October 2019

Investment Advisory Committee: Summary minutes

Attendees:

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Seb Beloe (Head of Research)
Ted Franks (Fund Manager)
George Latham (Managing Partner)
Katie Woodhouse (Data Analyst)

Kingsmill Bond (Member)
Mike Clark (Member)
Carole Ferguson (Member)
Geoff Hall (Chair)

Apologies:

Kelly Clark (Member)

1. Business update

As of 1st January 2020, clients in the FP WHEB Sustainability Fund will be charged a single fixed rate management fee.

George Latham kicked off the meeting with brief update on WHEB's business. Since the February meeting, WHEB has on-boarded significant new institutional clients and has continued to see regular inflows into the strategy. Assets under Management (AuM) were approximately £400m at the end of September. In addition, WHEB is still waiting to on-board an institutional mandate which would take AuM across the whole strategy to >£500m. George also updated the Committee on a significant change in WHEB's pricing structure. As of 1st January 2020, clients in the FP WHEB Sustainability Fund will be charged a single, fixed rate management fee. This management fee will replace all of the costs and charges that are currently included in the Ongoing Charges Figure (OCF) of the fund. This includes costs associated with depository and custody, transfer agency, legal, audit and accounting charges. All of these charges will be paid out of the single fee. As some of these fees vary from time to time, WHEB believes that charging a single fee will provide clients with greater certainty and clarity of costs. The only costs that will continue to be paid separately by the Fund are those which are not typically included in the OCF of the Fund such as transaction and borrowing costs.

George pointed out that while WHEB are not the first to move to a single fee, we believe that we are still in a minority and that the rest of the market will move this way in the future.

WHEB has won awards from the Institute of Environmental Management and Assessment and from Investment Week

George also reported back to the committee on the awards that WHEB has won in the last period. These have included the Sustainable Finance award from the professional association of environmentalists, the Institute of Environmental Management and Assessment (IEMA) as well as two awards from Investment Week for the 'Best Boutique Management Group of the Year with <£1bn of AuM, and for 'Best Thematic Global Equity Fund'.

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2. Top ten holdings and strategy changes

Ted Franks described the current structure of the strategy and specifically the top ten holdings. He pointed out that the structure is relatively flat with approximately 10-15 companies in each of the 'A' and 'C' conviction bands with the remainder in 'B'.

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Within the top ten holdings, the strategy has a significant exposure to life science tools businesses including through investments in Agilent, Danaher and Thermo Fisher Scientific. These three businesses are long–term holdings in the strategy and sit in the 'Health' theme. The companies all supply analytical instruments, equipment and software to the healthcare industries. They also have smaller businesses that supply equipment for environmental testing and monitoring.

Resource Efficiency is represented in the top ten through an investment in Ansys, a company that supplies software for developing more resource efficient products and systems. AO Smith is also in the Resource Efficiency theme. They manufacture efficient domestic water heating equipment. Other themes that are represented include Safety, Sustainable transport and Water management.

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An area where the strategy has reduced exposure in recent months has been the Cleaner Energy theme. In the period, WHEB sold its holding in the wind turbine manufacturer Siemens Gamesa. Ted argued that the outlook for wind energy remains good. In part this is due to the rapidly declining costs of wind energy including particularly in offshore wind where Siemens Gamesa is a leader. In the UK for example, offshore wind now costs <£40MWh which compares very favourably with new nuclear power at Hinkley Point C which will cost £92/MWh. However, price declines in onshore wind have already been driven in large part by a shift to auctioning. This in turn has served to compress margins. Auctioning is now happening in offshore wind and Ted argued that this, along with disappointing results from the promised synergies from the Siemens Gamesa merger, have served to make the team less optimistic about the company's fortunes over the medium term.

The other business that was sold during the period was Henry Schein. Henry Schein is a mainly US-based distributor of dental and medical equipment and consumables. The company has struggled to grow, particularly in the US dental market. Ted argued that the team had chosen to exit their position as they believe that this is likely to remain the case for sometime. The company was also considered to be one of the lower impact holdings in the portfolio.

