INSIGHTS

Q1 2021 REPORT

Pengana WHEB Sustainable Impact Fund

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GREENWASHING, REGULATION AND SUSTAINABLE INVESTMENT

A few years ago, I was fortunate enough to be invited to an event hosted by the Rothschild Foundation at the family's estate at Waddesdon Manor[1]. Wim Leereveld, the founder of the Access to Medicine Foundation, was taking questions from assembled guests. He was asked about the growing prevalence of 'greenwashing[2]' in the market for financial products and what should be done about it. His response was rather unexpected. He said – and I am paraphrasing – that he was reasonably relaxed about it. He saw it as evidence that there was real underlying demand for sustainable financial products. The market, he anticipated would quickly evolve to unmask any greenwashing.

If anything, this debate has now reached fever-pitch. Writing in USA Today in March, a former sustainability executive at Blackrock opined that 'sustainable investing boils down to little more than marketing hype, PR spin and disingenuous promises from the investment community'[3].

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[1] https://rothschildfoundation.org.uk/dialogues/

[2] The FCA defines greenwashing as 'marketing that portrays an organisation's products, activities or policies as producing positive environmental outcomes when this is not the case'.

[3] https://eu.usatoday.com/story/opinion/2021/03/16/wall-street-esg-sustainable-investing-greenwashing-column/6948923002/

Sustainable investing provides a smokescreen, he claimed, which actively impedes the required changes in regulation. The medicinal equivalent, as he put it, of wheatgrass to a patient suffering from cancer.

Frankly, a mainstream debate in the pages of USA Today certainly feels like progress. Until the last few years debates about greenwashing were confined to the rarefied atmosphere of foundation-convened gatherings at remote country estates. The FCA's own definition of the issue only dates to 2019[4].

Regulating sustainable finance

But with more than 250 European funds being rebadged as sustainable last year[5], greenwashing has become a problem requiring a more formal regulatory response. Readers will no doubt already be aware that regulators are responding. At the start of March, all investment funds available to European investors needed to declare how central sustainability is to their investment process. These Sustainable Finance Disclosure Rules (SFDR) allow for three levels of integration. Article 6 indicates limited ESG integration. Article 8 is for funds with some sustainability focus and Article 9 funds are those where sustainability is central. At WHEB we announced that our investment strategy will be considered an 'Article 9' strategy[6].

Next up, asset management firms will need to disclose against the 'EU Taxonomy' which is intended to provide a definitive list of environmentally sustainable economic activities[7]. By January 2022, investment funds available in the EU will need to disclose what proportion of investments are in areas covered by the Taxonomy. The current draft just covers climate change (both adaptation and mitigation) and is still to be finalized[8]. The plan is that by next January other

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[4] https://www.ftadviser.com/regulation/2019/10/16/fca-moves-to-protect-investors-from-greenwashing/
[5] https://www.responsible-investor.com/articles/friday-funds-253-funds-rebadged-as-sustainable-in-2020
[6] https://www.whebgroup.com/wheb-sustainable-impact-fund-sfdr-categorisation/
[7] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf
[8] The final version is expected towards the end of April 2021.

environmental objectives, such as the circular economy and pollution prevention and control, will be covered by additional taxonomies.

Given this uncertainty, most companies have not yet published their own assessments. Nonetheless, in advance of the January 2022 deadline, WHEB has made a preliminary assessment of the proportion of our investment portfolio that is likely to be eligible. Across the entire portfolio we estimate that between 12% and 36% of investments are likely to be taxonomy eligible. This represents 24-72% of total investments in our environmental themes. We would expect this number to increase as further environmental objectives are addressed in 2023, and as companies report their own assessments.

The European Commission has also begun to evaluate a potential ‘social taxonomy’ covering water and food, healthcare, housing and education among other areas. We would hope that much of our socially-themed investments would be eligible under this taxonomy[9].

While we still have reservations about elements of the EU’s sustainable finance regulations[10], we hope they confront the more egregious examples of greenwashing. Certainly, initial analysis suggests that the SFDR has been effective in ensuring that fund managers are clearer about how central sustainability is to their investment processes. Preliminary analysis by Morningstar of over 5,000 funds found that less than 4% have self-certified as Article 9 funds. A further 18% are classified as Article 8. The remainder are classified as Article 6 funds[11].

Market-based approaches

Alongside these rather directive interventions by the EU, the UK has supported a more market-oriented set of initiatives. Prominent among these is the work of the British Standards Institute (BSI). Utilising industry expertise (including from WHEB), government, academia as well as non-governmental organisations, the BSI has led the development of a suite of Publicly Available Specifications (PASs). So far these have covered the core principles of sustainable finance (PAS 7340) and the criteria for Responsible and sustainable investment management[12]. The work of a third PAS focused on the fund level started in March 2021.

Regulation of the real economy

Regulatory and market-based efforts to delineate sustainable finance are a welcome and necessary response to the proliferation of greenwashing. Nonetheless, this finance-focused regulation should be a supporting act for better integration of sustainability imperatives into the real economy. Ultimately, the extent of investor and company action on sustainability are delineated by underlying economic regulations and signals. In a poll for Standard Chartered, 64% of 250 senior executives said that they ‘believe the economics of operating as a net zero organisation do not stack up for their company’[13]. Some of these executives may not have fully explored the full range of options and strategies available to them, but the point remains. Investors and companies can only achieve so much within the current market paradigm.

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[9] https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/finance-events-210226-presentation-social-taxonomy_en.pdf
[10] https://www.whebgroup.com/making-the-european-sustainable-finance-taxonomy-a-carrier-and-not-a-barrier-to-sustainable-finance/
[11] https://www.investmentweek.co.uk/news/4029273/21-total-european-funds-most-stringent-sfdr-rules
[12] PAS 7340 is freely available at https://shop.bsigroup.com/ProductDetail?pid=000000000030387840 and PAS7341 at https://shop.bsigroup.com/ProductDetail?pid=000000000030387841
[13] https://www.sc.com/en/insights/zeronomics/

Jorgen Randers, a Norwegian professor and co-author of the original 'The Limits to Growth' report, put it best in advice to BT back in 2003. His guidance for businesses (and investors) is to work within the existing market to 'do the profitable thing… and do it as responsibly as possible'. But critically he said that at the same time businesses should push regulators and other stakeholders on a moral basis 'to [make] more of those responsible things more profitable in the future'[14].

The regulation of sustainable finance will, we hope, help with greenwashing. But rather than just limit what finance can claim to achieve, the better ambition is to support the change it seeks. More fundamental regulatory change in the real economy is still required to achieve sustainability, but Leereveld was right all those years ago. A very large number of people want their capital to be in some way impactful. It is of course right to protect them from shysters. It is just as important to give them more credible ways to achieve their goals. For too long environmental change has been held back by a lack of interested capital. Let's not let this moment go to waste.

