

Q4 2023 REPORT

Pengana WHEB Sustainable Impact Fund



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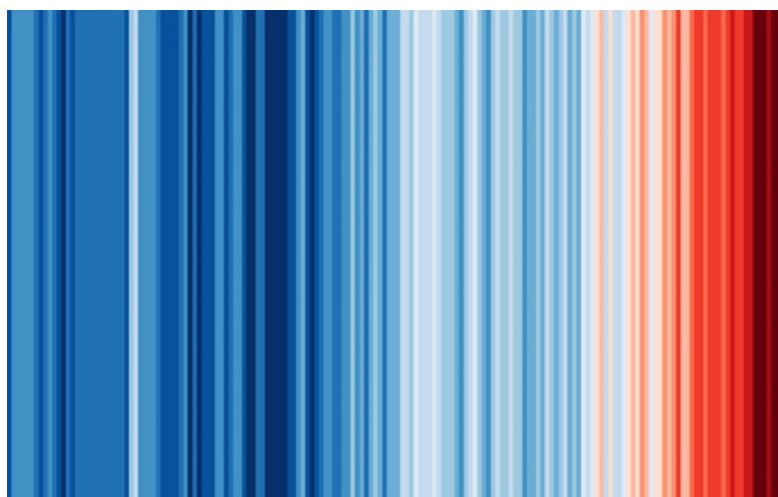
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TIME TO ADAPT

The reasoning behind WHEB's new sub-theme: Climate Adaptation

By Claire Jervis

Another year, another red stripe



Many of our readers will be familiar with the above image – especially if they have seen Seb, our Head of Research lately, who's had it made into an... *ahem*... attractive and thought-provoking tie.

Created by Professor Ed Hawkins at the University of Reading, the Climate Stripes show a series of coloured vertical bars, each depicting the average global temperature for a single year. Shades of blue indicate cooler-than-average years¹. Red shows years that were hotter-than-average.

2023 was the warmest year on record by a large margin. "I think I need a new colour", reflected the Professor.



Ed Hawkins
@ed_hawkins · [Follow](#)



2023 was the warmest year on record globally by a large margin. Another dark red stripe gets added, though I think I need a new colour.
[#ShowYourStripes](#)

¹ The average temperature is set as the average temperature between 1971-2000.

Climate change costs more than money

It is well established that rising global temperatures are strongly correlated with extreme weather events².

Carbon Brief, an award-winning climate journal, has mapped and analysed over 400 scientific studies on this subject. They found that over 70% of the extreme weather events studied were exacerbated by human-caused climate change³.

Behind these figures are hundreds of weather events around the world. Each caused tragedy and devastation.

Munich RE, a reinsurance firm, estimates that natural disasters caused \$250 billion in financial losses in 2023 alone. Over 74,000 lives were lost⁴.



Hawaii: 'Apocalyptic' wildfires leave at least 53 dead on island of Maui⁵

We need to adapt

The world is not investing enough to prevent climate change. The result is an ever-hotter climate and increasing natural disasters.

And make no mistake – it is killing people.

We investors do what we can. We buy shares in impactful companies. We engage with corporations to reduce their emissions. We work with policymakers to accelerate change.

But we also need to accept the reality we find ourselves in.

With that in mind, WHEB has formally established a Climate Adaptation sub-theme in our investment strategy. This forms part of our Environmental Services theme.

Importantly, this new sub-theme changes nothing about how our strategy is managed. In fact, we have been investing in adaptation for years.

² <https://www.ipcc.ch/report/ar6/syr/>

³ <https://www.carbonbrief.org/mapped-how-climate-change-affects-extreme-weather-around-the-world/>

⁴ <https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2024/natural-disaster-figures-2023.html>

⁵ <https://www.itv.com/news/2023-08-09/hawaii-people-jump-into-sea-to-escape-apocalyptic-wildfires>

Rather, it formally acknowledges the crucial role of adaptation investment.

It also, potentially, creates opportunities for new companies to enter our investment universe. For example, we recently spoke to a company which has experienced rapid growth from selling hurricane-resistant windows in Florida.

Investing in Climate Adaptation

Today, about 5% of WHEB's global fund is invested in companies supporting climate adaptation⁶.

My favourite is probably **Advanced Drainage Systems (ADS)**. This remarkable company sells plastic stormwater pipes in America.

The company's products are crucial for helping communities become more resilient to flooding. ADS has seen huge revenue growth and margin expansion as its products are increasingly seen as critical infrastructure.

Environmental consultants **Arcadis** are another example of an investee company supporting climate adaptation. They have been working on projects to shore up flood defences⁷; transform concrete jungles into green spaces⁸; and create stormproof sewers⁹.

Arcadis has seen rapidly increasing demand for its services over the last few years.

Spend now, save later

Investing in climate adaptation does not mean we are admitting defeat. Spending on mitigation measures like cleaner energy must, and will, continue.

But it is important to realise that investing in climate-resilient infrastructure today can avoid even greater costs in the future.

The UN estimates that spending \$1.8 trillion on a variety of adaptation projects could generate four times that amount in avoided costs and benefits¹⁰.

And, more importantly, these investments could save lives. That is surely invaluable.

⁶ As of December 31, 2023.

⁷ <https://www.arcadis.com/en-gb/projects/north-america/united-states/redefining-adaptation-to-build-a-fit-for-future-coastal-community>

⁸ <https://www.arcadis.com/en-gb/projects/europe/france/forets-urbaines-a-paris>

⁹ <https://www.arcadis.com/en-gb/projects/europe/netherlands/op-weg-naar-een-klimaatbestendig-utrecht>

¹⁰ <https://www.un.org/en/climatechange/climate-adaptation>

WHAT THE OUTCOMES OF COP28 MEAN FOR WHEB'S INVESTMENT STRATEGY

By Seb Beloe

Penguins in the desert

Organising the 28th annual Conference of the Parties (COP28) in Dubai was always going to throw up some contradictions. Delegates heading off on the rest day to the 22,500m² ski resort (complete with penguins) was perhaps one of the more bizarre examples¹¹. More germane to the negotiations was the fact that the talks were being chaired by the head of the Abu Dhabi National Oil Company (ADNOC) and who was accused of using the talks as a kind of 'speed-dating' programme for the country's oil and gas industry¹².

This narrative was, however, immediately contradicted on the first day of the conference by the announcement of a deal on the loss and damage fund. This upended typical diplomacy at UN conferences where 'nothing is agreed until everything is agreed'. Not only was agreement reached at the opening plenary, but by pledging \$100m each to the fund, Germany and the UAE set up a bidding war which eventually pushed contributions from 18 countries to \$792m.

Phasing out fossil fuels

In the end, however, the key fight was over whether to include a commitment to phasing out fossil fuel use in the final agreement. The language in the final version of the 'UAE Consensus' was to "*transition away from fossil fuels in energy systems, in a just, orderly, and equitable manner*". For some, this represented 'an unequivocal beginning of the end of the fossil fuel era'¹³. For others, such as campaigners Greta Thunberg and Vanessa Nakate it was desperately weak and nothing more than a betrayal of future generations.

So what do the key agreements at COP28 mean for WHEB's investment strategy?

In the short-term, probably not very much. COP discussions happen a long way from the day-to-day reality of businesses, let alone stock markets. The narrative is, however, important in maintaining momentum. And ultimately agreements do get translated down into national legislation.

Against expectations, more was probably achieved at COP28 than at most COPs. The International Energy Agency estimate that the new pledges made in Dubai, if fully implemented, would translate into global energy-related greenhouse gas emissions in 2030 being around 4 gigatonnes of CO₂e lower than would be expected without them¹⁴.

¹¹ <https://www.malloftheemirates.com/en/ski-dubai>

¹² <https://www.bbc.co.uk/news/science-environment-67508331>

¹³ <https://www.e3g.org/news/the-fossil-fuel-era-is-ending-e3g-s-reacts-to-cop28-outcome/>

¹⁴ 4GtCO₂e represents about 7% of global GHG emissions.

Scaling up zero carbon energy

A key contributor to this reduction is the pledge to triple global renewable power capacity by 2030 made by 130 countries. This would take annual additions of renewables from 440GW currently, to about 1,000GW. These countries also pledged to double the annual rate of energy efficiency improvements every year to 2030.

Many countries still need to address bottlenecks from slow permitting processes and a lack of grid capacity and key labour skills. Nonetheless, the vastly improved economics of renewable energy make this commitment a relatively easy win.

The role of renewables and energy efficiency are already well-understood and based on established technologies. Our investment in **Alfen** and **Elia** in our European fund, as well as in **First Solar**, **SolarEdge** and **Vestas**¹⁵ are we believe very well-placed to benefit from the dramatic growth that these pledges imply.

