



Investment Advisory Committee

WHEB's independent Investment Advisory Committee's key purpose is to scrutinise the investment team's activities, including stewardship. They review the fund's holdings and ensure that they meet with both the spirit and the letter of the strategy's sustainability criteria. Members play an advisory role, are independent experts in the field of sustainable investing and meet every four months.



Attendees

Seb Beloe (Head of Research)	Alice Chapple (Member)
George Latham (Managing Partner)	Carole Ferguson (Member)
Victoria MacLean (Associate Fund Manager)	Martin Rich (Member)
Rachael Monteiro (Stewardship and Climate Analyst)	Abigail Rotheroe (Member)
Katie Woodhouse (Investment Analyst)	Jayne Sutcliffe (Chair)

1. Business update

Since the last Advisory Committee meeting in November, performance has improved relative to peers and against our benchmarks (see below). George Latham noted what he sees as a bifurcation in the market between retail and institutional markets. Retail markets have been very sensitive to relative performance against the MSCI World benchmark. As the WHEB strategy has underperformed this significantly over three years, the company is seeing pressure in this market segment. The vast majority of this underperformance is due to not owning the 'Magnificent Seven', which WHEB do not consider to be positive impact stocks. This is generally recognised and understood by investors, but the performance headwind remains a challenge.

Institutional investors, however, tend to have a longer-term orientation and a broader view on relative performance against a benchmark. In contrast to retail, institutional investors seem to be increasingly interested in the philosophy and focus of impact funds and WHEB continues to see a healthy number of inquiries about its investment strategy.

As the same time, the pressure on impact investment strategies is beginning to constrain the availability of impact funds in the market. A number of WHEB's peers have already begun to soften their impact focus by adopting a broader ESG approach. A large number of funds, now labelled the 'ESG tourists', and which had relatively recently rebranded as 'ESG' or 'sustainability', are also now exiting the sustainability investment market. Seb Beloe made clear, as also stated publicly in a recent blog, that WHEB believes that sustainability investing remains very popular with underlying beneficiaries and that WHEB as a business remains wholly committed to this market¹. With this in mind, GL reported that WHEB's Impact Investment team now numbers ten with Chloe Tang and Katie Woodhouse both appointed as Investment Analysts in the period.

WHEB adds two new investment analysts



Katie Woodhouse,
Investment Analyst



Chloe Tang, Investment
Analyst

¹ - <https://www.whebgroup.com/our-thoughts/staying-the-course-wheb-remains-committed-to-sustainability-investing>

2. Fund update

Over the period since the last meeting the fund has had volatile performance largely driven by sentiment about the direction of interest rates. October, for example, was a particularly weak month, but this shifted dramatically in November when US inflation turned out to be lower than expected. This led to investors anticipating quicker and more frequent cuts to interest rates in 2024 which in turn drove a strong market rally through November and into December. January saw the market reset back down following data that suggested that inflation was likely to be stickier with February again turning more positive. This followed stronger results from many industrial and healthcare businesses which investors had anticipated would show slow – or even negative – growth in the first half of 2024.

Individual stock performance was largely driven by end-markets. Cleaner Energy stocks remain challenged by interest rates making homeowners, for example, less interested in solar installations. Similarly, sales of battery electric vehicles (BEVs) began to soften in the period in Europe and the US due to the relatively high up-front cost of BEVs compared to traditional internal combustion engine vehicles. In contrast, companies involved in adaptation and building efficiency have continued to do well. This included WHEB's investments in Trane Technologies and Advanced Drainage Systems.

Committee members were curious to hear the team's views on a potential second Trump presidency and the prospects of a repeal of President Biden's Inflation Reduction Act (IRA). Victoria Maclean argued that in the team's view, it will be very difficult to unwind the IRA in its entirety as it is primary legislation and would require the Presidency as well as both houses of Congress to vote for its repeal. Many Republicans are likely to resist repeal as their constituencies have become large beneficiaries of the policy. WHEB believes that there may be parts of the legislation that do get repealed such as credits for battery electric vehicles (BEVs). If Trump were to be elected, WHEB would expect more policy headwinds for several of the environmental themes, but, at the same time, many of WHEB's social themes could perform relatively well as they did under his first presidency.

