

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.

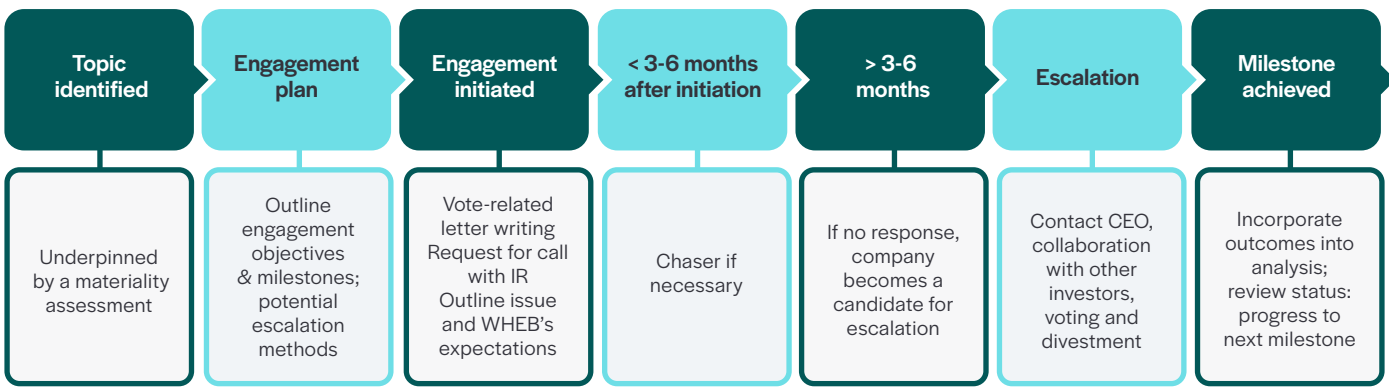
Stewardship is defined as ‘the responsible management of money on behalf of savers and pensioners, to create sustainable benefits for the economy, the environment and society.’¹ As investors, WHEB believe we have a responsibility – and an opportunity – to advocate for progressive change at the companies 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 materiality² 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.

¹ https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814ad14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf
² 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 1: WHEB’s stewardship process supports improvements in company strategy and performance

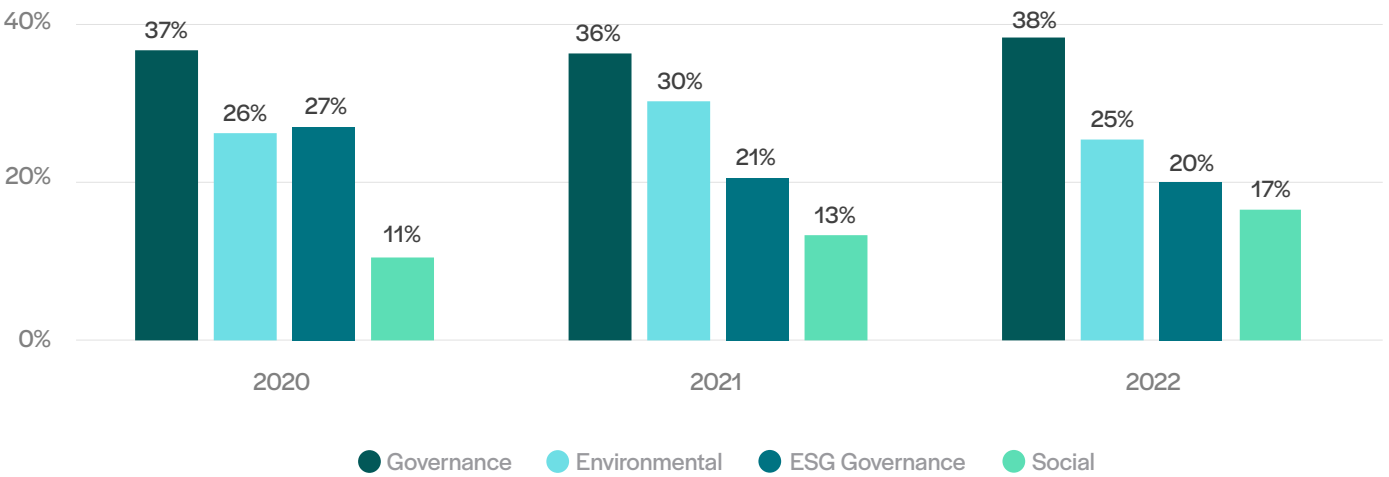


Engagement activity in 2022

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 2: 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 2020.³

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.

