INSIGHTS

PROSPERITY THROUGH POSITIVE IMPACT

ANNUAL IMPACT REPORT 2015

WHEB

CONTENTS

WHAT IMPACT INVESTING MEANS TO WHEB

At its core, WHEB is an impact investor. All the investments made by our funds have positive social and/or environmental impact. By this we mean that they invest 'into companies, organisations and funds with the intention to generate social and environmental impact alongside financial return'.[1] We subscribe to this definition of impact investing and believe, like others, that there are four core characteristics to impact investing. These are detailed in the table below, with WHEB's approach in each of these areas also highlighted.

Core Characteristic of Impact Investing[2]	WHEB's Approach
Intentionality: The intent of the investor to generate social and/or environmental impact through investments is an essential component of impact investing.	Our intention is to deliver superior financial returns by investing in companies or projects that deliver social and/or environmental value as a core part of their business operations.
Investment with return expectations: Impact investments are expected to generate a financial return on capital and, at a minimum, to safeguard capital.	Our focus is on maximising financial returns for our investors.
Range of return expectations and asset classes: Impact investments generate returns that range from below market to risk-adjusted market rate.	All our investments are intended to deliver superior risk-adjusted market rates of return.
Impact measurement: A core tenet of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments.	We are committed to measuring and reporting the positive social and/or environmental impact of our investment funds. In this report, we document our progress on this commitment.

[1] http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html#2
[2] Ibid

INTRODUCTION

2015 was a breakthrough year for many reasons. Perhaps the most obvious advance was the global agreement secured in Paris at the end of 2015 which sets a bold ambition and a robust process to ensure global temperatures stay 'well below' 2°C.

But there were many other breakthroughs as well; some policy-related, such as the US's Clean Power Plan; some technological, such as the extraordinary progress in reducing the cost of solar power and battery storage; and some cultural, such as the growing realisation in financial markets that many types of fossil fuel assets are likely to be stranded over the coming few decades. As these developments attest, there is little doubt that the world is advancing down a path to more sustainable economic development and that progress is accelerating.

WHEB Asset Management has also had a very productive year. The business has grown by over 50% (as measured by assets under management) and has secured an impressive array of ratings and awards, some of which are listed in this report. The Company has also established a strong philosophy and culture, now underpinned by a clear mission statement and set of values.

This is the second of our impact reports, this time focusing solely on our listed equities strategy. We remain convinced of the importance of positive impact investing and this report documents our approach and our impact in 2015.[3]

At the heart of all this work is our commitment to build a truly responsible and sustainable investment business. We know that our clients value and appreciate working with a business that has set out its stall so clearly. We do not take their faith in us for granted and hope that our performance this year, together with our efforts to drive standards of reporting and disclosure across the investment industry more broadly, are important in securing and retaining their trust.

We hope you enjoy reading the report and would welcome your feedback on how we can further improve on our disclosure and impact measurement in the years ahead.

Geoff Hall
Chairman, WHEB Asset Management

[3] For a more in-depth discussion of listed equities and impact investing please see http://www.whebgroup.com/news-views/wheb-insights/

PURPOSE OF THIS REPORT

Investors are increasingly interested in understanding the impact that their investments are having on the world. We welcome and encourage this interest and have written this, our second annual impact report, for our existing and potential investors who are interested to know more about how and in what we invest their money and what impact this is having.

This year the report is wholly focused on the WHEB Asset Management business and is intended first and foremost for our clients. There is, however, a broader agenda to which we hope the report will contribute and that is the campaign for more open, accountable and sustainable financial markets. Transparency is, we believe, a critical foundation on which to build these markets and this report, along with the wider suite of communication tools available on our website, is our own modest contribution towards this objective.

Because we want this report to be widely available, we are unable to address directly the financial performance of our investment funds due to compliance restrictions. Professional investors, however, are encouraged to download detailed monthly factsheets on the performance of our flagship FP WHEB Sustainability Fund at http://www.whebgroup.com/investment-strategies/listed-equity/fp-wheb-sustainability-fund/

A NOTE ON DATA

The data in this report relates to the period 1 January – 31 December 2015. In certain cases, we have only been able to collect data referring to the prior year period. Where this is the case, this is indicated in the footnotes. Furthermore, the content and data in this report were correct as at 31 December 2015 and have not been updated since.

SECTION ONE

WHEB Asset Management: Who we are and what we do

WHEB

WHEB ASSET MANAGEMENT: WHO WE ARE AND WHAT WE DO

WHEB Asset Management is an independent investment management business that is wholly focused on a single investment strategy: to generate superior returns by investing in companies that provide solutions to some of the most serious environmental and social challenges facing mankind over the coming decades.

It is our belief that long-term social, demographic, environmental and resource challenges are reshaping the global economic landscape, 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 and we aim to invest in companies that are both beneficiaries and enablers of a shift to a more sustainable global economy over the coming decades. Our nine investment themes are illustrated in the chart below.

Figure 1: WHEB's sustainability investment themes

As an investment management business, we also believe that we need to hold ourselves accountable to the same high standards that we seek in the companies in which we invest. We have a responsible approach at the heart of our own organisational governance, are highly transparent about our practices and manage the partnership to benefit not just our shareholders, but also our employees and clients, as well as wider society and the environment. Critically though, we do this not just because it is the right thing to do, but because we believe it underpins our long-term success.

During the past year, we have taken several steps to strengthen these elements of our culture and philosophy.

New responsible investment policy

We have updated our Responsible Investment Policy to provide a fuller description of what we do and how we do it. We review our policy on an annual basis and updated it in response to feedback from stakeholders as well as internal changes within WHEB. Specifically, the policy has been expanded to provide more detail on our approach to the integration of environmental, social and governance factors as well as our motivation and commitment to engaging the management teams of our investee companies. The full policy is available from our website.[4]

Mission statement and values

During 2015, we developed a new mission statement and set of values. These were finalised in early 2016.

WHEB Asset Management's Mission Statement is: 'to advance sustainability and create prosperity through positive impact investments.'

The mission statement is supported by a set of corporate values that, together, define our corporate culture and set a framework for the kind of organisation that we aspire to be.
The values are that:

- we invest sustainably and responsibly;
- we are passionate about our work and enjoy what we do;
- we believe that our success only comes after achieving success for our clients;
- we are a learning organisation and strive to improve continuously;
- we think long-term.

Accountability and transparency

The principles of accountability and transparency are at the core of what we do and we use a range of tools to ensure that clients and other interested stakeholders are well-briefed on what we do and how we operate. Among the steps that we took during the year were to provide:

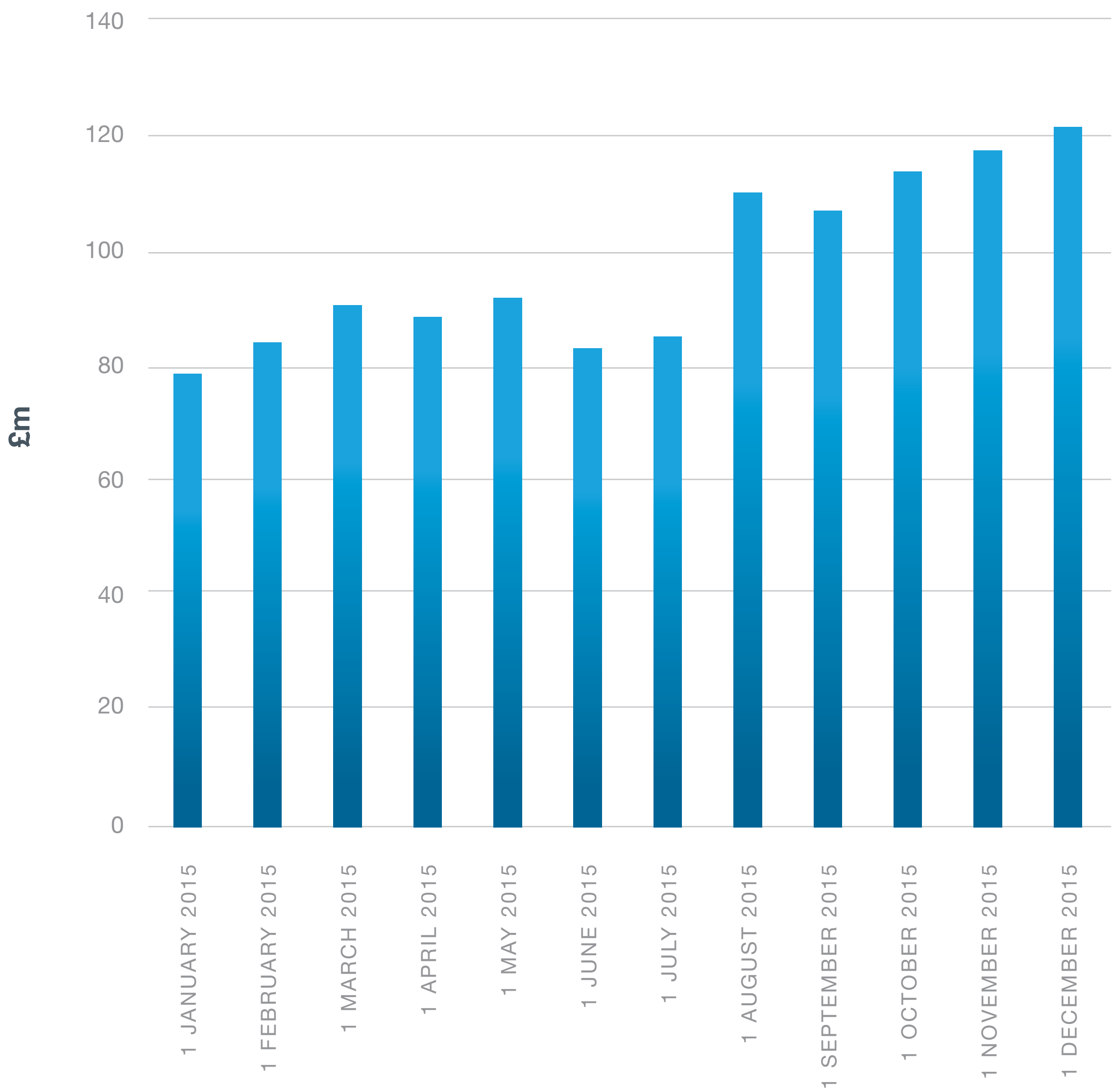
- quarterly reports on our voting and engagement activities including detailed reporting of our company voting activity (http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/);
- summary minutes from our tri-annual Independent Advisory Committee meetings (http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/investment-advisory-committee-minutes/);
- regularly updated lists of the full portfolio holdings (http://www.whebgroup.com/investment-strategies/listed-equity/fp-wheb-sustainability-fund/fund-holdings/);
- an annual UN-PRI transparency report and Eurosif transparency code filing (http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/);
- an annual impact report and investor conference (http://www.whebgroup.com/media/2015/04/WHEB-Insight_Impact-Report_2015.pdf);
- regular commentary and briefings on developments in the market (http://www.whebgroup.com/news-views/wheb-insights/).

