



# PENGANA WHEB SUSTAINABLE IMPACT FUND

NOVEMBER 2018  
PERFORMANCE  
UPDATE

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## FUND DESCRIPTION AND FEATURES

The Pengana WHEB Sustainable Impact Fund invests in companies with activities providing solutions to sustainability challenges.

WHEB have identified critical environmental and social challenges facing the global population over coming decades including a growing and ageing population, increasing resource scarcity, urbanisation and globalisation.

The Fund invests in companies providing solutions to these sustainability challenges via nine sustainable investment themes – five of these are environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management) and four are social (education, health, safety and well-being).

WHEB's mission is 'to advance sustainability and create prosperity through positive impact investments.'

Visit our website for more information on the [Fund](#).

## FUND COMMENTARY

For the month ending 30 November 2018, the Fund returned 1.3% compared to the MSCI World Net TR Index (AUD unhedged) which returned -1.8%.

Stock markets continued to be volatile during the month, following the sharp drop in October, as the markets were bombarded with news around trade tensions, US interest rates and oil prices. On the other hand, as markets have become more risk averse, we have seen stronger performance from defensive themes such as Health, Water Management and Safety.

The best performing theme in the month was Health. Within the theme, BTG was the best performer as it was bid for by a US medical devices company Boston Scientific for £3.3 billion in cash. The offer represented a premium of 36.6% above its closing price immediately prior to the announcement. We subsequently sold out of BTG to lock in profits, and initiated a position in UK company Spectris. Spectris is a leading supplier of instrumentation and electronic controls, which help customers to increase resource efficiency and reduce energy use through improving manufacturing processes.

HMS was another strong performer in the Health theme. It delivered solid quarterly results with strong growth in both its commercial and state government

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**APIR code** HHA0007AU

**Redemption price** A\$1.0782

**Management fee** 1.35% p.a.

**Minimum initial investment** \$10,000

**Strategy inception<sup>1</sup>** 1 January 2006

<sup>1</sup> The Fund inception on 31 October 2007 as the Hunter Hall Global Deep Green Trust. The Fund was relaunched on 1 August 2017 as the Pengana WHEB Sustainable Impact Fund employing the WHEB Listed Equity strategy. This strategy was first employed on 1 January 2006 by the Henderson Industries of the Future Fund and currently by the FP WHEB Sustainability Fund.

businesses. Recent acquisitions, which enable HMS to provide total care management solutions using artificial intelligence, machine learning, natural language processing and robotic process automation, have demonstrated meaningful success and paved the way for long term growth.

Cleaner Energy was another strong performing theme this month. Within the theme, Siemens Gamesa accounted for almost half of the outperformance as it saw strong order intake for its onshore wind turbines. The company is well positioned to win further business in the wind market given its strong market leadership.

The Environmental Services theme was the largest detractor. Several holdings in the theme are exposed to the economic cycle and underperformed this month as markets become more concerned about a slowdown in global economic growth. In particular, Smurfit Kappa underperformed as investors worried about new capacity coming online, which would put pressure on pricing.

The Fund benefitted from some tailwinds for relative performance this month by not having exposure to areas which don't qualify in our investable universe of companies providing solutions to sustainability challenges. This included some of the very large

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technology companies, and particularly the FAANGs (Facebook, Apple, Amazon, Netflix and Google). These mega-cap stocks have a large weighting in the benchmark, and therefore their recent underperformance was positive for our relative performance.

As stock markets have recently been driven by sentiment around macro-economic news, we see more buying opportunities through our longer-term lens as fundamental investors.

## WHEB COMMENTARY – THE UK THROUGH A SUSTAINABILITY LENS

The move to a more sustainable economy is a global one. Our strategy is global, and our outlook is global. The technologies that deliver sustainability are global. A good business model in Europe is more often than not a good business model in Asia and America.

There are regional differences. Culture is important. What passes for corporate governance varies too. We can reflect on different approaches to capitalism and sustainability around the world. This month is a good month to apply that lens to Great Britain, which is the home of WHEB Asset Management.

The prompt for this introspection is the loss of another of our portfolio UK companies to an overseas bid. The board of BTG Plc agreed on 20 November to be bought by its much larger US rival Boston Scientific.

We were pleased with the profit. The bid price of 840p per share was a 36% gain on our volume-weighted average purchase price. We were sorry though to lose an interesting and impactful technology company.

BTG is a pioneer in “interventional medicine” – minimally invasive image-guided diagnosis and treatment of disease. It offers the attractive possibility of better clinical outcomes with lower costs.

BTG is also a bit symbolic. It stands for “British Technology Group”. It can trace its roots to the 1948 foundation of the National Research Development Corporation, to commercialise government funded research. It can proudly claim to have introduced the world to such diverse technologies as continuously variable transmission, magnetic resonance imaging (better known as MRI scanning), cephalosporin antibiotics and even the hovercraft. And now it is disappearing into a much larger multinational.

WHEB has been here before. In July 2016, shortly after the Brexit vote, we lost ARM Holdings to a bid from Softbank of Japan. ARM was already then at the cutting edge of semiconductor chip design. Under its new Japanese owner, Softbank, it has gone from strength to strength.

Then, as now, we made a tidy short-term profit as investors. But then, as now, we lost another of the compelling impact opportunities in the UK market.

In some ways, this shouldn't be a problem. Industries are always changing and evolving. New companies are always emerging. And we do still have a stock of great British companies to invest in. In the portfolio this now includes testing and inspection company Intertek, and two advanced manufacturing specialists, Renishaw and Spectris.

