



WHEB

March 2021

Investment Advisory Committee: Summary minutes

Assets under management (AuM) grew by over half since October to £1.1bn.

It was also noted that this committee meeting is expected to be Geoff Hall's last in the chair as he is planning to retire from WHEB.

Attendees:

Attendees:

- Geoff Hall (Chair)
- Seb Beloe (Head of Research)
- Sarah Briscoe (Business Development)
- Ted Franks (Fund Manager)
- George Latham (Managing Partner)
- Rachael Monteiro (Business Development)
- Kingsmill Bond (Member)
- Mike Clark (Member)
- Ray Dhirani (Member)
- Carole Ferguson (Member)

1. Business update

Since the previous meeting in October 2020, the business has grown significantly. George Latham provided a brief update on the most significant changes. Perhaps most notably, assets under management (AuM) grew by more than half since October to £1.1bn. This growth was driven by new institutional mandates as well as continued in-flows from existing clients. In December, WHEB also successfully launched a new US\$70m Irish-domiciled fund for EU-based investors.

Alongside this asset growth, WHEB has welcomed several new team members. Fanny Ruighaver was appointed as a new EU-based Business Development Director in November¹. She has since been joined in the business development team by Rachael Monteiro, working with Sarah Briscoe based in WHEB's London office.

WHEB has also added a fifth analyst to the investment team with the appointment of Claire Jervis.

It was also noted that this committee meeting is expected to be Geoff Hall's last in the chair. After ten years, he is planning to retire from WHEB. George indicated that WHEB expect to announce his successor in the next couple of months.

WHEB continues to manage a single core investment strategy, but this is now accessible through five different vehicles that are available to investors in different geographies. To support this increased scale, WHEB is planning to welcome further new team members in the coming months.

2. Overall fund performance and composition

In keeping with the long-term focus of the investment strategy, there was relatively limited change in the composition of the fund since the last committee meeting in October. The market, meanwhile, experienced a dramatic shift in the first few months of the new year. Concerns over rising inflation, combined with an early-cycle rally, meant that 'value' stocks outperformed, while higher quality 'growth' companies were largely overlooked.



Fanny Ruighaver, Business Development – Europe*



Sarah Briscoe, Business Development



Claire Jervis, Investment Analyst



Rachael Monteiro, Business Development

¹ – Fanny is an employee of FundRock Management Company SA, Distributor of WHEB Asset Management in Europe.

HelloFresh is the world's #1 supplier of meal kits. The meals are designed with fresh ingredients and in pre-measured quantities with portions typically of between 500-800 calories.

WHEB first opened a position in Kingspan in May 2014 and had held Kingspan shares continuously across all the firm's investments funds until the end of February 2021.

This type of market rotation is challenging for the WHEB strategy and it underperformed the MSCI World in February and early March. The down-turn was particularly acute for some of the cleaner energy holdings.

Ted Franks drew a parallel with an equivalent period in the fourth quarter of 2016 when the market experienced a similar rotation out of growth and into value stocks. That period of market rotation was rapidly followed by a return to growth and a focus on mid-cycle businesses where the WHEB strategy has strong exposure. We are confident that this is pattern is likely to be repeated over the coming quarters.

Committee members noted the extreme valuations and volatility that many clean energy companies have experienced in recent months. Ted agreed that there has been a bit of a frenzy in recent months with new listings and the launch of many Special Purpose Acquisition Companies (SPACs) focused on thematic areas such as electric vehicle charging. Committee Members said this was reminiscent of the 'internet bubble' of the early 2000's. Members agreed that it was prudent to avoid the more speculative opportunities and try to remain disciplined on valuations overall, in keeping with WHEB's strategy.

3. Buys and sells in the period

There have been relatively few changes to the portfolio over the previous four months. Just one new holding acquired, and one business sold in the period.

HelloFresh AG (Well-being) is the world's #1 supplier of meal kits. The meals are designed with fresh ingredients and in pre-measured quantities with portions typically of between 500-800 calories. The business is designed to promote healthy eating and substantially reduces food waste through precise portion control and accurate demand forecasting.



Ted introduced HelloFresh as a new portfolio investment. HelloFresh's core proposition is in making fresh ingredients more accessible as part of a healthy diet. These benefits are the reason that the company is considered to be part of WHEB's Well-being investment theme. The business model does also offer significant resource efficiency benefits. The company claims the business model allows them to forecast demand very accurately. Ingredients are also pre-measured, and together these features enable the company to reduce food waste by two-thirds compared to traditional food retail.

