June 2021

Investment Advisory Committee: Summary minutes

Attendees:

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Jayne Sutcliffe (Chair)
Seb Beloe (Head of Research)
Sarah Briscoe (Business Development)
Ty Lee (Associate Fund Manager)
George Latham (Managing Partner)
Rachael Monteiro (Business Development)
Claire Jervis (Investment Analyst)

Kingsmill Bond (Member)
Mike Clark (Member)
Ray Dhirani (Member)
Carole Ferguson (Member)

1. Advisory Committee changes

George introduced WHEB's incoming non-executive Chair and the Chair of the Advisory Committee Jayne Sutcliffe.

After ten years, Geoff Hall has stepped down as WHEB's non-executive Chair. At the same time, Mike Clark, after serving a full term of five years, has also stepped down from the Committee. George Latham thanked both for their long-service and wise counsel. George also introduced WHEB's incoming non-executive Chair and the Chair of the Advisory Committee Jayne Sutcliffe.

Jayne has over 35 years of experience working in financial services having co-founded Regent Pacific Group in the early 1990's and subsequently founding Charlemagne Capital. Over more than 16 years as Chief Executive, Jayne grew the firm from an initial £20m to become a market leading investment boutique with over £7bn in assets under management. Jayne was also heavily involved in the integration of environmental, social and governance analysis into the investment process and was an early advocate for ESG in emerging markets investment.


Jayne Sutcliffe, Non-executive Chair, WHEB

George also confirmed that a replacement for Mike Clark will be appointed in the coming months.

2. Business update

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George Latham reported that the business has continued to benefit from strong in-flows during the period. By mid-June assets under management (AuM) had grown to £1.3bn. WHEB has also continued to invest in supporting this growth with new appointments to the investment team and to fund operations. Victoria MacLean, who previously worked at Aberdeen Standard Investments and served as a co-chair of the CFA Special Interest Group for Impact Investing, joined as an Associate Fund Manager in the investment team.


Sarita Kashyap, Risk and Performance Analyst


Victoria MacLean, Associate Fund Manager

The company's most recent joiner is Sarita Kashyap who joined as a Risk and Performance Analyst. Sarita joins from M&G and will support the investment team in providing insight and analysis on portfolio construction, performance and investment risk. Sarita's appointment brings the team to sixteen all supporting the core sustainability investment strategy.

3. Overall fund performance and composition

In Ted Franks' absence for paternity leave, Ty Lee (Associate Fund Manager) provided an update for the Committee. Ty reported that the preceding four months had seen a strong market with the MSCI World +11% over the period. The WHEB strategy was +9% over the period and broadly in-line with the IA Global Equity average.

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After a very strong 2020, some of the environmental themes have been weaker for much of 2021. This includes, in particular, investments in the Resource efficiency and Cleaner energy themes. At the same time, oil and gas companies, where the strategy has no exposure, have been strong along with Real estate and consumer staples; also sectors where the strategy has little exposure.

One exception to this is Arcadis, which is an environmental and engineering consulting firm which specialises in property and infrastructure projects. Arcadis was the top performer over the period. The other theme which performed strongly in the period was Health including in particular Centene which benefited from positive employment data. Icon, also in the Health theme, has also benefited from strong demand for clinical trial studies for new therapies, including for COVID-19.

The strategy does have exposure to EV charging through existing holdings in Aptiv, Liffelfuse and TE Connectivity.

Members were interested in the 'pipeline' of new investment ideas and what themes these are in. Ty mentioned that there has been significant SPAC activity particularly in electric vehicles (EVs) as well as EV charging infrastructure and lithium producers.[1] Most of these businesses are still pre-profit but we continue to monitor market dynamics very carefully. The strategy does have exposure to EV charging through existing holdings in Aptiv, Liffelfuse and TE Connectivity. Ty also indicated that we expect to see more software businesses coming to market offering tools to improve energy and wider resource efficiency. The team has also been looking into potential bioplastic businesses[2] as well as vertical farming and agricultural technology stocks.

Members were also curious to understand whether WHEB incorporates access issues into our approach to healthcare. Seb Beloe responded saying that this is a key feature of WHEB's impact engine which explicitly considers how vulnerable or underserved patients are. He also indicated that this not just an issue in the Health theme, but is also a key issue in our assessment of companies in our Education theme.

3. Buys and sells in the period

There have been relatively few changes to the portfolio over the previous four months. Just one new holding acquired, and two businesses sold in the period.

First Solar (Cleaner energy) designs and manufactures solar power systems and solar modules. The company is the leading provider of cadmium telluride (thin film) based solar modules. The company also designs and constructs solar power systems and operates around the world with major markets in the US, Europe and India.

