

## 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.'

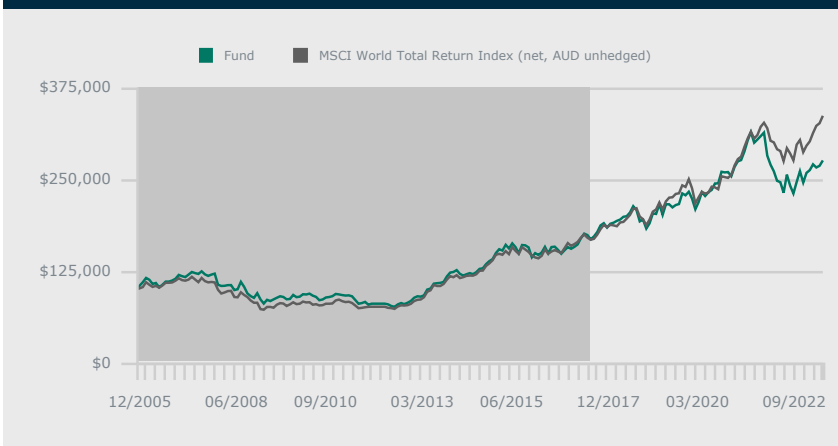
### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2023<sup>1</sup>

	1 MTH	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	SINCE INCEPTION P.A.
WHEB Sustainable Impact Fund	2.7%	19.0%	6.7%	6.7%	
Strategy (partial simulation – see below)					6.0%
MSCI World Total Return Index (net, AUD unhedged)	3.1%	22.4%	13.5%	11.4%	7.2%

### PERFORMANCE CHART

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



### TOP HOLDINGS (ALPHABETICALLY)

Ansys	Information Technology
Autodesk Inc	Information Technology
Danaher	Health Care
Icon	Health Care
Linde PLC	Materials
MSA Safety	Industrials
Power Integrations Inc	Information Technology
Steris	Health Care
TE Connectivity	Information Technology
Trane Technologies PLC	Industrials

### SECTOR BREAKDOWN

Consumer Discretionary	3.9%
Consumer Staples	1.7%
Health Care	27.5%
Industrials	24.2%
Information Technology	30.1%
Materials	11.6%
Cash	1%

### CAPITALISATION BREAKDOWN

2-10bn	29.8%
10-20bn	10.1%
>20bn	59.2%
Cash	1%

### CUSTOM SECTOR BREAKDOWN

Health	22.9%
Resource Efficiency	26%
Sustainable Transport	10.7%
Environmental Services	11.9%
Water Management	7.9%
Safety	6.6%
Cleaner Energy	7.4%
Wellbeing	4.2%
Education	1.4%
Cash	1%

### REGION BREAKDOWN

North America	63.1%
Europe ex-UK	18.9%
Japan	7.5%
UK	4.3%
Asia Pacific	5.2%
Cash	1%

## FROM SEPSIS TO SPERM COUNTS: WHY PLASTIC POLLUTION MATTERS

### COMMENTARY

It is now nearly six years since Sir David Attenborough and the BBC debuted Blue Planet 2. The series was the catalyst for a worldwide campaign to reduce the amount of plastic waste entering natural ecosystems and particularly the world's oceans. With a Blue Planet 3 series now in the offing, Seb Beloe considers how much progress has been made in reducing plastic pollution.

WHEB are pleased to announce the launch of their ninth annual Impact Report. We believe it represents yet another step forward in terms of quality and insight and hope that readers will find it useful. We invite you to visit [our impact microsite](#) to view the report and calculate the impact associated with your investment in the Fund.

We are delighted that the Fund was, for a second consecutive year, awarded New Zealand-based [Mindful Money's award](#) for Best Overseas Ethical Fund. The judges were impressed by the framework for stewardship and avoiding harmful investments, including cases where a lack of progress has resulted in divestment. The fund was described as setting a high standard for reporting on the positive impact from companies in the portfolio, along with excellent communication to financial advisers and clients.

During the month, the Fund was [re-certified](#) by the Responsible Investment Association Australasia (RIAA).

