INSIGHTS

Q1 2023 REPORT

Pengana WHEB
Sustainable Impact Fund

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TABLE OF CONTENTS

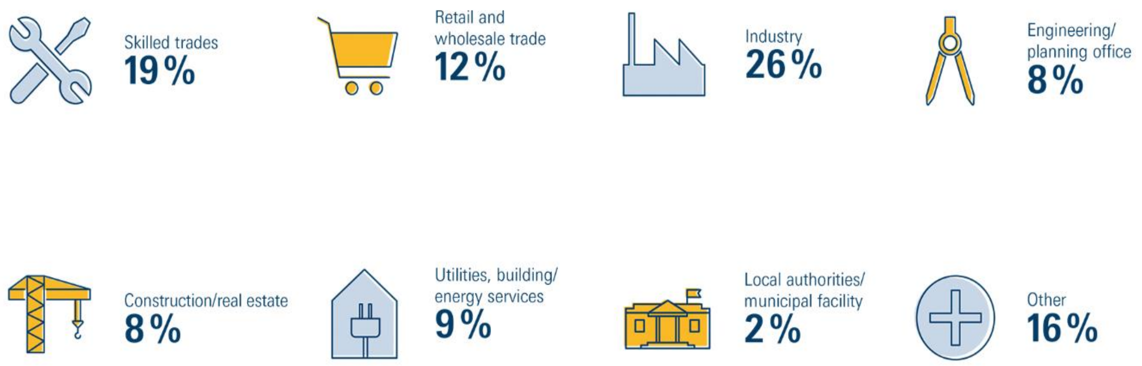
WHY THE HVAC INDUSTRY LOVES HEAT PUMPS

By Victoria MacLean

In February, Seb wrote about heat pumps and how WHEB invests in the technology[1]. But we aren't the only ones interested in the topic. This month, I travelled to Frankfurt for the world's leading trade fair for HVAC (heating, ventilation, and air conditioning), and there was just one thing on everyone's mind: heat pumps.

ISH is the world's largest exhibition space for the HVAC sector to showcase its products. The previous event in 2019 attracted over 2,500 exhibitors from all over the world, and almost 200,000 visitors. According to ISH, 71% of visitors have an influence on purchasing and procurement decisions. That means the trends seen at the exhibition could be an important indicator of the direction of the industry[2].

Overview of attendees



Source: ISH

Energy transition

Climate was a hot topic. The top themes highlighted by the ISH organisers were 'Solutions for Heat Transition' and 'Climate Protection and Energy Efficiency & Sustainability'[3]. Heat pumps were a central part of that discussion because they are key to achieving climate targets in the heating sector.

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[1] https://www.whebgroup.com/our-thoughts/why-we-love-heat-pumps
[2] https://ish.messefrankfurt.com/frankfurt/en/profile.html
[3] https://ish.messefrankfurt.com/frankfurt/en/programme-events/top-themes.html

It was clear at the event that heat pumps have reached a tipping point. In his blog post Seb made reference to the fact that, for a long time, heat pumps were seen as a niche technology. Several companies I spoke to said the same thing – the legacy companies had always dismissed heat pumps, but now it was the only thing they were talking about. One company quipped: the bigger the booth, the bigger the legacy fossil fuel business.

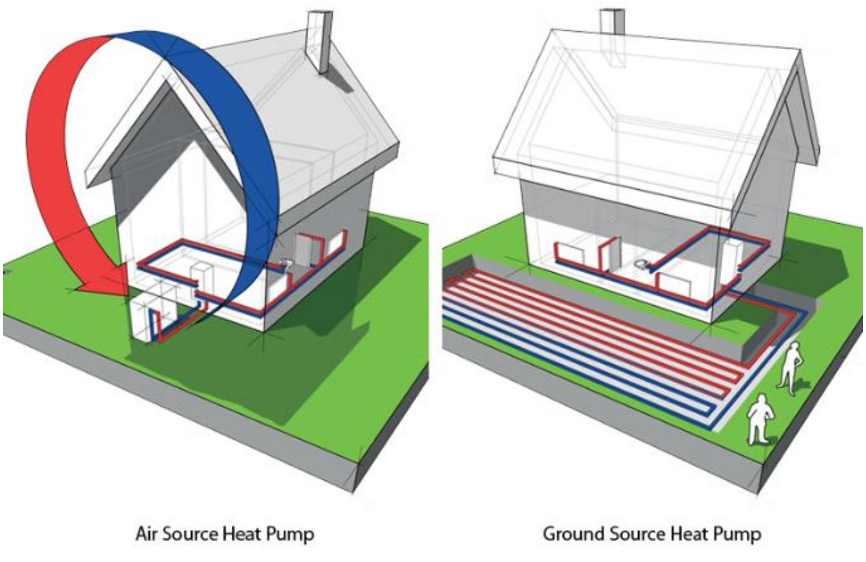
That's important for us. As impact investors we look for companies where the majority of revenues come from sustainability solutions. Our holdings, **Daikin Industries**, **Trane Technologies** and **Ariston Group**, all have material revenue exposure and a clear strategic focus on technologies contributing to the energy transition.

What's hot in heat pumps?

Clear themes emerged through the day: technology mix, competition, and refrigerants.

Technology

Heat pumps take heat from the ground or external air, and transfer it either to water or internal air. Some companies have a legacy in a specific technology. Nibe, for example, has a long history in ground source heat pumps which are common in the Nordic countries. Others have a wider portfolio, particularly those companies with large HVAC franchises.



Source: Green Square

So, which will win? The answer depends on the country, specifically the geology and the housing stock. Old buildings with bad insulation and small radiators need more heating capacity but work well with air-to-water systems because they can utilise existing pipe systems. Ground source works better in certain soil types and for new builds but is less well suited to retrofit because of the underground drilling required for installation.

Competition

There are about 41 heat pumps brands in Europe alone, with some big players like Daikin and Nibe, and some very small local ones. One thing that will differentiate companies is the quality and reliability of the technology, for example in meeting efficiency claims. Installers are a major bottleneck so those with strong relationships are likely to be well-placed.

Daikin came across well on that front. They are building out a network of training centres designed to be close to installers. They are also introducing a service and maintenance approach based on certified partners. The aim is to have a unified approach to quality standards and aftersales.

Source: ISH participant list

In the medium to long-term the industry is likely to consolidate. Competition will influence pricing so to maintain or grow margins companies will have to reduce costs. That requires scale in manufacturing, something which Daikin already has given its experience in HVAC.

What about China? I met Midea, who make their own branded heat pumps as well as doing contract manufacturing for other companies. They have an aggressive growth target but are coming from a small base. Their annual targets are in the range of tens of thousands of units compared with Daikin's millions[4]. They also commented that they have struggled to gain share-of-mind with installers because of the strong position of local brands and the quality HVAC companies. Chinese competition is certainly something to remain mindful of but it's not a significant threat at the moment.

Refrigerants

These chemicals are crucial to the operation of heat pumps but are rightly coming under increasing scrutiny from regulators because of their potent global warming potential (GWP). There are proposals to require refrigerants to have GWPs that are significantly below the current

[4] Based on company 2025 production capacity targets

standard[5]. As a result, companies are introducing products which use propane, which has a GWP of 3 compared to the industry standard refrigerant R32 which has a GWP of 675.

Source: UL Solutions

Using a different refrigerant requires a complete redesign of the heat pump because the thermodynamic properties are so different. The critical component in the redesign is the compressor, a technology that is very familiar to HVAC companies but less so to the traditional boiler companies. Once again this is a key advantage for **Daikin**.

Electrification of industrial heat

A related area that was less of a focus at ISH but has been a recent area of research for WHEB is the electrification of industrial heat. The use of heat in industry is responsible for 10-15% of global greenhouse gas emissions. Industrial scale heat pumps are a key technology in helping to reduce these emissions. Daikin and Trane Technologies are well-placed to address this market. Spirax-Sarco, another WHEB portfolio business, is also exposed to this trend. They have built their Electric Thermal Solutions (ETS) business through a number of acquisitions including of the US company Chromalox that manufacturers electric boilers among other things. Not only are these systems significantly more energy efficient that fossil powered systems, but as grid electricity is decarbonised, so these systems enable further significant GHG reductions.

Conclusions

Heat pumps have been experiencing dramatic growth particularly in Europe with year-on -year growth rates in many countries of over 100%. It was clear from talking to attendees at the exhibition that strong growth is likely to continue over the coming decade. Meeting so many companies in the industry was useful for understanding the market dynamics, including both the opportunities and the risks. Importantly, it painted a picture that is supportive of our holdings. They have the technology, the scale and the relationships that will put them in a strong position to benefit from the rapid growth of the industry.

