



WHEB

April 2014

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)
Nick Robins (Adviser)

Apologies:

Ben Goldsmith (Internal Adviser)
Ebba Schmidt (Adviser)

Performance update

The meeting started with an update on the performance of the fund, the WHEB business and our last quarter's voting and engagement report. Committee members were very interested to hear the detailed engagement case studies of Emerson and Orpea and were particularly supportive of our willingness to sell our holdings in Emerson Electric after a protracted period of engagement.

Committee members remarked that nine out of 13 engagements in the quarter appeared not to have had responses. The team pointed out that this was due to these engagements being quite recent and that several of our letters had subsequently been responded to. Committee members also suggested that even where there was no response, it is likely that the engagement is having an impact in clearly demonstrating investor interest in these issues.



Investment Theme Reviews

We updated the committee on our recent theme reviews and the positioning of the fund in these areas.

Cleaner energy: Solar PV

Solar photovoltaic energy has been an extremely difficult place to invest in over the past few years. The sector went from being a top performer in 2006-2008 to being one of the worse performing sectors in the market in the subsequent four years with the share prices of most companies losing more than 90% of their value¹. A key reason for this roller-coaster performance was the massive oversupply of panels in the market and as a consequence, module prices have come down by more than 80% over this period and accelerating the number of regions around the world seeing the development of unsubsidised solar.

Meanwhile demand for solar panels has increased year on year from under 7GW installed globally in 2008 to 36GW installed in 2013³. 2014 will be another record with some analysts forecasting installations totalling 48GW⁴.

The industry structure has changed significantly as well. The supply/demand equation is much more balanced in 2014, consolidation among module manufacturers has started and many of the surviving businesses have diversified by launching downstream project development activities as well. The market is also much more diversified geographically with China, Japan, the US and even the UK now overtaking Germany in annual installations.



¹ Bloomberg

² Ibid

³ European Photovoltaic Industry Association, 2013

⁴ Roth Capital

We remain tremendously excited about the future for solar PV but valuations of some companies have become excessive.

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

There still remain many challenges for the sector though. Policy issues are still important. Most markets are still dependent on subsidy, and trade barriers also represent a threat. There is also very variable quality within the sector. Some businesses have yet to address key environmental, health and safety issues in their manufacturing processes and many remain heavily indebted with negative net margins in some cases.

Overall, while we remain tremendously excited about the future for solar PV, we believe that the valuations of some companies has become excessive and that others remain vulnerable through high levels of debt.

We have initiated a small position in **Canadian Solar**, a company with a more robust balance sheet and good exposure to downstream project development and also have indirect exposure to growth in the solar industry through ABB which owns a solar inverter business, Schneider Electric and China Longyuan. We believe that growth will remain robust in the sector and will monitor opportunities that arise once valuations become more reasonable.

Portfolio Holdings

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

We initiated a holding in **A.O. Smith Corporation** a leading provider of innovative, energy-efficient products to heat and clean water. The company fits in our resource efficiency theme and is a leading manufacturer of residential and commercial water heating equipment and boilers, offering a comprehensive line featuring the best-known brands in North America and China. It also manufactures water purification products for residential and light commercial applications.



ASSA ABLOY

The World's Leading Lock Group

We also started a position in Assa Abloy in our Safety theme. Assa Abloy designs and manufactures security locks. The Company markets mechanical locks, industrial locks, and electromechanical and electronic locks for doors and windows, and hotel locks, fittings, and other accessories. We also reviewed the safety theme with the Advisory Committee (see below).

A third new holding that we started a position in during the quarter was Rockwell Automation in our resource efficiency theme. Rockwell provides products and services which make factory operations more efficient and less wasteful. These include hardware such as drives and motors as well as switches and monitoring equipment which control the larger factory equipment; software and middleware to control hardware; and services around design and implementation.

Rockwell Automation



Finally, we started a holding in Xylem, Inc. in our water management theme. Xylem designs and manufactures equipment and provides services for water and wastewater applications addressing the full-cycle of water from collection, distribution, and use to the return of water to the environment.

The committee were comfortable with three of these additions and we had further discussion of Assa Abloy as part of a broader review of our safety theme (see below). We also agreed to highlight at the next meeting the companies that we sell in the period for the committee to review.

Defining the boundaries of the safety theme

One of the nine themes that make up the FP WHEB Sustainability fund is safety. Fundamentally, 'safety' is defined around the safety of the individual focusing in particular on companies that provide products or services that protect the individual. As a consequence our focus is on personal safety rather than the protection of property per se. Using this definition, the theme includes companies that manufacture and sell personal protective equipment (PPE), sanitation and sterilisation service, testing, inspection and certification (TIC) services as well as commercial, residential and automotive safety and data and cyber security.

Homeland security and 'defense' are not included in our definition of safety.

The team decided that the safety theme should be focused explicitly on companies providing products and services that directly address the health and safety of people

Sectors such as homeland security and 'defense' which might also be considered to fit within a 'safety and security' theme are *not* included in our definition of safety (see figure below).

These businesses benefit from a range of underlying trends including increasing standards of health and safety regulation, globalization of supply chains, growing industrial activity in extreme environments, urbanization and a growing middleclass and technological developments.

Growth rates across the different sub-themes vary but are all significantly above average GDP growth rates. For example, the global automotive safety market is forecast to grow at 6.6% CAGR from 2011-2015 and parts of the TIC market (such as food testing) are growing at >10% per annum.

Committee members broadly endorsed the inclusion of a safety theme in the fund and agreed that a focus on personal safety was the appropriate way of defining the theme. The discussion focused on whether aspects of residential, commercial safety and cyber security were consistent with this definition (for example door locks).

Committee members had mixed views on this issue with some arguing that these applications fit a safety theme and others less convinced. All agreed though that we should be clear about the boundaries of the theme.

The WHEB team has subsequently met to reconsider the boundaries of the theme in light of the advisory committee discussion and have decided that the safety theme should be focused explicitly on companies providing products and services that directly address the health and safety of people. We will consequently review the portfolio to ensure all companies in the fund and in the investment universe clearly meet this standard and will report back on our conclusions at the next committee meeting.

'Sub-themes' within the safety theme



Other business

We agreed that we would reduce the frequency of the meetings to a three times a year schedule and that the next meeting should include a discussion about the implications of the divestment campaign for our fund and the wider market. The meeting is scheduled for 23rd July.

Investment Advisory Committee Members



Ben Goldsmith:
Co-founder of WHEB Group



Nick Robins:
Co-Director, UNEP Inquiry into the Design of a Sustainable Financial System



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

⁵ World Health Organisation
⁶ Bank of America Merrill Lynch