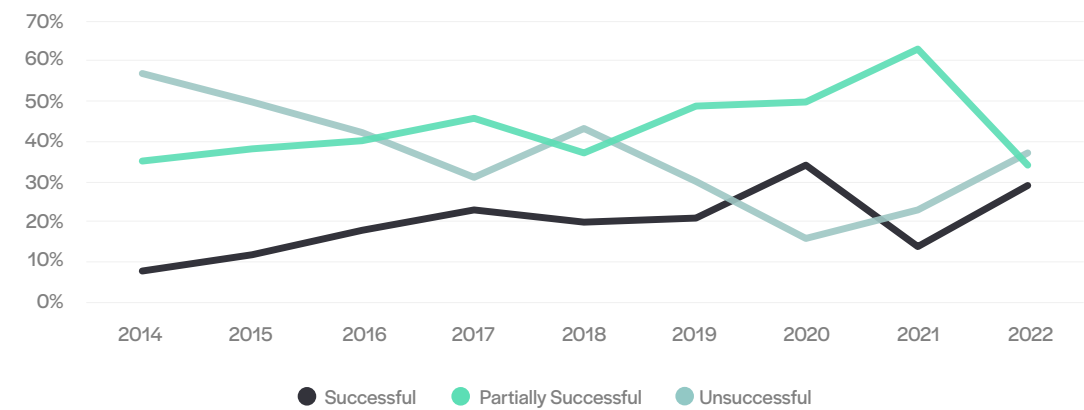
We also engaged extensively with investee companies on the impacts of their products and services. This cuts across both our Social and Environmental themes. Engagement was broadly in line with geographical exposure.

³ 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

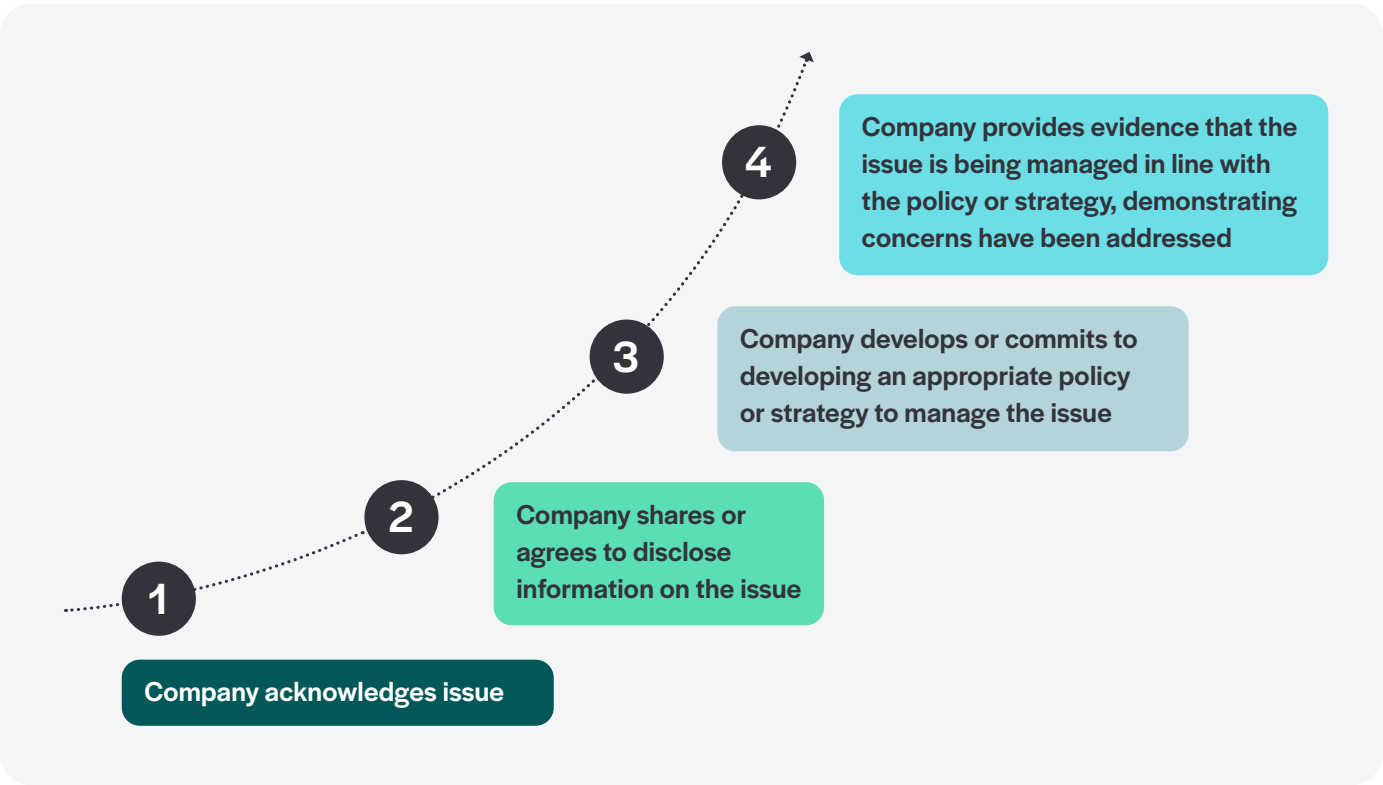
Historically, WHEB has rated engagements as ‘successful’, ‘partially successful’ or ‘unsuccessful’. Until 2021, the proportion of successful or partially successful outcomes had been increasing and unsuccessful outcomes were decreasing. This changed in 2021, with the majority of outcomes being only ‘partially 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 3: 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 4 and provides greater granularity on the progress being made in each engagement.

