Building back better

Accelerating the transition to a zero carbon, sustainable economy

Annual Impact Report
Jan—Dec 2020

WHEB

whebgroup.com/impact

A note on data

The data provided in this report was collected during March and April 2021 and covers the period 1 January – 31 December 2020. In certain cases where companies had yet to report 2020 data, we have used data from the prior year.

Contents

Executive Summary

Last year, WHEB's impact report was called 'Solutions in a time of crisis'. It was written in the teeth of the UK's first lockdown in the spring of 2020. In 2021, many parts of the world are still in crisis, but in many places the focus has also begun to shift to recovery.

Recovery of course from the COVID-19 pandemic, but a recovery that also brings with it an opportunity for renewal; to 'build back better' and to accelerate the deployment of technologies in the service of a more *sustainable* economy. We have sought to reflect this optimism in the title and cover image of this report.

There is optimism, too, that finance can do a better job in enabling and supporting more of this sustainable development. This is the core focus of WHEB's investment strategy, which remains wholly focused on the extraordinary opportunities to invest sustainably and with positive impact. We set out our model and definition of positive impact investing in the first section of this report.[1]

The core of the report is once again focused on the performance of the strategy in 2020. This includes the investment returns during 2020 as well as the social and environmental impact delivered by investee companies during the year. We cover both dimensions of performance in Section 2 including the data underpinning our Impact Calculator.

Section 3 describes our methodology for integrating sustainability into our stock analysis and examines how the portfolio has evolved in 2020. We provide further insight into three of our investment themes: (1) Sustainable Transport, (2) Safety and (3) Cleaner Energy. We also provide examples of portfolio holdings in each theme.

In addition to the positive impact delivered by investee companies, WHEB also has a direct positive impact through our engagement activity. As shareholders we vote at company meeting and engage with investee companies to advocate for progressive approaches to critical environmental, social and governance (ESG) issues. This, along with the work we do with policy-makers and standard setters in shaping the financial system in support of sustainability, is described in Section 5.

2020 has been a pivotal year for sustainable finance. The growth in assets committed to at least some level of ESG integration has been extraordinary. We describe some of these changes in Section 8 as well as our thoughts on how things might develop in the coming years.

One thing that has not changed is our accountability to our investors and our commitment to transparency. Ever since we published our first impact report in 2014, we have sought to improve the quality and depth of our reporting. This year is no different, with the report featuring more extensive third-party review of data and broader reporting across the different dimensions of our positive impact. We hope the report is useful to clients and other stakeholders alike.

'2020 has been a pivotal year for sustainable finance. The growth in assets committed to at least some level of ESG integration has been extraordinary.'

Who we are

Investment Team

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Partner & Fund Manager

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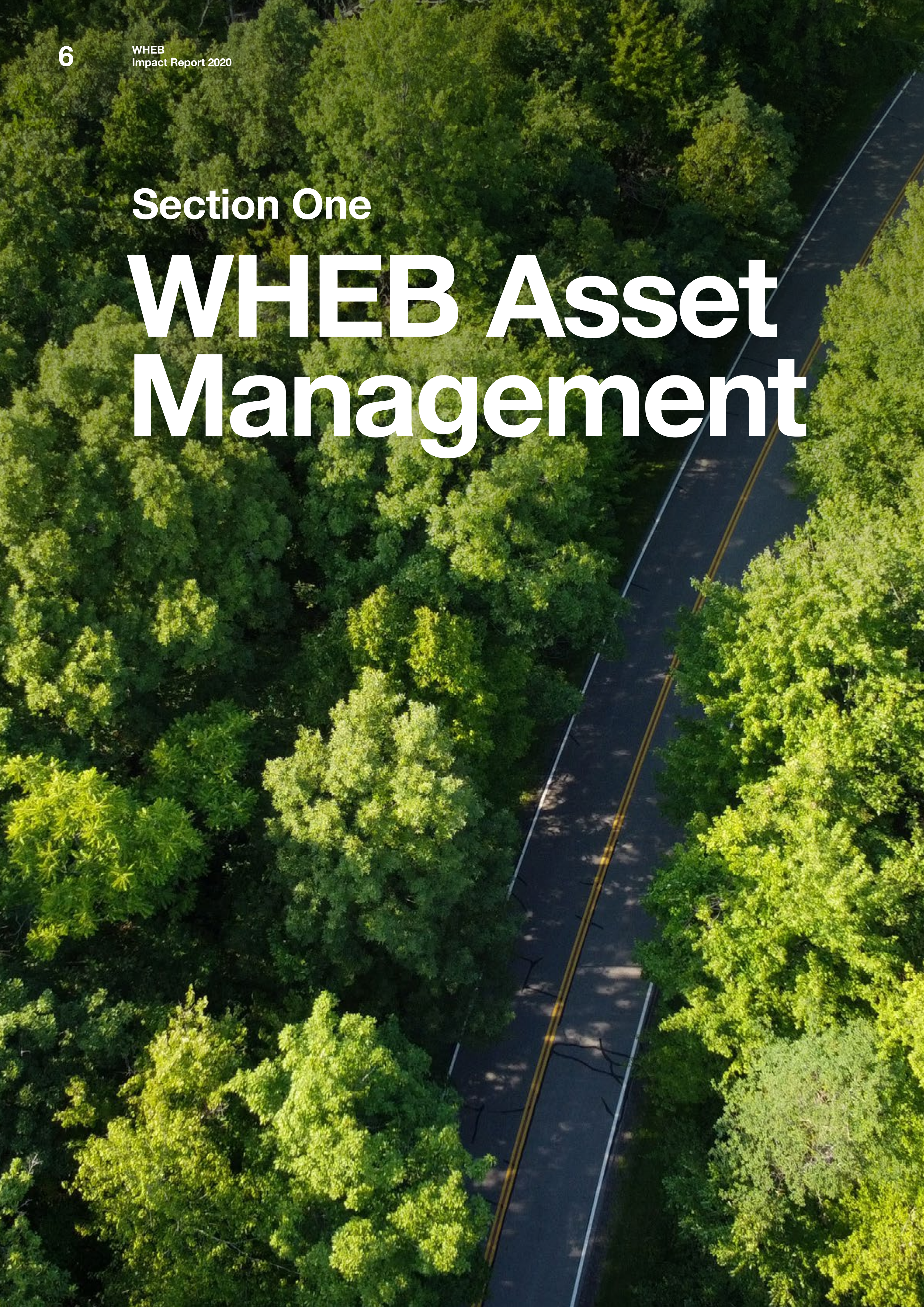
George Latham, ASIP
Managing Partner & CRO

Jayne Sutcliffe,
Non-Executive Chair

* FundRock – Distributor for WHEB Asset Management in Europe

Section One

WHEB Asset Management



Introduction

Welcome to WHEB's seventh impact report and my first as the newly appointed Chair of WHEB Asset Management. Writing this in early May 2021, we are now more than a year into the COVID-19 global pandemic. Much of the world's population is still subject to some level of restriction on their free movement.

For WHEB, 2020 was an extraordinary year. Like many others, the team has had to learn to work and collaborate remotely. We have had to develop new ways to connect with clients and colleagues. Like many of you, I have also enjoyed listening in to the quarterly webinars that are now an essential feature of WHEB's external communications. These webinars and many other innovations introduced in 2020 will no doubt remain regular features of our ongoing work.

But 2020 was also a momentous year for WHEB. Assets under management grew significantly, from just over £400m at the end of 2019 to over £1bn by the end of 2020. Across the market, sustainable and impact investing has enjoyed tremendous support. As 2021 has got under way, there are no signs that this new enthusiasm is receding. If anything, it is strengthening further.

The past 12 months have also seen growing ambition among policy-makers and regulators to accelerate the transition to a zero carbon, sustainable economy. We report here on the work that WHEB has been doing to respond to new European regulations as well as key market-led standards that have emerged this year. The maturing of low carbon technologies has created new opportunities for businesses and for us as their investors. WHEB's focus on the solutions to critical environmental issues, as well as to health challenges including COVID-19, has been a particularly successful investment policy in 2020. We report on the strategy's performance in 2020 on pages 11 and 12.

We believe, however, that there is a deeper cultural shift taking place. Of course, the prospect of financial reward remains a fundamental part of WHEB's proposition to our clients. But we know that this is not their only motivation. 2020 has shown us that the systems on which we depend are fragile. Asset managers like WHEB can play a critical role in channelling client capital into businesses that are helping to 'build back better'. It is by advancing sustainability that these companies are also creating prosperity. And it is this combination, of positive impact and positive return, that is so compelling. As you know, this is WHEB's unique focus. I am tremendously excited to be part of it.

Jayne Sutcliffe
Non-Executive Chair,
WHEB Asset Management

Impact investing in listed equities – WHEB's approach

Impact investing originally evolved in private markets, and there is still discussion about the application of the term to public markets.[2] It is our belief and contention that WHEB is a positive impact investor.

It is self-evident that ultimately, all assets and all investors have an impact. But this impact can be positive, or it can be negative. WHEB has developed a holistic model that identifies multiple ways of delivering positive impact in listed equities. This is illustrated in Figure 1. We expand on our views outlined here in a separate paper on impact investing in listed equities.[3]

The model starts with our clients. Many of our clients see their capital as an extension of themselves – a way to project their values onto the world. WHEB's role is as a conduit for this capital. Our primary task is to enable clients to fulfil the purpose they give their capital by directing it into a group of enterprises (the 'WHEB Portfolio').

Enterprise impact

These enterprises deliver positive impact on the world through the products and services they sell. This is called 'enterprise impact' because it is delivered by the companies that WHEB invests in. By investing in the companies that produce these products and services, investors in WHEB's strategy are aligned with these positive impacts.

WHEB's intention is to invest our clients' capital in companies that deliver positive impact. We use our Impact Engine to analyse a company's positive impact ('1' in Figure 1).[4] This analysis is used as a core element in the investment case (described in Section 3). We then measure the positive impact that is created by the company and report this back to clients ('2'). This impact measurement and reporting includes our Impact Calculator (see Section 2) and this report.

WHEB's contribution

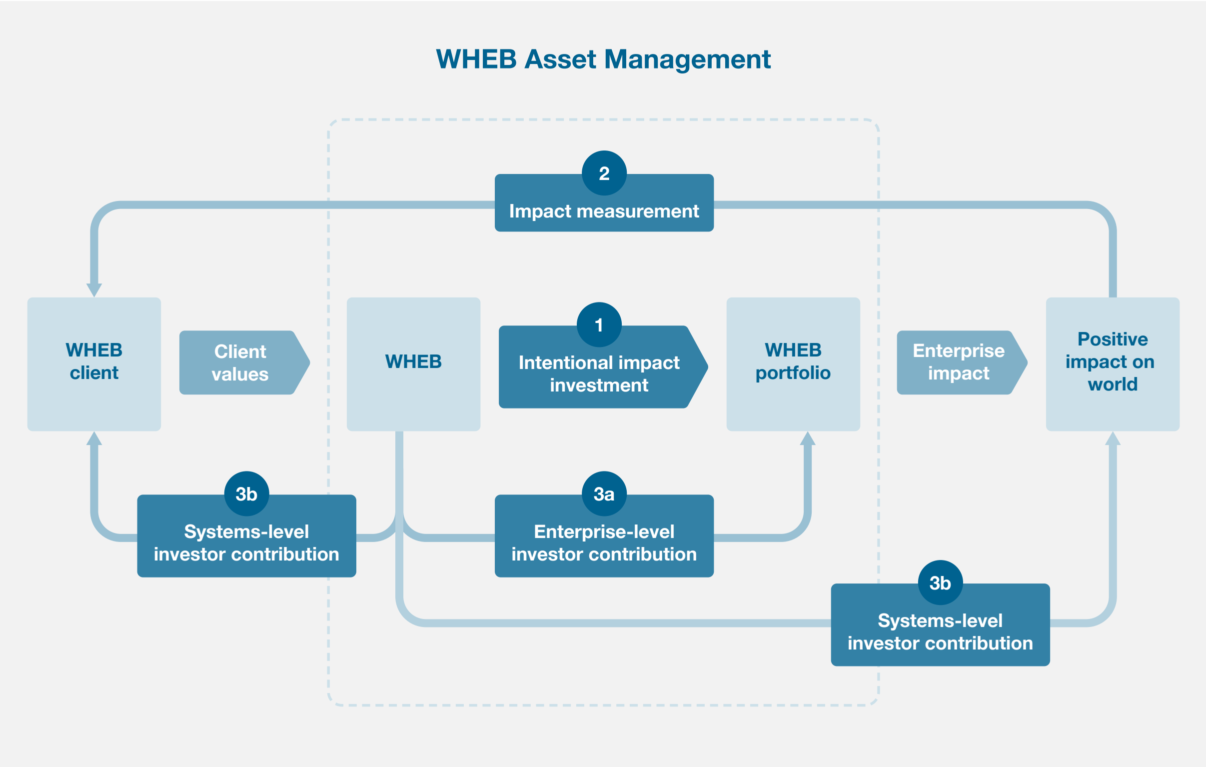
WHEB also delivers direct positive impact by supporting the enterprises we invest in to increase their positive impact. This is called the 'investor contribution'. This contribution is made directly to the companies in WHEB's portfolio ('3a' in Figure 1) and is typically done through our engagement with them (see Section 5).[5]

