The time is now – investing in solutions to critical social and environmental challenges
## Contents

1. WHEB Asset Management  page 08
   - Introduction  page 10
   - Theory of change  page 12

2. WHEB sustainability investment strategy  page 16
   - 2021 in review  page 18
   - What problems are we helping to solve?  page 22
   - Reporting positive impacts  page 26

3. How our companies contribute to sustainability  page 34
   - Theme Focus: Water Management  page 40
   - Theme Focus: Well-being  page 42
   - Theme Focus: Education  page 44

4. Portfolio ESG performance  page 46
   - ESG Profile  page 48
   - Climate change and carbon emissions  page 52

5. Engagement and voting  page 58
   - Engagement activity  page 60
   - Voting activity  page 64

6. Sustainability at WHEB  page 68

7. Independent review  page 76

8. Future outlook  page 80

---

### A note on data

The data provided in this report was collected during March and April 2022 and covers the period 1 January – 31 December 2021. In certain cases where companies had yet to report 2021 data, we have used data from the prior year. The content and data in this report were correct as of 31 December 2021 and have not been updated since.
Executive summary

In 2021 we set out a model detailing how WHEB has a positive impact. This report provides a comprehensive account of the different types of impact that we have delivered in 2021.

1 Intentional impact investment

At the core of what WHEB does is our clear intention to invest in companies that provide solutions to critical sustainability challenges. Section 1 introduces the ‘theory of change’ that underpins our investment approach. Section 2 sets out each ‘problem statement’ that we are seeking to address in each of our investment themes.

2 Impact measurement

Section 2 also provides an account of the strategy’s performance in 2021, covering both the financial performance as well as the social and environmental impact that is associated with our investments. These impacts are connected to the products and services that our investee companies provide.

In each of the past two reports we have also provided a deeper explanation of three of the strategy’s nine investment themes. Section 3 is the third report in the series and covers the last three of these themes: Water Management, Well-being and Education. We also provide examples of three of our portfolio investments, one in each of these themes.

Section 4 details the key environmental, social and governance (ESG) characteristics of the strategy. This section also provides a summary of WHEB’s approach to climate change including our governance, strategy and management of greenhouse (GHG) emissions.

3a Enterprise-level investor contribution

Alongside the impact that is delivered by the companies that we invest in, WHEB also delivers a positive impact through the work that we do engaging with companies in the portfolio and advocating for progressive change. A summary of this engagement work, along with the voting that we do at company meetings, is provided in Section 5.

3b System-level investor contribution

We also believe that WHEB can have a positive influence on the financial system as a whole. This involves engaging with standard-setters and regulators, as well as with consultants and clients, and is aimed at supporting high standards in sustainable and impact investing. Our activities in this area are also covered in Section 5.

4 WHEB’s operations

The vast majority of WHEB’s impact comes through the investments that we make. However, as a business we do also have a direct social and environmental footprint. We seek to maximise the positive impact that we can have through our own operations. This work is covered in Section 6.

Section 7 includes a letter from the Carbon Trust detailing their work and the conclusions they reached following their review of the data that underpins our impact reporting. This independent review is also complemented by a separate independent statement issued by WHEB’s Investment Advisory Committee.

2021 was a difficult year for impact investing in listed markets. So far, 2022 looks set to follow suit. Section 8 provides an outlook for the coming year, acknowledging the challenges that we face, but also setting out our reasons for remaining optimistic about progress towards the realisation of a zero carbon and more sustainable economy.
Who we are

Investment Team

Ted Franka, CA, CFA
Partner & Fund Manager

Sabi Belova, MSc, DIC, CEnv
Partner & Head of Research

Ty Lee, CFA
Associate Fund Manager

Victoria MacLean, CFA
Associate Fund Manager

Ben Klufingen, PhD, CFA
Senior Investment Analyst

Claire Jervis, CFA
Senior Investment Analyst

Compliance & Operational Support

Laura Grenier, FCCA
Director of Operations

Greg Hooker
Operations Associate

Katie Woodhouse
Climate and Data Analyst

Sandhuni Correa
Management Accountant

Business Development

Libby Stanley
Marketing Manager

Sarah Briecoe
Business Development Manager, UK

Rachael Monteiro
Business Development Associate

Fanny Raigher*
Business Development Director, Europe

Management and Investment and Risk Committee

George Latham, ASIP
Managing Partner & CRO

Jayne Sutcliffe
Non-Executive Chair

Sarita Kashyap
Risk and Performance Analyst

*FundRock - Distributor for WHEB Asset Management in Europe
Introduction

2021 was my first full year as the Non-Executive Chair of WHEB Asset Management. After the repeated lock downs that we endured through 2021, we have now settled into a new structure and way of working. Most colleagues now work two to three days at home with the balance from our Cavendish Square offices in Central London. We’ve expanded and reorganised our office to accommodate the new colleagues that joined us over the course of the year.

With our latest recruits, we are now a majority female business – something all too uncommon in the financial services industry. With the new joiners, and a return to more frequent office working, we will be taking some time to think hard about the culture that we want to nurture at WHEB. Part of this, will involve sharing the ownership of the business more widely across the team. I hope we will be able to report back on the progress that we have made on these points in next year’s report.

Feeding into this work is the analysis that we did in 2021 on feedback received from employees and from clients. In an increasingly congested marketplace, it is clear that clients want authentic investment products from fund managers that are committed to sustainability. This report is one of the many ways that WHEB seeks to demonstrate this authenticity.

At its core, WHEB is a purpose driven business. The company’s skills, mission and passion are all directed at accelerating the shift to a zero carbon and more sustainable world. By investing client money in ways that help enable this transition, we also believe clients can benefit financially from it. “Doing well by doing good” as the adage goes.

Financial markets have had a turbulent start in 2022. As the global economy emerges fully from COVID lock-down we can expect this turbulence to continue. We don’t believe though that this instability will derail efforts to shift the economy on to a more sustainable footing. In many ways, it may even accelerate it.

Over the past few years WHEB has become a much more stable and substantial business. Thank you to all of you that have supported us to this point. We have a lot more work to do though and a lot further to travel. We look forward to sharing this journey with you.

Jayne Sutcliffe, Non-Executive Chair, WHEB Asset Management

‘At its core, WHEB is a purpose driven business. The company’s skills, mission and passion are all directed at accelerating the shift to a zero carbon and more sustainable world.’

Jayne Sutcliffe, Non-Executive Chair, WHEB Asset Management
At WHEB, we articulate a theory of change for our investment strategy. This is necessarily high-level as it embraces a variety of investment themes. More importantly though, in our view, we also provide a clear theory of change for each of our nine investment themes which are also evident at the level of each portfolio holding. An example is given in Figure 2 below.

The theory of change behind each of WHEB’s investment themes is set out on pages 24-25.

With the growth of ESG investing, impact investors have sought to establish core elements that differentiate impact strategies from the vast range of other investment products labelled as ‘ESG’ or ‘sustainable’.

One of these elements is the ‘theory of change’ that is often implicit within an impact investment strategy. The theory of change is typically connected with a ‘problem statement’ and illustrates the mechanism by which a given investment positively impacts upon the problem.

At WHEB, we articulate a theory of change for our investment strategy. This is necessarily high-level as it embraces a variety of investment themes. More importantly though, in our view, we also provide a clear theory of change for each of our nine investment themes which are also evident at the level of each portfolio holding. An example is given in Figure 2 below. The theory of change behind each of WHEB’s investment themes is set out on pages 24-25.

Figure 2: WHEB’s theories of change

1

Investment strategy

**THEORY OF CHANGE (TOC)**

The global economy currently consumes resources at a rate that is unsustainable. WHEB’s investment strategy invests in companies that sell products and services that provide solutions to these challenges and that protect and enhance the quality of life.

2

Investment theme

**TOC (E.G. RESOURCE EFFICIENCY)**

Resource Efficiency – in order to meet a target of net-zero emissions by 2050 and keep global warming to less than 1.5°C, the global economy needs to increase energy efficiency by more than 4% per annum from 2020 to 2030.

3

Company-level investment

**TOC (E.G. SILICON LABORATORIES)**

Silicon Laboratories (SLAB) designs and manufactures semiconductor chips. These enable the connection of devices by ensuring a reliable and secure connection, a long lifespan and low power requirements and all at a cost that allows connectivity to be scaled to large networks of devices (the ‘internet of things’). The direct impact of SLAB’s products is to enable devices to be connected to a network allowing better visibility of processes and the ability to improve them resulting in efficiency savings including:

- Better power and energy management
- Predictive maintenance
- More efficient systems and networks (eg water distribution)
- Preventative healthcare through connected medical devices.

