INSIGHTS

Q4 2019 REPORT

Pengana WHEB
Sustainable Impact Fund

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THE BIGGER PICTURE

It began just before the quarter started. A novel virus emerged in the historic Chinese regional city of Wuhan. That virus would be named COVID-19. It would deliver the worst global pandemic in modern history.

By the end of the quarter, there were 750,890 confirmed cases globally, and 36,405 deaths from the disease[1]. One third of the planet's human population was in lockdown[2].

[1] https://www.who.int/docs/default-source/coronaviruse/situation-reports/20200331-sitrep-71-covid-19.pdf?sfvrsn=4360e92b_4
[2] https://www.businessinsider.com/countries-on-lockdown-coronavirus-italy-2020-3?r=US&IR=T

Sustainability now mainstream

A decade of deliverance

One of the most striking statistics that we have come across in recent months is that carbon dioxide (CO2) emissions from the UK's power sector have now fallen back to where they were in the 1890s1. Because the consumer's experience of electricity has remained very much the same – you flick the switch and the power comes on – most people are oblivious to the scale of change that has taken place in UK power over the past few years. On average, across the first quarter of 2013 for example, coal was supplying 13GW of power with gas supplying just over 9GW and wind just under 2GW. By the fourth quarter of 2019, the equivalent numbers were just 1GW from coal, 13GW from gas and just under 7GW from wind2.

This transition, still largely unnoticed by the general public, will continue throughout the 2020s. The UK has a commitment to phase-out coal altogether by 2025 and this will be replaced primarily with renewables and complemented by a variety of energy storage technologies.

As critical as the power sector is in terms of greenhouse gas (GHG) emissions, equivalent decarbonisation processes are already in-train across other major parts of the economy. The 2020s will prove, we believe, to be a 'decade of deliverance' as these decarbonisation trends mature in other key sectors of the economy in the UK and around the world.

Road transport is next on the 'to do' list

First among these sectors will be transport and specifically road transport. Approximately 6% of new car sales in December 2019 were battery electric vehicles (BEVs) or plug-in hybrid electric vehicles (PHEVs)3. While this is a big increase on the previous year where BEVs and PHEVs only accounted for 3.4% of total sales, it is still a very small proportion of total new vehicle sales. This is set to change dramatically in the coming few years. In 2020 alone, the European car market will see the launch of 33 new BEV models bringing the total number of models on the market to around 70 (see figure below). The total number of models on the market will continue to increase rapidly until 2025 when there are expected to be around 170 different BEV models to choose from. VW alone is planning to be selling 22 million BEVs by 2028, reaching 25% of its total vehicles sales in 2025. This is up from low single digits in 2019[4].

While the zero-carbon transition is going to be most visible on our roads, we believe that we will see real progress in other areas as well. One of the more difficult parts of the economy to decarbonise has been in buildings. While GHG emissions associated with UK domestic electricity use have fallen from 16% of household emissions in 1990 to less than 7% today, heating has remained persistently high accounting for roughly 30% of domestic GHG emissions over the past thirty years. A more focused approach to retrofitting insulation as well as shifting towards zero carbon heating systems will, we believe, drive progressive change in this area. While less dramatic that in road transport, most Government scenarios forecast that emissions from domestic heating will fall from c.2.5 tonnes per household in 2014 to c.1.9 tonnes in 2030[5].

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[1] https://airqualitynews.com/2019/03/28/uk-greenhouse-gas-emissions-at-lowest-since-1890s/

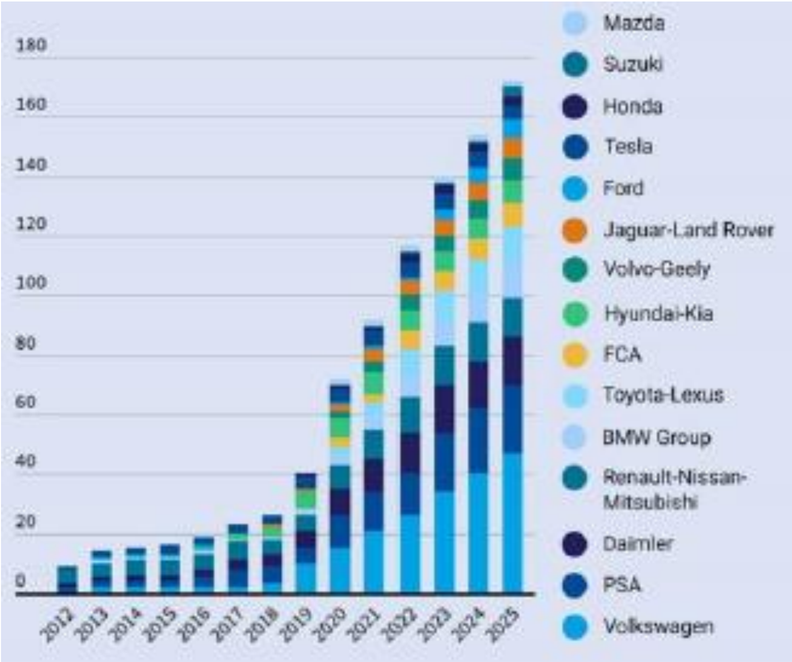
[2] Data from https://grid.iamkate.com

[3] https://www.smmt.co.uk/vehicle-data/evs-and-afvs-registrations/

[4] Morgan Stanley data

[5] https://www.theccc.org.uk/2016/07/20/fifth-carbon-budget-infographic/

Number of BEV models on the market in Europe[6]



Food and aviation remain challenging

The other two major sources of emissions where progress has been lagging are in food and agriculture and in aviation. We expect the 2020s to see a rapid evolution in technology in both areas.

Food was in the headlines in 2019. Most of the attention has been on the demand side with growing support for vegetarian and even vegan diets. The Vegan Society estimated that the number of people identifying as vegan has increased 350% since 2008. 250,000 people signed up to follow exclusively vegan-based diets for 'Veganuary' in 2019 – more than the combined number of the previous four years[7].

Food suppliers are beginning to respond to this trend. For example, Greggs have famously launched a vegan sausage roll and, more recently, a Vegan Steak Bake[8]. 2019 also saw the Initial Public Offering (IPO) for Beyond Meat and we anticipate that there will be many more IPOs of businesses with sustainability credentials in the food sector in the coming years.

[6] https://www.transportenvironment.org/sites/te/files/publications/2019_07_TE_electric_cars_report_f inal.pdf

[7] https://www.theguardian.com/lifeandstyle/2019/jan/31/veganuary-record-high-participants-plant-based

8 https://twitter.com/everything_NE/status/1212630721715691521

Punters queuing for a vegan 'steak bake' at Greggs in Newcastle

Aviation meanwhile is the real laggard in the economy. Notwithstanding the slew of commitments to offset aviation-linked GHG emissions from EasyJet, JetBlue and others, there will still need to be substantial technological innovation before GHG emissions from the sector can be expected to decline towards net zero.

In the meantime, increasing numbers of people are apparently avoiding flying all together. Called

'flygskam' (literally 'flight-shaming' in Swedish), the practice has spread to Germany where the airports association reported that domestic short-haul flights in Germany were down 12% year-on-year in November 2019 while ridership on the Germany rail network has continued to rise[9].

Finance – just jumping on the bandwagon?

The financial sector too, appears to have finally got the message. The rate at which financial institutions are signing up to support the UN-backed Principles for Responsible Investment (PRI) is still increasing, with the total number of signatories now over 2,300 and representing nearly US$80 trillion of assets under management. Rarely does a day go by without an 'ESG[10]' or sustainability story featuring in the financial pages of the mainstream press. Even Investors Chronicle, for a long-time the hold-out sceptic on ESG, has included a sustainability fund as one of their list of funds for 2020[11].

[9] ADV airports association, Fraport AG
[10] ESG: Environmental, Social and Governance
[11] https://www.investorschronicle.co.uk/funds-etfs/2020/01/03/fund-tips-for-2020/

This mainstreaming of sustainability into finance, and fund finance in particular, is clearly very good news. However, it is worth pausing, we believe, in order to establish the level of understanding and commitment that individual fund managers bring to this agenda. For some, the need to establish a responsible profile on the ESG agenda appears to have been the critical objective. Blackrock, for example, has received very public criticism from the industry for its continued opposition to shareholder resolutions on climate change, while simultaneously professing a deep commitment to ESG leadership[12]. Larry Fink, Blackrock's CEO, is clearly intending to reverse this impression with his latest annual letter to the CEO's of the companies in which Blackrock invests[13].

