INSIGHTS

Q2 2020 REPORT

Pengana WHEB Sustainable Impact Fund

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ADDRESSING ETHNIC AND RACIAL DIVERSITY

If the last few months have shown us anything, it is that the role of companies in addressing social and environmental issues is now an accepted – even expected – part of running a business. Whatever we might feel about it, private companies are now routinely scrutinised on their position and approach to major social and environmental issues such as gender, COVID-19, climate change and most recently minority rights and race.

The death of George Floyd in Minneapolis at the end of May catalysed a global protest focused on incidents of police brutality against minority and particularly black minority communities. This campaign has subsequently expanded to consider the rights of Black Asian and Minority Ethnic (BAME) communities more generally.

This has prompted consideration of the role of the financial community in addressing racial diversity[1]. The sector itself has a poor track-record on diversity in all its guises, but particularly on racial diversity[2]. Some institutions have moved to increase diversity. BlackRock Inc., for example, has committed to increase its Black workforce by 30% by 2024 and double the proportion of senior leaders who are Black from the current 3% level. Fiona Reynolds, the chief executive officer of the London-based Principles for Responsible Investment (PRI), has argued that the financial sector needs to do better itself in supporting racial diversity[3].

For asset managers like WHEB the issue has three main dimensions. The first two embody how we address racial diversity in our interactions with companies that we invest in, and the third focuses on how WHEB itself addresses the issue in our own business.

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1 https://www.responsible-investor.com/articles/what-are-investors-doing-to-support-the-fight-for-racial-equality
2 https://www.fnlondon.com/articles/black-lives-matter-finance-20200629
3 https://www.bloomberg.com/news/articles/2020-06-24/esg-investors-are-confronting-a-race-problem-of-their-own

Diversity in product impact - WHEB's Impact Engine

As clients will hopefully know, WHEB's investment philosophy is squarely focused on companies that supply products and services that deliver clear positive social and environmental impact. At the heart of our investment process is our 'impact engine' that is designed to capture the multi-dimensional nature of this positive impact. One of these dimensions involves an assessment of *who* the customers are for the company's products and services and how vulnerable or under-served they are. Healthcare products that are explicitly aimed at the elderly or young, for example, score more highly on this dimension than interventions that are undifferentiated and address the whole population.

Similarly, there is a clear focus on products and services that address underserved populations. For example, healthcare insurance businesses or providers of tertiary education that disproportionately benefit disadvantaged communities, including Black, Asian and minority ethnic communities are scored more highly than businesses that are focused on already well-served communities.

Centene, a US-based managed healthcare provider, is explicitly focused on providing healthcare insurance to poorer and underserved communities and therefore their services disproportionately benefit the African-American community in the US. Similarly, the WHEB strategy is invested in two tertiary education providers that also support underserved communities. One of the more recent investments in the strategy is in the US-based tertiary education provider **Strategic Education**. Strategic's programmes are focused in particular on people who did not have the opportunity or financial means to continue their education after high-school. The majority of students are working adults who are returning to education in order to improve their career opportunities. 76% of students are female and 64% are people of colour4. The company also has a particular focus in providing support to Historically Black Colleges and Universities (HBCUs) in developing on-line education capabilities.

Diversity within investee companies

In recent years, WHEB has made diversity, and particularly gender diversity, a priority engagement issue with portfolio companies. There is evidence that addressing gender diversity also benefits other diverse groups as well[5]. However, it is clear from these engagements that many portfolio businesses consider the issue of diversity to extend well beyond gender to include other aspects of diversity including ethnic diversity as well as diversity of experience and culture. Two holdings, **TE Connectivity** and **STERIS**, both argued in recent exchanges that the composition of their Boards had been designed explicitly to address this wider definition of diversity. Both claim to have Boards of Directors that are more than 50% 'diverse'. We will ensure that our engagement with portfolio companies addresses diversity in all its manifestations as a core objective.

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[4] Strategic Education
[5] Perse. Comm. Bev Shah

WHEB and diversity

Like most of the UK's financial services sector, WHEB still has work to do to address gender and racial diversity in our own business and operations. Fundamentally we embrace diversity, inclusion and equality as a core value. We also recognise that a business culture that allows minority groups to flourish is likely to be more successful over the long run. Our understanding of these issues has improved in recent years and is evident in the approach and composition of our employees and within our advisory bodies[6]. We remain committed to fostering further diversity throughout our direct operations as we continue to grow.

WHEB also remains very active in supporting greater diversity more broadly through our internship programme and participation in wider industry initiatives. For example, for the past five years we have worked with the Social Mobility Foundation[7] offering short internships to young men and women from diverse ethnic backgrounds to work at WHEB.

WHEB is also a founding corporate partner of City Hive which is an independent organisation working to create a more diverse, equitable and inclusive corporate culture within the investment management industry[8]. We know we don't have all the answers. We are committed to educating ourselves through listening and working with City Hive and with the wider B Corporation network to identify ways that we can play a more proactive role in supporting diversity across all of our activities.

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[6] Including for example on WHEB's Independent Investment Advisory Committee.
[7] https://www.socialmobility.org.uk/
[8] https://www.cityhive.co.uk/

A TALE OF TWO REVOLUTIONS

Information technology and sustainability both represent major economic transformations. Sometimes linked, but by no means always.

The second quarter of 2020 has been remarkable in a few ways. The most obvious is just how positive it has been for equity markets. One of our two benchmarks, the MSCI World index, rose 20.0%.

This took the index return for the first half of 2020 to 1.3%. This innocuous-looking number is in fact a quite startling statistic. The most profound global health event in a century, and yet equity markets actually rose.

Extraordinary returns from Information Technology and Communication Services

But there are other very striking figures within that performance. Perhaps the most important, is the contribution from the Information Technology ("IT") sector. A sector return of 22.3% more than doubled the next-best sector over the six months. The Communication Services ("CS") sector, was also in positive territory, albeit not as healthy as IT. This sector is made up largely of companies previously classified as IT.

In our own attribution, which involves analysing portfolio returns relative to benchmark returns, IT was also a standout: but a negative one. It was our largest negative sector attribution, again more than twice the runner-up. This has been something of a pattern recently. Repeating the same analysis over three years, we can see IT was the strongest sector. And our comparative underweight, and selection, has been our biggest drag on relative performance.

Of course, this is the sort of thing we should notice and think about. And likewise, we would expect our clients to. But it has become of particular interest recently.

