

3D Fund Profile: WHEB Sustainability

March 2023



3D Rating:



3D Fund Classification: Impact

The manager of this fund exhibits a clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to related challenges through their core products and services, with evidence provided of the social and environmental impact.

Fund Summary

The manager of this global equity fund seeks to invest in companies providing solutions to social and/or environmental challenges. To achieve this aim, he and his colleagues apply a comprehensive negative screen, as well as revenue and operational practices analyses, in order to match prospective investee companies to one of nine themes which underpin the portfolio. This approach has been demonstrably successful in delivering an exceptional level of solutions-alignment, and, combined with a largely successful avoidance of controversies and a strong reporting protocol. The combination of these elements results in the fund more than satisfying the criteria for our top award.



Key Facts as at 28/02/2023	
Manager	Ted Franks
The Fund's Objective	The Fund focuses on the opportunities created by the transition to healthy, low carbon and sustainable economies. The investment team selects high-quality companies from nine broad themes with strong growth characteristics to create a globally-diversified portfolio. We develop long-term relationships with company managements to promote the best environmental, social and economic outcomes.
Launch Date	08/06/2009
Structure	OEIC
ISIN Code	GB00B8HPRW47
Currency	£GBP
Size	£834m
Sector	IA Global
The Fund's Official Benchmark	MSCI World Total Return
3D-assigned index	Global 100 Equity Index
Number of Holdings	40
Ongoing Charges	1.03%

Source: WHEB Asset Management LLP, Refinitiv & Square Mile Research

RI Approaches Employed:

Ethical Exclusions



Avoids industries and company practices that cause harm to people or the planet.

Responsible Practices



Considers the operational practices of investee companies and supports 'best practice' in their respective industries, and may encourage them to improve their environmental and social performance.

Sustainable Solutions



Seeks to invest in companies that are providing solutions to social and environmental challenges through their core products and services in the belief that this will realise long-term financial benefits.

Impact



Clear intent to make a wider positive social or environmental impact, substantiated by investment in companies providing solutions to social and environmental challenges through their core products and services, with evidence provided of the social and environmental impact.

Engagement



The fund manager seeks to raise standards on environmental, social and governance issues through dialogue with investee companies; or by participating in collaborative initiatives with other stakeholders.

WHEB Sustainability is an actively managed global equity fund, it is managed by Ted Franks, who is a founding member of WHEB. Mr. Franks is a chartered accountant by training and has been involved in sustainable investments for a considerable portion of his career. He is supported by Seb Beloe, head of research and a chartered environmentalist, whilst Ty Lee and Victoria MacLean are associate fund managers. Alongside this impressive team sits WHEB's Investment Advisory Committee, which meets three times a year. The committee acts as a sounding board on the best RI practice and considers potential thematic developments. It also acts as a forum to challenge and/or validate particular investments within the portfolio, and its findings are published by WHEB on a regular basis.

This team intend to advance sustainability and create prosperity through thematically-driven, positive impact investments, whilst delivering financial returns for investors. To achieve this objective, an exclusionary screen is employed alongside a positive screen, which matches a company's revenue to one of nine underlying themes, thereby enabling the investment team to deliver a good depth of impact across the strategy, whilst benefitting from the financial opportunities associated with the transition to a more sustainable world.

The fund's investment universe is drawn from across the global equity space, providing each company exceeds US\$200m in market capitalisation. To this broad pool, the team first apply its exclusionary screen, which precludes any company generating more than 5% of its revenue from a number of controversial sectors and industries, such as alcohol production, the arms industry and fossil fuel extraction. This comprehensive screen has been designed to insulate the fund from significant exposure to controversial activities.

A revenue screen is then applied, which stipulates that any given company must derive in excess of 50% of its revenue from activities which relate to one of the nine themes underpinning the portfolio. Five of these themes relate to the environment (cleaner energy, environmental services, resource efficiency, sustainable transport, and water management) and four relate to social issues (education, health, safety, and well-being). This step refines the universe down to around 750 stocks, and works to ensure a high level of solutions-alignment within the portfolio.

The team then applies various analyses designed to interpret the financial and impact case for each company. Impact intensity is measured across five dimensions (covering such aspects as intentionality, scale and uniqueness), as well as through operational practices (encompassing metrics including value-chain operations, management quality and the business' growth strategy). These investigations feed scoring methodologies, which the team uses to compare stocks on a like-for-like basis. This helps the members maximise their understanding of the depth of impact and financial opportunity for each prospective investee company. In essence, this element of the process enables the team to select what it believes to be the very best investment and impact opportunities.

