



WHEB

February 2015

Investment Advisory Committee: Summary minutes

The Committee was particularly pleased to welcome Kelly Clark from the Tellus Mater Foundation as a new member of the committee.

Attendees:

Seb Beloe (Head of Sustainability Research)
Tim Dieppe (Fund Manager)
Ted Franks (Associate Fund Manager)
George Latham (Managing Partner)
Ty Lee (Senior Analyst)

Geoff Hall (Chair)
Clare Brook (Adviser)
Kelly Clark (Adviser)
David Lloyd-Owen (Adviser)
Nick Robins (Adviser)

Apologies:

Ebba Schmidt (Adviser)
Tristan Hillgarth (Adviser)

Changes to the Investment Advisory Committee

WHEB's Advisory Committee is intended to provide independent governance and scrutiny to the FP WHEB Sustainability Fund. It also provides advice on how best to invest in sustainability themes on behalf of clients investing in the fund. The Committee was particularly pleased therefore to welcome Kelly Clark¹ from the Tellus Mater Foundation as a new member of the committee.

Kelly and Jamie Arbib will together represent the Tellus Mater Foundation on the committee. Tellus Mater is a leading foundation focused on catalysing the shift to sustainable capitalism. The Foundation is also an investor in the fund.

The Committee also said good-bye to Tristan Hillgarth and thanked him for his support and sage advice over the years that he has been a committee member.



Changes to the investment portfolio

A key role of the committee is to scrutinise any new stock purchases that the investment team have made for the fund during the period. The table below lists the new purchases over the past four months and provides a brief description of what they do. The Committee's discussion of the companies is summarised as well.

Company (theme/country)	Description
Cerner (Health/US)	Cerner Corporation supplies healthcare software systems that help to improve the efficiency and organisation of healthcare delivery. Software represents a key component in reducing the cost and increasing positive outcomes of healthcare systems. Cerner's products can be used in single-doctor practices right up to hospitals and entire health systems.
China Singyes Solar (Cleaner energy/China)	China Singyes is one of the largest providers of building-integrated photovoltaic (BIPV) products in China. The company manufactures and installs a range of building products such as curtain walls which include a range of solar products (films, cells, panels) that are integrated into these physical structures. The company is also involved in the design and construction of solar rooftop projects.
Omron (Resource efficiency/Japan)	Omron Corporation manufactures a wide range of electronic components, equipment and systems that are used in automating factories and helping to reduce energy and resource use. In addition the company also has businesses that manufacture electronic components for social systems (e.g. automatic ticket barriers for public transport), traffic control and healthcare.

¹ Kelly Clark will share a seat with on the committee with Jamie Arbib the founder of the Tellus Mater Foundation.

All the companies were viewed as fitting the themes. Spirax-Sarco is particularly well-known to committee members and is highly regarded [...] for its contribution to improved energy efficiency.

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The [...] FP WHEB Sustainability Fund has a carbon footprint [that] is 70% lower than the [MSCI World] benchmark.

Ship Healthcare (Health/Japan)	Ship Healthcare’s main business is in providing consulting services for the construction, relocation, expansion and renovation of hospitals and other medical institutions. The business also supplies medical equipment and instruments such as syringes and surgical gowns. It also runs nursing homes for the elderly that are adjacent to hospitals.
Spirax-Sarco Eng. (Resource efficiency/UK)	Spirax-Sarco Engineering focuses on helping industrial businesses improve their efficiency and productivity. In particular it provides consulting services and products for the control and efficient management of steam and industrial fluids. The company produces boiler controls, pressure and temperature controls, steam traps, and safety valves.

The team presented each of the companies to the committee and this was then followed by a brief discussion among committee members. All the companies were viewed as fitting the themes. Spirax-Sarco is particularly well-known to committee members and is highly regarded both for its contribution to improved energy efficiency but also for the quality of its overall franchise.

