WHEB Asset Management

January – December 2020

Stewardship Report

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WHEB

Preface

WHEB's mission is to advance sustainability and create prosperity through positive impact investments. Our business exists to deliver on this mission.

We believe that a new economy is emerging. Driven by a shift to a zero-carbon and more sustainable society, this economy will be led by businesses that embrace this change. WHEB wants to be part of this change.

Our contribution is first and foremost through our role in channelling our clients' capital into businesses that enable the transition to the zero-carbon and more sustainable economy.

But we can do more than this. Working with all our stakeholders, we can accelerate change by advocating for more progressive and ambitious practices. This includes the engagement work we that do, and which is the focus of this report.

We believe that this approach is also well-aligned with the expectations of WHEB's key stakeholders including clients, partners and regulators. This document sets out WHEB's approach to engagement and stewardship. The policy is aligned with the UK's Stewardship Code and details WHEB's purpose and governance, our investment approach, as well as voting and engagement activities. Performance reporting on these activities is provided here as well as in WHEB's annual impact report and in other published materials referenced throughout this document.

George Latham
Managing Partner

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SECTION 1: PURPOSE AND GOVERNANCE

Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

WHEB draws its roots from deep within the ethical, socially responsible and impact investing movement. We have a single investment strategy that focuses on investing in listed companies around the world that are providing solutions to the world's great sustainability challenges. Our purpose as a business is incapsulated in our mission which is 'to advance sustainability and create prosperity through positive impact investments'.

WHEB's investment strategy is designed to deliver on the company's core mission. It is based on a belief that companies that create economic value by providing solutions to critical sustainability challenges will be market winners over the long-term. Assessing the contribution that investee companies make in addressing key social and environmental challenges is a critical element of WHEB's investment process. WHEB only invests in companies that sell products and services that directly address one or more of nine key social or environmental issues (Figure 1).

Figure 1: WHEB's investment themes

WHEB's Culture

Our culture is shaped by our values. We invest sustainably and responsibly. We are passionate about our work. We believe our success only comes after achieving success for our clients. We are a learning organisation and strive to improve continuously. We think long-term. Our investment time horizon is well-above industry averages[1] and enables us to behave as owners of the companies in which we invest, rather than as short-term market traders.

WHEB Asset Management is based on a common philosophy and culture that is focused on:

- *Identifying and investing in solutions to society's pressing environmental and social challenges;*
- *Applying a long-term, research-based investment approach to uncover areas of value;*
- *Being transparent about our policies and systems and prepared to challenge the status-quo of the investment world; and,*
- *Providing clients with the best possible service and support.*

As a specialist fund manager with a unique focus on sustainable investing we see our culture as a key differentiating factor and source of long-term competitive advantage. We are organised as an owner managed partnership and a Certified B Corporation, which creates a longer term set of incentives more closely aligned with those of our clients.

WHEB has a unique focus on transparency and governance, which gives our clients confidence that we will remain consistent in our style, philosophy and the promise we have made to investors. Our approach to transparency, including our Stewardship activity, is explained in more detail under Principle 6.

Fundamentally we embrace diversity, inclusion and equality as a core value. We recognise that a business culture that allows minority groups to flourish is likely to be more successful over the long run and also recognise the benefit of diversity for achieving sustainable outcomes. Our understanding of these issues has improved in recent years, and this is evident in the approach and composition of our employees and within our advisory bodies.

We remain committed to fostering further diversity throughout our direct operations as we continue to grow. WHEB's recruitment process aims to be as inclusive as is possible from the earliest stage, to create diversity within candidate shortlists which, in turn, creates a pipeline of diverse talent in the business. For more information, see https://www.whebgroup.com/about-us/working-at-wheb/

WHEB's core mission, combined with our investment beliefs, strategy and culture, give us the mandate and the means to help create long-term value for clients.

Activity and outcomes

WHEB has one of the longest track records in sustainable and impact investing. The investment strategy was first designed and implemented during 2004 and 2005. Since then, we have received a series of accreditations which we believe demonstrate our commitment to be a leader in sustainable and impact investing. In 2020 this included becoming a 'Future-Fit Pioneer'; a group of companies committed to becoming environmentally restorative, socially just and economically inclusive (Figure 2).[1]

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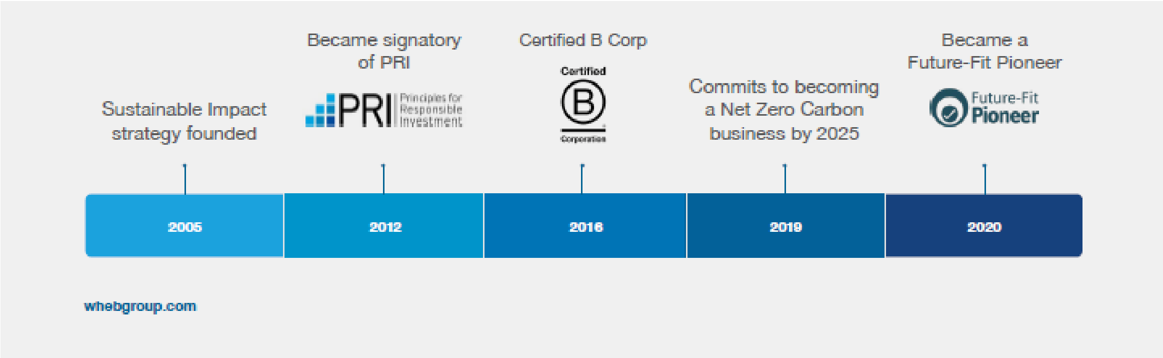
[1] *https://futurefitbusiness.org/become-a-pioneer/*

Figure 2: Key external accreditations in WHEB's development



Over the years, the team has regularly reviewed and evolved investment and stewardship processes in order to refine and improve our ability to integrate sustainability and environmental, social and governance (ESG) analysis as a source of investment return.

We have also deepened our understanding of investing for positive impact and its integration within the investment process as a natural evolution of the original definition of 'solutions to sustainability challenges'. For example, we were the first listed equity strategy to publish an impact report in 2016 and have since developed and in 2020 implemented our 'impact engine' which provides a systematic methodology for assessing the positive impact generated by companies in the portfolio.

In 2020, we also published an overall 'model' and definition of how WHEB creates positive impact. The model is shown in Figure 3 below. This includes the work we do to identify businesses that deliver a positive impact through the products and services they sell. How we measure the positive 'enterprise impact' that these companies create in the world and the 'investor contribution' that WHEB makes both through our engagement with these businesses as well as with the wider financial system. The 'systems-level' investor contribution can involve engagement downstream with regulators, policy makers and standard setters, as well as upstream back to clients and their advisers to support and enable more positive outcomes ('3b' in Figure 3). Termed 'signalling' by the Impact Management Project this activity can play an important role by indirectly supporting positive impact enterprises[2] and as a result, stewardship is embedded within our commitment to impact investment.

Practical examples of this 'system-level' contribution at WHEB include work that we have done in supporting the development of new standards on sustainable finance; bilateral and collective advocacy on the need for more ambitious public policy targets on climate change; and efforts to educate and inform investors on the potential for asset management to have a positive impact.

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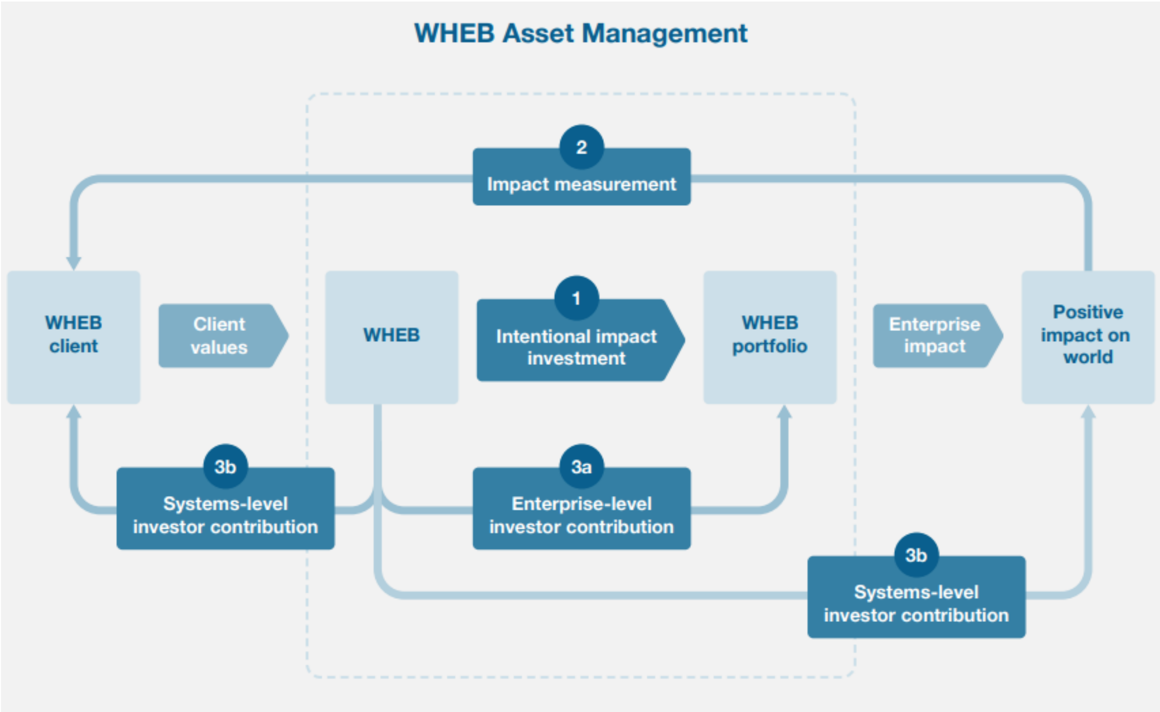
[2] *https://impactmanagementproject.com/wp-content/uploads/ Investor-Contribution-Discussion-Document.pdf*

Figure 3: Impact investment in listed equities – WHEB's approach



Investor feedback

WHEB has sought investor feedback in 2021 through a client survey, available on our website. At the time of writing, this survey had received 137 responses from a range of investors. Initial results indicate that, overall (93%). Investors are satisfied with WHEB's impact strategy (Figure 4). In addition, the majority of our investors (81%) are satisfied with our communication of the strategy (Figure 5). We believe that these results are a strong indication that WHEB has been effective in serving the interests of clients in 2020.

Figure 4. Investor feedback on WHEB's investment strategy, taken from the 2021 client survey[3]

