WHEB's investor contribution:

Stewardship and engagement

WHEB

Our intention to invest in companies that provide solutions to sustainability challenges through their products and services (the 'enterprise impact') is central to our ambition to support positive impact in the real world. But as an impact investor, we want to do more and ensure that WHEB itself is catalysing change to advance sustainability. We call this our 'investor contribution', and it covers both stewardship and engagement as well as the direct impact of our own business activities.

Stewardship is defined as 'the responsible management of money on behalf of savers and pensioners, to create sustainable benefits for the economy, the environment and society.[48] As investors, WHEB believe we have a responsibility – and an opportunity – to advocate for progressive change at the companies in which we invest. Done well, we believe this will benefit the companies as well as society more generally. For WHEB, this is achieved through:

1) **Capital allocation decisions:**
We focus on investing in solutions to sustainability challenges.

2) **Proxy voting:**
We exercise our voting rights at company meetings.

3) **Company engagement:**
We enter into dialogue with investee companies bilaterally and/or collaboratively, escalating where necessary.

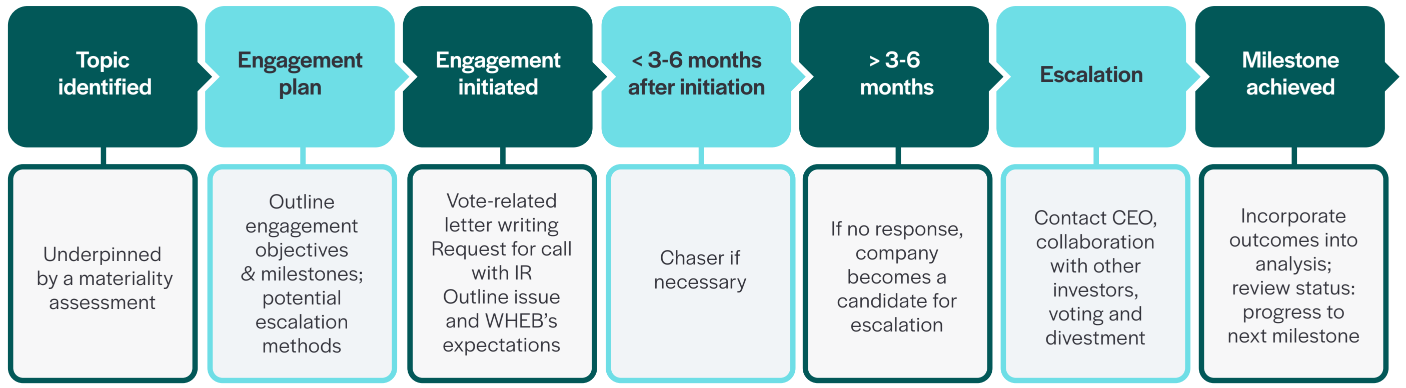
4) **Public policy and industry engagement:**
We urge a greater focus on sustainability in the wider financial system, indirectly supporting positive impact businesses.

5) **Reporting:**
We communicate efforts back to investors and other stakeholders.

Stewardship is firmly embedded in our investment process, which assesses investee companies' positive impact on social and environmental challenges, as defined by our nine sustainable investment themes. Engagement and voting activity with portfolio companies is undertaken directly by the Impact Investment Team and underpinned by our views on the materiality[49] of key sustainability issues for the investees business. Our focus is on engagement that underpins the long-term success of the businesses that we invest in.

[48] https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814ad14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf
[49] Our views on the materiality of sustainability issues for different business activities are informed by guidance from the International Sustainability Standard Board and other relevant guidance.

