

# Q3 2019 REPORT

## Pengana WHEB Sustainable Impact Fund

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# THE BIGGER PICTURE

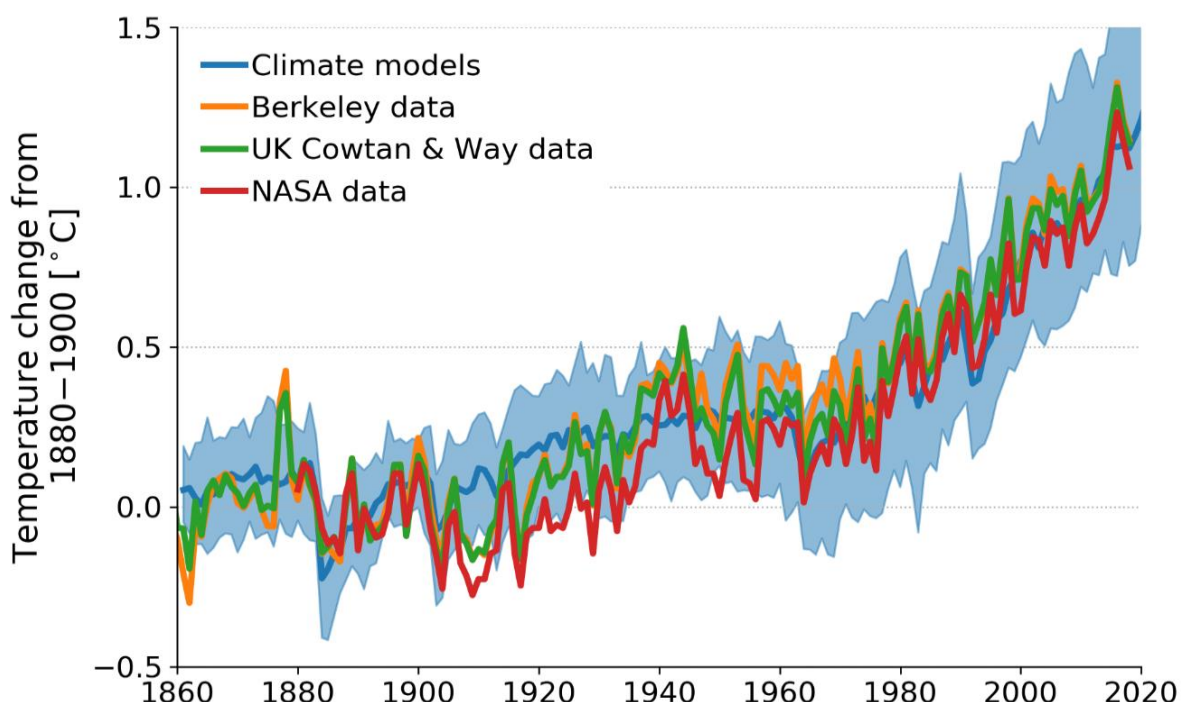
## Declaring a climate emergency

### Predicting the future

It is a truism of course to say that it is impossible to predict the future. And typically, the further into the future you go, the harder it is to predict what is going to happen. But in some cases, forecasting what is likely to happen in the long term can be done with reasonable confidence. At WHEB's annual conference in July we heard from Professor Sarah Harper, Oxford University's Professor of Gerontology. Professor Harper's predictions are based on long-term demographic trends which play out over decades and do not change quickly. India's labour pool is, for example, due to overtake China's in 2029 due to deep structural changes in Chinese and Indian societies. We can be confident that this is going to happen although it may turn out to be 2028 or 2030.

Other long-term structural trends like climate change are no different. The science of climate change is now well-understood and modelling climatic change has proven remarkably accurate. The original models that were built in the 1970s and 80s tended to under or over predict rates of warming by between 20-30%. More recent models have reduced this to high single figures and typically have tended to predict slower rates of warming than have subsequently been experienced.<sup>1</sup> Given the continuing increases in atmospheric concentrations of greenhouse gases (GHG), we can anticipate with a high degree of confidence that climate change will continue along the lines that the models predict.

**Observed global temperature data (orange, red and green lines) has validated climate model range predictions (blue shaded region)<sup>2</sup>**



<sup>1</sup> Carbon Brief - <https://www.carbonbrief.org/analysis-how-well-have-climate-models-projected-global-warming>

<sup>2</sup> Climate Feedback - <https://climatefeedback.org/evaluation/washington-examiner-op-ed-cherry-picks-data-to-mislead-readers-about-climate-models-patrick-michaels-caleb-stewart-rossiter/>

Even at the lower levels of warming that the models predict, there will be significant impacts. At 2 °C of warming above pre-industrial levels, impacts are expected to include, among others, that:

- 37% of the earth's population is expected to experience extreme heatwaves at least once every five years;
- 411 million people living in megacities will be exposed to severe droughts;
- 18% of insects and 16% of plants will lose more than half of their range,
- coral reefs will mostly disappear; and,
- between 32-80 million people worldwide will be exposed to flooding from sea level rise.<sup>3</sup>

## The inevitable policy response

While the precise details of some of these effects are of course very difficult to predict, in aggregate it is clear that these impacts will become intolerable. For this reason, many commentators have concluded that, at some point, there will have to be an 'inevitable policy response' aimed at limiting and then eventually reversing climate change. The 'inevitable policy response' (IPR) is the name of a UN PRI initiative that is aimed at helping investors prepare for the response from regulators as these impacts become clear. The IPR's analysis suggests that policy commitments can be expected to accelerate in the period between 2023-2025 and that key policies will drive rapid changes in energy mix, transport technology, energy efficiency standards and agriculture (see image below).

## Key elements of the expected IPR



### Coal phase-outs

- Early coal phase-out for first mover countries by 2030
- Steady decline of coal-fired power generation after 2030

*Germany currently envisages to phase-out coal only by 2038*



### ICE sales ban

- Early sales ban for first mover countries by 2035
- Very low stock of ICE vehicles globally by 2050

*Electric vehicles currently represent less than 1% of all cars globally*



### Carbon pricing

- US\$40-60/tCO<sub>2</sub> prices by 2030 for first movers
- Global convergence accelerated by BCAs to ≥\$100/tCO<sub>2</sub> by 2050

*The price of European Emissions Allowances today is ~€25/tCO<sub>2</sub> – and much lower in other regions*



### CCS and industry decarbonisation

- Limited CCS uptake to 2050
- CCS primarily for industry and BECCS, with limited ramp-up of hydrogen for industry

*The combined capture capacity of CCS power projects in operation at the end of 2018 was 2.4MtCO<sub>2</sub>*



### Zero carbon power

- Significant ramp-up of renewable energy globally
- Nuclear capacity increase in a small set of countries, nuclear fade-out elsewhere



### Energy efficiency

- Increase in coverage and stringency
- Performance standards, utility obligation programs, financial and behavioral incentives



### Land use-based GHG removal

- Improved forestry and nature-based solutions
- End deforestation and expand re/afforestation
- Limited bioenergy available



### Agriculture

- Continued improvements in agricultural yields
- Steady growth in irrigation and AgTech
- Gradual shift from beef

As I write this, Extinction Rebellion have launched a new campaign of occupation in central London and, if anything, 2023 sounds like a relatively conservative date at which the policy response will begin to accelerate. As of October 2019, 1,110 jurisdictions in 20 countries covering nearly 300 million people have already declared 'climate emergencies' and 16 countries from the UK to Uruguay have set target dates to be net zero carbon.