Seb Beloe, Partner, Head of Research

[14] https://static1.squarespace.com/static/565ebf94e4b0f2a77109071e/t/566adec80ab3773545ee6bc2/1449844424880/Just_values.pdf

KINGSPAN AND THE GRENFELL TOWER FIRE

In 2007, McKinsey & Co. the consulting firm, published an article entitled ‘A cost curve for greenhouse gas reduction’[15]. In it the authors ranked technologies for reducing greenhouse gas emissions according to the cost of abating one ton of carbon dioxide equivalents (tCO_2e). The stand-out technology – by some margin – was building insulation. Insulating buildings properly is not just a no-brainer from a greenhouse gas reduction point of view. It also has significant social benefits. Occupiers of well-insulated buildings enjoy healthier lives with lower levels of hospital admissions compared to poorly insulated buildings, particularly among vulnerable communities[16].

It is rare to find a business wholly focused on developing and selling products with such a significant positive social and environmental impact. Still rarer to find a business that also seeks to embed sustainability across their operations. With their ‘Planet Passionate’ programme, Kingspan was just one such company. In their 2020 annual report the company estimated that their products will help to save 164 million tonnes of CO_2e while also recycling 573m billion plastic bottles into insulation material[17]. A ‘darling’ investment for investors of all stripes – but particularly for those for whom sustainability and climate change is a core focus.

WHEB was no exception. We first purchased the company in 2014 and held it continuously until February of this year. Over that time the company’s share price more than quadrupled from €14.50 to over €60[18].

The Grenfell Tower fire

On 14 June 2017, a fire broke out in the Grenfell Tower, a 24-storey block of flats in West London. The fire caused 72 deaths, with a further 70 injured. The fire was the deadliest residential fire in the UK since the Second World War.

The fire started in a malfunctioning fridge on the fourth floor. From there it spread rapidly up the building’s exterior. This was due to the building’s external cladding and a layer of insulation separated by an air gap. The fire burned for 60 hours before being extinguished.

The Grenfell Inquiry

In WHEB’s quarterly report covering the fourth quarter of 2020 we detailed the principal findings of the official Inquiry into the causes of the fire. This Inquiry is still on-going[19]. It is worth reiterating that Kingspan had no role in the design or planning of the cladding system at Grenfell

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[15] https://www.mckinsey.com/business-functions/sustainability/our-insights/a-cost-curve-for-greenhouse-gas-reduction
[16] https://www.bmj.com/content/371/bmj.m4571
[17] https://ks-kentico-prod-cdn-endpoint.azureedge.net/kingspan-live/kingspanglobal/media/results-centre/kingspan-financial-annual-report-2020.pdf
[18] Data from FactSet
[19] https://www.grenfelltowerinquiry.org.uk/

Tower. They provided no specific advice to those working on Grenfell Tower and only a small quantity (5.2%) of the building's insulation consisted of Kingspan's K-15 insulation panels.

The initial findings from the Inquiry appear to indicate that the primary failings at Grenfell were due to the cladding system as a whole rather than a specific failing in the Kingspan product. The cladding system that included the K15 Kingspan panels was not compliant with Building Regulations for buildings over 18 metres in height. Tests showed that the use of K15 panels in the cladding system did not impact the outcome of the Grenfell fire. The outcome would have been the same whichever type of insulation material had been used.

Safety shortcomings at Kingspan

Nonetheless, the Inquiry did uncover some areas of significant shortcomings at Kingspan. Kingspan admitted that K15 insulation panels sold between 2005-14 had not been subject to critical fire safety tests. Tests had been conducted on a previous version of the product, but after modifying the manufacturing process in 2006, tests were not rerun on the new product. Kingspan has now re-run the tests and confirmed that the product passed.

In addition to poor oversight of product safety protocols at the company, there was also evidence that Kingspan executives sought to 'game' product safety standards. Non-standard products were used in tests and product literature was, by the company's own admission, not sufficiently clear or emphatic in explaining the limitations of the safety tests performed by Kingspan. This was particularly acute in applications for use on buildings over 18 metres in height.

More worrying still was the attitude of Kingspan executives in the UK. Concerns about the safety of K15 products being used in buildings over 18 metres in height were raised by Kingspan employees as well as by customers and external consultants. These were not taken seriously and in some cases were aggressively rebutted.

Kingspan's response

Kingspan provided an initial statement to the Inquiry in which it acknowledged weaknesses in their product safety testing and in marketing literature. At the company's 19th February financial results, a further statement was made outlining additional actions that the company plans to take including implementing the recommendations of an independent review[20]. These actions include improvements across several areas of concern.

The company, for example has committed to implement rigorous product safety systems which will be reviewed every two years by third party experts. There will be a marketing integrity manual and an updated code of conduct with strengthened protections for internal whistleblowers. There will also be strengthened governance with a new sub-committee of the Group Board monitoring compliance and product testing, accreditation and marketing. A Group Head of Compliance will be appointed reporting directly to the CEO. The company's UK fire testing facility will be used to further best practices in building fire safety.

WHEB's analysis and decision to sell

We first heard about the potential impact of the Grenfell Tower fire on Kingspan in August 2017. In a meeting with investment analysts the company said that they were aware that their product represented 5% of the insulation materials used at Grenfell. The Inquiry would reach its conclusions relatively quickly they believed and they were 'very relaxed' about the impact on them. They welcomed what they saw as an inevitable tightening of regulations on building safety, believing that their product set was 'the most tested internationally'. The next time the company mentioned Grenfell was in their evidence to the Inquiry in November 2020.

Since November, we have been in regular contact with the company's Investor Relations team. We have developed our own framework for what we consider to be best practice in product safety and have compared Kingspan's historic behaviour and their response to Grenfell against this framework[21]. We have also shared our analysis with the company.

In our view, many of the commitments that the company has made are impressive. Regular third-party audits as well as explicit board oversight and accountability for product safety represent strong responses. It is also clear from the company's statements that they believe, that Kingspan's products and behaviour were not the cause of the Grenfell Tower fire. They do though clearly accept that there were decisions and behaviours within the UK Insulation Boards business that were wrong and for which they have apologised and sought to implement corrective actions.

Nonetheless, our overriding concern, and one that is not fully addressed by the company, is that there was, in our view, a culture within the UK business that saw regulation as an impediment to doing business. There is clear evidence that senior leaders in the UK business sought to manipulate tests to provide positive results. There is also evidence of management seeking to bully and threaten employees and put pressure on external consultants and clients who raised safety concerns.