That is because IT has become hugely popular in the now burgeoning world of sustainable investment. At the start of this month, two separate surveys identified Microsoft, Alphabet and Apple as all being in the top five most popular stocks in funds that claim to use environmental, social and governance (“ESG”) criteria. In one of those surveys, they were joined by Visa; in the other, by Mastercard[9].

Most IT companies are not providing solutions to sustainability challenges

We are often asked about why we are less exposed than our apparent peers. But as our clients well know, we invest in companies that provide products or services that directly address critical sustainability challenges. As a very minimum, half of their business will be focused on this. For most of the companies we invest in, it is the whole of their business. This is perhaps a defining example of what it is to be an impact fund, as opposed to a strategy based primarily on environmental, social and governance ("ESG") factors.

[9] Surveys by RBC Capital Markets and Morgan Stanley

By contrast, sustainable funds with large weights towards IT are generally using ESG tools to pick their stocks. Before investing, their managers will be looking closely at how a company conducts itself. But they do not need a company to be providing a sustainability solution in the goods and services it provides. In fact, the bulk of the IT and CS companies on the market at the moment don't fit that definition. There is no lock-step relationship between their unit sales growth and positive social or environmental outcomes.

Most IT and CS companies are "neutral" from an impact standpoint. Their core businesses and the vast majority of their revenues are derived from selling consumer devices (like Apple), advertising space and data (Google and Facebook), platform software (Microsoft), electronic payments (Visa and Mastercard) or anything at all that consumers will buy (Amazon). These are not what we would consider positive impact products at WHEB, and they therefore do not qualify in our investable universe.

If anything, the most common trait of most large technology companies is that they improve consumer experiences. And that may or may not be sustainable.

This of course begs the question, why do so many ESG managers end up with a big weight in IT? What is it about IT companies that makes them look like they have particularly sustainable business models?

There are a couple of possible answers. IT companies tend to have smaller environmental footprints. There is no physical manufacturing in software. Much of technology hardware manufacturing is outsourced. On paper, IT companies can present very low greenhouse gas emissions, for instance. These small footprints mean that they also tend to avoid the controversies which often result in a company falling foul of a negative screen.

Moreover, ESG aside, many IT businesses are compelling investments. They are asset-light, scalable, and often with high proportions of recurring revenue. The very largest ones have built up formidable competitive defences.

IT companies that do address sustainability challenges

We appreciate attractive business models and low-risk ESG profiles. But for us, the key is to connect these traits with real impact. That's what makes us confident in the long-term future and growth of our companies. It is the incredible power and potential of technology used to promote sustainability that really makes us enthusiastic about the IT stocks we do invest in.

And we are, indeed, enthusiastic. Our portfolio may have less IT exposure than the broader market, and a lot less than the average ESG fund. But we hold roughly twice the weighting of our investable universe of sustainable IT companies. We think IT will solve some of the key sustainability challenges.

We invest in **Cerner** and **HMS Holdings**, in our Health theme, which provide software to help deliver better healthcare outcomes. In our Resource Efficiency theme, **Ansys** and **Autodesk** create software to empower designers to create ever more energy and resource efficient products.   And we invest in **Infineon**, **Littelfuse** and **Silicon Labs**. These companies make semiconducting equipment which helps control electric power, provide circuit safety, and connect the "internet of things". By doing so they bring forward the electrification of everything from cars to power generation, with a lighter environmental footprint.

Information Technology is reshaping the sustainability challenge just as it reshapes the world. Not every piece of technology is sustainable. But technology companies with a genuine and direct application to sustainability are compellingly impactful.

ENGAGEMENT ACTIVITY

Collaborative engagements on carbon emission reductions

Our engagement policy specifically sets out an escalation process for engagements where we have initially been unsuccessful in achieving our objectives[10]. The first step in this process is to identify like-minded investors with whom we can work to jointly put our points to management. Following on from the work that we have done encouraging portfolio companies to set demanding carbon reduction targets, we have escalated our engagement with two portfolio companies.

Daikin Industries

Daikin Industries is a large Japanese business that has a leading position in manufacturing energy efficient air conditioning (AC) systems and refrigerants. With over a third of sales in emerging markets in Asia and Africa, the company is well-placed to ensure burgeoning demand in these regions is satisfied with high efficiency equipment. However, given the potential load that even efficient AC units are expected to put on electricity grids, it is critical that Daikin and other companies in this sector aggressively pursue efficiency improvements and support market-based incentives to adopt the most efficient technologies.

We have been working with the CA100+ initiative to engage with Daikin and in the past quarter the company has announced that it aims to achieve net zero carbon emissions by 2050. We see this as a very important first step. However, we believe more is needed and will continue to push the company to set clearer milestones towards this objective. We also believe that ambitious carbon reduction targets will need public policy interventions to accelerate the deployment of the most efficient equipment.

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[10] https://www.whebgroup.com/media/2020/07/202007-Stewardship-code-disclosure-statement-final.pdf

Intertek PLC

A second company where we have had a disappointing response to our initial engagement is the UK company **Intertek plc**. As a professional services business, the company's direct carbon footprint is rather smaller than Daikin's. However, the company has a leadership position within its sector and actually supplies a range of sustainability services to clients including carbon reduction strategy and management. The company recently reviewed its carbon target but chose to reaffirm its existing target 'to strive for a reduction in GHG emissions per employee by 5% against [a] 2018 base year'. We do not believe that this is aligned with the Paris Agreement. Nor, in our view, is it consistent with a business that claims a have a leading approach to sustainability. Having previously engaged the company bilaterally on this issue, we are now working collaboratively with other investors to put this issue to the company together.

International Energy Agency

WHEB co-signed a joint multi-stakeholder letter that was sent to the Executive Director of the International Energy Agency (IEA). The letter calls on the IEA to adopt a 1.5°C scenario as the Agency's central planning scenario[11]. The IEA's energy scenarios are extremely influential and used widely across the public and private sectors globally to inform strategy and planning in the energy sector. By making the 1.5°C scenario the central planning scenario, the IEA could help to ensure that these decisions support greenhouse gas emission reductions that then limit climate change to no more than 1.5°C.

Engagement with US mid-caps

US-based mid-sized businesses are a staple market segment for the WHEB strategy. Typically, however, mid-sized US businesses have been relatively poor disclosers of environmental, social and governance (ESG) data. In 2019, nearly a third of all our engagement activity focused on encouraging companies to disclose more ESG data and information. For many years this was a fairly thankless task, but in the last 18 months we have seen a notable change in attitudes.