<sup>3</sup> <https://www.ipcc.ch/sr15/chapter/spm/>  
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## Implications for WHEB's investment strategy

### Strategy alignment

Clearly accelerating action to tackle climate change is good news generally, but it is also particularly relevant for many of the sectors and technologies that the WHEB investment strategy is exposed to. This is especially true where the technologies have matured and are at or close to cost competitiveness with legacy approaches. We are particularly optimistic that strengthened performance standards around, for example, building efficiency, vehicle emissions, product energy efficiency and power generation will prove popular policy tools and will directly benefit many companies in the WHEB portfolio. Other areas highlighted by the IPR will, we believe, prove harder to address including incentivising carbon capture and storage, agriculture and land-based GHG removal and the use of hydrogen in heavy industry. In these cases, many of the technologies are still relatively small-scale and untested and policy support is likely to involve more direct fiscal support which introduces significant policy risk.

### Portfolio risks

However, while clearly a strong positive for the strategy, there are two areas where more aggressive action on climate change will also create risks in the portfolio. In particular:

- Businesses delivering incrementally positive impact may find that the market begins to move away from them. For example, companies that sell technologies to improve the efficiency of internal combustion engines in vehicles may find – and indeed have already found – that the market has moved aggressively towards even better environmental impact technologies including, for example, electric vehicles. We believe that we have already positioned the fund ahead of many of these shifts but need to remain attentive to this issue.
- Certain areas that we invest in, including for example paper and cardboard recycling and water treatment, are large users of energy. As regulatory frameworks tighten on carbon emissions, these businesses are vulnerable to escalating cost and business risk. Overall the WHEB strategy is significantly lower carbon than the wider market. In 2018, Scope 1 and 2 emissions from the strategy were 65 tCO<sub>2</sub>e compared with 103 tCO<sub>2</sub>e for the wider market.<sup>4</sup> Furthermore, where there are high energy users in the fund, such as in those sectors identified above, the fund is invested in relatively efficient users of energy. Any increase in energy costs (for example associated with a carbon price) would therefore competitively advantage businesses we are invested in compared to their peers. Nonetheless, these companies are priorities for engagement, and we continue to work hard with them, and with other investors, to encourage more action to further reduce emissions.

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<sup>4</sup> <http://www.whebgroup.com/media/2019/06/WHEB-Impact-Report-2018.pdf>  
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# PORTFOLIO THEMES IN FOCUS

## Varian and the changing nature of cancer care

Sadly, it is now a rare person who hasn't felt the shock and sadness of a loved one fighting cancer. This single term for a family of diseases is now the second largest cause of death globally. It accounts for about one sixth of all deaths. And the incidence is rising.<sup>5</sup> In 1990 around 0.70% of the world's population was suffering from the disease. That proportion was 0.87% in 2017. By 2040 it is forecast to rise to nearer to 1.5%<sup>6</sup>.

### Why?

There are two key reasons for this new epidemic. Longer lives ironically increase the risks of cancer. So do a variety of risk factors that modern life makes harder to avoid.

### We are making progress

The good news is that treatments are improving. Those treatments are in five categories. Medical oncology and immuno-oncology use drugs. Surgical oncology and Interventional oncology use physical interventions. And radiation oncology uses radiation to destroy cancer cells.

Each of these disciplines is able to provide the best-fit solution for different situations. And all of them have made huge advances in recent years. Huge progress has also been made in the critical techniques that support treatment, such as screening, diagnosis, treatment planning, and symptom management.



<sup>5</sup> <https://ourworldindata.org/cancer>

<sup>6</sup> [http://gco.iarc.fr/tomorrow/graphic-isotype?type=0&population=900&mode=population&sex=0&cancer=39&age\\_group=value&apc\\_male=0&apc\\_female=0](http://gco.iarc.fr/tomorrow/graphic-isotype?type=0&population=900&mode=population&sex=0&cancer=39&age_group=value&apc_male=0&apc_female=0)  
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The success has been impressive. Here in the UK, the number of people surviving five years from diagnosis increased by 21% from 2010 to 2015.<sup>7</sup> The key is combining all the ingredients of modern cancer care successfully. Varian Medical Systems (“Varian”) has mirrored this journey from independent specialism to a holistic approach.

### **Radiation oncology**

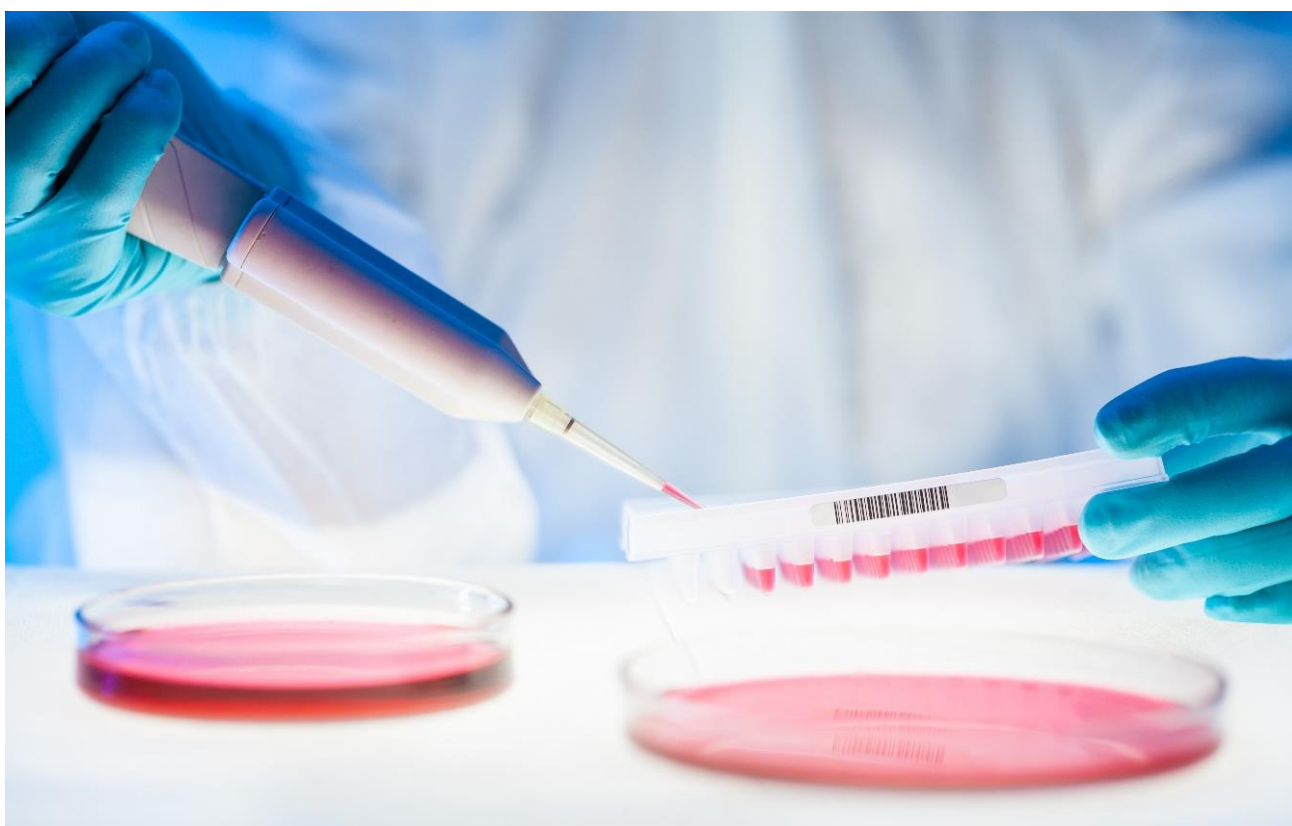
Varian started as a true originator of radiation oncology. In 1960 it produced the “Clinac 6”, one of the first commercial linear accelerators (“linacs”) for cancer treatment.<sup>8</sup> Linacs deliver a focused dose of X-rays to destroy cancer cells. The linac is a flexible and versatile tool and its introduction was a huge leap forward.

