

# Q1 2024 REPORT



## **Pengana WHEB Sustainable Impact Fund**

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# SCHNEIDER ELECTRIC – SPURRING DECARBONISATION

By Victoria MacLean

**Schneider Electric** is a global leader in electrical products and systems used in energy management and automation. The company recently hosted its Capital Markets Day at the Tottenham Hotspur Stadium, a great case study for sustainable buildings. Schneider Electric partnered with Tottenham as the energy management supplier for its state-of-the-art stadium, which in 2021 hosted the first net zero football match, #GameZero.

To help the club deliver its sustainability goals, the stadium embedded Schneider's EcoStruxure platform. The system combines electrical hardware with software to digitise and simplify electrical distribution systems. It enables analytics which feed into efficiency improvements, predictive maintenance, and safety. It also embeds cybersecurity tools which are becoming increasingly critical to green infrastructure.

## Building sustainability

Building emissions account for over a quarter of global emissions<sup>1</sup>. While many solutions addressing renewable and efficient technology have emerged, the sector needs to do more to align with Net Zero 2050. One increasingly prevalent headwind is the perceived cost of the transformation, which was also a topic we covered recently in a blog post. A prominent example in the UK last year, was Rishi Sunak rowing back on green targets he said would impose a cost on consumer.<sup>2</sup>

In a quantitative study of building decarbonisation technologies, Schneider Electric suggests that one solution to the cost problem is increasing digitisation. This allows more flexible management of resources, for example planning usage to match periods of higher electricity supply or feeding excess capacity back to the grid from storage technology. This is particularly important as the share of renewables grows because supply becomes increasingly variable.

What's great about the Schneider story is that the same technology can have benefits that go beyond environmental. EcoStruxure for Healthcare is one example delivering a wide range of benefits and Moorfields Eye Hospital is a good case study. The building is over a century old and EcoStruxure allowed Moorfields to integrate multiple systems and provide critical environment and power information essential to patient safety during surgeries. This led to reduced operating expenses and improved staff productivity, both valuable at a time when the health system is under such pressure.

## Grid infrastructure

Another emerging area of interest for us is Schneider's role in addressing the challenges facing the grid in the shift to electrification.

Schneider's grid project with Enel illustrates how the company is contributing to solving problems such as the supply-demand imbalance and the increasing use of electricity. Enel is Italy's largest power company and has the second largest installed generation capacity in Europe. Thanks to Schneider's grid solutions, Enel has access to more accurate data and a system that can predict the impact of generation peaks as well as streamlining energy

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<sup>1</sup> IEA, August 2023, <https://www.iea.org/data-and-statistics/data-tools/greenhouse-gas-emissions-from-energy-data-explorer>

<sup>2</sup> The Guardian, July September 2023, <https://www.theguardian.com/environment/2023/sep/20/rishi-sunak-confirms-rollback-of-key-green-targets>

production. In combination that's resulted in savings of roughly 75,000 tCO<sub>2</sub> equivalent per year,<sup>3</sup> the equivalent of over 13,000 homes' annual electricity use.<sup>4</sup>

## Impact measurement

As well as being a leader in sustainable technology, we see Schneider as a leader in impact measurement and reporting. The company has developed the Schneider Sustainable Impact (SSI) program with six long-term positive impact commitments backed by 11 key indicators. Schneider also publishes a comprehensive **methodology** to measure emissions savings. This has several parallels with our own impact engine methodology, including a detailed analysis of what the relevant baseline for comparison should be.

Schneider is taking its expertise and deploying it with customers. The company recently published a framework for sustainability reporting for data centres. The aim is to help data centre customers develop key metrics and priorities for mitigating negative climate impacts. With the exponential growth in data centres this is becoming an increasing issue – they already account for almost 2% of global emissions<sup>5</sup>.

Schneider's business touches a wide range of sustainability topics and we think the company is well placed to drive significant positive impact. Their technology leadership in these areas also supports the company's ability to grow faster than the market while delivering attractive returns. Schneider is a great example of an investment thesis supported by positive impact, which is exactly what we look for in our portfolio.

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<sup>3</sup> Schneider Electric, [https://download.schneider-electric.com/files?p\\_Doc\\_Ref=Customer\\_success\\_story\\_Enel](https://download.schneider-electric.com/files?p_Doc_Ref=Customer_success_story_Enel)

<sup>4</sup> EPA, <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>

<sup>5</sup> IEA, July 2023, <https://www.iea.org/energy-system/buildings/data-centres-and-data-transmission-networks>

# CYBERSECURITY – ESG OR IMPACT?

By Victoria MacLean

Cybersecurity is becoming an increasingly prominent topic. The World Economic Forum published its Global Risks Report for 2024 and cyber-attack was ranked the 5<sup>th</sup> “most likely to present a material crisis on a global scale in 2024”.<sup>6</sup> For private sector stakeholders and governments, it ranked 3<sup>rd</sup>.

The cost of cyber-attacks is rising. The global cost of cybercrime damage is expected to hit \$10.5 trillion annually by 2025, up from \$3 trillion in 2015.<sup>7</sup> Lloyd’s of London estimate that a major global cyber-attack has the potential to trigger \$53bn of economic losses, equivalent to a natural disaster the scale of superstorm Sandy.<sup>8</sup>

The frequency is also increasing. Research by Check Point, a major US cybersecurity company, showed that ransomware attacks reached an all-time high in 2023 with 10% of organisations worldwide targeted, a 33% increase on 2022.<sup>9</sup>

It’s clear that companies need to be considering cybersecurity as part of ESG. Intangible value, including digital assets like software and customer data, now represents 90% of the asset value of organisations.<sup>10</sup> That demonstrates that cyber-attacks present a material threat to the value of a company.

But should we go further and consider it as part of impact?

## Cybersecurity and the environment

At WHEB, we define impact as products or services providing solutions to key sustainability challenges. To qualify, we would need to establish that cybersecurity is addressing an aspect of sustainability.

Looking first at the UN Sustainable Development Goals, there isn’t a goal that deals explicitly with cybersecurity. However, considering the definitions of a few of them there are reasons to believe that cybersecurity could be a contributing factor to achieving a number of goals:

**Goal 6:** Ensure availability and sustainable management of water and sanitation for all.

**Goal 7:** ensure access to affordable, reliable, sustainable and modern energy for all.

**Goal 9:** build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

**Goal 11:** make cities and human settlements inclusive, safe, resilient and sustainable.

The increasing use of digital and connectivity tools in each of these areas creates significant cybersecurity risks. There are numerous examples of energy infrastructure being targeted.<sup>11</sup> Hackers have also targeted water treatment facilities in the US and Australia.<sup>12</sup>

<sup>6</sup> World Economic Forum, The Global Risks Report 2024, [https://www3.weforum.org/docs/WEF\\_The\\_Global\\_Risks\\_Report\\_2024.pdf](https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2024.pdf)

<sup>7</sup> <https://cybersecurityventures.com/top-5-cybersecurity-facts-figures-predictions-and-statistics-for-2021-to-2025/>

<sup>8</sup> <https://www.lloyds.com/about-lloyds/media-centre/press-releases/extreme-cyber-attack-could-cost-as-much-as-superstorm-sandy>

<sup>9</sup> Check Point, January 2024, <https://blog.checkpoint.com/research/check-point-research-2023-the-year-of-mega-ransomware-attacks-with-unprecedented-impact-on-global-organizations/>

<sup>10</sup> World Economic Forum, “Cybersecurity is an environmental, social and governance issue. Here’s why”, <https://www.weforum.org/agenda/2022/03/three-reasons-why-cybersecurity-is-a-critical-component-of-esg/>

<sup>11</sup> Forbes, <https://www.forbes.com/sites/johntough/2022/09/29/sustainability-and-cybersecurity-the-unexpected-dynamic-duo-of-the-energy-transition/?sh=7c216a915851>

<sup>12</sup> <https://www.sustainability.com/thinking/the-rising-role-of-cybersecurity-in-esg-and-how-companies-are-taking-action/>



The energy transition relies heavily on digital technologies and interconnectedness. As we wrote in a recent article, modernisation of the grid is critical for managing the increasing contribution of renewable energy and greater electrification. Attackers are increasingly targeting these operational technologies and in 2021 a survey of cybersecurity experts identified the energy sector as the most likely to suffer attacks on control systems.<sup>13</sup>

In his recent cybersecurity strategy paper, President Biden included a specific objective, “secure our clean energy future”.<sup>14</sup> This feels like a clear demonstration of the importance of the issue to sustainability outcomes.