“Things fall apart; the centre cannot hold” – W.B.Yeats

Yeats isn’t often quoted in committee meetings, but one committee member was moved to quote from the poem ‘The Second Coming’² to illustrate the importance of unassuming businesses with simple products. The focus of the discussion was Norma Holdings a German business that specialises in clamps and ‘joining technologies’. The investment team had prepared a brief on Norma Holdings which is primarily involved in the automotive sector where their products are used to connect various pipes, tubes and cables particularly those used in emission control technologies. Over 50% of the company’s products are used in automotive emission control systems and are typically engineered for specific automotive models, with 70% of total sales customised for specific customers.

The key point during the discussion was the extent to which the system as a whole is dependent on the technology provided by Norma. The Yeats quote was used to illustrate the point that just because Norma’s product is relatively simple, it serves a critical function in ensuring that the system as a whole functions effectively. The Committee was strongly of the view that this was a robust justification for seeing Norma, and similar companies, as being suitable for the fund.

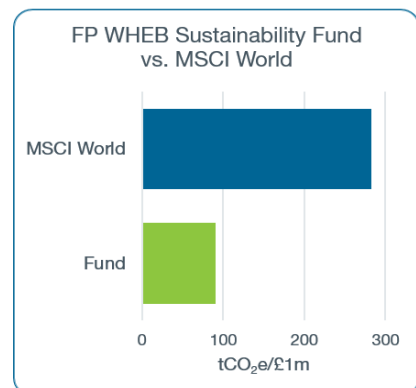


The one caveat to this argument was that, as one committee member put it, companies like Norma could be seen as being ‘at the back-end of sustainability’. While playing an important role, and benefiting from the core secular trends underpinning growth in the fund (in this case stricter air emission standards), it was felt to be important also to target and invest in companies providing core technologies that deliver the environmental value. In Norma’s case this would be the suppliers of the core catalytic technology which they then support through their collection of joining technologies.

WHEB Fund Carbon Footprint

The committee held a brief discussion of some recent work that had been commissioned on the FP WHEB Sustainability Fund’s ‘carbon footprint’. The work, which was carried out by an independent agency, measured the volume of carbon produced by companies in the fund and attributes the portion of these emissions to the fund based on the proportion of the business owned by the fund. The same calculations are then done on the fund’s benchmark (in this case the MSCI World). The conclusion of the analysis was that the FP WHEB Sustainability Fund has a carbon footprint of 91 tCO₂e/£1m invested in the fund compared with 282 tCO₂e/£1m invested in the MSCI. The carbon footprint of the fund is therefore 70% lower than the benchmark.

The committee held a brief discussion of the analysis



² ‘The Second Coming’, W.B.Yeats, 1919.
³ tCO₂e – tonnes of carbon dioxide equivalent

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focusing in particular on the highest contributing stocks. Committee members agreed that these companies should be targets for further engagement and suggested that more analysis could be done to determine where the high carbon emissions were coming from within these businesses and what the commercial value of these activities might be. The committee also discussed the methodology and how this might be improved as well as speculating on what other funds might have a lower carbon footprint and suggested that the team might seek to investigate this further.

How to improve client reporting and engagement

A group of large UK pension funds have recently published guidance for public equity asset managers on how to improve investment reporting⁴. The committee used this, and an example of WHEB's quarterly client reports, to discuss how WHEB's reporting to clients could be improved. The key messages from the wide-ranging discussion included:

- WHEB's reporting is strong on sustainability themes but is much less developed on the ESG quality of companies. This area will need to be expanded to meet best practice reporting.
- Ultimately client reporting and engagement should help communicate the basic vision of the fund. This should be at the level of the overall WHEB Group as well as at the individual fund.
- Climate change is once more something that people are keen to talk about. WHEB's positioning on climate change is very strong and WHEB should make more of this.
- Good client reporting should be about much more than just the quarterly report. WHEB's thought-leadership activities with pension funds, foundations and impact investing is also a core part of client reporting and engagement

WHEB is planning to organise an annual investor conference on 14th May which is aimed at both institutional investor clients as well as individuals with investments in the fund. We hope that this will enhance the quality of reporting and engagement with our clients (see below).