But as we see it, the number of investable UK companies is not growing as quickly as we would hope. The UK still has one of the world's great university networks. The pace of innovation remains healthy. Why isn't this translated into more meaningful sustainable investment opportunities?

We can think of a couple of likely reasons. One is cultural. The UK doesn't have a tradition of bringing mid-sized companies through for the long-term. In Japan, Korea and Europe, there are well-established models of closely-held firms growing with patient finance, often from banks.

The American way is more free-wheeling. But it is such a huge capital market that if you want to build something, you can find plenty of people to help. In the UK, our middle market companies more often work with private equity firms. Some of them are interested in patiently growing real value, but others aren't.

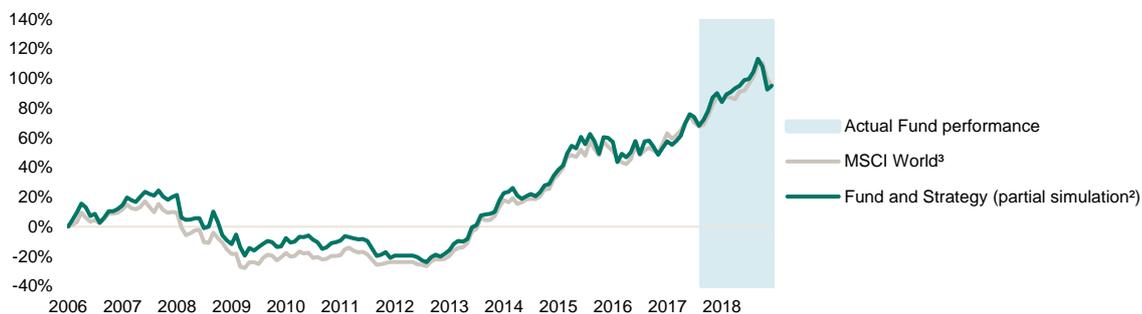
Another problem is that sustainability is often a manufacturing game. If you want to improve the environment, you often need to produce physical devices that interact with the physical world. The UK has a legacy of neglecting its manufacturing base. There aren't many financial, mining, business services or media companies that can credibly claim to be solving sustainability challenges.

Perhaps more hopefully, the last problem is Brexit. The words “hopeful” and “Brexit” are not easy bedfellows. But the reason for hope is that the uncertainty of Brexit will end at some point. UK entrepreneurs and investors will have some visibility again. And the opportunities from sustainability will come back to the fore. Whether the UK has the right corporate culture to embrace it is another question.

## FUND AND STRATEGY PERFORMANCE (NET OF FEES, AUD, PARTIAL SIMULATION<sup>2</sup>)

Net performance (%) for periods ending 30 November 2018

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	1.3%	2.6%			
Strategy (partial simulation <sup>2</sup> )			6.8%	10.7%	5.3%
MSCI World <sup>3</sup>	-1.8%	4.1%	8.2%	11.6%	5.3%



<sup>2</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>3</sup> MSCI World Total Return Index (net, AUD unhedged).

## PORTFOLIO INFORMATION

### Top 10 stocks

Name	Sustainable Investment Theme	Description
Agilent Technologies	Health	Research and diagnostics
Ansys	Resource Efficiency	Using IT to improve efficiency
Centene	Health	Cutting costs in healthcare
Ecolab	Water Management	Efficient water use
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
WABCO Holdings	Safety	Making people safe
Xylem	Water Management	Efficient water use

### Largest 3 contributors

BTG
Siemens Gamesa Renewable Energy
HMS Holdings

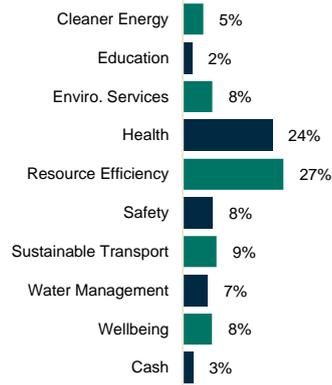
### Largest 3 detractors

ams AG
Smurfit Kappa Group
Premier Inc

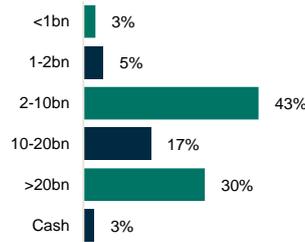
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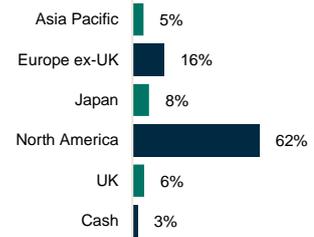
THEME EXPOSURE



MARKET CAP (U\$) EXPOSURE



GEOGRAPHIC EXPOSURE



Exposures may not sum to 100% due to rounding.

STATISTICAL DATA

Fund portfolio summary

Volatility <sup>4</sup>	12.84%	Number of stocks	58
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4. Annualised standard deviation since inception.

Pengana Investment Management Limited (**Pengana**) (ABN 69 063 081 612, AFSL 219 462) is the issuer of units in the Pengana WHEB Sustainable Impact Fund (ARSN 121 915 526) (**the Fund**). A Product Disclosure Statement for the Fund (**PDS**) is available and can be obtained from our distribution team or website. A person should obtain a copy of the PDS and should consider the PDS carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by Pengana and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. None of Pengana, WHEB Asset Management LLP (**WHEB**), or their related entities, directors, partners or officers guarantees the performance of, or the repayment of capital, or income invested in the Fund. An investment in the Fund is subject to investment risk including a possible delay in repayment and loss of income and principal invested.



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