

# 3D Fund Profile: WHEB Sustainability

February 2024



3D Rating:



3D Fund Classification: **Impact**

The manager of this fund exhibits a clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to related challenges through their core products and services, with evidence provided of the social and environmental impact.

### Fund Summary

The 3D Framework aims to qualitatively and quantitatively assess the responsible investing (RI) credentials of sustainable funds based on their ability to Do Good, Avoid Harm, and Lead Change. We believe the WHEB Sustainability fund and its underlying team have excelled in each of these three categories. The fund achieves a c.96% exposure to companies classified as solutions to environmental and/or social challenges, whilst also minimising investments in companies exposed to controversial activities and practices. The reporting elements are also exceptional, with the fund's impact and the group's stewardship reports evidencing both impact and change through investments and engagement. Overall, WHEB Sustainability deserves its Gold Award and continues to be a standout example of a sustainable fund.



| Key Facts as at 31/12/2023    |   |
|-------------------------------|---|
| Manager                       | Ted Franks  |
| The Fund's Objective          | The aim of the Fund is to achieve capital growth over five years. |
| Launch Date                   | 08/06/2009  |
| Structure                     | OEIC  |
| ISIN Code                     | GB00B8HPRW47  |
| Currency                      | GBP   |
| Size                          | £747m   |
| Sector                        | IA Global Sector Average Total Return                             |
| The Fund's Official Benchmark | MSCI World Total Return   |
| 3D Benchmark                  | Global 100 Equity Index   |
| Number of Holdings            | 41  |
| Ongoing Charges               | 1.03%   |

Source: WHEB Asset Management LLP, Square Mile Research & Lipper, a Refinitiv company (all rights reserved).

### RI Approaches Employed:

#### Ethical Exclusions

- Avoids industries and company practices that cause harm to people or the planet.

#### Responsible Practices

- Considers the operational practices of investee companies and supports 'best practice' in their respective industries, and may encourage them to improve their environmental and social performance.

#### Sustainable Solutions

- Seeks to invest in companies that are providing solutions to social and environmental challenges through their core products and services in the belief that this will realise long-term financial benefits.

#### Impact

- Clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

#### Engagement

- The fund manager seeks to raise standards on environmental, social and governance issues through dialogue with investee companies; or by participating in collaborative initiatives with other stakeholders.

WHEB Asset Management is a specialist asset management group that specifically targets investments into positively impactful companies across its investible universe. The group currently manages three impact funds: WHEB Sustainability; WHEB Sustainable Impact; and WHEB Environmental Impact. These funds are all managed by the same investment team of ten impact investors, with each member boasting significant experience in managing sustainability investment business and funds. This fund is managed by Ted Franks, Partner, Head of Investment and Fund Manager, who is supported most closely by Seb Beloe, Head of Research, Ty Lee, Victoria MacLean, and Claire Jervis, who are all associate fund managers.

The WHEB Sustainability fund team applies a bottom-up investment process that centres on nine sustainable investment themes, which are:

- Clean Energy
- Environmental Services
- Resource Efficiency
- Sustainable Transport
- Water Management
- Education
- Health
- Safety
- Well-being

Guiding this fund's management and overarching group philosophy is the belief in several critical environmental and/or social challenges that can be linked to distinct megatrends. For example, how growing global populations alongside rising standard of living is driving increased resource use, which ultimately leads to the depletion of critical natural resources and a breach of planetary boundaries. As WHEB quite accurately defines, the combination of these challenges is presenting an urgent need for business to decarbonise and operate sustainably.

The fund's total investible universe begins with all global equities that possess a market capitalisation greater than \$2 billion. A comprehensive exclusionary screen is then applied to this selection of companies, thereby excluding investments into any companies that derive more than 5% of their revenue from activities such as alcohol, gambling, pesticides and inorganic fertiliser manufacturers, fossil fuel companies, and companies engaged in animal testing for non-medical purposes, amongst others.

Refining the investible universe even further is the application of a positive thematic screen that ensures each prospective company derives greater than 50% of its revenue from one of the nine aforementioned sustainable investment themes. As a consequence of these two steps, the total MSCI World Index is reduced down to c.15% of its original size – approximately 430 stocks.