Varian originally developed the linac because they had expertise in microwave tubes and nuclear test apparatus. They had a technology and were looking for applications. Over the years, its focus on the medical linac grew and grew. But its heritage remained, a technology-led company, specialising in radiation oncology.

### **A business transformation**

Then in the last decade, this focus began to shift. In addition to perfecting the linac, Varian invested more in developing software. This included treatment and cancer care solutions, taking the focus beyond just the machinery.

A symbolic change came at the start of 2017. Varian spun out its imaging business, separately listing it as Varex Imaging. The whole of Varian’s portfolio is now focused on cancer treatments. The focus is the disease, and how to treat it, rather than the technology, and what to do with it.



<sup>7</sup> [https://www.macmillan.org.uk/\\_images/cancer-statistics-factsheet\\_tcm9-260514.pdf](https://www.macmillan.org.uk/_images/cancer-statistics-factsheet_tcm9-260514.pdf)

<sup>8</sup> <https://www.varian.com/about-varian>

So Varian is now a leader in proton therapy, and more powerful and targeted new form of radiation therapy. It has gathered a series of interventional oncology treatments. These include, for example, microbeads that block the blood flow to a tumour. Varian is still also developing its software portfolio at an impressive rate.

With all these changes, the company claims to now “touch” four million cancer patients each year. This is an increase from two million only four years ago.<sup>9</sup>

This shift has also changed the business model. There is more research. R&D spending is up from around 6.5% of sales a decade ago to 8%.<sup>10</sup> In the same time period, recurring services and software sales have risen to around 50%, from 30%. And the reliance on the US has fallen to below 50%. All attractive features to long term investors like WHEB.

We opened our position in Varian in September 2013. We’ve been supportive investors through this transformation. Our process is to focus on sustainability challenges, and to address them as directly as possible. We like management teams that demonstrate clear strategic thinking and focus on impact.

### Areas of high unmet need

There is still more than this to like about Varian. Another important cancer statistic is that 70% of cancer deaths come from low- and middle- income countries.<sup>11</sup> Varian launched its low-cost Halcyon linac, developed for those markets, in May 2017. Of the 284 Halcyon machines sold since then, 75% are in places where there has not been radiation oncology before.<sup>12</sup> It has also acquired an Indian business called Cancer Treatment Services International (CTSI). CTSI is proving that affordable high-quality cancer care can be financially viable. Varian wants to roll that model out. Varian’s impact on lives and livelihoods around the world is profound. We’re proud to be a part of it.



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<sup>9</sup> Varian management at American Society for Radiation Oncology Meeting, 16 Sept 2019, per transcript.

<sup>10</sup> Varian management at American Society for Radiation Oncology Meeting, 16 Sept 2019, per transcript and presentation

<sup>11</sup> <https://www.who.int/cancer/resources/keyfacts/en/>

<sup>12</sup> Varian 3Q19 report 24 July 2019



# ENGAGEMENT ACTIVITY

## Company engagement on gender diversity

As we reported in July, we have been engaging companies across the portfolio on the issue of gender diversity. In this last quarter we have been targeting businesses in the portfolio who have female Board representation of less than 20%. This includes 12 companies of which three are Japanese and of these, two have no women at all on their Boards.

During the period we wrote to all 12 of these companies asking them to clarify their commitment to improve board-level gender diversity, and share any concrete steps that they have taken. In addition, we also wanted to know how diversity is promoted elsewhere within the organisation.

Of the 12 companies, nine (75%) responded in the quarter. However, one of these was merely an acknowledgement of having received the letter. We are still hoping to hear from the remainder. Of the eight that provided substantive responses, six have a clear commitment to improve gender diversity on their boards. However, only four were able to share specific concrete steps that they have taken to improve gender diversity at board level.

When it comes to supporting gender diversity elsewhere within the organisation, the picture is bleaker. Just over half (five) companies were willing to confirm that they have systematic processes for collecting data on gender diversity within their organisations and have strategies for addressing areas where diversity is insufficient.



## Beyond gender diversity

It is our view, and one that is backed up by considerable research, that more diverse leadership leads to better, more holistic decision-making that supports long term value creation. This is true for gender diversity but also for other types of diversity. While we did not specifically look for insights on other aspects of diversity, two portfolio companies, Steris and TE Connectivity, provided very considered responses to our questions. In both cases the companies' Boards are composed of less than 20% women (18% and 17% respectively) and so they were both prioritised for engagement. In response both companies stressed that they strive to have truly diverse organisations across multiple dimensions including gender identity, ethnicity, age, sexual orientation as well as 'secondary' characteristics such as religion, family status, education and geographic background. Under the companies' definitions of diversity, they argue that over 50% of Board members are 'diverse'. We clearly recognise the value in approaching diversity in this way, though we would still point out that this more complete approach to diversity should not limit the companies' ability to have better female representation at Board level.

Through the remainder of this year, and in future years, we will continue to raise the issue of diversity at Board-level and more broadly as an area that still requires further work.

## Ghost fishing gear

Ghost fishing gear is the term that is used to describe the ongoing impact that abandoned fishing nets and other equipment has on the marine environment. According to the World Ghost Gear Initiative,<sup>13</sup> 640k tonnes of abandoned, lost or discarded fishing gear (ALDFG) enters the oceans every year. More tragically, because fishing equipment is designed to catch and kill marine life, it continues to play this role after it has been abandoned and is therefore four times as harmful to marine life as all other marine debris combined. 600,000 marine mammals alone are impacted every year by ALDFG.



WHEB's investment strategy has no direct exposure to the fisheries industry. In fact, WHEB portfolio companies have only a tangential relationship with the marine environment and where there are impacts, these tend to be positive.<sup>14</sup> However, one portfolio holding, DSM, makes high strength, light-weight polymers which go into a vast range of end uses, including fishing nets. The material, called Dyneema™ is immensely strong, but so light that it floats on water. It is also expensive and is therefore routinely tagged so that it can be located and collected if it is lost at sea. Nonetheless we have been keen to work with DSM to ensure that their material does not end up as ALDFG.

To this end, we have also signed a letter alongside 12 other investment groups collectively representing £545bn of assets under management. The letter has been sent to the Marine Stewardship Council (MSC) asking them to ensure that the MSC certification process includes stricter criteria aimed at preventing ghost fishing.

<sup>13</sup> <https://www.ghostgear.org/>

<sup>14</sup> This was the subject of a WHEB Advisory Committee meeting. Summary minutes of this meeting are available at <http://www.whebgroupp.com/media/2019/03/20190223-Summary-minutes.pdf>

## Collaborative initiatives

### CA100+

WHEB is a recent recruit to the CA100+ initiative. The initiative is aimed at encouraging the world's largest corporate greenhouse gas (GHG) emitters to take necessary action on climate change. The majority of companies being engaged through this initiative are businesses that are not in our investment universe because they are such larger contributors to greenhouse gas emissions.



However, one company that is included is Daikin Industries.