[5] Carbon dioxide has a GWP of 1.

THE EU TAXONOMY - 'TOUT ÇA POUR ÇA?'

By Seb Beloe

The EU Taxonomy - Tout ça pour ça?

'Tout ça pour ça?' or 'all that for this?' was the title of a hit-and-miss 1990s comedy by celebrated French director Claude Lelouch. But the expression also feels like an appropriate preliminary conclusion on the impact of the EU's Taxonomy. 'Tout ça pour ça?' was certainly not Lelouch's finest film and it has justifiably fallen into obscurity. Now on the cusp of its third anniversary, the EU Taxonomy may ultimately face the same fate.

The state of play

We originally wrote about the EU Taxonomy after the Technical Expert Group (TEG) published its recommendations in 2018.[6] While welcoming those recommendations we were anxious that the taxonomy focus on the underlying environmental performance standards needed to achieve greenhouse gas (GHG) reductions rather than long lists of products and technologies that are either 'in' or 'out'.

Since then a lot has happened and a lot of pages of guidance, lists and interpretation has followed. The latest contribution from the Platform on Sustainable Finance published in October 2022 runs to 382 pages.[7] It contains technical screening criteria for forestry and logging that runs to almost one hundred pages on its own.

One (and a half) steps forward

There are undeniably some positives from the work that the EU has done on the taxonomy. First and foremost is the fact that the taxonomy focuses attention on the ultimate contribution of an economic activity to climate change mitigation or adaptation. For the most part it does not rely on often-flawed ESG ratings – a point we will come back to – and refocuses attention on the positive impact of products and services that companies supply.

We are also now beginning to see good quality data coming through from companies in WHEB's investment strategy. For example, companies like **Vestas** have further refined their calculation in 2022 concluding that 96% is taxonomy aligned. Other companies like **Infineon** have only just started reporting. In November last year the company confirmed that a reassuringly precise

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[6] https://www.whebgroup.com/our-thoughts/making-the-european-sustainable-finance-taxonomy-a-carrier-and-not-a-barrier-to-sustainable-finance
[7] https://finance.ec.europa.eu/system/files/2022-11/221128-sustainable-finance-platform-technical-working-group_en.pdf

57.7% of its revenues are 'taxonomy eligible'.[8] Several other companies including **Ariston**, **Arcadis** and **Smurfit Kappa** have also published their 'taxonomy eligible' numbers with a commitment to publish 'alignment' numbers in 2023.[9]

And one step back

But in all of these disclosures, there is also evidence of confusion and frustration. Some of this will presumably be addressed in time. For example, several businesses report low eligibility figures because the principal contribution they make is to environmental objectives, such as the circular economy, that are not covered by the current taxonomy.

But for others there is a frustration with the narrow definitions that underpin eligible activities. For example, Arcadis argue that their design, engineering and consultancy work '*enable other companies to be more sustainable… but because Arcadis itself is almost never engaged in [construction] activities, the actual list of relevant taxonomy activities to Arcadis is very narrow*.'[10]

Infineon face a similar problem. The company makes power semiconductors that go into renewable power equipment and battery electric vehicles, which are clearly taxonomy eligible. But some of their products, such as Silicon Carbide (SiC) and Gallium Nitride (GaN) based semiconductors, are inherently more energy efficient than legacy silicon-based technologies whatever end market they are sold into. The company has not included revenue from these products because they are not confident that they are intended to be eligible. ST Microelectronics meanwhile also make SiC and GaN semiconductors and compete directly with Infineon. In contrast to Infineon though, they do consider these products to be taxonomy eligible.[11]

ABB, a company that we don't own in the strategy, is more pointed in its frustrations. '*In our view, the EU taxonomy as it stands significantly underestimates the contribution that our products, solutions and services make in reducing our customers' carbon footprints… The EU taxonomy… does not consider the management of electricity consumption, which could be substantially reduced in a short time frame through the deployment of readily available and cost-effective technologies*.'[12]

Muddying the waters

Under the Sustainable Finance Disclosure Regulation (SFDR) asset managers and owners are also obliged to report the proportion of their investments that are taxonomy aligned. An entire army of data providers have now stepped forward to offer their support. Utilising a variety of methodologies data tends to be estimated as very few companies have so far reported taxonomy

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[8] https://www.infineon.com/dgdl/Sustainability+at+Infineon+2022.pdf?fileId=8ac78c8b84a33cb40184bd6a9c8f0035

[9] An economic activity is described as 'eligible' when it qualifies under the technical screening criteria accompanying the Taxonomy. Alignment of an activity goes beyond eligibility and can be shown not to cause significant harm to other taxonomy objectives and to meet the criteria for meeting minimum social safeguards.

[10] https://www.arcadis.com/en/investors/arcadis-annual-integrated-report

[11] https://sustainabilityreports.st.com/sr22/key-data/eu-taxonomy.html

[12] https://sustainabilityreport.abb.com/2021/tables-figures/eu-taxonomy.html

alignment. And their numbers vary dramatically. We have reported previously on examples where companies with 100% of revenues from solar technology get scored 0% for their taxonomy eligibility due to the industry coding that they have.[13] Others adopt a more granular approach and attribute the company (rightly in our view) 100% taxonomy eligibility.[14]

Assessing alignment (rather than eligibility) will be even more convoluted because alignment requires that the company 'does no significant harm' to other environmental objectives and meets 'minimum social safeguards'. These terms have also been the subject of further guidance from the EU[15] but many asset managers and owners look to third party data providers to issue 'red flags' to companies that are considered to be in breach of core human rights and labour standards. The problem is that there is no shared standard of what a 'violation' constitutes. We've come across one company that had been 'red flagged' on Bloomberg for violations of the UN Global Compact principles. On further investigation, the 'violation' was linked to a comment in the company's 2020 Annual Report that stated that two cases of employee discrimination had been raised. Both of these had been successfully resolved by 2022. Clearly all cases of discrimination need to be treated seriously and fully addressed, but we do not think it is the intent of the 'minimum safeguards' to screen out companies who have had any type of allegation levelled against them.

Special pleading

Meanwhile of course, at the end of 2022, following intense lobbying by certain member states and affected industries, the Taxonomy was amended to include both nuclear power and natural gas power generation. Natural gas projects will need to meet certain greenhouse gas emission thresholds, but even so, the inclusion of both industries has been deeply controversial. Environmental groups have challenged the inclusion of natural gas as unlawful and in conflict with climate science.[16] The decision to include these industries has also encouraged others to seek ways to get their own industries included including the airline industry.[17]

The US has a business case and Europe makes a law

Meanwhile, the US has successfully passed the ground-breaking Inflation Reduction Act.[18] We view this as a game-changer. Not just because of the quantum of money that it delivers, but as importantly, because of its simplicity and directness. Where the EU has spent significant time, resource and political capital constructing a highly complex framework for sustainable finance, the US has directly intervened in industrial policy to turbo-charge the deployment of the

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[13] NACE codes are the EU's industry classification system (https://connects.world/nace-codes/#:~:text=The%20NACE%20codes%20are%20a,NAICS)%20for%20classifying%20business%20activities)
[14] https://www.whebgroup.com/our-thoughts/esg-ratings-a-quick-fix-or-a-bodged-job
[15] For example see the report from the Platform on Sustainable Finance on minimum safeguards at https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf
[16] https://www.clientearth.org/latest/press-office/press/eu-taxonomy-environmental-groups-start-legal-action-against-sustainable-gas-classification/
[17] https://www.transportenvironment.org/discover/eu-taxonomy-for-aviation-will-von-der-leyen-rubber-stamp-the-biggest-act-of-aviation-greenwashing-in-decades/
[18] https://www.whebgroup.com/our-thoughts/the-us-inflation-reduction-act-how-significant-is-it

technologies that underpin the zero-carbon transition. Policies that deliver quick reductions are particularly appealing given the limited time left to drastically reduce emissions. As one industrialist put it ‘The US has a business case and Europe makes a law’.

No doubt the US will develop its own sustainable finance framework to support the capital flows that underpin the zero-carbon economy. Much easier though to do this once real economy policies have already blazed the trail. The EU (and the UK) will now need to catch-up if the US – and China – are not to end up in the driving seat once again in the coming industrial revolution.

