Impact intentionality
At the core of what it means to be an impact investor is the concept of ‘intentionality’. Specifically, when making an investment, the investor needs to intend for the investment to contribute to positive impact. At WHEB, the investment rationale and the investment decision itself need to be explicitly rooted in the positive impact that the business delivers. We call this the ‘enterprise impact’ of the investee company, and it needs to be a central part of the investment case.

At WHEB we have identified nine investment themes that specifically target nine key social and environmental challenges. For each, we have articulated the problem that our investments are helping to solve, as well as additional detail on the specific mechanism by which they tackle the problem. Together, these nine themes reflect the ‘theory of change’ that shows how the products and services sold by WHEB portfolio companies connect with the problems that we are seeking to solve.

**Figure 5: Applying WHEB’s theory of change in practice**

Two new companies purchased for the strategy in 2022 were Spirax-Sarco Engineering plc and Genmab A/S. The theory of change for these two companies is set out below.

<table>
<thead>
<tr>
<th>Investment theme</th>
<th>Resource Efficiency</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limiting global warming to &lt;1.5°C requires the global economy to increase energy efficiency by c.4% per year.</td>
<td>Preventing and treating illness and disease is central to protecting and enhancing quality of life.</td>
<td></td>
</tr>
</tbody>
</table>

**Company level**

- **Spirax-Sarco** operates two businesses that directly support improved resource efficiency and decarbonisation.
- **Steam Specialties** supplies a range of products including steam traps, control and bellow valves, and heat exchangers. Combined with a direct sales team which provides consultancy, the company enables clients to generate and use steam more efficiently.
- **Electric Thermal Solutions** supplies a range of electrically powered heating technologies, boilers and heat trace products that often replace fossil-powered technologies and result in lower carbon and more efficient thermal energy management for industrial purposes.

- **Genmab** is a biopharmaceutical company that specialises in developing next-generation antibody-based therapies for treating cancer and other health conditions. The impact of Genmab’s therapies includes complete or partial remission from cancer and reduced symptoms associated with diseases such as thyroid eye disease (TED) and multiple sclerosis (MS). The company co-develops its medicines but is currently only generating revenues from royalties linked to medicines sold by third parties.

<table>
<thead>
<tr>
<th>KPIs</th>
<th>tCO₂e avoided</th>
<th>No. of people benefiting from healthcare</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In 2021⁵ the company’s Steam Specialties business helped avoid 18MtCO₂e.</td>
<td>Data is only available for Genmab’s cancer therapies, which were used to treat over 37,000 patients in 2021.⁶</td>
</tr>
</tbody>
</table>

---

⁵ 2022 data was unavailable as of April 2023.
⁶ Ibid.
As an impact investor, WHEB has developed a systematic approach to assessing the impact ‘intensity’ of different products and services. This tool, which we call the ‘Impact Engine’, provides us with a basis on which to compare the positive impact of companies doing very different things, from developing life-saving cancer therapies to supplying solar modules and wind turbines. By enabling a systematic approach to comparing companies, the Impact Engine enables the Impact Investment Team to make structured decisions about which companies to include in our investment portfolios, taking into account risk, return and impact. Further details on how we assess different portfolio companies is available at www.whebgroup.com/investing-for-impact/our-portfolio.

The impact engine assesses the impact ‘intensity’ of products and services across three dimensions. Each dimension is assessed based on two subsidiary questions. Detailed guidance has been developed by WHEB to help the analyst team make repeatable and systematic assessments across a vast array of different products and services. Further detail on the methodology is available at www.whebgroup.com/investing-for-impact/our-portfolio.

Figure 8 on pages 20-21 details the nine investment themes, the related problems, and the solutions that we invest in. The table also lists out the complete set of companies that WHEB holds across its fund range and the KPIs that are tracked to ensure that real-world impacts are occurring in line with the investment objectives.

Figure 7 illustrates the portfolio for the FIP WHEB Sustainability Fund at the end of 2022, highlighting the scores of companies purchased and sold during the year. We have also illustrated the aggregate impact of portfolio changes on the quality and impact scores – demonstrating a very marginal decline in impact for a much more significant improvement in fundamental quality. We sold the two lowest impact-scoring companies during the year (AO Smith and Intertek), but this was offset by sales of high impact companies where we had lost investment conviction. This included two businesses focused on elderly care LHC Group and Orpea and a generic medicine manufacturer, Hikma Pharmaceuticals.
SolarEdge’s mission is to create a world powered by clean, sustainable energy. The company’s main business is in manufacturing components such as DC optimisers. These are used on solar photovoltaic (PV) panels to increase power generation. The company also manufactures other solar-PV related components as well as energy storage products and charging equipment for battery-electric vehicles.