### Market Review

June was a positive month for global equities with the MSCI World returning 3.1%, driven primarily by US equities. The rally in the US continues to be unusually concentrated, driven by a handful of mega-cap tech companies: Apple, Amazon, Microsoft, Nvidia, Alphabet, Meta and Tesla. Markets were volatile though, as investors weighed up whether the US Federal Reserve would pause on US rate hikes.

European equity markets also ended higher in June, although again notwithstanding some volatility in the month. There was a mixed read on inflation, with the headline rate cooling but core measures less so. The European Central Bank raised rates by a quarter of a percentage point and signalled that more tightening is to come.

Despite this, general optimism for a weaker-than-feared contraction lifted stocks. The UK was a notable point of weakness, with weak oil prices, rising interest rates and stickier than expected inflation all weighing on sentiment.

Consumer Discretionary and Industrials were the best performing sectors while Utilities and Communication Services were the weakest in the global market during the month.

### Fund Review

The Fund delivered positive returns in June of 2.7%. Safety and Water were the best performing themes driven by MSA Safety and Advanced Drainage Systems, respectively. MSA Safety reported a strong set of results, benefiting from growth across several of its end markets, as well as significant new contract wins. Advanced Drainage Systems (ADS) had strong results in May and has been able to secure pricing increases. An inflationary environment should also favour plastic-recycler ADS, relative to its competitors who use concrete. These features have given investors renewed confidence in the company's business model.

Our Sustainable Transport theme also performed well. Aptiv rebounded from last month's weakness as management reiterated their confidence in full year guidance while noting an ongoing improvement in market conditions.

Cleaner Energy was the weakest theme over the month with negative contributions from First Solar and Vestas. First Solar has benefitted dramatically from the new policy in the US (notably from the Inflation Reduction Act (IRA)), which has driven the share price to historic highs. In the past month, the share price retreated as some investors ponder the next phase of growth. Vestas underperformed due to disappointing new orders for wind turbines. We believe momentum in new orders will improve when we receive further clarity relating to the IRA.

## Outlook

Sentiment around global equities remains finely balanced. Expectations are for a further economic slowdown, and the debate is around its pace and duration. Markets also expect further rate increases before the current tightening phase ends.

While there is uncertainty in the short term, we remain confident in the long-term positioning of our holdings.

## From sepsis to sperm counts: why plastic pollution matters and how WHEB's companies help

It is now nearly six years since Sir David Attenborough and the BBC debuted Blue Planet 2. The series was the catalyst for a worldwide campaign to reduce the amount of plastic waste entering natural ecosystems and particularly the world's oceans. With a Blue Planet 3 series now in the offing, how much progress has been made in reducing plastic pollution?

While it was the footage of plastic bags and sanitary product-clogged seas that fired public action on plastic pollution, the science that followed the series has been, if anything, even more horrifying. Plastic waste, often in the form of micro-plastics, has been found in every corner of the globe from the deepest marine trenches to Arctic sea ice.

### From sepsis to sperm counts

Plastic pollution has direct negative impacts on nature as well as on human health. Microplastics can be particularly insidious, penetrating deep into biological organisms and disrupting core biological processes such as reproduction and growth as well as causing damage to internal organs. Research has suggested that humans may be consuming as much as 300 microplastic fragments per day. The science is not yet conclusive on the damage this does, but there are major concerns that microplastics and the chemicals they contain may be impacting everything from an increased incidence of sepsis<sup>1</sup> to reductions in sperm counts.<sup>2</sup>

### Action to reduce plastic waste

Public and scientific concern has resulted in dramatic action from many regulators and businesses. Readers can't fail to have noticed the removal of plastic straws. Over 170 countries have made pledges to significantly reduce the use of plastics by 2030<sup>3</sup>. 70% of 23,209 people surveyed across 34 countries in 2022 support stricter global rules to eliminate plastic pollution<sup>4</sup>.

In June this year, more than 165 nations agreed to publish, before the end of 2023, a global treaty to end plastic pollution. The treaty is expected to include bans and control measures to reduce and eliminate the production and consumption of plastic products and materials. These measures have been complemented by countless initiatives at corporate and community levels to replace, reuse or recycle plastics.

