



# Investment Advisory Committee

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



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## Attendees

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Seb Beloe (Head of Research)	Carole Ferguson (Member)
Claire Jervis (Associate Fund Manager)	Martin Rich (Member)
George Latham (Managing Partner)	Abigail Rotheroe (Member)
Victoria MacLean (Associate Fund Manager)	
Rachael Monteiro (Stewardship Analyst)	
Kavitha Ravikumar (Senior Impact Analyst)	
Susie Winstanley (Marketing Manager)	

### Apologies:

Alice Chapple (Member)  
Ted Franks (Fund Manager)  
Jayne Sutcliffe (Chair)

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## 1. Business update

The market environment remains challenging for impact investment strategies (see below) and consequently fund flows have remained very muted. George Latham (GL) explained that while WHEB's strategies have continued to see outflows, these have slowed compared with previous months. While the market remains challenged, clients are tending to reallocate away from equities and to other lower risk asset classes.

At the same time, there has been an uptick in client interest and requests for proposals (RfPs) specifically looking for genuine impact strategies as distinct from wider ESG strategies. WHEB has also continued to win awards including from Environmental Finance. In July we also won three Wealth for Good awards including Best ESG Communication Strategy, Best Impact Fund Methodology and Best Sustainability and ESG Thought Leadership.

Other developments in the business include completing a second round of the Deferred Equity Programme (DEP) for B (employee) Members of the Partnership. The wider team now own approximately 3% of the business. GL also confirmed that Libby Stanley has decided not to return from maternity leave and consequently Susie Winstanley's position as Marketing Manager has been made permanent. We are also in the early stages of recruiting two junior investment analysts for the Impact investment team

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## 2. Fund update

Victoria Maclean (VM) gave an update on the market and the performance of WHEB's investment strategies. In recent months the performance of the MSCI World Index has been driven entirely by the global tech stocks known as 'the magnificent seven' (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla). While WHEB's strategy has

generated positive absolute returns year to date, we do not own any of the 'magnificent seven' and so have not managed to keep pace with the index.

Claire Jervis (CJ) clarified that of these seven companies, only Tesla is investable in the strategy as the other businesses are not considered to be delivering a positive environmental or social impact through their products and services. In Tesla's case, the Investment Team have never felt comfortable with the company's chaotic governance or its valuation.

During the most recent quarter, the biggest thematic detractor was the Health theme. Higher interest rates and the collapse of SVB Bank have had a major impact on demand for life science tools and equipment. The strategy has significant exposure to these companies through our investments in Agilent, Danaher and Thermo Fisher Scientific. VM confirmed that the team is maintaining their positive view on these stocks. We believe the long-term growth, driven by demand for more, and more complex, healthcare therapies, as well as environmental sensing and testing, remain as strong as ever.

Cleaner Energy was also weak in the last quarter. This was partly due to strong performance in previous quarters, but also reflects some nervousness about recent policy changes and the impact of interest rates. The team sees these issues as transitory and believe the long-term growth opportunity remains significant for these companies.

Advisory Committee members were interested to understand more about valuations in Cleaner Energy companies and the degree of exposure to China. VM argued that exposure to Chinese end-markets is no more than 20% for the portfolio as whole. Furthermore CJ stated that nearly all companies with supply-chains in China – which is likely much higher than 20% – have made significant progress in reshoring these activities to suppliers closer to their end-markets.

### The 'magnificent 7' have lifted markets in 2023



## 3. Buys and sells in the period

All the buys and sells since the previous Committee meeting in March have concerned the European portfolio that WHEB runs for our European partner iM Global Partner (iMGP). The committee discussed the four new stocks in this portfolio including L'Air Liquide, Schneider Electric, Bureau Veritas and Soitec.

As with all WHEB investments, all these companies are considered to have a positive impact through the products and services that they sell. However, in addition, the first three of these companies have also been purchased for the portfolio with the objective of helping to reduce the strategy's volatility.

**L'Air Liquide (Environmental Services)** produces industrial gases including oxygen, hydrogen and argon gases for use in a wide range of industrial and healthcare applications. This includes in making downstream industrial processes more energy efficient.



**Schneider Electric (Resource Efficiency)** supplies a very wide variety of electrical components and systems including for use in the electricity grid, buildings, and data centres. The company is a prime enabler and beneficiary of efforts to electrify and improve the efficiency of power systems across the economy.

**Bureau Veritas (Safety)** supplies a range of testing, inspection and certification services to businesses to ensure that their products and services comply with applicable quality, environmental, health and safety standards.





**Soitec (Resource Efficiency)** has developed semiconductor manufacturing technologies and chip designs that are more resource efficient than standard processes and technologies. The chips are used in mobile phones as well as in battery electric vehicles, renewable power and factory automation.