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[20] https://ks-kentico-prod-cdn-endpoint.azureedge.net/kingspan-live/inform/media/inquiry/eversheds-sutherland-table-of-recommendations.pdf?ext=.pdf

[21] This has been derived from the work of Lucia Suhanyiova, Amy Irwin and Rhona Flin, 'Product safety culture: a preliminary study in the UK manufacturing industry', Journal of Risk Research, 19 August 2020

On the evidence presented to the Inquiry, these attitudes were widely held across many senior managers in the UK business. Several communications were also copied to senior executives at group headquarters including the group CEO Gene Murtagh. The insulation boards business was the most profitable part of the Kingspan group. The UK is a sizeable portion of total Group revenue. In our view, it is hard to accept that there was not direct interest from group executives. If there wasn't, there certainly should have been. It is highly unlikely, we believe, that these cultural issues were confined to the UK business. Compounding this concern was the decision by the company to appoint the CEO's brother to the Board. This appointment was announced with the annual results in late February. In our view, this was a missed opportunity to make board appointments which present the clearest possible signal of independent governance.

As a consequence, we have concluded that we are unable to continue to invest in Kingspan. We don't believe Kingspan are in any way directly culpable for the Grenfell Tower fire. We do believe however, that the culture within the UK business enabled – even encouraged – an attitude that prioritised commercial advantage over product safety. Furthermore, based on the evidence presented at the Inquiry and our knowledge of the business, this culture was at least tacitly endorsed by group management. We do not believe that the proposed remedies go far enough to address these concerns.

Notwithstanding the positive steps the company has taken, and the undoubted positive role the products play in improving building efficiency, we have chosen to sell the company from our portfolios. We fully exited our position on the 26th February 2021. We have communicated this decision, and our reasoning, to the company. We hope that, in time, further changes will be made in the culture and governance of the business that will allow us to view the company as an exciting investment for our investment strategy once again.

ENGAGEMENT ACTIVITY

Pushing for Net Zero Commitments

The Net Zero Asset Manager Initiative that WHEB signed up to last quarter is a long-term commitment that involves securing absolute reductions in greenhouse gas emissions (GHG) across the WHEB portfolio. The first step on this journey is to secure commitments from portfolio businesses to achieve net zero carbon emissions by 2050 at the latest. During the quarter we saw notable progress at two portfolio companies.

Intertek plc

We have been engaging with Intertek for several years now on their overall approach to climate change. As a professional services firm, the company itself now offers a range of sustainability services including strategy and measurement services for GHG emissions. However, the company's commitment to reducing its own emissions was weak, involving a pledge to 'strive for a reduction in GHG emissions per employee by 5% against our 2018 base year'.

Our initial attempts to get the company to revise this target were rebuffed. So over the summer we initiated a collaborative engagement alongside another large Intertek investor. This involved writing a joint letter to the CEO arguing that the company's sustainability services were compromised by Intertek's own poor commitments in this area. We followed up on this letter with further correspondence and teleconferences with the investor relations team at the company.

At the company's full year results presentation at the beginning of March the company announced that it has now formally signed up to a commitment to achieve net zero carbon emissions by 2050. Furthermore, the company has joined the UN's Race to Zero campaign and will be working with the Science Based Targets Initiative (SBTi) to ensure the company's targets are aligned with limiting global temperature increases to less than 1.5°C. The company also announced that it has offset its operational emissions in 2020.

We are pleased to see these new commitments from the company which represent an important step forward. We have subsequently written to the company applauding the new commitments and seeking additional detail on how they are going to achieve these new targets.

JB Hunt Transport Services

JB Hunt is a large operator of logistic services in the US. Their core business is in supplying intermodal transport services whereby they enable freight be transported by rail for long journeys across North America. They company also operate a large truck fleet that supports the intermodal service and provides other freight logistic services for clients.

The company's intermodal services have a clear positive impact by reducing GHG emissions and other air pollution associated with road transport. These benefits have been documented for many years through the company's own carbon footprint calculator[22]. Nonetheless, when it came to the company's own GHG emissions they have historically been something of a laggard. So much so in fact that in 2020 a shareholder resolution was tabled at the company's Annual General Meting that required the company to produce a report detailing how the company plans to reduce its total contribution to climate change. The resolution, which was opposed by management, secured support from 54.5% of shareholders including WHEB.

Since then the company has published a detailed 'Climate Action Report'. This sets out short and long-term targets on increased efficiency as well as conversion of the company's truck fleet to alternative power sources[23]. Importantly the company's former Chief Operating Officer has taken up the position of Chief Sustainability Officer and will lead these efforts. The company has so far not set a net zero emissions target, but is actively considering different approaches that will help the business significantly reduce its overall carbon footprint. We continue to engage with this company with a view to supporting and accelerating these efforts.

Orpea – employee protection in the nursing home sector

The nursing home sector has come under intense scrutiny as a consequence of the COVID-19 pandemic. Care homes have proved to be particularly vulnerable to the virus with care home residents representing a significant proportion of total COVID-19 related deaths. Nursing home workers have also been exposed to the virus creating significant additional risks for them.

Orpea is a large operator of elderly care homes and has been a holding in the WHEB strategy for over nine years. The company has grown significantly over this period. The company has a good reputation in the sector and had, for example, managed to vaccinate over 80% of Orpea residents and 44% of employees by the end of March 2021. More than 90% of Orpea's nursing

[22] https://home.jbhunt.com/company/investor_relations/esg/environmental-sustainability/engineering-solutions/
[23] https://www.jbhunt.com/content/dam/jbhunt/jbh/pr/press-releases/J.B.%20Hunt%20Climate%20Action%20Plan.pdf

homes have no positive cases and the vaccination plan was expected to be complete by the beginning of April.

Nonetheless, we believe that there is certainly room for improvement, particularly in how the company protects and supports its own employees. As a consequence WHEB was one of several signatories to a statement setting out our expectations of businesses working in the nursing home sector[24]. This statement was coordinated by UNI Global Union as the global trade union federation for the private care sector. A series of expectations are set out in the statement covering areas such as understaffing, health and safety, wages and contracts, freedom of association and collective bargaining and quality of care.

Orpea has recently introduced several new initiatives to provide better training to staff and we expect further information to be made available as part of the company's CSR roadmap which will be published by the end of June this year. We have already written to the company and will be seeking a meeting with them, alongside other investors, to discuss the statement and their response to it.

Supporting a global response to COVID-19

We have reported previously on our efforts to ensure that portfolio businesses are taking a responsible approach to their management of the COVID-19 pandemic. Most notably this has

[24] https://www.reuters.com/article/us-sustainable-investing-carehomes-exclu/exclusive-top-investors-to-call-for-improved-working-conditions-in-care-homes-idUSKBN2BN3LN?edition-redirect=in

been focused on companies in our Health theme that are directly involved in supplying equipment, diagnostics and therapies to help combat the pandemic.

During the quarter, we also signed an investor statement coordinated by the Access to Medicines Foundation aimed at ensuring 'an effective, fair and equitable global response to COVID-19'[25]. The statement, which was signed by 150 institutional investors with US$14 trillion in Assets under Management, was primarily addressed to Governments and multi-lateral bodies. The key request was to ensure that financing is made available to ensure that all countries have access to the tools to tackle the pandemic. The statement also encourages governments to explore innovative financing mechanisms to support this ambition and commits signatories to work with investee companies to encourage them to support the ambition as well.

