
WHEB's investment strategy



Our sustainability objective

We are explicit about the objective of our investment strategy which is to achieve competitive risk adjusted returns by investing in companies that deliver a positive sustainability impact. For these purposes positive sustainability impact is understood to include:

- **Supporting a stable climate and healthy ecosystems** through activities that deliver cleaner energy, environmental services, resource efficiency, sustainable transport and water management across the economy.
- **Enabling more productive and healthy lives for people** through activities that deliver more and better education, healthcare, and that enhance safety and well-being.

We augment this positive impact by using our own influence with investee companies and the wider financial system to encourage and enable more positive outcomes.

We have identified a set of business activities that are aligned with these objectives and have classified them into nine sustainability impact investment themes. These themes are described in more detail in Figure 1 on the next page. We've also set out the specific types of companies that we believe offer solutions, as well as all











the individual companies held in the strategy within each theme. The table also details the linked key performance indicators (KPIs) that are used to measure the ultimate positive impact associated with each investment and the relevant UN Sustainable Development Goal.



Figure 1: The problems we are helping to solve

WHEB Investment Theme	Education 	Health 	Safety 	Well-being 
The problem we are solving	A lack of education limits opportunities and slows social development.	Illness and disease cause death and destroy quality of life.	c.5% of deaths are due to accidents at home, travelling or in the workplace.	Unhealthy lifestyles contribute to chronic diseases that account for 61% of all deaths. ¹
How companies provide solutions	<ul style="list-style-type: none"> – Providing education and training – Creating publishing and education technologies 	<ul style="list-style-type: none"> – Cutting health costs – Enabling medical research – Providing diagnostics – Providing medical devices and therapies – Providing preventative care – Improving access to healthcare 	<ul style="list-style-type: none"> – Ensuring products are safe – Directly protecting people 	<ul style="list-style-type: none"> – Providing care for vulnerable groups (e.g. the elderly) – Enabling good exercise and diet – Supporting hearing, visual and oral health
WHEB portfolio holdings²	– Grand Canyon Education	<ul style="list-style-type: none"> – Agilent – AstraZeneca – bioMérieux – CSL – Danaher – Evotec – Fisher & Paykel Healthcare – Genmab – Hamamatsu Photonics – ICON – Lonza – Novo Nordisk – Sartorius – Siemens Healthineers – Thermo Fisher Scientific 	<ul style="list-style-type: none"> – Bureau Veritas – MSA Safety – Steris 	<ul style="list-style-type: none"> – Coloplast – Cooper Companies – Sonova
Key performance indicators (KPIs)	– Days of tertiary and vocational education	– No. of people benefiting from healthcare	– No. of people with improved well-being	– No. of people with improved wellbeing
UN Sustainable Development Goals (SDGs)				

¹ <https://www.un.org/en/chronicle/article/lifestyle-diseases-economic-burden-health-services>
² Whole strategy holdings as of 31/12/23

