



WHEB

February 2018

Investment Advisory Committee: Summary minutes

During 2017 WHEB's assets under management increased by two thirds to £200m at year end.

Royal DSM a new holding in the fund manufactures performance materials and food ingredients .

Attendees:

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Seb Beloe (Head of Research)

Ted Franks (Fund Manager)

George Latham (Managing Partner)

Libby Stanley (Business Development Manager)

Geoff Hall (Chair)

Kelly Clark (Adviser)

Clare Brook (Adviser)

Apologies:

Mike Clark (Adviser)

Rachel Crossley (Adviser)

1. Business and market update

George Latham (GL) reported that WHEB's assets under management increased by two thirds in 2017 increasing from £120m to approximately £200m at year end. In addition to the sterling denominated share class, the FP WHEB Sustainability Fund has recently become available to investors in both Euro and Swiss Franc denominated share classes. The Pengana WHEB Sustainable Impact Fund, a fund that is available in the Australian market and that mirrors the FP WHEB Sustainability Fund has recently been reviewed and has received a 'Recommended' rating by the Australian investment consultants Lonsec.

GL also introduced Libby Stanley (LS) as WHEB's new Business Development Manager. LS most recently worked at Citywire Financial Publishers where she was Head of Audience Development – Discretionary & Institutional. LS will be responsible for helping to grow and manage WHEB's client relationships, with a focus on UK wealth managers and intermediaries.



Libby Stanley, Business Development Manager, WHEB

2. Changes to the investment portfolio

Ted Franks (ETF) introduced three new holdings in the fund and also explained why three stocks had been sold from the portfolio.

Royal DSM (Environmental Services) is a Dutch speciality chemicals business. The company was originally founded in 1902 as 'Dutch State Mines' and was a coal miner. Since then the company has shifted its portfolio of products from coal through commodity chemicals and now focuses on performance materials and nutrition. These products include constituents for low-VOC paints, high strength, lightweight plastics as well as nutrients and food ingredients for animal and human nutrition.



Kion Group AG (Resource Efficiency) is a German business that is involved in logistics and warehouse automation. The shift to on-line retailing has driven a substantial increase in demand for logistics and warehouse automation services. Kion sells products and services including automated guided vehicles (AGVs) as well as Very Narrow Aisle (VNA) warehouse solutions which maximise productivity and minimise energy use and wastage.

The three businesses that were sold from the fund during the period were Mettler-Toledo (Health), Suez (Water Management) and Hera (Environmental Services).

Fund holding Smurfit Kappa (Environmental Services) is a business that offers recycled cardboard packaging as a more sustainable alternative to plastic and which is benefiting from concern about plastic waste.

The Advisory Committee offered a range of perspectives on how to assess the net impact of a business that has operations across both positive and negative impact categories.

Centene (Health) is a provider of healthcare insurance for low income and vulnerable groups in the US particularly those receiving support from Government programmes such as Medicare and Medicaid. The company's entire focus is on providing low cost access to healthcare to these populations in the US utilising their scale and technology to drive down the cost of healthcare for these groups.



The three businesses that were sold from the fund during the period were **Mettler-Toledo (Health)**, **Suez (Water Management)** and **Hera (Environmental Services)**. Mettler-Toledo sells measurement and instrumentation systems to the pharmaceutical, life science and retail sectors and was sold on account of what the team considered to be a high valuation. Suez and Hera are both European utility businesses. Suez was sold due to concerns over its long-term growth profile (and the company issued a profit warning soon after it was sold from the portfolio). Hera is a multi-utility business based in Italy. While the company remains well-exposed to attractive end markets in water and waste, the company had recently expanded its energy generation and distribution business including gas-fired power generation. The company was sold in part because of concerns over this increased exposure to fossil-fuel related activities.

The committee discussed the new holdings and agreed that they were happy that the new additions to the portfolio were consistent with the thematic framework for the fund.