WHEB has also been an active participant in a separate initiative that is specifically targeting therapy and diagnostic manufactures to adopt pricing policies that ensure equitable access for different countries at different levels of economic development. We will report on this engagement once it has been implemented in our next quarterly report.

Policy initiatives tackling climate change

Coal mining in the UK

Alongside other investors in a group convened by the Institutional Investors Group on Climate Change (IIGCC), we wrote to the UK's Prime Minister to express our concern about the decision to open a new deep coal mine in Cumbria in the UK. We believe that this mine will increase global emissions and have a notable impact on the UK's own carbon budget. We do not believe that this decision is aligned with the country's legally binding commitment to achieve net zero carbon by 2050.

25 https://accesstomedicinefoundation.org/media/uploads/downloads/605db9c8e873b_AccessToMedicineFoundation_COVID19InvestorStatement_26MAR2021.pdf

The letter, which was sent in mid-February, urged the Prime Minister to call in the decision to approve the coal mine and set out a clear timetable to phase out all coal developments in the UK. We were pleased to hear that in mid-March the government announced that the planning approval will now be subject to public inquiry.

EU Methane strategy

Again as part of an investor group within the IIGCC, WHEB supported a letter that was sent to the EU Commission's Executive Vice-President Timmermans and Commissioner Simson on the subject of methane emissions. The letter reiterates our support for strict performance standards on methane emissions associated with oil and gas production. Specifically, the letter emphasises our desire to see rigorous standards applied to oil and gas production that was originally set out in a letter sent in May last year[26]. Methane levels in the atmosphere have been rising dramatically and this letter is intended to encourage the EU Commission to establish mandatory performance standards that will help reduce methane emissions in the production of oil and natural gas that is consumed in the EU.

[26] https://www.iigcc.org/download/iigcc-investor-letter-on-methane-policy/?wpdmdl=3360&refresh=605a107417d011616515188

PERFORMANCE COMMENTARY

The first quarter of 2021 saw global equity markets, represented by our benchmark MSCI World Index, make modest gains. This was despite the announcement of almost unprecedented fiscal stimulus from the USA. The potential for inflation and rising interest rates caused some turbulence, as investors pondered historically elevated asset prices.

The American stimuli is in the form of two major bills. The “American Rescue Plan Act”, also known as the “COVID-19 Stimulus Package” was signed into law on 11 March. It provides $1.9trn of fiscal spending designed to counter the worst effects of the COVID-19 epidemic. The second bill, known as the “American Jobs Plan” was quite widely trailed but only formally unveiled on the last day of the quarter. This infrastructure-led plan, proposed at more than $2trn, underscores the Biden administration’s commitment to transitioning to a low carbon economy. It is currently making its way through the legislative process.

These prospects for growth and inflation prompted a sharp rotation in sector and style performance within markets. The best performing sectors in this period were those associated with the early stages of an economic recovery, such as financial and fossil energy companies. Our strategy is not exposed to these sectors, as the companies in them seldom create solutions to sustainability challenges. We also saw some profit taking in themes which had outperformed the market over the last 12 months. The Fund’s benchmark, the MSCI World Index (in AUD) ended on a high gaining 6.30% in the first quarter. The Fund trailed in the period with a return of 2.89%.

Our Sustainable Transport theme was the largest positive contributor in the quarter. Particularly strong performance came from US freight operator **JB Hunt**. The company's main service is providing 'intermodal' services that maximise the use of rail in transporting goods around the country. Using rail in preference to road helps to reduce congestion and carbon emissions. The stock had a good quarter as returning economic growth created strong demand in the freight sector.

The Sustainable Transport theme was also driven by the strong performance from automotive component suppliers including **Aptiv**, **TE Connectivity** and **Infineon** with all these companies benefiting from the accelerating shift to electric vehicles.

Our Environmental Services theme was another positive contributor, with a notable contribution from **Arcadis**. Arcadis is an environmental consultant that provides engineering and environmental services focused on buildings, infrastructure and water businesses. The company is particularly focused on delivering climate adaptation and sustainability advice to its clients. It will benefit from the focus on green infrastructure in the recently announced fiscal stimulus.

On the other hand, our Resource Efficiency theme continued its weakness from last quarter. It was largely driven by the poor performance from **Daifuku**, a leading provider of warehouse automation solutions. Its solutions help improve manufacturing efficiency and reduce energy and resource use. This quarter the company announced a new three year plan that the market found underwhelming. However, we think management is being conservative with its targets and continues to have a very bright future.

Our Health, Wellbeing and Safety themes also struggled this quarter. The defensive qualities of the companies in these themes weighed heavily on sentiment. The Health theme also suffered as the anticipation of the end of the pandemic lead investors to rotate away from healthcare. Our

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long-term conviction in the importance of healthcare is unchanged. We also anticipate the Wellbeing and Safety themes to bounce back to positive territory as they play well into the post COVID-19 world.

Despite the turbulent markets, the first quarter of 2021 was hugely positive for investors seeking to help solve sustainability challenges. The US infrastructure spending bill, if signed into law, would be arguably the largest ever single economic programme addressing climate change. And it is just one of a huge number of supportive government policies to combat climate change across the world.

The heightened commitment to fighting climate change will lead to a radical transformation of the global economy. This should benefit all our portfolio companies, which have been specifically selected to address this opportunity. The low interest rate environment may result in more volatility in the short- and medium- term, but the long-term case for sustainability investing is as strong as ever.

PORTFOLIO ACTIVITY

We initiated one position and sold three positions in the quarter.

Recent purchases

We initiated a new position in **HelloFresh** in our Wellbeing theme. HelloFresh is a home delivery meal-kit provider with a particular emphasis on fresh ingredients, ease of preparation, and food waste reduction. It has a number one market position in every market it operates in. Demand for fresh food meal kits is expanding rapidly, driven by an increasing focus on healthy food, as well as convenience and waste reduction. The pandemic has helped accelerate this trend.

In addition to its wellbeing impact, we were also drawn to the environmental aspect of the HelloFresh story. The company has developed a highly efficient supply chain management system based on its long-term customer order data and its industry know-how. This allows it to order precise quantities of fresh food from suppliers with high environmental standards, and to deliver that food in an increasingly carbon-efficient way.

Recent sales

We sold **China Water Affairs** in our Water Management theme. It provides water supply and wastewater services for second tier cities in China. It has a proven track record of improving poorly run state-owned enterprises it acquires. In recent years however its growth has slowed, and its environmental protection business in particular has struggled. The liquidity of the stock also no longer fits the strategy's profile.

We closed our position in **Kingspan** in our Resource Efficiency theme. It is the world leader in advanced insulation products for the construction industry, offering better insulation solutions than many of its competitors. Since the autumn, Kingspan has been giving evidence to the inquiry into the tragic fire at the Grenfell Tower in London.

