

# Q2 2019 REPORT



## **Pengana WHEB Sustainable Impact Fund**

**PENGANA CAPITAL GROUP**  
HEAD OFFICE

Level 12, 167 Macquarie St  
Sydney

T: +61 2 8524 9900  
[pengana.com](http://pengana.com)



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# BRINGING BUILDINGS OUT OF THE BACKGROUND

## Buildings, climate change and resource efficiency

Buildings are a big deal for climate change. The International Energy Agency (IEA) thinks they are responsible for up to 40% of global emissions. That number includes both the construction and use of buildings.

The situation may get worse before it gets better. The pace of global urbanisation is staggering. The IEA forecasts that we will add 230 billion square metres of new construction in the next 40 years. That's the same as adding a whole new Paris every week.

## Negative environmental impacts

This is bad news from a biodiversity standpoint. It creates real water conservation challenges. It is also an energy problem because buildings still have some way to go in efficiency terms. The IEA's data shows that total energy intensity in buildings fell 25% between 2000 and 2017. This wasn't enough to prevent an increase in overall energy use of 22%. And it was due to quite different outcomes for different parts of the building value chain.



## Success stories

The standout building efficiency success story is lighting. Light-emitting diodes (LEDs) increased achievable energy efficiency roughly ten-fold. Where a standard incandescent bulb is capable of 13 lumens of light per watt of power, a LED can provide around 120. Driven by this performance, LEDs grew from 5% of the lighting market in 2013 to 40% in 2018.

But this success contrasts with the other components of building efficiency. Heating systems, cooling systems and appliances have recorded some efficiency gains. But these haven't been fast enough. The improvement pathway for them is more incremental. And so it is, for the building sector as a whole.

We can contrast this with the power generation and transport sectors, which are also big carbon emitters. In both, there are game-changing technologies already in view. Renewables and electric vehicles are already viable. It is now a question of adoption, and bending the cost curve downwards.

For buildings, there is more to do. The pace of innovation needs to increase. But there is also a bigger role for regulation.

## Environmental regulation

By definition, energy efficiency improvements save money. But those savings come when the building is used. The original builder won't necessarily benefit. Buyers of buildings are thinking about all kinds of factors, and energy cost is just one of them. So there may not be the right incentives to install the most efficient equipment.

That's where regulation and building standards come in. Efficiency standards compel builders to construct better buildings. There has been a rising tide of these regulations. The IEA estimates that there are now regulations covering 40% of global energy consumption from buildings. That's increased from under 20% in 2000. The rate of increase shows some sign of slowing at the moment. But it is important that it doesn't slow down yet.

At WHEB we don't like headline policy risk when we invest, and we try to avoid uncertain subsidy regimes. But a gently rising tide of tightening regulation can be attractive. It creates a barrier to new entrants. It also allows companies to compete based on the quality of their products. And it encourages innovation.

## Efficiency as a competitive advantage

The companies we invest in within the building value chain understand the importance of efficiency. They use it as a competitive differentiator.

**AO Smith** makes the most efficient water heaters in its markets around the world. **Daikin** benefits from superior efficiency in at least three product areas. Its air conditioning units are ahead of the competition, especially in developing countries. Its ground- and air- source heat pumps lead the way in space heating. Daikin also supplies refrigerants with a much lower global warming potential than its rivals.

The same is true for **Kingspan** in insulation, and **Johnson Controls** in building controls and safety. When **Acuity Brands** led the way in the widespread adoption of LEDs, the efficiency improvements were way ahead of any regulatory requirements. Acuity is now turning its attention to improving building efficiency through digital controls.

Construction of course has its own cycle and is linked closely to macroeconomic developments. But across the cycle, sustainability is driving the steady adoption of more resource efficient building solutions. The pace of change needs to increase, and we aim to be positioned to benefit.

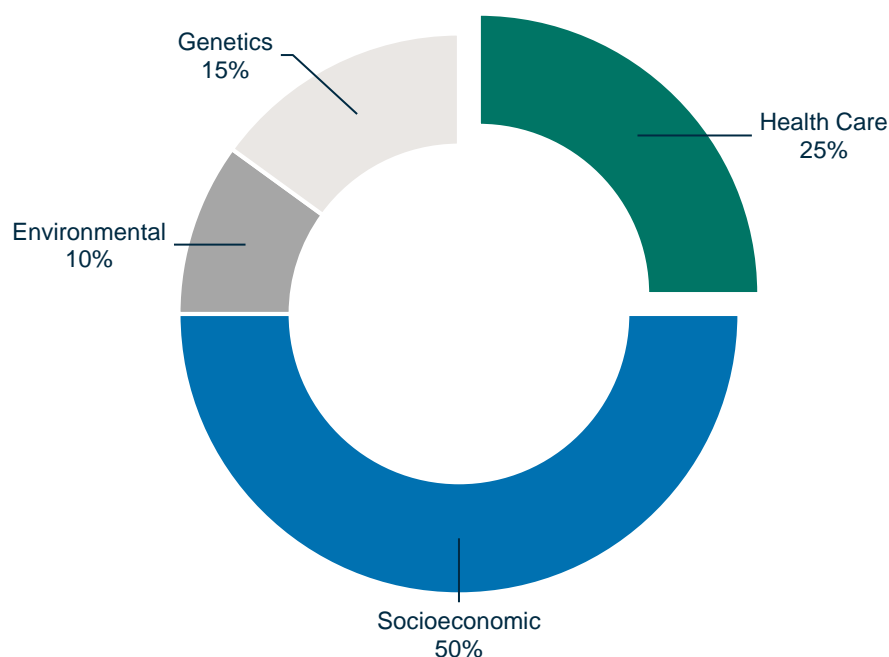
# THEMATIC TRENDS IN FOCUS

## The social determinants of health

Inequalities in health and consequent life expectancy are clearly visible between countries. As of 2015, average life expectancy in Japan was just under 84 years, while in Sierra Leone it was just over 50. But there are also massive differences in life expectancy within countries and even within cities. There is, for example, a 14-year gap in male life expectancy between the richest and poorest areas of Glasgow.<sup>1</sup>

These significant discrepancies in life expectancy exist even in countries, like Scotland, where there is free universal health coverage. The discrepancies persist because, for many communicable and non-communicable diseases (NCDs), acting at the point at which someone presents with a health problem to a healthcare professional can be too late. As a 2017 article in the British Medical Journal put it, 'To improve health, reduce health inequalities and reduce costs on healthcare budgets, we need to improve the conditions in which people are born, live, work and age.'<sup>2</sup>

## Estimate of the contribution to the main drivers of health status<sup>3</sup>



The extent of the importance of these 'social determinants of health' is not clear although it is clear that they are significant. Recent studies have found that social and environmental influences contribute between 45% and 60% of the variation in health status. A 2012 study by the Canadian Institute of Advanced Research found for example that 50% of an individual's health status is likely to be derived from socioeconomic factors and 10% from environmental factors. The other influencers were genetics (15%) and healthcare (up to 25%).