## Cybersecurity and health

Digital technologies also increase vulnerability in other areas of sustainability, such as health. In 2017, the US Food and Drug Administration recalled 500,000 pacemakers due to the risk of hackers altering the patient’s heartbeat. In 2020 a hospital in Germany was forced to close its emergency department after a ransomware attack.<sup>15</sup>

The attacks are growing in scale. In February this year, a division of UnitedHealth Group in the US was the subject of a cyber-attack that left healthcare providers unable to fill prescriptions or get reimbursement for insurers.<sup>16</sup> A survey by the America Hospital Association found that 95% of hospitals experienced disruptions from the attack and 74% reported impacts to direct patient care.<sup>17</sup>

Technology adoption in healthcare is increasing rapidly, whether through wearable devices, hospital equipment or patient data records. That data is being used more widely too. Artificial Intelligence (AI) is a growing topic within healthcare, and high-profile AI companies like Nvidia are investing significant amounts in the industry.<sup>18</sup>

## Cybersecurity and AI

The relationship between AI and sustainability is complex. What is clear is that AI is likely to increase the volume and heighten the impact of cyber-attacks.<sup>19</sup> One emerging area is the spread of disinformation, which creates risks to elections and social cohesion.

In Slovakia’s recent election an AI-generated fake video circulated of a candidate discussing plans to manipulate the election, including buying votes.<sup>20</sup> Elections are vulnerable to a range of technological threats, including hacking, data breaches and more sophisticated forms of manipulation such as deepfakes and AI-generated disinformation.<sup>21</sup>

There will be over 40 national elections this year covering over 50% of global GDP, including the US and UK. In the US the government’s cybersecurity agency has published a **Cybersecurity Toolkit to Protect Elections**. One of the recommendations is the implementation of advanced technologies to detect and mitigate potential threats.

## Cybersecurity and impact

At WHEB, we are in the early stages of exploring the topic of cybersecurity. But we do think there is a case for categorising it as a sustainability challenge. The challenge is a multifaceted one, and touches on many of our existing themes. The cost of ignoring the challenge is increasing, affecting more companies and more individuals every year.

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<sup>13</sup> World Economic Forum, <https://www.weforum.org/agenda/2023/10/why-the-energy-sector-and-critical-infrastructure-is-particularly-vulnerable-to-cyber-attacks/>

<sup>14</sup> The White House, <https://www.whitehouse.gov/wp-content/uploads/2023/03/National-Cybersecurity-Strategy-2023.pdf>

<sup>15</sup> <https://www.sustainability.com/thinking/the-rising-role-of-cybersecurity-in-esg-and-how-companies-are-taking-action/>

<sup>16</sup> CNBC, <https://www.cnbc.com/2024/03/27/unitedhealth-group-paid-over-3-billion-to-providers-since-cyberattack.html>

<sup>17</sup> American Hospital Association, <https://www.aha.org/news/news/2024-03-15-aha-survey-change-healthcare-cyberattack-having-significant-disruptions-patient-care-hospitals-finances>

<sup>18</sup> CNBC, <https://www.cnbc.com/2024/03/24/nvidias-ai-ambitions-in-medicine-and-health-care-are-becoming-clear.html>

<sup>19</sup> National Cyber Security Centre, <https://www.ncsc.gov.uk/report/impact-of-ai-on-cyber-threat>

<sup>20</sup> Bloomberg, <https://www.bloomberg.com/news/newsletters/2023-10-04/deepfakes-in-slovakia-preview-how-ai-will-change-the-face-of-elections>

<sup>21</sup> World Economic Forum, <https://www.weforum.org/agenda/2023/11/elections-cybersecurity-ai-deep-fakes-social-engineering/>



Our next question is what are the solutions? This will involve looking at cybersecurity providers through the lens of our impact engine analytical framework. We are focusing on two areas where we think companies can have positive impact. First are companies providing products or services that have a differentiated outcome relative to the existing standards.

Second are companies focused specifically on protecting the safety of individuals, for example through identity management software. This effectively widens the definition in our existing Safety theme beyond physical safety.

The world was slow to identify and act on existing environmental and social challenges. The consequences of that are now being felt. We hope cybersecurity will be different. And we think that we as impact investors have role to play in opening up the conversation on cyber security and starting to look more closely at solutions.

# STEWARDSHIP IN THE SPOTLIGHT – MANAGING MICROPOLLUTION

By Rachael Monteiro

## Micropollutants: Unseen yet ubiquitous

It's an unfortunate reality that by the time we have simply taken a shower<sup>22</sup>, grabbed lunch on-the-go, made dinner and then collapsed on the couch after doing the dishes<sup>23</sup>, we've likely come into contact with a multitude of harmful substances.

Naked to the human eye, 'micropollutants' - tiny man-made molecules that include antibiotic residues, synthetic hormones, pesticides, and industrial chemicals, such as per and polyfluoroalkyl substances (known as PFAS) - are lurking everywhere creating a planetary-scale health risk. This includes in places previously considered relatively untouched by humans, such as the Mariana Trench and Antarctica, PFAS varieties have been detected<sup>24</sup>.

Conventional wastewater treatment does not remove these micropollutants and consequently they end up back in the natural environment and ultimately bioaccumulating at the top of food-chain, in us.

Although at acute and small concentrations micropollutants are unlikely to have long-lasting health impacts, chronic exposures have been linked to a range of serious health conditions. PFAS chemicals, for example, have been linked to cancers, autoimmune disorders, male and female infertility, obesity and diabetes<sup>25,26</sup>. Meanwhile, overuse of antibiotics and disinfectants are accelerating antimicrobial resistance (AMR) not just in bacteria, but also in viruses, fungi and parasites<sup>27</sup>.

Following a 2023 assessment, it's now estimated that the safe planetary boundary for pollutants ("novel entities" in Figure 1) has been exceeded<sup>28</sup>, putting the stability of the Earth system at risk.

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<sup>22</sup> Parabens found in many shampoos.

<sup>23</sup> Food packaging, nonstick pans, waterproof outdoor clothing and stain-resistant technologies used for household fabrics have all been found to contain PFAS chemicals.

<sup>24</sup> <https://chemsec.org/wrappedinchemicals/facts/pfas-fact-4/>

<sup>25</sup> <https://www.sciencedirect.com/science/article/pii/S0160412019305380#bb0005>

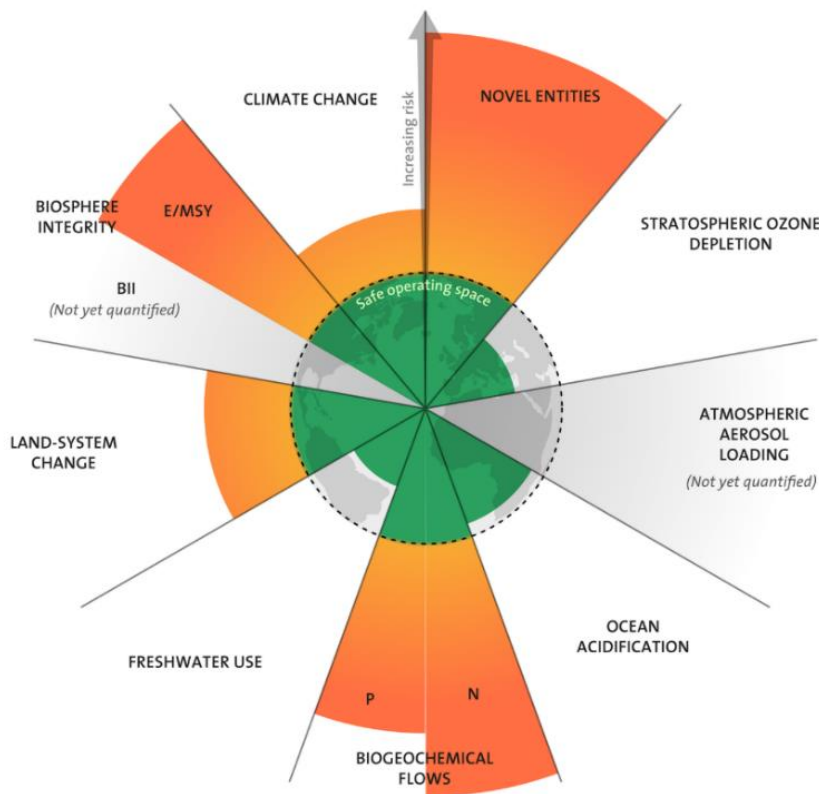
<sup>26</sup> <https://www.nature.com/articles/s41370-018-0094-1>