Following the creation of this bucket of c.430 stocks is the financial and impact analysis stage. To assess each company's impact intensity, a qualitative and quantitative assessment of its operational procedures is conducted, which includes value-chain operations, management quality, and company growth strategy. Additionally, the team assesses a company on its dimensions of impact, which include:

1. Importance of outcomes – e.g., how vulnerable is the beneficiary?
2. Changes in outcomes – e.g., how large is the impact compared to the baseline?
3. Contribution to outcomes – e.g., How unique is the product/contribution?

After the impact and financial analysis stage has been completed, the team then constructs a portfolio of 40-60 stocks that align to any of the nine sustainable investment themes. Since the weighting to each theme is not restricted, the size of investment into each company is defined by the impact and financial opportunity. The investment team convenes weekly to discuss holdings, potential investment ideas, and positioning.

As WHEB is an active asset manager and believes it can add positive value to each investee company, regular engagements are typically conducted with all holdings. Pleasingly, the progress and outcome of all engagements and impact outcomes are detailed within quarterly review reports and fund-level impact reports. These reports include information on thematic positioning, holding rationale, and engagement reviews.



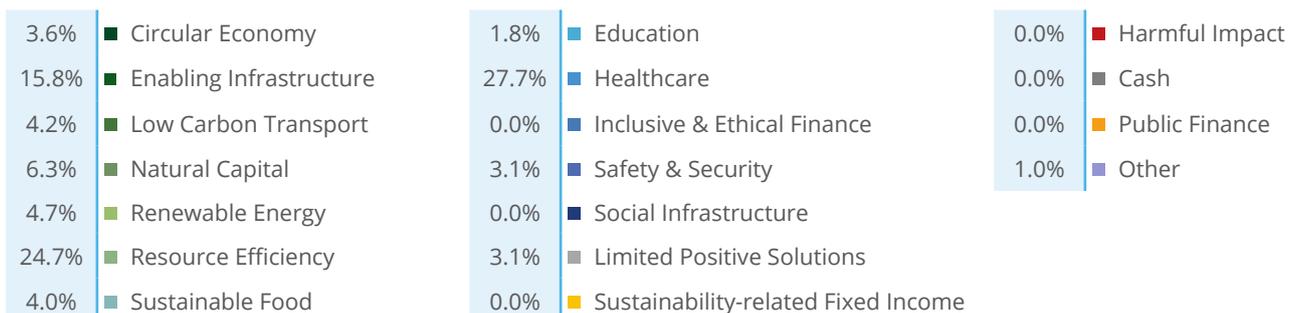
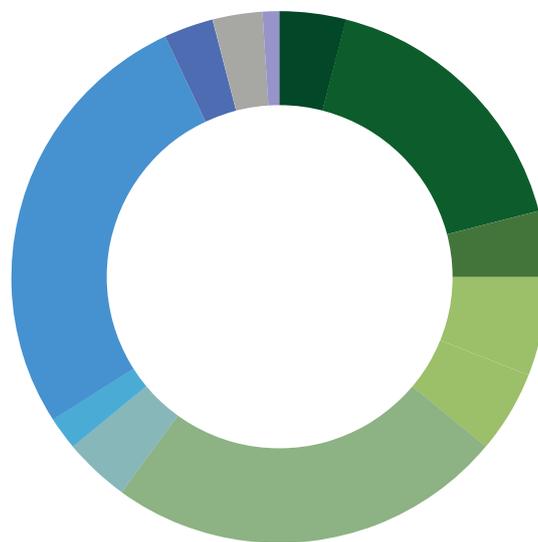
The fund has achieved an exceptional 96% exposure to companies classified as offering solutions to environmental and/or social challenges under the 3D framework. Not only is this exposure significantly higher than the assigned 3D index, but there is a clear and defined spread across both environmental and social solutions, highlighting the manager's ability to select impactful companies across a breadth of sustainability themes. Likely a result of the fund's five environmental and four social themes, our framework has identified a c.63% and c.33% exposure to environmental and social solutions, respectively.