<sup>1</sup> [https://www.gcph.co.uk/publications/621\\_glasgow\\_health\\_in\\_a\\_changing\\_city](https://www.gcph.co.uk/publications/621_glasgow_health_in_a_changing_city)

<sup>2</sup> Donkin A, Goldblatt P, Allen J, et al. Global action on the social determinants of health. BMJ Global Health, 2017

<sup>3</sup> Canadian Institute of Advanced Research (2012) quoted in Op. Cit. 1



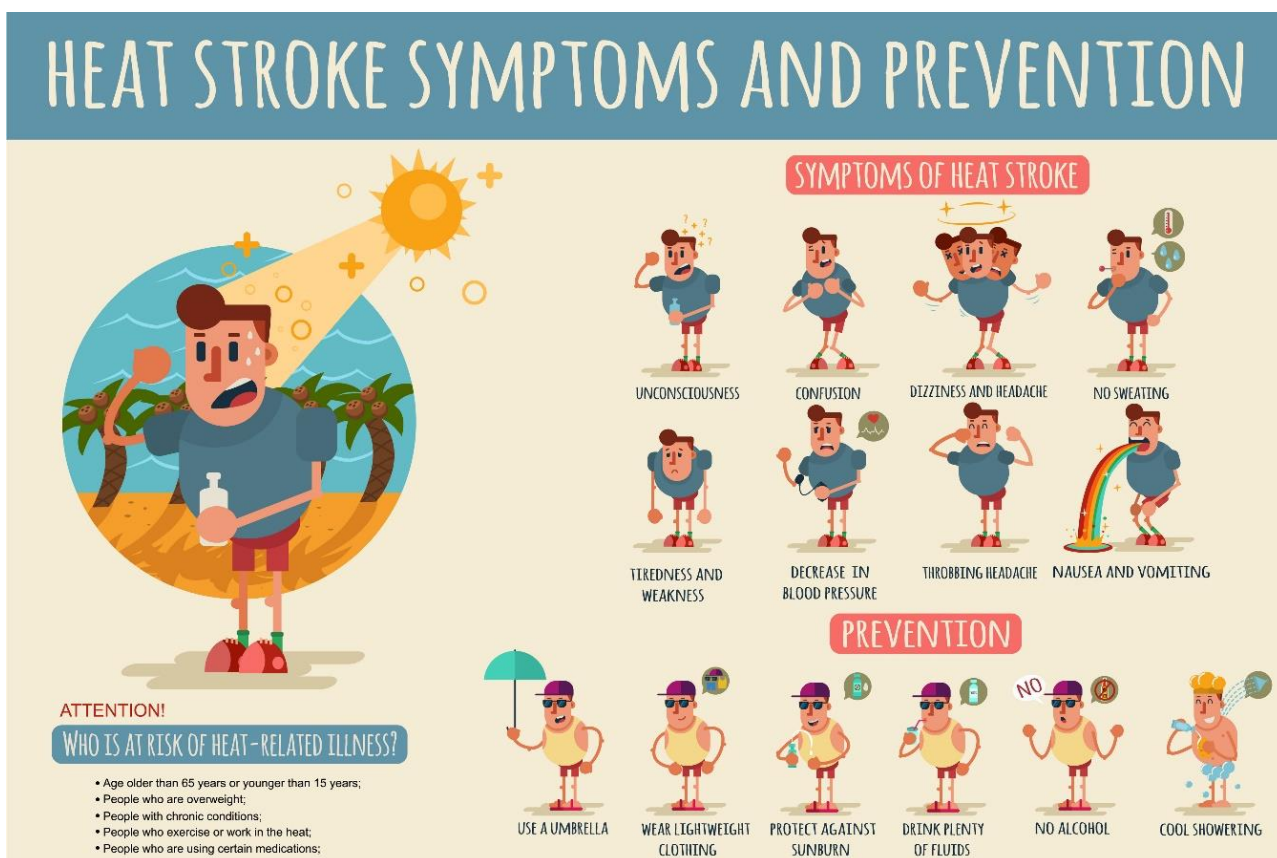
## International initiatives are trying to address the challenge

The world's healthcare profession is already heavily invested in efforts to help address the social determinants of health. There have for example been several high-level initiatives aimed at raising the priority of these issues including through the UN (such as the Sustainable Development Goals) as well as the World Medical Association, the World Health Organisation and the General Medical Assembly. Many countries have also moved to prioritise social determinants of health in their healthcare systems including the US, through the National Prevention Strategy and State Innovation Models (SIM), that seek to improve health outcomes by moving the nation from a focus on sickness and disease to one based on prevention and wellness.

## Preventative care as a contributor to positive health outcomes

Within WHEB's Health investment theme, 'Preventative care' has for some time been a key focus. However, the importance of preventative care has been underlined in recent months by two stocks in the portfolio. **CVS Health Corporation** is a major player in the US healthcare system running a national network of pharmacies. CVS also offers insurance companies and other clients a 'pharmacy benefit management' (PBM) service that helps control the costs of healthcare therapies for their beneficiaries.

CVS bought the health insurance company Aetna in 2019 and in early June launched a new strategy which has preventative care at its core. This new strategy focuses on the development of 'Health Hubs' in communities across the US. These facilities will dispense traditional pharmaceutical and other healthcare products but will also provide healthcare advice and support to Aetna clients as well as to clients of other insurance companies. This additional primary-level care is aimed at helping keep people healthy and thus avoiding the significant costs associated with hospital admissions and other more acute healthcare interventions. The end clients benefit by staying healthy, the insurance companies benefit by having lower costs.



## Exercise and diet

The other holding that directly addresses the social determinants of health agenda is **Tivity Health**. Tivity focuses on providing gym and fitness classes mainly to retirees across the US. Their main programme, called 'Silver Sneakers', is typically paid for by insurance companies who are strongly incentivised to ensure that their clients remain fit and healthy and, like CVS, avoid the major costs associated with hospital admissions. Also like CVS, Tivity made a major acquisition earlier in 2019 when they bought a business called Nutrisystem. Nutrisystem provides a range of ready-made, pre-portioned meals and snacks that help their clients keep daily calorie intake low, leading to weight-loss. Tivity believe that there are ample opportunities to take a combined package of exercise and diet programmes to their health insurance customers that will enable them to better manage the health of their beneficiary populations.

The strategies offered by CVS Health and Tivity Health are not unique in their respective industries, but they are still innovative and break new ground in offering preventative care options across the US. Given the pressures on healthcare systems in the US, and the opportunity that these strategies offer to deliver better healthcare outcomes at significantly lower cost, we are hopeful that they will prove successful.

# ENGAGEMENT ACTIVITY

## Company engagement on gender diversity

In the previous quarter we reported on how the Fund's strategy performs relatively poorly on gender diversity. This is particularly clear in terms of the composition of the Boards of Directors of portfolio companies.

We have been prioritising this issue in our regular engagement with portfolio companies. In the first quarter of 2019 we voted against the Chair of the Nominations Committee at four companies because of inadequate gender diversity at Board level and subsequently wrote to these companies explaining our dissatisfaction with the low proportion of women on these companies' Boards.

In the second quarter we voted against the Chairs of the Nominations Committees at a further eight portfolio companies and subsequently wrote to these businesses to explain our reasons for doing so. These companies included **Aptiv**, **Grand Canyon Education**, **ICU Medical**, **Kingspan**, **Littelfuse**, **Nitto Denko**, **TPI Composites** and **Xylem**.

## Next steps

We have more work to do however and plan further engagement with other businesses that still have weak representation of women on their Boards. Japanese companies typically have very poor gender diversity. We have several portfolio holdings in this category including **Daifuku** (9% female), **Daikin Industries** (0%), **Keyence** (0%) and **Horiba** (13%). The other companies that we plan to engage on gender diversity include **Steris** (18%), **China Everbright International** (0%), **IPG Photonics** (10%), **TE Connectivity** (17%), **Thermo Fisher Scientific** (17%), **National Instruments** (12%), **Westinghouse Air Brake Technologies** (10%) and **Danaher** (18%).