The principal related outcomes are a reduced level of global warming resulting from reduced greenhouse gas emissions.
‘Listed equities are a key asset class in scaling sustainability solutions. WHEB has been a valued contributor to our work developing our approach to impact investing in listed equities.’

Sean Gilbert, Chief Investor Network Officer, Global Impact Investing Network (GIIN)
WHEB Sustainability Investment Strategy
2021 in review

After the appearance of COVID in 2020, 2021 became a race between vaccination and the development of new COVID variants. Throughout the year, this contest drove fiscal stimuli, supply chain disruption, lockdowns and then re-openings, and booster jabs. The economic impact of the pandemic itself and related policy responses were still widespread in 2021, but uneven across different sectors.

Besides the success of the vaccination rollout in the developed world, the biggest driver for equity markets in 2021 was the continued expansion of central bank balance sheets and easy financial conditions. Most of the major stock markets were higher in 2021 as a result.

However, another key theme this year was rising inflation rates, largely driven by global supply chain constraints. It had two implications. First, companies were faced with higher raw material and labour costs, which put pressure on margins. Second, it led to speculation of imminent interest rate hikes by central banks which led to a rotation within markets causing ‘growth’ strategies to underperform.

In terms of sectors, Industrial companies were hit badly because of supply chain disruptions. Energy and Financials sectors benefitted from higher inflation and speculation around higher interest rates. Cleaner Energy was the weakest theme in the year because of the failure to pass critical infrastructure legislation in the USA. The sector also suffered from rising input costs, supply chain disruptions and project delays. Consequently, the WHEB Sustainability strategy underperformed the MSCI World during the year though absolute returns remained strongly positive (see Figure 4).

While our Cleaner Energy theme struggled, our strongest themes in the year were Health and Sustainable Transport. Healthcare holdings continued to see increased demand driven by the pandemic. Life sciences tools companies Danaher, Thermo Fisher and Agilent were particularly strong contributors.

Sustainable Transport was the second-best performing theme. Even though the automotive sector was still depressed by semiconductor shortages and supply chain constraints, the growing demand for electric vehicles created a strong tailwind for several of our holdings in the theme.

Our focus throughout the period has remained on picking and investing in sustainability-driven companies that offer strong financial returns. Our theme exposures remained largely unchanged through the year, with our largest exposure being to Health and Resource Efficiency (see Figure 3).
Sustainability continued to be the top priority in the global agenda in 2021. The United States re-joined the Paris Agreement on Climate Change in February. The UN Climate Change Conference (COP26) in November helped further advance the agenda. New national pledges will help drive further investments in sustainability in the coming decades. It will create secular demand for the products and services provided by our investee companies.

We have also seen strong momentum in our social themes driven by the pandemic. COVID has led to increasing demand for telehealth, remote clinical trials, online education and healthier food. The pandemic has been acting as a catalyst for change and innovation across all our four social themes.

If every cloud has a silver lining, the pandemic may have laid a stronger foundation for the world moving towards sustainability. The pandemic has drawn enormous public attention to climate change and social issues. We are excited to see more and more countries and companies responding positively to these sustainability challenges. This will create numerous investment opportunities for this strategy.

‘We greatly appreciate WHEB’s strong commitment and highly authentic approach to impact investing in listed equities.’

Daniela Barone Soares, CEO, Snowball Impact Management Ltd.
What problems are we helping to solve?

The WHEB investment strategy focuses on nine critical social and environmental problems confronting society. We’ve identified over 500 companies that offer products and services that provide solutions to these problems. From this universe of companies, we have selected forty-five that we think are best placed to provide competitive investment returns for our clients by delivering solutions to these problems.

Portfolio companies supply products and services that directly address seven of the UN’s Sustainable Development Goals. The remaining SDGs apply primarily to the operations of portfolio companies which we assess as part of our quality assessment (see Section 3).
The problem we are solving:

Safety hazards that cause injuries or death in the home, travelling or at work.

Keeping global warming to <1.5°C requires GHG emissions from transport to have peaked by 2025 and decline 9% by 2030. Road transport emissions need to be near-zero by 2050.

Keeping global warming to <1.5°C requires wind and solar power to increase from 9% of electricity generation in 2020 to 40% by 2030 and to 68% by 2050.

Keeping global warming to <1.5°C requires the global economy to increase energy efficiency by 4.4% per year.

How companies provide solutions:

- Ensuring that products are safe
- Directly protecting people online and in real life
- Reducing emissions per km travelled through mass transit
- Reducing emissions by using electric vehicles (EVs) across all transport modes
- Making buildings more efficient
- Making manufacturing more efficient
- Making energy efficient products
- Increasing circularity in material use
- Developing more sustainable materials
- Protecting biodiversity
- Environmental consulting and monitoring
- Increasing the efficiency of water use
- Treating and recycling wastewater
- Improving access to healthcare
- Providing medical devices and therapies
- Enabling medical research
- Providing diagnostics
- Preventative care
- Care for vulnerable groups (eg the elderly)
- Enabling good exercise and diet
- Hearing, visual and oral health
- Education and training
- Education technologies and publishing
- Education and training
- Education technologies and publishing
- Grand Canyon Education
- Strategic Education

WHEB Investment Theme

Safety
Sustainable Transport
Cleaner Energy
Resource Efficiency

WHEB portfolio holdings

- MSA Safety
- Intertek
- Aptiv
- Infranor
- JB Hunt
- TE Connectivity
- Wabtec
- First Solar
- SolarEdge
- Vestas
- AIO Smith
- Autodesk
- Ansys
- Dafuku
- Dakin
- Keyence
- Nion
- Lonnex International
- Power Integrations
- Silicon Labs

UN Sustainable Development Goals:

- Environmental Services
- Water Management
- Health
- Well-being
- Education

Environmental Services

- Human activities are causing loss of biodiversity that is undermining ecosystems that support human life.
- Freshwater is renewable but unsubstitutable. 47% of the global population suffers water scarcity.
- Preventing and treating illness and disease is central to protecting and enhancing quality of life.
- Unhealthy lifestyles contribute to chronic diseases that account for 61% of all deaths.
- A lack of education limits individuals’ ability to access opportunities and slows social development.

Water Management

- Increasing circularity in material use
- Developing more sustainable materials
- Protecting biodiversity
- Environmental consulting and monitoring
- Increasing the efficiency of water use
- Treating and recycling wastewater
- Improving access to healthcare
- Providing medical devices and therapies
- Enabling medical research
- Providing diagnostics
- Preventative care
- Care for vulnerable groups (eg the elderly)
- Enabling good exercise and diet
- Hearing, visual and oral health
- Education and training
- Education technologies and publishing
- Education and training
- Education technologies and publishing
- Grand Canyon Education
- Strategic Education

Health

- Improving access to healthcare
- Providing medical devices and therapies
- Enabling medical research
- Providing diagnostics
- Preventative care
- Care for vulnerable groups (eg the elderly)
- Enabling good exercise and diet
- Hearing, visual and oral health
- Education and training
- Education technologies and publishing
- Education and training
- Education technologies and publishing
- Grand Canyon Education
- Strategic Education

Well-being

- Improving access to healthcare
- Providing medical devices and therapies
- Enabling medical research
- Providing diagnostics
- Preventative care
- Care for vulnerable groups (eg the elderly)
- Enabling good exercise and diet
- Hearing, visual and oral health
- Education and training
- Education technologies and publishing
- Education and training
- Education technologies and publishing
- Grand Canyon Education
- Strategic Education

Education

- Improving access to healthcare
- Providing medical devices and therapies
- Enabling medical research
- Providing diagnostics
- Preventative care
- Care for vulnerable groups (eg the elderly)
- Enabling good exercise and diet
- Hearing, visual and oral health
- Education and training
- Education technologies and publishing
- Education and training
- Education technologies and publishing
- Grand Canyon Education
- Strategic Education
Reporting positive impacts

In addition to setting out the specific social and environmental problems that WHEB investee companies are helping to solve, we have also for the past six years sought to quantify the positive impact associated with the strategy. As in 2020, this data has been subject to external review by the Carbon Trust (see Section 7).