Decarbonising the existing power system

Alongside the rapid scaling up of the new zero emission energy system, COP28 also secured commitments to decarbonise the existing energy system. Our direct exposure to oil and gas is zero in our strategies, and even indirect exposure represents a low single-digit percentage of revenues¹⁶.

Net-zero as an organising principle – including in finance

With more than 80,000 delegates including 160 heads of state and 700 CEOs, the sheer scale of the conference cemented the notion that achieving net-zero has become what McKinsey has called a 'central organising principle' for businesses in the 21st century¹⁷. This is apparent in finance as well. Over \$80bn of climate finance commitments were made during COP28. Several structures such as the UAE private investment vehicle Alterra explicitly aim to deliver impact investments with both financial and environmental returns. New initiatives such as the UAE Global Finance Framework will also work to transform the importance of carbon in finance more generally.

Adaptation now critical

But none of this is enough. There remains a \$41trn financing gap to get the global economy back onto a net zero by 2050 pathway¹⁸. The 4 gigatonnes of CO₂e reduction from COP28 pledges is important, but represents c.30% of the emissions reduction needed to keep global warming to <1.5°C. Meanwhile, the impacts of climate change continue to be felt, making adaptation an urgent task.

At COP28 the importance of adaptation was formally recognised. This is something that we have also done at WHEB with Climate Adaptation now an explicit segment in our investment strategy. Even with rapid decarbonisation, companies supplying adaptation products and services like

¹⁵ Vestas is held in both our European and global funds.

¹⁶ Exposure to fossil fuels activities is largely through companies that sell safety equipment and services to the sector, or that undertake land and water remediation work.

¹⁷ [https://www.mckinsey.com/capabilities/sustainability/our-insights/outcomes-from-cop28-what-next-to-accelerate-climate-](https://www.mckinsey.com/capabilities/sustainability/our-insights/outcomes-from-cop28-what-next-to-accelerate-climate-action?mkt_tok=NDczLVpZRS01MjIAAAGQMKxMEsCnu2quYbpPQyIWIGpZ1Xgf8zUjed-Tb7Z_2je8lkrFM_g38iEZIY3v1xe38U5lbOZ98vR6WeW9Kdv4MqtVpsw07sLOUQYSiT5IZ4iMXQ)

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¹⁸ <https://www.mckinsey.com/mgi/our-research/from-poverty-to-empowerment-raising-the-bar-for-sustainable-and-inclusive-growth>

Arcadis, Advanced Drainage Systems and Xylem will continue to do well as communities around the world adapt to an already changing climate.

STEWARDSHIP IN THE SPOTLIGHT

The stewardship stampede

By Rachael Monteiro

Levels of stewardship activity have never been higher. Whilst by no means a new feature of the investment industry, in 2023 stewardship became a core activity for many asset managers and owners.

For sustainability investors, in the UK at least, the high profile for stewardship has been cemented by the FCA's Sustainability Disclosure Requirements (SDR). Published at the end of last year, this policy includes a notable focus on investor stewardship for all four of its labels¹⁹. Internationally, the Global Impact Investing Institute (GIIN) also recognises stewardship's role in impact investing.

Since 2022, UK Pension schemes with more than 100 members have been expected to state their – or their external managers' – engagement policy and priorities and explain in detail how they steward their sustainable investments. This in turn has encouraged underlying asset managers to develop their own policies and systems to meet these expectations. It is perhaps no wonder then that the 2020 UK Stewardship Code continues to gain signatories. Up from 236 at the end of 2022, and now standing at 277, 68% of these are asset managers²⁰.

Quantity over quality?

This new impetus for engagement is having an impact on the levels of engagement activity reported by asset managers. In a study by the investment consultants Redington, one asset manager reported that they had undertaken more than 10,000 engagement actions with the 2,000 companies that they own²¹. The report's authors conclude that 'not all engagement is created equal [and therefore], we can't rely on the raw numbers to tell us what's going on.'

In fact, prioritising quantity over quality very much seems to have been the reaction of much of the market. For example, in 2023 asset managers' stewardship efforts came under fire on multiple fronts including misalignment with client values²²; lack of consistency in voting activities²³; low-quality efforts and under-resourcing²⁴; and ineffective escalation²⁵ to name a few.

¹⁹ <https://www.fca.org.uk/publication/policy/ps23-16.pdf>

²⁰ <https://esgclarity.com/uk-stewardship-code-signatories-grow-to-277/>

²¹ <https://redington.co.uk/wp-content/uploads/2022/12/Redington-Stewardship-Code-reporting-FINAL.pdf>

²² Hoepner, Andreas G. F., UK Asset Owner Stewardship Review 2023: Understanding the Degree & Distribution of Asset Manager Voting Alignment (November 17, 2023). Available at SSRN: <https://ssrn.com/abstract=4643377> or <http://dx.doi.org/10.2139/ssrn.4643377>

²³ <https://www.responsible-investor.com/manager-inconsistency-on-stewardship-drives-growing-frustration-among-uk-asset-owners/>

²⁴ <https://www.responsible-investor.com/under-resourced-and-ineffective-industry-leaders-deliver-gloomy-verdict-on-stewardship/>

²⁵ https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/UNDER-EMBARGO-RISE-Paper-2_Introducing-a-standardised-framework-for-escalating-with-companies.pdf

Elsewhere in 2023, to combat greenwashing, some managers have tried to show proof of additionality or "engagement alpha", for example through joint statements between investors and even the companies themselves²⁶.

While we don't think this is the answer (or the best use of time), we *do* acknowledge what this, along with these other issues, is ultimately telling us: there is a lack of consensus on what 'good' investor stewardship looks like and how asset managers should manage, assess and report their activities.

Minding the gap

The good news, in our view, is that these issues represent 'growing pains'. While there's discomfort now, there lies an opportunity for the industry to learn from the pain points to build a collective understanding of what constitutes 'good stewardship' and strengthen practices.

WHEB's approach to engagement and voting is well established²⁷ and underpinned by extensive research, analysis, and policy development. Nonetheless, 2023 has still proven to be a foundational year for us as we have worked to elevate the overall quality of what we do. Predominantly, this work has comprised:

1. Focusing on outcomes (not just activity) and how this links to long-term value creation

Ultimately, our company engagement activity is focused on encouraging companies to address issues that we think will help them be successful. Asset managers need, in our view, to demonstrate how their stewardship and engagement activity contributes to this long-term value creation. We will address how we select these issues in a future blog.

We are clear though that outcomes are ultimately what matter. Reporting should therefore focus on achieving good outcomes, not just engagement activity. At the same time, we are careful about attributing outcomes specifically to our engagement, which we see as deeply problematic. Changes in company policy and performance are almost always the result of multiple efforts from a variety of stakeholders.

Nonetheless, it is possible to show a correlation. We believe this begins with a systematic approach to engagement (Figure 1), comprising:

1. Identifying the issues on which to engage whether proactively or reactively (the 'inputs');
2. Prioritising material issues and setting long-term objectives and relevant engagement milestones;
3. 'Engaging and voting' (iteratively) to achieve progress against these milestones and feeding this back into our investment analysis which,
4. along with our reporting of progress to clients and other stakeholders, represents our "Investor Contribution" to positive impact.

Our work to address biodiversity across the portfolio, which we wrote about recently²⁸, is an example of this approach in practice.

²⁶ <https://www.responsible-investor.com/engagement-claims-without-additionality-pose-greenwash-risk-says-ca100-chair/>

²⁷ Stewardship has been a core aspect of our offering and we have been reporting on progress quarterly since 2016.

²⁸ <https://www.whebgroupp.com/our-thoughts/stewardship-in-the-spotlight-nature-calls-from-assessment-to-action>

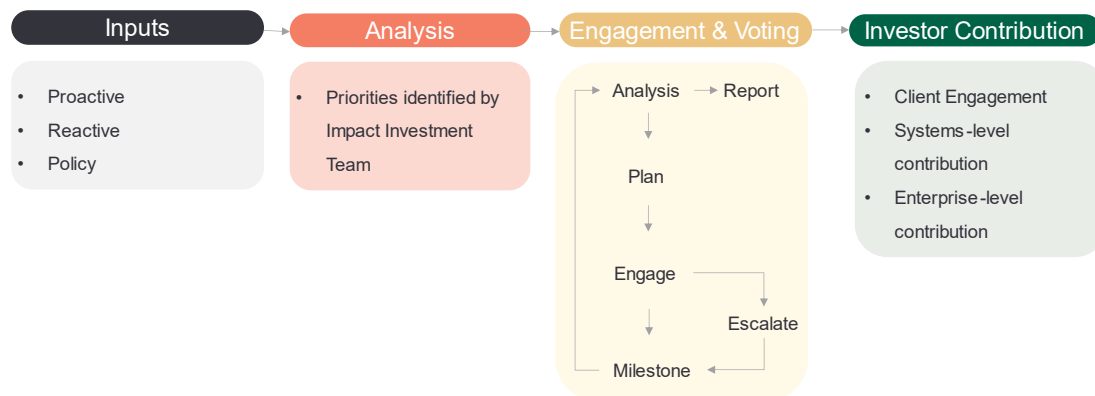


Figure 1. A systematic approach to managing company engagement

2. How effective is our engagement?

We've also developed a more rigorous approach to assessing the effectiveness of our engagement. This involves setting specific outcome milestones for each engagement. These milestones start with the company acknowledging the issue and conclude with clear evidence that the issue is being effectively addressed, and are shown in Figure 2.