We do not believe Kingspan was in any way directly culpable for the Grenfell Tower fire. However, we believe that the culture within the UK business enabled – even encouraged – an attitude that prioritised commercial advantage over product safety. Furthermore, based on the evidence presented at the inquiry, this culture was at least tacitly endorsed by the management. As we do not believe that the proposed remedies by the company go far enough to address these concerns, we have completed our investment. For more detail, please see the commentary on page 7 of this report.

We also sold our position in **Renishaw** in our Resource Efficiency theme. It is a leading manufacturer of industrial precision probes. Its products enable companies to manufacture their products more accurately with less waste. We are great admirers of the company and had been happy investors since early 2016. However, we had been concerned about the company's valuation for some time. The sale decision was crystallised when its founders announced their intention to sell their majority stakes, and in doing so put the whole business up for sale.

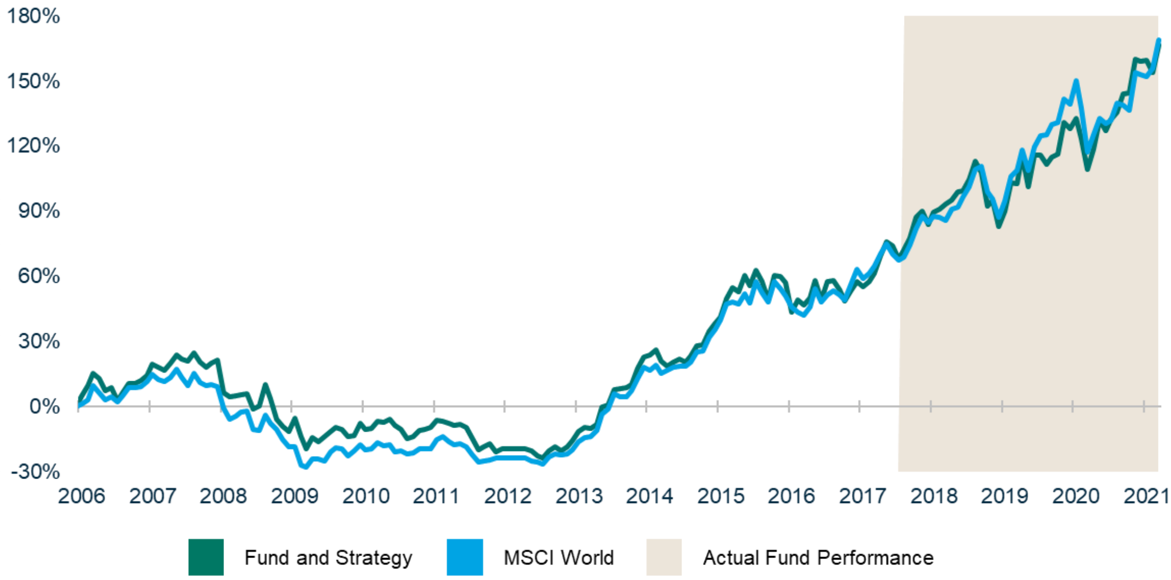
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 31 March 2021

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	5.0%	27.6%	11.3%		
Strategy (partial simulation)[27]				12.7%	6.7%
MSCI World[28]	5.0%	23.8%	13.1%	13.6%	6.7%

Performance Since Strategy Inception

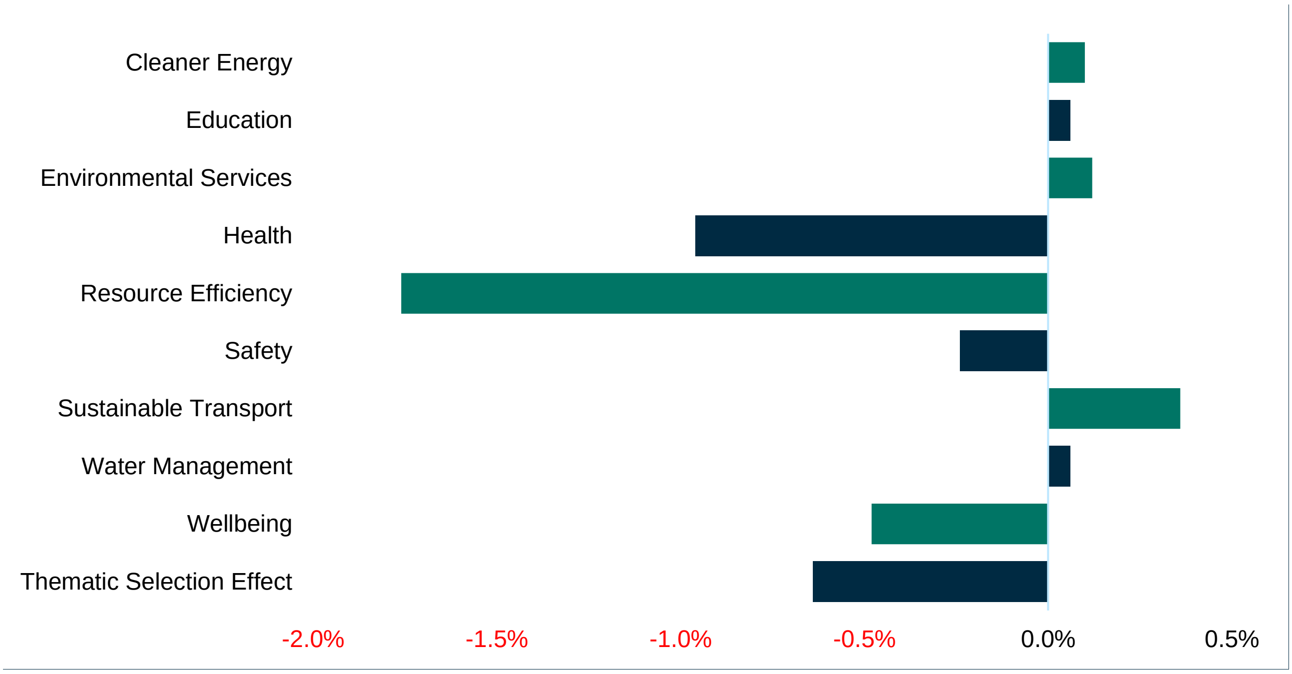


[27] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns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