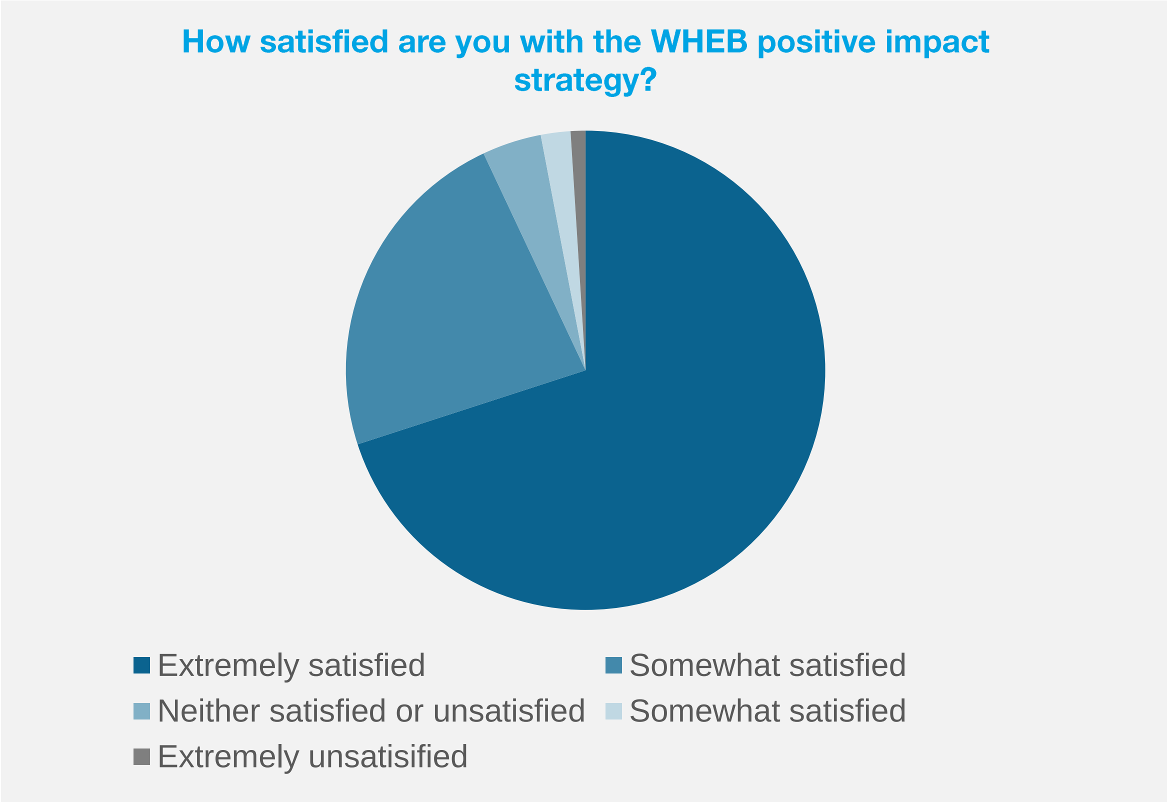
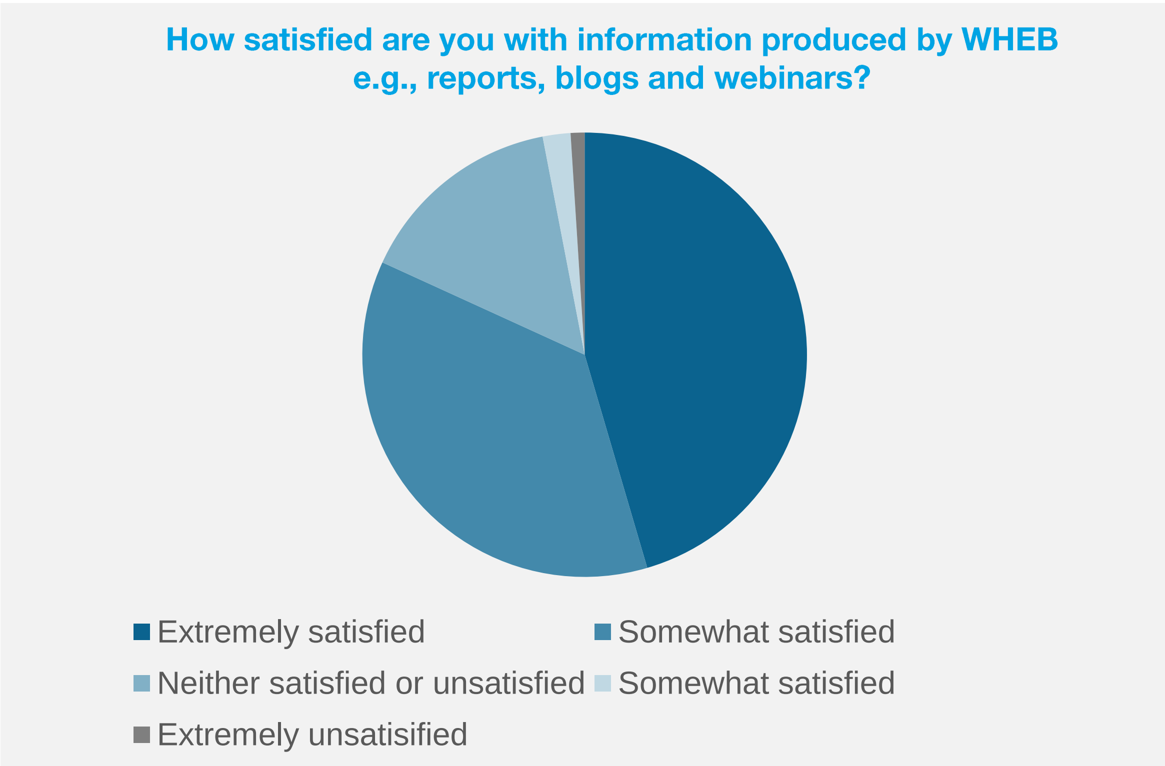


Figure 5. Investor feedback on WHEB's communication, taken from the 2021 client survey[3]



Further information

- *PRI Transparency Report (Section OO and SG) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *WHEB Overview - https://www.whebgroup.com/about-us/overview/*
- *2020 Impact report - https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf*

[3] *As of 25th October 2021, based on 137 respondents.*

Principle 2: Signatories' governance, resources and incentives support stewardship.

At WHEB, investment stewardship is delivered through our engagement and voting activity. Effective stewardship has a dual purpose. It can generate additional insights into company practices which feed into our investment decisions. Stewardship can also be used to exercise influence to improve corporate management and performance.

It is our firm belief that stewardship activities are best performed by the investment team itself. It is this team who have ultimate responsibility on whether to buy, hold or sell investments in portfolio companies. A core task for WHEB analysts is to monitor and understand the activities and performance of investee companies[4]. Because they have this broader commercial context, we believe that the investment team is best placed to influence company management and integrate any insights back into our investment thesis. Furthermore, stewardship is fully integrated into the team incentive plan. Specific, related KPIs form part of the basis on which investment team bonuses are determined.

Investment team activities including stewardship, voting and engagement activities are overseen by the Investment and Risk Committee (Figure 6). This committee meets monthly and includes both WHEB's Chief Risk Officer (CRO) as well as the company's non-executive Chair.

In addition, WHEB's independent Investment Advisory Committee also provides independent scrutiny of the investment team's activities including stewardship (Figure 6). This committee is composed of independent experts in the field of sustainable investing and meets every four months. While the Investment Advisory Committee plays an advisory role, summary minutes of this meeting are published on WHEB's website.[5]

The investment team are also supported in their engagement activities with specialist resources including expert opinion on company votes and bespoke reporting frameworks. Each investment analyst has specific engagement objectives included in their annual appraisal. Engagement activity is scrutinised at monthly Investment and Risk Committee meetings as well as at meetings of WHEB's independent Investment Advisory Committee which take place every four months. The scrutiny of independent Investment Advisory Committee is strengthened through WHEB's commitment to publish the minutes of this meeting, making the discussion a matter of public record.

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[4] Our approach is team based. Each stock in the portfolio and on the watch list is assigned a Person in Charge (PIC), which rotates every 18 months or so. This helps avoid certain behavioural biases including confirmation bias and equips each team member with the knowledge and experience to be able to challenge the views of other on portfolio holdings.

[5] The current composition of the Advisory Committee is available at https://www.whebgroup.com/about-us/advisory-committee/

Case Study: Investment Advisory Committee discussion on Portfolio-level NZC targets[i], October 2020

Seb Beloe, Partner and Head of Research, introduced a paper on WHEB's approach to net zero carbon (NZC) commitments, drafted in response to the increasing focus on the topic.

At the time, WHEB had committed to an operational NZC target by 2025. However, as provided for in guidance to asset managers[ii], this does not include the investments made through our investment strategies, which are subject to a separate decision-making process.

Nevertheless, WHEB had also publicly committed to 'engage with companies held in our investment strategies to encourage them to accelerate their efforts to achieve NZC emissions by 2030'[iii].

Committee Members

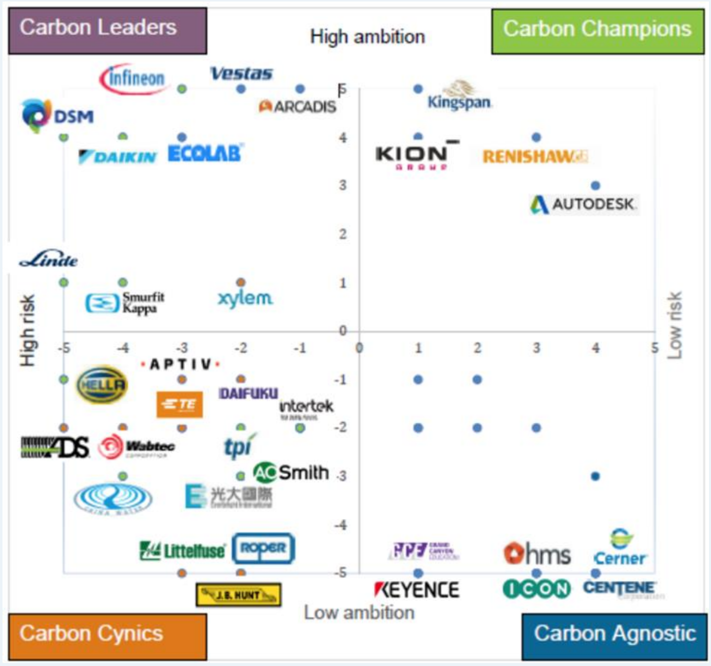
WHEB's work on NZC

Seb reported the considerable work done by the team to engage portfolio companies, encouraging adoption of demanding NZC targets. As of 30th September 2020:

- *c.5% of the portfolio had set NZC targets by 2030 at the latest*
- *12% had already set NZC targets to be achieved by no later than 2050*
- *6% had committed to but had not yet published NZC targets.*

Based on this, WHEB expected that within the next two years, over 20% of the existing portfolio would have committed to being NZC businesses by 2050 at the latest.

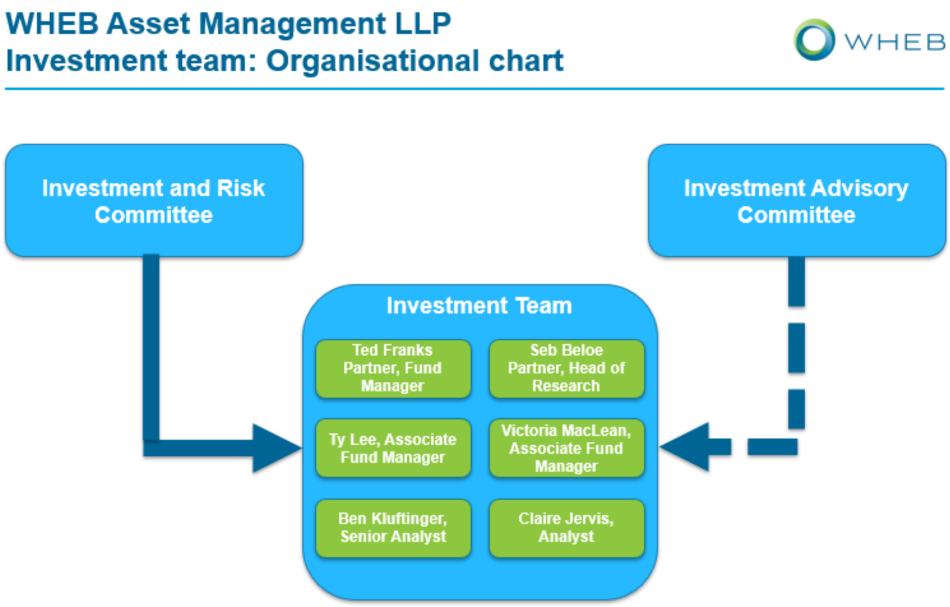
Seb also presented a mapping of the carbon risk exposure (based on scope 1, 2 and 3 emission levels, reported and estimated) and ambition of portfolio companies (based on existence and nature of any NZC targets), as shown below.



Discussion	The committee had a robust discussion on the role and value of NZC targets. Members were overall supportive of WHEB's approach in engaging portfolio companies on the topic. Nonetheless, some felt that the analysis presented in Figure A did not capture WHEB's 'solutions-focus', which is so essential to the strategy. In addition, other key points discussed were: • Even accurate measures of scope 1, 2 and 3 emissions will not fully capture the complexity of climate impacts • Scepticism of the robustness of NZC targets from companies, indicating a need for deeper analysis of the strategies being used to deliver the targets and the extent to which carbon offsets are being used. • Members expressed concern that clients are looking for simple solutions which reduce a highly complex element of investment management to a single number or 'temperature rating', and which can be meaningless at the aggregate level. • While climate change is a critical topic of sustainability, it is not the only one.

[i] https://www.whebgroup.com/media/2020/11/202010-Summary-minutes-Final.pdf
[ii] Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard, WRI/WBCSD
[iii] Net Zero Carbon Initiative - https://www.whebgroup.com/wheb-commits-to-net-zero-carbon-standard/

Figure 6: Governance of WHEB's stewardship activities



Activity and outcomes

Being a leading steward of our clients' capital is a core part of WHEB's proposition to our clients. It is embedded in how our investment team is assessed and incentivised and is a regular part of investment and risk committee meetings and is a topic that we address with our independent advisory committee.

We routinely assess the effectiveness of all of our company engagement activity as part of our quarterly reporting. We also publish this information annually in our impact report (see Principle 6 below). We believe that our governance structures and processes have been effective in directing our engagement activity over the year. Our engagement activities typically cover more than three-quarters of all portfolio holdings. Our ambition is to do more and drive deeper engagement (which WHEB defines as being more than three interactions with company executives on the issue in question) with these companies. We will review our approach in 2021 and consider ways to make our processes more robust including through enhanced IT systems and additional independent review and oversight.

Further information:

- *PRI Transparency Report (Section SG) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *Investment Advisory Committee Summary Minutes - https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/*

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

WHEB is an independent business that focuses solely on managing, on behalf of its clients, investment funds invested in the equity of publicly quoted companies. The business is jointly owned by the partners and WHEB Group and is committed to carrying out its business in compliance with the highest standards of corporate governance and integrity. We apply a consistent and transparent approach to the management of conflicts of interest. The key elements of our conflicts of interest policy are summarised below.