This was evident in the last quarter in conversations with three US-based portfolio holdings. All three companies have been core holdings in the WHEB strategy for several years. All have, in our view, a compelling positive impact, but none has provided adequate ESG disclosures.

In the first quarter we wrote to all three businesses to ask to speak to them about their plans for improving this aspect of their disclosure and in all three cases we ended up having positive conversations about the need to improve. **JB Hunt** in particular, a business that has until recently, refused to engage with investors on these issues, has now set up a Sustainability Committee chaired by the company's Chief Operating Officer to develop programmes and report to external stakeholders including investors.

Ansys and **Varian** have always been more accessible but have also prioritised ESG issues more highly in the past year. We hope that Ansys will produce their first external report in 2021. Varian already produce a report. For them the focus is on setting longer term targets, including notably a net zero carbon target.

[11] https://mission2020.global/letter-to-iea/

COVID-19 and the pharmaceutical sector

Alongside other investors, WHEB co-signed a letter to companies in the pharmaceutical sector to abide by a core set of principles when developing their responses to the COVID-19 pandemic. Specifically, the letter asked the companies to:

- work to develop therapies to tackle the pandemic and ensure that these are affordable;
- share intellectual property and co-operate with public and private sector stakeholders to ensure a rapid and effective response;
- work collaboratively to ensure that supply chains remain operational and that medical professionals have access to equipment and therapies;
- ensure that research and development programmes address infectious diseases; and
- be understanding with clients and suppliers who are hit by the pandemic.

Public policy initiatives

Working in collaboration with other investors including the Institutional Investors Group on Climate Change (IIGCC) we have been involved in a number of initiatives aimed at encouraging policy-makers in the EU and in the UK to pursue policies aimed at accelerating action on sustainability. The main initiatives that we participated in during the last quarter are listed below.

Methane

Methane is a potent greenhouse gas, but emissions of methane still remain largely unregulated. We wrote a letter to European Commissioners encouraging the Commission to develop a specific legislative instrument to reduce methane emissions. This included developing a standard that limits the amount of methane that can be emitted in upstream oil and gas operations as a requirement for EU market access.

Sustainable economic recovery

We signed separate letters to both the EU and UK governments to encourage them to ensure that public policies aimed at fostering economic activity in the wake of the COVID-19 pandemic have sustainability at their heart. The letter to the EU leaders was signed by over one hundred investors manging over €10 trillion in assets.

The letter to the UK's Prime Minister involved investors as well as the leading businesses as part of the UK Business Group Alliance for Net Zero. We received a response from Alok Sharma the Secretary of State for Business, Energy and Industrial Strategy (BEIS) thanking us and confirming that the UK government sees a green recovery as consistent with their ambition to create jobs.

EU Sustainable Finance Strategy

As we've noted in previous client reports, policy makers in multiple jurisdictions are launching a raft of new policy tools and frameworks aimed at encouraging the finance sector to integrate sustainability into their operations and services. The latest initiative is a consultation from the EU on a Renewed Sustainable Finance Strategy. The Institutional Investors Group on Climate Change (IIGCC) is coordinating responses to this consultation (which runs to 103 questions). WHEB has been feeding into this process.

PERFORMANCE COMMENTARY

During Q2 2020, Covid 19 continued to cause major political and economic upheaval around the world. In response there were unprecedented stimulus measures taken by governments in efforts to keep the now very fragile world economies afloat. At the same time, the western world has also awakened to the deeper and more pernicious crisis of racial injustice.

With a background of these profound social changes, global equity markets staged a rally. The MSCI World Index of stocks rose 6.1%. Investors interpreted the government actions, particularly those of the United States, to mean no end to the easy monetary policy regime which is now well over a decade old. This bullishness easily overcame concerns over the severe challenges faced by the real economy.

Against this extraordinary backdrop the Pengana WHEB Sustainable Impact Fund fared well, outpacing the benchmark with a return of 8.6%.

Sustainable Transport was the strongest contributing theme for the period followed closely by Resource Efficiency. These two themes between them created the large majority of the outperformance. The Wellbeing theme was the biggest negative contributor.

Sustainable Transport was lifted by a rally in the automotive stocks as sentiment in the sector recovered from being hit hard early in the pandemic. Five stocks from the Sustainable Transport theme were among the top ten performing stocks. **Aptiv** was the best performer. It is very well placed to provide the connectivity required for the electronification of cars. It was hit particularly hard in the crisis due to unfounded fears over its financial position, so recovered strongly. Two other component makers, **Norma** and **Hella**, were also major positive contributors this quarter.

Whilst there will clearly be a dramatic drop in global demand for cars in 2020, we look beyond that, keeping our positions in several companies that are well positioned to benefit from the shift to electric vehicles and advanced safety.

Despite the strength of recovery in automotive, the Resource Efficiency theme almost matched Sustainable Transport. **Autodesk,** which was added to the portfolio just before the start of the quarter, was the best contributor in this theme. It develops software tools which are a critical component in the design and operation of more resource efficient products and buildings. At a recent analyst day, they gave investors confidence in its long-term growth potential and the company reaffirmed its medium-term financial targets for FY2023. It also expects double-digit revenue and free cash flow beyond FY2023.

Another strong contributor in the theme was **Daifuku**. Daifuku is a leading provider of warehouse material handling systems. These products enable the automation of warehousing and manufacturing and reduce energy and resource use in these activities. It is regarded as one of the beneficiaries of e-commerce and factory automation accelerated by COVID-19.

At the other end of the spectrum, the Wellbeing theme had a disappointing quarter. In a period of market growth, many defensive companies underperformed, including **Orpea** and **Cooper** in this theme.

Orpea might be considered at risk from the pandemic as it is a leading global player in aged care, with an extensive network largely in continental Europe. It has avoided difficulty due to its high-quality approach to care. It swiftly implemented new protocols and set up crisis units across all its countries of operation in late February. So far, the fatality rate in the group's nursing homes has been lower than last year when the flu epidemic was more severe. As the pandemic and its after-effects unfold, we are confident that Orpea will emerge in an even stronger position.

Outside of themes other major detractors to our performance were our two Hong Kong listed holdings. These are **China Water Affairs** and **China Everbright International**. This was largely due to the political unrest over Hong Kong's autonomy. The local Hang Seng index plunged more than 5% on the day the Chinese government announced plans to impose new security laws. Investors fear the proposed security laws will undermine the city's future as an international financial centre. We hope that, as this situation evolves, we will see these stocks rebound.

