Annual Impact Report
Jan – Dec 2023

WHEB

Staying the course for a more sustainable future

Marketing Communication

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‘In this year’s report we provide a detailed account of how WHEB’s activities are governed, how risk is managed and how the company’s strategy supports our overall ‘theory of change’ in delivering positive impact.’

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A note on data

The data provided in this report was collected during March and April 2024 and covers the period 1 January–31 December 2023. In certain cases where companies had yet to report 2023 data, we have used data from the prior year. The content and data in this report were correct as at 31 December 2023 and have not been updated since.

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Executive summary

WHEB has now produced a decade's worth of annual impact reports. Increasingly, these reports need to meet specific regulatory requirements. This year in **section 1** we provide a detailed account of how WHEB's activities (including investment activities) are governed, how risk is managed and how the company's strategy supports our overall 'theory of change' in delivering positive impact.

In this year's report we again provide updated metrics that give a comprehensive account of our performance over the year. The report is also as last year structured around our impact model (see figure 1) which covers both the 'enterprise impact' of the companies we invest in, as well as WHEB's own 'investor contribution'.

Section 2 gives an overview of our investment strategy including our **sustainability objective**. It describes the process and tools, such as WHEB's 'impact engine', that we use to deliver against this objective. It also provides an account of the financial performance of the FP WHEB Sustainability Fund over the year.

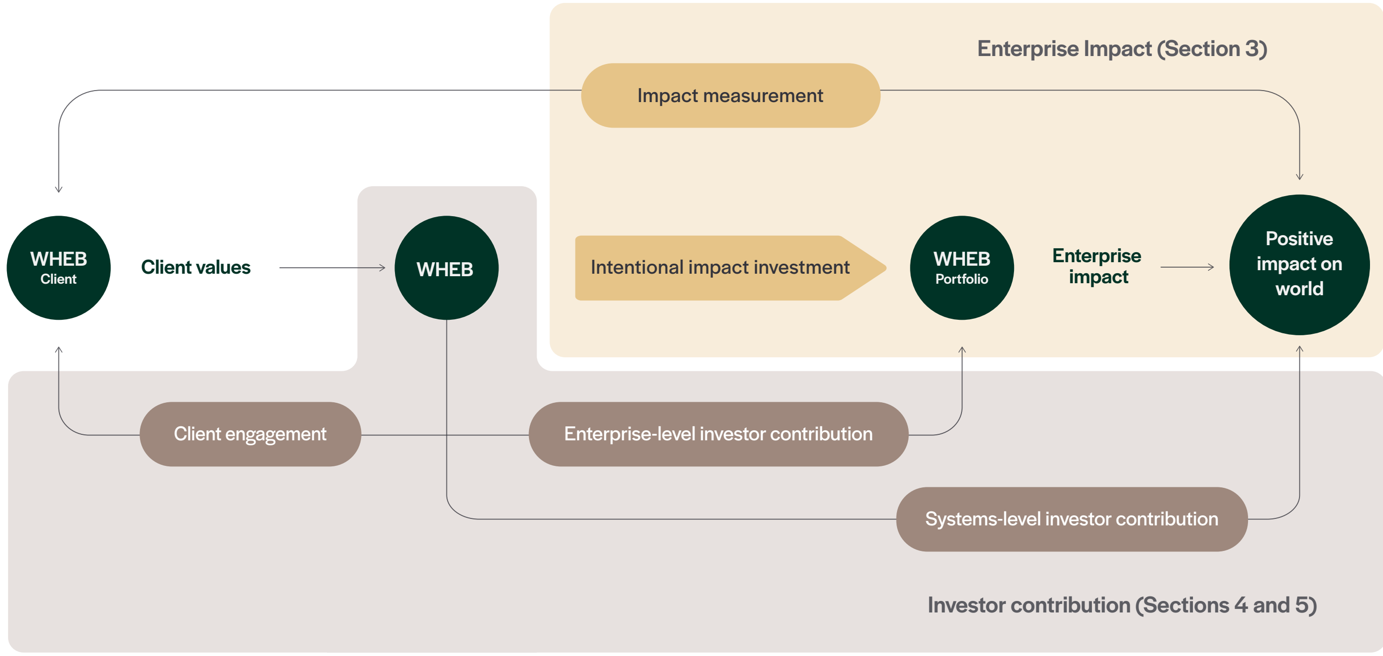
Section 3 focuses on the **enterprise impact** including updated data on the social and environmental impact that is associated with our investments. We also report on the environmental, social and governance (ESG) quality of the portfolio including detailed carbon reporting and our progress against our net-zero targets. The section finishes with a series of interviews conducted with leading portfolio companies on their approach to measuring and reporting the positive impact of their products and services.

WHEB's **investor contribution** is covered in sections 4 and 5. **Section 4** focuses on our stewardship and engagement work and includes new reporting methodologies to show how our activities support specific positive social and environmental outcomes. A second summary interview is included in this section focusing on the role that asset managers like WHEB might play in helping to deliver solutions to systemic challenges like climate change. **Section 5** covers the impact of WHEB's operations including our work on diversity, equity and inclusion (DEI) and on our own environmental footprint.

Section 6 of the report features a statement from WHEB's independent Investment Advisory Committee summarising their work over the year and their views on the strengths and weaknesses of this report.

Finally, **section 7** provides an outlook for the coming year, underlying WHEB's commitment to sustainability impact investing.

Figure 1: WHEB two routes to impact: enterprise impact and investor contribution



WHEB's commitment to sustainable and impact investing, as well as our policies, philosophy, transparency and impact, have been acknowledged with high industry ratings and awards over the past few years.

Who we are

Senior Management Team

George Latham
Managing Partner

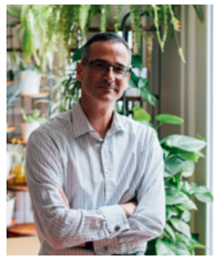
Jayne Sutcliffe
Non-Executive Chair

Laura Grenier
Director of Operations

Seb Beloe
Partner, Head of Research

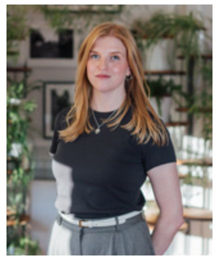
Ted Franks
Partner, Head of Investment, Fund Manager

Impact Investment Team



Ben Kluftinger
Senior Analyst

Chloe Tang
Investment Analyst



Claire Jervis
Associate Fund Manager

Katie Woodhouse
Investment Analyst

Kavitha Ravikumar
Senior Impact Analyst

Rachael Monteiro
Stewardship & Climate Analyst

Seb Beloe
Partner, Head of Research

Ted Franks
Partner, Head of Investment, Fund Manager

Ty Lee
Associate Fund Manager

Victoria MacLean
Associate Fund Manager

The impact people. WHEB is a boutique asset manager focused solely on impact investing in listed equities.

The company's mission is to advance sustainability and create prosperity through positive impact investments. Our culture is founded on five core values which support our mission: Passionate about impact, Integrity, Continuous improvement, Teamwork and Leadership.

Client Relationship Team

Alex Talbot
UK Client Relationship Manager

Emilia Jones
Marketing Associate

George Latham
Managing Partner

Jaya Govindan
Client Services Manager

Susie Winstanley
Marketing Manager

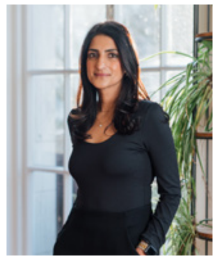
Operations Team

Danny Smith
Operations Associate

Esther Muschamp
HR Manager

Laura Grenier
Director of Operations

Sandhuni Correa
Management Accountant



Sarita Kashyap
Risk & Performance Manager

Investment Advisory Committee

Abigail Rotheroe
External Adviser

Alice Chapple
External Adviser

Carole Ferguson
External Adviser

Jayne Sutcliffe
Non-Executive Chair

Martin Rich
External Adviser

Introduction

Welcome to WHEB's Annual Impact Report covering 2023. WHEB has now been producing an impact report every year for a decade. Back in 2014, much of the reporting was qualitative and entirely voluntary.

Roll the clock forward to 2024 and a significant proportion of our reporting is standardised and increasingly driven by regulatory requirements.

This is a healthy process, in our view. It will lead to higher standards across the industry. But for an innovator like WHEB, it has its challenges. Standards and regulations do not precisely mimic WHEB's approach. Consequently, we are forced to adapt our reporting to conform to these new standards. This year our report addresses many of these requirements. These include the new Sustainability Disclosure Requirements (SDR) in the UK, as well as those set out in international frameworks like the Task Force on Climate-related Financial Disclosures (TCFD).

While reporting has become more standardised, we nonetheless continue to invest and innovate in other areas of our work. In 2023 we expanded our investment team further. We now have a team of ten powering our investment process. We have also been investing in building out our capabilities in stewardship and engagement. This work is rooted at the core of our investment process. It allows us to target our activities at key areas where we believe we can contribute to real change. This includes our work with portfolio companies. It also covers activities that support the development of public policy and market standards. We explore this in more depth in this report.

The changing investment landscape in which we work also requires us to constantly innovate our investment strategy. Recent years have seen astonishing developments in healthcare. For example, the discovery of GLP-1s for the treatment of chronic diseases is revolutionary. This has caused us to re-evaluate the positive impact of some pharmaceutical companies. Equally, another year of extreme weather has underlined the importance of adapting to climate change. We have responded by dedicating part of our investment strategy to climate adaptation. This sits alongside existing investments helping to mitigate climate change. Increasing online threats to personal security have also led us to expand our Safety theme to encompass cybersecurity businesses.

The dominant market narrative over the past few years has however, been focused on interest rates and artificial intelligence. Attention on sustainability has suffered as a consequence. This has caused some asset managers to retreat from the market. But while we have been issuing annual impact reports for a decade, our experience in sustainability investing stretches back into the previous century. We have been here before, and this cycle will turn again. In the meantime, clients can trust WHEB to remain totally committed to sustainability investing. It is our whole focus and is embedded in our business mission and legal structure.

With best wishes,

Jayne Sutcliffe
Non-Executive Chair
WHEB Asset Management

Governance, risk management and strategy

01

Governance and risk management

WHEB Asset Management (WHEB) is an investment management business. We invest exclusively in listed companies providing products and services that help solve critical sustainability challenges, including climate change. We are led by our mission and values. As a B Corporation, WHEB's deed requires us to consider the interests of all stakeholders – not just shareholders – when making decisions to ensure that no single stakeholder group is prioritised above the others.[1]

This legal basis provides a solid foundation for WHEB's governance processes to take account of sustainability-related risks and opportunities in our decision-making. At WHEB the Senior Management Team (SMT) is responsible for the overall management of the business including the development and execution of policies to address key sustainability issues. These issues relate to the operational activities of the company as well as our investment activities. The WHEB staff handbook details a comprehensive range of operational policies governing work at WHEB. These cover key issues such as the management of diversity and inclusion as well as other issues such as health and safety, remuneration and absence policies. Many of these policies are available on our website.[2]

Climate change and biodiversity are also an integral part of the SMT's discussions. For WHEB's own operations direct physical risks relating to climate change and biodiversity loss are extremely limited given that we have one office based in Central London. Climate transition and biodiversity risks – and opportunities – are nonetheless a key topic for the SMT in the context of our investment proposition to clients. The ultimate direction and focus of WHEB's investment strategies are the responsibility of the SMT.

Separately, WHEB's Investment and Risk Committee, which is independent of the Impact Investment Team, oversees the implementation of WHEB's investment policies and the management of investment risk within our investment portfolios. Climate change, along with other sustainability issues such as biodiversity, are a core focus of our investment strategy both in terms of our asset selection and ongoing monitoring. An external Investment Advisory Committee composed of independent experts in sustainability investment also scrutinises our activities to ensure the investment policies and approach are both rigorous and rigorously applied.

Detailed biographies of the members of the SMT as well as members of the Independent Advisory Committee are available on the WHEB website.[3] We also publicly disclose the summary minutes of the Investment Advisory Committee's meetings.[4]

[1] https://bcorporation.uk/b-corp-certification/how-to-certify-as-a-b-corp/legal-requirement/
[2] https://www.whebgroup.com/about/working-at-wheb and https://www.whebgroup.com/investing-for-impact/sustainability-policies1
[3] https://www.whebgroup.com/about/our-people
[4] https://www.whebgroup.com/reporting-impact-investment/advisory-committee-minutes

Management of sustainability issues

Our assessment of which sustainability issues are most material to WHEB's business interests is based on our own analysis, but also informed by guidance from third parties including that provided by the IFRS Foundation.[5] Figure 2 below details WHEB's governance approach to these issues. Relevant metrics are collated and presented throughout this report.

Figure 2: WHEB's management of material sustainability issues

SUSTAINABILITY ISSUE	APPROACH	POLICIES, PERFORMANCE AND LINKS
1 Transparent information and fair advice for customers[6]	In addition to complying with regulatory obligations, WHEB deploys industry leading practices in terms of: ▪ **Clear pricing:** We charge a single transparent fee for our investment funds. ▪ **Transparent information:** We publish detailed accounts of all the investments held in our funds and our investment and engagement activities; ▪ **Independent oversight:** Investment activities are scrutinised by independent experts, with summaries of these meetings published.	Information on our approach to pricing can be found at **www.whebgroup.com/news/fp-wheb-sustainability-fund-moves-to-a-single-fee**. Our latest value for money report is available at **www.whebgroup.com/assets/files/uploads/wheb-value-for-money-2023-final.pdf** Detailed summaries of the companies held in our portfolios are available at: **www.whebgroup.com/investing-for-impact/our-portfolio** Summary minutes of WHEB's independent Investment Advisory Committee can be found at: **www.whebgroup.com/reporting-impact-investment/advisory-committee-minutes**
2 Employee diversity, equity and inclusion (DEI)	Our aim is to ensure that all our colleagues and job applicants are given equal opportunities and that our firm represents a diversity of perspectives, cultures and experiences. We want every member of staff to feel respected and valued, and able to be their best self as a result.	Our Diversity, Equity and Inclusion (DEI) policy is available at: **www.whebgroup.com/assets files/uploads/wheb-dei-policy-updated-nov-2023.pdf** See Section 5 of this report for more details on DEI at WHEB
3 Incorporation of environmental, social and governance (ESG) factors into investment management	As impact investors, the core purpose of our investment strategies is to deliver positive real-world impact on critical sustainability issues and minimise any material negative impacts. 100% of our investments are covered by these policies and commitments.	Our responsible investment, stewardship and voting policies are available at: **www.whebgroup.com/investing-for-impact/sustainability-policies1** See Section 2 of this report for more information on how sustainability is integrated into our investment management. Sectors that are subject to exclusions are detailed in our 'Ethical Outcomes' document available at: **www.whebgroup.com/assets/files/uploads/20240110-ethical-outcomes-final.pdf**
4 Climate change	In addition to investing in companies providing solutions to critical sustainability challenges such as climate change, we are also committed to reducing our own and our portfolio's carbon footprint to net zero by 2050 at the latest.	Our net zero carbon policies are available at: **www.whebgroup.com/investing-for-impact/sustainability-policies1** See Section 3 for more information on the positive impact of our investments on climate change and for information on our progress in reducing carbon emissions at portfolio companies. See Section 5 for information on WHEB's own operational emissions.
5 Business ethics	Strong ethical principles guide all areas of our work. We are honest in our approach and treat all stakeholders fairly.	No employees or identified decision makers have had any record of complaints or investigations and there have been no legal proceedings against the company on any issues. WHEB has a whistleblowing policy and employees can contact an independent third party with concerns.[7]

5. https://d3flraxduht3gu.cloudfront.net/latest_standards/asset-management-and-custody-activities-standard_en-gb.pdf
6. WHEB Asset Management does not provide advice [WHEB Asset Management is authorised and regulated by the Financial Conduct Authority for the provision of investment management services, and may only provide those services to persons classified as Eligible Counterparties or Professional Clients. We do not provide investment advice to Retail Consumers].
7. https://protect-advice.org.uk

Strategy

We are positive impact investors, focused on the fundamental connection between long-term positive change and long-term growth. As a business, our mission is: 'To advance sustainability and create prosperity through positive impact investments.' Our ambition is to create a high-quality investment business that is wholly focused on delivering positive impact investment strategies. We believe that this is an area of the investment market that is underserved and that needs to grow dramatically in order to meet client demand, as well as support our investee businesses and the positive impacts that they deliver.

We have set out in a separate white paper WHEB's 'impact model'. This describes how we seek to deliver positive impact both through the investments that we make (the 'enterprise impact') as well as through our engagement with investee companies and other stakeholders (the 'investor contribution'). For more information, please see: **www.whebgroup.com/investing-for-impact/about-impact-investing.**

WHEB's theory of change

We describe below our 'theory of change' – the sequence of cause-and-effect actions that connect WHEB's activities with the specific positive social and environmental outcomes that we are targeting. This theory of change frames all of WHEB's investment activities. We also articulate theories of change at the level of each of our investment themes (see Figure 4) as well as each of our individual investments. At the individual investment level, our 'Impact Engine' helps to distil the theory of change which describes how a specific company's products and services deliver real-world social and environmental outcomes.

Identifying social and environmental problems and the companies that provide solutions

WHEB's theory of change starts with the identification of critical environmental problems (e.g. climate change and other forms of environmental pollution) and social problems (e.g. lack of educational opportunities, disease, accidents and injuries, and unhealthy lifestyles – including diet, exercise and lack of care for vulnerable communities).

Not all social and environmental problems are solvable through private companies and the market. Still fewer through the companies that are listed on public stock exchanges. We have developed a set of nine sustainability impact investment themes[8] and identified over 450 companies selling products and services that target these social and environmental problems.

These themes include Cleaner Energy, Resource Efficiency and Sustainable Transport which deliver reductions in the greenhouse gas (GHG) emissions that cause climate change. Two further environmental themes Environmental Services and Water Management deliver reductions in other types of environmental pollution such as plastic waste and water pollution.

Our Health theme directly targets diseases. Our Education theme includes companies that improve educational opportunities by providing education and training or by providing educational products and services. The Safety theme includes companies that help reduce accidents and injuries in the workplace, at home or while travelling. The Well-being theme includes companies that provide care to vulnerable groups, that improve hearing, visual and oral health and that enhance well-being through exercise and healthy eating.