## Plastics industry carries on regardless

These moves are on a collision course with the plans and expectations of the petrochemical industry. 70% of petrochemical feedstock oil is used to produce plastics. Forecasts from BP and from the International Energy Agency (IEA) have typically seen petrochemicals as the largest driver of future expected oil demand. The IEA see this lead stretching in its recent scenarios<sup>5</sup>. According to analysis from Carbon Tracker, the petrochemical industry is planning for 4% annual capacity growth in petrochemicals, backed by US\$400bn of investment<sup>6</sup>.

## WHEB's strategy

At WHEB, we believe efforts to reduce the amount of plastic being used in short-lived single-use applications such as packaging will continue. This will be driven by clearer evidence of the damage plastic pollution – and particularly microplastics – do to human and environmental health. We see several dimensions to policy action and consequent opportunities for companies providing solutions to this problem.

**Substitution of plastics with more sustainable materials:** Wherever possible and particularly in short-lived applications like packaging, the focus has been on finding alternative materials. In WHEB's strategy, we have backed the wider use of recycled cardboard as an alternative to plastic in packaging applications. Highly recyclable – and widely recycled – cardboard is a lightweight, biodegradable material that can substitute for a wide range of packaging applications<sup>7</sup>. [Smurfit Kappa](#) is our principal investment in recycled cardboard which has developed cardboard alternatives to plastic in everything from packaging for cans to clothing. We are also pushing portfolio businesses that use plastic packaging to find alternatives. [HelloFresh](#), for example, has reduced plastic packaging per meal by 34% since 2020<sup>8</sup>.

**Creating markets for recycled plastic:** Alongside reducing plastic packaging, we also see opportunities to create lucrative markets in recycled plastic. Several WHEB portfolio companies including [Advanced Drainage Systems](#) (ADS) have tapped into the glut of plastic packaging waste as a valuable raw material. ADS is the US's largest plastic recycler, accounting for 28% of all recycled HDPE and turning it into long-lived stormwater sewers and other water treatment and management products<sup>9</sup>.

**Developing recycling infrastructure to support radically higher reuse and recycling rates:** Finally, almost half of the world's population lives in areas where plastic waste generation exceeds the capacity to manage it. [Tomra](#) is the market leader in supplying recycling equipment to enable radically higher rates of recycling. The company supplies reverse-vending machines as well as sorting equipment that is used in municipal recycling centres.

Progress has clearly been made in tackling plastic waste over the past six years. The scale of the problem though remains daunting. We very much hope that should Sir David Attenborough be able to present the third Blue Planet series, he will be able to report on real progress in tackling this most pernicious of environmental threats.

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- <sup>1</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9993231/>
  - <sup>2</sup> <https://www.ft.com/content/f14ab282-1dd3-46bf-be02-a59aff3a90ed>
  - <sup>3</sup> <https://www.weforum.org/agenda/2020/10/canada-bans-single-use-plastics/>
  - <sup>4</sup> <https://www.ipsos.com/en/global-advisor-plastic-pollution-2022>
  - <sup>5</sup> <https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983/WorldEnergyOutlook2022.pdf>
  - <sup>6</sup> <https://carbontracker.org/reports/the-futures-not-in-plastics/>
  - <sup>7</sup> <https://www.printindustry.news/story/37431/study-shows-corrugated-cardboard-could-replace-21-of-plastic-packaging>
  - <sup>8</sup> [https://ir.hellofreshgroup.com/download/companies/hellofresh/Annual%20Reports/ENG\\_HelloFresh\\_Non-Financial\\_Report\\_2022.pdf](https://ir.hellofreshgroup.com/download/companies/hellofresh/Annual%20Reports/ENG_HelloFresh_Non-Financial_Report_2022.pdf)
  - <sup>9</sup> <https://www.adspipe.com/the-ripple-effect/industry-news/ads-now-number-one-plastic-recycling-company-in-north-america>

## FEATURES

APIR CODE	HHA0007AU
REDEMPTION PRICE	A\$ 1.515
FEES *	Management Fee: 1.35%
MINIMUM INITIAL INVESTMENT	\$10,000
FUM AT MONTH END	A\$ 274.63m
FUND INCEPTION DATE	31 October 2007

## FUND MANAGERS



**Ted Franks**  
Partner, Head of Investment



**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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### PENGANA.COM

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