

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 strategy's processes and holdings to 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)

Hans-Christoph Hirt (Member)

George Latham (Managing Partner)

Jayne Sutcliffe (Non-Executive Chair)

Rachael Monteiro (Stewardship and Climate Analyst)

Kenneth Kershaw-Green (FundRock Member)

Kavitha Ravikumar (Senior Impact Analyst)

Charlie Deptford (FundRock Member)

Apologies

Martin Rich (Member)

Abigail Rotheroe (Member)

1. Introductions

Jayne Sutcliffe started the meeting by welcoming three new members to the committee. Dr. Hans-Christoph Hirt is an independent member who has been appointed to fill the place vacated by Carole Ferguson. Hans has had a long career spent in active equity management focusing in particular on stewardship and impact investment at Federated Hermes and latterly at UBS. He is a trustee of the Hermes Group Pension Scheme, a member of the Advisory Board at University College London and a member of the Financial Conduct Authority's Listing Authority Advisory Panel.

This is also the first Advisory Committee meeting under the revised Terms of Reference that were adopted to include an expanded role for the committee in relation to the FCA's Sustainability Disclosure Requirements. Under the new Terms of Reference, the committee has a formal role, alongside WHEB's Investment and Risk Committee, to assess the appropriateness of WHEB's investment process for selecting assets for the FP WHEB Sustainability Impact Fund. This fund has now started to use the FCA's Sustainability Impact label. With this in mind two representatives from FundRock, the fund's Authorised Corporate Director (ACD), will also attend committee meetings.

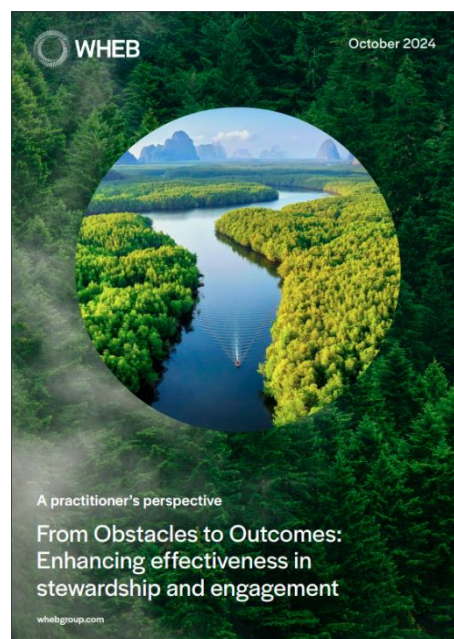


Dr. Hans-Christoph Hirt



2. Business update

George Latham provided a brief update on the business. The market environment for the strategy has remained very difficult with artificial intelligence (AI) companies providing outsized returns relative to the rest of the market. This has made relative performance difficult (see below). Nonetheless as at the end of November 2024, assets under management remained close to £1.1bn with the business still healthily profitable.



While the market backdrop has remained challenging, WHEB has made progress in other areas. The FP WHEB Sustainability Impact Fund was the first listed equities fund to use any of the FCA's SDR labels (and the second fund overall). WHEB has also published a white paper on stewardship and engagement which has been very well received by clients and other market participants¹. Together these achievements have helped to differentiate and underline the integrity of WHEB's approach. WHEB's hope is that this reinforces the company's position as the leading impact investor in listed equities.

Committee members had a number of questions about performance and how the WHEB team think about this. George responded that the WHEB team has done a lot of work looking at how to contextualise the fund's performance given that more than 85% of the MSCI World, the official benchmark for the fund, is not qualified into WHEB's investment universe. The team now have much better data showing performance against a peer group of 12 funds over multiple years as well as against the WHEB universe of c.450 companies that are qualified for investment by the fund. George cautioned that neither of these are formal benchmarks, but the WHEB fund's performance is much stronger against these comparators.

Members offered their congratulations to the team on the news of the Sustainability Impact label and were interested to know what the team think is likely to happen next. At the time of the committee meeting fewer than ten funds had started to use the label. At that point, the FCA had indicated that more than 100 applications were in progress. Since the meeting, another fifteen or so funds have announced that they will be using one of the labels and the team is optimistic that the fund labels will become an important element in fund selection



3. Fund update

The performance of WHEB's strategies continues to be challenging with the dominance of artificial intelligence (AI) persisting through much of the period. In addition, conflict, inflation and higher interest rates have caused many governments and investors to retreat from their sustainability commitments.