In 2021, the WHEB strategy as a whole represented £1.4bn in assets under management and was associated with a positive impact equivalent to:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2020</th>
<th>2021</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets under Management (AuM)</td>
<td>£1.1bn</td>
<td>£1.6bn</td>
<td>Larger overall investment in Cleaner Energy with addition of First Solar and SolarEdge offsetting the sale of TPI Composites</td>
</tr>
<tr>
<td>CO₂e avoided (tonnes)</td>
<td>315,000</td>
<td>385,000</td>
<td>Higher proportion of strategy in Cleaner Energy with new investments in First Solar and SolarEdge</td>
</tr>
<tr>
<td>Renewable electricity generated (MWh)</td>
<td>203,000</td>
<td>547,000</td>
<td>Higher proportion of strategy in Cleaner Energy with new investments in First Solar and SolarEdge</td>
</tr>
<tr>
<td>Waste recycled (tonnes)</td>
<td>82,000</td>
<td>52,000</td>
<td>Sale of China Everbright Environment Group reduced quantity of waste recycled</td>
</tr>
<tr>
<td>Water treated (litres)</td>
<td>2.8bn</td>
<td>27.5bn</td>
<td>Increase is primarily due to a significant jump in water reuse projects at Xylem. Danaher is also now reporting a water treated figure</td>
</tr>
<tr>
<td>Water use avoided (litres)</td>
<td>740m</td>
<td>730m</td>
<td>Largely unchanged due to reduced exposure to the Water Management theme offset by growth in the strategy’s AuM</td>
</tr>
<tr>
<td>Beneficiaries of improved healthcare</td>
<td>514,000</td>
<td>490,000</td>
<td>Small change due to changes in weightings in portfolio</td>
</tr>
<tr>
<td>Beneficiaries of preventative care</td>
<td>3,000</td>
<td>170,000</td>
<td>More companies reporting data than in previous years and significant number of COVID vaccinations</td>
</tr>
<tr>
<td>Healthcare costs saved (£)</td>
<td>£0.7m</td>
<td>£11.7m</td>
<td>More companies reporting data than previous years and substantially increased costs saved due to COVID vaccinations</td>
</tr>
<tr>
<td>Education (# of days)</td>
<td>340k</td>
<td>200k</td>
<td>Lower enrolment levels and reduced investment in education companies</td>
</tr>
</tbody>
</table>
The impact calculator

In addition to the total impact associated with the strategy, we also report data on the positive impact that is associated with £1m invested in the strategy (see Figure 7). The WHEB website has an interactive version of this calculator, which has been updated with 2021 data: impact.whebgroup.com/impact-calculator/.

As we have previously stressed, these reported impacts cannot be equated with the personal impacts that we all have through our own purchasing decisions. You cannot, for example, offset the negative impacts associated with a long-haul flight with an investment in WHEB’s strategy. This is because the positive impact that is reported here is ultimately owned by the end user of the product or service in question, not by the investor in WHEB’s strategy. Even the companies we invest in do not own this impact. Vestas, for example, does not ‘own’ the avoided carbon emissions associated with its wind turbines. Instead, the avoided emissions are correctly attributed to the end consumer of the renewable energy that is generated by the wind turbines. While the impact is not owned by the investor, by investing in Vestas, the WHEB strategy is clearly aligned with this positive end impact. This is why we report this impact as ‘associated’ with the investment strategy.

As managers of our clients’ money, our role is to ensure that these assets are invested in a way that enables and is aligned with these positive outcomes. We strongly believe that it is also our role to clearly demonstrate to our clients and their advisers that this is the case. Their money helps to finance the activities of investee companies. In turn, companies’ products are used in the real world where they create positive impacts. The Impact Calculator is a tool that is intended to connect investors with the positive role their money plays by illustrating how a given investment is associated with a range of positive real-world impacts.

* We provide a full explanation of how WHEB creates positive impact in our White Paper ‘Impact investing in listed equities - WHEB’s perspective’ available at https://impact.whebgroup.com/white-papers/.

Data quality and year-on-year changes

In line with best practice, we adjusted the calculation of our proportion of portfolio companies held in the strategy from the percentage of Enterprise Value to the percentage of Enterprise Value Including Cash (EVIC). As we now have several years of Impact Calculator results to compare, we can see that the metrics do not necessarily increase in line with companies’ EVIC, or the Assets under Management (AuM) growth of WHEB’s AuM strategy. Intuitively, if WHEB’s has grown, we might expect to see increases in the absolute impact that is attributable to WHEB’s investment. However, WHEB’s proportion owned of each portfolio company has not necessarily increased at this same rate. This could be due to a variety of factors (stock market growth, stock conviction rate changes etc). Additionally, the impact metrics we calculate do not increase in line with growth in the company’s EVIC. We will continue to consider whether there might be better ways of reporting and communicating impact and whether EVIC represents the best denominator in this calculation.

Another change implemented for the 2021 data was to prorate the portfolio companies’ weightings across the whole calendar year, as opposed to previous years where a ‘year-end snapshot’ of the portfolio was taken. This allows us to more accurately reflect the impact associated with investments throughout the year. For example, using the previous method, if a company was sold in June, then we would not have included any of the positive impact for that company. However, by prorating the overall exposure across the year, we include 50% of the company’s annual impact, which more accurately reflects the impact associated with the portfolio over the year.
Negative product impacts

The positive impact associated with the products and services of investee companies is a critical focus of our impact reporting. It is central to the investment case for each holding in the WHEB strategy and is the focus of our Impact Engine (see Section 3).

However, this is only a partial picture. Almost all products and services will also have some negative impacts that need to be acknowledged and actively mitigated. As part of our impact analysis, we capture information on the key negative impacts associated with products and services supplied by investee companies. In many cases, these impacts are not routinely acknowledged by the companies themselves. Where they are acknowledged, they are typically described qualitatively. It is rare for companies to have developed clear management plans and targets on negative impacts associated with products and services. The only exception is reporting of GHG emissions associated with product use. This data is increasingly frequently – though still not routinely – reported.

Product-in-use impacts

GHG emissions from products and services is captured in more detail in Section 4. However significant emitters in this category include companies such as JB Hunt which operates an extensive transport logistics network as part of its intermodal service. This generates significant carbon emissions. Indeed, JB Hunt is now the third largest contributor to the strategy’s scope 1 and 2 carbon footprint. Several of our other investments in the Sustainable Transport theme supply components for use in battery electric vehicles. These companies also typically have legacy businesses supplying internal combustion engine vehicles that have a significant carbon footprint.

Approximately 30% of the strategy is invested in companies that supply electrical equipment, including medical devices and automation equipment as well as heating, ventilation and air conditioning (HVAC) equipment. Our investment thesis for these companies hinges on their position as suppliers of efficient HVAC equipment. This superior efficiency helps reduce carbon emissions compared to other product suppliers. Nonetheless, there are very significant GHG emissions associated with the operation of this equipment.

In most of these cases, these product impacts are well recognised and already the subject of detailed mitigation strategies. For example, JB Hunt, Daikin and Trane all have detailed GHG reduction strategies that focus on these product-in-use impacts and are key areas for our engagement work with these companies.

Other areas that we have identified include the negative impacts on biodiversity associated with renewable energy infrastructure and the use of hazardous chemicals in products such as sterilisation technologies, water treatment services and fire retardant clothing for firefighters. Each of these areas has been the focus of our engagement with the companies in question.15

---

1. Investors in WHEB’s strategy are aligned with these impacts by investing in companies that form part of the crucial supply chains that manufacture these products and provide these services. WHEB’s investments contribute to the attainment of the impact, however, they are not solely responsible. The impact is therefore referred to as associated.

2. Based on a landfill tax of £96.7 per tonne of waste which is equivalent to the UK’s landfill tax in 2021.


4. Investors in WHEB’s strategy are aligned with these impacts by investing in companies that form part of the crucial supply chains that manufacture these products and provide these services. WHEB’s investments contribute to the attainment of the impact, however, they are not solely responsible. The impact is therefore referred to as associated.


6. Investors in WHEB’s strategy are aligned with these impacts by investing in companies that form part of the crucial supply chains that manufacture these products and provide these services. WHEB’s investments contribute to the attainment of the impact, however, they are not solely responsible. The impact is therefore referred to as associated.

End-of-life impacts

There are also a wide range of impacts associated with how products are treated at the end of their useful life. Many pharmaceutical products are excreted after they have been used and these can have negative impacts on natural ecosystems. This is an issue for some of the companies in our Health theme that are involved in the manufacture and testing of drug therapies.