Daikin is a Japanese manufacturer of heating ventilation and air conditioning (HVAC) equipment. We invested in Daikin on the basis that their technology is typically up to a third more efficient than competing technology. Moreover, they have developed refrigerants that have a substantially lower global warming potential (GWP) than competing products. Replacing legacy equipment with more efficient HVAC systems such as Daikin's is a critical part of the strategy to ensure that demand for air conditioning doesn't contribute to growing power demand and consequent GHG emissions.<sup>15</sup>

We are engaging with Daikin through the CA100+ specifically to encourage them to align their business model with the Paris Agreement. The company has subsequently agreed to report in-line with the Taskforce on Climate-related Financial Disclosure (TCFD). Additionally, we are keen to encourage the company to ensure that the positive impact of the superior efficiency of their equipment is not offset by sales to new customers.

### Access to medicines

Alongside other investors, WHEB has been supporting a long-term engagement project backed by the Access to Medicine Index and tracking the progress of pharmaceutical companies towards SDG 3 by 2030.

The collaborative engagement covers 19 listed companies in the 2018 Access to Medicine Index and focused on key areas such as R&D, access planning, equitable pricing, governance, as well as patents and licensing. Many pharmaceutical companies do not qualify for investment by the WHEB strategy due to their broad areas of focus. However, companies which have a particular focus on therapeutic areas covered by the WHO's Global Burdens of Disease are part of WHEB's investment universe and our role within the initiative focuses on these companies.<sup>16</sup>

<sup>15</sup> <http://www.iea.org/futureofcooling/>

<sup>16</sup> [http://origin.who.int/topics/global\\_burden\\_of\\_disease/en/](http://origin.who.int/topics/global_burden_of_disease/en/)



## Public policy engagement

The number and range of public policy initiatives aimed at accelerating action on climate change and promoting the practice of sustainable finance remains undiminished. WHEB has been getting involved in several of these initiatives.

## EU Taxonomy

In July the European Union published a draft document setting out a proposed taxonomy for sustainable activities and called for industry feedback on their approach.<sup>17</sup> The taxonomy is a wide-reaching document that identifies a wide range of industry activities and products that they believe should qualify as 'sustainable activities'. While WHEB is broadly supportive of the initiative,<sup>18</sup> there are, we believe, significant failings in the current draft. WHEB has submitted comments directly to the Commission as part of the consultation process and has also been a lead contributor to the position of the Institutional Investors Group on Climate Change (IIGCC). The consultation closed in mid-September and we look forward to seeing further progress from the Commission towards the end of the year.



## Accelerating policy action on climate changes

During the quarter WHEB was active in supporting two separate investor coalitions aimed at accelerating policy action on climate change. The first initiative was aimed at the former UK Prime Minister Theresa May and Chancellor Philip Hammond. The investor coalition called on the Prime Minister and Chancellor to support the requirement that listed companies report according to the recommendations of the TCFD.

Chancellor Philip Hammond responded to our letter pointing out that the Government in their Green Finance Strategy had set out the '*expectation for all UK-listed companies... to disclose in line with the TCFD recommendations by 2022*'. While this commitment fell short of what we had called for, the government did also commit to reviewing this decision in 2020 and exploring further action if this is required.

<sup>17</sup> [https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy\\_en](https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en)

<sup>18</sup> For example see <http://www.whebgroupp.com/making-the-european-sustainable-finance-taxonomy-a-carrier-and-not-a-barrier-to-sustainable-finance/>

# PERFORMANCE COMMENTARY

Q3 2019 was a difficult quarter for the investment strategy. On a closing price basis, the Fund delivered a return of -0.5% compared to the MSCI World's +4.6% over the period.

Taking a deeper look at the reasons behind this relative performance, we can identify four key causes:

1. Quite a marked underperformance of mid cap strategies, particularly in the USA, which in this context includes our strategy; and related
2. The strong performance from the mega-cap communications services and consumer electronics companies, none of which are in scope for our impact investment thesis;
3. Some specific challenges afflicting individual stocks; and
4. the impact of ongoing trade tensions globally, and particularly between the USA and China.

The first two of these causes relate to structural biases which we don't seek to manage. The market capitalisations of the companies we invest in is not an input to our investment process. So long as a stock meets our liquidity requirements, we focus on the positive impact the company has, its growth prospects, the quality of its business model, and its valuation. We are most interested in companies where positive impact products form a high proportion of revenues. This gives our strategy a natural bias towards smaller and mid-sized stocks.

In the USA, where around 64% of Fund is invested, this quarter saw quite a marked outperformance by larger companies. Underperformance of small- and mid- caps is generally a sign that investors fear a slowdown. The large-cap Russell 1000 Index was up 1.4% while the broader Russell 2000 Index finished the quarter down 2.4%,<sup>19</sup> and the Russell Microcap fell 5.5%. We had a similar experience; our underweight in stocks over \$20bn market capitalisation and overweight in smaller stocks having a negative impact on performance.

This is of course linked to the second cause of underperformance: strength in mega cap stocks that we don't invest in because in our view they do not provide solutions to sustainability challenges. In this quarter, we can identify relatively large negative attribution from these stocks which sit outside our investable universe. These include Apple, Alphabet and Microsoft.

Over the past few years there has been significant value creation from these providers of consumer digital services. Our long-term thesis is unchanged, that sustainability is one of, if not the most significant investment opportunity. However, we do recognise that there will be other areas of economic activity that can demonstrate real growth even during the transition to a more sustainable low carbon global economy.

The third source of underperformance was an unusual number of stock-specific issues. These impacted share prices over and above any of the sentiment shifts against smaller companies or cyclical industries. Three key stocks affected were **ICU Medical**, **Premier** and **Centene**. These stocks are all in our Health theme, which was the worst performing theme of the quarter.

ICU Medical was particularly badly hit. It is a leading pure-play infusion therapy company. Its products prevent bloodstream infections. They protect healthcare workers from exposure to infectious diseases or hazardous drugs. ICU posted disappointing results due to heightened competition in its Intravenous Solutions segment. Lowered growth prospects hit the share price hard.

Another notable individual underperformer was **TPI Composites** in our Cleaner Energy theme. Cleaner

<sup>19</sup> <https://www.roycefunds.com/insights/small-cap-flash>



Energy was the second worst performing theme. TPI Composites, and another Cleaner Energy holding **Siemens Gamesa**, both operate in the global wind energy sector. Our investment thesis for wind includes that costs would continue to be reduced, making the technology ever more competitive. However, we have entered a period where cost pressures have been greater than we anticipated.

This pressure hit TPI harder than Siemens Gamesa, because it is a much smaller business with a less resilient business model. We are sticking with TPI because we think the risk versus reward balance is now favourable, but we have sold Siemens Gamesa because of these concerns.

The final headwind in the quarter, trade tensions and the knock-on negative impact on global business confidence, has been a challenge since mid-2018. As we have noted in previous quarterly reports, the breakdown in global supply chains is quite problematic for our strategy.

Trade tensions are most visible in our strategy in our environmental themes and impacted the Resource Efficiency and Water Management themes. However, not all our cyclical and trade-exposed themes were weak in the quarter. After several weak quarters, our Sustainable Transport theme bounced back and was the strongest performing theme this quarter. US freight company **JB Hunt Transport Services**, which provides intermodal services, gave the best individual stock contribution in the quarter.

With our long-term lens we remain confident that our industrial, cyclical companies, such as those in our Resource Efficiency theme, are providing much-needed machinery to reduce resource use, and that they have a bright future. We have so far not considered that it would be right to reduce our exposure here and we continue to have that view. In the near term, we have low visibility as to when trade conditions may improve and confidence return.

