

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 30 JULY 2021¹

	1 MTH	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
Fund	5.2%	30.3%	14.0%		
Strategy (partial simulation²)				14.0%	7.4%
MSCI World Total Return Index (net, AUD unhedged)	4.0%	31.8%	14.9%	15.1%	7.4%

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.

TOP HOLDINGS (ALPHABETICALLY)

A.O. Smith	Industrials	Ecolab	Materials
Agilent Technologies	Health Care	Icon	Health Care
Ansys	Information Technology	Keyence	Information Technology
CSL	Health Care	TE Connectivity	Information Technology
Danaher	Health Care	Thermo Fisher Scientific	Health Care

THEME

Cleaner Energy	4.5%
Education	3.1%
Environmental Services	10.5%
Health	23.4%
Resource Efficiency	21.4%
Safety	6.9%
Sustainable Transport	11.6%
Water Management	7.3%
Wellbeing	9.1%
Cash	1.2%

MARKET CAP (USD)

1-2bn	3.2%
2-10bn	22.5%
10-20bn	22.5%
>20bn	49.9%
Cash	2.0%

REGION

Asia Pacific	2.8%
Emerging Markets - Europe, Middle East & Africa	2.2%
Europe ex-UK	21.9%
Japan	9.4%
North America	56.3%
UK	5.5%
Cash	2.0%

SECTOR

Consumer Discretionary	8.8%
Health Care	30.6%
Industrials	29.0%
Information Technology	19.1%
Materials	10.5%
Cash	2.0%

STATISTICAL DATA

VOLATILITY³ 13.1%

NUMBER OF STOCKS 45

EXTREME WEATHER – A WAKE-UP CALL ON CLIMATE MITIGATION AND ADAPTATION

SUMMARY

The Fund outperformed the MSCI World Index this month, returning +5.2% versus +4.0%. Outperformance mainly came from our Health and Environmental Services themes.

In July, hardly a day went by when you didn't see extreme weather events on the news headlines. California and Nevada were hit by record-breaking heatwave. Western Germany was flooded by a once-in-a-century flood. A year's worth of rain fell in three days in the city of Zhengzhou, China. This combination of extreme weather events reminds us once again of the urgency to reduce global carbon emissions. In this month's commentary, we look at how at portfolio companies are set to benefit as countries begin to enact policies to meet their net zero carbon targets, via the delivery of renewable energy products to providing flood defence and stormwater management solutions.

We have also included a recording of our recent webinar "[Building Back Better](#)", which covers how companies in our investment portfolio are providing critical solutions to global sustainability challenges as well as providing a quarterly update for the Fund. You can also access our impact tools (the dynamic impact calculator, the impact map, and our annual impact report) on our Impact Page [here](#).

COMMENTARY

Global equities rose higher this month, supported by easy financial conditions from central banks and the momentum of reopening economies. Markets appeared sanguine about the economic implications from the spread of the more transmissible Delta variant of COVID-19, though many Asian countries struggled to contain new COVID outbreaks. China and Hong Kong indices fell sharply as investors feared tighter government regulations in the education, health and technology sectors.

The Fund outperformed the MSCI World Index this month, returning +5.2% versus +4.0%. Outperformance mainly came from our Health and Environmental Services themes. On the other hand, the Cleaner Energy and Safety themes were relatively weak.

Our Health theme was the biggest positive contributor in July, and ICON and Danaher were the best performers in the theme. Both companies reported similar COVID-related tailwinds in recent results. **ICON** is an outsourced clinical research organisation, and continues to see strong demand for its services for research into COVID vaccines and therapies. **Danaher** is a leading test and measurement equipment provider, whose products are used in numerous applications including life sciences, diagnostics and applied environmental solutions. It continued to see very strong demand for its COVID diagnostic tests, contradicting the declining trend many of its peers have reported recently. More importantly, both companies saw continued recovery in their core non-COVID businesses, which bodes well for their longer-term growth prospects.

Our Environmental Services theme also performed well this month. This was largely driven by outperformance from **DSM**. It manufactures a range of nutritional and pharmaceutical ingredients, and industrial materials that help reduce environmental impacts. Low inventory levels in the supply chain has led to higher expectations for its materials business. Strong market demand in the automotive and electronics industries added to the momentum in DSM's end markets. **Arcadis** was another strong performer in the theme. It is an environmental consultant with a particular focus on the buildings, infrastructure and water sectors. Arcadis' share price has rebounded strongly from the previous month's weak performance, having published a strong set of results. The company benefits from the growing scale of public stimulus programs for sustainable infrastructure, as well as a renewed focus on carbon reduction and environmental adaptation across its client base.

