



WHEB

February 2017

Investment Advisory Committee: Summary minutes

George Latham noted the significant increase in interest in positive impact investing in listed equities both from clients as well as from competitors.

Ted Franks emphasised that, as portfolio manager, he has pushed the investment team to include a more explicit focus on positive impact in WHEB's stock research and selection process.

Attendees:

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Seb Beloe (Head of Research)
Ted Franks (Fund Manager)
George Latham (Managing Partner)

Clare Brook (Adviser)
Kelly Clark (Adviser)
Mike Clark (Adviser)
Rachel Crossley (Adviser)

Apologies:

Geoff Hall (Chair)
Phineas Glover (Adviser)

1. Fund and market update

George Latham (GL) chaired the meeting in Geoff Hall's absence and began by providing an update on progress with the FP WHEB Sustainability fund as well as WHEB's wider business. The FP WHEB Sustainability Fund benefited from strong fund in-flows in the first two months of 2017 as well as strength in the wider market to grow to more than £150m by the end of February. GL also observed the significant increase in interest in positive impact investing in listed equities both from clients and potential clients as well as from competitors. GL noted that WHEB has won several mandates recently in significant part because of its clear articulation of positive impact investing in listed equities. Committee members also commented on the growing interest in impact investing including from larger established asset managers that are actively developing investment products which are intended to respond to this growing demand.

This interest in positive impact investing is a separate but complementary development to the continuing interest in investment strategies that reduce exposure to carbon risk. Committee members stressed their own impression that interest in 'divestment' is often framed as 'portfolio decarbonisation' by larger institutional investors. Committee members highlighted the public pronouncements of several Local Government Pension Schemes (LGPS) as evidence of this continuing interest.

2. Changes to the investment portfolio

Ted Franks (ETF) began by reiterating points made at October committee meeting. Specifically he emphasised that, as portfolio manager, he has pushed the investment team to include a more explicit focus on positive impact in WHEB's stock research and selection process. For example, every company that is considered for investment is assessed as having either a 'mitigating' or 'breakthrough' level of positive impact¹. This assessment uses quantified data wherever possible and is noted in the company profiles. ETF also emphasised that impact is integrated into the investment process with the final investment decision taking account of the quality of the business and its franchise and the valuation of the company.

The committee then 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:

China Everbright International has operations that include waste to energy facilities, waste water treatment facilities, as well as biomass power, hazardous waste treatment, wind and solar power plants and environmental technology. The company has very high standards of transparency around its operations as well as strong performance on the management of environmental, social and governance issues.



¹ For more information on our impact framework see our annual impact report at <http://tinyurl.com/h3u75r2>



Gamesa is a global business headquartered in Spain that is wholly focused on the manufacture, installation, operation and maintenance of wind turbine power generation equipment.

Grand Canyon Education provides on-line and campus-based post-secondary education with graduate and undergraduate degree programmes. The teaching is focused on disciplines such as business, education and healthcare and the company has a specific focus on providing flexible and affordable education to students coming from all socio-economic backgrounds



Johnson Controls Plc has two principal areas of expertise. Three quarters of the company's revenues comes from building efficiency and automation where they have leading positions in energy management, lighting, environmental control, security and access. Johnson Controls also has a business supplying lead-acid battery technology into the automotive sector including stop-start battery technologies.

ETF reported the sales from the fund over the period which included several lower impact stocks that the team has been looking to exit for some time. This included **Air Methods** (Health) an air ambulance operator in the US and **Kansas City Southern** (Sustainable Transport) a Tier 1 US railroad operator. The fund also sold its position in **CT Environmental** which has benefited from the build-out of Chinese water treatment infrastructure. Some governance concerns have recently surfaced at the company and this has changed the team's assessment of risk in the company. The position in **Oxford Instruments** (Environmental Services) was also sold as we lost patience with the pace of restructuring. Finally, **Varex** was sold following its spin-out from **Varian Medical Systems** (Health). Varian remains in the fund as our interest in the oncology aspect of radiotherapy remains high.

The Committee was enthusiastic about the portfolio changes and the clearer focus on positive impact, but stressed that they wanted some additional context to the overall shape of the portfolio in order to better consider changes resulting from the buys and sells.

3. Other Business

- **Fund positioning following market rotation**

ETF presented an article that he had written explaining why the fund had underperformed the MSCI World benchmark during the second half of 2016. The period was characterised by a vigorous shift in the market towards 'value' and away from 'quality' and 'growth' style investments. The period also included marked underperformance by the healthcare sector due to the politics of the issues surrounding the sector that surfaced during the US Presidential election.

The committee cautioned against reading too much into the relative performance of the fund against one benchmark – particularly during a period of strong underlying absolute performance. They also strongly supported the point made in a separate article² from Mike Clark (a committee member) and George Latham, that benchmarks should represent just one tool to assess underlying fund performance. In the committee's view, other complementary ways of assessing performance should also be considered including comparing fund performance against the performance of the 'universe' of investable stocks and also in assessing the underlying economic and ESG performance of stocks. ETF stressed that on these wider measures, the fund continues to perform very strongly.

- **The role of the committee**

GL introduced a discussion on the role of the committee following a request from committee members at the last meeting in October. GL stressed that the two principle objectives of the committee are to firstly provide transparency and clear governance around the clear application of the fund's investment philosophy and policies. In this role, the committee is expected to ensure that 'sustainable investing is first and foremost practised as an investment exercise rather than a marketing exercise'.

²This article is available at <http://tinyurl.com/zpxv5kk>

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It was agreed that Committee members will not play an executive role but will scrutinise stocks purchased by the fund to ensure that they are consistent with the fund's philosophy.

In fulfilling this function, committee members will not play an executive role, but will scrutinise stocks purchased by the fund to ensure that they are consistent with the fund's philosophy. The committee will also be asked from time to time to reflect on the definition and application of WHEB's nine investment themes as well as the integration of ESG issues into stock analysis and selection. In this regard, the committee agreed to provide feed-back and a published statement for inclusion in the forthcoming 2016 Impact Report.

The second function of the committee is to provide high-level market intelligence on developments in the investment market and specifically on developments in the field of sustainable and impact investing and in the positioning of WHEB's funds in this evolving market.

Finally, committee members suggested that the summary minutes of the meeting should ideally be less discursive and more structured to reflect the rigour of the oversight that the committee provides. We hope these minutes reflect this objective.

- **Next meeting**

Seb Beloe (SB) agreed to postpone a discussion about the fund's positioning on industrial automation and its contribution to sustainability. The topic will be addressed at the next committee meeting and will also be a focus of our Annual Investor Conference on 29th June 2017. In the meanwhile, SB encouraged committee members to read a blog that he has written on the subject³. The next meeting is scheduled to take place at WHEB's new offices at 7 Cavendish Square, London W1G 0PE on 21st June 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, Senior
Adviser to the Access to Nutrition
Foundation & Trustee of C3
Collaborating for Health

³ This article is available at <http://tinyurl.com/hcsxrm>