



WHEB

Investment Advisory Committee: Summary minutes

Carole Ferguson, the Head of Investment Research at CDP has joined our Committee...

...and we said farewell to longstanding Committee member and WHEB founder Clare Brook.

WHEB is a founding member of the Big Exchange an innovative new investment platform in the UK

Attendees:

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

Clare Brook (Member)
Kelly Clark (Member)
Mike Clark (Member)
Geoff Hall (Chair)

Apologies:

Carole Ferguson (Member)

1. Committee membership

At the Advisory Committee meeting in October it was agreed that the Committee should be composed of four external Members and Geoff Hall as Chairman and that Members should have expertise in both sustainability and investment. While she was unfortunately unable to attend this first meeting, WHEB was therefore very pleased to announce that Carole Ferguson has agreed to join the Committee. Carole is Head of Investment Research at CDP where she leads a team of six analysts in developing investor-focused analysis of the risks and opportunities facing companies as a consequence of climate change and other environmental issues. WHEB plans to appoint an additional external Committee Member in the coming weeks.



Carole Ferguson, Head of Investor Research, CDP



Clare Brook's final Committee meeting

Later in the meeting, the Committee also bade farewell to Mark Lewis and to Clare Brook. The WHEB team and the Committee as a whole expressed their thanks to both Mark and Clare. Clare in particular, who has reached the end of her term on the Committee, was thanked for her many years of service both on the Committee and before that as one of the founders of WHEB's listed equities business.

2. Business and market update

George Latham (GL) provided a brief update on WHEB's business and broader market developments. Among recent developments have been continued asset growth at the company to over £280m, as at the end of February.

The rate of asset growth has moderated in the past few months given the significant market correction that happened through the last quarter of 2018, but underlying new business momentum remains strong. It was noted by Committee Members that interest from asset owners in funds that directly support the UN Sustainable Development Goals (SDGs) has accelerated in the last few months and that WHEB has been a beneficiary of this.

GL also confirmed that WHEB has decided to be a founding member of the Big Exchange¹ which is a new investment platform in the UK specifically designed to enable small retail investors to invest with positive impact.

¹ – <https://bigexchange.com/>

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The Committee were interested to see the sales of China Longyuan and Stantec and noted that following WHEB's exit from Hera SpA last year, the strategy no longer has any residual exposure to fossil fuel power.

3. Fund update

Ted Franks (ETF) provided a brief update on the fund's composition and performance over the last four months. This period has included a couple of months of very tough markets at the end of 2018, followed by a strong recovery in the first two months of 2018.

The WHEB strategy is roughly balanced between environmental themes, which are generally more cyclical in nature and linked to industrial end-markets, and social themes that are more defensive in nature. ETF described how the fund is focused on long-term secular trends linked with the shift to a lower carbon and more sustainable global economy.

ETF also shared his view on the nature of the recent rebound in equity markets and whether this is likely to persist. Notwithstanding the short term market volatility, WHEB's industrially-exposed stocks are focused on activities that are benefiting from structural growth linked to sustainability. Their aim is that these secular sustainability trends work as the 'best defence' in countering, if not outweighing, any cyclical pressures.

3. Changes to the investment portfolio

Seb Beloe (SB) introduced two new holdings that have been purchased for the fund in the previous period and four stocks that have been sold from the portfolio. The purchases were of Spectris and ICU Medical.

Spectris (Resource Efficiency) is a UK-based business that manufactures equipment that improves the efficiency of manufacturing processes. This includes test equipment and software that is used to test the composition and quality of materials for research and development. The company also makes equipment that is used within the manufacturing process to manage energy and resource use and minimise waste.



ICU Medical (Health) sits in WHEB's health theme as a business that provides products, and services that support the use of intravenous (IV) drugs in hospitals. These include IV solutions, bags and connectors as well as pumps and software to enhance medical safety.



WHEB also confirmed that they had sold out of four stocks over the past four months. This included both **China Longyuan** and **Stantec**. Both of these companies have been long-term holdings in the portfolio but both have struggled in recent years. In both cases this has been related in part to legacy exposure to extractive industries and fossil fuels. While both of these companies have strongly positive impacts overall, these legacy assets have undermined strong financial performance elsewhere.

