

Nonetheless, we were pleased to have avoided the other companies as a consequence of concerns that we had had about poor management of business ethics and governance practices.

All of our conversations have been with senior managers (CFO, CEO and Chairman) and have focused on understanding the degree to which business ethics risks are acknowledged, policies and systems for managing these issues are in place and management prioritises business ethics issues and sets an appropriate 'tone from the top'. While there has been significant variability in the quality and extent of policies and systems (e.g. whistleblowing hotline, reporting and follow-up of issues, training etc.) the biggest insight from the research was in understanding the levels of appetite and engagement of senior leaders in these issues.

These types of conversations are inevitably highly qualitative, but it is our impression that by asking questions that are atypical of the normal investor dialogue, we get a clearer insight into the style and approach of the management team. Combined with more traditional tools of stock analysis, we believe that this research can help us make better investment decisions. Partly as a consequence of this research, we chose to sell our position in one of our portfolio holdings (Faiveley) and caused us to revise our view of two others. Further details are provided below.

Investor risks from toxic chemicals

The chemical industry is not naturally seen as being a source of solutions to environmental problems, but increasingly, chemical companies are developing new innovative materials and compounds that underpin the shift to a lower carbon economy. For example, we currently invest in Umicore, a Belgian company that provides a range of products and services that support our investment themes including recycling of a variety of electronic and electrical equipment (including batteries from electric vehicles) and the production of catalysts that are used to reduce harmful emissions from cars and other motor vehicles.



However, many chemical companies do also still produce a range of substances that are problematic from an environmental or human health impact. The most toxic of these chemicals are subject to restrictions or even outright bans in an increasing number of markets around the world. In Europe in particular the REACH regulation has introduced a timetable for banning several toxic compounds, but similar regulatory instruments are also being developed in the US, China and Japan. We have been working with the Swedish environmental group ChemSec (www.chemsec.org) to raise awareness of the risks of phase-out of these chemicals among the investor community with a view to engaging with companies to understand their efforts to reduce exposure to these regulatory risks and to substitute problematic chemicals with lower impact alternatives.

In March 2013, ChemSec published a report as an aid for investors, detailing which companies are involved in manufacturing the most controversial chemicals. Umicore featured in this list as did a range of other chemical companies that are otherwise involved in manufacturing products that have significant environmental benefits (for example, solar technologies and energy efficient lighting). We are hosting an investor event for approximately 15 investment firms in mid-April to discuss the results of this research with ChemSec and to develop a programme for engaging the chemical companies involved.

Engaging end investors: Corporate pensions and Ownership Day

Over the last quarter we have been involved in two initiatives aimed at encouraging end investors to more actively consider sustainability issues in their investment approach. In February we hosted a breakfast seminar

to which we invited sustainability directors alongside heads of corporate pension funds from eight leading corporations. The focus of the meeting was to explore whether companies that already recognise the strategic importance of sustainability should also encourage their corporate pension fund to consider sustainability issues in their investments. The meeting helped to establish the theoretical validity of this argument and set the agenda for future meeting aimed at building capacity for corporate pension funds to integrate sustainability into their investment approach.



The second initiative was our involvement in 'Ownership Day' a nationwide event coordinated by UK Sustainable Investment and Finance (UKSIF). The day was conceived as a way to raise awareness among investors of all types, but particularly within the public at large, of the benefits of active ownership strategies in investment management. Active ownership, for example voting of shares or engaging with companies on issues such as executive remuneration, has become an important part of sound financial management, and is something that we have at the heart of our investment approach at WHEB. We were involved in providing case studies and examples of how engagement can deliver financial returns by lowering risks in a portfolio and we look forward to it becoming an annual event.

