WHEB Asset Management
Q4 Report and Datapack

Oct - Dec 2022

WHEB

Fund Aim and Investment Process

The Fund focuses on the opportunities created by the transition to healthy, zero carbon and sustainable economies. The investment team selects high-quality companies from nine broad themes with strong growth characteristics to create a globally diversified portfolio. We develop long-term relationships with company management to promote the best environmental, social and economic outcomes.

Contents

WHEB

The paradox of Emily in Paris

Why most brands' commitments to 'Sustainable Fashion' are as empty and vapid as this show's storyline

Like a lot of millennials, I spent a sizeable chunk of my Christmas break hate-watching Emily in Paris while staring listlessly at the contents of my wardrobe.

The show follows 30-something marketing exec Emily[1]. Emily spends her time pottering around Paris wearing designer clothes, posting videos of herself on Instagram, and effortlessly ascending the career ladder by coming up with edgy new concepts like… Zoom filters.

Over the course of Season 3, which documents a few weeks in Emily's life, she's estimated to have worn 43 different outfits. Her style manifesto has three simple commands:

- ✓ Always bright.
- ✓ Rarely practical.
- ✓ Never worn more than once.

Not a great example of responsible consumerism, Netflix.

But wait – the show's costume designer talks about sustainability all the time! She loves to pair second-hand pieces with high street fashion! She's been 'pushing upcycling' for years!

Like this show's conflicted costume designer, the fashion industry has been suffering an identity crisis for years. They *want* to promote sustainability. They *want* their customers to feel good about buying their clothes.

But this creates a paradox – how can the fashion industry be both profitable and sustainable, when it's inherently reliant on ever-changing trends?

Fashion companies' climate pledges need a sustainability makeover

In an attempt to put their best foot forward, 100 fashion brands have committed to a range of climate pledges under the UN Fashion Charter for Climate Action[2].

This includes a pledge to become 'Net Zero' by 2050. This is one way clothing retailers can promote sustainable consumption without completely overhauling consumer behaviour.

During COP27, the UN released new guidance[3] on what that Net Zero commitment should look like. Unfortunately, this has unearthed major gaps[4] in many signatories' pledges.

One gap looms larger than others. 80% of the fashion companies analysed by STAND.earth, a charity, have failed to set targets to halve their scope 3 (supply chain) emissions by 2030[5] – one of the UN's requirements.

This is a huge fail, since scope 3 emissions typically make up over 90% of a clothing company's greenhouse gas emissions[6]. So in most cases, fashion companies' climate pledges look like a bunch of empty promises.

But we believe this will change. A combination of investor pressure, regulation, and – perhaps most importantly – the rise in consumer awareness will force the fashion industry to undergo a sustainable makeover.

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[1] Incidentally, and perhaps of more interest to some readers than the show itself, Emily is played by Lily Collins the daughter of 80's crooner Phil Collins.
[2] https://climateinitiativesplatform.org/index.php/Fashion_Industry_Charter_for_Climate_Action
[3] https://www.un.org/sites/un2.un.org/files/high-levelexpertgroupupdate7.pdf
[4] https://stand.earth/insights/are-top-fashion-brands-net-zero-commitments-worth-the-paper-theyre-written-on/
[5] ibid
[6] https://unfccc.int/sites/default/files/resource/20_REP_UN%20FIC%20Playbook_V7.pdf

Because consumers care about this stuff – a lot. A survey by Fashion Revolution found that 80% of respondents want fashion brands to provide detailed information about product environmental impacts[7]. McKinsey, a consultant, surveyed 2,000 people about sustainable fashion in 2020. They found that nearly 70% of consumers consider the use of sustainable materials to be an important factor when purchasing clothes[8].

WHEB's investment in Lenzing is more than a fashion statement

At our **Annual Investor Conference** in November, Seb Beloe and I spoke about how almost 40% of supply chain emissions for the apparel and footwear sector come from material production. This is why WHEB has invested in **Lenzing**, in our European strategy.

Lenzing manufactures clothing fibres from dissolved wood pulp. These fibres generate around 25-30% less greenhouse gas emissions, and use 90-95% less water, than organic cotton[9].

We don't know what those numbers look like against fibres derived from fossil-based feedstocks. This is because Lenzing chose to conduct their lifecycle analysis against a more rigorous baseline. But it's fair to assume the sustainability benefits will be even greater than those already impressive numbers.

Using Lenzing's fibres, like Tencel, instead of cotton and polyester can generate huge savings in scope 3 emissions.

They've already made their way into stores like H&M, Asos, and Zara, but only in small quantities. They even helped propel the real-life Emily in Paris, influencer Xenia Adonts, to the Forbes '30 Under 30' list with her sustainable fashion brand, Attire.

A sustainable trend

We believe that the fashion industry, driven by consumer and investor pressure, will generate huge demand for Lenzing's sustainable fibres over the long-term.

This isn't just good for the environment – it's also good for business.

Until the disruption caused by the pandemic, Lenzing was commanding a price premium to cotton. We expect this trend to reappear once supply chains have normalised.

The truth is, 'sustainable fashion' mostly relies on behavioural change from consumers – buy less, buy better. But even still, there are actions clothing retailers can take to massively reduce the carbon footprint of fashion.

And if you want to do your part, next time you go clothes shopping, check the labels for Tencel.

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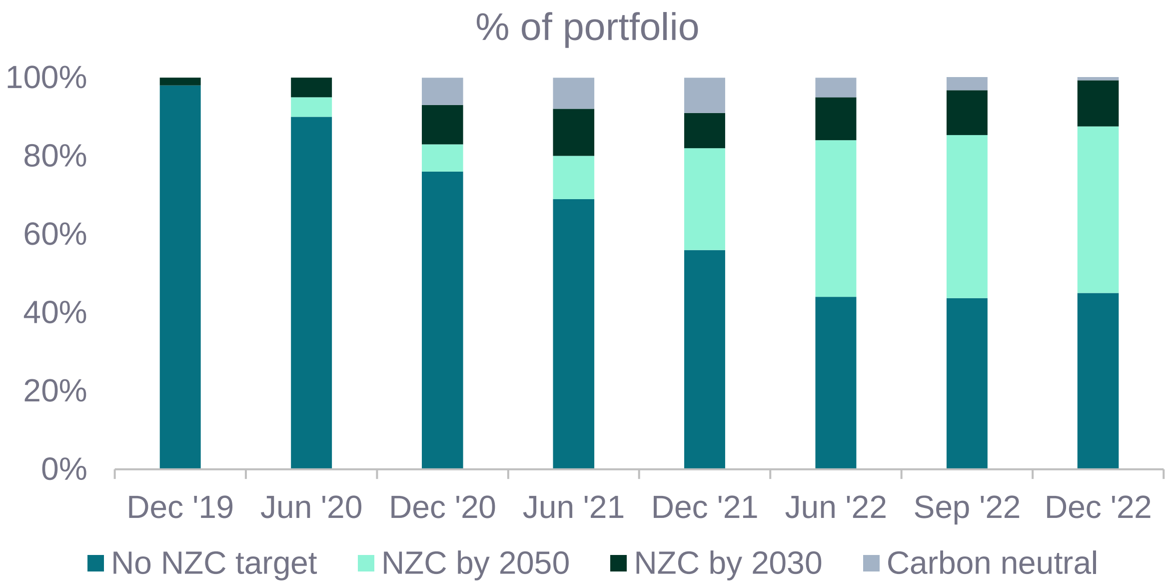
7 https://issuu.com/fashionrevolution/docs/fashrev_consumersurvey_2020_keyfindings
8 https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion
9 Sourced from Lenzing's Investor Relations team.

2022 carbon commitments review and 2023 goals

Back in 2020 WHEB committed to ensuring that, by 2025, 50% of our portfolio would have set a net-zero carbon ("NZC") target for 2050 or earlier. By 2030, the ambition was that 100% of the portfolio would have such a commitment. At that point, in June 2020, only 10% of the portfolio had a NZC target and 50% by 2025 seemed like a challenging ambition. However, now at the end of 2022, we see that 54% of WHEB's portfolio companies have announced a NZC commitment, with a huge 90% of those companies with targets already approved, or committed to having them approved, by the Science Based Targets initiative.



Focusing on major emitters

We are delighted with the progress our portfolio companies have made and have now set our sights higher. One of the features of our portfolios is that a large majority of scope 1 and 2 greenhouse gas (GHG) emissions come from a small number of companies. In fact, the top 5 emitting companies in our portfolio account for over 75% of the entire portfolio's emissions. In contrast, the bottom 5 account for less than 0.5%. In order to deliver significant emission reductions, we need these high emitting companies to set NZC targets and reduce their emissions.

In 2023, therefore, our new targets will focus on the proportion of 'financed' emissions coming from the portfolio that are covered by targets, rather than simply the proportion of the companies in the portfolio that have targets.[10]

Setting more ambitious targets

Based on this new metric, the percentage of our financed emissions currently covered by a NZC target sits at 74%.[11] In addition to changing the parameter, we will also be increasing the aim of our target, with 85% of the financed emissions in the portfolio to be covered by a NZC target by 2025, and 100% by 2028 rather than the original aim for 100% by 2030.[12]

[10] 'Financed emissions' refer to the emissions associated with WHEB's specific level of investment in the investee company.
[11] Based on the FP WHEB Sustainability Fund.
[12] The new financed emissions target will be more volatile as it depends on the enterprise value of the portfolio company, as well as the value of our holding in the company which both change constantly. Consequently, we use a rolling 12-month average of the financed emissions data point to provide a clearer trend.

Interrogating the credibility of NZC targets

It would be naïve of us to simply accept the NZC targets of our portfolio companies without undertaking some due diligence on validity of the claims. This year WHEB will be assessing the credibility of these NZC targets based on several metrics. These will include, among others, the need for companies to disclose and set targets for all material emission scopes, have their targets validated by a third-party, and ensure there is board level responsibility for climate action. These metrics will inform where we need to direct our engagement efforts, focusing first on the highest emitters without NZC targets, and then looking at those companies that do not, in our opinion, have credible NZC targets.

