Investment Advisory Committee: Summary minutes

March 2023

WHEB

Investment Advisory Committee

WHEB's independent Investment Advisory Committee's key purpose is to scrutinise the investment team's activities, including stewardship. They review the fund's holdings and ensure that they meet with both the spirit and the letter of the strategy's sustainability criteria. Members play an advisory role, are independent experts in the field of sustainable investing and meet every four months.

Attendees

Seb Beloe (Head of Research)

Ted Franks (Fund Manager)

George Latham (Managing Partner)

Victoria MacLean (Associate Fund Manager)

Rachael Monteiro (Stewardship Analyst)

Alice Chapple (Member)

Martin Rich (Member)

Abigail Rotheroe (Member)

Jayne Sutcliffe (Chair)

Apologies:

Carole Ferguson (Member)

1. Fund update

Since the last Committee meeting (November 2022) global shares have continued to be volatile, and many market participants remain concerned about the extent to which higher inflation is now embedded in the economic system. On top of this, the recent collapse of Silicon Valley Bank (SVB) and Credit Suisse has also added further nervousness over fears of contagion and the fall-out on company access to liquidity. At the same time, companies in WHEB's portfolios have reported their underlying businesses are performing in-line with, or in many cases, ahead of expectations. Infineon, for example, recently upgraded their guidance off the back of stronger trading in recent months.

Committee members were interested to understand the tracking error[1] of the main global strategy, which had increased during the first quarter of 2022, and remains at the high end of WHEB's expected range of 4-8%[2]. George Latham (GL) explained that the tracking error, along with other measures of risk and volatility, are regularly monitored and discussed in our monthly Investment and Risk Committee meeting. The rise at the beginning of 2022 was partly due to the increased volatility in the market environment, but also resulted from changes made to the portfolio to add higher impact names at the start of last year. Ted Franks (ETF) explained that WHEB continues to focus on instrinsic measures of risk management and diversification in preference to relative calculations.

Members were also interested to know whether there had been any direct fall-out from the collapse of SVB and Credit Suisse. ETF pointed out that none of the companies in the portfolios have direct exposure to SVB or Credit Suisse. Furthermore, levels of borrowing across WHEB's investee companies are lower on average than for the wider market. Some holdings do have higher leverage but the WHEB team has reviewed these exposures and is comfortable with them.

[1] Tracking error is the divergence between the price behavior of a portfolio of investments and the price behavior of the portfolio's benchmark.

[2] Calculated on the basis of the ex-post five year average tracking error.

2. Business Update

GL updated Committee members on WHEB's underlying business over the past four months. The market environment remains difficult due to concerns about inflation and the impact that this has on appetite to invest in growth-oriented investment strategies like WHEB's. This has meant that WHEB has seen some modest outflows, mostly driven by clients reweighting their portfolios and taking money out of equities to invest in lower risk asset classes. Despite this, total assets under management through the financial year ending March 2023 ended largely where they started due to new client wins largely offsetting the outflows.

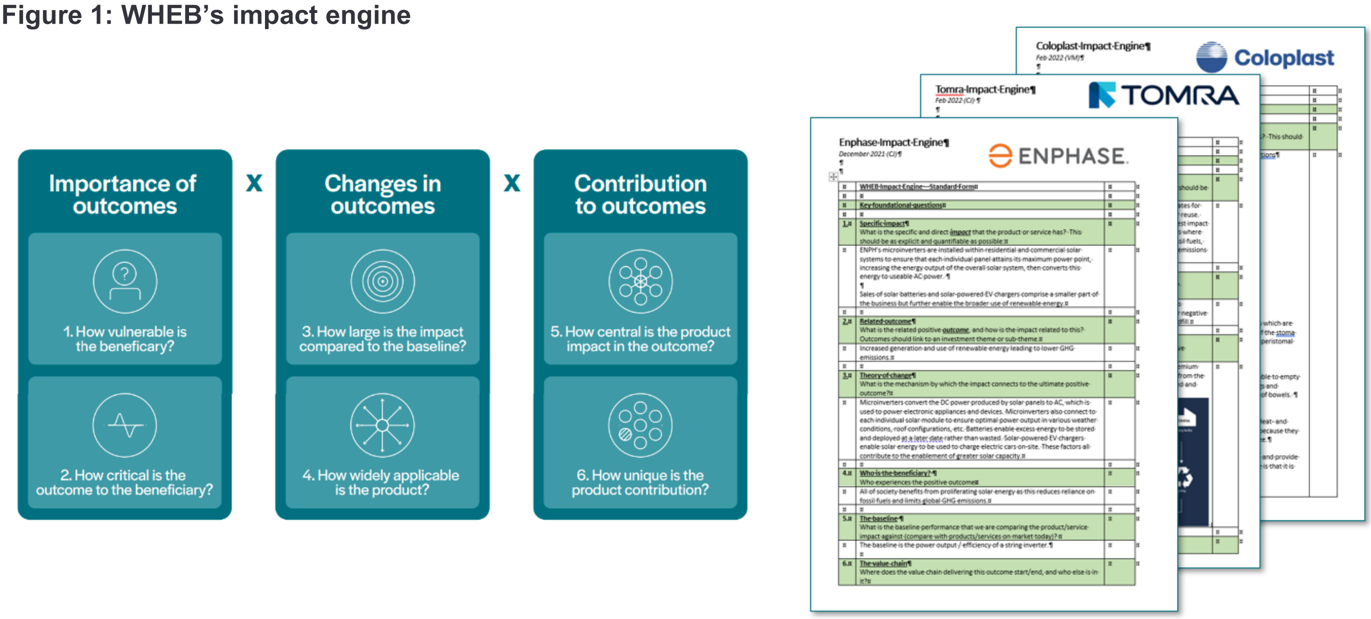
Through the end of 2022 and in early 2023, WHEB devoted considerable resource to respond to various regulatory proposals in the EU and in the UK. Most notably this has included the Financial Conduct Authority's (FCA) proposals for Sustainability Disclosure Requirements (SDR). WHEB sits on the FCA's advisory committee and was very involved in providing feedback to the FCA both on our own behalf as well as through consultation responses from affiliated groups. We have also responded to similar proposals from the European regulator ESMA. We are hopeful that both authorities will adopt the changes that we have proposed when they publish their final proposals later in 2023.