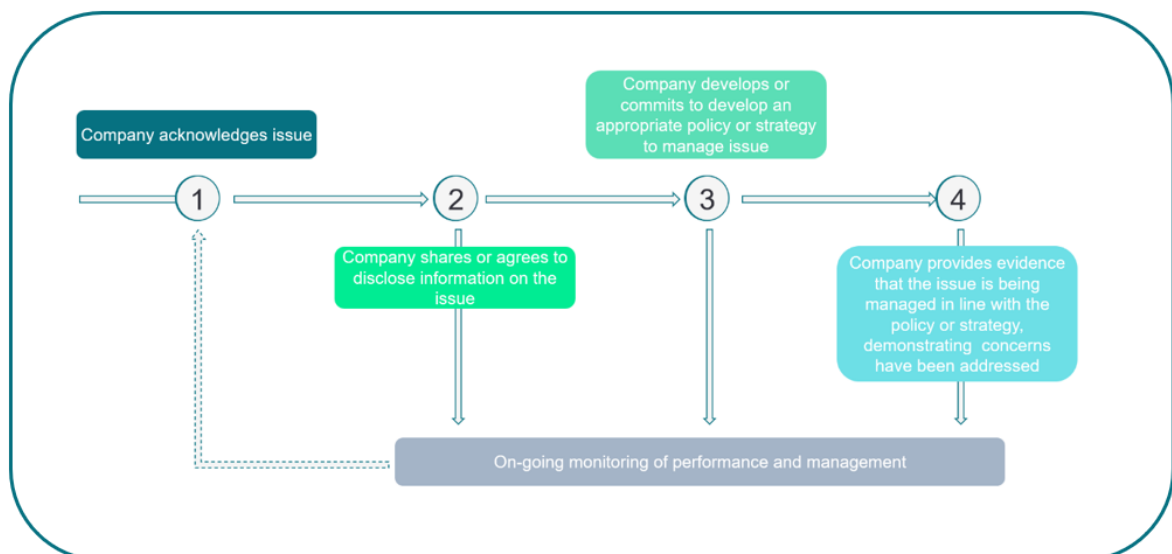


Figure 2: WHEB's objective milestones

During 2023 we reviewed our engagement activities over the past six years to identify the milestones that have been achieved over this period. Figure 3 shows how the overall amount of engagement has increased during this period, with a greater number of engagements initiated from 2020 – 2022. In turn, this has fed into a proportionally larger number of Milestone 1 (M1) and Milestone 2 (M2) outcomes.

As illustrated in Figure 2, we don't expect every engagement to conclude with an M4 milestone, but with WHEB's engagement objectives often targeting ambitious, long-term changes to strategy

and policy, we hope that over time we will see an increase in Milestones 3 and 4 (M3, M4). We will be publishing more insights from this analysis in our forthcoming Stewardship Report.

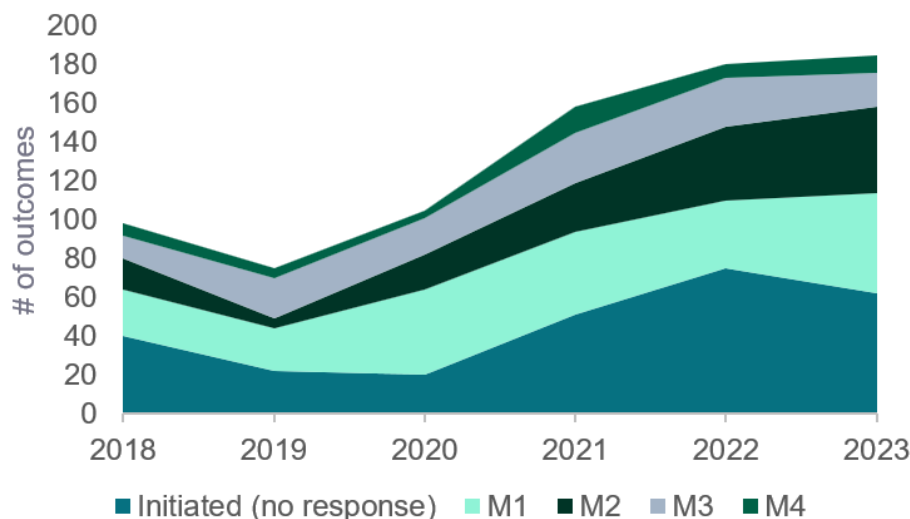


Figure 3: Milestone progress 2018-2023

3. Making disclosures meaningful

We've previously written about²⁹ our 'radically transparent' and comprehensive reporting, which extends to all of our engagement and voting work. Though serving as a form of assurance for our investors, we understand that this alone is not always helpful as navigating large volumes of data can be a challenge.

In our efforts to avoid both the 'Scylla' of cherry-picked anecdotes as well as the 'Charybdis' of meaningless data, we have developed complementary disclosures to evidence how our actions align with client priorities and values. We hope this makes them more meaningful. So far, efforts have centered around demonstrating overall progress on the highest priority issues. Figure 4, for example, shows how the biggest emitters of greenhouse gases (GHGs) in WHEB's portfolio have changed their emissions between 2022 (dots) and 2023 (triangles), and also whether their approach to managing their emissions has become more or less aligned with the Paris Agreement.

²⁹ <https://www.whebgroupp.com/our-thoughts/stewardship-in-the-spotlight-achieving-accountability-while-avoiding-engagement-washing>



Figure 4: WHEB's investor contribution to progressing core sustainability issues

Currently, we are working to develop this visualization tool further and to expand coverage to other key stewardship priorities such as gender diversity, biodiversity, and executive remuneration.

Conclusions

Our ambition is to give our clients the tools to see how their investments with WHEB are helping to deliver positive change through the engagement work that we do. As we head into 2024, the ability of investment managers to successfully deliver on stewardship will, in our view, depend on considered, systematic stewardship processes, underpinned by robust systems, resources, and meaningful reporting.

PERFORMANCE COMMENTARY

Market review

For the quarter overall, the MSCI World Index rose 5.4%.

Equities rallied in Q4 on the back of big gains in November and December following a tough October.

The narrative for Q4 revolved around a meaningful easing of financial conditions over the final two months of 2023, after the Fed made a notable dovish pivot in its December meeting. The hope that Central Banks will cut interest rates sooner in 2024 than previously expected, resulted in most asset classes rallying in the final quarter of the year.

Growth and small cap stocks outperformed while commodities were the laggards. This breadth in stock strength was a change from the dominance of the magnificent seven mega-cap stocks for the better part of the year.

In terms of regions, US and European equities delivered strong returns. Japan was the weakest performing equity market, benefitting less than other markets from central bank tailwinds. The UK equity market also struggled due to a higher exposure to underperforming energy stocks and sterling strength.

Technology, Real Estate and Industrials were the strongest sectors while Energy and defensive sectors Consumer Staples and Health Care were the laggards over the quarter.

Performance review

The Fund delivered a strong performance of 4.7% over the quarter with positive contributions across most themes, most notably Resource Efficiency.

Several holdings performed well, including **Ansys**, **Trane Technologies** and **Spirax-Sarco**. Ansys is the market leader in simulation software for product design and optimisation. There are strong rumours that it is an acquisition target.

Further positive contributions came from the Environmental Services theme, led by **Advanced Drainage Systems** and **Arcadis**.

Positioning in Healthcare also added to the return with holdings **Agilent** and **CSL** performing particularly well. Agilent, the life sciences company, posted better-than-expected results and saw signs of stabilisation in order growth.

At a stock level the largest positive contributor was **Vestas**, the leading wind turbine manufacturer. The company saw very strong momentum in order intake during the fourth quarter, suggesting an improved outlook for demand.

This was partly offset by poor performance of **HelloFresh**, the meal kit delivery company. The company issued a profit warning only three weeks after their latest results, which damaged our confidence in management. In combination with their struggles to add new customers, this led us to exit our position in November.

Outlook

Following the fall in inflation, sentiment in global equities is more positive with markets expecting that the central bank tightening phase is nearing its end. This environment should be more supportive for the generally smaller and more growth-orientated impact stocks we invest in. Our faith in the sustainability-led growth drivers and competitive advantages of the companies themselves is as strong as ever.

