

## A NEW ERA FOR LONDON AND BRUSSELS

With the completion of the UK's separation from the European Union, Ted Franks looks at how sustainability commitments are now enshrined in the Brexit deal and what this means for the investment strategy.

We are pleased to welcome Claire Jervis, who joined WHEB as an analyst and the fifth member of the investment team. Claire was previously employed at Barings and has a background as a small and mid-cap analyst with a focus on ESG.

Global stock markets continued to rise in December in the hope of vaccine rollout and additional economic stimulus. The bellwether US S&P 500 index ended 2020 at a record high. However, stock market returns did not keep pace with the rapid appreciation in the AUD and the Fund returned -0.3% for the month, slightly outperforming the MSCI World Net TR Index (AUD unhedged) which returned -0.5%.

Our Cleaner Energy theme was the strongest performer this month. Both our wind energy holdings, **TPI Composites**, and **Vestas** contributed positively. They both have benefitted from the heightened global ambition for renewables in 2020. Their stock performances were further supported this month by the extension of the renewable energy tax credits in the US.

Another strong theme this month was Environmental Services. **Smurfit Kappa** was the major contributor. It is the largest producer of recycled corrugated board and containerboard in Europe. It produces sustainable packaging for food, beverages, and household consumables. The accelerating trend of e-commerce as a result of COVID-19 has led to strong demand for its products. We believe the consumer-led demand for sustainable packaging offers an attractive long-term outlook for the company.

Our Health theme was once again the weakest contributor this month. **Steris**, **Danaher**, and **ICON** were among the weakest performers in the theme. The rollout of vaccines has put selling pressure on some of our healthcare companies. It is worth noting that these companies have been making a meaningful contribution to the fight against COVID-19. For example, ICON provided clinical trial services to the Pfizer and BioNTech investigational COVID-19 vaccine program. Its innovative services and technologies helped accelerate the development of the world's first approved vaccine for COVID-19.

This general weakness in the Health theme was partially offset by the positive contribution from **HMS Holdings**. It provides payment accuracy services to insurers and the US government. It also provides population health management to help reduce medical costs and improve patients' health. We sold our position in the company this month after it was bid for by Gainwell Technologies.

Resource Efficiency was another theme that underperformed this month. **Kingspan** was once again the major negative contributor to the theme. The stock has been weak as the public inquiry into the tragic fire at Grenfell Tower continued. Kingspan's insulation panels were a small proportion of those used on the tower. It is critical that we understand the company's behaviour in the run-up to those events, and we are closely following the proceedings. At this stage, we are still inclined to hear the company's response at the end of the inquiry in January before making a decision about our position. But, we are constantly evaluating any new information we uncover.

2020 was a year of challenges but also great progress in the sustainability agenda. We saw many more countries set a net-zero carbon target this year. Sustainability, health, and safety issues rose up corporates' agenda. Digitisation in

commerce, healthcare, and education accelerated at an unprecedented speed. All these developments will have a long-lasting positive effect on our societies and environment.

We believe our strategy's performance benefitted from these changes this year. We will continue to do so in the future by identifying and investing in the many sustainability opportunities as they arise.

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The past is a foreign country; they do things differently there. It is only four-and-a-half years since the UK decided to leave the European Union, which it finally did at the end of last month. But so much has changed since 2016 that it can feel like peering back into a different age.

Then, it would have seemed impossible that the eventual Brexit deal would be the first trade deal in the world to enshrine a climate obligation.

And yet, here we are: both sides have affirmed their commitment to climate neutrality by 2050, in the very text of the deal. Any derogation from this commitment can result in trade actions by the other side. Stronger still, it could ultimately lead to the termination of the agreement.

But then, in June 2016 it would have seemed far-fetched that the UK could ban internal combustion engine sales by 2030. Or plan to install 40GW of offshore wind power by the same date. Or indeed, have been the first G7 country to make a net-zero carbon commitment, as long ago as summer 2019.

And of course, no-one would have predicted that we would stumble out of the EU amid the first truly global pandemic in modern times. An event so profound that it finally sucked the oxygen from our national self-immolation around Brexit.

Although now that we look into it, we see epidemiologists had warned us that this could happen at any time. But like climate scientists, they were struggling to be heard.

Indeed, in the distant land of 2016, we were encouraged to ignore experts of all kinds. We do things differently now. That view is returning to a more sober approach, either in climate or pandemic policy.

So experiences unfold and priorities change. And as different as 2016 was to today, so the future will be another country again. The Brexit deal doesn't define the new UK-EU relationship. It just starts the process of finding that out.

Here at WHEB, we think that the starting point seems quite sensible. The basic deal is that environmental and social protections are not to be reduced below the levels in place when the deal was signed. And if they are, then there is a "rebalancing" mechanism that the other side can apply, on an equal footing.

This isn't quite the level of protection that some observers, fearful of backsliding by the UK government, might have wished for. Full equivalence would have meant both sides had to match each other. And strictly speaking, the measures only apply to removing protections that have an impact on trade. And there are other detailed points which could alarm us as environmentalists. If you want to find them.

