INSIGHTS

Q3 2023 REPORT

Pengana WHEB Sustainable Impact Fund

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BIG IMPACT IN BIG PHARMA

By Ben Kluftinger

The avid follower of WHEB's investment strategies will have noticed a marked increase in exposure to so-called "Big Pharma" stocks with **CSL**, **Astra Zeneca** and **Genmab** in our strategy. Just a few years ago, WHEB had only minimal exposure for good reasons so what has changed?

A look back through the history of big pharma

Big pharma used to be a dirty word to use. Scandals around Turing Pharma (CEO Michael Shkreli's decision to hike HIV medication Daraprim's price by 5455% price overnight in 2015)[1], Purdue Pharma (the Sackler family fuelling the opioid epidemic with OxyContin from 1996-2019)[2], and Mylan Pharma (price gouging of the EpiPen drug delivery system by ~400% from 2009-2016)[3] are well-known but formed only the tip of the iceberg.

Until the later mid-2010s, big pharma used to be characterised by its aggressive promotion of drugs to doctors via visiting sales reps handing out free samples and gifts. Their remuneration largely depended on the number of prescriptions those drugs recorded within their assigned territory.[4] Looming patent cliffs for blockbuster drugs, i.e., the end of patent protection and opening up for substantially cheaper generic equivalents, pushed pharma companies to prioritise drug development to create mild variations of their existing drugs. These were typically small variations in drug composition or modest changes to delivery mechanisms. In one case the change was simply adding a stripe to a pill. This would then result in the application for a patent extension to preserve exclusivity for longer. A study covering 2005-2015 showed that 70% of the nearly 100 bestselling drugs in the US had extended their exclusivity at least once and 78% of the drugs associated with new patents were for existing drugs rather than a new treatment.[5] On top of all this hefty annual price increases were common-place resulting in some cases of outright price gouging thanks to the lengthy exclusivity and a flawed price negotiation mechanism. Needless to say, WHEB stayed well clear of this space during those years.

Big pharma today is different

Big pharma is different today. No, they have not become angels working for the greater good of all (even though Astra Zeneca's commitment to sell its Covid vaccine at cost for the first year was remarkable). The change was driven by a combination of greater public and political scrutiny on drug pricing in the US and a fundamental shift in technological focus from "me-too" small molecule drug development to innovative new biologic (or large molecule) research.

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[1] https://www.fiercebiotech.com/biotech/why-would-martin-shkreli-hike-an-old-drug-price-by-5000-only-a-moron-would-ask
[2] https://www.statnews.com/2019/12/03/oxycontin-history-told-through-purdue-pharma-documents/
[3] https://money.cnn.com/2016/08/29/investing/epipen-price-rise-history/index.html
[4] https://www.forbes.com/sites/dalearcher/2013/12/26/the-dark-side-of-big-pharma-2/?sh=5f635c159a22
[5] Robin Feldman, "May your drug price be evergreen," Journal of Law and the Biosciences 5 (3) (2018): 590–647, available at https://academic.oup.com/jlb/article/5/3/590/5232981.

The political and regulatory focus on drug pricing has not stopped since the famous tweet by Hillary Clinton in 2016[6] which sent biotech and pharma stocks tumbling alike. Even though very little concrete changes happened thereafter, the Damocles sword was firmly in place instilling a new-found discipline into the pharma industry to limit annual price increases to below 10% in order to avoid greater scrutiny.[7] The recent Inflation Reduction Act (IRA) legislation from 2022 is the first concrete step in the US to empower the government's national health insurance program Medicare to "negotiate" (or rather dictate) prices for 10 of the 50 drugs that represent the highest cost to the programme from 2026 onwards.

The other important development was in terms of a change of focus in therapeutic areas and underlying science towards typical biotech specialities: oncology, immunology, rare diseases. And this was triggered partially by the regulatory changes. Biotech drugs are more sophisticated, making use of the human genome, monoclonal antibodies and gene therapies to name a few and therefore generally demand a substantially higher price. They allow pharma companies to move into less crowded, highly impactful therapies and once the patent expires their generic equivalent, the biosimilars, are actually much more complicated to produce than small molecule, chemical-based generics. This means that the price protection can last for longer.[8] Even though price gouging in the form of unreasonable annual price increases has mostly ceased, there exists the new risk of an unreasonably high initial drug price at launch. For that reason, WHEB has developed its own drug pricing checklist which we evaluate before a potential investment.

WHEB's approach

While most of "Big pharma" had been a no-go area for WHEB's strategy in the past, we have recognised the substantial improvement in the drug pipeline to much more impactful therapies, many from large molecules. In order to evaluate the company's approach to pricing we developed a drug pricing checklist which we run by the company to establish their pricing transparency and internal processes, people in charge, patient assistance schemes, affordability assessments by independent parties, annual price increases etc. Quite often, the willingness of the company to engage with us on these points is quite telling in itself.

In addition, we extensively use our access to expert networks to further our understanding on the efficacy and prospects of therapies and the market approach of their owners. We now have the following holdings in our strategies which all achieve strong scores (mostly >30% which is rare) from our impact engine[9]:

- **Astra Zeneca**: A leader in oncology, respiratory, inflammation and autoimmunity, cardiovascular and metabolic disease, and infection and neuroscience with a rich pipeline for new indications.
- CSL: A leader in plasma-based therapies often addressing rare diseases in immunology, haematology or respiratory.
- Genmab: A leading-edge primarily oncology antibody development powerhouse partnering up with big pharma for commercialisation with key successes in multiple

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[6] https://www.fiercepharma.com/pharma/will-u-s-act-drug-prices-hillary-s-latest-tweet-raised-specter-and-investors-panicked
[7] https://aspe.hhs.gov/reports/prescription-drug-price-increases
[8] https://www.barrons.com/articles/big-pharma-biotech-stocks-51655417765
[9] https://www.whebgroup.com/investing-for-impact/how-we-invest/our-methodology

myeloma (blood cancer) treatment, DLBCL (cancer of the lymphatic system), thyroid eye disease, and others.

Our search for strongly impactful big pharma is certainly not over but we also remain vigilant of pharma companies and their approach to pricing and access.

HISTORY DOESN'T REPEAT ITSELF, BUT IT DOES RHYME

By Seb Beloe

It's almost exactly ten years since then-Prime Minister David Cameron, was reported to have asked aides to 'cut the green crap'.[10] While much has changed since then, there was nonetheless a clear echo of Cameron's frustration in the current Prime Minister's recent speech in which he promised to roll-back targets aimed at accelerating the transition to a net zero carbon (NZC) economy[11]. As Mark Twain famously put it, 'history does not repeat itself, but it does rhyme'.

Mr Sunak's policy flip-flopping is likely a result of a short-term political calculus aimed at creating points of differentiation with a potential Labour administration. It is also clearly aimed at currying favour with the right wing of the Conservative party. A move that David Cameron would no doubt recognise.

But in other respects, the world has changed dramatically since 2013. Much more of the parliamentary Conservative Party has defended commitments to tackle climate change than was the case in 2013.[12] There is even stronger evidence that the Conservative voting public support strong NZC measures.[13]

Perhaps the biggest change since 2013 is the position of the business and financial communities. Make UK, the trade body representing manufacturers, described Sunak's speech as 'a huge set-back'.[14] The Green Building Council, representing the view across the construction and real-estate industry, claimed the action would increase costs.[15] The Corporate Leaders Group, supported by 400 businesses including Amazon, E.ON, Laing O'Rourke and Nestlé, described the move as 'a body blow for net zero policies'.[16] Investors too have been highly critical. A joint letter from the PRI, the Institutional Investors Group on Climate Change (IIGCC) and UKSIF along with 32 individual institutional investors including WHEB, argued that the weakened commitments would harm investor confidence in the UK.[17]

A broader backlash and a cost of living crisis

Investor and business support is not of course unanimous. NZC targets in Europe and the US have been under pressure, often at the behest of business. The German car industry, for example, has been successful in securing exemptions for the use of synthetic e-fuels in

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[10] https://www.theguardian.com/environment/2013/nov/21/david-cameron-green-crap-comments-storm
[11] https://www.gov.uk/government/speeches/pm-speech-on-net-zero-20-september-2023
[12] For example, more than 120 Conservative MPs have specifically committed to net zero carbon policies through their member of the Conservative Environment Network.
[13] For example, https://www.politico.eu/article/uk-tory-voters-tell-pm-rishi-sunak-stick-with-net-zero-target/ **and** https://twitter.com/LukeTryl/status/1654426732865175552?s=20
[14] https://www.ft.com/content/9b1399fd-5ce1-427c-b6b0-aeb5a43f4d92
[15] https://ukgbc.org/wp-content/uploads/2023/10/UKGBC-Sign-on-Letter-with-Signatures-2023.pdf
[16] https://www.corporateleadersgroup.com/news/clg-uk-statement-uks-climate-policies
[17] https://www.iigcc.org/media-centre/32-investors-and-financial-institutions-support-letter-to-uk-pm-on-net-zero

combustion engines. Often these roll-backs are more like the one step back after the two steps forward. Sunak for example did also include some extra support for low and zero carbon technology. Germany and Italy have also both recently moderated their support for heat pumps. In Italy's case this was clearly needed as the initial scheme provided subsidies equal to 110% of the cost of heat pump and energy efficiency renovations.