<sup>27</sup> <https://www.sciencedirect.com/science/article/abs/pii/S0966842X1730210X>

<sup>28</sup> <https://pubs.acs.org/doi/10.1021/acs.est.1c04158>



**Figure 1: We are now outside the safe operating space of the planetary boundary for pollutants ('novel entities')<sup>29</sup>**



Left unaddressed, the human and economic costs of micropollution will be severe. UNEP for example estimate 10 million deaths annually due to AMR by 2050 – equal to the number of deaths from cancer in 2020<sup>30</sup>. Meanwhile, the World Bank puts the cost of healthcare associated with AMR at around USD \$1 trillion by the same timeframe<sup>31</sup>.

The numbers reach even dizzy heights when PFAS enter the equation. It's thought that the bill for related direct-healthcare and environmental remediation could be as much as \$17.5 *trillion* across the global economy<sup>32</sup>.

Thankfully, the legal and regulatory landscape is beginning to catch up. In early April 2024, the U.S. Environmental Protection Agency (EPA) introduced the first legally enforceable limits on certain PFAS-levels<sup>33</sup> in drinking water. However, a systemic problem requires systemic action, meaning financial markets have a role to play too.

## WHEB's role in managing the problem

### Reducing risk

At WHEB, we have been addressing the risk of micropollution through our stewardship and engagement activities for over a decade. In recent years we have joined several investor initiatives to support different aspects of our work on the topic. In fact in 2023, c.6% of our engagement activities focused on topics related to micropollution.

<sup>29</sup> <https://www.stockholmresilience.org/research/research-news/2022-01-18-safe-planetary-boundary-for-pollutants-including-plastics-exceeded-say-researchers.html>

<sup>30</sup> <https://www.unep.org/news-and-stories/press-release/reduce-superbugs-world-must-cut-down-pollution>

<sup>31</sup> <https://www.who.int/news-room/fact-sheets/detail/antimicrobial-resistance>

<sup>32</sup> <https://chemsec.org/reports/the-top-12-pfas-producers-in-the-world-and-the-staggering-societal-costs-of-pfas-pollution/>

<sup>33</sup> <https://www.reuters.com/world/us/us-sets-first-standard-curb-forever-chemicals-drinking-water-2024-04-10/>

Though not a manufacturer of PFAS chemicals, **MSA Safety** use the chemicals in meeting regulatory water and oil resistance requirements in protective firefighter turn-out gear made. In light of regulatory and technological developments, we have sought to get the company to commit to a time-bound phase-out of the chemicals. So far this has been challenging due to its reliance on supplier R&D. Still, MSA Safety has actively been working with the International Association of Firefighters to support the PFAS Alternatives Act, which would secure federal funding to support innovation.

Since 2021, we have been leading a collaborative engagement with **Ecolab** via ChemSec's Investor Initiative on Hazardous Chemicals. Ecolab's cleaning products and services enable better water and energy efficiency in a range of downstream industries. However, a small number of its products contain substances of very high concern (SVHC). Here we have sought to secure a commitment from the company for a time-bound phase-out of SVHCs, as well as improved product circularity and better marketing of its safer alternative products<sup>34</sup>.

Along with our partners in the Investors for Sustainable Solar<sup>35</sup> initiative, we have been encouraging solar PV manufacturer **First Solar** on the safe use of Cadmium Telluride, a heavy metal, in their panels as well as on the use of alternatives to other toxic chemicals (such as in solvents) that are used in the manufacturing process for solar panels.

We also believe that investors can, and should, utilise policy advocacy as a complementary method to direct company engagement. WHEB is therefore in the process of joining the Investor Action on AMR Initiative<sup>36</sup>. We hope this initiative will further support investor efforts to address AMR globally and complement our own direct engagements.

### **Empowering solution providers**

As impact specialists our investments support companies providing solutions to sustainability challenges, including those helping to tackle micropollution. Recent regulatory developments, such as with the US EPA, will likely benefit portfolio holdings that provide the technologies to address micropollution in its various forms. These stocks include:

**Xylem**, a provider of advanced water treatment technologies, has over 80 municipal and industrial customers using its PFAS mitigation installations in the US alone. In addition, its innovative MitiGATOR™ Mobile treatment system is enabling utilities to rapidly comply with new EPA regulations<sup>37</sup> and it is currently fast-tracking innovations in advanced pathogen detection and leak detection<sup>38</sup>.

**Veralto**, a recent spin-out of **Danaher**'s water quality businesses, is a leader in the detection of PFAS chemicals.

Stormwater treatment systems supplied by **Advanced Drainage Systems** filter pollutants like hydrocarbons and heavy metals.

**STERIS**'s main business is in sterilisation services for hospitals and pharmaceutical companies. Their products and services are specifically designed to help eliminate the risk that AMR pathogens contaminate and multiply in healthcare settings.

In short, WHEB's efforts to address micropollution span various fronts: strategic investments in companies providing solutions, direct engagements with companies, bolstered by the coordination and expertise of relevant initiatives and policy advocacy. Through these channels, we continue to actively address the problem of micropollution with an approach that underscores our commitment to positive impact.

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<sup>34</sup> Detailed Q4 2023 case study: <https://www.whebgroup.com/ecolab-engagement-case-study-chemicals>

<sup>35</sup> <https://iehn.org/our-work/investors-for-sustainable-solar#:~:text=Investors%20for%20Sustainable%20Solar%20is,and%20WHEB%20Asset%20Management%20LLP.>

<sup>36</sup> The Investor Action on AMR Initiative is a coalition between the Access to Medicine Foundation, FAIRR Initiative and UK Government

<sup>37</sup> <https://www.xylem.com/en-uk/about-xylem/newsroom/press-releases/mobile-technology-helps-us-water-utilities-achieve-compliance-with-new-pfas-rules/>

<sup>38</sup> <https://www.xylem.com/en-uk/about-xylem/newsroom/press-releases/new-wave-of-startups-scale-innovation-to-solve-global-water-challenges/>

# PERFORMANCE COMMENTARY

## Market review

The MSCI World Index posted strong returns in the quarter, rising 13.8%.

This was the best first quarter performance in five years, supported by hopes of a soft economic landing in the US and enthusiasm about Artificial Intelligence. Volatility also remained low during the period as measured by the Volatility Index (VIX).

Japan was the best performing region, where growing confidence in the economy and rising prices for domestic chip related stocks have driven the recent rally. The USA also performed strongly, with signs of resilient domestic growth and the continued dominance of the 'magnificent seven' stocks supporting the S&P 500 index. European stocks lagged the US and Japan but ended the quarter on a stronger note.

Despite the positive overall market performance, it was a more challenging time for sustainability themes with comparatively few of the companies that we consider to deliver positive impact, keeping up with the broader market. Cleaner Energy and Sustainable Transport stocks particularly struggled, as concerns around overcapacity and higher interest rates grew.

## Performance review

The fund delivered positive performance over the quarter, but didn't rise quite as quickly as the benchmark, returning 10.9%.

The largest positive contributor was **Trane Technologies** in the Resource Efficiency theme, followed by **Lonza** in the Health theme. Trane Technologies is a heating and ventilation company specialising in energy- and carbon-saving technologies. The company re-iterated the healthy outlook for some of its end-markets at a conference.

Lonza is a Swiss contract drug manufacturing company, with a particular strength in the producing biologic drugs, which mimic the actions of the human body in fighting disease. Lonza acquired a biologics manufacturing facility from Roche, which was seen as a positive deal and increased its mid-term growth expectations.

