



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 (Head of Investment, Fund Manager)	Carole Ferguson (Member)
Claire Jervis (Associate Fund Manager)	Martin Rich (Member)
Sarita Kashyap (Risk and Performance Manager)	Abigail Rotheroe (Member)
George Latham (Managing Partner)	Jayne Sutcliffe (Chair)
Victoria MacLean (Associate Fund Manager)	
Rachael Monteiro (Stewardship Analyst)	
Kavitha Ravikumar (Senior Impact Analyst)	

1. Business update

Since the last Advisory Committee meeting in July, the market environment has remained challenging for investment strategies that focus primarily on mid-cap growth, and particularly those that also focus on sustainability and impact. Factors such as high interest rates, inflation and geopolitical tensions have created a very tough market environment for strategies focused on mid-cap growth. This has caused a fall in assets under management – mostly due to market levels rather than client redemptions. Nonetheless the business remains robust and profitable.

At the same time, the company continues to invest in our investment capacity. During the last period WHEB has made offers to appoint two new analysts to the impact investment team. This includes one internal appointment, with Katie Woodhouse taking up one of the positions. Katie's role as a Climate Analyst will be transferred to Rachael Monteiro who becomes a full-time Climate and Stewardship Analyst.

2. Fund update

The committee had a long conversation about the difficulties in investing in companies providing social and environmental solutions when the market environment is so challenging. Ted Franks (ETF) underscored the trend that impact tends to lead to mid-sized businesses that face significant growth opportunities. Genuine impact strategies are likely therefore to have a bias to these types of businesses. George Latham (GL) also emphasised the importance of long-term conviction. The team at WHEB have seen several economic cycles that have involved significant periods of time when mid-cap growth stocks have been out of favour. This for example included a period in the late noughties when clean energy fell out of favour. In each of these periods, a recovery followed as part of the cycle.

Committee members were interested to understand how clients have responded to the poor relative performance of the strategy and whether institutional and retail clients have had different reactions. In WHEB's experience, there remains strong interest in impact strategies across all market segments. Nonetheless, institutional clients tend to have a clearer appreciation of the likely performance profile of impact strategies and how and why these might differ from benchmark indices. Committee members also stressed the importance of clear communication about the underlying reasons for poor performance. This is particularly true where the drivers of performance are linked to market conditions rather than to stock specific causes.

3. Buys and sells in the period

During the period two new companies were purchased for the strategy.

AstraZeneca (Health) develops and supplies pharmaceutical therapies for treating diseases. These include products that reduce blood glucose, block cell receptors in immune diseases, attack tumour cells in oncology, and reduce blood volume to ease pressure on the heart. These products deliver various health and disease management improvements that support improved health of patients.



The committee recognised the positive impact on health associated with AstraZeneca's products but wanted to understand WHEB's assessment of the company's approach to pricing and access. Victoria Maclean (VM) explained that the research process for pharmaceutical companies incorporates a specific step that considers pricing and access concerns. AstraZeneca is ranked #3 by the Access to Medicines Index (2022) and has a presence in emerging markets. The company also provides a significant amount of positive data with clear leadership on these issues from the CEO.



Veralto (Water Management) is a new company that was previously one division within Danaher which is already held in the strategy under the Health theme. Veralto's main focus is on supplying a range of water management technologies includes in water quality testing and in wastewater treatment. The company also owns a product ID business which is not considered to be thematic.

Following a brief discussion, committee members confirmed that they were supportive of the new stock additions.

The committee also discussed one stock sale during the period. This was the sale of Daikin Industries which was done as a result of new information emerging about the company's involvement in manufacturing artillery shells containing white phosphorus.



WHEB had previously been aware that the company derived a very small amount of revenue (<1%) from the sale of artillery shells to the Japanese army. However, over the Summer it became clear that the company was also involved in supplying shells containing white phosphorus. Although white phosphorus is not prohibited as an incendiary weapon under international conventions, it is nonetheless considered to be controversial by many stakeholders because of its incendiary effects. Following an internal review, we concluded that we would update our 'Ethical outcomes' document to include negative screens on weapons containing white phosphorus.¹ As a consequence of this decision we sold our position in Daikin Industries.

Committee members were interested to understand what implication this has for the strategy in terms of exposure to heat pumps which was a key part of the impact case for investing in Daikin. Seb Beloe (SB) explained that heat pumps have enjoyed tremendous growth in many markets during 2022 and 2023 but that recent policy changes in Italy and Germany in particular is likely to slow the penetration of the technology in the short to medium term. Notwithstanding this, the WHEB team remains very optimistic on the long-term outlook for heat pumps. The global strategy has an investment in Trane Technologies which sell heat pumps alongside other HVAC² technologies, and the European strategy invests in Ariston which also sells heat pumps.