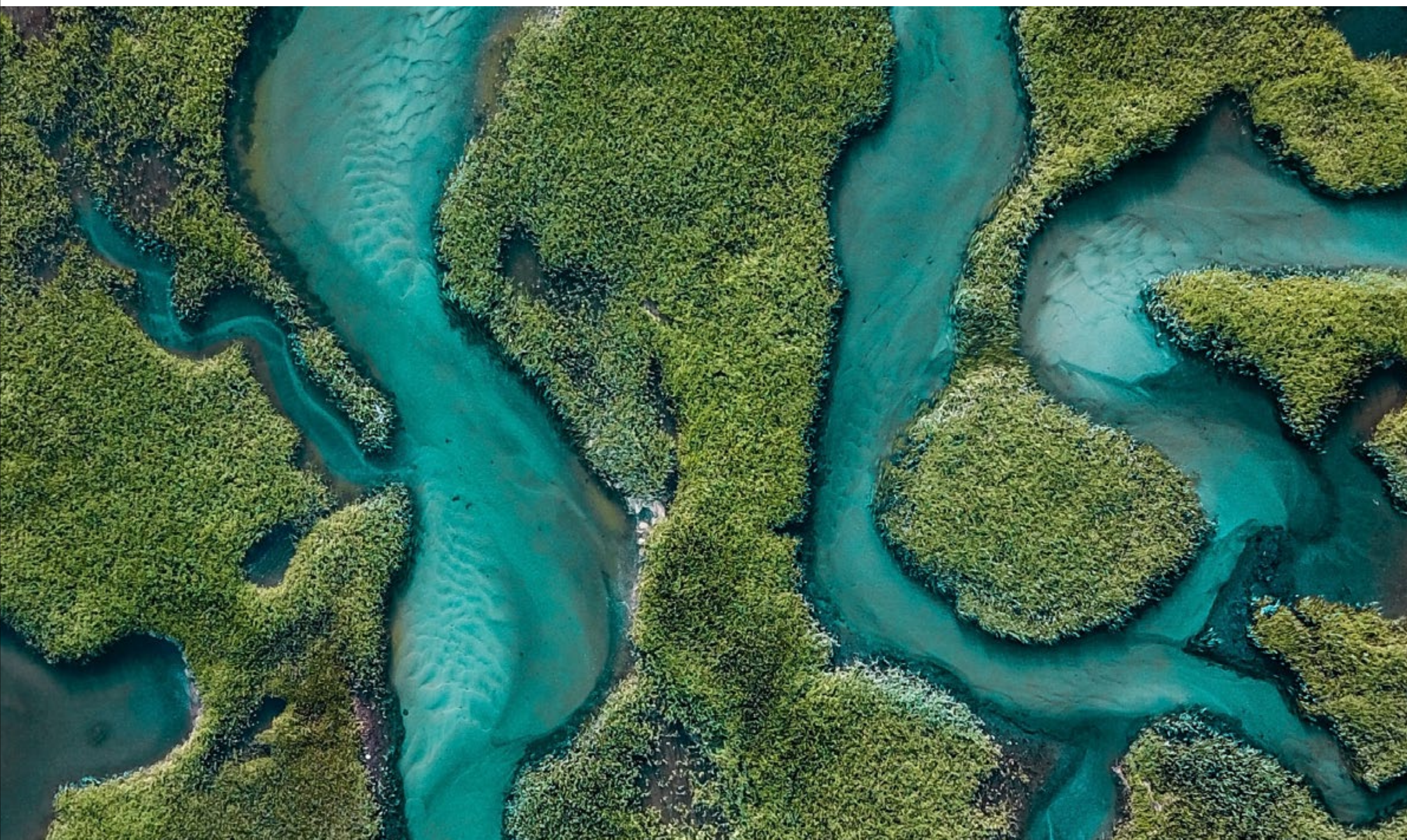
In addition to the contribution that WHEB makes at the level of an individual enterprise, we also seek to shape the wider financial system to support and enable more positive outcomes. We do this through our engagement downstream with regulators, policy-makers and standard setters, as well as upstream back to clients and their advisers ('3b' in Figure 1). We also achieve this by 'signalling' to other investors and to other parts of the financial system.[6]

If positive impact investing remains exceptional, it will remain a niche. WHEB's explicit intention is to support and champion the development of a positive impact movement across the whole financial system. By making positive impact investing routine, we believe we can help deliver real sustainable change in economic activities around the globe.

'If positive impact investing remains exceptional, it will remain a niche. WHEB's explicit intention is to champion the development of a positive impact movement across the whole financial system.'

Figure 1: Impact investment in listed equities – WHEB's approach





Section Two

WHEB sustainability investment strategy

2020 in review

2020 was an extraordinary year for many reasons. The emergence of COVID-19 and the resulting pandemic were perhaps most extraordinary. But prominence of issues such as climate change and racial inequality were also defining features of the year. 2020 was also an exceptional year for sustainability investing because it included a comprehensive shift towards combatting man-made climate change. As a consequence, the fund outperformed both the MSCI World Index as well as the IA Global peer group (see Figure 2).

The pandemic has been deeply traumatic for many and has caught large swathes of the global economy unawares. Businesses that have managed to prosper have either been very resilient or been able to provide essential services to combat this new challenge.

With a significant allocation to companies directly supporting the pandemic response, the strategy was well-placed to cope with the enforced lockdown that hit many sectors. Investments in life sciences tools companies like Agilent, Danaher and Thermo Fisher performed well. These companies help in the creation of therapies and vaccines to combat the virus, as well as diagnostic tests to identify it. Alongside these businesses, a renewed focus on safety and hygiene also drove demand for products supplied by companies in our Safety theme.

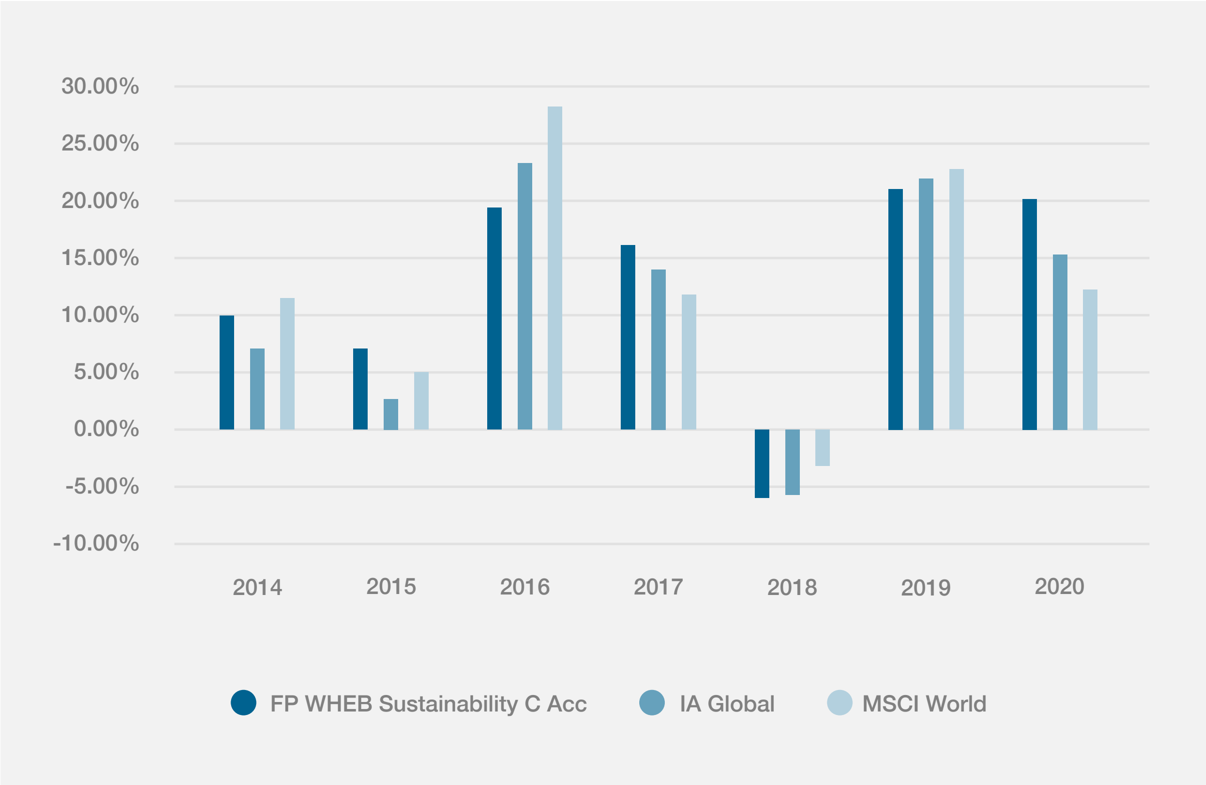
In the second half of the year, there was a truly historic shift in global political attitudes to sustainability, and to climate change in particular. High-profile commitments from many countries (including Canada, China, Japan, South Korea and many others) was mimicked by a growing number of net-zero carbon (NZC) commitments from global corporations. With the election of Joe Biden to the US presidency, investors correctly anticipated that the US would also make its own commitment to achieve net-zero carbon emissions.

This change in tone was reflected in capital markets and many companies and assets linked to sustainability performed strongly. Equally, sectors with products and business models (such as fossil fuel-based energy) that are at risk from a transition to a net-zero carbon economy struggled. The energy sector, along with the financial sector, was also directly affected by the lockdown, which caused a marked drop in demand for its products and services.

While the strategy benefited from the structural underweight position in financial and energy companies, relative performance was hampered by ongoing strength in the information technology sector and communication services industries. The strategy does have some exposure in these sectors where the products and services directly address key social and environmental issues. However, in our view, the very large global tech businesses, such as those often referred to as the ‘FAANGs’, do not qualify under this definition. Lockdown was largely beneficial to their business models, and this provided a headwind to the strategy.

2020 will remain memorable not just because of the pandemic, but because of the clear shift in political attitudes towards climate change. WHEB’s investee companies demonstrated the importance of products and services they provide by not just surviving but thriving during the pandemic. They will have more opportunities to do so again as the world begins to meaningfully transition towards sustainability.

Figure 2: Performance of the FP WHEB Sustainability Fund vs. IA Global vs. MSCI World (2014-2020)[7]



"Sustainable investing allows us to engage clients in a new way, to talk about what matters to them, what impact they want to leave on this planet and for the next generation. WHEB's dedication and track-record in sustainable investing makes them a leader in this space"

Louie French, Sustainable Portfolio Manager, Tilney Investment Management Services Ltd.

Investment governance

For many decades, sustainable investing was an unfashionable and niche style of investment. In the last few years, it has become dramatically more popular. The investment industry has responded by developing a vast range of new products for clients. In 2020 alone, over 700 sustainability-themed funds were launched.[8]

This burgeoning interest is extremely welcome. It does, however, introduce a challenge for clients: how to discern just how important sustainability is to the philosophy and approach of the fund manager. WHEB's approach has been to provide exceptional levels of transparency into our investment process and the decisions that we make.

This impact report is part of this transparency. We also provide detailed information on our methodologies for assessing impact, on our voting and engagement activities and on the underlying investments held in the fund. This is scrutinised by an independent Investment Advisory Committee that meets three times a year. Moreover, we publish summary minutes of these meetings. Together, this gives clients unprecedented visibility into the approach that we take – underpinning our claims to put sustainability at the very core of our investment decision-making.

WHEB's independent Investment Advisory Committee

- Meets three times annually
- Core function is to ensure investments meet the spirit and letter of the strategy's sustainability criteria
- Chaired by WHEB's Non-Executive Chair
- Summary minutes published

https://www.whebgroup.com/investment-strategy/fund-governance/

Jayne Sutcliffe,
Non-Executive Chair, WHEB

Kingsmill Bond,
New Energy Strategist, Carbon Tracker

Carole Ferguson,
Managing Director, Industry Tracker

Mike Clark,
Ario Advisory & Adviser to Oxford Smith School

Ray Dhirani,
Head of Sustainable Finance, WWF-UK

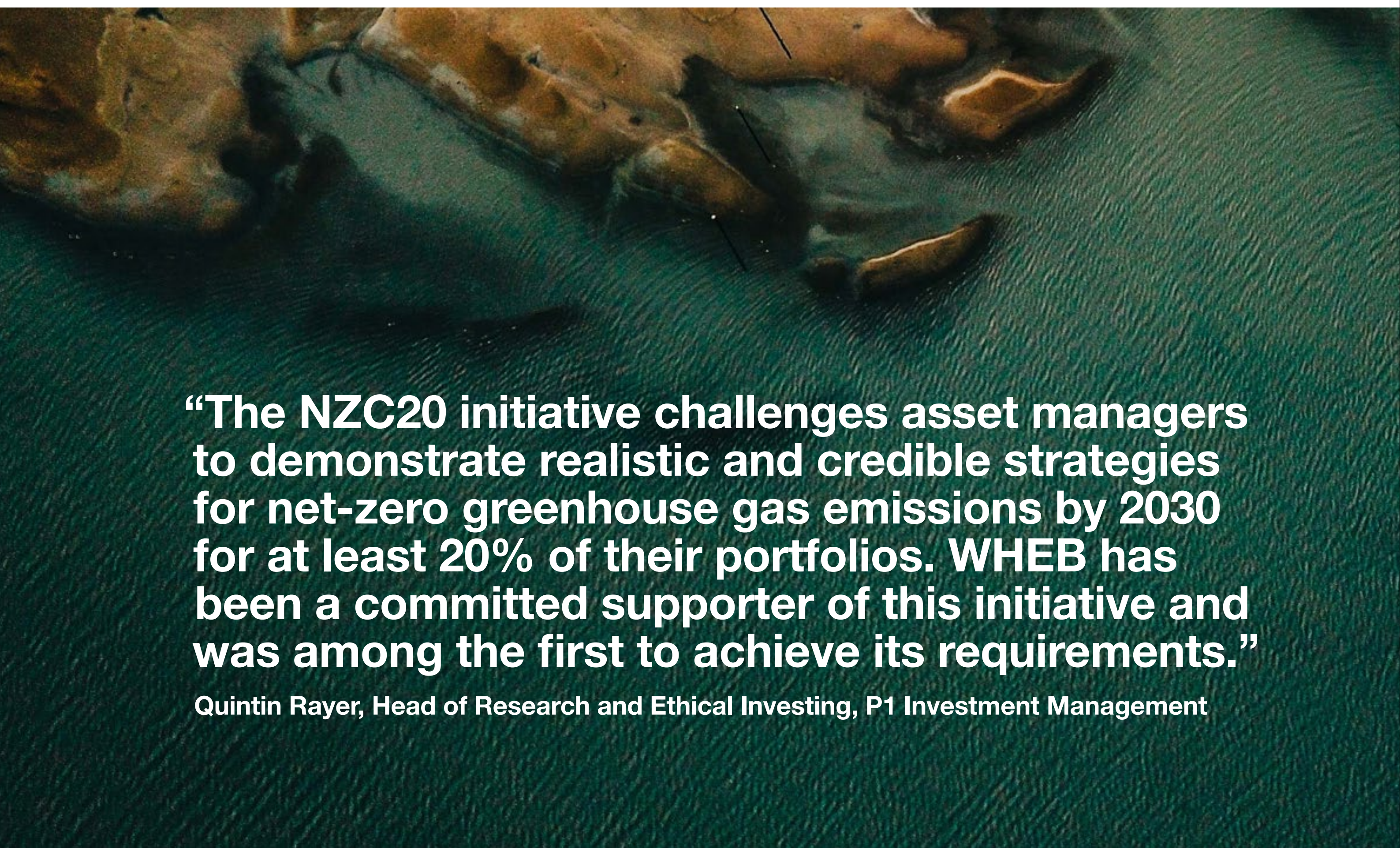
Regulatory and market standards

WHEB has always put sustainability at the heart of our investment process. New regulatory and market-led standards are being developed that oblige investment firms to disclose key data on their approach to sustainability. These standards are intended to help clients differentiate between investment products and to hold financial institutions to account.

EU and French regulations are already in force. Equivalent regulations for the UK have not yet been developed by the Financial Conduct Authority. These are expected in 2022. WHEB's response to some of the principal regulatory and market-based standards are described in Figure 3 over the page.

Awards

During 2020, we were proud to receive several awards acknowledging our approach and contribution to the practice of sustainability and impact investing.



"The NZC20 initiative challenges asset managers to demonstrate realistic and credible strategies for net-zero greenhouse gas emissions by 2030 for at least 20% of their portfolios. WHEB has been a committed supporter of this initiative and was among the first to achieve its requirements."