As the urgency to avoid ecosystem breakdown builds, we remain convinced that in the long term, our conviction in sustainability and positive impact stocks will play out.

## PORTFOLIO ACTIVITY

We sold two positions in the quarter.

### Recent sales

We sold **Henry Schein**, a leading distributor of dental and healthcare products and services, in our Wellbeing theme. Its products and services help to make primary medical and dental care more efficient. We held our position for over four years, and were impressed by the high-quality management team there. However, we are concerned about the continuous challenges in its core dental market and think that its strongest growth is now behind it.

We also closed our position in **Siemens Gamesa** in our Cleaner Energy theme. Gamesa is a leader in the wind energy industry. It manufactures onshore and offshore wind turbines, and provides maintenance and other wind services. Despite its leading market position, we saw a number of headwinds looming on the horizon. The onshore wind market faces some uncertainty due to disruptions associated with the international trade war, and volatility in emerging market support regimes. The offshore wind business is facing pricing pressure as it shifts from tariff subsidies to auction schemes. We will keep monitoring the wind industry as these headwinds hopefully reduce.

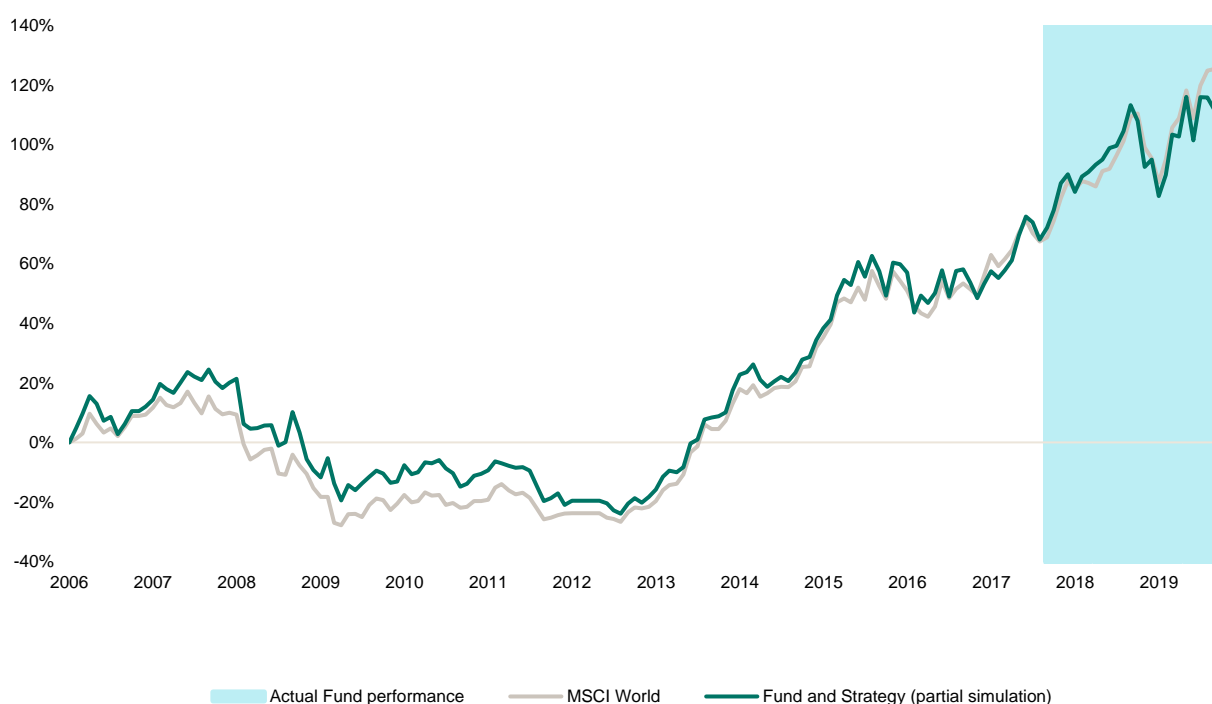
# INVESTMENT PERFORMANCE

## Cumulative Investment Returns

Net performance (%) for periods ending 30 September 2019

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	1.5	3.3			
Strategy (partial simulation) <sup>20</sup>			11.8	10.9	5.7
MSCI World <sup>21</sup>	2.0	9.2	15.0	12.9	6.2

## Performance Since Strategy Inception

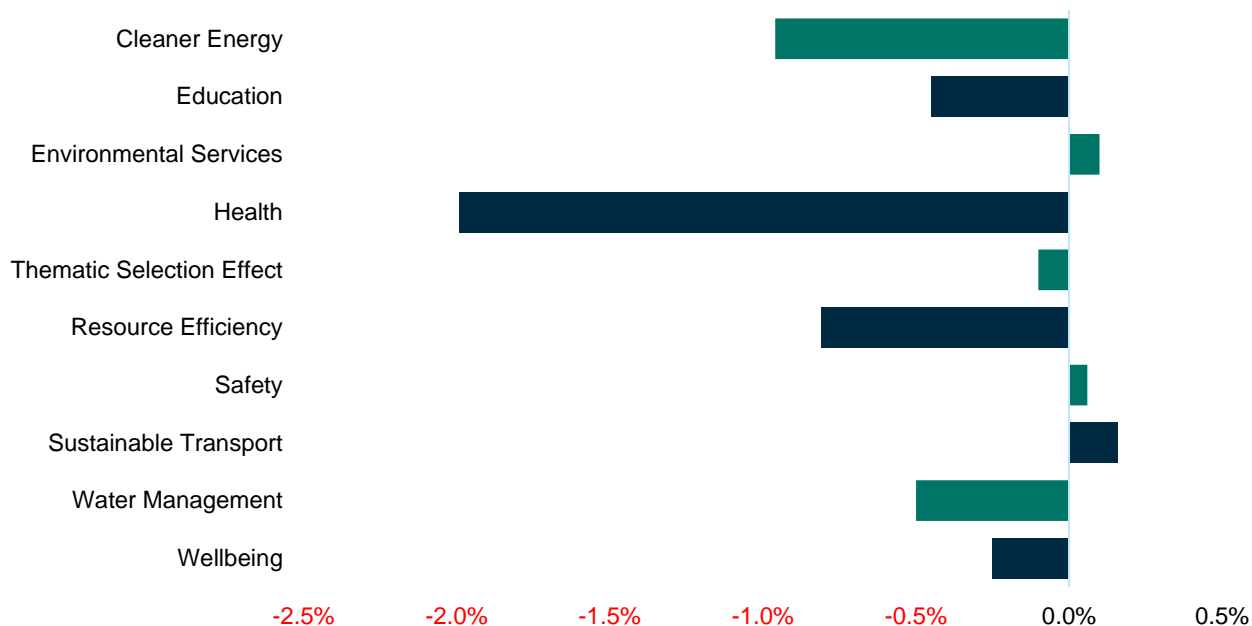


<sup>20</sup> From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP 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.

