



Investment Advisory Committee

WHEB's independent Investment Advisory Committee's key purpose is to scrutinise the investment team's activities, including stewardship. They review the fund's holdings and ensure that they meet with both the spirit and the letter of the strategy's sustainability criteria. Members play an advisory role, are independent experts in the field of sustainable investing and meet every four months.



Attendees

Seb Beloe (Head of Research)	Alice Chapple (Member)
Ted Franks (Fund Manager)	Martin Rich (Member)
George Latham (Managing Partner)	Abigail Rotheroe (Member)
Rachael Monteiro (Stewardship and Climate Analyst)	Jayne Sutcliffe (Non-Executive Chair)
Kavitha Ravikumar (Senior Impact Analyst)	
Katie Woodhouse (Investment Analyst)	

1. Business update

George Latham updated the committee on the current state of the market for impact investing and noted the ongoing divergence between retail and institutional markets. George described growing pressures on impact investment strategies due to continued underperformance against mainstream benchmarks (see below). This has caused some clients to shift from impact portfolios to strategies with lower tracking error against mainstream benchmarks such as the MSCI World Index.

George explained that WHEB's strategy is very different to the mainstream benchmark with <15% of MSCI constituents qualifying as impact stocks in WHEB's universe. Committee members were curious to understand how WHEB's strategy has performed against WHEB's universe. George responded that WHEB has been cautious about publishing these numbers as the universe is not the same as a benchmark. Nonetheless, the strategy has clearly outperformed the universe over most recent periods. This is communicated to clients at client meetings.

Institutional investors are more interested than retail investors in understanding performance relative to WHEB's own investment universe. This is typically seen as a better measure of WHEB's 'investment skill'. Given the overwhelming differences between the investment universe and the MSCI World index, WHEB is also considering whether to amend how performance gets reported to all types of investors.

2. Fund update

Over the period since the last meeting the 'Magnificent Seven' stocks and particularly those exposed to growth in Artificial Intelligence (AI), have continued to see extremely positive share price performance. Because WHEB does not consider any of these companies to be delivering a positive impact, they are not included in the investment universe and can not be part of the strategy. This continued to have a marked negative impact on the relative performance of the strategy against the MSCI World. At the same time, industrial technology and healthcare have also been relatively weak along with mid-sized businesses which have also underperformed.

While relative performance has been difficult, the impact investment team remain upbeat about the outlook for the fund. Ted Franks argued that there is now more contention in Nvidia's share price and while US politics continues to exert downward pressure on environmentally-themed stocks, the risk that this ends up undermining the Inflation Reduction Act is still seen as an unlikely scenario. At the same time, some parts of healthcare have started to see improvement in

performance as have some environmentally related sub-themes such as electric grids, water management companies and some select renewable energy companies (like First Solar).

The committee agreed with WHEB that AI-related stocks raise challenging issues in terms of sustainability. AI has in particular dramatically increased the greenhouse gas emissions associated with companies that are spearheading the deployment of this technology. Over half of Nvidia's business is linked with gaming and defence applications which are not considered to offer sustainability solutions. Members also noted that both Microsoft and Alphabet have recently published data showing that their greenhouse gas emissions have jumped dramatically as a consequence of the deployment of AI at scale.¹

3. Buys and sells in the period

During the period, three new companies were purchased and two companies were sold in the global strategy, with two new holdings and one sale in the European strategy.

Rockwell Automation (Resource Efficiency) sells hardware and software to enable manufacturing industries to automate their operations, reducing energy and other resource consumption by increasing efficiency and productivity (included in the Global strategy).




Gerresheimer (Health) supplies glass and plastic packaging products as well as medical devices for the pharmaceutical industry. The company's products enable safer distribution, accurate dosage and faster administration of drugs (included in the Global and European strategies).

American Water Works (Water Management) is a US-based water utility treating and distributing drinking water and collecting and treating wastewater for residential and industrial customers (included in the Global strategy).




SOL (Health) is an industrial gases company producing technical and medical gases for a variety of end-markets. The company's main market is in healthcare where it provides oxygen for use in respiratory and infusion therapies both in the home and in hospital (included in the European strategy).

Sales included Cooper Companies (Well-being) which had been in the global strategy for twelve years and SolarEdge (Cleaner Energy) in the global strategy, and Alfen (Cleaner Energy) for the European strategy.

The committee agreed that all purchases were consistent with the policies and philosophy of the investment strategy.