PORTFOLIO ACTIVITY

We initiated two new positions. One of them was a spin-off from an existing holding. We also exited two existing positions during the quarter.

Purchases

We initiated a position in **Veralto** in our Water Management theme. This is the former Environmental and Applied Solutions segment which was spun off from our existing holding **Danaher**.

Veralto is a leading company in the water analysis and treatment industry. It manufactures products that manage, test, protect, and treat water. It also provides traceability and testing services for food and pharmaceutical products.

Veralto has some really innovative water management solutions, that help reduce the environmental impact of industrial water and address water scarcity by increasing efficiency. For example, its UV and membrane filtration systems for water disinfection and contaminant removal support the recycling of 12 trillion gallons of water annually. This in turn helps improve access to clean water for more than 250 million people every day.

We also initiated a position in **Bureau Veritas** in our Safety theme. Bureau Veritas is a world leader in testing, inspection, and certification. In particular, it holds leading global positions in consumer testing, marine, and industrial inspection services, as well as strong local franchises in construction inspection and certification services. It has a diversified business portfolio which has enabled it to deliver stable margins despite the market volatility in recent years.

The company is very committed to sustainability and launched its Green Line services in November 2020. Green Line services include services specifically addressing sustainability challenges such as energy performance diagnostics and certification of energy management systems, as well as traditional services geared towards sustainability-oriented assets such as construction inspections of wind turbines. These services help its clients meet the challenges of product and service quality, health and safety, as well as environmental protection. Green Line also enables its clients to implement, measure, and achieve their sustainability objectives reliably and transparently.

Sales

In the Wellbeing theme, we sold our position in **HelloFresh**. HelloFresh is a leading meal-kit provider in several geographies around the world. Besides HelloFresh, it also owns brands including Factor, EveryPlate, Green Chef, Chefs Plate and Youfoodz. Its direct impact is providing a healthier diet for consumers by making fresh and healthy food more accessible and convenient. It also provides another impact, which is the reduction of food waste through its more efficient supply chain management.

One of the key elements of our investment thesis was its ability to benefit from increasing demand for meal kits. Based on our recent conversations with the company management, we believed that the company's mid-term growth targets looked too ambitious given the weakened consumer market, and very slow growth in new customers. The company's shift of focus to the ready-to-eat (RTE) business as a growth driver also implicitly suggested the slowdown of the growth opportunity in the meal kit market.

Our thesis also assumed that the company would continue to penetrate the growing meal kit market. However, we were increasingly concerned that the company would need to keep customer acquisition costs high in order to grow its customer base, which would put pressure on margins. Due to all of these factors, we decided to sell our position in HelloFresh.

We sold our position in **Daikin** in the Resource Efficiency theme. It is a leading provider of high-quality, energy-efficient air conditioning solutions for residential, commercial, and industrial sectors.

Daikin has a long track record of profitable growth and developing innovative new products. Our investment thesis has been that it would develop more energy-efficient air conditioning solutions, driving market share gains over time.

However, we recently found that the company is involved in the production of white phosphorus weapons. Weapons containing white phosphorus are widely considered to be controversial because of their incendiary characteristics. Having consulted with WHEB's independent investment advisory committee, we have included white phosphorus in our definition of banned and controversial weapons where we apply a 0% revenue threshold³⁰. We were unable to get any reassurance that the company was thinking about exiting the business, and therefore we disposed of our position in Daikin and have now disqualified it from our investment universe.

³⁰ See <https://www.whebgroup.com/assets/files/uploads/20240110-ethical-outcomes-final.pdf>

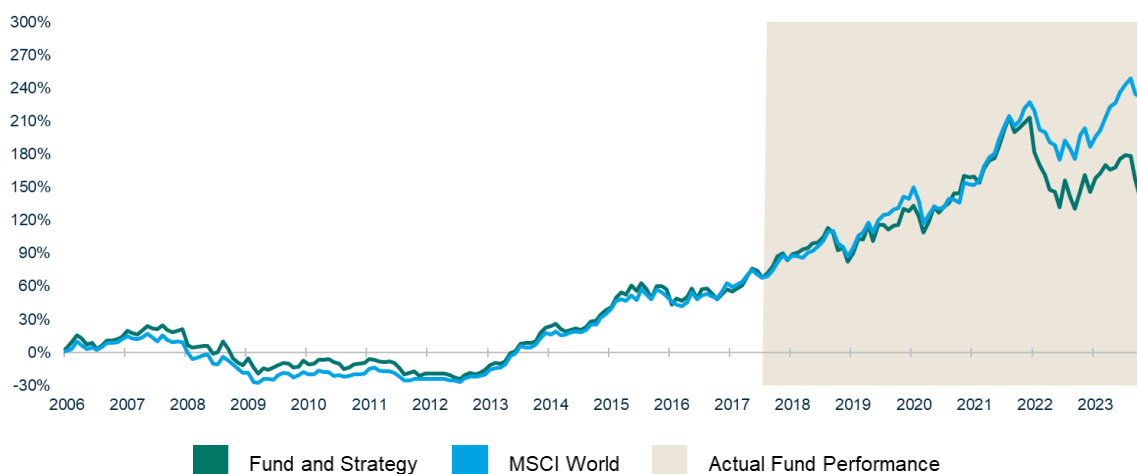
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 31 December 2023 (%)

| | 3 mth | 1 yr | 3 yrs p.a. | 5 yrs p.a. | Since inception p.a. |
|---|-------|------|------------|------------|----------------------|
| Fund | 4.7 | 9.5 | 1.2 | 8.0 | |
| Strategy (partial simulation) ³¹ | | | | | 5.6 |
| MSCI World ³² | 5.4 | 23.0 | 11.8 | 13.5 | 7.3 |

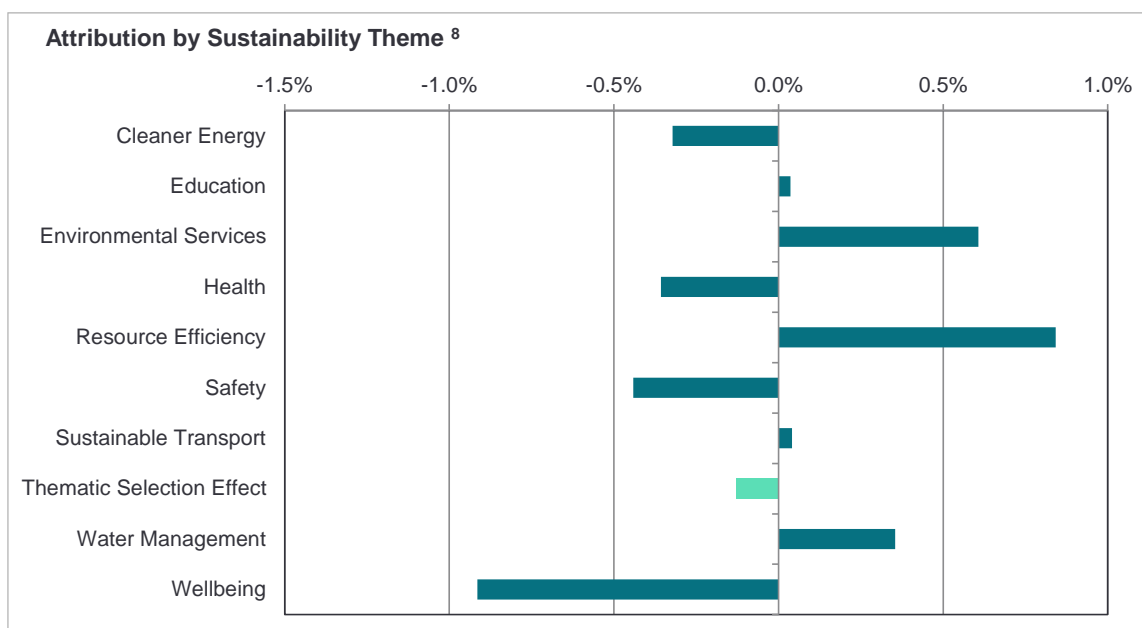
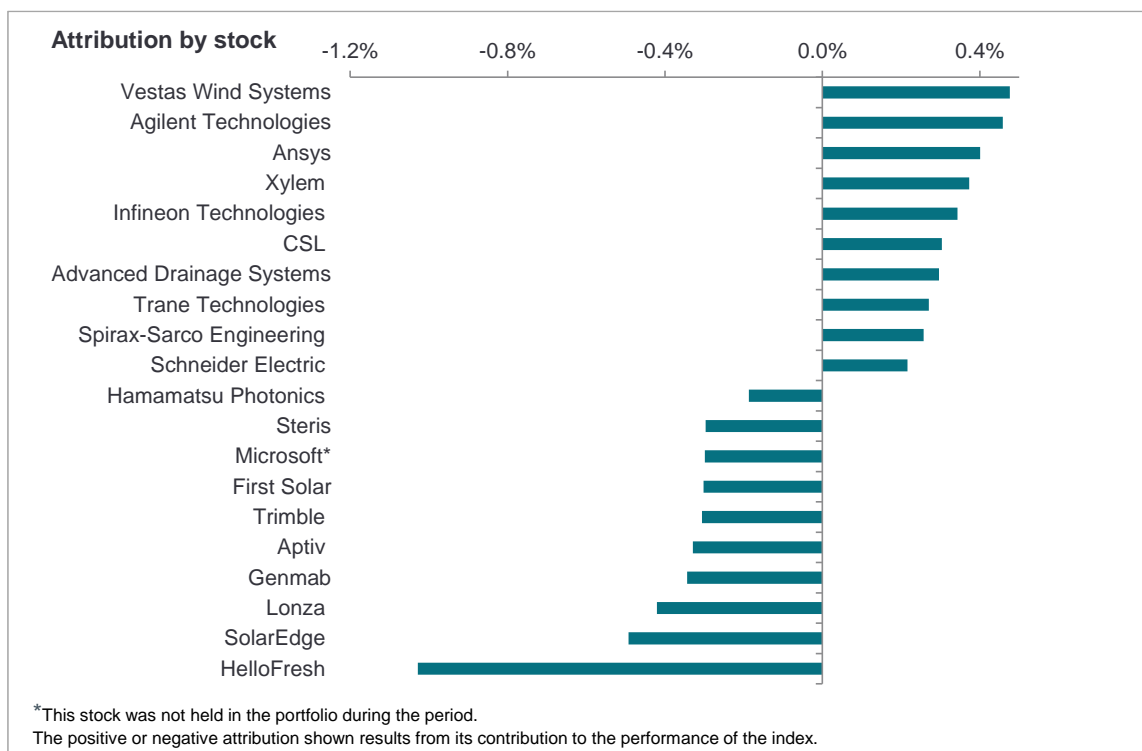
Performance Since Strategy Inception