Ted Franks argued that in previous periods, when the environmental themes have underperformed, this has tended to be offset by strong defensive performance from healthcare companies, typically held in WHEB's social themes such as Health and Well-Being. Unfortunately, over recent years, due to the 'echo effect' of COVID and slowing growth in China, this has not been the case.

¹ A practitioner's perspective: From Obstacles to Outcomes: Enhancing effectiveness in stewardship and engagement', October 2024 (<https://www.whebgroup.com/assets/files/uploads/20241030-wheb-stewardship-white-paper.pdf>)

The election of Donald Trump to a second term in the White House has further exacerbated these trends. Renewable energy stocks have been hit on the assumption that Trump will attempt to repeal parts of the Inflation Reduction Act (IRA). At the same time, healthcare companies have also been hit due to concerns about the appointment of Robert F. Kennedy Junior as secretary of the U.S. Department of Health and Human Services.

However, Ted did stress that he believes that the valuations of many stocks are now excessively discounted. Approximately a quarter of the strategy is trading on ten-year low valuations with many of these businesses facing strong structural growth in spite of a Trump presidency. Ted said that he will be providing a fuller update on the strategy and its outlook at WHEB's Annual Investor Conference at the end of November.

4. Buys and sells in the period

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

ATS (Resource Efficiency) sells hardware and software systems to enable manufacturing industries to automate their operations, reducing energy and other resource consumption by increasing efficiency and productivity. The company has a particular focus on life sciences and electric vehicles markets (included in the Global strategy).



Smurfit Westrock (Environmental Services) collects, manufactures and sells recycled cardboard packaging. The company is listed in the US and operates throughout Europe and the Americas. Smurfit Westrock is a global leader in sustainable packaging with clients in food, beverages, household consumables and industrial markets.

Sales in the period included Ansys (Resource Efficiency) which was acquired by another business and Fisher and Paykel (Health) which was sold on valuation. Both companies were sold from the global strategy. A third company, Smurfit Kappa acquired the US business Westrock and re-listed the merged entity in the US as Smurfit Westrock. The global strategy now owns the US listing of Smurfit Westrock, where previously Smurfit Kappa had been owned in both the global and European strategies.

The committee indicated that they were comfortable with the investment in ATS which they consider fits the strategy's mandate. Members also wanted to understand whether the Westrock acquisition had changed our view of the investability of the combined entity. Seb Beloe said that the team had analysed the combined revenues of the new business and had concluded that approximately 57% of revenues are associated with recycled cardboard packaging and that the management have indicated that their strategy is to increase this further. Pre-merger, Smurfit Kappa generated c.78% of revenues from recycled cardboard.

Members present at the meeting indicated that they were comfortable with both companies as part of the WHEB strategy. Absent members had supplied comments in advance of the meeting and had concluded that they were also comfortable with the additions.

5. Investability of ASML

Seb Beloe presented materials on the impact investment case for the Dutch business ASML for discussion by the committee. ASML makes lithography machines that are used to manufacture semiconductors. The company makes a

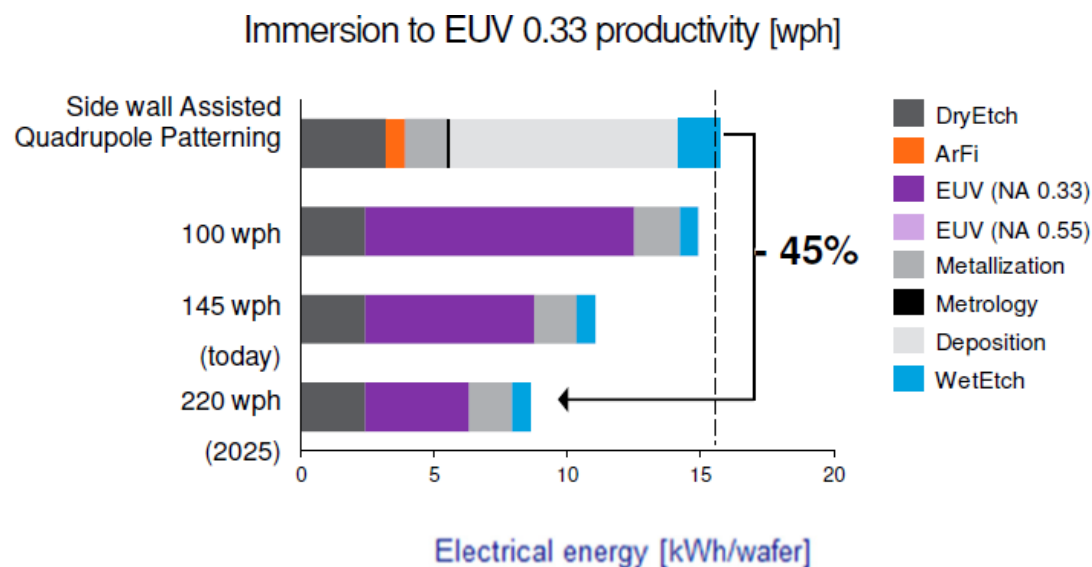
variety of different machines including both DUV (deep ultra-violet) and EUV (extreme ultra-violet) machines. Both machines are used to manufacture semiconductor chips.

