



Investment Advisory Committee: Summary minutes

Attendees:

Attendees:

Seb Beloe (Head of Research)

Ted Franks (Fund Manager)

George Latham (Managing Partner)

Geoff Hall (Chair)

Clare Brook (Adviser)

Mike Clark (Adviser)

Rachel Crossley (Adviser)

Apologies:

Kelly Clark (Adviser)

1. Advisory Committee changes

The Committee agreed some minor changes to the Advisory Committee's Terms of Reference. The new Terms of Reference clarify that the committee's central role is in scrutinising individual portfolio holdings and their consistency with WHEB's thematic and ESG investment framework. The Committee is also tasked with reviewing the definition and implementation of the investment themes as they relate to WHEB's investment universe.

Since the last meeting Phineas Glover has resigned from the committee due to a conflict arising with his new role at Macquarie Group. The committee thanked Phineas for his contributions to the committee and wished him well in his new role. A new member will be appointed to the committee in the next few weeks.

2. Fund and market update

George Latham (GL) provided a brief update on the business and started by welcoming committee members to WHEB's new offices at 7 Cavendish Square. The building is owned by one of WHEB's owners and it is planned that the building becomes a 'sustainability hub'. Other organisations in the building include a carbon footprinting business as well as a range of human rights and development charities and foundations.

GL reported that the FP WHEB Sustainability fund has grown substantially since the last committee meeting in February and now stands at over £170m. The fund has benefited from healthy in-flows of new money into the fund including from specialist impact investors such as SnowBall LLP¹, as well as from strength in underlying markets over the past four months.

Finally, GL also announced that WHEB will be launching its investment strategy in the Australian market alongside Pengana Capital who recently acquired Hunter Hall Investment Management, a specialist provider of ethical funds in Australia. The Pangana WHEB Sustainable Impact Fund, will be managed as a 'mirror' of the strategy of the FP WHEB Sustainability Fund from the beginning of August 2017.

3. Changes to the investment portfolio

Ted Franks (ETF) explained the recent purchases and sales from the fund over the past four months. During the period the fund exited five businesses in total. Two of these, **Stericycle** and **DaVita**, are US businesses that the team has been concerned about for some time. Both are linked to the US healthcare industry and performance has suffered in recent months as a consequence of management missteps. WHEB is no longer optimistic about the outlook for these business and so have sold the positions.

Two other businesses, **BorgWarner** and **Johnson Matthey** are in our sustainable transport theme. While the team remain impressed with the quality of these businesses, they are concerned that neither has adapted quickly enough to the rapid changes in the automotive industry. A rapid shift to electrified powertrain technology and associated declines in diesel mean that, in WHEB's view, both businesses will struggle to grow revenues and margins for the next few years

¹ <http://www.whebgroup.com/news-views/announcements-press-releases/>

George Latham reported that the FP WHEB Sustainability fund has grown substantially since the last committee meeting in February and now stands at over £170m.

WHEB will be launching a new fund in the Australian market alongside Pengana Capital.

Lenzing sells into the apparel industry where their products, such as Modal and Tencel, are seen as higher quality, environmentally friendly alternatives to cotton.

Half of TE Connectivity's business is focused on the automotive industry where its products are used in improving safety and fuel efficiency through increasing automation and electrification.

In 1H17, key trends around anticipated investment in infrastructure and particularly the deployment of 'smarter' infrastructure have gained traction.

The final business that was sold in the period was **Novo Nordisk**. Again, this is a high quality business, but the team is concerned that pricing pressure in the US will more than offset progress in the rest of the business for the next few years.

Five new businesses were bought by the fund during the period, and are described below.

AMS AG (Resource Efficiency) develops semiconductor chips that are used in environmental sensors such as optical, magnetic, gas and medical sensors. The company's products are used to help reduce power consumption in smartphones and are also involved in an increasing variety of health applications and in improving automotive safety and efficiency.



BTG Plc (Health) is a UK business focused on speciality pharmaceutical products and medical devices. The largest part of the portfolio is focused on "interventional medicine" which is a medical sub-specialty which provides minimally invasive image-guided diagnosis and treatment of disease.