## Some success

More positively, we have already seen some significant improvements in Board level gender diversity in several portfolio companies. We reported last quarter on the improvements at **Smurfit Kappa** where women now represent 25% of the Board. Other portfolio companies that have increased female board representation include **Renishaw** (22%), **China Water Affairs** (25%) and **Roper Technologies** (30%).

## Alignment with the Paris Agreement

Over 50% of the Fund is invested in companies which provide products and services that help to mitigate the impact of climate change through greenhouse gas (GHG) emission reductions or through the more efficient use of energy and resources.

### Tackling scope 1 and 2 emissions

These businesses, and other businesses in the fund, do however generate GHG emissions through their own operations. We estimate that these operational emissions (known as scope 1 and 2 emissions<sup>4</sup>) represent about 10% of the 'avoided' emissions that the products and services enable<sup>5</sup>. With the increasing ambition that is evident in the Paris Agreement and in subsequent policy commitments such as the UK being a net zero carbon economy by 2050<sup>6</sup>, all companies will need to reflect this increased ambition in their own operations.

Several businesses in the portfolio have already made substantial commitments to deliver GHG emission reductions from their operations that are equivalent to, or better than, what is required by the Paris Agreement. For example, **Kingspan** plans to be powered 100% by renewable energy by 2020. The wind turbine generator manufacturer **Siemens Gamesa** also has a target to be carbon neutral as a business by 2025.

Several other companies in the portfolio have set GHG reduction targets that have been verified by the Science Based Targets Initiative<sup>7</sup>. This includes **CVS Health**, **Daikin Industries** and **DSM**.

Several of these companies are significant contributors of GHG emissions. Of the 67 tons of CO<sub>2</sub>e emissions that are generated per £1m invested in the strategy, over 70% of these emissions come from just six companies<sup>8</sup>. These companies include China Everbright International, China Water Affairs, Smurfit Kappa, DSM, Centene and Johnson Controls International.



<sup>4</sup> Scope 1 emissions of greenhouse gases are direct emissions that typically come from the burning of fossil fuels other industrial processes. Scope 2 emissions cover indirect emissions emanating from the use of electricity that has been generated using fossil fuels. Scope 3 covers emissions that are generated either upstream of the business in the supply-chain or downstream by customers using the company's products.

<sup>5</sup> For more details on this calculation please see the Annual Impact Report covering WHEB's 2018 impact at <http://www.whebgroup.com/media/2019/06/WHEB-Impact-Report-2018.pdf>

<sup>6</sup> See for example <https://www.bbc.co.uk/news/science-environment-48596775>

<sup>7</sup> Science-based targets are targets that have been set using a robust methodology and verified by the Science Based Targets Initiative (for more see <https://sciencebasedtargets.org/>)

<sup>8</sup> Based on Bloomberg data.



## **Engagement for further progress**

We have begun a program to encourage these companies to set more aggressive carbon reduction targets that bring their operational emissions down in line with the ambition set out in the Paris Agreement. So far, we have had direct discussions with Johnson Controls and Smurfit Kappa.

Johnson Controls have committed to setting a Science Based Target by 2020 which they anticipate will be 'aggressive' and will include an absolute reduction target for scope 1, 2 and 3 emissions. We will continue to engage with the company on this target, pushing for it to be at least consistent with the Paris Agreement.

Smurfit Kappa have recently renewed their carbon reduction target. Approximately half of Smurfit's energy comes from biomass with the remainder coming from fossil fuels. The company delivered a relative (per ton of product) reduction in GHG emissions of 29% by the end of 2018 and have set a new target of a 40% relative reduction (on 2005 levels) by 2030. We continue to engage the company on this new target which we believe needs to be stronger and should also include an absolute reduction target.

We plan to engage the other priority businesses throughout 2019.

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## **Public policy engagement**

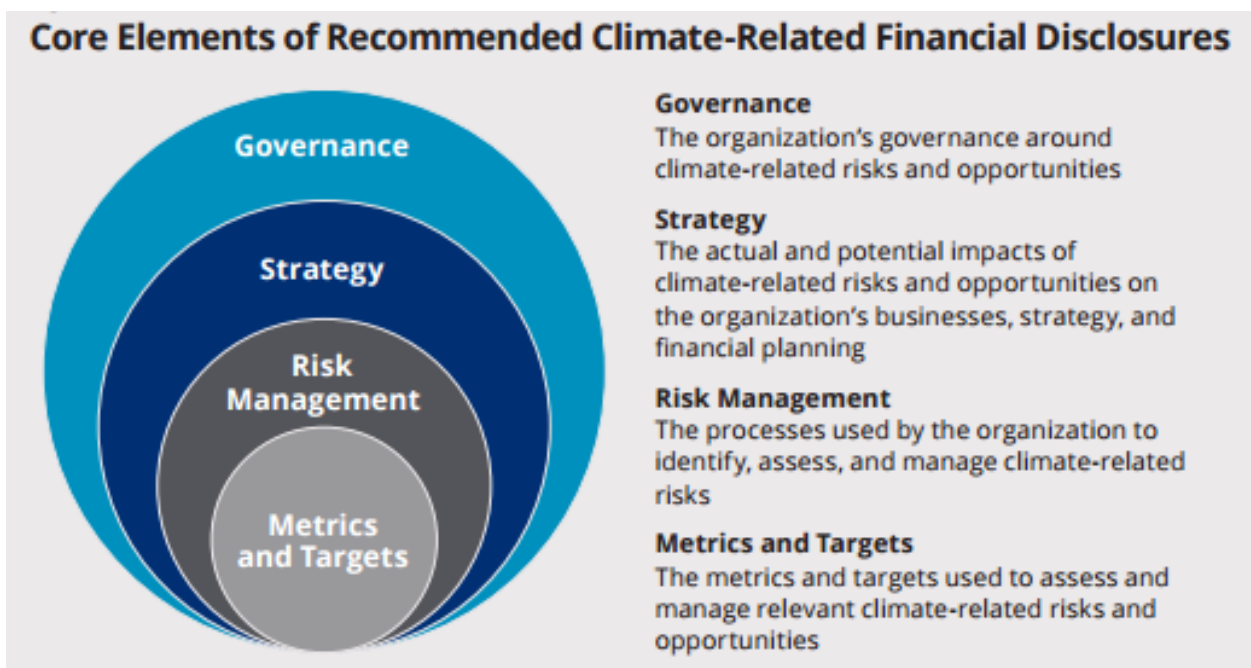
Over the past few months there has been a notable acceleration in the number and range of public policy initiatives aimed at accelerating action on climate change and promoting the practice of sustainable finance. As a small business, WHEB has had to be selective about how to engage with this agenda and to work actively with other investors to promote the development of policy and wider industry standards on these issues.

### **Accelerating public policy on climate change**

A key relationship for WHEB in advancing effective public policy on climate change is with the Institutional Investors Group on Climate Change (IIGCC). The IIGCC has been very active in encouraging policy makers across different regions to accelerate and raise the ambition of public policy on climate change and related issues.

In April, the IIGCC reported that new EU legislation had been agreed mandating new emissions standards for light vehicles and vans from 2025 and from 2030. These new standards broadly reflected our policy position and will, we believe, provide a strong stimulus to automotive companies and their supply-chains to shift aggressively to electric vehicles.