More common are the issues associated with single-use plastics. These are widely used in healthcare consumables ranging from COVID diagnostic kits to the packaging used for laboratory consumables and equipment. Single-use plastic packaging is also a specific issue that we have engaged extensively on with HelloFresh. A minority of these companies are now working to limit their use of single-use plastic packaging. HelloFresh has made this issue a priority and is already substituting other materials, including recycled cardboard, for plastic. Fisher & Paykel has also developed a robot to help it, and its clients, disassemble used humidification chambers used in ventilators in hospitals.16 Vestas has highlighted the issue of unrecyclable wind turbine blades and aims to have a solution that is widely deployed by 2040. These innovations are still quite novel, with the majority of companies yet to take concerted action to reduce unrecyclable plastic and plastic waste.

Given our significant exposure to companies that are helping to electrify, and thereby decarbonise, significant parts of the economy, another major end-of-life issue is the generation of electronic and electrical waste. Some portfolio companies are well advanced in their efforts to address this issue. A particularly notable business in this regard is First Solar, which recovers 90% of the materials from recycled solar modules and recycled over 36k tonnes of solar modules in 2020.17

Systemic impacts

The final group of negative impacts are systemic and often indirect, but still meaningful. These are rarely, if ever, directly acknowledged by the companies and are, arguably, the responsibility of multiple stakeholders. These include the social impacts of many automation technologies. Several of WHEB’s portfolio companies sell equipment and systems that help to automate manufacturing and logistics processes. In so doing, they help to save resources. However, another important impact of changing the nature of work in these facilities is that some jobs are either made obsolete or require new types of skills.

Another set of impacts relates to efficiency technologies and has been termed the ‘rebound effect’. This effect occurs when energy efficiency is improved in one area or application. The ‘rebound effect’ occurs when this efficiency gain is not permanent but is instead used to expand energy use in another application or system meaning that overall energy use is not actually reduced. For example, a household that reduces greenhouse gas emissions and energy bills through better insulation and energy efficient household equipment, but then uses the savings to fund a foreign holiday which more than offsets the GHG emissions saved through energy efficiency.

‘The team at WHEB are one of the “originals” and have pioneered an investment philosophy focused on companies providing solutions to sustainability challenges.’

Mark Campanale, Founder & Executive Chairman, Carbon Tracker Initiative, founder of Planet Tracker & Industry Tracker, Member of Advisory Board, GFANZ
How our companies contribute to sustainability
Putting positive impact at the heart of our investments

Our understanding and approach to integrating ‘positive impact’ into WHEB’s investment strategy has evolved substantially over the past ten years. In 2019 we introduced our ‘Impact Engine’ as an analytical tool to enable the investment team to capture and compare the impact ‘intensity’ of different companies. This analysis is focused on what companies do – the products and services that they supply.

The Impact Engine assesses six different dimensions of impact for product and service categories (see Figure 8). It uses an ordinal scale to rate the intensity of positive impact across each dimension before aggregating the scores to give an overall intensity score for the company as a whole. The investment team uses the Impact Engine to compare potential investments for the strategy. More detail on the methodology is available on the WHEB website: impact.whebgroup.com

In addition, the investment process considers how companies manage their operations. This includes an assessment of how companies manage material environmental, social and governance (ESG) issues as part of their overall operational quality. This covers key elements such as a company’s market attractiveness, competitive position, value-chain management, management quality and their growth strategy.

Figure 9 shows our assessments for each portfolio company on both the impact engine score (x-axis) and the operational quality score (y-axis).

Figure 9: The impact map

Changes since last year

The impact map (see Figure 9) plots each of the companies held in the portfolio. Companies that were sold during 2021 are indicated with a red triangle; companies that were bought by a green square. An interactive version of the map provides much more detailed information and is available on the WHEB website: impact.whebgroup.com/impact-map/

Over time, our ambition is to graduate the portfolio into companies that have higher impact intensity and higher quality. The investment strategy is explicitly long-term in outlook. Consequently, a relatively small proportion of the portfolio (typically 15–20%) is bought and sold every year. As a result, changes in the impact intensity and quality of the portfolio also change relatively gradually.

In 2021 we saw a very small improvement in both the impact intensity and quality of the portfolio. Companies with relatively low impact scores that were sold included HELLA GmbH, a provider of efficient lighting systems for cars and trucks, which was acquired by another automotive component supplier, along with Littelfuse and Cerner. Selling these low impact companies would have had a positive effect on the impact intensity of the portfolio, but was somewhat offset by the sale of highly impactful businesses that included Kingspan, an insulation business that has been implicated in the Grenfell Tower fire disaster, TPI Composites which manufactures wind turbine blades, and the Chinese waste-to-energy operator China Everbright Environment Group.

New companies that were bought in the year included high-impact-scoring companies such as First Solar, which makes solar modules, and LHC Group, which provides home and hospice care in the USA. We also bought companies such as Power Integrations and SolarEdge both of which make efficient power conversion devices and attract more average impact scores.

In total the changes during the year meant that the average impact score of the portfolio ticked up just 20bps to 32%. The quality score also improved marginally (by 10bps) to 69.9%. Looking at just buys and sells during the year, the average impact intensity score was 2% higher for the companies we bought compared to the companies sold and the average quality score was 1% higher.
‘Over many years, WHEB has been a powerful advocate for action on hazardous chemicals and has helped to raise the profile of this critical issue among investors and corporates alike.’

Alexandra McPherson, Investor Environmental Health Network at Clean Production Action
**Theme focus: Water Management**

Fresh, clean water is essential to all life on earth. 74% of the world’s population has a source of safe drinking water and 54% uses a safe sanitation service. However, 47% of the world’s population live in areas that suffer water scarcity at least one month in each year. Furthermore, changing precipitation patterns due to climate change mean some areas can expect to experience greater water scarcity, while others will experience more intense precipitation and more frequent and intense flood events. Many of climate change’s ultimate impacts come through either the greater absence or greater abundance of water.

WHEB invests in businesses that provide equipment such as pumps, filters, chemicals, pipes and storage tanks that are used to treat and recycle freshwater. We also invest in companies that develop technologies and provide services that help downstream customers, including businesses, institutions and households to improve the efficiency with which water gets used.

**Case study: Advanced Drainage Systems**

Advanced Drainage Systems is a leading provider of stormwater management systems in the USA. It is the leading manufacturer of high-performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the underground construction and infrastructure marketplace. The company’s products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials.

**Link to UN SDGs**

ADS’s products directly support SDG6, which is focused on the sustainable management of water resources and ecosystems.

**Impact calculator metric (whole strategy)**

- 1,400 tCO₂e avoided
- 1,100 tonnes of waste recycled

**Current stewardship topics**

- Auditor independence
- Excessive executive remuneration
- Gender diversity
- Environmental impact of recycled plastic
- GHG emission reduction targets
- ESG incentives in executive remuneration

**Useful further links**

- COP26 more than expected less than hoped
- Extreme weather a wake up call on climate mitigation and adaptation

**Enterprise value:** £9bn  
**Region:** North America  
**Theme:** Water Management  
**Website:** adspipe.com
Theme focus: Well-being

Unhealthy lifestyles, typically characterised by smoking, poor diet and physical inactivity, contribute to a wide range of chronic diseases including heart disease, stroke, diabetes and chronic obstructive pulmonary disease. Together these chronic diseases are estimated to account for over 60% of all deaths annually. In addition, chronic conditions such as hearing loss are now recognised as creating wider health risks including poor balance and potentially contributing directly to conditions such as dementia and depression.

WHEB invests in businesses that support good exercise and diet through the provision of equipment or services. We also invest in companies that address chronic conditions like hearing, visual and oral health and that provide care to vulnerable groups such as the elderly.

Case study: Sonova Holding AG

Sonova develops and produces hearing care solutions, including hearing aids and cochlear implants. The company is headquartered in Switzerland and produced the first portable hearing aid in 1950. It operates globally through a number of brands and offers some of the most technologically advanced devices on the market.

Link to UN SDGs
Sonova’s hearing care solutions help support healthy lives and at all ages, a core feature of SDG3.

Impact calculator metric (whole strategy)
4,500 people with healthier lives through preventative care

Recent stewardship topics
- Board directors on too many boards (‘overboarding’)
- Director independence
- Gender diversity

Useful further links
Enterprise value: £19bn
Region: Europe
Theme: Well-being
Website: sonova.com

Impact intensity (19%)
Sonova’s products combat hearing loss, a condition with negative impacts on well-being and mental health. The company plays a key role in the value chain by fitting as well as supplying the devices. Cochlear implants are still more impactful as they are critical for children with profound hearing loss.

