



Investment Advisory Committee: Summary minutes

Ted Franks has been promoted to Co-Manager of the FP WHEB Sustainability Fund alongside Tim Dieppe.

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Attendees:

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Seb Beloe (Head of Research)
Tim Dieppe (Fund Co-Manager)
Ted Franks (Fund Co-Manager)
George Latham (Managing Partner)
Amal Weatherill (Intern)

Geoff Hall (Chair)
Clare Brook (Adviser)
Kelly Clark (Adviser)
David Lloyd-Owen (Adviser)

Apologies:

Ebba Schmidt (Adviser)
Nick Robins (Adviser)

Reporting team changes to the Investment Advisory Committee

George Latham provided an update on recent developments at WHEB Asset Management including on changes to the team which included the decision to promote Ted Franks (pictured below) to Co-Manager of the FP WHEB Sustainability Fund alongside Tim Dieppe. Ted is a Partner and currently Associate Fund Manager at WHEB Asset Management and has played an integral role in developing the Fund and WHEB's investment process as it stands today.

In time, Tim Dieppe plans to retire from the investment industry having enjoyed a successful career spanning over 20 years. He will remain with WHEB Listed Equity until the end of March 2016, after which he plans to pursue a long held ambition to work in Christian ministry. Ted will become the fund manager for the FP WHEB Sustainability Fund following Tim's departure.

The plan is to recruit an additional investment team analyst over the next few months and to bring on-board a new operations and finance manager who will manage these areas of the business alongside George Latham.

George also updated the Advisory Committee on business development including the recent performance of the fund which has been good, steady growth in the fund size, which stands at over £90m, and the prospect of a significant new client in a segregated account.

The team expressed their thanks to Committee member David Lloyd Owen who provided one of the two external presentations at the Annual Investor Conference in May. The conference was very well-received with approximately 50 investors and potential investors attending. Feed-back has been very positive with participants valuing the opportunity to hear more about key issues in sustainability investing and to meet and quiz the investment team on the fund's strategy and performance..



Changes to the investment portfolio

The committee reviewed the sale from and additions to the portfolio over the past four months focusing in particular on whether new holdings represented suitable additions to the fund.

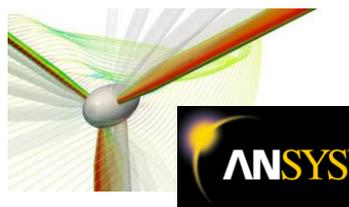
The sales over the period included ABB, Arcadis, Pall Corporation and Pentair. Pall was sold because it received a bid approach from Danaher (another portfolio holding) and the others were sold because of reduced conviction.

ABB was highlighted as a very large company (US\$50bn market capitalisation) that has good exposure to a number of environmental themes including resource efficiency, cleaner energy and sustainable transport. However, these strong growth drivers have for the last few years been outweighed by lacklustre growth in its more traditional electrical engineering business.

Committee members held a brief discussion on each stock, and concluded that all were suitable stocks for the fund.

Company (theme/country)	Description
Ansys (Resource efficiency/US)	Ansys develops simulation software used in product design analysis and optimisation. The company's software reduces production costs and optimises product quality and safety for manufactured products such as fuel efficient cars, wind turbines and medical and consumer products.
Henry Schein (Health/US)	Henry Schein is a healthcare distributor with two-thirds of its revenues coming from the distribution of dental products and the remainder coming from other medical and veterinary products.
Lennox International (Resource efficiency/US)	Lennox provides heating, air conditioning and refrigeration products and services in North America. The company makes boilers, air conditioners and heat pumps and has a particular focus on high efficiency products.
Norma Group (Sustainable transport/Germany)	Norma manufactures clamps used in cooling, air intake and emission control systems in the transport industry. The majority of the company's sales are used in emission control systems in the automotive industry.
United Natural Foods (Well-being/US)	United Natural Foods is the largest distributor of natural, fresh and organic food and non-food products in the United States and Canada.

Committee members held a brief discussion on each stock, exploring the nature of each company's exposure to the themes, and concluded that all were suitable stocks for the fund.



Committee members were also interested to understand the fund's positioning on the Transatlantic Trade and Investment Partnership

(TTIP), an initiative to reduce regulatory barriers to trade between the US and EU markets. The proposal has been criticised as being undemocratic and subject to intense corporate lobbying. WHEB has not issued any formal statements on TTIP, but does take an interest in the lobbying activities of companies in the portfolio. This has typically focused on lobbying in relation to climate change, but we agreed to talk further with interested committee members on our work in this area.