Tempering of ambitions for NZC technologies are often proposed to help people cope with a higher cost of living. But here is the rub. Many of these technologies have advanced to a point where they are actually saving people money – certainly over the total lifecycle of the product and in some cases even on the initial capital cost.

Renewable electricity – notably onshore wind and solar power – is already the cheapest form of new power generation. Cameron's decision to outlaw onshore wind in the UK ended up costing the British public £2.5bn in higher energy bills.[18] Reduced support for insulating homes has cost British homeowners even more.[19]

Even in the case of battery electric vehicles (BEV) which are often seen as more expensive than internal combustion engine vehicles (ICE), the picture is changing very quickly. In most cases, the total cost of ownership of a BEV over the lifetime of the vehicle is already cheaper than an ICE vehicle due to the much lower cost of running the vehicle.[20] The initial price may still be higher for a BEV compared to an ICE vehicle, but with the price of batteries tumbling more than 30% so far in 2023, some forecasts suggest that even the initial capital cost of a BEV may be cheaper than an ICE today.[21, 22]

Politics needs to catch-up with economics

The NZC transition will still clearly need a lot of investment. BEVs still need public charging infrastructure. Intermittent renewables need storage technologies. There are also plenty of new NZC technologies that are uncommercial without generous public subsidy. But the fact remains that the more mature NZC technologies are already cheaper – and will be even cheaper in the future. Deploying these technologies today would reduce costs for hard-working families.[23] The political narrative that greener is inevitably more expensive is clearly wrong, but nonetheless a hard one to shake.

No time to go slower – but time to adapt

And at the same time there is no flexibility to delay or slow the transition. In fact, climate science clearly argues for an even faster transition. Recent data has confirmed that September 2023 was the hottest September ever, with the average global temperature +1.75°C warmer than the pre-

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[18] https://www.carbonbrief.org/analysis-cutting-the-green-crap-has-added-2-5bn-to-uk-energy-bills/
[19] https://eciu.net/media/press-releases/2022/taxpayers-facing-18-billion-bill-for-failure-to-insulate-uk-homes
[20] https://nickelinstitute.org/en/about-nickel-and-its-applications/nickel-in-batteries/total-cost-of-ownership-tco-for-electric-vehicles-ev-vs-internal-combustion-engine-vehicles-ice/ **and** https://www.osti.gov/biblio/1780970
[21] https://www.cnet.com/roadshow/news/evs-set-to-match-gas-guzzlers-in-price-as-battery-costs-plummet/
[22] https://www.bloomberg.com/news/articles/2023-10-09/tesla-prices-now-rival-average-us-cars-after-billions-in-cuts?utm_source=website&utm_medium=share&utm_campaign=email?sref&sref=YEfLHut7
[23] For example the IEA's latest net zero roadmap shows that the energy transition is cheaper than business as usual (see https://www.iea.org/reports/net-zero-roadmap-a-global-pathway-to-keep-the-15-0c-goal-in-reach?utm_source=substack&utm_medium=email)

industrial period and putting the world on course for the hottest year on record.[24] Rather than rowing back on NZC commitments, we urgently need to accelerate them.

As investors, we need to be pragmatic. We do still expect the NZC transition to speed up as the economics move ever more firmly in favour of NZC technologies. But we also expect that this will not be enough to limit warming to 1.5°C. It is for this reason that we have introduced a new segment to our investment universe, climate adaptation. A significant amount of climate change is now inevitable. Communities around the world need to adapt to this change. For every year we delay action to reduce emissions, the more the world will have to pay to adapt to the higher level of climate change we will then experience.

[24] https://www.ft.com/content/5dc63f73-94f6-4fbe-8aa7-512ab8552093?desktop=true&segmentId=d8d3e364-5197-20eb-17cf-2437841d178a#myft:notification:instant-email:content

STEWARDSHIP IN THE SPOTLIGHT

NATURE CALLS: FROM ASSESSMENT TO ACTION

By Rachael Monteiro

In the two years since first assessing biodiversity impact in the WHEB Sustainability Strategy, the issue has undoubtably grown in importance. But what action has the team taken to address this topic? And what are the outcomes?

Nature calls

With reports of the hottest July, August, and now September on record[25], you might think biodiversity is still stuck in the shadow of climate change.

Yet, in the last two years, governments, standard setters and policy makers have helped to push biodiversity up the agenda. These groups have clearly signalled the expectation for action on biodiversity.

For example,

- Signed by 196 nations at COP15, the 'Kunming-Montreal Global Biodiversity Framework'[26] was a strong indicator of government commitment. This has been translated by the finance sector into the Finance for Biodiversity Pledge, of which WHEB is a signatory.[27]
- The EU has mandated sustainability reporting on biodiversity from 2025 under the Corporate Sustainability Reporting Directive, which came into force earlier this year.
- In late September, the final framework for The Taskforce for Nature-related Financial Disclosures was published, 'positioning nature risk alongside financial, operational and climate risk'.

During this time, in recognition of increasing client scrutiny and policy surrounding biodiversity, we have applied our systematic stewardship framework (1. Identify, 2. Analyse 3. Engage, 4. Report) to proactively address the topic in the WHEB strategy.

[25] https://www.whebgroup.com/our-thoughts/whebs-approach-to-biodiversity
[26] https://prod.drupal.www.infra.cbd.int/article/cop15-final-text-kunming-montreal-gbf-221222
[27] https://www.whebgroup.com/news/desjardins-global-asset-management-and-unicredit-among-15-new-signatories-of-the-finance-for-biodiversity-pledge-announced-at-cop15

Recap: Biodiversity in the WHEB strategy

We assessed biodiversity risk and opportunity exposure in our portfolio in October 2021 as detailed in a previous blog by Seb Beloe. Our analysis, which mapped biodiversity materiality for individual holdings against management priority (Figure 1) was presented to the independent Investment Advisory Committee in October 2021.[28]

The committee agreed that preserving and regenerating biodiversity is an implicit strategy objective. We also noted that the issue relates directly to our Environmental Services investment theme and to WHEB's philosophy of investing in sustainability solutions. This means we are almost entirely absent from the highest risk sectors such as agriculture and extractive industries.

Still, this assessment catalysed a decision to proactively address the biodiversity opportunity, as well as risk, in the portfolio.