Operational quality (66%)
As the world ages, the market for hearing instruments has a good growth runway. The market has orderly competition from a limited number of players. Sonova has a high-quality management team with a track-record of astute innovations and strong operational practices including on ESG issues, products are made using recycled plastics, which is a low-cost material in plentiful supply.

Link to UN SDGs
Sonova’s hearing care solutions help support healthy lives and at all ages, a core feature of SDG3.

Impact calculator metric (whole strategy)
4,500 people with healthier lives through preventative care

Recent stewardship topics
- Board directors on too many boards (‘overboarding’)
- Director independence
- Gender diversity

Useful further links
Enterprise value: £19bn
Region: Europe
Theme: Well-being
Website: sonova.com
**Theme focus:**

**Education**

Education has profound benefits both to the individuals being educated and to the societies of which they are a part. On the basis of data that has been collected from over 130 countries, it has been found that every additional year of education generates financial benefits to the individual of around 10%. The social benefits however can dwarf this already-significant return. In the UK, every £1 invested in university education generates £7 for the individual but £25 for the state in the form of higher tax receipts, lower welfare spending and fewer crimes.

WHEB invests in a range of business providing education directly, typically through universities and training colleges. We also invest in companies providing services, technologies and publishing that support educational provision.

---

**Case study: Grand Canyon Education**

Grand Canyon Education provides a variety of education services to universities and colleges including Grand Canyon University and Orbis. This involves supporting operational functions such as enrolment, academic counselling, financial services, learning management, student information, compliance, marketing, classroom operations, curriculum development, and faculty recruitment and training.

**Impact intensity (7%)**

The Orbis division of the business is the more impactful and differentiated, providing healthcare education directly to universities. Grand Canyon Education focuses more on marketing, administration and enrolment services for Grand Canyon University.

**Operational quality (62%)**

Grand Canyon has a strong brand, which has allowed it to build an equally strong track record of offering degree programmes. The company is well-positioned to benefit from the increasing demand for skills at attractive prices, as well as from the sector-leading software tools it uses to improve efficiency in academic processes.

**Link to UN SDGs**

Grand Canyon’s business enables education providers to operate efficiently and effectively in delivering SDG 4 and its goal of quality education for all.

**Impact calculator metric (whole strategy)**

85,600 days of tertiary education

**Recent stewardship topics**

- Combined Chair/CEO
- Board accountability for sustainability
- Levels of tuition fees

---

**Useful further links**

If you think education is expensive, try ignorance
Portfolio ESG performance
ESG profile*

Alongside the impact delivered through the products and services supplied by companies in the WHEB strategy (covered in Section 3), we also report here on the environmental, social and governance (ESG) profile of portfolio companies. The ESG issues reported here relate primarily to issues associated with company operations.

We utilise our own research frameworks to analyse ESG performance and do not rely on any third-party ESG ratings provider. Over the past four years we have taken an ESG ‘snap-shot’ of the portfolio at the end of each year across 14 ESG factors. We use data supplied by Impact-Cubed for this purpose which is based on actual outcome data rather than on an assessment of company policies or declarations. The chart compares the strategy’s profile in dark blue across these measures against the strategy’s principle benchmark, the MSCI World, in light blue. Stronger performance is shown closer to the outside of the diagramme.

From 202t CO₂e/£1m of revenue in 2020 to 87t CO₂e/£1m of revenue in 2021.

We attribute the dramatic improvement in board director independence which is now at a level equivalent to the wider market for the first time. In previous years, directors on WHEB portfolio companies have been less independent than in the wider market.

Less positively though, executive remuneration as a proportion of average employee pay has increased year-on-year. We attribute this increase to outsized pay packages at two companies Centene and Thermo Fisher Scientific. In both cases, we voted against the remuneration proposals and have written to the companies to make clear our opposition to what we consider to be excessive levels of executive pay. Average executive remuneration is still much lower in the WHEB strategy than it is in the MSCI World.

* The data provided by Impact-Cubed and reported in section 4 is based on the strategy as at the end of December 2021.
Figure 10: ESG profile of WHEB’s investment strategy

Figure 11: Year-on-year changes in ESG performance

**WEIGHTED AVERAGE CARBON INTENSITY**
87 tonnes CO$_2$e/£1m of revenue  
\[ \downarrow 60\% \]

**WASTE EFFICIENCY**
8.7 tonnes/£1m of revenue  
\[ \downarrow 48\% \]

**WATER EFFICIENCY**
1.3 thousand m$^3$ of fresh water/£1m of revenue  
\[ \downarrow 49\% \]

**GENDER EQUALITY**
22.1% of boards and top management are women  
\[ \uparrow 98\% \]

**EXECUTIVE PAY**
58x ratio of executive – level pay to employee pay  
\[ \uparrow 62\% \]

**BOARD INDEPENDENCE**
74.8% independent board members  
\[ \uparrow 97\% \]

**ENVIRONMENTAL GOOD**
29.5% of portfolio in environmental solutions  
\[ \uparrow 100\% \]

**SOCIAL GOOD**
25.5% of portfolio allocated to help alleviate social issues  
\[ \downarrow 100\% \]

**AVOIDING ENVIRONMENTAL HARM**
0% of portfolio in environmentally destructive industries  
\[ \uparrow 100\% \]

**AVOIDING SOCIAL HARM**
0% of portfolio in industries that aggravate social issues  
\[ \uparrow 100\% \]

**ECONOMIC DEVELOPMENT**
$47.4k – Median income of portfolio-weighted geography of economic activity  
\[ \uparrow 100\% \]

**AVOIDING WATER SCARCITY**
2.5 – Geographic water use  
\[ \uparrow 100\% \]

**EMPLOYMENT**
5.8% – Unemployment in portfolio-weighted area of economic activity  
\[ \uparrow 100\% \]

**TAX GAP**
3% – Estimated % of tax avoided by corporate tax mitigation schemes  
\[ \uparrow 100\% \]

**Key**
- MSCI World
- WHEB Strategy

---

50 WHEB

IMPACT REPORT 2021 51
Climate change and carbon emissions

WHEB publicly supports the Paris Agreement and is a strong advocate for more aggressive action to reduce GHG emissions so as not to exceed 1.5°C of warming since the pre-industrial era. We were a founder signatory of the Net Zero Asset Managers initiative and have set clear policies governing the GHG emissions associated with our investment strategy as well as for emissions associated with our own operations. We provide a summary report here on the governance, strategy, risk management, and metrics and targets that we use in our efforts to manage the risks and opportunities to our business from climate change. For full TCFD reporting please see our Public Climate Report to the UN-PRI on www.whebgroup.com/investment-strategy/ fund-governance/unpri-transparency-report/.

Governance

The principal objective of WHEB’s single investment strategy is to invest in companies that are enabling and benefiting from the transition to a zero carbon and more sustainable economy. Three of the four members of the Senior Management Team (SMT) are actively involved in a day-to-day capacity in assessing and understanding climate-related risks and opportunities. From its inception, WHEB’s investment strategy was designed to avoid the transition risks associated with climate change.

As the entire business is focused on sustainable and impact investing, the whole team, and especially the three partners on the SMT and the investment team, are responsible for implementing the strategy’s objective and considering ESG issues in which climate is a significant factor. Seb Beloe, Head of Research and Partner, oversees ESG analysis, engagement, and voting, all of which have a strong focus on climate-related risks and opportunities.

