



# 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.

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## Attendees

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Seb Beloe (Head of Research)	Alice Chapple (Member)
Ted Franks (Fund Manager)	Carole Ferguson (Member)
Laura Grenier (Director of Operations)	Martin Rich (Member)
Claire Jervis (Senior Analyst)	Abigail Rotheroe (Member)
Victoria MacLean (Associate Fund Manager)	Jayne Sutcliffe (Chair)
Rachael Monteiro (Stewardship Analyst)	
Susie Winstanley (Marketing Manager)	

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## 1. Updates from July meeting

WHEB updated the Committee on two actions from the previous meeting.

### Impact of Lenzing's Tencel fibres

Committee members had asked for additional detail on the relative environmental performance of Lenzing's clothing fibres (eg Tencel) compared to alternatives such as cotton. Claire Jervis (CJ) confirmed that the team has had further conversations with Lenzing including with their Head of Sustainability. These focused on their use of the Higg Index to back-up product impact claims.

The company acknowledged that the Higg Index only covers the life-cycle of the material from 'cradle to gate' rather than 'cradle to grave'. This is largely because of the complexity of subsequent steps in the value-chain and the difficulty in tracking material flows. Nonetheless the company shared life-cycle analysis (LCA) data that confirmed that even against organic cotton, itself a much lower impact material than the much more commonly used non-organic cotton, Tencel has 25% lower greenhouse gas (GHG) emissions and up 95% lower water use across its life-cycle. As a consequence of this new information, WHEB has slightly reduced Lenzing's impact score but are reassured that the company's products offer significant environmental benefits compared to competing materials.

### Roe vs Wade

WHEB also updated the Committee on the work the team has done engaging companies with US operations on how they support employee welfare particularly in accessing healthcare to support their reproductive health. So far WHEB has spoken to two portfolio businesses about their approaches and both have confirmed that they have increased travel allowance and accommodation provisions as well as additional time off work to enable employees to access health services (including abortions) that they need.

Committee members commented that this approach was being challenged in certain states that were seeking to make this type of support illegal. WHEB's approach is still focused on defining corporate best practice and will support companies that are seeking to take progressive position in supporting the health and welfare of their female employees.

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## 2. Business Update

Seb Beloe (SB) updated Committee members on business developments since the last meeting. Two new employees have joined the team since July. Susie Winstanley joined the team as a Marketing Manager covering for Libby Stanley while she is on maternity leave and Kavitha Ravikumar has joined the Impact investment team as a Senior Impact Analyst.

The team have also successfully on-boarded the new mandate with iM Global Partners (iMGP) that was discussed at the July meeting. While using the same underlying sustainability philosophy, the new mandate is focused exclusively on European companies and is marketed across Europe by iMGP. This fund has also been awarded the ISR (L'investissement Socialement Responsable) label which is supported by the French government for funds that have a thorough integration of sustainable criteria in their investment process.



Performance continues to be challenging (see below) and WHEB has continued to see pressure on fund flows. This is largely due to asset allocation decision by clients who are choosing to overweight other asset classes away from listed equities. WHEB has also launched a new website and visual brand identity and will be hosting our Annual Investor Conference at the end of November.

Members were interested to hear whether we have promoted the Article 9 status of the strategy in Europe. Laura Grenier (LG) answered that the designation is promoted through our fund literature (as well as for the iMGP strategy). This will be even more visible in 2023 as more reporting will be required as the year progresses. SB also remarked that the FCA has now published a consultation paper on their proposed Sustainability Disclosure Requirements. These proposals include a label for 'Sustainable Impact'. The criteria for achieving this label are currently not clear and potentially look like they may exclude many – if not all – listed equity products. WHEB plans to respond to the consultation on these and other points.

## 3. Overall strategy performance and composition

Ted Franks (ETF) recapped on performance this year which has mainly been driven by the dramatic draw-down in relative performance in the first quarter. During Q2 and Q3 the fund has largely kept abreast of the benchmark, the MSCI World. This latest period has been particularly volatile with days of dramatic outperformance particularly when US inflation numbers were better than had been feared. WHEB's analysis indicates that the strategy's performance has primarily been driven by style factors such as growth and mid-cap orientation. Stock specific issues have also played a part including the performance of investments in HelloFresh, Kion and Orpea.

The impact investment team is now well-resourced with a complete suite of tools to ensure that the strategy is focused on delivering a high impact portfolio that continues to see significant growth opportunities over the medium term.

Members questioned whether the sell-off in global technology companies and the geographical mix of the strategy had been significant contributors to performance in the period. ETF confirmed that the team does not consider consumer technology companies such as the FAANGs to be positive impact businesses. Not owning these companies has, over the longer-term, been a detractor from the strategy's relative performance against the MSCI World, but in the recent period their underperformance had boosted the strategy's relative performance. Geographical weighting is managed to ensure that it remains relatively close to the benchmark and so geographical weightings tend to have a limited impact on overall performance compared to the benchmark.

