

Impact Assessment and Measurement Methodology

2024



WHEB

INVESTMENT STRATEGY AND SUSTAINABILITY OBJECTIVE

WHEB's investment strategy focuses on the opportunities created by the transition to healthy, zero carbon and sustainable economies.

Our sustainability objective is to support a stable climate and healthy ecosystems and to enable more productive and healthy lives. We do this through the investments we make in five environmental impact themes covering cleaner energy, environmental services, resource efficiency, sustainable transport and water management, and four social themes covering education, health, safety and well-being.

We also seek to contribute further to positive impact by engaging with company management and other market participants to promote better environmental, social and economic outcomes.

Contents

| | |
|---|----|
| Introduction..... | 3 |
| 1. The ‘enterprise impact’ | 3 |
| Intentionality and theory of change | 3 |
| WHEB’s impact themes and the UN Sustainable Development Goals..... | 4 |
| The ‘impact engine’ – assessing the impact of products and services | 6 |
| Assessing the quality of company policies and practices..... | 7 |
| 2. Calculating company impact..... | 8 |
| The impact calculator | 9 |
| Avoided emissions in context | 9 |
| Impact ‘ownership’ | 10 |
| 3. WHEB’s investor contribution | 10 |
| Stewardship of investee companies | 10 |
| A word on attribution..... | 12 |
| Systemic engagement | 12 |
| Reporting and transparency | 13 |

Introduction

This document describes the methodology that is used to assess and measure the positive sustainability impact associated with WHEB's investment strategy. At its core, WHEB is an impact investor. All the investments made through our investment strategy have positive social and/or environmental impact. By this we mean that we invest 'in companies, organisations and funds with the intention to generate social and environmental impact alongside financial return'¹. As investors, we deliver this positive impact through two channels.

Firstly, we invest in companies that themselves deliver a positive social or environmental impact through the products and services that they sell. We have identified five environmental impact themes and four social impact themes. Companies that derive at least 50% of their revenues from products and services that have a positive impact on one or more of these themes are eligible for investment². We call this the '*enterprise impact*'. WHEB's investments in the equities of these businesses advance their impact by supporting share prices, in turn enabling further growth and greater impact³.

Secondly, as investors we contribute directly to further positive impact by actively engaging with the companies themselves to promote better environmental, social and economic outcomes. As a mission driven business, WHEB also engages with other market participants such as regulators, standard setters, rating agencies, educators, other investors and clients to help shape the wider financial system to support and enable more positive outcomes. We call this the '*investor contribution*'.

A fuller discussion of WHEB's definition and approach to impact investing is provided in our white paper 'Impact investing in listed equities – WHEB's perspective'⁴.

This document describes the methodology that is used to assess and measure the positive sustainability impact associated with WHEB's investment strategy. WHEB's overall impact model is set out in figure 1 below.

1. The 'enterprise impact'

Intentionality and theory of change

The intention to generate a positive social or environmental impact alongside a financial return, sits at the core of what it is to be an impact investor. Moreover, in our view, the decision to invest in a particular company needs to be explicitly rooted in the positive impact delivered by that business. In short, the impact thesis needs to be a core part of the investment thesis.

Having a stated intention to deliver positive impact needs also to be supported by a problem statement and a 'theory of change'⁵. The problem statement describes the problems that the investment(s) are intended to solve. The theory of

¹ <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>

² We also screen out companies that derive significant revenues from products and services that are considered to have negative impacts. For more information on our approach see <https://www.whegroup.com/assets/files/uploads/20240110-ethical-outcomes-final.pdf>

³ While the academic literature is inconclusive on this point, the mechanism is clear. Investors with perspicacity anticipate that companies with a strong positive impact will enjoy higher future earnings growth and/or reduced risk. By investing in advance of this growth, they bid up the share price leading to a lower cost of capital for the business. This in turn helps realise future earnings growth which then justifies the premium. In our experience, recent history is replete with examples of impactful businesses that trade at a premium to the wider market for these reasons. For a further discussion see also <https://hbr.org/2020/09/how-to-measure-a-companys-real-impact>

