WHEB Asset Management

New Era, New Investment Opportunity

May 2013

Investment Advisory Committee: Summary minutes

Two new committee members: Ebba Schmidt, Pension Protection Fund, Tristan Hilgarth, former Group Business Development Director, Jupiter Asset Mgmt.

The fund now stands at £46m and has a range of retail and institutional investment ratings.

New additions to the portfolio include Clean Harbors, EDPR and Novo Nordisk.

Attendees:

Seb Beloe (Head of Sus. Research)
Clare Brook (Head of Bus Dev.)
Tim Dieppe (Fund Manager)
Ted Franks (Associate Fund Manager)
Hyewon Kong (Senior Analyst)

George Latham (Managing Partner)
Ty Lee (Senior Analyst)

Geoff Hall (Chair)
Ben Goldsmith (Internal Adviser)
David Lloyd-Owen (Adviser)
Nick Robins (Adviser)
Ebba Schmidt (Adviser)

Apologies from: Crispin Odey (Adviser)

Membership of the committee

The Committee welcomed a new member Ebba Schmidt, Investment Manager at the Pension Protection Fund. Ebba also oversees the responsible investment policy for the fund.

It was also announced that Tristan Hilgarth will also be joining the committee at the next meeting. Tristan was, until the end of 2012, Group Business Development Director at Jupiter Asset Management and served on the Steering Group of the UK Government's Business Taskforce on Sustainable Consumption and Production.

For further information on Ebba and Tristan's backgrounds see (http://www.whebam.com/team/investment-committee-).

After serving for four years on the committee, Crispin Odey has also agreed to rotate off to make room for our new members. The committee thanked Crispin very much for his time and input over the years.

Fund performance and business update

GL updated the committee on business performance. The IM WHEB Sustainability Fund has grown significantly since the last Committee meeting and stood at the end of April at £46m – up from £35 at the last committee meeting. TD commented on fund performance which has been satisfactory over the first year of the new investment strategy - outperforming the average global equities fund since the change of strategy was implemented at the end of April 2012.

The fund has now received a bronze rating from Morningstar OBSR (the highest rating achievable at the first assessment), a silver rating from S&P and is also now rated by institutional consultants.

Additions to the portfolio

There were three companies that were added to the portfolio in the period: Clean Harbors a US company focused on hazardous and industrial waste management, EDPR a Portuguese wind farm operator and Novo Nordisk, a Danish company manufacturing insulin and other pharmaceutical products.

The Committee were largely comfortable with Novo Nordisk and their suitability for the portfolio. EDPR too was clearly seen as suited to the fund, though some committee members did highlight policy risks associated with subsidy regimes for wind farms particularly in Spain.

How to judge acceptable exposure to business activities that are not in our social or environmental themes.

The committee also had extensive discussion about Clean Harbors. The majority (c.60%) of Clean Harbors' business is focused on collecting, managing and disposing of hazardous wastes in the US, principally through incineration.

Committee members recognised that the company's approach to managing business environmental, health and safety (EHS) impacts is reasonably good for the US market, but there was some concern about other company activities including principally its activity in supporting oil and gas exploration.

Much of this activity is focused on managing and recycling wastes generated from these activities, but a concern was raised as to whether this was an acceptable investment for the fund. Some members felt that this was questionable while others felt that so long as the majority of the business is focused on waste management and remediation, then this is acceptable.

It was also pointed out that it is increasingly difficult to invest in industrial companies in the US that don't have at least some exposure to these markets. It was agreed that the investment team will develop a paper to present at the next committee meeting that sets out the parameters that we use to determine whether a company is investable where it has exposure to these controversial activities.

Corporate governance and voting policies

Developing a more assertive approach to voting on executive remuneration, auditing and disclosure.

The team presented proposals for a more assertive approach to voting at company Annual General Meetings (AGMs) on remuneration, auditing and disclosure.