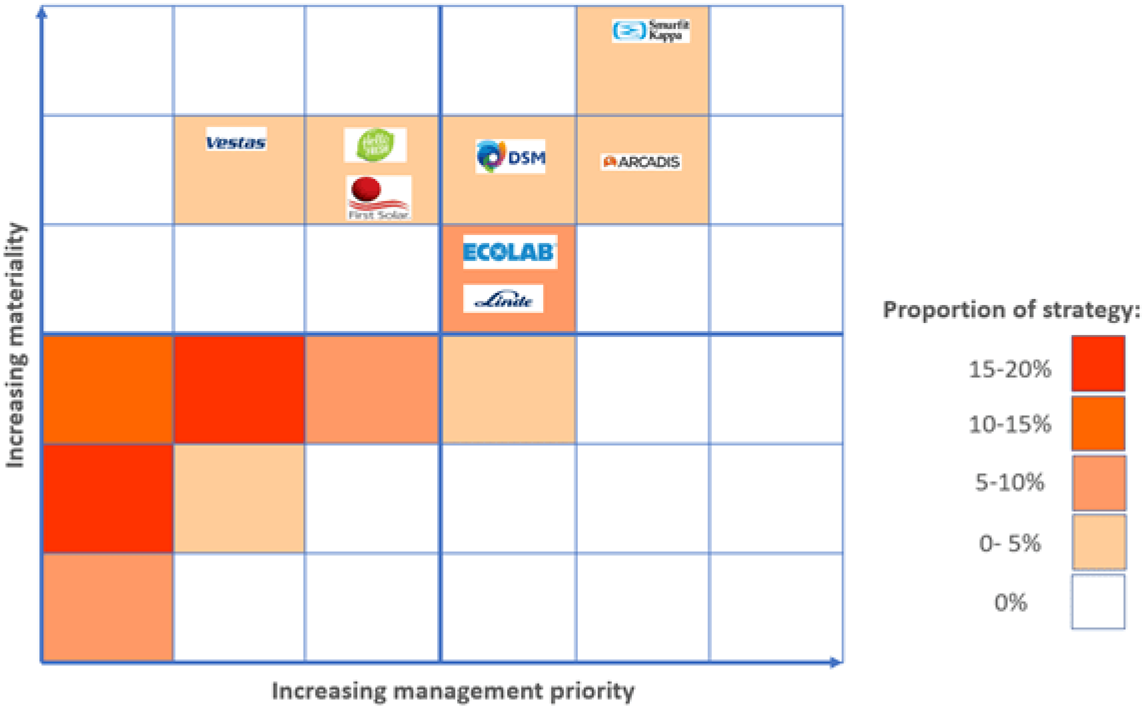

Figure 1: Biodiversity materiality for individual holdings mapped against management priority.

From assessment to action

We have since set out to engage companies held in the strategy for whom biodiversity is most material. Varying degrees of progress have been achieved with the eight we have contacted so far and we report on three examples below:

[28] Summary minutes of the October meeting are available at https://www.whebgroup.com/media/2021/11/202110-Summary-minutes-final.pdf

Vestas

In early 2022, WHEB attempted to engage Vestas, a leading wind turbine manufacturer, on its management of biodiversity risk and opportunity. Several unsuccessful attempts later Vestas confirmed its focus on carbon emissions over biodiversity impacts.

We shared this with a like-minded client at our 2022 Annual Investor Conference, and suggested collaboration. The client connected us with other concerned investors and together, in early 2023, we wrote to Vestas' CEO.

The letter highlighted the interdependence between climate change and biodiversity and called for Vestas to support nature conservation and biodiversity in the transition to renewable energy. We also encouraged the company to accelerate plans to reduce negative impacts whilst maximising positive biodiversity impacts from its products.

The weight of multiple investors engaging (although still only representing c.0.5% of the company's publicly traded equity) may have contributed to Vestas' substantial response. In it, the company detailed their work on management interventions, baselining through environmental impact assessments and the instruction of specialist consultants to develop a biodiversity strategy.

Dialogue continues and in early October 2023 the investor group had a call with Vestas' Head of Investor Relations focused on this issue. The group aims to evolve the partnership between the parties to support Vestas in publishing targets in 2025.

Smurfit Kappa

As a manufacturer and seller of recycled cardboard, we note Smurfit Kappa's awareness of biodiversity through its forest certification work. However, in order to bolster its sustainability leadership claims, our objective is for the company to seize the associated innovation opportunity rather than focus only on the compliance aspect.

In late 2021, we briefly discussed this with Smurfit Kappa's Chief Sustainability Officer and they acknowledged the opportunity, mentioning their partnership with WWF for Colombian forest management.[29] We requested more detail on progress measurement but at the time, focus shifted away from the topic.

After a previous unsuccessful attempt to initiate a collaboration, we took the opportunity to support a Biodiversity Campaign arranged through our involvement in the Shareholders for Change[30] network.

WHEB has since contributed to the letter sent to Smurfit Kappa as part of this campaign. They responded, highlighting ongoing biodiversity management efforts, including double materiality

[29] https://www.smurfitkappa.com/newsroom/2020/smurfit-kappa-announces-new-partnership-with-wwf

[30] Shareholders for Change is a group of European institutional investors involved in active engagement on sustainability issues.

assessments and related KPIs tied to compensation and funding costs. Importantly, the company has a focus not just on how to limit negative impacts on biodiversity from their operations, but as importantly, what the company can do to regenerate biodiversity and whether efforts to date have been successful.

ARCADIS

Arcadis is a design and consulting firm providing engineering and environmental services. Our aim in our engagement with the company was primarily to understand the scale of the biodiversity-driven business opportunity for the company and ongoing efforts to capture this.

We questioned the company on disclosure, strategy and targets, assessment of skill gaps and the company's perceived role in promoting biodiversity across various levels.

The resulting discussion deepened our understanding of Arcadis' work defining a global biodiversity impact measurement methodology and the competitive advantage through its track record in nature-based solutions.

Delivering against its 2030 biodiversity net gain target[31] requires work to standardise the biodiversity business case and reporting client impact.

Next steps

WHEB's strong focus on sustainability solutions guides our thinking, especially for supporting investee companies to go beyond risk mitigation and seize the biodiversity business opportunity.

This is a fundamental aspect of WHEB's "investor contribution" towards enabling positive impact for our investors.[32]

Our work engaging directly with companies continues, and we are proud to support emerging initiatives such as the Nature Action 100 which will target two of WHEB's investee companies.[33] We will continue to detail progress on this key issue in our usual reporting, including through our stewardship reports, quarterly commentary, engagement case studies and voting records.

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[31] Arcadis Biodiversity targets:

- No net biodiversity loss will occur at Arcadis sites (based on land intake changes and mean species abundance scores).
- For sites with > 20% open area, Arcadis will deliver a biodiversity net gain of 10% by 2030 .

[32] For more on WHEB's model of positive impact please see https://www.whebgroup.com/assets/files/uploads/20211014-impact-investing-in-listed-equtities-whebs-approach.pdf

[33] These two are Smurfit Kappa and Novo Nordisk (held in WHEB's European strategy).

PERFORMANCE COMMENTARY

Market review

The third quarter was tough for both equities and bonds, as investors recognised that while inflationary pressures may be easing, interest rates are likely to remain higher for longer. At the same time, economic indicators continue to weaken.

Surging oil prices, due to lower global output, also weighed on investors. Higher oil prices could prove problematic for central banks if headline inflation begins to reaccelerate.

The US Federal Reserve left interest rates unchanged in a keenly watched meeting in September. After a strong July, the US equity market struggled in August and September with the "Magnificent Seven" mega cap tech stocks losing ground after their very strong year.

Japan was the best performing equity market over the quarter (in local terms) with Yen weakness remaining a tailwind for the region.

Meanwhile, European stocks posted their worst quarter in a year. The UK equity market, however, performed well due to its relatively large tilt towards the energy sector, which was supported by a sharp rise in oil prices.

Despite this increase in energy prices, renewable energy stocks sold off sharply as the sector battled with negative sentiment linked to higher interest rates. Some companies in the industry have agreed long-term contracts, fixing the price at which they would sell energy before developing the projects. The surge in global inflation and rising interest rates have meant these projects have been hit by higher costs and the high levels of borrowing have become more expensive to service.

These pressures were compounded by high profile weakening of political support for the sustainability transition. The UK government decided to push back net-zero targets to 2035, including delaying the bans of petrol and diesel cars, and new gas boiler sales. Climate watchdogs and industry leaders warned Britain risked losing a lead on green technology.

In the global equity market, Energy and Communication Services were the strongest sectors while Utilities and Real Estate were the laggards.

Value stocks remained resilient and outperformed growth stocks over the quarter. Small and mid-cap stocks underperformed large caps.

Performance review

The fund delivered a negative return over the quarter with the structural exposure to midcaps hurting relative performance.

The strategy suffered from negative contributions across most themes, most notably Cleaner Energy, followed by Resource Efficiency.

The largest detractor overall was US-based SolarEdge, which had previously benefited from the

Inflation Reduction Act. The stock suffered from ongoing concerns about demand amid persistent high interest rates, as well as negative sentiment due to the growth headwinds in US residential solar and the risk of increasing competition. However, we remain convinced of its prospects over the long-term.

Within Resource Efficiency, Silicon Labs, Power Integrations, Daikin and Keyence, all performed poorly. Companies in the theme have good long-term growth prospects but can be somewhat cyclical. In the face of falling business confidence, many of these companies have been struggling. They all also face considerable uncertainty as a result of global supply chains adapting to rivalry between China and the USA.

