



WHEB

October 2016

Investment Advisory Committee: Summary minutes

Portfolio manager, Ted Franks described the evolution of the fund's focus on high quality companies with good ESG which have an explicit positive impact.

New Committee member Mike Clark has extensive experience of the financial sector most recently as Director, Responsible Investment, at Russell Investments.

Attendees:

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Seb Beloe (Head of Research)
Ted Franks (Fund Manager)

Rachel Crossley (Adviser)
Kelly Clark (Adviser)
Mike Clark (Adviser)
Phineas Glover (Adviser)

Apologies:

Geoff Hall (Chair)
George Latham (Managing Partner)
Clare Brook (Adviser)

Business update

WHEB's business continues to grow with assets in the FP WHEB Sustainability Fund now over £120m for the first time. Seb Beloe provided a brief update on business opportunities and highlighted the noticeable increase in interest in positive impact investing including from pension funds and large institutional investors. Seb also noted that the Menhaden Investment Trust had elected to bring management of its listed equities strategy in-house and directed committee members to the public statement that WHEB has issued on this decision¹.

Ted Franks provided a brief recap on the performance of the fund over the past four months. This included strong performance up until the end of July when the fund was ranked in the top quartile among the global equity peer group on both a one and three year time period. Since September, the fund has experienced some headwinds, particularly during October, from a resurgence in both the financial and energy sectors which the fund has very limited exposure to.

Ted Franks, the lead portfolio manager, also described the evolution of the fund to focus on high quality growth companies with good environmental, social and governance characteristics which have an explicit positive impact. This has always been core to WHEB's investment process, but Ted is keen to make this more explicit, particularly in how this is communicated to the wider market. For example, we are explicitly categorising each company we invest in as having either a 'mitigating' or 'breakthrough' level of impact².

New advisory committee member

Seb Beloe, who was standing in for Committee Chair Geoff Hall, welcomed Mike Clark the newest member of the committee. Mike established Ario Advisory in 2016, a firm offering responsible investment advisory services. Mike has extensive experience of the financial sector most recently as Director, Responsible Investment, at Russell Investments. Mike also represents the UK actuarial profession on the Advisory Council of the Smith School's Sustainable Finance Programme at the University of Oxford. Seb also thanked Nick Robins for his wise counsel over his four-year term on the advisory committee



Mike Clark, Ario Advisory

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. The four new businesses that have been purchased by the fund over the past four months include:

¹ For a copy of our statement please see <http://tinyurl.com/zwblnwz>

² For more information on our impact framework see our annual impact report at <http://tinyurl.com/h3u75r2>



中國水務集團有限公司
China Water Affairs Group Limited

China Water Affairs supplies water and sewage treatment in China. The company supplies raw water and tap water, treats sewage, constructs water supply pipe networks, and installs water meters. The company sits in the Water Management theme and is considered to have a ‘mitigating’ impact as its strategy is to turn loss-making water plants into profitable businesses through improving efficiency and reducing water leakage. In some cases, leakage rates are reduced from 40-50% to less than 20%.

Nautilus develops, manufactures and markets health and fitness products. The company offers cardio and strength fitness products and related accessories and sells through direct marketing channels to consumers as well as to gyms, hotels, hospitals and other institutional buyers. The company fits in our Well-being theme and is considered to have a ‘mitigating’ level of impact for its contribution to healthier lifestyles.



STERIS Plc provides sterilisation and microbial reduction services to hospitals, medical device manufacturers, pharmaceutical and biotechnology businesses as well as for food safety and industrial markets. The company fits in the Health theme and is considered to have a ‘mitigating’ level of impact.

Wabco Holdings manufactures a variety of advanced braking systems that help to improve the safety of commercial vehicles around the world. The company is also involved in developing, manufacturing and selling a variety of sensors and electronic components that enable more automated and efficient logistics. The company sits in our Safety theme.



Sales from the fund over the period included six companies including long-term holdings **Nibe Industrier** (Resource Efficiency) and **Halma** (Safety) which we sold on the basis that their valuations had become excessive after strong performance. We also sold **ARM Holdings** (Resource Efficiency) after it was acquired by SoftBank and **Fortive** (no theme) which was spun out of long-term holding Danaher (Health) which we did not consider to be consistent with our themes. Finally, we also sold **SunPower** (Cleaner Energy) as it became clear that they are struggling with falling module prices and **Quanta Services** (Resource Efficiency) which is seeing its competitive position undermined.

The Advisory Committee considered all companies to be consistent with the themes but did encourage the team to ensure that suitable governance safeguards are applied to investments in emerging markets such as China where corporate governance standards can be lower. The team agreed that such safeguards were essential and should include a lengthy listing history, scrutiny of related-party transactions, the existence of other reputable investors and clear accounting standards.

The committee also discussed current pressures on asset owners to commit to fossil fuel divestment. On balance, the committee felt that this was a positive trend. However, some members felt that this language can be off putting for asset owners. It was suggested that focusing on ‘managing carbon exposure’ would help ensure a more receptive response from asset owners and would likely achieve the same outcome.

Other Business

Seb Beloe reported back on a number of awards and ratings that the company and fund have received in recent months the company receiving an ‘A+’ rating from the UN-PRI³ and the FP WHEB Sustainability Fund being short-listed for both the Future of Finance Awards and for Investment Week’s Best Sustainability Fund award. He also presented WHEB’s approach to making ‘positive impact investing’ a core feature of the company’s investment process as well as marketing and communications.

The committee had an in-depth discussion about WHEB’s voting policy on independent audit. This policy, which is consistent with EU policy on the need to retender the independent audit contract every ten years, is seen as overly prescriptive in the US where the regulator and wider investment industry is comfortable with the same audit firm holding the audit contract for many decades, albeit with the individual auditor being

³ The assessment, as well as the completed questionnaire on which it is based, is available at <http://tinyurl.com/z8zrsyn>



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WHEB received the UN-PRI’s top rating A+ for its approach to responsible investing.

The committee felt that there was likely to be support for our position on the independence of the auditor among other institutional investors and encouraged the team to use broader channels to try and effect change.

rotated every so often. The committee agreed that bilateral engagement with companies was unlikely to be an effective engagement strategy and encouraged WHEB to work through broader institutional investor fora such as the Council of Institutional Investors and the Corporate Reporting Users Forum. It was also suggested that intermediaries such as Institutional Shareholder Services (ISS) might also be worth engaging on this topic.

The committee felt that there was likely to be support for our position among other institutional investors and encouraged the team to use these channels to try and effect change on this issue.

Finally, the committee had a brief discussion of the on-going role and focus of the advisory committee. It was agreed that the committee's role in reviewing stock purchases against the fund's investment themes was essential. However, it was also felt that the committee could also play a wider role in advising WHEB on threats and opportunities in the market whilst still maintaining its independence. WHEB agreed to revisit this internally before reporting back at the next committee meeting in 2017.

Investment Advisory Committee Members



Clare Brook:
CEO, Blue Marine
Foundation



Geoff Hall:
Chairman of WHEB Asset
Management. Former CIO at
Allianz Insurance Plc



Kelly Clark:
Director of the Tellus
Mater Foundation



Mike Clark:
Founder, Ario Advisory & Advisor at
Oxford Smith School. Formerly
Director, Responsible Investment at
Russell Investments



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



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