Notwithstanding the spread of solution exposure, there are two clear dominant themes within the fund. Firstly, on the social side, the fund achieved a c.28% exposure to Healthcare-classified companies. Companies classified under this theme include well-known pharmaceutical giants such as AstraZeneca, the Anglo-Swedish global biopharmaceutical firm, and less-known medical device technology companies such as ICON, an Irish consulting and development services firm supporting the pharma and medical device sectors, and Agilent Technologies, an American instrument and service provider enabling efficient and effective laboratory workflows.

The other dominant theme within the fund is Resource Efficiency, at a c.25% exposure. The largest holding at the time of writing is Trane Technologies, is held at a c.3.7% weighting. Trane Technologies is an Irish industrial manufacturing company that creates efficient and sustainable climate systems in buildings, homes, and transportation. Other examples of Resource Efficiency-classified companies include Linde, a German industrial gas and engineering company whose products improve industrial and healthcare efficiencies; and TE Connectivity, a Swiss technology company that manufactures connectors and sensors used within electric vehicles and several other industries to improve overall efficiencies.



Source: WHEB Asset Management LLP and Refinitiv, Holdings as at 30/09/2023.



Source: WHEB Asset Management LLP & Square Mile Research, Holdings as at 30/09/2023.

## Controversial Activities Exposure

In addition to the thematic positive solutions screen applied to the investible universe, the manager also applies several exclusions to activities deemed harmful to society and/or the environment. Companies deriving greater than 5% of their revenue from: alcohol; gambling; nuclear power generation; unsustainable palm oil; and cosmetics involving animal testing, amongst others, are all ineligible for investment. This exclusion goes one step further, whereby the manager has set a 0% revenue threshold on several more sectors, which include: tobacco production; nuclear weapons manufacturers; and biological or chemical weapons manufacturers. A full list of the fund's exclusions is available on the WHEB Asset Management website.

Our analysis has, nevertheless, identified three controversial activities that the fund has exposure to; however, we are cognisant that each of these exposures is in line with the fund's exclusionary screen and does align with the managers' positive solution objective. One exposure deemed material is to Hazardous Chemicals, which was flagged to Thermo Fisher Scientific, an American supplier of scientific instrumentation and reagents, for deriving less than 5% of its revenue from the supply of chemicals used in pesticides and herbicides. The other flag deemed to be of major significance was for Military Weapons. Daikin Industries, a Japanese manufacturer of energy-efficient heat pumps and air conditioners, was flagged for deriving less than 1% of its revenue from the production

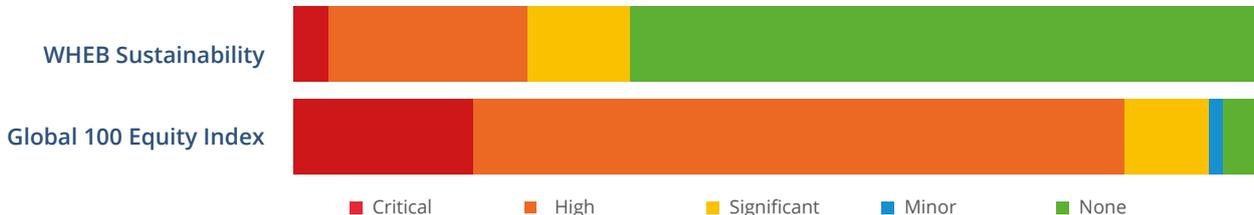
and sale of conventional weapons and white phosphorus munitions. Post the time of analysis, WHEB confirmed that they divested from Daikin upon identifying this exposure. It is worth noting that both companies are classified as positively impactful under the 3D framework, despite their small exposure to these two controversial activities.

There were also nine companies exposed to the controversial activity Animal Testing; however, after further research, it became clear that each company produces products and/or services that are legally required to be tested on animals.

## Controversial Practices Exposure

Controversial Practices analysis allows us to assess the strength of the manager's analysis towards mitigating ESG risks within a company's operations. If a fund is flagged as having exposure to more serious controversial practices, it indicates that there may be issues with how the companies are being managed. We would anticipate that responsible investment funds would have less exposure to these types of companies. The managers of this fund have mostly achieved this, almost fully eliminating the exposure to critically controversial practices and significantly limiting high-severity controversial practices, while markedly increasing the number of exposures to companies with zero controversial practices currently associated with them. This is an indication that the team's investment process, and in particular, the proprietary scoring methodology, which incorporates an analysis of a company's practices, is highly effective.