In June WHEB, along with other leading investors, wrote to the UK Prime Minister to strongly encourage the UK Government to adopt a net zero carbon target for the UK, to be achieved by 2050. The Prime Minister announced soon afterwards that she would table legislation to this effect, and this was formally approved as a new law in late June. WHEB, along with other signatories to the letter, was publicly thanked by Number 10 for our support for this initiative.



WHEB was also a signatory to a letter that was sent to The UK Prime Minister and to the Chancellor encouraging them to publish the government's Green Finance Strategy before the Conservative Party leadership election was concluded. We also specifically requested that the strategy include a recommendation that large listed companies be required to report using the Taskforce on Climate-related Financial Disclosures (TCFD) as a framework. The strategy was published in early July and while it stops short of making TCFD reporting mandatory for businesses in the UK, it did state that a taskforce will be set up to "explore the appropriateness of making reporting mandatory".

### Development of industry standards on sustainable finance

The UK Government is supporting the development of a series of industry standards on sustainable finance. The work is being led by the British Standards Institute (BSI) and will lead to the development of two standards addressing a set of guiding principles for sustainable finance and a separate standard on responsible and sustainable investment management. WHEB's Head of Research, Seb Beloe, is an expert member of the technical committee developing the guiding principles document. We hope that the standards will help to establish a core set of principles for sustainable finance in the UK before being used as a template for an equivalent standard that is being developed by the International Standards Organisation (ISO).

# PERFORMANCE COMMENTARY

Q2 2019 has been a relatively volatile quarter.

The US China trade talks have largely been the cause. Progress was made in April, only for talks to slip back into dispute in May causing a sharp fall in markets. Optimism followed in June with the resumption of trade talks. Stock markets gained support from central banks with signs of further monetary stimulus.

June saw the 2<sup>nd</sup> highest monthly return for the MSCI World in 3 years at 5.2%. For the quarter overall, the Fund has delivered a return of 6.5%, outperforming its benchmark by 1.3%.

## Strongest performing themes and stocks

Like the previous quarter, Resource Efficiency was the top performing theme.

Within the Resource Efficiency theme, **ams**, a semiconductor manufacturer, was the best performing stock. ams has experienced significant volatility since the autumn of 2018. Following a period of poor performance, the shares benefitted from a recovery in the semiconductor sector and from stronger than expected Q1 results. Despite being the market leader and its low valuation relative to its own history, it is likely to remain volatile.

Other stocks in the Resource Efficiency theme that were in the top ten performing stocks of this quarter were **Acuity Brands**, **Ansys** and **Kion Group**.

However, not all stocks in Resource Efficiency had a good time, for example **A.O. Smith**. Despite being one of the best contributors for June, A.O. Smith was the weakest performer of the quarter. A.O. Smith develops energy-efficient products to heat and clean water. In May, the company was attacked in a report published by a short-seller, J Capital. In June, the stock bounced back as it announced plans to increase its share buyback programme by 50% to \$300m. We continue to believe that A.O. Smith is well positioned as one of the leading energy-efficient water heating equipment manufacturers.

The second strongest theme in the quarter was our Health theme, which contrasts with the previous quarter, when it was one of the poorest performers. Positive returns came from **Cerner**, **Steris** and **Premier**. Premier is a group purchasing organisation which helps hospitals reduce the cost of procurement. The company managed to deliver solid first quarter results despite the current political uncertainty around the US healthcare sector.

## The weaker performers

The poorest performing theme this quarter was Cleaner Energy. **TPI Composites** and **China Everbright**, were the negative contributors.

TPI Composites, the largest manufacturer of wind turbine blades in the US, had a difficult quarter. They had poor Q1 results, which were driven by a worker strike in one of their production facilities in Mexico. TPI Composites lost 50% of their staff in the facility and therefore couldn't deliver what they had promised to investors. Another issue was that one of their customers, Senvion, went in to administration. We believe these are short term issues and we remain positive on TPI Composites' prospects over the longer term.

The other weaker theme was Sustainable Transport. Three stocks in this theme were among the poorest performers of the quarter: **JB Hunt Transport Services**, **Norma Group** and **Wabtec**. In contrast however, **TE Connectivity**, which sells electric components for cars, was the third best performer of Q2 2019. This disparity in the theme demonstrates the volatility and changing sentiment in a cyclical industry over the quarter and is reflective of oscillations in US China trade talks.

With US-China trade tensions lingering on, corporate confidence is faltering. If a conclusion to the talks is in sight, coupled with China stimulus and global central bank easing, then global markets could rebound later this year. But even with the risk of an economic downturn in the near to mid future, we continue to have conviction in sustainability delivering outperformance over the longer term.

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## PORTFOLIO ACTIVITY

We sold two positions in the quarter and initiated one new holding.

### Recent sales

We sold **Wabco**, an advanced braking systems manufacturer, in our Safety theme. Its products help improve the safety of commercial vehicles. It also produces sensors which enable more automated and efficient logistic services. Wabco is being acquired by rival ZF Friedrichshaven, after management recommended accepting the bid that ZF first made in March.

We also closed our position in **Rockwell Automation** in our Resource Efficiency theme. Rockwell is a leading provider of industrial automation in the US. Its products enable factory operations to run more efficiently with less waste. While we like the company's competitive position on the hardware side, we believe that software will take a much more dominant role in industrial automation in the future. We worry that Rockwell may struggle in this transition to compete in the software space and hence we sold our position.

### Recent purchases

The new position we added was **ICON** in our Health theme. It is a leading clinical research organisation, which provides outsourced drug development services to the pharmaceutical and medical device industries. Its services help to accelerate the development of drugs and medical devices that save lives and improve the quality of life. It also potentially reduces the cost of healthcare through developing more cost-effective drugs. The company is well positioned to benefit from further market penetration as its customers continue to look for innovation, new technologies and productivity improvements.

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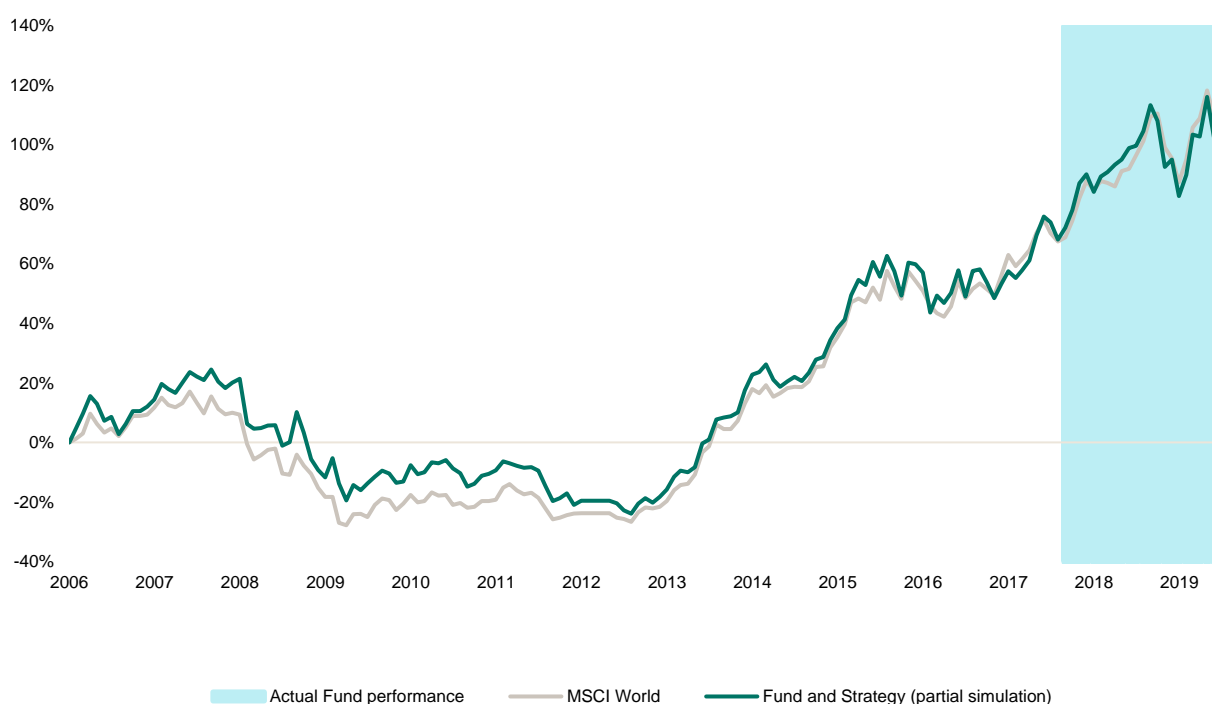
# INVESTMENT PERFORMANCE