Another notable positive contributor was **Advanced Drainage Systems (ADS)**, in the Environmental Services theme. The company is a leading provider of stormwater management systems in the USA. ADS reported strong quarterly results driven by demand in the infrastructure and residential industries and gave a positive outlook for 2024.

The main detractor from return at a stock level was semiconductor company **Infineon Technologies** within the Sustainable Transport theme. The automotive and industrial value chain the company serves is working through higher inventory levels, as demand for EVs pauses due to higher interest rates and infrastructure concerns. Investors are also concerned that China has urged electric vehicle manufacturers to buy more Chinese chips.

## Outlook

Following the fall in inflation, sentiment in global equities is more positive with markets expecting that central bank tightening is nearing its end. This environment should be more supportive for the generally smaller and more growth-orientated impact stocks we invest in.

Meanwhile, several of our key sustainability markets have cyclical challenges to overcome, as well as repositioning around China's changing role in global manufacturing. We remain convinced that the companies we invest in retain the competitive edge to deliver the transition to a more sustainable economy.

# PORTFOLIO ACTIVITY

We initiated three new positions in the fund. We also exited two existing positions during the quarter.

## Purchases

We initiated a position in **Novo Nordisk** in our Health theme. Novo Nordisk is a global pharmaceutical company focussed on treatments for diabetes, obesity, haemophilia, growth disorder, as well as offering hormone replacement therapy drugs.

Novo Nordisk has a long history as a global leader in diabetes care. Its development of the “GLP-1” class of diabetes drug led to an important breakthrough in the related field of obesity treatment. Novo’s obesity GLP-1 drug Wegovy was the first of its kind to receive FDA approval, showcasing superior efficacy compared to other antidiabetic medications in promoting weight reduction.

Recent clinical trials have further emphasised Wegovy’s significance, demonstrating its positive impact on inflammation-related diseases. Notably, among patients with type-2 diabetes, Wegovy has shown a significant 20% reduction in serious heart issues<sup>39</sup> such as heart attacks, along with a 24% decrease in the risk of kidney-disease related events. These remarkable impact qualities have led to the very rapid adoption of Wegovy. Novo’s handling of this growth, and investment in the next generation of successor drugs, put Novo in a strong position for many years to come.

We also initiated a position in **Siemens Healthineers** in our Health theme. Siemens Healthineers is a diversified healthcare conglomerate with strong positions in imaging, radiation oncology therapy, diagnostics, and advanced technologies.

The radiation oncology therapy business is built around Varian, which was part of our portfolio for seven years until it was acquired by Healthineers. This is a high-quality business with a strong track record of innovation, and so is the imaging business. However, recent challenges in the diagnostics business have led to a loss of market share. The company’s management has undertaken a restructure, and we see this as an opportunity in the stock as the turnaround story plays out.

We also initiated a position in **NEXTracker** in our Cleaner Energy theme. NEXTracker is a leader in the solar tracker market. The company integrates software solutions with ground-mounted tracker products which are used in utility-scale solar projects around the world. These trackers allow solar panels to follow the path of the sun throughout the day to maximise energy harvest and output.

With a portfolio spanning utility-scale solar projects to commercial installations, NEXTracker has a diversified revenue stream along its value chain. Moreover, its robust track record of successful deployments and a strong focus on research and development underscore its potential for sustained growth and market leadership in the solar tracking industry.

## Sales

We sold our position in **TOMRA** from our Environmental Services theme, after a relatively short hold period of around a year. TOMRA is a leading global manufacturer of reverse vending machines (RVMs). RVMs are used in countries that have a deposit return system (DRS), which consumers pay a deposit on bottles that are then collected by TOMRA’s machines, and the deposit returned to the customer.

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<sup>39</sup> <https://www.economist.com/science-and-technology/2024/03/30/could-weight-loss-drugs-eat-the-world>



Whilst we feel there is valuable impact alignment with the company, there has been evidence of an eroding competitive position versus its peers. We believe the growth story behind TOMRA is dependent on it maintaining its dominant position in the market. After strong contract wins from a close peer, it became clear that TOMRA's market leading position was under pressure. We have therefore moved to the sidelines but will continue to watch as this market develops.

We also sold our position in **J.B. Hunt** in our Sustainable Transport theme. J.B. Hunt is a logistics and transportation service provider in the US and one of the largest providers of intermodal rail transport. Intermodal rail is an attractive alternative to road trucking from both a cost and emissions perspective, saving shippers 10-20% on costs, and dramatically reducing emissions of transporting freight.

After a long hold period, we think we have now seen the best part of the penetration of intermodal into the US freight market. Paired with a weakening freight environment, cost pressures have taken a hit on the company's margins. We have therefore closed our position in J.B. Hunt, a sale which was also considered to make space for new names in the portfolio.

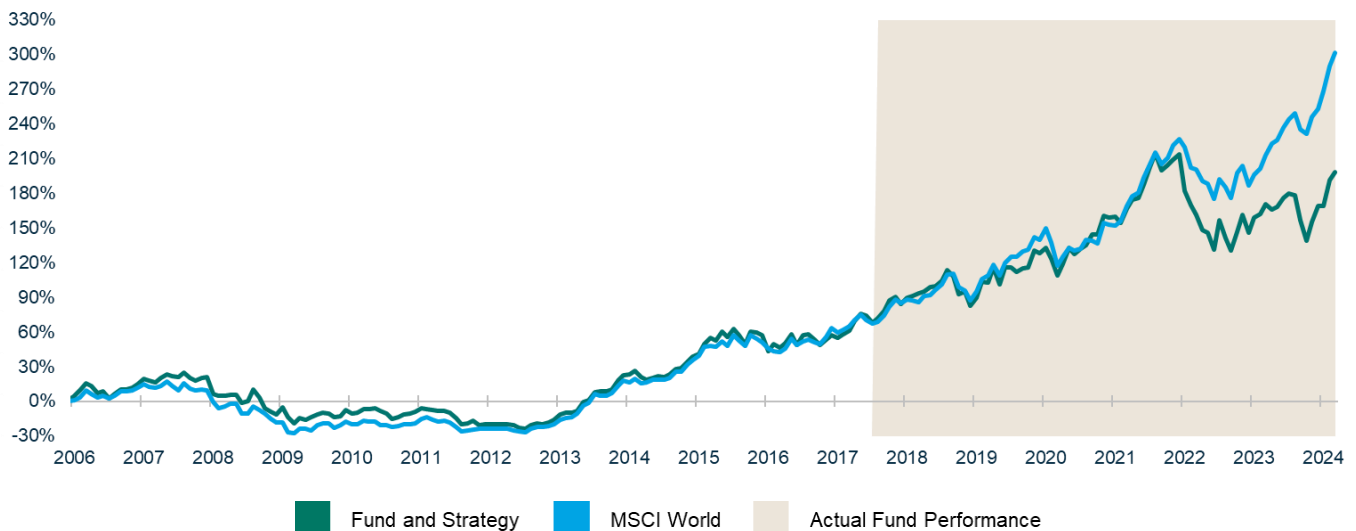
# INVESTMENT PERFORMANCE

## Cumulative Investment Returns

Net performance for periods ending 31 March 2024 (%)

	3 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	10.9	10.2	3.8	8.0	
Strategy (partial simulation) <sup>40</sup>					6.2
MSCI World <sup>41</sup>	13.8	28.4	14.3	14.0	7.9

