



WHEB

June 2018

# Investment Advisory Committee: Summary minutes

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## 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)  
Geoff Hall (Chair)  
Mark Lewis (Adviser)

## 1. New Advisory Committee member

Geoff Hall (GH) started the meeting by welcoming Mark Lewis as the most recent appointee to the Committee. Mark is currently the Global Head of Research at the Carbon Tracker Initiative. Previously Mark was Head of European Utilities at Barclays and has also held senior research roles at Kepler Cheuvreux and Deutsche Bank. Mark is also a member of the Financial Stability Board's Task Force on Climate-related Financial Disclosures.



Mark Lewis, WHEB Advisory Committee Member

## 2. Business and market update

George Latham (GL) then provided a brief update on WHEB's business and broader market developments. Total assets under management (AuM) have increased further since the last meeting and stood at just under £250m at the end of June. In-flows have come primarily from wealth managers in the UK although clients have also invested money from Belgium, Sweden and Switzerland.

GL agreed with Committee members who remarked that the demand profile for sustainable, positive impact funds has changed dramatically in the past five years. A wide range of market participants are now investing in positive impact funds which previously would not have been involved. GL also commented that asset managers have responded by launching a range of funds of varying quality that are specifically targeting positive impact investors. GL pointed out that most of these funds have been launched in the last eighteen months whereas the WHEB fund can trace its history over thirteen years.

## 3. Fund update

Ted Franks (ETF) provided a brief update on the fund's composition and performance over the last four months. He emphasised the fund's quality bias as well as the long-term holding period that underpins the fund's philosophy. Four concerns that he highlighted were: 1) a perception that 'quality' is overvalued, 2) threats to international trade and a 'trade war', 3) economic recession and 4) continued strong performance from the 'FAANG'<sup>1</sup> technology stocks which WHEB does not consider to fit with the fund's sustainability themes<sup>2</sup>.

Committee members asked about the long stock holding period and the balance in the investment team's 'time budget' between portfolio management and research. Seb Beloe (SB) confirmed that the vast majority of the investment team's time is spent on fundamental stock-level research rather than on portfolio management and trading activities. Members were also keen to hear what impact the MiFID<sup>3</sup> regulations had on WHEB's use of self-side research. SB confirmed that MiFID had had a substantial impact on the availability and quantity of

<sup>1</sup> - 'FAANG' (Facebook, Amazon, Apple, Netflix and Google).

<sup>2</sup> - 'MiFID' (Market in Financial Instruments Directive)

<sup>3</sup> - For more see <http://www.whebgroup.com/is-this-facebooks-volkswagen-moment/>

*Shimano, the Japanese bicycle parts manufacturer, was sold from the fund due to concerns about the impact of bike-sharing schemes and the company's missteps over the shift to electric bicycles.*

*Given concerns about the level of microplastic pollution coming from synthetic clothing, Committee members also asked for confirmation that Lenzing's clothing fibres are biodegradable. This was confirmed by the investment team.*

*Members also encouraged the team to explore whether Science Based Targets could be used as a way of calibrating the level of positive impact associated with the portfolio, particularly on carbon emissions.*

research, but that WHEB's investment process has become less reliant on sell-side research over the past few years with a greater emphasis being put on internal research and analysis undertaken by the investment team.

### 3. Changes to the investment portfolio

Seb Beloe (SB) introduced two new holdings that had been purchased for the fund in the previous period and Ted Franks (ETF) explained why three stocks had been sold from the portfolio.

**Aptiv (Sustainable Transport)** is a components manufacturer providing products to the global automotive and commercial vehicle markets. The company has two segments: 'advanced safety and user experience' which supplies active safety and connected service technologies, and 'signal and power solutions' which supplies connectors, wiring and electrical systems used in hybrid and electric vehicles.



**Tivity Health (Well-Being)** offers fitness programmes, health benefits management, physical therapy and related services particularly to the elderly in the US. The company's clients are private sector employers, government agencies, hospitals and insurance companies with the goal of improving members' health and lowering health care costs.