## Cumulative Investment Returns

Net performance (%) for periods ending 30 June 2019

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	7.2	8.2			
Strategy (partial simulation) <sup>9</sup>			13.2	12.1	5.9
MSCI World <sup>10</sup>	5.2	12.0	14.0	13.1	6.0

## Performance Since Strategy Inception



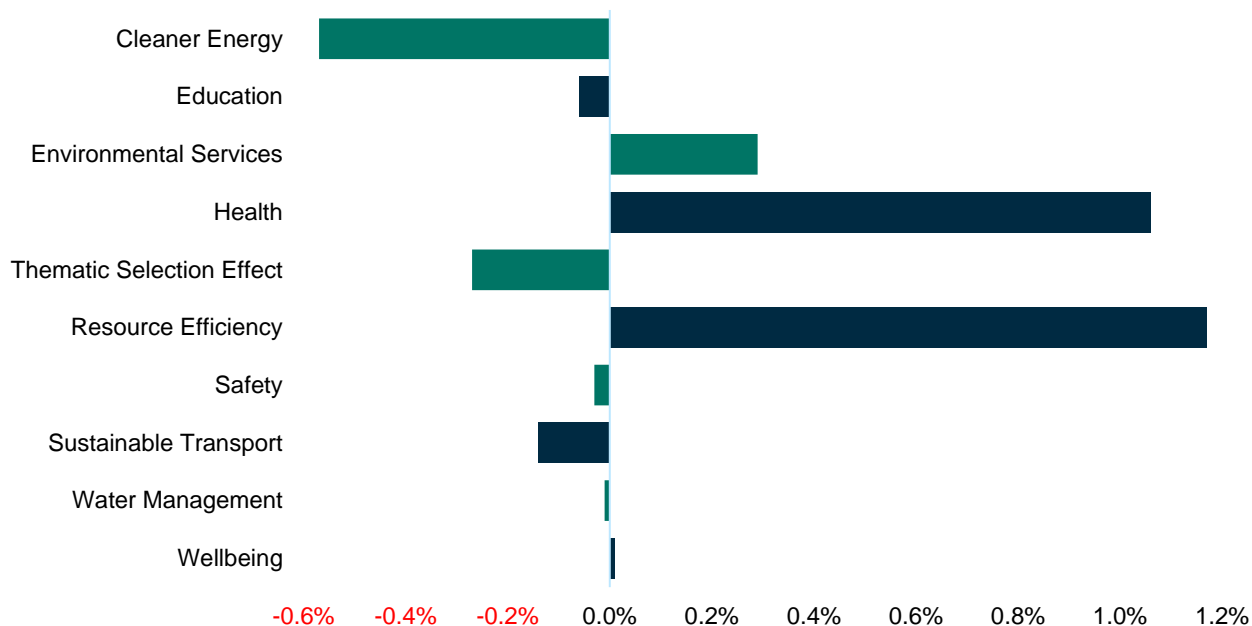
<sup>9</sup> From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP 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.

<sup>10</sup> MSCI World Total Return Index (net, AUD unhedged).