## Performance Since Strategy Inception



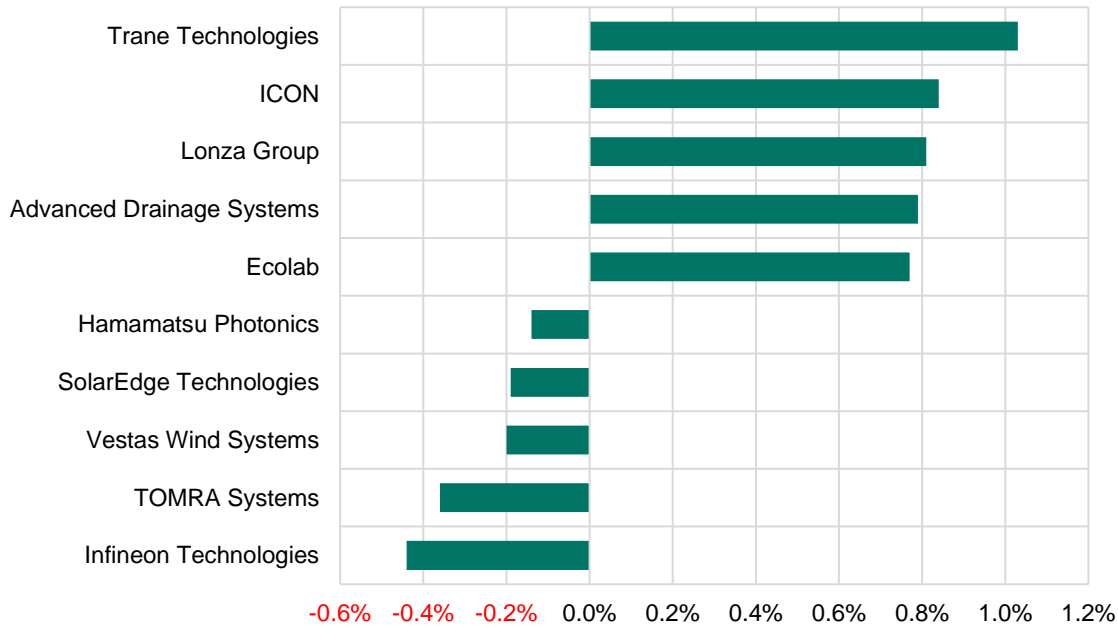
<sup>40</sup> From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP 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>41</sup> MSCI World Total Return Index (net, AUD unhedged).

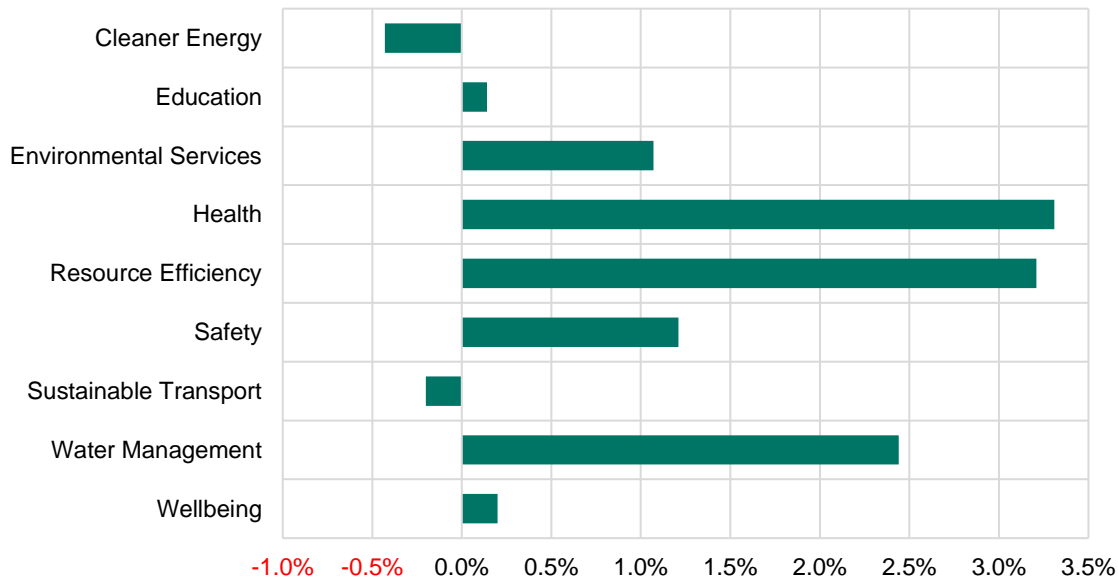


## Quarterly Performance

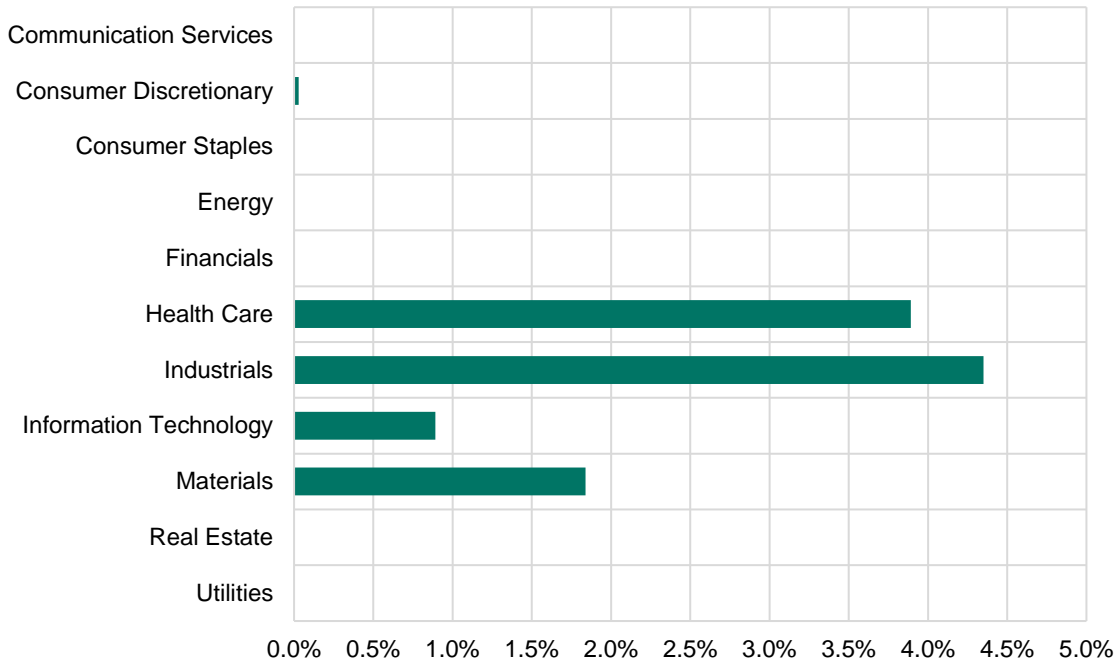
### Contribution to Return by Stock (Top 5 & Bottom 5)



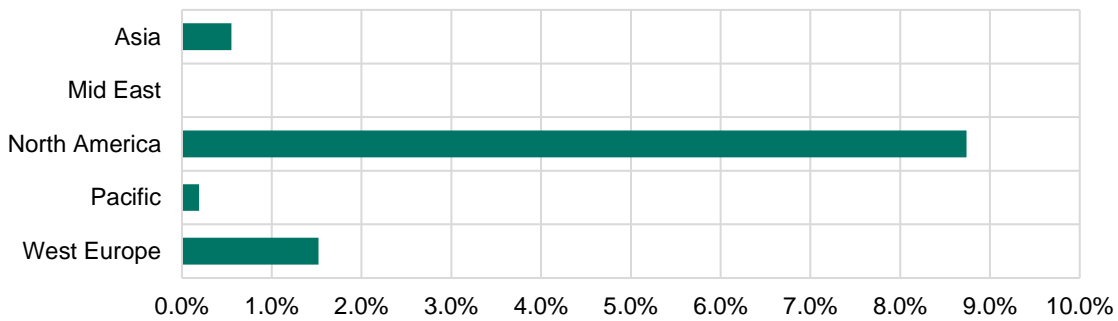
### Contribution to Return by Sustainability Theme