Quintin Rayer, Head of Research and Ethical Investing, P1 Investment Management

Figure 3: WHEB’s response to new sustainable finance regulations and standards

<table>
<tr><th>EU Sustainable Finance Disclosure Regulation (SFDR)</th><th>AMF’s (French regulator) position on sustainable and responsible investment</th></tr>
<tr><td>The SFDR requires reporting of detailed ESG data (‘principal adverse impact indicators’) based on three levels of commitment to sustainability: (1) Article 6 products that do not consider sustainability, (2) Article 8 products that promote ESG characteristics and (3) Article 9 products that have sustainable investment as a core objective.</td><td>The French regulator has set requirements that asset managers must address if they wish to use ‘non-financial’ characteristics as a key aspect of product marketing. Specifically, asset managers must demonstrate that they are ‘significantly engaging’ with non-financial criteria in the investment process before they can make these criteria a key aspect of product communication.</td></tr>
<tr><td colspan="2">WHEB’s response
The prospectus and fund documentation for WHEB’s European investment fund clearly sets out the central role that non-financial/sustainability characteristics play in WHEB’s investment process. We have certified the strategy as an Article 9 strategy for the purposes of the SFDR and as ‘significantly engaging’ under the French regulation.</td></tr>
</table>

<table>
<tr><th>EU Taxonomy</th><th>Paris Aligned Investment Initiative</th><th>Net Zero Asset Managers Initiative</th><th>Net Zero Carbon 20 Target (NZC20)</th></tr>
<tr><td>A catalogue of products and services that reduce GHG emissions directly or indirectly and/or help society adapt to climate change.</td><td>A framework for achieving a net-zero investment strategy encompassing GHG emissions arising from investments, as well as levels of investments in climate solutions.</td><td rowspan="2">A commitment to supporting the goal of net-zero GHG emissions by 2050 and to ensuring that investments are managed in line with the goal of net-zero GHG emissions by 2050 or sooner.</td><td rowspan="3">A target to have >20% of investments in companies that are already NZC, have set a NZC target for 2030 or who are considering setting such a target and are not invested in coal or oil production.</td></tr>
<tr><td colspan="2">WHEB’s response
Our initial assessment is that 12-36% of the total strategy is invested in companies that offer climate solutions and are taxonomy eligible. This represents 20-60% of investment in the environmental themes.</td></tr>
<tr><td rowspan="2"></td><td colspan="2">WHEB’s response
At the end of 2020, c.17% of WHEB’s investee companies had committed to NZC emissions by 2050 at the latest. Our objective is that 100% of investee companies have made this commitment by 2030.
We also target absolute GHG emission reductions that are in line with a 50% reduction in global emissions by 2030. By 2050, at the latest, the entire strategy will be NZC.</td></tr>
<tr><td colspan="3">WHEB’s response
At the end of 2020, c.10% of WHEB’s investee companies had committed to NZC by 2030. We are engaging with a further 20% on setting a NZC target.</td></tr>
</table>

WHEB and the UN Sustainable Development Goals

Originally developed in 2005, WHEB's investment strategy focuses on nine investment themes – five environmental and four social. Each covers a range of business activities that deliver positive impacts for society or the environment, as illustrated in Figure 4.

Figure 4: Delivering positive impact in support of the UN Sustainable Development Goals (SDGs)

	WHEB INVESTMENT THEMES			
	Safety	Sustainable Transport	Cleaner Energy	Resource Efficiency
Indicative areas of business activities	- Making products safe - Products making people safe	- Intermodal and rail transport - Less polluting road transport (eg bicycles, hybrid and electric vehicles)	- Renewable energy technologies - Renewable energy generation	- Energy efficiency products - Efficient buildings - Efficient lighting - Efficient manufacturing - IT to improve efficiency
Portfolio holdings	- Intertek Group plc - Littelfuse Inc. - MSA Safety Inc.	- Aptiv plc. - Hella KGaA Hueck & Co. - Infineon Technologies AG - JB Hunt Transport Services Inc. - TE Connectivity Ltd. - Wabtec Corp.	- China Everbright International Ltd. - TPI Composites Inc. - Vestas Wind Systems A/S	- AO Smith Corp. - Ansys Inc. - Autodesk Inc. - Daifuku Co. Ltd. - Daikin Industries Ltd. - Keyence Corp. - Kingspan Group plc - Kion Group AG - Lennox International Inc. - Renishaw plc. - Silicon Laboratories Inc.
Positive impact in 2020			204,000 MWh of renewable energy	
		315,500 tonnes of CO_2e avoided		
	UN SUSTAINABLE DEVELOPMENT GOALS			
Supporting 7 SDGs	11 SUSTAINABLE CITIES AND COMMUNITIES		7 AFFORDABLE AND CLEAN ENERGY	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

As at the end of December 2020, there were 47 investments in the strategy, with each company categorised into one of the nine sustainable investment themes.

During 2020, we calculated that the strategy as a whole was associated with a positive impact equivalent to:

- 315,000 tones of CO_2e avoided
- 204,000 MWh renewable energy generated
- 82,000 tonnes of waste recovered or recycled
- 2.8bn litres of waste water treated
- 750m litres of water use avoided
- 515,000 people reached with healthcare
- 105,000 COVID-19 tests provided
- 340,000 days of education provided

These impacts stem from the use of the products and services supplied by companies held in the portfolio. They directly support seven of the UN Sustainable Development Goals (SDGs) as illustrated in Figure 4. The remaining ten SDGs are mostly high-level societal goals that are primarily influenced by governmental actions. Companies held in WHEB's investment strategy also contribute to these wider goals through their own operations.

We highlight examples of how companies support these wider objectives on our impact website:

https://impact.whebgroup.com/sustainable-development-goals/

WHEB INVESTMENT THEMES

Environmental Services	Water Management	Health	Well-being	Education
- Circular economy - Environmentally preferable products - Environmental consulting - Pollution control	- Efficient water use - Fresh water provision - Waste water treatment	- Cutting costs in healthcare - Healthcare provision and therapies - Preventative care - Research and diagnostics	- Hearing, vision and oral health - Residential care for the elderly	- Tertiary education
- Arcadis NV - Horiba Ltd. - Koninklijke DSM NV - Linde plc. - Smurfit Kappa plc.	- Advanced Drainage Systems Inc. - China Water Affairs Group Ltd. - Ecolab Inc. - Xylem Inc.	- Agilent Technologies Inc. - Centene Corp. - Cerner Corp. - CSL Ltd. - Danaher Corp. - Hikma Pharmaceuticals plc. - ICON plc. - Premier Inc. - Steris plc. - Thermo Fisher Scientific Inc.	- The Cooper Companies Inc. - Orpea SA - Sonova Holding AG.	- Grand Canyon Education Inc. - Strategic Education Inc.
82,000 tonnes of waste recovered or recycled	2.8bn litres of waste water treated	105,000 COVID-19 tests provided		340,000 days of tertiary education
315,500 tonnes of CO_2e avoided	750m litres of water use avoided	515,000 people received healthcare treatment		

UN SUSTAINABLE DEVELOPMENT GOALS

12 RESPONSIBLE CONSUMPTION AND PRODUCTION	6 CLEAN WATER AND SANITATION	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION

The Impact Calculator

In addition to the impact that is associated with the strategy as a whole (reported on page 17), we also quantify the impact that is associated with £1m invested in the strategy in the Impact Calculator illustrated in Figure 5. The WHEB website has an interactive version of this calculator, which has been updated with 2020 data: **impact.whebgroup.com/impact-calculator/**

As in previous years, it is important to make clear that neither WHEB nor investors in WHEB's strategy 'own' this positive impact. This impact is ultimately generated by the end user of the products and services – the owner of the electric vehicle or the homeowner who buys and uses renewable power. Investors in WHEB's strategy are aligned with these positive impacts by investing in companies that form part of crucial supply chains that manufacture these products and provide these services. WHEB's investments contribute to the attainment of the avoided emissions, however, they are not solely responsible. The impact is therefore referred to as 'associated'.

As managers of our clients' money, our role is to ensure that these assets are invested in a way that enables and is aligned with these positive outcomes. We strongly believe that it is also our role to clearly demonstrate to our clients and their advisers that this is the case. Their money helps to finance the activities of investee companies. In turn their products are used in the real world where they create positive impacts. The 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.

Data quality

The methodologies that are used to calculate the positive impacts associated with a given level of investment are still relatively immature. WHEB's approach is based on the work of the global initiative Mission Innovation.[9] Our methodology was peer-reviewed in 2020 by the Carbon Trust and was found to be formulated in line with international best practices.[10] This year we have had the data scrutinised by the Carbon Trust (See Section 7).

Year-on-year changes

We have continued to see modest improvements in the proportion of companies reporting impact data. This year 60% of the strategy (28 companies) reported data as compared to 56% last year. We have estimated data for 14% (7 companies) compared to 14% last year. Only 26% of companies in the strategy do not report any data. This is down from 30% last year.

On the advice of the Carbon Trust, we have changed the denominator in our calculations of WHEB's share of investee companies this year. We are now using the whole enterprise value (EV) rather than just the market capitalisation. Because the enterprise value takes into account the debt that a company has as well as the value of its equity, it provides a more accurate measure of the overall value of a business.[11] It also means that the denominator in our calculations is larger and has therefore reduced the total positive impact that is reported per £1m invested and makes year-on-year comparisons problematic. Broadly, across the different indicators we estimate that this change has reduced positive impact by approximately one fifth compared to last year.

We have seen a particularly sharp decline in MWh per £1m of renewable energy generated from 2019 to 2020. This is partly explained by the changes to the denominator described above as well as significant appreciation in the equity value of the underlying businesses (reducing the impact per unit of enterprise value). In addition, during the year we also invested in Vestas Wind Systems and reduced our holding in TPI Composites. Because Vestas is a major customer of TPI Composites, we have ensured that we do not double-count the impact associated with our investments in these two businesses by not counting the impact of TPI Composites blades supplied to Vestas. The result has been to dramatically reduce the positive impact associated with our investment in TPI Composites. This change has also had an impact on the total tonnes of CO_2e avoided per £1m in 2020.

Changes to the portfolio have also meant that we are reporting on some different impact indicators this year compared to last. The sale of China Water Affairs has meant that 'water cleaned for reuse' is no longer a material area of impact associated with the strategy. Instead, we report 'water use avoided', which is linked to four holdings in the portfolio. With the sale of our holding in Tivity Health, we also no longer report on the number of people benefiting from preventative care. Given the importance of addressing the COVID-19 pandemic in the past year, we have instead reported on the numbers of COVID-19 tests that have been produced by companies in the portfolio.

Negative product impacts

The focus of the Impact Calculator is squarely on the positive impacts associated with the use of products and services supplied by companies in the investment portfolio. This is of course only a partial picture. The use of the products will typically also involve some negative impacts. For example, COVID-19 test kits clearly have an essential role in helping to ensure that the pandemic is controlled. But their use has also generated a huge volume of additional waste material.

Even though there is very little data reported on the negative impacts associated with most products and services, these issues are routinely considered in our investment process. Where they are significant, we will either not invest, or will engage with the company to encourage them to mitigate the impacts. Currently, however, comprehensive data is not reported by companies on the majority of these issues. The one exception is for Scope 3 greenhouse gas (GHG) emissions data. While data is still relatively poor on Scope 3 emissions, it is improving. We report on the Scope 3 emissions associated with the portfolio in Section 4. Negative impacts associated with products is clearly an important area for further work. We hope to be able to report a clearer picture in future impact reports.

'COVID-19 test kits clearly have an essential role in helping to ensure that the pandemic is controlled. But their use has also generated huge volumes of additional waste material'

Figure 5

The positive impact associated[1] with owning £1m in WHEB's investment strategy in 2020

CLEANER ENERGY

Generating
200 MWh
of renewable energy

equivalent to the annual energy needs of 12 European households.

ENVIRONMENTAL SERVICES

Recycling or recovering
80 tonnes
of waste materials

equivalent to the total waste produced by 80 European households per year, saving £7,500 in reduced landfill costs[2].

HEALTH

105,000
COVID-19 tests produced

HEALTH

500 people
receiving healthcare treatment

and £27,000 of costs saved through more efficient healthcare systems.

EDUCATION

Students receiving
330 days
of tertiary education

RESOURCE EFFICIENCY

Avoiding
300 tonnes
of CO_2e emissions

equivalent to the energy use of an average European house for 23 years, saving £4,800 in avoided carbon costs.[3]

WATER MANAGEMENT

Avoiding
716,000 litres
of water use

equivalent to the water used by 11,500 showers

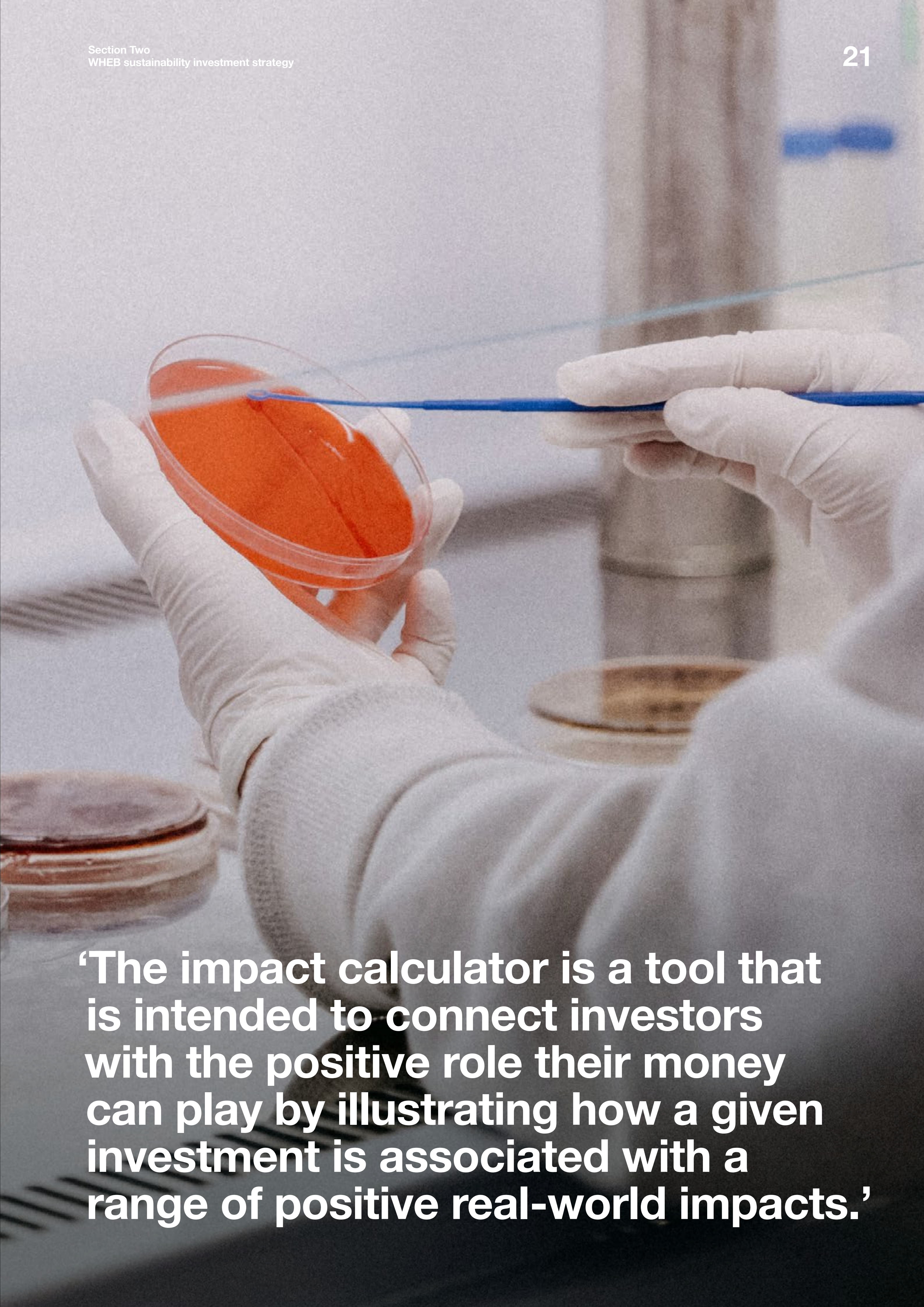
WATER MANAGEMENT

Treating
2.7m litres
of waste water

equivalent to the total annual waste water generated by 24 European households.