WHEB's activities and levers for change

Using our suite of analytical tools, we identify businesses that are well-placed in our view to deliver strong positive impact across one or more of our investment themes, and in so doing to deliver attractive financial returns to us as investors. Our intention in investing is to support this positive impact by:

- Buying shares in these businesses and holding these over a long period of time.[9]
- Advocating to these businesses' management and other stakeholders for the delivery – and enhancement – of this positive impact.
- Signalling to the wider market the importance of the contribution made by the businesses we own.
- Where businesses are no longer aligned with our views on positive impact, divesting and often disclosing our reasons publicly for doing so.

We believe that the aggregate impact of these activities is to directly support the share prices of the companies we own which in turn provide multiple benefits to them.[10]

We also deploy resources to advocate for changes in financial markets and the wider economy to enable and support more investment in solutions to critical social and environmental problems. In this way, we also help to accelerate the delivery of positive impact by businesses we own and across the market as a whole.

8. These themes were first developed in 2005 and are aligned with seven of the UN Sustainable Development Goals (SDGs) first published in 2015.
9. Our average holding period is four to seven years.
10. For a description of some of these benefits please see https://www.whebgroup.com/assets/files/uploads/20211014-impact-investing-in-listed-equtities-whebs-approach.pdf

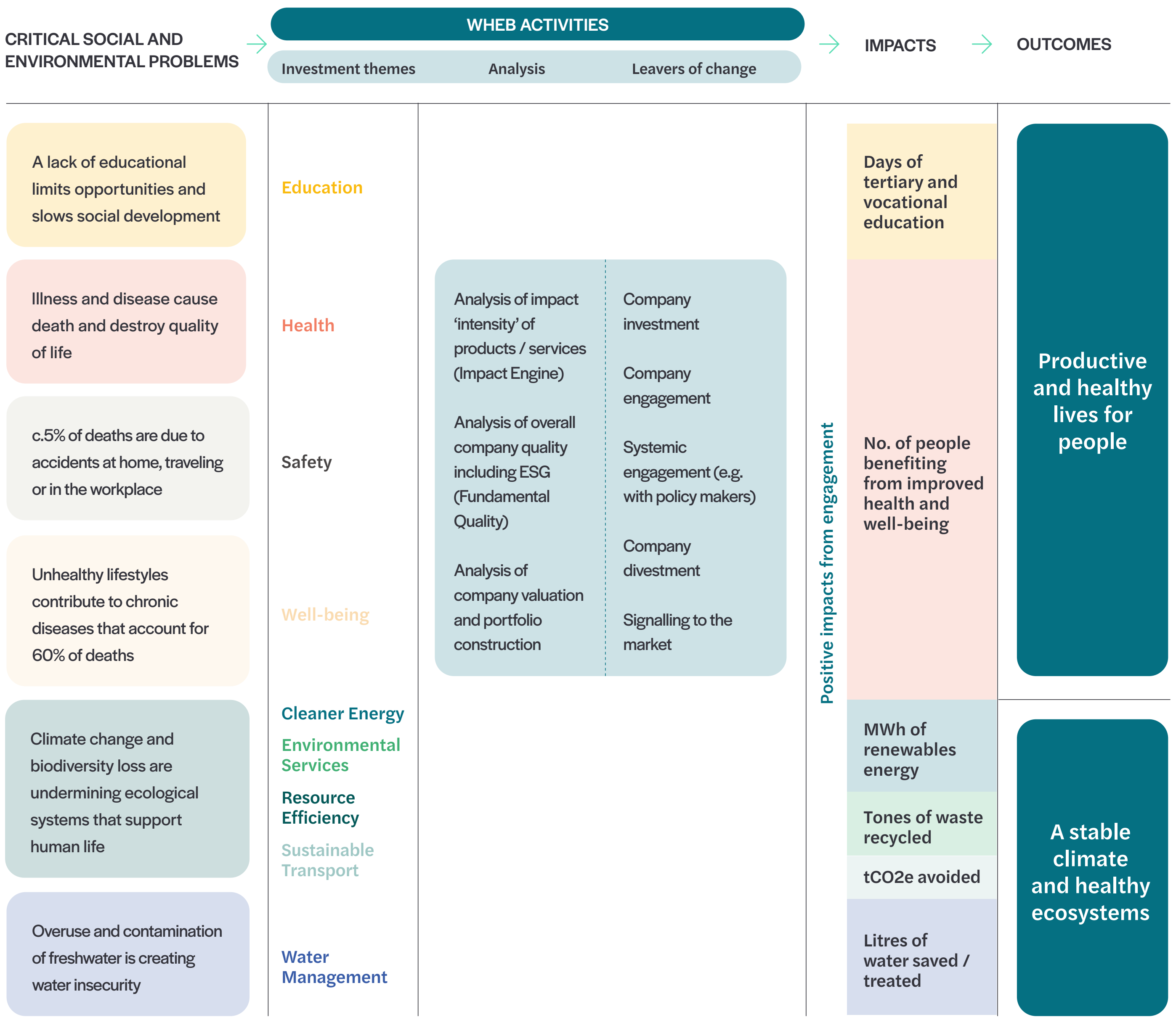
Impacts and outcomes

We are reluctant to claim that any specific action by WHEB is directly responsible for any specific positive outcome. Nonetheless, by investing in our portfolio companies, we are part of the value chain culminating in products and services that deliver positive impacts in the real world. Similarly, our engagement with portfolio businesses and regulators is one contribution from the many made by investors and other stakeholders. These contributions together lead to changes in business practices and regulatory frameworks that ultimately deliver more positive social and environmental outcomes.

We believe that trying to parse out WHEB's contribution from all of these other contributions would be extremely challenging, if not impossible. Instead, we focus on clearly articulating our investment intention and corroborating how this is rooted in our investment decisions. We also set out credible engagement strategies that are underpinned by documented activities and outcomes that show that we are contributing effectively to these positive changes. Ultimately what really matters is not the attribution of a specific change to WHEB or any other individual investor, but the ultimate positive social or environmental outcome.

The impacts delivered by WHEB and our investee companies ultimately feed through into the social and environmental outcomes that we are targeting. These can be broadly grouped into supporting a stable climate and healthy ecosystems and enabling more productive and healthy lives for people.

Figure 3: WHEB's theory of change



WHEB's investment strategy

02

Our sustainability objective

We are explicit about the objective of our investment strategy which is to achieve competitive risk adjusted returns by investing in companies that deliver a positive sustainability impact. For these purposes positive sustainability impact is understood to include:

- **Supporting a stable climate and healthy ecosystems** through activities that deliver cleaner energy, environmental services, resource efficiency, sustainable transport and water management across the economy.
- **Enabling more productive and healthy lives for people** through activities that deliver more and better education, healthcare, and that enhance safety and well-being.

We augment this positive impact by using our own influence with investee companies and the wider financial system to encourage and enable more positive outcomes.

We have identified a set of business activities that are aligned with these objectives and have classified them into nine sustainability impact investment themes. These themes are described in more detail in Figure 4 on the next page. We've also set out the specific types of companies that we believe offer solutions, as well as all the individual companies held in the strategy within each theme. The table also details the linked key performance indicators (KPIs) that are used to measure the ultimate positive impact associated with each investment and the relevant UN Sustainable Development Goal.

Figure 4: The problems we are helping to solve

WHEB Investment Theme	Education	Health	Safety	Well-being
The problem we are solving	A lack of education limits opportunities and slows social development.	Illness and disease cause death and destroy quality of life.	c.5% of deaths are due to accidents at home, travelling or in the workplace.	Unhealthy lifestyles contribute to chronic diseases that account for 61% of all deaths.[11]
How companies provide solutions	– Providing education and training – Creating publishing and education technologies	– Cutting health costs – Enabling medical research – Providing diagnostics – Providing medical devices and therapies – Providing preventative care – Improving access to healthcare	– Ensuring products are safe – Directly protecting people	– Providing care for vulnerable groups (e.g. the elderly) – Enabling good exercise and diet – Supporting hearing, visual and oral health
WHEB portfolio holdings[12]	– Grand Canyon Education	– Agilent – AstraZeneca – bioMérieux – CSL – Danaher – Evotec – Fisher & Paykel Healthcare – Genmab – Hamamatsu Photonics – ICON – Lonza – Novo Nordisk – Sartorius – Siemens Healthineers – Thermo Fisher Scientific	– Bureau Veritas – MSA Safety – Steris	– Coloplast – Cooper Companies – Sonova
Key performance indicators (KPIs)	– Days of tertiary and vocational education	– No. of people benefiting from healthcare	– No. of people with improved well-being	– No. of people with improved wellbeing
UN Sustainable Development Goals (SDGs)	4 QUALITY EDUCATION	3 GOOD HEALTH AND WELL-BEING	11 SUSTAINABLE CITIES AND COMMUNITIES	3 GOOD HEALTH AND WELL-BEING

[11] https://www.un.org/en/chronicle/article/lifestyle-diseases-economic-burden-health-services
[12] Whole strategy holdings as of 31/12/23

WHEB Investment Theme	Cleaner Energy	Environmental Services	Resource Efficiency	Sustainable Transport	Water Management
The problem we are solving	Limiting global warming to <1.5°C requires power sector emissions to decline by 60% by 2030.[13]	Environmental pollution and biodiversity loss are undermining ecological systems that support human life.	Limiting global warming to <1.5°C requires the global economy to increase energy efficiency by c.4% per year.[14]	Limiting global warming to <1.5°C requires all transport emissions to fall by 3% per year to 2030.[15]	Overuse and contamination of freshwater creates water insecurity. 47% of the global population suffers from water scarcity.[16]
How companies provide solutions	– Solar power – Wind power – Clean energy infrastructure – Other forms of cleaner energy	– Environmental consulting and monitoring – Developing more sustainable materials – Pollution control – Increasing circularity in material use – Climate adaptation	– Making energy-efficient products – Making buildings more efficient – Making manufacturing more efficient	– Reducing emissions per km travelled through mass transit – Reducing emissions by using electric vehicles	– Increasing the efficiency of water use – Treating and recycling wastewater
WHEB portfolio holdings	– Alfen – Elia Group – First Solar – SolarEdge Technologies – Vestas Wind Systems	– Advanced Drainage Systems – Arcadis – Croda International – L'Air Liquide – Linde – Smurfit Kappa – Sweco – TOMRA Systems	– Ansys – Ariston – Autodesk – Belimo – Daifuku – Dassault Systèmes – Hexagon – Keyence – Power Integrations – Schneider Electric – Silicon Laboratories – Soitec – Spirax-Sarco Engineering – Trane Technologies – Trimble	– Aptiv – Infineon – J.B. Hunt Transport Services – STMicroelectronics – TE Connectivity	– Ecolab – Veralto – Xylem
Key performance indicators (KPIs)	– MWh of renewable energy generated – tCO_2e avoided	– Tonnes of waste recycled – tCO_2e avoided	– tCO_2e avoided	– tCO_2e avoided	– Litres of wastewater treated – Litres of water use avoided
UN Sustainable Development Goals (SDGs)	7 AFFORDABLE AND CLEAN ENERGY	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	11 SUSTAINABLE CITIES AND COMMUNITIES	6 CLEAN WATER AND SANITATION

[13] https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf
[14] https://www.iea.org/data-and-statistics/charts/primary-energy-intensity-improvement-2011-2021
[15] https://www.iea.org/reports/transport
[16] https://www.nature.com/articles/s41545-019-0039-9

How we select investments

The markets that we invest in are constantly evolving. New businesses offering new technologies are being brought to market or being bought by other larger businesses. We continually scan stock exchanges to identify these new businesses to assess whether they are offering solutions to the social and environmental problems that we target. To qualify, businesses need to have a market capitalisation of more than US$2bn and must generate at least 50% of their revenues from products and services that fall under one or more of our investment themes. In addition, businesses must either be absent from or have minimal exposure to areas that are sources of significant negative impacts on society or the environment. This includes activities like fossil fuel exploration, and production, the production and sale of tobacco, pornography, intensive farming or fishing activities and unsustainable timber products.[17]

Companies that pass these tests are included in our investment universe. Companies then receive detailed further analysis as part of our initiation process. This starts with a comprehensive assessment of the impact 'intensity' delivered by a specific company's products and services. This is assessed using our proprietary 'Impact Engine' which considers:

- The importance of the positive outcome the product or service is addressing (eg reducing global warming, or improving healthcare outcomes for people).
- The improvement in the positive outcome that the product or service delivers.
- The contribution to the outcome made by the product or service.

An overall score is generated from this analysis. A positive score using this methodology confirms that the company is delivering a positive impact on one or more of the nine sustainability impact investment themes. The higher the score the more 'intensely positive' we consider the impact to be. Less than 15% of the MSCI World achieves a positive score using this methodology. The impact engine is summarized in Figure 5.

A second step then also considers the 'fundamental quality' of each business. This incorporates analysis of the environmental, social and governance (ESG) management and performance of the business. We believe that ESG data is helpful alongside financial and other commercial data in building a more complete picture of the overall quality of a business and its operations. This analysis considers five dimensions covering the attractiveness of the markets the company operates in, its competitive position, how the company manages its own operations and its value-chain (including suppliers and customer relationships), the quality of management and the company's strategy for growth.

These two metrics; the impact score and the fundamental quality score are then plotted together to illustrate our overall view of these dimensions. Figure 6 below shows the FP WHEB Sustainability Fund[18] at the end of 2023. Companies that we bought and sold over the year are also shown along with the average score of the portfolio at the start and end of the year. High scoring impact stocks that we sold during the year included the hearing aid and cochlear implant manufacturer Sonova Holding and Enphase a manufacturer of microinverters for use on solar panels. This was more than offset by purchases of AstraZeneca, Schneider Electric and Tomra. The net result was a slight increase in overall impact intensity and a more marked increase in overall quality.

Figure 5: The Impact Engine

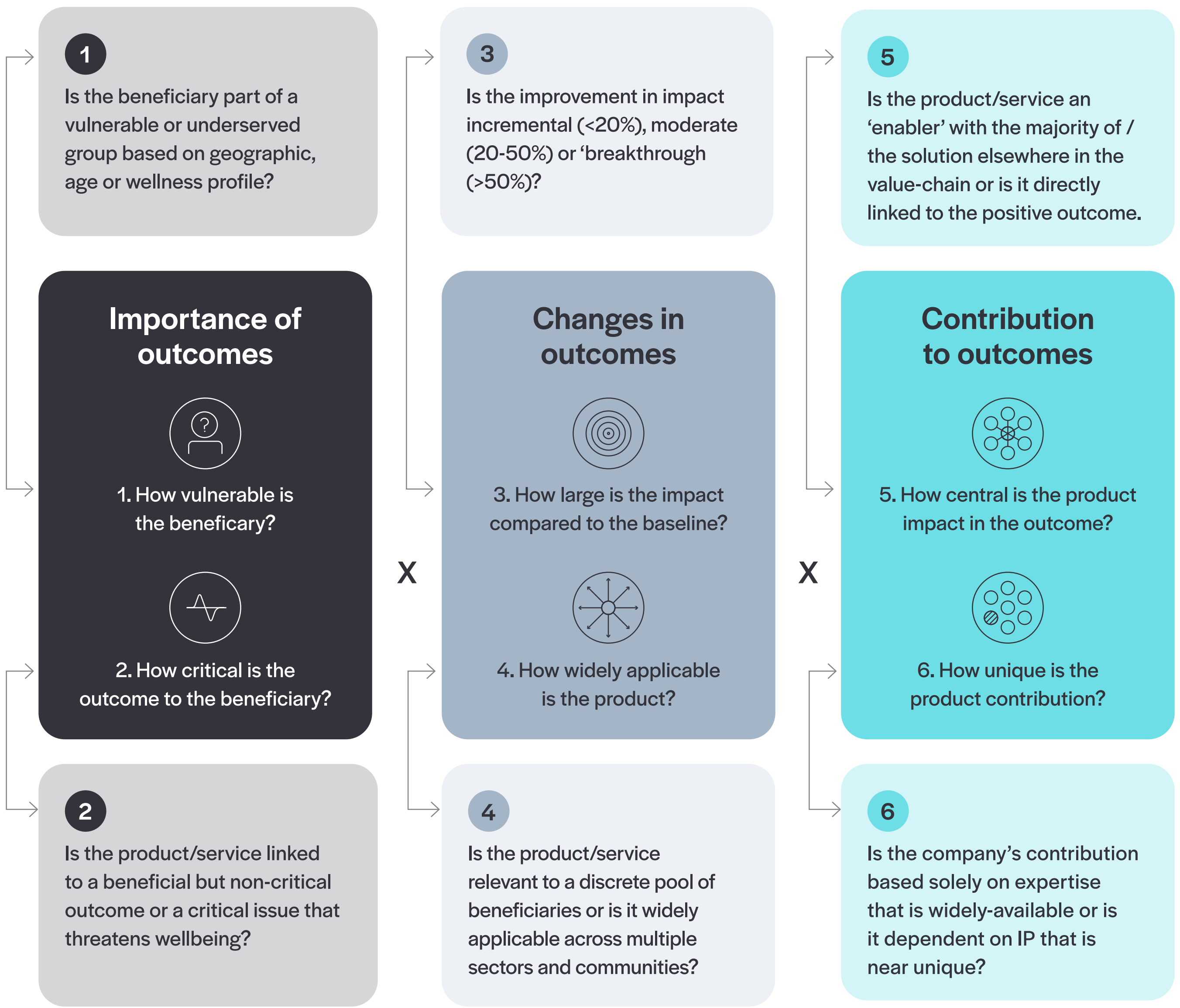


Figure 6: The impact map of WHEB's strategy during 2023

Companies bought in 2023:
- AstraZeneca
- Bureau Veritas
- Lonza Group
- Tomra Systems
- Schneider Electric
- Veralto

Companies sold in 2023:
- Daikin
- DSM Firmenich
- Enphase
- Globus Medical
- HelloFresh
- Sonova

17. For a full description of our approach please see https://www.whebgroup.com/assets/files/uploads/20240110-ethical-outcomes-final.pdf
18. The FP WHEB Sustainability Fund is the reference account for the strategy which is available through other fund vehicles outside the UK.