Our conflicts of interest policy is focused on five main areas:

- **1) Identification of conflicts of interest**: *WHEB and its staff are required to take all reasonable steps to identify conflicts of interest between WHEB and its clients or between two or more clients. The Compliance Officer maintains a conflicts of interest register related to staff and WHEB. Staff are required to inform the Compliance Officer if they become aware of an actual or potential conflict of interest between WHEB and a client or between clients.*
- **2) Record of Conflicts**: *WHEB maintains a record of the kinds of service or activity carried out by, or on behalf of WHEB, in which a conflict of interest leading to a material risk of damage to the interest of a client or clients has arisen or may arise.*
- **3) Prevention**: *We have in place a wide range of measures that are designed to prevent conflicts of interest from arising. These measures include proactively identifying conflicts of interest, documenting investment recommendations, restricting the receipt or offer of gifts or inducements and reporting on conflicts or potential conflicts of interest.*
- **4) Managing conflicts**: *While there are many types of conflicts of interest that may emerge in other aspects of our business and which are addressed in our Conflicts of Interest Policy, conflicts as they relate to stewardship are relatively limited. Conflicts may emerge, for example, between the interests of clients and our voting policy (for example between a corporate pension fund as a WHEB client, and our voting position at the associated company's general meetings). In such cases it may not be possible to prevent conflicts of interest from arising. In these cases, we manage conflicts of interests by monitoring, appropriate disclosure to the client, and/or declining to provide the service. The Compliance Officer with the assistance of the Investment and Risk Committee will manage actual and potential conflicts of interest. In any case, before a potential conflict of interest becomes an actual conflict of interest, or as soon as is reasonably practicable after becoming aware of an actual conflict of interest, WHEB will manage that conflict to ensure that no client is prejudiced as a result.*
- **5) Monitoring**: *Where staff are involved in transactions involving carrying out activities on behalf of clients whose interests may conflict, or whose interests may conflict with the firm, those members of staff will be monitored by the Compliance Officer. In addition, the Compliance Officer may disclose the nature of the risk to the client in order to enable the client to take an informed decision about the service in the context of which the conflict of interest has arisen. Equally, the Compliance Officer may decide that it is not possible to avoid or manage a conflict of interest and so decline to provide the service requested.*
- *With specific regard to our stewardship activities, the central objective when reviewing which companies, we engage with, and how we engage and vote, is to act in the interests of clients and to treat all clients fairly. Our independent Investment Advisory Committee reviews our voting and engagement activity and may assist us in deciding how best to resolve and address any conflicts arising in the context of our corporate governance and wider stewardship activity.*
- *We may also be provided with inside information and made an 'insider' by a listed company or their advisors on specific corporate actions. WHEB considers this to be permissible but requires it to happen on a controlled basis and with the prior consent of the Compliance Officer or a member of WHEB's Senior Management. Should WHEB receive inside information, the relevant company will be placed on the restricted list and WHEB staff may not trade in (or arrange a transaction in the securities in) issuers on the restricted list, whether on their personal account*

or on behalf of a fund, without the prior written permission of the Compliance Officer, which would normally only be provided following legal advice and in exceptional circumstances.

Conflicts of Interest in 2020

As a relatively small, boutique business with a single strategy, conflicts of interest are rare at WHE. This continued to be the case during 2020, in which time there were no conflicts of interest reported.

Further information:

- *A full copy of WHEB's conflicts of interest policy is available on request.*

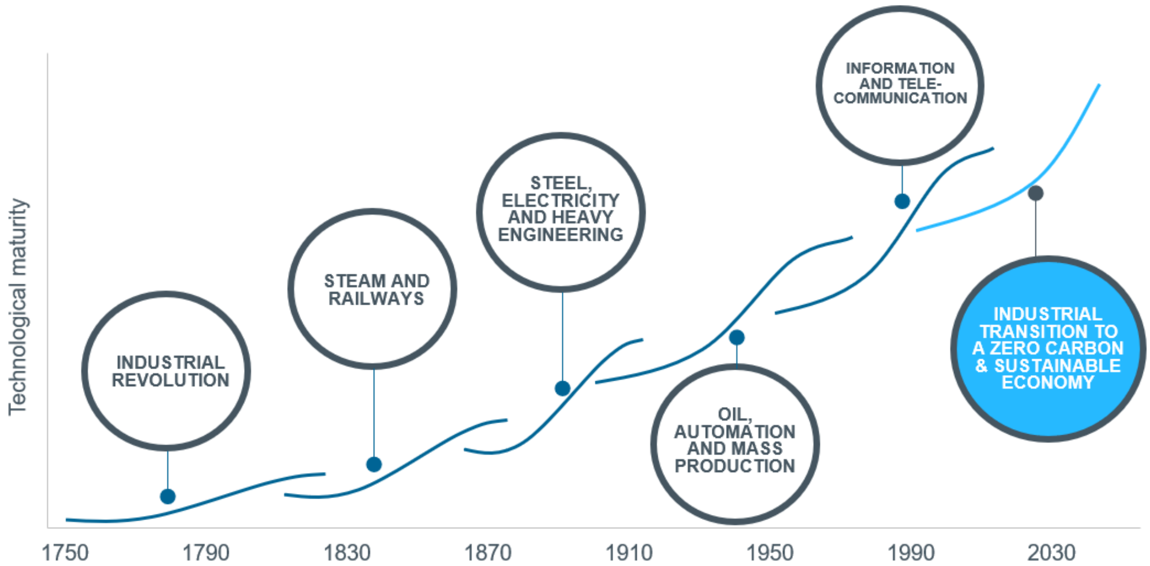
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Identifying and responding to market-wide and systemic risks

As an active and responsible financial market participant, WHEB has the opportunity, and responsibility, to help ensure that financial markets are cognisant of, and responsive to critical systemic risks.

Indeed, the WHEB strategy was established as a response to global megatrends such as resource scarcity, climate change, ageing and growing populations and rising living standards and their associated risks. It is our conviction that these trends will persist for decades and have resulted in the early stages of a transition to a zero carbon and more sustainable global economy, sometimes referred to as the sixth industrial revolution (Figure 7).

Figure 7: The sixth industrial revolution [6]



This transition itself is creating risks that, for some sectors, are existential threats. For others transition risk is better described as a transition opportunity, as the global economy orientates towards companies providing low and zero carbon solutions.

The thematic nature of WHEB's investment process means that the strategy is entirely absent from areas of the economy which are most susceptible to this transition risk, such as fossil fuel production or power generation, cement, steel and bulk chemicals. It is also structurally focused on those parts of the economy that we believe are well placed to both enable and benefit from the transition, such as renewable energy, energy efficiency in buildings and manufacturing, sustainable transport and water management. Our scenario testing and long portfolio track record suggest that the portfolio does show resilience in times of crisis

For our clients' benefit, WHEB's frequent reporting and commentary often draws links between investee companies and how their products and services may address systemic and market-wide risks. For instance, in July 2020, Associate Fund Manager Ty Lee wrote about supply-chain

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[6] Derived from: Technological revolutions and Financial Capital, Carlota Perez, 2002 adapted by WHEB Asset Management LLP

disruption related to trade tensions and the COVID-19 pandemic. Daifuku, Keyence and Kion are three companies held in the WHEB strategy which are positioned to benefit from the drive towards factory and warehouse automation further accelerated by this disruption[7].

However, systemic risks are complex by nature and companies can be susceptible to being affected by and/or affecting some issues whilst also being resilient to/mitigating others. As a shareholder, WHEB therefore recognises the importance of using our influence with investee companies to engage the company on risk mitigation strategies where this is appropriate. As described under Principle 2, WHEB's engagement and voting activity is fully integrated within our investment process. As a result, our stewardship activity benefits from the consideration of systemic and market-wide risks that investee companies are not only vulnerable to, but also, may exacerbate.

An example of this relates to Infineon, another investee company, which manufactures semiconductors and related systems that are key components within electric vehicles. Infineon was affected by electricity failures in a Texas manufacturing plant in early 2021 leading to significant lost production which, in turn, contributed to the global shortage of semi-conductors in global supply-chains. The electricity failures were a result of severe winter storms which, along with other extreme weather events, are increasing in frequency. We met with Infineon in September 2021 to discuss its asset risk mitigation strategies. We were reassured to learn that they had audited their organization for physical climate risk and had hired a third party to oversee the process. Disclosure could be better though, and we are concerned that Infineon may be underestimating its risk. This will remain an ongoing topic of engagement with Infineon and throughout our portfolio.

Promoting a well-functioning financial system

Together with key stakeholders including clients, investee companies, non-governmental organisations, regulators and standard-setters, WHEB helps to develop investment tools and frameworks that codify and standardise the financial market response to key systemic issues.

- **The Impact Engine:** *Because impact data remains poorly defined by the market, WHEB developed the impact engine as a tool to underpin a systematic approach to codifying impact across different themes and end markets. This tool was finalised and implemented in 2020 and now represents a core part of our investment process. It is used to collect and organize impact data across five dimensions (see Figure 8 below) and leads to an overall impact 'intensity' rating. The Impact Engine draws on the work of the Impact Management Project and the Future Fit Foundation, both of which we participate in and contribute to. WHEB has made the details of impact engine available publicly within our 2019 and 2020 impact reports[8] and plans to have a third party conduct a review of the tool during 2021. Any suggested improvements will also be made available publicly.*

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[7] *https://www.whebgroup.com/from-just-in-time-to-just-in-case/*

[8] *The impact engine is described on page 17 of the 2019 report* (*https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf*) *and on 24 & 25 of the 2020 report* (*https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf*).

Figure 8: Dimensions of impact

- **Impact Reporting and the Impact Calculator:** *WHEB produced the first impact report on a listed equity strategy in 2015 and developed the first impact calculator in 2017. The Impact Management Project defines 'signalling' as engagement downstream with regulators, policy makers and standard setters, as well as upstream back to clients and their advisers. We believe that WHEB's commitment to transparency within our reporting of impact (including publishing our peer-reviewed impact data methodology[9] and the commentary and opinion pieces we produce on wider environmental and social themes[10]) is an important signalling contribution towards the promotion of a well-functioning financial system.*

- *In particular, our Impact Calculator helps to communicate the positive impact generated by the companies held in the strategy, thereby helping people understand the opportunities resulting from transition risks (Figure 9). Similarly, reporting negative impacts associated with the strategy creates accountability for negative externalities which contribute to systemic risks and encourages reductions over time. WHEB reports on scope 3 emissions in the strategy within the 2020 impact report (as well as a number of different climate metrics, including Scope 1 & 2). However, more work is needed for reporting of negative product impacts, which are also considered within our investment process as we note in this report. This is something that we plan to address in the 2021 Impact Report.*

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[9] WHEB's detailed methodology document is available on our impact microsite. It sets out WHEB's approach to assessing and measuring the positive impact associated with the products and services sold by companies held in the investment strategy and was reviewed by the Carbon Trust in 2020. https://impact.whebgroup.com/media/2021/07/2021-Methodology-Final.pdf

[10] These contributions are outlined in more detail under Principle 6.

Figure 9: WHEB's impact calculator showing the positive impact associated[11] with owning £1m in WHEB's investment started in 2020.

Collaborative efforts

As detailed under Principle 10, WHEB has a long history of collaborating with other investors, non-governmental organisations, regulators and standard setters. Many of these organisations seek to shape the financial system to address systemic risks and support and enable more sustainable and positive impact investment.

In November 2020, WHEB became one of 21 Future-Fit Pioneers. Pioneers commit to becoming businesses that deliver their core purpose in a way that does not cause any harm to the planet or

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[11] Investors in WHEB's strategy are aligned with these positive impacts by investing in companies that form part of crucial supply chains that manufacture these products and provide these services. WHEB's investments contribute to the attainment of the impact, however, are not solely responsible. The impact is therefore referred to as 'associated'. CO2e avoided is based on a global average carbon price of £16 per tonne based on World Bank and IHS Markit's Global Carbon Index (https://carboncreditcapital.com/value-of-carbon-marketupdate-2020/). Landfill costs are based on a landfill tax of £94.15 per tonne of waste which is equivalent to the UK's landfill tax in 2020.

society. We will also assist other businesses on their own journey, 'acting as a guide and rallying call for all businesses to join this movement'[12]. At the core of the Future-Fit philosophy is the recognition that sustainability is fundamentally the property of a system and not of an individual business. The destination of 'sustainable development' requires the whole global economy to change, not just individual businesses. The Future-Fit framework is an important platform that we believe will help us make robust business decisions which will ultimately make us a better business.

In 2021, WHEB will produce a Level One Statement of Progress using the Future-Fit methodology which identifies our positive purpose, alongside areas where business activity may pose a risk to society and should consequently be addressed as a priority.

During 2020, the COVID-19 pandemic and addressing climate change through net zero carbon targets were two of the most prominent key systemic risks addressed within our collaborative activities:

1. *COVID 19:*

- *Initially, we actively scrutinised the reactions from companies in the portfolio to the pandemic. Many companies were proactive in notifying markets and the general public about their responses. Where companies were less forthcoming, we reached out to understand how the companies were coping with the impact of the pandemic and related regulation on their operations and markets as part of our bilateral engagement strategy. However, given the magnitude of the pandemic's impact, we felt that it was a topic we felt would also benefit from collaborative efforts.*
- **Pharmaceutical Sector Response to COVID-19:** *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.*

  We extended this initiative by leading an engagement with Hikma Pharmaceuticals, as outlined in the case study under Principal 10.
- **COVID-19 and Public Policy:** *Working in collaboration with other investors including the Institutional Investors Group on Climate Change (IIGCC) we also 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 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.*
  - *WHEB was a signatory to a letter to the EU Heads of State underlining the need for "an accelerated transition to a net-zero emissions economy, in line with the Green Deal and the Paris Agreement". Given the unprecedented opportunity to reinvigorate the European economy with a stronger emphasis on sustainability, we also co-signed a letter alongside a*

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[12] *https://futurefitbusiness.org/become-a-pioneer/*

variety of large and small European businesses making similar points and emphasising the need to increase the EU's greenhouse gas emissions reduction target to at least 55% by 2030 We were very pleased to see that the EU Commission has subsequently also endorsed this target[13].