Reporting of performance against our carbon-reduction targets is overseen by Seb Beloe. We have reported scope 1 and 2 emissions since 2016 and scope 3 emissions since 2019.
### Climate change targets

#### Using 2019 as a baseline, by 2025 we will have:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01</strong></td>
<td>Achieved carbon reductions from portfolio companies that are consistent with our 2030 and 2050 targets (equivalent to a mid-single digit annual decline in emissions).&lt;sup&gt;30&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>02</strong></td>
<td>50% of investee companies&lt;sup&gt;31&lt;/sup&gt; committed to achieving net-zero carbon (NZC) emissions by 2050 and will be able to demonstrate alignment through their ambition, targets, emission performance, disclosure, strategy and capital allocation.&lt;sup&gt;32&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>03</strong></td>
<td>&gt;30% of the portfolio invested in companies offering climate solutions.</td>
</tr>
<tr>
<td><strong>04</strong></td>
<td>Engaged with portfolio companies to achieve the above. Where engagement is not successful, we reserve the right to divest from these holdings.</td>
</tr>
</tbody>
</table>

#### By 2030 we will have:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01</strong></td>
<td>Achieved an absolute carbon reduction from portfolio companies that is consistent with the 50% global reduction in carbon emissions considered necessary to achieve global NZC emissions by 2050.</td>
</tr>
<tr>
<td><strong>02</strong></td>
<td>100% of investee companies committed to achieving NZC emissions by 2050 and be able to demonstrate alignment through their ambition, targets, emission performance, disclosure, strategy and capital allocation.</td>
</tr>
<tr>
<td><strong>03</strong></td>
<td>&gt;30% of the portfolio invested in companies offering climate solutions.</td>
</tr>
<tr>
<td><strong>04</strong></td>
<td>Engaged with portfolio companies in order to achieve the above. Where engagement is not successful, we reserve the right to divest from these holdings.</td>
</tr>
</tbody>
</table>

#### By 2050 we will have:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01</strong></td>
<td>Reduced portfolio carbon emissions to NZC.</td>
</tr>
</tbody>
</table>
Risk management

The WHEB strategy is entirely absent from heavy emitting sectors including from coal, oil and gas, fossil-fuel power generation, cement and steel manufacturing. Our thematic structure means that we are heavily invested in industrial businesses, as well as in information technology and healthcare.

The strategy does have some exposure to activities that use large amounts of energy including industrial gas production, cardboard recycling and some speciality chemical production. These companies are responsible for the vast majority of the portfolio’s scope 1 and 2 emissions. The top five emitters represent 72% of the portfolio’s scope 1 and 2 emissions. All have set net-zero carbon targets by 2050 at the latest, and either have already had their targets validated by third parties or have committed to having them validated.

We continue to prioritise these businesses in our engagement. We also engage with other portfolio companies to encourage them to set net-zero carbon targets. On principle, we vote against the Chair at companies that have yet to set net-zero carbon targets (for more see Section 5).

We also consider transition risks associated with scope 3 emissions and have extensive engagement processes in place with companies with outsized exposure to scope 3 emissions. We have also begun to assess levels of physical climate risk. To date this has been focused on companies where we are aware of specific exposure highlighted by the companies themselves or through third-party analysis. We plan to extend these assessments across the rest of the portfolio in 2022.

Metrics and targets

Figure 13: Portfolio carbon emissions 2019-2021

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1+2 carbon total emissions (t CO2e)</td>
<td>150,146</td>
<td>169,032</td>
<td>38,038</td>
<td>The sale of China Everbright Environment Group dramatically reduced scope 1 and 2 emissions, offsetting the increased assets invested in the strategy.</td>
</tr>
<tr>
<td>Carbon footprint (t CO2e/£1m invested)</td>
<td>341</td>
<td>161</td>
<td>24</td>
<td>Approximately half of this reduction is due to the sale of our position in China Everbright Environment Group with the remainder coming from reduced emissions from portfolio companies.</td>
</tr>
<tr>
<td>Carbon intensity (t CO2e/£1m sales)</td>
<td>306</td>
<td>380</td>
<td>45</td>
<td>In addition to the sale of China Everbright Environment Group and reductions in emissions from remaining portfolio companies, our carbon intensity was also positively impacted by higher sales figures in 2021 compared with 2020.</td>
</tr>
<tr>
<td>Weighted average carbon intensity (t CO2e/£1m sales)</td>
<td>220</td>
<td>202</td>
<td>52</td>
<td>China Everbright Environment Group represented nearly two-thirds of the total in 2021 and so the sale of the company explains the vast majority of the reduction in 2021.</td>
</tr>
<tr>
<td>Scope 3 carbon emissions (t CO2e/£1m sales)</td>
<td>950</td>
<td>983</td>
<td>991</td>
<td>A slight increase year on year is due to more companies reporting data which has helped to improve accuracy.</td>
</tr>
<tr>
<td>NZC commitments</td>
<td>2%</td>
<td>24%</td>
<td>44%</td>
<td>26% of companies have set 2050 as the latest as a target date, 9% have set 2030 and 9% have already achieved carbon neutrality and have set either 2030 or 2050 as their target date for achieving net zero carbon emissions.</td>
</tr>
<tr>
<td>Proportion of portfolio invested in climate solutions</td>
<td>42%</td>
<td>40%</td>
<td>41%</td>
<td>Includes companies in WHEB’s Cleaner Energy, Resource Efficiency and Sustainable Transport themes.</td>
</tr>
</tbody>
</table>
Engagement and voting
Engagement with portfolio companies and wider stakeholders is a core element in the positive impact that WHEB creates. In 2021, we engaged on 156 occasions with 41 companies representing 79% of the companies held in the strategy. Approximately 50% of these engagements were ‘deep’ engagements involving more than three interactions with company executives on the issue in question.

Figure 14 illustrates the geographic exposure of the strategy (inner ring) and the corresponding engagement in that region (outer ring). There was a minor skew of activity towards Europe in 2021 which accounted for 24% of company engagement activity compared with 20% of geographical exposure. Conversely, there was slightly less engagement (11%) in Asia Pacific compared with the exposure in this region (13%). Activity largely matched exposure in both the UK and North America.

Figure 15: Company engagement by topic (2021)

Corporate governance issues covering topics such as director and auditor independence and CEO remuneration continue to be the single largest area of engagement in 2021 representing 36% of all engagement (see Figure 15). Environmental issues accounted for 30% with a particular focus on net-zero carbon commitments and strategies but also covering wider issues such as biodiversity, single-use plastics, packaging and raw material sourcing.

ESG disclosure and governance was less of a focus in 2021 compared with previous years, accounting for 21% of engagements. Most companies are now disclosing some ESG data although we continue to engage on the quality of this data and on newer issues such as disclosure against the EU Taxonomy.

Social issues, including gender diversity, the response to the COVID-19 pandemic and specific issues for individual companies covering drug pricing, conflict minerals and employee welfare, accounted for the remainder of our engagement in 2021.
Engagement effectiveness

As in previous years, we rate the outcome of each engagement as either ‘successful’, ‘partially successful’ or ‘unsuccessful’. In 2021, slightly more than 10% of WHEB’s engagements were successful, 56% were partially successful, 23% were unsuccessful and 11% were still ongoing at the end of the year.

Collaborative engagement

In 2021, we continued to engage proactively across much of our portfolio, including setting specific and measurable targets in areas such as carbon emissions and gender diversity. In addition to our bilateral engagement, we also collaborate with other investors in ad hoc coalitions as well as through broader coalitions of investors (eg CA 100+). In 2021 we undertook 31 collaborative engagements. The majority of these involved working through existing industry initiatives – for example, with groups such as CA100+ or UKSIF. We will typically lead engagements with companies that we are invested in and, on occasion, support other engagements with companies that are investable for us, but not currently held in the WHEB Portfolio.

As part of our mission, we also believe that it is important that WHEB plays a role in helping to shape the market for sustainable and impact investing. WHEB participates in a wide range of industry initiatives and networks aimed at helping to shape the wider industry. This ranges from mainstream groups like the UN-PRI and the Institutional Investors Group on Climate Change (IIGCC), to specific initiatives aimed at specific issues. For example, in 2021, WHEB devoted considerable resource to working with the Global Impact Investing Network (GIIN) to help shape industry guidance for impact investing in listed equities. A full list of the industry networks in which we participate is available on our website:

@ whebgroup.com/about-us/industry-networks/

‘WHEB has been a long-term shareholder in Smurfit Kappa. This support together with their sustainable investment insights and ongoing engagement has been invaluable in Smurfit Kappa’s sustainability journey.’

Garrett Quinn, Chief Sustainability Officer, Smurfit Kappa Group plc.
Voting activity

As active investors with an investment time horizon of greater than 5 years, we have an opportunity and responsibility to vote at company meetings and use our influence to push for more progressive and accountable governance. Our voting policies are founded on the principles of accountability, stewardship, independence and transparency and are based on the demanding standards set out in the Association of Member Nominated Trustees (AMNT) red-lines.