The weakest performance this month was the Cleaner Energy theme, led by **TPI Composites**. It is a leading outsourced manufacturer of wind turbine blades. The company has reduced its full-year guidance due to higher raw material costs and lower expected wind blade demand for the rest of this year. Despite this short-term volatility, we remain confident over the long-term demand for wind energy.

Our Safety theme also performed poorly in July. It was in large part due to Intertek, the global testing, inspection, and certification company. Its services ensure product safety and provide sustainability assurance across global supply chains. **Intertek's** share price fell following disappointing results, mainly due to poor margin progression in the more cyclical Trade and Resources segments.

The benchmark MSCI World Index has risen for six consecutive months. Low interest rates and fiscal stimuli have been the primary forces driving the stock market higher, despite concerns over peak growth, inflationary pressures and the spread of Delta variant. These factors have affected our individual holdings to various degrees but have been balanced out at the portfolio level. Our diversified portfolio across a range of different themes and sectors enables us to navigate volatility and competing market pressures over the long term.

EXTREME WEATHER – A WAKE-UP CALL ON CLIMATE MITIGATION AND ADAPTATION

In July, hardly a day went by when you didn't see extreme weather events on the news headlines. California and Nevada were hit by record-breaking heatwave. Western Germany was flooded by what the media called a Jahrhundertflut, a once-in-a-century flood. A year's worth of rain fell in three days in the city of Zhengzhou, China. In the Southern Hemisphere, [19 low-temperature records were broken in 24 hours in South Africa](#) with temperatures below zero in several cities, which have not been seen in decades. The list goes on and on.

While it is hard to attribute a single extreme weather event to climate change, the magnitude of these events well exceeded scientists' climate models, which shocked some climate researchers. Some scientists believe that some of these events could not have happened without some degree of global warming. World Weather Attribution concluded that the [heat wave in Western North America in June was virtually impossible without human-caused climate change](#).

This combination of extreme weather events reminds us once again of the urgency to reduce global carbon emissions. According to the Climate Crisis Advisory Group, "[greenhouse gas levels are already too high for a manageable future for humanity](#)." Even if we meet the net zero carbon target by 2050, the planet is still on its way to 1.5-2°C warming by the end of the century. No one knows for sure when temperatures will stop rising. The need to accelerate investments in renewable energy and other clean technologies has never been higher.

Even though many countries have now set net zero emissions targets, actual actions are lagging behind due to sluggish policy momentum and bureaucracy. [Most countries are yet to put in place policies to meet their targets](#). Chief executives of leading wind turbine manufacturers and wind farm developers have warned that [wind capacity required for carbon neutrality by 2050 will fall short by 43%](#), should the current pace of growth persist. Renewable energy groups are now calling for larger clean energy auctions and faster planning processes in order to meet net zero emissions goals.

Our renewable energy holdings **Vestas** and **First Solar** will see a huge jump in demand for their products when countries take their climate change commitment seriously. We believe they will. Many more lives will be lost in floods, heatwaves and droughts as extreme weather events happen more frequently. Governments can no longer just pay lip service in the face of growing public pressure to combat climate change.

Sadly, extreme weather is already with us now. Cutting emissions alone is therefore not going to be enough. We also need to invest urgently in climate adaptation solutions. These range from early warning systems for weather events to rainwater management and flood defence. Arcadis is one example in our strategy. It is an environmental consultancy with a long history of providing adaptation strategies and solutions. **Arcadis** helps governments build more sustainable and resilient cities. The company has developed digital flood modelling and analytical tools to identify flood-prone areas. These tools enable local governments to prioritise investments which address the most imminent threats.

Advanced Drainage Systems is another portfolio company, which provides stormwater management solutions. In extreme weather events, its solutions help reduce water runoff, improve water quality, and preserve water in the communities.

As sustainability and impact investors, we are deeply committed to the transition to a zero-carbon economy and also to the need to adapt to the changes we are already seeing as a result of climate change. Whilst other sustainability challenges such as biodiversity, circularity, human health and wellbeing, justice and fairness remain hugely important, companies that are directly engaged in enabling the transition and adaptation form a critical part of WHEB's portfolio.

✓ FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.6655
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 202.31m
STRATEGY INCEPTION DATE	31 October 2007

👤 FUND MANAGERS



Ted Franks
Partner, Fund Manager



Seb Beloe
Partner, Head of Research

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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