Other Policy and Industry Engagement

- **Forest Footprint Disclosure Project:** WHEB Group is already a signatory of the Carbon Disclosure Project (CDP) and we have now also signed up to support the Forest Footprint Disclosure Project (FFDP). The two investor initiatives encourage companies to report on how they manage the operational, reputational and regulatory risks and opportunities they face from climate change and from deforestation respectively. The CDP now receives responses from over 4100 of the world's largest companies.
- **Sustainable stock-exchanges:** WHEB Asset Management has also signed up to support a separate investor initiative to encourage the world's major stock exchanges to develop tools and frameworks to encourage companies that are listed or plan to list on the exchange to address critical sustainability issues including in developing sustainability disclosure guidance for listed companies.

Voting record: Q1 2013

While voting activity has picked up since the previous quarter, there is strong seasonality in the timing of company Annual General Meetings and the first quarter in a new year is also relatively quiet with most activity concentrated in the second quarter of the year (April-June). The table below summarises the voting record for the IM WHEB Sustainability Fund from 1 January – 31 March 2013. Full details of how we voted on each of the individual votes are detailed in Appendix 1 including with rationales for votes against management, abstentions and where we have supported shareholder resolutions.

Meetings	
Number of votable meetings	11
Number of meetings at which votes were cast	11 (100%)
Number of meetings at which we voted against management or abstained	4 (36%)
Resolutions	
Number of votes cast with management	103 (94%)
Number of resolutions where votes were cast against management or abstained – see list in appendix	7 (6%)
Number of resolutions where votes were withheld	0 (0%)

Engagement activity Q1 2013

In addition to voting our shareholdings at annual general and other shareholder meetings, we also actively engage with company management over a range of environmental, social and governance issues which we consider to be material in the context of the company's activities. In addition, we also engage with a range of other stakeholders including governments, regulators, non-governmental organisations, academia and trade unions on critical ESG issues of relevance to our investments. The key areas of engagement over the past quarter are listed below.

Company	Topic	Comment	Outcome	Date
Covanta	Business ethics	Wrote to CEO with results from business ethics screen asking for call to discuss our findings.	We were impressed by company's understanding approach to managing business ethics including strong policies, prioritisation of risk and training.	03/01/13
Suez Environment	Business ethics	Wrote to CEO with results from business ethics screen asking for call to discuss our findings.	Call to be scheduled in April 2013.	10/01/13
Faiveley	Business ethics	Wrote to CEO with results from business ethics screen asking for call to discuss our findings.	From our analysis we concluded that the company's systems for managing business ethics and corporate governance need improvement. We sold out of the company in January 2013.	15/01/13
Johnson Controls	Governance	Wrote to Chairman explaining reasons for voting against management on AGM ballots (see below).	No response has yet been received from the company.	18/01/13
Orpea	Business ethics	Wrote to CEO with results from business ethics screen asking for call to discuss our findings.	Spoke to Chairman who in our view remains overly dominant. Highly centralised structure ensures strong internal controls. We plan to continue to engage and encourage moves to mitigate Chairman's control.	29/01/13
Nuance Comms.	Governance	Wrote to Chairman explaining reasons for voting against management on AGM ballots (see below).	No response has yet been received from the company.	05/02/13
Emerson Electric	Governance	Wrote to Chairman explaining reasons for voting against management on AGM ballots (see below).	No response has yet been received from the company.	05/02/13
Pall Corporation	Governance	Wrote to Chairman explaining reasons for voting against management on AGM ballots.	Explained our rationale for voting against CEO remuneration which we considered excessive. Company argued that level was high in 2012 in order to attract the new CEO but they agreed that in future it should be	07/02/13

			in line with peers.	
Novo Nordisk	Sustainability	We were invited to participate in the company's sustainability strategy development.	Encouraged company to explore the development of a business in diabetes prevention alongside their existing business in treatment and to utilise their experience building a business in China in other emerging markets.	22/02/13
HMS Holdings	Business ethics	Wrote to CEO with results from business ethics screen asking for call to discuss our findings.	We were impressed by company's recognition of ethics risks and approach to managing these risks.	05/03/13
Intertek	Sustainability	On-going engagement with CEO focused on need to improve internal controls & risk management in company's decentralised structure.	Company has included much improved disclosure of sustainability issues in its 2012 annual report, which was published on 20th March 2013.	05/03/13
Arcadis	Business ethics	Meeting with CFO to discuss general state of business and implications of fraud in its sector.	CFO described how the company is less vulnerable to fraud risk than peers and explained set of new systems and enhanced internal capacity to monitor and audit businesses to ensure compliance.	20/03/13

