



PENGANA WHEB SUSTAINABLE IMPACT FUND

SEPT 2018
PERFORMANCE
UPDATE

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 September 2018, the Fund returned -2.5% compared to the MSCI World Net TR Index (AUD unhedged) which returned +0.5%.

It was a quiet month for company news, and without earnings announcements. Despite this, some powerful economic sentiments are causing significant rotations between sectors, regions and styles. These sentiments include:

1. Fears over global economic growth, particularly outside the USA;
2. Fears over the impact of worsening trade relations (particularly between the USA and China);
3. An increasing expectation of rising inflation, driven in part by commodity prices; and
4. An anticipation of rising interest rates, particularly in the US but around the world too.

Fears over global economic growth and worsening trade relations are especially difficult for the strategy in the short term. This is because the demand for solutions to sustainability challenges is global and many of the portfolio companies are integrated in global supply chains, which are often sensitive to economic growth.

Underperformance in September came from weak performances in the Resource Efficiency,

Sustainability experts & portfolio managers	Ted Franks Seb Beloe George Latham
APIR code	HHA0007AU
Redemption price	A\$1.1502
Management fee	1.35% p.a.
Minimum initial investment	\$10,000
Strategy inception¹	1 January 2006

¹ 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.

Sustainable Transport and Environmental Services themes, all of which share these global and potentially economically sensitive exposures.

The Resource Efficiency theme was the largest detractor in the month. A lot of the weakness was provided by Austrian semiconductor manufacturer ams AG. ams has a world-leading portfolio of chips that allow environmental sensing, and particularly 3D vision. Despite a differentiated growth path, it pulled back in the month on concerns over a slowdown in the broader semiconductor sector.

Our Sustainable Transport theme was another detractor. Again, this was mainly driven by the overall sentiment against the automotive sector rather than stock specific news. The automotive sector is seen as a big loser in the trade war between the USA and China. Additional disruption to the sector was caused by the implementation of the Worldwide Harmonised Light Vehicle Test Procedure ('WLTP') which was applied to all new car registrations in Europe starting from September 2018. Over time, WLTP will strengthen vehicles emissions standards, which is positive. However, over the short term, a number of our holdings in the theme including Hella, Norma, TE Connectivity and Aptiv were negatively impacted by these factors. We think the secular trend towards safer, autonomous and electric cars will ultimately outweigh these headwinds.

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Our Environmental Services theme also performed poorly in the month. Horiba was the worst performer in the theme as its analysis and control products are sold into the semiconductor sector. Advanced wood-based fibre manufacturer Lenzing was another poor performer. It announced a delay to an expansion project in the USA due to the trade tensions among major economies as well as increasing labour costs in the US.

The best performing theme this month was Water Management. Within the theme, Xylem was the largest contributor. Xylem is a leading water technology provider for water and wastewater applications, with an exciting new range of “smart” products. The municipal water market in particular is still considered to be in good health.

As we write this, the pressures we describe above continue to be felt in equity markets. How long they will persist is hard to judge. We will get feedback on these pressures when companies start to report their third quarter earnings later this month. However, we will continue to look through the short-term factors to the longer-term drivers of value. We remain confident that the need for sustainability solutions will drive outperformance globally and across economic cycles.

WHEB COMMENTARY

Four of our stocks in our Sustainable Transport theme are exposed to improving vehicle efficiency. Three of them, Aptiv, Hella and TE Connectivity, are leaders in the electrification of cars. The fourth, Norma, will benefit from that trend but also has a big role to play in the transition to more efficient internal combustion engines.

In September, the subsector benchmark* for these stocks underperformed the broader market. The

stocks themselves all underperformed the subsector. They had been comfortably ahead over the previous three years.

And yet meaningful adoption of electric vehicles (‘EV’s) will occur in the next five years. The number of EV models available will jump from 155 at the start of this year to 289 by 2022.† The global stock of electric cars has grown by over 50% in each of the last three years.‡ The International Energy Agency can envisage EV penetration reaching 30% by 2030.§

More importantly, the messages from the companies themselves have been consistent. Even as demand for cars softens, the manufacturers are not pulling back from their electric and low-emissions development plans. The commercial imperatives are just too strong.

In the longer term, those imperatives are only strengthened by more expensive fossil fuels. Ironic then that also this month, the Brent crude oil price rose from \$77.53 to \$82.72 per barrel.** This move was driven by geopolitical tensions including with Iran, Russia and the Organisation of Petroleum Exporting Countries (‘OPEC’). Some forecasts have it now rising over \$100 for the first time since 2014.

