



WHEB

October 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)
Clare Brook (Founding Partner/Adviser)

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

Apologies:

Nick Robins (Adviser)
Ebba Schmidt (Adviser)

Team update

A number of changes to the WHEB team have been made in the past few months including the decision by Clare Brook to resign from WHEB and take up a senior management position at the Blue Marine Foundation, a group that is campaigning for an end to overfishing. Clare will however remain an equity partner in WHEB and will also take up a position as an Adviser on the Investment Advisory Committee. The Committee thanked Clare for all that she has done for WHEB in her role as founding partner and welcomed her on to the committee.

In addition to Clare's changing role, Hyewon Kong, a Senior Analyst on the team has also left to take up a position in Toronto and Jade Summer, investor relations for WHEB Group has also left the company. The team does not plan to replace either Hyewon or Clare but has appointed a new Business Development Assistant who will start in November.

Fossil fuels, Stranded Investment

The committee discussed recent developments in the fossil fuel divestment campaign as well as related research focusing on the potential for fossil fuel assets to become 'stranded' by regulation and/or market dynamics.

The committee's view was that both divestment as a campaign and the 'stranded assets' analysis creates opportunities for funds, such as the FP WHEB Sustainability Fund, which do not hold any shares in fossil fuel companies. However, Committee members also stressed that the investment case associated with stranded assets research was essential in underpinning the argument to move away from investment in fossil fuel businesses. The divestment campaign, in contrast, is more suited to campaigning organisations focused on asserting the moral case for fossil fuel divestment. WHEB's role should be focused on demonstrating the viability of investing in areas of the market that do not include fossil fuels. Moral judgements on whether this is the 'right' thing to do, should be left to campaigners, they advised.



Impact investing: Delivering positive impact through investments

Since the last Advisory Committee meeting, the fund has been successfully registered on the Global Impact Investing Network (GIIN) database of impact investment funds as one of only two listed equity funds¹. The committee discussed the fund's profile as an impact fund including the importance of 'intentionality' behind the fund's investment process: that every investment is made because of its positive social and environmental impact.

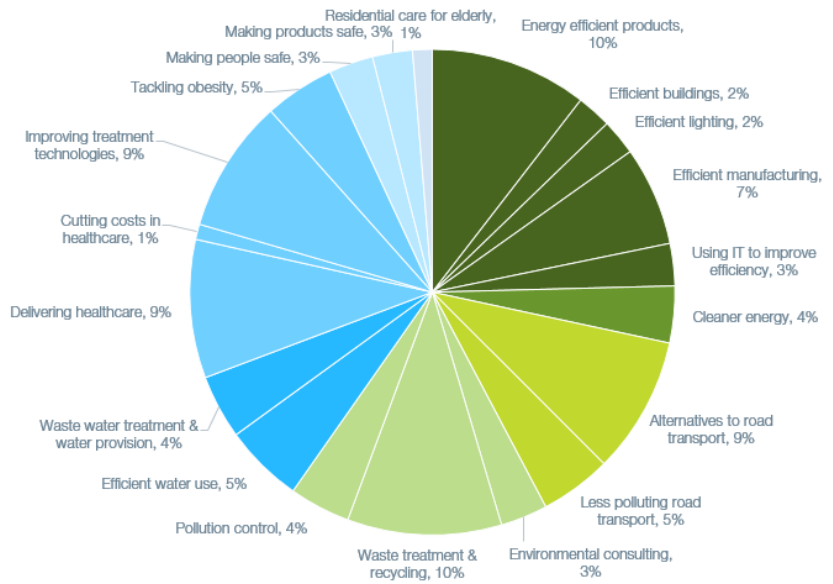
Measurement of the positive impact of the investment fund is another criterion that characterises positive impact investments. The Committee discussed a new chart aimed at describing more accurately the positive impact of the fund and concluded that this chart (see over) helped to present this impact more clearly.

¹ See <http://www.impactbase.org/>

FP WHEB Sustainability Fund: End market impacts

Legend:

- Resource Efficiency
- Cleaner Energy
- Sustainable Transport
- Environmental Services
- Water
- Health
- Safety
- Wellbeing
- Education



Source: Bloomberg, Data as of 30 September 2014

One area where the committee felt that further clarity could be provided was in the definition of 'Less polluting road transport'.

One area where the committee felt that further clarity could be provided was in the definition of 'Less polluting road transport'. The team confirmed that companies held in this part of the fund included BorgWarner, Johnson Controls and Johnson Matthey. Each of these businesses produces automotive components that help to reduce harmful emissions from road vehicles. Committee members suggested that it is important to ensure that companies in this area genuinely reducing pollution rather than providing minor tweaks to automotive technology that ultimately have minimal positive impact. It was also suggested that the chart should be reproduced reflecting actual revenues rather than just the level of investment in the fund.