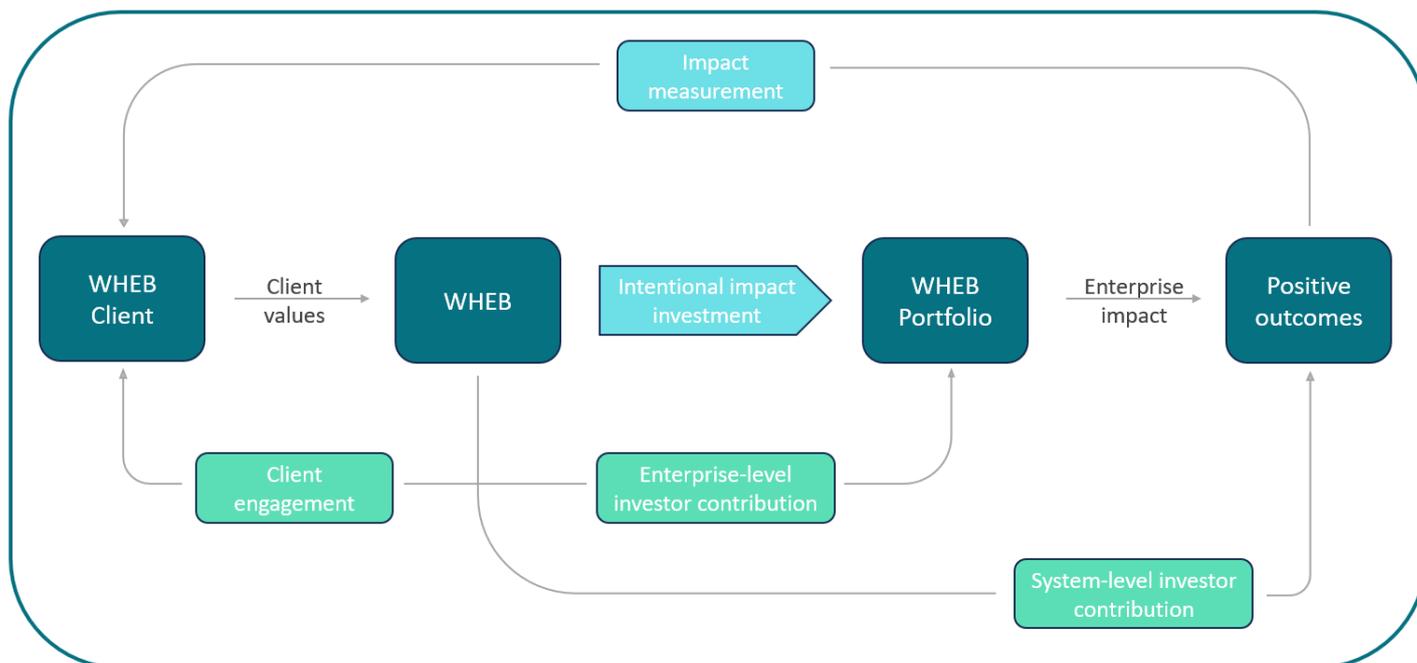
⁴ 'Impact investing in listed equities – WHEB's perspective', WHEB, 2021 (<https://impact.whegroup.com/white-papers/>)

⁵ 'Guidance for pursuing impact in listed equities', The GIIN's Listed Equities Working Group, March 2023 (https://thegiin.org/assets/Guidance%20for%20Pursuing%20Impact%20in%20Listed%20Equities_Final%202023.pdf)

change describes the sequence of cause-and-effect actions that connect WHEB's investments with investee activities that address the stated problem.

At WHEB, our intention (or sustainability objective) is to contribute to positive sustainability impact by investing in high-quality companies that themselves have a positive impact in one or more of nine environmental and social impact themes. We also seek to contribute further to positive sustainability impact by engaging with company management and other market participants to promote better environmental, social and economic outcomes.

Figure 1: WHEB's impact model



Each of our investment themes is linked with a particular social or environmental problem. These problems are described in figure 2 below. Then for each investment that we make, we set out the theory of change that explains how the investee's activities help solve the stated problem. The theory of change is documented as part of our 'impact engine' analysis (see below).

WHEB's impact themes and the UN Sustainable Development Goals

It is WHEB's belief that long-term social, demographic, environmental and resource challenges are reshaping the global economic landscape. This is creating new investment opportunities for companies providing solutions to these challenges, and growing risks for those sectors that deplete human and natural capital. Finance is a critical catalyst for this change. We aim to invest in companies that are both enablers and beneficiaries of a shift to a zero carbon and more sustainable global economy over the coming decades.

WHEB's investment strategy covers five environmental impact (Cleaner Energy, Environmental Services, Resource Efficiency, Sustainable Transport and Water Management) and four social impact (Education, Health, Safety and Well-being) themes. These themes directly support seven of the UN's Sustainable Development Goals (SDGs). Figure 2 provides an example of our quarterly reporting which includes an assessment of the strategy's alignment with the SDGs.