The WHEB website has an interactive version of this calculator, which has been updated with 2020 impact data.
whebgroup.com/impact-calculator/

1. 'Investors in WHEB's strategy are aligned with these positive impacts by investing in companies that form part of crucial supply chains that manufacture these products and provide these services. WHEB's investments contribute to the attainment of the impact, however, are not solely responsible. The impact is therefore referred to as 'associated'.'
2. Based on a global average carbon price of £16 per tonne based on World Bank and IHS Markit's Global Carbon Index (https://carboncreditcapital.com/value-of-carbon-market-update-2020/)
3. Based on a landfill tax of £94.15 per tonne of waste which is equivalent to the UK's landfill tax in 2020.



‘The impact calculator is a tool that is intended to connect investors with the positive role their money can play by illustrating how a given investment is associated with a range of positive real-world impacts.’

Section Three

How our companies contribute to sustainability

How we integrate sustainability into stock analysis

The global economy is now unmistakably in the early stages of a wholescale and dramatic shift towards a zero carbon and more sustainable structure. So far, this has most tangibly involved a clear transfer of value from carbon-intensive technologies and businesses to low and zero carbon technologies.

In our view, though, the shift to a zero carbon economy will presage further, deep-rooted change. Driven by wider environmental issues such as biodiversity loss[12], this change will also incorporate social issues, themselves propelled by the fallout from environmental change, as well as by inequality, changing demographics and new technologies.

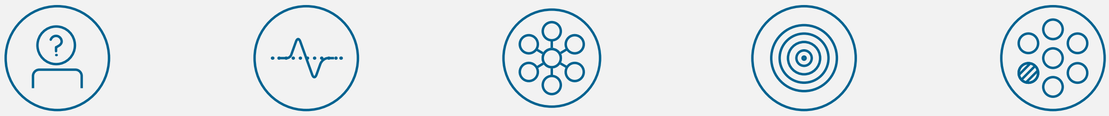
Such wholescale changes require investors to think holistically about their investments. The shift to a zero carbon and more sustainable economy creates profound challenges as well as opportunities for companies. It has repercussions for how companies manage their own operations and footprint, as well as the products and services that they supply. WHEB's investment process is designed to capture all these dimensions. The Impact Engine analyses the positive impacts associated with a company's products and services. Our fundamental quality rating is focused on how companies manage their own operations. Figure 6 describes these company assessment processes and how they come together in the Impact Map.

'The shift to a zero carbon and more sustainable economy creates profound challenges as well as opportunities for companies.'

Figure 6: A holistic approach to stock analysis

The Impact Engine

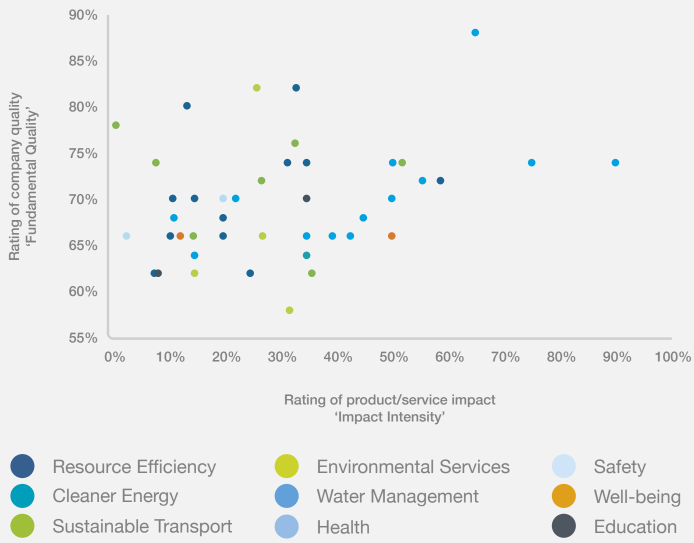
Systematic analysis of the positive impact of products/services



1. Who is the client and how vulnerable are they?
2. How critical is the impact to the client's future fitness?
3. How central is the product or service in delivering the impact?
4. How large is the positive impact?
5. How unique is the company's contribution

- Assessment of positive impact of product/service
- Each product category assessed independently
- Covers social and environmental themes
- Involves qualitative and quantitative data
- Generates an overall 'impact intensity' score*

The Impact Map



Fundamental quality

Integrating financial and ESG analysis of company operations

- Financial analysis
- Market position
- Governance
- Supply chain
- Safety
- Environmental risks
- Ethics
- Engagement response

- Assessment of the quality of company operations
- Focuses on material ESG issues**
- Covers market and competitive position as well as operations and management quality
- Generates an overall 'quality' score

* For the Impact Engine methodology see https://impact.whebgroup.com/methodology/
** Our principal materiality framework is the Sustainability Accounting Standards Board (SASB).

Changes since last year

We first published our Impact Map last year, covering the 2019 portfolio. Our ambition is to continually graduate the portfolio into more intensely impactful companies with higher quality. Over time, therefore, we would hope to see the portfolio move into the upper-right quadrant of the Impact Map.

2020 was the first full year that benefited from the use of the Impact Engine. Low impact scores were an important part of the decision to sell several companies in 2020.[13] This included Norma, Spectris and Roper which were three of the lowest scoring companies in the portfolio in 2020. Regrettably, we also sold some higher-impact scoring companies in the year. In some cases, such as with Varian Medical Systems, this was unavoidable, as the company was acquired and we were obliged to sell. In others, such as IPG Photonics and Tivity Health, a change in the company's competitive outlook or ESG performance caused us to sell our holding. More detail on the decisions behind these sell decisions are set out in WHEB's quarterly client reports, which are available at

whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/quarterly-reports/

Purchases in the year included several companies with strong impact scores, including Vestas Wind Systems, Sonova Holding and Strategic Education. Other purchases in the year included Autodesk, Arcadis and Silicon Laboratories. Overall, the impact intensity of the portfolio improved by 1% from the end of 2019 to the end of 2020, with quality also improving by 2% to 70%.[14] Annual changes are likely to be small given the long-term investment philosophy governing the strategy. Of the companies that we bought and voluntarily sold, the improvements were more marked with impact intensity improving 6% over the year.

We have commissioned an independent critique of our Impact Engine in 2021 to ensure that the tool is based on best practice. We intend to publish the outcomes of this project, which we hope will be helpful to other practitioners. We are also working with the Future-Fit Foundation to better integrate systems thinking and concepts of dynamic materiality into our assessment of company ESG quality.

"At last the financial sector appears to recognise the importance of sustainability. We need more to follow WHEB's lead and grasp its extreme urgency as well."

Ray Dhirani
Head of Sustainable Finance, WWF-UK and WHEB Independent Advisory Committee Member

Theme Focus:

Sustainable transport

Transportation is responsible for approximately 15% of global greenhouse gas emissions.[15] In some countries, such as the US, it is the largest source of emissions, at nearly 30% of total emissions.[16] Over 80% of transport emissions come from road vehicles and particularly from light-duty road vehicles.

WHEB invests in businesses that help to reduce greenhouse gases as well as other harmful emissions. This includes businesses that offer rail and bus products and services. It also includes businesses that are dramatically reducing road vehicle emissions, including through battery electric powertrain technologies. In Europe, an electric car is responsible for approximately a third of the CO_2 emissions over its life cycle when compared to an average diesel or petrol car.[17] In 95% of the world, driving an electric car produces lower levels of CO_2 emissions than driving a gasoline car.[18]

Case Study:
Aptiv

As a key supplier to the automotive industry, Aptiv's mission is to 'enable a safer, greener and more connected future of mobility'. The company's products include high-voltage wiring and electrical centres, power distribution boxes and battery connectors, plug-in chargers and light-weight aluminium wiring all for use in electric vehicles. The company is also a major supplier of active and automated safety systems including collision warning systems, lidar units and other sensing technologies that enable active safety features such as lane departure warning and auto braking.

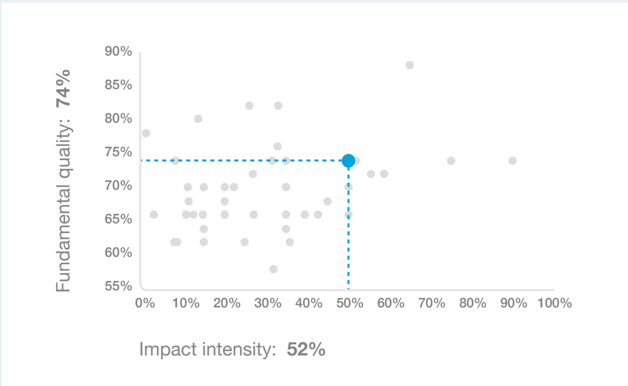
Enterprise value:	Region:	Theme:	Website:
US$41bn	North America	Sustainable Transport	www.aptiv.com/en/

Impact intensity (52%)

Aptiv's technology plays a key role in enabling both advanced safety technologies as well as greater powertrain electrification. Intellectual property in safety applications offers significant improvements in automotive safety benefits. Approximately 80% of revenues are derived from products and services with either environmental or safety benefits.

Fundamental quality (74%)

Supplying automotive components is typically seen as an unattractive market. A focus on electrification and active safety enables Aptiv to grow faster than the market as a whole. A strong competitive position and robust management of ESG issues also enable the company to earn attractive margins for the sector.



Link to UN SDGs

SDG 11 is focused on making cities and human settlements inclusive, safe, resilient and sustainable. It includes targets to provide safe, affordable, accessible and sustainable transport systems.

Impact calculator metric

1 tCO_2e avoided per £1m invested (estimated).

Recent stewardship topics

- Inadequate Board-level gender diversity
- Excessive CEO remuneration
- Board Director serves on an excessive number of external boards

Useful further links

- www.whebgroup.com/why-we-invest-in-aptiv-driving-change-in-the-automotive-industry/
- www.whebgroup.com/from-no-10-to-bp-its-all-moving-very-fast/
- www.whebgroup.com/5g-and-sustainability/2020-Review.pdf

Theme Focus: Safety

Sustainable development is ultimately about meeting human needs in ways that protect the planet, ensuring that future generations can meet their needs. Keeping people safe is clearly central to meeting human needs. While safety standards continue to improve around the world, hundreds of thousands of people still die every year from injuries sustained in accidents.[19] Road accidents are still a leading cause of death in many parts of the world with 1.35m people dying each year in road traffic accidents. They are also the leading cause of death for children and young adults aged 5 to 29.[20]

Burns sustained in fires is also a major public health problem with an estimated 180,000 deaths annually and millions more left with lifelong disabilities and disfigurements.[21] Most of these burns are sustained from fires in buildings, but climate change also increases the risks of wildfires.[22] Already some parts of the world have experienced more frequent wildfire events, including in Australia, Brazil, Europe and the United States.

MSA
The Safety Company

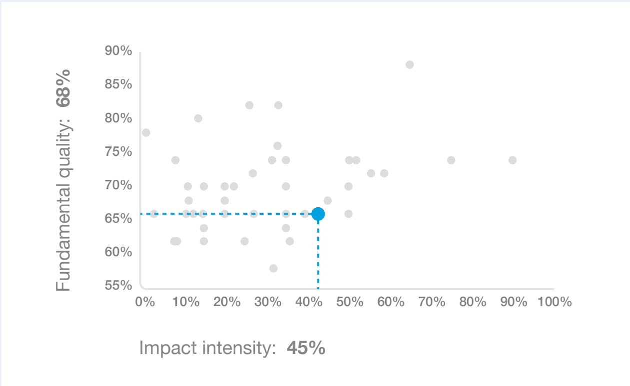
Case Study:
MSA Safety

Founded in Pittsburgh in 1914, MSA originally stood for ‘Mine Safety Appliances’. This was changed in 2014 to ‘MSA Safety’ to reflect the broader range of products the company has developed. Today, MSA still manufactures products such as fixed gas and flame detection systems which are used across industry. They are also a leading manufacturer of self-contained breathing apparatus and fire helmets for firefighters as well as fall protection equipment for working at height.

Enterprise value:	**Region:**	**Theme:**	**Website:**
US$6.7bn	North America	Safety	www.msasafety.com

Impact intensity (45%)

MSA Safety is responsible for developing new technologies that directly help to save lives. These products play a critical role in enabling workers and first responders to operate safely. The company has a strong track record of innovation that brings new technologies to market, enhancing the positive impact of its products.



Fundamental quality (68%)

The company’s focus on innovation gives MSA a strong competitive position in an attractive sector with a wide range of different customers. Employee oriented policies (diversity, health and safety) are strong but the company is still developing its approach to wider social and environmental issues.

Link to UN SDGs

Safety is embedded in several SDGs including worker safety (SDG 8), safe housing (SDG 11) and safer roads (SDG 3). MSA directly supports these objectives by providing safety equipment to workers, fire-fighters and first responders.

Impact calculator metric

- Under review (not currently included)

Recent stewardship topics

- Inadequate Board Director independence
- Excessive CEO remuneration
- Use of toxic chemicals in firefighter clothing

Useful further links

www.whebgroup.com/fire-and-protest/

https://impact.whebgroup.com/impact-case-study/msa-safety/

Theme Focus:

Cleaner energy

CO_2 emissions from coal combustion alone have been responsible for approximately one-third of 1°C increase in global average annual surface temperatures above pre-industrial levels.[23] Replacing coal and other fossil fuels is an urgent priority in avoiding additional global temperature rises.

The cheapest and most efficient way to do this is to replace fossil fuel power generation with renewable energy, notably wind and solar photovoltaic technologies. Over 50% of today's technical potential for renewable energy is already cheaper than fossil fuels. By 2030 it will be 90%.[24] Electrification of transport and the heating of buildings will more than triple current electricity demand but will lower total energy system costs and dramatically reduce CO_2 emissions.[25]

In many applications where direct electrification is impossible or uneconomic, hydrogen can play a major role in decarbonisation either directly or in the form of derived fuels such as ammonia. To fully reduce CO_2 emissions, the hydrogen must be 'green'. This will increase demand for renewably produced electricity by a further 30%.[26] Together direct electrification and the use of green hydrogen will increase electricity demand from 27,000 TWh to 130,000 TWh by 2050.[27]

Case Study:
TPI Composites

As the wind industry has matured, turbine manufacturers have outsourced manufacturing of key components. TPI Composites has successfully built a business manufacturing wind turbine blades and is now the global leader in this industry. The company supports their clients through a series of regional manufacturing hubs in Asia, Europe and North America. With core expertise in advanced composite technology, they have manufactured over 10,000 blades since 2001 and accounted for 13% of the onshore wind blade market in 2020. Because of their lightweight characteristics combined with durability and strength, the company is also developing new applications for composites in the electric vehicle market.