STEWARDSHIP IN THE SPOTLIGHT: COLLABORATIVE ENGAGEMENT

By Rachael Monteiro

'Everything, everywhere, all at once'

…was the phrase UN Secretary General António Guterres used at the launch of the sixth IPCC synthesis report[19]. Rather than referring to the Oscar-winning multiverse fantasy film, Mr. Guterres was - rather soberly - describing the level of climate action needed for a *chance* of limiting global temperature rises to 1.5 °C.

In 2022, the investment industry leveraged collaborative networks to push for sustainability agendas more than ever before[20]. However, achieving market transformation will require sustained, collective efforts from an alliance of investors as opposed to any single entity.

Collaborative advantages

In our previous blog in this series, we outlined how stewardship is a fundamental component of WHEB's investor contribution[21]. **Collaborative engagement** is an important tool for institutional investors to influence both portfolio companies and the financial system as a whole[22].

Where asset managers or owners collaborate with other investors to engage an issuer to achieve a specific change; or work as part of a coalition of wider stakeholders to engage on a thematic issue'[23], there can be advantages over doing so bilaterally. This is because:

- Investors may enjoy enhanced power, legitimacy, and urgency as their collective weight behind a unified message can be more difficult for company management to ignore. This is especially helpful as an escalation tactic where previous attempts to engage or effect change when firms are acting individually have been unsuccessful. We have found this to be a particularly effective approach when previously discussing net zero carbon targets with Intertek alongside another investor.

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[19] https://www.theguardian.com/environment/2023/mar/20/ipcc-climate-crisis-report-delivers-final-warning-on-15c
[20] https://esgclarity.com/mounting-pressure-start-of-sustainable-investing-2-0/
[21] This is outlined in more detail in WHEB's model of impact investing in listed equities: https://www.whebgroup.com/investing-for-impact/about-impact-investing/our-perspective
[22] Enterprise level investor contributions: where we can have a direct impact on companies for example, through stewardship activities such as engagement with companies and proxy voting at AGMs. Systems level investor contributions: refers to engagements aimed at the wider financial system that indirectly support positive impact businesses
[23] https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

- Collective expertise and research can be shared and developed amongst group members, supporting knowledge and skills sharing, with wider-ranging effects beyond the scope of the engagement. For example, WHEB has benefitted greatly from the expertise of ChemSec when engaging on hazardous chemicals in an initiative that has effectively combined the NGO's technical knowledge with the clout of a number of institutional investors.

- Efficiency gains can be achieved where companies are collaborating and would have otherwise engaged the same company separately. This avoids duplicating work (for both investors and issuers) and potentially costs, as was the case when we engaged **Aptiv** on labour standards alongside another investor.

In recognition of the effectiveness of collaborative engagement, formal networks , such as the PRI, IIGCC, IIHC, and CA100+ as well as others WHEB is a member of[24], have developed infrastructure to support and facilitate long-lasting dialogues[25]. They also encourage investor feedback into public policy, such as the FCA's Sustainable Disclosure Requirements (SDR)[26], which seeks to improve the consumer's ability to navigate sustainable investments.

Balancing direct and collaborative engagement

In certain instances, it is more practical for investors to communicate with a company directly. WHEB, as a long-term investor, has established good relationships with companies held in the strategy. We often prefer to raise material topics directly, especially where immediate action is required as was the case most recently when we were alerted to a controversial animal labour issue at portfolio company, HelloFresh. We can then escalate via collaboration or other methods, if required

When collaborating, coordination and preparation are crucial for enabling an effective engagement. Researching and agreeing a shared understanding of the topic and the associated business case with the group as well as identifying stakeholders and deciding on objectives and methods can take significant time and resource.

Collaboration also poses challenges[27], for example when groups involve many investors there is the risk that some members benefit without contributing. Large diverse groups may scale-back objectives to achieve consensus, resulting in frustrations or even reputational risks for more ambitious members. Regulatory uncertainty has also limited German investors' participation in initiatives like CA100+, over fears the collaboration would be in breach of 'acting in concert' and therefore breaching competition rules[28].

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[24] Principles for Responsible Investment (PRI), Institutional Investors Group on Climate Change (IIGCC), Investor Initiative on Hazardous Chemicals (IIHC), Climate Action 100+ (CA100+). Please see more https://www.whebgroup.com/about/our-industry-networks

[25] https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=3f6dc62eff30bda8a8ce729d15f78479bad580c2

[26] WHEB's view on the FCA's proposals for Sustainable Disclosure Requirements (SDR) - https://www.whebgroup.com/our-thoughts/whebs-view-on-the-fcas-proposals-for-sustainable-disclosure-requirements-sdr

[27] https://www.frc.org.uk/getattachment/de8c91f5-c2cb-4b8b-9a98-34c31f382924/FRC-Influence-of-the-Stewardship-Code_July-2022.pdf

[28] https://www.responsible-investor.com/german-government-advisory-group-advances-plans-for-collective-engagement-platform/

WHEB’s approach to collaboration

Bearing the above factors in mind, we consider collaboration to be an essential element of WHEB’s stewardship approach and try to apply the following general principles in order to effectively influence both portfolio companies and the financial system as a whole:

1. WHEB’s engagement focuses on issues or topics that are material at the company or strategy-level.
2. Collaboration is an effective escalation tool particularly where investors share a similar philosophy and approach. Collaboration can also enable sharing of relevant insights between participating investors.
3. We prioritise quality over quantity and strive to be active participants in collaborations by leading or co-leading, providing analysis, opinion and pushing for timely responses from company management and other stakeholders.

PERFORMANCE COMMENTARY

Market review

So far in 2023, global equity markets have proven to be resilient in the face of weaker economic forecasts and banking tensions. The MSCI World Index rose 9.1% in the quarter, with the majority of that increase in January.

Hopes that peaking inflation would slow the US Federal Reserve's interest rate increases, drove a rotation into quality growth stocks and big tech. Some high-profile banking failures did raise fears of another financial crisis, but so far the market has treated them as isolated rather than systematic risks.

For the MSCI World Index, Technology sector stocks were the biggest winners over the quarter, with Energy sector stocks the laggards. "Value" investment styles struggled over the quarter, partly due to the expectations shift, and partly due to the uncertainty in the banking sector.

Performance review

The Fund posted positive returns of 10.1% over the quarter.

Resource Efficiency was the best performing theme due to holdings in **Ansys** and **Silicon Labs**. Cleaner Energy also performed well, driven by the position in First Solar, which continues to benefit as the only major US solar module manufacturer. The company has now entirely booked out its manufacturing capacity through to the end of 2025 and is taking bookings out to 2029. Further positive contributions came from the Sustainable Transport theme, and Infineon Technologies in particular. The company announced stronger than expected results for the first quarter and raised its outlook for the full year due to a better-than-expected demand environment.

This was partially offset by negative contributions from the Environmental Services and Health themes. In the Environmental Services theme, **DSM** and **Smurfit Kappa** were among the worst detractors. DSM has been impacted by continued deterioration in vitamin pricing within its animal health business, as well as uncertainty about its merger with flavours and fragrances rival Firmenich, as completion has been delayed by regulatory approvals. Smurfit Kappa's competitor DS Smith stated its third quarter update that corrugated box demand had been weaker during the second half relative to a year ago, hitting sentiment in that sector.

Outlook

Overall market sentiment remains cautious. Recent economic data has been solid, and the US Federal Reserve has hinted that interest rate increases may slow from here in the wake of the issues in the banking sector. However, we have yet to see definitive signs of disinflationary traction.

Companies within the portfolio remain resilient in the current environment, and notably have very little exposure to the fallout of the banking collapses. While there is uncertainty in the short term, we remain confident in the long-term positioning of our holdings.

PENGANA
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PORTFOLIO ACTIVITY

We initiated two new positions and exited two existing positions during the quarter.

Recent purchases

We initiated a new position in **TOMRA Systems** in our Environmental Services theme. TOMRA is the global leading manufacturer of reverse vending machines, with a 70% market share. It is also very strongly positioned in the provision of sorting solutions in mining, recycling and food.

Reverse vending machines are used in countries which have a deposit return system (DRS). In a DRS, consumers pay a deposit on bottles which are then collected via TOMRA's machines and the deposit returned to the customer. We expect regulation, such as the EU Single Use Plastics Directive, to expand substantially TOMRA's addressable market. Currently, only 8 out of 27 EU countries have a DRS in place.

TOMRA is strongly aligned with the Circular Economy and a key beneficiary from the increasing drive to eliminate single-use plastic in the fast-moving consumer goods market.