The stock market now has had some time to digest the shock of the global pandemic. On a positive note the pandemic has focused minds on the importance of resilience, and sustainable business models. However, the optimism of the recovery in the second half of the year is being weighed heavily against a second wave of coronavirus and continued social unrest. Given all these uncertainties, this strategy will continue to maintain a well-balanced exposure across diversified themes and sectors.

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PORTFOLIO ACTIVITY

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

Recent sales

We sold **Nitto Denko** in our Resource Efficiency theme. It sells chemical products that are used in industrial and electronic components. More than 60% of the its sales are in products that deliver energy efficiency benefits, such as for insulation material in buildings or in reducing weight in automotive applications. The company previously benefitted from the high growth smartphone market. However, the maturity of that market has led to slower growth prospects for the business.

We closed our position in **CVS** in our Health theme. It runs a network of pharmacies and negotiates reduced prices for pharmaceutical products on behalf of healthcare providers. After the acquisition of Aetna, it also provides health insurance, and is leading the way towards an integrated model of healthcare delivery in the USA. We worry that COVID-19 will create fresh pressure on the US healthcare reform and also erode commercial insurance enrolment due to high unemployment. Perhaps more importantly for our thesis, it has already led the company to delay its planned moves to integrated healthcare.

We sold **Norma** in our Sustainable Transport theme. It makes the world's most innovative clamps, connectors and fluid systems. They are used to help reduce emission and improve automotive energy efficiency. The company had had a solid track record of delivering stable margins. However, some recent strategic missteps have put its margin profile in doubt. We are also less convinced of its content growth story, now that the shift to electric vehicles looks set to eclipse hybrids sooner than expected.

Recent purchases

We started a new position in **Strategic Education** in our Education theme. It is an education services company that seeks to provide the most direct path between learning and employment through campus-based and online post-secondary education offerings. It has an impressive academic track record and a strong focus on digital innovation. We believe COVID-19 will accelerate the adoption of online and career-oriented education. Strategic Education's digital offerings and its focus on job-ready skills will benefit from this growing demand.

We initiated a new position in **Sonova** in our Wellbeing theme. It is a leading provider of innovative hearing care solutions. Its products include hearing aids, cochlear implants and professional autological care. It is a high-quality company operating in an oligopolistic market. It typically trades at high valuation. The global lockdown has prevented new fittings of hearing aids, putting pressure on the stock and creating a buying opportunity. We believe the long-term demand for hearing care solutions remain intact, driven by the ageing population.

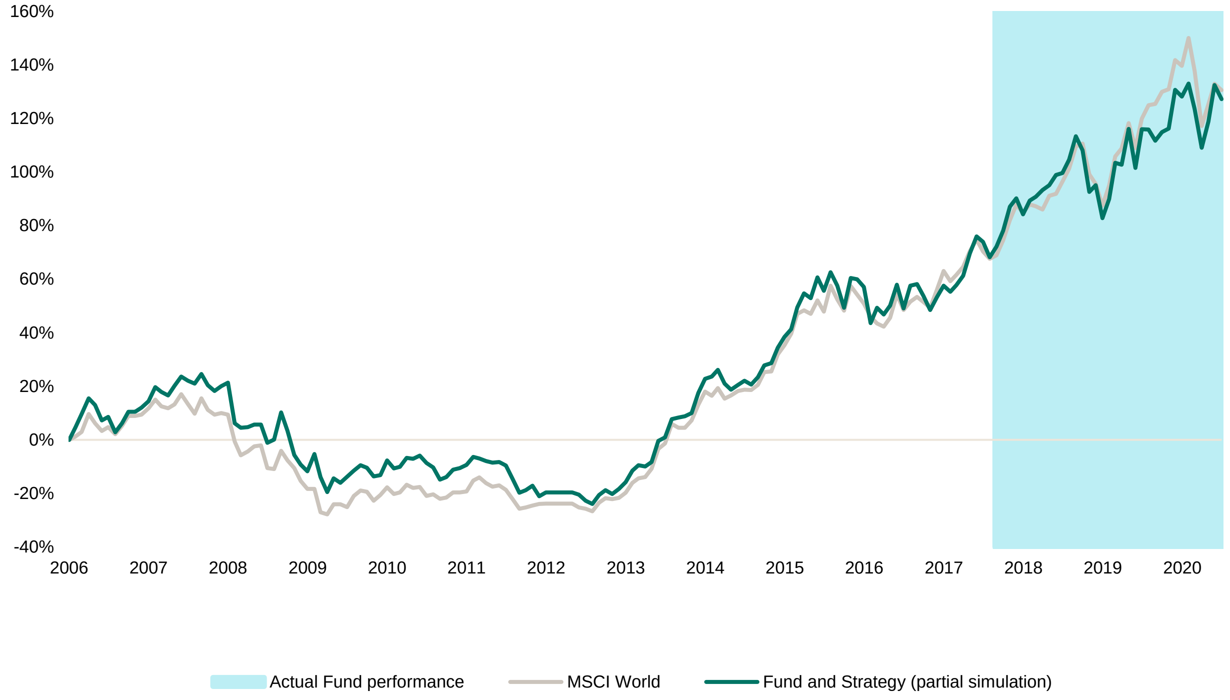
INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 30 June 2020

	1 mth	1 yr	3 yrs p.a.	5 yrs p.a.	Since inception p.a.
Fund	-2.3%	5.2%			
Strategy (partial simulation)[12]			9.3%	7.8%	5.8%
MSCI World[13]	-1.0%	4.8%	10.6%	9.3%	5.9%

