MONTHLY REPORT
NOVEMBER 2021

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.'

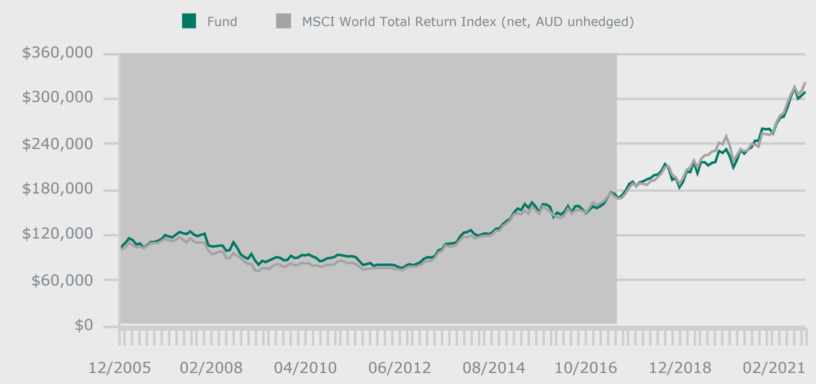
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Nov 2021[1]

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	1.5%	18.7%	16.6%		
Strategy (partial simulation – see below)				15.1%	7.3%
MSCI World Total Return Index (net, AUD unhedged)	3.6%	26.6%	18.0%	15.6%	7.6%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]



TOP HOLDINGS (ALPHABETICALLY)

A.O. Smith	Industrials
Advanced Drainage Systems Inc	Industrials
Ansys	Information Technology
Danaher	Health Care
Intertek Group	Industrials
Keyence	Information Technology
Linde	Materials
Orpea	Health Care
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care

SECTOR BREAKDOWN

Consumer Discretionary	4.6%
Consumer Staples	2.8%
Health Care	30.8%
Industrials	28.4%
Information Technology	21.6%
Materials	10.9%
Cash	0.9%

CAPITALISATION BREAKDOWN

1-2bn	1.3%
2-10bn	19.9%
10-20bn	25.8%
>20bn	52.1%
Cash	0.9%

CUSTOM SECTOR BREAKDOWN

Health	22.3%
Resource Efficiency	23.3%
Sustainable Transport	11.3%
Environmental Services	10.6%
Water Management	7.9%
Safety	5.2%
Cleaner Energy	4.7%
Wellbeing	11.3%
Education	2.5%
Cash	0.9%

REGION BREAKDOWN

North America	55.4%
Europe ex-UK	22.8%
Japan	9%
UK	6.1%
Emerging Markets - Europe, Middle East & Africa	1.5%
Asia Pacific	4.3%
Cash	0.9%

STATISTICAL DATA

VOLATILITY[3] 13%

NUMBER OF STOCKS 44

EV DRIVERS – FROM SMUG TO BAH HUMBUG

COMMENTARY

It's astonishing to see the increasing number of battery electric vehicles (EVs) on the roads, particularly in London. However, the number of public chargers remains static. EV drivers are starting to suffer less from 'range anxiety' and more from 'queue anxiety'. In this month's commentary, WHEB's Libby Stanley shares her experience of being an EV driver and discusses the investment opportunities in easing the charging bottleneck.

We are pleased to announce that the Fund has been added to the FirstWrap platform, and is now available on all major wrap platforms.

In November we were thrilled to have won Best Case Study at the Pensions for Purpose Content Awards. Investment Analyst Claire Jervis' piece contrasted Deliveroo and HelloFresh, highlighting our investment case for the latter.

We are proud to be one of more than a thousand B Corps which have made a commitment to becoming net-zero businesses by 2030. Katie Woodhouse shares WHEB's journey to Net Zero in a blog for B Corp's new website.

November was a month of two parts. For the first few weeks, a robust earnings season lifted global equity markets to new all-time highs. This changed on 26 November, following the news that a new variant of COVID-19 had been detected. The MSCI World Index dipped -2.4% but rebounded slightly on the following day, before dipping again following the US Federal Reserve's announcement that the tapering of monetary stimulus would happen faster than expected.

The Fund underperformed the MSCI World Index over the month, returning 1.5% versus 3.6% respectively. The relative strength in the Water Management and Safety themes was offset by the Cleaner Energy and Education themes, which were the largest detractors from performance.

Water Management was the biggest positive theme largely due to **Advanced Drainage Systems** ("ADS"). ADS is the leading provider of plastic-based stormwater pipes. Its products are longer-lasting, easier to install, and more environmentally sustainable than alternatives. ADS is also a great supporter of the circular economy. It is the second-largest plastic recycler in North America and uses this material in its pipes. The company has demonstrated remarkably strong pricing power during the current inflationary environment.

The Safety theme also contributed positively. UK testing and inspection company **Intertek** announced that all of its business lines had returned to growth. Management also commented that they are not seeing a significant impact from labour inflation. The company remains on track to deliver a year of good revenue growth, margin progression, and cash flows.

The Cleaner Energy theme was weakest in the month. This disappointing performance was concentrated in our wind energy stocks, **Vestas Wind Systems,** and **TPI Composites**. Rising input costs and weaker demand from governments, which are failing to make the necessary investments in wind capacity, have created short-term headwinds for the sector.

In the longer term, we remain convinced of the critical need for wind energy. In the case of TPI, however, we are concerned that the company may be vulnerable. TPI is further down the value chain than Vestas and is finding the current environment challenging. We have therefore sold our holding in TPI Composites. Our concerns on the company's business quality outweigh our conviction in the long-term growth of the wind sector. We maintain our holding and long-term conviction in Vestas Wind Systems.