The team then constructs the portfolio such that it comprises of between 40 and 60 stocks, which are arranged according to the nine underpinning themes. These themes are unconstrained in terms of weighting, and, therefore, vary in size of allocation according to the team's view on impact and financial opportunity. The team meets on a weekly basis to discuss positioning, investment ideas and to review holdings. The members maintain ongoing contact with all their investee companies, engaging with them on their ESG practices and challenging them based on any identified shortcomings. As the team takes a long-term view on stocks, it is expected that it will eventually engage with all stocks. Over the course of 2021, the team reported that 83% of the fund's holdings were engaged with.

The progress and outcome of these engagements are noted in the form of data and case studies within the team's quarterly review reports, as well as their annual impact reports. These reports are exemplary in their detail and their transparency, providing a significant amount of detail on impact outcomes, thematic positioning, holding rationale and engagement reviews. In addition, the team provides an Impact Calculator on the firm's website, which investors can use to easily gauge the scope and depth of impact generated by their investment – this is an impressive tool that greatly enhances transparency.

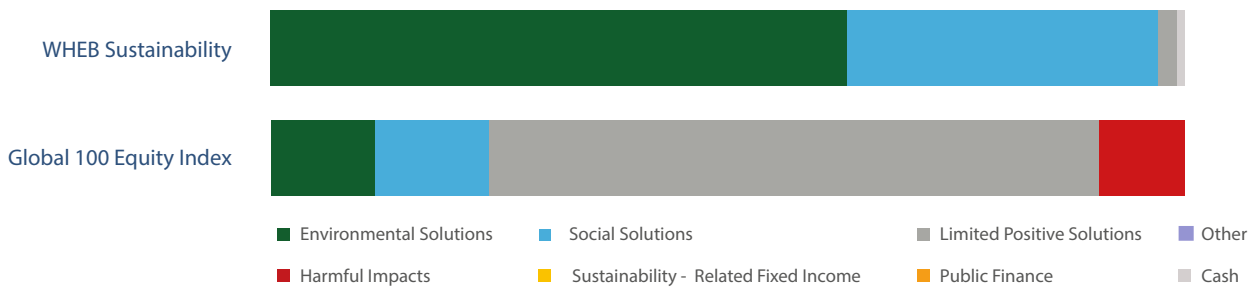


Our proprietary analysis of the fund’s holdings identifies in excess of 95% of the portfolio being aligned to environmental and social solutions, which readily meets the criteria for the top score in this category. Moreover, the team has been very successful in eliminating exposure to Harmful Impact, as well as to Limited Positive Solutions – the latter being companies that confer neither positive, nor harmful, impact. The impressiveness of the fund’s solutions alignment is underscored when compared to the 3D-assigned index, which records a significantly lower level of environmental and social solutions alignment, as well as a much higher exposure to Limited Positive Solutions and Harmful Impact.

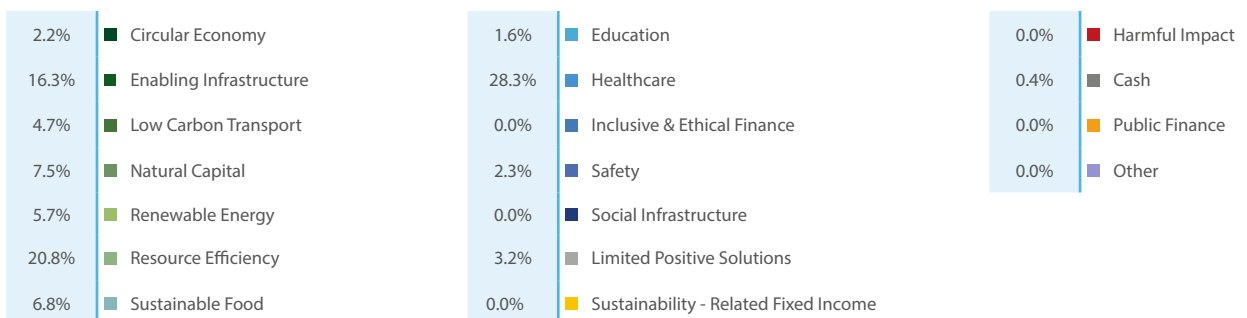
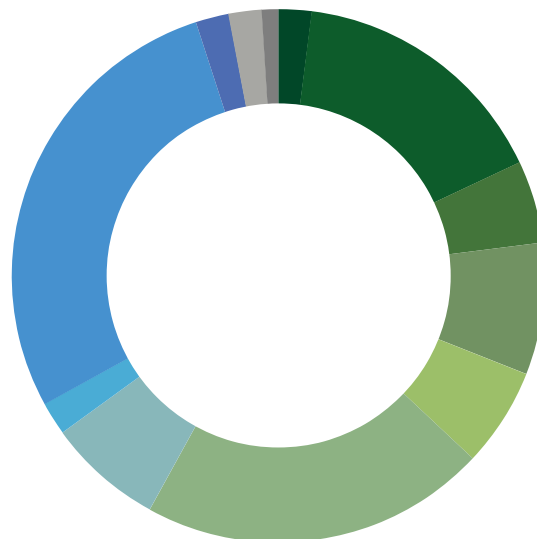
Our analysis of the fund’s holdings identifies significant exposures towards the 3D classifications of Resource Efficiency and Healthcare. On the healthcare side, this includes companies such as Cooper Companies Inc. and Fisher & Paykel Healthcare Corporation, both of which are engaged in the design and manufacture of medical devices.