Our full voting policies and principles are available in WHEB’s annual Stewardship Code Report: whebgroup.com/investment-strategy/fund-governance/

In 2021, WHEB cast votes on 100% of the ballots at 100% of the company meetings at which we were entitled to vote in that year. Key figures are summarised in Figure 17.
In 2021, of the 140 votes where we voted against management, 84% were on corporate governance issues, primarily on director independence. 7% were votes against management linked to environmental issues, mostly carbon reduction targets. Social issues accounted for 9% of votes against, all of which were focused on improving board-level gender diversity (see Figure 18 below).

Last year we reported that we find that most resolutions on which we are eligible to vote are focused on governance issues, rather than environmental or social issues. We believe that this is largely because WHEB’s focus is on companies that provide solutions to sustainability challenges and consequently are not typically targets for shareholder resolutions focused on social and environmental issues. As a result, much of our voting activity is focused on governance issues. This continues to be the case in 2021.

**Figure 18: Votes against management by topic (2021)**

- **Environment**: 7%
- **Social**: 9%
- **Governance**: 84%

---

**Client engagement**

In 2021 we undertook a formal client survey. This confirmed that WHEB’s clients have a long-term orientation, with 97% of WHEB’s clients expecting to hold most of their investments for four years or more. Clients generally have high levels of satisfaction with WHEB’s positive impact strategy and communications.

**Figure 19: Client survey finds that clients have high levels of satisfaction with WHEB’s investment strategy and communication.**

- **EXTREMELY SATISFIED**: 69%
- **SOMewhat SATISFIED**: 53%
- **NEITHER SATISFIED NOR DISSATISFIED**: 34%
- **SOMewhat DISSATISFIED**: 20%
- **EXTREMELY DISSATISFIED**: 2%

The majority of WHEB investors have more than 50% of their investments invested in strategies with a clear sustainability objective. Over 90% of WHEB investors say that they understand WHEB’s mission and purpose at least moderately well.

Following the client survey, we plan to revise and relaunch WHEB’s website and expand the amount of information available on each holding in the strategy. At the end of 2021 we also introduced a lower management fee for retail investors and reduced the minimum investment amount from £3,000 to just £1 to make the strategy more accessible to retail investors with only small amounts of money to invest. 36
Sustainability at WHEB
We believe that private enterprise can be a powerful force for positive change in the world. At WHEB we seek to have a positive impact, through both our investment activity, and our own operations.

During 2021 WHEB was recertified as a B Corporation. We were one of the initial UK cohort of B Corporations in 2016, and during this, our third certification, our score increased from 125 to 139 (70%), which is well above the median score of 51 (26%).
Net-zero carbon emissions

As part of the pledge that we made in declaring a climate emergency, WHEB has committed to achieving a net-zero carbon target by 2025 at the latest. We have committed to having this target validated by the Science Based Targets initiative (SBTi) and will also be submitting data to the CDP consistent with our commitments under the Net Zero Asset Managers initiative.

In 2021 we undertook detailed baseline work to estimate the GHG emissions associated with our operations. This has included engagement with key suppliers to calculate the GHG emissions associated with the products and services that we purchase, office-based impacts including waste and electricity use, emissions associated with working remotely, and employee commuting and business travel. In total we estimate that there were just over 36 tCO₂e emitted in the course of these activities during 2021. We have fully offset these emissions. We would expect these numbers to change dramatically in 2022 as employees return to working from the office more regularly and as business travel increases once more.

Figure 20: WHEB had an estimated 36 tCO₂e emissions associated with our operations in 2021

Working at WHEB

In 2021 we revised and updated our Diversity and Inclusion policy. This sets out our objective to ensure that all colleagues and job applicants are given equal opportunities and that our firm represents a diversity of perspectives, cultures and experiences. We want every employee to feel respected and valued. We aim to create a working environment and style that supports families and, working parents, and offers an attractive work–life balance. A fuller list of policies and benefits covering parental leave, work–life balance, diversity and inclusion, and reward are detailed on our website.

In 2021 we introduced an electric vehicle leasing scheme for team members, and in 2022 we hope to launch an equity plan that will share ownership of the business with all members of the WHEB team.

During 2021, WHEB expanded further with four additional recruits across the business, taking the organisation to 17 in total (including both full- and part-time roles). The addition of the new recruits now means that nearly two-thirds (65%) of WHEB partners and employees are women (see Figure 21). We also undertook our first employee engagement survey during the year which found that the team is energised by the company’s mission and ambition, but that ‘reality can get in the way of a healthy work–life balance and that internal communication could be improved, particularly with more remote working’.

Figure 21: Gender balance over time 2012-2022
WHEB’s mission is ‘to advance sustainability and create prosperity through positive impact investing’. Sustainability hits at the heart of our investment activities. It also sits at the heart of our business.

As a B Corporation, we run our business for the benefit of all of our stakeholders, not just our shareholders.

[bcorporation.net/directory/wheb-asset-management-llp](http://bcorporation.net/directory/wheb-asset-management-llp)

WHEB is a founding partner of the ‘Business Declares’ network recognising the urgency of the climate emergency.

[businessdeclaims.com](http://businessdeclaims.com)

WHEB is a founding member of City Hive, a network aimed at challenging and changing the culture of the City to become more diverse, equal and inclusive.

[cityhive.co.uk](http://cityhive.co.uk)

We are an equal opportunities employer and are accredited as a living wage employer.

[livingwage.org.uk](http://livingwage.org.uk)

Impact investing should be for everyone. WHEB is a founding member of the Big Exchange which is devoted to achieving this objective.

[bigexchange.com](http://bigexchange.com)
Independent review
Statement from WHEB’s Investment Advisory Committee

- The principal role of WHEB’s independent Investment Advisory Committee is to review the composition and integrity of WHEB’s investment portfolios. This assessment considers whether the sustainable investment philosophy is applied consistently in terms of theme definition and stock selection.
- The committee is composed of four independent members with expertise in sustainability and in investment and is chaired by WHEB’s non-executive chair.
- The committee met three times in 2020 and summary minutes of these meetings are published on the WHEB Group website at https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/
- During 2021 the committee reviewed three new companies that had been purchased for WHEB’s investment strategy and concluded that all were consistent with the strategy’s policies and philosophy.
- The committee also discussed a range of wider topics. In March the committee reviewed the process and decision-making behind WHEB’s decision to sell Kingspan following the Grenfell Tower Inquiry findings. In July, the committee reviewed the process used by the Carbon Trust to assess WHEB’s impact data and also approved companies developing ‘orphan’ drugs as investable for the strategy. The last meeting of the year considered WHEB’s strategy and its impacts on biodiversity.
- Based on this work, the committee believes that WHEB’s portfolios are consistent with the stated sustainable investment objectives of the strategy.
- The committee also reviewed the Impact Report covering calendar year 2021 and felt that the report covers the key issues and is transparent and honest about the challenges facing the strategy.
- The addition of ‘problem statements’ and an underlying theory of change was seen as a particularly helpful foundation for stock selection and in providing a clear focus on impact.
- The committee felt the report did not fully explore the relationship between the strategy and the UN Sustainable Development Goals and felt this could be a focus in future. While commending the detailed reporting on engagement, the committee also felt that further work could be done to elucidate progress on key engagement initiatives and welcomes WHEB’s ambition to deliver this in future.
- Overall, the committee felt that the report demonstrates WHEB’s continued leadership in listed equity impact investing.

Statement from the Carbon Trust

Seb Beloe
Partner, Head of Research
WHEB Asset Management
7 Cavendish Square
London
W1G 0PS
United Kingdom

26th May 2022

Dear Seb,

The Carbon Trust has conducted a peer review of the data underlying WHEB’s impact calculations for their 2021 portfolio. The purpose of the peer review was to provide WHEB with the Carbon Trust’s opinion on whether the data that underpins the impact calculations is fit for purpose.

To reach its opinion, the Carbon Trust reviewed all the data points underlying each indicator against a data quality framework which included an assessment of completeness, consistency, reproducibility, data sources, age/time of data, and geographical match.

Limitations

As per WHEB’s methodology, when available, WHEB uses data sourced directly from companies who report on the impact of their products and services. In most cases, the method used to calculate impact is disclosed by the companies and has been reviewed by the Carbon Trust or is audited by a third party. In a small number of cases, the method is not disclosed, nor is it audited, and WHEB has reached out to the companies in question to gain a better understanding of the method to ensure it is aligned with best practice. These instances represent less than 10% of the portfolio companies.

The use of unaudited data and/or data where the method has not been disclosed introduces an element of risk that the methods and data used do not align with best practice. It is our opinion, however, that the overall risk presented by the use of such data in these circumstances is low. The use of unaudited data is minimal and is not expected to make a material difference to the overall impact calculations.