Measuring real-world emission reductions

We pride ourselves on our transparency at WHEB, and for 2022 we will be reporting on the NZC projects mentioned above, as well as the annual reductions in our financed emissions. We will differentiate between portfolio emission reductions achieved through divestment of high emitting companies, and actual real-world year-on-year reductions accomplished by those portfolio companies still held in the portfolio. By 2025 we are hoping to achieve a 15% reduction in the absolute portfolio emissions when compared to a 2019 baseline. Even more ambitious is our target for portfolio companies to reduce their absolute carbon emissions by 7.6% each year to 2030. This level of reduction is what is needed to limit global warming to the 1.5°C goal of the Paris Agreement.[13]

Operational emissions

For WHEB's operational emissions, we remain committed to net-zero carbon emissions by 2025 for scopes 1 and 2 and the relevant and material categories 1-14 of scope 3. The legacy impact of COVID has supported the reduction in our business travel, as it did for most companies, however this picked up slightly in 2022 as lockdowns across the world eased. Train travel is the chosen transport mode wherever possible for WHEB and always for journeys that take less than 6 hours on the train. Indeed, one dedicated member of the team spent 20 hours travelling back from Copenhagen to London via several trains.[14]

WHEB has committed to having both our operational and portfolio targets validated by the SBTi during 2023.

Summary of targets

Goal - portfolio emissions	Target year
85% of financed scope 1+2 emissions covered by a NZC target of 2050 or sooner	2025
100% of financed scope 1+2 emissions covered by a NZC target of 2050 or sooner	2028
15% reduction in absolute portfolio emissions compared to a 2019 baseline	2025
7.6% portfolio company level absolute reductions year-on-year	2030
50% absolute reduction in portfolio emissions by 2030 compared to a 2019 baseline	2030

Goal - operational emissions	Target year
Net-zero in scopes 1, 2 and material categories 1-14 of scope 3	2025

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[13] https://www.unep.org/news-and-stories/press-release/cut-global-emissions-76-percent-every-year-next-decade-meet-15degc

[14] https://www.whebgroup.com/our-thoughts/business-travel-without-the-carbon-footprint-one-travellers-experience

The vexed question of carbon offsets

The offsetting of carbon emissions is a tricky subject to navigate and there doesn't yet appear to be an established best practice approach. At one end of the scale, there are "avoided emissions" projects such as fuel efficient cookstoves. Here clean cookstoves are provided to households in less developed countries, leading to fewer CO_2e emissions as well as improved air quality and lower costs for the household. The cookstoves provide benefits not only to the atmosphere, but also for the owners. However, it is difficult to prove that the emissions are permanently avoided.

While of course 'avoided' carbon projects are needed, carbon removal is inevitably going to be a critical technology to limit global warming to 1.5°C. Carbon removal projects range from nature-based solutions that are well established and extraordinarily cheap in some cases, to technology-based projects still in development, and requiring huge amounts of funding with limited capacity currently. Nature-based solutions, such as tree planting, naturally absorb carbon from the atmosphere as well as contributing towards a healthy eco-system. To be effective at storing carbon they need to remain growing for a significant amount of time, which cannot be guaranteed over the long-term.

Technology-based solutions such as Direct Air Capture (DAC) do appear to be permanent, and it is significantly easier to quantify how much carbon has been stored. The main challenges with technology-based solutions are cost and scale. According to the IEA, as of September 2022 there were 18 DAC plants worldwide, capturing only 10,000 tCO_2 per year.[15] It is clear that we cannot rely on one type of project to remove the amount of carbon required to meet the goals of the Paris Agreement, we will need a combination of all carbon offset solutions.

WHEB's approach will be to create a portfolio of avoided carbon projects, including both nature- and technology-based carbon removal projects, all of which will be verified to Gold or VCS standards.[16] We will only offset those residual emissions that cannot be reduced further or eliminated. By supporting a diverse range of initiatives through this portfolio-based approach, we can attempt to maximise both the environmental and social benefits associated with the projects.

[15] https://www.iea.org/reports/direct-air-capture
[16] The Gold Standard and Verified Carbon Standard (VCS) are the world's most widely used greenhouse gas (GHG) crediting program.

Stewardship in the spotlight: Our hopes for voting practices in 2023

Stewardship in the spotlight

At the beginning of a new year, journalists, industry commentators and thought leaders tend to publish their predictions for the year ahead. Unsurprisingly, this content is popular in the sustainable investing industry, given the rate of development it's seen recently. This year, one reoccurring theme we've noticed, and that has (naturally) piqued our interest, is that stewardship will continue to rise up the agenda.

It's probably a fair assessment that, as WHEB's Stewardship Analyst, confirmation bias could explain why these opinion pieces stand out to me particularly. So, it's worth digging into some of the reasons why stewardship is being seen as increasingly important to investors.

In large part, regulatory forces aiming to deter greenwashing are behind this. For example, in the UK, the 2020 renewal of the FRC's Stewardship Code now requires signatories to provide concrete evidence that they are taking steps to carry out stewardship duties, including reporting on the outcomes of their actions[17]. Concurrently, the FCA's proposed Sustainable Disclosure Requirements (SDR) are expected to introduce stewardship as one of five principles against which products should be assessed to determine whether they qualify for a sustainability investment label[18]. Meanwhile, in the US, record numbers of shareholder resolutions were filed in 2022, likely due to a more welcoming stance from the SEC[19].

Other forces are also at play though. Notably, stewardship is now recognised as a core contribution in impact investing in listed equities, as per a report published by the Global Impact Investing Network (GIIN)[20]. Additionally, stewardship is also getting more airtime as financial institutions deploy stewardship strategies to achieve targets under commitments such as the Net Zero Asset Manager's Initiative.

Nonetheless, amongst all the predicted activity around stewardship in 2023, there is the risk that the actions of asset managers and owners will be 'performative' and used to greenwash corporate reputations. However, where focused on outcomes that achieve real world impact, stewardship presents an opportuntiy to deliver greater value for investors.

Cutting through the jargon – what exactly is stewardship?

To understand how to be effective stewards, it's important to know what, exactly, we're referring to when we talk about investment 'stewardship'. Essentially, stewardship is the responsible management of money by asset owners and managers, on behalf of savers and pensioners, to create sustainable benefits for the economy, the environment and society[21].

For WHEB, stewardship is achieved through the following elements:

1. **Allocation of capital:** WHEB's strategy is focused on investing in solutions to sustainability challenges.
2. **Proxy voting:** exercising our shareholder voting rights, at annual general meetings (AGMs) and other meetings
3. **Company engagement:** dialogue with investee companies bilaterally and with other investors, on a collaborative basis, using escalation tactics where appropriate.
4. **Public policy and industry engagement:** broadly aimed at the wider financial system, indirectly supporting positive impact businesses.
5. **Reporting:** communicating efforts back to investors.

[17] Previously, the Code required signatories to report only how their policies were aligned without any need to provide evidence of how policies were being consistently applied.
[18] https://www.bovill.com/demonstrating-active-stewardship-when-it-comes-to-sdr/
[19] https://esgclarity.com/shareholder-resolutions-climate-human-rights-report/
[20] https://thegiin.org/assets/Draft%20for%20Public%20Consultation.pdf
[21] https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

‘There’s no such thing as a vote that doesn’t matter’[22]: WHEB’s approach to voting[23]

As equity holders, our voting rights are an opportuntiy to exercise progressive influence on investee company strategy and governance. We therefore endeavor to vote all our shares, following the guidelines set out in WHEB’s demanding voting policy[24].

To achieve effective outcomes, we use voting to complement our other stewardship strategies. Our objective isn’t just to fulfil an obligation as part of a siloed process, but to use voting alongside wider engagement with company management to achieve a change in policy or performance.

For example, when voting against management’s recommendations[25], WHEB’s policy is to explain to the company why we have done so which often leads to further dialogue with management. This way, even if the vote outcome is not what we hoped for, our time has been well spent as the activity has enabled a conversation with the company., which we find most effective for driving change.

WHEB’s voting policy is therefore primarily designed to guide voting on core governance and sustainability issues in relation to routine proposals[26].

Routine resolutions occur far more frequently than shareholder resolutions relating to ESG issues. In 2022, a mere 1% of the resolutions WHEB voted on were proposed by shareholders and none related to environmental or social issues [27]. This is likely because WHEB’s investee companies tend to avoid major social or environmental controversies and do not therefore attract regular shareholder resolutions.

WHEB’s approach is uncommon among fund managers as many voting policies, especially those offered by proxy advisers, tend to focus voting guidance on sustainability issues only in relation to shareholder resolutions.

However, we find it advantageous to have a highly proactive policy that enables opportunities for conversations with company management and to exercise good stewardship. Combined with the high standards we require from our companies; this reinforces WHEB’s impact-focused investment strategy.

Transparency and accountability are central to WHEB’s philosophy, so reporting voting activity is important to us. We have published all our voting activity, including voting rationale, for a long time now[28]. This is more resource intensive than publishing summary statistics which, while helpful (and we do also publish[29]), doesn’t tell the whole story. Qualitative justifications linking activity and policy ensure accountability to our investors and provide assurance that capital is being managed in line with our policies.