The Resource Efficiency classification is more nuanced, and can factor in any company providing goods or services which serve to reduce input to, or minimise output waste from, any process. Examples of these include Daikin Industries Ltd and Trane Technologies plc, both of which are companies engaged in the business of energy efficient climate control solutions, as well as Solaredge Technologies Inc., a company which designs and sells optimisation hardware for the mechanical repositioning of solar PV cells.

There may also be a significant crossover between the fund’s theme of Resource Efficiency and our classification of Enabling Infrastructure, the latter reflecting companies which are integral to environmental or social solutions, but which are further up the value chain from the delivery of the end solution. This solution is also well-represented within the portfolio, and includes companies such as Autodesk Inc. and ANSYS Inc., both of which are engaged in the sale of computer-aided design software, which are used to increase efficiency and decrease waste in industrial design processes.



Source: WHEB Asset Management LLP, Square Mile Research & Refinitiv, Holdings as at 31/01/2023



Controversial Activities Exposure

As part of the process of refining the fund's investment universe, the team employs a negative screen, which has been designed to eliminate exposure to companies deriving more than 5% of their revenue from the industries highlighted in the table below. Whilst this screening methodology is comprehensive, we would note that it is not the primary methodology for stock selection. Instead, the team relies on a measure of thematic revenue relating to solutions alignment, as well as a series of further proprietary scoring methodologies.

Our analysis of controversial activities identifies companies that generate revenues through business lines exposed to harmful industries. When applied to this portfolio, we identify a small number of sources of controversial activity. The largest of these is to animal testing, identified in companies such as Danaher Corp, Ecolab Inc. and Globus Medical Inc. These companies are engaged in the development of medical goods, and are required by law to conduct animal testing in pre-clinical trials. This is in line with WHEB's policy on animal testing, and we would consider this of lesser concern given the mitigating circumstances.

In addition, we identify exposure to hazardous chemical production through Thermo Fisher Scientific Inc. and Lonza Group AG, companies that are principally engaged in the production of healthcare-related goods. However, the companies both derive a small portion of revenue (<5%) from the manufacture of pesticides, some of which contain

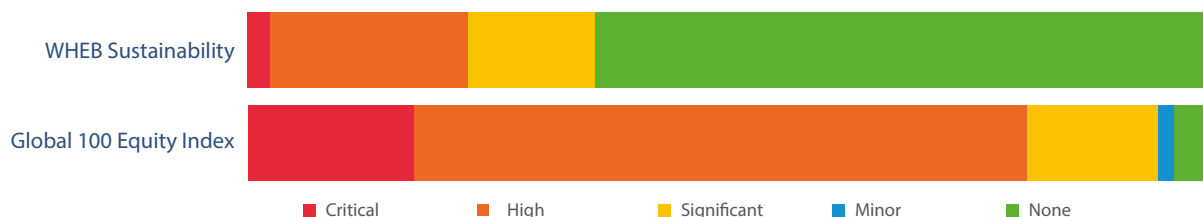
hazardous compounds. The revenue stream here is, again, in line with the team's exclusory criteria.