[4] See http://www.whebgroup.com/media/2013/11/WHEB-Group-Responsible-Investment-Policy.pdf for our Responsible Investment Policy.

Assets under management

Assets under management increased by over 50% from approximately £80m under management at the start of 2015 to over £120m by the end of the year. We also took on our first institutional separate account mandate.

Figure 2: WHEB Asset Management – total assets under management



Awards and listing

During 2015, we were excited to receive several industry awards and have the fund listed on important databases. Prominent among these was a 'five stars' rating from 3D Investing. This was the top rating awarded and we were one of only four out of 140 funds analysed to be awarded the full five stars.

The fund was also included for the second year as one of only three listed equity funds on ImpactBase, a database of impact investment funds. Both 3D Investing and ImpactBase are focused on funds that have a positive social and/or environmental benefit alongside a financial return. We are very pleased that these organisations consider the FP WHEB Sustainability Fund as an impact fund.

A third award which we received in early 2016 and about which we were particularly pleased was the Sustainable Finance award at the City of London's Sustainability Awards. These national awards are given to organisations which have demonstrated excellence in sustainable development.

Among the awards and ratings that we received during the year were:

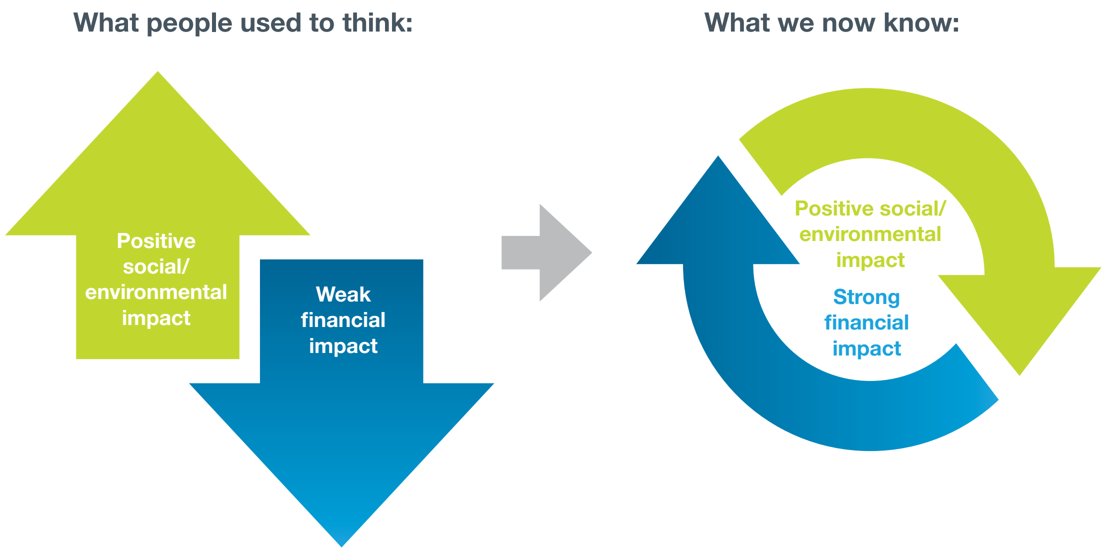
SECTION TWO

Performance through positive impact

PERFORMANCE THROUGH POSITIVE IMPACT

At the heart of WHEB's investment proposition is a conviction that strong sustainability performance leads to strong financial performance. In the words of our mission statement, we 'create prosperity ***through*** positive impact investments'. This is not about 'balancing' the two elements, or trading off one for the other, but a clear alignment between sustainability and financial performance each reinforcing the other.[5]

Figure 3: Performance through positive impact



Our investment strategy is designed to exploit this relationship and is based on three sources of potential outperformance.

1. A focus on sustainability themes allows us to find and access markets that are growing more quickly than the average.
2. An integrated approach to ESG and an understanding of the total impact of a company allows us to understand better the fundamental quality of a company and its business franchise.
3. A disciplined approach to valuation and a long-term investment horizon allows us to assess better the fundamental value of a business.

Figure 4: WHEB's investment strategy

[5] Recent studies that have reconfirmed this relationship include for example, Khan, Serafim and Yoon, Corporate Sustainability: First Evidence on Materiality, Harvard Business School, March 2015 and Dr. Andreas Hoepner, Environmental, social and governance (ESG) data: Can it enhance returns and reduce risks?, April 2013

Faster growing end-markets

The MSCI World Index is widely regarded as a useful benchmark of global equities. The composition of the index comprises over 1,600 large and mid-sized businesses drawn from across 23 developed market countries. The index covers approximately 85% of the free float-adjusted market capitalisation in each country.

As the global economy evolves, so the composition of this index changes. Over the past few years value has migrated very quickly between different sectors of the index. For example, since 2009 when WHEB launched the sustainability fund, the MSCI World Index has seen:

- the energy sector, including oil and gas businesses, fall from 11% of the index to just 6.4% at the end of 2015;
- materials, which covers the main mining industries, fall from 6.6% to just over 4% over the same period;
- mainstream electric utilities fall from 3% to 2% with coal essentially disappearing from the index.

In total, industries which have significant negative social or environmental impacts accounted for 28% of the index in 2009. This had fallen to just 19% seven years later. We classify most of these businesses as having "degenerative" business models in our impact classification system (see page 17).

Figure 5: MSCI World Index composition 2009[7]

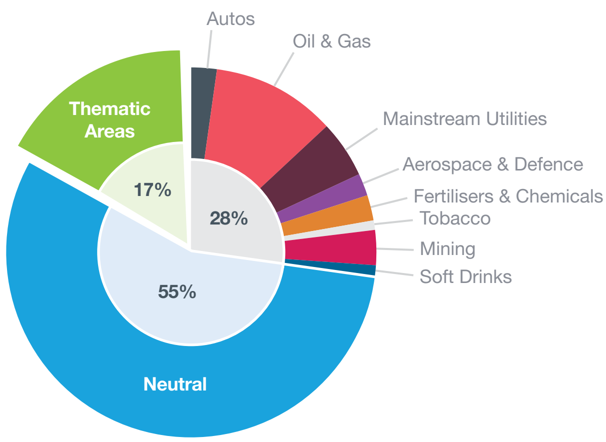
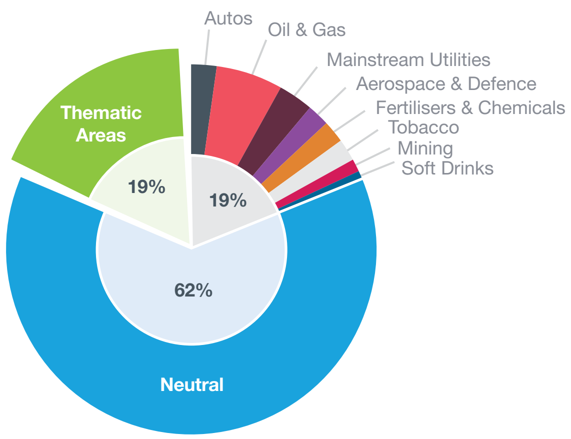


Figure 6: MSCI World Index composition 2016[8]