³¹ 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.

³² MSCI World Total Return Index (net, AUD unhedged).

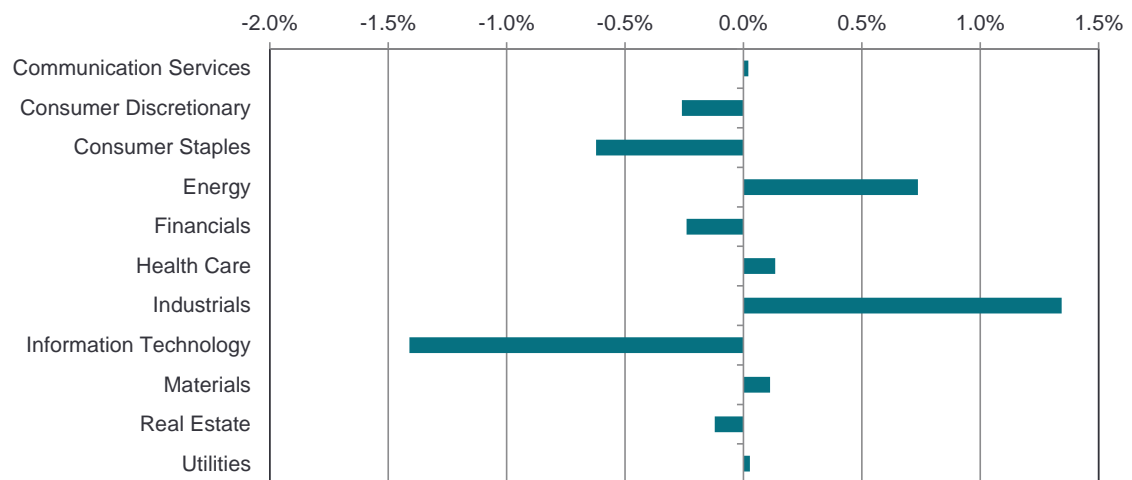
Performance Attribution of Strategy – Last 3 Months³³



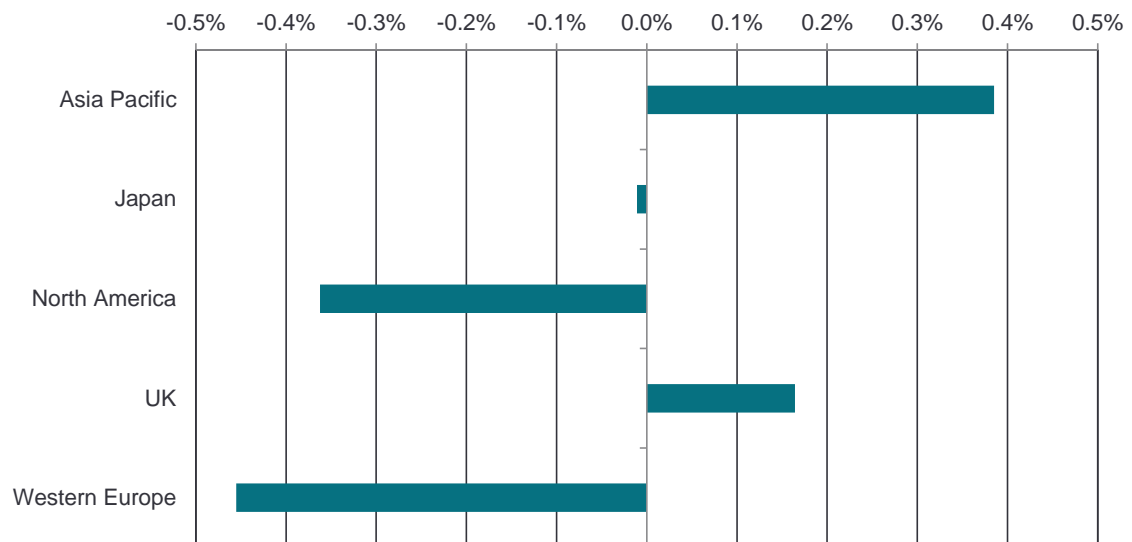
The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