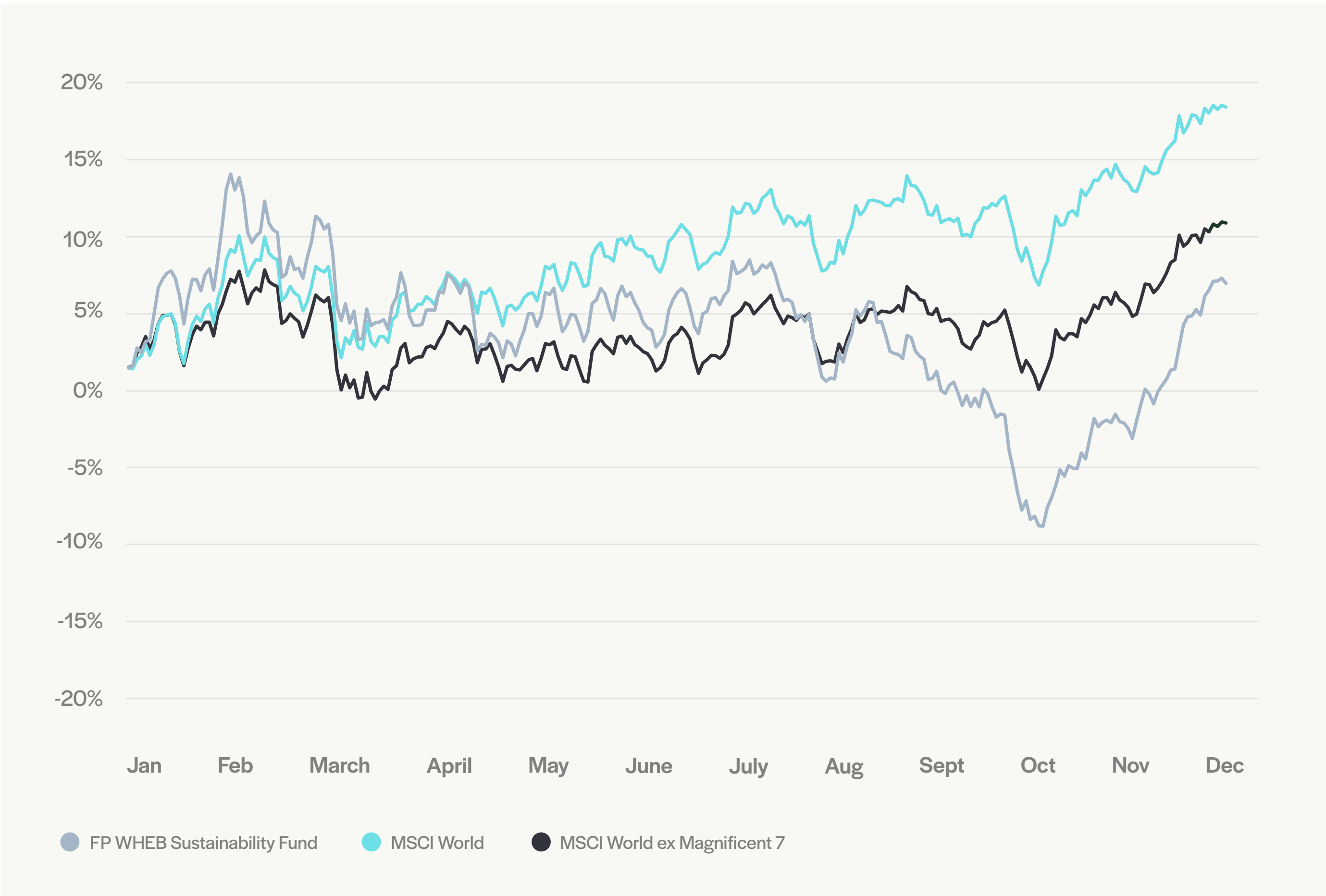
Fund performance in 2023

Stock markets in general enjoyed a better year in 2023 compared to 2022. Following the sharp increases in inflation in 2022, much of 2023 was dominated by expectations around inflation and interest rates. This created a particularly volatile environment, with the market displaying large swings in sentiment.

This was most visible in the second half of the year. At the start of the year, many investors expected global interest rates to start to decrease in early 2024 if not before. In the summer it became clear that this timetable was too ambitious and equity markets sold off. Then, just as abruptly, confidence returned at the end of October as the US Federal Reserve signalled an end to the rate-raising cycle, prompting a rally into the end of the year.

In general, the market environment during 2023 tended to suit large companies, seen as more resilient to higher interest rates. The so-called 'Magnificent Seven' enjoyed a particularly strong year and for much of it were almost entirely responsible for positive returns in the mainstream benchmarks (see Figure 7). Companies that deliver a positive social or environmental impact are generally smaller than most of the stocks in these benchmarks. They also tend to be more growth-oriented and so are more sensitive to interest rates.

Figure 7: The Magnificent Seven (2023)



19. Bloomberg
20. FE Analytics

The FP WHEB Sustainability Fund

In 2023 the C Acc Share Class of the FP WHEB Sustainability Fund returned 3.99%. The strategy's two comparator benchmarks are the MSCI World Total Return Index and the median-performing fund in the Investment Association's 'Global' peer group. The former rose 16.81%,[19] and the latter 12.68%,[20] in the year. Over the course of the year, not owning the 'Magnificent Seven', which are not qualified for investment in WHEB's investment strategy, was responsible for the majority of this relative underperformance.

In contrast to 2022, the largest proportion of the positive absolute investment return from the fund came from companies in our Resource Efficiency theme, including from Ansys, one of the weakest performers in the previous year. We also saw strong performance from our Environmental Services theme including Advanced Drainage Systems which is well-placed to benefit as communities and businesses across the US invest more in storm water drainage systems to combat climate change.

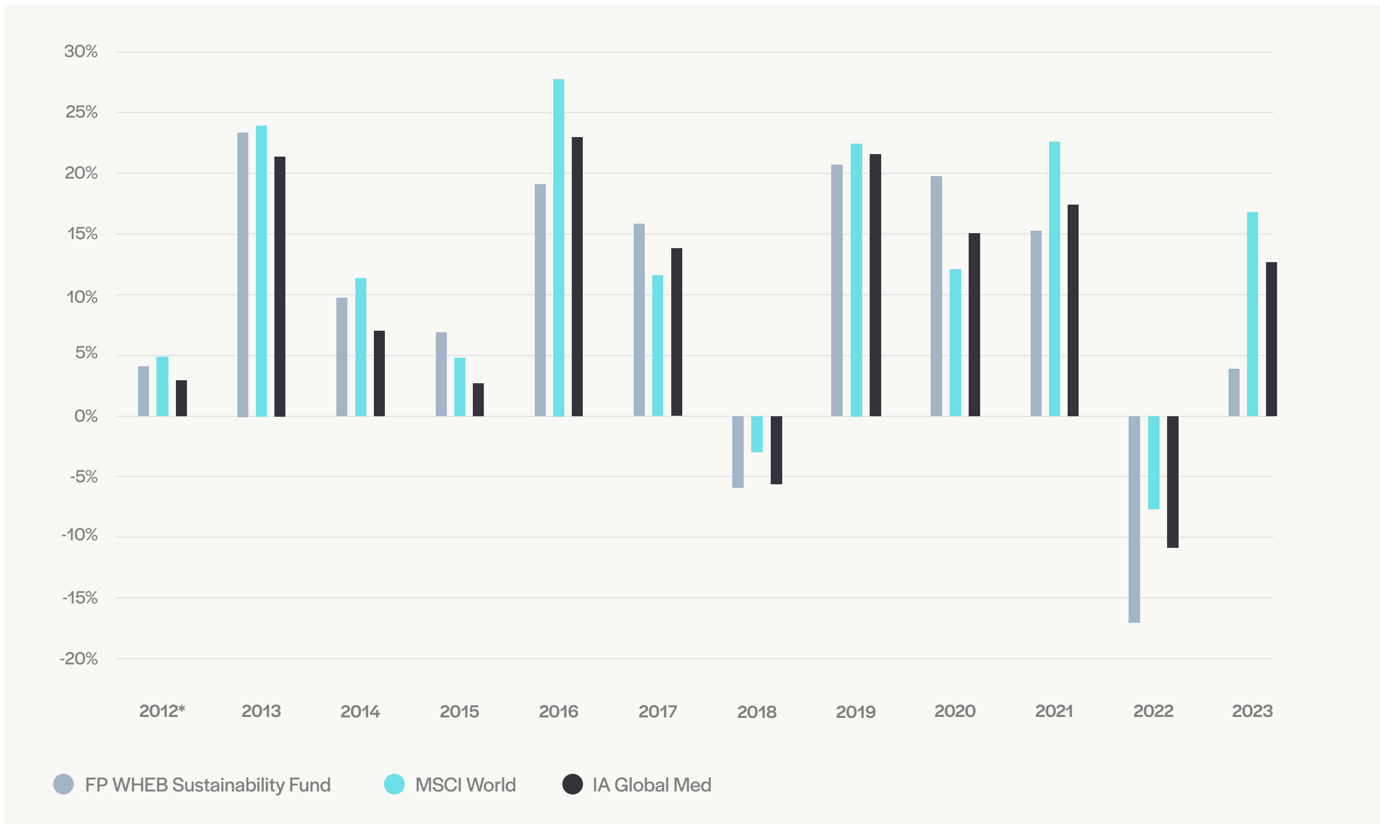
This positive performance was partly offset by weakness in the Cleaner Energy theme. SolarEdge, a manufacturer of microinverters that make solar panels more efficient as well as charging equipment for battery electric vehicles, was particularly weak in the second half of the year. Investors were concerned about demand due to persistently high interest rates making homeowners more cautious about investing in solar power systems.

Outlook for 2024

Following the fall in inflation, sentiment in global equities was more positive at the start of 2024. Many investors are expecting that the interest rate-raising phase deployed by central banks will come to an end in 2024. This environment should be more supportive for the generally smaller and more growth-oriented impact stocks held in WHEB's investment strategies. The timing of when this more positive environment might emerge is of course highly uncertain.

Over the longer term, the fundamental qualities of companies and the opportunities they face become more important drivers of performance. We expect that the sustainability-led growth drivers our companies address will provide an expansionary path over multiple years if not decades. Our faith in those drivers and in the competitive advantages of the companies themselves is as strong as ever.

Figure 8: FP WHEB Sustainability Fund vs. IA Global vs MSCI World (2012–2023)



* Performance in 2012 is reported from 30 April at the re-launch of the strategy.

Enterprise impact:

How our investments contribute to sustainability

03

Delivering a positive impact

WHEB's investments are made with the explicit intention of delivering a positive social or environmental impact. We assess and measure this impact and report this data back to clients and other interested stakeholders. Our assessment of the 'intensity' of the positive impact is captured in our Impact Engine. We provide further details on the impact score we ascribe to each portfolio holding and illustrate this graphically on our Impact Map (see Section 2).[21]

We also report annually on the total positive impact delivered by the strategy over the calendar year, as well as the impact per £1 million invested in the FP WHEB Sustainability Fund. We report these metrics on the following pages which consist of nine core metrics that capture the principal positive impacts of the strategy. These are selected based on the theory of change that we have identified for each investment and the relevant UN Sustainable Development Goal (SDG) that this is related to (see Figure 4). Each indicator is aligned with the relevant SDG as well as with other commonly used metrics such as IRIS+.[22]

In 2023 overall assets under management were down on the previous year but stronger company level impact meant that the overall positive impact associated with the strategy still improved year on year. Figure 9 provides details on the year-on-year comparison of the total impact of the strategy from 2022 to 2023.[23]

21. An interactive version of the impact map is available on our website at https://www.whebgroup.com/investing-for-impact/how-we-invest
22. IRIS+ is a set of indicator metrics developed by the Global Impact Investing Network (GIIN) (https://iris.thegiin.org/).
23. Year on year changes are complex and driven both by the underlying performance of the companies in terms of units of products/services sold and also by the position size held in WHEB's investment strategy.

‘WHEB's investments are made with the explicit intention of delivering a positive social or environmental impact.’

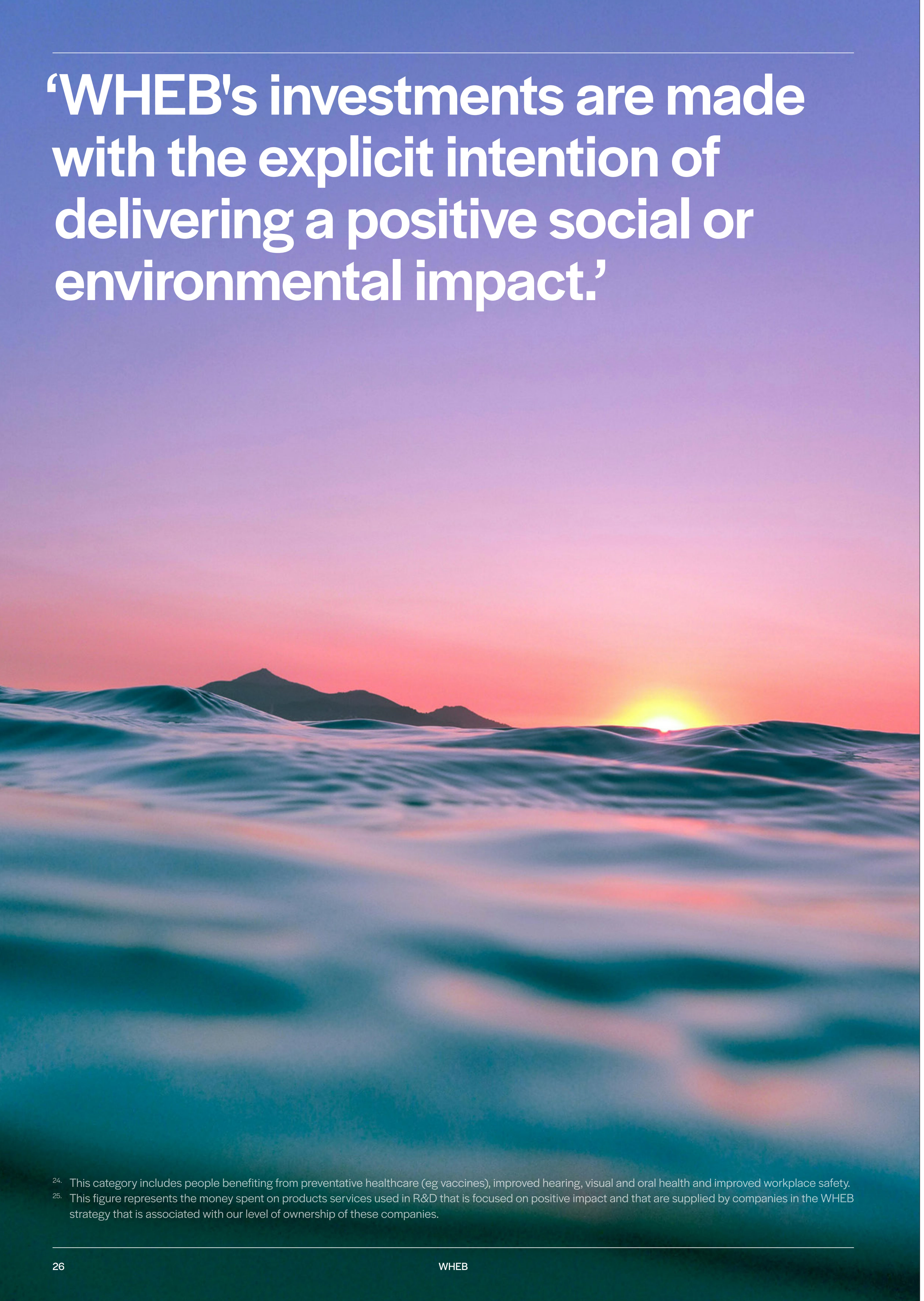


Figure 9: Impact associated with WHEB’s investment strategy in 2023

Indicator	2022	2023	Explanation
Assets under Management (AuM)	£1.4bn	£1.3bn	In spite of a lower AuM, overall impact numbers were typically stronger in 2023 driven by stock selection and company performance.
CO_2e avoided (tonnes)	271,000	355,000	Additional positive impact from Alfen and Enphase and growth from Aptiv, Soitec and SolarEdge.
Renewable electricity generated (MWh)	424,000	562,000	Additional positive impact from Alfen, Enphase, Infineon and SolarEdge and a reduction from Vestas.
Waste recycled (tonnes)	25,000	33,000	Additional positive impact from Smurfit Kappa.
Water treated (litres)	3.8bn	23bn	Dramatic increase due to new data from Veralto and a near trebling of impact from Xylem.
Water saved (litres)	1.5bn	2.3bn	Additional impact from Ecolab and Xylem.
No. of people benefiting from improved healthcare	50,000	49,000	Positive impact from inclusion of AstraZeneca and increased impact from Genmab but offset with reductions from Fisher & Paykel Healthcare, Globus Medical and Sonova.
No. of people with improved well-being[24]	80,000	185,000	Growth at CSL and improved data from Cooper Companies covering all of CooperVision and CooperSurgical.
Education (no. of days)	104,000	75,500	Reduction from last year due to the sale of Strategic Education and smaller position in Grand Canyon Education.
US$ of R&D enabled[25]	$29m	$43m	Additional positive impact from ICON, Lonza and Sartorius with reductions from Getinge and Hamamatsu.

24. This category includes people benefiting from preventative healthcare (eg vaccines), improved hearing, visual and oral health and improved workplace safety.
25. This figure represents the money spent on products services used in R&D that is focused on positive impact and that are supplied by companies in the WHEB strategy that is associated with our level of ownership of these companies.

The Impact Calculator

The extent of the positive impact of the strategy as a whole is of course shaped to a large degree by the amount of money that is invested. Alongside this we also provide normalised data per £1million invested in the FP WHEB Sustainability Fund. This data covers the same impact indicators that are reported for the strategy as a whole, but normalises for the amount of money that is invested. We also provide an interactive version of this calculator on our website, which allows clients to type in the precise amount that is invested in the fund in order to calculate the impact associated with their specific level of investment.[26]

We stress that these reported impacts are 'associated' with the investment, because they cannot be equated with the personal impacts that we all have through our own daily activities. You cannot, for example, offset the negative impacts associated with an airline flight with an investment in WHEB's strategy. This is because the positive impact that is reported here is ultimately owned by the end user of the product or service in question, not by the investor in WHEB's strategy. Even the companies we invest in do not themselves own this impact. Vestas, for example, does not 'own' the avoided carbon emissions associated with its wind turbines. Instead, the avoided emissions are correctly attributed to the end consumer of the renewable energy that is generated by the wind turbines. While the impact is not owned by the investor, by investing in Vestas, the WHEB strategy is clearly aligned with – and part of the supply chain that enables – this positive end impact. This is why we report this impact as 'associated' with the investment strategy.