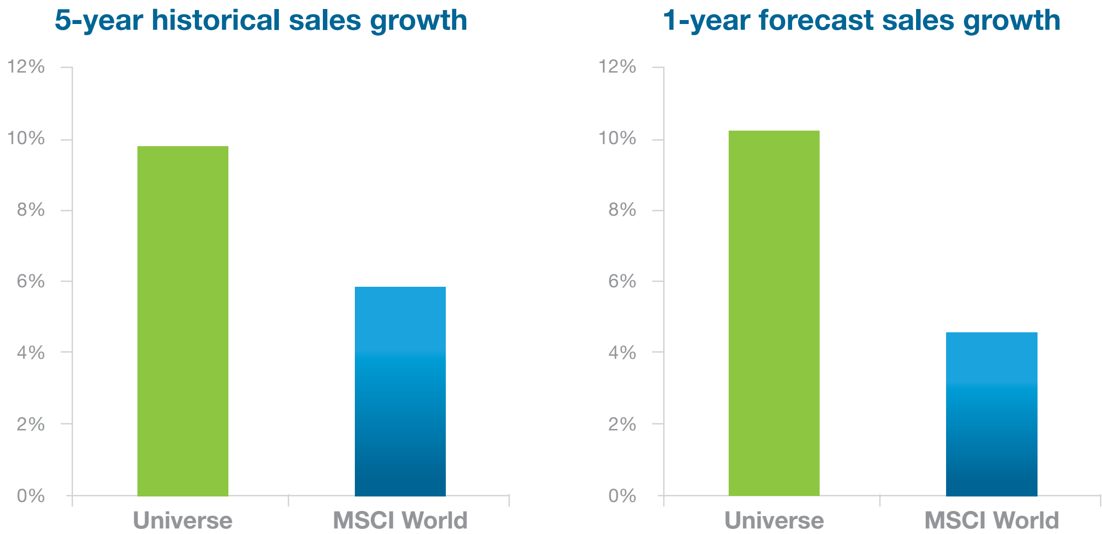
On the positive 'thematic' side of the ledger, we have seen areas such as healthcare grow significantly from under 10% of the index to over 13% and renewables appear for the first time on the index with two companies now in this category – albeit making up a still tiny proportion of the whole index. In total, areas covered by the WHEB themes have grown from 17% in 2009 to 19% at the end of 2015, and this portion of the market is now equivalent in size to the parts of the market that are most directly challenged by sustainability trends.

These shifts reflect many things, including the falling value of commodities (although it should be noted that the oil price was also at a relative low in 2009) and the slowing growth, or even contraction in many established industries. It also underlines the much stronger growth in industries providing solutions to sustainability challenges.

[7] MSCI World index of shares, 20/7/2009, sourced from MSCI, industry classification by WHEB.
[8] MSCI World index of shares, 17/02/2016, sourced from MSCI, industry classification by WHEB.

We routinely measure the sales growth in our investment universe of over 1,000 companies that fit our nine investment themes. Of these companies, only 250 are MSCI World constituents. As illustrated in figure 7, looking at both five year historical sales growth and forecast one year sales growth, this investment universe sees significantly stronger growth than the wider market, underlining our view that companies selling into sustainability-related end markets are growing faster than the wider market.

Figure 7: Sales growth for WHEB's universe vs. MSCI World Index[9]



We have benefited from the structural support associated with this strong growth over the ten years that we have run this strategy. This has also been the case since relaunching WHEB's investment strategy in 2012. Not owning c.80% of the MSCI World Index that does not qualify in our sustainability themes has contributed towards our investment strategy performance relative to this index by approximately +0.4% annually since 2012.

[9] The growth rates of the universe are weighted average growth rates of the individual stocks based on their current market capitalisations. The growth rates of MSCI World are weighted average growth rates of the constituents based on their weightings in the index. The 5-year historical sales growth of individual stocks is calculated as: [((Most recent sales / Sales five years earlier) ^ 0.2) – 1] * 100 The 1-year forecast sales growth of individual stocks is calculated as: [(Sales estimate for current financial year / Comparable sales a year earlier) -1] * 100. Source: Bloomberg. (5-year and 1-year data are the latest available from Bloomberg as at 31/12/2015.)

SECTION THREE

Thematic exposure through 2015

WHEB

THEMATIC EXPOSURE THROUGH 2015

100% of the fund is invested in companies that provide solutions to sustainability challenges. Some companies do generate revenues from areas outside the themes, but across the year 85% of revenues to companies in our funds are from our nine investment themes.

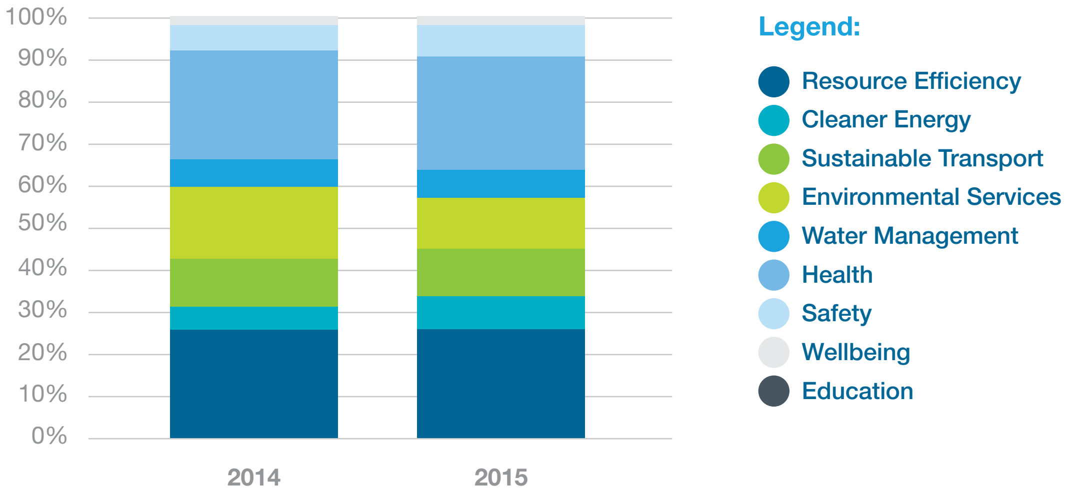
A long-term holding period is also central to our investment strategy and consequently there tends to be only incremental change in the thematic structure of our portfolio during a twelve-month period. Nonetheless, there have been a few shifts over the course of 2015 (see figure 8).

Perhaps the biggest shift has been in the reduction in the Environmental Services theme. This has been driven by our growing concerns over the exposure of these businesses to commodity markets following strong performance in previous years. This exposure includes direct exposure through the work that these companies do in undertaking impact assessments and cleaning up contaminated land for extractive industries. In addition, waste and recycling businesses are also held in this theme that have exposure to commodity markets by being involved in selling recycled materials on the market. Partly as a consequence of these concerns, we have reduced the weighting in this theme from 17% at the end of 2014 to just 12% at the end of 2015.

This has been balanced by broader based increases, including in Health, Cleaner Energy, and Safety. The weighting in Cleaner Energy in particular has grown following the improved prospects for that sector, particularly in solar photovoltaic technology as the costs of the technology have come down and policy support has expanded across the world.

Health became the largest theme during the year, reflecting our concern at the rather limited potential for equity markets in 2016. We also continue to have no investments in our education theme, reflecting a lack of opportunities in this part of the market at the present time.

Figure 8: Thematic exposure 2014-2015



Understanding our climate contribution

In 2015, we published the first carbon audit of the FP WHEB Sustainability Fund. This confirmed that the Fund has a significantly lower carbon footprint compared to the benchmark for the Fund, the MSCI World Index. The carbon audit that we commissioned indicated that the Fund had a footprint that was less than one third of the benchmark and among the best 20% of funds globally on this measure.[10]

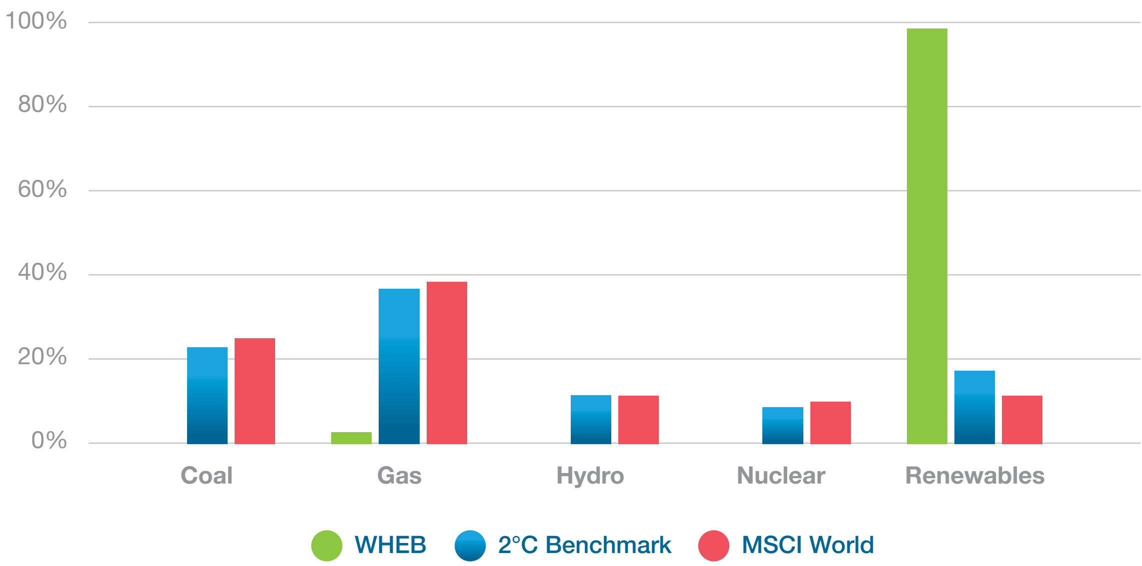
This analysis, however, only looked at the carbon emissions that are generated by companies in the Fund from their own use of energy (i.e. scope 1 and scope 2 emissions only). Emissions that are saved through the use of the product (i.e. scope 3 emissions) were not included. Given the significant proportion of the Fund that is invested in businesses that help reduce carbon emissions through the use of their products, this means that this audit is likely to have significantly underestimated the overall contribution of our Fund.