We also initiated a new position in **Enphase Energy** in our Cleaner Energy theme. Enphase is a provider of microinverters for residential and small commercial solar photovoltaic (PV) applications. Inverters are used to convert efficiently the direct-current electricity generated by a PV system into alternating current which can then be either be consumed locally or fed back into the grid.

Enphase has a particularly strong competitive position in the US, where it commands >50% share of the residential solar inverter market, sharing an effective duopoly with SolarEdge. This competitive position, combined with Enphase's strong focus on product innovation, brand power, and customer service, positions the company very well to capture the rapid growth in the residential solar market.

We have high conviction in Enphase's growth potential as the company is expected to significantly expand its domestic US manufacturing capacity, to capture demand and incentives related to the Inflation Reduction Act. Meanwhile, Enphase is expected to complement this growth with a growing presence in Europe, increasing sales for its residential solar battery, and a more nascent opportunity from the sale of electric vehicle (EV) chargers.

Recent sales

We sold our position in **Globus Medical** in the Health theme. Globus is a leader in manufacturing spinal implants and surgical instruments for musculoskeletal disorders. The company has also recently developed the ExcelsiusGPS system, the first robotic device supporting surgeons in spinal surgery, and Excelsius3D, its accompanying imaging platform.

Our investment in Globus was driven our belief in the strength of its robotic platform. This is seeing strong growth and creating a positive pull-through for its entire implants and consumables portfolio. We think this platform is well-set to be a source of growth for many years to come.

We were therefore surprised in February when Globus announced its (in our view) overpriced merger with competitor Nuvasive. We consider Nuvasive's robotics platform to be inferior to that of Globus, and moreover Globus management had recently ruled out any such merger. We decided to close our position due to a) the dented credibility of the Globus management team, b) the high acquisition price and c) the fact that most larger mergers in the medical tools space have historically resulted in substantial disruption to the merged businesses.

We have also sold our position in **Sonova** to make space for the investment in TOMRA. Sonova is in the Wellbeing theme and a provider of hearing solutions. It holds a strong share in the hearing aid manufacturing market as well as operating its own retail stores. It also develops cochlear implants and more recently entered the consumer segment through the acquisition of Sennheiser.

Conditions in the hearing aid market remain challenged due to the economic environment and Sonova has an additional headwind to growth following the loss of the Costco wholesale contract in the US. At the same time, Sonova is likely to go through a period of elevated spending as it integrates Sennheiser and a recently acquired Chinese business, as well as expanding its retail presence in the US. Furthermore, a regulatory change in the US has allowed over-the-counter (OTC) products to enter the market for mild- to moderate- hearing loss.

While we remain confident in the long-term prospects for this high quality operator, and indeed have retained a position in Sonova for WHEB's European-only strategy, we have closed our position in the global strategy in favour of the position in TOMRA

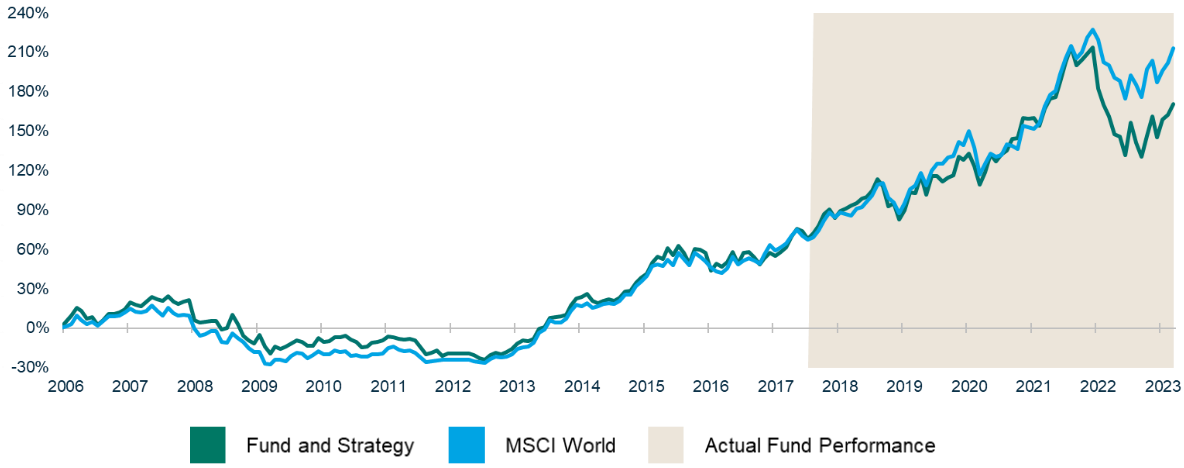
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 31 March 2023 (%)

	3 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	10.1	3.6	8.9	6.9	
Strategy (partial simulation)[29]					5.9
MSCI World[30]	9.1	4.3	13.0	11.0	6.8

Performance Since Strategy Inception

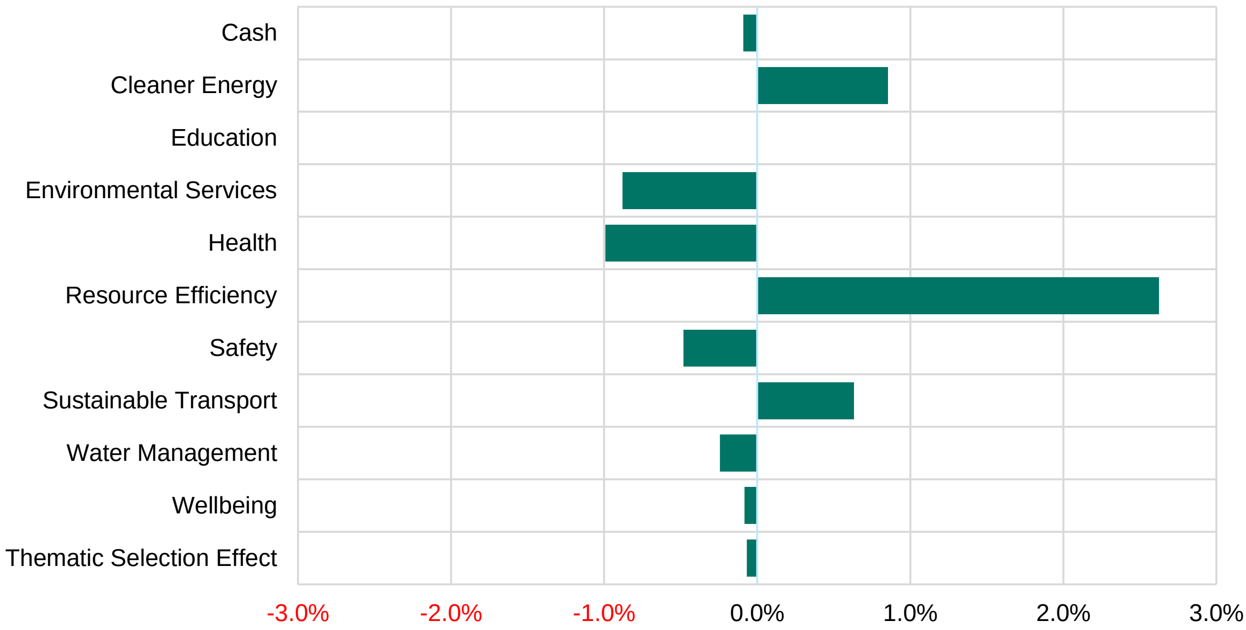


[29] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns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