Our hopes for voting practices in 2023:

We believe that stewardship practices will be under greater scrutiny in 2023, and welcome this. There exist significant inefficiencies in voting practices obstructing better outcomes for investors. These include:

1. ***Broader adoption of more proactive and demanding voting policies from both managers and proxy advisors***

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[22] Barak Obama
[23] We will cover our approach to other elements of stewardship in forthcoming blogs. To begin with, and in the lead up to the 2023 AGM season, we want to outline what we think makes good stewardship in the context of proxy voting.
[24] WHEB’s policy was developed using the AMNT Red Lines and is available here: https://www.whebgroup.com/assets/files/uploads/20221201-wheb-voting-policy.pdf
[25] We also typically write when we abstain from a particular vote. In some cases, companies have policies which only offer investors the option of voting for a policy or abstaining.
[26] For instance, where there is no board-level responsibility for sustainability, our policy recommends a vote against a the election or re-election of the Chair of the Board.
[27] In 2022, a total of 6 out of 583 resolutions were proposed by shareholders and related exclusively to governance issues.
[28] https://www.whebgroup.com/investing-for-impact/stewardship/voting-records
[29] Summary statistics on voting can be found in our stewardship reports: **https://www.whebgroup.com/reporting-impact-investment/stewardship-reports** and our quarterly reviews: https://www.whebgroup.com/impact-investment-funds/sustainability-fund-oeic

We've reviewed the policies[30] of a variety of proxy advisors and were disappointed to discover that guidance for encouraging improvements in sustainability issues is limited, almost exclusively, to shareholder proposals. While important, shareholder proposals rely on significant administrative effort of individual managers which limits their use to a small proportion of companies.

There are some early signs of change. ISS is developing policies that recommend voting against routine resolutions, such as the re-election of directors, where there is insufficient climate board accountability[31]. However, the pace and scope of change needs to step up if the significant influence of proxy advisors it to further drive real economy impacts.

2. More transparency surrounding pre- and post-vote rationale

Pre-vote disclosures can be resource intensive as they involve shorter timescales. We are, however, supportive of them as they enable using voting as a means of capturing management's attention.

To improve effectiveness, asset managers need a means of seeing how and on which resolutions their peers intend to vote when protesting poor company behaviour. This could create opportunities for collaborative voting, amplifying investor concerns and increasing the probability of further engagement.

More common is post-vote disclosure of voting rationales, which is something WHEB has done for a long time. However, the industry lacks a robust reporting infrastructure that enables asset owners to easily compare how managers are voting. Fintech solutions are being developed for this purpose but, currently, cater to managers with policies based on shareholder resolutions rather than routine votes. Sadly, this makes them unsuitable for proactive voting policies like WHEB's.

We look forward to voting at AGMs this year as an opportunity to press for more progressive changes on critical social and environmental issues. We also expect to see further advances in voting disclosure 'infrastructure' for the industry.

In the meantime, we think asset managers should be very clear regarding the extent to which

a) they are voting against management's recommendations on all resolutions, not just shareholder resolutions;

b) their voting policies are based off those of their proxy advisers; and,

c) their voting is in line with proxy adviser recommendations.

[30] Such as those from ISS, Glass Lewis, and Sustainalytics, including some specialty policies
[31] However this relates only to 'significant GHG emitters' https://www.iigcc.org/resource/net-zero-stewardship-surgery-proxy-voting-and-say-on-climate/

Performance Commentary

Market review

Equities were mostly higher in Q4 on the back of big gains in October and November before a December drawdown. The strategy's benchmark, the MSCI World Index, rose 2.0%.

The gains were driven in part by expectations for a slowdown in monetary tightening by the Federal Reserve following cooler inflation figures. However, in December the Fed reiterated its higher-for-longer messaging with services inflation and in particular wages remaining a key concern.

The upswing was led by cyclical sectors. Energy was again the standout performer along with Industrials and Materials. Value stocks significantly outperformed growth stocks over the quarter. In Europe, the warmer weather helped to dampen the geopolitically driven energy worries.

Performance review

The strategy comfortably outperformed the MSCI World benchmark over the quarter. This was particularly driven by strong performance during November.

Cleaner Energy and Sustainable Transport were the best performing themes. Vestas Wind Systems in the Cleaner Energy theme made the largest positive contribution to performance. The world's largest manufacturer of wind turbines announced orders ahead of expectations during Q4 22 – the highest level of order intake in six quarters.

In the Sustainable Transport theme, Infineon Technologies performed well. The company makes efficient power semiconductors with a market-leading position in the automotive end-market. The company updated its long-term operating targets, upgrading both sales and margin expectations.

These good contributions were partially offset by the poor performance of the Water Management and Resource Efficiency themes. Within Water Management, Advanced Drainage Systems made the largest negative contribution. The company reported weak quarterly results due to fears of a slowing demand environment and inventory destocking. Hurricane Ian also severely impacted sales in some parts of Florida. However, the company remains very well positioned as the threat from major storms continues to grow.

Trimble in the Resource Efficiency theme also underperformed. The company lowered guidance due to weakening sentiment and inventory normalisation, although this seems to be driven more by macro rather than structural weakness.

In terms of sectors, Materials performed well. Being underweight some defensive and value sectors including Consumer Staples, Utilities and Financials was a headwind for relative performance.

Outlook

After a hugely challenging 2022, the outlook for the global economy in 2023 is still highly uncertain. Many regions of the world will likely enter into recession this year. Disruptions to global supply chains from the lingering effects of the pandemic, as well as the war in Ukraine, have severely dented consumer and business confidence.

Those same disruptions contributed to real inflationary pressures in 2022. At the time of writing, those pressures appear to be easing somewhat, but the potential for ongoing monetary tightening remains. Even if interest rates do not rise any further, they are likely to already be high enough to have a dampening effect on global investment.

Having said that, there is a case for the stock market to deliver positive returns in 2023. With expectations very low, any resilience in corporate earnings will be well received. Some of the huge shocks in 2022, most obviously the war in Ukraine, are unlikely to be replicated.

Speaking specifically to this strategy, there are stronger grounds for optimism. The policy backdrop in developed economies towards the energy transition has never been more favourable. This is in part due to the glaring problems with the current fossil energy system, laid bare by the conflict between Russia and the Western world. But it is also due to the continuing rapid cost decreases in clean energy technologies.

The key symbolic policy change in 2022 was the Inflation Reduction Act from the USA. This sets that country on the path towards global leadership in the energy transition and provides a benchmark for the other regional blocks. With positive responses from Europe and China, the potential has never been greater.

Turning to our social themes, it may be a more challenging year for healthcare companies as budgets stretched by the pandemic take time to recover. Similarly, the cost of living crisis may continue to dog the Wellbeing and Education themes. Again, we believe that our companies, having superior growth prospects as a result of their sustainability focus, will fare better than most in the coming years.

Given the new uncertainties in the global economy, we have been working hard to make sure our companies still represent compelling investment opportunities. We are confident that they are. Despite the many current crosswinds and challenges, the need to address longer term sustainability issues has never been greater, and our companies are part of the solution.

Portfolio Activity

We initiated one new position and exited two existing positions.

Recent purchase

We initiated a new position in **Lonza** in our Health theme. Lonza is a leading contract development and manufacturing organisation (“CDMO”).

CDMOs like Lonza help pharmaceutical and biotech companies to produce innovative medicines. As one of the leading players, Lonza can support the entire drug development process. This includes everything from early phase drug discovery, to custom development and manufacturing of active pharmaceutical ingredients, to creating innovative dosage forms.

Lonza has a long record of successful execution. It has built a particularly strong position in the fast-growing biopharma market, and is also notable for its ability to partner with smaller and more nimble specialist biotech companies.

Recent sales

We sold our position in **Kion** in our Resource Efficiency theme. Kion is a leading supplier of automation technologies and software solutions for supply chain optimisation, as well as forklifts and warehouse equipment.

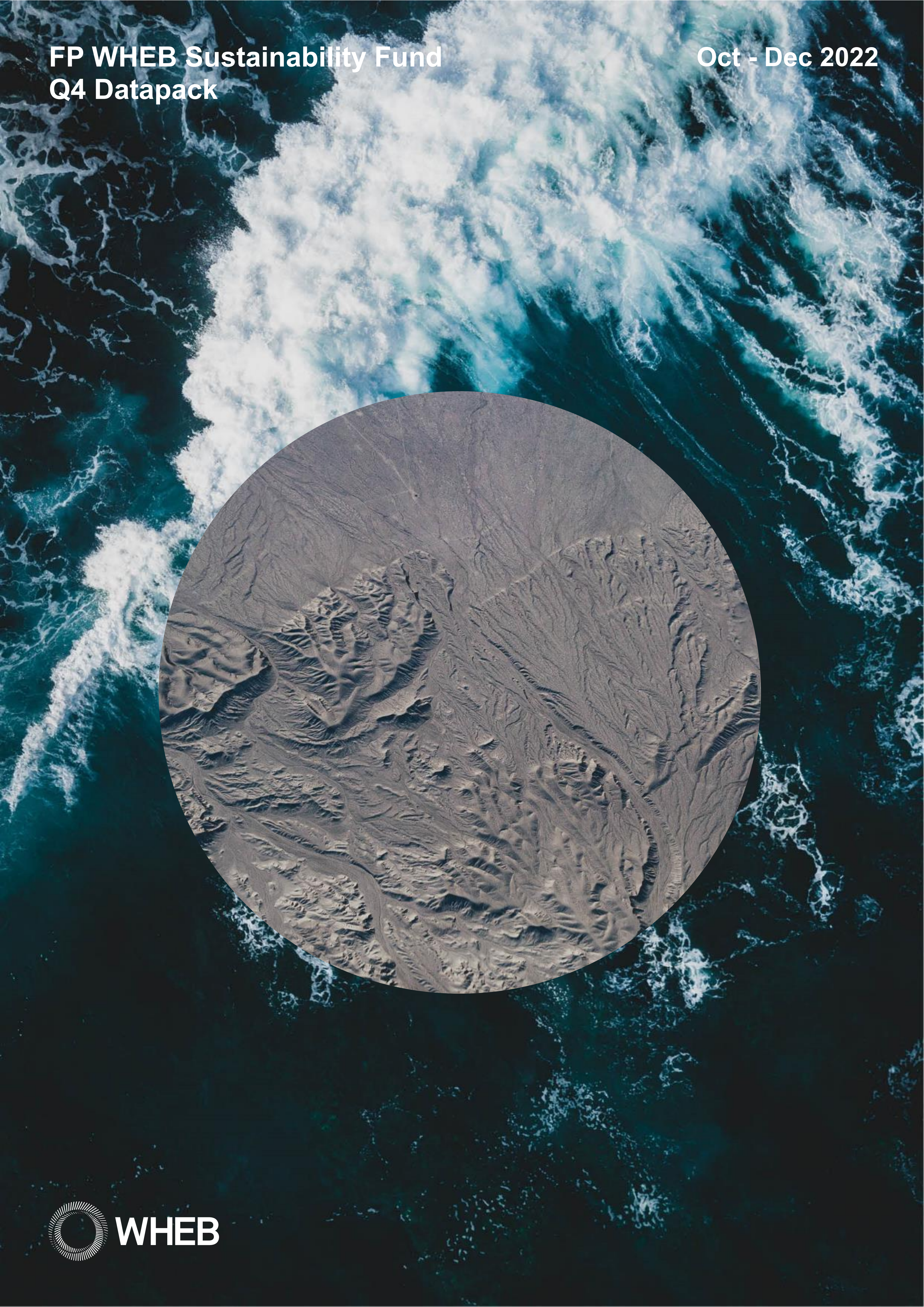
While Kion has a leading position in all its markets, the current business environment has created a number of challenges for the company. Supply chain disruptions and an inflationary environment have revealed the weakness of its pricing power, as it has been unable to pass higher costs along to its customers. This is sufficiently different to our investment thesis that we sold our position.