In 2016, we have worked with another organisation to look at the profile of the Fund and how this aligns with the power generation technologies needed to ensure that climate change does not lead to more than 2˚C of warming. This methodology takes a forward-looking approach by estimating what the world's power generation infrastructure should look like in 2020 in order to ensure the world stays under this 2˚C threshold. It then looks at the investment strategy's holdings today, as well as current investment plans at the physical asset level, to determine what the power generation mix is likely to look like in 2020. The analysis then compares the investment strategy's exposure to the '2˚C scenario' as well as the expected power generation mix within the MSCI World Index in 2020.

The analysis was undertaken by the 2˚ Investing Initiative[11] and the key findings are captured in figure 9 below.[12] This chart illustrates how the 2020 scenarios for the MSCI World Index (red bars) compares to the 2˚C scenario (blue bars) and to the anticipated WHEB investment strategy exposure (green bars). Comparing the MSCI World Index to the 2˚C scenarios, it is clear that the MSCI World Index is still on a trajectory to exceed the 2˚C warming threshold because of an over allocation in 2020 to coal and gas fired power generation capacity and a significant underweight position in renewables. In contrast, based on the current holdings, the WHEB portfolio's exposure to power generation technologies is expected in 2020 to have no exposure to coal power generation and only 2% in gas power generation (linked to our holding in the Italian multi-utility Hera) and fully 98% in renewables.

[10] http://www.whebgroup.com/wheb-fund-70-lower-carbon-footprint-than-benchmark/
[11] http://2degrees-investing.org/
[12] The 2˚ benchmark methodology captures only data from OECD countries and therefore, the profile of the fund may differ if data were to be included from other regions.

Figure 9: Anticipated exposure to different power generation technologies in 2020



Decarbonising the portfolio and avoiding carbon risks

The findings from the 2° Investing Initiative audit are not surprising given our exclusive focus on companies providing solutions to sustainability challenges. Our investment strategies are essentially decarbonised, with no investments in the fossil fuel extraction industries and a significant overweight position in renewable and low carbon power generation.

Fossil fuel exposure goes deeper than this however. The fossil fuel industry represents a very significant proportion of the modern global economy and has deep links within many other sectors that provide products and services for the fossil fuel industry.

These sectors include many of the areas that we invest in, such as logistics businesses in our Sustainable Transport theme, electrical equipment in our Resource Efficiency theme, consulting services and waste treatment in our Environmental Services theme and water treatment in our Water Management theme. In a very real sense, it is not possible to have a sustainability investment strategy and not have some indirect exposure to fossil fuels, even if this exposure is focused on ameliorating the negative impacts of these industries.

Our aim, though, is to understand fully the extent of any exposure to fossil fuel industries by analysing the end markets that companies we invest in service. We endeavour to reduce this indirect exposure to fossil fuels, particularly those businesses that are most vulnerable to growing pressure on high carbon resources. Not only therefore do we have zero direct exposure to fossil fuel extractive businesses, but we estimate that approximately 3% of our strategy is indirectly exposed to fossil fuel extractive industry activity.[13]

[13] Based on WHEB calculations. It should be noted though that sensitivity within our investment strategies to the oil price is different and significantly higher.

SECTION **FOUR**

Assessing the impact of products and services

WHEB

ASSESSING THE IMPACT OF PRODUCTS AND SERVICES

In our 2015 report, we set out our methodology for assessing the positive impact of the products/services supplied by companies in our portfolios. Each theme delivers different types of positive impact.

For example, companies in our cleaner energy theme deliver positive impact in the form of low carbon power. We measure this in terms of kilogrammes of carbon dioxide emitted per MWh of power produced. Because companies are typically supplying a range of products with differing levels of positive impact, we have grouped the companies into four bands ranging from 'degenerative' at one extreme through to 'breakthrough' at the other. We define these terms in more detail in the table below.

Figure 10: Categories of impact

Degenerative	"Degenerative" activity covers business activity that creates economic value but which is overwhelmed by related negative environmental/social externalities.
Depleting	"Depleting" businesses create economic value that also undermines environmental/social systems but, in the short term, may be needed to reach lower impact activities.
Mitigating	Described as 'change as usual', this covers business activities that create economic value by incrementally reducing environmental/social damage.
Breakthrough	"Breakthrough" businesses replace or transform established systems to deliver radically higher economic value alongside positive environmental/social impact.

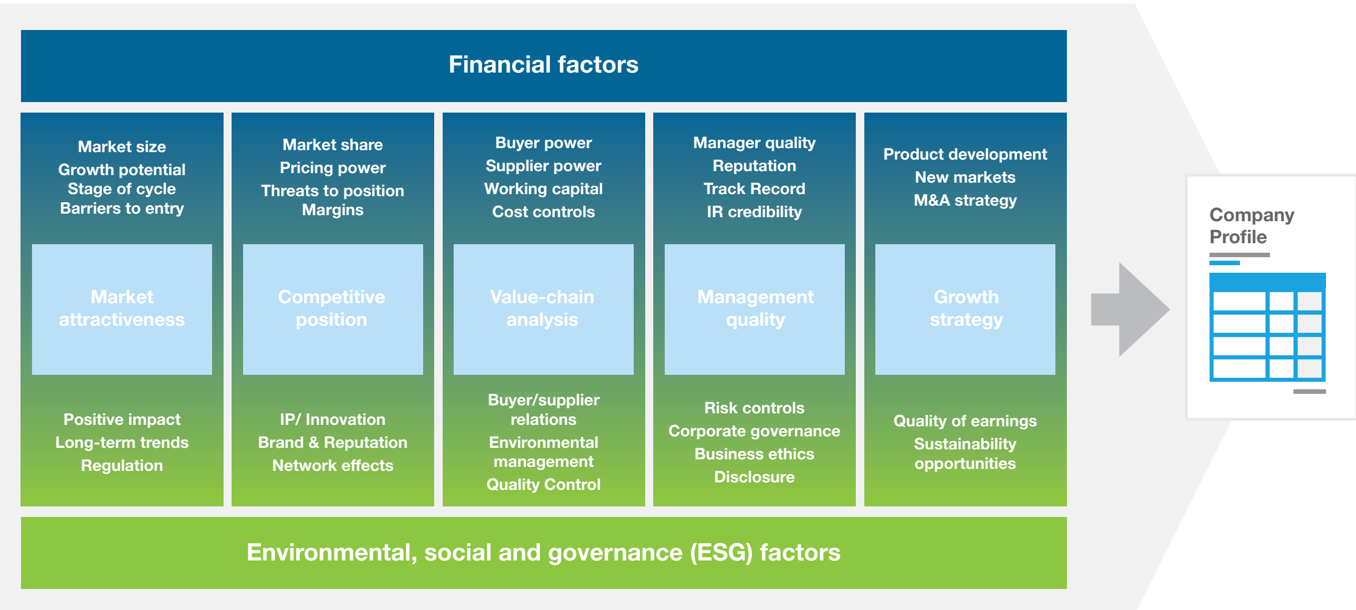
Establishing a company's category is based on their products/services' performance relative to the range of performance in the relevant sector. For example, companies in our cleaner energy theme are assessed relative to the CO_2/MWh performance of a typical combined cycle gas turbine ("CCGT") power station (see page 19).

Our thematic focus means we will only invest in companies that qualify in either the mitigating or breakthrough categories and never in companies with product or service portfolios that have an overall degenerative or depleting impact (see Figure 12).

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), we also assess the fundamental quality of their policies and 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. In assessing the fundamental quality of each aspect, we consider a range of measures relating to both financial and environmental, social and governance ("ESG") management and performance (see figure 11 below).