Figure 21: WHEB's stewardship process supports improvements in company strategy and performance

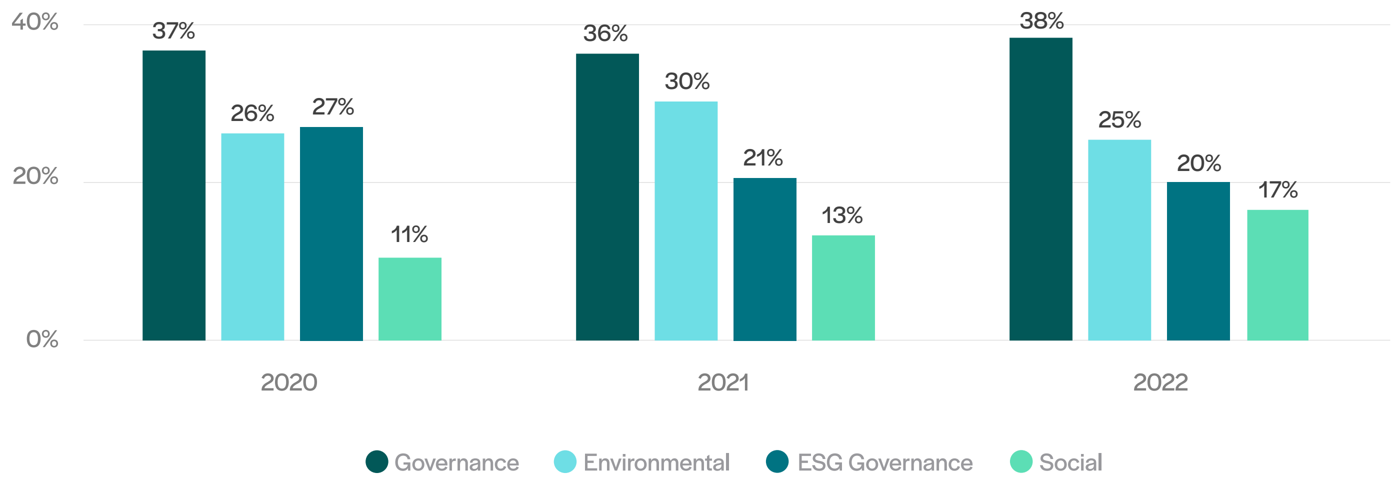


Engagement activity in 2022

During 2022, we engaged over 200 times with 42 companies, representing 62% of all companies held in WHEB funds throughout 2022. This is a near doubling of the number of engagements year-on-year, driven in part by the increased number of companies held in WHEB's portfolios and a larger Impact Investment Team at WHEB.

WHEB's approach involves a combination of proactive and reactive engagement. The objective of our engagement is also often a combination of information-seeking and encouraging long-term behavioural change in investee companies.

Figure 22: Engagement topics 2020–2022



As in previous years, in 2022 Corporate Governance issues continued to be a key focus of WHEB's engagement with investee companies. This includes a focus on executive remuneration. In the US, in 2022, the gap between CEO and median worker remuneration increased to 324x in 2022 up from 299x in 2020.[50]

Efforts on Environmental issues were also significant, due to our NZC commitments, involvement with investor initiatives on hazardous chemicals and ramping up of work on biodiversity. Similarly, gender diversity continues to be a focus of our engagement on Social issues. As in previous years, we have monitored our engagement specifically on the governance of ESG issues. This year, the key issue was sustainability criteria in executive compensation.

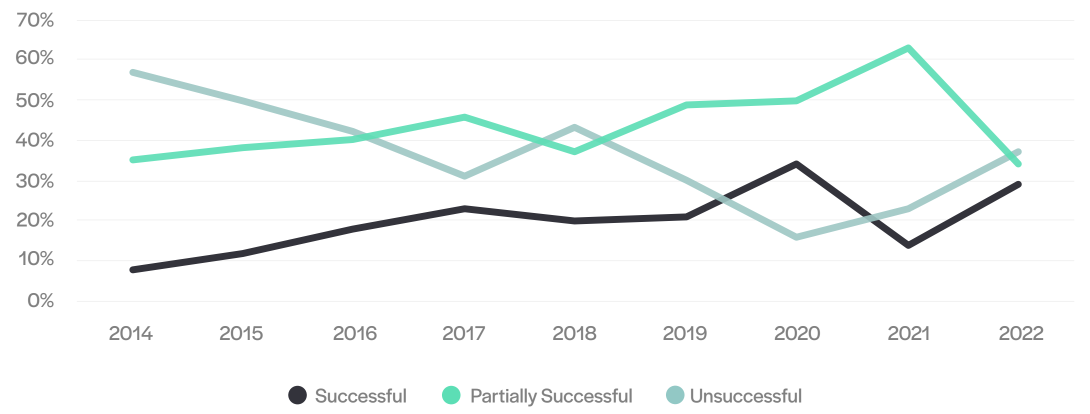
We also engaged extensively with investee companies on the impacts of their products and services. This cuts across both our Social and Environmental themes. Engagement was broadly in line with geographical exposure.