We've been frustrated by China Everbright Environment's slow progress in developing and setting carbon emission reduction targets.

The two businesses that were sold include China Everbright Environment Group and Renishaw. China Everbright Environment Group is a developer and operator of waste-to-energy facilities in China. WHEB has traditionally considered waste-to-energy as a solution in the waste management market in countries that do not have effective waste recycling infrastructure. However, this position has evolved in recent years due to the significant carbon footprint associated with waste incineration and a maturing of the recycling industry in many emerging markets. We've also been frustrated by China Everbright Environment's slow progress in developing and setting carbon emission reduction targets.

Renishaw was sold from the portfolio as the founders had indicated their intention to sell their >40% stake in the business. We took this as an opportunity to sell our position.

Members were interested to understand the margin profile of solar module manufacturers including First Solar. Ty Lee responded by saying that it is still a highly competitive market which is expected to see continued declines in module prices. Our view however is that First Solar is well-placed with their technology road-map to maintain market share and that as the leading thin-film manufacturer they have no exposure to labour issues in Xinjiang and so are likely to benefit from a shift away from companies exposed to this issue.

1 - A SPAC is a 'Special Purpose Acquisition Company' that is a shell corporation listed on a stock exchange in order to acquire a private company, thus making it public without having to go through the traditional public offering process.
2 – See https://www.whebgroup.com/what-is-the-best-way-to-tackle-plastic-waste/

Members were also keen to understand what catalyses a decision to look for investments in a particular theme. Claire Jervis argued that fundamentally it is a bottom-up research process where we are looking for strong business models within the themes where we expect to see strong growth. This was the case with WHEB's decision to invest in the meal delivery kit business HelloFresh which WHEB believes is well-placed to benefit from increasing interest in healthy eating.

Seb Beloe argued that WHEB is particularly interested in food and agriculture because the current technologies and practices are so profoundly damaging to biodiversity and to the climate. It is because it is so damaging that we expect strongly impactful businesses to emerge to provide solutions in this sector. Currently many of these businesses are too small. HelloFresh is in an adjacent market, but their business model, as well as supporting health eating, does also reduce food waste and carbon emissions.

Members confirmed that they were comfortable with the addition of First Solar to the portfolio.

Seb Beloe introduced the enhanced impact map which was developed in response to client interest and provides significant additional transparency at a stock level.

4. Impact report and Carbon Trust review

Review of WHEB's impact report and website

Seb Beloe thanked Members for their input into the review statement of the latest impact report. He also introduced the enhanced impact map which was developed in response to client interest and provides significant additional transparency at a stock level.[3] Members welcomed the enhanced transparency that the impact map provides. A concern was raised about the presentation of the UN Sustainable Development Goals and the focus on individual goals at a stock-level, underplaying the interlinkages between the goals. Seb argued that the focus in the impact map is on the products and services and how these directly help to achieve the specific goals that are listed. Members discussed other ways of presenting the SDGs and it was agreed to review this at a future meeting.

Carbon Trust review of impact data

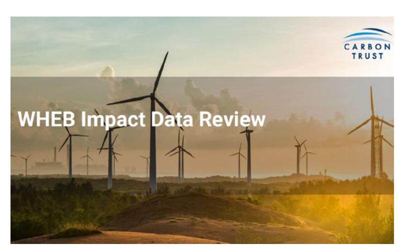
Seb also reported back on the work that the team has done with the Carbon Trust to independently review the data that is collected to underpin the impact calculator. The independent review was recommended by Members at the Committee meeting in February. Seb explained the process that was undertaken by the Carbon Trust to Members.

The Carbon Trust concluded that WHEB's approach to data sourcing was fit for purpose and provided a reasonable basis for impact calculations. Overall, the Carbon Trust stated that the data used is of reasonable quality.

The review was undertaken during March-April and considered every data point collected by WHEB. The team at Carbon Trust assessed each data point for its completeness, consistency, reproducibility, the quality of data sources and the age/time and geographical match with the reported data period. In total the assessment covered 35 companies and included 98 discrete indicators.

The review process undertaken by the Carbon Trust involved assessing these 98 indicators against the above framework. In the first iteration there were 44 queries of which 26 were considered major. WHEB then sought additional clarification and undertook further data collection and calculation. After this first phase, 14 data points remained as minor quality issues with the remaining 78 represented no concerns. On the basis of this process The Carbon Trust concluded that WHEB's approach to data sourcing was 'fit for purpose and provided a reasonable basis for impact calculations'. Overall, the Carbon Trust stated that the data used is of reasonable quality.