Cleaner Energy 	Environmental Services 	Resource Efficiency 	Sustainable Transport 	Water Management 
Limiting global warming to <1.5°C requires power sector emissions to decline by 60% by 2030. ³	Environmental pollution and biodiversity loss are undermining ecological systems that support human life.	Limiting global warming to <1.5°C requires the global economy to increase energy efficiency by c.4% per year. ⁴	Limiting global warming to <1.5°C requires all transport emissions to fall by 3% per year to 2030. ⁵	Overuse and contamination of freshwater creates water insecurity. 47% of the global population suffers from water scarcity. ⁶
<ul style="list-style-type: none"> – Solar power – Wind power – Clean energy infrastructure – Other forms of cleaner energy 	<ul style="list-style-type: none"> – Environmental consulting and monitoring – Developing more sustainable materials – Pollution control – Increasing circularity in material use – Climate adaptation 	<ul style="list-style-type: none"> – Making energy-efficient products – Making buildings more efficient – Making manufacturing more efficient 	<ul style="list-style-type: none"> – Reducing emissions per km travelled through mass transit – Reducing emissions by using electric vehicles 	<ul style="list-style-type: none"> – Increasing the efficiency of water use – Treating and recycling wastewater
<ul style="list-style-type: none"> – Alfen – Elia Group – First Solar – SolarEdge Technologies – Vestas Wind Systems 	<ul style="list-style-type: none"> – Advanced Drainage Systems – Arcadis – Croda International – L’Air Liquide – Linde – Smurfit Kappa – Sweco – TOMRA Systems 	<ul style="list-style-type: none"> – Ansys – Ariston – Autodesk – Belimo – Daifuku – Dassault Systèmes – Hexagon – Keyence – Power Integrations – Schneider Electric – Silicon Laboratories – Soitec – Spirax-Sarco Engineering – Trane Technologies – Trimble 	<ul style="list-style-type: none"> – Aptiv – Infineon – J.B. Hunt Transport Services – STMicroelectronics – TE Connectivity 	<ul style="list-style-type: none"> – Ecolab – Veralto – Xylem
<ul style="list-style-type: none"> – MWh of renewable energy generated – tCO₂e avoided 	<ul style="list-style-type: none"> – Tonnes of waste recycled – tCO₂e avoided 	– tCO ₂ e avoided	– tCO ₂ e avoided	<ul style="list-style-type: none"> – Litres of wastewater treated – Litres of water use avoided
				

³ https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf
⁴ <https://www.iea.org/data-and-statistics/charts/primary-energy-intensity-improvement-2011-2021>
⁵ <https://www.iea.org/reports/transport>
⁶ <https://www.nature.com/articles/s41545-019-0039-9>

How we select investments

The markets that we invest in are constantly evolving. New businesses offering new technologies are being brought to market or being bought by other larger businesses. We continually scan stock exchanges to identify these new businesses to assess whether they are offering solutions to the social and environmental problems that we target. To qualify, businesses need to have a market capitalisation of more than US\$2bn and must generate at least 50% of their revenues from products and services that fall under one or more of our investment themes. In addition, businesses must either be absent from or have minimal exposure to areas that are sources of significant negative impacts on society or the environment. This includes activities like fossil fuel exploration, and production, the production and sale of tobacco, pornography, intensive farming or fishing activities and unsustainable timber products.⁷

Companies that pass these tests are included in our investment universe. Companies then receive detailed further analysis as part of our initiation process. This starts with a comprehensive assessment of the impact 'intensity' delivered by a specific company's products and services. This is assessed using our proprietary 'Impact Engine' which considers:

- The importance of the positive outcome the product or service is addressing (eg reducing global warming, or improving healthcare outcomes for people).
- The improvement in the positive outcome that the product or service delivers.
- The contribution to the outcome made by the product or service.

An overall score is generated from this analysis. A positive score using this methodology confirms that the company is delivering a positive impact on one or more of the nine

sustainability impact investment themes. The higher the score the more 'intensely positive' we consider the impact to be. Less than 15% of the MSCI World achieves a positive score using this methodology. The impact engine is summarized in Figure 2.

A second step then also considers the 'fundamental quality' of each business. This incorporates analysis of the environmental, social and governance (ESG) management and performance of the business. We believe that ESG data is helpful alongside financial and other commercial data in building a more complete picture of the overall quality of a business and its operations. This analysis considers five dimensions covering the attractiveness of the markets the company operates in, its competitive position, how the company manages its own operations and its value-chain (including suppliers and customer relationships), the quality of management and the company's strategy for growth.