[50] The average pay of the 100 Most Overpaid CEOs as tracked by As You Sow was $38,192,249, up 30.6 percent from last year's average of $29,233,020. https://www.asyousow.org/report-page/the-100-most-overpaid-ceos-2023

Effectiveness, objectives and milestones

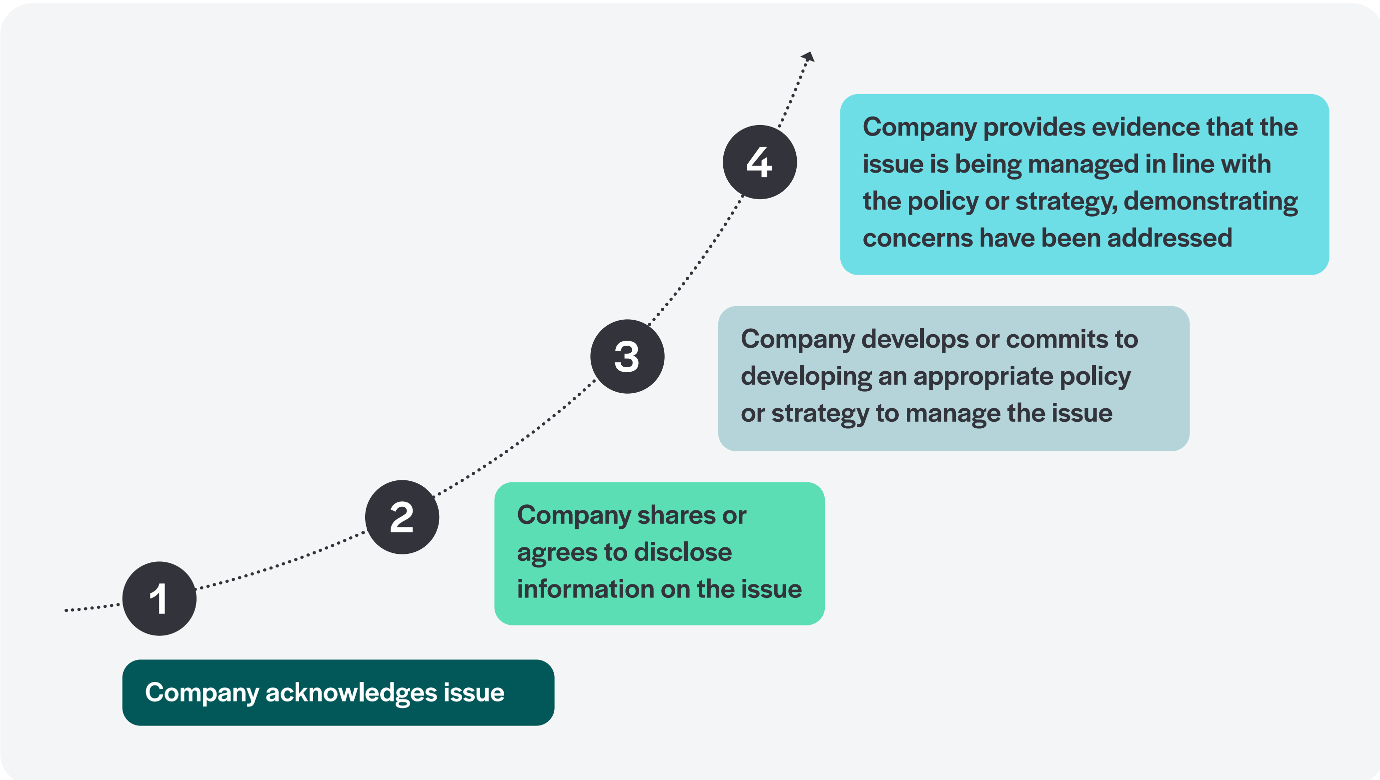
Historically, WHEB has rated engagements as 'successful', 'partially successful' or 'unsuccessful'. Until 2021, the proportion of successful or partially successful outcomes had been increasing and unsuccessful outcomes were decreasing. This changed in 2021, with the majority of outcomes being only 'partially successful'. We attributed this change to the prioritisation of more demanding and long-term engagement objectives – for example, moving from requesting sustainability disclosures to setting NZC targets. In contrast, in 2022 there was a more equally balanced set of outcomes: 27% were successful, 32% were partially successful and 35% were unsuccessful, with 6% still ongoing at the end of the year.