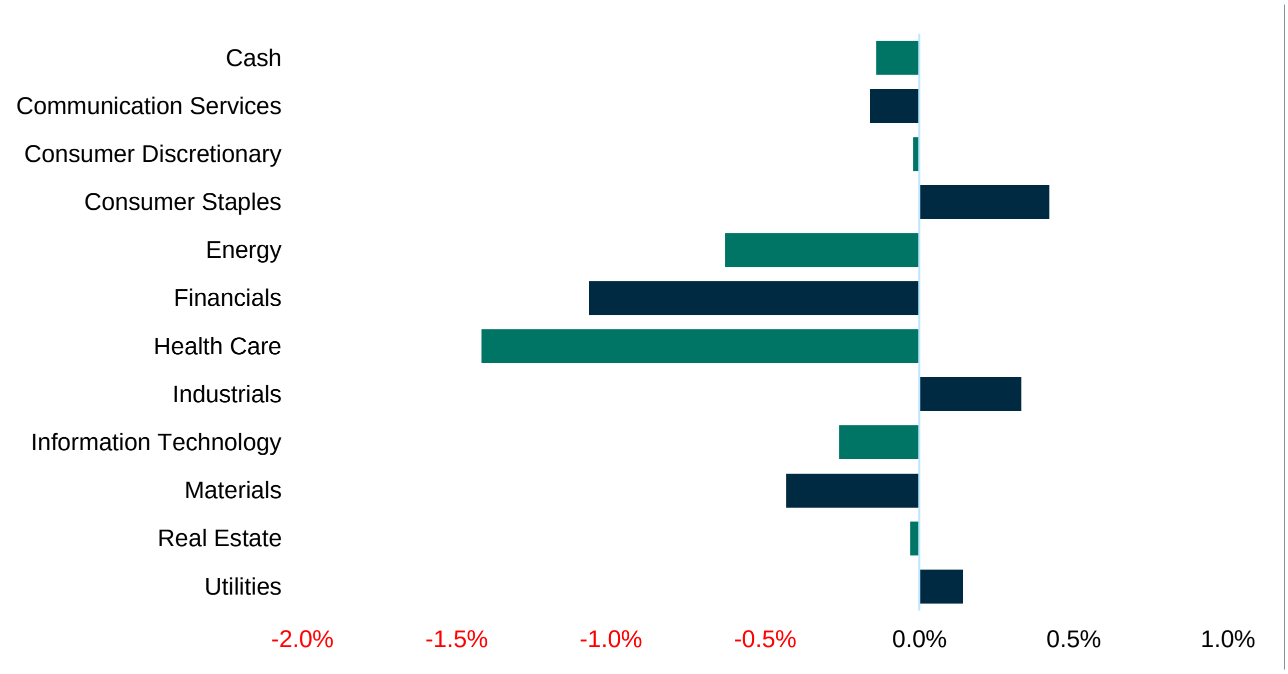
[28] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[29]

Attribution by Sustainability Theme[30]