These two metrics; the impact score and the fundamental quality score are then plotted together to illustrate our overall view of these dimensions. Figure 3 below shows the FP WHEB Sustainability Fund⁸ at the end of 2023. Companies that we bought and sold over the year are also shown along with the average score of the portfolio at the start and end of the year. High scoring impact stocks that we sold during the year included the hearing aid and cochlear implant manufacturer Sonova Holding and Enphase a manufacturer of microinverters for use on solar panels. This was more than offset by purchases of AstraZeneca, Schneider Electric and Tomra. The net result was a slight increase in overall impact intensity and a more marked increase in overall quality.

Figure 2: The Impact Engine

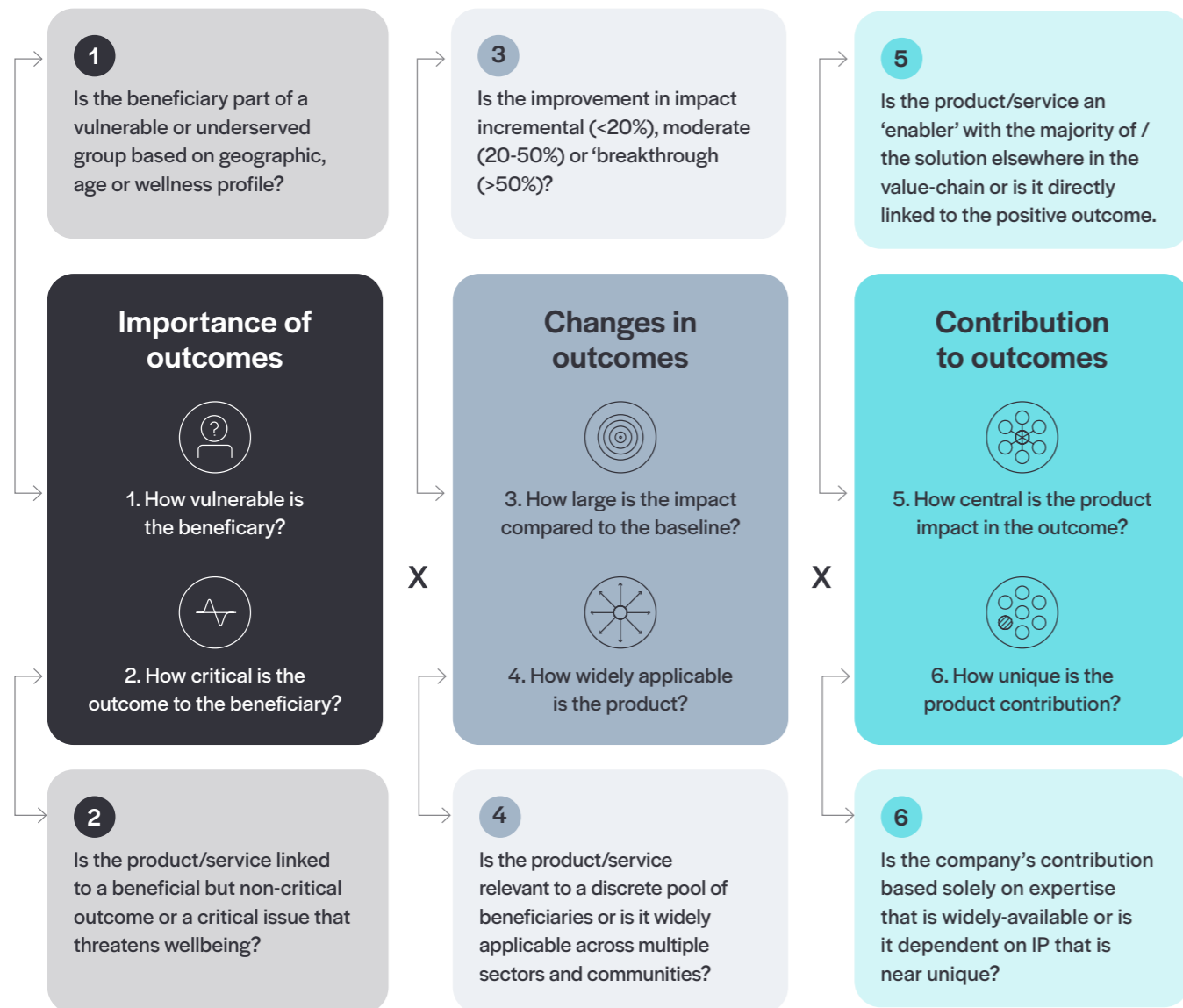


Figure 3: The impact map of WHEB's strategy during 2023



⁷ For a full description of our approach please see <https://www.whebgroupp.com/assets/files/uploads/20240110-ethical-outcomes-final.pdf>
⁸ The FP WHEB Sustainability Fund is the reference account for the strategy which is available through other fund vehicles outside the UK.

Fund performance in 2023

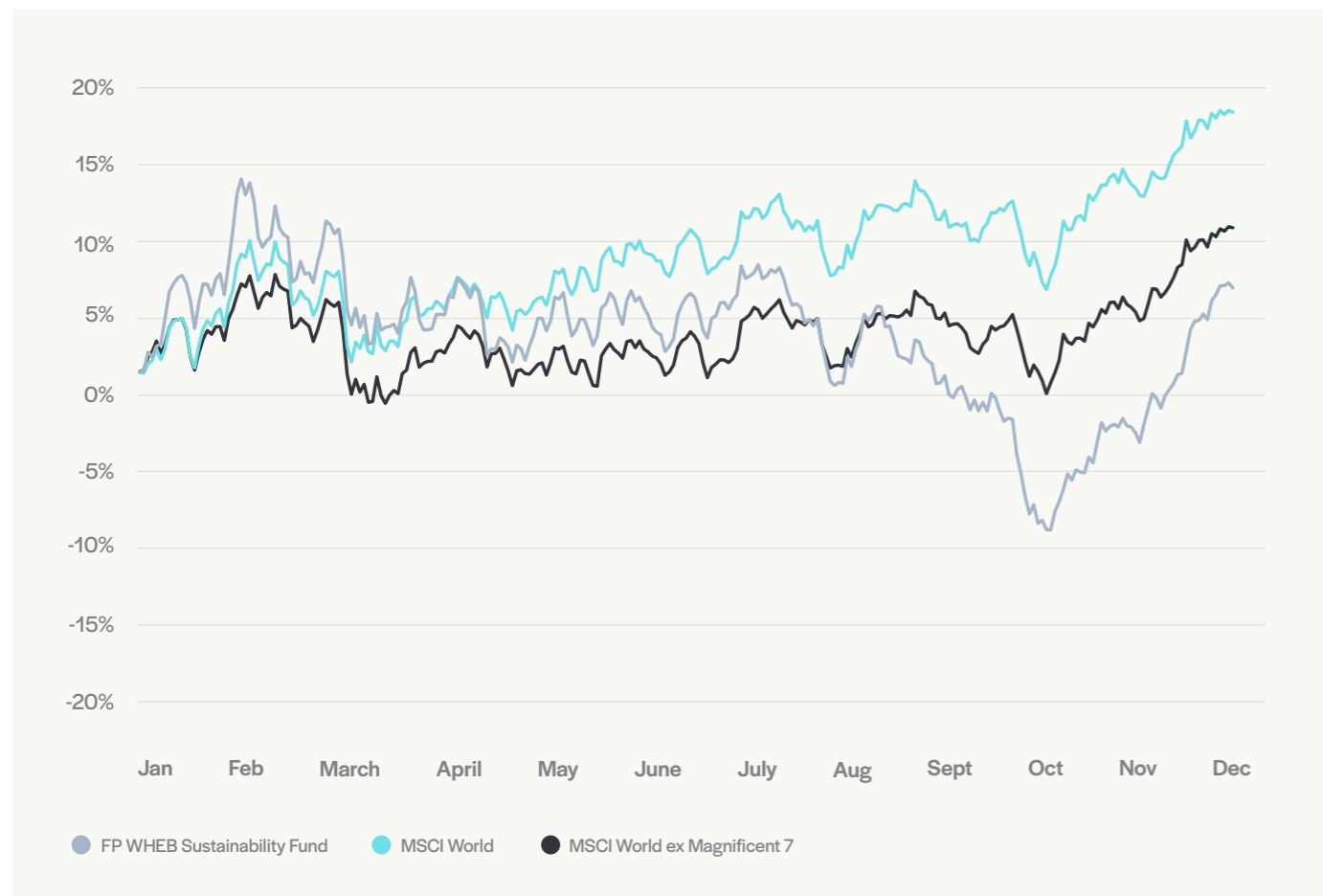
Stock markets in general enjoyed a better year in 2023 compared to 2022. Following the sharp increases in inflation in 2022, much of 2023 was dominated by expectations around inflation and interest rates. This created a particularly volatile environment, with the market displaying large swings in sentiment.