Figure 2: Impact positing: Supporting the UN Sustainable Development Goals

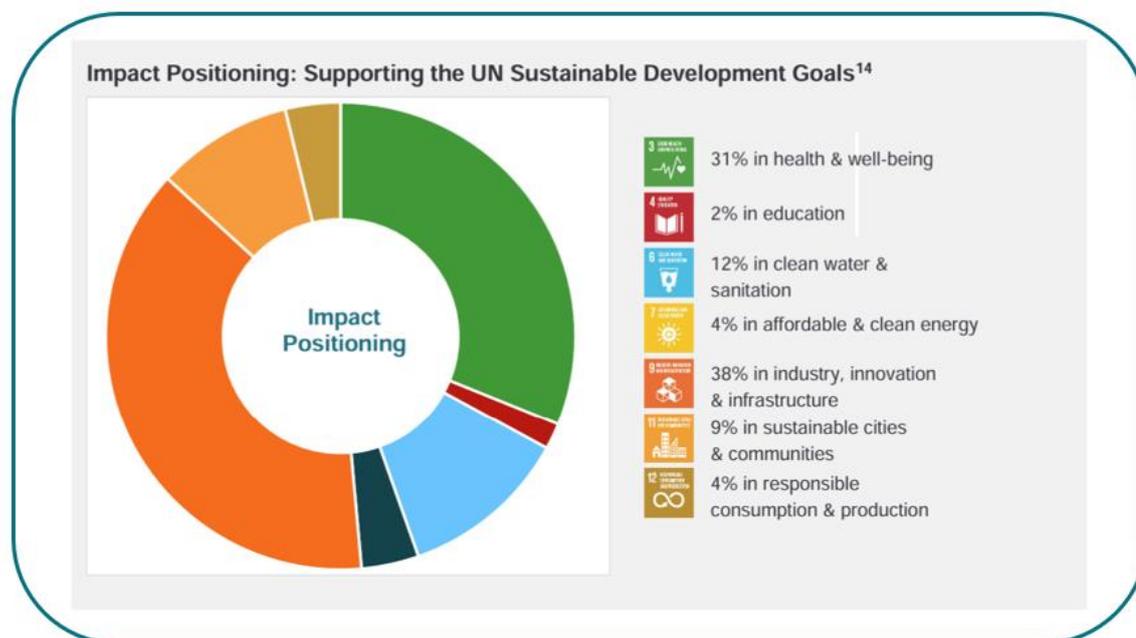


Figure 3 below (covering the period from 1st January – 31st December 2023) details each of WHEB's nine investment themes, the problem statement that each theme is addressing, details on how investee companies provide solutions to each problem and the specific companies that are held in the strategy under each theme.

In addition, the positive impact of companies in each theme is measured based on a set of indicators that relate to the products or services that the company supplies. For example, the positive impact of companies in the Cleaner Energy theme is measured in terms of the MWhs of renewable energy that is generated. In Sustainable Transport, the impact is assessed in terms of how much the product or service reduces harmful air emissions (including CO₂e) from transport. In Water Management, the impact is measured in terms of how many litres of contaminated water is treated.

The selection of each indicator has been made primarily with reference to existing measurement indicators that are used in WHEB's investment process and with regard to the indicators associated with the appropriate sustainable development goal.⁶

⁶ The impact metrics for each investment are based on the theory of change that we have identified and the relevant UN Sustainable Development Goals along with other commonly used metrics such as IRIS (<https://iris.thegiin.org/>) and are accessed through the third party data provider Net Purpose (<https://www.netpurpose.com/how>).

Figure 3: Mapping WHEB’s investment themes to the UN SDGs and relevant indicators (covering 2022)

| WHEB Investment Theme | Education | Health | Safety | Well-being | Cleaner Energy | Environmental Services | Resource Efficiency | Sustainable Transport | Water Management |
|---|--|---|---|---|--|---|--|--|---|
| The problem we are solving | A lack of education limits individuals' ability to access opportunities and slows social development. ⁷ | Preventing and treating illness and disease is central to protecting and enhancing quality of life. | Safety hazards that cause injuries or death in the home, travelling or at work. | Unhealthy lifestyles contribute to chronic diseases that account for 61% of all deaths. ¹⁰ | Limiting global warming to <1.5°C requires global power sector emissions to decline by nearly 60% by 2030. ¹¹ | Human activities are causing loss of biodiversity that is undermining ecosystems supporting human life. | Limiting global warming to <1.5°C requires the global economy to increase energy efficiency by c.4% per year. ¹² | Limiting global warming to <1.5°C requires all transport emissions to fall by 3% per year to 2030. ¹³ | Overuse and contamination of freshwater creates water insecurity, and 47% of the global population suffers from water scarcity. ¹⁴ |
| How companies provide solutions | - Providing education and training - Publishing and education technologies | - Cutting health costs - Enabling medical research - Providing diagnostics - Improving access to healthcare - Providing medical devices and therapies - Providing preventive care | - Ensuring that products are safe - Directly protecting people | - Providing care for vulnerable groups (eg the elderly) - Enabling good exercise and diet - Improving hearing, visual and oral health | - Reducing emissions through the use of renewable and low carbon power | - Increasing circularity in material use - Developing more sustainable materials - Reducing pollution - Carrying out environmental consulting and monitoring | - Making buildings more efficient - Making manufacturing more efficient - Making energy efficient products | - Reducing emissions per km travelled through mass transit - Reducing emissions by using electric vehicles | - Increasing the efficiency of water use - Treating and recycling wastewater |
| WHEB portfolio holdings⁸ | - Grand Canyon Education | - Agilent - bioMérieux - CSL - Danaher - Exosite - Fisher & Paykel - Genmab - Getinge - Globus Medical - Hamamatsu Photonics - Icon - Lonza Group - Novo Nordisk - Sartorius - Siemens Healthineers - Thermo Fisher Scientific | - MSA Safety - Intertek - Steris | - Cooper Companies - HelloFresh - Sonova | - Aflen - First Solar - SolarEdge - Vestas | - Arcadis - Croda International - DSM - Lenzing - Linde - Smurfit Kappa - Sweco - Tonra Systems | - Ariston - Autodesk - Ansys - Belimo - Daifuku - Daikin - Dassault Systèmes - Hexagon - Keyence - Kon - Power Integrations - Silicon Labs - Spax-Sarco Engineering - Trane Technologies - Trumble | - Aptiv - Infineon - JB Hunt - STMicroelectronics - TE Connectivity | - Advanced Drainage Systems - Ecolab - Xylem |
| Key performance indicators | - Days of tertiary and vocational education | - No. of people benefiting from healthcare | - No. of people with improved well-being | - No. of people with improved well-being | - MWh of renewable energy generated - tCO ₂ e avoided | - Tonnes of waste materials recycled | - tCO ₂ e avoided | - tCO ₂ e avoided | - Litres of waste water treated - Litres of water saved |
| UN Sustainable Development Goals <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> | | | | | | | | | |