**Contribution to Return by Sector**

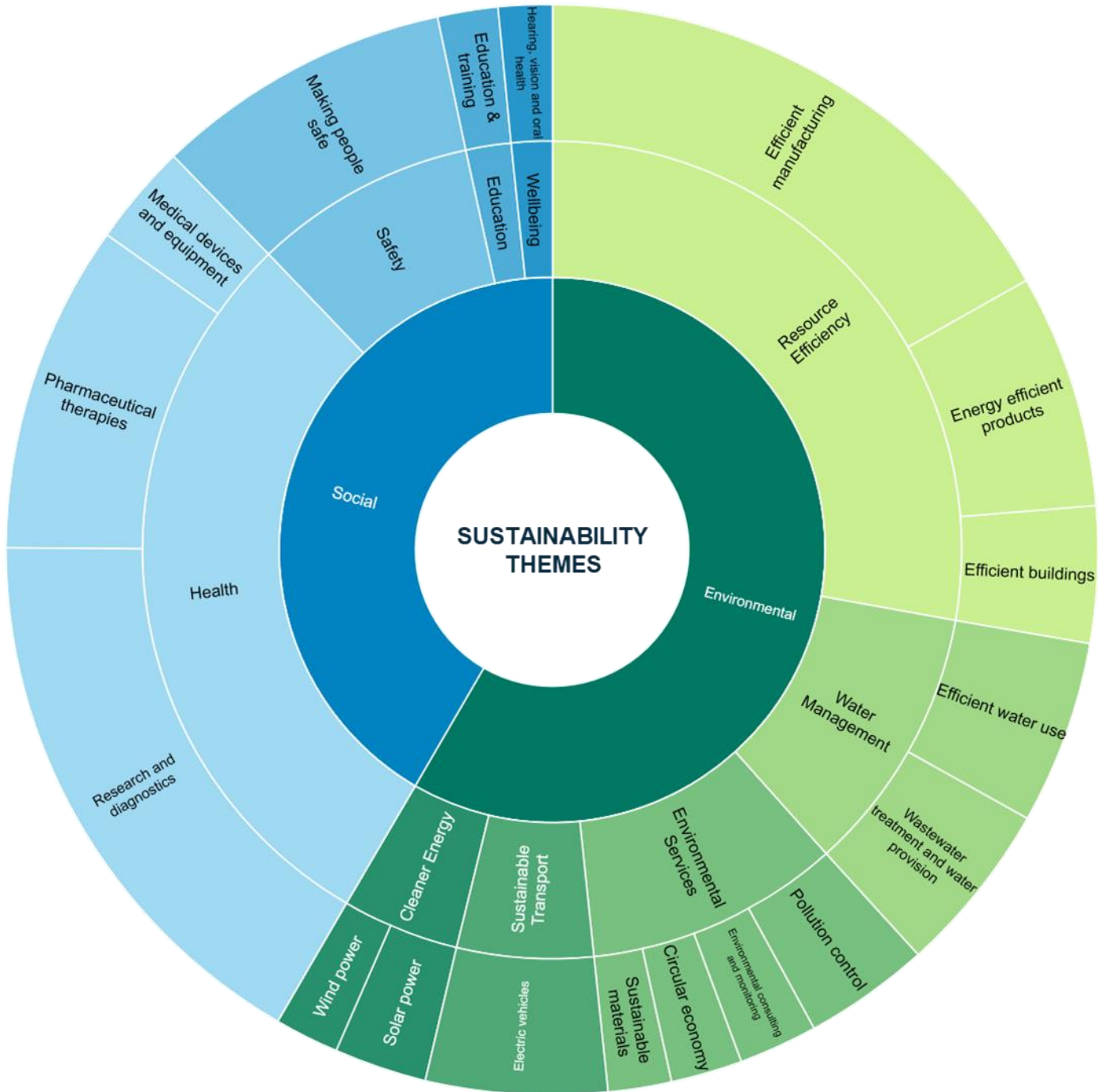


**Contribution to Return by Geography**

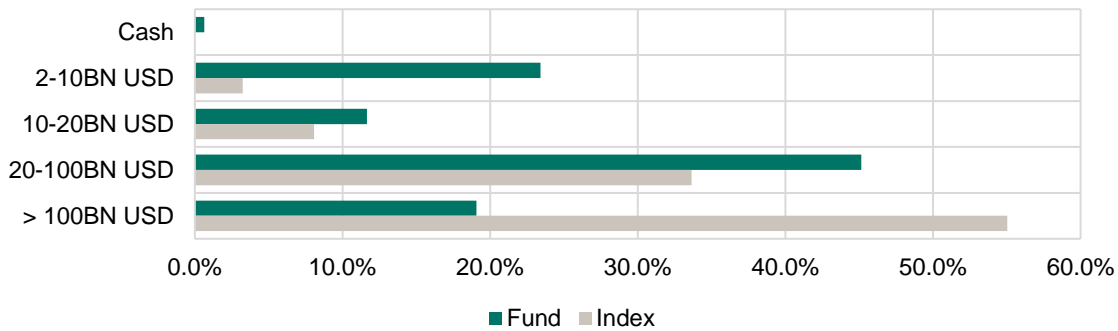


# PORTFOLIO ANALYSIS AND POSITIONING OF STRATEGY

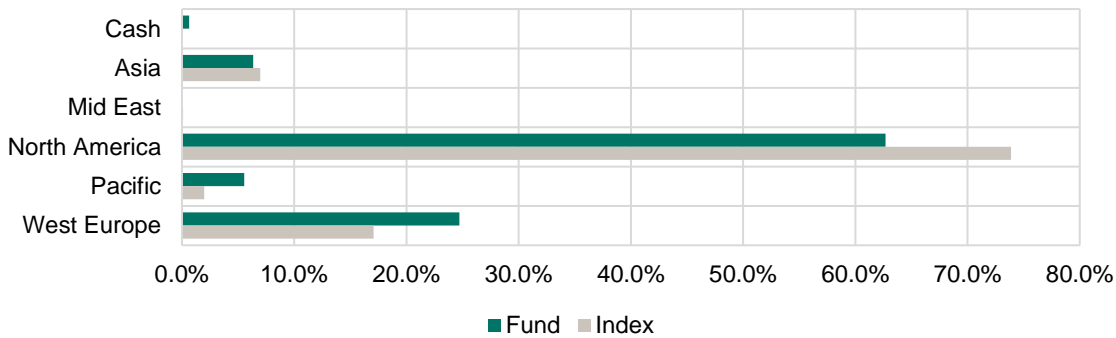
## Exposure by Sustainability Theme



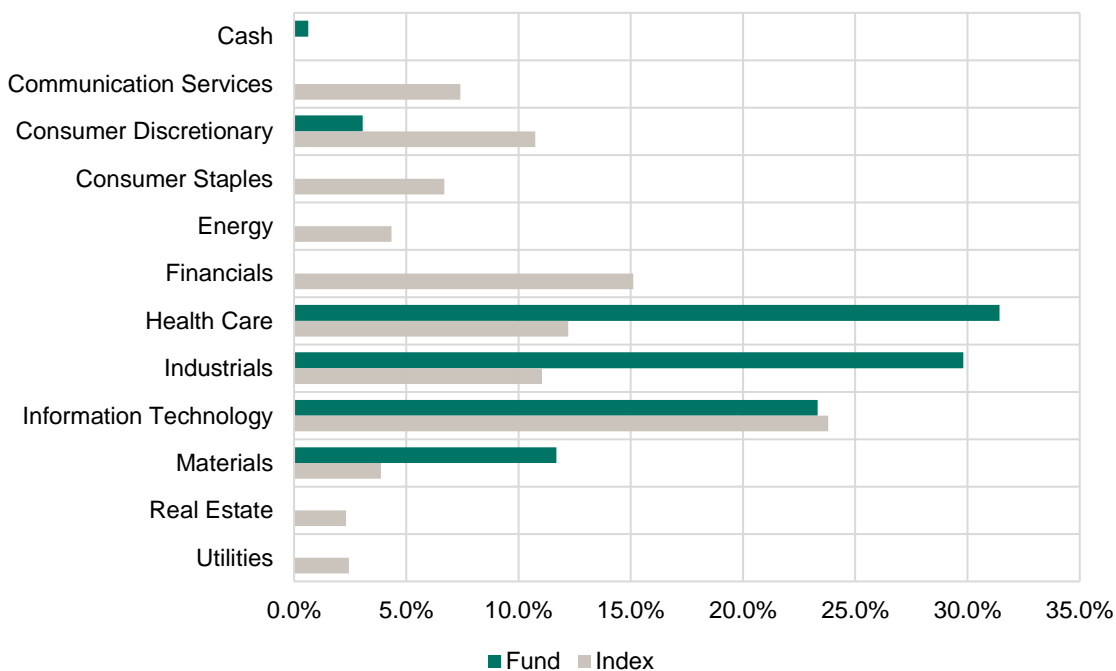
### Exposure by Market Capitalisation



### Exposure by Region



### Exposure by Sector



## Largest 10 Positions

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

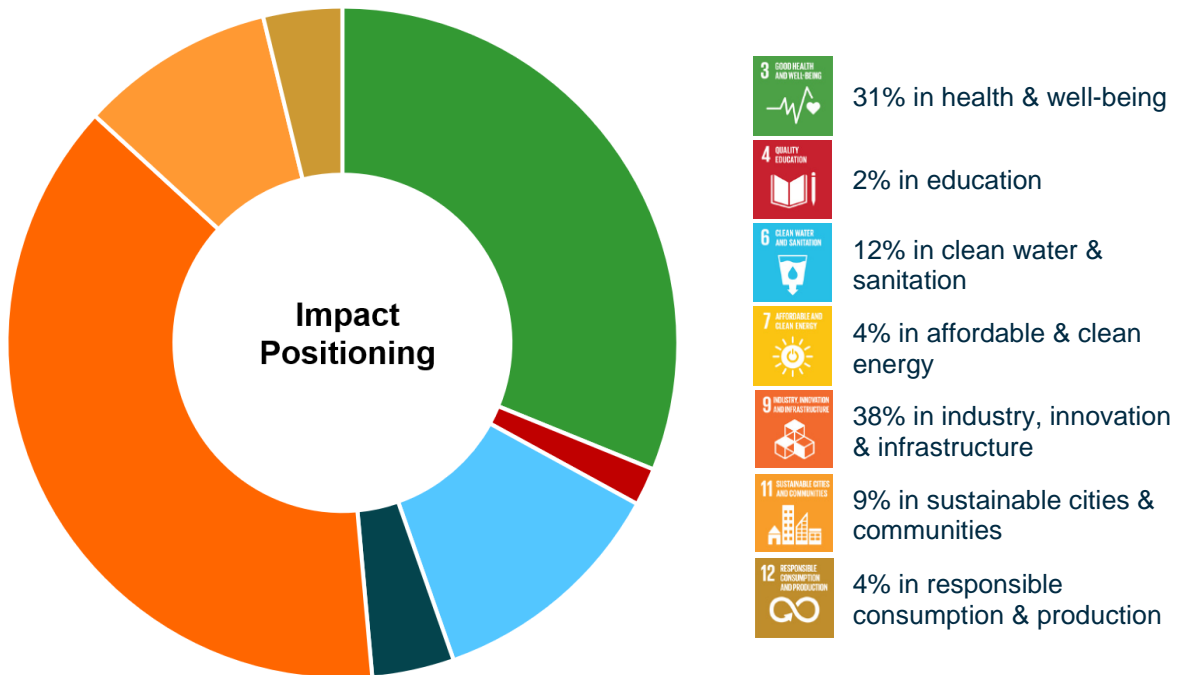
## Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	22.92	17.34
FY2 Earnings Growth	19.86	13.48
FY1 PE/FY2 Earnings Growth (PEG)	1.73	1.63
3-year Volatility	17.67%	11.84%
Beta (predicted)		1.04
1-year Tracking Error (predicted)		5.68%
5-year Tracking Error (ex-post)		8.88%

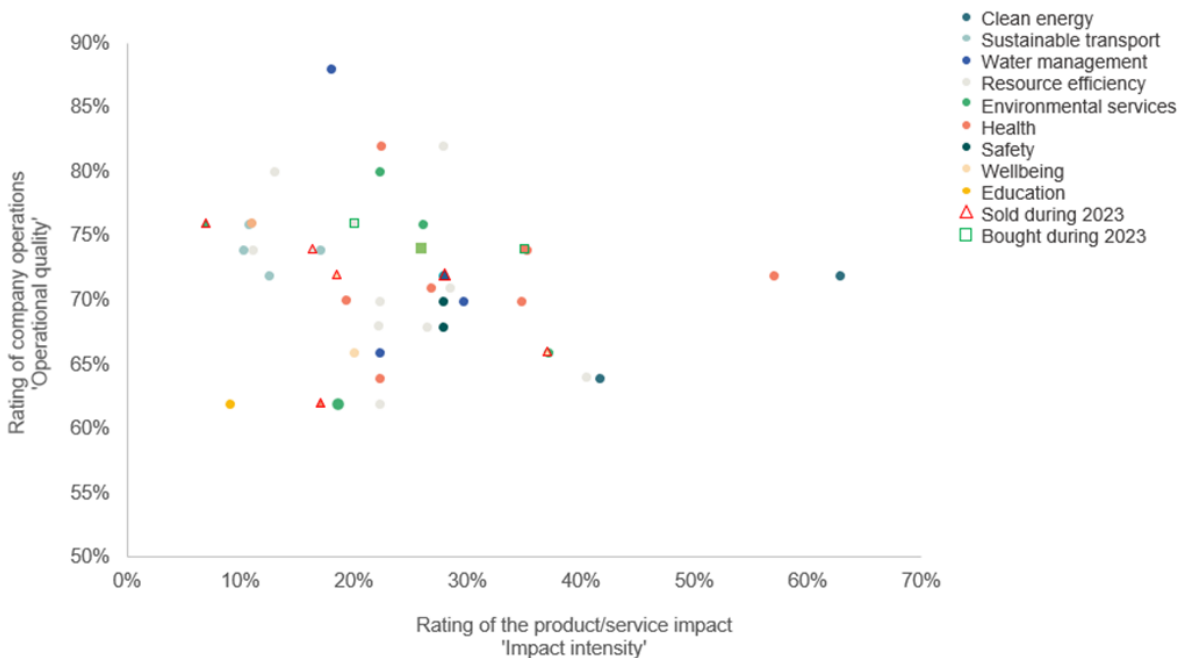
## Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Tomra	Sale	Environmental Services	Sold position due to clear evidence of eroding competitive position.
JB Hunt	Sale	Sustainable Transport	Penetration of intermodal services market has been slower than expected.
Novo Nordisk	Purchase	Health	Conviction of long-term demand and high impact of GLP-1s medication.
Siemens Healthineers	Purchase	Health	Buy on strength of Imaging and Varian businesses, and apparent management turnaround for Diagnostics.
NEXTracker	Purchase	Cleaner Energy	Conviction in global solar demand. The company has a strong global footprint and module-agnostic technology.

## Impact Positioning: Supporting the UN Sustainable Development Goals<sup>42</sup>



## Impact Map of the strategy's portfolio following quarterly changes<sup>43</sup>



<sup>42</sup> For descriptions of impact mapping methodologies please see WHEB's impact reports, available at <https://impact.whegroup.com/methodology/>. The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at <https://impact.whegroup.com/methodology/>, and the impact positioning graph is described in detail in the 2019 impact report.

<sup>43</sup> As above.



## ESG profile of WHEB's investment strategy



## Quarterly ESG performance

	WHEB Strategy	Proportion reported	MSCI world