Appendix 1: Detailed voting record Q1 2013

Company	Meeting date	Ballot #	Resolution	Vote	Rationale (where vote considered controversial)
Acuity Brands Inc.	04/01/13	1.1	Elect Director Dominic J. Pileggi	For	
		1.2	Elect Director George C. Guynn	For	
		1.3	Elect Director Vernon J. Nagel	For	
		1.4	Elect Director Julia B. North	For	
		2	Ratify Auditors	For	
		3	Advisory Vote to Ratify Named Executive Officers' Compensation	For	
		4	Approve Omnibus Stock Plan	For	
		5	Approve Executive Incentive Bonus Plan	For	
Johnson Controls, Inc.	23/01/13	1.1	Elect Director David P. Abney	For	
		1.2	Elect Director Julie L. Bushman	For	
		1.3	Elect Director Eugenio Clariond Reyes-Retana	For	
		1.4	Elect Director Jeffrey A. Joerres	For	
		2	Ratify Auditors	For	
		3	Declassify the Board of Directors	For	
		4	Approve Omnibus Stock Plan	For	
		5	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	Company introduced long-term incentives into compensation, but we still consider overall remuneration to be excessive.
6	Require Independent Board Chairman	Against	Company already has an independent, lead non-executive Director who fulfils the role of an independent chairman.		
Nuance Communications, Inc.	25/01/13	1a	Elect Director Paul A. Ricci	For	
		1b	Elect Director Robert G. Teresi	For	
		1c	Elect Director Robert J. Frankenberg	For	

		1d	Elect Director Katharine A. Martin	For	
		1e	Elect Director Patrick T. Hackett	For	
		1f	Elect Director William H. Janeway	For	
		1g	Elect Director Mark B. Myers	For	
		1h	Elect Director Philip J. Quigley	For	
		1i	Elect Director Mark R. Laret	For	
		2	Amend Omnibus Stock Plan	For	
		3	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	We consider the overall level of remuneration to be excessive.
Emerson Electric Co.	05-Feb-13	1.1	Elect Director C. A. H. Boersig	For	
		1.2	Elect Director J. B. Bolten	For	
		1.3	Elect Director M. S. Levatich	For	
		1.4	Elect Director R. L. Stephenson	For	
		1.5	Elect Director A.A. Busch, III	For	
		2	Advisory Vote to Ratify Named Executive Officers' Compensation	For	
		3	Ratify Auditors	Abstain	KPMG has been the auditor for 69 years. We believe good practice requires the audit contract to be re-tendered every 5-10 years.
		4	Declassify the Board of Directors	For	We believe that all directors should be accountable to shareholders on an annual basis.
		5	Report on Sustainability	For	We believe that the company would benefit from producing a sustainability report.
Tetra Tech, Inc.	26-Feb-13	1.1	Elect Director Dan L. Batrack	For	
		1.2	Elect Director Hugh M. Grant	For	
		1.3	Elect Director Patrick C. Haden	For	
		1.4	Elect Director J. Christopher Lewis	For	
		1.5	Elect Director Albert E. Smith	For	