Performance Since Strategy Inception

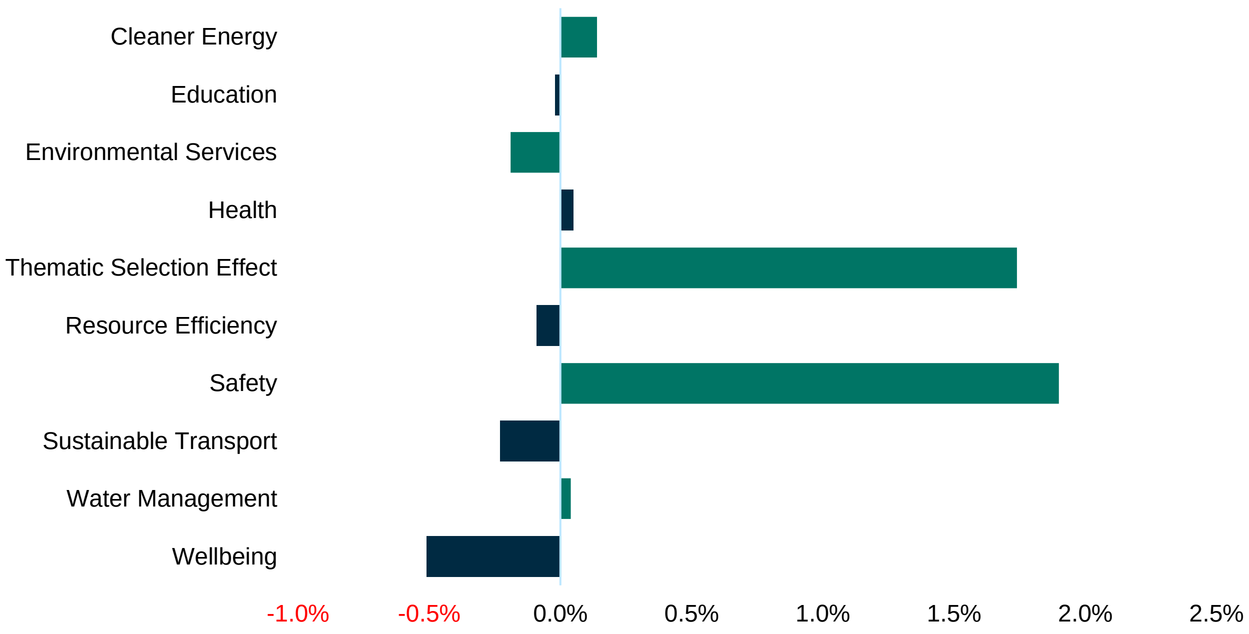


[12] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are zeroed. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

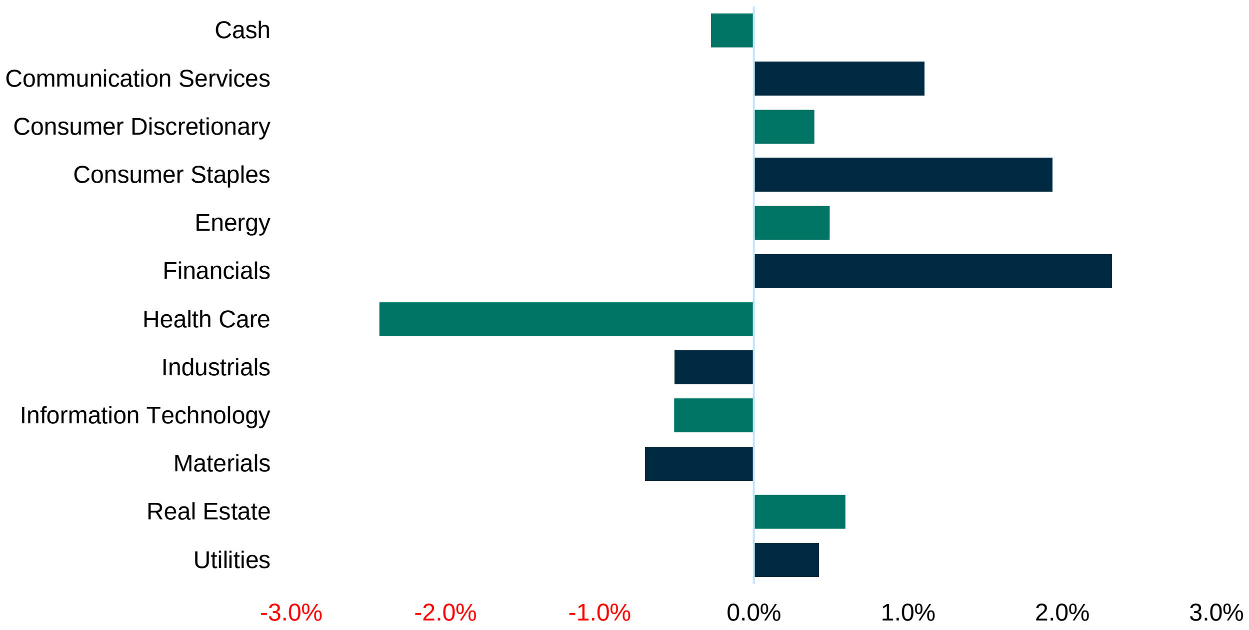
[13] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[14]

Attribution by Sustainability Theme[15]

