

## Governance & Engagement Report: Q2 2013

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### Introduction

In contrast to the last quarter, the second quarter of the year brings with it an intense period of voting as the vast majority of companies hold their annual general meetings (AGMs) during this period. In total we voted at 52 company meetings during the quarter and we discuss the principle issues and trends below.

Other notable developments during the quarter included our ongoing work on hazardous chemicals as well as efforts to ensure our commitments to transparency and stewardship remained industry leading. This included achieving the EUROSIF Transparency Code and submitting an updated version of our statement of compliance for the UK Stewardship Code.



### AGM voting – A more assertive approach to pay and independent audit

April to June is typically the busiest voting period for investors and we had two thirds of the companies in the portfolio hosting their AGMs during this period. In total there were approximately 600 individual votes during the period from 52 companies. We voted 94% of the votes available to us. There were two companies where we did not vote. These two, Ameresco and IPC The Hospitalist, were companies that we sold during the period and on which we therefore chose not to vote. A third, NIBE Industrier, is a Swedish company that makes heat-pumps. The Swedish market requires a person to be physically present at the AGM with the Power of Attorney to vote on our behalf. We have not had this arrangement in place in 2013 and so our votes were not accepted. The remaining 586 votes were all successfully received.



During the quarter, we implemented more assertive policies on areas of corporate governance including remuneration and audit.

**Remuneration** remains a hot topic with, in our view, excessive pay for many senior executives. Our approach was set out in our Q4 2012 Voting and Engagement report which focuses on:

- the quality of disclosures and the existence of an independent and effective compensation committee;
- compensation that is aligned with long-term shareholder value;
- 'claw-back' provisions where long-term performance is poor.

We've supplemented these general parameters, to include an explicit focus to the absolute amount of any individual compensation package. In assessing the level of compensation we consider a range of parameters including: comparisons with peers as well as the proportion of the company's net income and enterprise value that is represented by the compensation package.

Ultimately, it is our view that remuneration has to be assessed on a case-by-case basis with recognition of the company's performance, the CEO's tenure at the business, and the CEO:median pay. However, we also believe there is a limit to the absolute amount that CEOs and other senior executives should be paid and we are inclined to vote against or abstain on any annual remuneration package in excess of US\$10m.

The key issue in the **audit** is the level of independence. Our approach is to consider levels of non-audit fees as a proportion of audit fees and the frequency of retendering of audit contracts. In practice information on retendering is rarely available and so we consider the length of incumbency of the auditor alongside the proportion of total fees spent on non-audit activity. Where these are both high (e.g. >15yrs with the same auditor and >50% of audit fee spent on non-audit activities) then we will vote against the auditor's report.

We have been leading an investor initiative to engage with chemical companies that are being impacted by the progressive phase-out and substitution of hazardous chemicals.

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## Reducing exposure to hazardous chemicals

Chemicals have once more been in the limelight in recent months, not least because of a decision by the European Commission to impose a temporary ban on certain applications of ‘neonicotinoid’ pesticides.

The IM WHEB Sustainability fund does not invest in pesticide manufacturers, but does invest in other chemical companies such as Ecolab and Umicore. We have been leading an investor initiative to engage with chemical companies that are being impacted by the progressive phase-out and substitution of hazardous chemicals.

During the quarter, we hosted a seminar at which the environmental organisation **ChemSec** presented their research on hazardous chemicals to 14 major institutional investors. This was then followed by two teleconferences with chemical sector analysts from research and sell-side institutions. The purpose of the events was to build the capacity of institutional investors in the UK (with a set of parallel events happening in France) to engage with chemical companies on the need to phase-out the most hazardous chemicals on the market and replace these with less toxic alternatives.

The next stage of the initiative will be to organise groups of investors to write to individual chemical companies in order to review the levels of exposure that these companies face and their strategies for managing risks and maximising opportunities, from the phase-out of toxic chemicals in Europe and elsewhere.