How does the oil price impact the fund?

One of the biggest market changes in recent months has been the extraordinary decline in the oil price. The price of West Texas Intermediate (WTI) fell nearly 60% from just over US\$107 a barrel in June to a low of US\$44 in January before recovering to US\$50 in March. The committee were interested to hear what impact this had had on the fund.

The team explained that while the fund owns no fossil fuel extraction businesses, it is still exposed to oil price moves. Most directly this includes some businesses that help to treat waste residues from oil and gas activity. Businesses like Newalta and Ecolab help to treat solid waste and wastewater from oil and gas fields and they have been affected by the slump in the oil price as the market worries about their future growth.

More indirectly, companies that benefit from efforts to improve automotive efficiency have also been affected as the market is anticipating that car buyers will be less interested in fuel efficiency if petrol is cheaper.

Finally, some renewable energy companies have also been hit. Some investors view oil prices as a proxy for energy prices with lower energy prices meaning more difficult competition for renewable energy generators.

The team explained that they believe many of these arguments misunderstand the real dynamics in these markets. For example, improvements in automotive fuel efficiency is driven as much by legislation as by consumer demand and oil, as an energy source, does not compete directly with renewables. Oil is mainly used in transport, while renewables are used in power generation.



⁴ 'A Guide to Responsible Investment Reporting in Public Equity', BT Pension Scheme et al., January 2015

The committee [had ...] a strong shared view on the importance of several key meetings happening in 2015.

Committee members were [...] reasonably optimistic about the chances of reaching a deal at [The COP 21 meeting in Paris].

Final comments and next meeting

The committee concluded the meeting with a look at the year ahead and shared a strong view on the importance of several key meetings happening in 2015. In particular these include a meeting at the end of September when the United Nations aims to adopt a new set of post-2015 sustainable development goals. The goals will replace the Millennium Development Goals that had previously been a key framework for the UN's activity until 2015. The UN sees the goals as providing 'the investment pipeline for the next 20 years' and so WHEB should view this as an important framework for its own investment activity.

The second meeting highlighted by committee members, is the 21st Conference of the Parties (COP21) to the UN Framework on Climate Change meeting in Paris at the end of the year. This meeting is seen as a critical opportunity to reach a global agreement on how to tackle climate change. Committee members were in the main reasonably optimistic about the chances of reaching a deal at this meeting.

Annual Investor Meeting

As indicated above, we are hosting our inaugural Annual Investor Meeting on the 14th May this year. One of our committee members, David Lloyd Owen, will be providing a presentation at the meeting and we hope that other committee members will also be able to join us at the meeting to meet investors in the fund and share their thoughts and insights about WHEB and the wider sustainability investing agenda.

As well as participation by committee members, we are also issuing an open invitation to all investors in the FP WHEB Sustainability Fund to come and attend this meeting. The meeting will provide an opportunity for investors to learn more about the wider sustainability agenda from external speakers as well as hear presentations about the approach and performance of the FP WHEB Sustainability Fund.

If you'd like more information or would like to register your interest in attending, please contact Felicity McDonald at felicity.mcdonald@whebgrou.com / (tel.) 0203 219 3411

Investment Advisory Committee Members



Clare Brook:
CEO, Blue Marine Foundation



Nick Robins:
Co-Director of a UNEP Inquiry into the Design of a Sustainable Financial System



Geoff Hall:
Chairman of WHEB Asset Management. Former Chief Investment Officer at Allianz Insurance Plc



Ebba Schmidt:
Investment Manager at the UK Pension Protection Fund (PPF)



Kelly Clark:
Director of the Tellus Mater Foundation



David Lloyd Owen:
Waste and Water Industry Consultant