¹ - <https://www.whebgroup.com/assets/files/uploads/20231017-ethical-outcomes-final.pdf>

² – Heating, Ventilation and Air Conditioning

4. Should companies that provide cybersecurity services be investable? – Part II

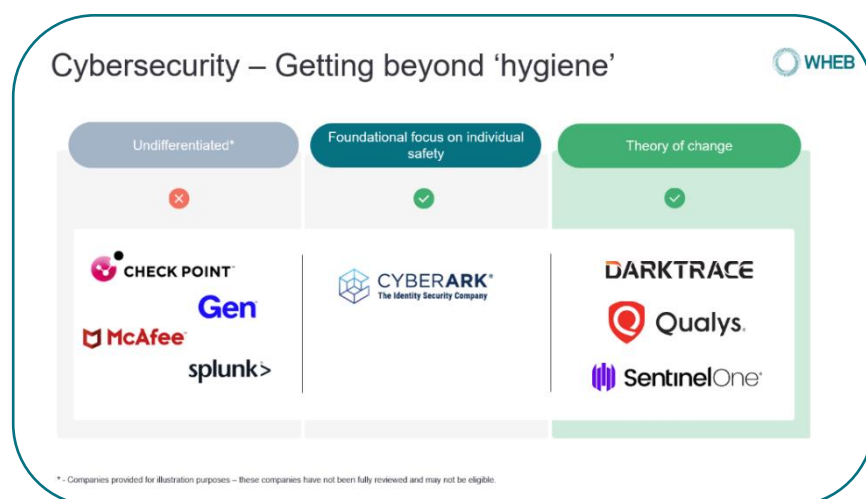
Following discussion at the July Advisory Committee meeting, the committee had asked the WHEB team to conduct further work utilising WHEB's impact engine to develop clearer narratives around the 'theory of change' for any investment in cybersecurity companies. While the committee were open in principle to considering cybersecurity businesses investable under the 'Safety' theme, they were concerned that some aspects of cybersecurity are really just basic business 'hygiene'.

SB summarised the key conclusions from the impact engine analysis of eight cybersecurity businesses. The key headlines from this is that we believe that there is a clear impact theory of change associated with cybersecurity businesses that can show either that:

- 1) The products and services they supply directly improve the safety and security of individuals (as opposed to business or institutions); or,
- 2) Product and services are able to demonstrate clear improvement in the levels of systemic security (covering all types of users) compared to the 'average' solution on the market today.

Based on the limited sample of companies, the team believe that with a specific focus on identity protection including specifically for personal data, CyberArk is investable under the first category. They also believe that DarkTrace, Qualys and SentinelOne are also able to show how their use of artificial intelligence provides a measurable improvement in systemic security compared with the market average (category 2).

Some committee members continued to express some reservations about the inclusion of these types of companies in the safety theme. These concerns were particularly focused on how improvements in systemic security relate to sustainability. Across the committee as a whole though, members were comfortable with the two routes that cybersecurity companies can take to become investable in the strategy, but stressed that a clear theory of change would be required in each case.



5. Introducing Climate Adaptation as a new sub-theme

It has become abundantly clear in recent years that efforts to mitigate carbon emissions have not been successful in avoiding climatic change. As investors, WHEB needs to be pragmatic. We do still expect the net zero carbon (NZC) transition to speed up as the economics move ever more firmly in favour of NZC technologies. But we also expect that this will not be enough to limit warming to 1.5°C. It is for this reason that WHEB has introduced a new segment to our investment universe, climate adaptation. A significant amount of climate change is now inevitable. Communities around the world need to adapt to this change. For every year we delay action to reduce emissions, the more the world will have to pay to adapt to the higher level of climate change we will then experience.

While it is disheartening that the world is failing to address climate change quickly enough to avoid significant negative impacts, we do believe that adaptation represents a real opportunity for positive impact. The portfolio has several holdings which address adaptation, including Advanced Drainage Systems in the water sector and Arcadis in our

Environmental Services theme. Both of these companies have seen a growing proportion of their revenues explicitly linked to climate adaptation either through consulting work or in providing communities with better stormwater managements systems. As a consequence, they have been reclassified into the Climate adaptation sub-theme.

Other areas that will now become explicitly investable within the Climate Adaptation sub-theme include:

- Climate adaptation intelligence which includes infrastructure and urban planning and design, meteorological products and services and remote sensing and environmental assessment; and
- Climate adaptation products and services covering water management and storage, power grid resilience, disaster recovery, building 'weatherisation' and resilience and agricultural resilience.

Arcadis designs for flood defenses in Manhattan to combat rising sea levels



Committee members welcomed the explicit inclusion of companies that support adaptation to climate change. They did though caution WHEB to ensure that products and services that support climate adaptation must avoid enabling unsustainable activities (for example climate adaptation for oil and gas operations).

6. Any other business

Committee meetings for 2024 are expected to take place during March, July and November.

Investment Advisory Committee Members



Alice Chapple

- Founder of Impact Value
- Chair of Investor Watch, Trustee of the Shell Foundation



Carole Ferguson

- CEO, Carbon Transition Analytics
- Previously Head of Investment Research at CDP



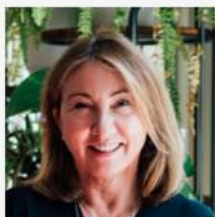
Martin Rich

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



Abigail Rotheroe

- NED [HydrogenOne](#), Baillie Gifford Shin Nippon, Templeton
- Previously Investment Director at Snowball Impact Management



Jayne Sutcliffe

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