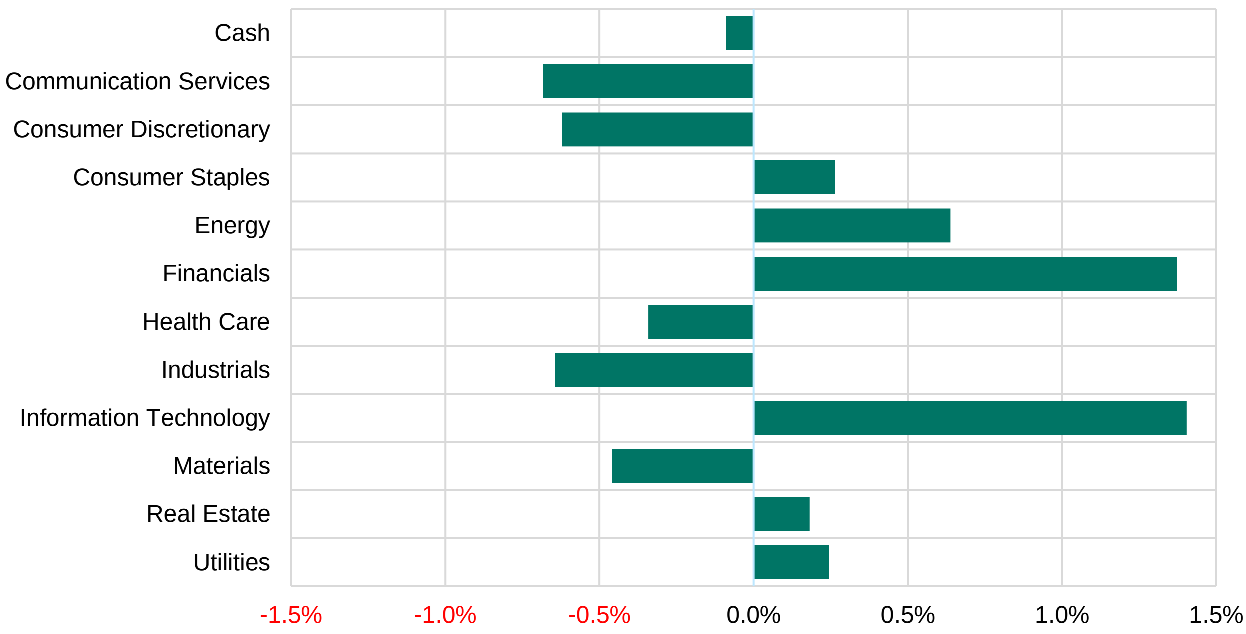
[30] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[31]

Attribution by Sustainability Theme[32]

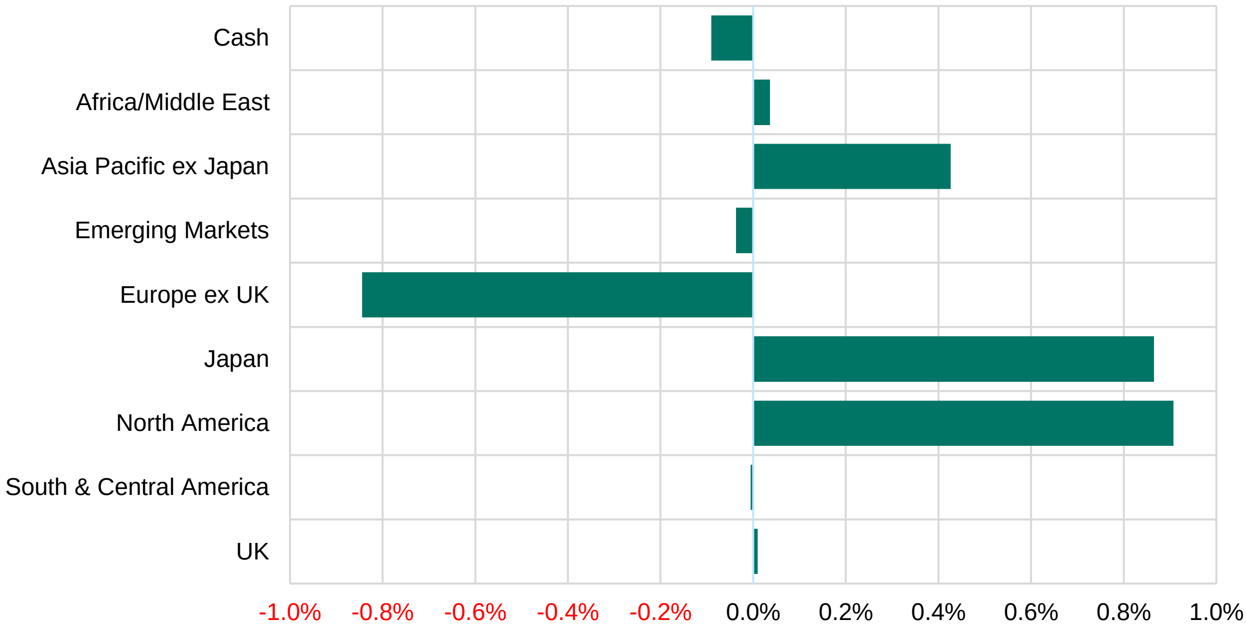


Attribution by Sector

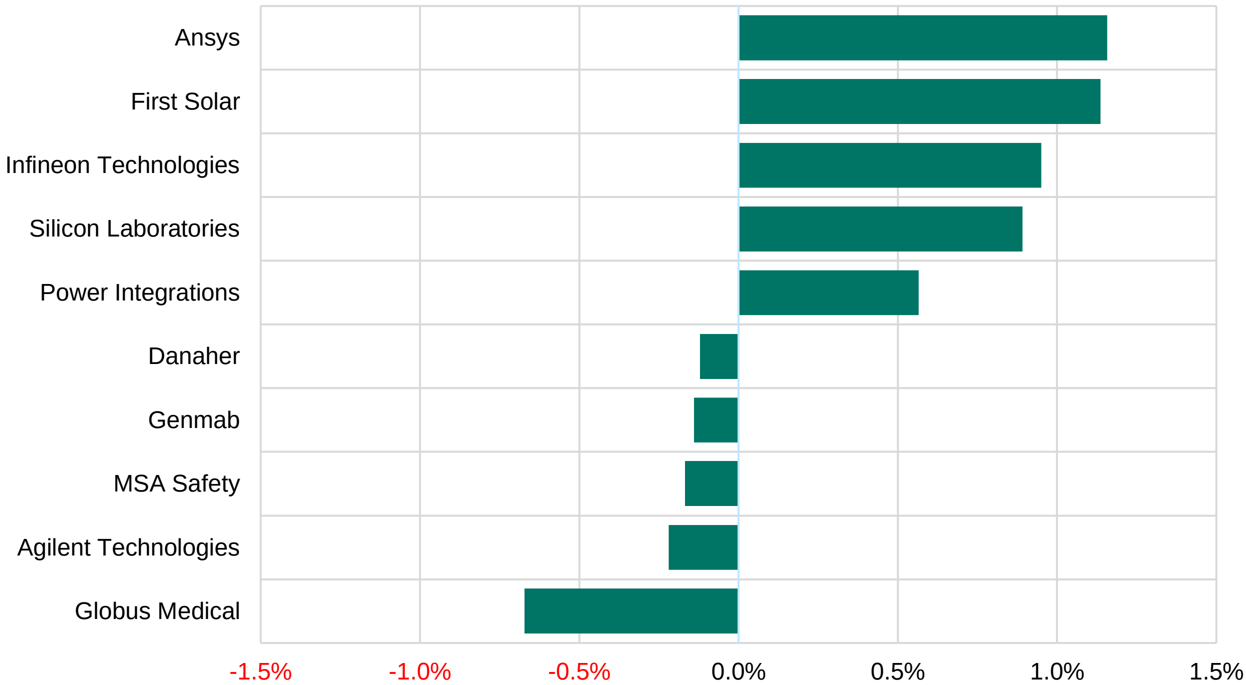


[31] Performance attribution is calculated with reference to the MSCI World Index
[32] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