The fossil fuel industry is enjoying this short-term revival. The Energy sector was the strongest performing segment of the broader market in September. That’s investment flowing into a sector which is undermining itself with higher prices.

For those playing a longer game, the real opportunities are elsewhere. Market dislocations like this often make them more apparent. And they offer the opportunity to add to the long-term winners at more attractive prices.

FUND AND STRATEGY PERFORMANCE (NET OF FEES, AUD, PARTIAL SIMULATION²)

Net performance (%) for periods ending 30 September 2018

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	-2.5%	16.9%			
Strategy (partial simulation ²)	-2.5%	16.9%	11.7%	13.8%	5.9%
MSCI World ³	0.5%	20.6%	12.4%	15.0%	6.0%

* MSCI World Auto Components Index (Bloomberg ticker MXWO0AP)

† Bloomberg New Energy Finance Electric Vehicle Outlook 2018

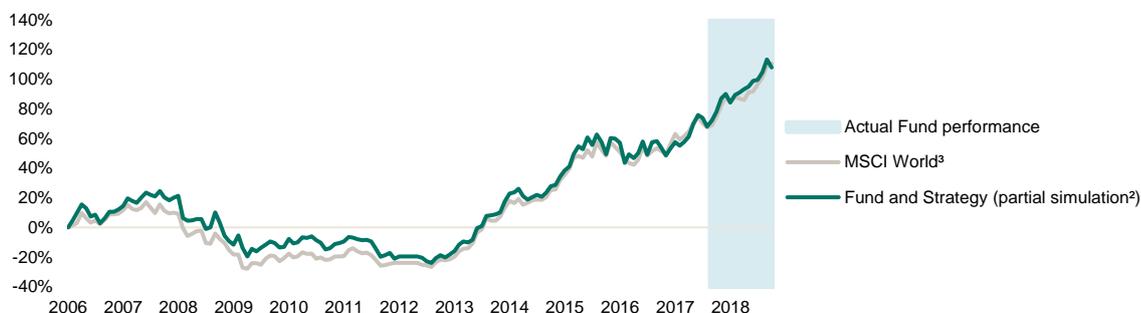
‡ IEA Global EV Outlook 2018

§ IEA Global EV Outlook 2018

** Bloomberg

**MONTHLY
REPORT**

**PENGANA WHEB
SUSTAINABLE
IMPACT FUND**



² 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.

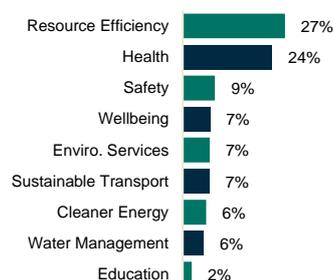
³ MSCI World Total Return Index (net, AUD unhedged).

PORTFOLIO INFORMATION

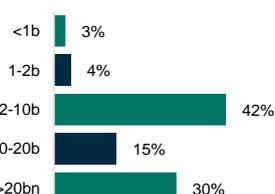
Top 10 stocks		
Name	Sustainable Investment Theme	Description
Agilent Technologies	Health	Research and diagnostics
CVS Health	Health	Cutting costs in healthcare
Danaher	Health	Research and diagnostics
Ecolab	Water Management	Efficient water use
Grand Canyon Education	Education	Education
Littelfuse	Safety	Making products safe
MSA Safety	Safety	Making people safe
Praxair	Environmental Services	Pollution control
Thermo Fisher Scientific	Health	Research and diagnostics
WABCO Holdings	Safety	Making people safe

Largest 3 contributors	Largest 3 detractors
Henry Schein	ams
Xylem	Littelfuse
MSA Safety	Siemens Gamesa Renewable Energy

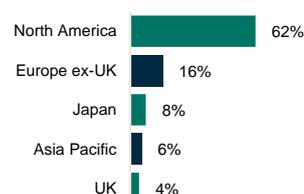
THEME EXPOSURE



MARKET CAP (U\$) EXPOSURE



GEOGRAPHIC EXPOSURE



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**PENGANA INVESTMENT
MANAGEMENT LIMITED**
ABN 69 063 081 612 AFSL 219 462

Level 12, 167 Macquarie Street,
Sydney NSW 2000

T: +61 2 8524 9900
F: +61 2 8524 9901
E: clientservice@pengana.com

PENGANA.COM

CLIENT SERVICE

T: +61 2 8524 9900
E: clientservice@pengana.com