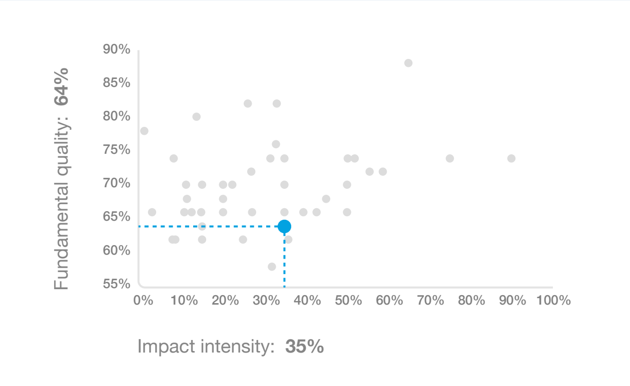
Enterprise value:	Region:	Theme:	Website:
US$1.9bn	North America	Cleaner energy	www.tpicomposites.com

Impact intensity (35%)

By manufacturing turbine blades, TPI Composites provides a key component for wind energy. Most key design features are specified by the customer. Turbine blades accounted for 98% of 2020 revenues.

Fundamental quality (64%)

TPI Composites is well-placed to benefit from long-term growth in wind energy, but as an outsourced supplier the company has only modest pricing power. Still a relatively small business, the company is now developing a more comprehensive approach to critical ESG issues



7 AFFORDABLE AND CLEAN ENERGY

Link to UN SDGs

Increasing renewable energy is a core target of SDG 7. TPI Composites directly supports this objective by manufacturing wind turbine blades that help to reduce to cost of wind energy and make it more accessible across multiple markets around the world.

Impact calculator metric

76 tCO_2e avoided per £1m invested (reported)

148 MWh of renewable electricity generated per £1m invested (reported)

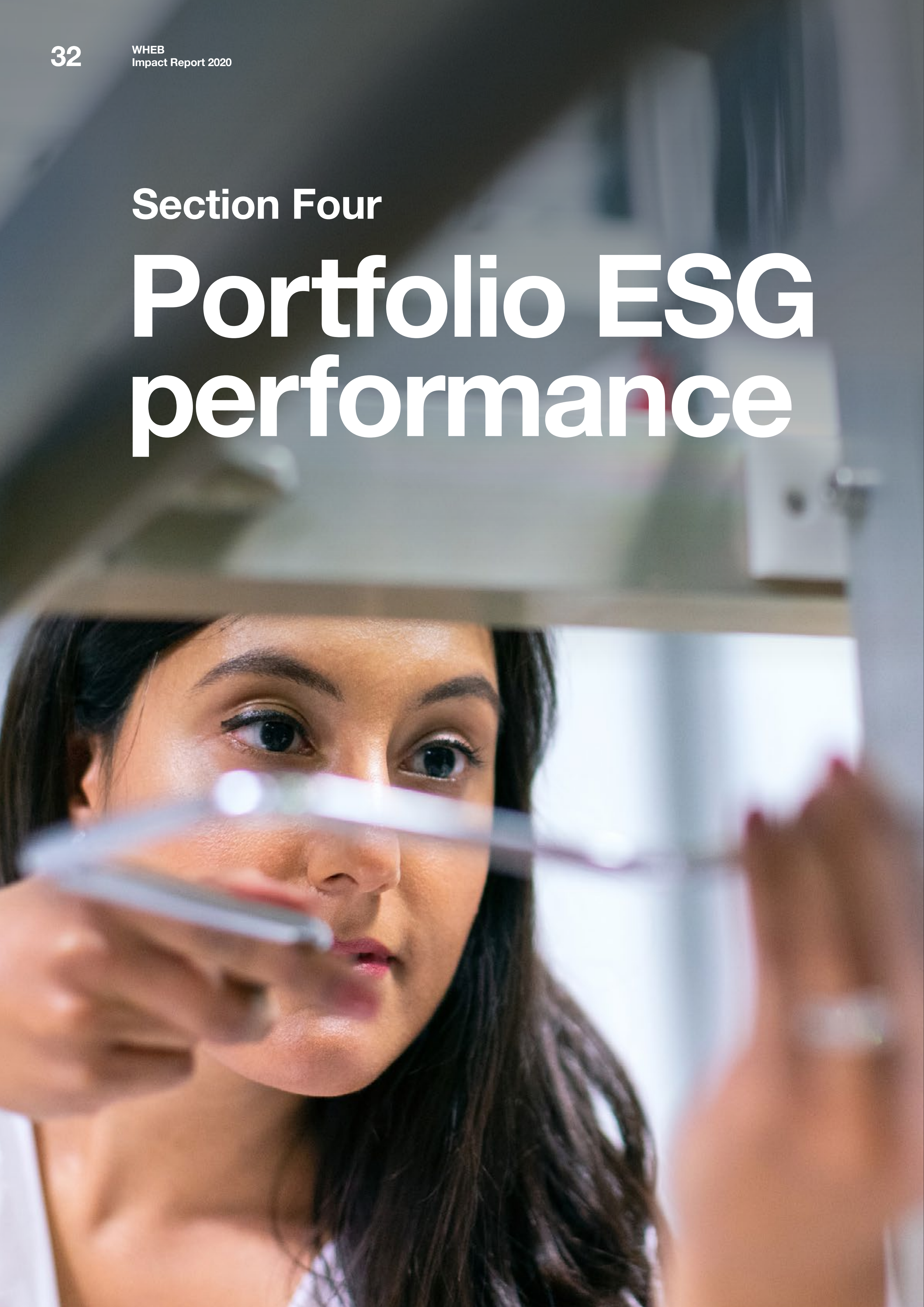
Recent stewardship topics

- Improvements in ESG disclosure and governance
- Net-zero carbon (NZC) target
- Recyclability of wind turbine blades

Useful further links

https://impact.whebgroup.com/impact-case-study/tpi-composites/

https://www.whebgroup.com/media/2021/01/20210119-WHEB-Q4-2020-Review.pdf



Section Four

Portfolio ESG performance

ESG profile

The WHEB investment strategy is designed first and foremost to deliver competitive returns through positive impact investments across a variety of social and environmental issues. Companies also need to manage the ESG issues associated with their own operations.

How companies handle these issues is considered a core element in WHEB's Fundamental Quality assessment of investee companies. We expect the strategy to exhibit higher-quality characteristics, including a better ESG profile, than the average.

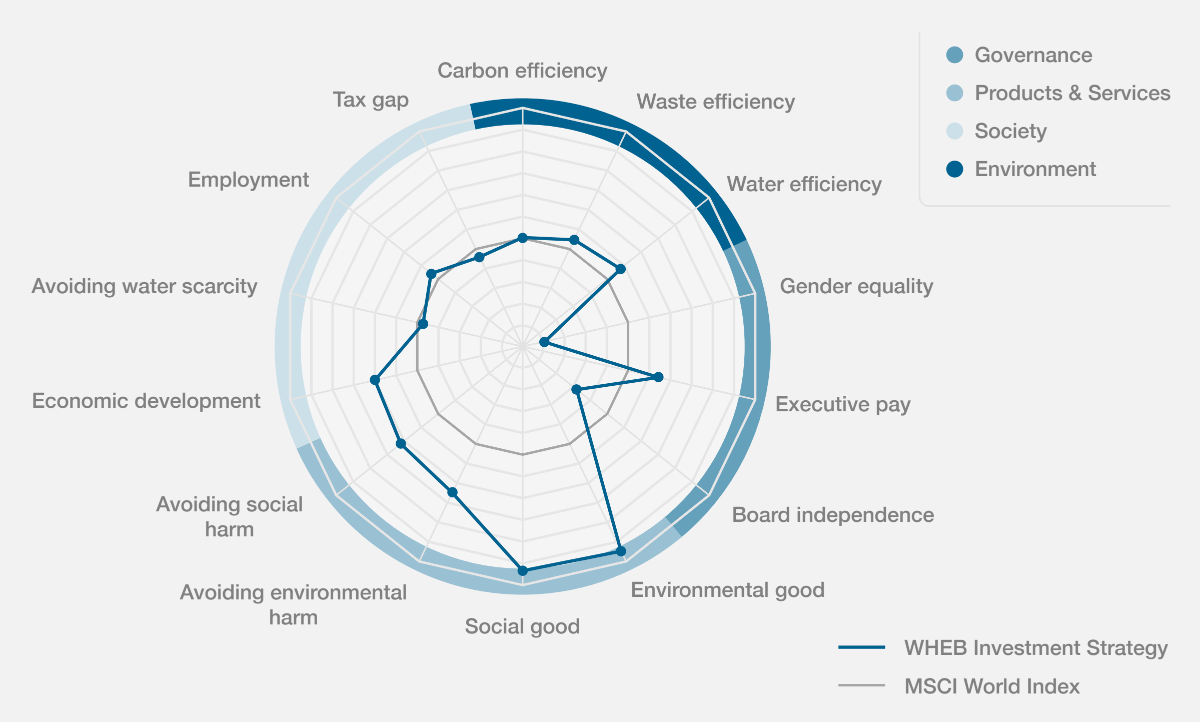
As in previous years, Figure 7 underlines these characteristics across 14 well-established measures of ESG performance. The chart compares the strategy's profile in blue across these measures against the strategy's principle benchmark, the MSCI World, in grey.

Compared with previous years, the strategy's performance on the four factors relating to the impact of products and services remains very strong. According to this analysis the strategy has more than twice as much exposure to companies providing environmental and social solutions as the benchmark. It also has zero exposure to companies in environmentally destructive industries or in industries whose products aggravate social issues. The MSCI World Index has 9.2% in these categories.

As in previous years, the strategy's performance across the operational ESG issues is more mixed and follows a similar pattern. On most metrics the strategy is close to the performance of the benchmark.

Executive pay is one area of significant difference. At 46 times the average employee pay, executive pay for companies in the WHEB strategy is on average lower than that in the benchmark where it is on average 52 times the average employee pay. This is likely due to

Figure 7: ESG profile of WHEB's investment strategy[28]



the strategy's exposure to mid-sized businesses versus the index which contains very large companies.

With a high allocation to traditionally 'male' industries, gender equality remains an area of underperformance relative to the benchmark for the strategy. However, the disparity has reduced and for the first time, on average, more than 20% of board directors and senior executives in WHEB investee companies are female. This compares with just under 25% for companies in the MSCI World Index. This remains an area of focus for our engagement work.

The other area of notable underperformance versus the index is in the proportion of independent board directors. On average boards are just under 75% independent in the strategy versus 79% in the MSCI World Index. Several companies in the strategy have directors representing the founders (often held within families), and in general we are comfortable with boards that have at least a majority of independent directors. Overall year-on-year changes were positive as indicated in Figure 8.

Figure 8: Year-on-year changes in ESG performance

	Metric	Absolute change (year-on-year)
Weighted average carbon intensity	Tonnes of GHG (Scope 1 & 2) per $1m of revenue	↓
Waste efficiency	Tonnes of waste per $1m of revenue	↓
Water efficiency	Thousand m³ fresh water per $1m of revenue	↓
Gender equality	% of women on boards and top management	↑
Executive pay	Ratio of executive-level pay to employee pay	↓
Board independence	Independent board members	↓
Environmental good	% of portfolio in environmental solutions	↓
Social good	% of portfolio allocated to help alleviate social issues	↑
Avoiding environmental harm	% of portfolio in environmentally destructive industries	=
Avoiding social harm	% of portfolio in industries that aggravate social issues	=
Economic development	Median income of portfolio-weighted geography of economic activity	↓
Avoiding water scarcity	Geographic water use	↑
Employment	Unemployment in portfolio-weighted area of economic activity	↑
Tax gap	Estimated % of tax avoided by corporate tax mitigation schemes	↑

Carbon emissions and net-zero carbon

In 2020, WHEB became a founding signatory to the Net Zero Asset Managers initiative. We also published our policy setting out our approach to achieving net-zero carbon emissions from our portfolios by 2050 at the latest.[29]

The core objective of WHEB's investment strategy is to invest in companies that are enabling the transition to a zero carbon and more sustainable world. Approximately 60% of the assets held in the strategy explicitly target positive environmental impact as part of the investment thesis. According to our preliminary assessment, between 12% and 36% of the entire strategy (24-72% of our environmentally themed investments) is invested in activities that are expected to be eligible under the EU's taxonomy of activities for climate change adaptation and mitigation (EU Taxonomy). We believe that the remainder of the strategy will qualify under planned future taxonomies of activities contributing to other environmental or social objectives.

The strategy has no exposure to fossil fuel reserves, no direct exposure to fossil fuel extraction or production and no exposure to coal, oil or gas power production. Even indirectly, where investee companies sell to customers in the fossil fuel sector, our exposure is minimal at approximately 3% of total portfolio revenues. A significant proportion of this exposure is in safety equipment and services and in environmental remediation activities.

The strategic allocation to climate and wider social and environmental solutions and away from fossil fuel assets will not change.

Scope 1, 2 and 3 emissions

This year we have included a wider set of carbon metrics for the portfolio. In the table on page 36 we have given the performance in 2019 and again in 2020 across five different metrics. Each of these measures a different aspect of the strategy's carbon emissions. We have sought to explain the purpose and limitations of the data as well as why the data has changed year-on-year.

We have set an interim target to reduce absolute levels of emissions to a level that is consistent with a 50% reduction in global greenhouse gas emissions by 2030. In order to track progress against this target, we will report data on an absolute basis for the portfolio as a whole (million tonnes of CO_2e) as well as on an intensity basis covering the metrics detailed in Figure 9. We plan to have these, and additional interim targets, reviewed and confirmed during 2021.

As part of our commitment to the NZC20 initiative, we have reported that by the end of 2020, approximately 7% of the strategy was invested in businesses which have already achieved carbon neutrality,[30] and a further 9% have set and published targets to achieve net-zero carbon emissions by 2030. In addition, a larger group of companies representing 20% of the assets in the strategy have either set a net-zero carbon target for 2050 or WHEB is actively engaged with senior executives at these companies to set such a target. Together, this group accounts for approximately 80% of the strategy's Scope 1, 2 and 3 emissions.[31]

Figure 9: Portfolio carbon emissions 2019-20

Indicator		2019	2020	Explanation
Scope 1+2 carbon total emissions (tCO_2e)	Total amount of carbon that is associated with WHEB's investments in portfolio companies.	**1,501,463**	**1,695,323**	The number increased marginally year-on-year because of the increase in the assets in the strategy. This was partially offset by selling higher-carbon investments and purchasing companies with lower emissions.
Carbon footprint (tCO_2e/£1m invested)	Total carbon emissions for a portfolio normalised by the market value of the portfolio.	**127**	**50**	This number reduced significantly because the strategy has shifted into lower carbon investments over the period.
Carbon intensity (tCO_2e/£1m sales)	Measure of average carbon intensity of investee company operations held by the portfolio.	**306**	**380**	This number has increased because of lower sales in 2020 compared to 2019 (in many cases linked to lockdowns due to the COVID-19 pandemic) as well as higher market capitalisations.
Weighted average carbon intensity (tCO_2e/£1m sales)	Measure of a portfolio's exposure to carbon-intensive companies by including the portfolio weighting in carbon-intensive companies.	**220**	**202**	This number is down year-on-year because a higher proportion of assets were allocated to lower carbon intensity companies in 2020 compared to 2019, offsetting the increase in carbon intensity.
Scope 3 carbon emissions (tCO_2e/£1m sales)	Measure of the carbon intensity of the whole value chain (incl. product) emissions.	**950**	**983**	A slight (3%) increase due to portfolio changes that in aggregate have meant more exposure to companies with larger Scope 3 emissions in 2020 when compared to 2019.