There was however some discussion about the significant issues associated with single-use plastics, particularly in the context of medical waste. Ted Franks pointed out that in many cases single-use plastics are a regulatory requirement. Furthermore, in many markets medical waste is required to be autoclaved ensuring that it does not pose a health threat. It was also agreed that while the issue does not undermine the positive health impact offered by Gerresheimer, it should be the focus of active engagement with the business.

Committee members wondered whether WHEB's tight definition of impact as being delivered through products and services rather than through operations was one that clients understood. Members underlined that they continue to be impressed with the sophistication of the impact analysis, but wondered whether operational aspects of ESG could not also have a bearing on impact. Seb Beloe emphasised the importance of product impact in WHEB's stock selection process and clarified that this is the sole focus of the impact engine analysis. A separate second step in the analysis of a potential investment then focuses on operational quality including considering material ESG issues. Members were keen

to see this additional analysis as part of their assessment of WHEB's process. Seb Beloe confirmed that this would be supplied for new portfolio additions in advance of the next Advisory Committee meeting.

4. Sustainability Disclosure Requirements (SDR)

Seb Beloe provided a brief update on WHEB's application to the FCA to amend the prospectus for the FP WHEB Sustainability Fund in order to utilise one of the sustainability labels under SDR. Much of the interaction with the FCA has been helpful in encouraging a clearer and more specific articulation of the fund's sustainability objective and theory of change.

At the core of WHEB's application is the proposition that impact is delivered in two ways. The first is through WHEB's investments in companies that then themselves deliver an impact through their products and services. The second is through WHEB's own investor contribution using active engagement with companies and other market participants. The SDR process has confirmed that the FCA shares this view. Nonetheless, a particular focus of the FCA's scrutiny has been on the nature of the investor contribution. For the purposes of the label, the FCA has stressed that engagement needs to be clearly linked back to the sustainability objective that is set out for the fund.

This link is apparent in much of WHEB's engagement which is focused on accelerating the delivery of positive impact. However, George Latham also argued that wider engagement, for example focusing on good governance or improved gender diversity, is intended to support improved operational performance which in turn leads to greater ultimate positive impact.

WHEB is still waiting to hear back from the FCA following a recent round of revisions and while the process has been lengthy and challenging, the company remains optimistic about both WHEB's application and the positive impact that the regime should have on the wider market.

5. Stewardship and engagement roundtable

Rachael Monterio summarized discussions from an external roundtable on stewardship that WHEB organised in early July. The roundtable was organised to provide initial input into a white-paper that WHEB is planning to publish later in the Autumn. The roundtable included representatives from asset owners, investment consultants, non-governmental organisations as well as WHEB representatives. The aim of the white-paper is to set out WHEB's views on the principles underpinning good quality stewardship and engagement as well as identifying choke-points in the wider stewardship system that are limiting the potential of the system to deliver positive outcomes.

Key initial points from the roundtable included discussions on:

- how legitimacy is delivered through the investment chain from the individual saver through asset owners to asset managers;
- how accountability for the exercise of influence is addressed through reporting and other mechanisms;
- how influence on companies can be made to be more effective in delivering key outcomes
- how influence on the financial system can be made to be more effective.

The committee had a brief discussion on some of these points including on the complementary roles that NGOs can play in providing expertise in company engagements and the differing roles and approaches of active and passive funds.

A longer discussion focused on the question of whether, when an engagement is successful, it is feasible for an investor to claim causality for this success. Members argued that while claiming causality is likely to be possible only extremely rarely, different levels of contribution could be claimed based on the extent to which individual investors have led engagements.

6. Any other business

Efforts to replace Carole Ferguson on WHEB's independent investment advisory committee have begun. WHEB has a list of potential candidates and is also advertising the opening on LinkedIn and other platforms to attract diverse applications.

A short list of potential candidates to replace Carole will be discussed with other Committee members in due course.

The next meeting is scheduled for 21st November.

Investment Advisory Committee Members

**Alice Chapple**

- Founder of Impact Value
- Chair, Investor Watch and Director, Schroder BSC Social Impact Trust plc

**Abigail Rotheroe**

- NED at HydrogenOne, Baillie Gifford and Franklin Templeton
- Previously Investment Director at Snowball Impact Management

**Martin Rich**

- Co-founder and CEO of Future-Fit Foundation
- 25 years' experience in mainstream and social investment

**Jayne Sutcliffe**

- Non-Exec Chair of WHEB Asset Management
- Founder and former CEO of Charlemagne Capital

