



WHEB

Investment Advisory Committee: Summary minutes

A growing proportion of investors are exploring the prospect of divesting from fossil fuel-based businesses.

There have been three additions to the portfolio since the last meeting; two in the 'Health' theme and one in 'Sustainable Transport'.

Attendees:

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Seb Beloe (Head of Research)
Tim Dieppe (Fund Manager)
Ted Franks (Fund Manager)
Ben Kluftringer (Senior Analyst)
George Latham (Managing Partner)
Ty Lee (Associate Fund Manager)

Geoff Hall (Chair)
Clare Brook (Adviser)
Phineas Glover (Adviser)

Apologies:

Nick Robins (Adviser)
Rachel Crossley (Adviser)
Kelly Clark (Adviser)

What should 'fossil fuel free' mean?

A growing proportion of investors are exploring the prospect of divesting from fossil fuel-based businesses and investing in companies providing solutions to sustainability challenges. There is however great confusion as to what exactly 'fossil free' means. As suggested at the last meeting of the Advisory Committee, WHEB co-hosted an expert working group to consider this issue alongside the Sainsbury's Family Charitable Trust and the US foundation, As You Sow.¹

Seb Beloe, Head of Research provided the committee with a brief report on the outcome of this meeting. One key message was that any definitions should be clear and simple and that, given nothing is completely fossil fuel free, the approach should be pragmatic, but cast in such a way as to capture the most critical fossil fuel related industries.

Building on work by As You Sow, the group suggested adopting 'basic' and 'extended' definitions with 'basic' covering the world's largest 200 oil, gas and coal companies² and the 'extended' category covering a broader group of industries including refining, oil field services as well as fossil-fired utilities. It was pointed out that this last category would also include leading renewables developers who also own some thermal power stations. Some participants argued these companies ought to be seen as a special case as they are clearly transitioning to a lower carbon economy.

The committee was encouraged by this work and suggested that the group's recommendations, along with the team's work on ESG integration³, be disseminated more broadly.

Changes to the investment portfolio

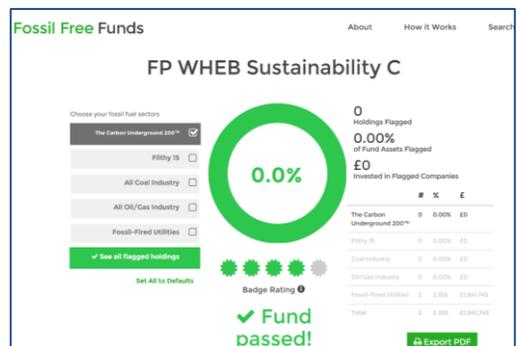
The committee reviewed the additions to and sales from the portfolio over the past four months, focusing in particular on whether new holdings represented suitable additions to the fund.

There had been three additions to the portfolio since the last meeting and five sales. The three new purchases, which we summarise below, included two companies in our Health theme which is now our largest theme. The committee considered all three companies to be consistent with the philosophy of the fund.

¹ <http://www.asyousow.org/>

² Also known as the carbon underground 200 (<http://fossilfreeindexes.com/research/the-carbon-underground/>)

³ For example see <http://www.whebgroupp.com/just-what-is-the-point-of-esg/>





The Advisory Board Company is a consulting business focused on the US health care and education industries. The company works with clients in these sectors to identify and promulgate best practices in strategy, operations, and general management. The company fits into our 'Cutting costs in healthcare' sub-theme within the Health theme.

Baxalta is a global biopharmaceutical company that develops, manufactures and commercialises health therapies. The company was spun-out of Baxter and focuses on drugs for treating orphan and underserved disease conditions in haematology, immunology and oncology. The company fits in our 'Preventative healthcare' sub-theme within the Health theme.



Hella is a Germany-based automotive supplier with a specific focus on high-efficiency LED lighting and electronic products. The principal focus of the company's products are on improving fuel efficiency and safety. LED lighting for example can reduce total automotive CO₂ emissions by 1-3% while improving safety.⁴ The company is in our 'Less polluting road transport' sub-theme within our Sustainable Transport theme.