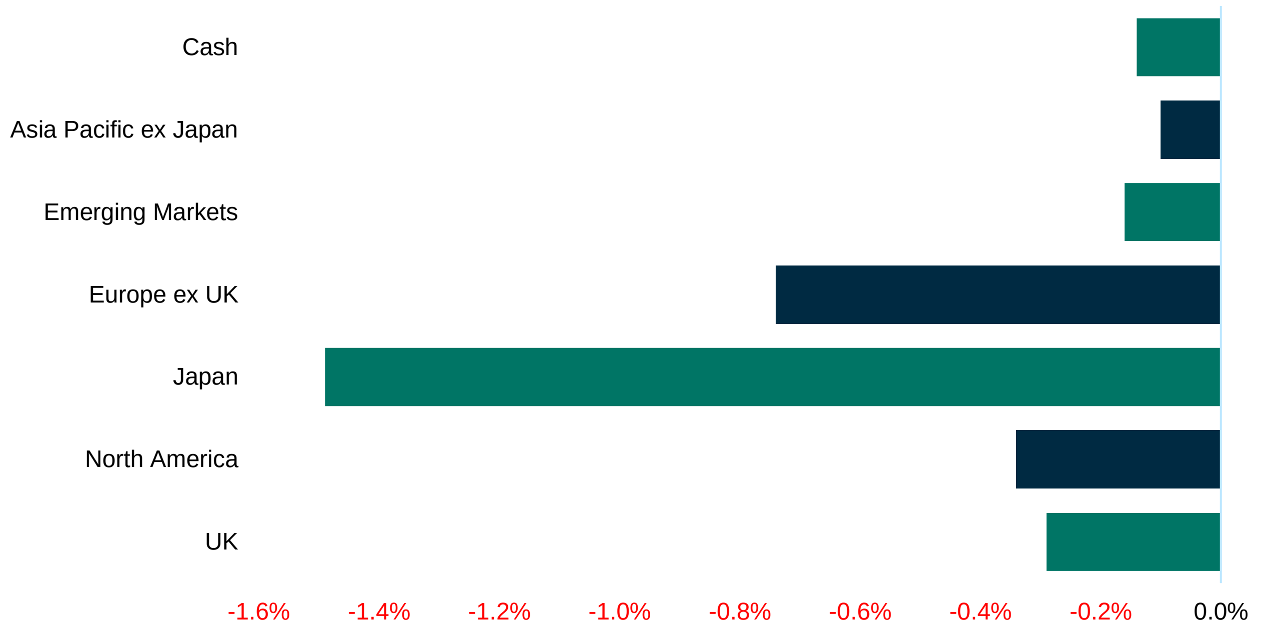


Attribution by Sector

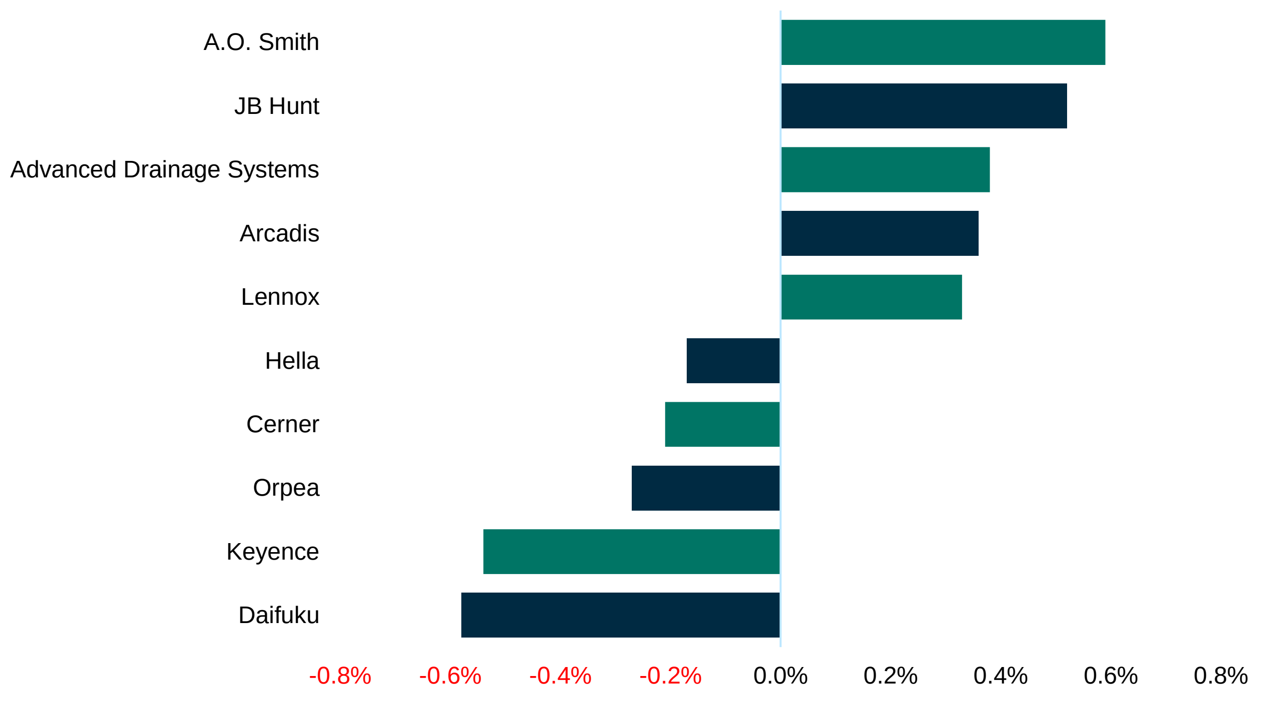


[29] Performance attribution is calculated with reference to the MSCI World Index
[30] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

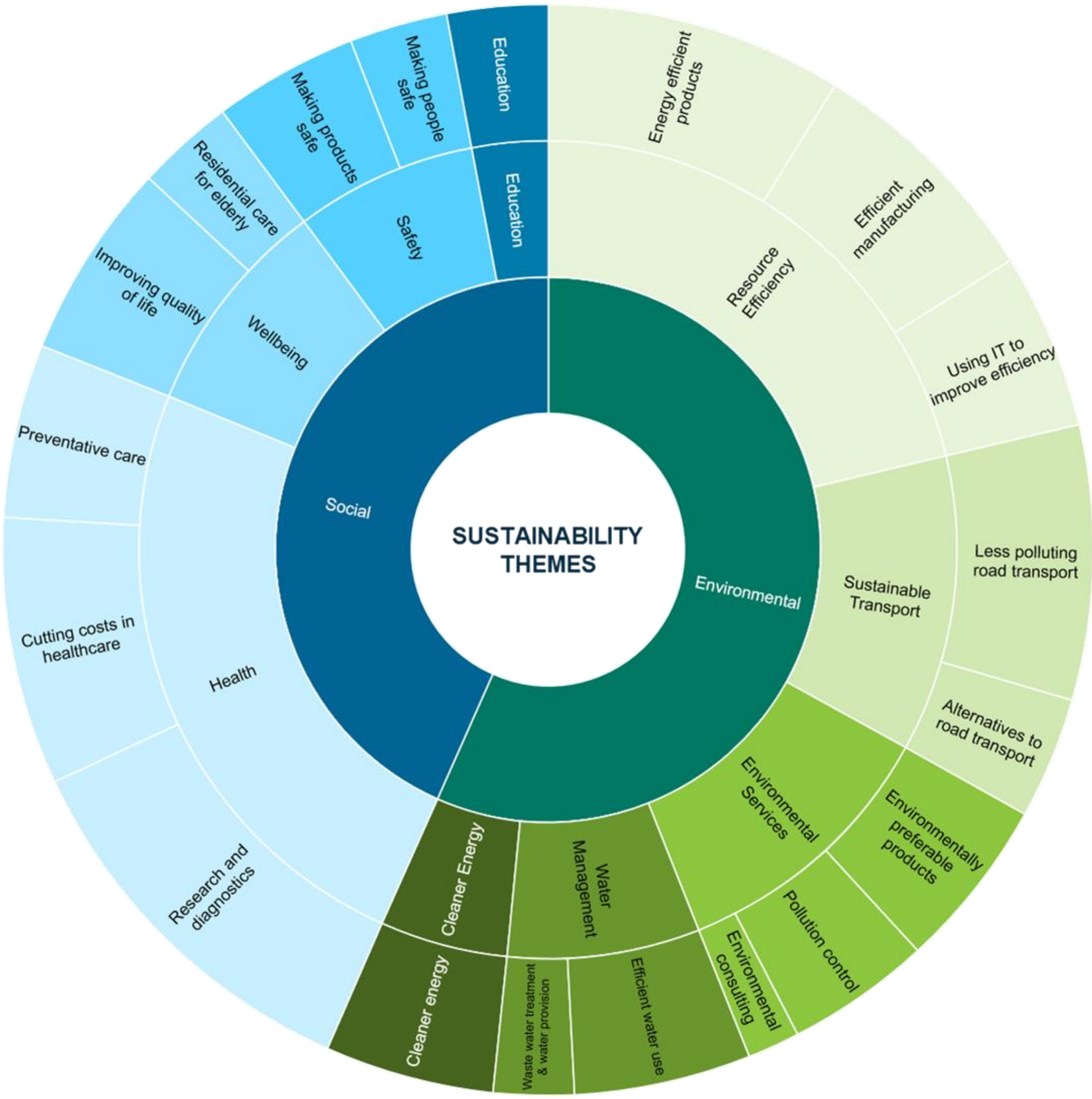


Contribution by Stock (Top and Bottom 5)



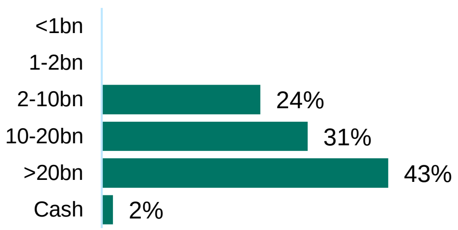
PORTFOLIO ANALYSIS AND POSITIONING[31]

Sustainability Theme Exposure

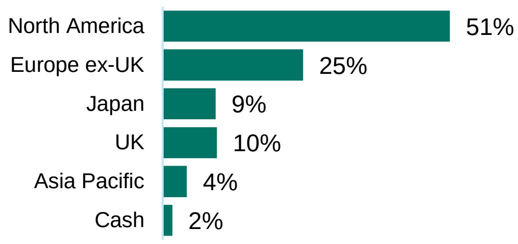


[31] As at 31 March 2021.