Figure 11: A framework for integrated ESG analysis



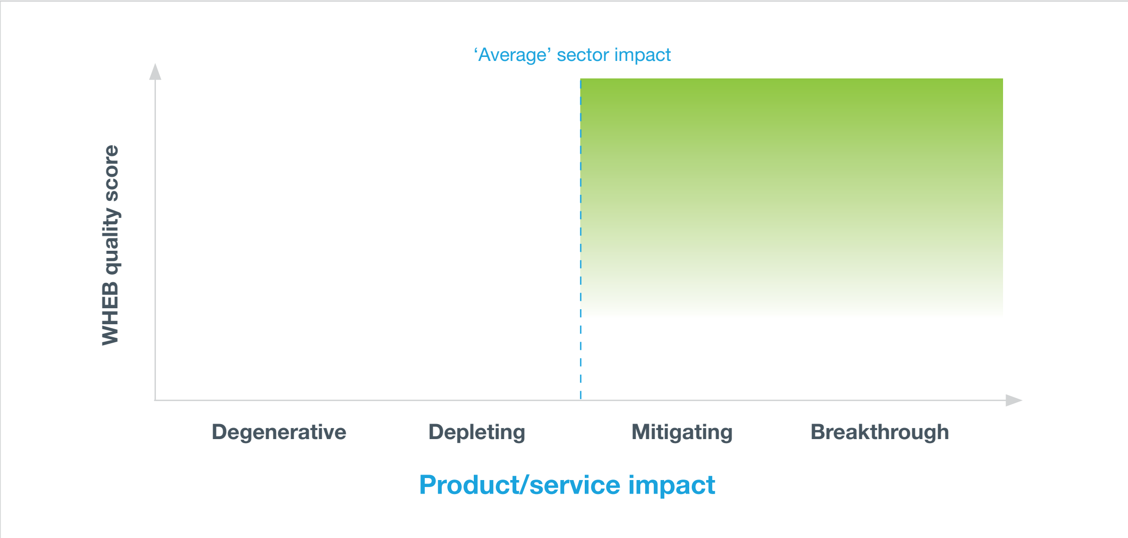
We strongly believe this integrated approach to stock analysis allows ESG data to have value and impact in investment decision making. Conversely, we do not believe that standardised ESG ratings are an effective tool in active stock-picking types of investment strategies. These ratings, in our view, often pay insufficient attention to the most critical ESG issues for a given business, and too much attention to issues that are only marginally relevant.[14] They also exhibit significant regional biases.[15]

The output of our framework is a percentage score for each company and, for the purposes therefore of this impact report, we have used our fundamental quality scores as a proxy for overall ESG quality at portfolio companies.

Our preference for high quality companies means that the Fund will concentrate on companies in the top right quadrant (see figure below). While we have a minimum quality threshold of 50%, companies with weaker quality (including ESG performance) may still however qualify for the Fund, particularly when they are smaller businesses. It is our objective however to persuade them over time to join the top right quadrant. In the figures below, we detail the profile of portfolio holdings in our five environmental investment themes.

[14] For more on our critique of ESG ratings see http://www.whebgroup.com/just-what-is-the-point-of-esg/
[15] For more on this see http://www.whebgroup.com/news-views/wheb-insights/

Figure 12: Mapping company impact



CLEANER ENERGY

Figure 13: Cleaner Energy – positive product impact

The Cleaner Energy theme has improved its positive impact profile compared with last year. As at the end of 2015, the average carbon emissions per MWh generated across the theme were 80% lower than an average combined cycle gas turbine ("CCGT") power station. At the end of 2014, the equivalent figure was 76%.

The key contributor to this improvement is the performance of China Longyuan which has continued to increase its renewable power generation portfolio (principally onshore wind), and this has improved its average performance against an average CCGT from a 24% reduction in emissions in 2014 to a 33 % reduction in 2015. We anticipate that this trend will continue over the coming years. The other holdings in the portfolio are all in the solar value-chain and deliver emission reductions of around 90% compared with an average CCGT.

SunPower, one of our new portfolio holdings, provides detailed analysis of the carbon dioxide emissions associated with its products. For 2014 (the last year for which data is available) the company produced 300,219 metric tons of CO_2 across its operations. However, it calculates that 4,441,054 tons of CO_2 is avoided annually through the use of SunPower solar modules, giving a net positive contribution of over 4 million tons for 2014.[16]

Company quality

Quality among the companies in our Cleaner Energy theme is relatively good overall. Several companies in the portfolio, such as Hannon Armstrong and China Singyes, are relatively small. Hannon Armstrong is a US-based business focused on financing renewable energy and energy efficiency projects. While, as an office-based business, its own environmental and social footprint[17] is relatively small, the company has taken a leadership role in measuring its indirect footprint and taking high profile advocacy positions in support of carbon emission reductions.

China Singyes, a solar power developer focused on China, is rated relatively poorly on ESG and wider quality metrics compared to global standards. However, as a mid-sized Chinese business, we believe that its approach to ESG is relatively good compared with the peers in its local market. For example, China Singyes has an ISO14001 environmental management standard certification and has developed its own environmental impact assessment report.

Canadian Solar is another relatively weak performer and is a business that we have engaged with extensively over the year (see below).

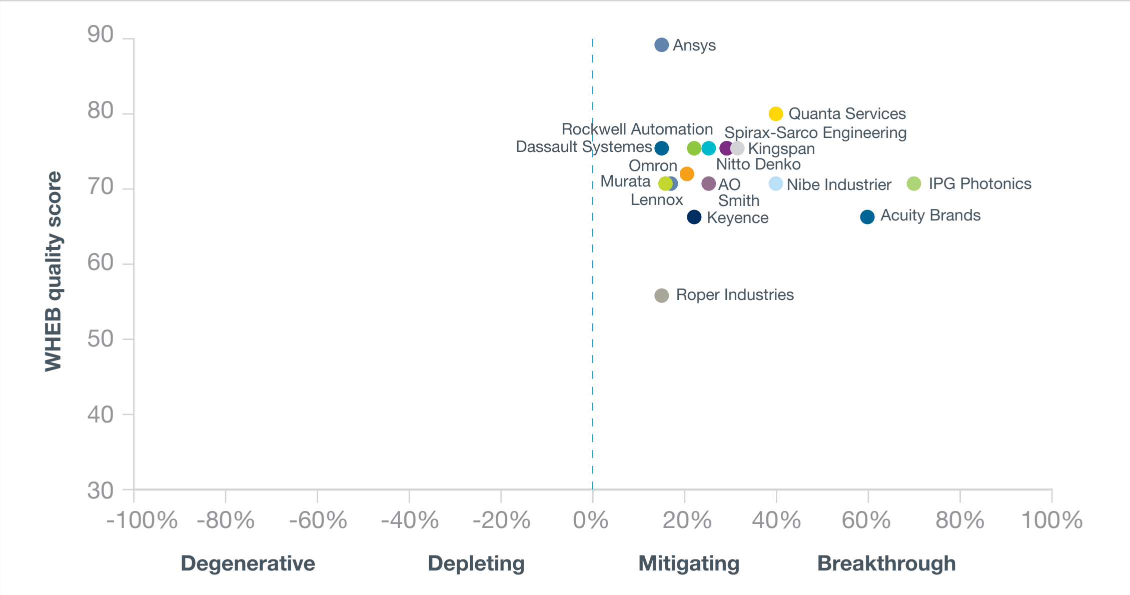
Engagement

We have engaged with several companies in the Cleaner Energy theme during the year. Canadian Solar, for example, is a solar module manufacturer and project developer that we have held in the portfolio for many years. We have engaged with the company to encourage it to disclose more information on its approach to key ESG issues and were very pleased that the company produced its first English language sustainability report in 2015. We have subsequently had some correspondence with the company to provide our feedback on this report and how this might be improved in future years. Further information on our engagement work is available in Section 5.

[16] http://us.sunpower.com/sites/sunpower/files/media-library/fact-sheets/fs-environmental-health-safety-scorecard-sustainability-performance-metrics.pdf
[17] For their 'Sustainable Yield' reporting see http://www.hannonarmstrong.com/images/pdf/hannon-armstrong-2014-annual-report.pdf#page=8

RESOURCE EFFICIENCY

Figure 14: Resource Efficiency - positive product impact



As one of the fund's larger themes, there have been several changes to the Resource Efficiency theme over the year. However, the average efficiency improvement generated by companies in the theme has stayed essentially flat since 2014 (29% vs 30%). Notable new additions to the fund include Ansys, a software business that enables product designers to build virtual models to analyse and optimise the energy efficiency of their products.

We see software playing an increasingly important role in resource efficiency across the economy, and several companies in our strategies including both Dassault Systèmes and Rockwell Automation offer software tools that enable greater resource efficiency in design and manufacturing. Dassault Systèmes estimates, for example, that its computer-aided design technology can help reduce CO_2e[18] emissions from the automotive sector by 60 to 120 million metric tons per year.[19]

Company quality

During 2015, we sold a few companies with strong quality scores, including both ABB and Johnson Controls. Both of these businesses have a relatively lengthy 'corporate' approach to managing ESG issues which is often somewhat disconnected from the business and, we believe, overvalued by the market. In contrast, new businesses that we bought during the year include Lennox International and Ansys which exhibit a more commercial approach to ESG, and provide evidence of strong performance on the critical ESG issues material to their business operations. In our view, these businesses represent high quality franchises that are well-placed to benefit from an increasing focus on resource efficiency in the construction and industrial end markets respectively.