3. Buys and sells in the period

During the period, three new companies were purchased for the global strategy and two new holdings in the European strategy.

Novo Nordisk (Health) is a global healthcare company focused on the discovery, development, manufacturing and marketing of pharmaceutical products for the treatment of diabetes, obesity and haemophilia. The diabetes and obesity segment concentrates on insulin, GLP-1 and other protein-related products as well as delivery systems and oral anti-diabetic drugs. The biopharmaceuticals segment, covers haemophilia care, growth hormone therapy and hormone replacement therapy.



Siemens Healthineers (Health) is a global medical technology company which was spun out of Siemens AG in 2017. Through four business segments, it specialises in the provision of diagnostic imaging, diagnostics, radiation oncology equipment and equipment for minimally invasive surgeries (MIS). All four segments help contribute towards either an improved quality of life and/or the life expectancy of patients.

Nextracker (Cleaner Energy) is a leader in the solar tracker market integrating software with tracker products which are used in utility-scale solar projects. Nextracker's tracker systems allow customers to configure utility solar projects to maximise energy output across a range of terrains and weather conditions.



Committee members confirmed that they were supportive of the new stock additions. They did wonder why the strategy did not buy into Novo Nordisk earlier and whether the industry is medicalising obesity which should be treated through diet and exercise. Victoria Maclean answered that some key catalysts made the team more comfortable with Novo

Nordisk, including the results of clinical trials which showed that GLP1s have a positive impact on several diseases associated with obesity as well as evidence of a pipeline of even more effective drugs. She also argued that there is strong evidence that in very many cases, diet and exercise are ineffective for seriously obese people. The main issue facing the company currently is how to protect supply to ensure that diabetics are able to access the products they need.

Committee members were also interested to understand the decision to sell TOMRA. The team said that while the impact of TOMRA is strong in enabling higher levels of packaging recycling, policy delays have made it a difficult investment. Delays to deposit return schemes have for example been made in Australia, Scotland and the United Kingdom among others.

In the European strategy the following new purchases were made:

Gerresheimer (Health) provides a range of medical packaging and delivery systems such as syringes, insulin pens, inhalers and other components for the safe delivery of pharmaceutical and other healthcare products.



Nexans (Cleaner Energy) manufactures cable technologies and services that are used in high voltage applications that enable the transmission of power from sources (such as wind and solar) through the electricity grid, medium voltage applications that connect the transmission grid to the distribution grid and low voltage applications that connect the distribution grid to the end user's power outlet.

Committee members confirmed that they were also happy with these additions to the European portfolio. The team confirmed that Nexans is attractive from an impact point of view because of the importance in developing and reinforcing electricity transmission and distribution networks in order to connect more sources of renewable power and to make these networks more flexible. Committee members were keen to hear whether there was any focus on reducing plastic use in medical packaging applications. Seb Beloe cited some portfolio companies, such as Fisher and Paykel Healthcare which has sought to replace single-use plastic products with products that can be reused multiple times as well to find alternative materials to replace plastic. However, he agreed that this is clearly an area for further engagement.