This was most visible in the second half of the year. At the start of the year, many investors expected global interest rates to start to decrease in early 2024 if not before. In the summer it became clear that this timetable was too ambitious and equity markets sold off. Then, just as abruptly, confidence

returned at the end of October as the US Federal Reserve signalled an end to the rate-raising cycle, prompting a rally into the end of the year.

In general, the market environment during 2023 tended to suit large companies, seen as more resilient to higher interest rates. The so-called 'Magnificent Seven' enjoyed a particularly strong year and for much of it were almost entirely responsible for positive returns in the mainstream benchmarks (see Figure 4). Companies that deliver a positive social or environmental impact are generally smaller than most of the stocks in these benchmarks. They also tend to be more growth-oriented and so are more sensitive to interest rates.

Figure 4: The Magnificent Seven (2023)



⁹. Bloomberg
¹⁰. FE Analytics

The FP WHEB Sustainability Fund

In 2023 the C Acc Share Class of the FP WHEB Sustainability Fund returned 3.99%. The strategy's two comparator benchmarks are the MSCI World Total Return Index and the median-performing fund in the Investment Association's 'Global' peer group. The former rose 16.81%,⁹ and the latter 12.68%,¹⁰ in the year. Over the course of the year, not owning the 'Magnificent Seven', which are not qualified for investment in WHEB's investment strategy, was responsible for the majority of this relative underperformance.

In contrast to 2022, the largest proportion of the positive absolute investment return from the fund came from companies in our Resource Efficiency theme, including from

Ansys, one of the weakest performers in the previous year. We also saw strong performance from our Environmental Services theme including Advanced Drainage Systems which is well-placed to benefit as communities and businesses across the US invest more in storm water drainage systems to combat climate change.