Resource Efficiency

Avoiding

211 tonnes

of CO_2e emissions.

Equivalent to the electricity use of 106 average European European homes for one year[27] and saving £7,072 in avoided carbon costs.[28]

Cleaner Energy

Generating

322 MWh

of renewable energy.

Equivalent to the annual electricity use of 28 European households.[29]

Education

Students receiving

62 days

of tertiary and vocational education.

26. https://www.whebgroup.com/reporting-impact-investment/impact-calculator
27. The average carbon footprint of a grid-connected household in Europe is $2tCO_2e$ (https://www.sciencedirect.com/science/article/abs/pii/S1364032123000102).
28. Based on an average global carbon price of US$46.78 per tonne.
29. Based on average electricity usage of 11.63MWh
30. Based on a landfill tax of £102.10 per tonne of waste, which is equivalent to the UK's landfill tax in 2023.
31. An average shower use assumed to use 62 litres of water.
32. An average European household uses 105,000 litres of water per year.

Figure 10: Positive impact associated with owning £1m in the FP WHEB Sustainability Fund in 2023*

Environmental Services

Recycling

19 tonnes

of waste materials.

Equivalent to the annual waste produced by 17 European households, saving £1,939 in reduced landfill costs.[30]

Water Management

Treating

15.4 million

litres of wastewater.

Equivalent to the total annual wastewater of 147 European households.[32]

Water Management

Saving

1.5million

litres of water.

Equivalent to the water used by 24,500 showers.[31]

R&D

£28,000

spent on products and services supplied by companies in the WHEB strategy and used in positive impact R&D.

Well-being

Providing

131 people

healthier lives and improved well-being.

Health

Providing

19 people

with improved healthcare treatment.

* The impact data provided in this report can be susceptible to potential inconsistencies due to lack of precise information. Companies do not always measure or report in a consistent or uniform way. Where information is not available either from the company of from Net Purpose (https://www.netpurpose.com/) then we have not included that company's contribution within the impact data. This means that these estimates may actually be conservative. Individual company results may vary significantly and may not achieve the same level of impact in the future.

Negative product impacts and ESG screens

The positive impact associated with the products and services of investee companies is a critical focus of our impact reporting. It is central to the investment case for each holding in the WHEB strategy and is the focus of our Impact Engine.

However, this is only a partial picture. Almost all products and services also have some negative impacts that need to be acknowledged and mitigated. As part of our impact analysis, we capture information on the key negative impacts associated with products and services supplied by investee companies. In many cases, these impacts are not routinely acknowledged by the companies themselves. Where they are acknowledged, they are typically described qualitatively. It is rare for companies to have developed clear management plans and targets on the negative impacts associated with their products and services.

These impacts are a core focus of our engagement with portfolio companies. We want to support investee companies in maximising the positive impact of the products and services that they sell. This includes supporting growth and innovation in products and services that help to increase overall positive impact. It also includes working to mitigate and reduce any negative impacts.

In addition, we also actively avoid companies involved in activities that we believe undermine the overall positive impact of that business. As a result, we have never invested in any company with substantial activities (defined as more than 5% of revenues) related to products and services that we consider have a significant negative impact. We would not consider such companies to have an overall positive impact and they would therefore be ineligible for investment. These activities include for example the production or sale of alcohol, cannabis for recreational use or pornography; the provision of gambling services; and the exploration or production of fossil fuels.[33] We apply a 0% revenue threshold to companies involved in the production of tobacco; in the development, production and maintenance of nuclear weapons; and in the development and production of certain types of controversial weapons.[34]

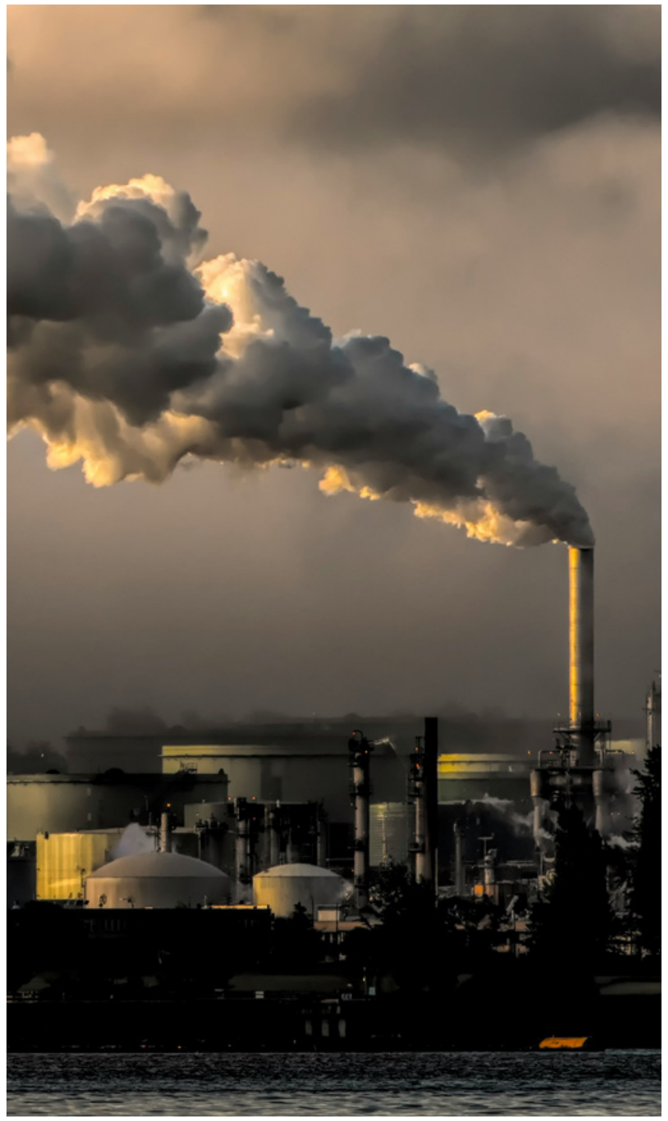
ESG and minimum quality standards

Our investment process actively reviews the ESG quality of a business. Companies with persistently poor practices regarding equal employment opportunities, human rights and environmental management are highly unlikely to be selected for investment. If a company is considered particularly weak (scoring a zero) on any single metric in our fundamental analysis profile, or scores less than 50% overall, it will not be qualified for investment.

We use a third-party screening tool to help us assess company compliance with international norms on human and labour rights, environmental standards and anti-corruption standards. The framework and process that we use explicitly consider the following general frameworks and principles:

- Principles of the UN Global Compact
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- UN SDGs

These frameworks in turn reference a variety of international agreements and conventions.[35]



33. For a full list of these activities please see https://www.whebgroup.com/assets/files/uploads/20240110-ethical-outcomes-final.pdf
34. Companies involved in the development and production of biological and chemical weapons, depleted uranium ammunition/armour, anti-personnel mines or cluster munitions/sub-munitions and their key components, in line with international regulations banning investment in these industries. While not specifically a banned weapon, we include white phosphorous in this definition in line with its status as a highly controversial weapon.
35. These include the International Covenant on Civil and Political Rights (ICCPR), the International Covenant on Economic, Social and Cultural Rights (ICESR), International Labour Conventions, the Rio Declaration on Environment and Development, the Convention on Biological Diversity (CBD), the UN Framework Convention on Climate Change, the Paris Agreement and the UN Convention Against Corruption (UNAC).

Environmental, Social and Governance (ESG) performance

As in previous years, we also report on the ESG profile of our portfolio companies. The ESG issues documented here relate primarily to company operations rather than the products and services supplied by companies which are analysed in detail in the preceding Section 'Delivering a positive impact'.

We utilise our own research frameworks to analyse ESG performance and do not rely on any third-party ESG ratings. Over the past five years we have taken an ESG 'snapshot' of the overall strategy at the end of each year across 11 ESG factors and 4 product impact factors. We use data supplied by Impact Cubed for this purpose which is based on actual outcome data rather than on an assessment of company policies or declarations. The chart in Figure 11 compares the strategy's profile against that of the MSCI World, the strategy's principal benchmark. Stronger performance is shown as the lines reach closer to the outside of the diagram.

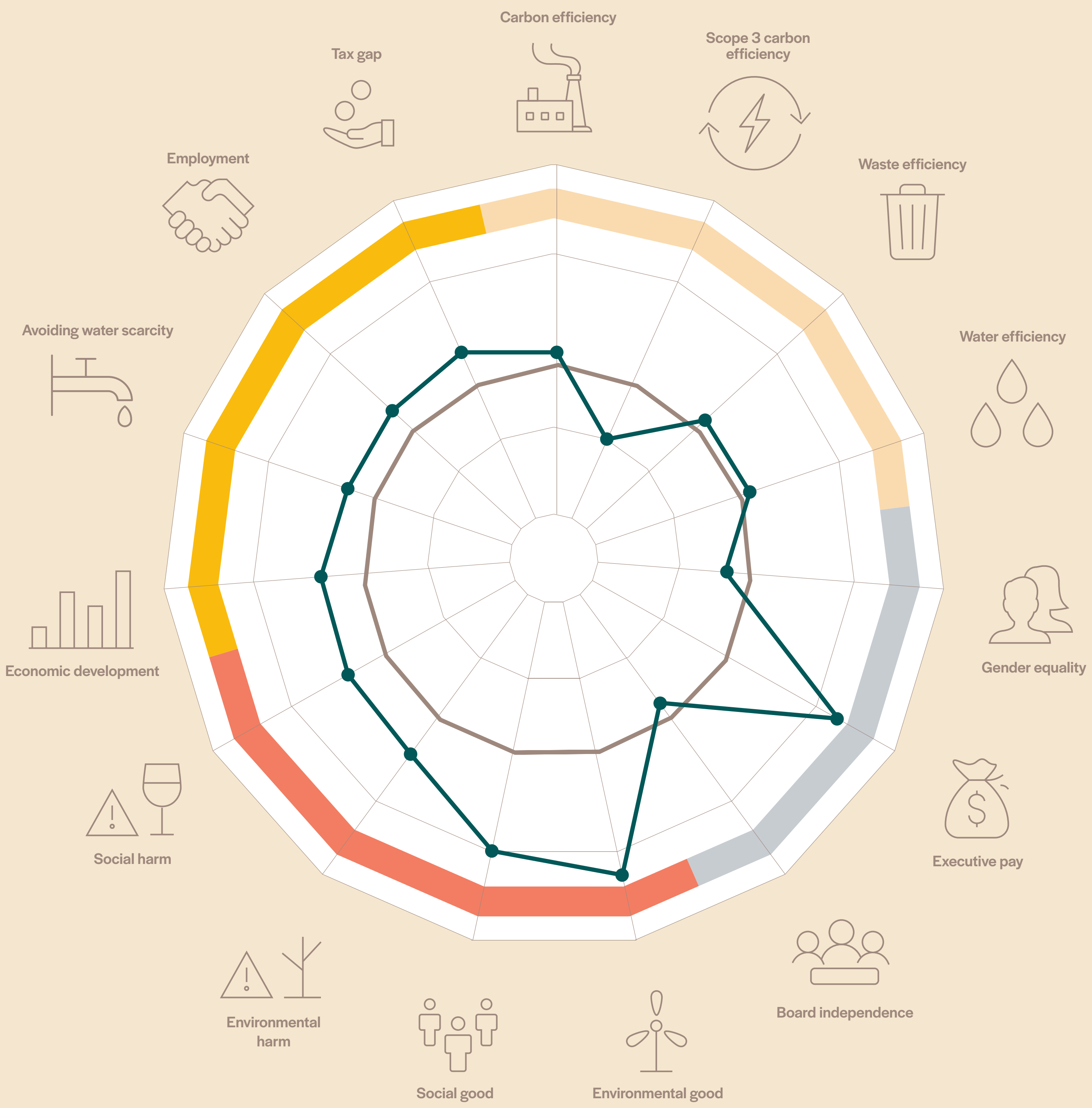
With an average holding period of four to seven years, the overall shape of the strategy does not change dramatically year-on-year. This remained the case in 2023 (see Figure 11 and 12). The proportion of the strategy invested in companies creating environmental good, according to Impact Cubed's definitions, has increased from 32% to 36%, although it is substantially below the levels we believe are contributing to these areas. For investments in social good, the proportion is down marginally from 30% to 29%. According to our own more detailed assessment, we believe that 100% of the strategy is invested in companies that deliver positive social or environmental impact.[36] The strategy's exposure to companies creating social or environmental harm has been entirely stable over the five years that we have done the analysis, at 0% in each category.

Compared to the MSCI World, the strategy performs dramatically better than the index on the product- and service-related measures in Impact Cubed's analysis. This is consistent with the objective of the strategy. In addition, we are pleased that the broader ESG profile is also ahead of the benchmark on 8 of the 11 other dimensions. Scope 3 GHG emissions are, as expected, behind the benchmark due to investments in companies that have high Scope 3 emissions but are delivering lower emissions compared to their competitors. This would apply to many of our investments in Resource Efficiency companies that are linked with the use of energy. Gender diversity is also behind, although again much improved year-on-year: from 19% of board and senior management positions filled by women in 2019 to 27% in 2023. Gender equality in the MSCI World has gone from 22% to 28% over the same period. Both of these dimensions reflect the strategy's sectoral biases towards industrial and technology businesses which typically employ fewer women.

'We utilise our own research frameworks to analyse ESG performance and do not rely on any third-party ESG ratings.'

36. Impact Cubed's definition of positive impact products and services is necessarily high-level and based on a company's aggregate revenue streams. In contrast, WHEB's analysis is more granular and based on an analysis of a company's actual activities.

Figure 11: ESG profile of WHEB's investment strategy



Key

MSCI World — WHEB Strategy — Society — Environment — Governance — Products & Services

37. A lower figure is considered 'better' in that it shows that the strategy is more exposed to activities in lower-income communities.
38. A lower figure is considered 'better' in that it shows that the strategy is less exposed to areas where water is scarce (based on the World Resources Institute scale of 0-5 from least to most water-scarce areas).
39. A higher figure is considered 'better' in that it shows that the strategy is more exposed to activities in communities suffering from higher unemployment.

Figure 12: ESG performance

	WHEB strategy	Absolute change year on year*	Proportion of data reported	MSCI World
Carbon efficiency (scope 1 and 2)	86 tCO_2e/£1m of revenue	↓	**88%**	176 tCO_2e/£1m of revenue
Scope 3 carbon efficiency	2,359 tCO_2e/£1m of revenue	↑	**54%**	938 tCO_2e/£1m of revenue
Waste efficiency	8.2t/£1m of revenue	↓	**56%**	326t/£1m of revenue
Water efficiency	4,812 m^3 of fresh water/ £1m of revenue	↑	**63%**	13,736 m^3 of fresh water/ £1m of revenue
Gender equality	27% of board and top management positions are occupied by women	↑	**92%**	28% of board and top management positions are occupied by women
Executive pay	74x ratio of executive pay to employee pay	↑	**81%**	116x ratio of executive pay to employee pay
Board independence	78% of board members are independent	↓	**98%**	80% of board members are independent
Environmental good	36% of portfolio invested in environmental solutions	↑	**100%**	13% of portfolio invested in environmental solutions
Social good	29% of portfolio allocated to help alleviate social issues	↓	**100%**	12% of portfolio allocated to help alleviate social issues
Avoiding environmental harm	0% of portfolio in environmentally destructive industries	=	**100%**	7% of portfolio in environmentally destructive industries
Avoiding social harm	0% of portfolio in industries that aggravate social issues	=	**100%**	5% of portfolio in industries that aggravate social issues
Economic development[37]	US$52,000 - median income of portfolio-weighted geography of economic activity	↑	**100%**	$55,500 - median income of portfolio-weighted geography of economic activity
Avoiding water scarcity[38]	2.4 - geographic water use	↓	**100%**	2.4 - geographic water use
Employment[39]	4.5% unemployment in portfolio-weighted area of economic activity	↓	**100%**	4.35% unemployment in portfolio-weighted area of economic activity
Tax gap	2.9% estimated % of tax avoided by corporate tax mitigation schemes	↓	**100%**	3.5% estimated % of tax avoided by corporate tax mitigation schemes

* Better performance year on year varies by issue. In some cases a lower number is better and in others a lower number is worse. Improved performance year on year is indicated with a green icon and worse performance with a red icon.

Net-zero carbon (NZC) report

Managing carbon-related risks and opportunities

WHEB's governance and strategy are fully engaged in helping the company address both the direct and indirect risks and opportunities that climate change, and wider sustainability issues present for our business (see Section 1).

Most directly, responding to the threat – and increasingly the reality – of climate change is a central feature of WHEB's investment strategy. Five of our investment themes are focused on companies that sell products or services enabling other parts of the economy to reduce GHG emissions and/or adapt to climate change. This includes companies that manufacture renewable energy equipment, components for battery electric vehicles, heat pumps and other technologies that improve energy efficiency and reduce resource use.

Together these investments are associated with a substantial positive impact in terms of reducing GHG emissions and helping the economy adapt to inevitable climate change. For example, in 2023, over 421 million tonnes of carbon emissions were avoided as a result of products and services sold by WHEB Portfolio companies. This is more than Spain's annual GHG emissions. WHEB strategies only 'own' a portion of this total in line with our proportionate shareholding in these businesses. A smaller proportion still is associated with each of WHEB's underlying investors. For example, a £1 million investment in the FP WHEB Sustainability Fund was associated with 211 tonnes of avoided carbon and 322MWhs of renewable energy.

The positive carbon impact associated with owning £1million in WHEB's investment strategy in 2023

Nonetheless, while WHEB's investments are in companies that help reduce GHG emissions, all of our investments generate their own emissions in their day-to-day operations. We work with the management of our investee companies to encourage them to set demanding targets to reduce these emissions as far as possible and as quickly as possible.

Many of WHEB's portfolio companies have announced a commitment to achieving net-zero carbon (NZC) emissions. Over 90% of portfolio companies with such targets have already had these approved – or are committed to having them approved – by the Science Based Targets initiative (SBTi).