Weighted average carbon intensity (scope 1 and 2)	42 tCO <sub>2</sub> e / A\$1m of revenue	89%	75 tCO <sub>2</sub> e / A\$1m of revenue
Scope 3 carbon efficiency	1,218 tCO <sub>2</sub> e / A\$1m of revenue	52%	456 tCO <sub>2</sub> e / A\$1m of revenue
Waste efficiency	3.4 tonnes / A\$1m of revenue	56%	168 tonnes / A\$1m of revenue
Water efficiency	3,397m <sup>3</sup> of fresh water / A\$1m of revenue	62%	4,888m <sup>3</sup> of fresh water / A\$1m of revenue
Gender equality	27% of board and top management positions are occupied by women	93%	28% of board and top management positions are occupied by women
Executive pay	80x – ratio of executive pay to employee pay	82%	116x - ratio of executive pay to employee pay
Board Independence	78% of board members are independent	98%	80% of board members are independent
Environmental good	35% of portfolio invested in environmental solutions	100%	13% of portfolio invested in environmental solutions
Social good	32% of portfolio allocated to help alleviate social issues	100%	10% of portfolio allocated to help alleviate social issues
Avoiding environmental harm	0% of portfolio in industries that aggravate social issues	100%	6% of portfolio in environmentally destructive industries
Avoiding social harm	0% of portfolio in industries that aggravate social issues	100%	4% of portfolio in industries that aggravate social issues
Economic development <sup>44</sup>	US\$52,000 – median income of portfolio-weighted area of economic activity	100%	US\$54,400 – median income of portfolio-weighted geography of economic activity
Avoiding water scarcity <sup>45</sup>	2.4 – geographic water use	100%	2.4 – geographic water use
Employment <sup>46</sup>	4.5% - unemployment in portfolio-weighted area of economic activity	100%	4.35% - unemployment in portfolio-weighted area of economic activity
Tax gap	3.1% - estimated % of tax avoided by corporate tax mitigation schemes	100%	3.7% - estimated % of tax avoided by corporate tax mitigation schemes

<sup>44</sup> A lower figure demonstrates that the strategy is more exposed to activities in lower income communities.