		1.6	Elect Director J. Kenneth Thompson	For	
		1.7	Elect Director Richard H. Truly	For	
		2	Advisory Vote to Ratify Named Executive Officers' Compensation	For	
Agilent Technologies, Inc.	20-Mar-13	1.1	Elect Director Paul N. Clark	For	
		1.2	Elect Director James G. Cullen	For	
		1.3	Elect Director Tadataka Yamada	For	
		2	Ratify Auditors	For	
		3	Advisory Vote to Ratify Named Executive Officers' Compensation	For	
		4	Declassify the Board of Directors	Against	We believe that all directors should be accountable to shareholders on an annual basis.
Covidien plc	20-Mar-13	1a	Elect Director Jose E. Almeida	For	
		1b	Elect Director Joy A. Amundson	For	
		1c	Elect Director Craig Arnold	For	
		1d	Elect Director Robert H. Brust	For	
		1e	Elect Director John M. Connors, Jr.	For	
		1f	Elect Director Christopher J. Coughlin	For	
		1g	Elect Director Randall J. Hogan, III	For	
		1h	Elect Director Martin D. Madaus	For	
		1i	Elect Director Dennis H. Reilley	For	
		1j	Elect Director Joseph A. Zaccagnino	For	
		2	Approve Auditors and Authorize Board to Fix Their Remuneration	For	
		3	Advisory Vote to Ratify Named Executive Officers' Compensation	For	
		4	Amend Omnibus Stock Plan	For	
		5	Authorize Open-Market Purchases of Ordinary	For	

			Shares		
		6	Authorize the Price Range at which the Company can Reissue Shares held as Treasury Shares	For	
		7	Amend Articles of Association to expand the authority to execute instruments of transfer	For	
Novo Nordisk A/S	20-Mar-13	1	Receive Report of Board		
		2	Approve Financial Statements and Statutory Reports	For	
		3.1	Approve Remuneration of Directors for 2012 in the Aggregate Amount of DKK 9.4 Million	For	
		3.2	Approve Remuneration of Directors for 2013 in the Amount of DKK 1.5 Million for Chairman, DKK 1 Million for Vice Chairman, and Base Amount of DKK 500,000 for Other Members; Approve Remuneration for Committee Work	For	
		4	Approve Allocation of Income and Dividends of DKK 18 per Share	For	
		5.1	Elect Goran Ando (Chairman) as Director	For	
		5.2	Elect Jeppe Christiansen (Vice Chairman) as New Director	For	
		5.3a	Elect Bruno Angelici as Director	For	
		5.3b	Elect Henrik Gürtler as Director	For	
		5.3c	Elect Liz Hewitt as Director	For	
		5.3d	Elect Thomas Koestler as Director	For	
		5.3e	Elect Hannu Ryöppönen as Director	For	
		6	Ratify PricewaterhouseCoopers as Auditors	For	
		7.1	Approve DKK 10 Million Reduction in Class B Share Capital via Share Cancellation	For	
		7.2	Approve Creation of up to DKK 78 Million Pool of	For	

			Capital with or without Preemptive Rights		
		7.3	Authorize Repurchase up to 10% of Share Capital	For	
The Cooper Companies, Inc.	21-Mar-13	1.1	Elect Director A. Thomas Bender	For	
		1.2	Elect Director Michael H. Kalkstein	For	
		1.3	Elect Director Jody S. Lindell	For	
		1.4	Elect Director Gary S. Petersmeyer	For	
		1.5	Elect Director Donald Press	For	
		1.6	Elect Director Steven Rosenberg	For	
		1.7	Elect Director Allan E. Rubenstein	For	
		1.8	Elect Director Robert S. Weiss	For	
		1.9	Elect Director Stanley Zinberg	For	
		2	Ratify Auditors	For	
Horiba Ltd.	23-Mar-13	1.1	Elect Director Horiba, Atsushi	For	
		1.2	Elect Director Ishida, Kozo	For	
		1.3	Elect Director Sato, Fumitoshi	For	
		1.4	Elect Director Saito, Juichi	For	
		1.5	Elect Director Sugita, Masahiro	For	
		2	Approve Adjustment to Aggregate Compensation Ceiling for Directors	For	
Shimano Inc.	28-Mar-13	1	Approve Allocation of Income, with a Final Dividend of JPY 37.5	For	
		2.1	Elect Director Kakutani, Keiji	For	
		2.2	Elect Director Wada, Shinji	For	
		2.3	Elect Director Yuasa, Satoshi	For	
		2.4	Elect Director Chia Chin Seng	For	
		2.5	Elect Director Ichijo, Kazuo	For	