2. *Net Zero:*

- *Accelerating the transition to net zero as a climate change mitigation strategy was also a key subject of WHEB's collaborative efforts on systemic risk in 2020:*
  - *For example, in December 2020, WHEB was delighted to become a founding signatory of the Net Zero Asset Managers initiative and commit to a goal of net zero emissions from our investment portfolio by 2050 or sooner. The Net Zero Asset Managers Initiative represents a very significant undertaking. In it, WHEB has committed to have at least 50% of the emissions produced by WHEB investee companies covered by net zero carbon commitments by 2025 and by 2030 to have 100% covered by such commitments. Critically, under the initiative we have also committed to absolute carbon emission reductions. This includes having a net zero carbon portfolio by 2050 at the latest. We have also set an interim target to achieve absolute carbon reductions by 2030 that are consistent with a 50% global reduction in carbon emissions. This 50% reduction is what is considered necessary to achieve global net zero carbon emissions goal by 2050. These commitments cover WHEB's entire investable assets and consequently, was a significant focus of our bilateral engagement with investee companies during 2020.*
  - *WHEB also sat on the Paris Aligned Investor Initiative technical committee[14]. The aim of this committee is to develop a framework for pension funds and asset managers to be used as a central feature in assessing and reporting fund-level net zero carbon emission commitments.*
  - *In December 2020, WHEB was one of seventy-five businesses that wrote to the British Prime Minister in December encouraging the UK Government to submit an ambitious emissions target for 2030. The group, under the leadership of the Prince of Wales's Corporate Leaders Group, encouraged the Government to formally submit the target, known as a Nationally Determined Contribution (NDC), to the Secretariat of the UN Framework Convention on Climate Change. The next Conference of the Parties (COP) is due to take place in the UK in 2021. The letter stressed the importance of the UK taking a strong lead by submitting an ambitious target and setting the tone and direction for subsequent submissions from other signatories. A few days after receipt of the letter, Boris Johnson announced that the UK would set a target to reduce the UK's emissions by at least 68% by 2030 as compared to 1990 levels. While this target represented an improvement on the previous target of a 61% reduction, it was less than the 72 - 75% cut that NGOs and academics had been hoping for. Nonetheless, the target is seen as helpful as many other countries have still yet to submit their NDCs in advance of the COP26 summit.*

Further information:

– *PRI Transparency Report (section SG09, SG11) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*

– *WHEB Networks - https://www.whebgroup.com/about-us/industry-networks/*

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[13] *https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1599*
[14] *https://www.whebgroup.com/media/2020/10/20200930-WHEB-Q3-2020-Review.pdf*

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Stewardship and Engagement policy as well as WHEB's Responsible Investment policy are developed and implemented by the Senior Management Team. They are subject to regular review and are considered in light of evolving industry best practice.

The application of the policies is overseen by the WHEB's Investment and Risk Committee. In addition, WHEB's independent Investment Advisory Committee also scrutinises our voting and engagement activities. Summary minutes of the Advisory Committee meetings are published on the WHEB website. The Advisory Committee also reviews WHEB's Annual Impact Report and includes a statement outlining their findings and overall view of the report.

All details on company engagement are stored as part of our investment research database. Analysts capture key information from their engagements typically including the date, the issues discussed as well as the name and title of investee company representatives and the type of engagement. This is linked to the specific company, or companies, that are the subject of the engagement. The database is updated in real time as new information on engagement is added and allows analysts to track their engagement and report on related outcomes.

We then report on our engagement activity in our quarterly client reports. This typically will include more detailed disclosures around key issues that have been a focus during the quarter as well as a summary of all engagement undertaken in the quarter.

Review and assurance processes

As part of our annual review of our policies, we updated our Stewardship and Engagement policy in 2020 including integrating the FRC's 2020 Stewardship Code into the structure of the policy. In addition, while we have reported on our engagement and voting activity for many years, this year is the first time that we have produced a stand-alone report on these activities.

WHEB has also reported data on the positive social and environmental outcomes associated with the products and services sold by portfolio companies. In 2020 we had the methodology for calculating these outcomes independently reviewed by The Carbon Trust. The conclusion of the review was that our impact measurement methodology was considered to be 'formulated in line with recognised international best practices for impact reporting'. In 2021 we plan to have the full dataset that is used in our impact reporting independently reviewed and assessed by The Carbon Trust.

WHEB's impact engine is our first attempt to codify the analysis of impact in listed equities investments. It is far from perfect, but by analysing and capturing the multiple dimensions of impact in a reasonably rigorous system we can compare companies and make investment decisions within a logical framework. Before we had the impact engine, there was no systematic way to compare companies and we instead relied more on anecdotal analysis.
In 2020, we plan to work with an external consultant to critique and improve the methodology.

In 2021 we plan to review our voting policies. These have been based on 'Red Lines' voting policies developed by the Association of Member-Nominated Trustees (AMNT). We plan to review these policies based on the experience of our investment team and drawing on external best practices including those develop by Institutional Shareholder Services (ISS).

We plan to undertake a dedicated client review, including capturing information on how effective our reporting is for different clients. We will implement key findings from this review in our communications in 2021/22.

Further information:

- *WHEB's 2020 Annual Impact Report - https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf*
- *Investment Advisory Committee Summary Minutes - https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/*

SECTION 2: INVESTMENT APPROACH

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

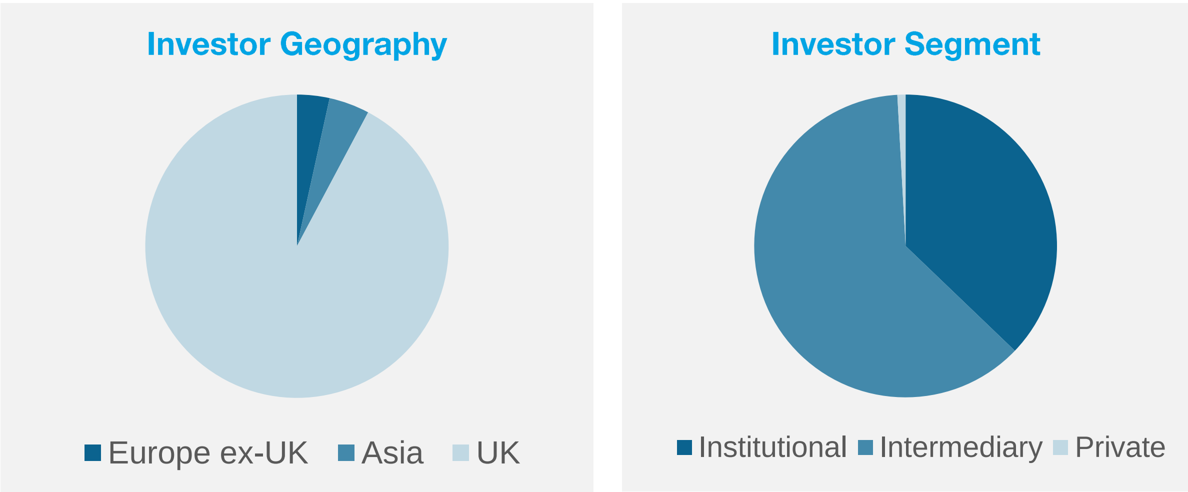
WHEB's clients and investment time horizon

Figure 10 shows a breakdown of WHEB's clients, both in terms of geography and segmentation, by AuM. As the charts show, the majority of WHEB's investors are professional investors based in the UK.

As a boutique asset manager dedicated to positive impact investing, WHEB's view is inherently long-term. Our investment philosophy is underpinned by a belief that businesses that successfully turn sustainability challenges into an opportunity will access faster growing markets and gain a long-term competitive advantage. Our thematic focus and interest in ESG issues is driven by our desire to understand the fundamental quality of businesses that we are researching over a multi-year investment horizon.

As a result, the expected holding period for the strategy is 4-7 years, well-above industry averages. This enables us to act as owners of investee companies, rather than as short-term traders. WHEB's integrated engagement activity is therefore typically structured as proactive initiatives that are aimed at long-term issues affecting whole sectors and/or companies in our investment universe. In addition, we also conduct a range of 'reactive' engagement activity in response to specific issues at individual companies. This gives us the opportunity to encourage more progressive approaches to ESG and sustainability issues which, in our view, help to generate superior risk-adjusted returns over the medium to long-term.

Figure 10: Investor breakdown by AuM as of 31st December 2020



WHEB's Policies: alignment with client's views

As a boutique asset manager with a long track record, WHEB has developed a close relationship with many of our investors. This has been possible through our extensive reporting, hosting events, such as our Annual Investor Conferences and Christmas Teas and webinars, as well as through regular client meetings. These channels are also a means through which we build relationships with new and potential investors in the strategy.

This regular communication facilitates a dialogue with clients and prospective clients which informs us on what their needs and views are. To date, this means that feedback from clients has been requested or volunteered on a more ad hoc basis (in response to reports and commentary), at events and webinars and, in the normal course of business (within meetings and in response to tender processes).

We have found this to be an effective method for two reasons. Firstly, we find that insights and feedback from clients are possibly less constrained than, for example, through a formal survey, and allow a conversation to develop on the topic in question in real time. The second reason is that this has been the most appropriate option within the scope of our relatively small team's resources as it allows for easy collection and almost immediate synthesis of feedback.

We are, in addition, keen to develop a more structured approach that will complement our existing communication channels with client. This will enable more anonymity and allow a more structured set of questions. As such, we have undertaken a formal client survey in 2021 to garner a more complete picture of our client's views and initial findings indicate that these are generally positive for all aspects of the business[15]

Nonetheless, we are confident that the WHEB's Stewardship & Engagement and Responsible Investment Policies align well with our client's needs. Many clients have been long-term investors in the strategy because they appreciate WHEB's disciplined approach to applying the definition of 'solutions to sustainability challenges'. Our voting policies are based on the AMNT's[16] *'Red Lines', which are typically more demanding than the market standard and cover environmental, social and governance issues. We vote on all our active positions in the strategy. As a result, we have always found our voting policy covers clients' voting requirements and, in many cases, goes above and beyond their expectations.*

Communication of Stewardship

Transparency and accountability are central to WHEB's philosophy. Our main reports are the annual impact report[17] *which is also complemented by quarterly client reports*[18] *(with accompanying webinars). These include detailed reporting of stewardship activity as well as impact and ESG data.*

Impact reports summarise portfolio impact and ESG analysis, carbon emissions and the SDGs, stewardship activity (including bilateral and collaborative engagement and voting) and WHEB's

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[15] We intend to report on the findings from the survey in more detail within WHEB's 2021 Stewardship Code report, as the survey is still underway.
[16] AMNT: Association of Nominated Trustees
[17] https://impact.whebgroup.com/impact-reports/
[18] For UK domiciled OEIC: https://www.whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/quarterly-reports/ and for Dublin domiciled ICAV: https://www.whebgroup.com/investment-strategy/fund-options/wheb-sustainable-impact-fund/quarterly-reports/

approach to sustainability over the calendar year. WHEB's impact microsite[19] houses our interactive impact calculator, which demonstrates the positive impact associated with a chosen investment amount. It also includes WHEB's peer-reviewed methodology document for calculating the impact associated with investments in the WHEB strategy.

Our quarterly reports include thematic and performance commentary, recent purchases and sales, stewardship activity and outcomes as well as quantitative information on fund positioning and on WHEB's impact and ESG measurement frameworks. In terms of stewardship, these reports are the most comprehensive. They include a summary table in the data pack covering all engagement activity for the quarter including Company, topics, tool (i.e., method: letter, email, conference call, collaboration) and outcome[20]. This is supported by sections of narrative reporting providing more detail on the bilateral and collaborative engagement activity from the quarter. It is also supported by our Voting Appendices[21] which contain a record of every shareholder resolution on which WHEB is eligible to vote in the quarter, how we have voted and a rationale for each vote. Full fund holdings[22] are also published every four months including investment rationales to indicate why a stock fits with the fund's investment policy.

On a monthly basis, WHEB circulates and publishes Fund Factsheets along with a newsletter and links to commentary and opinion pieces written by the team, many of which go into longer detail on specific engagement examples[23]. All of this information is published on our website and so is not limited only to investors but is available to the public to see.

As outlined under Principle 2, WHEB's Investment Advisory Committee also provides independent scrutiny of our stewardship activity three times a year, and the minutes of these meetings can also be found on our website[24].

Feedback from clients on WHEB's reporting and transparency is generally positive. Nonetheless, we strive for continual improvement and so know we have work to do in 2021 to improve the quality of our reporting of stewardship in our impact report for 2020. This will largely be through the addition of detail. We are also aware of a need to upgrade our website to support our growing client base by making our reporting more accessible to all audiences. Combined with a formal survey, this should help WHEB to go further to align Stewardship with client needs.

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[19] https://impact.whebgroup.com/

[20] We systematically rate the success of each engagement as: 'Successful': the company agrees to amend its approach, 'Partially successful': the company acknowledges the issue but does not commit to change; or 'Unsuccessful': the company either does not respond to us or refuses to amend its practices.