[18] CO_2e – carbon dioxide emission equivalents

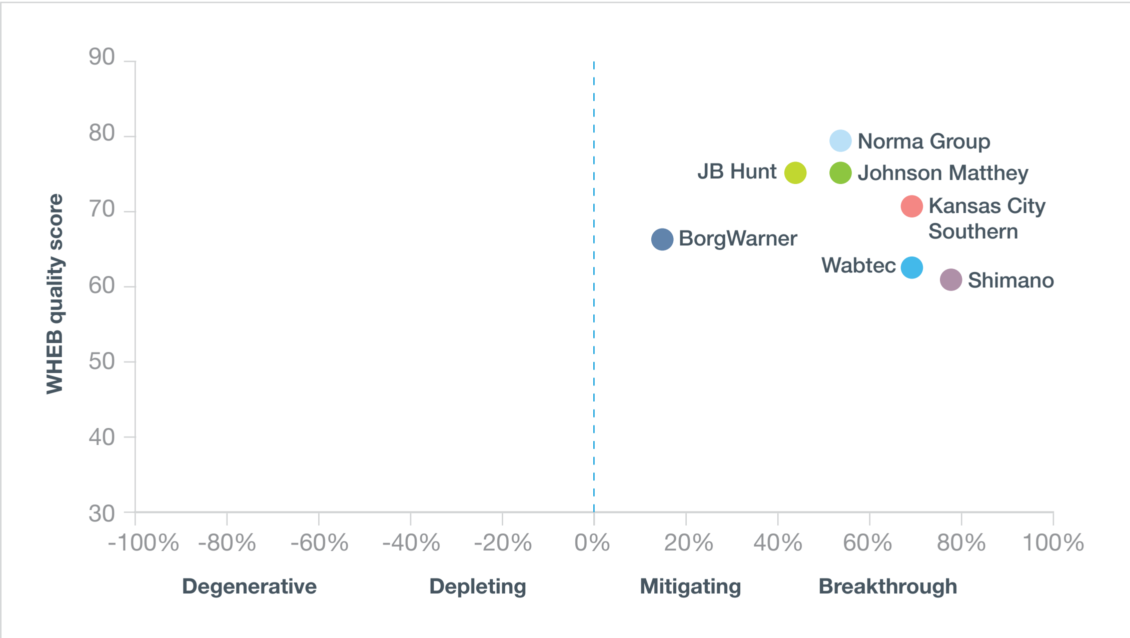
[19] Handprints of Product Innovation: A Case Study of Computer-aided Design in the Automotive Sector, Gregory Norris, Harvard T.H. Chan School of Public Health (http://www.chgeharvard.org/sites/default/files/resources/Handprints%20of%20Product%20Innovation.pdf)

Engagement

IPG Photonics was identified in 2015 as a business with relatively poor levels of ESG disclosure. During 2015, we had discussions with the CFO and the General Counsel who has responsibility for environment, health and safety ("EHS") standards and reporting at the company. The company produced its first 'Corporate Sustainability Report' in 2015, and we took the opportunity to provide feedback on this. We believe that the company has a good approach to the critical issues facing a manufacturing business of its size and expect its ESG and wider quality rating to improve as this becomes clearer to the market as a whole.

SUSTAINABLE TRANSPORT

Figure 15: Sustainable Transport – positive product impact



There has been almost no change in the Sustainable Transport theme over the year. We sold Constellium, a supplier of lightweight alloys to the car industry, early in the year and instead purchased a German business called Norma. Norma manufactures joining technology for emissions control systems in cars as well as a range of other automotive applications. The impact of this switch has been to marginally improve the overall positive impact of companies held in our theme, helping reduce transport-related emissions by 46% on average compared to 44% in 2014.

Breakthrough businesses in this theme are typically in areas involved in shifting passengers and/or freight from road to rail and from cars to bicycles. The US rail industry moves a US ton of freight an average of 473 miles on a single gallon of fuel[20] and moving freight by rail instead of by truck reduces GHG emissions by 75% on average.[21]

The one business with only a 'mitigating' profile in this theme, in our view, is BorgWarner. BorgWarner is an auto-parts manufacturer with a particular focus on improving fuel efficiency through the use of turbo-chargers, emission and transmission systems. We estimate that, on average, these products help reduce vehicle emissions by 15%. During 2015, the company also bought a business which significantly increases the company's portfolio of products related to vehicle electrification that we would consider to represent 'breakthrough' technologies.

Company quality

As with the rest of the portfolio, we are biased to higher quality companies when compared with the rest of the market. Norma, our new holding in the theme, is no exception and gets a very high score of 78 on our analysis due to its strong competitive position, strong governance and advanced approach to the management of environmental and social issues at the business. The company has a wide range of environment, health and safety certifications and strong operational performance on reducing accidents, water usage and energy consumption.

US industrial businesses do not typically provide high quality ESG disclosures, in our view, and this is also true of several companies in this theme including BorgWarner, Wabtec and Kansas City Southern. This is an area that we continue to focus on in order to increase our conviction in the quality of these businesses. We describe below the results of some of our engagement in this area.

Engagement

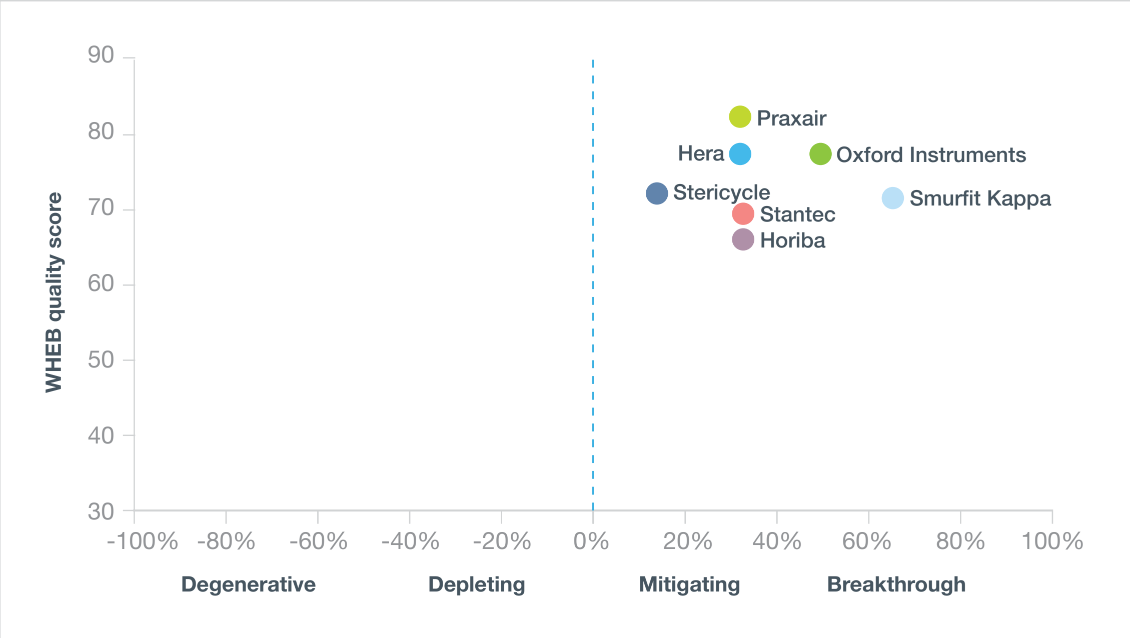
We have engaged previously with Kansas City Southern, a US railroad operator, to encourage it to improve its disclosure of material ESG issues. The company produced its first report at the end of 2014 and produced its second report in 2015. We have worked with the company to encourage it to focus on issues and report data that is likely to be of most interest and value for the investment community. We are planning on working more closely with US investors to engage other US industrial businesses such as Wabtec over the coming year.