SolarEdge’s impact score is calculated based on the scores given in the figure on the next page multiplied by the proportion of revenues coming from the relevant applications.

Applying the Impact Engine: SolarEdge Technologies Inc.

‘As an impact investor, WHEB has developed a systematic approach to assessing the impact ‘intensity’ of different products and services.’

<table>
<thead>
<tr>
<th>Impact Engine Question</th>
<th>Answer</th>
<th>Score</th>
<th>Impact Score Formula</th>
<th>SolarEdge Impact Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importance of outcomes</td>
<td>We consider the beneficiary to be society at large including vulnerable and secure communities.</td>
<td>2</td>
<td>(Q1 + Q2)</td>
<td>5</td>
</tr>
<tr>
<td>Changes in outcomes</td>
<td>Limiting climate change to less than 1.5°C is considered essential in order to ensure negative impacts remain manageable.</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to outcomes</td>
<td>String inverters are the dominant technology and represent the baseline. On average, DC optimisers offer a modest 10-15% efficiency improvement compared to string inverters.</td>
<td>1</td>
<td>(Q3 + Q4)</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>DC optimisers are part of electricity generating systems that are very widely applicable. However, DC optimisers themselves are generally only used on commercial and residential systems.</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>While DC optimisers are an important part of the solar power generation system, other parts are the active generation technology.</td>
<td>1</td>
<td>(Q5 + Q6)</td>
<td>4</td>
</tr>
<tr>
<td>Negative product impacts</td>
<td>SolarEdge produce a range of electrical components that themselves use electricity and create waste electrical equipment at the end of their lives.</td>
<td>(not currently scored)</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

| | Maximum score (216) | 28 (60/216) |
| | Proportion of revenues | 100% |
| | Impact score | 28% |

Impact Intentionality
### WHEB Investment Themes

<table>
<thead>
<tr>
<th>Education</th>
<th>Health</th>
<th>Safety</th>
<th>Well-being</th>
</tr>
</thead>
</table>
| A lack of education limits individuals' ability to access opportunities and slows social development.  
- Preventing and treating illness and disease is central to protecting and enhancing quality of life.  
- Safety hazards that cause injuries or death in the home, travelling or at work.  
- Unhealthy lifestyles contribute to chronic diseases that account for 61% of all deaths. |  |  |  |

### The problem we are solving

#### A lack of education
- Limits individuals' ability to access opportunities and slows social development.

#### Preventing and treating illness and disease
- Central to protecting and enhancing quality of life.

#### Safety hazards
- Cause injuries or death in the home, travelling or at work.

#### Unhealthy lifestyles
- Contribute to chronic diseases that account for 61% of all deaths.

### How companies provide solutions

- Providing education and training
- Publishing and education technologies
- Cutting health costs
- Enabling medical research
- Improving access to healthcare
- Providing medical devices and therapies
- Providing preventive care
- Ensuring that products are safe
- Directly protecting people
- Providing care for vulnerable groups (eg the elderly)
- Enabling good exercise and diet
- Improving hearing, visual and oral health

### WHEB portfolio holdings

- Grand Canyon Education
- Agilent
- bioMérieux
- CSL
- Danaher
- Evotec
- Fisher & Paykel
- Genmab
- Getinge
- Globus Medical
- Hamamatsu Photonics
- Icon
- Lonza Group
- Novo Nordisk
- Sartorius
- Siemens Healthineers
- Thermo Fisher Scientific
- Alfen
- First Solar
- SolarEdge
- Vestas
- Arcadis
- Croda International
- DSM
- Lenzing
- Linde
- Smurfit Kappa
- Torma Systems
- Ariston
- Autodesk
- Ansys
- Belimo
- Daifuku
- Daikin
- Dassault Systèmes
- Hexagon
- Keyence
- Kion
- Power Integrations
- Silicon Labs
- Spirax-Sarco Engineering
- Trimble
- Aptiv
- Infinion
- JB Hunt
- STMicroelectronics
- TE Connectivity
- Advanced Drainage Systems
- Ecolab
- Kylen