[21] https://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/

[22] https://www.whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/fund-holdings/

[23] https://www.whebgroup.com/news-views/wheb-insights/

[24] https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/

Further information:

- *WHEB Investment Advisory Committee Summary Minutes - https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/*
- *WHEB Fund Holdings - https://www.whebgroup.com/investment-strategy/fp-wheb-sustainability-fund/fund-holdings/*
- *WHEB Blog - https://www.whebgroup.com/news-views/wheb-insights/*
- *WHEB Impact Reports - https://impact.whebgroup.com/impact-reports/*

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Integration of sustainability in WHEB's investment process

WHEB is wholly focussed on this single global equity strategy that seeks to generate superior returns by investing in companies providing sustainability solutions. 100% of everyone's time is therefore spent on this strategy. The entire WHEB team, especially the investment team, are responsible for implementing the strategy.

WHEB's process differs from our competitors', in that we integrate sustainability and financial analysis of companies at every stage of the analytical process. We believe that this reveals important information about a company's growth potential and risk profile.

- Universe creation

WHEB has selected nine investment themes which we use to focus our attention on companies that provide solutions to the challenges posed by the mega-trends and therefore have the potential to significantly grow their earnings. They include four social (Education, Health, Safety and Well-being) and five environmental themes (Cleaner Energy, Environmental Services, Resource Efficiency, Water Management and Sustainable Transport).

We are only interested in companies that have genuine exposure to these themes and set a threshold of having at least 50% of their revenues or profits coming from these areas. In practise, most holdings in the fund are 100% exposed to the themes, and the weighted average across the fund is over 80% exposure. We capture evidence to support our decisions on whether companies fit our themes or not and assess the intensity of their 'Positive Impact'[25,] and share this publicly with our investors[26].

Our analysis of sustainability trends and themes enables us to construct an 'investment universe' of stocks which qualify for investment in one or more of the themes. We select the best ideas from our universe for a portfolio of between 40 and 60 holdings.

- Stock Selection

Our guiding principle is that the success of the stock should be driven by the success of the sustainability solution it provides. In other words, as the world becomes more sustainable, the stock is likely to outperform. We also want to be supportive shareholders, remaining invested for the duration of the sustainability-led growth, and not increasing the cost of capital by frequent trading.

Our integrated analysis helps to protect the fund from companies that are poorly positioned to deliver market out-performance over the long-term. We assess companies with respect to both the products and services provided, via the impact engine (as described in Figure 8 under Principle 4), and multiple dimensions of the fundamental quality of a company organisation and operational performance. We therefore consider a range of measures relating to both financial and ESG management and performance.

Once companies have been through this analysis and the valuation is appropriate for the level of quality determined, it will be considered for investment. In some cases, companies may be suitable

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[25] The Impact Engine helps us to assess the intensity of the positive impact generated
[26] For example, through our annual impact and quarterly reports.

for investment whilst also having weaker performance on some ESG matters[27]. In this case, such issues will be discussed within stock initiation meetings between the investment team and an engagement plan will be agreed, based on WHEB's engagement and voting policy. Likewise, if a company already held in the strategy is subsequently found to have weak performance on an ESG matter, this will be discussed by the investment team and an engagement plan will be agreed. WHEB's engagement can be loosely defined as either proactive or reactive, as outlined under Principle 9.

We believe that engaging with companies to challenge them on a range of topics, including ESG and sustainability issues, and analysing their responses, further adds to our knowledge and understanding of a company. All engagement activity is logged in our company profiles with conclusions feeding directly into our assessment of company quality scores. Engagement therefore feeds into investment-decision making and escalation strategies (such as those described under Principle 11) may even contribute towards a decision to divest in some circumstances. An example of this is outlined in a case study focused on IPG Photonics.

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[27] If the company is, in our view, exposed to excessive reputational risk, or has significant activity in areas that are not consistent with the philosophy of the fund, then it is unlikely to be selected for investment.

Case Study: Engaging IPG Photonics on Gender Diversity, 1Q2020

IPG produces high power fibre lasers that are used in a wide range of manufacturing applications such as in automobiles, electronic products and medical applications. The technology is faster and typically 70% more energy efficient than traditional laser technologies.

Rationale & Objective	*Gender diversity is an area of improvement for WHEB's strategy which is heavily weighted towards sectors traditionally considered as 'male'.* *At the time of engaging with IPG, had demonstrated persistently poor performance in terms of board-level gender diversity and talent management. In addition to this, the company had suffered from intense competitive pressure in the previous two years, putting heavy pressure on margins.* *With board-level gender diversity being a target for development in the WHEB strategy, IPG was one of many companies that we engaged with about this issue during 2019 and into 2020.*
Strategy	*WHEB's engagement involved writing a letter to company management explaining our concern that the composition of IPG's Board of Directors was insufficiently diverse when it comes to gender. The letter also asked the company management to explain whether:* 1. *this was a perspective shared by the company and if so, what were the plans to improve the gender diversity of the Board;* 2. *the company had specific targets on gender and/or other aspects of diversity at Board level;* 3. *the company's senior leadership also suffers from a lack of gender diversity, and if so, how it planned to tackle this.*
Company Response	*After chasing IPG for a reply for nearly six months, the company responded. The letter stated that IPG does consider a diverse set of candidates but does not have specific target or quotas and that IPG selected a female board member in 2016.*
WHEB's analysis and engagement outcome	*As well as confirming our thoughts about IPG's existing gender diversity performance, the company's response indicated a lack of concern for this topic and an unwillingness to improve.* *In WHEB's view, we believe that this represented a serious flaw to the quality of the company's management. In conjunction with little sign that competitive pressures would ease and a further industrial downturn on the way, this contributed to our final decision to close our position in IPG Photonics.*

Further information:

- *PRI Transparency Report (Section LEI) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *Eurosif Transparency Code Submission Statement - https://www.whebgroup.com/media/2020/01/2020-WHEB-AM-Transparency-Code-.pdf*

Principle 8: Signatories monitor and hold to account managers and/or service providers.

Management of service providers

From time to time, WHEB uses a range of third-party service providers to support proxy voting and provide voting advisory services. When considering how to vote shares, we appraise the governance standards of the relevant investee company and compare these with local market standards (such as the UK Corporate Governance Code for UK-listed companies). Whilst we consider the recommendations of advisory services in how we vote our shares; the investment team independently assesses each individual company vote against our own internal policies before recommending a vote to the rest of the investment team.

WHEB's voting policies are modelled on the AMNT's 'Red Lines'. These are typically more demanding than the market standard. We regularly engage with service providers to encourage them to adopt more progressive voting policies on issues ranging from auditor independence to greenhouse gas emission reduction targets.

WHEB uses a range of third-party service providers which provide services to the fund, including host Authorised Corporate Directors (ACD), Transfer Agents, Fund Accounting, Custody and Depository services. We regularly review the performance of these service providers to ensure that services continue to be delivered to a standard that meets our needs and those of our clients. We review any incidents, including near misses, to investigate the underlying causes and identify process improvements. During 2020 we also conducted a formal selection process for ACD services in the UK and Manco services in Ireland, and selected FundRock to provide a combined service for our UK OEIC and EU ICAV products.

Activity and outcomes

During 2020 we started engaging with every service provider where we spend more than £10,000 annually, to encourage them to implement progressive policies and practices on ESG, particularly covering their approach to managing their own carbon footprint and setting net zero carbon targets. We track all net-zero carbon commitments and review progress against targets.

We annually review providers of investment research and other inputs into our investment research to ensure that they are providing added value to the investment process. Providers are selected and a budget set annually and reviewed by the Senior Management Team. At the beginning of 2020 we removed the Research Payment Account structure used to pay for external research in line with MIFID II, and instead put in place a single management fee structure covering all the costs and charges included in Ongoing Charges and Fees (OCF).

We review data providers for data quality and utility. We use multiple data providers, which enables us to compare different data sources. We use several different sources of data as part of our impact measurement and reporting, including carbon measurement. The data underlying the calculations in our 2020 Impact report was reviewed by the Carbon Trust, who found it to be fit for purpose and of reasonable quality.

SECTION 3: ENGAGEMENT

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

WHEB's approach: proactive and reactive engagement

- Proactive engagement

Proactive engagement tends to be centred around an issue that affects a significant proportion of the portfolio and is seen as a material issue for the company in question. The selection of topics is done by each investment analyst based on their review of the companies they monitor in consultation with the Head of Research, Seb Beloe. Proactive engagement objectives may also be set based on analysis of the strategy's performance against 14 well-established measures of ESG performance against the strategy benchmark (MSCI World)[28].

For example, while the fund outperforms or matches the benchmark in most of the 14 criteria, gender equality is the strategy's weakest area. This is largely attributable to the strategy's overweight to traditionally 'male' industries compared to the benchmark. As a result, improving the gender-equality performance of the strategy through engagement was an objective set for 2020, based on analysis of the portfolio in 2019 (see IPG Photonics case study).

The same analysis, conducted at the end of 2020, showed that disparity between the strategy and the benchmark on gender equality had reduced for the first time. On average, more than 20% of board directors and senior executives in WHEB investee companies are female, compared with just under 25% for companies in the MSCI World Index. We are pleased to have seen this improvement and aim for further developments via engagement in 2021.

Similarly, engaging investee companies on setting net zero carbon targets was an objective of proactive engagement in 2020, in line with WHEB's own NZC commitments (described under Principle 4). At the end of 2020, c.17% of WHEB's investee companies had committed to NZC emissions by 2050 at the latest and c.10% had committed to NZC by 2030. Company responses to the COVID-19 pandemic was also an area of proactive engagement for WHEB in 2020, as outlined in detail under Principle 4.

Reactive engagement

Reactive engagement often occurs in response to media or other third-party commentary on the company. Objectives for reactive engagement are identified by the responsible investment analyst based on their review of the company and the issue in question, in consultation with the Head of Research, Seb Beloe. An example of WHEB's reactive engagement is provided in the case study on Kingspan.

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[28] This analysis is included in our Annual Impact Reports. The year-on-year change in the ESG performance of the strategy is shown on page 34 of the 2020 Impact Report and a narrative summary of these changes is found on pages 33-34. https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf

Case Study: Kingspan, the Grenfell Tower fire and product safety, 4Q2020[iv]

Kingspan has been a holding in WHEB's investment strategy in the Resource Efficiency theme since May 2014. The company is a leading provider of building insulation materials across Europe and North America and has a strong reputation as an innovator in the development of higher efficiency insulation materials.

Rationale & Objective	*Following the devastating fire at Grenfell Tower in 2017 that killed 72 people, an inquiry was ordered by then Prime Minister Theresa May. The inquiry heard evidence over the two years to the Autumn of 2020, focused on the role of insulation.* *A proportion of the Grenfell Tower used Kingspan K15 insulation panels and the company became the subject of significant media attention during the phase of the inquiry investigating the safety of the panels and their performance during the fire.*
2017 – 2020: Before the Inquiry	*We first heard about the potential impact of the Grenfell Tower fire on Kingspan in August 2017. In a meeting with investment analysts the company said that they were aware that their product represented 5% of the insulation materials used at Grenfell. According to analysts, the company believed that the inquiry would reach its conclusions relatively quickly and they were 'very relaxed' about the impact on them.* *They welcomed what they saw as an inevitable tightening of regulations on building safety, believing that their product set was 'the most tested internationally'. The next time the company mentioned Grenfell was in their evidence to the Inquiry in November 2020.*

Autumn 2020: The Inquiry	*In WHEB's quarterly report covering the fourth quarter of 2020 we detailed the principal findings of the official Inquiry into the causes of the fire[v].* *It is worth reiterating that the initial findings from the Inquiry appear to indicate that the primary failings at Grenfell were due to the cladding system as a whole rather than a specific failing in the Kingspan product. The cladding system that included the K15 Kingspan panels was not compliant with Building Regulations for buildings over 18 metres in height. Tests showed that the use of K15 panels in the cladding system did not impact the outcome of the Grenfell fire. The outcome would have been the same whichever type of insulation material had been used.* *Nonetheless, the Inquiry did uncover some areas of significant shortcomings at Kingspan. Kingspan admitted that K15 insulation panels sold between 2005-14 had not been subject to critical fire safety tests. Tests had been conducted on a previous version of the product, but after modifying the manufacturing process in 2006, tests were not rerun on the new product. Kingspan has now re-run the tests and confirmed that the product passed.* *In addition to poor oversight of product safety protocols at the company, there was also evidence that Kingspan executives sought to 'game' product safety standards. Non-standard products were used in tests and product literature was, by the company's own admission, not sufficiently clear or emphatic in explaining the limitations of the safety tests performed by Kingspan. This was particularly acute in applications for use on buildings over 18 metres in height.* *More worrying still was the attitude of Kingspan executives in the UK. Concerns about the safety of K15 products being used in buildings over 18 metres in height were raised by Kingspan employees as well as by customers and external consultants. These were not taken seriously and in some cases were aggressively rebutted.*
Strategy	*WHEB followed the inquiry closely and, since it provided evidence in 2020, was in regular contact with the company's Investor Relations team. Due to the ongoing inquiry, this was largely limited to seeking clarifications on statements made within the inquiry to ensure we had a full understanding of their position. We also shared with them our conclusions on the inquiry findings at regular intervals. Much of this was done over email.* *Given the complexity of this topic, WHEB developed its own framework for what we consider to be best practice in product safety[vi] and compared Kingspan's historic behaviour and their response to Grenfell against this framework. We shared our analysis with the company and analysed their response.*
Company Response	*At the inquiry, Kingspan made an initial statement acknowledging weaknesses in their product safety and marketing literature. In February 2021's financial results, a further statement was made outlining additional actions planned to improve several areas of concern following an independent review.* *With regards to WHEB's direct communications with Kingspan, the inquiry meant that the company could not respond as it was prevented from making public statements until it had concluded.*

WHEB's analysis and engagement outcome	*In our view, many of the commitments that the company has made are impressive. Regular third-party audits as well as explicit board oversight and accountability for product safety represent strong responses. It is also clear from the company's statements that they believe, that Kingspan's products and behaviour were not the cause of the Grenfell Tower fire. They do though clearly accept that there were decisions and behaviours within the UK Insulation Boards business that were wrong and for which they have apologised and sought to implement corrective actions.* *Nonetheless, our overriding concern, and one that was not fully addressed by the company, was that there was, in our view, a culture within the UK business that saw regulation as an impediment to doing business. There was clear evidence that senior leaders in the UK business sought to manipulate tests to provide positive results. There was also evidence of management seeking to bully and threaten employees and put pressure on external consultants and clients who raised safety concerns.* *As a consequence, WHEB concluded that we were unable to continue to invest in Kingspan. We fully exited our position on the 26th of February 2021. We communicated this decision, and our reasoning, to the company. We hope that, in time, further changes will be made in the culture and governance of the business that will allow us to view the company as an exciting investment for our investment strategy once again.*

[iv] *For a more in depth insight into the events of the inquiry, Kingspan's response and WHEB's analysis and decision to divest, please refer to pages 5-8 of the 1Q2021 Review: https://www.whebgroup.com/media/2021/04/20210407-WHEB-Q1-2021-Review.pdf*

[v] *https://www.whebgroup.com/media/2021/01/20210119-WHEB-Q4-2020-Review.pdf*

[vi] *This has been derived from the work of Lucia Suhanyiova, Amy Irwin and Rhona Flin, 'Product safety culture: a preliminary study in the UK manufacturing industry', Journal of Risk Research, 19 August 2020*

Prioritising engagement

Both proactive and reactive approaches are of equal importance and are prioritised by the investment team based on severity of the issue in question.