³³ Performance attribution is calculated with reference to the MSCI World Index

Attribution by Sector

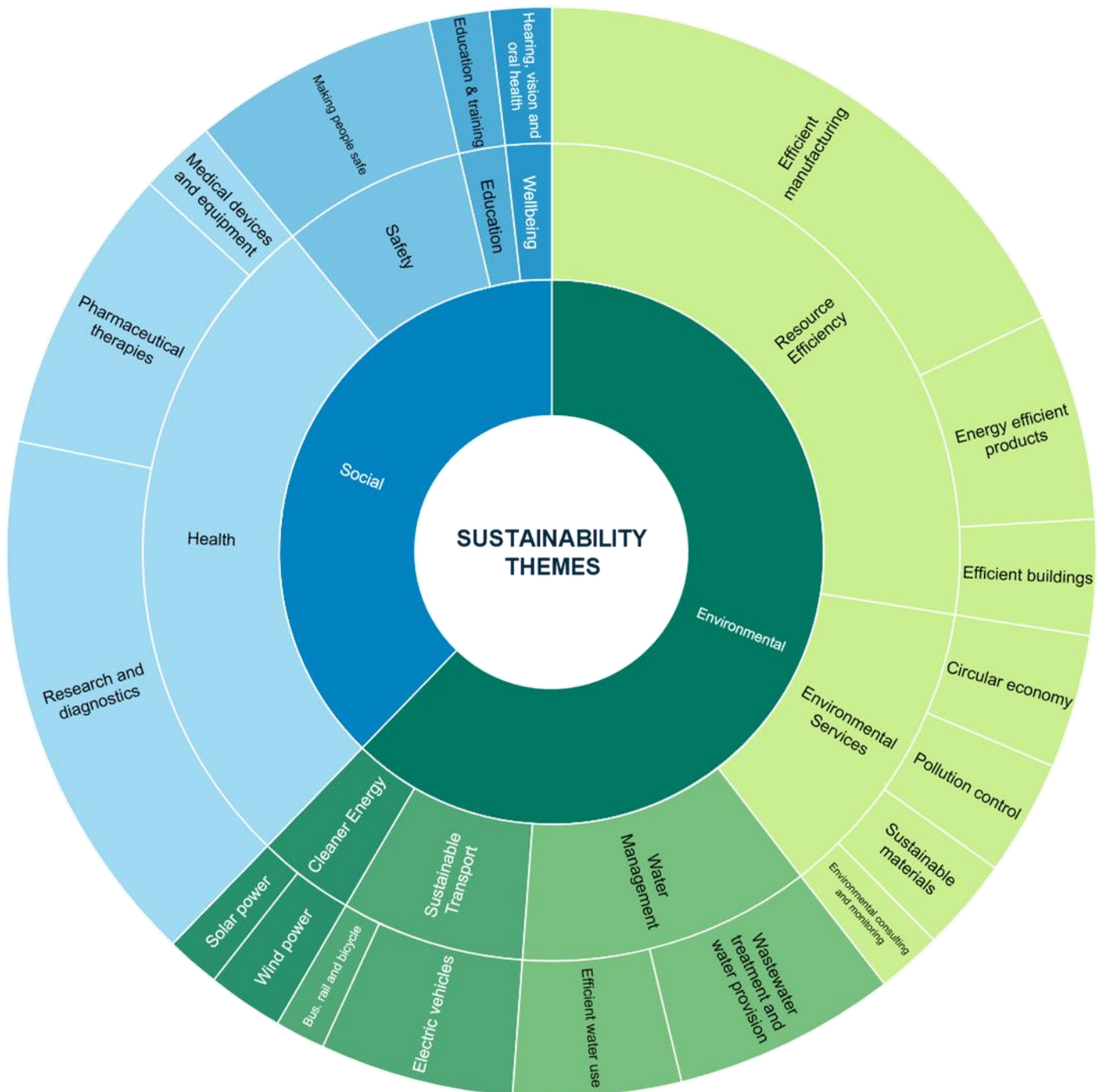


Attribution by Geography



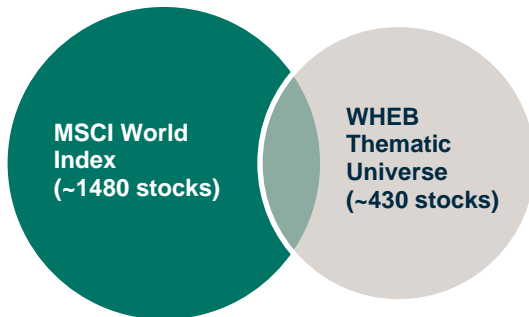
PORTFOLIO ANALYSIS AND POSITIONING OF STRATEGY³⁴

Sustainability Theme Exposure



³⁴ As of 31 December 2023.

Theme Overlap

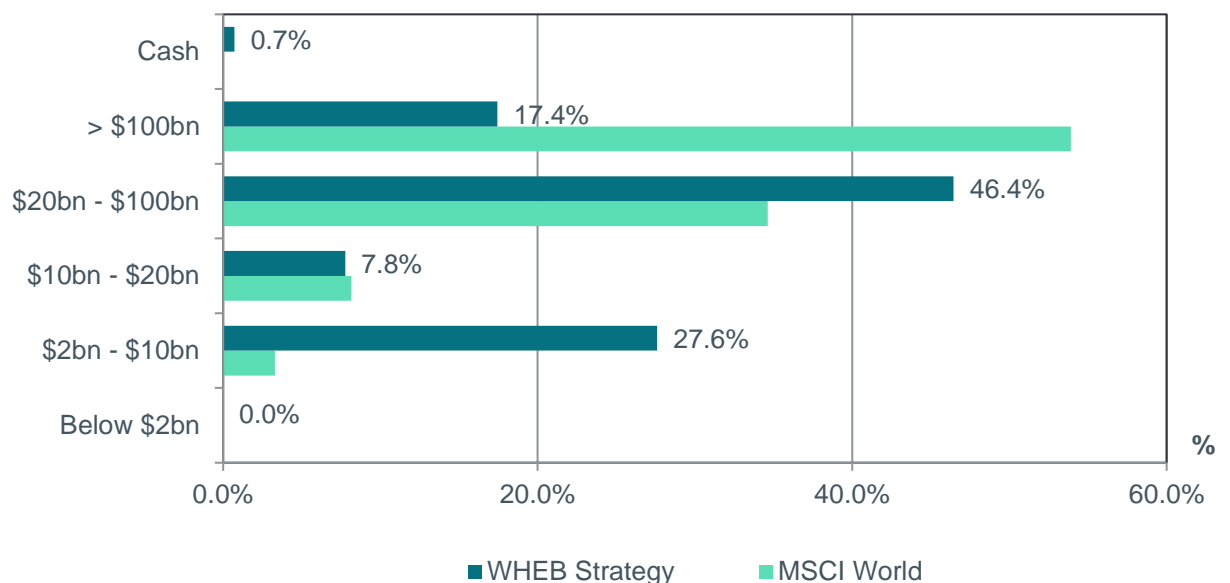


Overlap: ~200 stocks

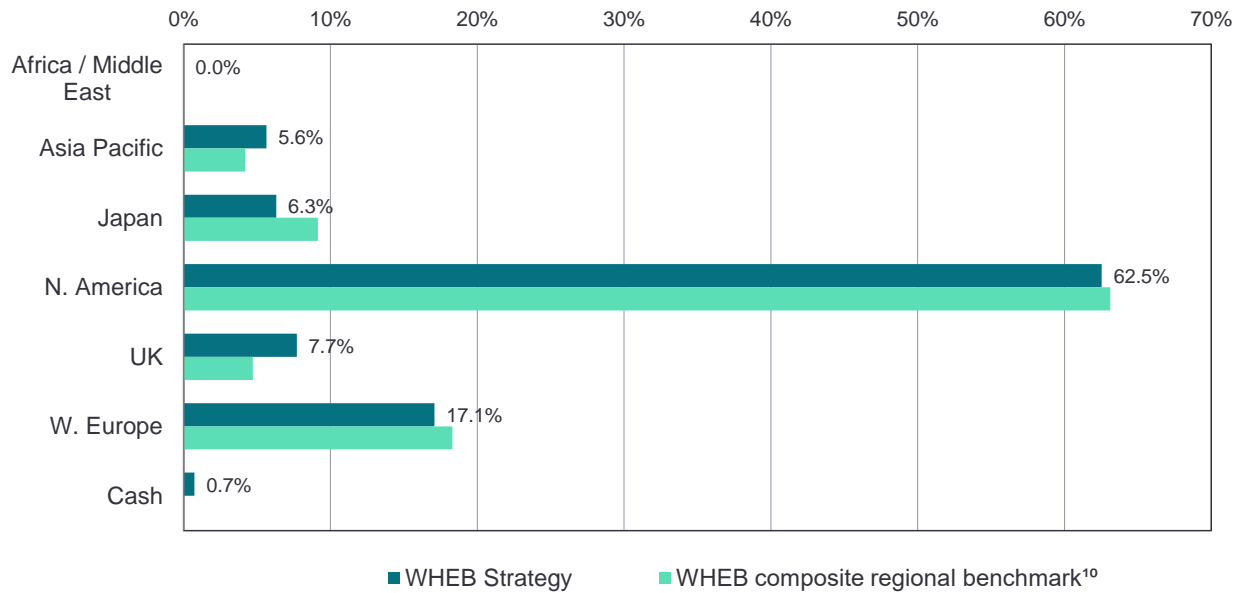
13.5% (as of 31 December 2023) of MSCI World Index (market-cap weighted)

The thematic focus of the WHEB strategy means that our investable universe overlaps with the benchmark by around 15%. This leads to significant structural biases in the fund's exposure, which may make comparison to the benchmark complex. These style biases towards growth, quality and mid-cap are all derived from the strategy's focus on solutions to sustainability challenges. It means that we tend to be absent from significant sectors of traditional indices, such as financials and energy, and have significant overweights in other parts of the market, such as health and industrials.