The ‘impact engine’ – assessing the impact of products and services

Companies supply a vast range of products and services with differing levels of positive impact. In 2019, we introduced a new analytical tool to assess the overall impact ‘intensity’ of the products and services offered by companies. This tool is intended to capture the underlying theory of change as to how the company’s products and services help solve a specific social or environmental problem as well as the different dimensions of positive impact that are created by products and services⁷. We revised the impact engine in 2021 and now have six questions covering the three following dimensions of impact:

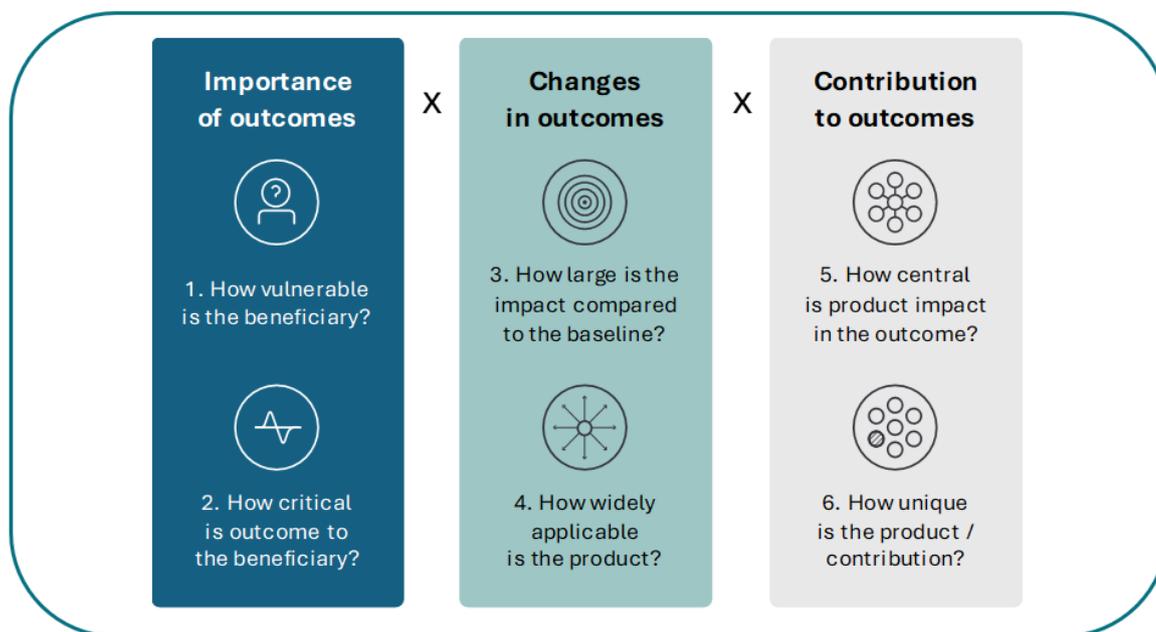
- the *importance* of the outcomes;
- the *change* in the outcomes; and,
- the *contribution* to the outcomes.

These dimensions along with the six questions are displayed in figure 4. Further details on the impact engine, including worked examples are available in our annual impact reports⁸.

⁷ In developing the impact engine we used the frameworks developed by the Impact Management Project (<https://impactmanagementproject.com/>) and the Future Fit Foundation (<https://futurefitbusiness.org/>)

⁸ For example, ‘The age of adoption – Annual impact report 2023 pp16-17 (<https://www.whegroup.com/assets/files/uploads/wheb-impact-report-2022.pdf>)

Figure 4: Dimensions of impact



Each question is assessed and given a score from one to three with three denoting a higher impact. The two scores in each dimension are then added together. These three scores (one for each of the dimensions) are then multiplied to give an impact intensity factor. This is then translated into a percentile score. The percentile score is then multiplied by the proportion of revenues attributable to that product/service to give an overall impact score. Where companies have more than one category of product, the impact intensity is calculated separately and then summed to produce an overall impact intensity score for the company as a whole.

