



WHEB

October 2021

Investment Advisory Committee: Summary minutes

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Attendees:

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Jayne Sutcliffe (Chair)

Seb Beloe (Head of Research)

Ted Franks (Fund Manager)

Claire Jarvis (Investment Analyst)

Victoria MacLean (Associate Fund Manager)

Rachael Monteiro (Business Development)

Kingsmill Bond (Member)

Alice Chapple (Member)

Ray Dhirani (Member)

Carole Ferguson (Member)

1. Advisory Committee changes

Jayne Sutcliffe introduced Alice Chapple as the newest Advisory Committee Member. Alice is currently a Director of the consultancy Impact Value. She is a Chartered Certified Accountant and holds positions as the Chair of Investor Watch and is an Independent Director of the Schroders BSC Social Impact Trust and a Trustee of the Shell Foundation. She also works with the University of Cambridge Institute of Sustainability Leadership and previously worked with Forum for the Future.



Alice Chapple, WHEB
Advisory Committee Member

2. Business update

Seb Beloe then provided an update on recent developments in WHEB's business. Assets under Management are approximately £1.5bn showing c.50% growth since the end of 2020. WHEB is currently launching a separate strategy that will focus exclusively on environmental themes. This should be available as an ICAV from the end of 2021.

Both Sarita Kashyap and Victoria MacLean, who were introduced at the last meeting, have now started at WHEB. The company is now in the process of searching for two new recruits to the operations team. These appointments would bring the total number of WHEB team members to 19.

Following the decision at the last meeting to allow more drug therapy companies into the investment universe, Committee Members were curious to understand whether the larger market capitalization of these companies means that there is a bias towards the social themes in the universe. Ted Franks answered that approximately 40% of the investment universe (by market capitalization) is in the health theme. He also indicated that the investment team is currently considering a range of therapy companies for investment. These businesses tend to score well on WHEB's impact engine and so the team are considering which is likely to represent the best investment for the strategy.

3. Overall fund performance and composition

Ted Franks provided an update for the Committee on recent fund performance and a review of the top ten holdings. After the very strong year that WHEB saw in 2020, performance in 2021 has been much bumpier. While the pandemic was in many ways validating for the exposure that the strategy has in healthcare, this year has been much more difficult for many healthcare companies. In addition, the start of the industrial cycle, which has been driven by the economic recovery following the lock-down, typically involves strong performance from energy and financial sectors which the strategy has no exposure to. On top of this, Ted pointed to the emergence of concerns about inflation which tends to support value strategies rather than growth-oriented strategies with higher ESG quality like WHEB's. Notwithstanding these macro-challenges, Ted argued that the strategy has continued to perform well. With additional resource on the investment team, Ted claimed that WHEB is better-placed to assess and understand how these changes will affect performance.

With the sale of China Everbright Environment Group, there are now no portfolio companies that are headquartered in Hong Kong.

Committee Members were also interested to understand WHEB's view on renewable energy and whether there are significant opportunities there.

LHC Group (Well-being) is a health service provider focusing on providing care in the patient's own homes or in dedicated hospices.

Deglobalisation

Committee Members were interested to understand whether recent investment decisions, including the decision to invest in First Solar, were linked to concerns about 'deglocalisation'. Ted Franks responded by saying that the process of deglocalisation has been going on with companies for some time. With 40% of the strategy invested in industrial businesses, many of which have extended supply chains, we have noted several portfolio businesses that are already reducing the geographic extent of their supply-chains. This is most notably in relation to China, and often in response to concerns about the theft of intellectual property but is also linked to other issues, such as COVID, that have revealed the fragility of global supply-chains.

Increasingly, Ted argued, the strategy is focused principally on developed markets. With the sale of China Everbright Environment Group, there are, for example, now no portfolio companies that are headquartered in Hong Kong. Inevitably though, many portfolio businesses still have significant revenue exposure to China.