Furthermore, the thematic structure of our strategy means that since the inception of the current investment strategy in 2012, we have been entirely absent from parts of the economy such as fossil fuel exploration and production that are most at risk from a transition to a zero-carbon economy.

Cleaner Energy

Generating

432 MWh

of renewable energy.

Equivalent to the annual electricity use of 38 European households.

Resource Efficiency

Avoiding

273 tonnes

of CO_2e emissions.

Equivalent to the electricity use of 136 average European European homes for one year and saving £10,025 in avoided carbon costs.[40]

[40] Op. cit. 28.

Portfolio GHG emission metrics

WHEB's approach to mitigating the emissions generated by portfolio companies is to encourage investee company management to set demanding NZC targets and then to assess these targets and monitor the absolute CO_2e reductions across the portfolio on an annual basis. The data over the past few years across Scopes 1 to 3 for the whole strategy is reported in the figure below.

Figure 13: GHG emissions for WHEB's investment strategy 2021–2023

Indicator	2021	2022	2023	Explanation
Scope 1 + 2 carbon total footprint (tCO_2e) Financed emissions	38,038	40,680	31,130	The sale of higher emitting companies Daikin and DSM helped reduce emissions along with lower overall AuM.
Carbon footprint (tCO_2e/£1m invested)	24	30	25	The sale of higher-emitting companies combined with lower emissions from big emitter Smurfit Kappa.
Carbon intensity (tCO_2e/£1m sales)	95	78	94	Over half the emissions come from Linde and L'Air Liquide somewhat offset by reductions from First Solar and others.
Weighted average carbon intensity (tCO_2e/£1m sales)	87	86	86	As above with year-on-year increases at Lonza and TE Connectivity, offset by Daifuku, Croda and Smurfit Kappa.
Scope 3 carbon emissions (tCO_2e/£1m sales)	991	1,833	2,359	Inclusion of L'Air Liquide and higher emissions from Trane Technologies, Spirax Sarco and Xylem offset reductions from sale of Daikin Industries.

Figure 14: Top five GHG emitting companies within the FP WHEB Sustainability Fund (financed emissions)

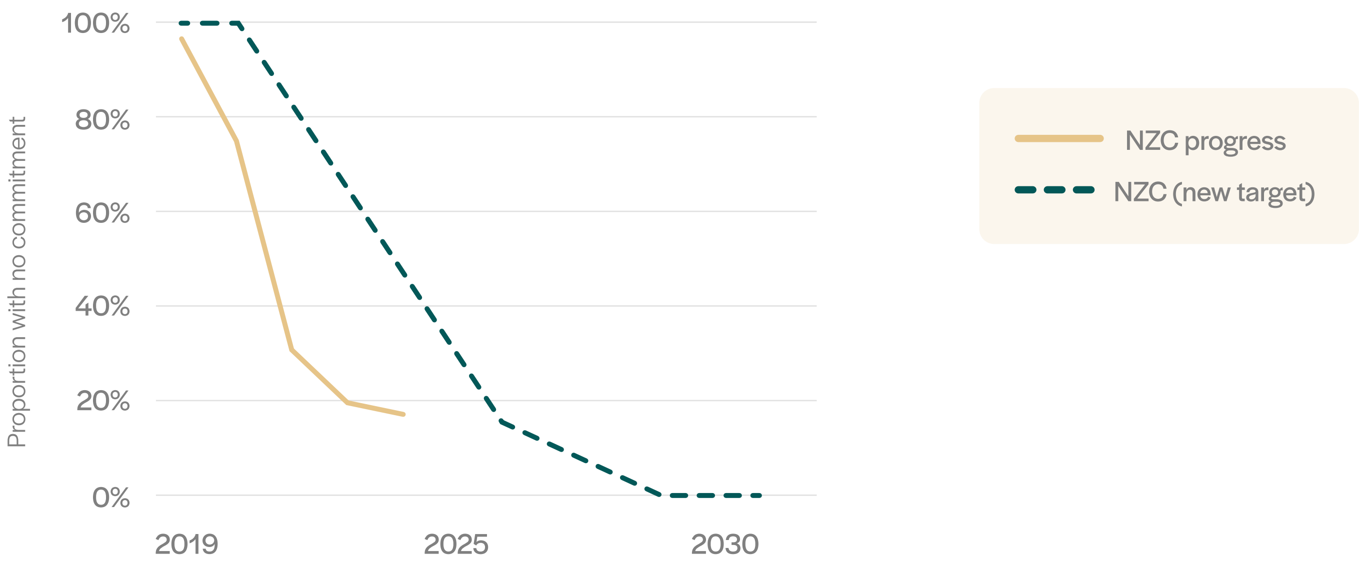
COMPANY	% OF SCOPE 1+2 FINANCED EMISSIONS	NZC TARGET DATE	SBTi VALIDATED
Linde	36%	Net zero by 2050	Yes
Smurfit Kappa	29%	Net zero by 2050	Yes
J.B. Hunt Transport Services	7%	No target set	N/A
Advanced Drainage Systems	4%	Net zero by 2050	No[41]
Infineon Technologies	3%	Net zero by 2030	No[42]

Portfolio Scope 1 and 2 emission targets and reductions

The Scope 1 and 2 emissions associated with WHEB's investments (known as financed emissions) can change in two ways. First, investing in and divesting from companies will change the total tonnes of CO_2e associated with our strategy. For example, in 2021 we sold China Everbright Environment Group, which dramatically reduced our financed emissions. The second way is through actual real-world changes in annual emissions from portfolio companies. Our reporting is intended to reveal each of these dynamics. We also disclose information on the extent to which portfolio companies have set and published NZC targets and/or absolute emission reduction targets.

In 2023 we saw continued, though slowing, progress from portfolio companies making net-zero carbon commitments (see Figure 15). By the end of 2023, 82% of the emissions associated with WHEB's strategy (financed emissions) were covered by net-zero carbon commitments. Our target is 85% by 2025 and 100% by 2028.

Figure 15: WHEB strategy NZC targets

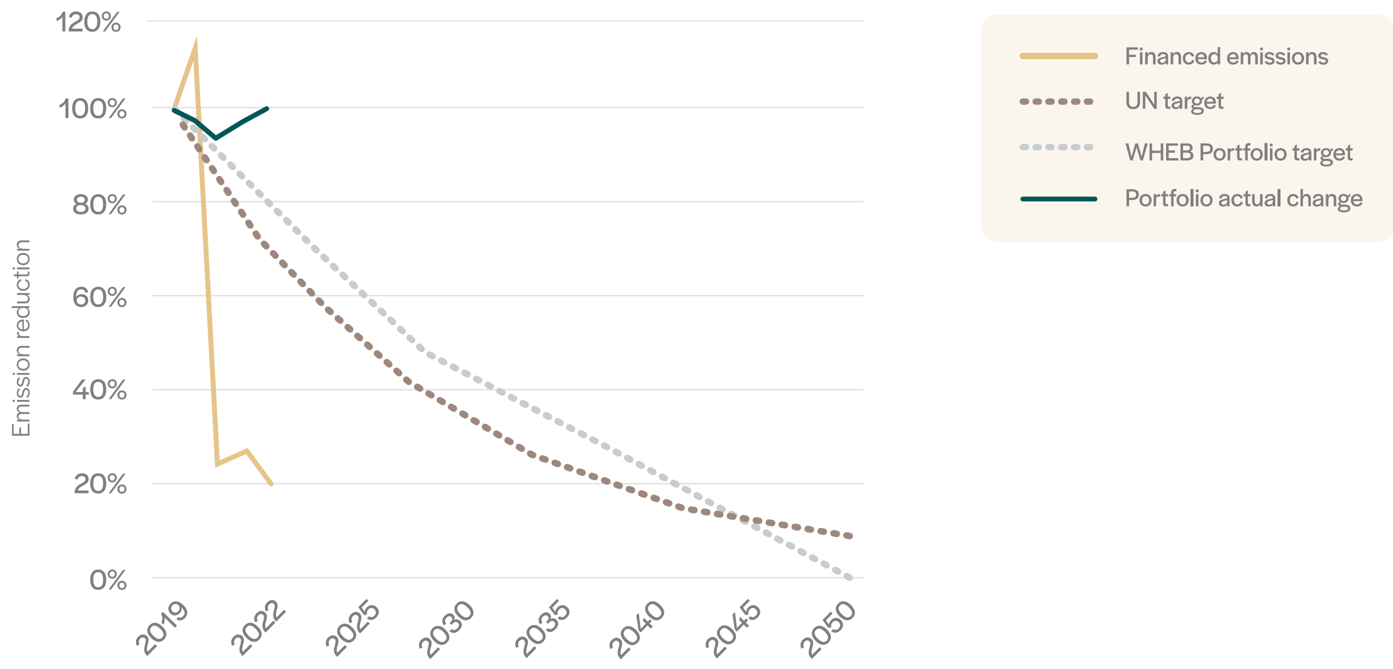


41. Advanced Drainage Systems has committed to having its 1.5°C aligned target approved by the SBTi.
42. Infineon has committed to having a near term target approved by the SBTi.

In terms of emission reductions, 2023 saw a reduction in financed emissions of 6% compared with 2022. The strategy has now reduced financed emissions by 79% compared with 2019. This is well ahead of the 18% reduction that we had originally targeted for 2023. The vast majority of this reduction is due to the sale in 2021 of China Everbright Environment Group. The sale of Daikin Industries and DSM in 2023 helped to reduce financed emissions in 2023.

Less positively, we did see another annual increase in the emissions from companies that have remained in the strategy over the period. In 2023 these ongoing emissions were +3.6%. This is at least a smaller increase than the +4.4% increase that we saw in 2022. It is also much better than the +8.3% increase in emissions from the MSCI World. In large part the growth in the emissions from companies in WHEB's strategy is coming from fast-growing businesses that are ramping production of low and zero carbon technologies. Vestas Wind Systems for example saw its emissions grow +16% in 2023, and SolarEdge's emissions were +30%. Nonetheless, all portfolio companies do need to reduce their emissions, and the annual increase is far behind the –7.6% annual reduction in GHG emissions that the United Nations says is necessary to maintain global temperatures at no more than 1.5°C above the pre-industrial average and the –5.5% annual reduction that we are targeting.

Figure 16: WHEB strategy emission targets and reductions



‘WHEB works with several investor coalitions to collaboratively engage companies, policymakers and standard setters to accelerate progress on decarbonisation.’

Figure 17: WHEB’s GHG reduction targets

TARGET	TARGET YEAR	PROGRESS
85% of financed Scope 1+2 emissions covered by a NZC target of 2050 or sooner	2025	On track
100% of financed Scope 1+2 emissions covered by a NZC target of 2050 or sooner	2028	On track
15% reduction in absolute portfolio emissions (compared to a 2019 baseline)	2025	Ahead of target
7.6% portfolio company level absolute reductions year-on-year	2030	Well behind target
50% reduction in portfolio carbon emissions (compared to a 2019 baseline)	2030	Ahead of target
100% reduction in portfolio carbon emissions (compared to a 2019 baseline)	2050	Ahead of target

Memberships and affiliations

WHEB works with several investor coalitions to collaboratively engage companies, policymakers and standard setters to accelerate progress on decarbonisation. For example, WHEB was a founder member of the Net Zero Asset Managers initiative and has been a long-term supporter of the Institutional Investors Group on Climate Change.

net zero carbon

IIGCC

Climate Action 100+

The Net Zero Asset Managers initiative

NZEI

Guest interview: how companies measure the positive impact of their products and services

Companies' reporting of the positive sustainability impacts of products and services has improved dramatically since WHEB produced its first impact report in 2014. We spoke to five portfolio companies about the evolution of impact reporting in their own organisations.

Karen Drozdiak
Head of ESG
and Sustainability,
First Solar

Daniel Adlolph
Senior Communications
and IR Manager,
Fisher & Paykel
Healthcare

Andrew Carlsen
Vice President
Head of Investor
Relations,
Genmab A/S

Tamara Brown
Vice President
Sustainability ESG,
Linde PLC

Juan Pelaez
Vice President
Investor Relations,
Linde PLC

Amit Bhalla
Head of Investor
Relations,
Schneider Electric

Distinguishing between manufacturing and product impacts

In planning these interviews, we had not intended to talk about the ESG credentials of companies' manufacturing processes. Nonetheless, it became clear that several of our interviewees had come prepared to talk primarily about this, with the actual product impact somewhat of an afterthought. For many, the distinction between manufacturing and product impact is not a clear one. For example, First Solar are rightly proud of their Series 6+ Plus panels receiving the EPEAT ecolabel. The label applies to the product, but also the entire lifecycle including manufacturing criteria like the carbon footprint, use of recycled materials and hazardous chemicals.[43] The same is also true for many of Schneider Electric's product certifications. These products are bought, in part, because of the positive characteristics of the manufacturing process.

For most companies, measuring and reporting ESG has been the overwhelming focus of the sustainability team. In several cases, the positive impact of the product or service is often just a given. This is certainly true in healthcare but also in areas like renewable energy. Consequently measurement and reporting of the positive impact generated by the use of the product is not something that has received much attention at these companies.

Current approaches to measuring and reporting product and service impacts

It was also clear from the interviews that the companies are all at very different stages of their product impact-reporting journey. Some of the companies we spoke to have only a very basic level of impact data, and some none at all. Fisher & Paykel Healthcare is a manufacturer of respiratory care systems for use in home and healthcare settings. They report on the overall number of people that receive their 'Optiflow nasal high flow' oxygen therapy. Genmab, a pharmaceutical therapies business, have yet to report any product impact data. This is in large part due to the company's business model. Genmab focuses on the R&D of pharmaceutical products relying then on other companies to lead the commercial development of the products. Quite often they do not have any visibility into the number of people receiving their treatment.

Other companies that we spoke to have a long history of reporting on the positive impact of their products and services. Linde, an industrial gases business, has for some years reported on the proportion of the company's revenues coming from products that generate a clear social or environmental benefit. They also report specific impact data in terms of, for example, the amount of avoided carbon emissions and the number of people benefiting from safer and clean water.

Schneider Electric is probably the most advanced of the companies we spoke to when it comes to product impact reporting. They have developed a suite of 32 indicators to cover different aspects of product impact. First and foremost is the energy (and CO_2e) that is saved by their products. But this information is supplemented by other data covering, among other things, the percentage of recycled content and the presence of hazardous substances, as well as third-party product certifications.

43. https://www.epeat.net/search-climate-plus

Who is this information intended for?

Perhaps not surprisingly, investors were not the primary audience for product impact information. Instead, customers – and to a less degree regulators – were typically seen as a more obvious audience. For Fisher & Paykel Healthcare, the product's role in supporting better healthcare outcomes is a key focus for customers. 'Our sales team use clinical studies and clinical practice guidelines to demonstrate that Optiflow is a better technology than incumbent technologies', said Daniel Adolph the company's Head of Investor Relations. Investors can access much of this information themselves, but the company is increasingly keen to help investors understand how the company's products deliver better health outcomes'.

While this type of product impact data is clearly important to investors,[44] impact investors also want aggregated impact data across a company's product portfolio. This type of information is not typically of interest to customers and so relies on other stakeholders to encourage corporate reporting. Companies see impact investors, particularly in the EU, as one audience, but regulatory initiatives are also becoming important. The EU Taxonomy, while not requiring actual impact data, requires European companies to report the amount of product/service revenues that are taxonomy eligible and aligned. Equally, while not a regulation, the UN's Sustainable Development Goals (SDGs) also encourage companies to assess how their products and services support certain social and environmental targets.

How do you quantify positive impact?

The companies tend to see investors as the primary recipients for aggregated company-wide performance data. The process for providing these numbers varies dramatically across different companies. For example, high-level estimates of market size and market share are still used for estimating overall patient numbers. At the other end of the spectrum, the process for quantifying individual product-level environmental impacts is often subject to lengthy methodology development and testing. This is then aggregated to provide overall company-level data. Linde, for example, collect and publish data internally for a couple of years before releasing it externally. Where revenues are directly related to product sales, they are also often used as a way of generating aggregate impact data. Where companies sell to distributors or other third parties in the value-chain they may not have visibility to the end consumer. In these cases proxies or estimates may need to be used in place of revenues.

A key question to answer is also to establish what the correct performance baseline is to compare a specific product or service against. Both Linde and Schneider Electric pointed to the importance of having good-quality baseline data, usually derived from life-cycle analysis studies, as a key foundation for calculating product impact.

Genmab however cautioned on some of the dangers of quantification. Some medical interventions save people's lives, while others enable a more comfortable lifestyle. Just measuring 'numbers of patients' does not capture the difference in these outcomes, they argued.[45]

So what is the future of product impact reporting?

Some of the more experienced impact reporters expressed some frustration at the urgent need for standardisation. Schneider Electric think investors should help 'fight for transparency and standardisation across the industry'. For them, the lack of a global framework on how to measure and report product environmental impact is already 'creating a lot of confusion in [their] customers' minds'.

First Solar too, highlighted the importance of using a well-recognised methodology (like EPEAT) for quantifying product impact metrics. Too often however ESG ratings focus exclusively on manufacturing and don't consider the positive impact from the use of products. At one point (now thankfully rectified) First Solar's CDP climate change score did not take account of the fact that the company's products help to dramatically reduce greenhouse gas emissions.

But overall, most were upbeat about the future of impact reporting. The measurement of avoided emissions was seen as being the closest to becoming standardised. Several companies see this as an opportunity to show the positive impact of their products and balancing the more negative aspects of the ESG agenda. Everyone we spoke to believed that product impact reporting will become more important.

A final cautionary word from Juan Pelaez, Linde's Vice President of Investor Relations: 'There is a danger that our sustainability report is going to be the length of a bible before too long because everyone has their own issue that they want us to focus on.' We also see this danger but would argue that often the largest impact that a company has is through the impacts of its products and services. In our view this data is crucial – not just to investors, but for other stakeholders too.

[44] For example, WHEB utilises this type of information in our impact engine analysis.
[45] These distinctions are also captured in WHEB's impact engine.

'Often the largest impact that a company has is through the impacts of its products and services. In our view this data is crucial - not just for investors, but for other stakeholders too.'

WHEB's investor contribution

04

Stewardship and engagement

We define stewardship as the responsible management of money on behalf of savers and pensioners, to create sustainable benefits for the economy, the environment and society.