This type of 'greenwashing' is perhaps the most obvious sign that a manager has not fully grasped the implications of sustainability. We would argue that managers who adopt a 'compliance' mindset towards this agenda are also missing the point. Integrating ESG and sustainability issues into investment decision-making isn't fundamentally about complying with a regulation or a client 'beauty parade'. The requirement to transition substantial parts of the economy to a zero-carbon basis over the next few decades will be – or in some cases already is – a critical dimension of how these markets will operate.

Over the last twenty years technology has gone from being an exotic and novel part of the economy to a core part of the operating landscape for every sector in the market. The zero carbon and sustainability agendas will, we believe, follow the same trajectory.

[12] https://www.ft.com/content/dde5e4d4-140f-11ea-9ee4-11f260415385
[13] https://www.blackrock.com/uk/individual/larry-fink-ceo-letter?siteEntryPassthrough=true&cid=ppc:CEOLetter:Google:responsive:UK:keyword&gclid=EAIaIQobChMIpfvI17KU5wIViaztCh0PIwJMEAAYASAAEgJ-4vD_BwE&gclsrc=aw.ds

PORTFOLIO THEMES IN FOCUS

Seeing the bigger picture - Cooper Companies and myopia

WHEB's 'Well-being' theme is one of the strategy's smaller and more heterogeneous themes covering everything from healthy eating to care for the elderly. The theme also includes companies that support 'Hearing, vision and oral health' and Cooper Companies has been a core holding in this sub-theme for over seven years. The company is a conglomerate combining two businesses; CooperVision which focuses on developing, manufacturing and selling contact lenses and CooperSurgical which focuses on women's health and fertility treatments.

Becoming a leader in women's health

CooperSurgical is a franchise that has been built to focus solidly on women's health, covering products and services used primarily by obstetricians and gynaecologists. This includes surgical and laparoscopic instruments for women's surgery as well as products and services supporting in vitro fertilisation (IVF), contraception and obstetrical and neonatal care.

Over the past few years the company has pursued a strategy of vertical integration, particularly in fertility treatments. For most of its history in the fund, we have viewed the CooperSurgical business as having a clearer positive impact profile. Many of the products are critical to maintaining women's health.

Overall this business has delivered solid mid-single digit organic growth driven primarily by market growth. In addition, the company's strong competitive position and innovative product development has enabled this business to command high gross margins for the past few years.

CooperVision

Alongside CooperSurgical is the bigger CooperVision franchise. The two businesses have relatively little overlap with each other. CooperVision focuses exclusively on contact lenses. From an impact point of view, this business has historically offered a more modest positive impact on customers' lives, which we see as equivalent to other vision-related products. Nonetheless, the company has been an early proponent of silicone hydrogel technology which has a number of modest health benefits compared to traditional contact lens materials including lowering the risks of eye infections.

Myopia in focus

Myopia (or short sightedness) has always been considered as a relatively benign condition that can usually be adequately corrected with spectacles or contact lenses. Although it is often progressive, irrespective of the patient's age, the usual treatment has simply been to increase the negative power of the correcting lenses without much thought given to how to halt or slow progression.

There is nonetheless a cost associated with myopia. Correcting the condition was estimated to cost as much as $7.2bn in the US alone in 2010[14]. Myopia can also lead to more severe conditions including glaucoma, cataracts and retinal detachment which can, if left untreated, result in blindness.

The condition is also extraordinarily widespread. Over 40% of the US population, 130 million people, suffer from myopia15. In China one third (450m people) are thought to suffer from the condition[16]. However, the incidence among 12 to 14 year olds is over 70%[17]. By 2050, it is estimated that 50% of the world's population, a total of nearly 5 billion people, will be myopic[18]. The incidence of high myopia, a more severe form of the condition, is expected to quintuple to 1 billion sufferers by 2050 from 200019.

The causes of the increasing incidence of the condition are not entirely clear but are likely to include both genetic as well as environmental factors. The World Health Organisation (WHO) considers the genetic component to be small, and instead points to a lack of outdoor activity and excessive 'near work' as more likely to be the real cause[20].

[14]https://coopervision.co.uk/sites/coopervision.co.uk/files/the_concern_about_myopia_prevalence.pdf

Controlling myopia

The increasing incidence of myopia and the progressive deterioration that is typical of the condition mean that control strategies are of real interest to health practitioners and regulators[21]. Early intervention is likely to prove especially valuable in reducing the risks of sight-threatening conditions in later life.

CooperVision has been an early innovator in this field having developed a myopia management contact lens called MiSight. The product has now been approved by the US Food and Drug Administration (FDA) to correct myopia and slow the progression of myopia in children aged 8-12 years old. According to the company, MiSight can reduce myopic progression by up to 59% when compared to control group of children wearing normal contact lenses[22].

The product is already available in Canada where it was launched in 2018. It has proved popular in this market with one study finding that nearly three-quarters of optometrists now use the product as their first-line treatment for children suffering from paediatric myopia[23]. The product is expected to be launched in the US in March 2020 and will then be rolled-out across other geographies thereafter.

The opportunity for Cooper Companies

While there is great optimism about the product, it is likely to be some years before MiSight has a material impact on the company's financial performance. We expect revenues to reach double digit millions of US$ in 2020 but anticipate that it will only become a profitable part of the company's portfolio in 2023.

We are nonetheless very excited about the opportunity that MiSight represents for Cooper Companies. Cooper has the only daily lens specifically approved for myopia management and the need for more effective treatments is clear and growing. What's more, the product has been shown to have a clear positive impact on sufferers and appears to be proving popular with optometrists. We are pleased with the position the company has established and are optimistic about the opportunity that this represents for the fund.

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[15] https://www.popsci.com/nearly-5-billion-people-will-be-nearsighted-by-2050/ 16 'Hope for myopes', The Economist, 18th January 2020
[17] Ibid
[18] https://www.aaojournal.org/article/S0161-6420(16)00025-7/abstract
[19] Ibid
[20] Op Cit 16
[21] https://www.who.int/blindness/causes/MyopiaReportforWeb.pdf
[22] http://investor.coopercos.com/static-files/ef18c70e-45e9-4ee6-a49a-a284abc5d624
[23] Stifel, 9 December 2019

ENGAGEMENT ACTIVITY

Setting a target to be Net Zero Carbon (NZC) by 2030

In November 2019 WHEB publicly committed to becoming a net zero carbon business by 2025, and in December we joined 500 other B Corporations worldwide which committed to achieve net zero carbon by 2030 or before at COP[25] in Madrid. Much of the work underpinning WHEB's commitment is focused on our supply-chain partners and working with them to drive down carbon emissions.

A strong complement to this project, however, is the engagement work that we do with portfolio businesses to encourage them to reduce their operational carbon emissions. Approximately 60% of the FP WHEB Sustainability Fund is invested in companies who sell a product or service which generates positive environmental utility, including reducing carbon emissions or helping clients adapt to climate change[24]. However, GHG emissions are usually generated in developing, manufacturing, distributing and selling these products and services. We have been encouraging portfolio companies to reduce these emissions for many years. In December 2019, however, we launched a more systematic effort across the portfolio to encourage companies to achieve net zero carbon emissions as soon as possible, and ideally by 2030. This is also part of our commitment to the Net Zero Carbon 10 (NZC10) initiative launched by P1 Investment Management.

There are a handful of companies in the portfolio who already have carbon reduction targets that have been verified as being consistent with 1.5°C of warming. This includes Kingspan, DSM and Ecolab[25]. The remainder of companies in the portfolio have developed carbon reduction targets that are typically 'intensity' targets that are normalised per US$ of revenue. While commendable, these targets allow for an absolute increase in carbon emissions.

[24] The remaining 40% is invested in businesses which sell products or services which generate positive social utility.
[25] Johnson Controls has also already committed to setting a Science-Based Target which is in line with the Paris Agreement.

Initial responses

In December we wrote to 19 of these companies that we had identified as being responsible for a significant proportion of the portfolio's carbon emissions and/or companies for whom carbon neutrality could be an important strategic differentiator for their business. Letters were addressed to the Chief Executive Officers and copied in representatives from the Investor Relations and Sustainability teams. By early January we had received responses from twelve of these companies.