### Key performance indicators

- Days of tertiary and vocational education
- No. of people benefiting from healthcare
- No. of people with improved well-being
- No. of people with improved well-being
- MWh of renewable energy generated
- tCO2e avoided
- Litres of waste water treated
- Litres of water saved

### UN Sustainable Development Goals

- Days of tertiary and vocational education
- No. of people benefiting from healthcare
- No. of people with improved well-being
- No. of people with improved well-being
- MWh of renewable energy generated
- tCO2e avoided
- Litres of waste water treated
- Litres of water saved

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8. Whole strategy holdings as of 31/12/22.
Fund performance in 2022

Our 2022 outlook, originally written in December 2021, had already started out with a gloomy prospect. By the time we had finalised our Impact Report in April, we were clear that our original forecast had not been gloomy enough. And so it transpired. 2022 was a deeply challenging year for the global economy and specifically WHEB’s investment strategy. Geopolitical tensions between liberal democracies and authoritarian states finally cracked. Russia’s invasion of Ukraine and the largest land war in Europe since 1945 was deeply shocking and has continued to exact a dreadful humanitarian toll. Xi Jinping’s consolidation of power in China has further deepened rifts with Western-oriented economies. Two decades of uneasy but profitable openness have now come to an abrupt halt.

These challenges present a major headwind in the fight for sustainability. 2022 also presented immediate economic challenges. Energy prices rose fiercely. The global supply chain buckled, raising input prices. Labour shortages emerged in many markets. Inflation rose to record levels, prompting rapid increases in interest rates from central banks.

Against this recessionary backdrop, global financial markets contracted. There was a very marked style rotation between ‘growth’ and ‘value’ strategies. ‘Growth’ companies justify their valuations on future prospects. With interest rates rising, the cost of waiting for those growing profits rose, and the share prices of these types of companies consequently fell. Meanwhile, ‘value’ companies, which can point to near-term cash flows, came into favour.

Higher energy prices buoyed energy producers, whether renewable or fossil. Otherwise, recessionary fears benefited defensive sectors such as utilities, consumer staples and financials. Smaller or mid-sized companies also underperformed their larger peers, which are seen as a ‘safe haven’ in times of economic stress.

Energy outperformed by a huge margin...

Figure 9: Fossil fuel energy dominated markets in 2022...

The FP WHEB Sustainability Fund

In this market environment, the FP WHEB Sustainability Fund, our flagship UK-domiciled vehicle for WHEB’s strategy, struggled for investment performance. The strategy is focused on investing in solutions to sustainability challenges. These are typically found in mid-sized businesses growing faster than the wider market. Furthermore, the strategy is entirely absent from the oil and gas sector, which was the stand-out performer of the year (see Figure 5).

While companies in the Resource Efficiency theme faced falling business confidence, companies in the next-weakest theme, Well-being, suffered from pressure on consumers. This was particularly felt by the worst-contributing stock in the theme, HelloFresh.

HelloFresh is the world’s leading meal kit delivery company. It provides a healthier alternative to ready-prepared food and is also helping to decarbonise the food supply chain. Despite relatively resilient underlying operational and financial performance, HelloFresh’s shares were hit by fears over falling consumer spending. Nevertheless, we continue to think that the company is well placed for continued profitable growth.

Weakness in the Well-being theme was also contributed to by the poor performance of Orpea, a European care home operator. The IRA was a key change in 2022 and sets the United States on a path to global leadership in the energy transition. It also ramps up pressure on other economies to follow suit. We discuss this as well as other features of our outlook in Section 7.

Consequently, WHEB’s strategy fell by more than both the IA Global Equity median and the MSCI World over the year. The worst performance in the period came from companies in the Resource Efficiency theme. These are companies with good long-term growth prospects, but they can be cyclical. In the face of falling business confidence, many of these companies struggled – including computer-aided design companies Autodesk and Ansys, semiconductor manufacturer Silicon Labs, and industrial efficiency companies Spirax-Sarco, Keyence and Daifuku.

The stand-out performer of the year (see Figure 5).

Figure 10: FP WHEB Sustainability Fund vs IA Global vs MSCI World (2012-2022)
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