As investors, at WHEB we believe we have a responsibility – and an opportunity – to advocate for progressive change at the companies in which we invest. Done well, we believe this will benefit the companies as well as society more generally. For WHEB, this is achieved through:

1) **Capital allocation decisions:** We focus on investing in solutions to sustainability challenges.

2) **Proxy voting:** We exercise our voting rights at company meetings.

3) **Company engagement:** We enter into dialogue with investee companies bilaterally and/or collaboratively, escalating where necessary.

4) **Public policy and industry engagement:** We urge a greater focus on sustainability in the wider financial system, indirectly supporting positive impact businesses.

5) **Reporting:** We communicate efforts back to investors and other stakeholders.

Stewardship is firmly embedded in our investment process, which assesses investee companies' positive impact on social and environmental challenges, as defined by our nine sustainable investment themes. Engagement and voting activity with portfolio companies is undertaken directly by the Impact Investment Team and underpinned by our views on the materiality[46] of key sustainability issues for the investee business. Our focus is on engagement that underpins the long-term success of the businesses that we invest in.

46. Our views on the materiality of sustainability issues for different business activities are informed by guidance from the International Sustainability Standard Board (ISSB) and other relevant guidance.

2023 in review

The stewardship stampede

New developments such as the UK's Sustainable Disclosure Requirements (SDR)[47] helped to boost asset managers' attention on stewardship activities in 2023. This has been evident in the intensified engagement activities and related disclosures across the industry.[48] However, the quality of some of this work has, quite rightly, been called into question.[49,50,51]

We welcome the greater scrutiny on stewardship and agree with others that there has been an excessive focus on metrics that quantify asset manager stewardship activity levels. But, in addition to unintentionally fuelling the 'stewardship stampede', such datapoints do not adequately capture the depth or nuances of meaningful stewardship work that will influence real-world outcomes.

Moving from quantity to quality

It is critical, in our view, to explain *how* issues are selected, prioritised and then addressed in order to underpin a quality approach to exercising stewardship responsibilities. Though stewardship and engagement are well established within WHEB's investment process, last year we looked to further enhance the overall quality of what we do. We did this by becoming more:

1. Methodical

It is not possible, nor desirable, to engage every investee company on every topic. We have put more focus on how we select which engagements to pursue focusing on a) the most material and b) the most controversial and/or strategic issues.

We have also been clearer about our rationale for engagement. Embedding stewardship in our investment process means that our objectives and priorities are closely aligned with our fundamental interest in the long-term success of the companies in which we invest.[52]

2. Effective

As asset managers we believe we can show correlation but not causation between our stewardship and engagement efforts and real-world outcomes. We do not look to claim additionality in our engagement because outcomes are almost inevitably the result of the efforts of multiple stakeholders. Instead our aim is to look beyond activity levels and understand our effectiveness. Implemented in late 2022, our Objective Milestones Framework (Figure 18) helps this evaluation process.

3. Clear

Reporting is a vital part of our stewardship toolkit. Our focus has been on finding reporting methodologies that help readers and investors interpret our contributions without overwhelming them with voluminous data sets or providing case studies which may not be representative of our engagement activity and outcomes.

We have therefore developed complementary disclosures to evidence how our actions align with outcomes for core issues. Figure 19, for example, shows how the biggest emitters of GHG emissions in WHEB's portfolio have changed their emissions between 2022 (dots) and 2023 (triangles), and also, whether their approach to managing their emissions has become more or less aligned with the Paris Agreement. In the coming year we aim to develop this approach to reporting to cover other key issues such as gender diversity, biodiversity and hazardous chemicals.

Figure 18: Objective Milestones Framework

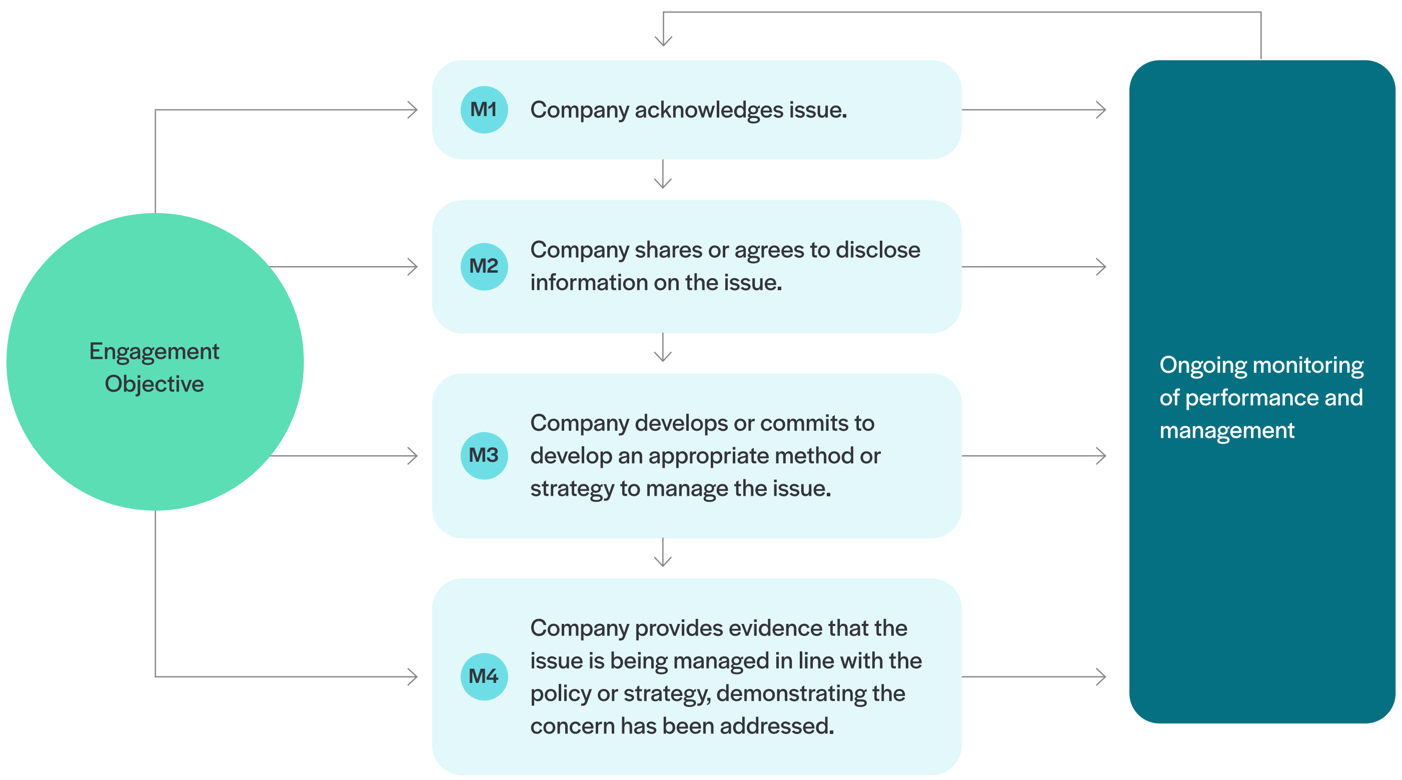
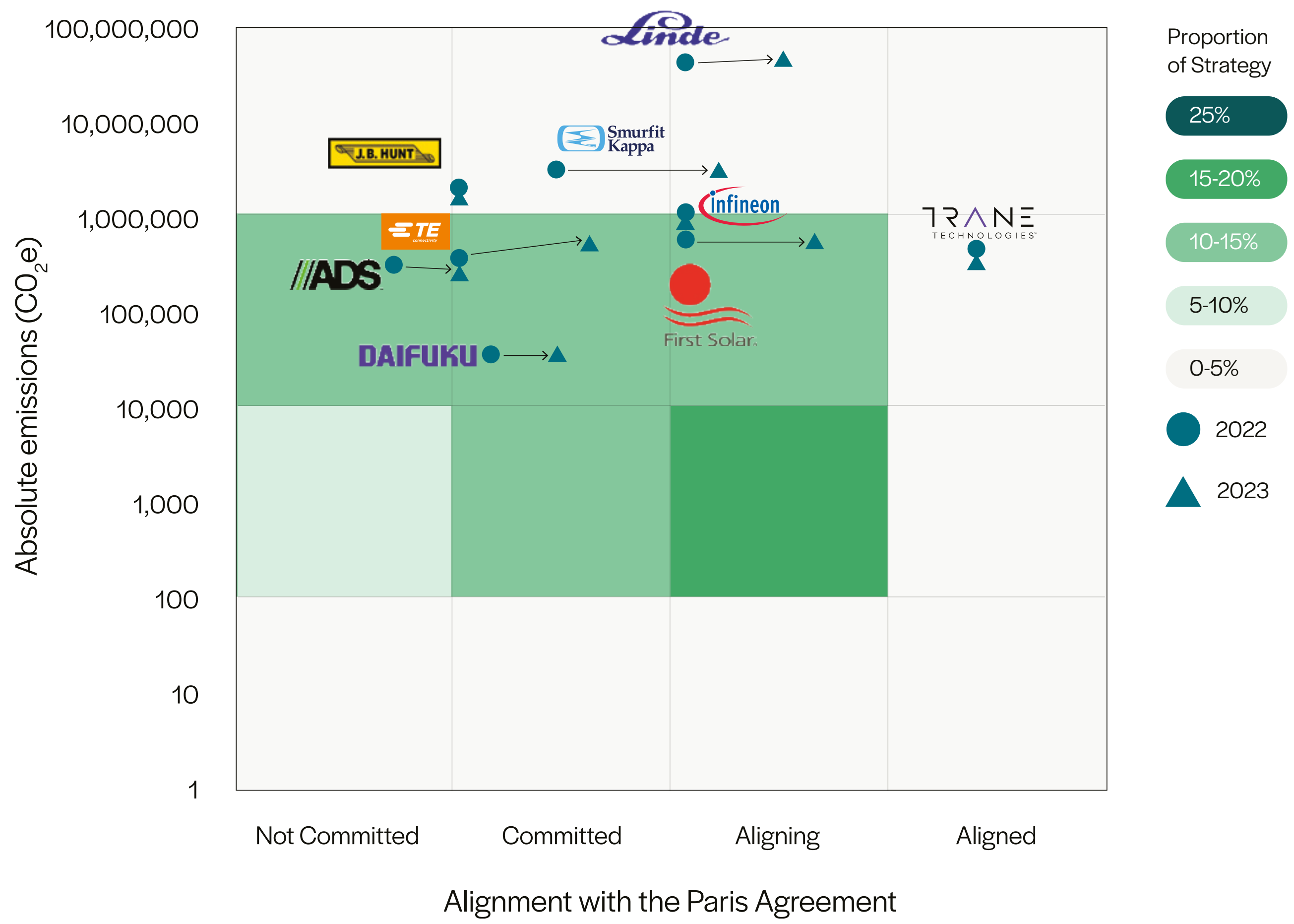


Figure 19: Mapping outcomes on WHEB's portfolio GHG emissions



47. https://www.fca.org.uk/publication/policy/ps23-16.pdf
48. https://redington.co.uk/wp-content/uploads/2022/12/Redington-Stewardship-Code-reporting-FINAL.pdf
49. Hoepner, Andreas G. F., UK Asset Owner Stewardship Review 2023: Understanding the Degree & Distribution of Asset Manager Voting Alignment (November 17, 2023). Available at http://dx.doi.org/10.2139/ssrn.4643377
50. https://www.responsible-investor.com/manager-inconsistency-on-stewardship-drives-growing-frustration-among-uk-asset-owners/
51. https://www.responsible-investor.com/under-resourced-and-ineffective-industry-leaders-deliver-gloomy-verdict-on-stewardship/
52. This is especially important as the power of investor stewardship is increasingly recognised by a variety of stakeholders that may pressure investors to adopt their own agendas.

Engagement activity in 2023

We define a company interaction as an engagement activity where there is a:

- Purposeful dialogue with a company, either bilaterally or collaboratively;
- with a clear objective to address a material sustainability or governance risk or opportunity;
- an identifiable outcome, as gauged by our objective milestones.

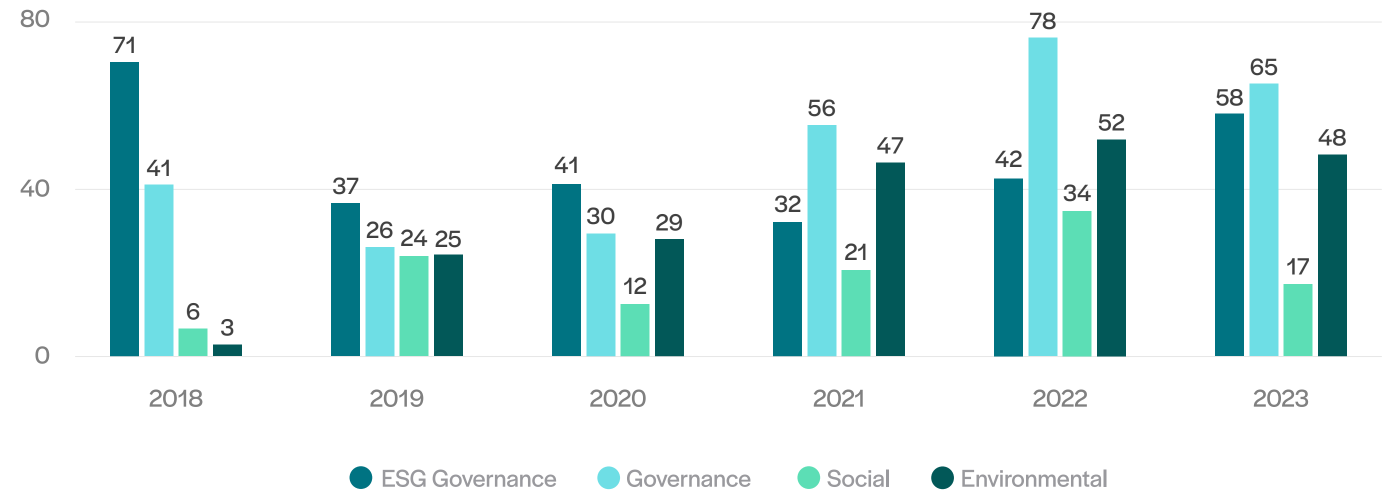
In 2023, we recorded 188 engagement activities approximately in line with increased activity levels from 2020.[53] We continue to engage roughly three quarters of investee companies annually with engagement activities having occurred across 46 companies in 2023 representing 72% of all holdings.[54]

In terms of the topics addressed, (Figure 20) Governance represented the largest proportion, mostly due to persistently low auditor independence. ESG Governance issues constituted a larger portion of our engagement activity compared to the previous year and focused mostly on problematic executive compensation practices. Efforts to advance Environmental objectives remained significant once again including activities on NZC commitments, biodiversity and nature loss and WHEB's involvement with investor initiatives on hazardous chemicals.

Conversely, Social issues comprised the smallest proportion of our engagement activity last year though this work was once again primarily focused on promoting gender diversity.

While this data may indicate our engagement priorities, it reveals little about a) the depth of engagements and b) the progress made which we consider further below.

Figure 20: Engagement topics



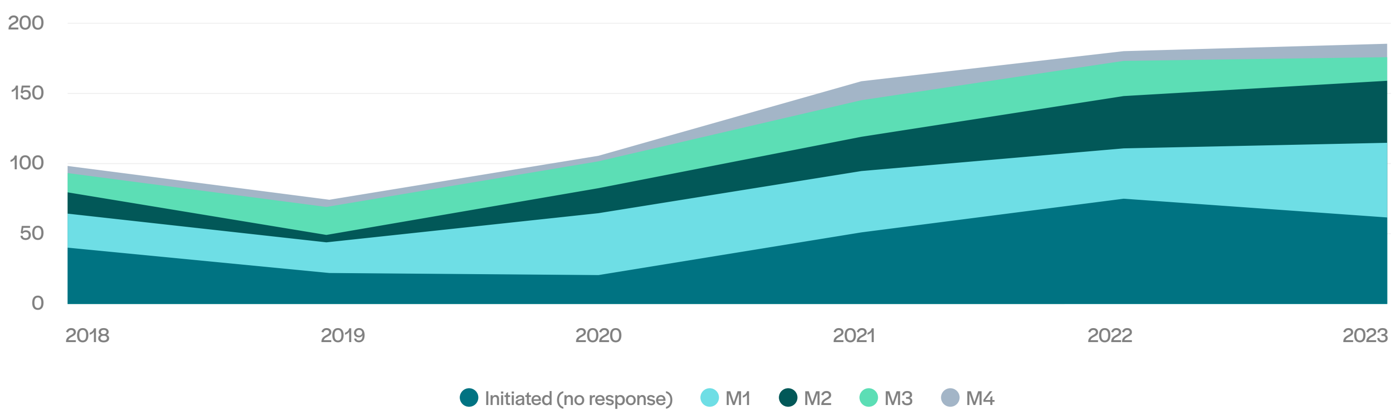
Effectiveness, objectives and milestones

During 2023 we reviewed our engagement activities from 2018 to identify the milestones that have been achieved over this period. Figure 21 shows how the overall amount of engagement has increased during this period, with a greater number of engagements initiated from 2020 to 2022. In turn, this has fed into a proportionally larger number of Milestone 1 (M1) and Milestone 2 (M2) outcomes. With WHEB's engagement objectives often targeting ambitious, long-term changes to strategy and policy, we expect a longer analysis period to demonstrate a similar increase in Milestone 3 and 4 (M3 and M4).

More detailed case studies of our engagement are provided quarterly. Typically, these updates include three case studies that represent the range of issues we engage on and the outcomes we achieve. These are available from our website.[55]

[53] Explained by the growth of the Impact Investment Team and WHEB being appointed as subadvisor and fund manager of the iMGP Sustainable Europe Fund in Jully 2022, which includes additional European stocks to the main strategy.
[54] This number decreased slightly to 62% in 2022 after onboarding the iMGP Sustainable Europe Fund.
[55] https://www.whebgroup.com/investing-for-impact/stewardship/engagement-case-studies

Figure 21: Engagement effectiveness



Collaboration and escalation

Collaborative engagement is an important tool to influence portfolio companies and the financial system as a whole. In 2023, 10% of our activity was conducted in this way, mostly as a means of escalation.

We prefer escalating in this way for several reasons. First, dialogue most easily allows us to ensure that objectives and priorities are positioned within the context of our interest in the company's long-term success. Second, collaboration also avoids certain technical and temporal hurdles linked with escalating through proxy voting and AGM attendance. Finally, given WHEB's longstanding advocacy for sustainable investing, it is not difficult for us to connect with like-minded investors to collectively engage companies.