4. The impact and implications of the FCA's Sustainability Disclosure Requirements

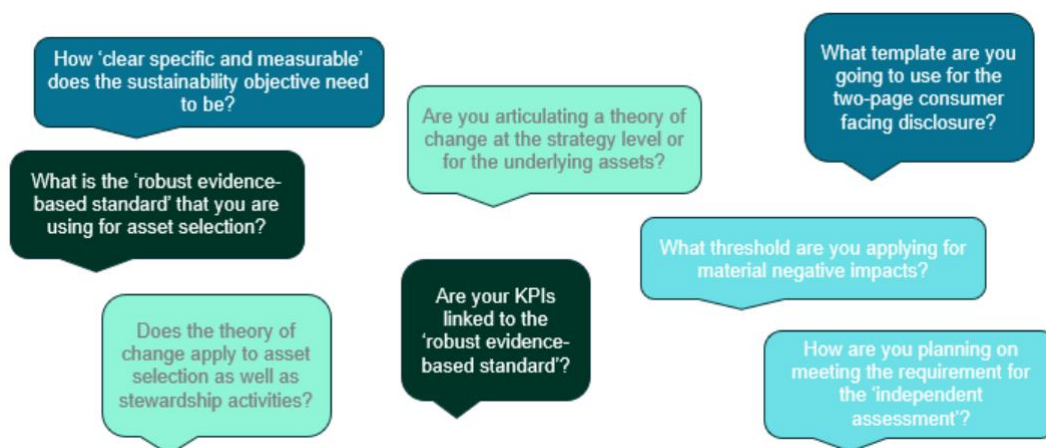
Seb Beloe introduced the Committee to WHEB's analysis of the likely impact of the FCA's policy statement on 'Sustainability Disclosure Requirements (SDR) and investment labels'². In WHEB's view there are four implications of the policy:

1. **Differentiation** – for the first time the sustainability investment market in the UK will have access to four labels based on three distinct and complementary styles of sustainability investment. This will, in WHEB's view, allow the market to move beyond generalised notions of sustainability and differentiate between each style and match each of these to client demand.
2. **Challenging** – The requirements for use of the labels are demanding and require fund managers to clearly articulate the sustainability objective of the fund as well as how this is translated into an investment policy and how fund performance is then measured and reported through key performance indicators (KPIs).
3. **Principles-based** – The requirements are principles-based which, in WHEB's view, should allow for ongoing innovation and development in the labels. This contrasts with the European regime which is highly prescriptive.
4. **Focus on intentionality** – For the Sustainability Impact label, which WHEB plans to use, the focus of the requirements has shifted from needing to demonstrate 'additionality' and causality of impacts, to showing intentionality and correlation. WHEB strongly believes that this is the appropriate test for impact investing in listed markets.

There followed a lengthy conversation with Committee members on the policy statement and its likely impact. Key areas of discussion focused on WHEB's plans to justify the use of the sustainability impact label and whether this requires any change to the investment process. Seb Beloe responded that WHEB does not expect to have to change its investment process, but would likely have to clarify the theory of change that is articulated for the strategy as a whole (which is currently done at theme and stock level). Seb also said that it was unclear whether impact engine scores would be considered adequate KPIs or whether actual impact measures such as tonnes of CO₂e avoided or numbers of patients treated would be needed. It was also clear, he said, that stewardship would need to be aligned with the sustainability objective and that engagement outcomes would need to be reported as part of the KPIs.

Seb also raised the question of an ongoing role for the Advisory Committee in relation to the labels, and specifically in providing the independent assessment that is a requirement of the policy. This would likely be done alongside WHEB's own Investment and Risk Committee, but would likely involve refreshed terms of reference with clear principles and expectations of committee members.

Implementation of the SDR has raised lots of questions of interpretation



5. Any other business

Seb Beloe pointed out that Carole Ferguson has now served a full five-year term and so in line with the Committee's terms of reference would have to retire from the Committee. The WHEB team thanked Carole for her great service on the committee over the past five years.

A short list of potential candidates to replace Carole will be discussed with other Committee members in due course.

The next meeting is scheduled for 11th July.

Investment Advisory Committee Members



Alice Chapple

- Founder of Impact Value
- Chair of Investor Watch, Trustee of the Shell Foundation



Carole Ferguson

- CEO, Carbon Transition Analytics
- Previously Head of Investment Research at CDP



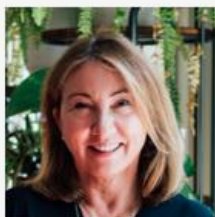
Martin Rich

- Co-founder and executive director of Future-Fit Foundation
- 25 years' experience in mainstream and social investment



Abigail Rotheroe

- NED [HydrogenOne](#), Baillie Gifford Shin Nippon, Templeton
- Previously Investment Director at Snowball Impact Management



Jayne Sutcliffe

- Non-Exec Chair of WHEB Asset Management
- Founder and former CEO at Charlemagne Capital