But, with a bit of goodwill and good intentions, it could easily be enough. For WHEB's portfolio investments, the impacts of Brexit have in reality been very limited. The strategy has a low level of exposure to the UK economy. Anaemic domestic markets have little direct bearing on strategy performance. Changing regulations have required us to launch a new fund structure to accommodate our EU-based investors. As torturous as this has felt, it is small beer compared to the experience of many.

Ultimately, the UK and its largest and closest partner still share a host of real sustainability challenges. While no longer a part of the EU, we will still need to find new ways to tackle them together.

Eventually, we will perhaps look back at the chaos of 2020 and be amazed at how different things were then.

## TOP HOLDINGS (ALPHABETICALLY)

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Ansys

United States

Information Technology



Cerner

United States

Health Care



Daifuku

Japan

Industrials



Icon

Ireland

Health Care



Keyence

Japan

Information Technology



Koninklijke DSM

Netherlands

Materials



Linde

United Kingdom

Materials



MSA Safety

United States

Industrials



Steris

United States

Health Care

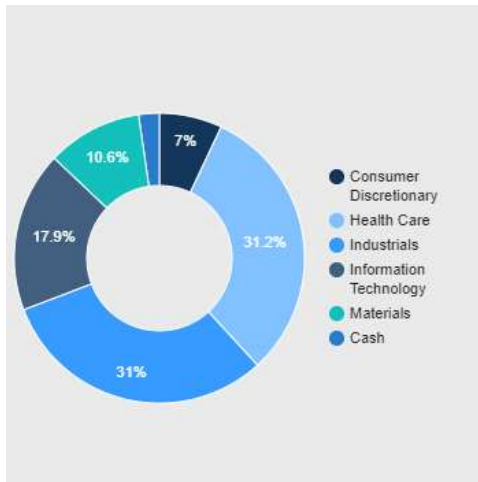


Thermo Fisher Scientific

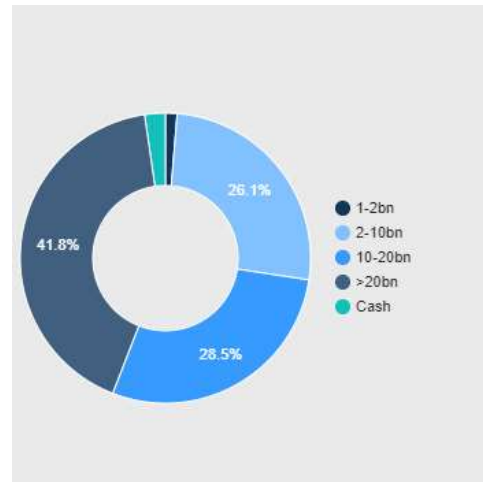
United States

Health Care

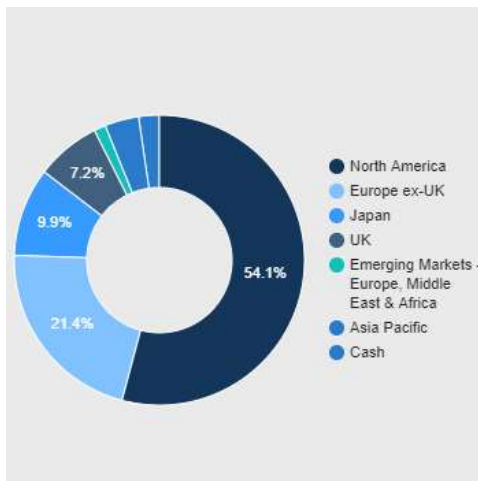
## SECTOR BREAKDOWN



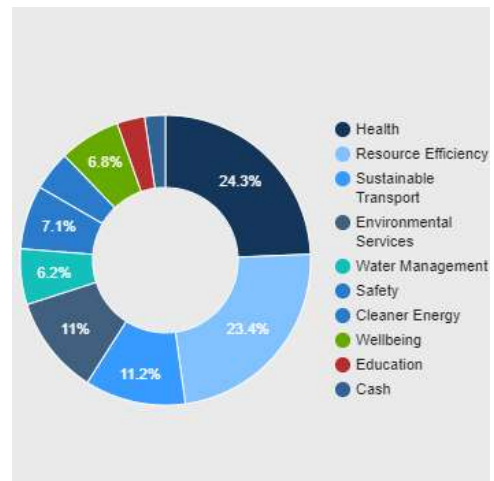
## CAPITALISATION BREAKDOWN



## REGION BREAKDOWN



## THEME



## FUND PERFORMANCE

## NET PERFORMANCE FOR PERIODS ENDING 31 DEC 2020<sup>1</sup>

	1 MONTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION
Fund	-0.3%	13.7%	12.1%		
Strategy (partial simulation <sup>2</sup> )				10.5%	6.6%
Benchmark	-0.5%	5.6%	11.0%	10.9%	6.4%

## FUND PERFORMANCE

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



VOLATILITY <sup>3</sup>	13.1%	NUMBER OF STOCKS	46
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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\$ 1.4341
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 88.35m
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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