

WHAT IS THE BEST WAY TO TACKLE PLASTIC WASTE?

In May, equity markets continued to weigh an increasingly vigorous economic recovery against the risks of rising inflation. According to OECD, the global economy is set to grow this year at the fastest pace in almost half a century. But this rapid growth itself may precipitate an increase in inflation, and in turn, lead to rising interest rates. As low-interest rates have pushed equity markets up for more than a decade, this is food for thought for investors. In the early stages of a reflationary rally, current share prices often assume greater importance than the quality of earnings. We draw parallels between the current environment and the period following the US presidential elections in 2016 – the strategy underperformed in both periods. History suggests that this is short-lived and as the cycle continues the companies with better quality earnings tend not only to catch up but to outperform.

Against this finely poised backdrop, our benchmark, the MSCI World index gained +1.2% in May. Our strategy underperformed the benchmark returning +0.6%. The strongest contributions came from the Sustainable Transport, Health, and Wellbeing themes. These were offset by weaker performance from the Resource Efficiency and Education themes.

Our Sustainable Transport theme made the largest positive contribution in May. We enjoyed a strong performance from Hella and Aptiv. Both are leading automotive component suppliers. **Hella** is particularly strong in energy-efficient LED lighting. Its electronic products are also used for driver assistance systems and energy management. The stock responded positively to the news that the original founding families are looking to sell their stake, which would remove an overhang. **Aptiv** provides components enabling low- and zero-emissions cars and trucks. The company delivered another strong set of quarterly results. It has consistently outgrown the overall automotive market in recent years, driven by the growing trend of electrification and active safety.

Our Health theme performed well this month. **Centene**, a US health insurance company, was one of the major contributors to the theme. It has a particular focus on providing access to value-based healthcare services for poor and vulnerable communities across the US. Employment data showing that more people may be eligible for its plans, and the appointment of a widely-respected new Chief Financial Officer, boosted the stock this month. **CSL** was another outperformer in the Health theme. It provides human blood plasma-derived products to treat bleeding disorders, infections, and autoimmune diseases. The latest data indicated that the foot traffic at its plasma-collection centres has improved. It is also going to roll out a new plasma-collection platform which has the potential to increase efficiency.

Our Wellbeing theme also performed strongly. It was largely due to the outperformance of **Sonova**, which is a global leading provider of hearing care solutions including hearing aids and cochlear implants. Sonova demonstrated good cost control and pricing power during the pandemic. Its strong guidance suggests solid market recovery and further market share gains in the coming year.

Our Resource Efficiency theme was the weakest contributor in May. **Daifuku** was the major detractor. Its products enable the automation of warehousing and manufacturing, reducing energy and resource use in these activities. Daifuku's share price was weak as recent full-year guidance was seen as too conservative. Order growth was also disappointing. With a leading share in material handling, it now needs to show better execution.

Our Education theme also underperformed, mainly driven by the poor performance of **Grand Canyon Education**. Provides online and campus-based education services to colleges and universities, its share price was hit surprisingly hard following a minor reduction of its full-year guidance. The reduction was largely due to the COVID impact on recruitment activities, which we see as a short-term disruption.

We have been in the pandemic for over a year now. Recent results from our portfolio holdings provide a good snapshot of how well or poorly our investee companies have navigated through this period of upheaval. We are glad to see that most of our holdings managed this global challenge very well. We believe that backing these strong and agile management teams will lead to outperformance over the long term.

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Love them, or hate them, Greenpeace knows how to produce a good campaign video. Personally, I love them, but even for me, their '[KitKat video < https://www.youtube.com/watch?v=VaJpRwExO8>](https://www.youtube.com/watch?v=VaJpRwExO8)' was quite hard to watch. Their latest offering stars the British Prime Minister and [illustrates < https://www.greenpeace.org.uk/news/wasteminster-downing-street-disaster/>](https://www.greenpeace.org.uk/news/wasteminster-downing-street-disaster/) the huge challenge in reducing plastic waste.