Of these responses, several indicated that they would not be at liberty to disclose additional details on their carbon reduction ambitions until the publication of annual reports later in the year. In some cases, this will be in the first quarter (Intertek, Linde, Xylem) and we look forward to reviewing these reports before potential further engagement. In other cases, publications are not scheduled until later in the year in which case we will pursue further details on the potential for setting stricter targets before publication.

Several other businesses responded by pointing to various environmental initiatives they had taken but admitting that they had not set specific carbon reduction targets. We plan to arrange meetings and/or phone calls with these companies to stress the importance of absolute carbon reduction targets that are at least consistent with the Paris Agreement. We will report back in further detail in detail over the coming quarters.

Waste to energy at China Everbright International

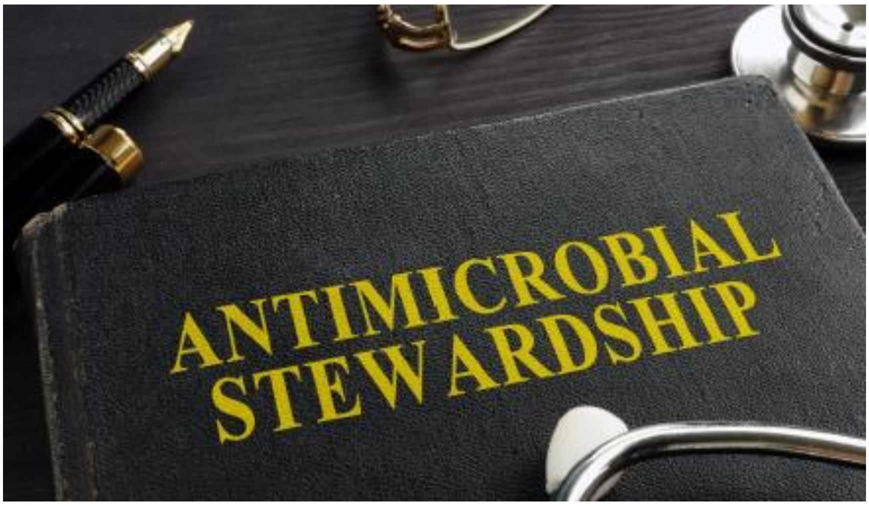
China Everbright International is a major provider of waste to energy services in China. The company is one of the largest waste to energy operators and also offers a range of other environmental services including water treatment, biomass-based power generation, recycling, environmental remediation and solar and wind power. The company describes itself as a leading player in China and Asia's environmental protection industries. The company also has a sector leading approach to environmental management and disclosure even providing real-time data on emission levels from the company's facilities.

Because of China Everbright's involvement in waste to energy incineration, the company is by far the largest contributor to the WHEB portfolio's scope 1 and 2 carbon emissions. In 2018, the company produced nearly 40% of the Fund's total carbon emissions[26]. We noticed that in the company's latest sustainability report, the company reported a significant increase in carbon emissions. We've engaged with the business to understand this better. It is due to a change in the proportion of fossil-derived carbon sources in waste material (e.g. plastic waste). The company currently only samples their waste streams twice a year and has agreed to consider increasing the frequency of sampling their waste streams in order to improve the accuracy of this data.

In addition, the company has also established a recycling business which will help separate out various waste streams including plastic wastes for recycling which will improve the greenhouse gas performance of their operations. The company is also committed to a carbon offsetting programme. In 2018 they had a target to offset an additional 10% of their greenhouse gas emissions which they achieved. We have included China Everbright International in our NZC engagement programme and will report in future reports on the outcomes of this engagement.

Antimicrobial resistance at Kabi (part of Fresenius SE)

Fresenius SE is a German healthcare conglomerate and owner of a business called KABI which is a major manufacturer of intravenously administered drugs including antibiotics and nutrition products. Fresenius KABI was assessed by the Access to Medicines Foundation in its report on Antimicrobial resistance in 2018[27]. In this report, the company was found to have good standards around its manufacturing and production operations and policies. This includes ISO14001 certification as well as specific policies on the management of antibiotic wastes which are typically incinerated or disposed of using licenced third-party managers. Detailed records are kept of all contaminated wastes and are audited regularly, typically every year and at least every four years. These same standards are applied to KABI suppliers.



[26] Based on Bloomberg data.

[27] https://accesstomedicinefoundation.org/media/uploads/downloads/5c46f0d1cbefe_Antimicrobial-Resistance-Benchmark-2018.pdf

Less impressive is the company's approach to Access and Stewardship of antibiotic products. Several companies in the industry have committed to equitable pricing structures which help improve access to medicines for those in need by taking affordability into account and work with their supply-chains to ensure that antimicrobial medicines are available in different geographies. KABI does provide information materials covering emerging resistance trends affecting different antibiotics but does lag its peers in addressing these wider aspects of access and stewardship.

We have been engaging with Fresenius SE to understand the response that the company has taken to this issue and so far, while we have been encouraged by the company's approach to manufacturing and production, we are keen to see the company adopt a more progressive strategy to access and stewardship questions surround antimicrobial resistance.

The next edition of the Access to Medicine Foundation report on antimicrobial resistance is due to be published in 2020 and we look forward to seeing how KABI is assessed in this report.

Collaborative initiatives

CA100+ and Daikin

We have commented in previous reports on our engagement work with Daikin, the Japanese manufacturer of efficient heating, ventilation and air conditioning (HVAC) systems. Increasing use of HVAC systems are putting significant additional power loads on electricity grids around the world and particularly in emerging economies. Daikin is a leader in efficient HVAC systems which are often used to replace less efficient legacy systems. Nonetheless, we have been engaging the company directly and through the auspices of the CA100+ coalition to push them to accelerate their efforts to develop even more efficient HVAC technologies[28].

We were very pleased therefore to see that the company is one of eight finalists for the Global Cooling Prize[29]. This is an international innovation competition to develop super-efficient and climate-friendly cooling solutions. The $3m initiative, launched last year with backing from British entrepreneur Sir Richard Branson, is a two-year competition to find a residential cooling technology with at least five times less climate impact than standard room air conditioning units.

The winner of the Global Cooling Prize will be announced in November 2020.

[28] http://www.climateaction100.org/

[29] https://www.coolingpost.com/world-news/daikin-and-gree-amongst-cooling-prize-finalists/

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Developing a <2°C Scenario in the World Energy Outlook

Christiana Figueres, the former Executive Secretary of the UN Framework Convention on Climate Change, convened a group of investors in the Autumn to write to Fatih Birol, the Executive Director of the International Energy Agency (IEA). The IEA issues an authoritative World Energy Outlook

(WEO) that is used to inform and justify significant investment and political decisions around the world. The WEO has, to some extent, become a self-fulfilling prophecy because of the role it plays in corporate and government planning.

The investor letter asked explicitly for the IEA to develop a 'Sustainable Development Scenario'

(SDS) for the energy industry that provides a reasonable probability of achieving net-zero carbon emissions by 2050 and limiting warming to 1.5°C. It also calls on the IEA to make this scenario the central reference scenario in the 2020 World Energy Outlook. Government and corporate planners would then need to consider this scenario in their own planning and decision-making.

We have had a response from Mr Birol and a commitment to engage further with investor signatories at a meeting scheduled to take place in January 2020.

Public policy engagement

The number and range of public policy initiatives aimed at accelerating action on climate change and promoting the practice of sustainable finance remains undiminished. WHEB has been involved in several of these initiatives.

EU Taxonomy

WHEB continues to be involved in ongoing work aimed at developing an EU Taxonomy for sustainable activities. The European Commission has published its proposal for these guidelines and we have provided comments on them directly to the Commission and also through the Institutional Investors Group on Climate Change (IIGCC). Our concerns have focused on the very limited guidance that the taxonomy provides for companies involved in 'enabling' activities. We understand from experts involved in the work that the Commission is reviewing how it ensures that the full range of enabling technologies can be included in the taxonomy. A revised version of the taxonomy is now due for publication in February 2020.