We also exited our position in **Centene** in our Health theme. Centene is a managed care organisation, providing health insurance and related services to individuals, companies and especially government programmes in the US.

Our investment was centred around the growth opportunity from Centene’s social impact, as the company focuses on providing healthcare access to low-income and vulnerable communities across the US, principally through Medicaid programmes. The period of strongest opportunity has now passed, and the company is looking for alternative growth avenues which are necessarily less impactful, leading us to sell our position.

FP WHEB Sustainability Fund
Q4 Datapack

Oct - Dec 2022



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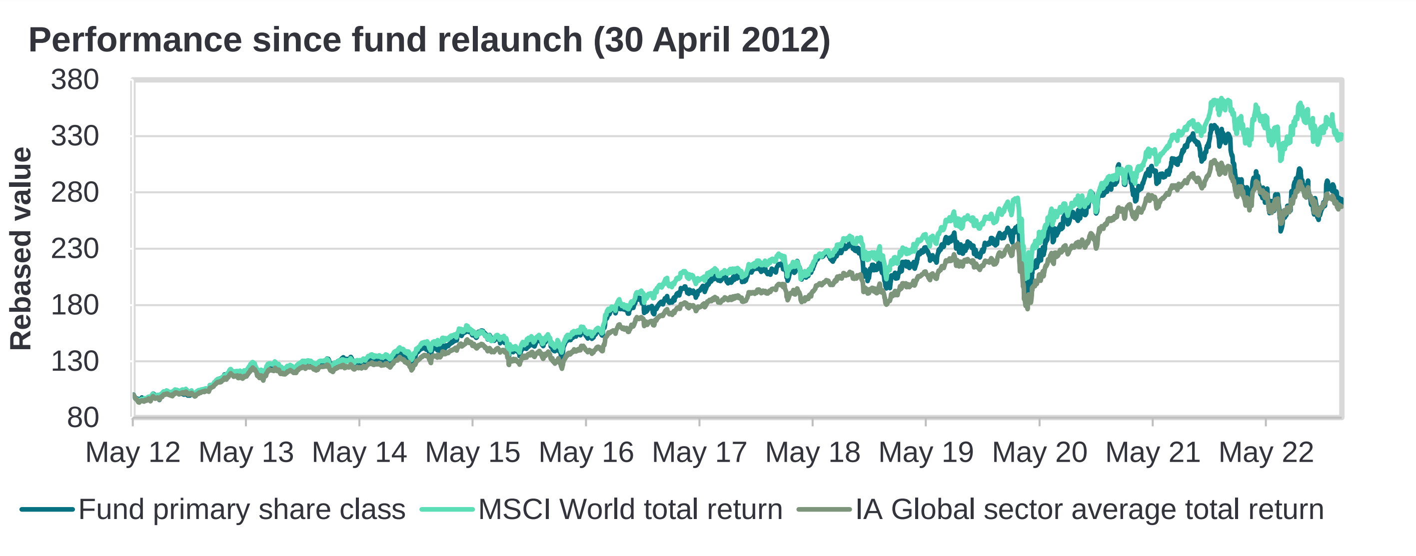
FP WHEB Sustainability Fund: 31 December 2022

Fund size	£822m
Holdings	41
Average holding period[1]	4.81
Active Share vs Benchmark[2]	97.3%

IMA Sector	Global
Expected number of holdings	40 – 60
Expected holding period	4 – 7 years
Index benchmark[3]	MSCI World Total Return Net GBP

Investment Performance[4]:

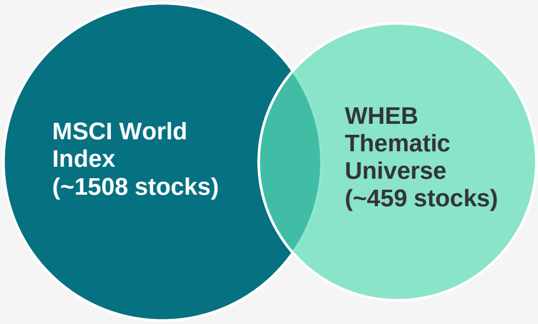


Investment returns by discrete 12-month period

	Dec 2021 – Dec 2022	Dec 2020 – Dec 2021	Dec 2019 – Dec 2020	Dec 2018 – Dec 2019	Dec 2017 – Dec 2018
FP WHEB Sustainability C Acc Primary share class (GBP)	-17.32%	15.49%	20.01%	21.03%	-6.00%
MSCI World total return (GBP)	-7.83%	22.94%	12.32%	22.74%	-3.04%
IA Global[5] sector average total return	-11.06%	17.68%	15.27%	21.92%	-5.72%

Cumulative investment returns

	Fund (Primary share class) %	MSCI World (Total return - GBP) %	IA Global sector average (Total return - GBP)[5] %
3 Months	3.60%	1.86%	2.19%
6 Months	6.39%	3.96%	4.02%
12 Months	-17.32%	-7.83%	-11.06%
3 Years (annualised)	4.64%	8.37%	6.45%
5 Years (annualised)	5.45%	8.66%	6.76%
Cumulative since relaunch (30 April 2012)[6]	174.02%	231.12%	169.17%



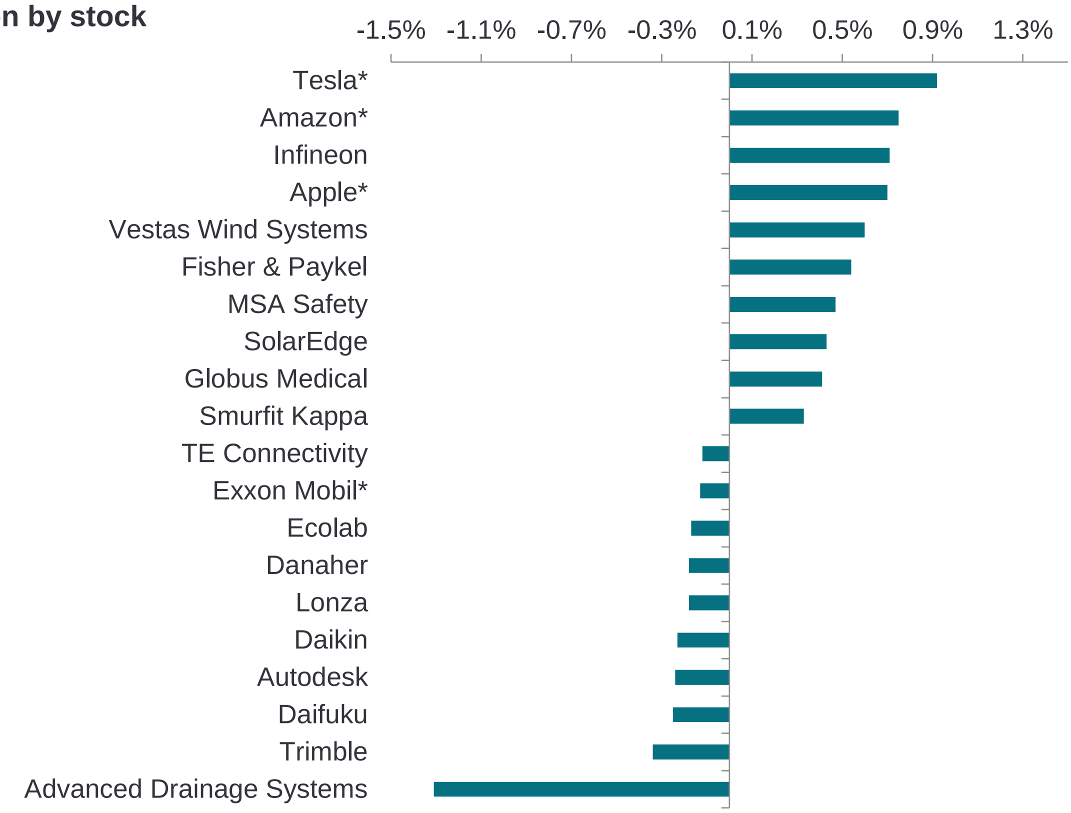
Overlap: ~213 stocks;
14.1% (as at 31st December 2022) of MSCI World Index