Remuneration: In addition to our existing policies on remuneration (see our Q4 2012 Voting and Engagement report), we are also considering additional criteria focused on the absolute amount of money being paid to CEOs and other senior executives. Our proposal is to consider the absolute amount of pay as a proportion of a company's revenue and net income, the CEO's salary compared with the company or industry median salary level, and the absolute amount. The committee were broadly supportive of our approach, but stressed in particular the affordability of senior executive remuneration as a proportion of company revenue/income and the need to link pay with long-term performance.

Audit: The committee endorsed our approach to focus on audit independence, including looking at the proportion of non-audit related fees being paid to the auditor, the length of incumbency and the frequency of retendering audit contracts.

Disclosure: The committee was also supportive of our intention to be more assertive in our voting for better quality disclosure on non-financial environmental, social and governance (ESG) issues and suggested that we set out our approach in a policy paper to be presented at the next committee meeting.

We plan to publish our approach once we have finalised our policies in these areas.

Portfolio screens: Tax avoidance

Understanding our exposure to risks associated with aggressive tax avoidance.

At our January meeting, the Committee had asked that we conduct a screen of companies in the portfolio to assess the extent to which companies were at reputational or financial risk as a consequence of their policies on tax avoidance. Two companies, Cooper Companies and Trimble Navigation were the only companies in the portfolio that appeared to have tax rates that were significantly below their peers and potentially at risk from tax reform.

We agreed that we would write to these companies to explain our concerns and to seek some reassurance that the companies are aware of potential risks associated with these low rates. We also agreed to review these companies to determine whether there was a pattern of aggressive practices across other issues (e.g.. executive remuneration, supplier practices etc.).

Strategic questions: Members' views on markets, the economy, legislative and sustainability developments.

Is leadership on climate policy shifting from Europe to the US?

Leadership on climate policy

We had a brief discussion on whether leadership on climate policy is shifting from the EU to the US. We concluded that it is certainly getting harder for the EU to establish leadership positions on climate policy given the backlash from some member states over the need to focus on reducing the costs of energy.

At the same time however, it is not clear that the US will be able to assert a leadership stance on climate even with Obama's declared ambition in this area.

What does the crisis caused by horse meat in the food chain say about supply-chain risks?

Horse-meat and supply-chains

Committee members also had a brief discussion on the implications of the horse meat scandal in food supply chains in Europe. There was a general consensus that supply-chains in general have become very opaque and that the risks associated with extended global supply-chains continue to increase.

At the same time, it was noted that alternative supply-chain models – for example more regional and/or diversified supply-chains – have become more attractive as a consequence of higher oil and logistics costs, the increased frequency of extreme weather and rising wage levels in traditional low cost manufacturing centres.

The implications of these changes are not always clear, but do have an impact both on the types of companies held in the fund (for example investing in testing and inspection companies that test products in supply-chains) and how the companies themselves manage supply-chain risk.

Any other Business

The next Committee meeting will take place in July and will focus on Committee members' perspectives on strategic questions affecting the development of our investment themes and the wider market.

Specific action points from this meeting included:

- producing a discussion paper setting out the parameters used to decide on the acceptability of companies with exposure to problematic areas (e.g. oil and gas) particularly in the context of US industrials;
- producing a second paper setting out our approach to voting at company AGMs for better quality disclosure on environmental, social and governance (ESG) issues; and,
- pursuing engagement with companies highlighted in our research as utilising tax rates that are significantly below peers.

Investment Advisory Committee Members

Ben Goldsmith:
Co-founder of WHEB Group

Nick Robins:
Head of HSBC's Climate Change Centre of Excellence

Geoff Hall:
Chairman of WHEB Asset Management. Former Chief Investment Officer at Allianz Insurance Plc

Ebba Schmidt: Investment Manager at the UK Pension Protection Fund (PPF)

Tristan Hillgarth:
Former CEO Invesco Europe, and Head of Jupiter Private Clients

David Lloyd Owen:
Waster and Water Industry Expert

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