Members were also interested to hear how the portfolio has fared in an inflationary environment. Victoria Maclean (VM) pointed to companies which have long-term contracts that have not had the ability to raise prices. This was the issue that hurt Kion's performance and which caused the team to divest the company. Other companies, including in more

defensive sectors like healthcare, have a greater ability to pass on price increases to their customers and are better able to cope with the inflationary environment. The investment team's analysis is intended to identify these types of businesses that have reasonable pricing power.

#### 4. Buys and sells in the period

During the period the team bought three new companies and sold four.



**Croda (Environmental services)** develops and sells bio-based materials into a range of end markets including household and personal care, pharmaceuticals and food and agriculture. Nearly 70% of Croda's products are biogenic which helps to dramatically reduce greenhouse gas emissions and other environmental impacts compared to fossil-based alternatives.

**Lonza (Health)** is a contract drug manufacturing organisation. The company manufactures pharmaceutical therapies on half of drug developers. Lonza specialises in manufacturing biologics which tend to be more complex molecules to manufacture at high quality.



**Belimo (Resource Efficiency)** supplies building and automation control systems (BACS). These systems enable the precise control of energy use in buildings and help to increase efficiency by up to 25% in commercial buildings. They can also help to improve fire safety and indoor air quality.

Committee members were interested to understand why WHEB had sold AO Smith because of higher residential exposure while buying Belimo (and also recently Trane Technologies) on the basis of their commercial exposure. CJ explained that residential buyers usually purchase heating, ventilation and air conditioning (HVAC) systems on the basis of the upfront cost. These systems typically have efficiencies that are average or below average. In contrast, commercial buyers are usually more interested in the whole life-cycle cost of a system (including its use). As a consequence, the efficiency of commercial systems is a much more important selling point than it is for residential systems. This enables WHEB to find companies for whom efficiency is a key differentiator and which in turn should enable them to outcompete in the market.

The committee agreed that the new investments were consistent with the philosophy and policies guiding the strategy. One Committee member did ask however, what would happen should the Committee disagree. SB confirmed that should there be a disagreement, that would be recorded in these minutes and would be public. He clarified that the committee has never reached this conclusion on an individual company but has tightened investment theme definitions which has meant that specific companies have become ineligible for investment.

#### 5. Open discussion

Committee members suggested that WHEB's impact intensity scoring methodology might be overly demanding. ETF answered that the score is based on an assessment of a company's products and services and considers the importance of the outcomes that the product helps achieve, the scale of change in those outcomes and the specific contribution that is made (see figure 1 below). The scale is purposefully demanding as it is intended to capture the full range of impact that is possible. SB also pointed out that the vast majority (c.80%) of the MSCI World Index constituents would receive negative scores under the methodology. This point is made more clearly on the new website (see figure 2 below),

