

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.'

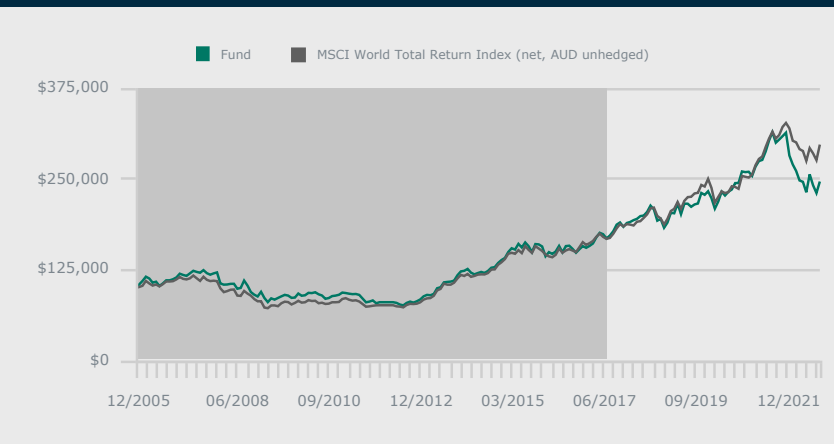
PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Oct 2022¹

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	6.9%	-19.0%	4.5%	5.7%	
Strategy (partial simulation – see below)					5.5%
MSCI World Total Return Index (net, AUD unhedged)	7.8%	-4.2%	8.8%	10.3%	6.7%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



TOP HOLDINGS (ALPHABETICALLY)

Ansys	Information Technology
Autodesk INC	Information Technology
CSL	Health Care
Danaher	Health Care
Globus Medical Inc	Health Care
Icon	Health Care
Linde	Materials
TE Connectivity	Information Technology
Thermo Fisher Scientific	Health Care
Trane Technologies PLC	Industrials

SECTOR BREAKDOWN

Consumer Discretionary	4%
Consumer Staples	2.1%
Health Care	30.5%
Industrials	21.8%
Information Technology	27.9%
Materials	12.5%
Cash	1.2%

CAPITALISATION BREAKDOWN

2-10bn	28.8%
10-20bn	28.3%
>20bn	41.8%
Cash	1.2%

CUSTOM SECTOR BREAKDOWN

Health	24.9%
Resource Efficiency	25.3%
Sustainable Transport	10.4%
Environmental Services	11.7%
Water Management	7.4%
Safety	5.3%
Cleaner Energy	5.7%
Wellbeing	6.5%
Education	1.7%
Cash	1.2%

REGION BREAKDOWN

North America	56.8%
Europe ex-UK	21.9%
Japan	7.4%
UK	7.5%
Asia Pacific	5.3%
Cash	1.2%

HAVING AN 'A-HA' MOMENT ON BATTERY ELECTRIC VEHICLES

COMMENTARY

At WHEB, we're big fans of battery electric vehicles (BEVs). Approximately 8% of the strategy is invested in companies with exposure to BEVs and their value chains. We have also recently launched a scheme internally enabling the WHEB team to have easier and cheaper access via a BEV leasing scheme. But outside our organisation, some people remain unconvinced. In this month's commentary, Head of Research Seb Beloe explains our position.

Global stock markets rebounded in October. As in recent periods, macroeconomic concerns such as inflation and interest rate expectations played a big role in market movements. There has been a subtle shift in the narrative as fears of recession have increased. Although a recession will put downward pressure on company earnings, it would also support less aggressive interest rate increases (seen as positive for stocks).

On the other hand, from a fundamental perspective, a recession will put downward pressure on company earnings. Because of this balancing act between economic data and earnings risk, markets continued to be volatile despite the overall upward move.

Our Fund returned 6.9% versus the MSCI World which returned 7.8%. Stronger performance in the Sustainable Transport theme was offset by the returns of our Resource Efficiency and Health themes.

Several names within the Sustainable Transport theme were positive and **Infineon** was the strongest contributor among them. The company makes power semiconductors with a market leading position in the automotive end market where electrification and automation are key long-term growth drivers. The stock has been weak year-to-date and was volatile over the month but performed positively overall. The company provided an update on the automotive division, highlighting a positive outlook that should support growth despite the weaker macro conditions.

Within Resource Efficiency, **Silicon Laboratories** was the largest contributor to relative underperformance. The company produces semiconductor components that enable wireless connectivity with a focus on applications on the Internet of Things. Semiconductor stocks in general have come under pressure as the market is cautious about demand in the near term, particularly in consumer-related end markets. The company reported a strong quarter but guidance for the full year was weaker, reflecting normalising demand after a very strong growth period.

CSL, a pharmaceutical company that produces plasma and plasma-derived therapies, was the main negative contributor to the Health theme. It uses plasma to create specialist treatments for rare and orphan diseases, helping patients who face really debilitating diseases. The cost of collecting plasma has increased significantly as Covid restrictions resulted in reduced hours of operation and lower numbers of donors allowed in collection centres. These higher costs are putting pressure on margins, and there is uncertainty about how long that will continue. More positively, the company held an investor day to introduce the recently acquired Vifor business. This provides additional growth opportunities in complementary and impactful areas such as kidney disease.