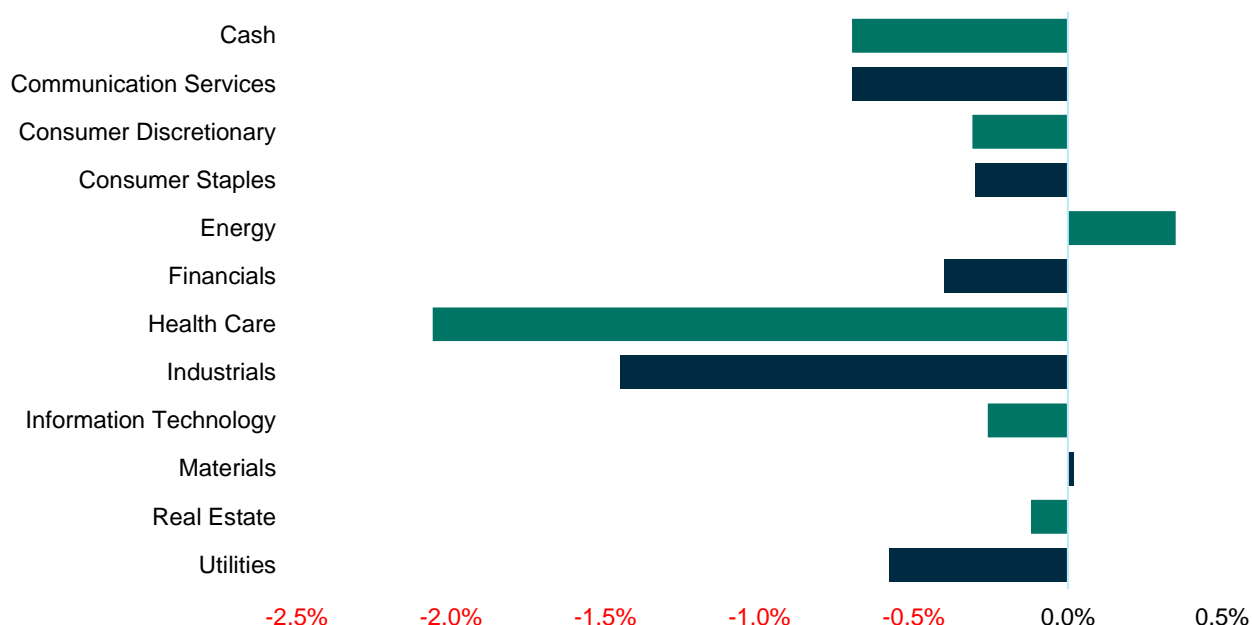
<sup>21</sup> MSCI World Total Return Index (net, AUD unhedged).

## Performance Attribution – Last 3 Months<sup>22</sup>

### Attribution by Sustainability Theme<sup>23</sup>



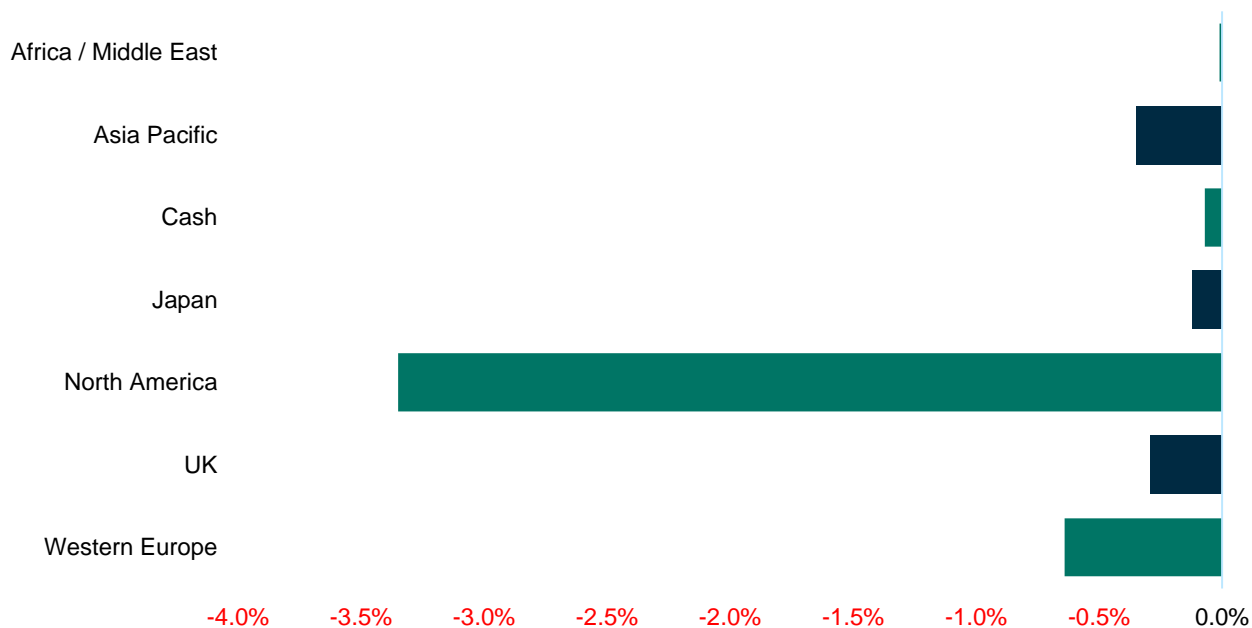
### Attribution by Sector



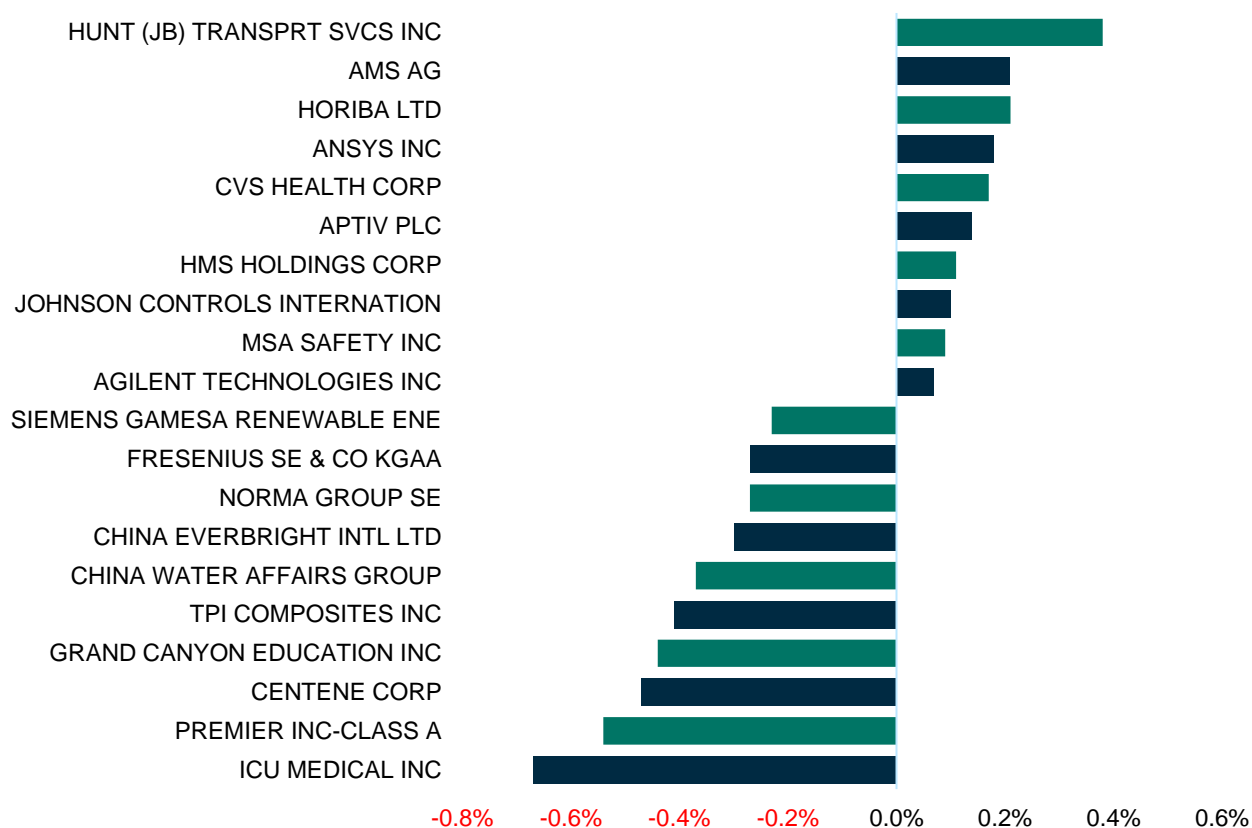
<sup>22</sup> Performance attribution is calculated with reference to the MSCI World Index