Lenzing AG (Environmental Services) is an Austria-based company active in the chemical industry. The Company's principal activity is in manufacturing and marketing wood-based fibres derived from cellulose. The company sells the fibres into a range of end-markets including the apparel industry where the company's products such as Modal and Tencel are seen as higher quality, environmentally friendly alternatives to cotton.



Premier Inc (Health) provides services to the US healthcare sector. Three-quarters of the company's revenue comes from Group Purchasing Organisation (GPO) activities which help hospitals to reduce the cost of procurement. The remainder of the business is focused on 'performance services' which includes IT and advisory services aimed at helping hospitals improve quality, safety and population health management.

TE Connectivity (Sustainable Transport) makes electronic components and wireless systems. Half of the business is focused on the automotive industry where its products are used in improving safety and fuel efficiency through increasing automation and electrification. The rest of the business is focused on improving energy efficiency and safety in industrial markets.



The committee was happy with the new additions to the fund, but strongly encouraged the team to publish shorter and clearer company summaries on the website.

4. Fund performance and composition

- **Fund positioning following market rotation**

ETF presented his interpretation of recent changes in the market which have had a bearing on the fund's recent performance and its current positioning and composition. The second half of 2016 was characterised by a shift in the market towards more cyclical, lower quality companies and underperformance in the healthcare sector. In contrast, the first half of 2017 has seen a rapid reversal of these trends with the market more supportive of quality companies and with healthcare enjoying much stronger performance. In addition, key trends around anticipated investment in infrastructure and particularly the deployment of 'smarter' infrastructure have gained traction. ETF cautioned that he remains very wary of markets linked to commodities such as minerals and oil and gas. Information on the performance of the FP WHEB Sustainability Fund is available in the annual report and from the WHEB website.

Concerning the current composition of the fund, the committee queried the inclusion of companies involved in eye, ear and dental care under an 'Improving Quality of Life' sub-theme which they considered too broad and unclear. The team agreed to review this categorisation.

Committee members agreed that positive environmental impact are associated with greater levels of automation in the industrial and manufacturing sectors.

5. Sustainability, automation and the future of manufacturing

Seb Beloe (SB) presented a blog article² that he had written setting out the environmental case for including industrial automation as an investable theme within the Resource Efficiency theme. Committee members agreed with the presentation of the positive environmental impact associated with greater levels of automation in the industrial and manufacturing sectors. The committee did point out, however, that the case for including industrial automation in the theme is strengthened by quantifying the positive environmental impacts, and specifically the energy saved. Clearly where these numbers are greater than c.20% the case is compelling.

Beyond this, the main focus of the discussion was on the potential negative impacts on existing jobs in the manufacturing and industrial sectors. Negative impacts on employment, it was pointed out, are not a forgone conclusion. In fact, countries with the highest rates of manufacturing automation such as Japan, Korea and Germany, also enjoy among the highest rates of employment.

Committee members argued that the public policy community is primarily responsible for supporting individuals whose jobs are eliminated by greater automation. It was argued that investors do have a responsibility to contribute to effective public policy that addresses these issues. How different cultures might respond to these changes was also a topic that the committee considered. Countries with more flexible, educated work-forces being considered more able to adapt than more rigid economies with lower skill levels. Ensuring negative social impacts are carefully managed was seen as critical in ensuring that the full potential of industrial automation is exploited.

- **Action points and next meeting**

ETF agreed to lead a fuller discussion of the parameters guiding the development of WHEB's investment universe. This item will be scheduled for an upcoming committee meeting. SB also agreed to review how companies are described in the Holdings list that is available on the WHEB Group website.

The next meeting is scheduled to take place at WHEB's offices at 7 Cavendish Square, London W1G 0PE on 18th October 2017.

Investment Advisory Committee Members



Clare Brook:
CEO, Blue Marine Foundation



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



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



Rachel Crossley
Founder of Broadwaters, Senior Advisor to the Access to Nutrition Foundation & Trustee of C3 Collaborating for Health



Kelly Clark:
Director of the Tellus Mater Foundation

² This article is available at <http://tinyurl.com/hcsxrm2>