Assessing the quality of company policies and practices

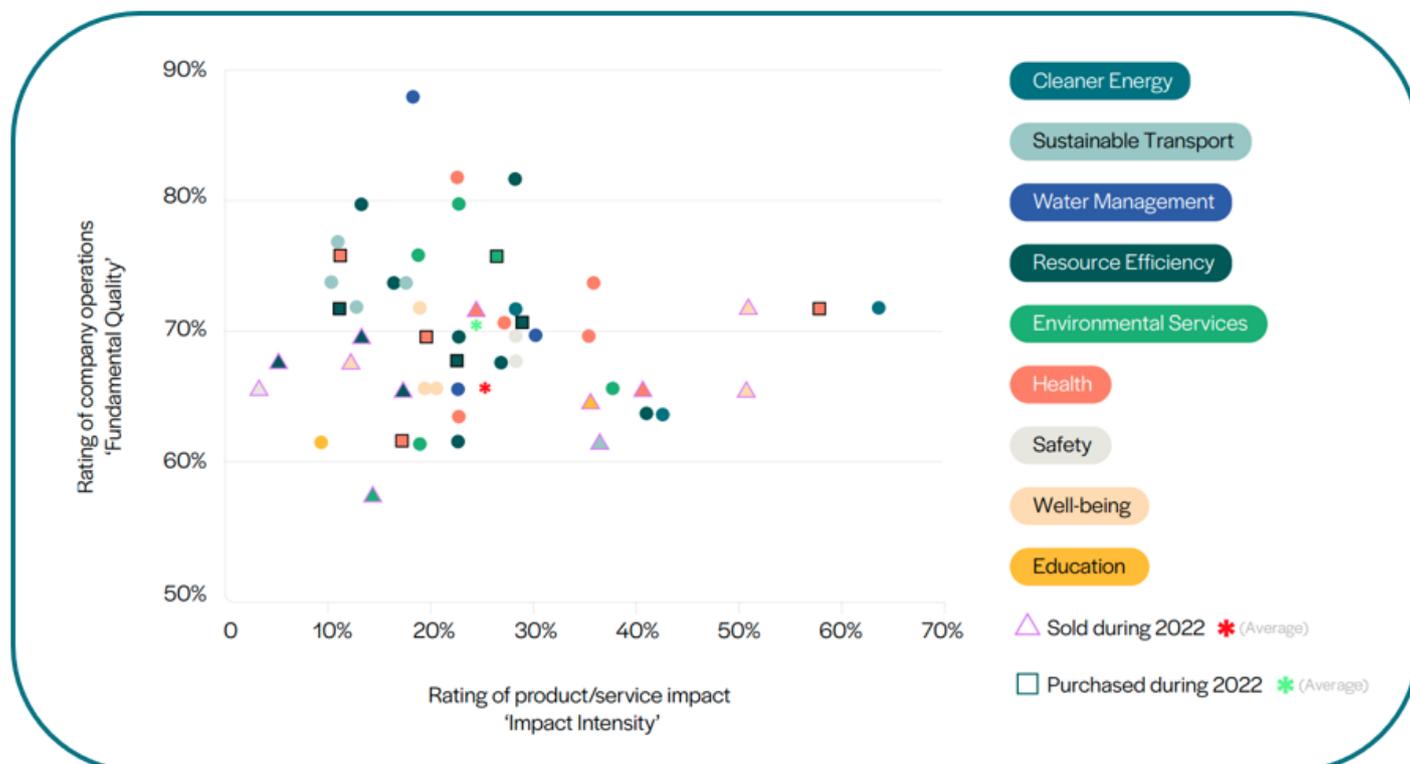
In addition to the impact of the products/services provided by our portfolio companies (**what** they do), the WHEB investment process also assesses the fundamental quality of a company's policies and operational performance (**how** they do it). The analysis considers five aspects of business operations:

- market attractiveness,
- competitive position,
- value-chain operations,
- management quality, and,
- growth strategy.

Each category is scored from 1-10. These scores are then summed and multiplied by two to give the 'WHEB quality score' ranging from 0-100. In assessing the fundamental quality of each aspect of a business' operations, we consider a range of measures relating to both financial and environmental, social and governance ("ESG") management and performance. In our view this integrated analysis provides a more complete assessment of a company's overall quality.

Figure 5 below illustrates the overall mapping of portfolio holdings in WHEB's investment strategy as at the end of 2022 with the impact score on the x-axis and the quality scores plotted on the y axis. Our ambition is to ensure that over time, the portfolio as a whole is composed of higher quality and higher impact businesses. This would be evidenced through a migration towards the top right quadrant.

Figure 5: Impact Map: Mapping company quality and impact (as at 31/12/2022)



2. Calculating company impact

In addition to assessing the impact 'intensity' of a given company based on the products and services that it supplies, we also collect data on the positive impact experienced in the real world as a consequence of the use of the products and services sold by company. In 2017, we developed our own methodology for collecting and aggregating this data in order to calculate and report on the impact associated with WHEB's investments. This methodology was subsequently validated in 2019 by the Carbon Trust⁹. Data that was reported in our impact reports was also reviewed by the Carbon Trust and was considered to be 'fit for purpose and... a reasonable basis for impact calculations' and that the data was of a 'reasonable quality'. Please see WHEB's impact reports for further information¹⁰.

Since 2023 we have started sourcing our data from third party vendors. This data is also collected from investee companies where it is considered to be robust and is supplemented by models using life cycle analysis and other impact data from scientific literature where it is not¹¹.

When reporting the annual impact associated with our holdings, we also make a number of adjustments. For example, if the company has only been held in the strategy for six months, we will prorate the company's impact to cover this period rather than the full twelve months.

⁹ <https://www.carbontrust.com/our-work-and-impact/impact-stories/proving-a-funds-sustainability-and-social-impact-with-wheb-asset-management>

¹⁰ We included statements from the Carbon Trust in our 2020 and 2021 reports (<https://www.whebgroup.com/reporting-impact-investment/impact-reports>)