Figure 23: Engagement effectiveness 2014–2022



From 2023, following consultations with our independent Investment Advisory Committee, we have agreed to amend our framework for assessing progress in our engagement with portfolio companies. The new framework is based on milestones as described in Figure 24 and provides greater granularity on the progress being made in each engagement.

Figure 24: Engagement milestones



Collaborative engagement

Collaborative engagement is an important tool institutional investors use to influence both portfolio companies and the financial system as a whole. Where asset managers or owners collaborate with other investors to engage a company to achieve a specific change, or work as part of a coalition of wider stakeholders to engage on a thematic issue, there can be advantages over doing so bilaterally. For example, investors may benefit from additional power, legitimacy and urgency through a unified message, making it difficult for companies to ignore them. This is especially helpful as an escalation tactic. Group members can also share and develop collective expertise and research, supporting knowledge and skills sharing, with wider-ranging effects beyond the scope of the engagement. Finally, investors can achieve efficiency gains by collaborating on engagements with the same company, reducing duplication of work and costs for both investors and issuers.

WHEB collaborates with other investors, including clients and peers, when it aligns with our investment policies and after considering legal and regulatory consequences. This usually involves a joint letter and a follow-up meeting. If we do not succeed in our bilateral engagement with a company, we involve other investors in our engagement activity as part of our escalation policy.

WHEB aims to shape the wider financial system to support positive outcomes by engaging with regulators, policymakers and standard setters as well as clients and advisers. We also participate in industry initiatives promoting sustainable investing, and collaborate on sustainability issues with investee companies through conferences and seminars, as well as our website, blog and wider publications.

Industry networks and associations

2009	2012	2013	2016	2019	2020	2021	2022
UKSIF UK Sustainable Investment and Finance Association	CDP	IIGCC The Institutional Investors Group on Climate Change	TCFD	The Big Exchange	Climate Action 100+	chemsec	Finance for Biodiversity Pledge
	Eurosif		Certified B Corporation		The Net Zero Asset Managers initiative	GIIN	
	FRC						
	PRI Principles for Responsible Investment						

'WHEB aims to shape the wider financial system to support positive outcomes by engaging with regulators, policymakers and standard setters as well as clients and advisers.'

Case study: Collaborative engagement in 2022

Engaging SolarEdge with a like-minded peer

solaredge

Objective	To encourage the company to develop a strategy to achieve NZC emissions by 2050 at the latest, in line with the SBTi.
Background/issue	SolarEdge is primarily a manufacturer of components for solar panels. It also manufactures electric vehicle charging systems. Despite the company being a key beneficiary of efforts to achieve NZC targets, we had been frustrated with the emissions target the company had set for itself – 30% reduction in emission intensity by 2025. Previously, our efforts to engage them on this topic had not been productive. We therefore took the opportunity to work with the group 'Investors for Sustainable Solar', of which WHEB is a member, to escalate our engagement.
Actions	The process that followed involved the joint preparation of an engagement document by WHEB and the other collaborating investors, in which we outlined our clear expectations for the company. This was followed by a call with SolarEdge's Corporate Secretary, which provided greater insight into the company's progress against both objectives.
Outcomes	**Partially successful/Milestone 2:** Unfortunately, for the time being the company is unlikely to progress from a carbon intensity-based target and set an absolute emissions target. This is due to concerns that such a target might be difficult to achieve in light of the business's growth rate. As a key enabler of solar power, the company is growing at greater than 30% per year. It does, however, plan to set an absolute emissions target once the growth rate has stabilised. We will continue to monitor the company's progress on setting an absolute emissions target as we do not expect a stabilisation of the growth rate for several years. As is often the case when engaging on these topics, our efforts will continue over the long term and will likely span multiple years.