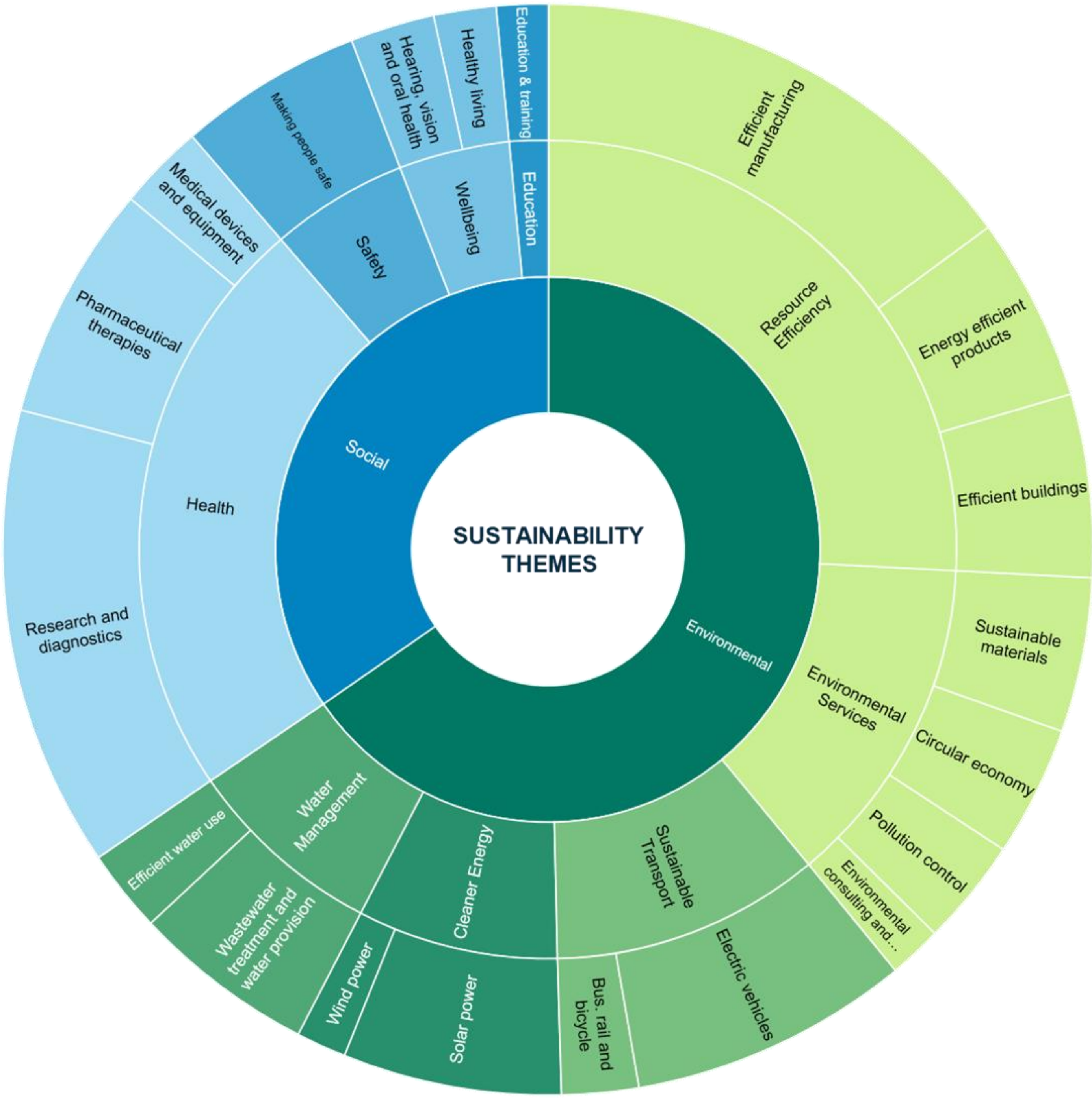


Contribution by Stock (Top and Bottom 5)



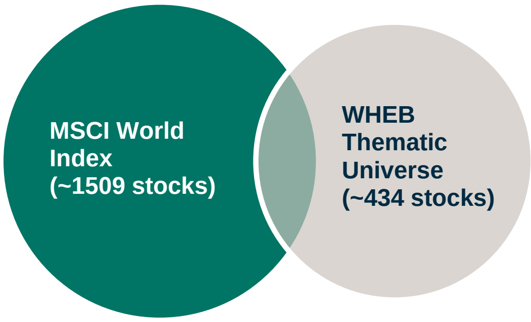
PORTFOLIO ANALYSIS AND POSITIONING[33]

Sustainability Theme Exposure



33 As of 31 March 2023.

Theme Overlap

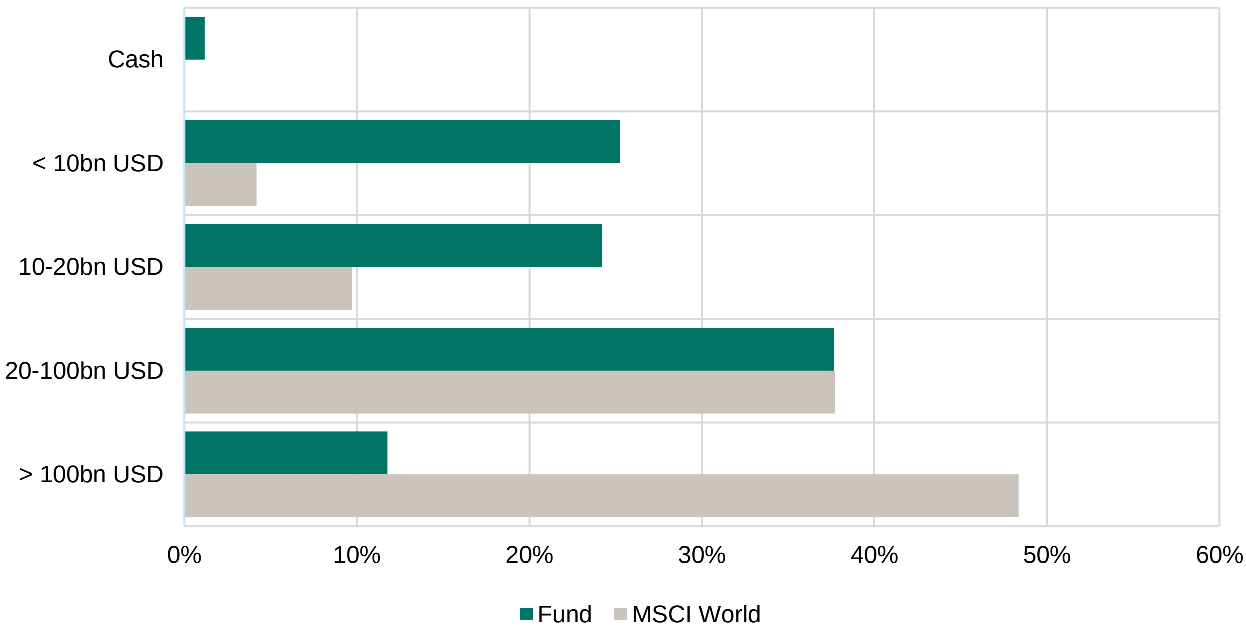


Overlap: ~216 stocks;

14.1% (as at 31 March 2023) of MSCI World Index (market-cap weighted)

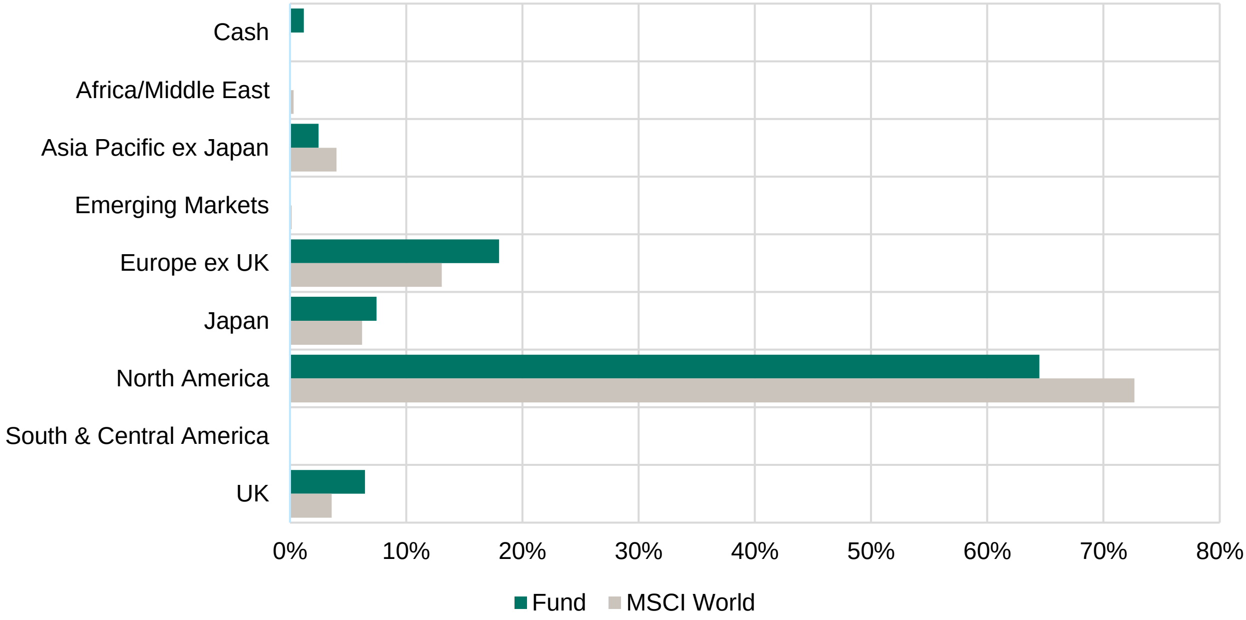
The thematic focus of the WHEB strategy means that our investable universe overlaps with the benchmark by around 15%. This leads to significant structural biases in the fund's exposure, which may make comparison to the benchmark complex. These style biases towards growth, quality and mid-cap are all 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[34]