Letter to the European Council asking for a Net Zero Carbon (NZC) Europe by 2050

As part of the Institutional Investors Group on Climate Change (IIGCC) we signed an open letter to the European Council in advance of the EU Heads of State meeting in Brussels in December 2019. The letter set out the significant steps that the investor community has taken to accelerate the integration of climate analysis into investment decisions and the real-world impact of increasing deployments of capital into low carbon infrastructure and technologies. We asked the Council to endorse a Net Zero Carbon target for the European Union to be achieved by 2050 at the latest.

Since then we have seen the European Council endorse this objective across all Member States excluding Poland at their meeting in mid-December. In addition, the European Commission has also indicated that climate change will be a central focus of the legislative programme of the new President Ursula von der Leyen. Ms von der Leyen has indicated that the Commission will bring forward legislative proposals to the put the NZC target by 2050 into regulation during the first quarter of 2020.

PERFORMANCE COMMENTARY

Global equity markets posted small gains in Q4 2019. Geopolitical risks faded and US China trade talks progressed with the announcement of phase one of a trade deal. One of the Fund's comparator benchmarks, the MSCI World, returned 0.98%. The other benchmark, the IA Global peer group, returned 1.90%.

The fund outperformed with a return of 3.21%. Health was the top performing theme. Five of the top ten performing stocks in the quarter came from the health theme.

Of those stocks, **Centene**, was the single best performer. Centene is a managed care organisation. It provides health insurance, particularly to low-income and elderly beneficiaries in the USA. Its acquisition of rival Wellcare has been well received by the market. This should strengthen its position in the lucrative Medicare Advantage market. Concerns over major policy disruption in the US healthcare system post the 2020 presidential election also reduced. In particular, Democratic candidate Elizabeth Warren said her move to greater government coverage would be more gradual than expected, allaying some fears.

Another strong performer in the Health theme was **Premier**. Premier is a group purchasing organisation, a kind of middleman that helps healthcare providers reduce their costs. It also provides consulting services to help hospitals develop industry best practices to improve efficiency. Its stock price jumped in the last month of the quarter over speculation that it is a takeover candidate.

Also with strong performance in the Health theme were **Varian, CSL** and **Fresenius**.

The two other top performing themes of the quarter were Environmental Services and Sustainable Transport.

Smurfit Kappa was the best performing stock in Environmental Services. It is Europe's largest producer of recycled corrugated cardboard for packaging food, beverages and household consumables. Demand for packaging remained stronger than many expected and boosted the stock.

Within Sustainable Transport, **Norma** and **Hella** were the two best performing stocks. Both are automotive suppliers. Hella produces high-efficiency LED lighting and electronic products. Norma sells connecting systems used in automotive emission control systems and water treatment systems. Both companies' products improve fuel efficiency and safety. The stocks benefitted from signs of an automotive recovery, and growing momentum in the transition to low- and zero- emissions vehicles. Norma in particular has had a tough patch of low growth and margin erosion. It is fighting back with some thoughtful restructuring programs.

The poorest performing theme was Water Management.

All three stocks in the Water Management theme were among the bottom ten performing stocks of the period: **China Water Affairs, Ecolab** and **Xylem**.

China Water Affairs supplies tap water and provides wastewater treatment in China. The market appears concerned about the company's ability to gain access to capital during the trade war between the US and China. Reduced construction in its Environmental Protection segment was interpreted to indicate a slowdown in long term growth potential.

Xylem provides water and wastewater solutions. Its products address the full water cycle from collection, distribution and use and the return of water to the environment. Its share price declined as it saw an unexpected fall in demand from industrial and commercial customers.

Cleaner Energy and Education were also among the poorer performing themes in the quarter.

TPI Composites manufactures wind turbine blades. The wind industry is upgrading its technologies faster than both we and the company expected. The company needs to upgrade its manufacturing lines to produce longer wind turbine blades. This change slows growth and hits margins. As a result, the company removed its long-term guidance until there is better visibility.

Grand Canyon Education was another poor performer over the quarter as a whole. Grand Canyon helps universities and colleges with the non-academic aspects of providing education. This delivers better outcomes for students. Most of Grand Canyon's students are from less advantaged backgrounds studying vocational subjects. Concerns over potential regulatory changes have been overhanging the stock. We believe the stock price overreacted and were glad to see it recover somewhat in December.

Geopolitical risks look set to continue in 2020. Tensions are rising again in the Middle East between the US and Iran. However, sustainability and climate change seem to be firmly on the agenda for consumers, corporates and governments. This underpins WHEB's conviction in sustainability delivering outperformance over the longer term.

PORTFOLIO ACTIVITY

We sold four positions in the quarter and initiated three new holdings.

Recent sales

We sold **ams AG**, a leading provider of high performance sensor solutions, in our Resource Efficiency theme. Its sensors have a variety of sustainability applications. They help reduce power consumption, improve automotive safety and efficiency, and also have environmental and health applications. However, we are concerned about its strategic focus on 3D sensing. This will make the company less sustainability-driven over the long term. It is also a more cyclical and competitive market.

We closed our position in **ICU Medical** in our Health theme. It is one of the leading US makers of intensive care equipment. Its products help increase the safety, accuracy and efficiency of intravenous medication delivery. Unfortunately, the market for its intravenous solutions is being badly disrupted by an unstable competitor. This makes the overall investment case less compelling.

We also sold our holding in **Acuity Brands** in our Resource Efficiency theme. We had held the position in the company for more than seven years. Acuity is a leading provider of innovative lighting, controls and building management solutions in the US. It engages actively with its customers about energy efficiency. However, it faces pricing pressure in some of its core markets. This pressure outweighed medium-term potential from advanced lighting solutions.

We also closed our position in **National Instruments** in our Resource Efficiency theme. It is a global leader in automated test and measurement systems. Its innovative modular hardware platforms together with its system design software help engineers innovate faster and improve testing efficiency. The company has delivered meaningful margin expansion during our holding period, which resulted in strong stock performance. We believed the valuation had run ahead of itself and we saw limited margin expansion going forward. Hence, we sold our position in the quarter.

Recent purchases

We initiated a new position in **Hikma** in our Health theme. It is a multinational pharmaceutical company, making generic and in-licensed drug products. Its purpose is to provide high-quality, affordable medicines to the people who need them. We like its defensive injectables business and long-term growth potential in generics.

Another new position we added was **Advanced Drainage Systems (“ADS”)**, in our Water Management theme. ADS is a leading manufacturer of high performance thermoplastic corrugated pipes, for water management. Over the last 30 years, it has gone from sourcing nearly 100% virgin resin to becoming one of the largest recycling companies in North America. With its focus on storm- and waste- water, ADS is well positioned to benefit from the increasing demand for climate adaptation solutions. We also like its business model which encourages circular economy through recycling resin.

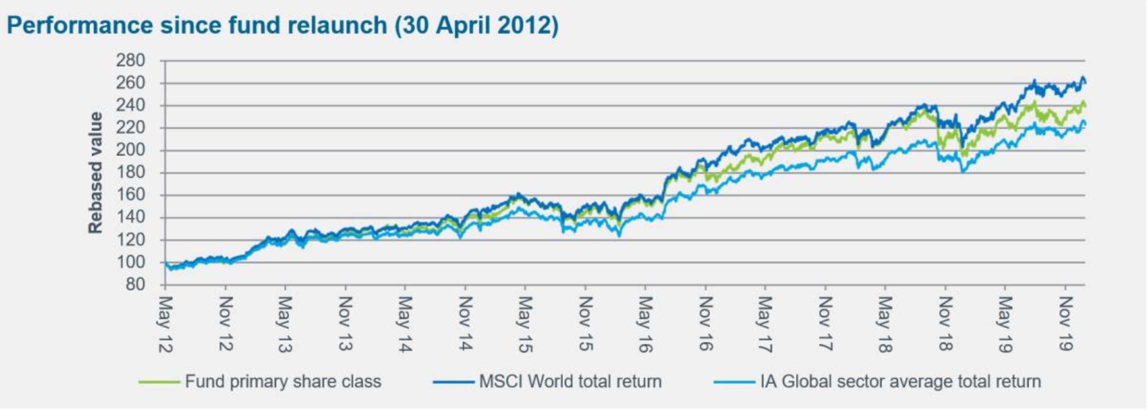
In our Sustainable Transport theme, we initiated a new position in **Infineon**. It is a world leader in semiconductor solutions that make the world safer and greener. It offers microcontrollers, LED drivers, sensors and power management solutions for numerous applications. Its leading position in these application enables it to benefit from a number secular trend including autonomous transport, electric vehicles and Internet of Things.

