



Investment Advisory Committee: Summary minutes

There has been a noticeable increase in interest in positive impact investing in recent months.

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Attendees:

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Seb Beloe (Head of Research)

Ted Franks (Fund Manager)

George Latham (Managing Partner)

Paul Pizzala (Business Development Manager)

Clare Brook (Adviser)

Phineas Glover (Adviser)

Apologies:

Geoff Hall (Chair)

Nick Robins (Adviser)

Rachel Crossley (Adviser)

Kelly Clark (Adviser)

Business update

WHEB's business continues to grow with assets in the FP WHEB Sustainability Fund now over £100m for the first time. George Latham provided a brief update on business opportunities and highlighted the noticeable increase in interest in positive impact investing. This includes established wealth managers and private banks launching specific sustainability fund strategies for the first time. In addition, sustainability funds, such as WHEB's, are being included in mainstream portfolios on the strength of fund performance. We view these developments as very positive and believe they reflect wider shifts within the investment industry to embrace sustainability and 'ESG' (environmental, social and governance) issues more enthusiastically.

George Latham, who was standing in for Geoff Hall as Chairman at the meeting, also introduced WHEB's newest recruit Paul Pizzala who has joined the firm as its first Business Development Manager. Paul has worked across a range of financial institutions including Heartwood, Credit Suisse and Citigroup. He has also been actively involved in a range of sustainability-oriented initiatives including most recently as Finance Director at Totnes Renewable Energy Society. Paul's main role will be in working with George Latham on business development and client servicing.



Finally, George also reported that WHEB has recently received a number of positive ratings including straight A+'s in the UN-PRI's annual assessment¹ and Ted Franks receiving a 'Citywire+' rating. The company has also been certified as a B Corporation², an accreditation that involves meeting rigorous standards of social and environmental performance, accountability and transparency.

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 four additions to the portfolio since the last meeting and four sales. The four new purchases, which we summarise below, included three companies in our Resource Efficiency theme and one in our Health theme. The committee considered all four companies to be consistent with the philosophy of the fund though there was some debate about CVS Health's exposure to the themes (see over).

¹ A copy of our UN-PRI submission and assessment report can be downloaded from <http://www.whebgroupp.com/investment-strategies/listed-equity/fund-governance/unpri-transparency-report/>

² More information on B Corporations is available at (<http://bcorporation.uk/>).

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Spirax-Sarco (Resource Efficiency), another UK business, was sold after strong performance and a stretched valuation.

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ARM Holdings is a leading semiconductor intellectual property (IP) supplier with ARM designed processors used in a wide variety of electronic products including mobile phones, computers, servers, as well as smart meters, TVs and cars. The company's designs are typically significantly more energy efficient than competitors and are well-placed to support the development of smart grids and wider green infrastructure deployment. The company fits in the Resource Efficiency theme.

CVS Health is a US-based pharmacy benefit management business covering disease management programmes and primary health clinics as well as a chain of over 7,000 pharmacies. The committee considered the general retail activities of the pharmacy business as having little relevance to WHEB's investment themes. Overall though the company was considered to be investable in the Health theme given the positive impacts associated with pharmacy benefit management which help cut costs in the healthcare system and represent more than 80% of the company's revenues.



National Instruments is a US-based test and measurement business that designs and manufactures a variety of tools to help engineers assess the physical and electrical properties of materials and products. The tools are used to help increase efficiency and productivity in manufacturing and development processes and the company fits in the Resource Efficiency theme.

Renishaw designs and manufactures high technology precision measuring and calibration equipment. The company's products include advanced metrology and inspection equipment, spectroscopy systems, computer aided design and manufacturing systems as well as 3D printing and health equipment. The company fits in the Resource Efficiency theme because the majority of the equipment is used in improving manufacturing efficiencies.



Sales from the fund over the period included four companies. Baxalta (Health), which we only bought in December, was acquired by the UK business Shire PLC. Spirax-Sarco (Resource Efficiency), another UK business, was sold after strong performance and a stretched valuation. We also sold two companies that have been disappointing: China Singyes (Cleaner Energy) is a solar business that suffered due to concerns over a slow down in Chinese construction, and United Natural Foods (Well-being) a distributor of organic food which is losing market share to larger competitors.

Red-line Voting

As agreed at the previous meeting, the team reported back on our experience of using the AMNT's³ Red Lines Voting Guidelines. The guidelines apply specifically to voting at the company meetings of UK-listed businesses. By the end of June, we had only voted at two UK companies: ARM Holdings and Intertek. The key conclusions from the work were that:

- The instructions are quite prescriptive and don't necessarily take account of the principle ESG impacts associated with different companies;
- They are long and the exercise required significant resource to apply the guidelines;
- However, because the guidelines require a deep analysis of a company's approach to a wide range of ESG issues, we felt that we did learn something useful about the approach and culture of each business;
- We felt that the guidelines could be 'heavy-handed' in requiring a vote against Directors if the company did not comply precisely with the guidelines (although the comply or explain provision allows the fund manager to decide a more appropriate action);
- We found however, that the guidelines serve as a useful platform for further engagement with companies.



³ AMNT – Association of Member Nominated Trustees (<http://amnt.org/>)

The committee felt that the guidelines are a useful 'milestone' on the way to a more intelligent and informed dialogue between asset owners and managers about ESG issues. However, they agreed that ultimately a long and prescriptive set of guidelines is not likely to be the most effective way of achieving this dialogue. For example, it was pointed out that two of the guidelines had already been superseded by regulatory changes.

The WHEB team plan to apply the guidelines at two more company meetings taking place in July and will then reach a final conclusion before reporting back directly to the AMNT. Additional information on the impact of the guidelines on our voting positions is available in our quarterly Voting and Engagement report.⁴

⁴ <http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/>

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