Committee Members asked whether there were any major improvements recommended by the review. Seb said that it was reassuring to have the review conclude that the data quality was reasonable. The main remaining weakness was not linked to WHEB's approach but was due instead to a lack of disclosure by investee companies. The Carbon Trust requires that underlying methodologies used by investee companies be published or that the data be independently verified. This will be something that the team will focus on in our engagement with portfolio companies.



3- https://impact.whebgroup.com/impact-map/

5. The investablity of orphan drugs

Pharmaceutical companies developing and manufacturing drugs have been investable under WHEB's Health theme for many years but only where they are used to treat conditions listed either as part of the World Health Organisation's Global Burden of Diseases or as conditions that are covered by the UN's Sustainable Development Goals.[4] However, this approach has meant that companies focusing on health conditions that affect smaller populations have not been included in WHEB's investable universe.

Claire Jervis presented the case for including companies developing therapies for so-called 'orphan' diseases.

Claire Jervis presented the case for including companies developing therapies for so-called 'orphan' diseases. These diseases are defined by the US Food and Drug Administration as conditions that affect less than 200,000 people in the US. Orphan drugs, intended for the treatment of rare diseases, are typically more expensive than other types of drugs. This is because there are far fewer patients with those conditions than other diseases, causing companies to charge higher prices to ensure a profitable business.

In the US, the Orphan Drug Act of 1983 introduced incentives to encourage drug manufacturers to focus on the development of orphan drugs. As a result, an orphan drug designation typically carries certain incentives such as tax credits on clinical research, accelerated administrative procedures, fee waivers, and a guaranteed market exclusivity period of seven years (11 years in the EU). This makes it a relatively attractive regulatory environment compared to other drugs.

Committee Members cautioned WHEB to undertake rigorous due diligence to ensure pricing policies for orphan drugs are reasonable and transparent.

This regime has however been abused in recent years with some companies dramatically inflating prices in the knowledge that in some cases there are no other effective treatments. Members indicated that they were comfortable with the inclusion of orphan drugs in the Health theme. They however cautioned WHEB to undertake rigorous due diligence to ensure pricing policies for orphan drugs are reasonable and transparent.

6. The International Energy Agency's 'Net Zero by 2050' scenario

Ty Lee introduced a discussion on the IEA's recently published scenario 'Net Zero by 2050'.[4] The Scenario explicitly targets the achievement of NZC by 2050 which implies dramatic and radical changes in the production and consumption of energy. Ty summarised these changes including particularly the need to significantly expand renewable energy production, scale-up resource efficiency and dramatically increase the production and use of green hydrogen and carbon capture technologies among other things. Ty also argued that, from WHEB's point of view, investment is not always easy in these technologies. This is often due to poor business models, poor governance or excessive valuations. There then followed a discussion with Committee Members.

Committee Members had a discussion about the potential for industry incumbents to pivot to the new zero carbon technologies or whether disruptors were likely to prevail.

Members broadly agreed with WHEB's analysis both of the importance of this report, and of the challenges of investing in relevant sectors. Members argued that while carbon capture and storage remains early stage and commercially challenging, recent advances in the technology and infrastructure needed to produce and consume green hydrogen had been substantial. These developments, along with significant public support has made green hydrogen much more promising. Members advised the team to 'cast the net widely' to find opportunities in this emerging sector.

There then followed a discussion about the potential for incumbents to pivot to the new technologies or whether disruptors were likely to prevail. Members suggested that previous technological disruptions indicate that incumbents typically find it very difficult to identify disruptive trends and even harder to shift in time. Seb Beloe argued that this was likely to be true for oil and gas companies, but that other large companies in adjacent markets (such as electrical equipment and industrial gases) might be able to capitalise on the new opportunities. Members agreed that this would depend on the world view of the Board but several Members maintained that this still represents a major challenge to large established companies that need to effect a dramatic reorientation of their businesses. GE was contrasted with VW as two businesses with different levels of success in reorientating their businesses. We agreed to revisit this discussion at a future meeting.

4- https://www.iea.org/reports/net-zero-by-2050

6. Any other business

Seb Beloe asked Members to suggest new Committee Members who might join to replace Mike Clark. It was agreed to do this after the meeting.

Members also asked if for the next meeting WHEB could report back on how it decides how to vote at company annual general meetings and whether a more activist approach could be used, particularly on social and environmental resolutions.

Investment Advisory Committee Members

Jayne Sutcliffe:
Non-executive Chair of WHEB Asset Management. Former CEO at Charlemagne Capital

Kingsmill Bond:
New Energy Strategist, Carbon Tracker

Ray Dhirani:
Head of Sustainable Finance, WWF-UK

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

Carole Ferguson:
Managing Director, Industry Tracker