## Controversial Practices Breakdown



Controversial Activities and Practices Data Source: Moody's ESG Solutions.

Source: WHEB Asset Management LLP & Square Mile Investment Research. Holdings as at 30/09/2023.

## Exclusion Criteria Applied by the Fund Manager\*

| Addiction                                    | Animal Welfare  | Environment   | Fossil Fuels   | Human Welfare  |
|--|---|---|--|--|
| Alcohol <input checked="" type="checkbox"/>  | Animal Testing <input checked="" type="checkbox"/>          | Inorganic Fertilisers <input checked="" type="checkbox"/> | Power Producers <input checked="" type="checkbox"/>          | Human Rights (Countries) <input checked="" type="checkbox"/> |
| Gambling <input checked="" type="checkbox"/> | Animal Products <input checked="" type="checkbox"/>         | Pesticides <input checked="" type="checkbox"/>            | Exploration & Production <input checked="" type="checkbox"/> | Human Rights (Companies) <input checked="" type="checkbox"/> |
| Tobacco <input checked="" type="checkbox"/>  | Meat & Dairy Production <input checked="" type="checkbox"/> | Mining <input checked="" type="checkbox"/>                | High Carbon Industries <input checked="" type="checkbox"/>   | Military Weapons <input checked="" type="checkbox"/>         |
|  |   | Tropical Forests <input checked="" type="checkbox"/>      | Petrochemicals <input checked="" type="checkbox"/>           |  |
|  |   | Nuclear Power <input checked="" type="checkbox"/>         | Distribution <input checked="" type="checkbox"/>             |  |
|  |   |   | Service Industries <input checked="" type="checkbox"/>       |  |

Source: WHEB Asset Management LLP.

\*For full details, please refer to the fund group, who will provide the extent of the exclusions and any revenue thresholds that may apply.



## Micro Engagement (Engagement with Investee Companies)

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Engagement is an essential part of WHEB's investment strategy for both the input into an investment case and the output for effective stewardship. For example, on the input side, engagement is conducted by the investment team, which helps to create insight and ultimately cement conviction in an investment decision. On the output side, engagement is used to influence company decisions and generate positive change within a company's operations. Through these two avenues, WHEB believes it can drive improvements in both the financial and operational opportunities of investee companies. In pursuit of this objective, WHEB applies a four-stage engagement process, which includes: 1) the company acknowledges the issue; 2) the company shares or discloses information on the issue; 3) the company develops or commits to developing an appropriate strategy to manage the issue; and 4) the company demonstrates how concerns have been addressed.

Pleasingly, throughout 2023, WHEB Asset Management engaged with 42 out of 68 investee companies, with several of these engagements detailed within the team's quarterly investment review reports and/or the group-wide stewardship report. We are impressed with the overall due diligence towards engagements with fund holdings, contributing to the score of 5 within the Lead Change category.

## Voting

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As an equity fund, the team has the opportunity to effect positive change through their voting rights as shareholders and intend to do so on all companies held. While they do take the advice of third party proxy-voting services, such as the Institutional Shareholder Services group, the team votes on its own shares and report on all votes via the firm's website. It also reports on high-level data within quarterly review documents. The vast majority of votes undertaken relating to environmental, social and governance (ESG) issues in the past year have been around governance issues, which the team contends is symptomatic of its intent to pick positive impact-generating companies, which require less hands-on ESG steering than their peers

## Affiliated Memberships and Initiatives

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B Corps, Principles for Responsible Investment, Institutional Investors Group on Climate Change, UK Sustainable Investment and Finance Association, FRC Stewardship Code, Net Zero Asset Managers Initiative, Net Zero Carbon 10/20, CA100+, Future Fit Business, Impact Management Project, Global Impact Investing Network, Access to Medicines Foundation, Chemical Footprint Project, The Big Exchange, British Standards Institute, Glasgow Financial Alliance for Net Zero.

## Important Information

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