<sup>23</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

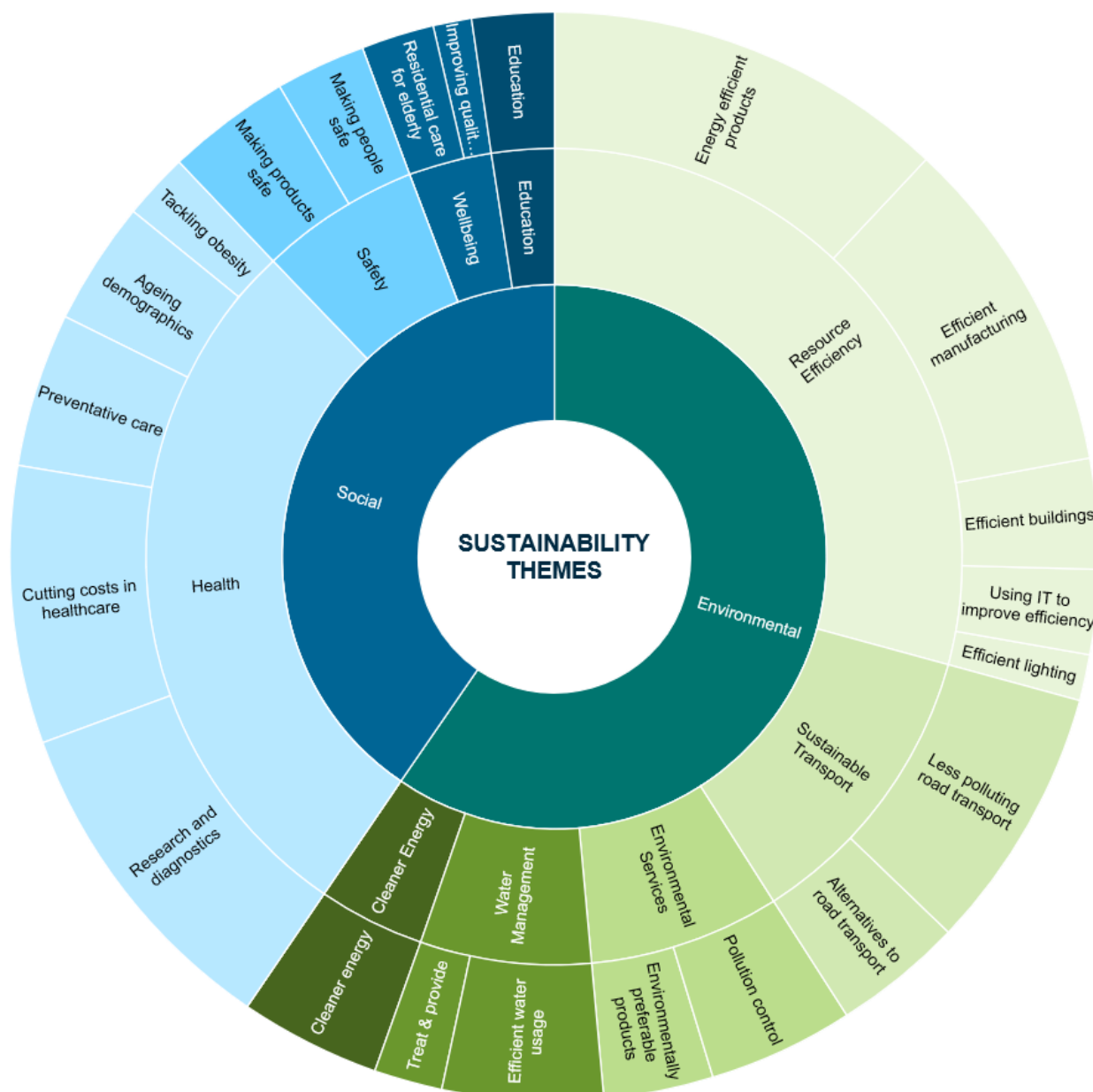


## Attribution by Stock (Top and Bottom 10)



# PORTFOLIO ANALYSIS AND POSITIONING<sup>24</sup>

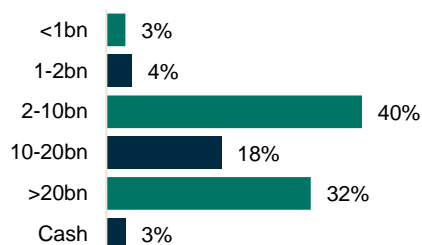
## Sustainability Theme Exposure



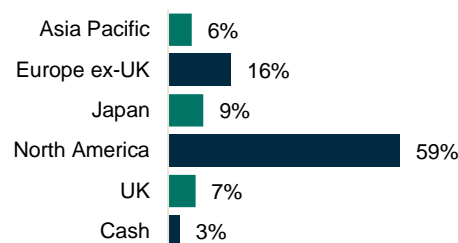
<sup>24</sup> As at 30 September 2019 unless otherwise stated.  
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## Market Cap (US\$) Exposure



## Geographic Exposure



## Top 10 Stocks

Name	Sustainable Investment Theme	Description
Agilent Technologies	Health	Research and diagnostics
Ansys	Resource Efficiency	Using IT to improve efficiency
Danaher	Health	Research and diagnostics
Grand Canyon Education	Education	Education
MSA Safety	Safety	Making people safe
Roper Technologies	Resource Efficiency	Energy efficient products
TE Connectivity	Sustainable Transport	Less polluting road transport
Thermo Fisher Scientific	Health	Research and diagnostics
Varian Medical Systems	Health	Ageing demographics
Xylem	Water Management	Efficient water use