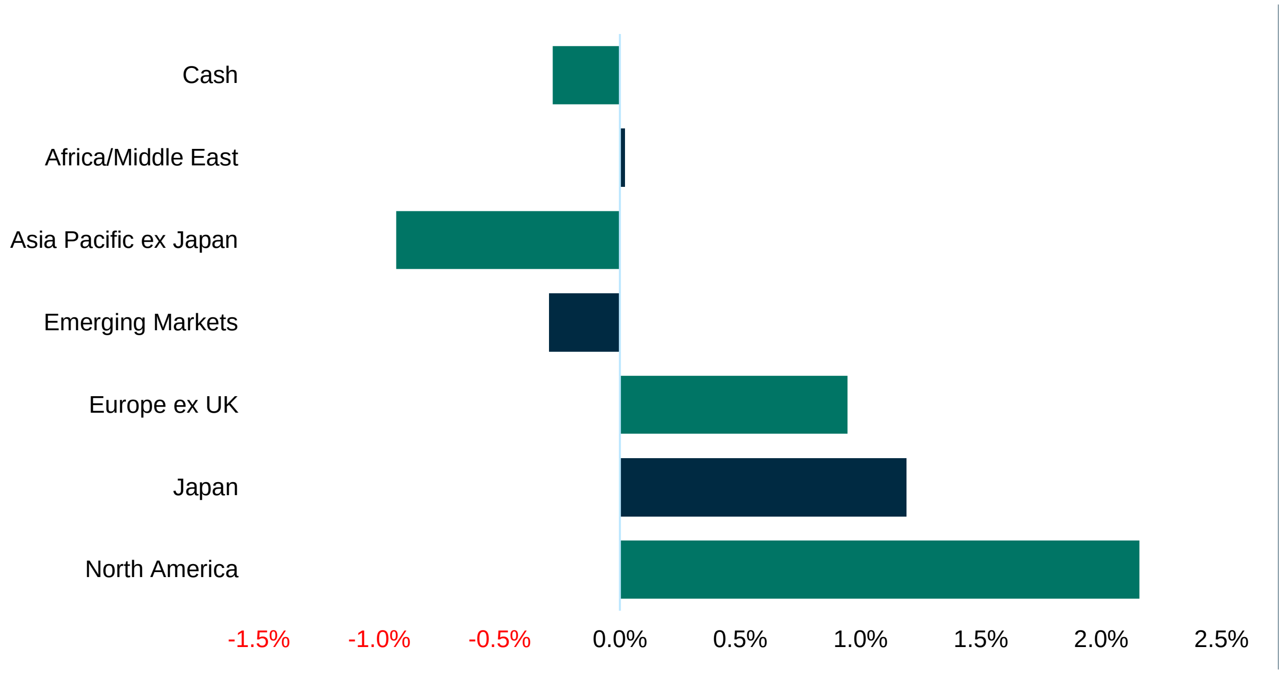


Attribution by Sector

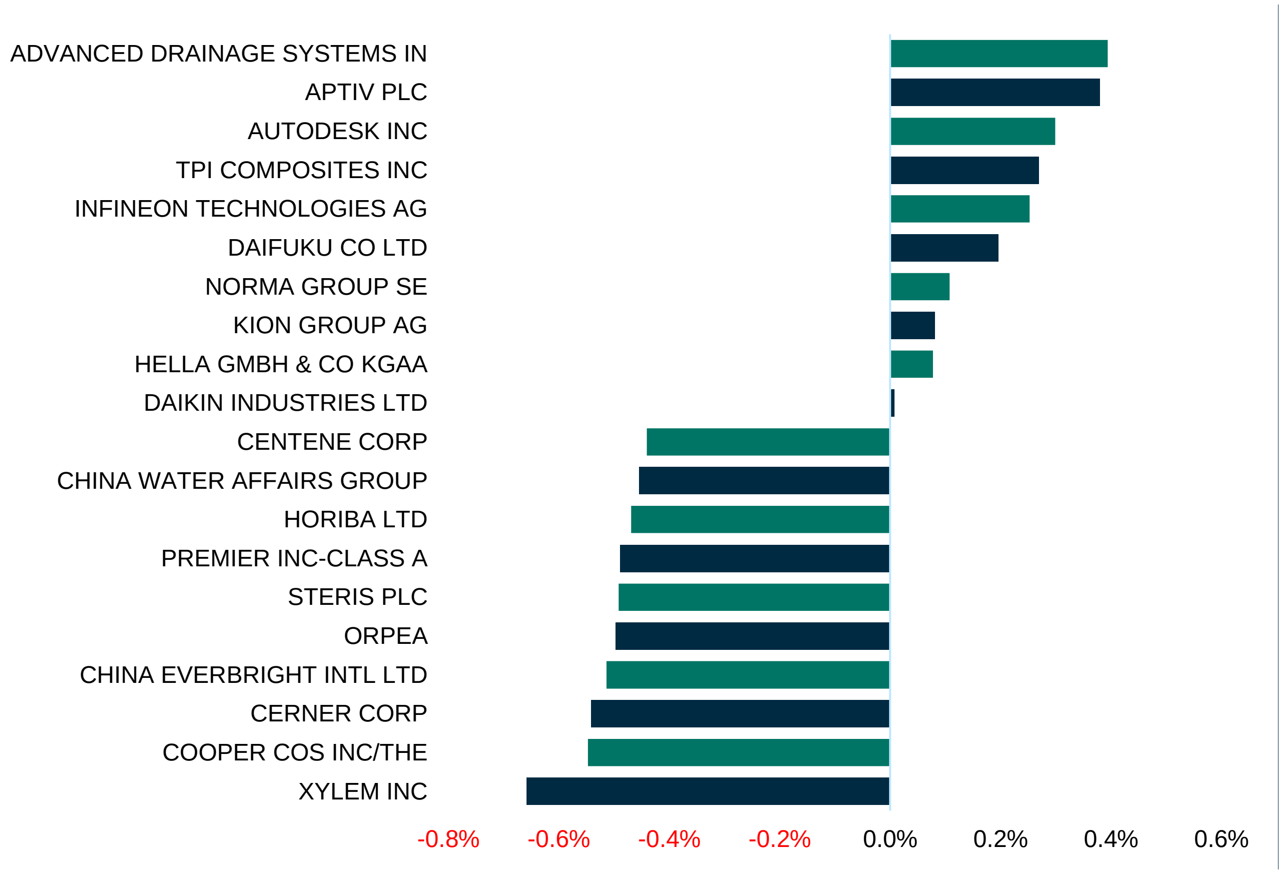


[14] Performance attribution is calculated with reference to the MSCI World Index
[15] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