A fuller range of case studies illustrating our engagement activities are available in our annual Stewardship Report
whebgroup.com/reporting-impact-investment/stewardship-reports and on our website

whebgroup.com/investing-for-impact/stewardship/engagement-case-studies

WHEB's view on voting

We endeavour to vote all our shares as per our voting policy, and we use voting to complement our other stewardship strategies to achieve effective outcomes.[51] For example, it is our policy to write to company management when we vote against their recommendations, which often leads to further dialogue.

WHEB's voting policy leads us to proactively use routine proposals, such as the election of the chair, as a way of asserting our views on key governance and sustainability issues. For example, our policy states that if a company does not have a NZC target, we will vote against the election of the chair. This approach differs from most fund managers and proxy advisers, who typically vote on sustainability issues only where they are specifically raised in a shareholder resolution.

Voting activity in 2022

In 2022 WHEB cast votes on 100% of the resolutions at 100% of the company meetings at which we were entitled to vote in that year.

We voted against management on 102 occasions with a pattern similar to 2021.

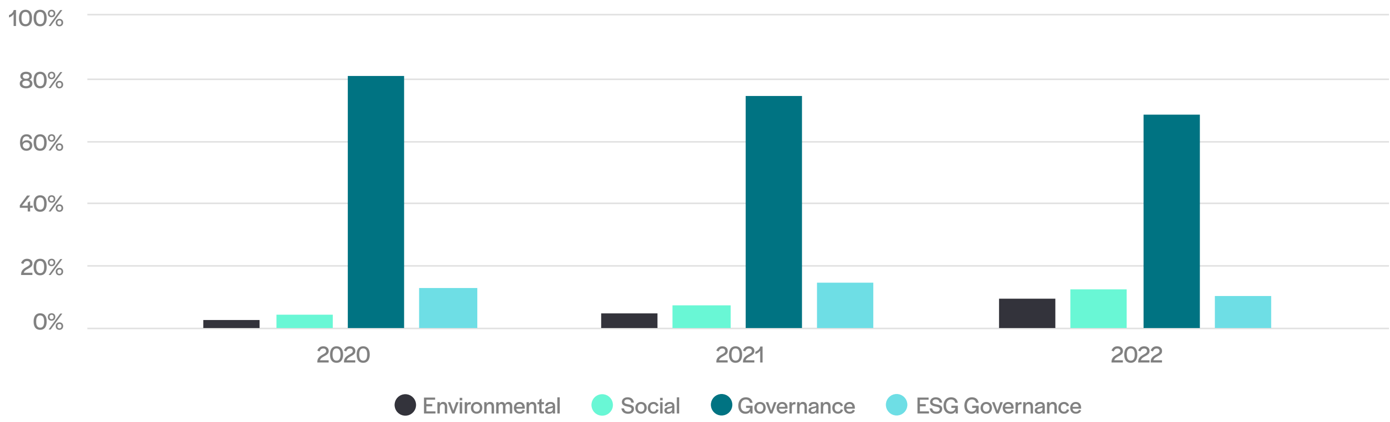
- 68.2% of these votes were on corporate governance issues (especially auditor independence, director independence and executive remuneration).
- 9.4% on environmental issues, mostly carbon reduction targets.
- 12.4% were on social issues, the majority aimed at improving board-level gender diversity.

Our escalation process of writing to company management provides an opportunity to widen the scope of engagement to cover Environmental and Social issues as well.

Figure 25: Voting summary (2022)

Vote topic	Number	Proportion of total
Meetings voted at	45	100%
Meetings w. ≥1 votes against management	36	80%
Votes against management	102	18.5%
Votes with management	441	80%
Did not vote	0	0%
Votes withheld[52]	13	2.4%
Votes abstained[53]	2	0.4%
Resolutions voted	558	100%
Votes against ISS[54]	108	19.6%

Figure 26: Votes against management by topic (2020–2022)



51. https://www.whebgroup.com/assets/files/uploads/20221201-wheb-voting-policy.pdf
52. We withhold or abstain from voting where there is no option to vote against management's recommendations.
53. Ibid.
54. ISS is WHEB's proxy adviser. Our voting policy is stricter than that offered by ISS and so we regularly adopt voting positions that are different to ISS.