Engagement methods

WHEB aims to proactively identify problems at an early stage prior to investment. After investment, we regularly review and monitor investee companies to ensure that they remain appropriate investments for the relevant fund(s). Where we identify issues of concern, we will enter into dialogue with management and escalate where necessary. This largely is a process of voting against company management or abstaining to vote (explained in more detail under Principle 11), and then writing to the company to explain our reasons for doing so seeking further engagement as appropriate.

Our engagement activity is therefore often closely linked to company AGMs. Writing to company management to explain our reasons for voting against management's recommendation typically leads to further engagement. This often presents opportunities to discuss other issues as well as the subject and/rationale for the vote. This engagement is driven by our voting policies.

We have found this to be an effective strategy as company management is typically more receptive to investor dialogue on engagement topics around the time of AGMs. We therefore find that we achieve more progress this way, resulting in positive outcomes for our investors. As a result, a significant proportion of our engagement is initiated by writing letters to company management. This leads to meetings (mostly over video or conference call in 2020 due to the pandemic) with company management in many cases. WHEB also engages with company advisors and uses collaborative engagement methods (detailed under Principle 10).

Whilst WHEB tracks all engagement activity, in 2020, we did not consistently report the engagement method used in the engagement tables published in the quarterly reports. We appreciate that this is an area of communication to clients that can be improved on in 2020.

Overview of company engagement in 2020

In 2020, we engaged on 112 occasions with 38 companies representing 81% of the strategy. Approximately 50% of these engagements were 'deep' engagements in which we had more than three interactions with company executives on the issue in question.

- By geography

Figure 11 illustrates the geographic exposure of the strategy (inner ring) and the corresponding engagement in that region (outer ring). Engagement was broadly in line with the underlying exposure of the strategy. There was slightly more engagement in Asia (22%) when compared to the geographic exposure of the strategy to this region (16%). This is because companies in this region are typically laggards in their approach to, for example, corporate governance issues and gender-diversity, two areas we cover frequently in our engagement.

This bias was also evident in the UK with 6% of exposure and 10% of engagements. Research indicates that asset managers tend to show a bias towards their home country in their engagement activity, possibly because of fewer cultural barriers[29]. Evidently, WHEB needs to remain conscious of this bias within engagement activity in order to ensure resources are applied across geographies appropriately.

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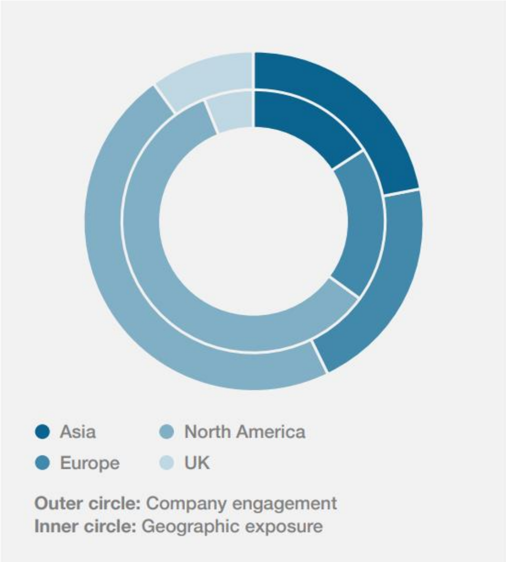
[29] *Bauer R, Clark GL, Viehs M. The geography of shareholder engagement: Evidence from a large British institutional investor. Available at SSRN 2261649. 2013 May 15.*

The US accounted for nearly half of total engagements (47%), but this was slightly below the 59% of the fund that is invested in US businesses. 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 two years we have seen a notable change in attitudes. For example, JB Hunt, 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. Europe accounted for 19% of fund exposure and 21% of company engagement.

Figure 11: Company engagement and underlying exposure by Geography (2020)



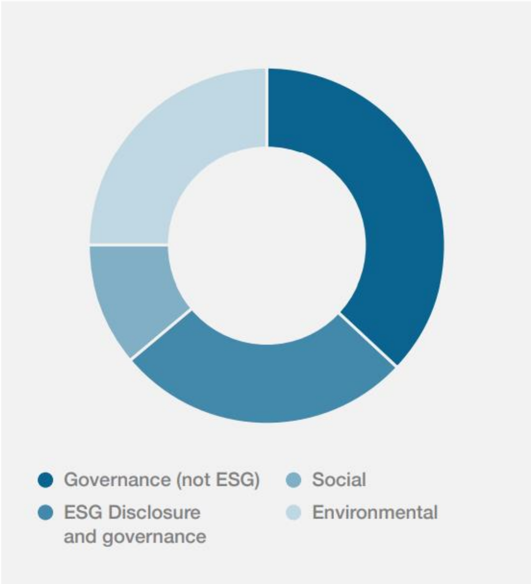
By topic

With 37% of engagement on corporate governance issues, this was again the most common area of company engagement in 2021(Figure 12). Director independence and CEO remuneration were areas that received the most attention in 2020.

Social issues accounted for 11% of engagement and focused most notably on gender diversity and the management of the COVID-19 pandemic. In addition, product safety was a critical concern at Kingspan during the year and led to the complete sale of the investment in early 2021 (see Kingspan Case Study).

Environmental issues (25%) and ESG disclosure and governance (27%) accounted for the remainder of our engagement in 2020 (see Hella case study). Carbon emissions and targets were a key focus of our environmental engagement, while board accountability and executive incentives on sustainability were common themes in engagement on ESG governance.

Figure 12: Company engagement by topic (2020)



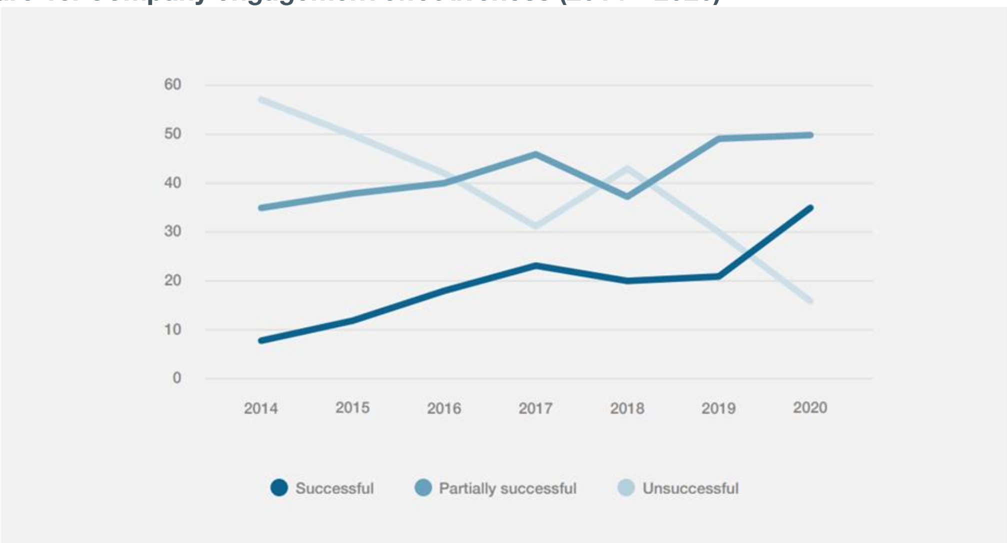
Effectiveness

We rate the success of each company engagement as either 'successful' when the company agrees to amend its approach, 'partially successful' when the company acknowledges the issue but does not commit to change and 'unsuccessful' when the company either does not respond to us or refuses to amend its practices.

In 2020, of the engagement that we judged had reached a conclusion, 34% was considered to be successful, 50% as partially successful and 16% as unsuccessful. This represents a continuation of the marked improvement that we saw in our 2019 engagement (Figure 12). In particular, the proportion of successful engagement has improved significantly, while the proportion of unsuccessful engagements has declined.

Anecdotally, we know of several examples where changes were made following WHEB engagement. Overall, however, we believe that the increasing profile of ESG issues across the whole market has persuaded management teams to be more responsive to these issues.

Figure 13: Company engagement effectiveness (2014 – 2020)



Case Study: Engaging Hella on sustainability disclosure and NZC targets, 3Q2020

Hella is a supplier of high-efficiency LED lighting and electronic products to the automotive industry. It manufactures a range of sensors, driver assist systems and energy management components that are used to improve automotive fuel efficiency and safety.

Rationale & Objective	*We believe that Hella has set demanding carbon reduction targets. However, it has not disclosed how it plans to achieve these targets across is operational footprint nor, how its products enable customers to reduce their own environmental impacts. This has also complicated our assessment of the business under the EU Taxonomy rules and also negatively impacts its third-party ESG ratings.*
Strategy	*We wrote to Hella in July 2020 explaining that we had found the company's ESG disclosure to be a concern for us. We encouraged the company to improve non-financial disclosures, focusing particularly on impact data, ESG data and workforce diversity policies and data.*
Company Response	*Hella clarified a number of its ESG programs that are not reflected in third-party ESG ratings and is working on its exposure to EU Taxonomy activities. Hella also clarified its Workforce Diversity and Inclusion policy. However, we their 2018/2019 non-financial annual report, published after our initial letter, did not include diversity data.*
WHEB's analysis and engagement outcome	**Partially Successful:** *We were pleased to see that Hella was responsive in clarifying points on its ESG programs, EU taxonomy activities and their Diversity & Inclusion policy. The lack of data in the 2018/20198 report, however, prevented us from assessing whether the company has any diversity issues and so we were disappointed in this regard. As a result, obtaining further clarifications on this topic remains an objective for our engagement with Hella.*

Further information:

– *PRI Transparency Report (Section LEA) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*

– *WHEB 2020 Impact Report (pp 36-39) - https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf*

– *Engagement Case Studies - https://impact.whebgroup.com/engagement-case-studies/*

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

WHEB's approach to collaborative engagement

- Industry Networks and associations

In addition to the contribution that WHEB makes at the level of an individual enterprise, we also believe that our contribution is important at a wider level and seek to shape the wider financial system to support and enable more positive outcomes. We do this through our engagement downstream with regulators, policymakers and standard setters, as well as upstream back to clients and their advisers. WHEB is also represented in several industry initiatives aimed at supporting long-term sustainable investing. A full list of these initiatives is available on our website and is included below in Table 1

WHEB's contributions to these efforts includes sharing our thinking and collaborating, including in the promotion of sustainability issues to investee companies, as well as by hosting, participating and/or speaking at conferences and seminars and through the WHEB blog.

Table 1: *List of industry initiatives and networks that WHEB is involved with*

Organisation	Description	WHEB Involvement
B Corps	B Corps are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.	WHEB Asset Management is a Certified B Corporation and George Latham, Managing Partner, is a B Corp Ambassador
United Nations Principles for Responsible Investment (UNPRI)	An international network of investors working together to put the Principles for Responsible Investment into practice.	WHEB is a signatory.
Institutional Investors Group on Climate Change (IIGCC)	A forum for collaboration on climate change for European investors.	WHEB is a signatory and member of the Policy Group.
UK Sustainable Investment and Finance Association (UKSIF)	A membership association for sustainable and responsible financial services.	WHEB is a member and is regularly involved with events and initiatives.
European SRI Association (EUROSIF)	A pan-European network and think-tank whose mission is to develop sustainability through European financial markets.	WHEB is a signatory and has been awarded the EUROSIF Transparency logo.
FRC Stewardship Code	Aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.	WHEB is a Tier One signatory.