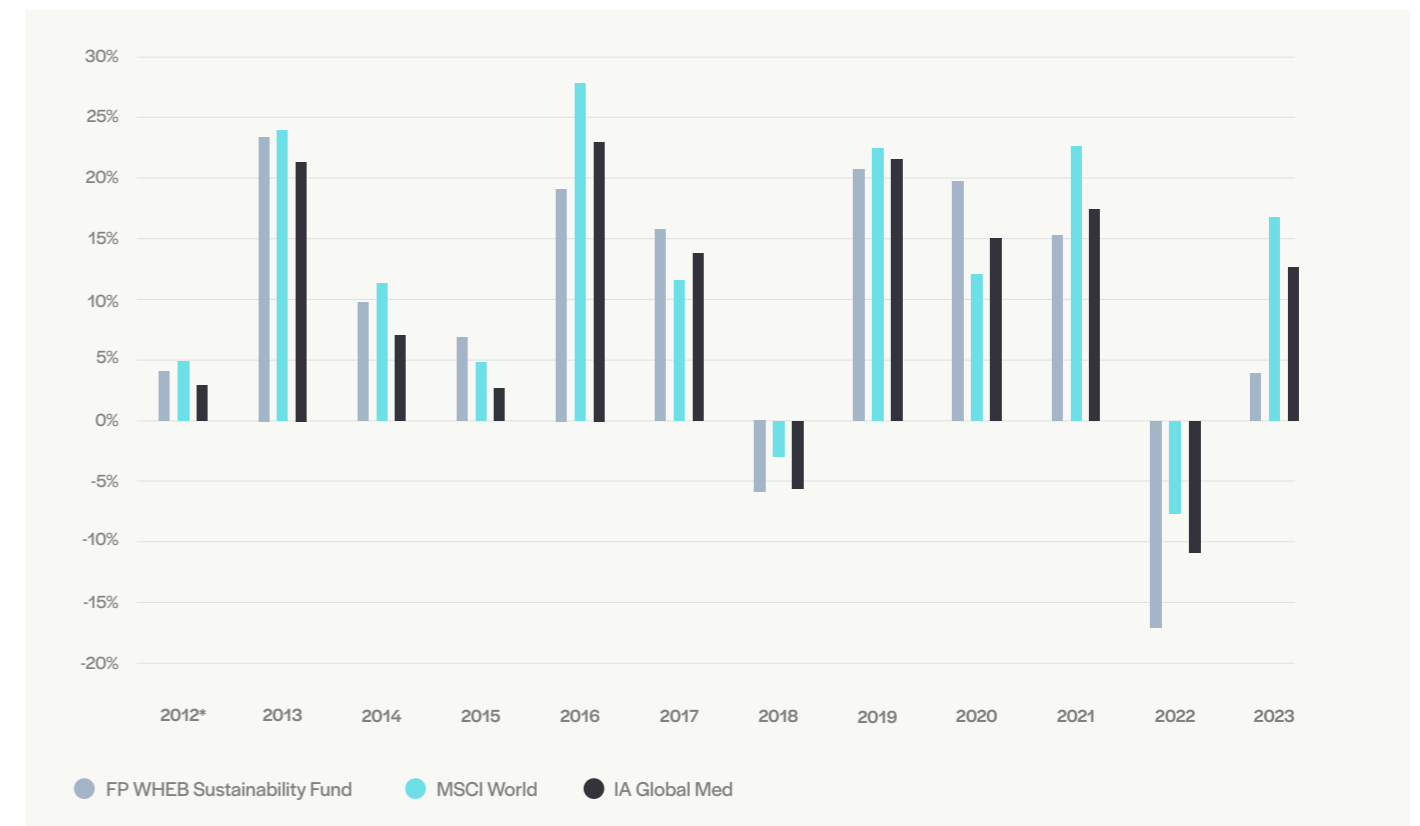
This positive performance was partly offset by weakness in the Cleaner Energy theme. SolarEdge, a manufacturer of microinverters that make solar panels more efficient as well as charging equipment for battery electric vehicles, was particularly weak in the second half of the year. Investors were concerned about demand due to persistently high interest rates making homeowners more cautious about investing in solar power systems.

Outlook for 2024

Following the fall in inflation, sentiment in global equities was more positive at the start of 2024. Many investors are expecting that the interest rate-raising phase deployed by central banks will come to an end in 2024. This environment should be more supportive for the generally smaller and more growth-oriented impact stocks held in WHEB's investment strategies. The timing of when this more positive environment might emerge is of course highly uncertain.

Over the longer term, the fundamental qualities of companies and the opportunities they face become more important drivers of performance. We expect that the sustainability-led growth drivers our companies address will provide an expansionary path over multiple years if not decades. Our faith in those drivers and in the competitive advantages of the companies themselves is as strong as ever.

Figure 5: FP WHEB Sustainability Fund vs. IA Global vs MSCI World (2012–2023)



* Performance in 2012 is reported from 30 April at the re-launch of the strategy.



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