ESG Integration in the investment process

The integration of environmental, social and governance (ESG) data into investment activity has been a critical part of on-going efforts to make financial markets more sustainable and responsible. Groups such as the UN Principles for Responsible Investment (UN-PRI) have helped give this issue higher profile in recent years and it has become a core objective for managers to better integrate ESG into their investment processes.

WHEB believes that integrating ESG data into stock selection and wider fund management can improve investment performance by helping identify high quality investments. Seb Beloe presented a discussion paper on WHEB's approach to and experience of ESG integration and posed a series of questions for committee members on how to further improve this.



WHEB emphasised that 'ESG' analysis is used to help select companies from within the investment universe provided by the sustainability themes. These themes provide the growth universe, while the ESG analysis – as part of fundamental stock analysis – is used to help identify quality companies. Valuation methodologies are then used to ensure that stocks are not over-valued relative to this analysis

Unlike many other sustainable investment funds, the ESG analysis is not separate from the fundamental analysis of companies but is a fully integrated part of the core stock analysis process. This means that the fund does not 'measure' ESG separately and does not generate explicit ESG scores.

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The committee commended the Annual Impact Report’s content and design and felt that the methodology for describing the positive impact of the WHEB fund was a good.

The Committee held an initial discussion of WHEB’s approach focusing on the following key points:

- The WHEB methodology is focused on the relevance of ESG issues to the commercial health and success of a given businesses. This was seen as appropriate – perhaps even essential – and much preferred to an ethical focus. As one committee member put it, the issues are not seen as ‘prime-time’ if there is no commercial focus.
- Committee members did though wonder if there were any ‘red-lines’ of ethical behaviour that would be required. WHEB said that the most high profile issues tend to be less relevant because the fund is not invested in controversial industries. However, on occasion the investment team has rejected investment ideas because of egregious performance on an ethical issue which it is believed might impact upon the company’s reputation or ability to do business. This has included issues over executive pay, poor ethical standards and involvement in nuclear weapons testing.
- There was also some discussion of the best way to report on the degree and effectiveness of ESG integration in the investment process. This built on comments from the previous Committee meeting and it was suggested that this could be done through narrative reporting, particularly by contrasting company performance in the WHEB fund with poor performance across the market more generally.
- Committee members also stressed the importance of using agreed standards in assessing ESG performance in companies. Members highlighted in particular the ISO standards that have been developed on a range of environment, health and safety issues.

We agreed to revisit this topic at the next meeting to explore further the strengths and limitations of WHEB’s approach.

WHEB’s Impact Report

The committee also held a brief discussion about WHEB’s Impact Report¹. The committee commended the report’s content and design and felt that the methodology for describing the positive impact of the WHEB fund was a good. The methodology maps company-level impacts ranging from the negative ‘degenerative’ and ‘depleting’ impacts on the one hand to positive ‘mitigating’ and ‘breakthrough’ on the other. WHEB’s funds only invest in companies that are providing products and services that qualify in the mitigating and breakthrough categories.

Committee members wondered what proportion of the fund sits in the ‘mitigating’ versus the ‘breakthrough’ categories and argued that all themes in the fund should have impact measures associated with them. WHEB agreed to report back at the next meeting on the proportion of portfolio companies that are in the mitigating and the breakthrough categories. The current report covers three of the fund’s nine themes and includes a commitment to develop measures for the remaining six themes. However, it was also pointed out that most companies still do not report impact data themselves – and if they do, this is rarely in a form that can be aggregated at a fund-level.

Other business

Committee members were keen to see how the fund is currently exposed to the nine different social and environmental themes and requested that this be made available for every meeting. The committee also expressed an interest in seeing the list of priorities for further thematic research that the investment team plans over the next period.

The investment team explained that the next theme review is focused on the solar power sector – focusing in particular on downstream developers of solar power infrastructure. They agreed to provide the full list of research priorities and a full break-down of thematic exposure in the fund.

The next meeting is scheduled for the 22nd October.

¹ ‘Reporting Impact, WHEB, May 2015



Investment Advisory Committee Members



Clare Brook:
CEO, Blue Marine
Foundation



Nick Robins:
Co-Director of a 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)



Kelly Clark:
Director of the Tellus
Mater Foundation



David Lloyd Owen:
Waste and Water Industry
Consultant