Recycling plastic is difficult.

As an Environmental Science undergraduate in the mid-1990s, I wrote my thesis on ways to recycle high-density polyethylene ('HDPE') that is used to make laundry detergent bottles. The best we could do back then was recycling the material into toilet and shower cubicles. Depressingly, plastic recycling has [hardly advanced since then < https://cen.acs.org/environment/recycling/Plastic-problem-chemical-recycling-solution/97/i39>](https://cen.acs.org/environment/recycling/Plastic-problem-chemical-recycling-solution/97/i39). Some countries are better than others of course. But as the Greenpeace video makes clear, even where waste plastic is collected, it is not always recycled.

The petrochemical industry meanwhile still plans for continued growth. But there is now significant momentum behind efforts to reduce plastic use, particularly in packaging. The '[Global Commitment < https://www.newplasticseconomy.org/assets/doc/Global-Commitment-2020-Progress-Report.pdf>](https://www.newplasticseconomy.org/assets/doc/Global-Commitment-2020-Progress-Report.pdf)' for example, is supported by 118 businesses that produce, use, and recycle large volumes of plastic. In 2019, 65% of these signatories had committed to ensuring that 100% of their plastic packaging is reusable, recyclable, or compostable by 2025. Being *recyclable* is one thing, being *recycled* is another. So far only 1.9% of their plastic packaging is composed of recycled material.

New momentum in reducing plastic waste.

Makers of virgin fossil plastics should not, in our view, take too much comfort from this slow progress. 56% of those same Global Commitment signatories are now actively involved in recycling pilot projects.

Moreover, regulatory activity is also accelerating. The European Union has policies to reduce the amount of single-use plastic such as bans on plastic straws, cutlery, stirrers etc. In addition, a new plastics tax of €0.80/kg on non-recycled plastic packaging was introduced on 1 January 2021. This regulation is expected to lead to an increase in recycled plastic packaging across the EU. Similar proposals are being mooted in other jurisdictions as well.

Are the 'solutions' solving the problem?

The industry is now busy experimenting with different techniques to reduce plastic waste. Some are familiar such as mechanical sorting and recycling. Others, such as chemical recycling, involve returning polymers to their base chemicals before reformulating them into new material. Novel plastic materials are also being explored. Some of these, such as polylactic acid-based polymers ('PLA') and polyhydroxyalkanoates ('PHA') can be derived from biomass. There are even businesses developing additives that help traditional fossil-based plastics biodegrade in the natural environment. (See, for example, [Polymateria < https://www.polymateria.com/>](https://www.polymateria.com/).)

Each of these approaches brings different strengths and weaknesses. For all of them, however, a healthy dose of skepticism is advised. This situation is made worse by a lack of clear standards and the complexity of the issues. PLA for example can be manufactured from biomass and is compostable in industrial facilities. However, it takes decades to break down in home composting facilities and like traditional plastics, takes centuries to break down in the ocean. PHA meanwhile is home compostable but is still subject to a heated debate on whether it is marine biodegradable.

Both PLA and PHA can contaminate otherwise recyclable waste streams. For this reason, many are reluctant to embrace them. For example, Tesco has now formally removed PLA from its preferred material list.

WHEB's approach

Plastic pollution remains a major environmental concern and may pose significant risks to human health. (Among other health impacts, a [recent study < https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7967748/>](https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7967748/) has suggested microplastics represent a threat to male fertility.) At WHEB we remain intensely interested in potential solutions to

this problem. We have researched companies that make bioplastics, as well as compostable plastics and chemical recyclers.

