is the rapidly swelling global commitment to tackle climate change.

Weeks where decades happen

This change was clearly visible in the UK with the Prime Minister's announcement of a 'Ten Point Plan for a Green Industrial Revolution'. The plan was launched with much fanfare in mid-November. It joins a growing list of impressive commitments from across the planet. The excellent Energy and Climate Intelligence Unit (ECIU) runs a handy '[Net Zero Tracker < https://eciu.net/netzerotracker >](https://eciu.net/netzerotracker)' which keeps a running tally of what progress different countries have made in setting 'net zero' emission targets. So far two countries have already achieved net-zero emissions (Bhutan and Suriname). More critically, six countries, including France and the UK, have established net zero targets in law. A further five, including the EU, have formally proposed legislation that will embed their commitments in due course.

More recently, in September, China set its net zero targets, in their case for 2060. Japan then followed in October by upgrading its commitment to net zero emissions by 2050. Two days later South Korea made the same commitment. In total 14 countries are now actively developing policy to translate their stated net zero commitments into formal legislation. According to the ECIU, these commitments now cover well over 50% of the global economy. And of course, this doesn't include the US. Jo Biden's victory in the presidential election in November creates an expectation that the US's 24% share of global GDP will be added to this tally.

So, after decades of nothing happening, or at least depressingly little, to address climate change, why, all of a sudden, have we had 'weeks where decades happen'?

It has got a lot cheaper to go net zero

Back in 2008, when the UK passed the Climate Change Act, it was estimated that the cost of an 80% cut in greenhouse gas emissions by 2050 would cost approximately 2% of GDP over that period. The UK's Committee on Climate Change will set out their revised costs and benefits of reaching net zero by 2050 in a report in early December. What is clear is that the costs will be very substantially below this original forecast. Solar and wind energy are now the [cheapest sources of new power generation < https://www.bloomberg.com/news/articles/2020-10-19/wind-solar-are-cheapest-power-source-in-most-places-bnef-says >](https://www.bloomberg.com/news/articles/2020-10-19/wind-solar-are-cheapest-power-source-in-most-places-bnef-says) almost everywhere in the world. Electric vehicles are already [cheaper to run < https://electrek.co/2020/07/22/evs-cheaper-per-year-ice-cars-uk/ >](https://electrek.co/2020/07/22/evs-cheaper-per-year-ice-cars-uk/) than petrol and diesel vehicles, and will soon be cheaper on a whole lifecycle basis for almost everyone.

Creating jobs as much as saving the climate

'[PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs < https://www.gov.uk/government/news/pm-outlines-his-ten-point-plan-for-a-green-industrial-revolution-for-250000-jobs >](https://www.gov.uk/government/news/pm-outlines-his-ten-point-plan-for-a-green-industrial-revolution-for-250000-jobs)'. This was the title of the full announcement that Boris Johnson made in mid-November. As the headline makes clear, the plan is as much about creating jobs as it is about saving the climate. It is unlikely to be a coincidence that many of these jobs are in constituencies in the North and East of the country. Constituencies that turned Conservative at the last General Election and can look forward to a future helping to serve and maintain the growing fleet of offshore wind parks in the North Sea. For those that hold Government purse-strings, the penny does seem to have finally dropped that climate action is better understood as an investment, not a cost. 'A vital insurance policy against wildfires, floods and other natural disasters' as a columnist put it in the [Financial Times < https://www.ft.com/content/e1127520-43f4-4324-9e08-59ac87648ca8 >](https://www.ft.com/content/e1127520-43f4-4324-9e08-59ac87648ca8).

COVID-19 – a catalyst for change

In our [client report for the first quarter of this year < https://www.pengana.com/assets/Uploads/20200420-WHEB-Q1-2020-Pengana.pdf >](https://www.pengana.com/assets/Uploads/20200420-WHEB-Q1-2020-Pengana.pdf), we speculated that the COVID-19 crisis, tragic though it has been, might nonetheless prove to be a catalyst that helps accelerate action on climate change. Seven months on, and this does now seem to be the likely outcome. Under the rubric of 'building back better' Government after Government has chosen to turbo-charge efforts to decarbonize their economies. Investing in 'green' sectors is seen as the best way to pump-prime their economies and kick-start growth.


The US election

Climate change was on the ballot in the November US Presidential election in a more explicit way than it ever has been before. President-elect Biden has been very clear that he will embrace international climate diplomacy and spend more than \$2 trillion backing clean energy and green jobs. In the end, 74% of Biden voters described climate change as 'very important' to their [vote < https://www.bloomberg.com/news/articles/2020-11-07/biden-s-climate-mandate-u-s-election-shows-support-for-climate-agenda>](https://www.bloomberg.com/news/articles/2020-11-07/biden-s-climate-mandate-u-s-election-shows-support-for-climate-agenda). With the appointment of John Kerry as Biden's 'climate envoy', it is clear tackling climate change will be a priority.