Carbon Disclosure Project (CDP)	*An international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information.*	*WHEB is a signatory and assists with research projects and speaks at events.*
Net Zero Carbon 10	*An initiative focusing on delivering absolute carbon reductions at the fund level.*	*WHEB is a founding signatory*
Chemical Footprint Project	*NGO-led initiative focused on eliminating hazardous chemicals from global supply chains*	*WHEB is a signatory*
CA100+	*Collaborative engagement initiative focused on major carbon emitters*	*WHEB is involved in collaborative engagement initiatives*
Access to Medicines Foundation	*Initiative aimed at encouraging the pharmaceutical industry to address key corporate responsibility issues in their industry*	*WHEB is a signatory*
Future Fit Business	*The Future Fit business benchmark is a strategic management tool for companies and investors to assess, measure and manage the impact of their activities*	*Seb Beloe is a member of the Development Council*
Impact Management Project	*A forum for organisations to build consensus on how to measure, compare and report impacts on environmental and social issues*	*WHEB is an active contributor*
The Big Exchange	*A pioneering new investment platform launched by Big Issue Invest*	*WHEB is a founding partner, and Seb Beloe is a member of the impact advisory board*
British Standards Institute (BSI)	*The UK's national standards body responsible for creating standards on sustainable finance among many other areas*	*WHEB has been represented on a variety of technical committees developing specifications for BSI*
Global Impact Investing Network (GIIN)	*A not-for-profit network dedicated to increasing the scale and effectiveness of impact investing around the world*	*WHEB is a member and part of the Working Group on Listed Equities*
Net Zero Asset Managers Initiative (NZAMI)	*An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner*	*WHEB is a founding signatory*

Case Study: Chemical Footprint Project, 1Q2020

Understanding of the interrelationships between hazardous chemicals, consumer products and human and environmental health is improving. However, the complex nature of these relationships makes measurement, and subsequent management, difficult. The Chemical Footprint Project offers a unified metric which is straightforward to implement as well as scientifically robust and comprehensive. This allows companies and investors to understand the quantity and mass of chemicals of high concern (CoHCs) used by a business. The organisation also provides a framework for evaluating chemical management systems against best practice.

Engagement Topic	*Use of toxic chemicals used in low and zero carbon technologies.*
Rationale & Objective	*WHEB continues to be an active participant in a number of initiatives aimed at phasing out toxic chemicals and replacing them with 'greener' alternatives. This is an issue that remains highly relevant to us. Many low and zero carbon technologies rely on a range of novel materials and chemical compounds. It is, in our view, critical that the companies involved in developing these innovations are integrating environmental and health considerations into every stage of the development process.*
Strategy	*During the first quarter of 2020, for example, WHEB co-signed a letter with the Chemical Footprint Project which was aimed at manufacturers of chemical products. The letter invited companies to participate in the fourth annual survey and rated their responses.*
Response	*We were pleased to see that two portfolio companies, CVS Health and Premier Inc., as large purchasers of chemicals products, had co-signed the letter alongside us. We were also pleased that two portfolio companies, Ecolab and Steris PLC, had been singled out by the Chemical Footprint Project as leaders in the 2019 survey[vii].*

WHEB's analysis and engagement outcome	**Successful:** *That several of WHEB's portfolio companies are already working with the Chemical Footprint Project or have been identified as leaders is very positive. We would be keen to see company responses made public however and will continue to engage with portfolio companies to encourage them to do this.* *WHEB has also been invited to review the assessment methodology being developed by the Swedish NGO ChemSec to assess chemical companies on their efforts to phase out substances of very high concern (SVHCs) and replace these with safer alternatives.*
[vii] *https://www.chemicalfootprint.org/*	

Seb Beloe, Partner and Head of Research represents WHEB in many of the above affiliations, also listed on our website under Industry Network's and Associations[30]. He is also a member of the Future-Fit Development Council, part of the Working Group on Listed Equities with the GIIN and a member of the impact advisory board for The Big Exchange. George Latham, managing partner actively contributes towards the B Corp Finance and Investment Working group.

We may also be invited to participate in collaborative engagement targeting investee companies by third parties (for example the CDP or the CA100+[2]) or other investors. We elect to be involved in such initiatives on a limited basis and only where the issues are of relevance to our investee companies. We aim to lead any engagement initiative that focuses on companies held in our portfolios.

Collaborative engagement

In 2020, we continued to engage proactively across much of our portfolio including setting specific and measurable targets[31] in areas such as carbon emissions and gender diversity. With a more concentrated portfolio and increased resource, we have also initiated collaborative work with other investors to accelerate progress at investee companies. This work covers a number of different holdings in our portfolio and includes collaborative engagements that we initiated and led as well as collaborating with broader coalitions of investors (e.g., CA 100+).

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[30] *https://www.whebgroup.com/about-us/industry-networks/*
[31] *These targets include 50% of portfolio companies having set a NZC target by 2025 and at least 25% of companies' board directors should be female. The latter has subsequently increased to 33%.*

Case Study: Engaging Dakin Industries Limited on NZC commitments, 2Q2020

Daikin's core business is in manufacturing energy-efficient air conditioning and refrigeration equipment including air conditioners, heat pumps, air purifiers and water boilers for both commercial and residential use. The company also produces chemical products including refrigerants used in air conditioning systems, as well as a small business selling hydraulic equipment for industrial machinery. Its chemical business supplies products used in the renewable energy, battery and healthcare sectors.

Rationale & Objective	*Increasing temperatures and greater wealth in many middle-income countries means that HVAC demand is outweighing the efficiency improvements of those units resulting from regulatory pressure. The result is that energy demand from space heating is expected to triple between 2018 and 2050.* *With more than a third of sales in Asia and Africa, Daikin is well-placed to ensure burgeoning demand in these regions is satisfied with high efficiency equipment. But still, the sheer volume of units is expected to increase loads on electricity grids. It is therefore critical that Daikin, and others in this sector, pursue aggressive efficiency improvements and support market-based incentives to adopt the most efficient technologies.*
Strategy	*With Daikin, we have been working with the CA100+ initiative to encourage the company to set out a commitment to achieve net zero carbon emissions by 2050.* *While we have engaged bilaterally with the company through conference calls with senior executives, we are keen to also leverage the influence of other larger shareholders in the company. Daikin has been identified by the CA100+ network as a candidate for engagement. The company limits direct engagement to two large institutional shareholders (CalSTRS and Mitsubishi UFJ Financial Group). Consequently, we have been liaising directly with CalSTRS to share our perspective on the company and to encourage a more ambitious engagement strategy on behalf of the CA100+ network.*
Company Response	*During 2Q2020, Daikin announced that it aims to achieve net zero carbon emissions by 2050.*

WHEB's analysis and engagement outcome	**Successful:** *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.*

[viii] *IEA (2018)*

Escalation strategies

Collaboration is also an explicit part of our escalation policy for engagement. We typically act to involve other like-minded investors in our engagement activity where we have not been successful in our bilateral engagement with a company. The Intertek case study under Principle 11 elaborates on collaborative engagement as an escalation strategy.

We seek to collaborate with other investors to effect change in investee companies where we consider it appropriate, consistent with our investment policies and having considered potential legal and regulatory consequences (including conflicts of interest and insider information). This will typically take the form of a joint letter initially, followed up with a meeting or conference call.

As shown in Table 2, the majority (97%) of WHEB's collaborative engagement efforts are through industry networks and initiatives that we contribute to. We believe that these networks are most effective for amplifying our voice due to the scales achieved when many organisations come together, and many align with our proactive approach. Collaborative engagement outside of industry initiatives (for example, with one or a small number of other investors) is often, but not always, part of an escalation strategy and therefore tends to be more reactive.

Table 2: Summary of collaborative engagement, 2020

Number of industry initiatives/networks we were involved with in 2020	*19*	*n/a*
Number of collaborative engagements via industry initiatives and networks in 2020	*26*	*93%*
Number of collaborative engagements outside of industry initiatives and networks in 2020	*2*	*7%*
Total of collaborative engagements in 2020	*28*	*100%*

Further information:

- *PRI Transparency Report (LEA05)* - **https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf**
- *WHEB 2020 Impact Report (pp 36-39)* - **https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf**
- *Engagement Case Studies* - **https://impact.whebgroup.com/engagement-case-studies/**
- *WHEB Network* - **https://www.whebgroup.com/about-us/industry-networks/**

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

As described under Principle 9, WHEB's engagement approach includes a combination of proactive and reactive engagement. Our escalation policy is applied consistently across the strategy and can be summarised in the following steps:

1. *Where WHEB votes against company management's recommendations on shareholder resolutions (or abstains from voting), it is our policy to write to company management after the vote to explain our rationale for the vote against. Voting decisions are based on WHEB's voting policy, and engagement dialogues may be initiated without the need for a vote against (or abstaining to vote) a resolution, as outlined under Principle 12.*
2. *Writing to company management often leads to further engagement in the form of letters, emails, calls or meetings (via video call or in person) to discuss the matter in more detail. Dialogues may be focused on seeking clarification or justifications for company actions or encouraging improved behaviour within the target company. Which of these options is selected will be based on the overall objective of the engagement, which is determined by the investment team*
3. *After careful analysis of the company's response to initial engagement efforts, a decision will be made as to whether escalation is warranted. This is based on our assessment of an engagement as being either:*
    - *Successful: when the company agrees to amend its approach*
    - *Partially successful: when the company acknowledges the issue, but does not commit itself to change*
    - *Unsuccessful: when the company either does not respond to us or refuses to amend its practices.*

    Escalation is deemed appropriate where engagement is unsuccessful or only partially successful.
4. *A decision to escalate bilateral engagement will result in collaboration with other institutional investors. We seek collaborations to effect change in investee companies where we consider it appropriate, consistent with our investment policies and having considered potential legal and regulatory consequences (including conflicts of interest and insider information). In these cases, we may work with other institutional investors to put our concerns to the company jointly. This will typically take the form of a joint letter initially, followed up with a meeting or conference call.*
5. *Ultimately if this approach is unsuccessful also, we may use our voting rights to effect change through, for example, filing or co-filing shareholder resolutions.*
6. *Should these efforts be unsuccessful, we may reduce or sell investments in the investee company concerned.*
7. *We may also be invited to participate in collaborative engagement by third parties (for example the CDP or the UN-PRI) or other investors. We elect to be involved in such initiatives on a limited basis and only where the issues are of relevance to our investee companies. We aim to lead any engagement initiative that focuses on companies held in our portfolios.*

Case Study: Engaging Intertek on NZC commitments, 2Q2020

Intertek provides testing, inspection and certification services, including to the consumer goods industry where it focuses on safety testing of consumer products such as toys and clothes. The company also tests the safety and regulatory conformity of food and beverages, healthcare products, electrical goods and commodities, and supplies broader services to businesses including on sustainability and climate change.

Rationale & Objective	*WHEB's strategy has been designed to focus on parts of the economy enabling and benefitting from the transition to a zero carbon, more sustainable economy. It was also entirely absent from areas of the economy which are most susceptible to this transition risk as the world moves towards zero carbon. Nonetheless, WHEB seeks to improve the way that we approach and integrate these issues into our investment process and fund, based on improving knowledge and tools.* *This, in combination with WHEB's own net zero carbon commitments[ix] has meant that portfolio company engagement on net zero carbon commitments was a significant area of thematic, proactive engagement for the team in 2020.* *The objective was to encourage Intertek, as one of many portfolio companies, to set a target of net-zero carbon emissions by 2030 ideally or by 2050 at the latest.*
Strategy	*We first wrote to Intertek to encourage the company to set a 2030 net-zero carbon emissions target in 2019.*
Company Response	*At that time, the company elected to reaffirm an existing target 'to strive for a reduction in greenhouse gas emissions per employee by 5% against a 2018 base year'.*

WHEB's analysis and engagement outcome	**Partially successful and then successful, following escalation:** *With a strong practice in carbon measurement and advisory, we felt that Intertek was well positioned to set a more ambitious emission reductions target for their own business. We responded to the company encouraging them to set a target that is aligned to the Paris Agreement and consistent with a business that has a leading approach to sustainability. We also led a collaborative initiative with another investor to jointly put this issue to the company.* *Intertek has since announced more progress. It has now committed to achieving a net-zero carbon target by 2050 and fully offset its carbon emissions in 2020. Furthermore, it will ensure that the 2050 target is science-based. We continue to engage the business to encourage it to publish detailed plans and set interim carbon-reduction targets.*

[ix] *Including a goal of net zero emissions from our investment portfolio by 2050 or sooner: https://www.whebgroup.com/media/2021/03/202102-NZC-Policy-Portfolio-emissions.pdf*

SECTION 4: EXERCISING RIGHTS AND RESPONSIBILITIES

Principle 12: Signatories actively exercise their rights and responsibilities.

WHEB's approach voting at company meetings

We view the voting rights that we have as equity holders as an opportunity to exercise a progressive influence on company governance and strategy. We exercise these rights at company meetings in accordance with WHEB's voting governance and policies. We typically use the services of specialist proxy voting agencies to advise on voting policy and facilitate voting shares listed on stock exchanges around the world.

While we consider the recommendations of advisory services in how we vote our shares, the investment team assesses each individual company vote against our own internal policies before agreeing on how to vote. We typically vote against or abstain on at least one vote at more than three-quarters of all company meetings. We endeavour to vote all shares and report quarterly on our voting and wider engagement activity through the WHEB website. These reports include commentary on our voting and engagement activity, as well as a more detailed appendix which sets out how every single vote is cast and includes explanations where the vote is against management or was otherwise considered controversial.