Committee members were curious about the use of packaging and particularly plastic packaging. Ted said this is still a work in progress at the company. Packaging as a whole has been minimised, with recycled cardboard used in preference to plastic. The company is also trialling new packaging in some markets and has halved the amount of plastic packaging per meal in these regions. Ted affirmed that this would be an area for future engagement with the company.

Committee members confirmed that they were happy that the new investment was consistent with the policies and principles underpinning the strategy.

Kingspan and the Grenfell Tower fire

Kingspan is an Ireland-headquartered business that develops and manufactures a variety of building insulation boards and panels. The products are used in new buildings as well as in renovations to improve the energy efficiency of buildings.

WHEB first started a position in Kingspan in May 2014 and has held the shares continuously across all the firm's investment funds until the end of February 2021. At that time WHEB held approximately 0.11% of the company's outstanding equity.

Seb Beloe presented a discussion paper to the Committee on the events that surrounded the Grenfell Tower fire that took place on the 14th June 2017. The fire resulted in the loss of 72 lives with a further 70 people sustaining significant injuries.

The events surrounding the fire have been the subject of an extensive Public Inquiry. From the start of this Inquiry it was clear that only a small amount of Kingspan product was used on the building. Furthermore, the company had no involvement in the design or specification of the cladding system and was not initially even aware of the use of their product on the building.



It seems clear that the primary failings at Grenfell were due to the cladding system as a whole rather than a specific failing in the insulation that was used.

Safety concerns were raised by Kingspan employees, by clients and by third-party assessors on multiple occasions about the K15 product and its use on tall buildings.

There was, in our view, a culture within the UK operations that saw regulation as an impediment to doing business.

The Grenfell Inquiry findings

Phase 2 of the Public Inquiry into the fire focused on the causes of the fire and in particular the role of insulation and cladding. Kingspan executives participated extensively. From the Inquiry proceedings, it seems clear that the primary failings at Grenfell were due to the cladding system as a whole rather than a specific failing in the insulation that was used. Critically, the cladding system that used the Kingspan product was not compliant with Building Regulations for buildings over 18 metres in height.

Product safety at Kingspan

However, Kingspan has admitted to some significant short-comings concerning product safety. The K15 insulation panels that were used at Grenfell and had been sold from 2005-2014 had not been subject to critical safety tests to confirm fire safety performance. The tests had been carried out on a previous version of the product, but after modifying the manufacturing process in 2006, the tests were not rerun. Kingspan redid the tests on the new product in 2019/20 which the product passed.

In addition, in the period from 2014-2015, certain statements were made in K15 product literature and advice to customers which were not, by the company's own admission, sufficiently clear or emphatic in explaining the limitations of the safety tests undertaken by Kingspan. The company has admitted that the literature and advice should have explained that the tests related to a particular insulation system and that the conclusions should not be applied too broadly.

Evidence was also presented to the Inquiry that safety concerns were raised by Kingspan employees, by clients and by third-party assessors on multiple occasions about the K15 product and its use on tall buildings. These concerns were not taken seriously by Kingspan executives.

Kingspan's response to the Grenfell Inquiry

Kingspan provided an initial statement to the Inquiry and has since been prevented from providing a public response to allegations outside of the Inquiry itself. Several senior leaders at Kingspan Insulation have either retired or left the business². At the end of the February, alongside the company's financial results, the company detailed further actions that they are taking including implementing the recommendations of an independent review³. These include improvements across several areas of the business including product safety, communications and marketing and governance.

In our view, many of these commitments are impressive. Regular third-party audits of product safety systems, a Group Head of Compliance as well as explicit board oversight and accountability for product safety represent strong responses. The company has also made clear that management do not believe that Kingspan's products and behaviour were the cause of the Grenfell Tower fire. The company has though accepted that there were decisions and behaviours within the UK business that were wrong and for which apologies have been made and corrective actions implemented.

Notwithstanding these commitments, our overriding concern is that there was, in our view, a culture within the UK operations that saw regulation as an impediment to doing business. There is clear evidence that senior leaders sought to manipulate tests to provide positive results. There is also evidence of management seeking to bully and threaten employees and put pressure on external consultants and clients who raised concerns.