Market Cap (U$) Exposure



Geographic Exposure



Top 10 Stocks

Name	Sustainable Investment Theme	Description
A.O. Smith	Energy efficient products	Resource Efficiency
Agilent Technologies	Research and diagnostics	Health
Ansys	Using IT to improve efficiency	Resource Efficiency
Daifuku	Efficient manufacturing	Resource Efficiency
Ecolab	Efficient water use	Water Management
Intertek Group	Making products safe	Safety
Koninklijke DSM	Environmentally preferable products	Environmental Services
Linde	Pollution control	Environmental Services
MSA Safety	Making people safe	Safety
TE Connectivity	Less polluting road transport	Sustainable Transport

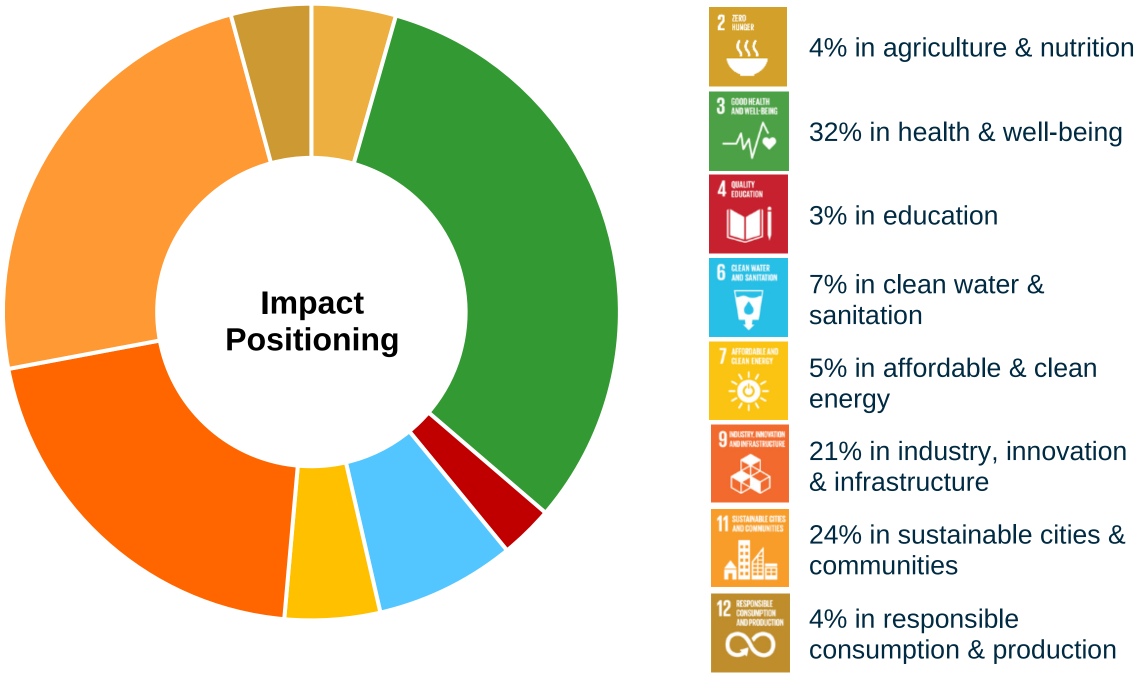
Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	26.16x	27.39x
FY2 Earnings Growth	15.07%	15.48%
FY1 PE/FY2 Earnings Growth (PEG)	2.08x	1.46x
3-year Volatility	17.11%	18.12%
Beta (predicted)	0.94	
1-year Tracking Error (predicted)	5.64%	
5-year Tracking Error (ex-post)	6.70%	

Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
China Water Affairs	Sale	Water Management	Unacceptably high liquidity risks
HelloFresh	Purchase	Wellbeing	Compelling growth opportunity using convenience and data to improve nutrition and reduce food waste
Kingspan	Sale	Resource Efficiency	Insufficient response to Grenfell Inquiry findings
Renishaw	Sale	Resource Efficiency	Combination of uncomfortable valuation level and announcement of initiation of sale process by founders

Impact Positioning: Supporting the UN Sustainable Development Goals[32]



Impact Map of the strategy's portfolio following changes in Q1 2021[33]

[32] 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.
[33] As above.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q1 2021

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 January – 31 March 2021. 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	7	
# meetings at which votes were cast	7	100
# meetings at which we voted against management or abstained	5	71

Resolutions	No. of resolutions	%
# votes cast with management	81	84%
# votes cast against mgmt. or abstained (see list in appendix)	15	16%
# resolutions where votes were withheld	0	0%

Company Engagement Activity

Company	Topic	Method	Detail	Outcome
AO Smith	Environmental performance	Email / Conference call	Product efficiency standards, approach to circular economy and recycling. Setting GHG reduction targets	Partially successful
Daikin	Net Zero Carbon strategy	CA100+ Collaboration / Email / Conference call	Working with CA100+ investors to secure additional detail and milestones for Daikin's net zero carbon strategy	Ongoing
Lennox International	Net Zero Carbon strategy / Product efficiency	Email / Conference call	Call focused on the relative positioning of Lennox's product portfolio for higher efficiency as well as GHG target setting, refrigerant strategy	Partially successful
Cooper Companies	Taxation rate	Emails	Questions on approach to tax and tax-related changes the company has made	Ongoing
Cooper Companies	Sustainability	Questionnaire	Questionnaire seeking input on materiality assessment for the company	Ongoing
Kingspan	Grenfell Tower Inquiry	Emails	See above	Unsuccessful
HELLA	GHG emissions / EU Taxonomy	Emails	Commitment to be zero carbon (scope 1 and 2) by 2025 and clear reporting of taxonomy eligible activities.	Successful
Littelfuse	ESG reporting	Conference call	Publication of CSR report due in 2021 / appointment of senior leader for sustainability	Partially successful
Orpea	Employee protection	Collaborative / Email / Conference call	Co-signed letter and leading engagement with Orpea to encourage a higher priority for employee protections and rights	Ongoing
Danaher	Sustainability strategy	Conference call	Ownership increasingly being led by corporate and integrated into Danaher Business System. Recently set sustainability goals – not currently focused on net zero carbon	Partially successful
Intertek	Net zero carbon target	Collaborative / Emails / Conference call	Company reported that it has now set a net zero carbon target for 2050 and that this will be a Science-Based target and that it offset carbon emissions in 2020.	Successful / Ongoing
Agilent	Director overboarding Director independence Director for sustainability CEO compensation Auditor independence	Letter	AGM voting involved votes against Directors due to director overboarding and lack of director and auditor independence as well as a lack of Director responsibility for sustainability and excessive CEO remuneration	Ongoing
JB Hunt	GHG emission reduction strategy	Email	See above	Partially successful
MSA Safety	Hazardous chemicals	Email	NGO report highlighted use of toxic chemicals in firefighting equipment.	Partially successful
Steris	Hazardous chemicals	Email	Company participation in survey by Chemical Footprint Project	Ongoing
Ansys	Net zero carbon target	Email / Conference call	Conference call planned for May to discuss when/if the company plans to set carbon reduction targets	Ongoing
Hikma Pharmaceutical	Net zero carbon target	Email	Company is working to develop targets for their direct emissions and will publish when these are agreed	Ongoing
DSM	Exposure to downstream industries	Email	Several of the company's products while delivering positive impact, are exposed to harmful downstream industries	Ongoing
Horiba	Net zero carbon targets Gender diversity	Letter	The company has not set a net zero carbon target nor is it making sufficient progress on gender diversity	Ongoing