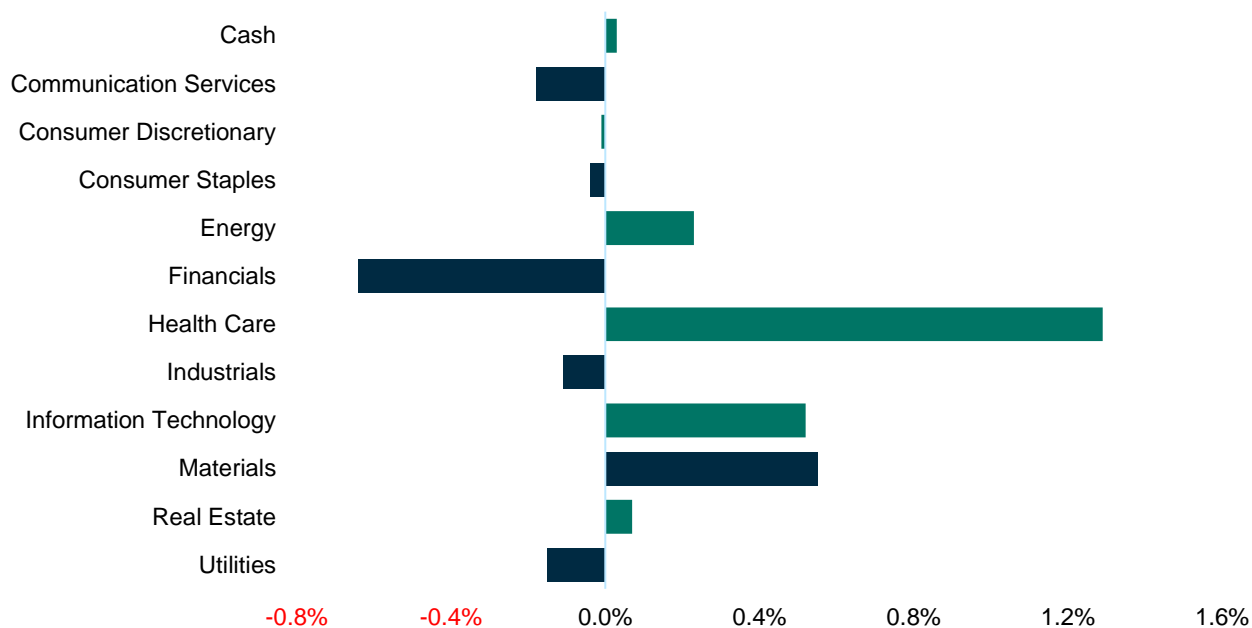


## Performance Attribution – Last 3 Months<sup>11</sup>

### Attribution by Sustainability Theme<sup>12</sup>



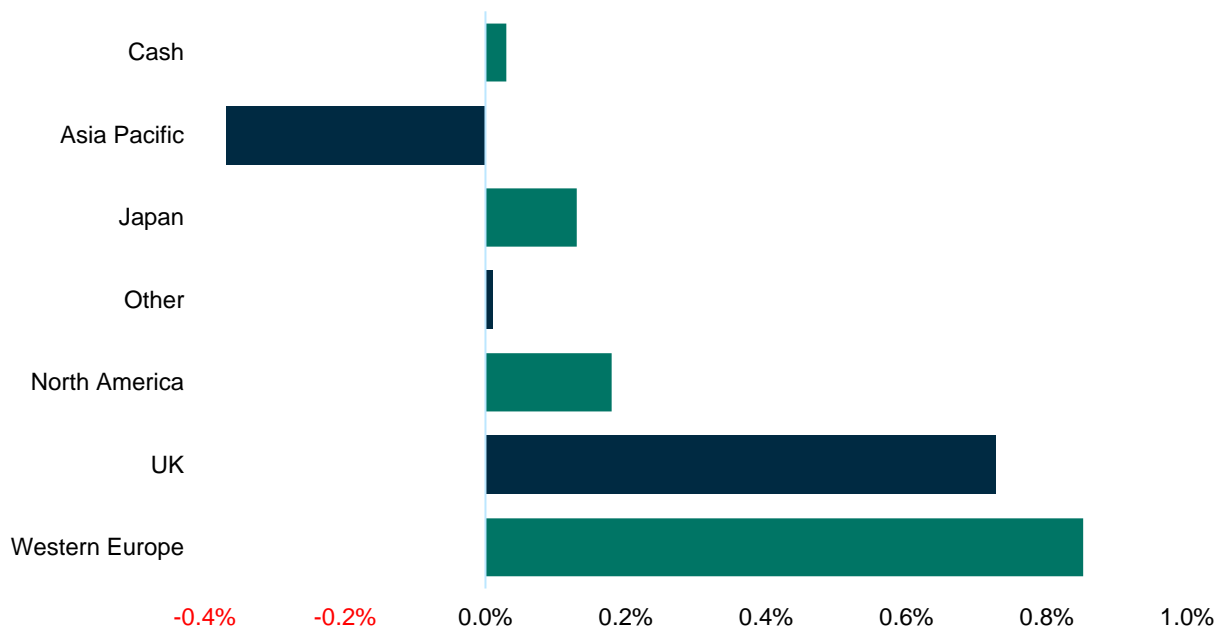
### Attribution by Sector



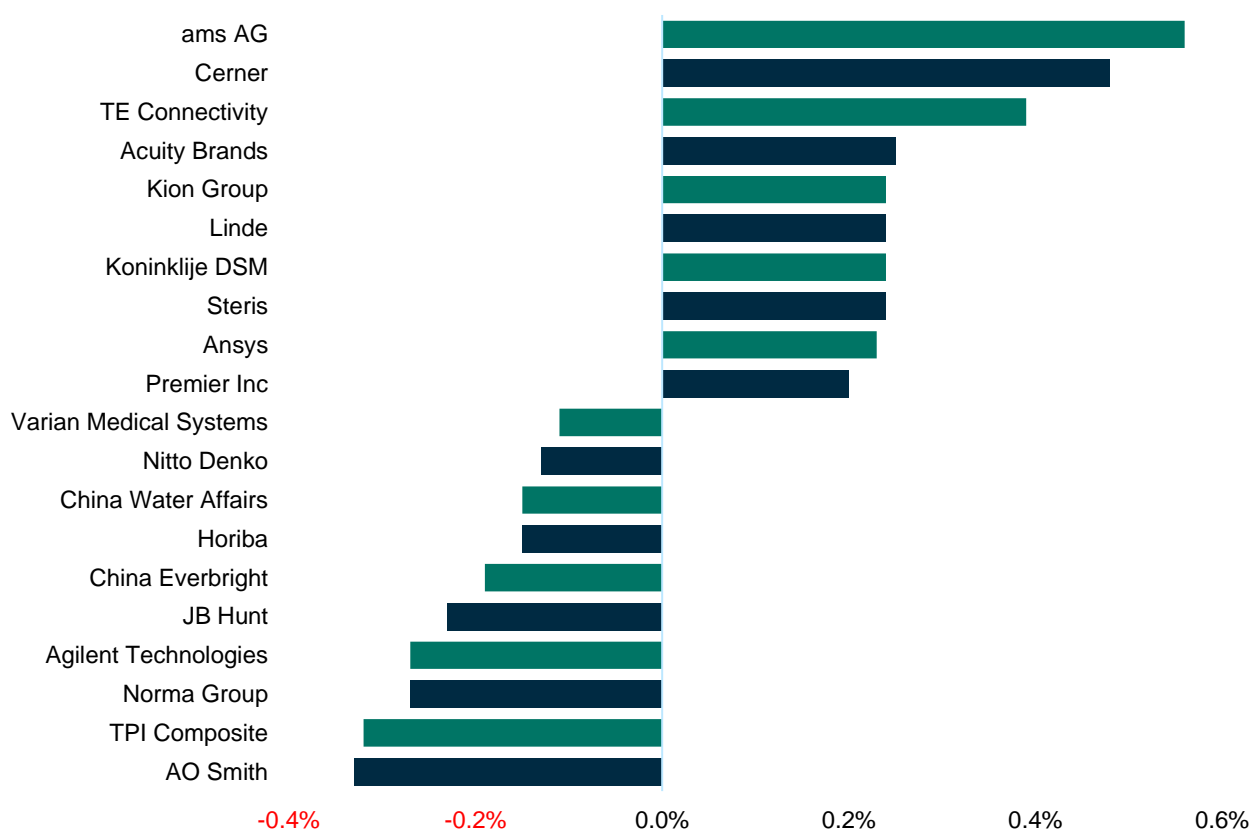
<sup>11</sup> Performance attribution is calculated with reference to the MSCI World Index