Figure 4: 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
							
							
							
							

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Case study: Collaborative engagement in 2022

Engaging SolarEdge with a like-minded peer



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 [whebgroupp.com/reporting-impact-investment/stewardship-reports](https://www.whebgroupp.com/reporting-impact-investment/stewardship-reports) and on our website

[whebgroupp.com/investing-for-impact/stewardship/engagement-case-studies](https://www.whebgroupp.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.⁴ 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.

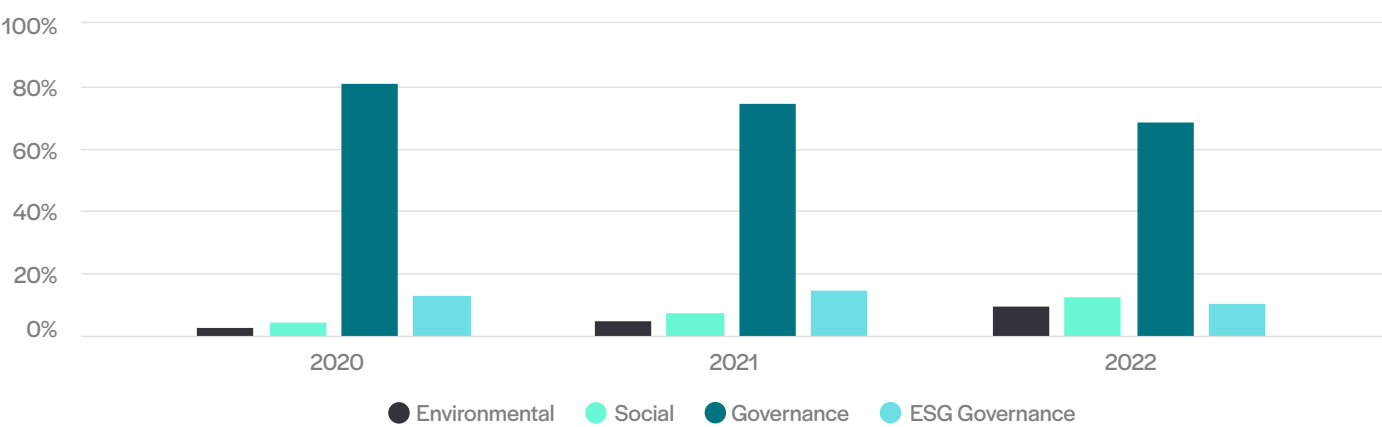
- 68.2% of these votes were on corporate governance issues (especially auditor independence, director independence and executive remuneration).
- 9.4% on environmental issues, mostly carbon reduction targets.
- 12.4% were on social issues, the majority aimed at improving board-level gender diversity.

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 5: 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 ⁵	13	2.4%
Votes abstained ⁶	2	0.4%
Resolutions voted	558	100%
Votes against ISS ⁷	108	19.6%

Figure 6: Votes against management by topic (2020–2022)



⁴ <https://www.whebgroupp.com/assets/files/uploads/20221201-wheb-voting-policy.pdf>
⁵ We withhold or abstain from voting where there is no option to vote against management’s recommendations.
⁶ Ibid.
⁷ 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.

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