Our policy is not to undertake stock lending from any WHEB funds. Clients in segregated accounts may direct voting. As described under Principle 6, we have found that our voting policy covers clients' voting requirements and, in many cases, goes above and beyond their expectations.

WHEB's detailed proxy voting policies are set out below.

WHEB's Proxy voting policy

Our proxy voting policies are intended to promote long-term shareholder value creation and risk mitigation at portfolio firms through support for responsible global corporate governance practices. At their core, our approach is based on a set of four core principles that apply globally. These are detailed below.

1. **Accountability:**
   - *Boards should be accountable to shareholders, the owners of the companies, by holding regular board elections, by providing sufficient information for shareholders to be able to assess directors and board composition, and by providing shareholders with the ability to remove directors.*
   - *Directors should respond to investor input such as that expressed through vote results on management and shareholder proposals and other shareholder communications.*
   - *Shareholders should have meaningful rights on structural provisions, such as approval of or amendments to the corporate governing documents and a vote on takeover defenses. In addition, voting rights should be proportional to their economic interest in the company; each share should have one vote. In general, a simple majority vote should be required to change a company's governance provisions or to approve transactions.*
2. **Stewardship**
   - *A company's environmental, social, and governance (ESG) practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers and investors should recognize constructive engagement as both a right and responsibility.*

- *WHEB has adopted a strict interpretation of the ESG standards that we expect of companies, and this influences how we vote at company meetings. We have utilized a range of third-party sources to define specific thresholds in this area.*[32]

3. Independence

- *Boards should be sufficiently independent so as to ensure that they are able and motivated to effectively supervise management's performance and remuneration, for the benefit of all shareholders.*
- *Boards should include an effective independent leadership position and sufficiently independent committees that focus on key governance concerns such as audit, compensation, sustainability and the selection and evaluation of directors.*

4. Transparency

- *Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions, and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company.*

Because we vote globally, we base our voting decisions on the policies developed by our proxy voting agent in each of the geographies in which we vote. We scrutinize every vote recommendation and reach our own decisions on how to vote following consultation within the investment team. All our voting decisions are disclosed publicly through a quarterly report and detailed appendix.[33] *Currently, our proxy voting agent is ISS and further details on ISS's voting policies across the different regions in which we operate are available from their website.*[34]

The WHEB Lines

In addition to the principle-based policies highlighted above, we also provide analysts with detailed voting guidance and a template for capturing and recording their decisions. This guidance is detailed in the tables below.

Section	#	WHEB Line	Action
Governance	*1*	*Company has a combined chair and CEO.*	*Vote against Chair of Nominations Committee.*[35]
Governance	*2*	*Executive director of the company concurrently holds chair of another public company or is a director of more than one other public company.*	*Vote against that person's re-election.*
Governance	*3*	*Non-executive directors of the company are concurrently a director of more than three companies (chairmanship counts as two).*	*Vote against that person's re-election.*
Governance	*4*	*Not clear if existing directors or candidates for election to the board, are independent*	*Vote against individual or Chair of Nominations Committee.*

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[32] *For example, this includes the Association of Member Nominated Trustees' 'Red Lines Voting' policies (http://redlinevoting.org/).*
[33] *See http://www.whebam.com/index.php?option=com_content&view=article&id=243&Itemid=90*
[34] *See https://www.issgovernance.com/policy-gateway/2017-policy-information/*
[35] *If the Chair of the Nominations Committee is not on the ballot, vote against: 1) Chair of the Board, if not available then 2) another Nomination Committee member, if not available then, 3) any non-independent board member 4) any other appropriate vote.*

Governance	5	*Company does not have minimum number of independent directors (>50% threshold) (independence includes tenure of <11yrs of service)*	*Vote against the re-election of the Chair of the Nominations Committee.*
Governance	6	*Director has served continuously as such for more than two years without having been re-elected at a general meeting.*	*Vote against the re-election of the Chair of the Nominations Committee.*
Governance	7	*Tenure of the company's statutory auditor or auditors is >10yrs.*	*Vote against the re-election of the Chair of the Audit committee.*[36]
Governance	8	*Over the reporting period relevant to the latest accounts of a company, its auditors (including any of their associates), were due to be paid an amount in fees for non-audit services greater than 50% of that properly fixed as remuneration for audit work.*	*As above*
Governance	9	*Any Board committee does not consist of a majority of independent non-executive directors (independence includes tenure of <11yrs of service).*	*Vote against the re-election of the Chair of the Nomination Committee.*
Governance	10	*The company's tax rate looks low relative to its domicile and peers.*	*Talk to IR to understand the tax rate and manage regulatory and reputational risks associated with their tax policy. If unsatisfactory vote against Chairman of the Board*
Governance	11	*Authorisation is sought to disapply pre-emption rights beyond the next AGM, and/or pre-emption is sought over more than 5% of issued share capital (or more than 10% if for a specified acquisition or capital investment), or if a specific exclusion is sought over more than one-third of issued share capital.*	*Vote against authorisation*
Governance	12	*In general, we support remuneration policies that incentive appropriate pay-for-performance with a focus on long-term shareholder value. More specifically we follow our proxy advisor in voting against a remuneration report/policy if it:* *• Fails to incentivise performance over at least three years* *• Awards a 'sign-on' bonus without conditionality;* *• Layers bonus schemes on top of existing bonus schemes;*	*Where a remuneration proposal breaches any of these criteria, vote against the remuneration policy*

[36] If the Chair of the Audit Committee is not on the ballot, vote against: 1) Chair of the Board, if not available then 2) another Audit Committee member, if not available then, 3) any other appropriate vote.

		• *Provides uncapped bonuses;* • *Has no provision for claw back; or* • *Has no provision for withholding of benefits on cessation of employment*	
Governance	*13*	*Total remuneration package of any director is either:* *- >100 times median pay in the company; or* *- >5% of company's net income.* *We have no absolute pay threshold, but analysts can recommend voting against where the quantum is considered egregious.*	*Vote against the remuneration report or policy and Chairman of the Remuneration Committee.*[37]
Governance	*14*	*CEO's remuneration package does not include criteria for awards to be linked to relevant corporate social responsibility and/or environmental sustainability targets or does not include criteria linked to fundamental economic performance (e.g., revenue, margins etc.).*	*Vote against the remuneration report*

Section	#	WHEB Line	Action
Environment	1	Company does not have a board director with responsibility for 'sustainability' (or equivalent terminology) in this area as evidence of appropriate concern.	Vote against the chair of the board.
Environment	2	The company has failed to disclose quantitative and/or qualitative information (beyond 'boiler plate language') on material environmental issues (refer to SASB framework).	Vote against the re-election of the Board member with responsibility for 'sustainability' or in the absence of this role, vote against the re-election of the Chair of the main Board.
Environment	3	Company has a history of major incidents of environmental damage, or a major incident in the year under report, and the directors' report does not include a substantial account of how it is responding and how it proposes to minimise the risks of repetition.	Vote against the reappointment of the chair.
Environment	4	The company has not set a net-zero carbon target to be achieved by 2050 at the latest.	Vote against the re-election of the Board member with responsibility for 'sustainability' or in the absence of this role, vote against the re-election of the Chair of the main Board.

[37] *If the Chair of the Remuneration Committee is not on the ballot, vote against: 1) Chair of the Board, if not available then 2) another Remuneration Committee member, if not available then, 3) any other appropriate vote.*

Section	#	WHEB Line	Action
Social	1	Company has inadequate gender diversity on the Board (<33%). Combined targets (e.g., gender and minority ethnic) are not acceptable.	Vote against the Chair of the Nomination Committee.
Social	2	Company has inadequate diversity throughout the organisation and no strategy to address this.	Year 1: engage to encourage development of a strategy Year 2: If no progress vote against Chair of Nomination Committee
Social	3	Where there is clear evidence of a company failing to uphold freedom of association and the effective recognition of the right to collective bargaining.	Vote against the re-election of the Chair of the Board
Social	4	The company has failed to disclose quantitative and/or qualitative information (beyond 'boiler plate language') on material social issues (refer to SASB framework).	Vote against the re-election of the Board member with responsibility for 'sustainability' or in the absence of this role, vote against the re-election of the Chair of the main Board.
Social	5	The company has a history of major breakdowns of industrial partnership, or of serious endangerment of health and safety, or of fraud, bribery or other corrupt practices among its staff, or has sustained major damage from any of those causes in the year under report, and the directors' report does not include a substantial account of how it is responding to resulting criticism and of the ways in which it proposes to minimise the risks of repetition. Furthermore, the remuneration policy proposes any increase in salary or bonus for directors employed at the time of the incident.	Vote against the reappointment of the Chair of the Board and vote against the remuneration report.

N.B. For other issues our policy is to vote in-line with ISS guidance unless agreed otherwise with the investment team.

Activity and outcomes

In 2020, WHEB cast votes on 100% of the resolutions at 100% of the company meetings at which we were entitled to vote in that year. The key figures are summarised in Figure 13 below.

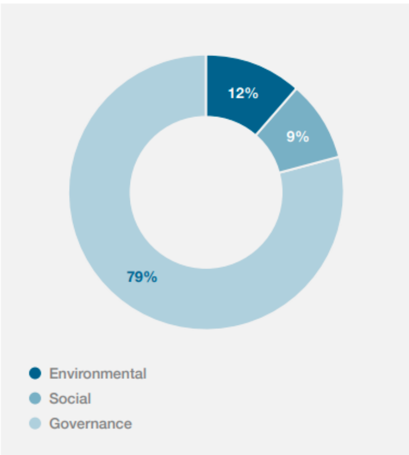
Figure 13: Voting activities in 2020

	Number	Proportion of total
Meetings voted at	54	100%
Meeting with at least one vote against management	45	83%
Votes against management	155	23%
Votes with management	447	67%
Do not vote	51	7.6%
Votes withheld	13	1.9%
Votes abstained	3	0.5%
Resolutions voted	669	100%

In addition, we report on the topic of the votes where we elected to vote against management. In 2020, of the 155 votes where we voted against management. 79% were on corporate governance issues including primarily on director independence. 12% were votes against management linked to environmental issues most notably a lack of Board accountability for sustainability issues with 9% of votes on social issues. The most frequent social issue was gender diversity (see Figure 14 below).

We find that the majority of resolutions on which we are eligible to vote are focused on governance issues, rather than environmental or social issues. We believe that this is largely because WHEB's focus is on companies that we have defined as 'providing solutions to sustainability challenges'. As a result, much of our voting activity and the 'WHEB Lines' is focussed on governance issues. As mentioned earlier, our escalation process of writing to company management provides an opportunity to widen the scope of engagement to cover environmental and social issues too.

Figure 14: Votes against management by topic (2020)



Most frequent topic by category

# of votes	Vote topic
15	Environmental / Board accountability for sustainability
08	Social / Gender diversity
56	Governance / Director independence

Case Study: Engaging the Cooper Companies Inc on Gender Diversity, 1Q2020

Cooper is a global medical devices company that operates in two segments. Cooper Vision manufactures soft contact lenses. Apart from the usual visual defect-correcting contact lenses, CVI has a small but rapidly growing product suite to improve myopia in children. Cooper Surgical provides medical devices and procedure solutions that improve healthcare delivery in women's healthcare including medical devices, diagnostic products, and surgical instruments and accessories used primarily by gynaecologists and obstetricians.

Rationale & Objective	*Gender diversity is an area of improvement for WHEB's strategy which is heavily weighted towards sectors traditionally considered as 'male'.* *WHEB has held Cooper Companies Inc. since 2012 and during this time the company has become a laggard in terms of gender-diversity. We believe that this indicates potential weaknesses in company management, which may erode shareholder value, and that poor gender-diversity is at odds with the purpose of the company's provision of solutions within women's healthcare.*
Strategy	*WHEB voted 'Against' a resolution 1.3 "Elect Director William A. Kozy" at the AGM held on the 18th of March 2020 We followed this action up by writing to the company management to explain that this vote against the Chair of the Nominations Committee was due to a lack of Board-level gender diversity at the company.*
Company Response	*This proposal was approved. Though we did not receive a response to our letter from Cooper, we were pleased to see that the company has since added Teresa S. Madden to the Board, bringing female representation to 1/3 of the Board of Directors.*

WHEB's analysis and engagement outcome	*Despite the proposal being approved and the lack of initial response form Cooper on this topic, we were obviously pleased to see a greater representation of gender-related diversity at the board level at Cooper. We were also pleased that the Company has also signed the CEO Action for Diversity & Inclusion Pledge in February 2020.* *We cannot show that our vote directly contributed towards Cooper's decision to improve board-level gender diversity. However, it is our belief that the increasing profile of ESG issues across the whole market has persuaded management teams to be more responsive to these issues. WHEB is therefore, an active participant in many industry networks and associations aimed at raising the significance of ESG and sustainability issues within the wider financial industry. Moreover, we believe that it is our responsibility to exercise our voting rights as active stewards of clients' investments and that this also helps contribute to increasing the 'noise' around sustainability that is heard by company management*

Further information:

- *Quarterly client reports - https://www.whebgroup.com/investment-strategy/fp-wheb-sustainability-fund/quarterly-reports/*
- *Detailed quarterly voting appendix - https://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/*

January – December 2020

WHEB Asset Management Stewardship Report