Sales from the fund over the period included five companies. Geberit (Water Management) has performed well and was sold on valuation grounds while LKQ (Environmental Services) has also performed well but has adopted a new strategy and no longer fits within the Environmental Services theme. Newalta (Environmental Services), Omron (Resource Efficiency) and Umicore (Environmental Services) were all sold because of reduced conviction.

WHEB's Philosophy

The WHEB team has grown significantly in recent months with three new joiners at the end of 2015 and further recruits planned for 2016. As part of the company's efforts to establish a clear mission and philosophy, the team has developed a new mission statement which they shared with the committee. WHEB's mission statement is: 'To advance sustainability and create prosperity through positive impact investments'.

The committee welcomed the initiative and encouraged the team to communicate the statement to both internal and external audiences. They welcomed the brevity of the statement, though suggested that it would benefit from additional context to interpret and clarify some of the terminology.

The committee were also pleased to hear that WHEB is applying to become a 'Benefit corporation'.⁵ This requires the company to amend its partnership deed to make it clear that creating positive impact on society, employees, the community and the environment in addition to generating a profit, are the company's legally defined goals. WHEB hopes to submit its application during the Spring 2016.



Red-line Voting

The final topic that the committee discussed was WHEB's involvement in a recent initiative of the Association of Member Nominated Trustees (AMNT). The AMNT represents trustees of pension funds that have been nominated by their colleagues. The organisation has been keen to encourage asset managers to become more proactive in engaging with corporations and pushing them to adopt more progressive practices on environmental, social and governance issues. To this end they launched their so-called 'Red Line Voting' initiative which sets out detailed guidance for asset managers on how to vote at company meetings where practices do not meet the standards set out in the guidelines.

WHEB has agreed to trial The Red Lines voting instructions at company annual general meetings in 2016 and to report back to the AMNT on our experience with them. The committee was broadly in favour of the

⁴ For example see <http://www.bbc.co.uk/news/business-16215106>

⁵ For more on Benefit Corporations see <http://benefitcorp.net/>

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initiative which they saw as an important intervention to incentivise asset managers to adopt a more assertive position with companies on key ESG issues. However the committee did also raise a number of concerns including that:

- The red lines are quite ‘heavy handed’, as one committee member put it, which could prove quite onerous on asset managers;
- The ‘comply or explain’ provision is critical as the red lines are prescriptive in a way that might not always be appropriate for all companies;
- Ultimately the asset manager has discretion over how the votes are cast and should vote in a way that benefits their clients – this should be clearly communicated to clients whether they support red line voting or not.

The committee looks forward to the team reporting back on their experience at the next Advisory Committee meeting.

A Welcome and two farewells

Although she was unable to attend, we welcomed our newest Advisory Committee member Rachel Crossley to the Committee. Rachel has been active in the investment world for twenty-five years having worked in the sustainable and responsible investment teams at ISIS Asset Management (now BMO Asset Management) and Insight Investment. Rachel has also worked at the Global Impact Investing Network and the Access to Nutrition Foundation.



Rachel replaces David Lloyd-Owen on the committee. David has been our longest standing committee member and the WHEB team and committee members thanked him very much for his long and loyal service.

The meeting was also the final advisory committee meeting for Tim Dieppe who was the original fund manager of the Industries of the Future Fund at Henderson and has been the fund manager at WHEB since joining in 2012. The Committee wanted to record their thanks to Tim for his outstanding contribution to the company and frank and open engagement with the committee. Tim has handed over lead fund manager responsibilities to Ted Franks and leaves the company at the end of March to pursue his interests in Christian ministry.

Finally, we wanted to record that our former committee member Ebba Schmidt very sadly passed away at the end of November. A memorial service was held for Ebba at the end of January and an obituary is available at https://www.responsible-investor.com/home/article/obituary_ebba_schmidt/

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 CIO at Allianz Insurance Plc



Phineas Glover:
Senior Adviser, The Investor Forum, Investment Association



Kelly Clark:
Director of the Tellus Mater Foundation



Rachel Crossley
Founder of Broadwaters Consulting, Advisor to the Access to Nutrition Foundation & Oxfam