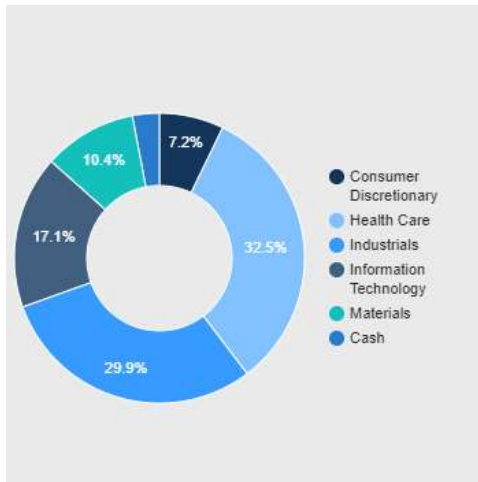
We could certainly argue about which of these developments has been most influential. What is unarguable, is that the past few weeks have seen an extraordinary level of change. The vast majority of these changes are positive for the prospects of companies held in WHEB's investment strategy. We can confidently anticipate the faster deployment of electric vehicles and renewable power, renewed efforts to decarbonise buildings, and serious policies to accelerate transformation in hard-to-reach but critical sectors like agriculture and heavy industry.

Margaret Thatcher was the first senior politician to take climate change seriously. Her speech in 1989 kick-started a process that took three decades to convince the UK Government that net zero carbon emissions had to be the target. Now just eighteen months since that commitment was made, the whole world may well have reached the tipping point for serious, concerted action to tackle climate change.

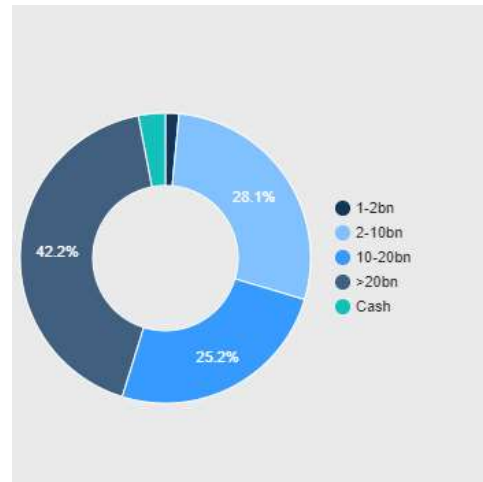
TOP HOLDINGS (ALPHABETICALLY)

	Agilent Technologies	United States	Health Care
	Ansys	United States	Information Technology
	Cerner	United States	Health Care
	Daifuku	Japan	Industrials
	Danaher	United States	Health Care
	Keyence	Japan	Information Technology
	Koninklijke DSM	Netherlands	Materials
	Linde	United Kingdom	Materials
	MSA Safety	United States	Industrials
	Thermo Fisher Scientific	United States	Health Care

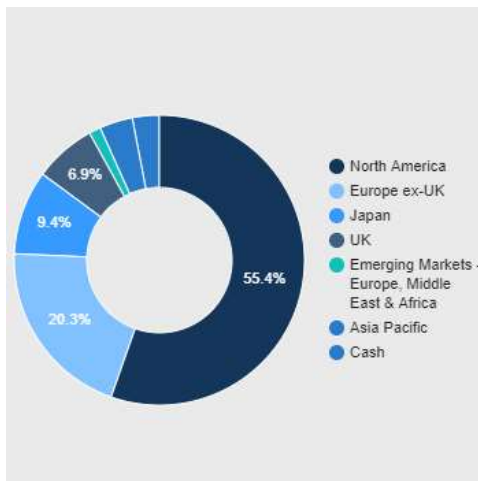
SECTOR BREAKDOWN



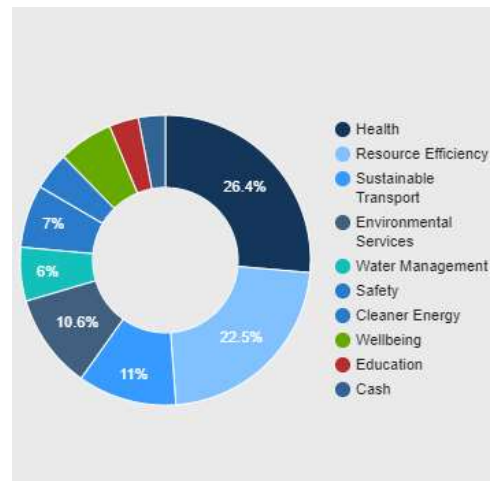
CAPITALISATION BREAKDOWN



REGION BREAKDOWN



THEME



FUND PERFORMANCE

NET PERFORMANCE FOR PERIODS ENDING 30 NOV 2020¹

	1 MONTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION
Fund	6.5%	12.8%	11.0%		
Strategy (partial simulation ²)				10.2%	6.6%
Benchmark	7.5%	5.1%	10.6%	10.5%	6.5%

FUND PERFORMANCE

NET PERFORMANCE SINCE INCEPTION²



VOLATILITY³

13.2%

NUMBER OF STOCKS

47

FUND MANAGERS



Ted Franks

Partner, Fund Manager



Seb Beloe

Partner, Head of Research

FEATURES

PORTFOLIO MANAGERS	Ted Franks Seb Beloe
APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.4389
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 80.2m
FUND INCEPTION DATE	31 October 2007

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.’

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. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

2. The Fund inceptioned 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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