WHEB also sold out of their position in **BTG plc** (Health) as it was bid for, and also sold the position in **Nautilus** (Wellbeing). Nautilus is a manufacturer of health and fitness equipment. The company however has performed poorly as a consequence of being slow to embrace and integrate digital technologies into their latest generation of products and consequently have lost market share. After 18 months, WHEB elected to cut their losses and sold the position early in the New Year.



The Committee were interested to see the sales of China Longyuan and Stantec and noted that following WHEB's exit from Hera SpA last year, the strategy no longer has any residual exposure to fossil fuel power. They also indicated that they were comfortable with the two new purchases. However, while acknowledging that the portfolio as a whole has a strong positive impact, some Committee Members did express their enthusiasm to see more 'breakthrough' businesses in the portfolio. Committee Members pointed to the current febrile political environment and the potential for rapid legislative change on environmental and social issues². Committee Members encouraged WHEB to look harder for these really breakthrough businesses to turbo-charge the positive impact of the portfolio.

² – See for example the work of the 'Inevitable Policy Response' at: <http://www.unpri.org/climate-change/an-inevitable-policy-response-to-climate-change-when-what-and-how/3580.article>

Clare Brook stated her view that society's attitudes to wider ocean health are 'Victorian' and prioritise resource extraction over all else.

The majority of impacts are positive and focus on businesses that supply water testing and water treatment equipment or services.

4. SDG 14: Life below water

At the October 2018 Advisory Committee meeting, Members suggested that WHEB review how the fund impacts upon the UN's Sustainable Development Goal (SDG) 14 'Life below water'. Clare Brook (CB) introduced the topic as one of the two SDGs that is least correlated with business activity (the other being SDG 1: No Poverty). CB pointed out that recent interest in the oceans has been sparked by David Attenborough's series Blue Planet 2 and focuses particularly on the issue of plastics. However, in CB's view, society's attitudes to wider ocean health are 'Victorian' and prioritise resource extraction over all else.

Seb Beloe (SB) then presented a brief paper setting out the portfolio's main impacts upon the marine environment. The portfolio has virtually no direct exposure to marine activity, but the review did highlight some areas of interest covering both direct and indirect as well as positive and negative impacts. These are summarised in figure 1 below.

Figure1: WHEB Portfolio exposure to SDG 14



The majority of impacts are positive and focus on businesses that supply water testing (Agilent, Horiba, Renishaw) and water treatment (China Water Affairs, Ecolab, Norma, Roper, Xylem) equipment or services. In Ecolab and Xylem's cases this includes water treatment systems used specifically in offshore installations (incl. ships). Intertek provides a wide range of marine-related services including testing and management of ballast water, port and harbour design as well as water quality modelling and marine power consulting.

There were also a handful of businesses with potentially negative impacts on the marine environment. Most significant are Siemens Gamesa's offshore wind power business and DSM. The installation of offshore wind power turbines can have a negative impact particularly on marine cetaceans (largely due to the noise and disturbance), but once built, the impact is more mixed including negative impacts on bird life but with the turbine foundations offering artificial reefs and sanctuaries from fishing for marine life³.



DSM has a wide-variety of businesses of which two have a direct impact on ocean health. On the positive side, the company is constructing a facility to produce Omega-3 oils from algae which will replace wild-caught fish as a source of fish food. More negatively, the company's lightweight, high-strength polymer 'Dyneema' is used in fishing nets. CB pointed out that 'ghost' fishing nets that are lost or abandoned are a major cause of death of marine life.

³ – For example see <https://www.dw.com/en/how-do-offshore-wind-farms-affect-ocean-ecosystems/a-40969339>

Committee Members welcomed the analysis as a source of strategic insight for the team, helping to identify emerging issues and opportunities for the portfolio. It was also agreed that WHEB would work with BlueMarine and engage with DSM to understand if and how they manage the issue of ghost fishing equipment. Committee Members also suggested that scanning the portfolio for impacts on the other more 'oblique' SDGs might also be valuable. This type of analysis would also be valuable to discuss at future Committee Meetings.

6. Any Other Business

The next meeting is scheduled for June 2019 at WHEB's offices at 7 Cavendish Square. SB will liaise with Members to finalise the agenda in advance of the meeting.

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



Mark Lewis:
Global Head of Research, Carbon Tracker Initiative



Carole Ferguson:
Head of Investor Research, CDP