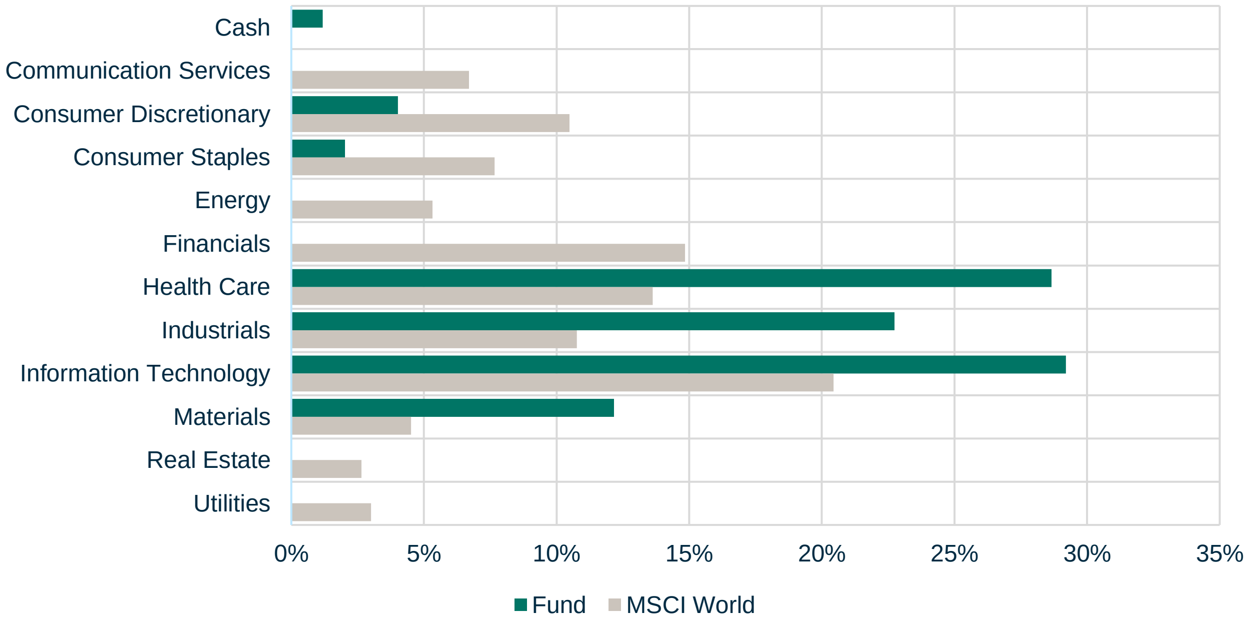


[34] Average of daily exposures over the quarter.

Regional Exposure[35]



Sector Exposure[36]



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[35] Average of daily exposures over the quarter.
[36] Average of daily exposures over the quarter.

PENGANA
CAPITAL GROUP

Largest 10 Positions

Name	Sustainable Investment Theme	Description
Ansys	Resource Efficiency	Efficient manufacturing
CSL	Health	Pharmaceutical therapies
Danaher	Health	Research and diagnostics
Icon	Health	Research and diagnostics
Linde PLC	Environmental Services	Pollution control
Power Integrations Inc	Resource Efficiency	Energy efficient products
Steris	Safety	Making people safe
TE Connectivity	Sustainable Transport	Electric vehicles
Thermo Fisher Scientific	Health	Research and diagnostics
Trane Technologies PLC	Resource Efficiency	Efficient buildings

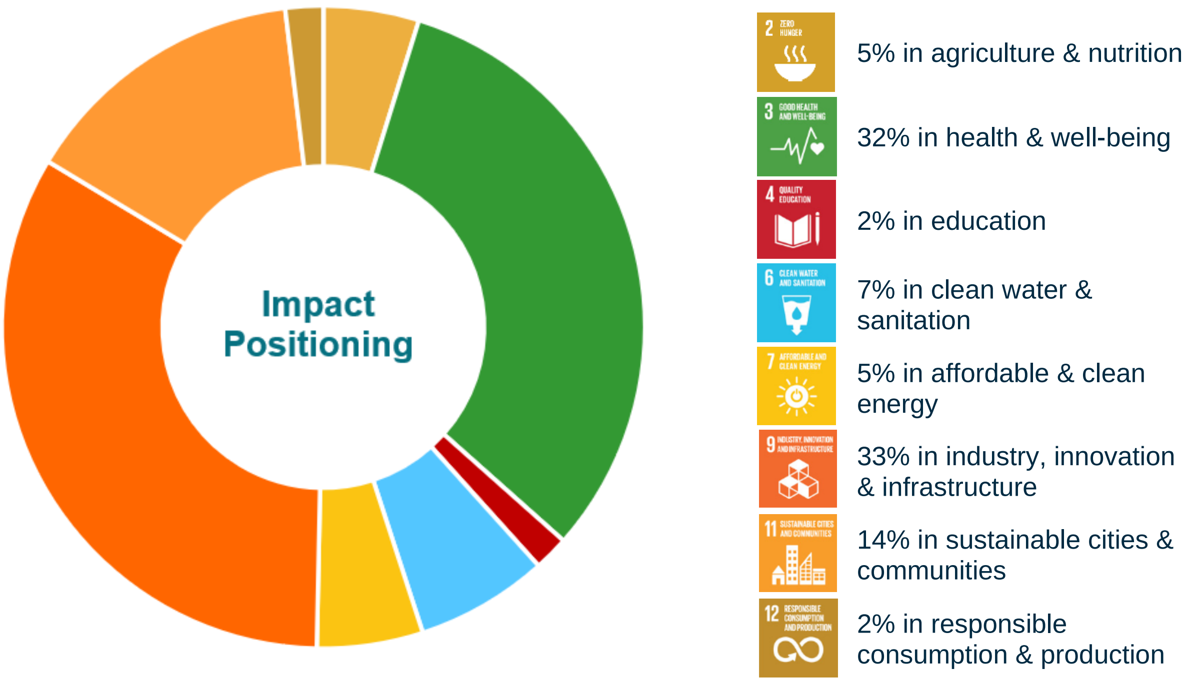
Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	21.68	15.32
FY2 Earnings Growth	17.67	13.35
FY1 PE/FY2 Earnings Growth (PEG)	1.34	2.59
3-year Volatility	17.30%	18.11%
Beta (predicted)	1.13	
1-year Tracking Error (predicted)	6.74%	
5-year Tracking Error (ex-post)	8.00%	

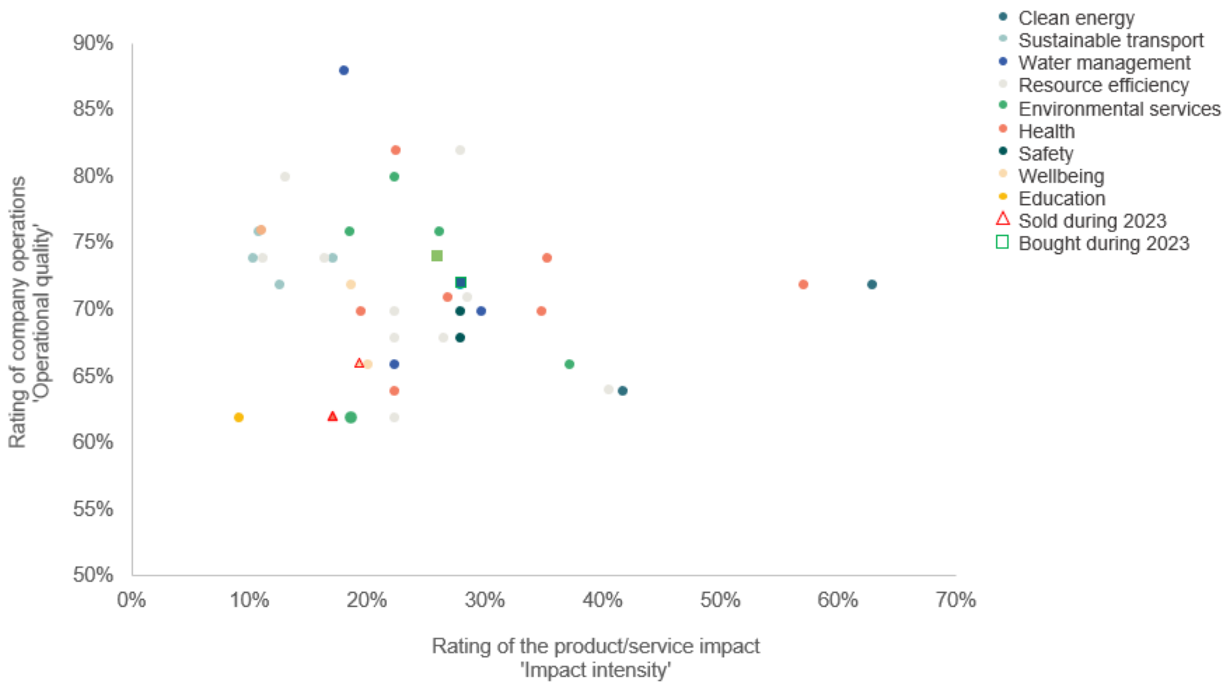
Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Sonova	Sale	Wellbeing	New market dynamics and price pressure reduce conviction
Globus Medical	Sale	Health	Concerns surrounding the proposed acquisition of Nuvasive, a competitor
Tomra	Purchase	Environmental Services	Industry leader in Reverse Vending Machines making a strong contribution to the circular economy
Enphase	Purchase	Cleaner Energy	Global leader in microinverters for rooftop solar with strong growth prospects in the US and Europe

