



WHEB

June 2019

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)

Kingsmill Bond (Member)
Mike Clark (Member)
Carole Ferguson (Member)
Geoff Hall (Chair)

Apologies:

Kelly Clark (Member)

1. Committee membership

The committee meeting started with introductions from Carole Ferguson, Head of Investment Research at the CDP¹ who officially joined at the February meeting, but was unable to attend, and Kingsmill Bond who joined the committee since the previous meeting.

Kingsmill Bond is a New Energy Strategist at Carbon Tracker². His role is to analyse and communicate to investors the dramatic implications of the transition away from fossil fuels for companies and markets. Before joining Carbon Tracker, Kingsmill worked as a sell-side equity analyst and strategist for twenty years at Deutsche Bank and Citibank in London, Hong Kong and Moscow.



**Kingsmill Bond,
New Energy
Strategist,
Carbon Tracker**

2. Open discussion on investment strategy

Given that this was the first meeting for two of the three external Committee members in attendance, it had been agreed that the main item on the agenda would be an open discussion about WHEB's investment strategy. This began with a brief presentation from WHEB on the overall positioning of the FP WHEB Sustainability Fund. WHEB's view is that the market has bifurcated into two groups. One group has embraced the idea that the economy is shifting towards a zero carbon model. The other, which still represents a substantial part of the market, holds to the view that sustainable investing is fundamentally an ethical approach that involves constraining the investment universe.

Several committee members highlighted the number of new products that have been launched over the past 12 months focusing on 'sustainability' and 'impact'. Seb Beloe (SB) argued that an important distinction between managers comes down to fundamental beliefs. If the manager believes that the world is transitioning to a zero carbon, more sustainable model, then sustainability investing is a critical 'lens' that helps to identify new risks and opportunities facing businesses. Much of the market is however, as one Committee member put it, still 'trapped in orthodox language and framing' and still considers sustainable investing as a 'constraint'.

Ted Franks (ETF) argued that another differentiating feature between managers is between managers that use sustainability as an investment tool and those that don't. In some investment processes, the critical point is whether a particular company generates sufficient revenues from 'sustainable' business activities. In this process, once qualified, the company goes into a 'bucket' and sustainability plays no further role. Instead the manager uses traditional investment techniques to select stocks for the portfolio. In contrast, in some strategies including WHEB's, the focus is not on whether a stock 'qualifies' for the bucket, but the extent to which sustainability is a key 'driver' of investment returns. In this approach sustainability is not just about whether a given stock 'qualifies', but how sustainability underpins and drives the 'equity story'.

¹ – <https://www.cdp.net/en> ² – <https://www.carbontracker.org/>

Committee members suggested that the world is likely to see a trend towards more policy-driven markets given these policy responses.

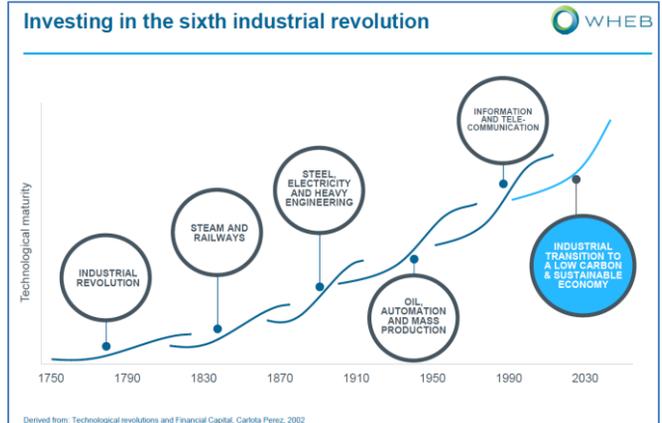
ICON plc. provides research and development services to pharmaceutical, biotech and medical device companies.

SB pointed to a slide in WHEB's investment presentation that is based on the economist Carlotta Perez's work on industrial revolutions³ (see below). Kingsmill Bond (KB) pointed out that Professor Perez's work also highlights the impact of industrial revolutions on valuations.

A discussion then ensued as to whether the cleantech economy already passed through this 'bubble' phase in 2006/07 or whether this is still to come.

Committee members also highlighted the importance of policy in driving the development of these markets. Mike Clark (MC) and other committee members pointed to the Green New Deal in the US and to the British Prime Minister's commitment to a net zero carbon target by 2050 as examples.

Committee members suggested that the world is likely to see a trend towards more policy-driven markets given these policy responses. They suggested managers may need greater understanding of the detail of some of these policy changes and the risks they entail, and advised that in this scenario investors are likely to be better off holding challengers rather than industry incumbents.



3. Changes to the investment portfolio

ETF introduced one new holding that has been purchased for the fund in the previous period and three stocks that have been sold from the portfolio. The purchase was ICON plc. and the sales included Lenzing AG, Rockwell Automation and Wabco Holdings Inc.



WHEB also sold three positions in the period. This included selling out of **Lenzing AG** on the basis that the company's major investment programme will put significant pressure on the balance-sheet. This, combined with pressure from their largest shareholder to maintain their dividend, has encouraged WHEB to sell their position. **Rockwell Automation**, which had been in the strategy since 2014, was also sold due to concerns over the company's poor position in software for industrial applications. And finally, the third stock to be sold was **Wabco Holdings** which was bid for by a competitor.

ICON plc. (Health) sits in WHEB's health theme as a clinical research organisation (CRO). The company provides research and development services to pharmaceutical, biotech and medical device companies. The company's mission is to accelerate the development of drugs and devices that save lives and improve the quality of life.



ETF pointed out that the fund is invested in 55 companies and that the team's focus is on identifying strong companies that create sustainable value over the long-term and that the pace of trading reflects this focus. MC stressed that it is key for WHEB to underline the value that this research-led approach creates for investors rather than focusing on trading activity and portfolio management.

³ – <http://www.carlotaperez.org/>

Mirroring the increase of interest that the market as a whole is showing in positive impact and sustainability investing, WHEB's own assets under management (AuM) have grown substantially in 2019.

4. Business update

George Latham (GL) provided a brief update on the state of the business for Committee members. GL reported that while WHEB Asset Management was founded in 2009 and has been in its current format for seven years, the business has only recently started to 'really get going'.

Mirroring the increase of interest that the market as a whole is showing in positive impact and sustainability investing, WHEB's own assets under management (AuM) have grown substantially in 2019. WHEB finished 2018 with approximately £250m invested in the sustainability strategy. This grew to £290m by the end of the financial year at the end of March 2019. AuM have continued to grow in 2019 with WHEB winning mandates from several institutional investors including HSBC UK Bank Staff Pension Scheme and the Swedish bank Skandinaviska Enskilda Banken AB (SEB). At the time of the Committee meeting AuM stood at £380m.

5. Any Other Business

The next meeting is scheduled for October 2019 at WHEB's offices at 7 Cavendish Square.

It was agreed that the next committee meeting should look in detail at carbon emissions including specifically the methodology that WHEB uses to calculate its carbon impact.

Members also expressed an interest in further exploring the impact of WHEB's engagement with companies. Specifically, members are interested in how the success of these engagements are measured. It was agreed that this agenda item would be tabled at the following committee meeting in 2020. 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



Kingsmill Bond:
New Energy Strategist, Carbon Tracker



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



Carole Ferguson:
Head of Investor Research, CDP