Further negative contributions came from Health due to holdings in Lonza, CSL and Fisher & Paykel. Traditionally a safe haven in uncertain markets, many parts of the sector have lost that status as concerns over rising costs and the rate of innovation have emerged.

On the other side of the ledger, Education and Wellbeing were the best performing themes, driven by Grand Canyon Education and HelloFresh, respectively. Grand Canyon again delivered healthy online enrolment growth and guided for record new student numbers in 2023/24. HelloFresh bucked negative sentiment to report results that were in line with a positive pre-announcement and re-iterate full year guidance.

Outlook

The outlook remains mixed. The US economy has remained remarkably resilient but there have been signs of weakness in Europe and China has been suffering from weak domestic demand as well as slowing exports. Globally, export growth has been impacted by a slowdown in manufacturing industries, leading the World Trade Organisation to halve its full year forecasts recently.

As in the previous quarter, labour markets have held up well as worker shortages have kept wages high and unemployment low. However, there are emerging risks to growth in the US including the recent auto strikes; rising oil prices; dwindling pandemic savings; the rising burden of auto loan repayments; and the resumption of student loan repayments after a three-year freeze.

From a sustainability perspective, we are watching the environment for clean energy closely. There have been several policy shifts in Europe that have created demand headwinds for heat pumps and efficient boilers. This will continue to impact stocks such as Daikin as consumers adjust to less generous subsidy schemes. In wind and solar sectors high interest rates are impacting demand. In the residential space this is compounded by inventory build-up, and we have seen this affect SolarEdge. In utility-scale renewables there are growing challenges from interconnection queues delaying projects for several years. This creates risks for companies like Vestas if it delays customers' projects.

We also see climate adaptation growing in importance as the climate outlook suggests we will face increasing adverse weather events from rising global temperatures. While it is disheartening that the world is failing to address climate challenges quickly enough to avoid significant negative impact, we do believe that adaptation represents a real opportunity for positive impact. The portfolio has several holdings which address adaptation, including Advanced Drainage Systems and Xylem in the water sector, and Trimble in agriculture.

Overall, there remain several headwinds to the economy in the near-term. We continue to believe that the diversification and the quality of the portfolio should provide some resilience. In the medium- to long-term, we have conviction that the sustainable-led growth drivers and competitive advantages of the companies we invest in put the portfolio in a good position to deliver attractive investment returns.

PORTFOLIO ACTIVITY

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

Purchases

We initiated a new position in **AstraZeneca** in our Health theme. AstraZeneca is a high-quality pharma company with a strong portfolio of commercial products and a healthy pipeline. The company is exposed to areas of high unmet need, particularly in the oncology and rare disease portfolios. It also has a lower proportion of revenue exposed to near-term patent expiry than the industry average. The growth outlook is among the highest in the industry and the valuation doesn't fully reflect the opportunity.

AstraZeneca has a diverse portfolio of therapies, often treating life threatening or rare diseases. In lung cancer the five-year survival rate is only 24%, for example. A number of AstraZeneca's drugs have received breakthrough designation from the FDA which means that they have shown evidence of substantial improvement in serious conditions. The company continues to invest in research and development and we see opportunity for increasing impact over time, particularly in focus areas such as lung cancer, heart failure and Alzheimer's.

We also initiated a position in **Schneider Electric** in our Resource Efficiency theme. Schneider is a leading global provider of low- and medium-voltage electrical products, services and systems as well as automation control equipment. Over the past several years the company has improved its margins and returns thanks to an increasing focus on integrated solutions and software. Schneider is also well positioned to benefit from the structural trends of increasing electrification and digitalisation, supporting organic growth in the medium- to long-term.

Schneider contributes to avoided emissions through improved efficiency; smart grid infrastructure; products with differentiated environmental performance; and circularity. The company uses its software and services capabilities to build on individual product impacts, for example by incorporating improvements in processes that use the product and then creating a connected ecosystem to co-ordinate and manage multiple processes more efficiently.

Sales

We sold our position in **DSM-Firmenich** in the Environmental Services theme. DSM-Firmenich makes a range of nutritional, pharmaceutical, flavour, and fine fragrance ingredients. The company's products support healthier diets and reduce the environmental impacts of food production. It was established by the merger of DSM, our original portfolio holding, with the privately listed Swiss company, Firmenich earlier this year.

While Firmenich came across as a quality business the positive impact was less clear. Disclosure was limited following the announcement of the deal which made it difficult to assess the proportion of revenue came from ingredients which helped lower customers' scope 3 emissions due to their favourable environmental profile. We also had concerns that the target synergies would be difficult to achieve.

Alongside the concerns about the merger, the DSM business was facing significant headwinds in its vitamin business as a result of large price declines and falling volumes in the animal health business. While some aspects of this were cyclical there were potentially more structural elements including higher competition. The combination of these headwinds with the challenges of a major integration led to a decision to exit our holding.

We also sold our position in **Enphase** in the Cleaner Energy theme. Enphase was a relatively recent addition to the portfolio, initiated in February this year. It is unusual for us to sell after such a short time but we felt that a significant shift away from our original thesis justified the decision.

Enphase is a global leading provider of microinverters for residential and small commercial solar photovoltaic (PV) applications. The market has strong structural growth drivers, supported by the Inflation Reduction Act, and the company has a leading market share in the US. Another key element of our thesis was the ability to protect gross margins through product innovation, aided by a stable competitive environment.

In the two quarters following our initiation the operating environment changed significantly. Guidance was downgraded in both instances due to inventory build in California as a result of regulatory changes, and weak demand elsewhere in the US caused by the high interest rate environment. At the same time, there were increasing concerns about a growing competitive threat from Tesla's inverters, which put future pricing and gross margin expectations at risk.

Another important consideration was our broader portfolio exposure to residential solar. As a result of the difficult US environment, which could persist for some time, the driver for Enphase switched from growth in the US to growth in Europe. We also hold SolarEdge in the portfolio which we like for its focus on Europe and its larger exposure to the opportunity in battery and commercial markets. We felt Enphase was less well placed than SolarEdge to capture this and the shift created overlap in our exposure in the portfolio which was not the original intention. Taken together, these factors supported a decision to sell Enphase.

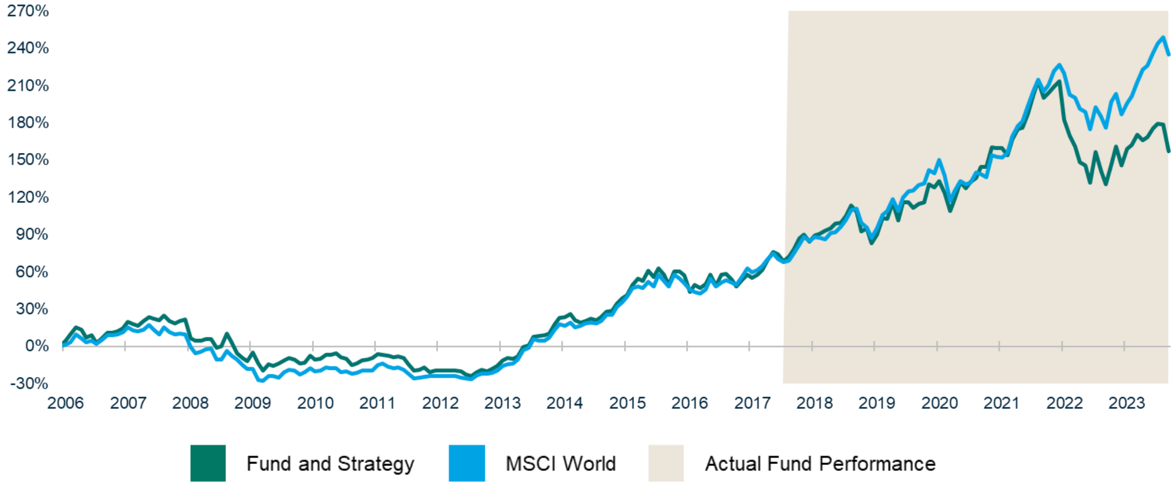
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 30 September 2023 (%)

	3 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	-6.9	11.3	1.7	4.3	
Strategy (partial simulation)[34]					5.5
MSCI World[35]	-0.4	21.5	11.9	9.7	7.0