Theme Overlap

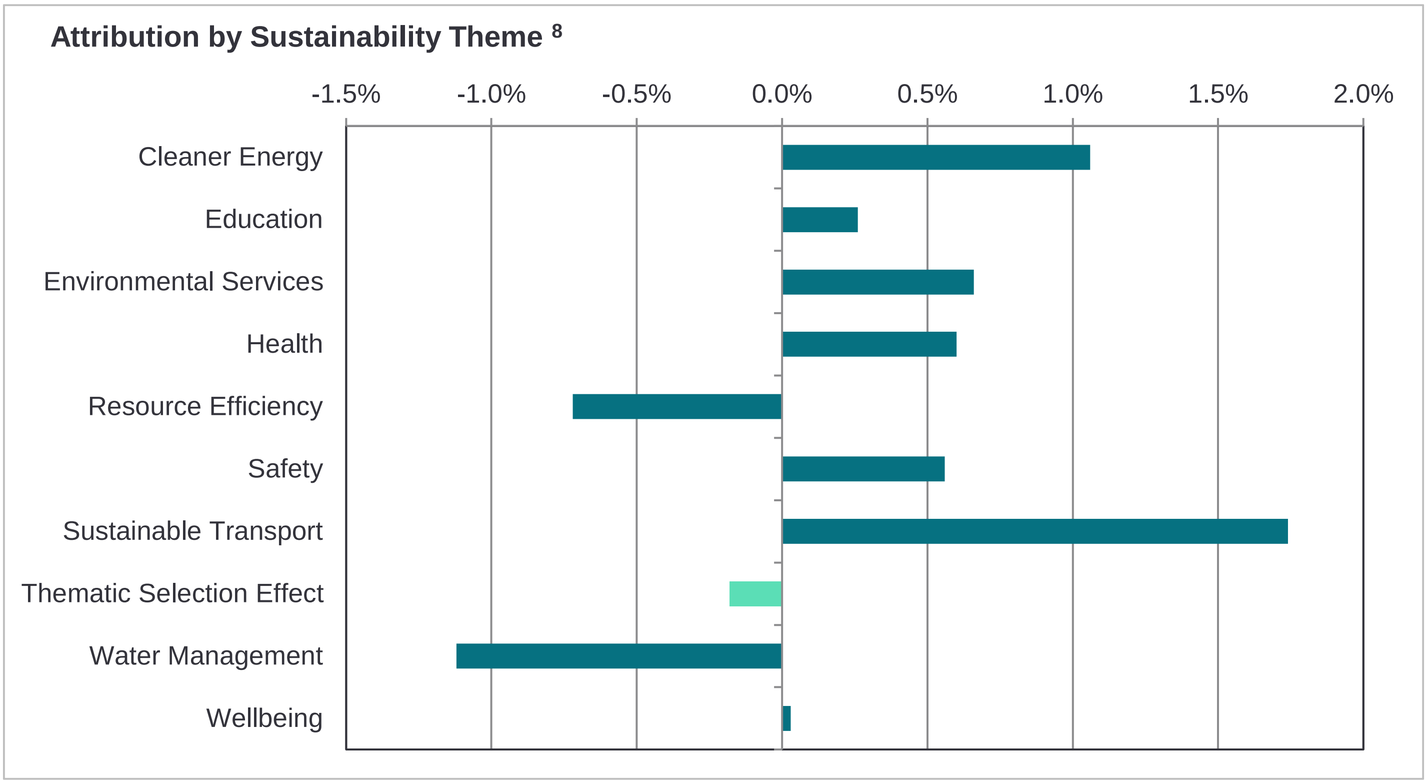
The thematic focus of the WHEB strategy means that our investable universe overlaps with the benchmark by around 15%. This leads to significant structural biases in the fund's exposure, which may make comparison to the benchmark complex. These style biases towards growth, quality and mid-cap are all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

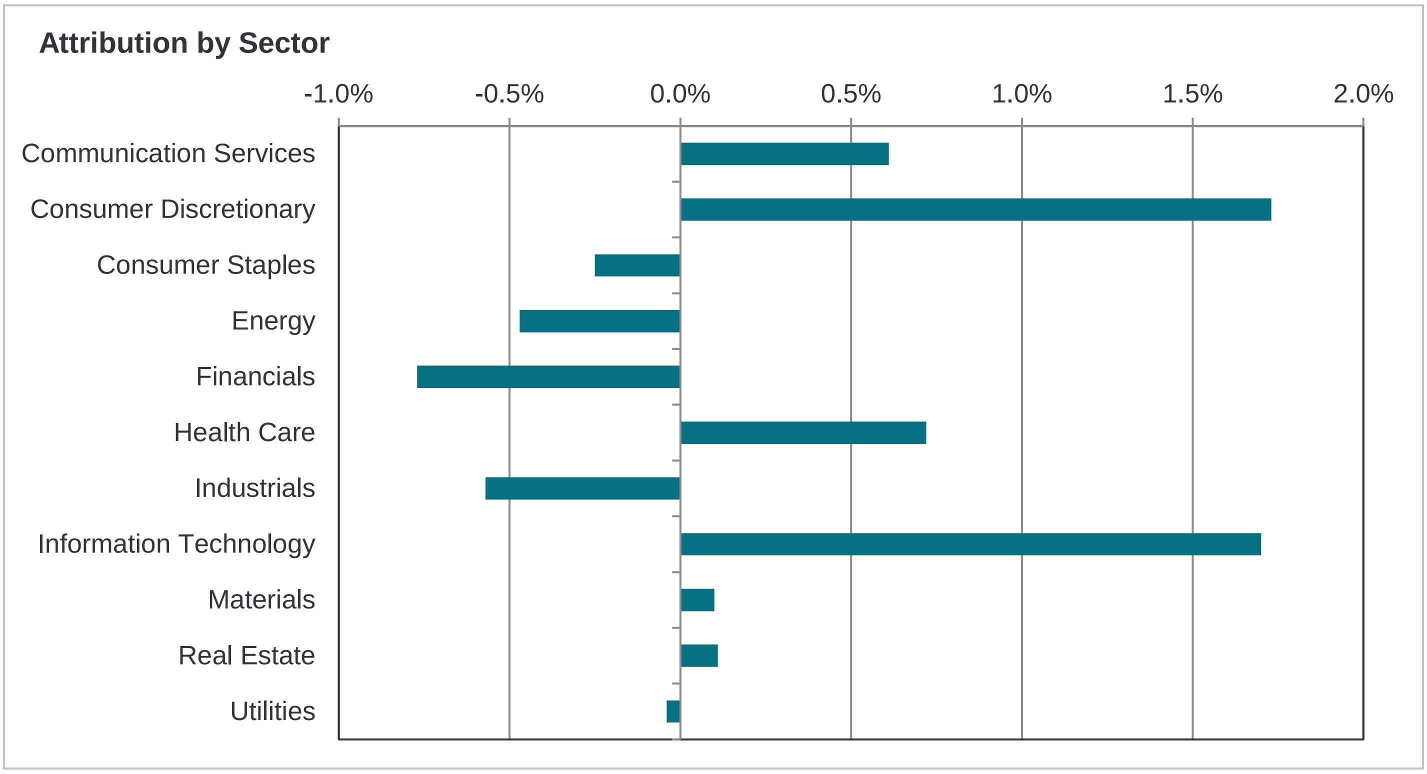
Performance Attribution – Last 3 months[7]

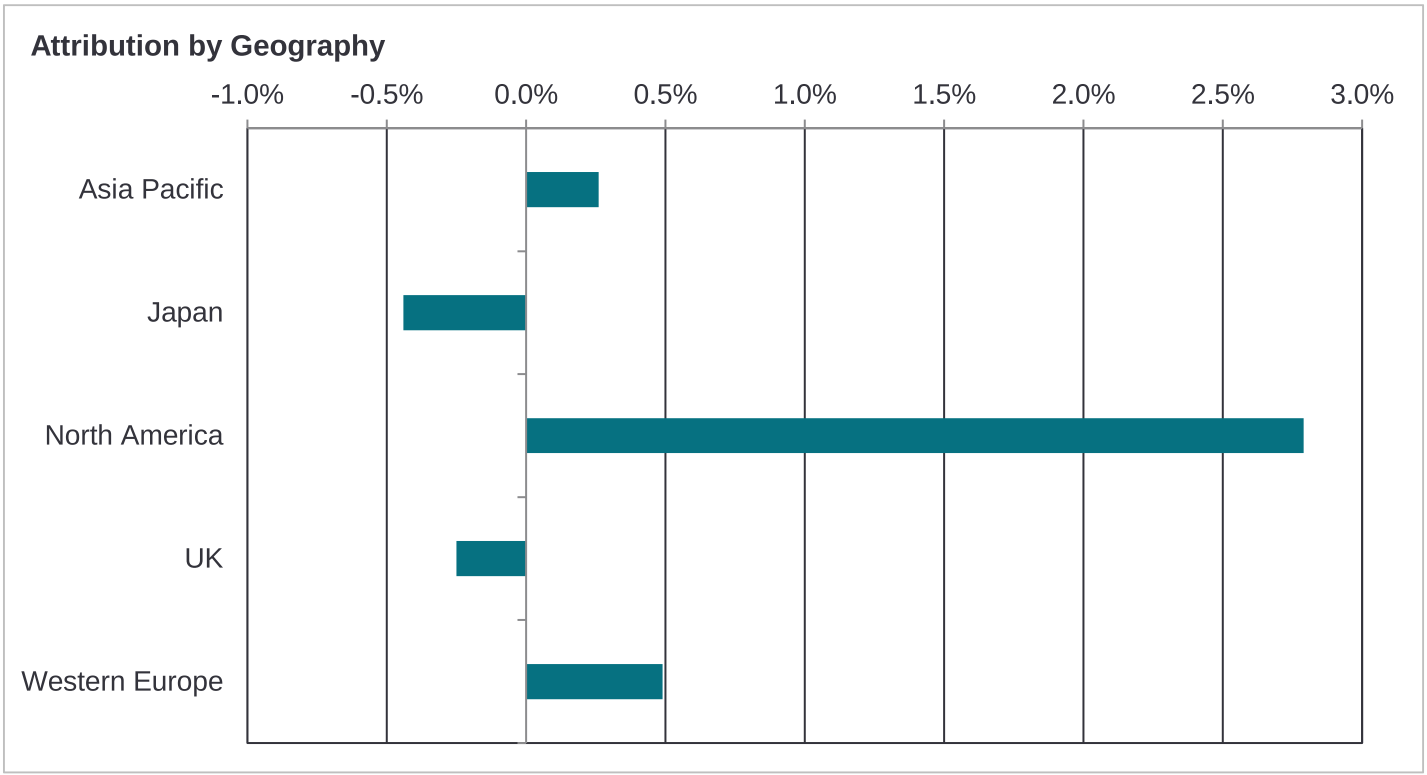
Attribution by stock



*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.