Figure 1: WHEB’s impact engine<sup>1</sup>

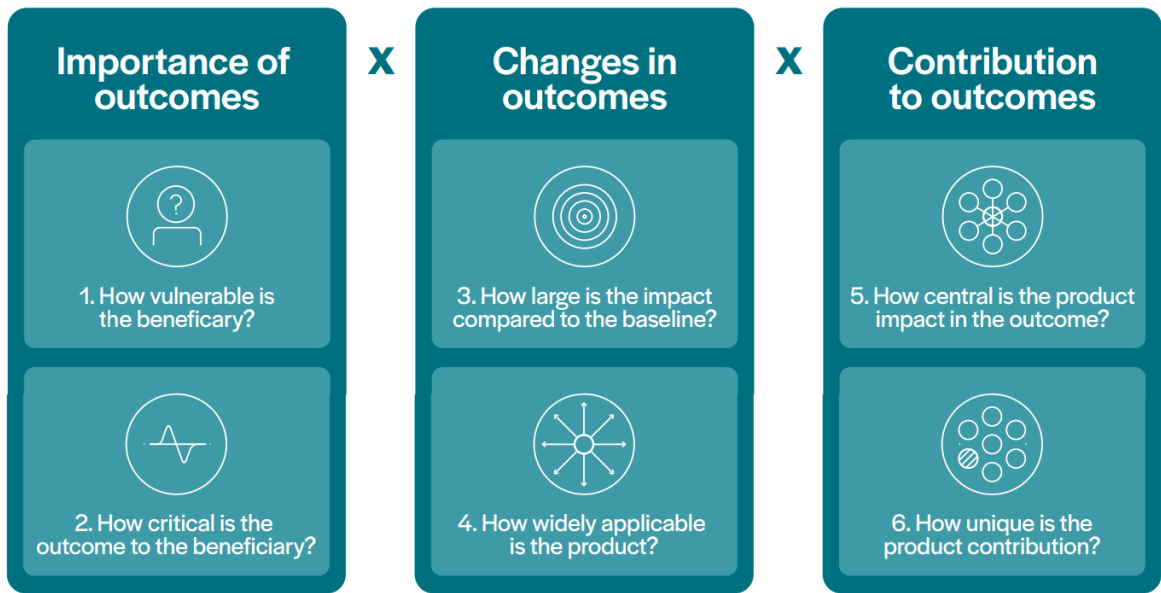
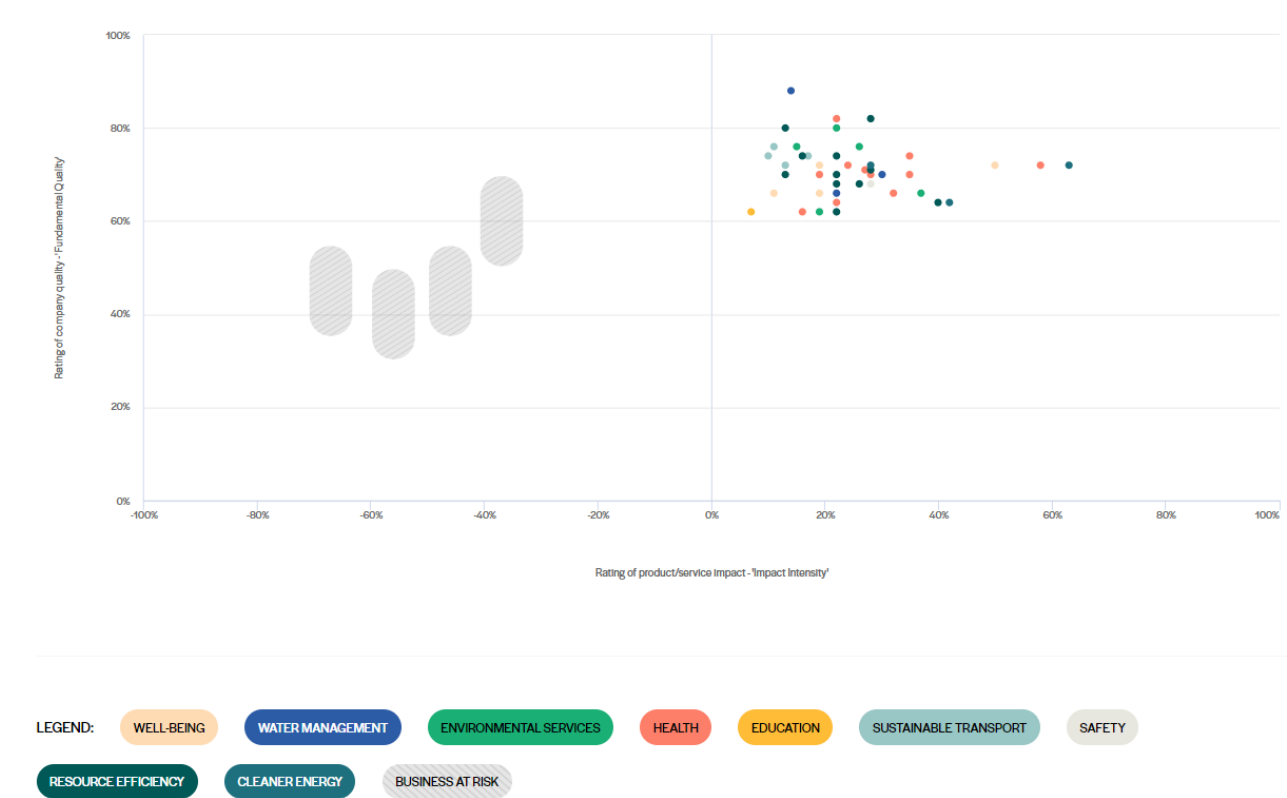


Figure 2: WHEB’s sustainability strategy versus ‘at risk’ sectors<sup>2</sup>



SB suggested that Committee members might also recommend a variety of topics that they would appreciate understanding better about WHEB’s activities and that could be a focus of future meetings. Topics that were suggested and which will form the basis of future Advisory Committee meetings included:

<sup>1</sup> <https://www.whebgroup.com/investing-for-impact/how-we-invest/our-methodology>  
<sup>2</sup> <https://www.whebgroup.com/investing-for-impact/how-we-invest>

- More detailed background notes on new portfolio companies including a break-down of the impact scores and an explanation of how the scores affect stock selection and portfolio construction,
  - how company engagement is undertaken and what impact this has,
  - what impact do portfolio companies have in addressing key sustainability issues in emerging markets and developing countries; and,
  - whether cyber security might be considered an area that is included in WHEB's 'Safety' theme.
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## **6. Any other business**

The 2023 Advisory Committee meeting cycle includes meetings in March, July and November 2023.

# Investment Advisory Committee Members



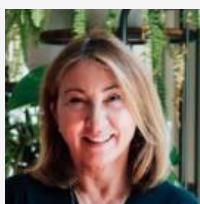
**Abigail Rotheroe**

- Investment Director at Snowball
- Previously Head of Social Investment at New Philanthropy Capital



**Alice Chapple**

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



**Jayne Sutcliffe**

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



**Martin Rich**

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



**Carole Ferguson**

- MD, Industry Tracker
- Previously Head of Investment Research at CDP and Fund Manager at Société Générale AM



