

**PENGANA WHEB SUSTAINABLE IMPACT FUND**
**DESCRIPTION**

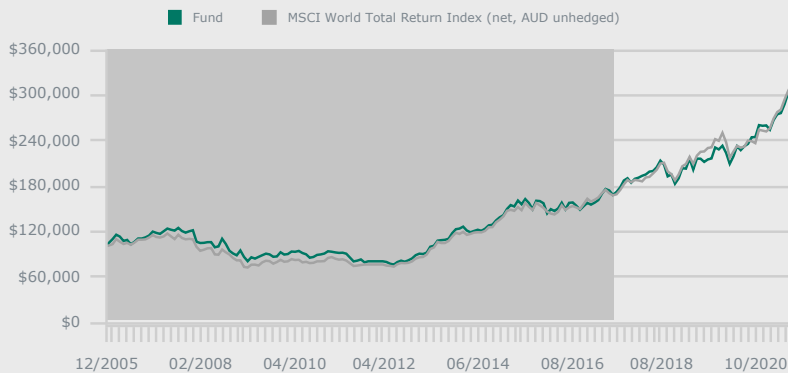
The Pengana WHEB Sustainable Impact Fund invests in companies with activities providing solutions to sustainability challenges. WHEB have identified critical environmental and social challenges facing the global population over coming decades including a growing and ageing population, increasing resource 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 Aug 2021<sup>1</sup>

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	3.8%	33.5%	13.8%		
Strategy (partial simulation – see below)				14.7%	7.6%
MSCI World Total Return Index (net, AUD unhedged)	3.1%	31.3%	14.6%	15.5%	7.6%

**PERFORMANCE CHART**

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

**TOP HOLDINGS (ALPHABETICALLY)**

Agilent Technologies	Health Care
CSL	Health Care
Daifuku	Industrials
Danaher	Health Care
Ecolab	Materials
Icon	Health Care
Keyence	Information Technology
MSA Safety	Industrials
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care

**SECTOR BREAKDOWN**

Consumer Discretionary	7.1%
Health Care	32.1%
Industrials	29.5%
Information Technology	18.7%
Materials	10.6%
Cash	1.9%

**CAPITALISATION BREAKDOWN**

1-2bn	2.8%
2-10bn	22.5%
10-20bn	19.8%
>20bn	53%
Cash	1.9%

**CUSTOM SECTOR BREAKDOWN**

Health	23.5%
Resource Efficiency	21.6%
Sustainable Transport	10%
Environmental Services	10.6%
Water Management	7.2%
Safety	7.2%
Cleaner Energy	4.3%
Wellbeing	10.7%
Education	3%
Cash	1.9%

**REGION BREAKDOWN**

North America	57.1%
Europe ex-UK	20.6%
Japan	9.8%
UK	5.6%
Emerging Markets - Europe, Middle East & Africa	2.1%
Asia Pacific	2.9%
Cash	1.9%

**STATISTICAL DATA**

 VOLATILITY<sup>3</sup> 13.1%

NUMBER OF STOCKS 45

# IS SUSTAINABLE INVESTING A WASTE OF TIME?

## COMMENTARY

Global markets continued to rise in August, underpinned by central bank support, strong corporate earnings, and fiscal spending plans. Whilst the spread of the COVID-19 Delta variant, forthcoming Fed tapering, inflationary pressures and China's regulatory crackdown continue to be risks lurking in the background, the MSCI World Index recorded its seventh straight monthly gain.

The Fund outperformed this benchmark in August, having returned 3.80% versus 3.08%. Outperformance mainly came from our Health and Wellbeing themes. On the other hand, the Education and Water Management themes were relatively weak.

The Health theme made the biggest positive contribution to performance in August, led by Agilent and Danaher. **Agilent** is a specialist in the development and manufacture of bio-analytics for the life sciences and chemical analysis industries. Recent results showed robust growth, propelled by Agilent's strong market position in the life sciences, diagnostic and analytical divisions. **Danaher** is a leading provider of measurement equipment that goes into clinical and medical laboratories, as well as environmental applications. The share price has shown continued momentum from good results reported in July.

Our Wellbeing theme also performed well this month, driven by outperformance from **HelloFresh**. It is a leading supplier of meal kits to consumers around the world. The meal kits use fresh ingredients in pre-measured quantities allowing for calorie control with the intention of supporting healthy eating. The company continues to see a very strong demand and has also successfully entered new markets, which should lay the foundations for future growth.

The weakest performance this month was the Education theme. We have just two holdings in the theme: Grand Canyon Education and Strategic Education. **Grand Canyon Education** provides education services to universities and colleges including Grand Canyon University and Orbis. Orbis manages nursing and healthcare programmes, which help address the shortage of healthcare professionals in the US. The share price was weak because of slower recent enrolment growth resulting from COVID-related disruption. **Strategic Education** offers graduate and postgraduate degree courses for adults, primarily targeting underprivileged demographic groups. The company has also been struggling with enrolment trends, given this customer group has been hit particularly hard during the pandemic. We continue to monitor these businesses and their market very closely but remain optimistic about their prospects.

Our Water Management theme also performed poorly in August. This was mainly due to **Advanced Drainage Systems**, the leading provider of stormwater management systems. It provides a comprehensive suite of water management products and drainage solutions for use in underground construction and infrastructure. Recent results were a negative surprise to the market, as rising labour and logistics costs put pressure on near-term margins. We believe the company has the pricing power to be able navigate through this inflationary environment over the long term.

