

Investment Advisory Committee: Summary minutes

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Attendees:

Seb Beloe (Head of Sustainability Research)
Tim Dieppe (Fund Manager)
Ted Franks (Associate Fund Manager)
Hyewon Kong (Senior Analyst)
Ty Lee (Senior Analyst)

Geoff Hall (Chair)
Tristan Hilgarth (Adviser)
David Lloyd-Owen (Adviser)
Ebba Schmidt (Adviser)

Apologies:

Ben Goldsmith (Internal Adviser)
Nick Robins (Adviser)

What should and should not fit in the fund

A key area that the Independent Advisory Committee focuses on is in defining the boundaries of our investment themes and helping us determine what sort of companies should and should not fit in the FP WHEB Sustainability Fund.

At the October meeting we looked in detail at our Well-being theme as well as our approach to pharmaceutical companies.



Healthy eating

Healthy eating sits within the fund's 'Well-being' theme alongside hospice and elderly care and fitness and recreation. Behavioural patterns are a major determinant of poor health and are responsible for 40% of all premature deaths in the US. Over one third of these premature deaths are directly attributable to poor diet.

The team presented highlights to the Committee of a review of the healthy eating sector. The discussion focused on how to establish what types of food and beverage should qualify for the theme in the context of almost daily publications of scientific studies finding variously positive or negative impacts associated with particular foodstuffs or beverages. WHEB's approach to this complexity is to base our decisions on the official position of health and nutrition bodies in the principal markets in which the fund invests including notably Australia, China, Europe, Japan, the UK and the US.



As a consequence of this approach, several areas including fresh and natural foods, low fat food and beverages, alternative food and beverages for food intolerance (e.g. gluten free), weight loss meal replacement products and organic food and drink are approved for the fund as all are broadly supported by regulatory bodies as having strong health and/or environmental benefits. In contrast probiotics, antioxidants, vitamins and most other nutritional supplements are not able to demonstrate positive health impacts for the general population and consequently have not been approved for the fund.

The committee sees this approach as a sensible way of managing commercial risk and ensuring rigour in the investment process and agreed specifically with our decision to approve organic food but not to approve bottled water as areas for investment for the fund.

The pharmaceutical industry represents one part of our Health theme and remains a controversial industry.

The committee reviewed the holdings in the fund including two new additions to the portfolio.

The Committee also considered three companies that the WHEB investment team had chosen not to approve for the investment.

Pharmaceutical companies

The pharmaceutical industry represents one part of our Health theme and remains a controversial industry that has been subject to significant governmental and stakeholder scrutiny over many years. WHEB's approach to this sector is to focus on companies that get at least one third of their revenues from treatments that tackle global health priorities as defined by the World Health Organisation and other multilateral organisations.



Specifically, this includes infectious and communicable diseases such as HIV/Aids, malaria and TB, and chronic non-communicable diseases such as coronary heart disease, diabetes, cancer, stroke/cerebrovascular and respiratory diseases such as asthma. In addition, we also include areas covered by the Millennium Development Goals including maternal and reproductive health, child health, and neglected tropical diseases.

We see these areas as sources of real need that will enjoy the support of regulators and public health authorities for many decades. We are though conscious of the inherent sensitivities in the appropriate use of pharmaceuticals, and therefore apply strict criteria in assessing how pharmaceuticals are marketed and promoted.

The Committee was broadly comfortable with this approach though raised questions about the expected growth rate in demand for healthcare given growing equality in many societies and the extent to which global health priorities might change. They also stressed that any approach needs to be based on common sense within the context set by the guidelines.

Portfolio Holdings

The committee reviewed the holdings in the fund including two new additions to the portfolio. The first of these is a company called EnerNOC which is a leading 'demand response' and energy services provider based in the US. The company's main business is in linking utilities and grid operators with commercial & industrial businesses who are willing and able to postpone their energy consumption and offer this back to the grid as 'spare' capacity. Known as 'demand response' this approach can help to reduce overall energy demand at virtually no additional cost to the system and is very popular in the US.

EnerNOC fits in the Resource Efficiency theme and also provides energy efficiency, energy analytics, energy procurement, and emissions tracking and trading services. At the beginning of 2013, EnerNOC had 9GW of demand response (DR) capacity in its network and is hoping to expand its services in the US and internationally.



The second business that has been bought into the fund is a company called Varian Medical Systems which fits in the Health theme. The company makes equipment that uses radiation technology. The biggest part of its business is radiation therapy for Oncology, but it also makes X-ray equipment and operates in some smaller niches such as security scanners. The Committee agreed that both these holdings represented suitable additions to the fund.

The Committee also considered three companies that the WHEB investment team had chosen not to approve for the investment. These included a company making massage chairs which was not approved on the basis that there is no recognised therapeutic benefit associated with massage chairs and a Chinese education company that does not allow voting at its Annual General Meetings. Again the Committee agreed that these were not appropriate investments for the fund.

One area where the Committee asked the investment team to do further work was on a UK-based chemical business that uses renewable feed-stocks for two thirds of its raw materials. The Committee recognised the potential value of this in developing a lower footprint chemical industry but encouraged the team to compile clearer evidence of the environmental benefits of using renewable raw materials in preference to fossil hydrocarbons.





Any other Business

The committee reviewed the Quarterly Voting & Engagement report as well as the portfolio risk report and quarterly client report and had a brief discussion on whether to focus the next meeting on a particular topic that would be of value to the investment team.

The committee believe that the key focus should be on the implementation of the investment themes and how these get interpreted for the fund.

Beyond this core focus, the committee would be interested in understanding WHEB's approach to communication and

engagement with investors as well as how WHEB engages with public policy issues. They recommended that in future the team should also develop a framework or 'provocation' to encourage discussion of wider strategic questions facing the fund's investment themes.

The next Committee meeting will take place in January 2014.

Investment Advisory Committee Members



Ben Goldsmith:
Co-founder of WHEB
Group



Nick Robins:
*Head of HSBC's Climate Change
Centre of Excellence*



Geoff Hall:
Chairman of WHEB Asset
Management. Former Chief
Investment Officer at Allianz
Insurance Plc



Ebba Schmidt: Investment
Manager at the UK Pension
Protection Fund (PPF)



Tristan Hillgarth:
Former CEO Invesco
Europe, and Head of
Jupiter Private Clients



David Lloyd Owen:
Waster and Water Industry
Consultant