Interpreting carbon data

The data in Figure 9 are complex and appear to be contradictory. We are pleased to see the Carbon footprint improve year-on-year as well as the Weighted average carbon intensity. This tells us that the strategy is becoming more exposed to companies with lower carbon footprints. At the same time however, Carbon intensity and Scope 3 carbon emissions have increased. We believe the Carbon intensity indicator has been influenced by lower sales figures in 2020 as well as higher WHEB ownership of portfolio businesses. Scope 3 emissions have increased marginally which we attribute to portfolio changes (more investment in companies with larger Scope 3 emissions).

We provide year-on-year data because, given the low turn-over in the fund, we believe that the most helpful way to assess the performance of the investment strategy is to compare progress on each individual indicator year-on-year. Through our engagement work, and stock selection, we hope to improve these numbers in line with our NZC commitments. Ultimately of course, the only number which really matters is getting the absolute tCO_2e emissions to zero as soon as possible.

‘By the end of 2020, approximately 7% of the strategy was invested in businesses which have already achieved carbon neutrality, and a further 9% have set and published targets to achieve net-zero carbon emissions by 2030.’

Section Five

Engagement and voting

Stewardship and engagement have always been core activities for WHEB. Critically, and still unusually, this work is undertaken by the investment team itself. Our analysts are best placed to make the commercial case that we believe is habitually embedded in ambitious action on sustainability.

Analysts are also then able to benefit from insights we gather from our engagement. This, in turn, helps shape our conviction in the investment opportunity a company offers. As a long-term investor, we play an important role in advocating for more progressive practices. As importantly, we can also benefit from these improved practices.

Further detail on our engagement and stewardship policies are available from our website, including how our stewardship activity is governed.

www.whebgroup.com/media/2021/02/202102-Stewardship-and-engagement-policy.pdf

In 2020, we had no conflicts of interest associated with our stewardship activities (eg where a vote at a company meeting had implications for a client relationship). We further embedded engagement activity in the investment team by linking annual reward to engagement activities, and extended our work with policy-makers and standard setters in helping accelerate the growth of sustainable investing across the market.

Voting activities

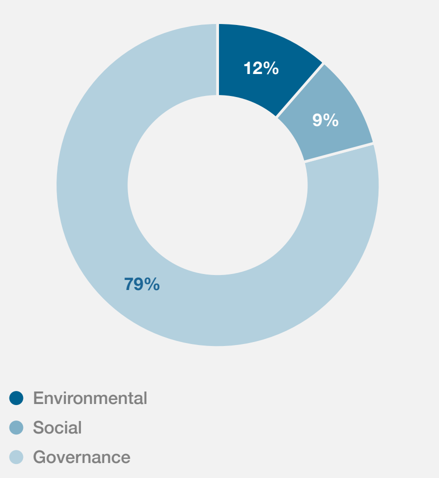
Our ambition is to vote on all the resolutions of all the companies held in the investment strategy and to use our votes to advocate and support high standards of governance, including governance of environmental and social issues.

'WHEB has cast votes on 100% of the resolutions at 100% of the company meetings at which we were entitled to vote in 2020.'

Figure 10: Voting activities in 2020

	Number	Proportion of total
Meetings voted at	54	100%
Meeting with at least one vote against management	45	83%
Votes against management	155	23%
Votes with management	447	67%
Do not vote	51	7.6%
Votes withheld	13	1.9%
Votes abstained	3	0.5%
Resolutions voted	669	100%

Figure 11: Votes against management by topic (2020)



Most frequent topic by category

# of votes	Vote topic
15	Environmental / Board accountability for sustainability
08	Social / Gender diversity
56	Governance / Director independence

Company engagement

In addition to voting at company meetings, our long-term approach gives us an opportunity to engage deeply with companies in the portfolio. In 2020, we engaged on 112 occasions with 38 companies representing 81% of the strategy. Approximately 50% of these engagements were ‘deep’ engagements in which we had more than three interactions with company executives on the issue in question. Figure 11 illustrates the geographic exposure of the strategy (inner ring) and the corresponding engagement in that region (outer ring). Engagement was broadly in line with the underlying exposure of the strategy. There was slightly more engagement in Asia (22%) when compared to the geographic exposure of the strategy to this region (16%), and this bias was also evident in the UK with 6% of exposure and 10% of engagements. The US accounted for nearly half of total engagements (47%), but this was slightly below the 59% of the fund that is invested in US businesses. Europe accounted for 19% of fund exposure and 21% of company engagement.

Figure 12: Company engagement and underlying strategy exposure by geography (2020)

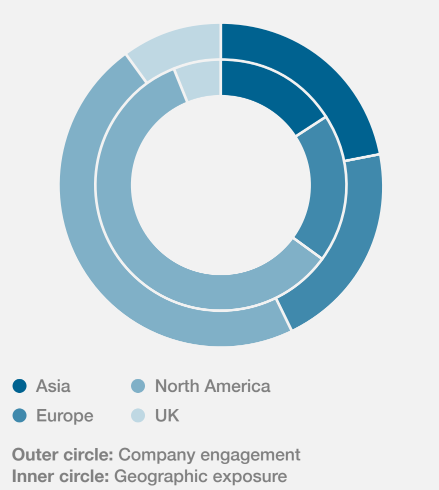
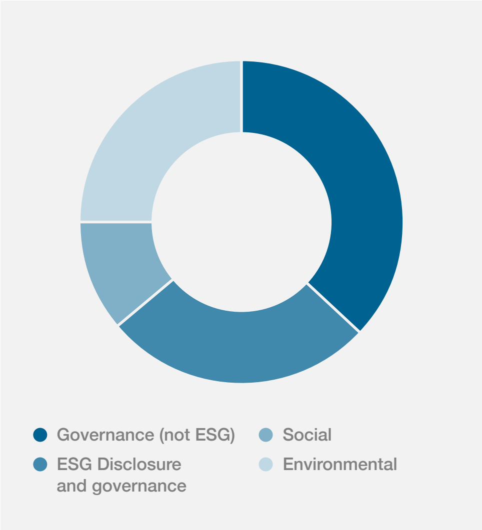


Figure 13: Company engagement by topic (2020)



With 37% of engagement on corporate governance issues, this was again the most common area of company engagement. Director independence and CEO remuneration were areas that received the most attention in 2020. Social issues accounted for 11% of engagement and focused most notably on gender diversity and the management of the COVID-19 pandemic. In addition, product safety was a critical concern at Kingspan during the year and led to the complete sale of the investment in early 2021.[32]

Environmental issues (25%) and ESG disclosure and governance (27%) accounted for the remainder of our engagement in 2020. Carbon emissions and targets were a key focus of our environmental engagement, while board accountability and executive incentives on sustainability were common themes in engagement on ESG governance.

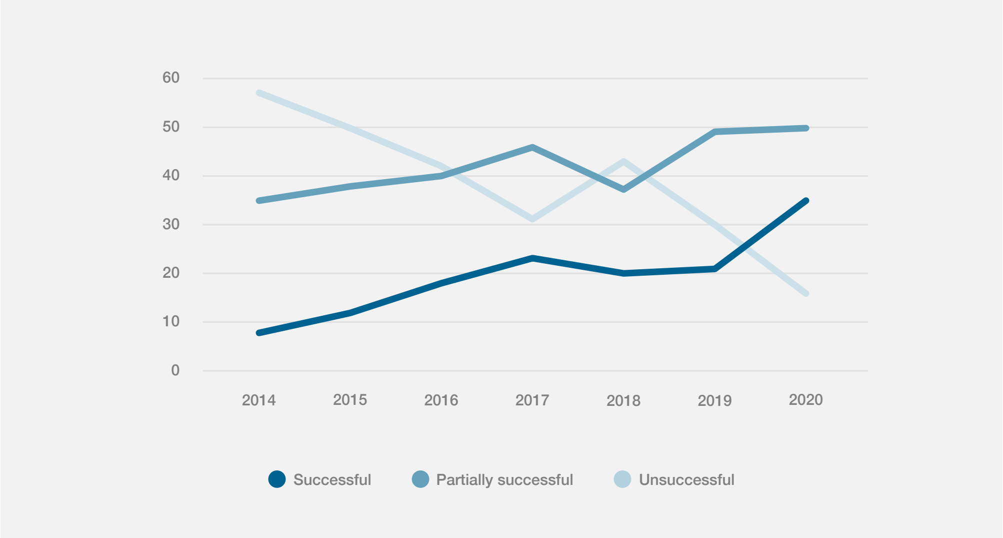
Effectiveness of engagement

We rate the success of each company engagement as either 'successful' when the company agrees to amend its approach, 'partially successful' when the company acknowledges the issue but does not commit to change and 'unsuccessful' when the company either does not respond to us or refuses to amend its practices.

In 2020, of the engagement that we judged had reached a conclusion, 34% was considered to be successful, 50% as partially successful and 16% as unsuccessful. This represents a continuation of the marked improvement that we saw in our 2019 engagement. In particular, the proportion of successful engagement has improved significantly, while the proportion of unsuccessful engagements has declined.

Anecdotally, we know of several examples where changes were made following WHEB engagement. Overall, however, we believe that the increasing profile of ESG issues across the whole market has persuaded management teams to be more responsive to these issues.

Figure 14: Company engagement effectiveness 2014-2020



> “WHEB’s disclosures on their decision to sell their position in Kingspan was one of the most transparent and telling narratives of ESG decision-making that I have seen. This is why I invest in WHEB funds.”
>
> Lucy Carmody,
> Private investor, ESG advisor and Non-executive director.

Public policy and standards

We report on page 15 how we have responded to the new regulations and standards that have been developed on the different aspects of sustainable finance. WHEB is also involved in helping to shape these standards in ways that protect the integrity of sustainable investing while also accelerating the adoption of more progressive practices in the financial sector.

WHEB is only a member of trade bodies and other industry networks that explicitly support the move to sustainable finance.

A full list of these networks is available at:

www.whebgroup.com/about-us/industry-networks/

WHEB is a member of the IIGCC working group of the Paris Aligned Investor Initiative that developed the Net Zero Investment Framework for asset managers and asset owners.

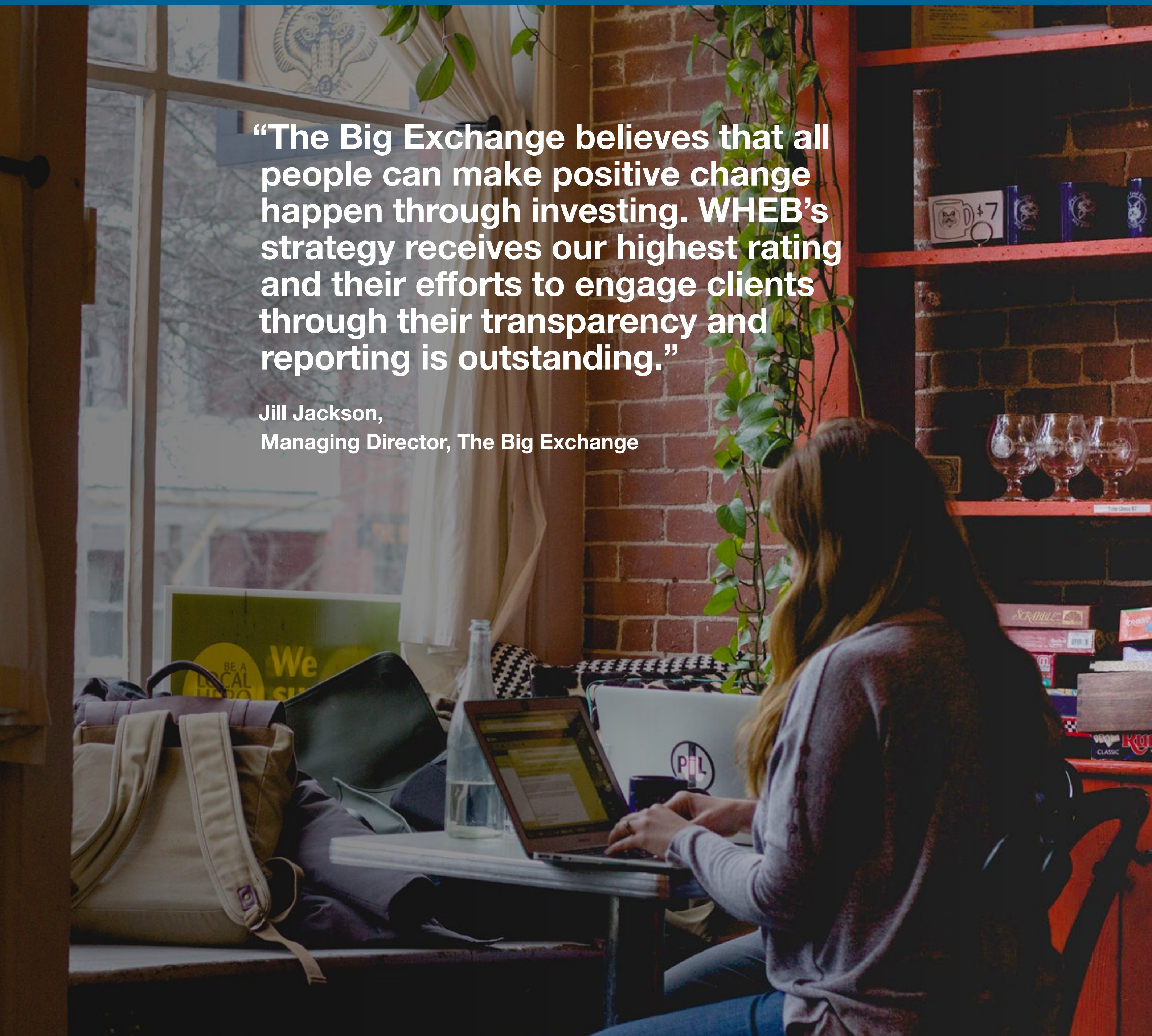
WHEB has been represented on the technical committees responsible for developing public specifications for sustainable finance and sustainable financial products at the British Standards Institute.

Working alongside other investors, WHEB has participated in European Commission consultations on the EU Taxonomy for sustainable activities and the Sustainable Finance Disclosure Requirements.

During 2020, WHEB was a signatory on letters to UK government ministers as well as to the finance ministers of the G7 group of industrial nations calling for stronger emphasis on sustainability in COVID-19 economic recovery packages.

Client engagement

We believe that impact investing should be an inclusive movement and not an exclusive club. Our objective is not just to engage clients, but to excite and empower them in using their capital to deliver positive impact in the real world. WHEB was the first to develop and launch an impact calculator that is intended to illustrate the positive impact that is associated with a given investment in the WHEB strategy. We are also a founding partner of the 'The Big Exchange' – a UK-based investment platform that is intended to enable even the smallest investor to access impact investments and be part of 'a movement … to make money count for more'.[33]



"The Big Exchange believes that all people can make positive change happen through investing. WHEB's strategy receives our highest rating and their efforts to engage clients through their transparency and reporting is outstanding."

