Net Zero Carbon (NZC) report

Investing in solutions to climate change

What is it?
NZC means cutting all GHG emissions to as close to zero as possible, with any remaining emissions reabsorbed from the atmosphere, by oceans and forests for instance.\(^1\)

Why does it matter?
In order to avoid the worst impacts of climate change and maintain a livable planet, global temperature increase needs to be limited to 1.5°C above pre-industrial levels. The earth’s atmosphere is already about 1.1°C warmer than it was in the late 1800s, and emissions continue to rise.

Sustainable Transport
– Bus, rail & bicycles
– EV
– EV infrastructure

Resource Efficiency
– Energy-efficient products
– Efficient buildings
– Efficient manufacturing
– Environmental consulting & monitoring
– Sustainable materials
– Pollution control
– Circular economy

Environmental Services
– Efficient water use
– Wastewater treatment
– Water provision

Cleaner Energy
– Solar power
– Wind power
– Cleaner energy infrastructure

Water Management
– EV infrastructure
– EV
– Bus, rail & bicycles
– Efficient manufacturing
– Environmental consulting & monitoring
– Sustainable materials
– Pollution control
– Circular economy

Figure 1: WHEB’s investment themes that are focused on reducing GHG emissions

How does WHEB’s strategy contribute to NZC?
Five of WHEB’s investment themes are focused on companies that sell products or services that enable other parts of the economy to reduce GHG emissions and/ or adapt to inevitable climate change. This includes companies that manufacture renewable energy equipment, components for battery electric vehicles, heat pumps and other technologies that improve energy efficiency and reduce resource use.

Figure 2: Portfolio carbon emissions 2020-2022

Portfolio greenhouse gas (GHG) metrics
Approximately 60% of WHEB’s investments provide solutions to climate change. At the same time, all the investments in the strategy generate GHG emissions in their day-to-day operations. We work with the management of our investee companies to encourage them to set demanding NZC targets and then to assess these targets and monitor the absolute CO₂ reductions across the portfolio on an annual basis.

Many of WHEB’s portfolio companies have announced commitments to achieving NZC emissions. Over 90% of portfolio companies with targets have already had these approved – or are committed to having them approved – by the Science Based Targets initiative (SBTi). We plan to further scrutinize the credibility of these targets in 2023.

Furthermore, the thematic structure of our strategy means that since the inception of the current investment strategy in 2012 we have been entirely absent from parts of the economy such as fossil fuel exploration and production that are most at risk from a transition to a NZC economy.

The data over the past three years across Scopes 1-3 for the FP WHEB Sustainability Fund is reported in Figure 2 below.

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1. Net zero carbon is different to carbon neutral for example because carbon neutral can cover a defined part of business operations and typically accounts only for CO₂ emissions, but not other greenhouse gases. Net zero on the other hand means that a company reduces all greenhouse gas emissions across its whole supply chain.
2. Further detail on these figures is available in section 3. 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”.
3. Scope 1 emissions cover emissions from sources that an organisation owns or controls directly.
4. Scope 2 emissions includes emissions that a company causes indirectly (i.e. buying electricity).
5. Scope 3 emissions are emissions that are not produced by the company itself and not the result of assets owned or controlled by them.
6. Scope 3 emissions include all sources not within scope 1 and 2 including emissions from all products still in use.
Figure 3: Top five emitting companies within WHEB’s strategy (financed emissions)

<table>
<thead>
<tr>
<th>TOP 5 EMITTERS</th>
<th>% OF SCOPE 1+2 FINANCED EMISSIONS</th>
<th>NZC TARGET DATE</th>
<th>SBTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linde</td>
<td>28.10%</td>
<td>Net zero by 2050</td>
<td>Yes</td>
</tr>
<tr>
<td>Smurfit Kappa</td>
<td>27.39%</td>
<td>Net zero by 2050</td>
<td>Yes</td>
</tr>
<tr>
<td>J.B. Hunt Transport Services</td>
<td>9.23%</td>
<td>No target set</td>
<td>N/A</td>
</tr>
<tr>
<td>First Solar</td>
<td>4.36%</td>
<td>Net zero by 2050</td>
<td>Yes</td>
</tr>
<tr>
<td>Advanced Drainage Systems</td>
<td>3.84%</td>
<td>N/A</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Portfolio Scope 1 and 2 emission targets and reductions

The Scope 1 and 2 emissions associated with WHEB’s investments (known as financed emissions) can change in two ways. First, investing in and divesting from companies will change the total tonnes of CO2e associated with the strategy. For example, in 2021 we sold China Everbright Environment Group, which dramatically reduced our financed emissions. The second way is through actual real-world changes in annual emissions from portfolio companies. Our reporting is intended to reveal both of these dynamics, as shown in Figure 5.

In 2022 financed emissions remains well ahead of target. Actual emissions, however, ticked up 4.7% year-on-year.

Figure 4 also shows the extent to which portfolio companies have set and published NZC targets and/or absolute emission reduction targets. In 2022, three years earlier than originally expected, we achieved our original target of having more than 50% of portfolio companies committed to NZC by 2050. Consequently, we have set a new target to have 85% of portfolio emissions covered by a NZC target by 2025 and 100% by 2028.

Memberships and affiliations

WHEB works with several investor coalitions to collaboratively engage companies, policymakers and standard setters to accelerate progress on decarbonisation. For example, WHEB was a founder member of the Net Zero Asset Managers initiative and has been a long-term supporter of the Institutional Investors Group on Climate Change.

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The reduction seen in 2021 is due to the sale of China Everbright Environment Group which contributed 75% of the portfolio’s total emissions.


It is important to note that this does not mean that all companies across the portfolio will necessarily have achieved the target reduction in carbon emissions. It is, however, a commitment that, taking into account sectoral and geographical biases inherent in our investment strategies, emission reductions across the portfolio will be consistent with the global reduction target.