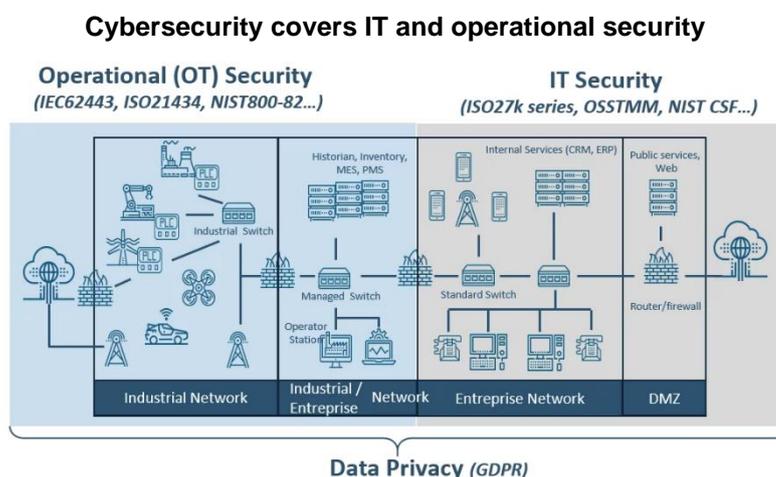
Committee members were broadly supportive of the new stock additions, but did recognise that, particularly for L’Air Liquide, the impact case is modest and ‘not exciting’. Concerns were raised around the extremely large amounts of power that industrial gas companies use. It was also pointed out that while their products do have positive impact applications, many end uses are in processes that have very significant environmental impacts (eg steel making). Seb Beloe (SB) acknowledged that this was the case, but pointed that L’Air Liquide (and Linde which is a very similar business held in the global strategy) are both making significant and credible efforts to decarbonise their own activities which helps to underpin the positive impact case. While still small, both businesses are also developing much higher positive impact businesses in green hydrogen and in carbon capture and storage.

The committee agreed that the new investments were consistent with the philosophy and policies guiding the strategy but encouraged the team to continue to push the larger companies – particularly L’Air Liquide and Schneider – to accelerate the decarbonisation of their activities and to increase the levels and robustness of disclosures on the positive impact of their products.

#### 4. Should companies that provide cybersecurity services be investable?

SB introduced the topic of cybersecurity as a topic that the Investment Advisory Committee had previously considered in 2013. At that time, the focus was on tightening the definition of ‘safety’ to focus on the safety of people rather than the safety of property as the key sustainability issue. Cybersecurity sits somewhere between the two, and the WHEB team was keen to hear the Committee’s view on whether companies providing cybersecurity services should be investable.

Kavitha Ravikumar (KR) presented some background material on the topic including the nature and extent of the risk associated with on-line activities. These activities almost always involve complex networks with multiple vulnerabilities. Breaches of cybersecurity are now very common and typically lead to significant negative impacts both on businesses and institutions as well as on individuals. This can include loss of property and wealth, but also loss of identity with significant negative impacts on health and well-being.



The Committee and investment team members considered a range of dimensions to this issue. Cybersecurity is routinely considered by Boards and is often seen as an ‘ESG issue’. The protection of the individual is clear, but members also argued that the protection of critical infrastructure – including low and zero carbon infrastructure – is also increasingly important from a sustainability point of view. Some members however argued that cybersecurity is more of a ‘business hygiene’ factor.

It was agreed that the team would use the impact engine to review some of the cybersecurity businesses. It was agreed that to be investable, these companies need to be able to demonstrate a clear positive impact on a specific problem and that this should be articulated in a theory of change.

The WHEB team agreed to undertake this review and report back to future Advisory Committee meetings.

## 5. Committee discussion – reporting on negative product/service impacts

In its review letter that was published in the 2022 Impact Report, the Advisory Committee stated that a more complete approach to reporting negative impacts of products and services would be a key challenge for future reports. WHEB recognizes this but was curious to hear from the Committee as to how the team might best approach this issue.

SB clarified that there are three main elements to WHEB's company-level research. The first step uses the impact engine and focuses on the positive impacts of products and services<sup>1</sup>. The second step then looks at the operations of a business. This assessment includes an analysis of the environmental, social and governance (ESG) of the company and explicitly considers positive and negative impacts associated with the company's operations. The third step focuses on the financial valuation of the business.

While WHEB portfolio businesses deliver a positive impact through the products and services that they sell, there will always be negative impacts associated with these products. Pharmaceutical drugs, for example, have a positive impact on health. Once used, however, they can have a negative impact on biodiversity in the natural environment. Similarly, electrical equipment that helps to improve energy efficiency, ultimately becomes waste at the end of its useful life. Quantifying these negative impacts is extremely difficult as companies do not typically report this type of information.

Committee members suggested that the team focus on the most material negative impacts across the portfolio as a way of prioritising further work. This could use frameworks such as Future-Fit. Another approach, particularly suited to greenhouse gas emissions, is to report a ratio that includes both the positive impact of the product (as avoided emissions) and then negative impacts from emissions that are generated in both the manufacturing of the product as well as in its use. Members also agreed that while quantification is likely to be very difficult for the portfolio as a whole, WHEB's engagement work will be an important component in working to mitigate the key negative impacts once these have been identified.



## 6. Any other business

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

1 – This analysis does also capture negative product impacts though typically just qualitatively.

# Investment Advisory Committee Members



**Alice Chapple**

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



**Carole Ferguson**

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



**Martin Rich**

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



**Abigail Rotheroe**

- NED [HydrogenOne](#), Baillie Gifford Shin Nippon, Templeton
- Previously Investment Director at Snowball Impact Management



**Jayne Sutcliffe**

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