Seb Beloe (SB) also highlighted that WHEB's funds that are sold into the EU have both retained their Article 9 designation and that WHEB is comfortable with proposals that Article 9 funds should be wholly invested in line with an explicit sustainability objective. Only a small proportion of investment funds now have an Article 9 designation. WHEB believes that there will be significant demand for these types of strategies in the EU and equivalent strategies in the UK. WHEB's belief is that the company's highly authentic approach to sustainable impact, that does not rely on third-party rating systems, will prove popular with these investors.

3. Buys and sells in the period

At the Committee meeting in November, members had indicated that they would appreciate more detail on how WHEB's 'impact engine' is applied in practice at the stock level. WHEB supplied the detailed analysis to Committee members for the three new stocks that were purchased across WHEB's fund range in the period.

Figure 1: WHEB's impact engine



SB walked Committee members through the impact engine for
Enphase, one of the new stocks purchased for the global strategy. He explained that the impact engine is the first step in the research process and is completed by the individual analyst doing the initiation. The results are then discussed at an investment committee meeting and agreed before the analyst moves to the next stage of the initiation.

The impact engine itself is structured around three dimensions. The **importance of the positive outcome** that is associated with the product/service being considered, the **degree of change in the outcome** that is linked to the product/service impact and the **company's contribution** to the outcome. Where a company supplies more than one category of product/service each is assessed separately. In practice this means that the full analysis can run from 2-3 pages for straight-forward businesses like Enphase to 10-12 pages for more complex businesses with multiple product/service categories. The impact engine for Tomra, for example, runs to 12 pages. The three new holdings presented to the committee were:

Coloplast (Wellbeing) develops and sells medical devices for use in ostomy, continence, urology and wound care that make life easier for people with intimate healthcare needs.

Enphase (Cleaner energy) develops and manufactures solar micro-inverters which improve the efficiency of solar modules. The company also sells battery energy storage systems and electric vehicle charging stations primarily to residential customers.

Tomra (Environmental services) supplies a variety of products aimed at enabling the circular economy. This includes reverse vending machines for the automated collection of used beverage containers as well as collection and sorting systems for recycling and food processing systems.

Committee members were impressed with the level of detail in the impact analysis. One member wondered whether the engine was too complex with too many questions? SB said that the engine had been inspired by the work of the Impact Management project and was broadly aligned with this.[3] WHEB's experience is that each question is addressing a distinctive facet of impact and so, while complicated, is necessary to capture all these aspects in the analysis.

[3] **https://impactfrontiers.org/norms/**

Members were also interested in whether negative product impacts were also captured and whether the scoring system might be simplified. SB answered that negative impacts are considered, but currently only qualitatively as there is little data available. This is an area that WHEB wants to develop a more comprehensive solution for. The scoring methodology currently relies on multiplying the sub-scores from each of the three dimensions. ETF said that we will review this again as WHEB's Senior Impact Analyst Kavitha Ravikumar undertakes a review of the analysis. WHEB also indicated that they are increasingly setting key impact performance indicators to track for each portfolio company. These are, wherever possible, aligned to the UN Sustainable Development Goals with the analysis also serving as a basis for engagement with portfolio companies.

The committee agreed that the new investments were consistent with the philosophy and policies guiding the strategy. The two sales during the period were **Globus Medical (Health)** and **Sonova (Wellbeing)** both of which were sold due to lower investment conviction stemming from a strategic change in direction and competitiveness concerns respectively.

4. Electricity transmission and natural gas pipelines

WHEB also wanted to test Committee members' views on whether a business in the electricity transmission industry should be considered investable by the WHEB strategy. The company in question provides a variety of infrastructure construction services with its main businesses focusing on constructing electricity transmission infrastructure and connecting clean energy projects (utility scale wind and solar parks). The company also does broader work supporting the reliability and extension of the electricity grid. Together these two businesses account for c60% of revenues and would qualify in WHEB's Cleaner energy theme. In addition the company is also developing a green hydrogen and carbon capture business which would also qualify, but is currently a very small percentage of revenues.