The market for lithography machines is still largely focused on DUV machines of which there are several manufacturers including Canon, Nikon, ASML and several Chinese companies. EUV machines are increasingly being used instead of DUV machines in manufacturing many types of semiconductors. However, EUV machines are also able to manufacture advanced semiconductors which DUV machines can not do.

All suppliers of these machines offer improvements in energy efficiency with each new generation of technology. However, according to experts we spoke to, DUV machines all have comparable levels of energy efficiency.

ASML is the only manufacturer of EUV machines and these machines are significantly more energy efficient in manufacturing semiconductors compared to DUV machines. This is illustrated in figure 1 below where 'wph' refers to wafers per hour.

Figure 1: Electrical power reduction associated with EUV lithography machines²



Seb argued that the team has decided therefore to set the energy efficiency performance of DUV machines as the baseline and focus on ASML's EUV machines as offering improved energy efficiency against this baseline. There are other efficiency benefits associated with the advanced semiconductors that EUV machines can manufacture. However the measurement of these benefits is extremely complicated and so WHEB has disregarded them here.

Committee members were asked to comment on whether they felt that this was a reasonable basis for the impact case. In addition, WHEB's threshold for investability is 50% of revenues generated from an impactful technology. However, there is a provision to include companies where revenues fall below this threshold so long as there is clear visibility to these revenues increasing to 50% and where the Advisory Committee is supportive of the company's inclusion in the investment universe.

Committee members were clear in their support for the impact case of EUV technology. On balance there was also support for the inclusion of ASML in the investment universe, on the basis of the clear visibility to the 50% threshold. Key points of debate included concerns over:

- the potential for 'rebound effects³' being particularly high in Resource Efficiency companies,
- whether to include service revenues as thematic; and,
- concerns as to whether baselines can be established where companies are the sole provider of a product.

² Source: ASML

³ This is an effect where resource efficiency benefits do not result in lower resource use but result instead in increased consumption (see <https://ukerc.ac.uk/project/the-rebound-effect-report/>) for more information.

Seb made the case that service revenues could be excluded from the calculation on the basis that it is a lagging indicator of equipment sales. EUV sales are expected to be >50% of company revenues sometime between 2025-28 depending on whether you include or exclude service revenues. Notwithstanding these discussions, Committee members agreed to the proposal to include ASML in the investment universe.

6. Any other business

Rachael Monteiro was asked to report back on the reception that the Stewardship and Engagement white paper had received and whether WHEB was going to contribute to the Financial and Reporting Council (FRC) consultation on the Stewardship Code.

Rachael thanked the Committee for their contribution to the white paper and summarized the response which has been very positive. WHEB has for example been asked if we could feed our findings directly into the FRC's stewardship process. The team has also been asked to explore whether elements of the white paper's recommendations might be used as a basis for setting more ambitious stewardship standards than those contained in the Stewardship Code. Rachael also confirmed that WHEB will be participating directly in the consultation process for the Stewardship Code and that we have shared the white paper directly with the FRC.

Meetings for 2025 have yet to be agreed but will likely take place in February, July and 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



Hans-Christoph Hirt

- Hermes Pension Trustee, Advisory Board UCL, Member, FCA Listing Authority Advisory Panel
- UBS, Federated Hermes



Jayne Sutcliffe

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



Martin Rich

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



FundRock

- Representatives attend meetings in their capacity as the Authorised Corporate Director of the FP WHEB Sustainability Impact Fund