The three businesses that were sold from the fund during the period were **Hannon Armstrong Sustainable Infrastructure (HASI)** (Cleaner Energy), **Murata** (Resource Efficiency) and **Shimano** (Sustainable Transport). HASI is structured in the US as a Real Estate Investment Trust (Reit) and while the WHEB team remain positive on their underlying exposure to energy efficiency and renewable energy projects, they were increasingly worried about the company's exposure to rising interest rates. Murata is a Japanese company that sells components into the electronic industry to improve energy efficiency. The company has struggled to protect margins in recent quarters and the investment team believes that they can find better quality companies with equivalent exposure. After over six years in the fund, Shimano, the Japanese bicycle parts manufacturer, was sold from the fund due to concerns about the impact of bike-sharing schemes and the company's missteps over the shift to electric bicycles.

Given concerns about the level of microplastic pollution coming from synthetic clothing, Committee members also asked for confirmation that Lenzing's clothing fibres are biodegradable. This was confirmed by the investment team. In response to a question from a Committee member, SB also stressed that all portfolio holdings are subject to ongoing monitoring throughout their time in the fund.

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

### 4. WHEB's impact report

SB provided brief feedback on the publication of the latest impact report and micro-site. Overall the Committee congratulated the team on the report and website. Committee members emphasised the importance of the 'impact calculator' in underlining, to the rest of the market, the importance of impact reporting as a core feature of positive impact investing.

Members also encouraged the team to explore whether Science Based Targets could be used as a way of calibrating the level of positive impact associated with the portfolio, particularly on carbon emissions. They also encouraged the team to send copies of the report to all portfolio companies as a way of demonstrating the value that company-level reporting creates for their investors.



The [discussion] paper highlighted the significant acceleration over recent months of public policy activity aimed at sustainable finance.

Committee members were most enthusiastic [about work that] would create a strong narrative to 'normalise' positive impact investing for investors.

## 5. WHEB's role in public policy

At the February Committee meeting, Kelly Clark (KC) had proposed that an agenda item be tabled focusing on WHEB's role in public policy. Since that meeting Seb Beloe (SB) had worked with KC to prepare a paper as a basis for discussion at the meeting. The paper highlighted the significant acceleration over recent months of public policy activity aimed at sustainable finance. This has included two task forces in the UK<sup>4</sup> as well as the range of regulatory proposals being put forward by the European Commission. In addition, several standard setting bodies including the BSI and the Chinese standards authority are looking to establish formal standards around various aspects of 'green and sustainable finance'.

Following a brief presentation of the paper, the Committee held a wide-ranging debate about the suggested role and focus of WHEB's public policy activity. Key headlines from this discussion included:

- A clear recognition of the **need to prioritise** WHEB resources on issues that will have a positive impact on WHEB and sustainable finance generally.
- There was considerable discussion on **how to prioritise public policy initiatives**. Members variously suggested that key criteria should include client interest, maximising the impact of any intervention, and implications for fund flows. Ideally all initiatives should seek to 'change things' and 'connect with clients'.
- Committee members stressed that WHEB should carefully consider **whether to work alongside other institutions** and networks in seeking to influence public policy activities and when the business should seek to work alone.
- Members suggested that the majority of resource should be focused on **a single programme of work over a limited time period**, with the remainder deployed to support collaborative work.
- Committee members also stressed the **importance of working on initiatives that are 'upstream' of public policy** in helping to frame a debate and influence the overall narrative around sustainable and positive impact investing.
- While no overall consensus was achieved (or sought) Committee members were most enthusiastic about WHEB focusing resources 'upstream' of public policy on the creation of investment standards and market norms. Ideally this work would create **a strong narrative to 'normalise' positive impact** investing for investors.

## 6. AOB

The next meeting is scheduled for the 17<sup>th</sup> October at WHEB's offices at 7 Cavendish Square. SB will liaise with Members to finalise the agenda in advance of the meeting.

\*\*\* - 'The Green Finance Taskforce' and 'Growing a culture of social impact investing in the UK'

## Investment Advisory Committee Members



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



**Clare Brook:**  
CEO, Blue Marine Foundation



**Kelly Clark:**  
Director of the Finance Dialogue and advisor to Carbon Tracker and the Ashden Trust



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



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



**Mark Lewis:**  
Global Head of Research, Carbon Tracker Initiative