Guest interview: Investor engagement - the corporate perspective

Andrew Hedberg
Vice President Investor Relations, Ecolab

Volker Braun
Head of Global Investor Relations and ESG, Evotec

Daniel Bohsen
Corporate Vice President and Head of Investor Relations, Novo Nordisk

Ciaran Potts
Head of Investor Relations, Smurfit Kappa

Mal Patel
Head of Investor Relations, Spirax-Sarco Engineering

Stewardship and engagement have long been core elements of WHEB's approach to delivering positive impact. We often offer a counterweight to the short-termism exhibited by much of the investment community. More recently, stewardship has become more important to a broader group of investors. With this growing emphasis in mind, we interviewed several portfolio companies to find out what it is like being on the other end of investor engagement. Several commented that nobody had asked them to reflect on their experiences before, and for some the process was clearly cathartic.

Our interviewees were drawn from a cross-section of WHEB's portfolios covering different sectors, different sizes and different geographies. For some, the importance of ESG and sustainability was integral to the formation of their role. Volker Braun at Evotec, for example, is formally head of both Investor Relations (IR) and ESG, a decision made by the company to better respond to growing investor interest in these topics. In other companies these roles are split, but in all cases, there is clearly a very active internal dialogue between IR and sustainability.

How much time is spent on sustainability and which of your investors are most interested?

Ciaran Potts (Smurfit Kappa) started working in IR in 2015. Back then, he said, '99.99% of questions were on business fundamentals with almost nothing on sustainability'. This has changed dramatically and 'now there are a significant number of questions on sustainability'. Without exception, everyone agreed that the level of interest in ESG and sustainability has increased dramatically. 'It has just exploded,' said Andrew Hedberg (Ecolab). 'The rapid growth of interest in this area over the last five years has been incredible. We used to have ESG-focused investor calls once a quarter and now they happen almost weekly.'

Some IR teams suggested that the proportion of time spent on ESG is now about 10%. For others it is significantly higher. 'Probably around 20% of all questions are on ESG and sustainability' according to Daniel Bohsen (Novo Nordisk). Andrew (Ecolab) put it even higher, at a third of all questions focused on sustainability. For several interviewees, including at Ecolab and Novo Nordisk, sustainability has been a core part of the equity story for many years. As Daniel (Novo Nordisk) put it, 'We have a strong story, with the 'triple bottom line'[55] integrated into our bylaws since 2004. We want to make sure that the sustainability part of our equity story is understood.'

The range of investors that are interested in ESG is also now very broad. Long-only fundamental investors are a core constituency, but there is still a bias towards European investors. US investors – albeit primarily on the East and the West Coast – have become significantly more active on ESG issues in the last couple of years.

What are the key sustainability topics that investors want to talk about?

Perhaps not surprisingly, given they are all WHEB portfolio companies, the positive impact of products or services is high on the list of investor questions. For several companies, including Evotec, the initial focus was on carbon emissions, but 'this has moved to a stronger focus on social topics, which is an area where [their] products and services have the highest impact.'

Several companies also highlighted the approach of more sophisticated, often long-only investors that focus on material ESG issues for the business. Ciaran (Smurfit Kappa) contrasts this approach with that used by other investors that 'have large ESG teams that are not part of the investment decision-making process'. These groups tend to use 'blanketed generic emails that get sent out to hundreds of companies,' says Andrew (Ecolab), and that do not reflect the reality of very different businesses in very different sectors. 'There is still a huge spread in terms of expertise across the investor base,' says Ciaran (Smurfit Kappa). Volker (Evotec) was more pointed. For some investors, 'it feels like [looking at ESG] is more a duty than a commitment,' he said.

The trend over the past few years has also been towards a much greater range of questions. For Ecolab the questions were 'almost all focused on governance six years ago. Now it is the full [ESG] spectrum.' One of the emerging issues that several respondents pointed to was biodiversity. Another was the circular economy. However, several interviewees made the point that the nature of investor engagement is also changing. Daniel (Novo Nordisk) underlined the importance of moving from a 'checkbox approach where nuances are lost' to an 'ongoing dialogue' that facilitates real learning – both for the company and the investor.