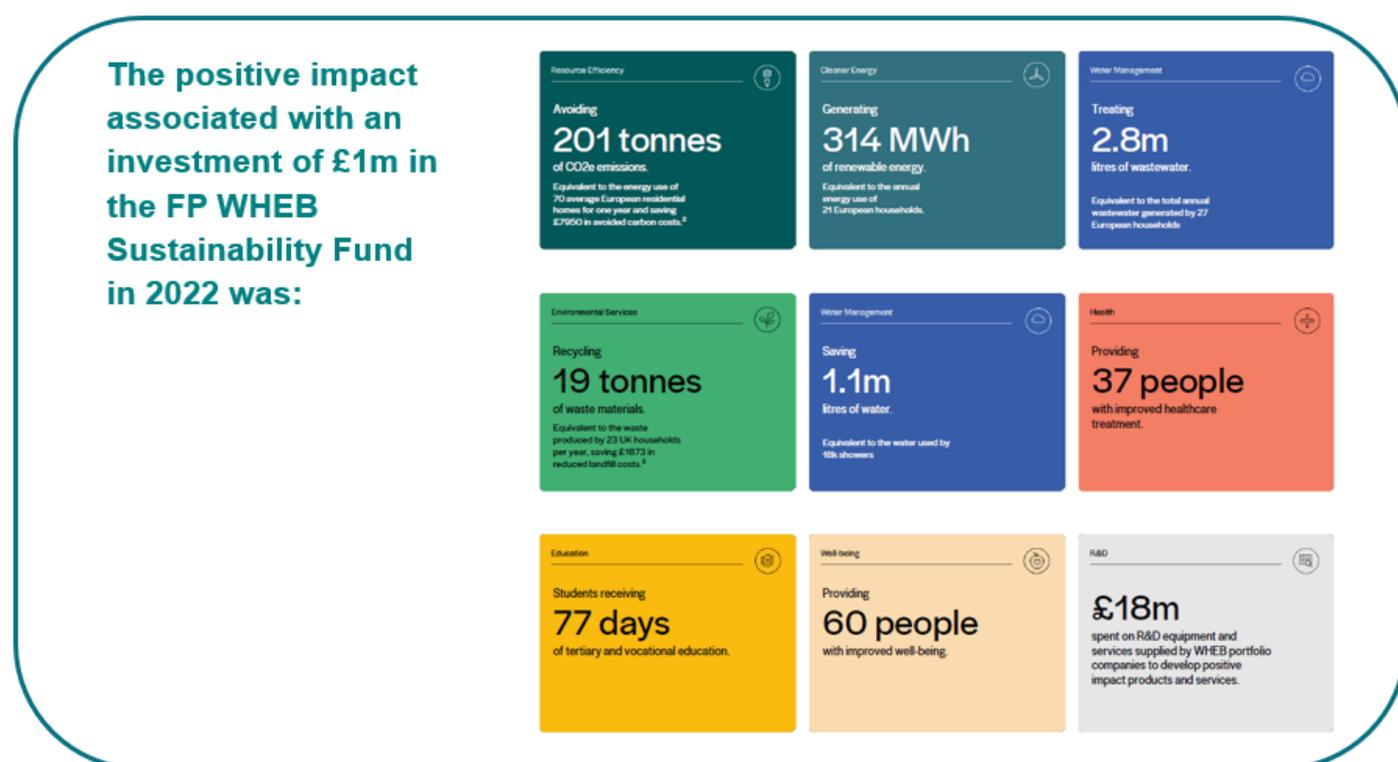
¹¹ Net Purpose's methodology is available from Net Purpose at <https://www.netpurpose.com/>.

The impact calculator

Having calculated the positive impact that is associated with the products and services of each company, we then calculate the positive impact associated with the investment strategy's specific holding in the company. The total positive impact of the company is multiplied by the fraction of the company's total enterprise value including cash (EVIC)¹² that is owned in the strategy at the end of the calendar year. This gives the positive impact associated with the strategy's investment in that company.

The positive contributions from each company are then grouped according to the mapping illustrated in Figure 3 and summed to give the total impact of the strategy on each indicator. This data is then converted into impact per pound (£) of investment by dividing by the amount of money in the strategy. It is this data that underpins the 'impact calculator'. An interactive version of this calculator is available on WHEB's website.

Figure 6: The 2023 impact calculator (covering calendar year 2022)



Avoided emissions in context

Delivering economic development that is sustainable requires the use of technologies and business models that have a significantly lower environmental footprint than has previously been the case. These technologies provide a critical contribution in reducing the negative environmental impacts associated with the global economy. Quantifying and reporting avoided emissions is essential if investment businesses and other market participants are to have a full understanding of the overall contribution made by different companies.

However, while a *necessary* condition, enabling technologies do not on their own make a *sufficient* contribution to ensure sustainable development. The avoided emissions they generate come from the delta between legacy technologies and

¹² While not wholly uncontroversial, EVIC is the denominator that is used in the global GHG Accounting and Reporting standard that has been developed by the Partnership for Carbon Accounting Financials (PCAF) - see <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>.

businesses and the new approaches that replace them. They arise from a relative improvement in emissions compared to a business as usual (BAU) scenario. This relative improvement is not the same as an absolute reduction in environmental damage¹³.

Understanding the role played by enabling technologies in avoiding emissions is important, in our view. It is equally critical, however, to recognise that on their own, avoided emissions are an inadequate framework to deliver a zero carbon and more sustainable economy. Alongside the measurement of avoided emissions, we also need to understand absolute levels of emissions. Ultimately it is these absolute levels that will determine whether development is genuinely sustainable. We report both of these, along with other metrics, in our annual impact and net zero carbon reports.