We have now largely concluded the earnings season. Common themes from recent results included rising input costs and COVID-related supply chain disruption. While the stock market continues to show strong momentum, underlying economies are not yet out of the woods of the pandemic. We remain cognisant of these economic uncertainties and high valuations in some pockets of the market.

### Is sustainable investing a waste of time?

Like many others, the COVID-19 lock-downs were an opportunity to develop new hobbies. One of my new hobbies was to join a film club. A few months ago, we watched 'The Graduate' starring a young Dustin Hoffman as the eponymous graduate 'Benjamin'. A key moment in the film involves a friend of Benjamin's parents advising him to get into plastics because "there's going to be a great future in plastics."

And of course, in the 1960s, when the film was set, getting into plastics would have been great advice. The success of that industry has brought plenty of benefits, but too much plastic has also of course created lots of problems that we are living with now.

If you are talking to a graduate today, I think the advice might be to get into sustainability or even into 'ESG'. Certainly, that seems to be the ambition of a lot of young analysts today. But might we be storing up future trouble by embracing ESG too unquestioningly?

### Like selling wheatgrass to a cancer patient

Tariq Fancy certainly thinks so. Mr Fancy is the ex-Chief Sustainable Investment Officer at BlackRock. He doesn't just think that ESG is ineffective as [other critiques](#) have asserted. In a 40-page [essay](#) he claims that ESG is actively dangerous. After leaving BlackRock in 2019, he concluded that 'our work in sustainable investing was like selling wheatgrass to a cancer patient'. Not only ineffective, but actively damaging because it delays the patient from receiving effective therapies.

Juxtaposed with this view is the argument set out in Sir Ronald Cohen's book 'Impact – Reshaping capitalism to drive real change'. This sets out a manifesto for a new way of thinking about finance, putting positive impact at its heart. The book argues that finance can have an enormously positive impact in addressing the critical challenges facing the world today. So who is right?

### ESG focuses on reducing investment risk

The first thing to say of course is that ESG and impact investing are not the same. Fancy characterises ESG as being like 'good sportsmanship'. For Blackrock perhaps ESG is about trying to get companies to be better corporate citizens. But for most of the market, ESG investing is mainly about managing risk. Recognising that the world is changing, investors analyse exposure to material ESG issues, and assess how well-equipped companies are to mitigate these risks.

ESG investing processes may indeed help to avoid risk (we think they can) but this is not the same as reducing impact in the real world. Divesting a portfolio of carbon stocks is a good way to decarbonise a portfolio, but this divestment does little to decarbonise the economy. (We argue that divestment can have important socio-political ramifications but recognise that divestment itself will have little immediate effect on carbon emissions.) Fancy is wrong to characterise ESG investing as nothing more than making 'vague promises to be responsible'. But he is right to call out asset managers who claim ESG investing alone can save the world.

### Impact investing focuses on creating positive impact

Impact investing in contrast is explicitly about creating positive impact in the real world. It puts impact at the heart of the investment case and seeks to measure the positive impact in the real world. ESG is concerned about real world impacts on companies. Impact investing is focused on a company's impact on the real world.

### Is there a business case for ESG?

Fancy also takes issue with claims that there is a financial case for addressing ESG issues (what he calls 'the overlap between purpose and profit'). Improvements in 'operational' ESG – reducing energy use, hazardous waste generation, health and safety incidents – [can deliver improvements in financial performance](#). However, we'd agree that it is an altogether greater challenge to claim a business case when the core product is under-attack. We have seen oil and gas companies [improve their health and safety](#) track record over recent decades. It has been much more difficult to get them to give up on their core product.

Impact investors, in contrast, invest in companies that sell products and services that help to reduce carbon emissions and create positive impacts. These are businesses that are enabling a transition to a zero carbon and more sustainable economy. And by enabling this transition, they also benefit from it because they sell more of their products and services. In these cases, revenue growth goes hand-in-hand with more positive impact.

How exactly companies and their investors create positive impact is beyond the scope of this article but is something that we will be addressing in greater depth in a forthcoming white paper.

### Regulatory change

Like anyone confronted with the reality of climate change, Fancy believes that society needs to respond systemically and change the entire economy's relationship with carbon. We wholeheartedly agree. In fact, 456 investors representing \$41 trillion in assets also agree. This group, which included WHEB, signed a '[Global Investor Statement to Governments on the Climate Crisis](#)' calling for urgent regulatory action to tackle climate change.

For these investors, ESG is not intended to delay regulatory change. Far from it. They are advocating for regulatory change and believe it necessary and urgent. This advocacy isn't an alternative to ESG investing, but a complement to it.

BlackRock was not a signatory to this letter. In fact, Larry Fink asserted earlier this year that [climate change should be addressed through self-regulation alone](#). Some investors may be using ESG as a smokescreen aimed at delaying regulation. Tariq Fancy's critique should be aimed directly at them.

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.7288
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 221.64m
FUND INCEPTION DATE	31 October 2007

## FUND MANAGERS



**Ted Franks**  
Partner, Fund Manager



**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. 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.

## PENGANA WHEB SUSTAINABLE IMPACT FUND

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