Portfolio Holdings

Because it had been six months since the previous Advisory Committee meeting (the interim meeting had had to be cancelled), we had an unusually long list of new fund holdings to discuss. We have provided brief summaries of each of the companies below as well as the subsequent discussion with Committee members.

Constellium (Sustainable Transport)	Constellium N.V. manufactures aluminium products for the aerospace, automotive and packaging markets. The company produces a variety of plate, sheet, extrusions and precision casted products that are used as an alternative to heavier steel as a way of reducing weight and increasing fuel efficiency.
CT Environmental (Water Management)	CT Environmental is a Hong Kong listed water utility that provides wastewater treatment and industrial water supply services for industrial parks in China. The group is involved in the planning and design of water treatment facilities as well as the construction, operations and maintenance of the facilities.
Dassault Systèmes (Resource Efficiency)	Dassault Systèmes sells a portfolio of products that enable companies to design, simulate and optimize products. Dassault's software applications allow businesses to digitally define and simulate products, as well as the processes and resources required to manufacture, maintain and recycle them, while minimizing their impact on the environment.
Johnson Matthey (Sustainable Transport)	Johnson Matthey is a specialist UK chemical business that manufactures catalytic control technologies for the reduction of automotive exhaust emissions. The company also has businesses developing technologies for stationary sources of emissions such as power stations as well as smaller businesses recycling precious metals and manufacturing fine chemicals for pharmaceuticals.

While confirming that they felt all holdings clearly fitted the overall profile of the fund, committee members urged the team to ensure that thematic exposure was as genuine as possible.

The Committee noted the poor response rate of Chinese companies and suggested that the team consider alternative strategies to try and engage companies headquartered in China.

Kingspan (Resource Efficiency)	Kingspan is a leading supplier of building materials and solutions that reduce energy consumption in residential and commercial buildings. The group's main activities are the manufacture of insulated panels, rigid insulation boards, raised floor access floors, environmental management systems, sustainable water and renewable energy solutions.
Littelfuse (Safety)	Littelfuse supplies circuit protection products for the electronics, automotive and electrical industries. It manufactures and sells fuses and other circuit protection devices for use in the automotive, electronic, and general industrial markets.
Murata Manufacturing (Resource Efficiency)	Murata manufactures ceramic applied electronic components. The company's products include filters, capacitors, thermistors, resistors, sensors, and hybrid integrated circuit components. Murata's components help reduce tablet weight, reduce smartphone power consumption and improving energy efficiency.

Committee members were supportive of the exposure to industrial waste water in China which is considered to be a profitable and growing market and quizzed the team on the engagement work that we have done with Johnson Matthey². While confirming that they felt all holdings clearly fitted the overall profile of the fund, committee members urged the team to ensure that thematic exposure was as genuine as possible.

Other Business

The committee discussed a range of other issues including congratulating the team for the latest Voting and Engagement Report which indicated that nearly 20% of all company engagement is considered to have resulted in a successful outcome. The Committee noted the poor response rate of Chinese companies and suggested that the team consider alternative strategies to try and engage companies headquartered in China.

The committee also heard brief summaries of two recent theme reviews focused on lightweighting materials in the automotive and aerospace industries and in IT in Healthcare. Constellium NV is one of the recent additions to the fund that was selected following the lightweighting theme review.

Committee members suggested that a future theme review should focus on disease prevention given stretched healthcare budgets in many countries.

It was also agreed that in future the Committee would meet every four months rather than every three months.

Responsible Investing: Engagement Report Q3 2014

Introduction
In this edition of our Engagement report we have repeated our annual assessment of the impact that our company engagement work is having. Overall we feel that our work in being responsible investors with many areas in the engagement proving successful, and with a further third of our rating in partial success. We have also returned focus with our engagement work over the Chinese and Japan parts of these reports. This has included work with the US waste management business Stericycle and was with a group of foundations aimed at encouraging them to adopt a more proactive stance on positive sustainable impact investing.

What impact has our engagement had in 2013-14?
The answer, as before, has been one of success. Our engagement work has been a significant and visible part of equity investing. In part this has been driven by the development of our proprietary tools such as the UK's Responsibility Code, and partly because of wider support for more responsible approaches to investment generally as a case, for example, for the UK's Principles for Responsible Investment (UKPRI).

2013-14 Engagement activity (2013-15)

Successful	19% (13%)
Partially successful	36% (44%)
Unsuccessful	45% (43%)

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Investment Advisory Committee Members



Clare Brook:
CFO, Blue Marine Foundation



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

² See WHEB's Voting and Engagement reports at <http://www.whegroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/>