Our Education stocks, **Strategic Education**, and **Grand Canyon Education** continued to underperform in November. Enrolment in US higher education courses remains slow as students defer courses during COVID. Meanwhile, investors continue to fear action by the Biden administration against the for-profit education sector. There are reasons for optimism, however. Students are beginning to trickle back to campuses. Both management teams are convinced that the sluggish enrolment growth is short-term. The focus for any potential regulation is likely to be on bad actors in the industry, whereas our holdings are recognised as high quality and compliance-focused. These positives were not enough to overcome the negative investor sentiment in November, however.

We continue to monitor inflation and the outlook for interest rates. The evolving Omicron situation is also a concern, so we do anticipate further volatility. We think our companies are well-placed to navigate these near-term challenges, and our conviction in their long-term prospects is strong as ever.

EV drivers – from smug to Bah Humbug

I'm at an age where my summer weekends are packed with weddings all over the country. This year, travelling to these social events was somewhat complicated by being new owners of a battery electric vehicle (EV).

We're thrilled with the car, but the charging experience, particularly outside cities, leaves a lot to be desired. So much so, that on the way home from one of these weddings, we stopped at a service station on the M4 and witnessed a rather aggressive scuffle between fellow EV drivers.

Rapid EV sales and charging bottlenecks

It's astonishing to see the increasing number of EVs on the roads, particularly in London. However, the number of public chargers remains static. Google search growth for "EV charging" is 1.5x higher than for "EVs".

There are 27,835 public chargers in the UK, although 1 in 10 rapid chargers don't work at any given time and an estimated 480,000 more public chargers are needed by 2030.

But it's not just the number of chargers and consequent queues, it's also their reliability. For the uninitiated, let me explain some of the issues:

- The need to register for countless different apps as each EV charging brand operates their own;
- No queuing systems (digital or physical);
- Not knowing when the car on charge will finish and how long you have to wait;
- Faulty chargers which the support call operators often can't fix remotely;
- Limited numbers of fast chargers; and,
- No warning or instructions to new EV drivers that when there are multiple cables on a unit, simultaneous charging will hugely reduce the charging speed. This frequent and often innocent mistake was the cause of the aforementioned scuffle.

EV drivers are starting to suffer less from 'range anxiety' and more from 'queue anxiety' – a worsening reality of early EV adoption which dispels the myth that the Brits love a queue.

Capital is flowing into the buildout of the charging network, but if it doesn't pick up the pace, then I fear the smugness EV drivers felt during the recent fuel crisis will be a distant memory. Instead, new EV owners will realise they may have swapped the devil they know, for one with more apps, complexity, and queues.

Investing in the future of charging

Several EV charging companies have come to market during the recent SPAC boom, such as Chargepoint and EVGo. While there is no doubt that the services they provide are crucial to the EV transition, we are concerned that these companies have come to market too early and remain highly speculative investments. Both companies have only just started to generate sales, and neither is expected to turn a profit for several years.

Sustainable Transport is one of WHEB's investment themes and many of our holdings are in companies enabling the transition to EVs. We prefer to focus on higher-quality companies with a proven product and market position, such as **Infineon** and **Aptiv**.

Infineon, the market leader in power semiconductors, provides a wide range of electronic components to support fast EV charging in as little as 7 minutes. This could get even faster – the company believes a new material called Silicon Carbide (SiC) could increase the power output of its EV chargers by 30%. Infineon is even investing in wireless charging solutions that would allow the car to draw power from a panel on the floor of a parking space – no more fighting over cables. The company is also helping to power the cars themselves: this year around half of all EVs produced use power semiconductors from Infineon.

Aptiv, an auto parts supplier with leading positions in autonomous driving and advanced safety, tells a similar story. About half of all EVs produced between 2020 and 2022 will use Aptiv's high voltage products, such as power distribution boxes and high voltage cables. Due to its strong market position and increasing demand, management thinks sales of their high voltage components could grow at a whopping >30% per year on average between now and 2025.

Behaviour change

EV drivers' frustration with charging was echoed by Sky News correspondent Thomas Moore who documented his experience of driving an EV from Westminster to Glasgow for COP 26. Philippa Oldham, Director, and Engineer at the Advanced Propulsion Centre UK joined him for part of the journey.

In my mind, she hit the nail on the head when she highlighted the need for behaviour change. Whilst we wait for battery charging technology to catch up with the convenience of refuelling an ICE vehicle in minutes, we could try and embrace the longer stops on our journeys. If we're to achieve the mammoth task of achieving net-zero, then it's unrealistic to expect a seamless transition from hydrocarbons to clean energy without significant lifestyle changes.

However, as the festive season approaches and we start planning visits to see family across the country, I'm sure we'll encounter a few 'Bah-Humbug' EV drivers along the way. Couple that with cold weather reducing the battery range and an impatient toddler in the back, listening to Chris Rea's 'Driving home for Christmas' might not be quite so romantic this year.

To be clear, I have no regrets about buying an EV. The current charging situation is a teething issue rather than a permanent feature of EV driving. Just like my teething toddler, it can be quite painful (for parents as well as the child!) in the short term but there's no doubt it will improve and ultimately be resolved in the years ahead.

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A$ 1.6991
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	$10,000
FUM AT MONTH END	A$ 267.81m
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 incepted 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

PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: clientservice@pengana.com

PENGANA CAPITAL

PENGANA.COM