Attribution by Sustainability Theme [8]
-1.5%
-1.0%
-0.5%
0.0%
0.5%
1.0%
1.5%
2.0%
Cleaner Energy
Education
Environmental Services
Health
Resource Efficiency
Safety
Sustainable Transport
Thematic Selection Effect
Water Management
Wellbeing

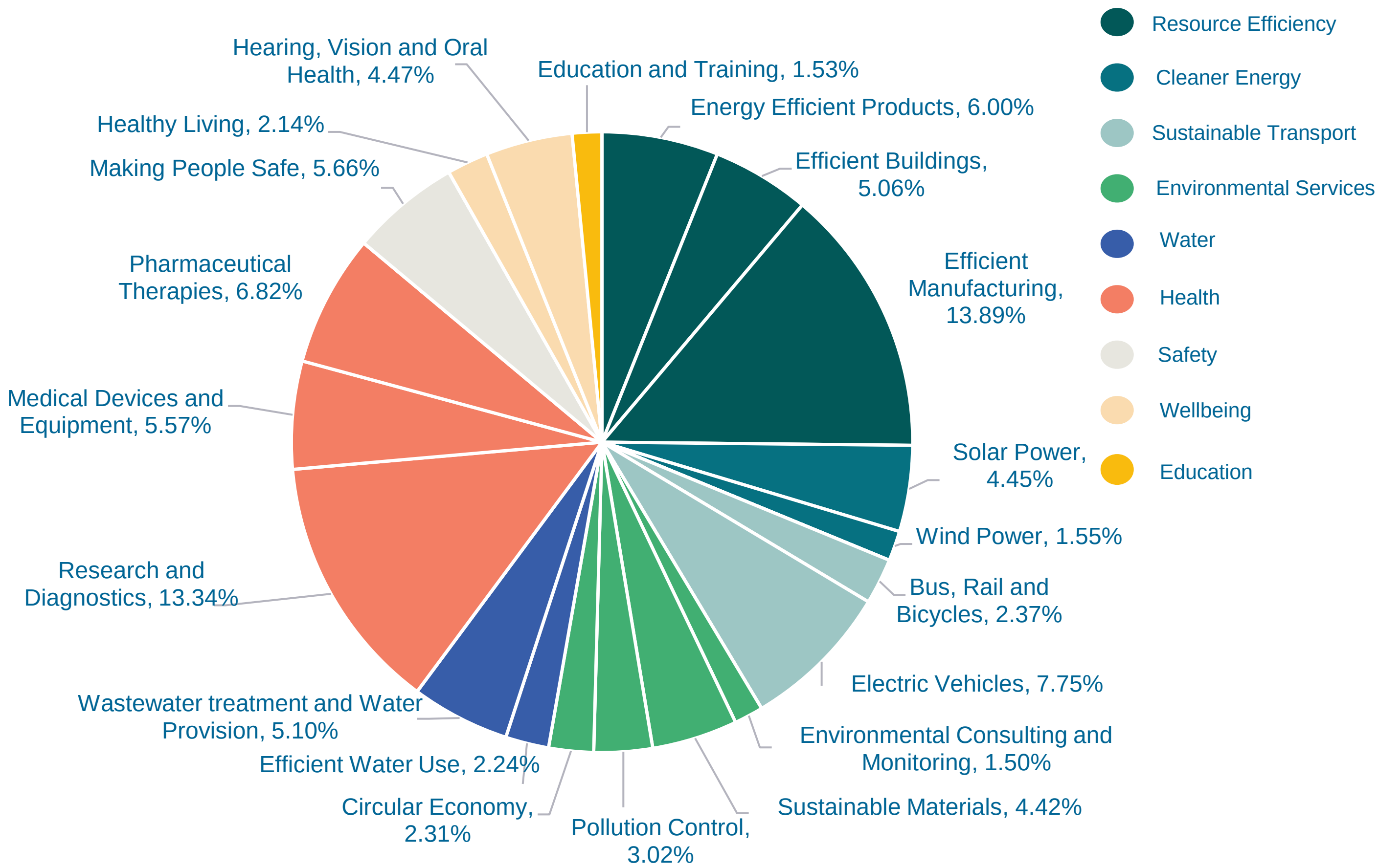

Attribution by Sector
-1.0%
-0.5%
0.0%
0.5%
1.0%
1.5%
2.0%
Communication Services
Consumer Discretionary
Consumer Staples
Energy
Financials
Health Care
Industrials
Information Technology
Materials
Real Estate
Utilities



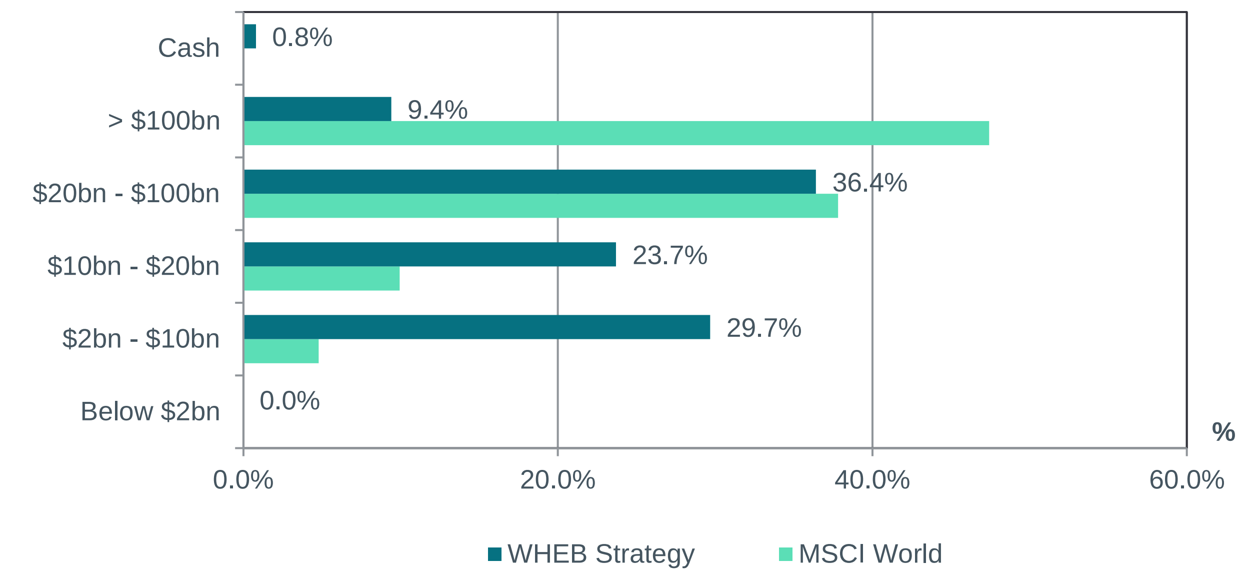
Attribution by Geography
-1.0%
-0.5%
0.0%
0.5%
1.0%
1.5%
2.0%
2.5%
3.0%
Asia Pacific
Japan
North America
UK
Western Europe

Portfolio analysis and positioning:

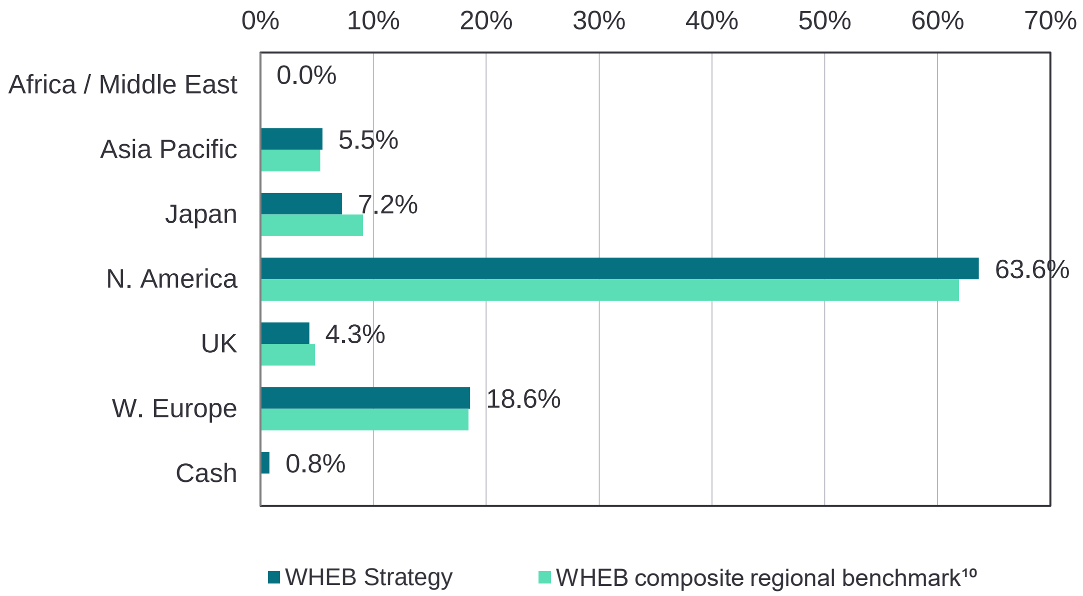
Portfolio Exposures[9]