Overall, the team argued that, from a sustainability point of view, this is regrettable. Typically, a company with an effective solution to a sustainability challenge would find demand for their product across different regions. The process of deglocalisation impedes the flow of innovation across these different markets and so, in WHEB's view, slows the transition to a zero-carbon and more sustainable economy.

Cleaner energy

Committee Members were also interested to understand WHEB's view on renewable energy and whether there are significant opportunities there. The WHEB team responded by saying that cleaner energy represents a staple component in a positive environmental impact fund. The WHEB strategy currently holds First Solar in the Cleaner energy theme alongside Vestas and TPI Composites which are both involved in wind power. It is a difficult sector to invest in, however, with major issues in the solar value-chain linked to human rights and a highly competitive sector, particularly in solar module manufacturing. First Solar has differentiated technology, but is still subject to intense competitive pressure. The team has also been looking at other businesses in the solar value chain including inverter manufacturers as well as businesses supplying cabling and other components. The team hope to add to their Cleaner energy holdings in the future.

4. Buys and sells in the period

There have been relatively few changes to the portfolio over the previous four months. Just one new holding acquired, and one business sold in the period.

The business that was sold was Hella. Hella was held in WHEB's Sustainable Transport theme and was a manufacturer of automotive components including LED lighting systems as well as electronic components used in battery electric vehicles. The company was acquired by Faurecia and WHEB took the opportunity to sell it's position. The team have yet to replace the company in the Sustainable Transport theme, but remains enthusiastic about the investment opportunity in battery electric vehicles where the strategy already has significant exposure. The new investment, LHC Group, was introduced by Victoria MacLean.

LHC Group (Well-being) is a health service provider focusing on providing care in the patient's own homes or in dedicated hospices. The company is primarily focused on Medicare beneficiaries in the US and is considered to provide a high quality of care and operates in 26 states across the US serving about 150,000 patients.

Committee Members agreed that they were comfortable with the new investment which they considered to be consistent with the strategy's philosophy and policies.



5. Impact investing in listed equities – WHEB's perspective

Seb Beloe introduced WHEB's recently published 'White Paper' that sets out the company's perspective on what 'impact' investing means in listed equities. Seb stressed that the paper represents an important positioning paper for WHEB and one that they hope will help to differentiate WHEB's approach from the growing range of investment strategies that claim to invest in sustainability and ESG.

Members recognised the challenge for WHEB in standing out in a market that is increasingly congested with 'greenwashing' and thought that the White Paper was a helpful document setting out the parameters which characterize WHEB's approach.

Members thought that WHEB's cost of capital arguments are 'harder to pin down' but are nonetheless worth airing with the paper making a valuable contribution in this regard.

Biodiversity is fundamental to human life on earth and is being destroyed at an unprecedented rate.

WHEB's approach is based on the Sustainable Accounting Standards Board (SASB) Materiality Map along with other frameworks such as the Future-Fit Business Benchmark.

Several Members argued that impact in listed equities is quite commonly associated with engagement activities and that is well-recognised. Members thought that WHEB's arguments around the cost of capital impact are 'harder to pin down' but are nonetheless worth airing with the paper making a valuable contribution in this regard.

Several members also pointed to the work that regulators are doing to try and tighten regulatory frameworks in defining what sustainable and impact investing should entail. In the view of some members, these initiatives are more suited to a 'push' environment where low carbon technologies are not economically competitive. Instead, some Members argued, regulators should focus on 'pull' regulation that facilitates competition and accelerates the deployment of low carbon technologies across the economy.

Some Members also pointed out that while one advantage of listed markets is the higher level of liquidity that they offer, more liquidity that facilitates shorter-term investment horizons is not always better from a sustainability point of view. Taking advantage of secondary trading on its own doesn't facilitate greater impact, in their view.