FP WHEB Sustainability Fund: 31 December 2019

Fund size	£390m
Holdings	52
Average holding period[4]	9.71 years[1]
Active Share vs Benchmark[5]	98%

IMA Sector	Global
Expected number of holdings	40 – 60
Expected holding period	4 – 7 years
Index benchmark[3]	MSCI World Total Return Net GBP

Investment Performance[4]:



Investment returns by discrete 12-month periods

	Dec 2018 – Dec 2019	Dec 2017 – Dec 2018	Dec 2016 – Dec 2017	Dec 2015 – Dec 2016	Dec 2014 – Dec 2015
FP WHEB Sustainability C Acc Primary share class	21.03%	-6.00%	16.07%	19.43%	7.06%
MSCI World total return	22.74%	-3.04%	11.80%	28.24%	4.87%
IA Global[5] sector average total return	21.92%	-5.72%	14.02%	23.33%	2.77%

The MSCI World Index is quoted at month end with net dividends reinvested and without the deduction of any expenses (in contrast to the portfolio). The MSCI World Index is unmanaged and cannot be invested in directly.

[4] The average holding period is calculated by the investment manager in accordance with the requirements of the UCITS V directive and derived from fund turnover over the last 12 months as of the end of the reporting month, less all subscriptions and redemptions. This figure is adjusted so as not to double count buys and sells. It is then inverted so that, for example, 50% turnover would equate to a 2-year average holding period. The average holding period reported prior to 30th April 2019 was provided by the fund accountant, Apex Services.

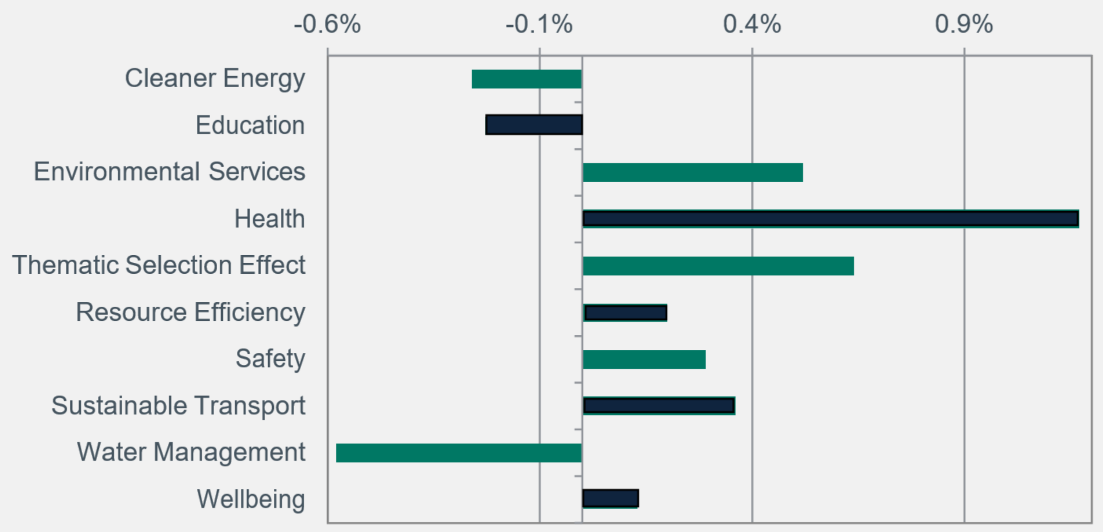
[5] Active Share refers to the % overlap between the Fund and MSCI World Index weightings. Data as at 31 March 2020. Source: Bloomberg.

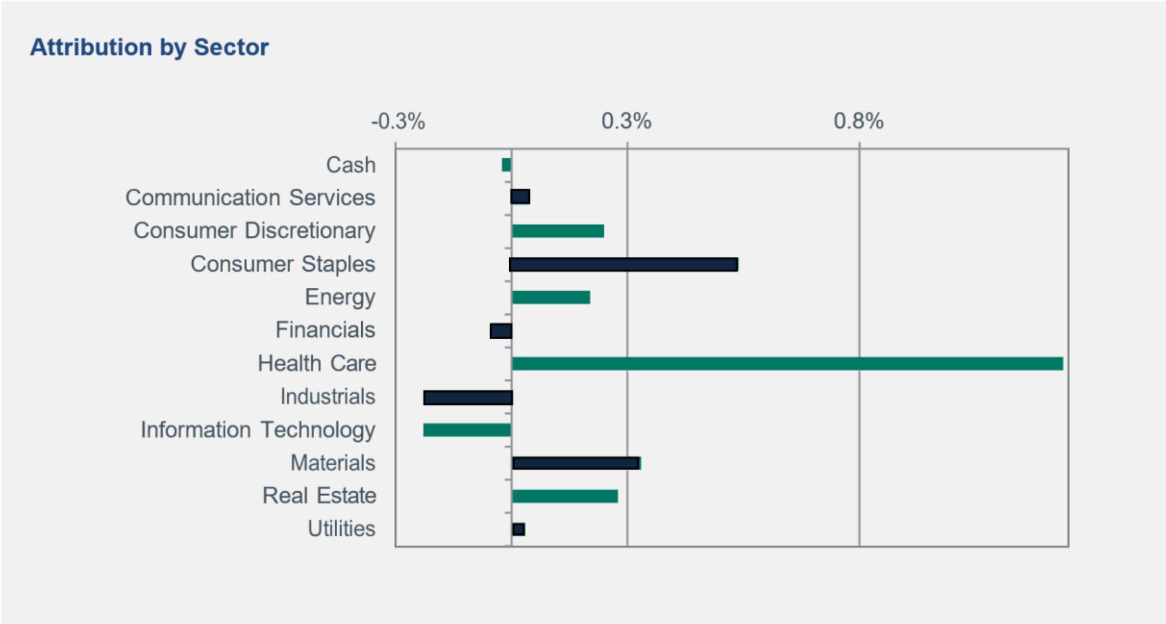
Cumulative investment returns

	Fund (Primary share class) %	MSCI World (Total return - GBP) %	IA Global sector average (Total return - GBP)[6] %
3 Months	3.21%	0.98%	1.90%
6 Months	2.46%	4.85%	4.36%
12 Months	21.03%	22.74%	21.92%
3 Years (annualised)	9.71%	9.99%	9.44%
5 Years (annualised)	11.05%	12.34%	10.68%
Cumulative since relaunch (30 April 2012)7	139.13%	160.14%	123.11%

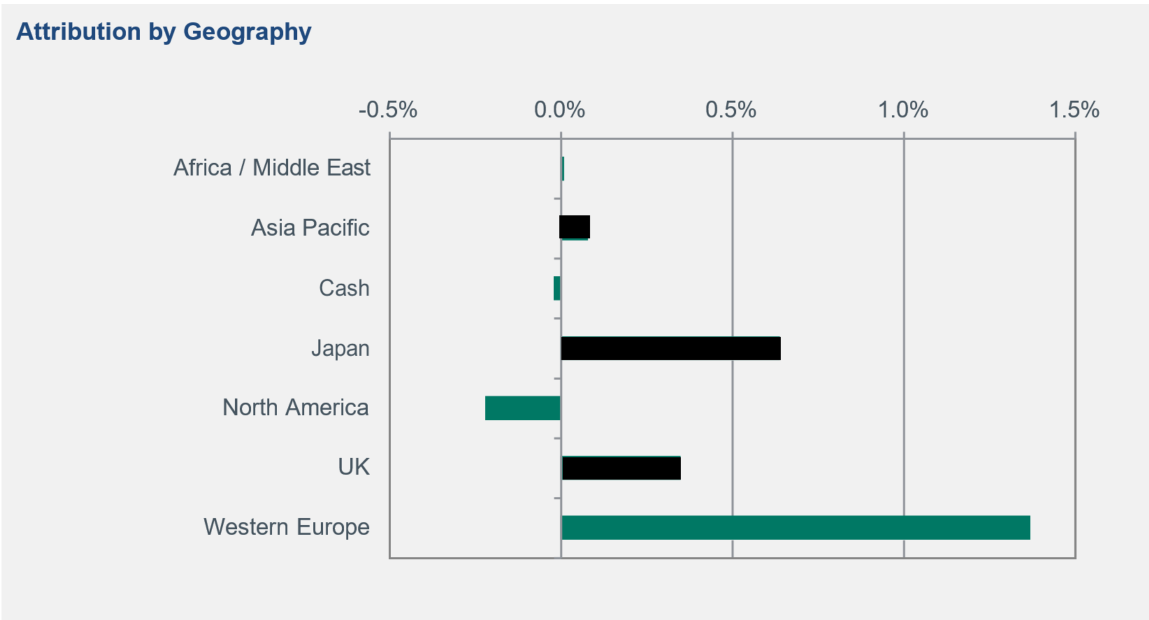
Performance Attribution – Last 3 months[7]