Overall, the start of the earnings season has highlighted pockets of weakening demand. We are also seeing attention start to turn to 2023 where companies are generally flagging a lack of visibility on growth rates as we come out of the post-Covid boom. We expect volatility to continue, particularly in response to any commentary relating to cost pressures or any signs of inventory destocking.

The portfolio is unlikely to be immune to the industrial and consumer demand environments. However, our holdings are well positioned for resilience in a downturn, and importantly, to capture the impact-driven growth opportunities in their industries over the longer-term.

Having an 'A-ha' moment on battery electric vehicles

Not all readers I imagine will have fond memories (or indeed any memories!) of the Norwegian pop group 'A-ha'. During the late 1980s, the group was one of the most popular bands in the world. What is not so well known is that A-ha were dogged campaigners for battery electric vehicles (BEVs) and are [now seen as having been influential in helping Norway into 'pole-position' in the race to convert to BEVs.](#)

At WHEB, we are also big fans of BEVs. Approximately 8% of the strategy is invested in companies with exposure to BEVs and their value chains such as [Aptiv](#), [Infineon](#), and [TE Connectivity](#). We've even launched a policy enabling employees to access a BEV leasing scheme giving them easier and cheaper access to BEVs.

Are BEVs better for the environment than ICEs?

But not everyone is a fan. The most common argument levelled against BEVs is that the negative environmental impact of manufacturing BEVs outweighs any positive benefits associated with operating the vehicle. This is often followed up with a 'and if the electricity is provided by coal, it is even worse' line of argument.

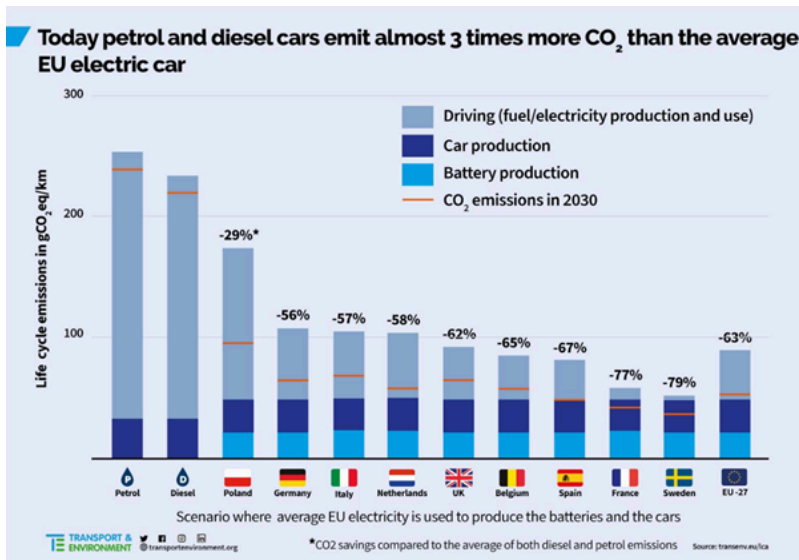
It is amazing how durable this argument has been. And like a lot of deceptions, it contains an element of truth. Building a BEV does indeed produce more CO₂ emissions than building an internal combustion engine (ICE) vehicle. This is almost entirely due to the manufacturing of the battery. An average BEV will have more than twice as much copper and manganese as an ICE and will have a lot more lithium, nickel, manganese, cobalt, and graphite. [In all more than five times as much metal \(by weight\) as in an equivalent ICE.](#)

You need to consider the life-cycle

But the key point is that across the whole life-cycle of a road vehicle, manufacturing represents a small part of the overall footprint. Road vehicles consume a lot of energy in their use. Much more in fact than that which goes into their manufacturing. And this, of course, is where you see the real benefit of a BEV.

Transport and the Environment (T&E) was the group that uncovered 'dieselgate' at Volkswagen, and they conducted an extensive life-cycle analysis of BEVs versus equivalent ICEs using both diesel and petrol. Their analysis showed that across multiple geographies, in every case BEVs were significantly better in terms of life-cycle CO₂e emissions than the ICE equivalents. In Poland, where coal dominates power generation, CO₂e emissions were 29% lower for BEVs. In low carbon, Sweden's emissions were 79% lower. Similar studies by [Bloomberg New Energy Finance](#), the [University of Michigan](#), and the [International Energy Agency](#) have all reached the same conclusion.

T&E study on life-cycle emissions from vehicles in different European countries



BEVs benefit from the fact that [electric motors are typically very efficient](#). Approximately three-quarters of the energy that is put into a BEV motor is converted into power that drives the vehicle. For an ICE vehicle, the equivalent number is somewhere between 12-30%.

It's getting better all the time

At the same time, grid electricity is being progressively decarbonised. As renewables are added to electricity grids and fossil fuels are phased out, BEV outperformance just gets better and better. There are also likely to be improvements in the manufacturing phase as well. The metals in the battery are expensive and [highly recyclable](#). Battery manufacturers are very keen to use as many recycled materials in their batteries as possible. NorthVolt expects to be sourcing 50% of its raw materials from recycled sources by 2030. CATL think that they will eventually get to 100%.⁸ This will improve relative performance even further.

WEBINAR

**SUSTAINABLE
IMPACT
INVESTMENTS**

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TUES, NOV 22 2022 9:00AM (AEDT)

FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.3542
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 251.29m
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. Please refer to the PDS for information regarding risks. 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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