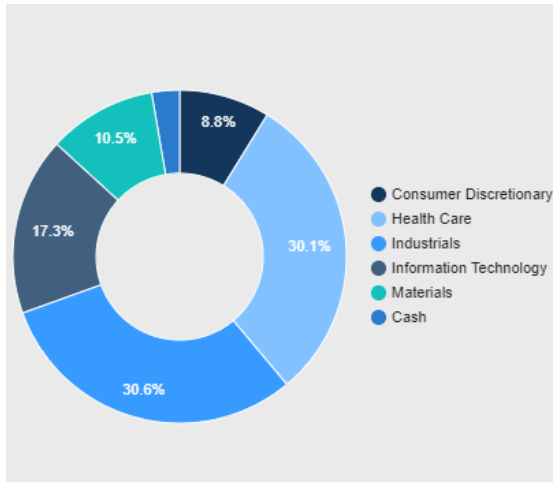
So far though we are not convinced that any of these offer a sustainable long-term solution to the problem of plastic waste and microplastics in the environment. Instead, through our investment in **Smurfit Kappa**, we remain committed to recycled cardboard, an inherently biodegradable and compostable material that is also easily recycled. Cardboard is not appropriate for every application, but new design innovations mean that it has become the most popular alternative material for companies committed to reducing plastic waste.

Over 40% of the companies signed up to the Global Commitment have opted to use recycled cardboard in preference to plastic. We continue to research what the other 60% are doing and remain ready to invest in companies where we have conviction in the environmental integrity of the solution and the quality of the business model.

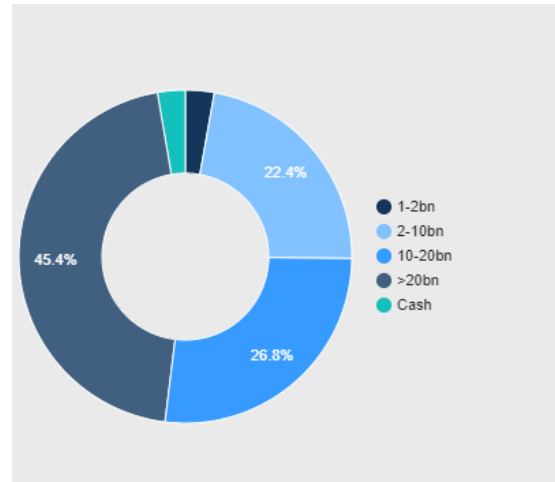
TOP HOLDINGS (ALPHABETICALLY)

	A.O. Smith	United States	Industrials
	Agilent Technologies	United States	Health Care
	Ansys	United States	Information Technology
	CSL	Australia	Health Care
	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