- **Exposure to plastic manufacturing and recycling**

Committee members were also interested to understand the extent to which the portfolio contained businesses that help to address the issue of plastic waste in the environment given the sale of two businesses (Hera and Suez) that provide waste management services. Seb Beloe (SB) argued that the main issue with plastics is 'short-cycle' plastic materials such as packaging. These materials have short useful lives and often end up discarded into the environment. SB highlighted the fund's holding in Smurfit Kappa (Environmental Services) as a business that offers recycled cardboard packaging as a more sustainable alternative to plastic and which is benefiting from concern about plastic waste. DSM does manufacture some plastic products, but these are largely used in engineering and other long-lived applications which are not generally implicated in waste issues in the environment.

3. Assessing the 'net' positive impact of companies

Following on from the discussion at the last Committee meeting, the Committee had a further discussion about how WHEB assesses the 'net' impact of individual companies in the portfolio. All the companies in WHEB's investment universe have at least one third of their revenues coming from one or more of the strategy's nine investment themes. However, many of these businesses do also have activities that do not fit the investment themes. In some cases, these activities are in areas that are considered to be actively negative in terms of their impact on society or the environment. SB presented a case-study of a UK business as a live example of how the investment team assesses these different types of impacts.

The company's principal business is in providing consulting engineering services on power train technologies to the automotive industry as well as to the rail and maritime industries. A key focus of these services is in helping clients develop more efficient, lower carbon technologies and solutions. The company also provides other services including to governments and other sectors on low carbon strategies.

In addition to these activities that clearly fit WHEB's investment themes, the company also provides services to the defence sector. In the recent past this has also included manufacturing components and assembling military vehicles. These activities clearly fall outside WHEB's sustainable investment themes though account for less than c.10% of the company's revenues.

The Advisory Committee offered a range of perspectives on how to assess the net impact of a business that has operations across both positive and negative impact categories. They broadly agreed with the categorisation of the business's activities and recognised that this is a grey area without clear rules. This is an issue that is exacerbated by the relative lack of information on many defence activities that are often relatively opaque as a consequence of the sensitivity of Government clients in this area.

The committee advised caution in investing in a business where the positive impact of a company's portfolio might be compromised by controversial activities such as those in the defence sector.

It was agreed that future meetings should include agenda items proposed by committee members on topics that specifically interest them about WHEB's activities or approach.

Largely as a consequence of this opacity, and because of the difficulties in arriving at a clearly positive 'net impact' for this business, the committee indicated that they would advise caution in investing in a business where the positive impact of much of the company's portfolio might be compromised by controversial activities such as those in the defence sector.

WHEB's approach to these issues will be to take each on a case-by-case basis recognising that there are no hard rules. As stated in our investment process document, if the company is, in our view, exposed to excessive reputational risk, or has significant activity in areas that are not consistent with the philosophy of the fund, then it is unlikely to be selected for investment. We will also seek input from the Investment Advisory Committee on controversial stocks as we have done in this case.

4. Advisory Committee Governance and Membership

Clare Brook (CB) proposed a modification in the structure of Advisory Committee meetings and suggested that at each meeting one Committee member should be given the opportunity to focus the agenda on an issue about WHEB's activities or approach that particularly interests him/her. In this way the Committee could be given the opportunity to initiate conversations on broader issues beyond the standing agenda of the meeting. It was agreed that the committee would pursue this approach. Kelly Clark (KC) proposed that the next meeting should include an agenda item on the role that WHEB plays - and the role it could play - in engaging with public policy debates about sustainable investment.

It was also reported that Committee Member Ingrid Holmes has resigned from the Committee due to her taking up a role at another asset management business and thus creating a conflict of interest. The Committee expressed their appreciation for Ingrid's contributions and their best wishes for her in her new role. WHEB is looking to appoint a new Committee Member in time for the next meeting.

Finally, it was also agreed that the Terms of Reference of the Committee should be amended and stipulate that the term limit for Advisory Committee members should be extended to four years rather than three.

- **Action points and next meeting**

The next meeting is scheduled for the 20th June at WHEB's offices at 7 Cavendish Square. SB will liaise with KC to prepare for the agenda item on WHEB's role in public policy,

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 Finance Dialogue and advisor to Carbon Tracker and the Ashden Trust