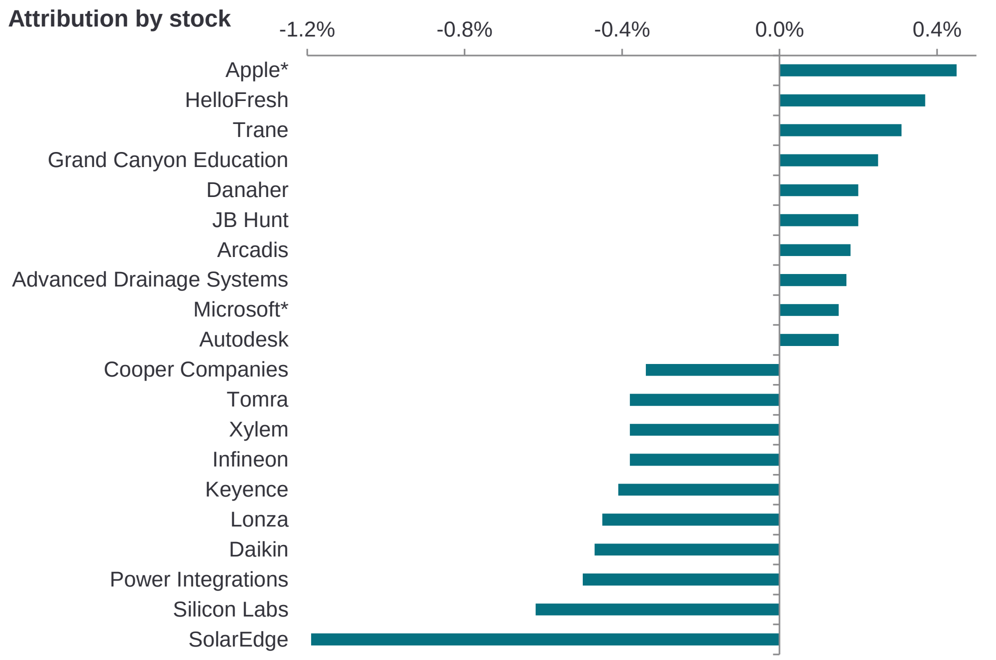
Performance Since Strategy Inception



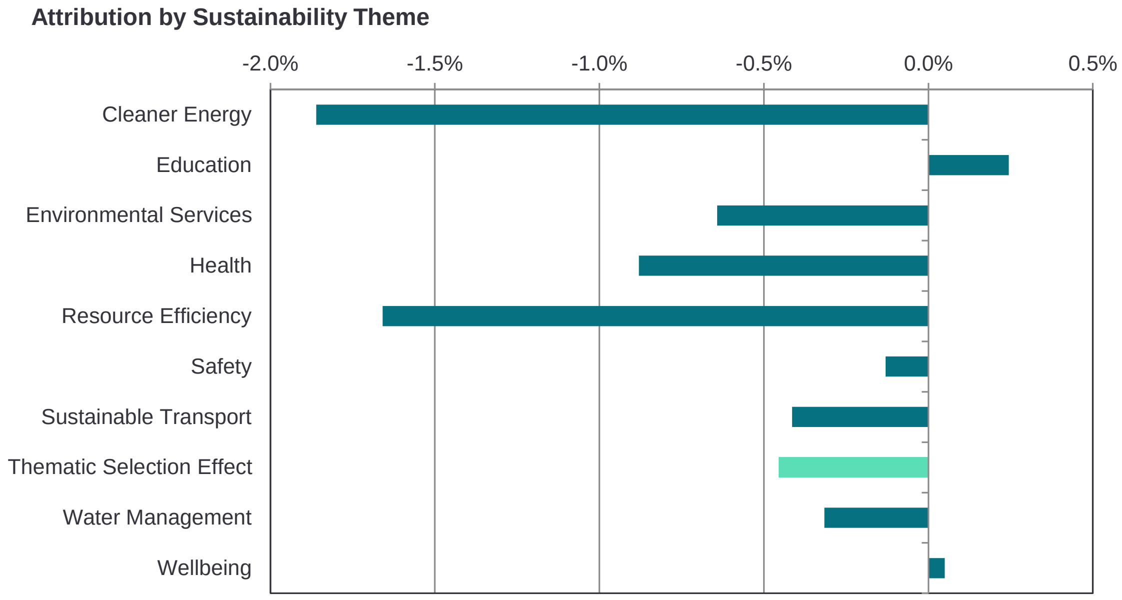
[34] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns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

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

Performance Attribution of Strategy – Last 3 Months[36]



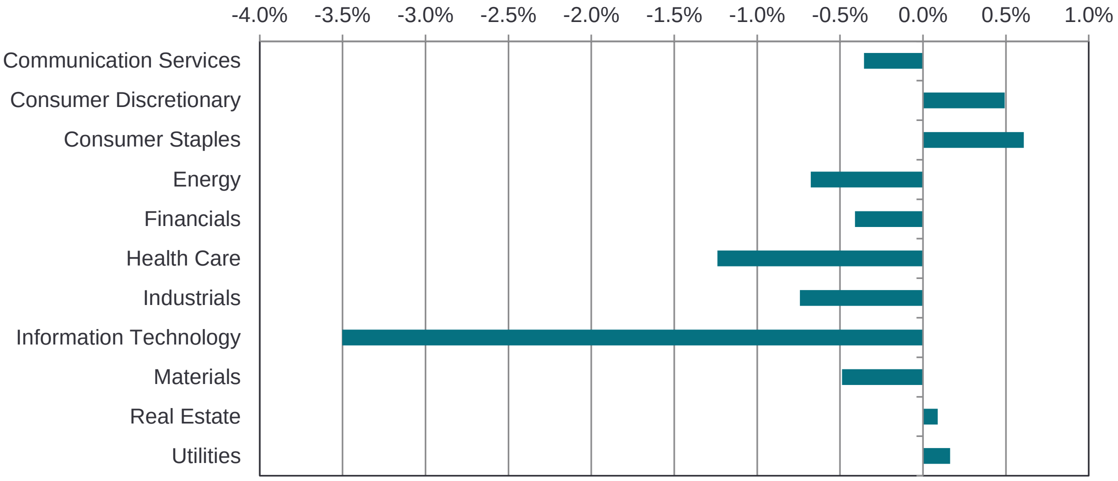
*This stock was not held in the portfolio during the period.
The positive or negative attribution shown results from its contribution to the performance of the index.



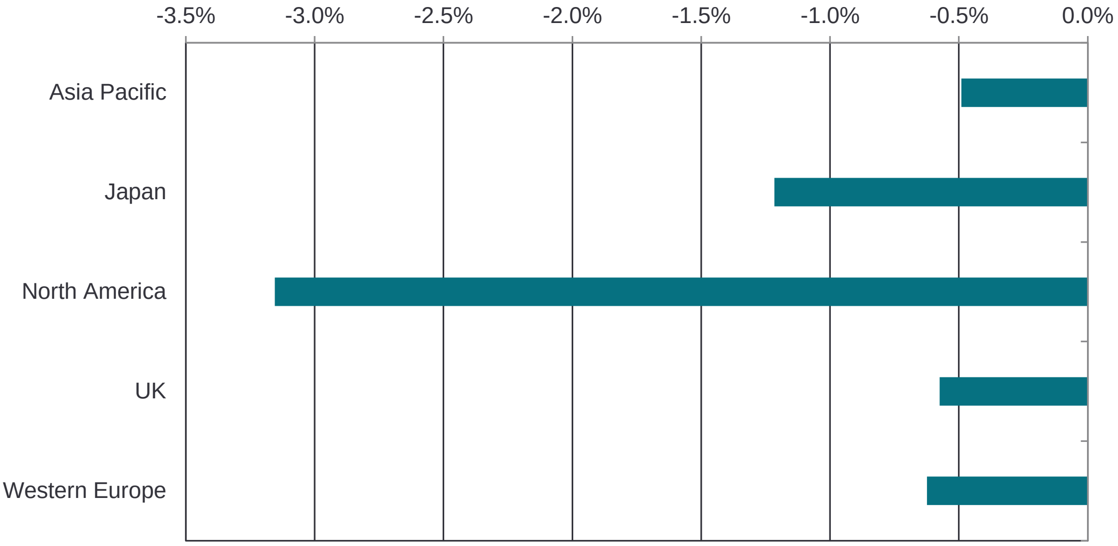
The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

[36] Performance attribution is calculated with reference to the MSCI World Index