Finally, Daikin Industries Ltd exposes the portfolio to military weapons. This Japanese company is predominantly engaged in the manufacture of energy-efficient climate control technologies, but the company does derive less than 1% of its revenue from the manufacture and sale of munitions, including warheads and grenades. This is the principal factor in limiting the score to 4 within the Avoid Harm section, but it should be highlighted that the exposure is consistent with the fund's exclusory and impact criteria.

Controversial Practices Exposure

Controversial Practices analysis allows us to assess the strength of the manager's analysis towards mitigating ESG risks within a company's operations. If a fund is flagged as having exposure to more serious controversial practices, it indicates that there may be issues with how the companies are being managed. We would anticipate that responsible investment funds would have less exposure to these types of companies. The managers of this fund have mostly achieved this, almost fully eliminating the exposure to critically controversial practices, and significantly limiting high-severity controversial practices, whilst markedly increasing the number of exposures to companies with zero controversial practices currently associated with them. This is an indication that the team's investment process, and in particular, the proprietary scoring methodology, which incorporates an analysis of a company's practices, is highly effective.

Controversial Practices Breakdown



Controversial Activities and Practices Data Source and classifications: Moody's ESG Holdings as at 31/01/2023, Source: WHEB Asset Management LLP & Square Mile Research

Exclusion Criteria Applied by the Fund Manager

Addiction	Animal Welfare	Environment	Fossil Fuels	Human Welfare
Alcohol <input checked="" type="checkbox"/>	Animal Testing <input checked="" type="checkbox"/>	Inorganic Fertilisers <input checked="" type="checkbox"/>	Power Producers <input checked="" type="checkbox"/>	Human Rights (Countries) <input checked="" type="checkbox"/>
Gambling <input checked="" type="checkbox"/>	Animal Products <input checked="" type="checkbox"/>	Pesticides <input checked="" type="checkbox"/>	Exploration & Production <input checked="" type="checkbox"/>	Human Rights (Companies) <input checked="" type="checkbox"/>
Tobacco <input checked="" type="checkbox"/>	Meat & Dairy Production <input checked="" type="checkbox"/>	Mining <input checked="" type="checkbox"/>	High Carbon Industries <input checked="" type="checkbox"/>	Military Weapons <input checked="" type="checkbox"/>
		Tropical Forests <input checked="" type="checkbox"/>	Petrochemicals <input checked="" type="checkbox"/>	
		Nuclear Power <input checked="" type="checkbox"/>	Distribution <input checked="" type="checkbox"/>	
			Service Industries <input checked="" type="checkbox"/>	

Source: WHEB Asset Management LLP



Micro Engagement (Engagement with Investee Companies)

As a group, WHEB has an established track record in the RI space and has a proven and well-documented approach to engagement stretching back many years. Engagement is carried out with all portfolio holdings at some point over their period of investment. The team reports that, during 2021, engagements were undertaken with 83% of investee companies, half of which remain ongoing or are part of multi-year efforts. Generally, the team engages with companies either because the members seek to deepen the impact already generated by a company, or to minimise/eliminate a controversial practice or activity that a company engages in. These engagement initiatives are reported on in the team's quarterly review reports, replete with case studies, headline data and explanations of the methodology. Most impressively, the team provides an indication in these reports of progress made towards each objective and this diligent approach to encouraging and reporting on positive change achieved through the team's investee companies is a key factor behind the score of 5 in this category.

Voting

As an equity fund, the team has the opportunity to effect positive change through their voting rights as shareholders and intend to do so on all companies held. While they do take the advice of third party proxy-voting services, such as the Institutional Shareholder Services group, the team votes on its own shares and report on all votes via the firm's website. It also reports on high-level data within quarterly review documents. The vast majority of votes undertaken relating to environmental, social and governance (ESG) issues in the past year have been around governance issues, which the team contends is symptomatic of its intent to pick positive impact-generating companies, which require less hands-on ESG steering than their peers.

Affiliated Memberships and Initiatives

B Corps, Principles for Responsible Investment, Institutional Investors Group on Climate Change, UK Sustainable Investment and Finance Association, European SRI Association, FRC Stewardship Code, Net Zero Asset Managers Initiative, Net Zero Carbon 10/20, Carbon Disclosure Project, CA100+, Future Fit Business, Impact Management Project, Global Impact Investing Network, Access to Medicines Foundation, Chemical Footprint Project, The Big Exchange, British Standards Institute, Glasgow Financial Alliance for Net Zero

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