



WHEB

July 2022

Investment Advisory Committee: Summary minutes

We welcomed two new Committee members; Martin Rich and Abigail Rotheroe.

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Attendees:

Seb Beloe (Head of Research)
George Latham (Managing Partner)
Ted Franks (Fund Manager)
Victoria MacLean (Associate Fund Manager)
Claire Jervis (Senior Analyst)
Rachael Monteiro (Business Development)
Kavitha Ravikumar (Intern)

Alice Chapple (Member)
Carole Ferguson (Member)
Martin Rich (Member)
Abigail Rotheroe (Member)
Jayne Sutcliffe (Chair)

1. Introductions

The Committee thanked two members for their support over many years but who have had to stand down due to conflicts of interest. Kingsmill Bond has taken up a position at the Rocky Mountain Institute and Ray Dhirani at Tribe Impact Capital.

We also welcomed two new members to the committee. Martin Rich has had a 25-year career in mainstream and social investment and is currently the Co-founder and Executive Director of the Future-Fit Foundation. Abigail Rotheroe has worked in investment for over 30 years including at New Philanthropy Capital and most recently as Investment Director at Snowball.



Martin Rich



Abigail Rotheroe

2. Business update

George Latham (GL) provided an update on the business since the last meeting in February and reported on the sharp rotation in market leadership from ‘growth’ to ‘value’ strategies that has hindered the performance of impact strategies.

Energy prices have supported a rebound in the performance of fossil fuel companies to which the strategy has no exposure. Notwithstanding this, the business has performed well including winning and onboarding IM Global Partners as a new client with a new European-focused investment strategy; the iMGP Sustainable Europe Fund. Other developments in the quarter include the launch of a Deferred Equity Plan which will enfranchise the WHEB team with equity in the company and a new visual ID and website (launching in July).

Members were interested in how clients are coping with the current market and with concerns about greenwashing. GL argued that the debate about greenwashing is a healthy phase in the evolution of the sustainable investment agenda which is helpful in differentiating between genuine strategies – particularly those focused on impact – from broader ‘ESG’ strategies.

3. Overall strategy performance and composition

Ted Franks (ETF) provided an update on the performance of the strategy over the past period which has largely been a continuation of what was reported at the start of the year. This is characterised as a big style rotation away from growth and into value. Fears about inflation have also evolved into fears about a full-blown economic recession which has meant that cyclical businesses in the environmental themes have underperformed as investors worry about their prospects over the short-term. So far, we have seen resilience in many of our companies, however, ETF argued that WHEB would typically look through short-term concerns to the longer-term outlook, driven by growing demand for sustainable technologies.

The problem though is that while there is still growth in renewables, achieving net zero carbon emissions requires 'turbo-charged growth' and this is not happening – in part because of anaemic policy support in key markets like the US.

The drop in valuations has also created some opportunities for WHEB to buy into companies with strong impacts and business models and to exit companies with weaker impacts. For example, in the period WHEB bought Spirax-Sarco Engineering which was trading at a much-reduced valuation but which represents, in WHEB's view, a very high-quality business with a strong positive impact.

Members were interested in the ability of the strategy to adapt to market cycles which are led more by value. ETF argued that our understanding of these dynamics is much more sophisticated in this downturn. Fundamentally though, impact investing is highly correlated with growth. Impact investing is about delivering a change and only a small proportion of WHEB's investment universe is classified as 'value'. ETF pointed out that WHEB's long-term approach to investing means that the team is reluctant to try and respond to short-term cycles and prefers to invest in impactful businesses that they believe will outperform over the long-term.

Members also discussed the outcome of the US Supreme Court Ruling limiting the ability of the US EPA to regulate carbon emissions. The WHEB team argued that while the direction of policy is not a positive there has been enough demand, in particular for solar, that has meant that these stocks have not performed as badly as might be expected. The problem though is that while there is still growth in renewables, achieving net zero carbon emissions requires 'turbo-charged growth' and this is not happening – in part because of anaemic policy support in key markets like the US.

4. Buys and sells in the period

In addition to some modest changes in the main strategy (one buy and one sell) members were also introduced to the 16 new European investments that are held alongside existing European investments in the iMGP Sustainable Europe fund. Because of the long list of names, Committee members asked for WHEB to identify any controversial points from companies in this list and then highlighted their own concerns.



Sartorius (Health) provides equipment and consumables for use in developing and manufacturing biotech medications and vaccines. The company has an unusual governance structure which means that it is wholly controlled by the founding family.