3. Introduction to WHEB's Impact engine

Seb Beloe introduced a new tool called the 'impact engine' that has been developed at WHEB to help the investment team take a more systematic approach to assessing the impact 'intensity' of different companies. The impact engine is designed to take account of different dimensions of impact including the importance of the impact to the end beneficiary, the scale of the impact, the characteristics of those who benefit from the impact and the company's specific contribution.

WHEB's Impact engine

Page 3	Overall impact engine schematic
Page 4	What is the impact (narrative section)
Pages 5-6	Triage – assessing the intensity of impact (scoring)
Page 7	Detail on assessing importance (How important is the impact?)
Page 8	Detail on assessing scale (How large is the impact?)
Page 9	Detail on assessing beneficiaries (Who benefits from the impact?)
Page 10	Detail on assessing company contribution (How unique is the impact?)
Page 11	Calculating overall impact score
Page 12-15	Case studies

The high-level questions have been based on the work of the Impact Management Project[1] and the Future Fit Foundation[2]. Seb stressed that the impact engine is still being developed with a particular focus on refining the scoring under each impact dimension. Committee members were interested to understand the definitions of each of the questions, and the unit of analysis (e.g. product or company as a whole) as well as whether questions were given different weightings in the final assessment.

4. Calculating Scope 3 and avoided carbon emissions

Committee members had specifically requested that WHEB present to the committee its approach to calculating the carbon impacts associated with the investment strategy. Seb presented a paper setting out the approach that the team uses in calculating the scope 1, 2 and scope 3 emissions. The key focus was on Scope 3 emissions as well as the 'avoided emissions' associated with the products and services sold by portfolio companies (sometimes called 'scope 4' emissions).

It was recognised by committee members that there is as yet little formal guidance or established protocols on how to calculate 'avoided' or Scope 4 emissions[3]. There are also still disagreements on how to account for these emissions. For example, some practitioners think it is possible to 'net off' scope 4 emissions against scope 1, 2 and 3 emissions. Others think that they should be kept separate. Members agreed that the quality of data from companies is still very poor, particularly on scope 3 emission data. However, members were clear that, in their view, if net calculations are provided, they should only include scope 4 (avoided) emissions once scope 3 emissions have also been included.

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Members also stressed that it is important to be clear about the baseline against which the avoided carbon (or other positive) impacts are being assessed. In general, it was felt that the baseline should not be against legacy products or technologies, but against current competing products in the market. Members felt like comparing only against the best performing product or service on the market was not practical.

5. Any Other Business

The committee held a brief discussion about the 'Red-line' voting guidelines produced by the Association of Member Nominated Trustees (AMNT). It was noted that WHEB has used the red-lines as a framework for their voting policies. The guidelines are the focus of an effort by the UK Parliament's Treasury Select Committee to get the Financial Conduct Authority to investigate why the asset management industry has not embraced these guidelines more fully.

A brief discussion was also held on the on-going role of the committee and potential involvement in reviewing the theme exposure thresholds of specific investments. It was agreed to revisit this at the February 2020 meeting.

Investment Advisory Committee Members

Geoff Hall:
Chairman of WHEB Asset Management. Former CIO at Allianz Insurance Plc

Kingsmill Bond:
New Energy Strategist, Carbon Tracker

Kelly Clark:
Director of the Finance Dialogue and advisor to Carbon Tracker and the Ashden Trust

Mike Clark:
Founder, Ario Advisory & Advisor at Oxford Smith School. Formerly Director, Responsible Investment at Russell Investments

Carole Ferguson:
Head of Investor Research, CDP

1- https://impactmanagementproject.com/ / 2 - https://futurefitbusiness.org/
3 – The US-based World Resources Institute produced some initial guidance in 2019 https://ghgprotocol.org/sites/default/files/standards/18_WP_Comparative-Emissions_final.pdf