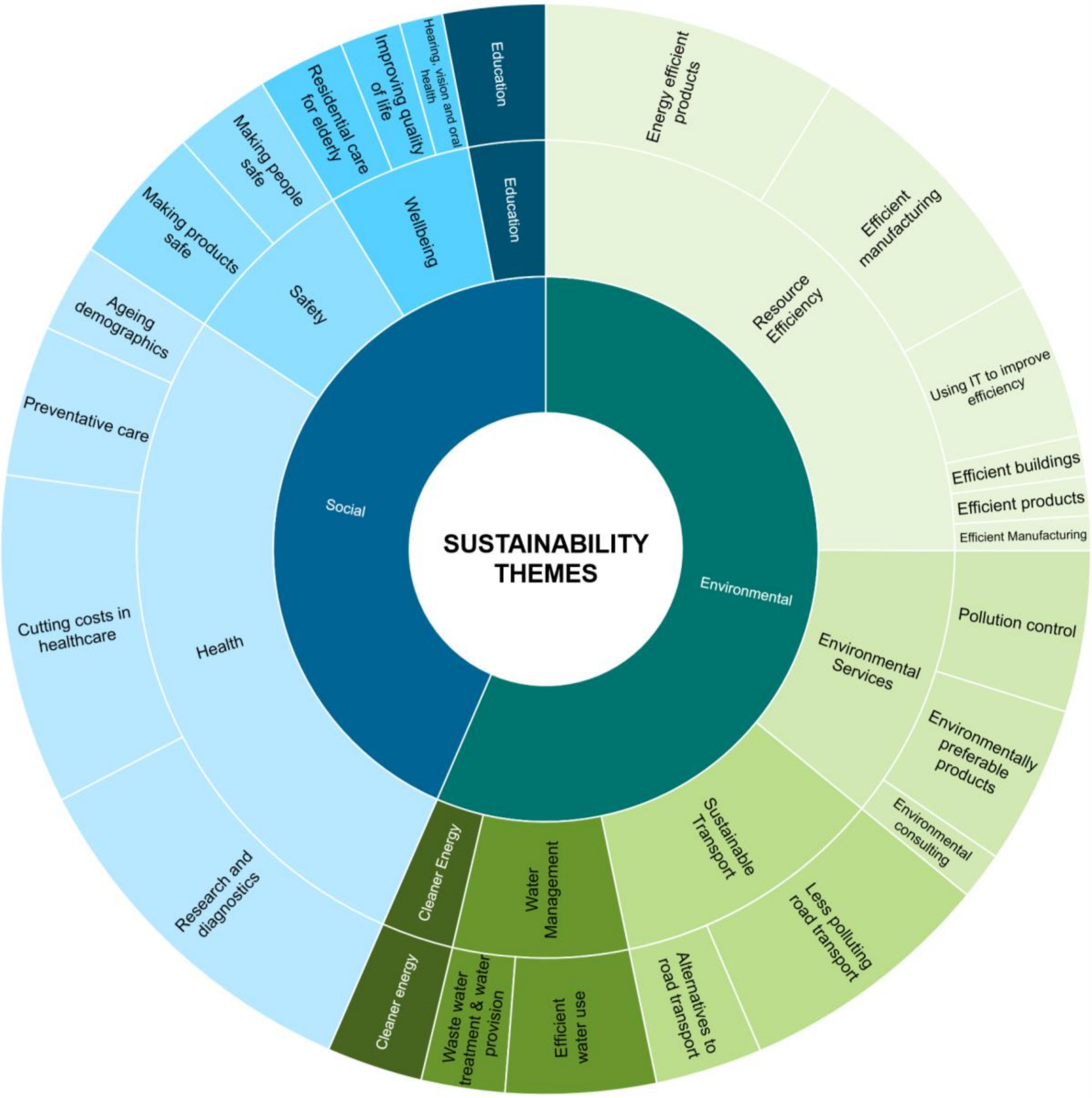


Attribution by Stock (Top and Bottom 10)



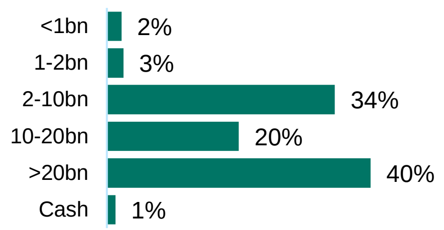
PORTFOLIO ANALYSIS AND POSITIONING[16]

Sustainability Theme Exposure

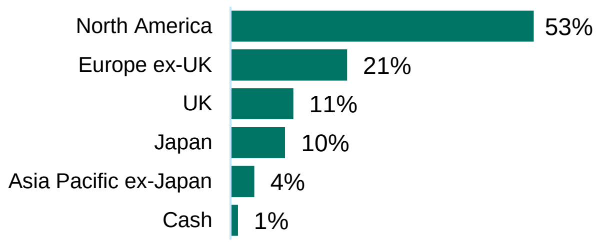


[16] As at 30 June 2020.

Market Cap (U$) Exposure



Geographic Exposure



Top 10 Stocks

Name	Sustainable Investment Theme	Description
Agilent Technologies	Health	Research and diagnostics
Cerner	Health	Cutting costs in healthcare
Daifuku	Resource Efficiency	Efficient manufacturing
Danaher	Health	Research and diagnostics
Icon	Health	Research and diagnostics
Intertek Group	Safety	Making products safe
Keyence	Resource Efficiency	Efficient manufacturing
Linde	Environmental Services	Pollution control
MSA Safety	Safety	Making people safe
Thermo Fisher Scientific	Health	Research and diagnostics

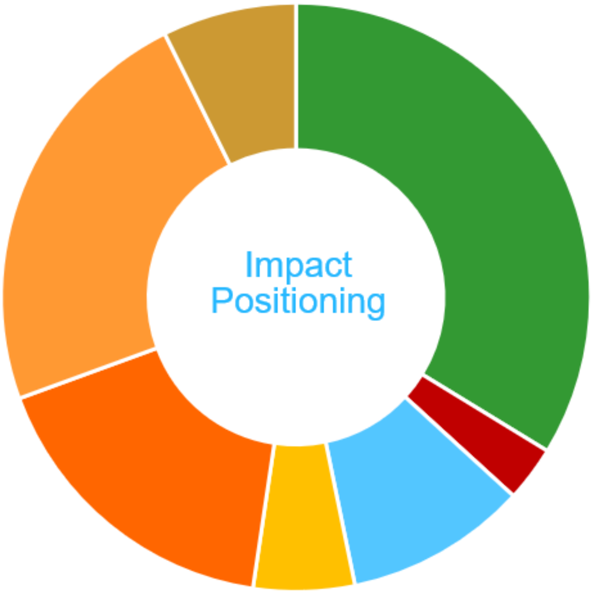
Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	22.92x	23.20x
FY2 Earnings Growth	29.01%	21.67%
FY1 PE/FY2 Earnings Growth (PEG)	0.79x	1.03x
3-year Volatility	16.57%	16.26%
Beta (predicted)	0.91	
1-year Tracking Error (predicted)	5.34%	
5-year Tracking Error (ex-post)	6.86%	

Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
Nitto Denko	Sale	Resource Efficiency	The maturity of the mobile devices market has led to slower growth of its business.
CVS	Sale	Health	COVID-19 will create a fresh pressure on the US healthcare reform, delay HealthHub rollout and erode commercial enrolment.
Strategic Education	Purchase	Education	A leading education services company seeking to provide the most direct path between learning and employment.
Sonova	Purchase	Wellbeing	A leading hearing care solutions provider. COVID-19 offered a buying opportunity.
Norma	Sale	Sustainable Transport	Failed to deliver results in recent years. Content growth story is less attractive than peers in the automotive sector.