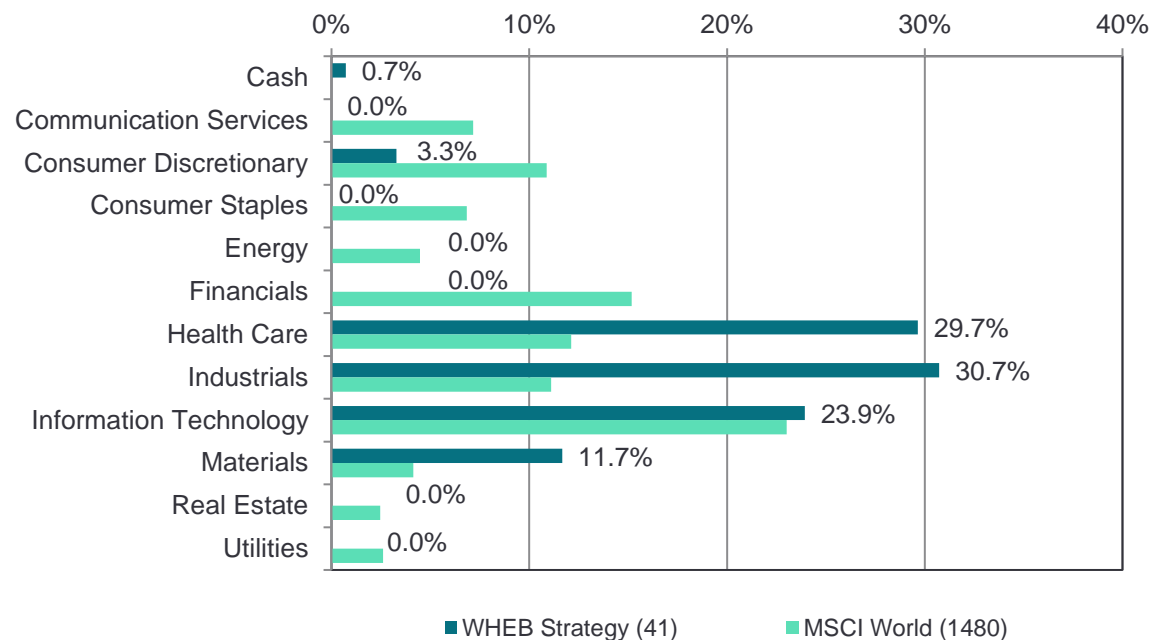
Market Cap Exposure



Regional Exposure



Sector Exposure



Largest 10 Positions

| Name | Sustainable Investment Theme | Description |
|--------------------------|------------------------------|--|
| Agilent Technologies | Health | Research and diagnostics |
| ANSYS | Resource Efficiency | Efficient manufacturing |
| Autodesk | Resource Efficiency | Efficient manufacturing |
| CSL | Health | Pharmaceutical therapies |
| Ecolab | Water Management | Efficient water use |
| ICON | Health | Research and diagnostics |
| Linde | Environmental Services | Pollution control |
| Thermo Fisher Scientific | Health | Research and diagnostics |
| Trane Technologies | Resource Efficiency | Efficient buildings |
| Xylem | Water Management | Wastewater treatment and water provision |

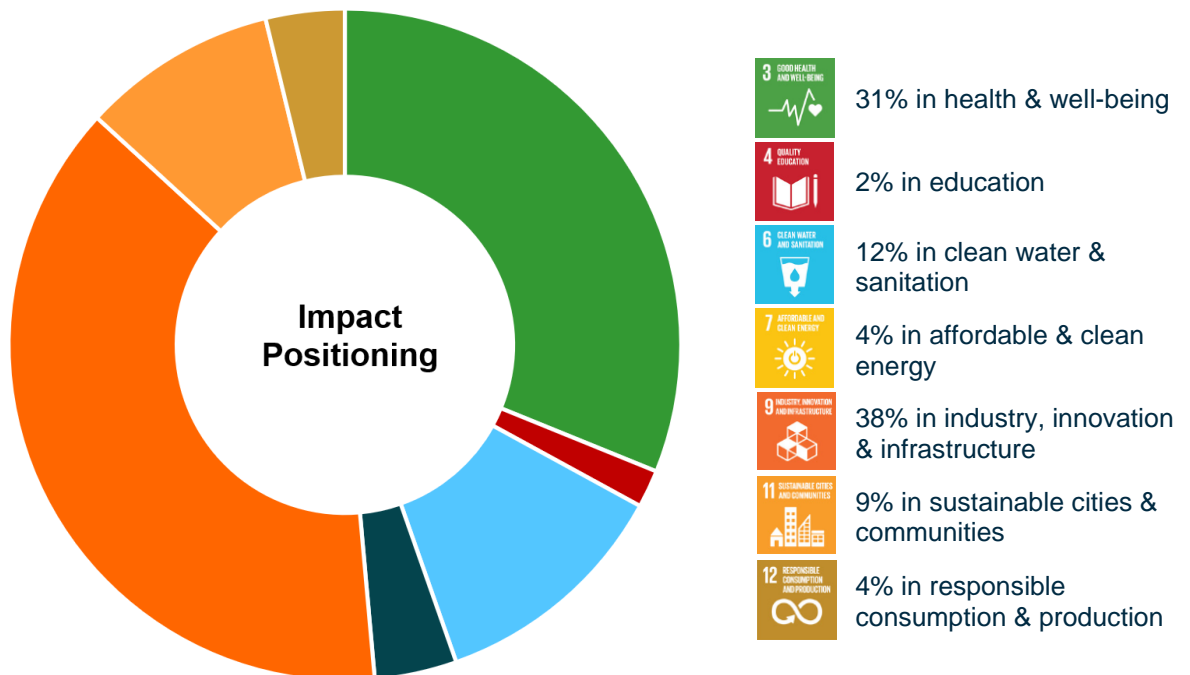
Strategy Characteristics

| | WHEB | MSCI |
|-----------------------------------|--------|--------|
| FY1 Price/Earnings (PE) | 24.60 | 17.16 |
| FY2 Earnings Growth | 18.45 | 9.42 |
| FY1 PE/FY2 Earnings Growth (PEG) | 1.33 | 1.82 |
| 3-year Volatility | 17.49% | 11.68% |
| Beta (predicted) | | 1.13 |
| 1-year Tracking Error (predicted) | | 6.72% |
| 5-year Tracking Error (ex-post) | | 8.81% |

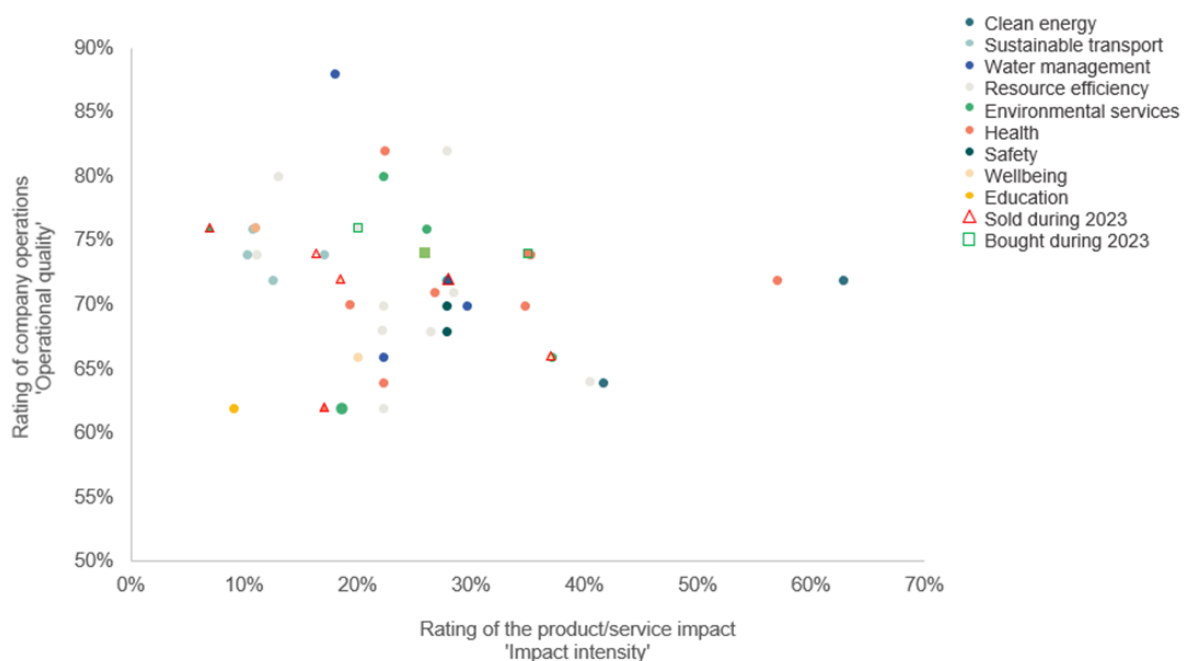
Trading Activity – Significant Portfolio Changes

| Stock Name | Purchase or sale | Theme | Brief description or sale rationale |
|----------------|---------------------|---------------------|--|
| HelloFresh | Sale | Wellbeing | Team has lost confidence in management after a profit warning, plus lack of confidence in customer growth predictions. |
| Bureau Veritas | Purchase | Safety | Quality testing, inspection and certification operator which has captured the sustainability opportunity. |
| Daikin | Sale | Resource Efficiency | Recent awareness of white phosphorus munitions business disqualifies company from universe. |
| Veralto | Purchase (spin-off) | Water Management | Veralto was spun out of Danaher and is now held in our Water Management theme. |

Impact Positioning: Supporting the UN Sustainable Development Goals³⁵



Impact Map of the strategy's portfolio following changes in Q4 2023³⁶



³⁵ For descriptions of impact mapping methodologies please see WHEB's impact reports, available at <https://impact.whebgroup.com/methodology/>. The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at <https://impact.whebgroup.com/methodology/>, and the impact positioning graph is described in detail in the 2019 impact report.