Attribution by Sustainability Theme[8]

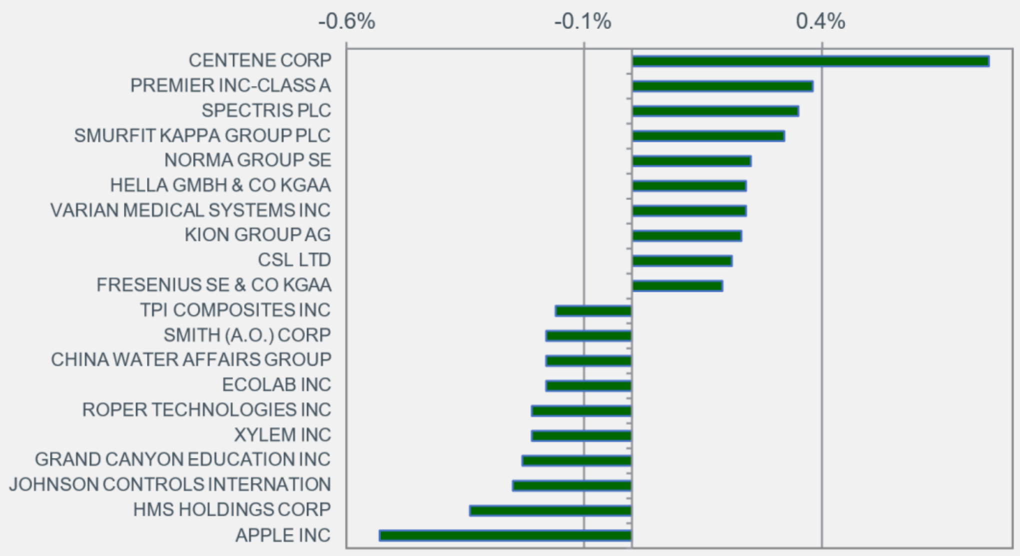




Performance Attribution – Last 3 months

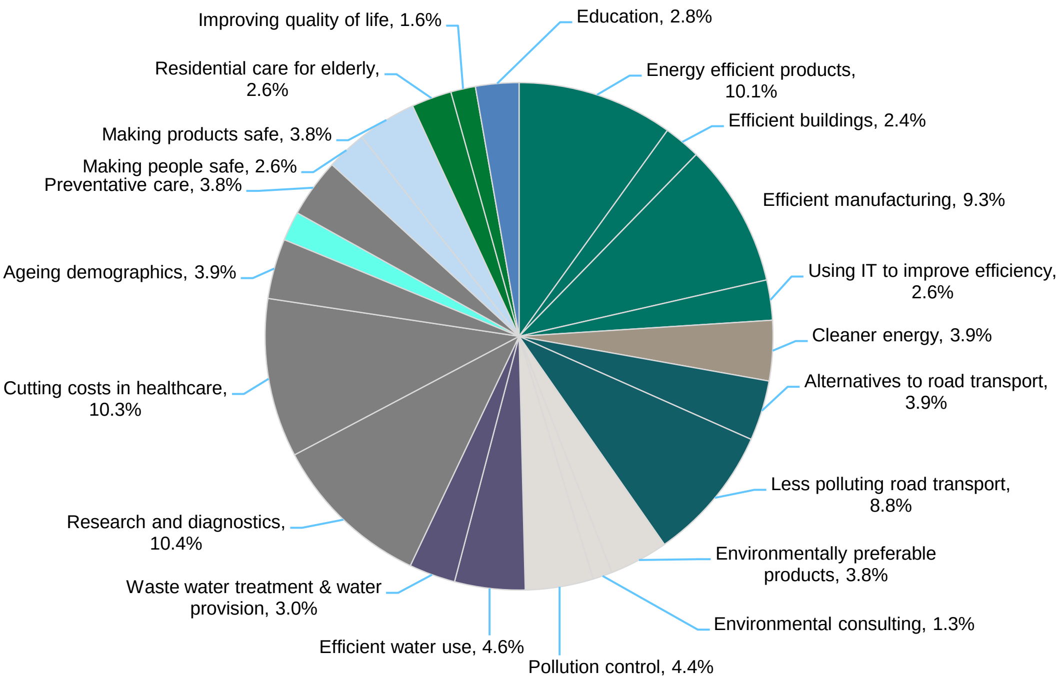


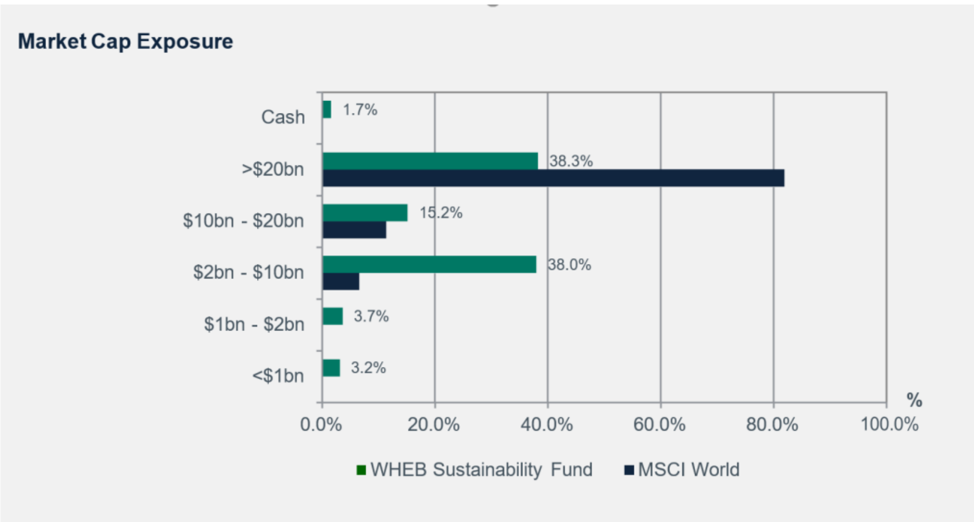
Attribution by Stock - top and bottom 10[9]



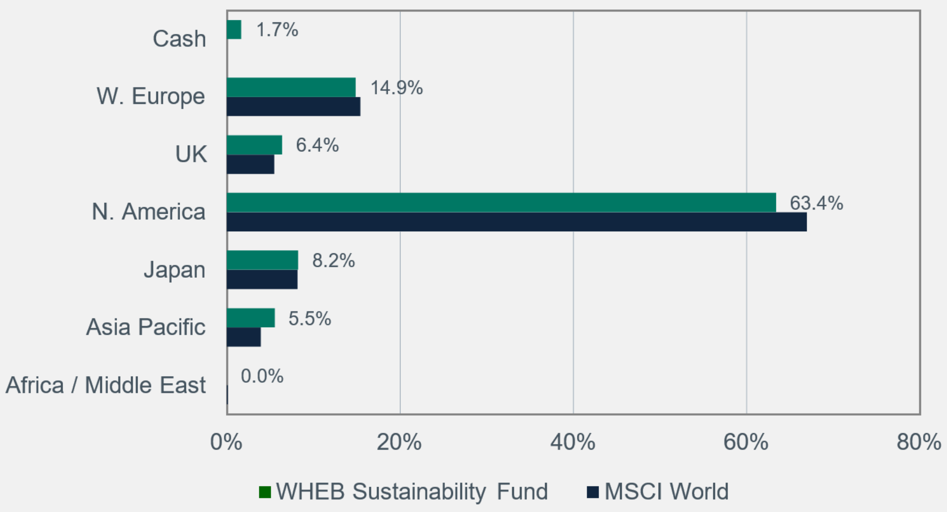
PORTFOLIO ANALYSIS AND POSITIONING:

Portfolio Exposures[9]

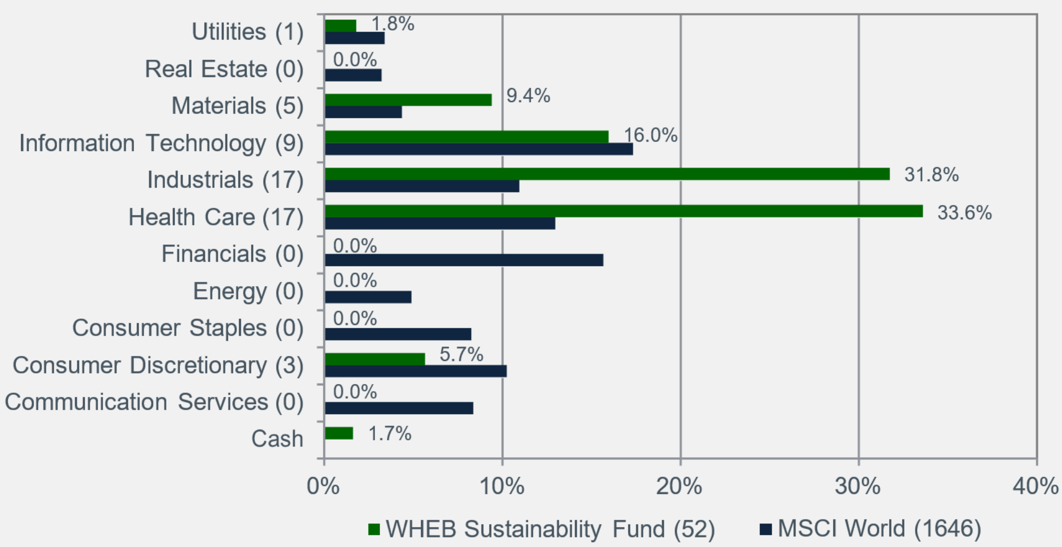




Regional Exposure



Sector Exposure[11]



Top Ten Holdings as at 31 March 2020

Stock	Theme	Description	Holding
Grand Canyon	Education	Provides flexible and affordable online and campus-based graduate and undergraduate education for students from all socio-economic backgrounds. The degree programs offered are in business, education and healthcare.	2.72%
Icon	Health	A clinical research business providing global outsourced development services to the pharmaceutical, biotechnology and medical device industries. Its aim is to accelerate the development of drugs and devices that save lives and improve the quality of life.	2.61%
Varian Medical Systems	Health	Varian manufacturers and sells equipment and services for treating cancer with different types of radiation technology. It has developed proton therapy which is particularly effective in treating cancers in children.	2.60%
Linde PLC	Environmental Services	Supplies a variety of gases to manufacturing, petrochemical and electronics industries and also to the healthcare sector. These are used in a variety of applications to make manufacturing processes more efficient and to reduce harmful emissions.	2.59%
Thermo Fisher	Health	A leading provider of analytical instruments, equipment, software and services for research and diagnostics in healthcare industries.	2.59%
Agilent Tech	Health	A provider of bio-analytical measurement solutions to the life sciences, chemical analysis and healthcare industries. It also makes pollutant monitoring equipment for food and measures human body contamination.	2.58%
Orpea	Well-Being	A leading operator of nursing homes for the elderly in France which is expanding across Europe. It focuses on high standard quality care and is positioned to benefit from demographic trends such as an ageing population.	2.58%
Roper Technologies	Resource Efficiency	Manufactures industrial controls, fluid handling and analytical instrumentation products. These products increase efficiency and safety in areas such as medical diagnostics, semiconductor production and water management.	2.57%
Xylem	Water Management	A designer, manufacturer, equipment and service provider for water and wastewater applications. Their products address water collection, distribution, and treatment for its return to the environment,.e.g. Smart meters.	2.57%
MSA Safety	Safety	Global provider of safety products including self-contained respirators, gas masks and detectors, helmets and thermal imaging cameras. Markets include fire- fighting, industrial, construction and the consumer sector.	2.56%

Fund Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)[11]	18.51x	16.65x
FY2 Earnings Growth[11]	9.97%	10.41%
FY1 PE/FY2 Earnings Growth (PEG)	1.86x	1.60x
3-year Volatility[12]	13.27%	11.29%

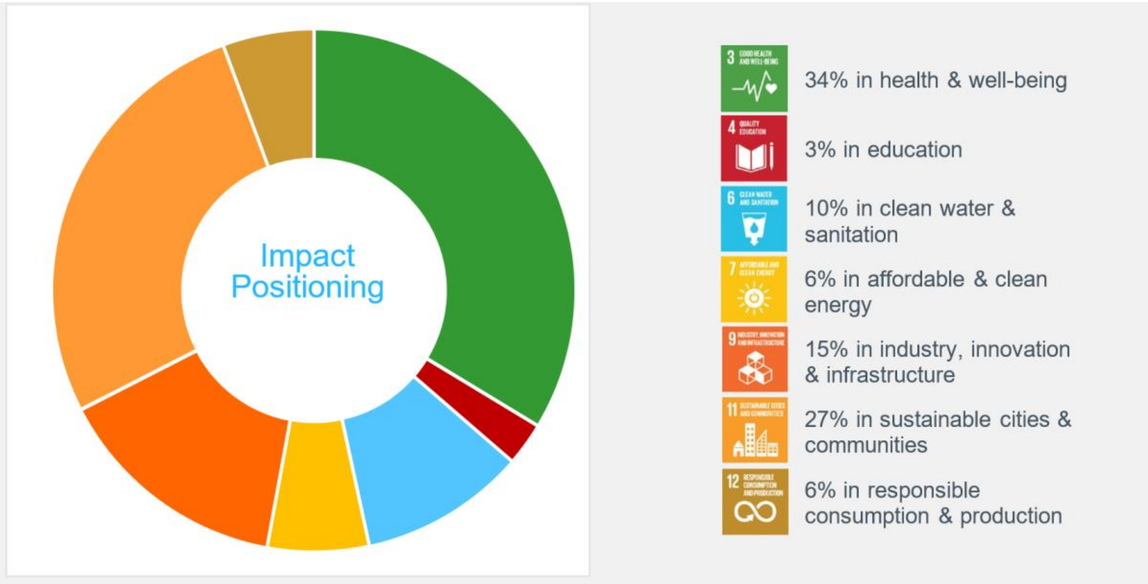
	WHEB
Beta (predicted)	1.04
1-year Tracking Error (predicted)	3.81%
3-year Tracking Error (ex-post)	10.73%

Trading Activity

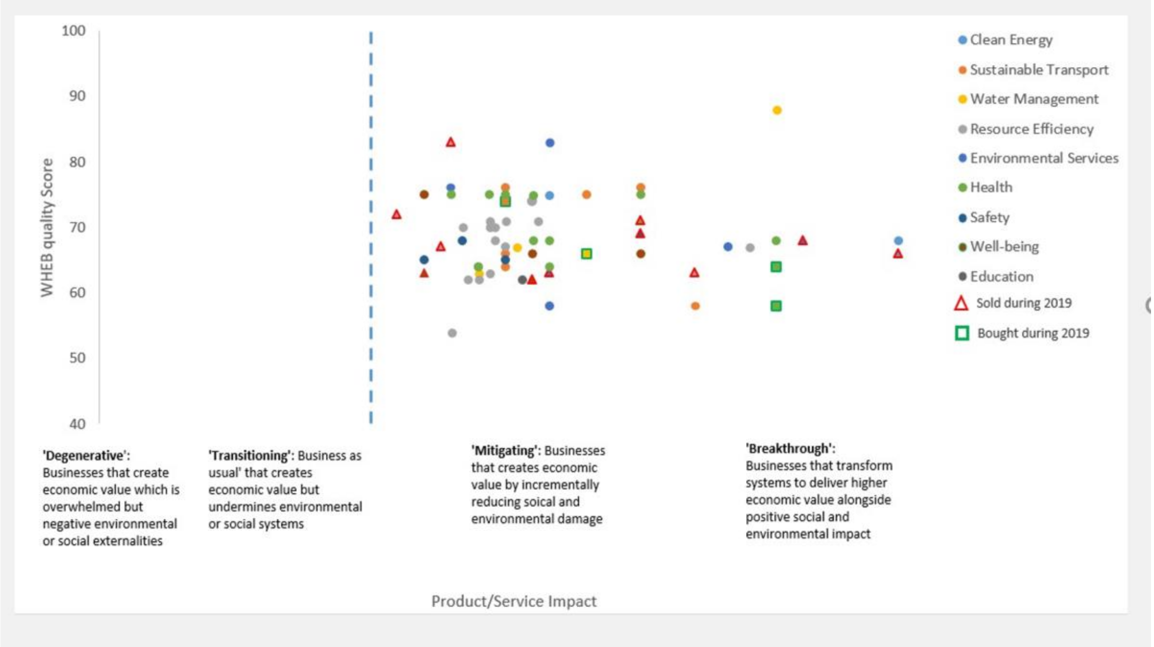
Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Hikma Pharmaceuticals	Purchase	Healthcare	Defensive injectables business and long-term growth potential in generics.
Advanced Drainage Systems	Purchase	Water Management	Well-run company with a compelling growth story in storm water adaptation.
Infineon	Purchase	Sustainable Transport	Quality chip manufacturer with leading positions in autonomous transport, electric vehicles and Internet of Things applications.
Ams AG	Sale	Resource Efficiency	The strategic focus on 3D sensing makes the company less sustainability-driven.
ICU Medical, Inc.	Sale	Healthcare	Deteriorating competitive position in the IV solutions business.
Acuity Brands, Inc.	Sale	Resource Efficiency	Ongoing market softness and price pressure outweigh medium-term potential from advanced lighting solutions.
National Instruments Corp.	Sale	Resource Efficiency	Despite prospects for cycle turning, high valuation and lower-than-hoped growth dampen future upside.