Impact ‘ownership’

It is also important to make clear that, as investors, neither WHEB, nor our clients ‘own’ the positive impact associated with investments in the WHEB strategy. In a real sense, it is not even ‘owned’ by the companies that WHEB invests in. It is visible instead in the impact of the ultimate user of the product or service; the owner of the electric vehicle, the homeowner who buys renewable power or the hospital that delivers life-saving therapies. These are the individuals or institutions that generate the positive impact by using products and services supplied by investee companies.

Our role, as managers of our clients’ money, is to ensure that these assets are invested in a way that enables and is aligned with these positive outcomes. WHEB’s Impact Calculator is a tool that is intended to connect investors with the positive role their money plays by illustrating how a given investment is associated with a range of positive real-world impacts.

3. WHEB’s investor contribution

Alongside the enterprise impact that is delivered by the companies that we invest in, WHEB also delivers positive impact by supporting the companies we invest in to increase their positive impact. We have called this the ‘investor contribution’ and it is seen as central to the definition of impact investing. For example, both the UK’s FCA and the Global Impact Investing Network consider that merely holding assets that themselves have a positive impact is not considered sufficient to qualify as an impact investment¹⁴. The investor themselves need to advocate for positive impact that is aligned with the objectives of the strategy or fund.

Stewardship of investee companies

For WHEB, stewardship is defined as ‘the responsible management of money on behalf of savers and pensioners, to create sustainable benefits for the economy, the environment and society’. As investors, we believe we have a responsibility – and an opportunity – to advocate for progressive change at the companies in which we invest. Done well, we believe this will benefit the companies as well as society more generally.

Stewardship is firmly embedded in our investment process. Engagement and voting activity with portfolio companies is undertaken directly by the Impact Investment Team and underpinned by our views on the materiality of key sustainability

¹³ For a more detailed discussion of avoided emissions see ‘The age of adoption – Annual impact report 2023 pp38-39 (<https://www.whebgroupp.com/assets/files/uploads/wheb-impact-report-2022.pdf>)

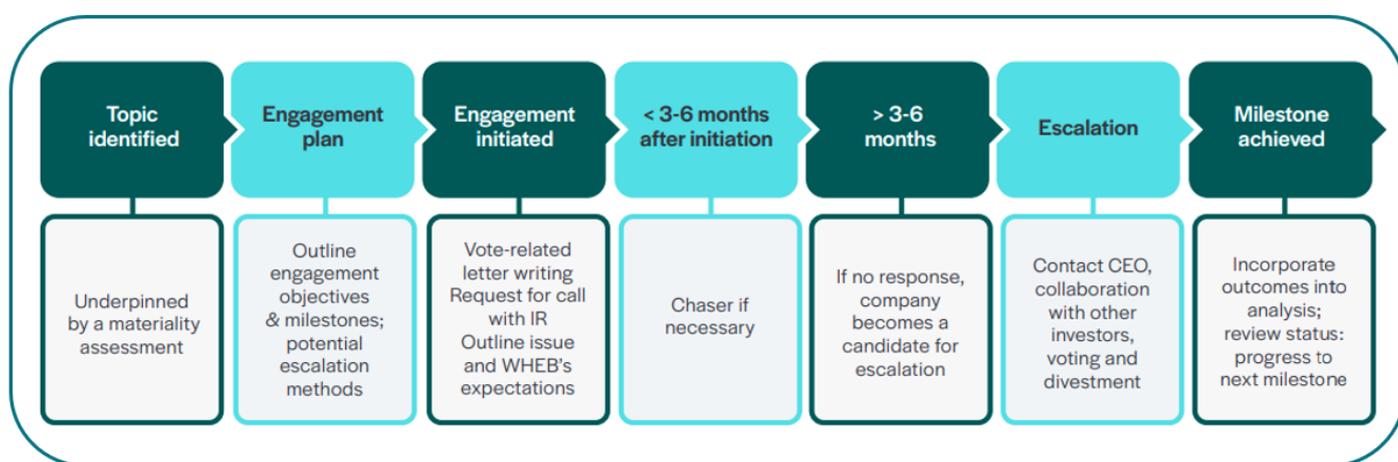
¹⁴ See <https://www.fca.org.uk/publication/policy/ps23-16.pdf> and https://thegiin.org/assets/Guidance%20for%20Pursuing%20Impact%20in%20Listed%20Equities_Final%202023.pdf

issues for the business. Our focus is on engagement that underpins the long-term success of the businesses that we invest in.

We believe it is optimal for stewardship activities to be performed by the Impact Investment Team itself as it is this team which has ultimate responsibility on whether to buy, hold or sell investments in portfolio companies. A core task for WHEB analysts is to monitor and understand the activities and performance of investee companies. Because it has this broader commercial context, we believe that the Impact Investment Team is best placed to influence company management and integrate any insights back into our investment thesis.