Jill Jackson,
Managing Director, The Big Exchange

hikma.

Engagement Case Study: Hikma Pharmaceuticals

Hikma Pharmaceuticals is in our Health theme. It manufactures non-branded generic and in-licensed pharmaceutical products. The company offers a range of healthcare therapies including injectable drugs and a range of generic products that are offered at affordable prices across a very wide range of developed and developing markets. The company's products are used to treat approximately 17m patients every day.

Timeline

Q1/Q3

Engagement issue

Company response to the COVID-19 pandemic

Engagement objective

As the pandemic unfolded, we scrutinised reactions from companies in the portfolio, particularly in the pharmaceutical sector, and engaged with them to see how they were responding.

Scope and process

WHEB co-signed a letter with other investors encouraging companies in this sector to abide by a core set of principles that governed their approach to the COVID-19 pandemic.

We extended this initiative by leading an engagement with Hikma. Our letter urged sector-wide collaboration to ensure affordability and support for all stakeholders

Outcome

Successful

Hikma's CEO responded, setting out the company's approach. For example, Hikma supplies 11 out of the 13 most widely used injectable medicines needed to treat COVID-19 patients in intensive care units in hospitals. In addition, the company was coordinating with suppliers to ensure that raw materials and components remained available across the industry.

We were reassured by these statements. We continue to monitor company behaviour to ensure that it remains aligned with the strong commitments outlined in the CEO's letter to us and in these wider published statements.

For full details please refer to page 9 of our Q2 2020 Report.

https://www.whebgroup.com/media/2020/07/20200630-WHEB-Q2-2020-Review.pdf

intertek

Engagement Case Study: Intertek

Intertek provides testing, inspection and certification services, including to the consumer goods industry where it focuses on safety testing of consumer products such as toys and clothes. The company also tests the safety and regulatory conformity of food and beverages, healthcare products, electrical goods and commodities, and supplies broader services to businesses including on sustainability and climate change.

Timeline

Q2/Q4

Engagement issue

Company net-zero carbon targets

Engagement objective

To encourage portfolio companies to set a target of net-zero carbon emissions by 2030 ideally or by 2050 at the latest.

Scope and process

We first wrote to Intertek to encourage the company to set a 2030 net-zero carbon emissions target in 2019.

At that time, the company elected to reaffirm an existing target 'to strive for a reduction in greenhouse gas emissions per employee by 5% against a 2018 base year'. With a strong practice in this carbon measurement and advisory, we felt that Intertek was well positioned to set a more ambitious emission reductions target for their own business. We responded to the company encouraging them to set a target that is aligned to the Paris Agreement and consistent with a business that has a leading approach to sustainability. We also led a collaborative initiative with another investor to jointly put this issue to the company.

Outcome

Successful

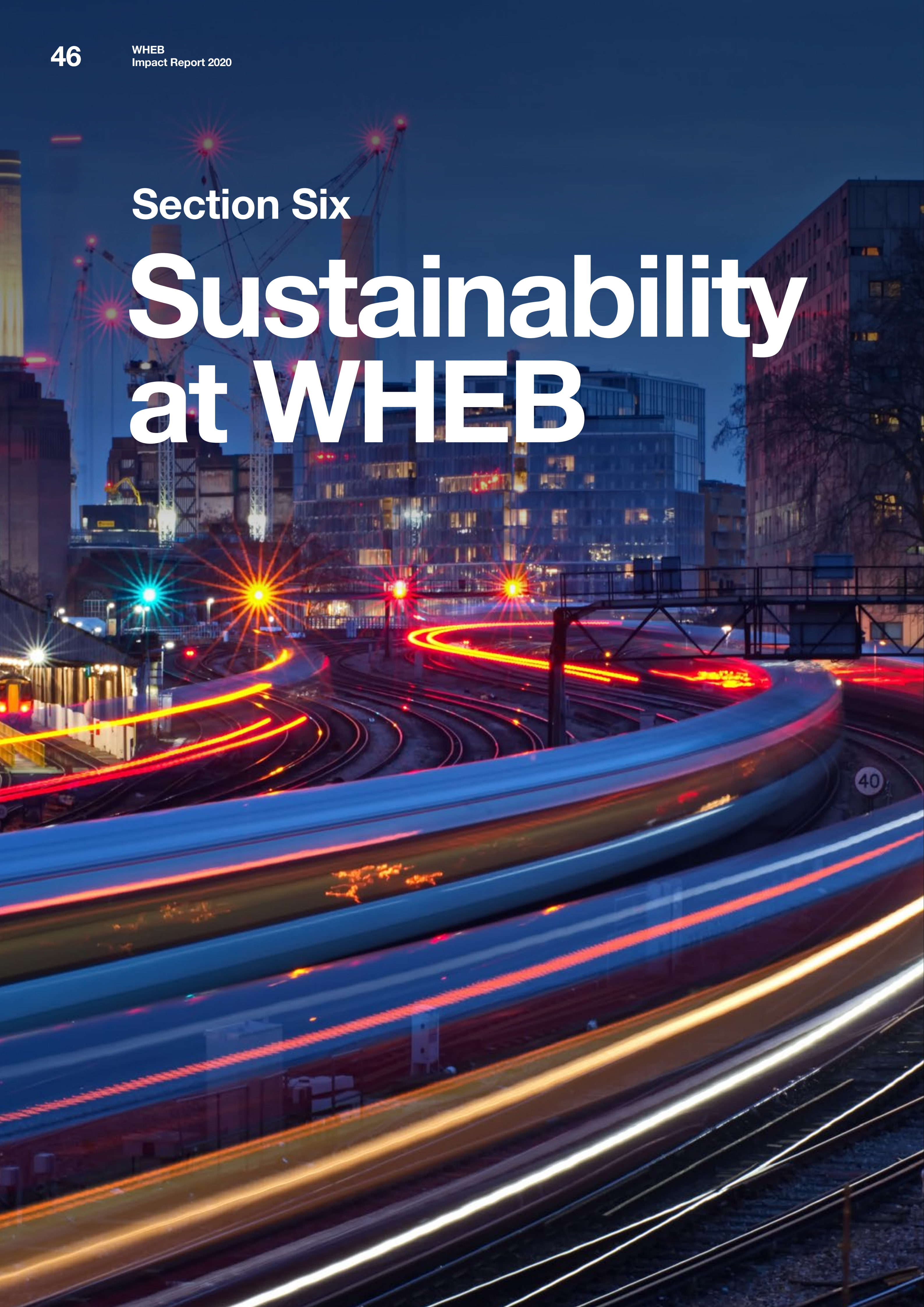
Intertek has since announced more progress. It has now committed to achieving a net-zero carbon target by 2050 and fully offset its carbon emissions in 2020. Furthermore, it will ensure that the 2050 target is science-based. We continue to engage the business to encourage it to publish detailed plans and set interim carbon-reduction targets.

'Intertek is committed to reducing our impact on the climate. As a leader in sustainability services, we are also able to provide critical support to clients reducing their own emissions. We've greatly valued WHEB's role in championing this issue as a long-term investor in Intertek.'

Denis Moreau,
Vice President Investor Relations, Intertek Group plc

Section Six

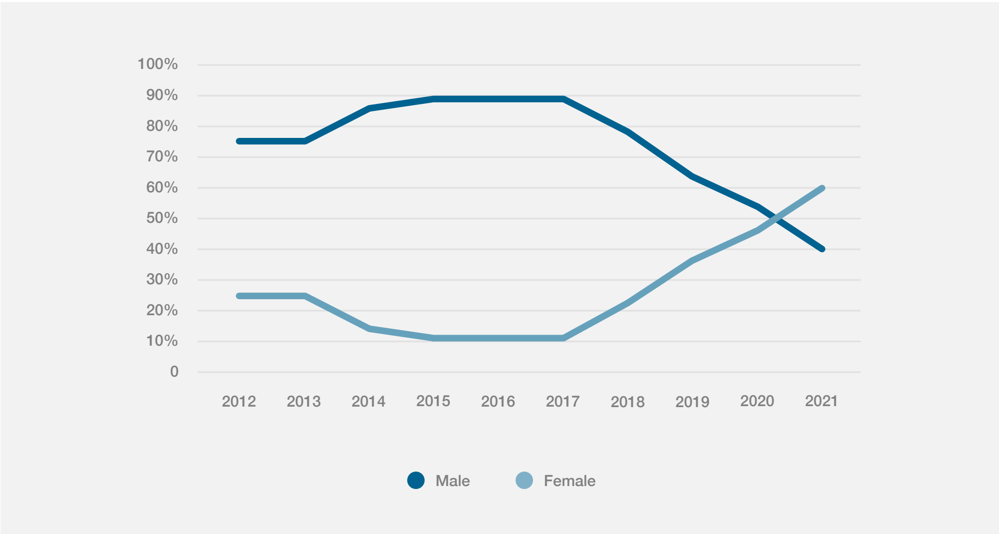
Sustainability at WHEB



The direct impacts of WHEB's own activities changed significantly in 2020. Greenhouse gas emissions from our own operations were dramatically lower.

In fact, all WHEB travel in 2020 was by train and accounted for just 0.5t of carbon emissions, which have been offset.[34] At the same time, the WHEB team expanded by 40% from the end of 2019 to early 2021. These new recruits have changed the profile of WHEB, particularly in terms of gender (see Figure 13)

Figure 15: WHEB gender balance 2012-2021



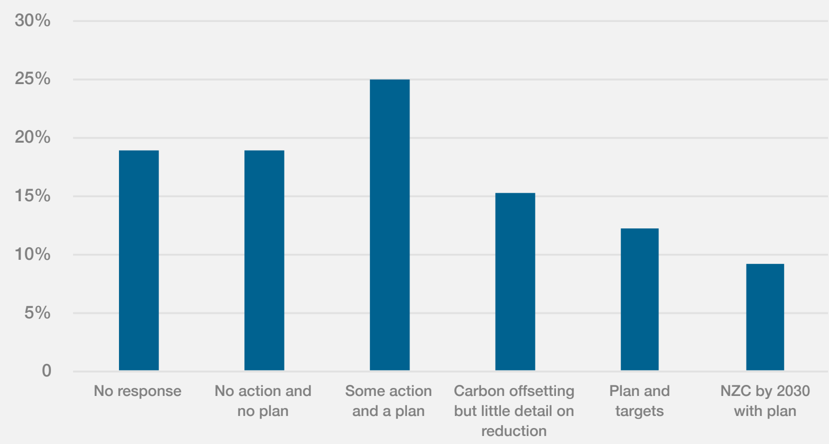
Net-zero carbon operations by 2025

Over the past few years, WHEB has developed a comprehensive set of policies governing our approach to carbon emissions from both investee companies held in the WHEB investment strategy [35] and from WHEB's own operations.[36]

Direct emissions were obviously much lower in 2020 due to much-reduced travel. The other major contribution to WHEB's carbon footprint is from suppliers. During 2020 we wrote to 32 suppliers with whom we have a significant annual spend. Of these suppliers, nearly one-quarter already have a plan to achieve net-zero carbon emissions by 2050 or sooner. At the other end of the scale, nearly 40% either have not yet responded to our questions or have not yet taken action and moreover do not currently have any plans to take action. We are exploring ways to encourage this group to give this issue greater priority in their corporate planning and strategy.

'Nearly one quarter of our suppliers already have a plan to achieve net-zero carbon emissions by 2050.'

Figure 15: WHEB supplier ambition to reduce carbon emissions



Based on submissions from suppliers covering 60% of our total spend on goods and services, we estimate that our total supply chain adds approximately 30tCO_2e to WHEB's total carbon footprint. This is 50% greater than the emissions associated with our typical travel in an average year (20tCO_2e in 2019). We are committed to working with suppliers to reduce this as far as possible by 2025 and for any residual emissions to be offset using high-quality carbon offsets.

WHEB – a Future-Fit Pioneer

At the end of November, WHEB announced that it had become a 'Future-Fit Pioneer'.[37] Alongside a small band of other businesses,[38] WHEB has formally committed to becoming a business that delivers our core purpose – in our case asset management services – in a way that does not cause any harm to the planet or society.

As part of this commitment, we have started checking our practices against the 23 'break-even goals' outlined by the Future-Fit Foundation. These goals collectively define what it means to 'do no harm' environmentally and socially, and cover areas such as employee health, customer engagement, lobbying and advocacy, and operational greenhouse gas emissions.

The disclosure of our progress is detailed publicly on the Future-Fit website and meets Future-Fit's requirements for a 'level 1 Statement of Progress'.

https://futurefitbusiness.org/pioneers/wheb-asset-management/

We have described our status on 13 of the goals, including all 7 that are considered high-risk for asset management businesses. WHEB has demonstrated significant (>70%) progress on three of these high-risk goals already, and on six of the lower-risk topics. We are working to set public targets and report on our progress in the other areas as well.

Future-Fit
Pioneer

Sustainability is core to WHEB's mission 'to advance sustainability and create prosperity through positive impact investing'. Sustainability sits at the heart of our investment activities. It also sits at the heart of our business.

As a B Corporation we run our business for the benefit of all of our stakeholders, not just our shareholders.

bcorporation.net/directory/wheb-asset-management-llp

Certified B Corporation

WHEB is a founding partner of the 'Business Declares' network recognising the urgency of the climate emergency.

businessdeclares.com

Business Declares

WHEB is a founding member of City Hive, a network aimed at challenging and changing the culture of the City to become more diverse, equal and inclusive.

cityhive.co.uk

CITY HIVE

We are an equal opportunities employer and are accredited as a living wage employer.

We are a Living Wage Employer

Impact investing should be for everyone. WHEB is a founding member of the Big Exchange which is devoted to achieving this objective.

bigexchange.com

THE BIG EXCHANGE

Section Seven

Independent Review

Statement from WHEB's Investment Advisory Committee

– The principal role of WHEB's independent Investment Advisory Committee is to review the composition and integrity of WHEB's investment portfolios. This involves determining whether the sustainable investment philosophy is applied consistently in terms of theme definition and stock selection.

– The committee is composed of four independent members with expertise in sustainability and in investment and is chaired by WHEB's non-executive chair.

– The committee met three times in 2020 and summary minutes of these meetings are published on the WHEB Group website.

https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/)

– During 2020, the committee reviewed nine new companies that had been purchased for WHEB's investment strategy. The committee also considered a range of related issues including the implications of greater interest in ESG and sustainability within the investment community, the impact of COVID-19 on sustainability investing and WHEB's approach to net-zero carbon commitments.

– Based on this work, the committee believes that WHEB's portfolios are consistent with the stated sustainable investment objectives of the strategy.

– The committee also reviewed the Impact Report covering calendar year 2020 and felt that the report covers the key issues and is transparent and honest about the challenges facing the strategy, and the broader investment community.

– Given the challenges on reporting positive impact, the committee welcomed the additional scrutiny provided by the Carbon Trust on the data as well as the shift to using enterprise value rather than market capitalisation in impact calculations.

– Full reporting on carbon emissions including scope 3 emissions was also welcomed by the committee. Providing more comparability on carbon emissions and positive impacts will be an important objective for future reports.