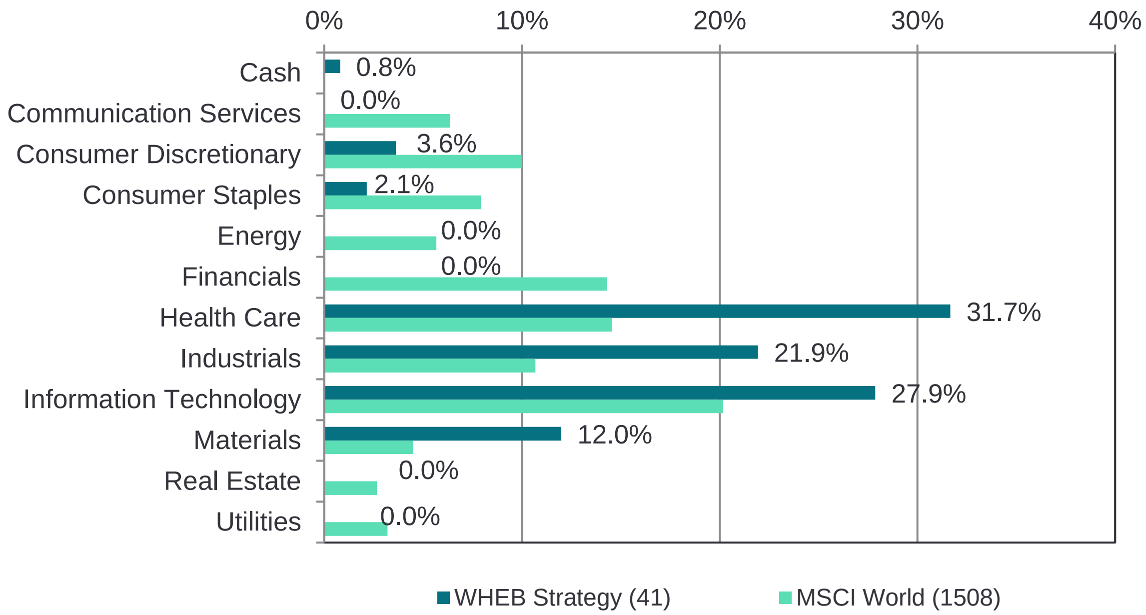
Market Cap Exposure



Regional Exposure [10]



Sector Exposure [11]



Top Ten Holdings as of 31 December 2022

Stock	Theme	Description	Holding
Thermo Fisher Scientific	Health	A leading provider of analytical instruments, equipment, software and services for research and diagnostics in healthcare industries.	3.26%
Globus Medical	Health	Globus Medical is a best-in-class spinal medical technology company headquartered in Pennsylvania, US. It has a large portfolio of solutions to promote healing in patients with musculoskeletal disorders. A newer, fast growing segment called “Enabling Technologies” centres around ExcelsiusGPS, the world’s first robotic navigation platform which supports surgeons in spinal operations.	3.16%
Danaher	Health	Exposed to several of WHEB's themes. It is categorised in the Health theme because of its design and manufacture of medical products including instrumentation, software and diagnostics for new drugs and critical care.	3.12%
CSL	Health	CSL provides human blood plasma-derived products to treat bleeding disorders, infections and autoimmune diseases. CSL also manufactures vaccines and related products including for flu and cervical cancer.	3.07%
Silicon Laboratories	Resource Efficiency	Silicon Laboratories designs and develops analog semiconductors and other electronic components that are used to control and connect devices. The company has particular expertise in ultra-lower power devices. It also develops and sells technologies that play a critical role in the ‘internet of things’ (IoT) which enables greater efficiencies through closer analysis and control of electrical equipment.	3.05%
Trane Technologies	Resource Efficiency	Trane is a world leader in air conditioning systems and services. It also has an offering in the heat pump space which brings a 300% efficiency gain compared with the system it would replace.	3.05%
Ansys	Resource Efficiency	Sells simulation software for product design and optimisation. The software improves quality and safety in products like fuel efficient cars and planes, wind turbines, medical technology and consumer goods.	3.04%
Linde	Environmental Services	Supplies a variety of gases to manufacturing, petrochemical and electronics industries and also to the healthcare sector. These are used in a variety of applications to make manufacturing processes more efficient and to reduce harmful emissions.	3.02%
Steris	Safety	Steris provides sterilisation and anti microbial treatment services to hospitals, medical device manufacturers, pharmaceutical and biotechnology businesses as well as for food safety and industrial markets.	3.00%
Power Integrations	Resource Efficiency	Power Integrations produces EcoSmart chips which reduce energy waste when an appliance is in standby mode. Unlike traditional power conversion solutions requiring dozens of components, the company’s integrated solutions reduce the bill of materials and the size of the integrated circuit board.	2.96%

Fund Characteristics

	WHEB	MSCI World (Total Return – GBP)
FY1 Price/Earnings (PE)[12]	22.00	14.89
FY2 Earnings Growth[12]	9.63	7.87
FY1 PE/FY2 Earnings Growth (PEG)	2.29	1.89
3-year Volatility[13]	18.54	15.68

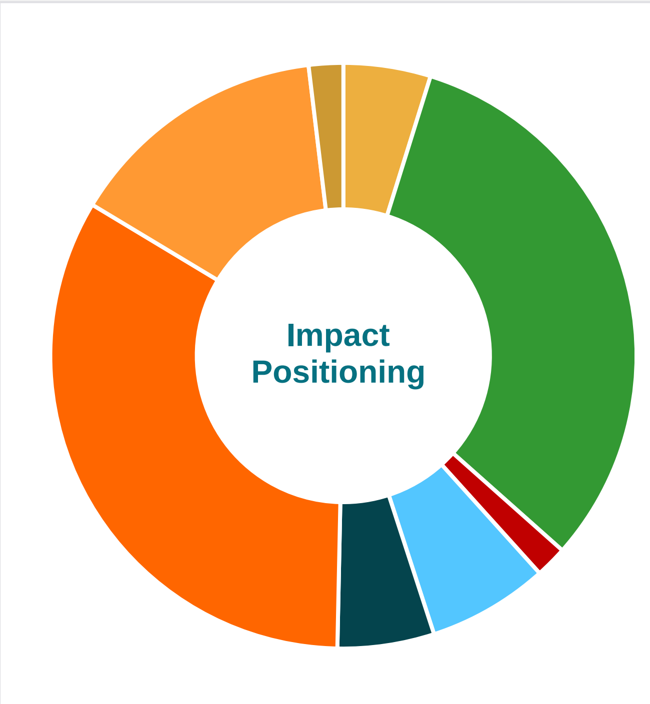
	WHEB
Beta (predicted)	1.18
1-year Tracking Error (predicted)	7.25
5-year Tracking Error (ex-post)	7.98

Trading Activity

Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description of purchase or sale rationale
Centene	Sale	Health	Equity drivers moving away from our impact themes. Interaction with management on ESG concerns unsatisfactory.
Kion	Sale	Resource Efficiency	Core thesis has been negatively impacted by lower than assumed product quality plus substantially higher balance sheet risk post profit warning.
Lonza	Purchase	Health	High quality business with impact-led structural drivers enabling scaling of biological drugs.

Impact Positioning: Supporting the UN Sustainable Development Goals[14]



5% in agriculture & nutrition

32% in health & well-being

2% in education

7% in clean water & sanitation

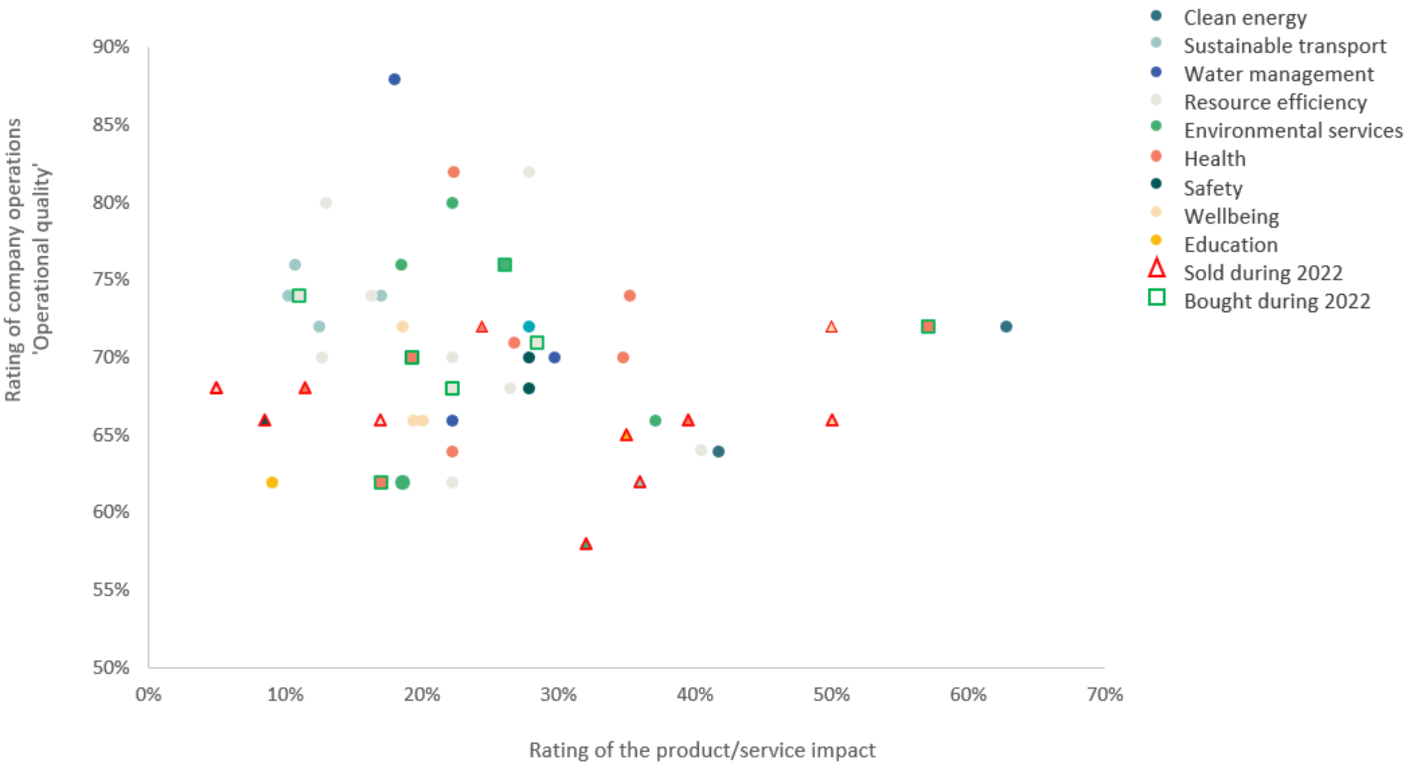
5% in affordable & clean energy

33% in industry, innovation & infrastructure

14% in sustainable cities & communities

2% in responsible consumption & production

Impact map of the FP WHEB Sustainability Fund portfolio following changes in 3Q 2022 [15]