Attribution by Sector

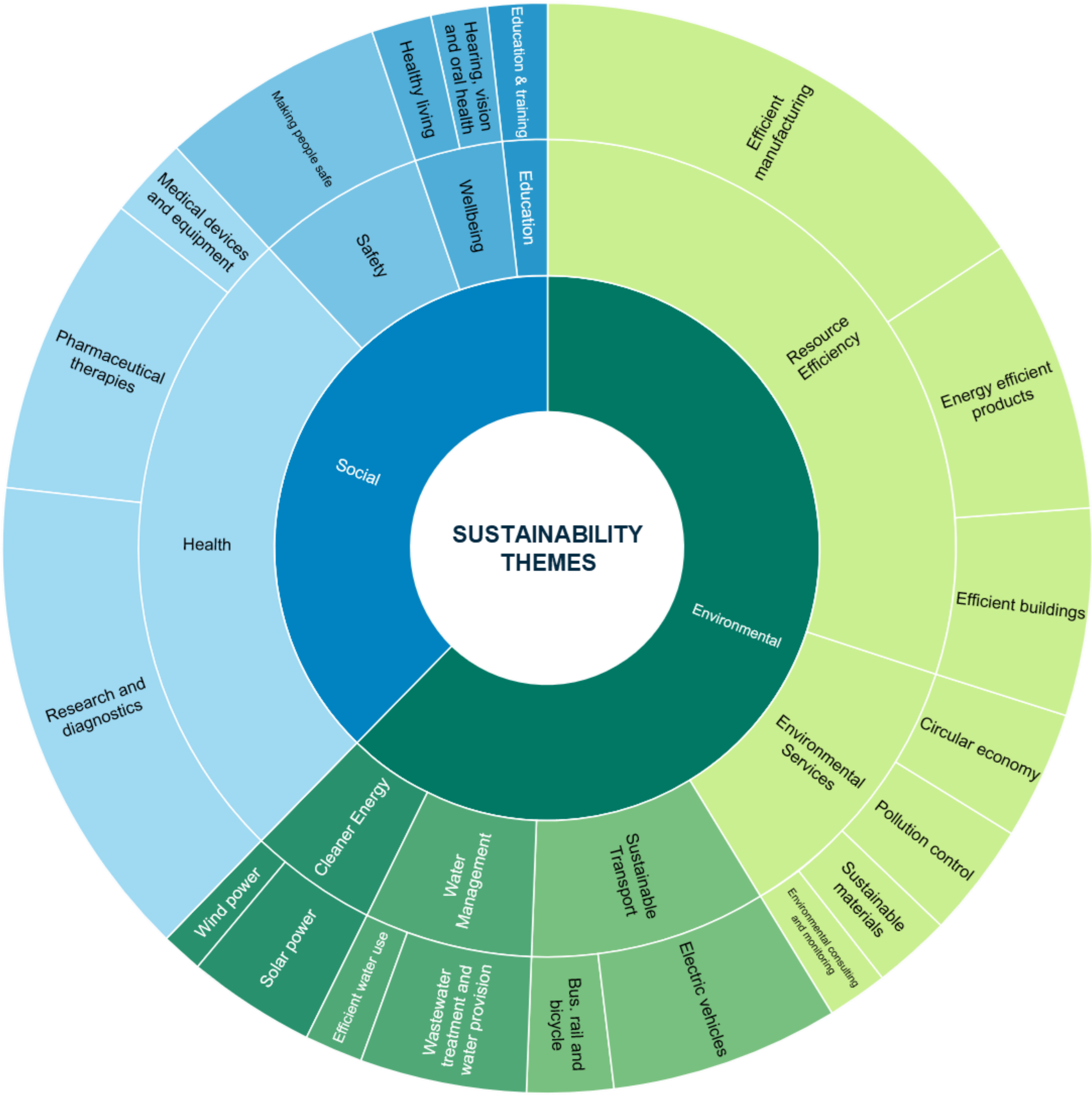


Attribution by Geography



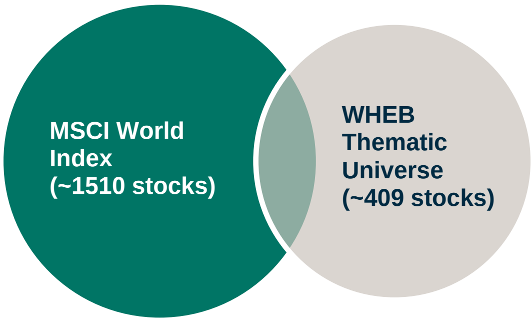
PORTFOLIO ANALYSIS AND POSITIONING OF STRATEGY[37]

Sustainability Theme Exposure



[37] As of 30 September 2023.

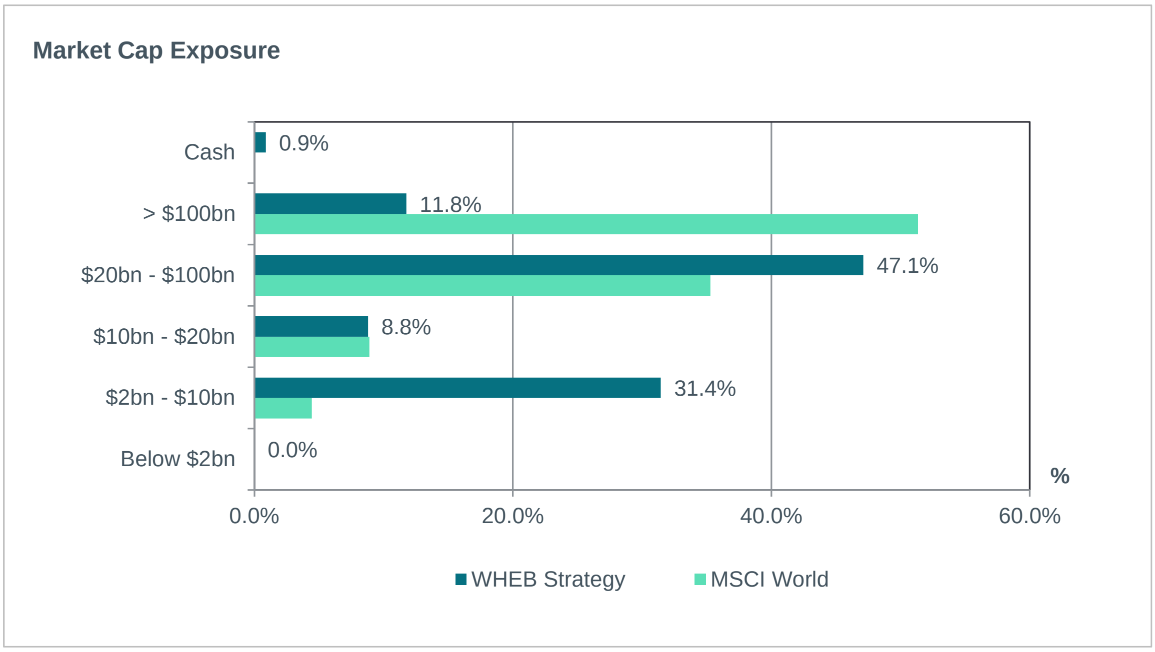
Theme Overlap



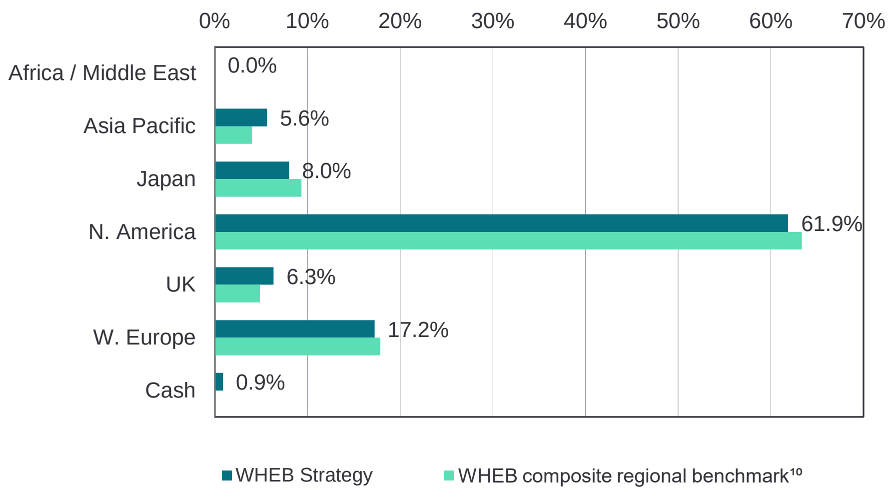
Overlap: ~209 stocks

13.8% (as of 30 September 2023) of MSCI World Index (market-cap weighted)