6. The WHEB strategy and biodiversity

Seb Beloe introduced a discussion paper that assessed how WHEB's strategy impacts upon biodiversity. Biodiversity is fundamental to human life on earth and is being destroyed at an unprecedented rate. Governments have acknowledged the scale of this loss and the threat that it poses to humanity. It is hoped that a global framework to stem biodiversity loss will be agreed in the Spring of 2022.

The financial sector's role in contributing to biodiversity loss has also been a focus of attention. Regulators are now integrating the protection of biodiversity into sustainable finance frameworks. Coalitions of financial institutions are also developing frameworks to address biodiversity in investment decision-making. WHEB has also seen an increase in the number of client enquiries about how the investment strategy supports the protection of biodiversity.

Thematic investing

While biodiversity is not an explicit investment theme in WHEB's thematic framework, supporting the conservation of biodiversity is nonetheless an implicit objective of the strategy. It is also directly relevant to the Environmental Services theme which covers the production and use of **sustainable materials**. This includes materials that have been produced in ways that explicitly support biodiversity such as FSC-certified cardboard and other materials that have clear biodiversity benefits. The Environmental Services theme also includes **environmental consulting** activities that are explicitly aimed at helping to reduce negative environmental impacts, including impacts on biodiversity, and in promoting the restoration of biodiversity.

Biodiversity materiality

WHEB's thematic framework focuses on *what* companies do. That is the products and services that companies provide and whether these are delivering a positive impact, including on biodiversity. In addition, the investment process is designed to assess *how* companies manage material environmental, social and governance issues in their operations.

WHEB's approach is based on the Sustainable Accounting Standards Board (SASB) Materiality Map¹ along with other frameworks such as the Future-Fit Business Benchmark². These frameworks cover 'ecological impacts' and the use of renewable and non-renewable resources, impacts on ecosystems and the welfare of animals. The sectors for which ecological impacts and associated issues are most material however are considered to be the extractives and minerals processing sector followed by food and beverages, infrastructure, renewable resources and alternative energy, and tourism and marine transportation.

Because of WHEB's thematic structure, the strategy has very little exposure to the extractives sector much of which is linked to fossil fuels and is not considered to be investable.

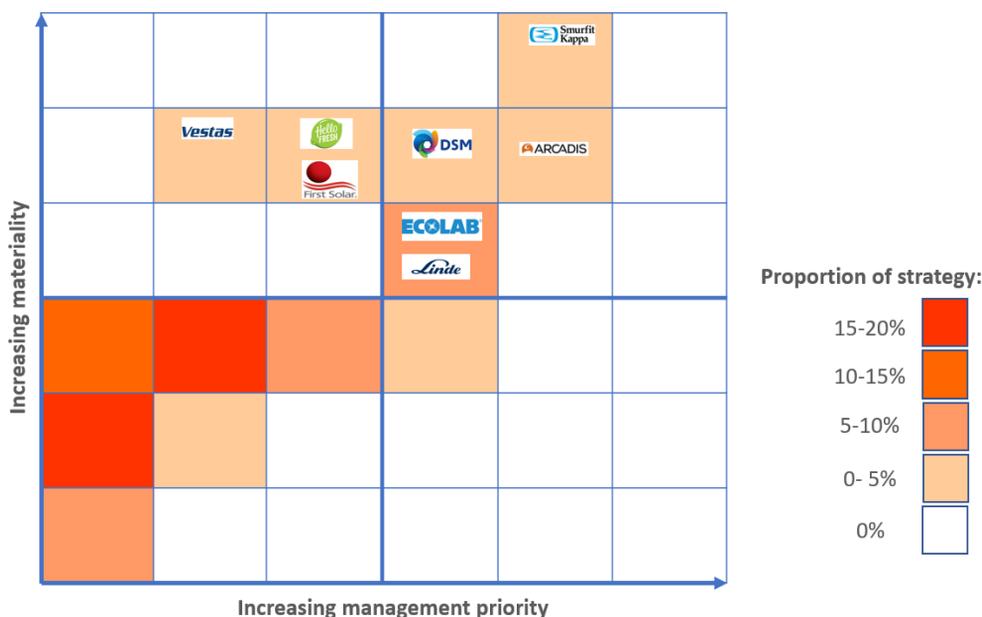
1- <https://www.sasb.org/standards/materiality-map/>