<sup>12</sup> The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

### Attribution by Geography

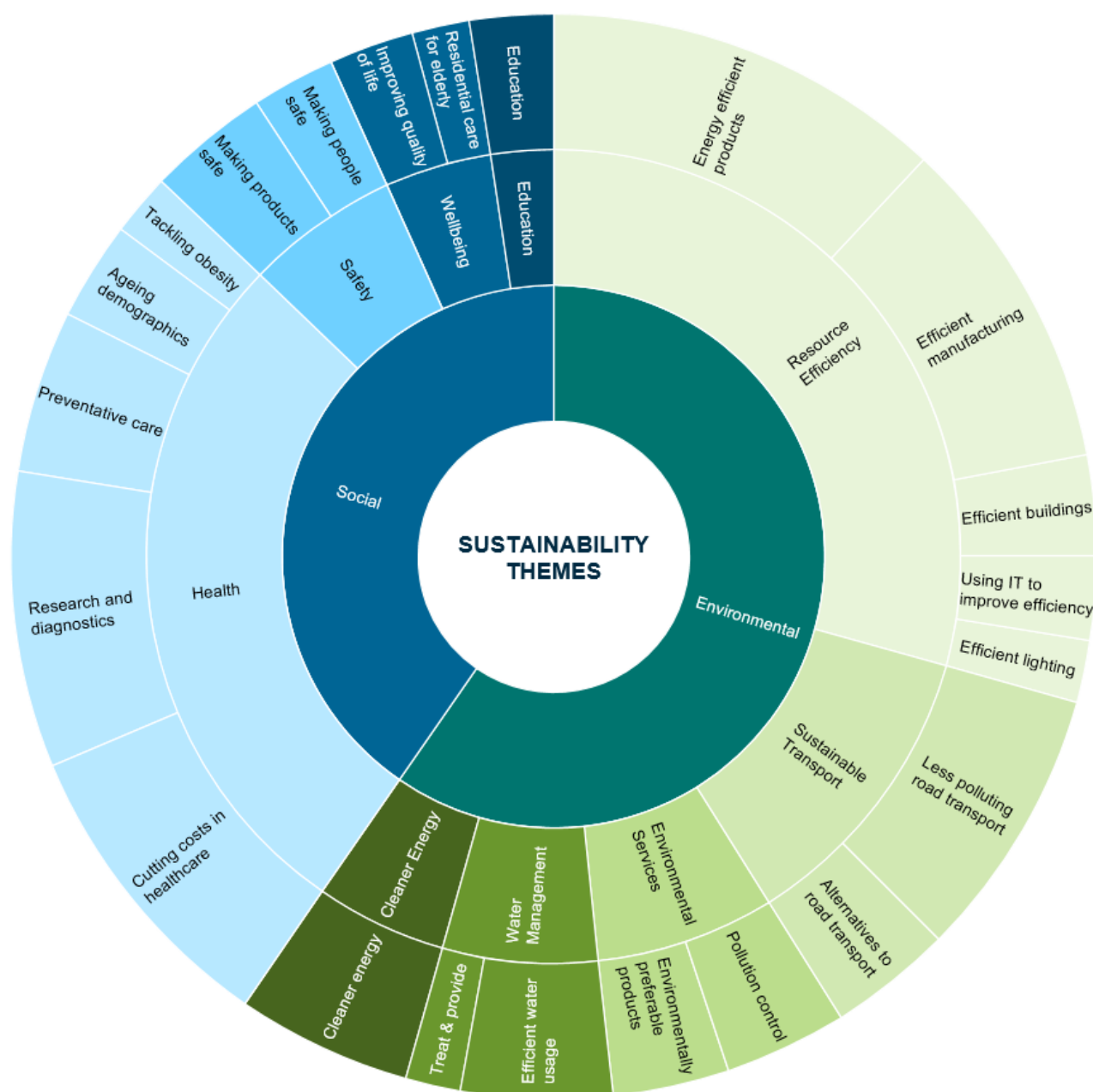


### Attribution by Stock (Top and Bottom 10)



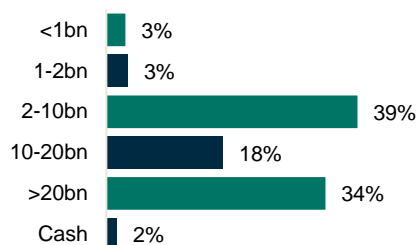
# PORTFOLIO ANALYSIS AND POSITIONING<sup>13</sup>

## Sustainability Theme Exposure

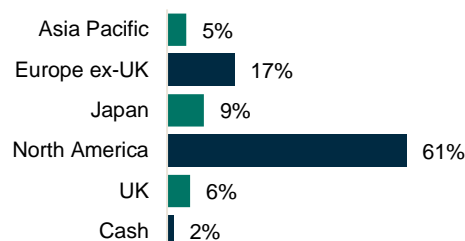


<sup>13</sup> As at 30 June 2019 unless otherwise stated.

## Market Cap (US\$) Exposure



## Geographic Exposure



## Top 10 Stocks

Name	Sustainable Investment Theme	Description
A.O. Smith	Resource Efficiency	Energy efficient products
Agilent Technologies	Health	Research and diagnostics
Ansys	Resource Efficiency	Using IT to improve efficiency
Centene	Health	Cutting costs in healthcare
Danaher	Health	Research and diagnostics
Grand Canyon Education	Education	Education
MSA Safety	Safety	Making people safe
TE Connectivity	Sustainable Transport	Less polluting road transport
Thermo Fisher Scientific	Health	Research and diagnostics
Xylem	Water Management	Efficient water use

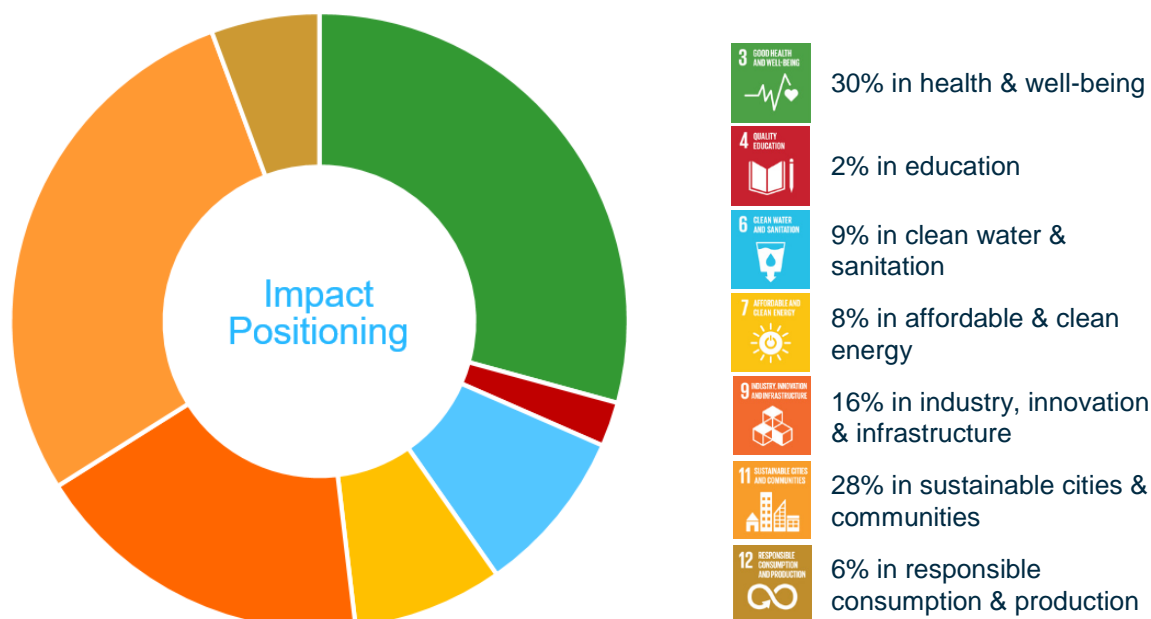
## Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	16.63%	14.90%
FY2 Earnings Growth	11.04%	11.91%
FY1 PE/FY2 Earnings Growth (PEG)	1.51x	1.25x
3-year Volatility	13.00%	9.98%
Beta (predicted)	1.04	
Tracking Error (predicted)	3.78	
Tracking Error (ex-post)	10.18%	