We have been less successful so far in our engagement with Shimano, another business that provides relatively poor ESG disclosure. The company has not responded to our efforts and we are now working with other investors who share our concerns about the company. We will report back on our efforts in our quarterly Governance and Engagement Reports.[22]

[20] Equivalent to transporting 1 metric ton 112 miles on 1 litre of fuel.
[21] http://www.kcsouthern.com/en-us/pdf/sustainability-report.pdf
[22] http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/

ENVIRONMENTAL SERVICES

Figure 16: Environmental Services – positive product impact



For the first time this year, we are reporting on the positive impact of companies in our Environmental Services theme. Companies in this theme provide a wide range of products and services aimed at mitigating negative environmental impacts. This includes companies providing pollution abatement technology, consulting services and environmentally preferable products as well as companies supplying waste management and recycling services. The mapping provided above is based around the standard waste management hierarchy. Products and services that avoid the creation of waste in the first place are considered to be 'breakthrough' applications. We have classified waste reuse and recycling in this category too. Energy recovery from waste incineration is considered to be positive in our assessment methodology but at a 'mitigating level'. Waste disposal through landfill is not considered to be a positive impact technology and is seen as depleting.[23]

Smurfit Kappa, a company that uses recycled cardboard for packaging applications, is the only company that we currently consider to have a 'breakthrough' level of impact. Approximately 75% of Smurfit Kappa's cardboard is from recycled sources. Cardboard, in our view, is a good material for packaging as it is easily recyclable, and is relatively light weight meaning that its use can help reduce carbon emissions during transport. It is also ideally suited to retail-ready packaging applications such as those developed by Smurfit Kappa.[24]

[23] Except where regulations require landfilling, for example as with some types of hazardous waste.
[24] http://www.smurfitkappa.com/vHome/ie/Products/Pages/Retail_Ready_Packaging_RRP.aspx

The rest of the fund is focused largely on companies that provide materials (i.e. Praxair), equipment (i.e. Horiba) or services (i.e. Stantec) to enable their clients to mitigate their environmental impacts. Several of these companies attempt to quantify this positive impact. For example, Praxair believe that the products it supplies to customers enable over 1 million tonnes of sulphur dioxide emissions to be avoided every year.[25]

Company quality

The Environmental Services theme contains some of the highest ESG quality companies in the entire portfolio, with both Praxair and Smurfit Kappa as stand-out performers. These businesses have relatively substantial environmental impacts and, perhaps as a consequence, have developed sophisticated management and communication systems in order to address and improve their ESG performance.

Stericycle is overall a high quality company, in our view, but has historically not provided extensive disclosure of its ESG management and performance. We have engaged at length with this business and we describe this in detail below.

Engagement

We undertake substantial amounts of engagement with companies in our Environmental Services theme because this theme includes companies exposed to significant environmental and social risks. For example, we have engaged with both Smurfit Kappa and Hera during the past year to discuss their management of carbon emissions and their exposure to carbon-related risks.

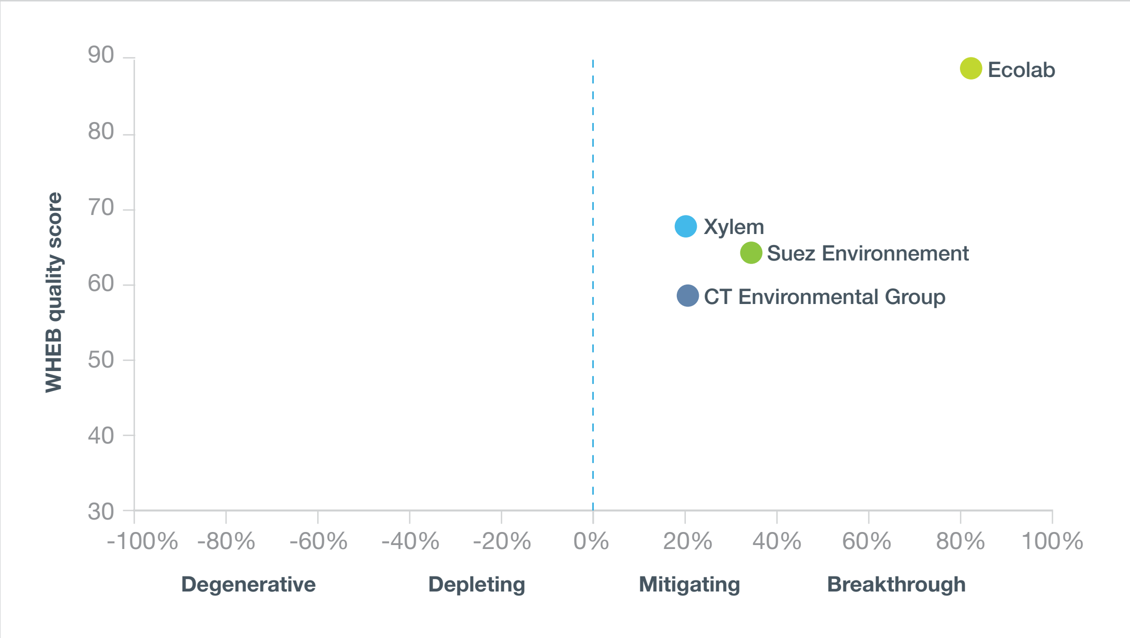
Stericycle is another business that we have engaged with on multiple occasions during the past two years. The company is focused on collecting and treating waste from healthcare facilities and, more recently, has acquired other waste collection businesses, including Shred-It that collects and securely recycles waste office paper. In recent years, the company has been involved in a controversy associated with a waste incinerator that it operates in the United States. We convened a small group of investors to talk to the company's management both about the specific issue concerning the waste incinerator as well as the lack of quality disclosures on their social and environmental performance.

The group had a conference call with Stericycle's new Chief Financial Officer in 2014, and the company produced its first sustainability report in June 2015. The report was a significant improvement on previous publications, providing more detailed data on, for example, health and safety performance and waste minimisation programmes. While the company still has plenty of scope to improve, we upgraded our own assessment of Stericycle's ESG quality on the back of this new information and expect to see further improvements in the coming years.

[25] Perse. comm. Praxair

WATER MANAGEMENT

Figure 17: Water Management – positive product impact



We are also reporting on the positive impact of companies in our Water Management theme for the first time. Companies in this theme undertake a range of activities to conserve precious freshwater resources around the world. This includes providing products and services to clean up wastewater, to provide clean water and to conserve freshwater resources through more efficient use.

Our approach to assessing impact in this theme is equivalent to that in the Environmental Services theme, and we use the Water Management hierarchy to determine what activities we consider to be breakthrough, mitigating or depleting/degenerative. According to this hierarchy, the most preferred option is for products and services that eliminate the need to use water altogether, followed by products/services that help reduce demand for water. We view both of these as breakthrough levels of impact.

Water reuse and recycling is the next preferred level in the hierarchy, followed by regeneration or treatment of wastewater before being reused. These would qualify as mitigating technologies in our assessment methodology. The lowest level includes disposal methods such as deep-well injection which we view as a depleting/degenerative form of waste water disposal.

Water Management is one of our smaller themes with investments in just four companies. One of these, Ecolab, specialises in helping companies reduce their demand for water in a variety of applications, including in the food and beverage and hospitality industries. The company provides a 'customer impact counter' that indicated that the company's products and services reduced water demand in 2015 by 125 billion gallons of water – the equivalent of nearly 210,000 olympic-sized swimming pools. These applications represent a substantial proportion of their activity, but the company also has more traditional waste water treatment technologies. Taking these together, we believe the company qualifies as having a breakthrough level of impact.

The remaining three businesses supply a range of treatment technologies, including in water conservation and demand reduction but, on balance, their product portfolios are more weighted towards traditional wastewater treatment applications. These companies therefore qualify as having a mitigating level of impact.

Company quality

The Water Management theme contains two companies that sit at two ends of our quality spectrum. CT Environmental is a Chinese based water treatment business involved in building and operating industrial wastewater treatment facilities. Like other mid-sized Chinese companies in the portfolio, the company has relatively poor ESG disclosure, but our view is that management standards are reasonably good, and the company has ISO9001 and ISO14001 certifications. We continue to engage with the company on these issues.

At the other end of the scale, Ecolab scores very highly on our quality framework, in part because of a sophisticated, targeted approach to sustainability across all aspects of its business.

Engagement

Suez Environnement was highlighted as one of the largest contributors to the fund's carbon footprint in 2014, and we prioritised engagement with it to understand this better. We met with and spoke to the company several times during 2015, and were pleased to see its carbon strategy upgraded as part of the build-up towards the Climate Change Conference in Paris in December.[26] Specifically, the company made 12 commitments including:

- reducing its own GHGs by 30% by 2030;
- enabling its customers to reduce their GHG emissions through the use of materials recovery and thereby avoiding 60 million tonnes of emissions by 2020;
- doubling the amount of plastics being recycled by 2020; and
- increasing the company's own production of renewable energy by 10% by 2020.

We continue to seek to engage with the company on the implementation of this strategy and the impact that it will have on the company's own exposure to climate change.

[26] http://www.suez-environnement.fr/wp-content/uploads/2015/12/VA_SUEZ_AGENDA_CLIMAT_HD.pdf

SAFETY HEALTH WELL-BEING EDUCATION

SOCIAL THEMES:

Assessing the positive impact of the products and services in our environmental themes is an emerging and still relatively unusual practice. However, as we have sought to explain, there is a growing body of data and analytical work that is beginning to establish broad parameters as to how this can be done with validity and rigour.

Perhaps surprisingly, the practice of impact measurement is still even more embryonic in the field of listed equity social impact reporting. In fact, we are not aware of any listed equity investors who report on the positive impact associated with investing in social themes.

Fundamentally, this is a problem caused by the disclosure of impact data by the companies themselves and the clear linkage between the provision of specific products and services and the positive social outcomes that result. For example, it is clear that the provision of quality care homes for the elderly provides an important positive social impact in enabling vulnerable elderly men and women to live safely and securely. Equally, companies in our safety theme providing products and services that protect human lives by, for example, improving fire protection in buildings or enabling more accurate testing of toxic materials in food and consumer products are also clearly delivering positive social impact by keeping people safe. However, none of the companies in our portfolio measure or report aggregated data on the actual positive impact that these products and services have. We do nonetheless provide a full list of our portfolio holdings on our website including all companies in our social themes with a description of what they do.