Lenzing (Environmental Services) manufactures clothing fibres which have dramatically lower environmental impacts compared with alternatives such as cotton and polyester. The company has independent data that supports this claim, but it has also used the Higg Index to substantiate these claims. This Index has however been heavily criticised by regulators for being misleading.



Ariston (Resource Efficiency) supplies water and space heating equipment for buildings. The company claims that 74% of its sales are in high efficiency products including from a range of heat pumps. To some degree this categorisation is due to markets that also include low efficiency products.

Alfen (Resource Efficiency) sells hardware and software products to support the electricity grid. This includes EV charging equipment, smart grid solutions and energy storage systems. The company is purely an 'enabling' business with most of the positive impact occurring elsewhere.



Hexagon (Resource Efficiency) provides sensors and software that enable precise planning in construction, agriculture and industry. The positive impact is associated with resource efficiency savings (energy, materials, water) from more precise operations (e.g. lower scrappage rates at factories). However, these efficiencies are likely to be modest.

Dassault Systemes (Resource Efficiency) supplies software tools to a range of industries that enable more efficient design and operation of products. While the use of CAD and simulation tools are increasing, they are still not widely used in industrial processes and so WHEB's view is that these tools therefore still offer important efficiency benefits.



Members recognized that there are still data limitations that make a complete impact analysis problematic. That said, members agreed that all the additions were consistent with the philosophy and policies of the strategy.

WHEB should follow a process that involves information gathering. What are investee companies with operations in the US doing? How are they approaching these issues?

Ultimately, WHEB should 'want investee companies to look after their employees and support diversity'.

Members were keen to confirm that when WHEB invests in companies operating early on in the value chain, the ultimate use of the end product is also considered in the analysis. This is particularly important, they argued where components end up in controversial applications, for example in coal mining. Seb Beloe (SB) confirmed that this is the case.

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5. Discussion – WHEB’s role in calling for progressive positions on contested social issues

SB introduced a discussion on what the appropriate role is for WHEB in calling for investee companies to take progressive positions on contested social issues. Many internal social issues at businesses such as diversity and inclusion, employee safety, and labour rights are now well-established as valid aspects of the ‘ESG’ agenda. More challenging though are the calls on businesses to take stands on contentious public social issues such as the ‘black lives matter’ (BLM) movement and now on women’s rights in light of the recent Roe vs. Wade ruling from the US Supreme Court.

WHEB already engages with portfolio companies to encourage them to be forthright in their public stance on environmental issues like climate change. The question for discussion was how companies should navigate this politicised landscape on these key social issues and what should WHEB be doing in our engagement with these businesses?

Members agreed that the issues raised by Roe vs. Wade are framed differently to ‘internal’ social issues. Employee issues are typically framed around the need to have a healthy and productive workforce, whereas BLM and abortion are more often framed as public rights.

Other members also pointed out that environmental issues often have a basis in science and are more measurable and have a clearer end-point. These social issues do not have the same objective basis which is further complicated when they become politicised.

Some members argued that it is not necessary to have an end-point but that WHEB should encourage companies to be sensitive to different perspectives that will exist in their employee base.



SB argued that, at least initially, WHEB should follow a process that involves information gathering. What are investee companies with operations in the US doing? How are they approaching these issues? WHEB could then compile a view on best-practices that is informed by what companies are doing, and then advocate for this.

Members also agreed that WHEB should use its overarching perspective to inform its approach and that this should not be driven by the ‘issue du jour’. Equally there was agreement that these issues are best framed around the need to have a healthy and diverse workforce. Ultimately, WHEB should ‘want investee companies to look after their employees and support diversity’.

WHEB agreed to take the key points from the discussion to inform its planned engagement work in this area.

* In addition to the companies listed in section 4, the other companies added to the Global and European strategies in the period and that were not considered controversial included: bioMérieux (European), Croda International (European), Evotec (European), Genmab (Global and European), Getinge (European), Lonza Group (European), Novo Nordisk (European), Siemens Healthineers (European), STMicroelectronics (European), Tomra Systems (European), and Sweco (European).

6. Any other business

The next Advisory Committee meeting is scheduled for the 17th November.

Investment Advisory Committee Members



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



Martin Rich:
Co-Founder and Executive
Director of the Future-Fit
Foundation



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



Abigail Rotheroe:
Investment Director, Snowball
and former Head of Social
Investment at New Philanthropy
Capital



Carole Ferguson:
Partner and Research Director,
Signal Climate Analytics