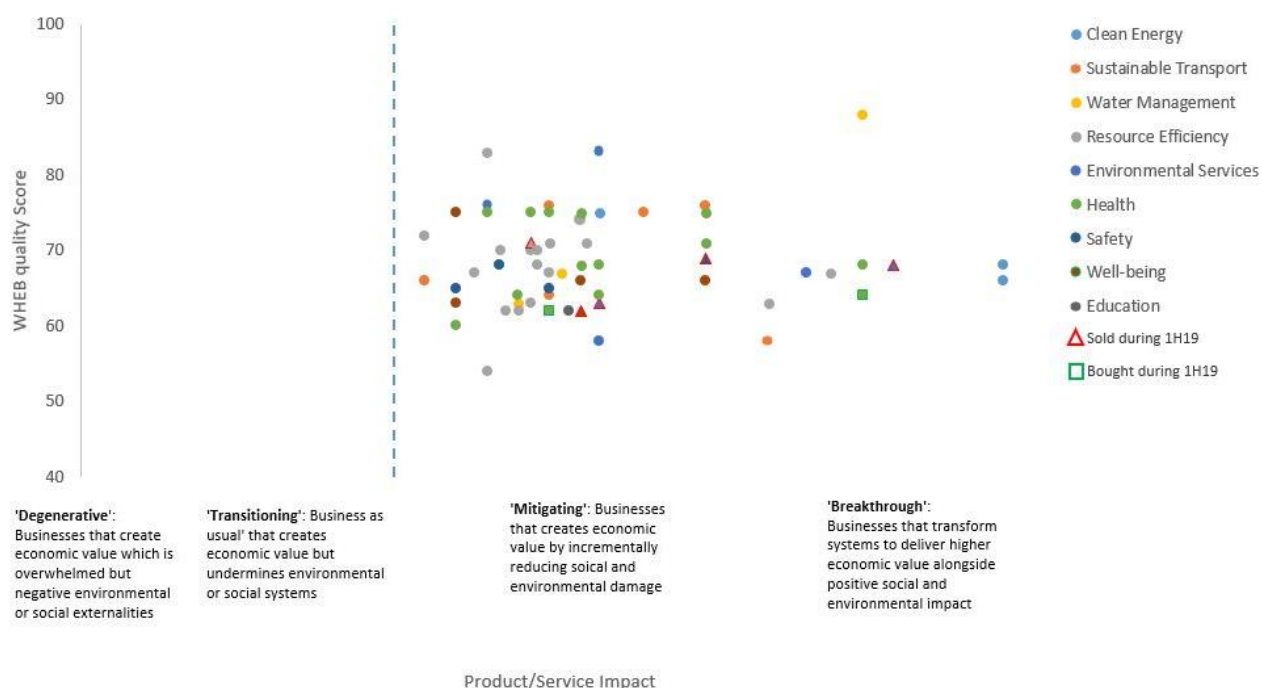
## Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
WABCO	Sale	Safety	Closed position following acquisition by ZF Friedrichshafen.
ICON	Purchase	Health	Well-run clinical research organisation with a strong leadership in oncology.
Rockwell	Sale	Resource Efficiency	Concern that software will become more important than products in the automation industry.

## Impact Positioning: Supporting the UN Sustainable Development Goals<sup>14</sup>



## Impact Map of the WHEB strategy's portfolio following changes in H1 2019<sup>14</sup>



<sup>14</sup> For description of impact mapping methodologies please see WHEB's impact reports, available at <http://www.whebgroupp.com/impact/>. The SDG mapping methodology is described in the 2018 Impact Methodology Report, available at <http://www.whebgroupp.com/media/2018/05/Methodology-2017.pdf>, and the impact positioning graph is described in detail in the 2014 impact report.



# ENGAGEMENT AND VOTING ACTIVITY

## Voting Record: Q2 2019

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 January – 30 June 2019. Full details of how we voted on each of the individual votes are detailed on our website: <https://www.pengana.com/our-funds/international-equities/wheb-sustainable-impact-fund/>

Meetings	No. of meetings	%
# votable meetings	40	N/A
# meetings at which votes were cast	40	100%
# meetings at which we voted against management or abstained	34	85%

Resolutions	No. of resolutions	%
# votes cast with management	314	70%
# votes cast against mgmt. or abstained (see list in appendix)	137	30%
# resolutions where votes were withheld	0	0%

## Company Engagement Activity

Company	Topic	Comment	Outcome
CVS Health	'Over-boarding' of Board director Lack of disclosure of impact metrics	Letter / conference call	Company defended ability of Board Director to fulfil obligations and agreed to look into reporting of impact
Daifuku	Lack of disclosure of impact metrics	Email exchange	Company plans to report company exposure to climate risk as well as impact metrics of product portfolio
Orpea	Unclear severance package for CEO	Letter	Company clarified that severance package would not be paid if CEO had not delivered on key performance targets
	Male/female pay	Email	Company ranks among best companies in France on gender pay gap
Grand Canyon Education	Combined Chairman/CEO Unclear governance of sustainability Inadequate board gender diversity	Letter / conference call	Company has appointed a lead independent director but not currently interested in separating Chairman role CEO leads on sustainability– agreed to make this clearer publicly
Nitto Denko	Inadequate Board gender diversity Lack of disclosure of impact metrics	Meeting	Company is considering an additional independent director who might also be a woman Company will try and collect and report impact metrics
HMS Holdings	Lack of management or disclosure of key environmental and social issues	Letter	Company has agreed to implement environmental management system and plans to enhance public disclosure.

Company	Topic	Comment	Outcome
Henry Schein	Lack of auditor independence Lack of sustainability reporting	Letter / Conference call	Company is comfortable with rotating lead auditor within same firm Company has appointed a VP of Social Responsibility
Littelfuse	Unclear governance of sustainability Inadequate board gender diversity	Letter	Company plans improvements in sustainability disclosure and argues that diversity is one of three criteria they consider for Director appointees
Johnson Controls	Lack of alignment of carbon reduction targets with Paris Agreement Product impact disclosure Chemical contamination incident	Letter / Conference call	Company has committed to set a Science-Based Target by 2020. Company's performance contracting business saved clients 1.7m tons of CO <sub>2</sub> e in 2018. No comment on chemical contamination because legal case.
Aptiv	Unclear governance of sustainability Lack of Board gender diversity Lack of auditor independence Excessive CEO compensation	Letter	Company responded to say that they are happy with their current approach on these issues
Tivity Health	Unclear governance of sustainability Lack of sustainability disclosure Overboarding of Director	Letter	Company acknowledged receipt of our letter and agreed to improve disclosure
TPI Composites	Plastic components in products Response to Mexican labour strikes Lack of Board gender diversity	Conference call	The company confirmed that their main supply of plastic is from recycled sources of PET The company ended up laying-off 30% of employees at one site – remaining employees have improved rates of pay (+20%) The company plans to make further progress on this issue.
Cooper Companies	Lack of sustainability disclosure	Email	Company has appointed a Director of Corporate Responsibility and plans to use UN Sustainable Development Goals as reporting framework.
MSA Safety	Lack of Board Director independence Lack of ESG criteria in CEO compensation Lack of product impact metrics	Meeting	No current plans to change independence or compensation criteria  Company agreed to investigate this further.
Ansys	Lack of sustainability disclosure	Email	Company has published its first sustainability report
Xylem	Lack of Board gender diversity	Letter	Company acknowledged receipt of our letter.
Smurfit Kappa	Lack of alignment of carbon reduction targets with Paris Agreement	Meeting	Company has recently set new targets so is unlikely to revisit these in the short term.
Smurfit Kappa	Overboarding of Board director Equity issuance without pre-emptive rights	Letter	Company has acknowledged our letter

Company	Topic	Comment	Outcome
Kingspan	Combined Chair and CEO Lack of Board independence Overboarding of Director Share buy-back Lack of Board gender diversity	Letter	No response from the company as of 3 July 2019.
Intertek	Excessive CEO remuneration Opposed to authorise political donations	Letter	No response from the company as of 3 July 2019.
ICU Medical	Lack of Board gender diversity Overboarding of Director Lack of auditor independence Excessive CEO remuneration and lack of ESG component	Letter	No response from the company as of 3 July 2019.
Daikin Industries	Lack of alignment of carbon reduction targets with Paris Agreement	Letter	No response from the company as of 3 July 2019.
Centene	Overboarding of Director Lack of Board gender diversity Lack of disclosure of political donations	Letter	No response from the company as of 3 July 2019.
JB Hunt Transport Services	Lack of Board independence Lack of auditor independence Excessive CEO remuneration and no link to ESG Lack of disclosure of political donations	Letter	No response from the company as of 3 July 2019.
Westinghouse Air Brake Technologies	Lack of Director independence 'Overboarding' of Director Lack of sustainability governance	Letter	No response from the company as of 3 July 2019.

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