We suspect that it will be many years before a significant number of companies are collecting and reporting this type of information. We will make this a focus of our engagement work with these businesses in future years, but in the meantime, there are some examples of companies in our social themes that do report on the positive impact of certain products. We highlight some of these examples below.

Positive product impact: Novo Nordisk's Blueprint for Change studies

novo nordisk®

Novo Nordisk is a global healthcare company based in Denmark and focused on 'helping people to defeat diabetes' as well as other serious chronic health conditions such as haemophilia, growth disorders and obesity.

The company has attempted to measure the positive impact of its operations on society by assessing how its involvement helps to raise awareness of diabetes care, increases accessibility to treatment and provides quality care to patients. The company has produced a series of nine 'Blueprint for Change' studies that attempt to quantify these benefits for specific markets in which the company operates.

In China, for example, the company published a Blueprint for Change study in 2011 estimating that the company's products had saved 140,000 life years in 2010 through improved products, increased physician training and greater patient education.[27]

[27] http://www.novonordisk.com/content/dam/Denmark/HQ/Sustainability/documents/blueprint-changing-diabetes-in-china.pdf

The company's latest study looks at diabetes care in Algeria, a country with a rapidly increasing incidence of type 2 diabetes. In the Algerian market, Novo Nordisk has estimated that a one percentage point drop in blood sugar levels among Algerians currently diagnosed with diabetes, could lead to 6,000 avoided kidney failures, 9,000 fewer cases of severe vision loss and 4,000 avoided heart failures.[28] Together, these improved health outcomes could reduce the cost of diabetes by approximately €123 million.



Positive product impact: Other examples of positive impact

While not reporting impact data directly, several other companies in our portfolio cite third party sources that provide generic data that underpins the companies' claims to have positive impact.

For example, CSL, is an Australian-based business that manufactures a range of health products including flu vaccines. They cite evidence from the US Centers for Disease Control and Prevention (CDC) that flu vaccines reduce the risk of flu illness by between 50% to 60% among the overall population and reduce children's risk of flu-related paediatric intensive care unit admissions by 74%. For influenza related illnesses, the company does not however then seek to quantify their own contribution in terms of avoided illness.[29]

Similarly, Intertek, a global assurance, testing and inspection business provides a range of food safety testing services, while Agilent, another portfolio holding, provides the equipment used to conduct the tests. The US CDC estimate that 48 million people get sick and 3,000 of them die in the US every year due to foodborne illnesses[30]. In the UK the equivalent figure is around 1 million people getting sick[31]. One study found that food testing and associated communication and action on contaminated food avoided 266,522 illnesses from Salmonella, 9,489 illnesses from Escherichia coli (E. coli), and 56 illnesses due to Listeria monocytogenes annually in the US. This system also reduced associated medical and productivity costs by $507 million[32]. Another study found that food safety testing of cheese products reduced the risk of listeriosis in susceptible populations by nearly 100x[33]. Neither of these businesses is currently quantifying the positive impacts associated with these products or services.

28 Publication forthcoming (Novo Nordisk)
29 http://www.cdc.gov/flu/about/qa/vaccineeffect.htm
30 http://www.cdc.gov/foodborneburden/
31 https://www.food.gov.uk/news-updates/news/2014/6097/foodpoisoning
32 http://www.ajpmonline.org/article/S0749-3797(15)00610-8/fulltext
33 http://www.neogen.com/techlibrary/pdf/WhitePapers/LeavittPartners/LP_WhitePaper_0513.pdf

SECTION FIVE

Engagement activities

ENGAGEMENT ACTIVITIES

Engaging with the management teams of portfolio companies is both an input to, and output from, our investment process. Our long-term holding period of typically more than five years means that it is a worthwhile investment of our time to try and engage companies both to understand them better, and also to encourage a more progressive approach to ESG issues. Engagement is undertaken directly by members of our investment team who cover the relevant companies and any insight or information is fed directly back into our investment process.

We also believe that our investors want us to encourage management teams to adopt a more progressive approach to ESG issues. We prefer to focus on issues where there is a long-term commercial business implication which is typically not considered by the wider investment market.

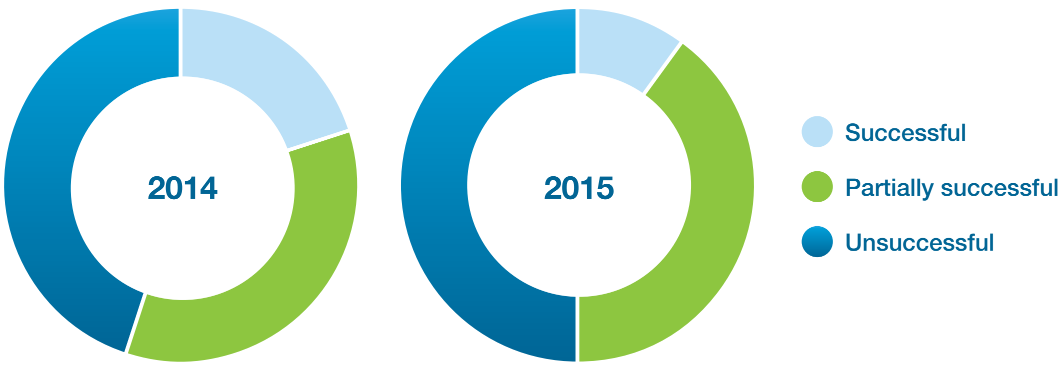
In 2015, we engaged with 50 companies bilaterally, and also led or participated in five collaborative engagements with other investors. We address a very broad range of environmental, social and governance issues in our engagements, but estimate that approximately 55% of our engagement is focused on governance related issues such as executive remuneration and the independence of the auditor, 35% is focused on environmental issues and 10% on social issues.

We also attempt to measure the impact of this engagement work. This is not always straightforward, but we apply a fairly simple measure which classifies our work as either:

- '**successful**', where the company agrees to amend or alter its approach to the issue;
- '**partially successful**', where the company acknowledges the problem and agrees to review it further but does not commit to change anything; or,
- '**unsuccessful**', where the company either does not respond to our approach or refuses to amend its policies.

Figure 18 illustrates changes in the success of our engagement activity from 2014 to 2015. Based on this analysis our engagement has been moderately less successful in 2015 compared to 2014. Anecdotally, we have found that our in-depth engagements on sustainability related issues often end either successfully or partially successfully.

Figure 18: Engagement outcomes 2014-2015



We have however struggled to achieve real traction on many of the core governance issues. For example, our policy is to vote against the reappointment of auditors if their tenure exceeds ten years. This policy is routinely rejected in North America (though is now supported in European legislation) and we are reaching something of an impasse with several companies where they have already explained their opposition to our position. We plan to revisit the best way of engaging on these types of issues which may also involve targeting regulators and other investors in an attempt to secure broader support for this issue.

Engagement with policy-makers

In addition to the work we do engaging with companies, we also expend considerable resource engaging with policy-makers, regulators and other standard setters in the investment market. In part this work is done collaboratively with other investors through formal networks such as the Institutional Investors Group on Climate Change (IIGCC) and UK Sustainable Investment and Finance (UKSIF). We contributed to a number of policy-focused initiatives from both of these groups in 2015 including:

- signing an IIGCC letter to the G7 Finance Ministers urging them to include a long-term GHG emission reduction goal in the final communiqué from their meeting. In the end the final statement stated that ‘deep cuts in global greenhouse gas emissions are required with a decarbonisation of the global economy over the course of this century[34];
- along with UKSIF and the IIGCC, writing to UK Government Ministers and responding to government consultations on energy policy encouraging a greater commitment to long-term, reliable support for low carbon sources of power generation;
- writing, along with other investors, to Canadian provincial governments to encourage them to adopt more progressive positions on efforts to tackle climate change; and,
- actively supporting the strong positions that the investment community set out in advance of the international negotiations on climate change in Paris. Laurent Fabius, the French Foreign Minister and Chair of the conference singled out the financial sector in particular by proclaiming that *“The financial industry is much more present at COP21…You are major players and we congratulate you.”*[35]

We have also adopted a more assertive position on the topic of public policy lobbying and have been a signatory on a number of UKSIF organised letters to leading companies in the automotive sector encouraging greater transparency and responsibility with regard to their lobbying activity.

[34] Pilita Clark, ‘G7 leaders agree to phase out fossil fuels’ Financial Times, 8 June 2016
[35] Perse. Comm. IIGCC

FURTHER INFORMATION

It is clear that investors as well as other stakeholders are increasingly interested in a more thorough understanding of investment funds and their performance across a range of issues, financial and otherwise. This impact report is one element of a wider suite of communication tools that we use to communicate with our stakeholders and keep them informed of the positive impact and wider activities of WHEB.

More frequent updates on aspects of our activities, including our voting and engagement, is available from our website. We also provide regular commentary on key aspects of the sustainable investing agenda via blogs and other articles published on-line.

We welcome comments on this report and our other communications.
Please contact **info@whebgroup.com** if you would like to get in touch.

DISCLAIMER

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