2 - <https://futurefitbusiness.org/>

Current status of the portfolio

The table shown in Figure 1 shows WHEB's assessment of whether biodiversity and ecological impacts are a material issue for companies in the WHEB portfolio (on the Y axis) and WHEB's assessment of the management priority given to the issue (on the x axis). The shading indicates the proportion of the strategy in each of the cells. Company logos are indicated in the table for companies for which biodiversity is considered a material issue.

Figure 1: Mapping of biodiversity materiality and management of WHEB portfolio companies



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Discussion

Members broadly agreed with the central conclusion that the WHEB strategy is largely absent from sectors with very significant impacts on biodiversity. Nonetheless, from the WHEB analysis, there are businesses for whom biodiversity impact is an issue and where management priority is still apparently too low. These businesses obviously represent candidates for engagement. Members also agreed that reporting on biodiversity impacts is likely to be much more complex than reporting on climate change impacts. This is partly due to the importance of the physical location in biodiversity, but also because of the complexity associated with restoring biodiversity.

Claire Jervis made the point that there are as yet still very few businesses that help restore biodiversity as part of their core business. Most discussion of biodiversity is primarily about reducing negative impacts on biodiversity. WHEB has initiated discussions with Smurfit Kappa on how they might make 'improving biodiversity' in their timber lands an explicit objective.

Biodiversity as an opportunity

Members argued that while biodiversity might not be the most material area, there are likely to be multiple links through to their businesses including in areas related to products and services.³ Members also stressed that biodiversity is an area that is getting substantially more regulatory attention. This is not just as an issue on its own, but also in relation to other concerns including climate change where 'nature-based' solutions are a major focus.

Members indicated that they expected to see more opportunities to support biodiversity restoration coming through in WHEB's investment themes. For example, would WHEB consider businesses involved in producing plant-based protein products as alternatives to meat to be contributing to biodiversity? Seb Beloe confirmed that WHEB agrees with this analysis and does have investments in this area. For example, DSM offers a product called Veramaris that uses algae as an alternative to wild harvested fish in salmon feed.⁴

3 – For example, subsequent to the meeting, Infineon announced new technology they are developing to provide real-time monitoring to detect wildfires in vulnerable forests (<https://www.infineon.com/cms/en/about-infineon/press/press-releases/2021/INFXX202110-009.html>)

4 - <https://www.veramaris.com/home.html>

Sector ripe for radical change

Members agreed that food and agriculture is the biggest contributor to biodiversity loss. They also stated that they believe that over the next few years there will be radical change in this industry similar to what has happened in power production and is now happening in the automotive sector. Much of this change will be driven by a need to reduce negative impacts on biodiversity, in their view.

How WHEB and other listed equity investors gain exposure in this area is likely to be challenging, however, some Members thought. Much of the technology is still currently in private hands and/or still unprofitable. Victoria MacLean also pointed out that there is already considerable 'greenwashing' coming from companies with questionable claims to positive biodiversity impacts. It was also pointed out that the fashion industry is also responsible for significant biodiversity impacts – not least through the production of cotton and in creating a culture of 'fast fashion'.

7. Any other business

No other business was discussed. 2022 meeting times will be agreed following the meeting.

Investment Advisory Committee Members



Jayne Sutcliffe:
Non-executive Chair of WHEB Asset Management. Former CEO at Charlemagne Capital



Kingsmill Bond:
New Energy Strategist, Carbon Tracker



Alice Chapple:
Director, Impact Value, Chair of Investor Watch, and Independent Director of the Schroders BSC Social Impact Trust



Ray Dhirani:
Head of Sustainable Finance, WWF-UK



Carole Ferguson:
Managing Director, Industry Tracker