Impact Positioning: Supporting the UN Sustainable Development Goals[13]



Impact map of FP WHEB Sustainability Fund portfolio following changes in 1Q20[15]



Engagement and voting activity

Voting Record: Q4 2019

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 October - 31 December 2019. Full details of how we voted on each of the individual votes are detailed on our website: **http://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/**

Meetings	No. of meetings	%
# votable meetings	4	N/A
# meetings at which votes were cast	4	100%
# meetings at which we voted against management or abstained	3	100%

Resolutions	No. of resolutions	%
# votes cast with management	22	73%
# votes cast against mgmt. or abstained (see list in appendix)	8	27%
# resolutions where votes were withheld	0	0%

Company Engagement Activity

Company	Topic	Comment	Outcome
Orpea	Staff turnover / patient safety / employee working conditions	Letter	Company provided evidence of strong monitoring of patient safety and higher quality employee conditions (and lower turnover)
China Everbright	Biomass source materials	Email	Company confirmed that biomass sources were exclusively waste residues and did not include trees
Linde	Net Zero Carbon target Green hydrogen	Conference call	Linde will publish revised carbon reductions targets in 1Q20 Green hydrogen is a small but strategic opportunity
IPG Photonics	Gender diversity	Letter	Company does not have diversity targets but has one female director who was appointed in 2016.
Nitto Denko	Net Zero Carbon targets	Meeting	Company will look into more demanding carbon reduction targets
Premier Inc	No Director for Sustainability Lack of sustainability disclosure Gender diversity Excessive CEO incentive plan	Letter	Agreed to designate a Board Director for sustainability and adding new section to annual report from 2020 Appointing new Board Directors in 2020 which will include one third gender and ethincally diverse
Renishaw	Lack of ESG criteria in CEO incentive Lack of Board independence NZC 2030 target	Letter	No response as of 14th January
China Everbright International	Carbon emissions measurement and reduction targets	Email	Company will consider increasing measurement frequency (see above).
Fresenius SE	Antimicrobial resistance	Email	Company set out detailed approach to manufacturing policies and approach to access to stewardship (see above).
Intertek plc	NZC 2030 target	Meeting	Company acknowledges that their current targets could be improved and is planning to publish more ambitious targets in 1Q2020
CVS Health	NZC 2030 target	Letter	Company acknowledged receipt of letter
Lennox International	HVAC energy efficiency standards	Email	
China Water Affairs	NZC 2030 target	Email	Company is actively managing and measuring carbon emissions but has not set a formal reduction target
Littlefuse	NZC 2030 target	Letter	No response as of 14th January
Smurfit Kappa	NZC 2030 target	Letter	No response as of 14th January
Xylem	NZC 2030 target	Letter	Call arrange for 1Q20
Wabtec	NZC 2030 target	Letter	Detailed actions that company has taken to reduce carbon emissions, but no reduction targets.
Orpea	NZC 2030 target	Letter	No response as of 14th January
Varian	NZC 2030 target	Letter	Call arranged for 1Q20
Daikin	NZC 2030 target	Letter	No response as of 14th January
Infineon	NZC 2030 target	Letter	No response as of 14th January
Norma	NZC 2030 target	Letter	No response as of 14th January
TPI Composites	NZC 2030 target	Letter	No response as of 14th January
Ansys	NZC 2030 target	Letter	Acknowledged letter
Hella	NZC 2030 target	Letter	Meeting arranged 1Q2020
Kion	NZC 2030 target	Letter	No response as of 14th January
Spectris	NZC 2030 target	Letter	Will address carbon reduction in next sustainability report

Notes for Table:

[1] The average holding period is calculated by the investment manager in accordance with the requirements of the UCITS V directive and derived from fund turnover over the last 12 months as of the end of the reporting month, less all subscriptions and redemptions. This figure is adjusted so as not to double count buys and sells. It is then inverted so that, for example, 50% turnover would equate to a 2-year average holding period. The average holding period reported prior to 30th April 2019 was provided by the fund accountant, Apex Services.

2 Active Share refers to the % overlap between the Fund and MSCI World Index weightings. Data as at 31 December 2019. Source: Bloomberg.

3 The MSCI World Index is quoted at month end with net dividends reinvested and without the deduction of any expenses (in contrast to the portfolio). The MSCI World Index is unmanaged and cannot be invested in directly.

4 Performance data for the FP WHEB Sustainability Fund Primary Share Class comprises the A share class since inception of the fund on 8 June 2009, and the C share class since its launch on 11 Sept 2012. Prices are last quoted prices for each day i.e. MSCI World quoted after market close in North America; FP WHEB Sustainability quoted at midday in UK. Prices shown net of Ongoing Charge Figure (OCF): Effective A share class OCF as at 31.12.2019 1.71%, C Share Class OCF 1.06%. Effective from 2nd January 2020, we have introduced a single, fixed rate "Management Fee" which includes all of the costs and charges that were previously in the ongoing charges figure (or "OCF") of the Fund. As a result, various costs and charges associated with services to the Fund such as depository and custody, transfer agency, legal, audit and fund accounting charges are now paid out of the single, fixed rate Management Fee. For further information see: http://www.whebgroup.com/fp-wheb-sustainability-fund-moves-to-a-single-fee/Past performance is not a reliable guide to future performance. Your capital is at risk.

5 IA Global refers to the fund weighted average performance of the UK Investment Association Global equity sector peer group. Source FE Analytics.

6 The FP WHEB Sustainability Fund was originally launched on 8 Jun 2009. Effective re-launch as at 30 April 2012 after the portfolio was transitioned to a new investment process by a new investment team.

7 Performance attribution is calculated with reference to the MSCI World Index, and based on the Fund's valuation at the market close. Depending on timing differences between midday pricing of the Fund's unit price and the market close, the total attribution may therefore deviate from the quarterly performance quoted in the investment performance section of the report.

8 The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

9 Apple is not held in the fund and is not in the investment universe. The negative attribution shown relates to its significant index weighting and outperformance of the stock during the period.

10 Source: Bloomberg, data as of 31 December 2019. Numbers may not add up to 100% due to rounding.

11 The figures in brackets relate to the number of companies included in the fund or the index.

12 Earnings growth data source: Bloomberg consensus forecast estimates. FY1 is the forecast estimate for the next year, FY2 is the forecast estimate for the following year.

13 Volatility data as at 31 December 2019, source: Bloomberg.

14 For description of impact mapping methodologies please see WHEB's impact reports, available at http://www.whebgroup.com/impact/ The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at http://www.whebgroup.com/media/2019/06/Methodology-2018.pdf, and the impact positioning graph is described in detail in the 2018 impact report

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