On the evidence presented to the Inquiry, these attitudes were widely held across many senior managers in the UK business. Several communications were also copied to senior executives at group headquarters including the group CEO Gene Murtagh. The insulation boards business was the most profitable part of the Kingspan group. The UK is a sizeable portion of total Group revenue. In our view, it is hard to accept that there was not direct interest from group executives. If there wasn't, there certainly should have been.

This core issue of culture remains, in our view, largely unaddressed by the company. Compounding this concern was the decision by the company to appoint the CEO's brother to the Board. This appointment was announced with the annual results in late February. In our view, this was a missed opportunity to make board appointments which present the clearest possible signal of independent governance.



² - Most notably Peter Wilson, the Managing Director of Kingspan's insulation boards division, resigned at the end of 2020.

³ - The review was conducted by Eversheds Sutherland.

We have compared Kingspan's historic behaviour and their response to Grenfell against this framework and have shared this analysis with them.

Committee Members supported the thorough process that WHEB undertook in reviewing the company's response to the Grenfell Tower fire.

Committee Members agreed that a greater focus is being brought to bear on marketing claims by asset managers and that this is welcome.

Decision to sell

WHEB has been in regular contact with the company over the past few months. We have developed our own framework for what we consider to be best practice in product safety³. We have compared Kingspan's historic behaviour and their response to Grenfell against this framework and have shared this analysis with them. On the basis of this analysis, we have concluded that we are unable to continue to invest in Kingspan. We do not believe Kingspan was in any way directly culpable for the Grenfell Tower fire. We do believe however, that the culture within the UK business enabled – even encouraged – an attitude that prioritised commercial advantage over product safety. Furthermore, based on the evidence presented at the Inquiry and our knowledge of the business, this culture was at least tacitly endorsed by group management. We do not believe that the proposed remedies go far enough to address these concerns.

Notwithstanding the positive steps the company has taken, and the undoubted positive role the products play in improving building efficiency, we have chosen to sell the company from our portfolios. We fully exited our position on the 26th February 2021.

Committee Members supported the thorough process that WHEB undertook in reviewing the company's response to the Grenfell Tower fire. Members were also supportive of the decision to sell and agreed that, given the conclusion and the consequent lack of trust in the governance of the company, it would be difficult to do anything else. We agreed to share our findings directly with the company.

3. Impact calculators and investors

George Latham introduced a discussion on the use of impact calculators and their role in communicating with end investors. George pointed to recent research that has found that a large proportion of investment funds that make claims to have a positive impact on society or the environment are not backed up with evidence⁴. New regulations including from the European Union, are also requiring managers to provide more evidence to support claims of positive impact and of 'sustainable' investing.

Many WHEB investors want to know how their money is being invested. George argued that the calculator helps to communicate the real-world outcomes resulting from the use of products and services supplied by the companies held in WHEB's portfolios. The calculator is clear that this impact is not 'owned' by the investor or even by WHEB, but belongs to the ultimate user of the product or service generating the positive impact.



Committee Members agreed that a greater focus is being brought to bear on marketing claims by asset managers and that this is welcome. Members expressed some concern as to the quality of the data underlying tools like the impact calculator but agreed that investors are likely to remain interested in this type of information. Seb pointed out that WHEB's methodology has been independently reviewed by the Carbon Trust and was considered to be consistent with international best practices.

It was agreed that green marketing claims will continue to be an area of concern for regulators and that WHEB, and other asset managers, should seek to be as transparent as possible about their methodologies. Where possible they should also seek third party assessment and review to ensure these methodologies are robust and consistent with best practices.

4. Any other business

As with the last few years, the Committee agreed to provide a statement for inclusion in the next impact report. The next meeting is scheduled to be held on 30th June.

3 - Derived from Lucia Suhanyiova, Amy Irwin and Rhona Flin, 'Product safety culture: a preliminary study in the UK manufacturing industry', Journal of Risk Research, 19 August 2020.

4 - <https://2degrees-investing.org/wp-content/uploads/2020/03/EU-Retail-Funds-Environmental-Impact-Claims-Do-Not-Comply-with-Regulatory-Guidance.pdf>

Investment Advisory Committee Members



Geoff Hall:
Chairman of WHEB Asset Management. Former CIO at Allianz Insurance Plc



Kingsmill Bond:
New Energy Strategist, Carbon Tracker



Ray Dhirani:
Head of Sustainable Finance, WWF-UK



Mike Clark:
Founder, Ario Advisory & Advisor at Oxford Smith School. Formerly Director, Responsible Investment at Russell Investments



Carole Ferguson:
Head of Investor Research, CDP