³⁶ As above.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q4 2023

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 October 2023 to 31 December 2023. Full details of how we voted on each of the individual votes are detailed on our website: <https://pengana.com/our-funds/wheb-sustainable-impact-fund/>

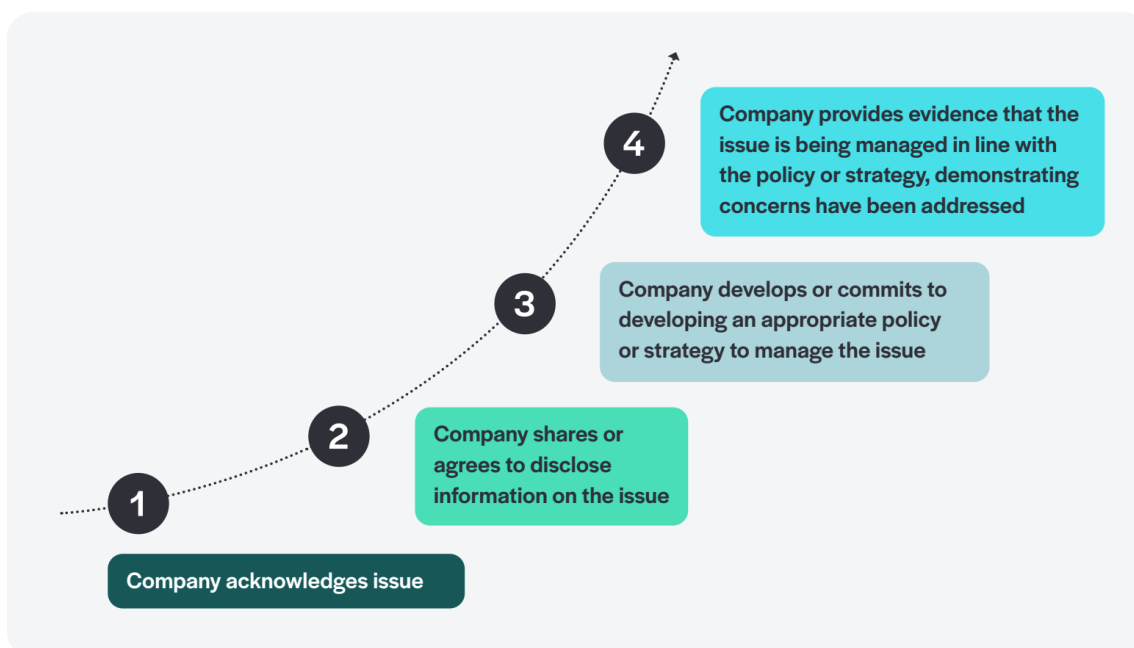
| Meetings | No. of meetings | % |
|--|-----------------|------|
| # votable meetings | 4 | |
| # meetings at which votes were cast | 4 | 100% |
| # meetings at which we voted against management or abstained | 2 | 50% |

| Resolutions | No. of resolutions | % |
|--|--------------------|------|
| # resolutions | 40 | |
| # non-voting resolutions non-voting | 6 | |
| # resolutions eligible to vote | 34 | |
| # eligible resolutions voted | 34 | 100% |
| # votes cast with management | 30 | 88% |
| # votes cast against mgmt. or abstained or withheld (see list in appendix) | 4 | 12% |
| <i># of which were withheld</i> | 0 | |
| <i># of which were abstain</i> | 1 | |
| # votes cast against ISS recommendations | 4 | 12% |

Company Engagement: Q3 2023

| Engagement Summary | Count | % |
|---|-------|-----|
| # Companies engaged | 16 | |
| # Engagements | 25 | |
| # Milestone 0 – company does not acknowledge issue | 8 | 32% |
| # Milestone 1 – company acknowledges issue | 4 | 16% |
| # Milestone 2 – company shares or agrees to disclose information on the issue | 7 | 28% |
| # Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue | 3 | 12% |
| # Milestone 4 – Company provides evidence that the issue is being managed in line with the policy or strategy, demonstrating concerns have been addressed | 3 | 12% |

WHEB's engagement milestones



| Company | Topic | Objective | Method | Milestone |
|-------------------------|---|--|--|-----------|
| Air Liquide SA | Carbon - Net Zero target/strategy | Collaborative effort coordinated by ShareAction aiming for Air Liquide to commit to setting a SBTi-aligned Scope 3 target covering up-and downstream emissions and to improve communications of their approach to Scope 3. | Collaborative/ Group | M0 |
| Coloplast A/S Class B | Director independence/overboarding | Request for independent lead director in absence of lead independent Chair | Formal Letter (AGM) | M1 |
| | Director independence/overboarding | The chair and a director are considered overboarded. Encouraging company to improve director independence by reducing number of overboarded directors. | Formal Letter (AGM) | M1 |
| | Auditor independence/tenure | Change of auditor (incumbent for >10 years). Vote against re-appointment of the auditor and the chair of the audit committee | Formal Letter (AGM) | M1 |
| Croda International Plc | Carbon - Net Zero Target/Strategy | To discuss Croda's response to the NZEI letter sent by IIGGCC, and discuss further questions the group had regarding net zero, specifically around Croda's plan to prepare and disclose a Net Zero Transition Plan. | Collaborative/ Group | M4 |
| DAIKIN INDUSTRIES, LTD. | Environmental Pollution - Hazardous chemicals | IIHC letter to Daikin reporting on their poor score in the ChemScore ranking and encouraging them to improve. Objectives: 1. Increase transparency; 2. Publish time-bound phase-out plan of products that are, or contain, persistent chemicals; 3. Develop safer alternatives for hazardous chemicals | Collaborative/ Group | M0 |
| | Human Rights | For the company to terminate the business unit responsible for manufacturing weapons made with white phosphorous. | Email | M2 |
| Ecolab Inc. | Environmental Pollution - Hazardous Chemicals | Objectives: 1. Increase transparency; 2. Publish time-bound phase-out plan of products that are, or contain, persistent chemicals; 3. Develop safer alternatives for hazardous chemicals | Collaborative/ Group (WHEB as engagement Lead) | M4 |

| | | | | |
|------------------------------------|------------------------------------|---|----------------------|----|
| First Solar, Inc. | Carbon - Net Zero Target/Strategy | Ongoing encouragement of FirstSolar to address worker rights in its supply-chain, reduce chemical use and Scope 2 carbon emissions | Collaborative/ Group | M2 |
| Hamamatsu Photonics K.K. | Director independence/overboarding | For company to ensure the Chair or lead director is independent. | Formal Letter (AGM) | M0 |
| | Board independence | To reduce the number of insider board directors. | Formal Letter (AGM) | M0 |
| | Disclosure – ESG | To improve on poor disclosure regarding board members and remuneration | Formal Letter (AGM) | M0 |
| | Diversity – gender | Improve board-level female representation | Formal Letter (AGM) | M0 |
| | Carbon - Net Zero Target/Strategy | For the company to commit to net zero carbon by 2050. | Formal Letter (AGM) | M0 |
| HelloFresh SE | Carbon - Net Zero Target/Strategy | Company invited WHEB team to feedback on potential insetting strategy | Email | M2 |
| J.B. Hunt Transport Services, Inc. | Carbon - Net Zero Target/Strategy | For company to set SBTi net zero carbon target. | Call | M2 |
| Linde plc | Carbon - Net Zero Target/Strategy | Better understand the credibility of Linde's NZC target and strategy are | Email/Call | M3 |
| Siemens Healthineers AG | Biodiversity | Analyse company's assessment of biodiversity risk and opportunities. | Collaborative/ Group | M2 |
| Smurfit Kappa Group PLC | Biodiversity | Analyse company's assessment of biodiversity risk and opportunities. | Collaborative/ Group | M2 |
| | Human Rights | Assess approach for managing operations and land responsibly, particularly with regards to local communities and high-risk groups such as indigenous peoples. | Email/Call | M2 |
| Spirax-Sarco Engineering PLC | Investor Materiality Assessment | Company requested WHEB's input on double materiality assessment in preparation for EU CSRD alignment | Email/Call | M3 |
| TE Connectivity Ltd. | Carbon - Net Zero Target/Strategy | Discussions with collaborators on how to escalate this engagement. | Collaborative/ Group | M0 |
| Thermo Fisher Scientific Inc. | Human Rights | Assessment of company's policies and processes to ensure its products are not used for purposes related to human rights abuses. | Call | M4 |
| Vestas Wind Systems A/S | Employee/worker rights | Clarification of alleged controversy | Collaborative/ Group | M1 |
| | Biodiversity | Improve disclosure regarding evolving biodiversity strategy, improve transparency and provide ongoing feedback. | Collaborative/ Group | M3 |

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