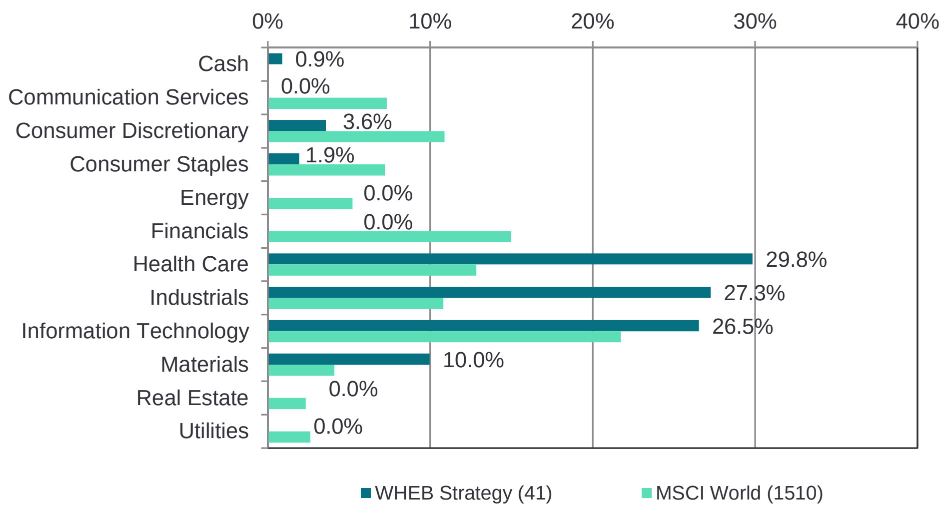
The thematic focus of the WHEB strategy means that our investable universe overlaps with the benchmark by around 15%. This leads to significant structural biases in the fund's exposure, which may make comparison to the benchmark complex. These style biases towards growth, quality and mid-cap are all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



Regional Exposure



Sector Exposure



Largest 10 Positions

Name	Sustainable Investment Theme	Description
Trane Technologies	Resource Efficiency	Efficient buildings
Autodesk	Resource Efficiency	Efficient manufacturing
Danaher	Health	Research and diagnostics
ICON	Health	Research and diagnostics
Linde	Environmental Services	Pollution control
STERIS	Safety	Making people safe
CSL	Health	Pharmaceutical therapies
MSA Safety	Safety	Making people safe
Thermo Fisher Scientific	Health	Research and diagnostics
ANSYS	Resource Efficiency	Efficient manufacturing

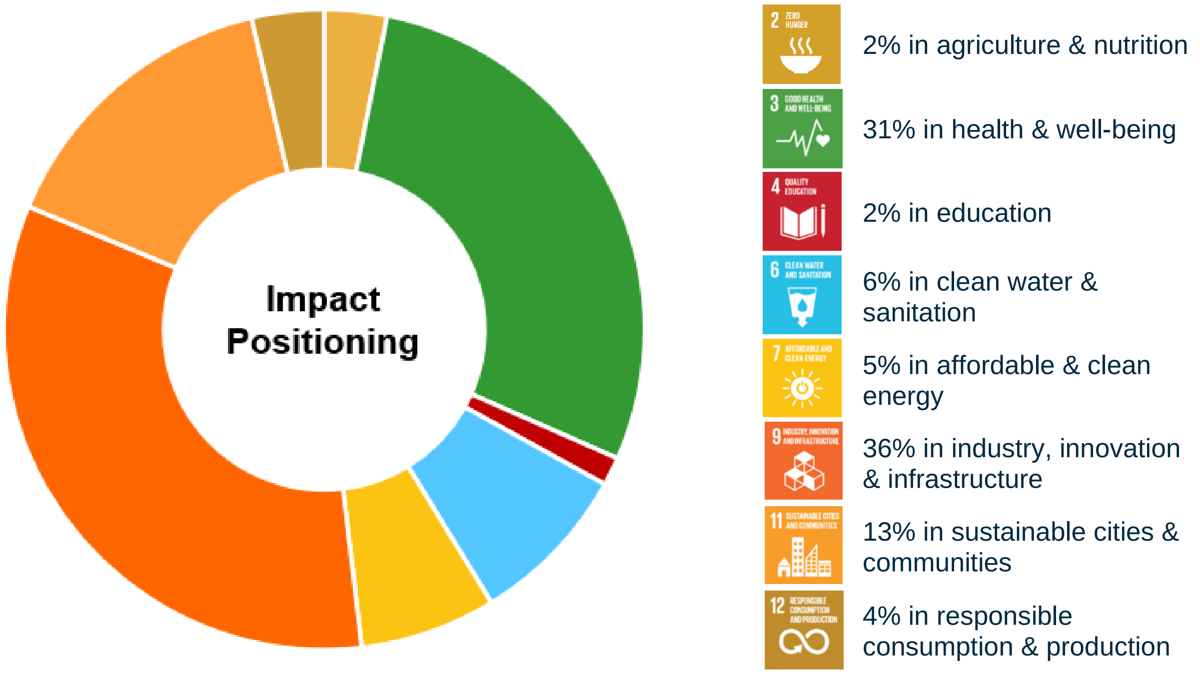
Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	20.43	15.54
FY2 Earnings Growth	17.50	10.20
FY1 PE/FY2 Earnings Growth (PEG)	1.17	1.52
3-year Volatility	15.98%	17.64%
Beta (predicted)		1.07
1-year Tracking Error (predicted)		5.82%
5-year Tracking Error (ex-post)		8.16%

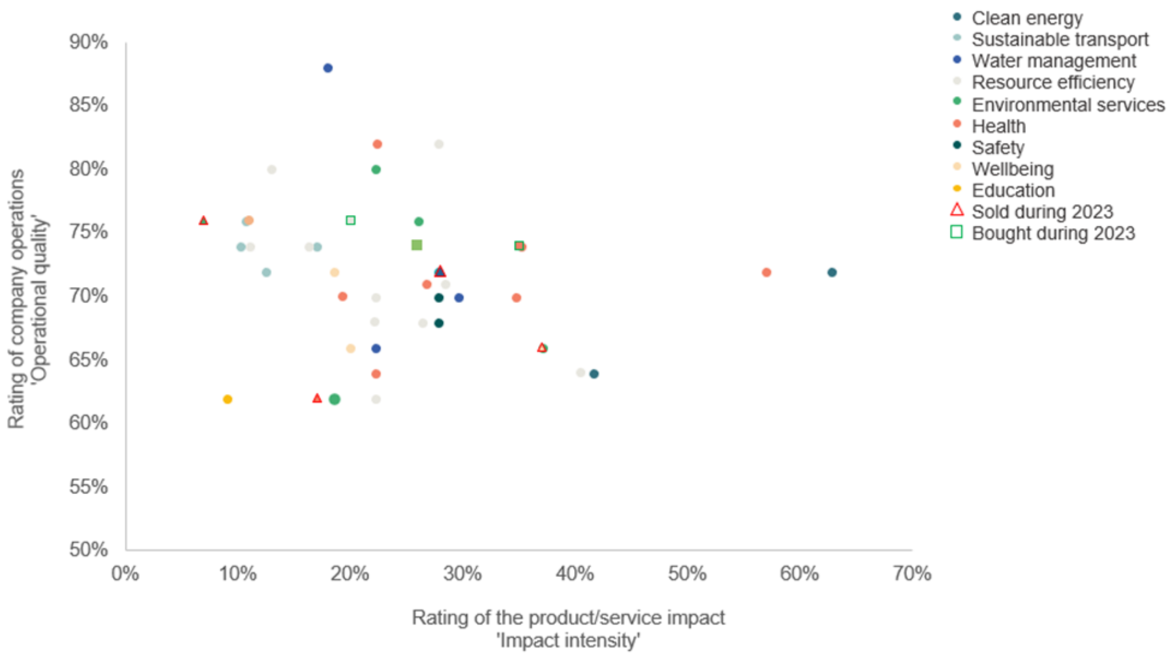
Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
DSM Firmenich	Sale	Environmental Services	Reduced conviction as a result of continued weakness in Vitamins segment and lower impact score following merger.
AstraZeneca	Purchase	Health	High quality pharma company with diversified drug portfolio and strong pipeline.
Enphase	Sale	Cleaner Energy	Weak competitive position and higher exposure to weak residential sector.
Schneider Electric	Purchase	Resource Efficiency	Winner in the electrification and energy efficiency theme with a broad portfolio of solutions and strong market share.