Impact Positioning: Supporting the UN Sustainable Development Goals[17]



34% in health & well-being

3% in education

10% in clean water & sanitation

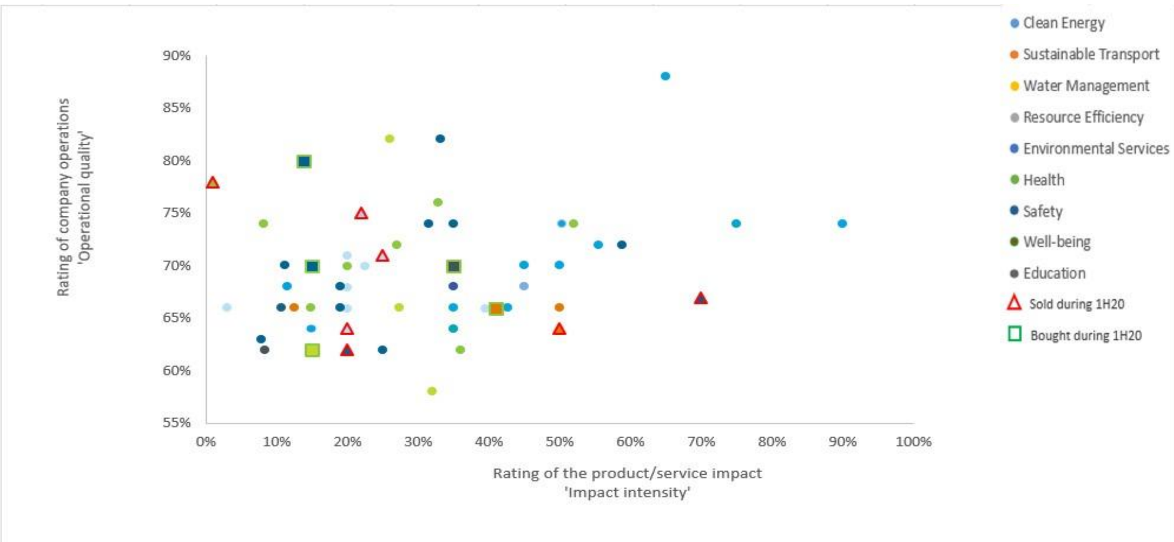
6% in affordable & clean energy

17% in industry, innovation & infrastructure

23% in sustainable cities & communities

7% in responsible consumption & production

Impact Map of the WHEB strategy's portfolio following changes in Q2 2020[17]



[17] For descriptions of impact mapping methodologies please see WHEB's impact reports, available at https://impact.whebgroup.com/methodology/. The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at https://impact.whebgroup.com/methodology/, and the impact positioning graph is described in detail in the 2019 impact report.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q2 2020

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 April – 30 June 2020. 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/**

* We elected not to vote at the meeting of CVS Health and Nitto Denko as we had already sold our shares by the time of the meetings.

Meetings	No. of meetings	%
# votable meetings	35	
# meetings at which votes were cast	33*	100%
# meetings at which we voted against management or abstained	29	88%

Resolutions	No. of resolutions	%
# votes cast with management	311	71%
# votes cast against mgmt. or abstained (see list in appendix)	115	26%
# resolutions where votes were withheld	13	3%

Company Engagement Activity

Company	Topic	Comment	Outcome
AO Smith	Director independence / Lack of ESG targets in CEO remuneration / Auditor independence	Conference call	Scheduling conference call in 3Q20
Lennox International	Scope 3 emissions and carbon reduction targets	Conference call	Company are reviewing their approach.
Orpea	Director attendance / Equity issuance / Bylaw changes	Letter	Company responded acknowledging our concerns and detailing why they disagree with our positions
Spectris	Coronavirus response / sustainability leadership	Conference call	Company confirmed coronavirus response and appointment of new sustainability director
Thermo Fisher Scientific	Combined Chair/CEO / gender diversity / director independence / director overboarding / auditor independence / CEO remuneration / ESG incentive structure and targets	Letter	Company responded to acknowledge our concerns.
Ansys	Classified board / director overboarding / auditor independence / CEO remuneration / ESG incentives / carbon reduction targets	Conference call	The company recognizes the issues and has committed to making further progress
MSA Safety	CEO remuneration / ESG incentives / classified board, director independence	Letter	No response as of 9 July 2020
Ecolab	Combined Chair/CEO / lack of board independence / director overboarding / auditor independence / CEO remuneration	Letter	Company responded acknowledging our concerns and detailing why they disagree with our positions
Arcadis	Share buy-back / director overboarding./ share issuance	Letter	Company responded acknowledging our concerns and detailing why they disagree with our positions
Varian Medical Systems	Sustainability disclosure / carbon reduction target / gender diversity	Conference call	The company recognizes the issues and has committed to making further progress
Smurfit Kappa	Carbon emission reductions and target	Email	Company has committed to developing a Science-Based emissions target
TPI Composites	Sustainability disclosure	Conference call	Detailed feedback and guidance on company's sustainability disclosure
Nitto Denko	Carbon emission reduction target	Email	Company recognised the need to update targets which will be provided in July/August 2020
China Everbright International	Carbon emissions measurement and monitoring	Conference call	Company has recognised the need to explore other ways to reduce carbon emissions from operations
	Classified board / director independence / gender diversity / director overboarding / share issuance	Letter	Company responded acknowledging our concerns and detailing why they disagree with our positions
AO Smith	Prioritisation of heat pumps as a low carbon technology	Email	Company confirmed that heat pumps remain a key technology for the business
JB Hunt	Sustainability disclosure and carbon targets	Conference call	Company has acknowledged the issue and is committed to making further progress.
Horiba	Gender board diversity / sustainability leadership / carbon target	Letter	The company responded recognizing the issues and committing to make further progress
Daikin	Carbon reduction targets	Collaborative engagement	Company set a net zero carbon target for 2050
Premier Inc.	Impact data	Email	Company supplied impact data
Hikma	Impact data	Email	Company supplied impact data

	Lack of clear ESG leadership / CEO remuneration	Letter	Company has responded to argue that leadership is clear.
China Water Affairs Group	Coronavirus response	Conference call	Company confirmed precautions were in place
Strategic Education	Coronavirus response	Conference call	Company confirmed precautions were in place
AO Smith	Director independence / Lack of ESG targets in CEO remuneration / Auditor independence	Conference call	Scheduling conference call in 3Q20
Aptiv	Director overboarding	Letter	No response as of 9 July 2020
Intertek	Excessive CEO remuneration / ESG incentives / EU political donations	Letter	No response as of 9 July 2020
	Inadequate carbon targets	Collaborative engagement	No response as of 9 July 2020
HMS Holdings	Combined CEO and Chair / CEO remuneration	Letter	No response as of 9 July 2020
Daifuku	Lack of sustainability leadership / Impact data / gender diversity	Letter	No response as of 9 July 2020

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