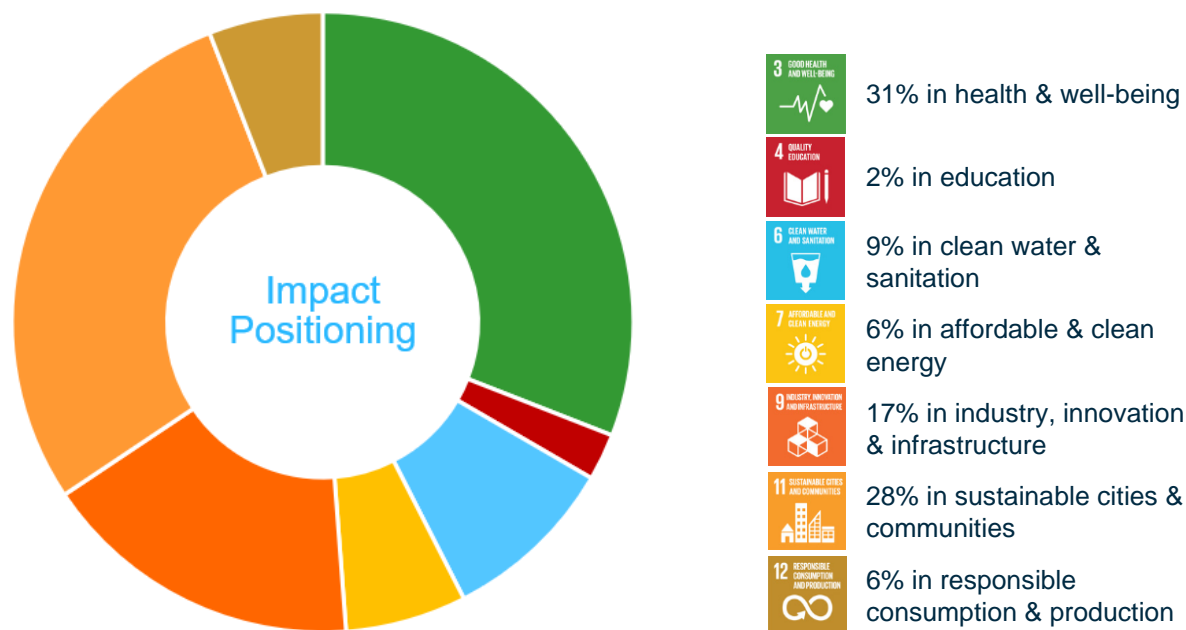
## Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	16.00x	15.09x
FY2 Earnings Growth	10.85%	11.11%
FY1 PE/FY2 Earnings Growth (PEG)	1.48x	1.36x
3-year Volatility	12.64%	9.91%
Beta (predicted)	1.15	
Tracking Error (predicted)	4.13%	
Tracking Error (ex-post)	11.40%	

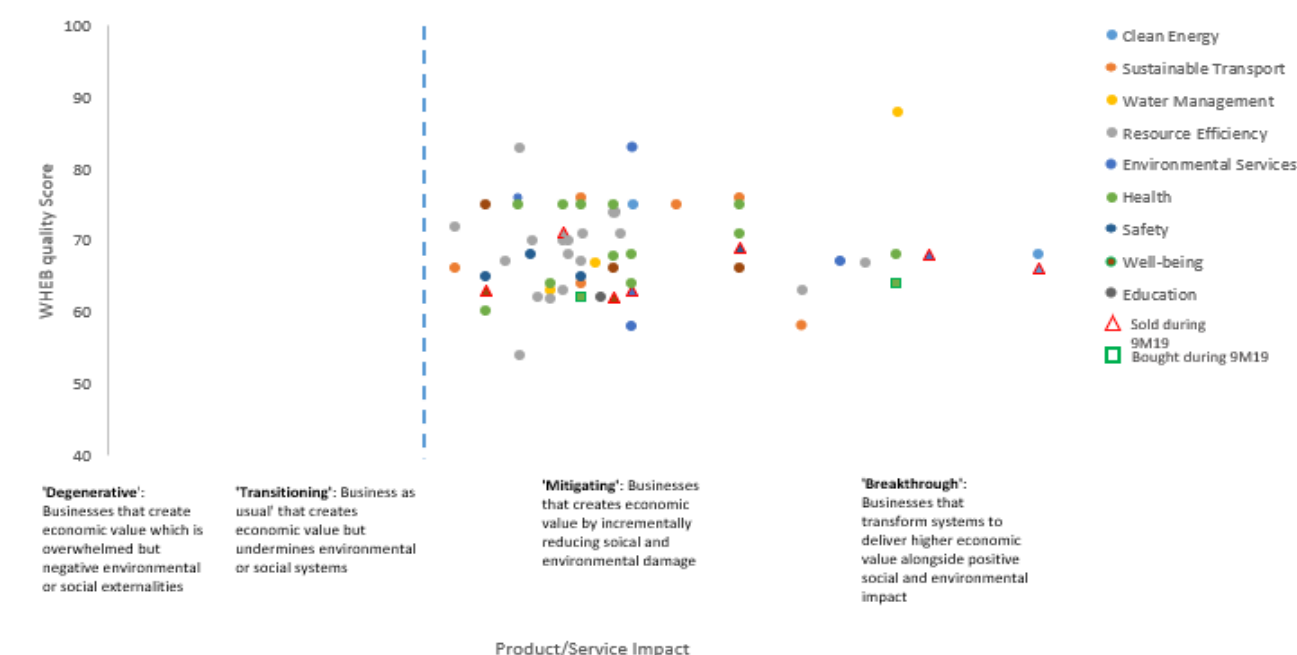
## Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Siemens Gamesa	Sale	Cleaner Energy	Worries over long term pricing in the offshore market.
Henry Schein	Sale	Wellbeing	Core dental market remains challenged.

## Impact Positioning: Supporting the UN Sustainable Development Goals<sup>25</sup>



## Impact Map of the WHEB strategy's portfolio following changes in 9M 2019<sup>25</sup>



<sup>25</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: Q3 2019

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 January – 30 September 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	5	N/A
# meetings at which votes were cast	5	100%
# meetings at which we voted against management or abstained	4	100%

Resolutions	No. of resolutions	%
# votes cast with management	48	61%
# votes cast against mgmt. or abstained (see list in appendix)	31	39%
# resolutions where votes were withheld	0	0%

## Company Engagement Activity

Company	Topic	Comment	Outcome
HMS Holdings	Environmental performance	Letter	Company plans to publish first environmental performance data in 2019
Intertek	CEO remuneration / Political donations	AGM letter	Company disagrees with our concerns stating that approach is in line with company policies
China Everbright International	Gender diversity	Letter	Company response reporting current levels of gender diversity in senior management
Daikin	Gender diversity	Letter	Company has set a target to have an additional female company officer by end of 2020
MSA Safety	Climate adaptation	Email exchange	Company is developing new products specifically for wildfire events.
WABTEC	Gender diversity	Email exchange	Company is committed to improving gender diversity at board and senior management level but has not set specific targets
Hella Hueck	Sustainability reporting /gender diversity	Letter	Company has significantly improved sustainability reporting but has not included gender diversity data in latest report
Steris	Board independence / CEO remuneration / gender diversity	AGM Letter	Company responded setting out their reasons for disagreeing with your conclusion.

Company	Topic	Comment	Outcome
TE Connectivity	Gender diversity	AGM Letter	Company considers other aspects of diversity other than gender and believes its board reflects this.
Horiba	Gender diversity	Letter	Company does not have a gender diversity target at board-level, but has committed to having 20% of managerial posts filled by women by 2020.
Lennox International	Overboarding, director independence, CEO compensation, auditor independence	Letter	Company set out its reasons for disagreeing with our voting positions.
Kingspan	Carbon emissions	Meeting	Kingspan has set a target to achieve net zero carbon energy by 2020 and has set a range of other ambitious targets around CO2 emissions, energy and circularity and recycling.
Daifuku	Gender diversity	Letter	A female director has now been appointed but the company has not set specific targets.
China Water Affairs Group Ltd.	Carbon emissions	Meeting	Company believes they are 20% less carbon intensive than peers in part due to wide-spread use of solar PV over water tanks
Keyence	Gender diversity	Letter	No response from company.
Fresenius SE	Antimicrobial resistance (AMR)	Letter	No response from company.
Danaher	Gender diversity	Letter	No response from company.
IPG Photonics	Gender diversity	Letter	No response from company.
HMS Holdings	Environmental performance	Letter	Company plans to publish first environmental performance data in 2019
Intertek	CEO remuneration / Political donations	AGM letter	Company disagrees with our concerns stating that approach is in line with company policies
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