Engagement and voting activity

Voting Record: Q4 2022

The table below summarises the voting record at companies held in WHEB's investment strategy from 1st October to 31st December 2022. Full details of how we voted on each of the individual votes are detailed on our website: http://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/

Meetings	No. of meetings	%
# votable meetings	4	
# meetings at which votes were cast	4	100%
# meetings at which we voted against management or abstained	4	100%

Resolutions	No. of resolutions	%
# votes cast with management	15	71%
# votes cast against mgmt. or abstained (see list in appendix)	6	29%
# resolutions where votes were withheld	0	0%

Company Engagement Activity

Company	Topic	Objective	Method	Outcome
Ariston	Director independence	Vote Against. Elect Guido Krass as Non-Executive Director	Vote/Letter	Unsuccessful
Centene	Ethics & Compliance	Enquiry to understand more about the newly appointed Ethics and Compliance Officer	Email	Unsuccessful
CSL	Drug Pricing	Questions about drug pricing in relation to IRA	Email/Call	Ongoing
	Donor Safety and benefits	Questions for company regarding the potential benefits and safety issues around blood plasma donation.	Collaborative/Email	Ongoing
	Auditor Independence	Vote Against. Elect Marie McDonald as Director	Vote/Letter	
	Director Independence	Vote Against. Elect Megan Clark as Director	Vote/Letter	
	Executive Remuneration	Vote Against. Approve Remuneration Report	Vote/Letter	
	Approve Grant of Performance Share Units to Paul Perreault	Vote against. We view the executive's remuneration as being excessive.	Vote/Letter	
Daikin	Carbon Reduction Targets	Collaborative engagement via CA100+ requesting Daikin to disclosure targets by Scope, report on lobbying activities and product development to achieve goals.	Email/Call	Ongoing
Hamamatsu Photonics	Elect Director Hiruma, Akira	Vote against. Combined Chair/CEO, No board independence, Unclear who is NOM CHAIR so voting against CHAIR, unclear sustainability-related remuneration, underrepresentation of women on board, no net zero, etc	Vote/Letter	
HelloFresh	Animal rights	Enquiry into the use of monkey labour for coconut harvesting within the supply chain	Email/Call	Successful
JB Hunt	Net Zero Targets	Seeking update on ability to set net zero targets in relation to increasing EV truck capacity.	Email/Call	Successful

Lenzing	Product impact	Understanding the cradle to grave impact of Lenzing speciality fibres compared to alternative traditional fibres	Call	Successful
	Net Zero target	Clarifying targets	Call	Successful
	Sustainability Leadership	Clarifying the use of sustainability targets in management KPIs and also for employees below senior management level.	Call	Successful
	Biodiversity	How this is considered in project planning when building new capacity.	Call	Successful
	Employee Health & Safety	Ensuring employee remuneration is fair and the process for ensuring this true within the value chain.	Call	Successful
Keyence	Product Impact	Various questions aiming to help quantify aspects of positive impact associated with the company's products and services.	Call	Successful
Linde	Product impact	Various questions aiming to help quantify aspects of positive impact associated with the company's products and services.	Email	Ongoing
MSA Safety	Executive remuneration	Understand structure of ESG metrics and targets within remuneration policy.	Call/Email	Successful
	Net Zero	Looking for investor feedback into ESG including setting Net Zero commitments	Call/Email	Successful
Sartorius	GHG Emissions	Reducing Emissions as a means of gaining customer share	Call	Successful
Silicon Laboratories	ESG Materiality	Company asked for us to complete their materiality survey	Email	Successful
Solar Edge	Hazardous Chemicals	WHEB leading a collaborative engagement on human rights and hazardous chemicals in the solar supply chain.	Email	Ongoing
Steris	Product impact	Various questions aiming to help better understand and quantify the positive impact associated with the use of the company's products and services.	Email	Partially Successful
Trimble	Tax	Understand whether change to company headquarters has implications for tax.	Email	Successful
	Product impact	Various questions aiming to help quantify aspects of positive impact associated with the company's products and services.	Email/Call	Successful
	Sustainability Leadership	Enquiry into how sustainability is incorporated into KPIs	Email/Call	Successful
	Reproductive rights	In light of Roe v Wade we are collecting information relating to how companies are supporting a healthy and diverse workforce.	Email/Call	Successful
Vestas Wind Systems	Employee	Question about plans to rationalise footprint and cut some staff	Email	TBC
	Hazardous chemicals	Phase out of hazardous chemicals	Email	Successful
	Biodiversity	Request for update regarding progress mad eon biodiversity strategy	Email	Partially successful
Ariston	Director independence	Vote Against. Elect Guido Krass as Non-Executive Director	Vote/Letter	Unsuccessful
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	Approve Grant of Performance Share Units to Paul Perreault	Vote against. We view the executive's remuneration as being excessive.	Vote/Letter	
Daikin	Carbon Reduction Targets	Collaborative engagement via CA100+ requesting Daikin to disclosure targets by Scope, report on lobbying activities and product development to achieve goals.	Email/Call	Ongoing

Hamamatsu Photonics	Elect Director Hiruma, Akira	Vote against. Combined Chair/CEO, No board independence, Unclear who is NOM CHAIR so voting against CHAIR, unclear sustainability-related remuneration, underrepresentation of women on board, no net zero, etc	Vote/Letter	
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	Net Zero target	Clarifying targets	Call	Successful
	Sustainability Leadership	Clarifying the use of sustainability targets in management KPIs and also for employees below senior management level.	Call	Successful
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Footnotes and important risk warnings

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FundRock Partners Limited (formerly Fund Partners Limited) is the Authorised Corporate Director of the Fund and is authorised and regulated by the Financial Conduct Authority with Firm Reference Number 469278 and has its registered office at 6th Floor, Bastion House, 140 London Wall, London EC2Y 5DN.

The state of the origin of the Fund is England and Wales. The Representative in Switzerland is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the Paying Agent is NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, 8024 Zurich. The relevant documents such as the prospectus, the key investor information document (KIIDs), the Articles of Association as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland. This is a marketing document.

Notes to data tables

[1] The average holding period is calculated by WHEB in accordance with the requirements of the UCITS V directive, and derived from fund turnover over the last 12 months as of the end of the reporting month. This calculation method can result in very long reported holding periods when most of the trading volume is explained by subscriptions and/or redemptions, and can even result in a negative portfolio turnover figure when subscriptions and redemptions exceed purchases and sales. As of 31st December 2022 the UCITS holding period based on the UCITS methodology was 4.81 years. During periods when the resulting figure is negative or more than 100 years, we will report the outcome here within the footnotes and not on page 22 of this report to avoid the risk of presenting a confusing figure.

[2] Active Share refers to the % overlap between the Fund and MSCI World Index weightings. Data as at 31st December 2022. Source: Factset.

[3] The MSCI World Index is quoted at month end with net dividends reinvested and without the deduction of any expenses (in contrast to the portfolio). Index data are provided by MSCI Barra via Bloomberg, calculated using GBP. The MSCI World Index is unmanaged and cannot be invested in directly. Performance figures for the FP WHEB Sustainability Fund are calculated mid to mid.

[4] Performance data for the FP WHEB Sustainability Fund Primary Share Class comprises the A share class since inception of the fund on 8 June 2009, and the C share class since its launch on 11 Sept 2012. Prices are last quoted prices for each day i.e., MSCI World quoted after market close in North America; FP WHEB Sustainability quoted at midday in UK. Effective from 2nd January 2020, we have introduced a single, fixed rate “Management Fee” which includes all of the costs and charges that were previously in the ongoing charges figure (or “OCF”) of the Fund. As a result, various costs and charges associated with services to the Fund such as depository and custody, transfer agency, legal, audit and fund accounting charges are now paid out of the single, fixed rate Management Fee. For further information see: http://www.whebgroup.com/fp-wheb-sustainability-fund-moves-to-a-single-fee/
Past performance is not a reliable guide to future performance. Your capital is at risk.

[5] IA Global refers to the fund weighted average performance of the UK Investment Association Global equity sector peer group. Source FE Analytics.

[6] The FP WHEB Sustainability Fund was originally launched on 8 Jun 2009. Effective re-launch as at 30 April 2012 after the portfolio was transitioned to a new investment process by a new investment team.

[7] Performance attribution is calculated with reference to the MSCI World Index, and based on the Fund’s valuation at the market close. Depending on timing differences between midday pricing of the Fund’s unit price and the market close, the total attribution may therefore deviate from the quarterly performance quoted in the investment performance section of the report.

[8] 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.

[9] Source: Apex, data as of 31st December 2022. Numbers may not add up to 100% due to rounding.

[10] The WHEB Benchmark for regional exposure is calculated as an average of The MSCI World Index, The MSCI World Mid-Cap Index and The WHEB Universe.

[11] The figures in brackets relate to the number of companies included in the fund or the index.

[12] Earnings growth data source: Factset forecast estimates. FY1 is the forecast estimate for the next year, FY2 is the forecast estimate for the following year.

[13] Volatility data as at 31st December 2022, source: Bloomberg.

[14] 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 2020 Impact Methodology Report, available at **https://impact.whebgroup.com/methodology/**, and the impact positioning graph is described in detail in the 2021 impact report.

[15] ibid