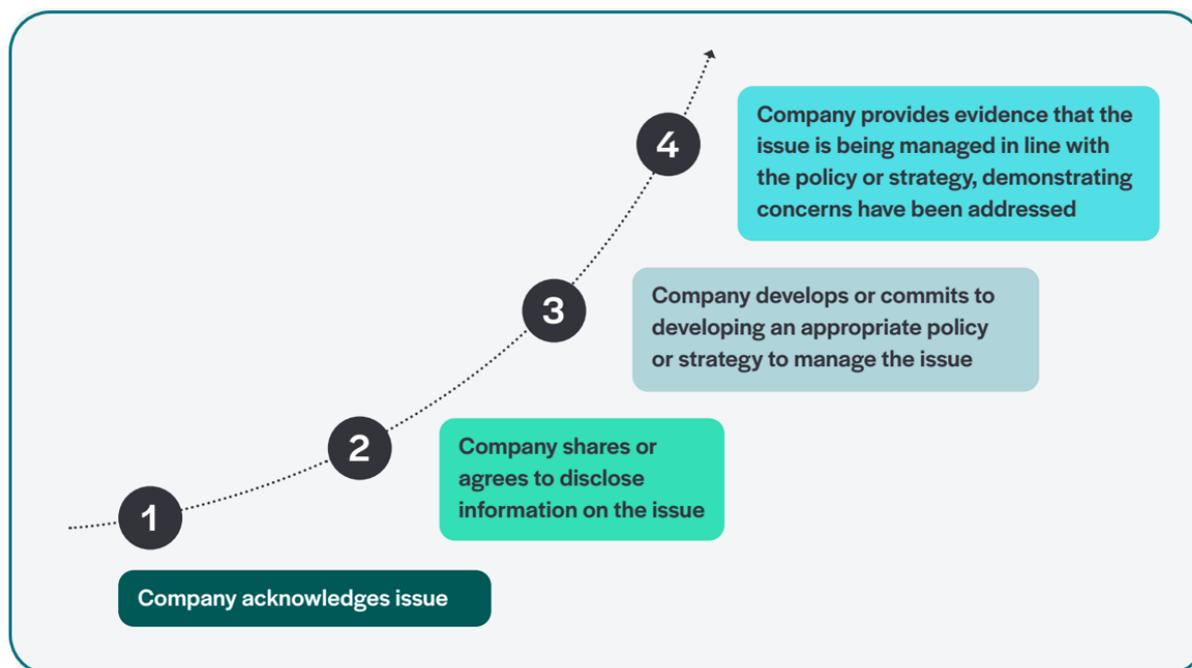
Engagement is typically initiated by the relevant analyst and undertaken bilaterally with the company. While each engagement is different, a standardised view of WHEB’s engagement process is illustrated in figure 7 below.

Figure 7: An overview of WHEB’s engagement process



We track each of our engagements and report detailed information on the number of engagements, which companies they are with, what escalation tools are used, who participates in the engagement and ultimately what the outcomes are. We have identified four milestones that indicate the extent to which our engagement objectives have been achieved. These milestones are illustrated in figure 8 below and are publicly disclosed through our stewardship reports.

Figure 8: WHEB's engagement milestones



A word on attribution

As asset managers we believe we can show correlation, but not causation between our stewardship and engagement efforts and real-world outcomes. We do not look to take credit for outcomes, which are almost always the result of the efforts of multiple stakeholders. Instead, our aim is to look beyond our own activity levels and understand our effectiveness. Implemented in late 2022, the objective milestones framework helps this evaluation process.

Systemic engagement

In addition to the contribution that investors can make at the level of the individual enterprise, we can also shape the financial system to support and enable more positive outcomes. This can involve engagement with regulators, policy makers, standard setters, rating agencies and other market participants. Our objective here is to work with partners in advocating for higher standards in financial services and other markets that help to support more positive social and environmental outcomes.

This type of systemic engagement can also involve work 'upstream' of WHEB with clients and their advisers. Often called 'signalling' this activity can play an important role by indirectly supporting positive impact enterprises. In the same way that the impact of a decision to divest from a business with a negative impact largely hinges on the active communication of that decision, so the same is also true for positive impact investing. It is in the communication that the investment decision acquires additional currency by serving to make that company more attractive to other investors.

Practical examples of this systemic engagement at WHEB include work that we have done in supporting the development of new regulations and standards on sustainable finance, bilateral and collective advocacy on the need for more ambitious public policy targets on climate change and efforts to educate and inform investors on the potential for asset management to have a positive impact. A list of our industry networks is available on our website at <https://www.whebgroup.com/about/our-industry-networks>.

Reporting and transparency

We report quarterly on changes to the portfolio impact map (Figure 5) as part of our regular reporting to clients. These reports are publicly available from the WHEB website¹⁵. Quantitative impact data has also been published in an annual Impact report since 2017¹⁶. Stewardship reports are published annually¹⁷ with new case studies added quarterly¹⁸. Additional information on the WHEB investment strategy including how it supports the UN Sustainable Development Goals are available from our website¹⁹.

The methodology for assessing a company's positive impact won Best Impact Fund Methodology (Europe) in the 2023 WealthBriefing 'Wealth for Good' awards. We also won Best ESG Communication Strategy (Europe) in the 2023 WealthBriefing 'Wealth for Good' awards and 'Best sustainability reporting by an asset or fund manager: medium and small' in the Environmental Finance Investment awards in 2021 and 2023.

¹⁵ <http://www.whebgroup.com/investment-strategy/fp-wheb-sustainability-fund/quarterly-reports/>

¹⁶ <http://www.impact.whebgroup.com/>

¹⁷ <https://www.whebgroup.com/reporting-impact-investment/stewardship-reports>

¹⁸ <https://www.whebgroup.com/investing-for-impact/stewardship/engagement-case-studies>

¹⁹ <https://www.whebgroup.com/reporting-impact-investment/un-sustainable-development-goals>