Impact Positioning: Supporting the UN Sustainable Development Goals[37]



Impact Map of the strategy's portfolio following changes in Q1 2023[38]



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[37] 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.

[38] As above.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q1 2023

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 January 2023 to 31 March 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	11	
# meetings at which votes were cast	11	100%
# meetings at which we voted against management or abstained	8	73%

Resolutions	No. of resolutions	%
# votes cast with management	159	82%
# votes cast against mgmt. or abstained (see list in appendix)	35	18%
# resolutions where votes were withheld	0	0%

Company Engagement Activity

Company	Topic	Objective	Method	Outcome
Agilent	Director Independence	Director terms are excessive at 3 years so vote against as Member of the Nomination Committee	Vote/Letter	Unsuccessful
	Gender Diversity	Vote against member of Nominations Committee due to lack of Board-level gender diversity	Vote/Letter	Unsuccessful
	Executive remuneration	We view the executive's remuneration as being excessive and No sustainability/ESG component to CEO remuneration	Vote/Letter	Unsuccessful
	Auditor Independence	Tenure of the company's statutory auditor or auditors is >10yrs.	Vote/Letter	Unsuccessful
Alfen	Product Impact	Understand how Alfen's smart grid solutions contribute to grid flexibility.	Email	Partially Successful
	Lack of committees		Vote/Letter	Successful
Belimo	UN Global Compact	Inquiry into potential violation of UN Global Compact	Email	Successful
	Executive Remuneration	No disclosure of clawbacks, LTI not measured over a multi-year performance window, no direct link to CSR / sustainability	Vote/Letter	Unsuccessful
	Auditor Independence	Mr Zwyssig has a tenure of 11 years which makes him non-independent for us and causes the non-independence of the audit committee.	Vote/Letter	Unsuccessful
	Director Independence	We do not consider Mr Burkhalter, son of one of the founders, as independent. The Vice Chair has a tenure of 11 years. So there is no independent chair at the company.	Vote/Letter	Unsuccessful

	Shareholder rights	The content of these new items or counterproposals is not known at this time. Therefore, it is in shareholders' best interest to vote against this item on a precautionary basis.	Vote/Letter	Unsuccessful
Coper Companies	Net Zero Carbon	No net zero carbon target	Vote/Letter	Unsuccessful
	Auditor Independence	Excessive tenure means we do not view the auditor as independent.	Vote/Letter	Unsuccessful
	Executive Remuneration	We view the executive's remuneration as being excessive.	Vote/Letter	Unsuccessful
CSL	Drug Pricing	Questions about drug pricing and access	Email	Successful
	Donor Safety and benefits	Questions for company regarding the potential benefits and safety issues around blood plasma donation.	Collaborative/ Email	Successful
Ecolab	PFAS	Query into potential for Ecolab products to help solve PFAS challenge	Call	Successful
Enphase	Responsible sourcing	Collaborative engagement with solar-related companies on safer chemical use, worker health and human rights	Collaborative/ Email	Partially successful
Enphase	Health and safety	Query about increased accident rate linked to increase in construction work	Call	Partially successful
	Employee engagement	Query about measures to retain staff and improve employee engagement	Call	Successful
	Gender diversity	Applaud meeting 40% women target at senior management level, encourage further improvements across the company and setting higher targets	Call	Successful
First Solar	Hazardous Chemicals	Preparation call for collaborative engagement	Call	Ongoing
Genmab	Director overboarding	Overboarded (4 incl one chair)	Vote/Letter	Unsuccessful
	Auditor independence	Auditor since 2001.	Vote/Letter	Unsuccessful
	Executive remuneration	Too generous remuneration for a board of directors in relation to market peers.	Vote/Letter	Unsuccessful
	Net Zero Carbon targets	Encouraging commitment to a net zero carbon target by (and ideally before) 2050 .	Vote/Letter	Unsuccessful
Getinge	Board Independence	Several board members are on 5 boards	Call	Partially Successful
	Gender Diversity	Board gender diversity has deteriorated in the last vote	Call	Partially Successful
	Nomination Committee	No nomination committee	Call	Partially Successful
HelloFresh	Animal Labour	Call with PETA to understand PETA’s investigation, its interactions with HelloFresh and how to move towards responsible sourcing. Company has committed to cease sourcing from Thailand.	Email/Call	Successful
Infineon	Net Zero Carbon commitments	We believe a Net Zero target, aligned with the Paris Agreement and verified by the Science Based Targets Initiative, would provide greater assurance than the company’s current targets.	Vote/Letter/Call	Successful
	Director Independence		Vote/Letter	Partially Successful
	Auditor Independence		Vote/Letter	Partially Successful
	EU Taxonomy	Assessment and verification	Call	Successful
Lenzing	UN Global Compact	Data provider reporting a breach of a principle, which we find to be a disproportionate analysis.	Email	Partially Successful
Linde	Product Impact	Deeper dive into product impact	Call	Successful

MSA Safety	Hazardous Chemicals	Phase out of PFAS in firefighter turnout gear	Call	Successful
	ESG disclosure	Company asked us what reporting framework is preferred by WHEB for CSR report disclosures.	Email	Successful
Novo Nordisk	Drug Pricing	Clarify company position on pricing	Email	Successful
	Governance	Query about suspension from the Association of British Pharmaceutical Industry	Email/Call	Successful
	Share Buyback	Clarifying the purpose of the share buyback programme.	Vote/Letter/ Email	Successful
	IR Interview	Request for interview to discuss the company's experience of increased shareholder engagement	Email	Ongoing
Siemens Healthineers	Net Zero carbon target	Encouraging a Net Zero carbon target to be achieved no later than 2050	Vote/Letter/Call	Successful
	Combined Chair/CEO	Combined Chair/CEO Vote against the Chair where the CEO/Chair is combined in one role	Vote/Letter/Call	Partially successful
	Director Independence	Director served more than 2 years on the board/ Director is not independent and there are an insufficient number of independent Board Directors. / Vote against Board Chair when any board committee does not consist of a majority of independent directors	Vote/Letter/Call	Partially successful
	Sustainability	Call with Bain, working on behalf of the company, to understand our thoughts on how it can improve on ESG and impact.	Call	Successful
Smurfit Kappa	Plastic replacement opportunity	Query about the plastic replacement opportunity	Call	Successful
SolarEdge	Hazardous Chemicals	Leading a collaborative engagement phase out of hazardous chemicals alongside other investors.	Email	Ongoing
Steris	Product Impact	Discussion on role of human error in efficacy of equipment	Email/Call	Successful
TE Connectivity	Director Independence	Chairman is considered as 'overboarded'	Vote/Letter	Unsuccessful
	Net Zero Carbon targets	Company has not set a net zero carbon target for achievement in 2050 at the latest.	Vote/Letter	Unsuccessful
	Auditor Independence	Tenure of the company's statutory auditor or auditors is >10yrs.	Vote/Letter	Unsuccessful
	Executive compensation	1 - Inadequate remuneration incentive linked to ESG criteria. 2 - We view the executive's remuneration as being excessive.	Vote/Letter	Unsuccessful