Impact Positioning: Supporting the UN Sustainable Development Goals[38]



Impact Map of the strategy's portfolio following changes in Q3 2023[39]



[38] 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.
[39] As above.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q3 2023

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 July 2023 to 30 September 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/

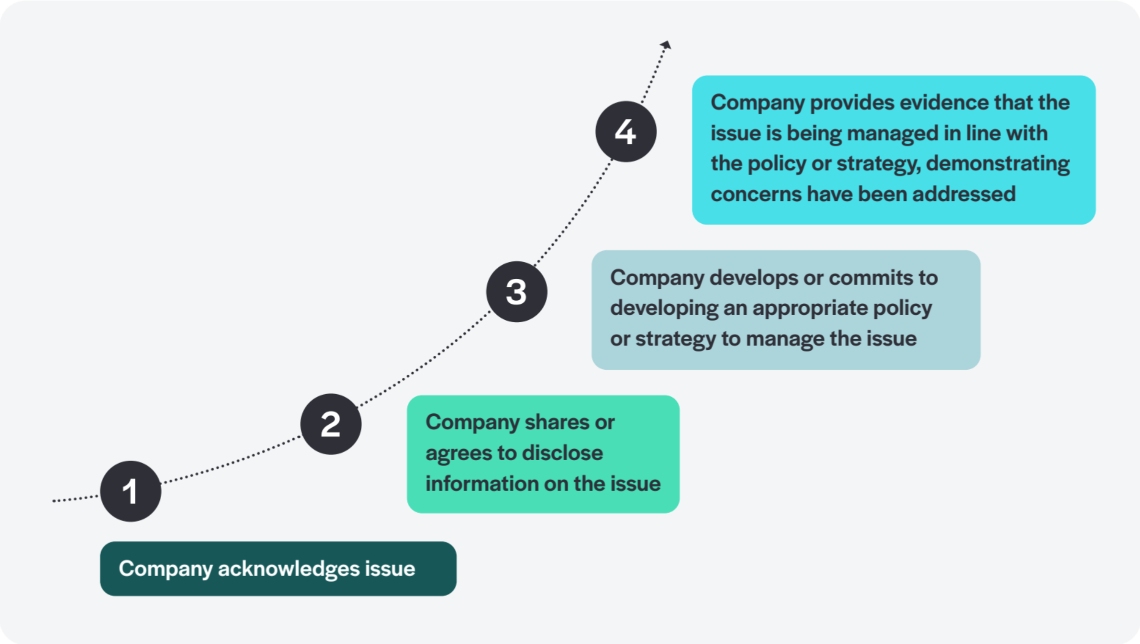
Meetings	No. of meetings	%
# votable meetings	8	
# meetings at which votes were cast	8	100%
# meetings at which we voted against management or abstained	7	88%

Resolutions	No. of resolutions	%
# resolutions	102	
# non-voting resolutions non-voting	4	
# resolutions eligible to vote	98	
# eligible resolutions voted	98	100%
# votes cast with management	77	79%
# votes cast against mgmt. or abstained or withheld (see list in appendix)	21	21%
# of which were withheld	0	
# of which were abstain	0	
# votes cast against ISS recommendations	21	21%

Company Engagement: Q3 2023

Engagement Summary	Count	%
# Companies engaged	24	
# Engagements	60	
# Milestone 0 – company does not acknowledge issue	20	33%
# Milestone 1 – company acknowledges issue	20	33%
# Milestone 2 – company shares or agrees to disclose information on the issue	13	22%
# Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue	4	7%
# Milestone 4 – Company provides evidence that the issue is being managed in line with the policy or strategy, demonstrating concerns have been addressed	3	5%

WHEB's engagement milestones



Company	Topic	Objective	Method	Milestone
Advanced Drainage Systems, Inc.	Diversity - Gender	Have a minimum of 33% female board representation	Formal Letter (AGM)	M0
	Auditor independence	Rotation of auditor. Deloitte & Touche LLP have been in place for >20 years.	Formal Letter (AGM)	M0
	Executive compensation	Inclusion of material sustainability metrics in LT and ST compensation plans.	Formal Letter (AGM)	M0
Arcadis NV	Product Impact (incl. Reporting)	To understand Arcadis' perspectives on biodiversity	Meeting/Video Meeting	M2
CSL Limited	Ethical Sourcing	1.Understand ethical implications around frequency of blood plasma collections. 2.To improve the donor experience, especially in terms of non-financial value add.	Call	M3
Daikin Industries	Environmental Pollution - Hazardous Chemicals	Investor Initiative on Hazardous Chemicals aimed at reducing hazardous adverse impacts of chemicals, especially PFAS production. Request for Daikin to: 1.Increase transparency 2.Publish a time-bound phase-out plan of persistent chemicals from your production 3.Work to improve your ranking on ChemScore	Collaboration	M1
Evotec	Executive Remuneration	Disclosure of rational behind awarded discretionary equity awards to provide sufficient transparency and accountability.	Formal Letter (AGM)	M1
	Circular Economy/Recycling	Understand management of single-use plastics in bioprocessing.	Formal Letter (AGM)	M1
	Circular Economy/Recycling	Understand management of single-use plastics in bioprocessing.	Meeting/Video Meeting	M4
First Solar	Worker rights	Ongoing efforts to have the company address worker rights in the supply-chain, reduce chemical use and Scope 2 emissions	Collaborative Update Call	Ongoing

	Chemicals	Ongoing efforts to have the company address worker rights in the supply-chain, reduce chemical use and Scope 2 emissions	Collaborative	Ongoing
	Carbon - Net Zero Target/Strategy	Ongoing efforts to have the company address worker rights in the supply-chain, reduce chemical use and Scope 2 emissions	Collaborative	Ongoing
ICON Plc	Executive remuneration	Disclose remuneration report, stop egregious pay practices and include ESG metrics in CEO pay	Formal Letter (AGM)	M1
	Auditor independence	Change auditors (in place since 1990)	Formal Letter (AGM)	M1
	Pre-emptive rights	Company to explain application of up to 20% equity issue without pre-emptive rights	Formal Letter (AGM)	M1
	Share repurchase/buy backs	We do not support share repurchase programs when the company has a net debt / EBITDA ratio of above 1x. ICON's ratio is around 3x and we would rather see the company repay its debt first before repurchasing shares.	Formal Letter (AGM)	M1
J.B. Hunt Transport Services, Inc.	Carbon - Net Zero Target/Strategy	Follow up to conversation 1 year go. Encourage JB Hunt to set NZC target in light of acquisition of 10 Zero-emission trucks.	Email	M0
	Executive remuneration	For company to tie CEO compensation to sustainability targets	Email	M0
Linde	Employee/Worker rights	Better understand employee pay philosophy and practices in emerging markets where labour protections are weaker.	Meeting/Video meeting	M2
	Executive remuneration	Better understand the reason behind elevated CEO/median pay ratio.	Meeting/Video meeting	M2
MSA Safety, Inc.	Environmental Pollution - Hazardous Chemicals	Achieving phase out of PFAS in firefighter clothing	Meeting/Video Meeting	M4
Schneider Electric SE	Product Impact (incl. Reporting)	Better understand impressive methodology for calculating saved and avoided emissions in product offerings	Email	M2
TE Connectivity Ltd.	Carbon - Net Zero Target/Strategy	Follow up on IIGCC's letter to company Chair Mr. Thomas Lynch sent in March 2023, in which we expressed our keen interest in the company's commitment to managing climate-related financial risks and its transition planning towards achieving net-zero emissions.	Email	M0
	Product Impact (incl. Reporting)	Gain a deeper understanding of the specific ways in which the company's products have a positive impact.	Call	M2
Xylem Inc.	Diversity - Gender	To ascertain whether XYL will miss their 2025 target for women in senior leadership, and what they are doing to improve this stat.	Meeting/Video Meeting	M3
	Circular Economy/Recycling	Understand management of single-use plastics in bioprocessing.	Formal Letter (AGM)	M1
	Circular Economy/Recycling	Understand management of single-use plastics in bioprocessing.	Meeting/Video Meeting	M4