Users of the impact calculations should be aware of the potential limitations, uncertainties and/or risks posed by the above when making decisions based on the impact calculations.

Opinion Summary

Based on the Carbon Trust’s examination of the data points underlying WHEB’s impact calculations, we believe that WHEB’s approach to data sourcing is fit for purpose and provides a reasonable basis for impact calculations. Overall, the Carbon Trust believes that the data used is of reasonable quality.

For and on behalf of the Carbon Trust,

Gina V Hall
Investment Director and Global Head of Sustainable Finance

These three companies were First Solar, HelloFresh and LHC Group.
Future outlook
At the end of each calendar year, WHEB reports to our clients on the year just passed and the outlook for the year ahead. At the end of 2021, we provided what felt like a particularly bleak prognosis for 2022. We highlighted the belligerent posturing of Russia towards Ukraine, the return of inflation, continuing fall-out from the COVID-19 pandemic and the greater incidence of extreme weather disrupting supply chains and destroying communities. Writing now in April 2022, events have shown that we were, if anything, not gloomy enough.

WHEB’s investment strategy is predicated on a transition towards a zero carbon and more sustainable economy. 2021, on the whole, was not sympathetic to this thesis. So far, 2022 has proven even harsher.

For us, like for many of our clients and partners, these developments, along with the extreme urgency that tackling climate change demands, can feel deeply dispiriting. As the title of this report makes clear, ‘the time is now’ to take action on critical social and environmental challenges. But it has been our experience over the decades that we’ve spent analysing capital markets, that the headlines often miss underlying tectonic shifts in industrial change. Already by the end of the last decade, the majority of global energy demand growth was being met by solar and wind. Growth in other forms of low-carbon power such as nuclear and biomass meant that there has been little room for incremental demand growth for fossil fuels. The war in Ukraine has accelerated these shifts. Solar and wind were already the cheapest form of new power in 85% of the world. With gas prices where they are in 2022, green hydrogen is already cheaper today in some key markets.

Even at the inflated prices caused by supply chain dislocations, demand for battery electric vehicles continues to accelerate. Through 2021 electric vehicles routinely made up a fifth and sometimes even a quarter of all new vehicle sales in Europe’s largest car markets. Volkswagen announced in early May 2022 that the company has totally sold out of electric vehicles in Europe and the USA and has a backlog of 300,000 orders in Western Europe alone.

The surge in fossil fuel prices and acute security concerns, particularly in Europe, are forcing politicians to take drastic action to ensure these trends are further embedded in their economies. The European Commission’s RePower EU plan, for example, will increase the deployment of solar panels and wind turbines to 900 GW, install 50 million electric heat pumps, quadruple hydrogen supply, and rapidly electrify industry.

In many markets, fossil fuel use has already peaked. In the USA, total demand for fossil fuels peaked in 2007. Combustion car sales in the USA are likely to have peaked in 2018. Over 99% of developed markets and two-thirds of emerging markets, albeit excluding China, have already reached peak fossil fuel demand for electricity. Global demand for oil is expected to peak by 2025 – or perhaps even earlier.

Industrial change on this scale is never going to be easy or linear. The environmental case for the zero carbon economy has been evident for many years. The economic and security arguments are now equally compelling. Dramatic change is underway. It is accelerating and is irreversible. There is plenty of scope for optimism.

Future outlook
1. For example the Global Impact Investing Network (GII) considers the Theory of Change to be one of four key aspects that differentiates impact investing in listed equities from other types of ESG investments (https://thegiin.org/assets/impact%20investment%20guide%20v2020.pdf).

2. The Impact Management Project descries a Theory of Change (TOC) as a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context (https://impactmanagementproject.org/glossary/).

3. Unhelpfully, definitions of ‘impact’ and ‘outcomes’ are not consistent within the industry. Some frameworks switch the order in figure 1 with outcomes leading to final impacts.

4. By unsustainable we mean that current forms of economic development fail to fully meet current needs and in addition significantly compromise the ability of future generations to meet their own needs.

5. Investment returns are shown for each of the last eight calendar years. All figures are shown in GBP Sterling. ‘WHEB’ is based on the Primary Share Class of the FF WHEB Sustainability Fund.

6. Each problem statement is not intended to be comprehensive for each related theme. For example in Cleaner Energy, while wind and solar are the main forms of zero carbon power generation, other technologies are also likely to be used (for example geothermal, wave and tidal technologies).

7. https://aax.blob.core.windows.net/assets/4a41d0c1-c3f3-4dfb-acac-7894a41a23c3/WorldEnergyOutlook2021.pdf

8. https://aax.blob.core.windows.net/assets/4a41d0c1-c3f3-4dfb-acac-7894a41a23c3/WorldEnergyOutlook2021.pdf


13. http://eprints.gla.ac.uk/15446/1/


15. For example, for more on our work on biodiversity see https://www.whebgroup.com/wheb-insights/whebs-approach-to-biodiversity/.


18. For more information on King’span’s involvement and our decision to sell the company, please see https://www.whebgroup.com/Kingspan-and-the-green-hell-tower-fisa/.


22. The nature to education are also 2% higher for girls than boys. Sea George Placharcoupis and Harry Patrinos, ‘Returns to investment in education: A decennial review of the global literature,’ Policy Research Working Paper 8402, World Bank, 2018


24. We have been critical of the use of ESG ratings. For example see https://www.whebgroup.com/wheb-insights/whebs-approach-to-biodiversity/.

25. MSA Safety was classified as contributing to social harm in the 2018 data set, but this was subsequently revised in following years. MSA Safety provide safety equipment for fire fighters and industrial directors being female.

26. The ‘UK share class was launched in August 2021 with a management fee of 1.13% per annum. The digital investor portal is available to retail investors at myaccount.whebgroup.com.


28. We use Climate Impact Partners to offset our carbon emissions (https://www.climateimpact.com/).


31. WHEB’s commitment covers 100% of our strategy. It is worth stating clearly that less than 10% of the strategy is invested in companies that are in ‘high impact’ sectors (eg subject to analysis by either the Transition Pathway Initiative or the CA100+). And a further 10% are in sectors that are not subject to any of these criteria (sectors in NACE codes M-U).


33. These targets include 50% of portfolio companies having set a NZC target by 2025 and at least 33% of companies’ board directors being female.

34. A fuller account of our approach to engagement and voting is set out in our annual Stewardship Code Report which is available from WHEB’s website at https://www.whebgroup.com/investment-strategy/governance/.

35. These include targets for: 50% of portfolio companies having set a NZC target by 2025 and at least 33% of companies’ board directors being female.

36. The ‘UK share class was launched in August 2021 with a management fee of 1.13% per annum. The digital investor portal is available to retail investors at myaccount.whebgroup.com.


38. We use Climate Impact Partners to offset our carbon emissions (https://www.climateimpact.com/).


The Fund is registered for distribution to professional investors in the United Kingdom. It is not available to investors domiciled in the United States.

WHEB Asset Management LLP has exercised all reasonable care in preparing this report from sources that it considers reliable, but does not make any representation or warranty to its accuracy, reliability or completeness of the report or as to whether any future event may occur. To the fullest extent permitted by applicable Laws, WHEB Asset Management LLP and its directors, officers, employees, associates and agents accept no responsibility for and shall have no liability for, any loss or damage caused to any person reading or accessing, or directly or indirectly making use of, the report however arising, including without limitation direct, indirect, special and consequential losses, and loss of profit.

The MSCI information may be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information, MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

WHEB Asset Management LLP is registered in England and Wales with number OC343489 and has its registered office at 7 Cavendish Square, London W1G 0PE.

The information in this document relating to the sustainability of portfolios according to Impact Cubed IC (the “Information”, “Impact-Cubed”) has been obtained from, or is based on, sources believed by Impact Cubed to be reliable, but it is not guaranteed as to its accuracy or completeness. No representation, warranty, or undertaking, express or limited, is given as to the accuracy or completeness of the information or opinions contained in this document by Impact Cubed, any of its partners or employees, or any third party involved in the making or compiling of the Information, and no liability is accepted by such persons for the accuracy or completeness of any information or opinions. None of the Information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. The Information is strictly confidential and is the property of Impact Cubed. Any use of the Information requires a license from Impact Cubed. The Information may not be reproduced, further distributed or published in whole or in part by any recipient without prior written permission from Impact Cubed. The Information may not be used to create derivative works or to verify or correct other information.