<sup>45</sup> A lower figure demonstrates that the strategy is less exposed to water scarce areas (based on the World Resources Institute scale of 0-5 from least to most water scarce areas).

<sup>46</sup> A higher figure demonstrates that the strategy is more exposed to activities in communities suffering from higher unemployment.

# QUARTERLY ENGAGEMENT AND VOTING ACTIVITY

## Voting Record

The table below summarises the voting record at companies held in WHEB's investment strategy over the quarter. 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/>

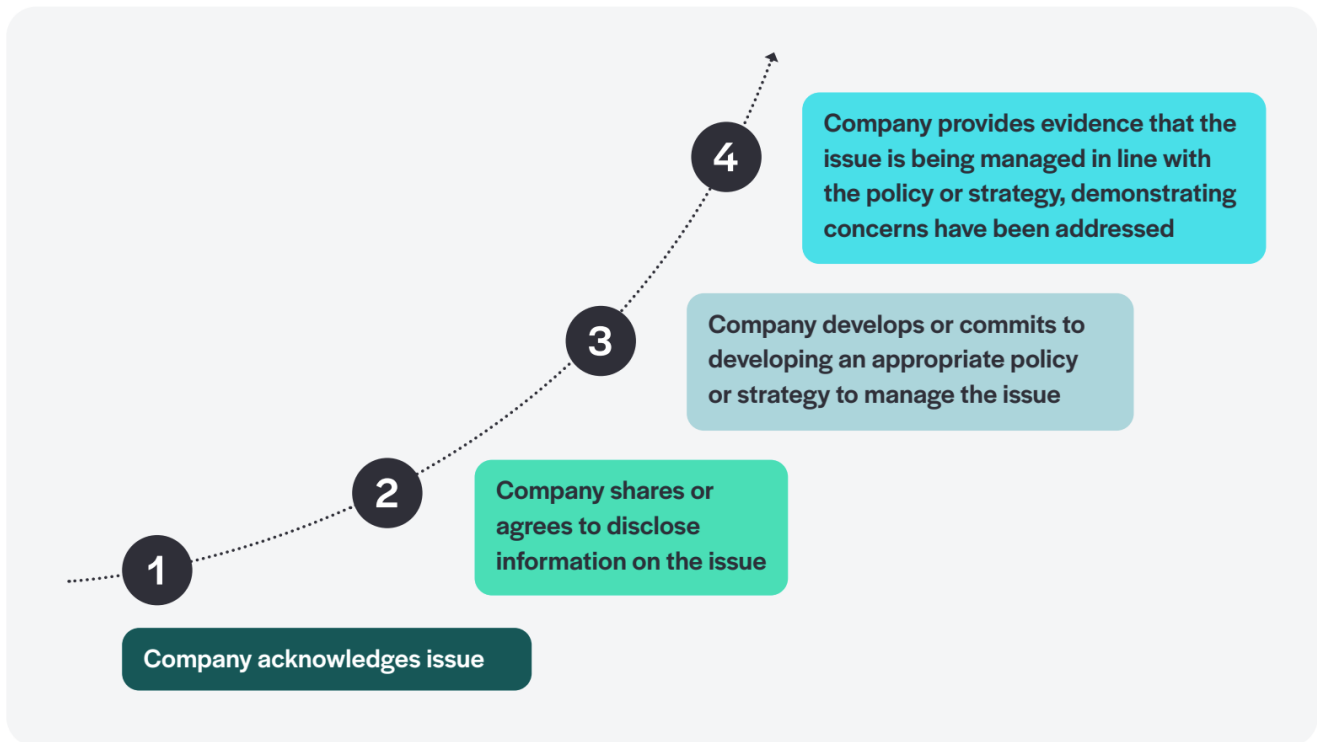
Meetings	No. of meetings	%
# votable meetings	8	
# meetings at which votes were cast	8	100%
# meetings at which we voted against management or abstained	5	50%

Resolutions	No. of resolutions	%
# resolutions	167	
# non-voting resolutions non-voting	13	
# resolutions eligible to vote	154	
# eligible resolutions voted	154	100%
# votes cast with management	132	86%
# votes cast against mgmt. or abstained or withheld (see list in appendix)	22	14%
<i># of which were withheld</i>	0	
<i># of which were abstain</i>	1	
# votes cast against ISS recommendations	19	12%

## Company Engagement

Engagement Summary	Count	%
# Companies engaged	12	
# Engagements	24	
# Milestone 0 – company does not acknowledge issue	8	33%
# Milestone 1 – company acknowledges issue	3	13%
# Milestone 2 – company shares or agrees to disclose information on the issue	2	8%
# Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue	5	21%
# Milestone 4 – Company provides evidence that the issue is being managed in line with the policy or strategy, demonstrating concerns have been addressed	6	25%

## WHEB's engagement milestones



Company	Topic	Objective	Method	Milestone
Agilent Technologies, Inc.	Director Independence/ Overboarding	Three year terms too long	AGM Vote Letter	0
	Diversity - gender	Board is 27% Female	AGM Vote Letter	0
	Remuneration - Excessive pay	Executive pay more than x100 median	AGM Vote Letter	0
	Remuneration - Sustainability/ESG metrics	No sustainability/ESG objectives in executive compensation	AGM Vote Letter	0
American Water Works Company, Inc <sup>47</sup> .	Environmental Pollution – Other/Product impact	For the company to publish data contextualising their regulatory performance. I.e. not just number of violations, but what proportion of their operations this affects and/or how it compares with the wider industry	AGM Vote Letter	1
Arcadis NV	Diversity - Gender	Discussion of missed 2020 – 2023 social targets and how they will be addressed	Company meeting	4
AstraZeneca PLC	Director independence/ Overboarding	Vote against re-election of Marcus Wallenberg as Director due to too many board-level commitments.	AGM Vote Letter	0
	Remuneration - Excessive pay	Proposed amendments to remuneration and performance share plan are too rich	AGM Vote Letter	0

<sup>47</sup> Not in the WHEB Strategy

	Remuneration - Sustainability/ESG metrics	No link to ESG/Sustainability targets in executive remuneration	AGM Vote Letter	0
Cooper Companies, Inc.	Carbon - Net Zero Target/Strategy	Company to set a net zero carbon target	Email	2
Danaher Corporation	Product Impact (incl. Reporting)	Public letter commending Danaher for TB drug, Cepheid, pricing reduction, improving accessibility	Collaborative	4
First Solar, Inc.	Product Impact (incl. Reporting)	Interview on impact metrics; reduction in own Scope 1, 2 & 3 emissions	Company meeting	2
	Carbon/GHG - Emissions/Strategy	Update on carbon strategy	Email	3
Genmab A/S	Product Impact (incl. Reporting)	Interview on impact metrics	Company meeting	2
Infineon Technologies AG	Carbon - Net Zero Target/Strategy	Strategy to manage Scope 3; extent to which offsets will be used to meet carbon neutral target	Company meeting	3
	Diversity – Gender	Increase female representation to 30%	Company meeting	3
	Diversity - Other	Strategy for improving broader aspects of DEI	Company meeting	3
	Auditor Independence	Auditor in place since 1999	AGM Vote Letter	4
Siemens Healthineers AG	Biodiversity	Understand company's approach to managing Biodiversity	Collaborative	3
	Animal rights	Understand potential controversy within supply chain	Collaborative	2
TE Connectivity Ltd.	Carbon - Net Zero Target/Strategy	Scope 3 disclosure; steps to overcome barriers to setting Scope 3 target; timeline of actions between now and 2030 in order to set NZC target	Collaborative	Preparation

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