At the same time, the power of investor stewardship is increasingly being recognised as a key catalyst for effecting change and delivering tangible real-world outcomes. Consequently, more opportunities to join investor initiatives are becoming available each year.

In 2023, for example, we addressed net-zero carbon targets at TE Connectivity via the Institutional Investors Group on Climate Change (IIGCC)'s Net Zero engagement Initiative (NZEI).[56] We have also worked with other investors as part of ChemSec's Investor Initiative on Hazardous Chemicals (IIHC).[57] We joined this initiative in 2021, which aims to phase out hazardous chemicals (Figure 22). WHEB also became a member of Nature Action 100 on its launch in the second half of 2023. We hope this will support the work we have been doing to engage companies on biodiversity and nature loss since 2020.[58]

Collaboration alone is not always effective, though, and occasionally it is necessary to escalate further using other tools such as AGM attendance, as was recently the case in our efforts to engage TE Connectivity via the NZEI.

Figure 22: WHEB's industry networks and associations

2009	2012	2013	2016	2019	2020	2021	2022	2023
UKSIF UK Sustainable Investment and Finance Association	CDP	IIGCC The Institutional Investors Group on Climate Change	TCFD	The Big Exchange	Climate Action 100+	chemsec	Finance for Biodiversity Pledge	Nature Action 100
	Eurosif		Certified B Corporation		The Net Zero Asset Managers initiative	GIIN Global Impact Investing Network		IIGCC The Institutional Investors Group on Climate Change
	FRC							NZEI
	PRI Principles for Responsible Investment							

[56] https://www.whebgroup.com/te-connectivity-nzc-case-study
[57] https://www.whebgroup.com/ecolab-engagement-case-study-chemicals
[58] https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-nature-calls-from-assessment-to-action

WHEB also aims to shape the wider financial systems to incentivise businesses to deliver more positive social and environmental outcomes. This work is often done through industry initiatives. In the past year, for example, we have collaborated with other investors to promote regulations at International, European and UK level to encourage, among other things, the phase-out of hazardous chemicals, the elimination of plastic waste in the world's oceans, the mandatory publication of climate transition plans and faster action to tackle climate change.

We also participate in industry initiatives promoting high standards in sustainable investing. In 2023 a major focus was on the UK's Sustainability Disclosure Requirements (SDR). WHEB is a member of the Financial Conduct Authority (FCA)'s Disclosure and Labels Advisory Group (DLAG) and has been deeply involved in inputting into this regulation. Further discussion of asset managers' role in shaping financial systems is included below.

WHEB's view on voting

We endeavour to vote all our shares as per our voting policy, and we use voting to complement our other stewardship strategies to achieve effective outcomes.[59] For example, it is our policy to write to company management when we vote against their recommendations, which often leads to further dialogue.

WHEB's voting policy leads us to proactively use routine proposals, such as the election of the chair, as a way of asserting our views on key governance and sustainability issues. For example, our policy states that if a company does not have a NZC target, we will vote against the election of the chair. This approach differs from most fund managers and proxy advisers, who typically vote on sustainability issues only where they are specifically raised in a shareholder resolution.

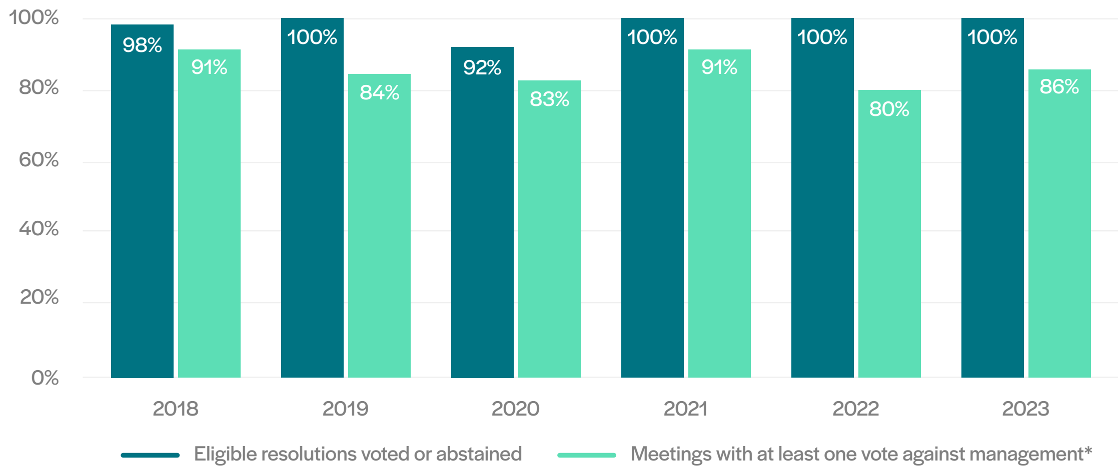
Voting activity in 2023

In 2023 WHEB cast votes on 100% of the resolutions on which we were entitled to vote in that year (Figure 23). We also voted against at least one resolution at 86% of these meetings.

We voted against management on 201 occasions, representing 21% of our votes cast and, in a pattern consistent with the previous six years (Figure 24).

WHEB currently uses Institutional Shareholder Services (ISS) as a third-party research provider to help inform our voting decisions and to deliver the votes to company meetings. However, we actively consider each vote ourselves to confirm whether it is line with our own, typically stricter, voting policies. We report the proportion of votes that go against ISS's policy in Figure 25. The vast majority of these votes are to vote against management when ISS's policy is to vote for management.

Figure 23: Exercising WHEB's voting rights[60]



* Votes against management included votes where we abstained or withheld our vote because voting against was not an option.

59. https://www.whebgroup.com/assets/files/uploads/20221201-wheb-voting-policy.pdf
60. The proportion of company meetings that included at least one vote against management also includes meeting where votes were withheld.

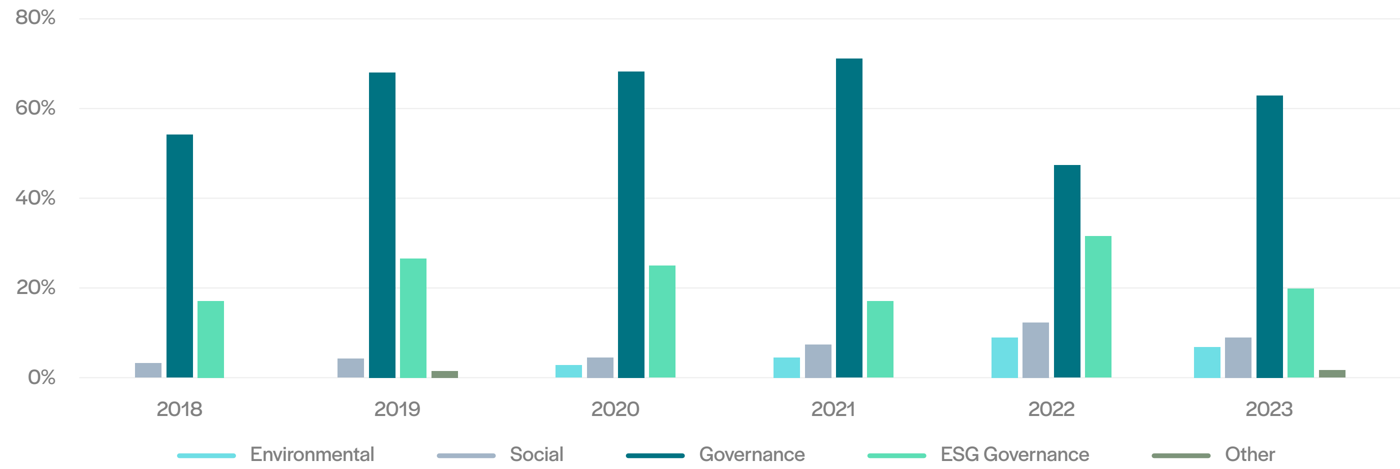
Figure 24: A proactive voting policy in action

Of the votes where we voted against management:

- 63% of these votes were on Governance issues (especially auditor independence, director independence and executive remuneration).
- 7% of these vote were on Environmental issues, mostly carbon reduction targets.
- 9% of these votes were on Social issues, the majority aimed at improving board-level gender diversity (Figure 25).

Our escalation process of writing to company management provides an opportunity to widen the scope of engagement to cover Environmental and Social issues as well.

Figure 25: Votes against management by topic



Guest interview: systemic change and the role of asset managers

In responding to requests from new and existing clients, we have noticed an increased level of interest in the work we do to shape the rules and norms governing the financial sector's contribution to sustainability. We interviewed representatives from three leading institutions to understand why there is growing interest in this area and what is expected of asset managers.

Charlotte O'Leary
CEO, Pensions for Purpose

Emma Hunt
Head of Responsible Investment HSBC Bank Pensions Trust (UK) Limited

Sean Gilbert
Chief Investor Officer, Global Impact Investing Network (GIIN)

What is 'systemic change' and why is it important?

'Systemic change is really about how you fix a problem by trying to understand root causes rather than symptoms'. This view, expressed by Sean Gilbert at the Global Impact Investing Network (GIIN), was also endorsed by our other interviewees. There was also consensus that the 'economic system has not kept up with social and environmental change' as Emma Hunt from the HSBC Pension Fund put it. This is fuelling interest in what asset managers and other financial actors can contribute to systemic change. The current economic system does not fully capture wider social and environmental risk. Nor arguably does it prioritise the best long-term investments from an opportunity perspective. Risks that are not captured adequately in the financial system ultimately reappear when they reach breaking point, creating shocks that can undermine the system. As Charlotte O'Leary from Pensions for Purpose (P4P) argued: 'The fact that insurers no longer cover flood risk for certain parts of Florida (for example), does not mean that this risk has disappeared. It is just being borne by other parts of society.'

Systemic change is often interpreted as being about changing the 'rules of the game'. How important is public policy and are there other areas that are important?

All the interviewees agreed that influencing public policy is a key element in systemic change, but they saw its role quite differently. For some, regulation is important in 'raising the floor by forcing change among laggards'. For others, public policy is the starting point for driving change. It may also be that regulation is appropriate for some issues and other types of changes are better for others. For example, one interviewee suggested that regulation is an unhelpful tool in changing cultural norms (for example in attitudes to diversity) but that it has proved to be critical in incentivising action on climate change. Emma (HSBC) quoted Roger Urwin, the co-founder of the Thinking Ahead Institute, in arguing that 'while measurement gives a subject respect, it is narrative that gives it meaning'. To really change a system, you need to change the culture of the people that populate it.

But there are other important influences shaping the financial system. Accounting frameworks that ultimately determine what gets valued was one. Ensuring clearer accountability was another. 'Lawyers are now saying that delivering against the TCFD framework is a director responsibility and creates contingent liabilities on companies', said Charlotte (P4P). 'It is a rather laborious route to take because the measurement is driving the accountability [rather than the other way around].'

'Another powerful driver of change is FOMO (fear of missing out) – in fact the most powerful thing in human behaviour', argued Charlotte. If you can build a successful business and develop best practice, then other people will want to emulate that.

But is there a legitimacy question in financial actors seeking to change behaviour in this way?

The term 'systemic change' was seen as unhelpful – even politicised – particularly in the US. But 'if you step away from the labels', as Sean (GIIN) put it, all rational actors have a legitimate interest in the long-term health of society and the planet. 'Nobody wants lead in their drinking water or to be locked into a job with no protections', he said. But our interviewees did see different roles for different actors. Sean pointed out that private market impact investors have typically focused on the significance of new capital in creating impact. 'With public market actors now thinking about impact, there is much more of a focus on other levers you can influence', he said.

Asset owners have a clear interest, not least as 'universal owners' of the market as a whole, 'but still need to bring their own stakeholders with them', argued Emma (HSBC). For asset managers the picture is more complex. Some interviewees wondered 'whose views do [asset managers] represent?' as they are 'just intermediaries'. Others considered their legitimacy to stem from their knowledge of the companies that they own, combined with their role as agents for asset owners.

What are the other barriers preventing asset managers and others from engaging in efforts to change the financial system?

There is often a lack of a clear business case for work on systemic change. 'Most asset managers do not have the bandwidth to undertake work on systemic change', said Emma at HSBC. 'WHEB is one of the first managers to reach out to us on this question', she said. There is often a view at asset managers that there are just two jobs: managing assets and gathering assets. Anything else gets squeezed out. 'Clients are often unwilling to pay for this activity. It is seen as a cost and is harder to sustain with pricing pressure', said one of the interviewees.

The language also gets in the way as do concerns about intellectual property. This was a particular concern of Charlotte's. 'We need to make ways to share data and insights more freely [such as on new tools for measuring and reporting on biodiversity impact] in order to accelerate learning across the system,' she said.

The biggest barrier, mentioned by all three interviewees is short-term investment horizons. Short termism is seen as a key element in divorcing the economic system from the social and environmental systems on which it is based. It is also seen as a barrier preventing financial actors from addressing systemic change. 'You can't deal with systemic issues within the context of a short-term mind-set', argued Emma. Sean suggested that short-term attitudes at asset managers are a significant problem. Asset owners tend to think long-term because their liabilities stretch out over the long-term. 'Companies are also much more inclined to long-termism because they are wedded to products, brands and infrastructure that is not liquid.'

So what are the solutions and what is the role for asset managers like WHEB?

While the lack of a business case may be seen as a barrier, both Charlotte and Emma agreed that work on systemic change should be seen as an investment. Charlotte argued that 'asset managers need to devote resources to thinking longer-term and mapping out where the opportunity will be. You can create change that leads to opportunity', she said.

All three interviewees also stressed the importance of purpose and identity. 'If you don't know who you are as an organisation, or you are just a marketing company, you will be pulled around at the whim of politics', said Emma. 'But if you have a clear purpose, you will attract high-quality clients that stay with you for a long time because they buy into your identity and what you offer.'

There was also a strongly held view that asset managers (and indeed all businesses) should listen to and focus more on addressing the needs of all of their stakeholders and not just their shareholders. 'Asset managers have not been in 'receive-mode' nearly enough', was one view.

It was also thought that asset managers should also look to get involved in collaborative initiatives aimed at addressing systemic issues.[61] Because while some of these issues are difficult to address as an individual asset manager, collaborations can help amplify asset managers' voice and are an efficient way of channelling influence.

But it was clearly recognised that other financial actors have critical roles to play. 'We are seeing asset owners recognise that they have to project their voice more', was one view. Investment consultants too were seen as a key 'pinch point' in the investment value chain who could play an important amplification role for asset owners, for example by assessing asset managers on their engagement with systemic issues.

[61] For example groups like the Institutional Investors Group on Climate Change, Pensions for Purpose and the Asset Owner Council were all mentioned.

'Systemic change is really about how you fix a problem by trying to understand root causes rather than symptoms.'

Sustainability at WHEB

05

We believe that private enterprise can be a powerful force for positive change in the world. At WHEB we seek to have a positive impact through both our investment activity and our own operations. We report here on some of the key areas of work that we have undertaken in 2023 and our performance.

Operational GHG emissions

During 2023 we pilot tested new guidance for near-term targets for financial services firms that has been developed by the Science Based Targets initiative (SBTi). We hope to have our own targets validated by the SBTi during 2024. The vast majority of our emissions are related to our portfolio investments (Scope 3 Category 15). These are discussed in our net-zero carbon report (pg 34).

We have no Scope 1 emissions, and our Scope 2 emissions are solely related to electricity use in our London office.[62] The largest source of our operational emissions are Scope 3 emissions and in particular business travel which continues to rebound from the lows we experienced during the COVID pandemic. Our purchased goods and services are our second-largest source of emissions. We discuss these further below. The remainder is made up of emissions associated with our office waste and from employee commuting, including working from home.

Working with suppliers

During 2020 we started engaging with every service provider where we spend more than £10,000 annually and with more than 50 employees. Our objective has been to encourage them to implement progressive policies and practices on ESG, particularly covering their approach to managing their own carbon footprint and setting net-zero carbon targets. We track all net-zero carbon commitments and review progress against these targets.

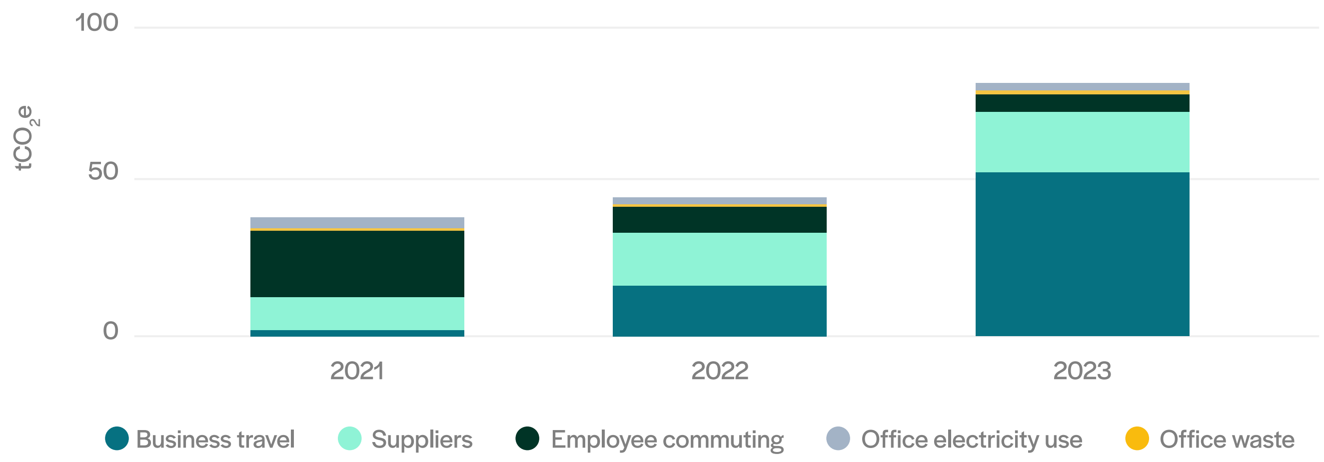
As of 2023, 57% of these suppliers publish their Scope 1 and 2 emissions and had carbon reduction targets, with a further 17% being carbon neutral. We continue to engage with suppliers throughout the year to encourage further disclosure of emissions across our purchased goods and services. Additionally, in 2024 we will be engaging further with suppliers by developing improvement plans for those who have yet to start measuring emissions or set carbon reduction targets. Our target is that by 2030, 80% of our procurement will be from suppliers that have science-based targets and that 100% will be covered by 2035.