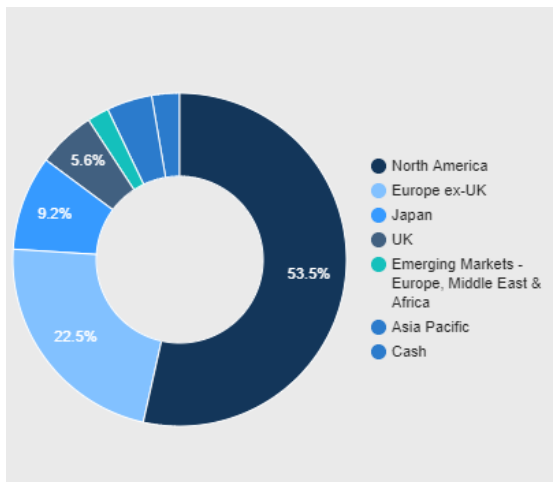
SECTOR BREAKDOWN



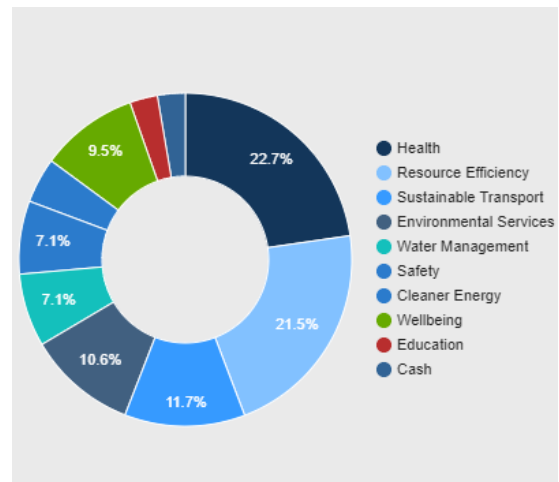
CAPITALISATION BREAKDOWN



REGION BREAKDOWN



SUSTAINABILITY THEME

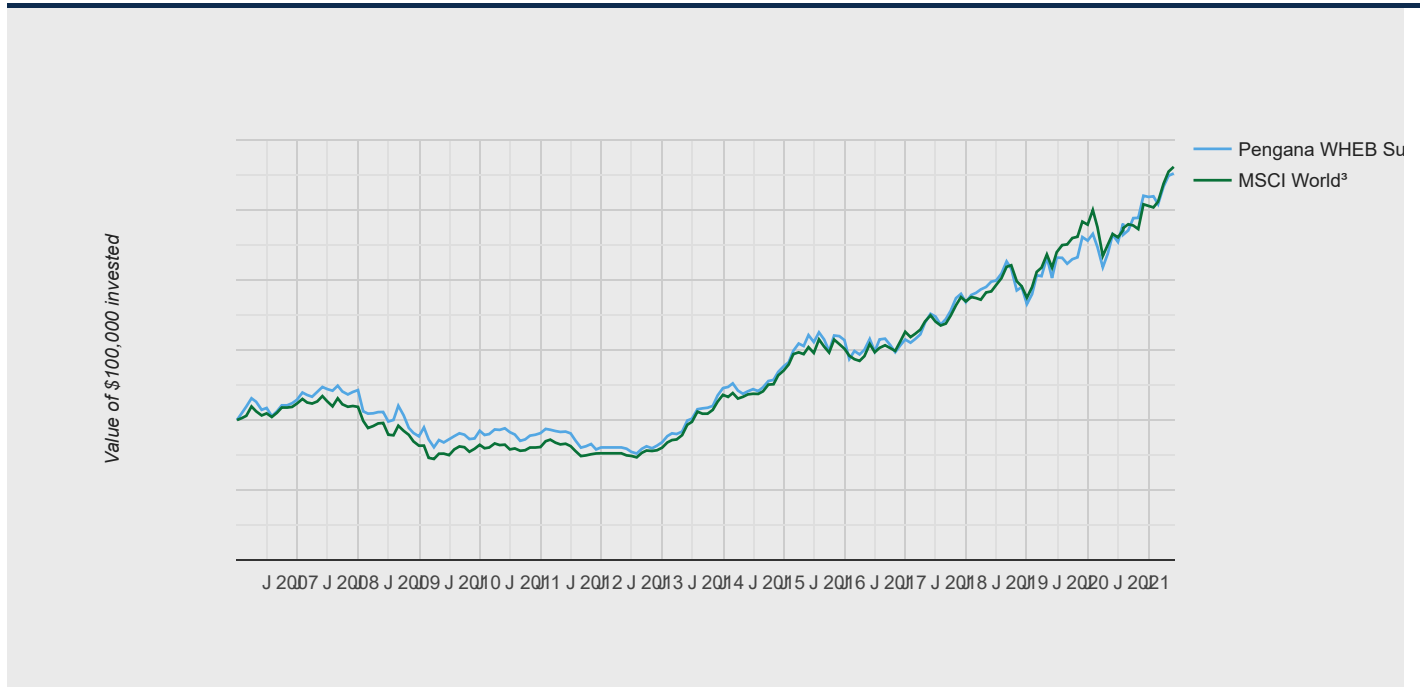


FUND PERFORMANCE

NET PERFORMANCE FOR PERIODS ENDING 31 MAY 2021¹

	1 MONTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION
Fund	0.6%	18.8%	11.6%		
Strategy (partial simulation ²)				11.8%	6.8%
Benchmark	1.2%	20.6%	13.5%	12.7%	6.9%

FUND & STRATEGY PERFORMANCE



VOLATILITY³

13%

NUMBER OF STOCKS

46

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\$ 1.5269
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 166.9m
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 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.

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