[55] The 'triple bottom line' is an accounting framework encompassing social, environmental and economic dimensions. Business writer John Elkington coined the phrase in 1994 in his book 'Cannibals with forks'.

What do you find most challenging about investor engagement?

Almost all interviewees highlighted the same problems. The first is linked to the 'checkbox approach', which many saw as indicative of a lack of understanding of the company. One interviewee bemoaned the experience of 'having people coming straight out of college picking up positions of influence and adopting a confrontational approach while asking questions that have little relevance to [the] business.' Another bugbear highlighted by many companies was that analysts often do not bother reviewing publicly available information before contacting the company.

The wide range of questions that are often levelled at companies is also seen as a challenge – particularly when these are raised in meetings without time to prepare. 'I'm a big fan of standardisation,' said Daniel (Novo Nordisk). Several companies are supportive of the International Sustainability Standards Board (ISSB) process, which they hope will reduce the variety of questions from investors and rating agencies as well as the risks associated with partial disclosure.

'The lack of clear objectives in terms of what is being assessed' was also highlighted by Mal Patel (Spirax-Sarco). A related point was made by Ciaran (Smurfit Kappa) about the lack of specificity in what investors want to see. 'We only get specific targeted suggestions on the governance stuff. A specific percentage board representation, for example.' And there is always 'the classic "is your CO_2 reduction target SBTi-validated?"'. Too often, investors come with vague open-ended questions which IR teams are ill-equipped to answer without sufficient forewarning and preparation. A particular 'horror story' at one company involved a very large investor threatening to vote against management unless the company completed a detailed questionnaire on the company's carbon strategy – and gave them 24 hours to do so.

Finally, as Mal (Spirax-Sarco) said, the 'disconnect between fund managers and stewardship teams' can be extremely frustrating. Quite often these teams appear not to be well coordinated. They can sometimes even be pushing companies in opposite directions. As one interviewee put it, 'On the rare occasions that you can get both sides in the same room, it's clear they don't talk frequently, and they can even be quite confrontational with each other'.

What does successful engagement look like from the corporate perspective?

While there are clearly many frustrations with investor engagement, companies were also keen to stress the real value of 'good' investor engagement. For Andrew (Ecolab) it is all about seeing the relationship as a partnership. 'I view it as a partnership. Both the corporate and the investors being really open and transparent about what the investors are looking for.' A similar point was made by Daniel (Novo Nordisk): 'I would actually like to have a more ongoing dialogue because that's the way we can best help. Working together we can get better and provide the right information.'

More practically, companies are keen to hear directly from investors rather than just respond to the 'avalanche of questionnaires asking similar questions that all have to be answered individually'. Volker at Evotec advises investors to 'pick up the phone, arrange a zoom call – having more meetings would be much more efficient'.

But the information does not just flow one way. Companies are also interested in learning from their investors. 'Investors can share with us the best practices that they are seeing from other companies,' Andrew (Ecolab) said. 'With a partnership mindset we can learn a lot from shareholder engagement. It has definitely sparked change.' In addition, at WHEB we have often sought to draw attention to emerging issues that portfolio companies have yet to address. This role is seen as valuable. As Ciaran (Smurfit Kappa) put it, 'conversations with WHEB have been very helpful because you asked about things that the company had not focused on, but then became very relevant years later'.

What does the future hold for investor engagement?

Clearly, companies are keen to see more sophisticated dialogue focused on material issues and less checkbox questionnaires. But beyond this, what does the future hold for investor engagement? Perhaps surprisingly, most interviewees were unconcerned about investors claiming credit for positive changes made by their businesses following engagement. Some saw this as inevitable (in part driven by regulatory change), and others saw it as a positive outcome from the 'partnership' type of engagement that companies want to see more of. I don't see any immediate downside', said Ciaran at Smurfit Kappa. 'This is really a win-win as far as I am concerned.'

At WHEB we will use this feedback in honing our own approach to corporate engagement. We believe that these insights align very well with our own approach that:

- approaches corporate engagement in an integrated way with engagement led by the core investment analyst team
- focuses engagement on ESG and impact issues that are material to the company and its stakeholders
- frames engagement around the long-term success of the investee company.

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