– The committee appreciated the detailed reporting on voting and engagement. In future, the report could detail the role WHEB plays in encouraging investee companies to deliver greater positive impact across different environmental and social issues (for example linked with the UN Sustainable Development Goals).

– Overall, the committee felt that the report demonstrates WHEB's continued leadership in listed equity impact investing.

Jayne Sutcliffe,
Non-Executive Chair, WHEB Asset Management

Kingsmill Bond,
New Energy Strategist, Carbon Tracker

Ray Dhirani,
Head of Sustainable Finance, WWF-UK

Mike Clark,
Founder Director, Ario Adivsory

Carole Ferguson,
Head of Investment Research, CDP

‘Based on the Carbon Trust’s examination of the data points underlying WHEB’s impact calculations, we believe that WHEB’s approach to data sourcing is fit for purpose and provides a reasonable basis for impact calculations overall”.

Peer review of impact data - The Carbon Trust

Seb Beloe
Partner, Head of Research
WHEB Asset Management
7 Cavendish Square,
London, W1G 0PE, UK

14th June 2021

WHEB Asset Management's Impact Measurement Data – Peer Review

Dear Seb,

The Carbon Trust has conducted a peer review of the data underlying WHEB's impact calculations. The purpose of the peer review was to provide WHEB with the Carbon Trust's opinion on whether the data that underpins the impact calculations is fit for purpose.

To reach its opinion, the Carbon Trust reviewed all the data points underlying each indicator against a data quality framework which included an assessment of completeness, consistency, reproducibility, data sources, age/time of data and geographical match.

Limitations

As per WHEB methodology, when available WHEB uses data sourced directly from companies who report on impact of their products and services. In most cases, the method used to calculate impact is disclosed by the companies and has been reviewed by the Carbon Trust or is audited by a 3rd party. In a small number of cases, the method is not disclosed nor audited and WHEB has reached out to the companies in question to gain better understanding of the method to ensure it is aligned with best practice. These instances are generally limited to the resource efficiency sector where they represent up to 10% of the data in this theme.

The use of unaudited data and/or data where the method has not been disclosed introduces an element of risk that the methods and data used do not align with best practice. It is our opinion, however, that the overall risk presented by the use of such data in these circumstances is low. The use of unaudited data is minimal and not expected to make a material difference to the overall impact calculations.

Users of the impact calculations should be aware of the potential limitations, uncertainties and/or risks posed by the above when making decisions based on the impact calculations.

Opinion Summary

Based on the Carbon Trust's examination of the data points underlying WHEB's impact calculations, we believe that WHEB's approach to data sourcing is fit for purpose and provides a reasonable basis for impact calculations. Overall, the Carbon Trust believes that the data used is of reasonable quality.

For and on behalf of The Carbon Trust,

Hugh Jones
Managing Director, Carbon Trust Business Services

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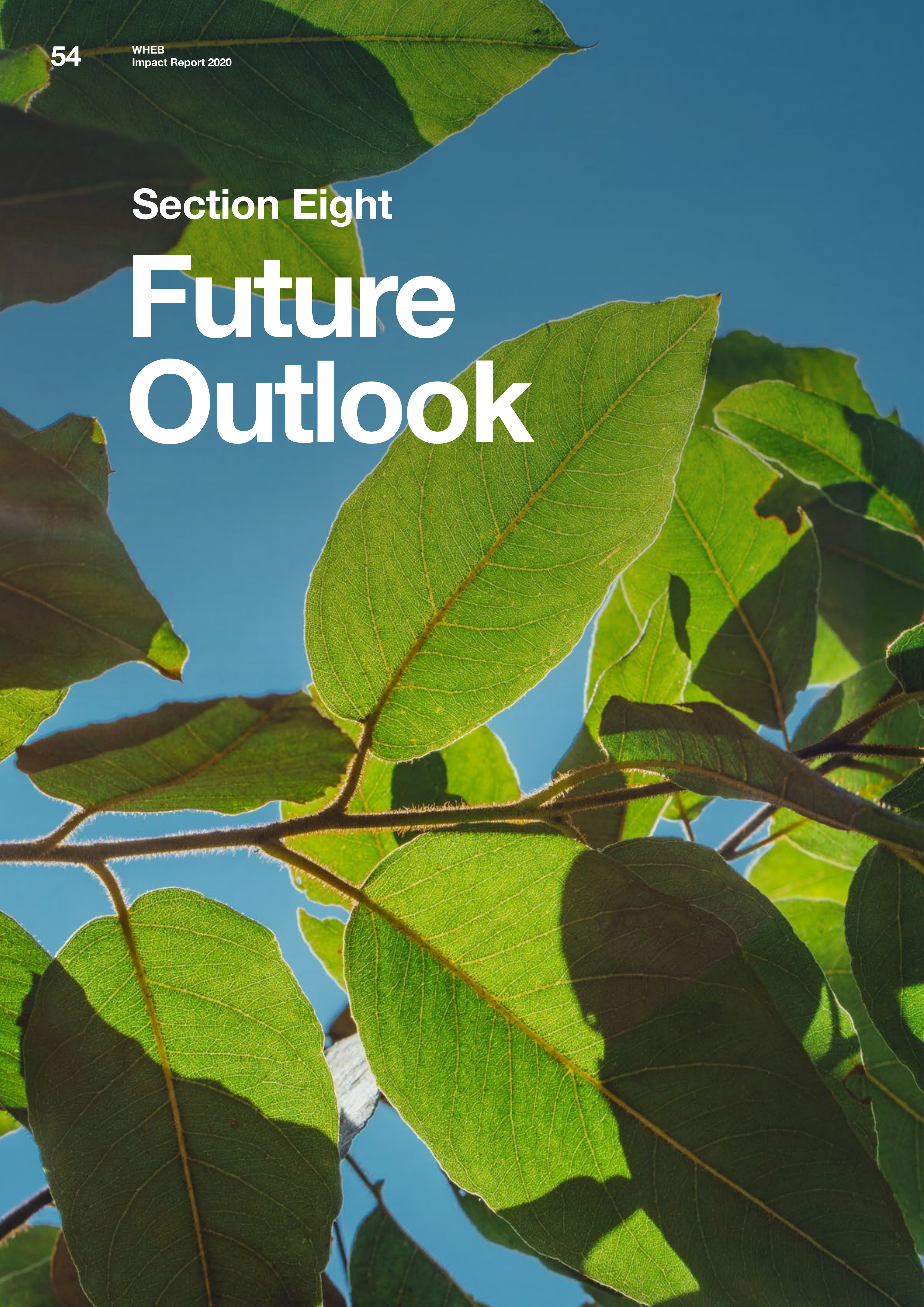

Section Eight

Future Outlook

In a memorable passage from Ernest Hemingway's 1926 novel The Sun Also Rises,[39] one of the protagonists, Mike Campbell, is quizzed about his money troubles. 'How did you go bankrupt?' he is asked. 'Two ways,' Mike replies. 'Gradually and then suddenly.'

I am sure we can all identify with this statement. Hopefully not the going broke part, but certainly with that sense of something taking a long time to happen and then suddenly happening all at once. That has clearly been our impression with the growth in sustainable investing. In fact, objectively speaking, it is exactly what has happened. Sustainable investing, and its elder cousin ethical investing, have been practised for decades. But of the several thousand ESG funds that are now available, over half have been launched in just the last two years.[40] The growth in total assets under management (AuM) in ESG-themed funds has been even more dramatic, nearly doubling in the last year to US$2 trillion.[41]

Of course, there are consequences associated with this unbridled enthusiasm. 'Greenwashing' was only formally defined by the Financial Conduct Authority in 2019. Hitherto, the market's general apathy towards sustainability meant that there was no need for the term, let alone an official definition. The fact that there is now a heated debate, reaching even into the opinion pages of USA Today,[42] could, and perhaps should, be seen as progress.

There is a real risk, though, that where the parameters of sustainable investing are too opaque, trust is undermined. It is for this reason that we have had the methodology and data behind our Impact Calculator vetted by a respected third party. A potential loss of consumer trust has also been an important trigger for the flood of regulatory and market-led standards that are now being developed.

As we have discussed elsewhere, these regulatory instruments are often blunt tools. More flexible market-led frameworks are also gaining real momentum. In December 2020, WHEB was one of just 30 founding signatories behind the Net Zero Asset Managers initiative. Just 4 months later, the initiative boasts 87 signatories and has more than trebled assets under management to US$37 trillion. Making commitments is easy, but this initiative has teeth. Signatories will be delisted if they do not demonstrate clear portfolio emission reductions in line with the Paris Agreement.

These requirements are still atypical. Too much of the ESG agenda is still designed for and by incrementalists, and incremental change is just not going to cut it.

For a growing number of investors, this is thin gruel. Instead, they want their capital to reflect their values and have a positive purpose. This is as true for ultra-high-net-worth families as it is for smaller investors tucking their modest savings away for a rainy day. We believe that we are at the start of a rapidly expanding movement that puts impact at the heart of investment. With US$715bn now reported to be in impact investments, this is already a force to be reckoned with.[43]

Thus far, the decline in global stocks of natural capital, although dramatic, have been relatively gradual. Unlike Mike Campbell in Hemmingway's novel, it is not yet inevitable that we will go broke suddenly. But time is very short and progress is urgently needed.

'Too much of the ESG agenda is still designed for and by incrementalists, and incremental change is just not going to cut it.'

End notes

1 For more information on WHEB's approach to positive impact investing in listed equities please see our white paper on the subject (forthcoming) at www.whebgroup.com

2 For example see Paul Brest et al. 'How investors can (and can't) create social value', Stanford Social Innovation Review, 8 December 2016

3 Forthcoming see https://www.whebgroup.com/

4 A core element of the definition of impact investing according to the Global Impact Investing Network (GIIN) is that investments are made into companies, organisations and funds 'with the intention to generate social and environmental impact alongside a financial return' (https://thegiin.org/impact-investing/#:~:text=What%20is%20impact%20investing%3F,impact%20alongside%20a%20financial%20return). The Impact Engine documents the intentionality of WHEB's investments.

5 The International Finance Corporation (IFC) defines impact investments as 'investments made in companies or organisations with the intent to contribute measurable positive social or environmental impact, alongside a financial return' (https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/growing+impact).

6 The Investment Management Project (IMP) highlights the importance of 'signalling that measurable impact matters' to other parts of the financial system as an important element of impact investing (https://impactmanagementproject.com/wp-content/uploads/Investor-Contribution-Discussion-Document.pdf).

7 Investment returns are shown for each of the last seven calendar years. All figures are shown in GBP Sterling. 'WHEB' is based on the Primary Share Class of the FP WHEB Sustainability Fund. The Primary Share Class performance history is based on the C (Accumulation) share class from launch on 3 September 2012. This figure uses the share price data as at midday and is net of all fees and charges. IA Global relates to the average of the peer group of global equity funds listed in the Investment Association Global Equity sector. This figure uses the share price data as reported and is net of all fees and charges. The MSCI World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed market countries. The MSCI World Index is quoted at month end with net dividends reinvested and without the deduction of any expenses. The MSCI World Index is unmanaged and cannot be invested in directly. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and may be affected by factors including adverse markets and foreign exchange rate movements and you may not get back the amount of your original investment.

8 'Sustainable Investing: Quarterly Tracker', Morgan Stanley, 13 April 2021.

9 https://www.misolutionframework.net/pdf/Net-Zero_Innovation_Module_2-The_Avoided_Emissions_Framework_(AEF)-v2.pdf

10 https://impact.whebgroup.com/methodology/

11 This approach is recommended in the Global GHG Accounting and Reporting Standard for the Financial Industry (https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf).

12 As highlighted, for example, in 'The Economics of Biodiversity: The Dasgupta Review', HM Treasury, 21 April 2021.

13 While these companies scored relatively low impact intensity scores, anything greater than a score of 1 is considered to represent a positive impact. Overall, less than 20% of listed companies are considered to have a positive impact under WHEB's methodology.

14 These percentage moves are based on the outputs of WHEB's own internal analytical frameworks, which uses an ordinal scoring system to enable WHEB's team to compare relative performance across different industrial and thematic contexts."

15 US Environmental Protection Agency (https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data).

16 Ibid.

17 'T&E finds BEV environmental footprint significantly lower than ICEs', Transport and Environment, 20 April 2020.

18 Florian Knobloch et al. ‘Net emission reductions from electric cars and heat pumps in 59 world regions over time’, Nature Sustainability, 2020.

19 World Health Organization (https://www.who.int/news-room/fact-sheets/detail/the-top-10-causes-of-death).

20 Ibid.

21 World Health Organization (https://www.who.int/violence_injury_prevention/burns/en/).

22 ‘Climate change increases the risk of wildfires confirms new review’, ScienceDaily, 14 January 2020.

23 International Energy Agency (https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions).

24 Carbon Tracker Initiative (https://carbontracker.org/reports/the-skys-the-limit-solar-wind/).

25 Energy Transitions Commission (https://www.energy-transitions.org/wp-content/uploads/2021/04/ETC-Global-Power-Report-.pdf).

26 Energy Transitions Commission (https://energy-transitions.org/wp-content/uploads/2021/04/ETC-Global-Hydrogen-Report.pdf).

27 Op. cit. 25.

28 Impact-Cubed.

29 https://www.whebgroup.com/media/2021/03/202102-NZC-Policy-Portfolio-emissions.pdf

30 In all cases these businesses have used carbon offsetting to offset ongoing operational emissions.

31 It is worth noting that one company, China Everbright Environment Group, accounts for 58% of the strategy’s total Scope 1 and 2 emissions and Lennox International accounts for 57% of the strategy’s total Scope 3 emissions.

32 We described our justification for selling WHEB’s position in Kingspan in a separate article at https://www.whebgroup.com/kingspan-and-the-grenfell-tower-fire/

33 https://bigexchange.com/about-us.html

34 The emissions were offset in a Climate+Care portfolio which includes financing the manufacture and distribution of efficient cooking stoves in Ghana and Bangladesh and renewable energy projects in India (for more information see https://www.climatecare.org/calculator/calculator-project-portfolios/).

35 See page 39 for more on WHEB’s approach to portfolio carbon emissions.

36 For WHEB’s policy on operational carbon emissions see https://www.whebgroup.com/media/2021/02/202004-NZC-Policy-Operational-emissions.pdf

37 https://www.whebgroup.com/building-a-movement-why-wheb-asset-management-is-becoming-a-future-fit-pioneer/

38 https://futurefitbusiness.org/pioneer-directory/

39 Ernest Hemingway, The Sun Also Rises, New York: Scribner, 1954

40 Op. cit. 8

41 ‘ESG Monthly Market Trends: Inflows Into US Funds Stand Out’, Morgan Stanley, 12 May 2021

42 https://eu.usatoday.com/story/opinion/2021/03/16/wall-street-esg-sustainable-investing-greenwashing-column/6948923002/

43 https://thegiin.org/research/publication/impinv-survey-2020

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A prospectus and a Key Investor Information Document for the FP WHEB Sustainability Fund and WHEB Sustainable Impact Fund are available from www.whebgroup.com and investors should consult those documents before investing.

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Building back better

Accelerating the transition to a zero carbon, sustainable economy

Annual Impact Report
Jan—Dec 2020

WHEB

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