62. WHEB purchases Renewable Energy Guarantees of Origin (REGO). The aim of REGOs is to ensure that the energy consumed by WHEB is provided from renewable sources. However, in practice, energy companies can purchase REGOs from renewable energy producers but source the energy delivered to homes and businesses from elsewhere. According to the GHG Protocol, WHEB's market-based emissions are 0. However, since our energy provider, SSE, cannot prove that the energy provided to us is sourced from renewable sources, we report our location-based scope 2 emissions of 1.83 tCO_2e.

Business travel

Business travel unfortunately grew as a source of emissions in 2023. In part this is due to a recovery from lock-down and largely attributable to international air travel. Our overall target is to reduce our Scope 3 operational emissions including business travel by 50% by 2030.[63] Our NZC policy stipulates that business travel of less than six hours must be conducted by train. In 2023 we took 16 journeys by rail instead of flying which saved approximately 7,250 flight kms and saving 1.3 tCO_2e in emissions. We offset all our emissions and continue to explore other ways to reduce emissions associated with business travel.[64]

Figure 26: WHEB's operational GHG emissions (2021–2023)



[63] Scope 3 operational emissions covers Categories 1–14 using 2023 as a base year.

[64] We are offsetting our emissions by purchasing carbon offsets that also help restore biodiversity in the UK. We also enable employees to offset their personal emissions in these projects alongside us. The two organisations we use are https://www.makeitwild.co.uk/ and https://www.wildercarbon.com/

Diversity, equity and inclusion (DEI)

WHEB is a mission-driven business supported by a strong culture and core values that guide our behaviour. We are focused on creating a culture that will support a diverse, equitable and inclusive business and DEI is a frequent topic of discussion within senior management, as well as the wider team. Our approach to DEI is constantly evolving and we are open to feedback from our team and other stakeholders.

Our DEI policy is available on our website. The policy is reviewed and updated regularly to ensure we are meeting the needs of our team and other stakeholders. The last update was in November 2023 when the policy was updated to outline our commitment to DEI and show how we are achieving that commitment with specific actions.

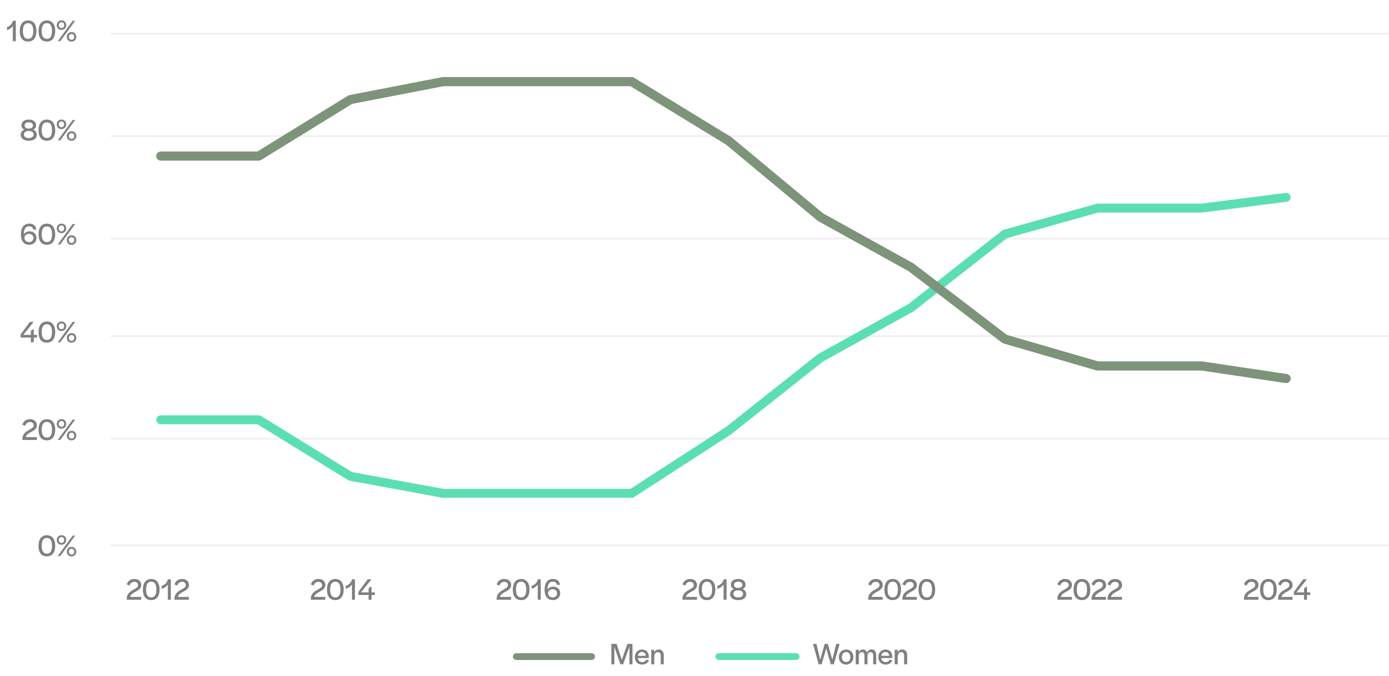
During 2023, we rolled out DEI training across the team, which involved a combination of workshops and a series of interactive online learning modules. The team also completed a DEI survey which has been informing the work we have been doing over the past 12 months. The survey identified areas we need to explore further which will inform our DEI strategy and action plan. For example, neurodiversity was identified as an area for improvement. We therefore organised a lunch–and–learn with a specialist consulting firm focused on neurodiversity in the workplace.

We are pleased to be a founding member of City Hive, the think tank and advocacy group working to build an inclusive investment management industry. We were also one of the founding signatories of City Hive's Action, Challenge and Transparency (ACT) framework, which supports investment companies creating cultural change towards diversity. As part of this initiative, we support a cross-company mentoring scheme focused on ethnicity and race, in addition to broader mentoring schemes. Esther Muschamp, our HR Manager, sits on the City Hive Academy Advisory Committee.

In 2024 we plan to participate in the Asset Owner Diversity Charter as we are keen to help build an investment industry that embodies a more balanced representation of diversity in wider society. We are also partnering with Insight Outreach, a social mobility and education charity that works with youth from disadvantaged backgrounds to help them gain access to top universities.

WHEB currently has 21 team members. In the past three years we have become a predominantly female organisation, with women currently comprising 40% of the Senior Management Team and 80% of our independent Investment Advisory Committee.[65] We have a 50/50 gender split within our portfolio managers, a 60/40 (F/M) split within our wider Impact Investment Team and a 67/33 (F/M) split in the whole organisation.

Figure 27: Gender balance at WHEB (2012-2024)



[65] Laura Grenier currently serves on the Senior Management Team with observer status.

All team members have hybrid working arrangements and the opportunity to work flexibly with 25% of staff being part-time.

WHEB's five core values of Passionate about impact, Integrity, Continuous Improvement, Teamwork and Leadership all support our mission and shape our culture. They help align our people to our purpose and identity and help stakeholders understand how we do business. All team members are assessed against our core values in their annual appraisal.

Charity engagement

At WHEB, we recently established a Charity Working Group, which is putting together a new strategy for how we work with and support different charities and not-for-profit organisations.

Some examples of our charity engagement thus far include:

- Sponsoring Insight Outreach, an education and social mobility charity that works with youth from disadvantaged backgrounds to help them gain access to top universities. WHEB also offers internship opportunities to their student base.
- Engaging the services of The Glasshouse, an award-winning social enterprise employing women prisoners and former prisoners, to provide plants to workspaces across London.
- Creating team volunteering opportunities: charities we have supported include the Felix Project and The Conservation Volunteers.

In addition, we offer two days annual leave for volunteering. One of our team, Claire Jervis, used the opportunity to participate in an investment competition run by Future Asset, which educates girls across Scotland about investment management. Learn more here:
www.whebgroup.com/our-thoughts/budgeupdave-meet-the-future-of-the-investment-industry.

We run regular team events and often these take the form of lunch–and–learns on different topics, including presentations from charities we support.

Being a B Corporation

We have been a certified B Corporation since 2016. Certified B Corporations are leaders in the global movement for an inclusive, equitable, and regenerative economy. This movement brings together a wide range of like-minded organisations that believe that business can and should be a force for good. By harnessing the power of business, B Corps commit to positively impact all stakeholders – workers, communities, customers, and our planet.[66]

In 2022, WHEB was named in B Corporation's 'Best For The World' list. Honoured in the 'Customers' category, we were delighted to be recognised in the top 5% of all B Corps in our size group worldwide for our sustainable business practices, based on an independent, comprehensive assessment administered by the non-profit B Lab. This is the fifth time that WHEB has been recognised as one of the companies creating the most positive overall impact in the Customers category. WHEB made the list thanks to exceptional practices which are embedded in our business mission to advance sustainability and create prosperity through positive impact investments. We are in the process of re-certifying for B Corp status in 2024 and hope to improve our score further in this year's assessment.

66. George Latham WHEB's managing partner serves as an ambassador for B Corporation.

'We have been a certified B Corporation since 2016. Certified B Corporations are leaders in the global movement for an inclusive, equitable and regenerative economy.'

Advisory Committee Statement

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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 assessment considers whether the sustainable investment philosophy is applied consistently in terms of theme definition and stock selection.

The committee is composed of four[67] independent members with expertise in sustainability and in investment and is chaired by WHEB's Non-Executive Chair.

The committee met three times in 2023. Summary minutes of these meetings are published on the WHEB website **whebgroup.com/reporting-impact-investment/advisory-committee-minutes**.

During 2023 the committee reviewed nine new companies that were included in one or more of WHEB's investment strategies. The committee is given access to the impact engine analysis on each of these companies and a chance to question the impact investment team. A summary of these discussions is included in the summary minutes. In each of these cases, the committee concluded that the investment was consistent with the policies and philosophy of the underlying strategies.

The committee also discussed a wider range of topics. In March, members reviewed WHEB's new approach to assessing outcomes in its engagement activities. The committee also discussed whether businesses including both electricity transmission and natural gas pipelines should be investable. In July, the committee discussed the investability of cybersecurity products and services. This conversation was continued in November following additional questions from committee members. Other topics considered during the year included how WHEB should report on the negative product impacts and whether to include 'climate adaptation' as an investment sub-theme in the strategy.

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

The committee also reviewed a late draft of the Impact Report covering the calendar year 2023. Members welcomed the additional clarity provided on WHEB's theory of change and felt the report clearly demonstrates the strength of WHEB's investment process and the company's commitment to positive impact investing. Members also felt that the report was honest about the challenges that remain.

Members however highlighted topics that they felt were unresolved in the report. For example, while direct attribution of improved outcomes to WHEB activities is understood to be very difficult, members are still keen for WHEB to explore more rigorously how positive change might be expected to happen due to WHEB's activities and what evidence is available for that impact pathway.

Impact data was also felt to lack context. More work needs to be done to determine what 'good' looks like, and to complement the data with more stock examples, in their view. Members also felt the report, and specifically the company interviews, underlined the variability in the quality and depth of company data on impact product and service impact.

Notwithstanding these areas for further refinement, committee members felt that the report continues to demonstrate WHEB's position as a leader in impact reporting.

Jayne Sutcliffe,
Non-Executive Chair, WHEB Asset Management

Alice Chapple,
Director, Impact Value, Chair, Investor Watch

Abigail Rotheroe,
External Adviser

Martin Rich,
Chief Executive Officer, Future-Fit Foundation

[67] There were four members of the Committee throughout 2023 with Carole Ferguson stepping down due to term limits in early 2024.

Future outlook

07

Staying the course

One of the features of the sustainability investing market in recent years has been the huge growth in regulation. New reporting requirements from the EU – and shortly in the UK too – have certainly increased workloads. While we have questioned the value of some of these requirements, we do broadly welcome the new regulation. In particular, we think that the UK's Sustainability Disclosure Requirements (SDR) will help clarify the different types of sustainability investment products already available. With a regulatory stamp of approval, we think the market will actively embrace the different flavours of sustainability investments. This will create space for the various blends and combinations to more directly meet differing client needs and appetites.

At the same time, underlying markets have been volatile for WHEB's strategy and for others aiming to deliver positive impact through listed equities. Expectations about the level of interest rates remained a market preoccupation throughout 2023. High interest rates have had a clear negative impact on investor appetite for the mid-sized growth-oriented businesses that WHEB tends to hold in our investment strategies. This has been compounded by dwindling interest in sustainability investing by many asset managers. After decades in the margins, sustainability investing enjoyed its place in the sun through the first two years of this decade. However sustainability was much less prominent in 2023. Instead, alongside interest rates the dominant narrative was – and still remains –the rise of artificial intelligence (AI). This served to turbocharge the performance of the 'mega-tech' businesses like Amazon and Nvidia which we do not believe offer a positive impact on sustainability.

The environmental and healthcare markets in which we invest have their own cycles. These have been particularly volatile in recent years. European heat pump and residential solar sales went from 'hero' after energy prices spiked following Russia's invasion of Ukraine to 'zero' in 2023 as interest rates started to bite. Similarly, healthcare markets have also experienced unprecedented volatility. Sales of diagnostic kits, ventilators and vaccines skyrocketed during the COVID pandemic saving countless lives. But this also led to a decline in sales as the pandemic passed.

We are confident that these markets will return to rude health. We are equally convinced that investor appetite for sustainability investing will also return. The 'ESG tourists' – asset managers that stampeded into that sustainability market just a few years ago – are now packing their bags. Data reported in late January showed that at least US$10 billion had been withdrawn from ESG-focused funds in 2023.[68]

Meanwhile, we plan on staying the course and remain focused on sustainability impact investing. No doubt the tourists will eventually return as markets cycle back in favour of the impactful companies that we continue to support. By then regulatory standards will be higher and early adopters will be established and striving to deliver even stronger social and environmental impacts.

68. https://citywire.com/new-model-adviser/news/great-esg-backlash-green-fund-outflows-in-billions/a2435240

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A summary of investor rights is available at: **https://www.whebgroup.com/impact-investment-funds/sustainable-impact-fund-icav/additional-documents-wheb-sustainable-impact-fund-icav** This is a marketing communication. Please refer to the prospectus and KIID before making any final investment decisions. The decision to invest in the Fund should take into account all the characteristics or objectives of the Fund as described in its prospectus.

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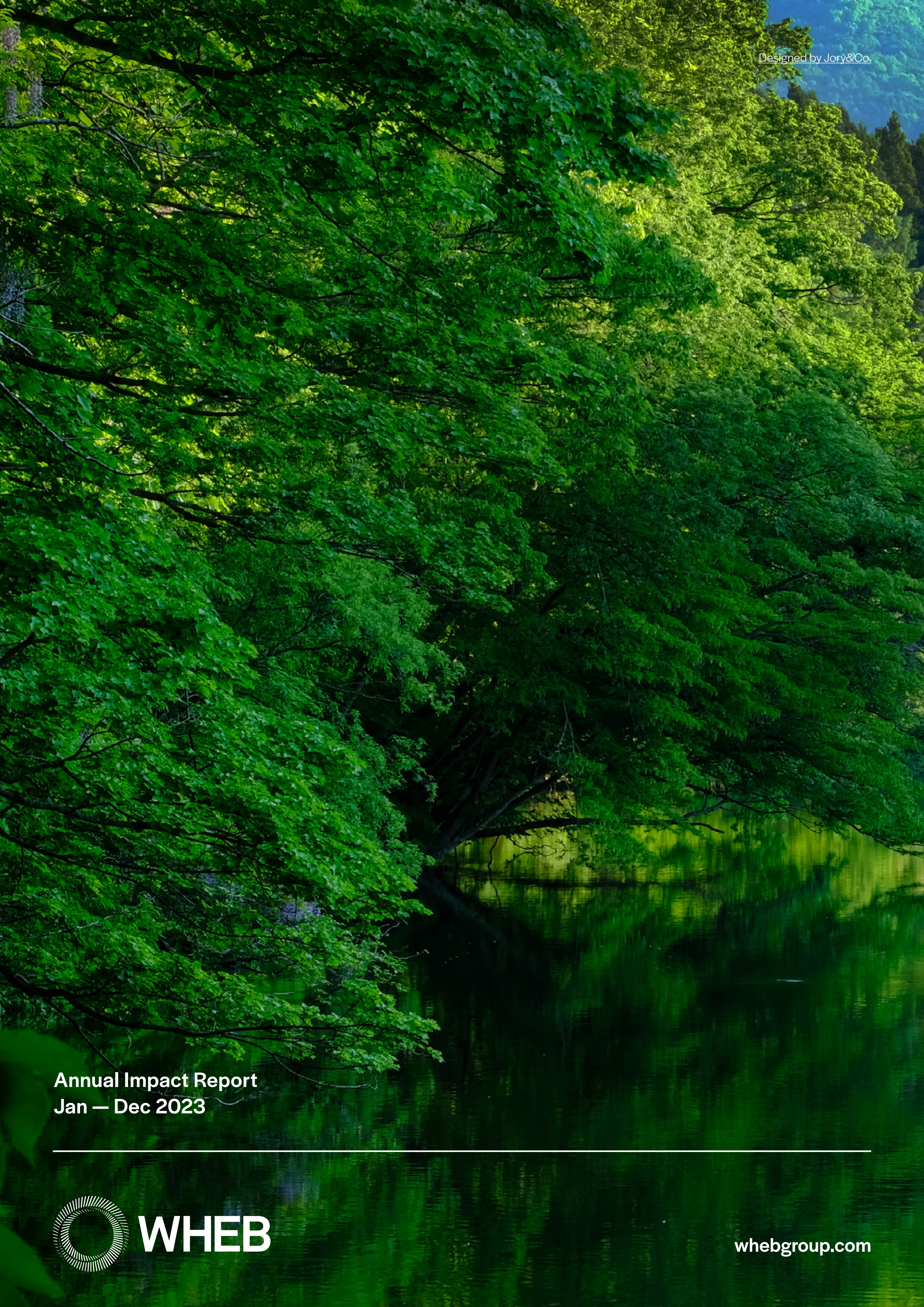

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