The rest of the company's revenues come from building out communications infrastructure (5G and cable) as well as a small element from heavy construction (road and rail bridges for example). These businesses are not expected to qualify. In contrast the final activity is in the natural gas industry where the company provides construction and maintenance services for natural gas pipelines. This business accounts for approximately 12% of total revenues.

SB clarified that while WHEB would much prefer that the company did not have any fossil fuel exposure at all, their exposure is not connected with the production or sale of fossil fuels, nor is it involved in fossil power generation. Consequently, the company is technically investable as it would not breach WHEB's investment policies. Nonetheless, the company's exposure to natural gas is controversial and the WHEB team were curious to hear the Committee's views.

Some Committee members were very clear that they thought the company should qualify and that the company would benefit from sustainability-oriented investors like WHEB encouraging them to develop their activities that support a green and efficient electricity grid. Other members were more circumspect and wanted more evidence that the company is prioritising low carbon activities and responsibly managing the decline of the fossil businesses. WHEB agreed to review the company further before reporting back to the Committee.

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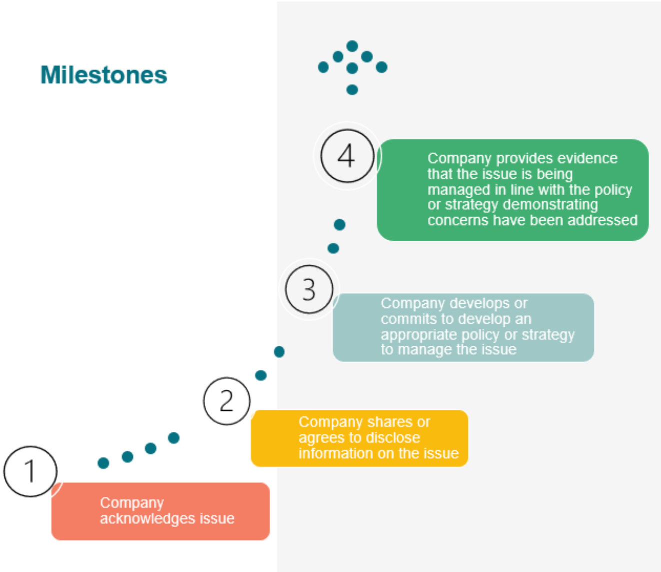
5. Company engagement – escalation and outcomes

At the last meeting in November, Committee members had asked WHEB to present more detail on the approach to company engagement. Rachael Monteiro (RM), WHEB's Stewardship Analyst, has recently updated the company's approach and presented this to the Committee.

WHEB's interest in company engagement is driven equally by a desire to learn more about portfolio companies in order to make better informed investment decisions, and to advocate for more progressive policies on key issues facing their businesses. This engagement is led by the relevant analyst on the investment team and supported by RM and the wider impact research team.

With this additional support, WHEB has been able to build a more systematic approach to managing engagement. This includes setting out clearer engagement plans for portfolio companies with timeframes for the engagement and clearer decision points on how and whether to escalate the engagement. Escalation can include engaging more senior business leaders, collaborating with other investors, asking question at company meetings, putting shareholder resolutions to company meetings and ultimately divestment, where appropriate.

Figure 2 WHEB's Engagement milestones



In their review of WHEB's annual impact report, the Committee had also suggested that WHEB develop a more granular approach to assessing progress in company engagement. WHEB have taken this advice on board and have developed a new 'milestone' framework for tracking progress starting with the company acknowledging the issue, agreeing to share or disclose additional information, developing or committing to develop an appropriate policy or strategy for managing the issue and finally providing clear evidence that the issue is being effectively managed.

Committee members welcomed the additional detail and wondered whether WHEB tries to attribute engagement success, particularly in collective engagements. Members were also interested in how WHEB select who to collaborate with. RM stressed that attribution between investors is very difficult and that WHEB's focus is more on the achievement of key milestones. Collaborative engagement is still often relationship-based but is being professionalised through the involvement of dedicated secretariats including, for example, through groups like ShareAction, Shareholders for Change and the Institutional Investors Group on Climate Change. RM agreed to share detailed examples of recent engagement activities with Committee members.

6. Any other business

The next Committee meeting will take place at the end of July.

Investment Advisory Committee Members

Alice Chapple

- Founder of Impact Value
- Chair of Investor Watch, Trustee of the Shell Foundation

Carole Ferguson

- CEO, Carbon Transition Analytics
- Previously Head of Investment Research at CDP

Martin Rich

- Co-founder and executive director of Future-Fit Foundation
- 25 years' experience in mainstream and social investment

Abigail Rotheroe

- NED HydrogenOne, Baillie Gifford Shin Nippon, Templeton
- Previously Investment Director at Snowball Impact Management

Jayne Sutcliffe

- Non-Exec Chair of WHEB Asset Management
- Founder and former CEO at Charlemagne Capital