## Transparency and Stewardship

One of the positive outcomes associated with the financial crisis of the past few years has been a recognition amongst policy-makers, financial regulators and some institutional investors that investors have not been sufficiently engaged with the companies that they hold in their portfolios. In order to remedy this, UK fund managers are asked to comply with the **Financial Reporting Council’s Stewardship Code** (or explain why they don’t). The Code has been in existence since 2010 and WHEB has published our approach to the implementation of the code since this time. We launched an updated version of the Code in June which explains how and why we engage with companies and how we vote at company meetings. The updated version is available from our website at <http://www.whebam.com/about-us>

While a significant number of asset managers have now signed up to implement the Stewardship Code, it is not clear how well the principles are being integrated into fund management activity. We have been involved in supporting the UK’s **National Association of Pension Funds** efforts to develop a **Stewardship Disclosure Framework** which is intended to help pension funds and other asset owners differentiate between the different approaches taken by asset managers to their stewardship responsibilities.

We are also pleased to announce that during the quarter our submission for the European Sustainable Investment Forum (EUROSIF) **SRI Transparency Code** has been accepted. The Code is intended to increase accountability and clarity for investors investing in SRI funds and requires signatories to complete a detailed submission specifying the fund’s approach to investment, engagement and wider transparency. WHEB is one of only three UK-based asset managers to have achieved the Code.



## Voting record: Q2 2013

The table below summarises the voting record for the IM WHEB Sustainability Fund from 1 April – 30 June 2013. Full details of how we voted on each of the individual votes are detailed in Appendix 1 (available at <http://www.whebam.com/responsible-investing>) including with rationales for votes against management and abstentions and where we supported shareholder resolutions.

Meetings	
# votable meetings	52
# meetings at which votes were cast	49 (94%)
# meetings at which we voted against mgmt. or abstained	24 (46%)

We 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.

## Resolutions

# votes cast with management	531 (91%)
# resolutions where votes cast were against mgmt. or abstained (see list in appendix)	52 (8%)
# resolutions where votes were withheld	3 (1%)

## Engagement activity Q1 2013

WHEB has a commitment to write to all companies where we vote against management at company meetings. Our Q2 engagement is therefore focused primarily on governance issues resulting from these votes. We've listed the companies below where we have written to senior leaders to explain why we voted as we did, and have also indicated where we have got a response from the company. This quarter we have heard back from nearly two-thirds of the companies that we have written to. The degree to which companies take our views into account varies significantly. The table below summarises these outcomes.

Company	Topic	Comment	Outcome	Date
Stantec	Governance – Board Structure	Wrote explaining vote against two directors	Company responded stating that Board attendance will improve & that one director has resigned his committee role	04/06
Suez Environnement	Business ethics	Requested call to discuss results of business ethics screen.	Call showed evidence of strong business ethics policy, governance & implementation though still poor transparency	23/04
ComfortDelGro	Governance – Director appointment	Wrote explaining vote against appointment of a board director	Company responded by amending policy on Director appointments	15/05
Arcadis	Governance – Share issuance	Wrote explaining vote against preference share policy	Company provided good rationale focused on long term stakeholder value	21/05
Nibe Industrier	Governance – Board Structure	Wrote explaining vote against Board directors	Company responded, saying ours was the first letter they had ever received from an international investor & will review committee structure	28/05
Geberit	Governance – Remuneration	Wrote explaining reasons for voting against remuneration	Company responded defending long-term component of exec. incentive	15/05
Agilent	Governance – Board structure	Wrote explaining vote in favour of board declassification	Company responded defending value of classified boards in takeover situations	15/05
Stericycle	Environment	Wrote asking about the environmental impact of packaging	Company explained that there is no direct impact on their business	20/05
Pentair	Governance	Wrote explaining vote against remuneration	Met IR who claimed that executive incentive has long-term component	15/05

Company	Topic	Comment	Outcome	Date
Tianneng	Governance / Environment	Wrote explaining vote against board director & about environmental controversy	Company response disputed environmental issues (lead poisoning) & stated that 2014 disclosure will be improved	04/06
Sound Global	Governance – Director appointment	Wrote explaining reasons for voting against appointment of 2 board directors	Company responded to say that the letter has been presented to the Chairman	15/05
ABB	Governance - Remuneration	Wrote explaining abstention on remuneration	Response thanking us for our input	15/05
Umicore	Environment	Wrote inviting the company to present on chemical hazards	Company declined. We plan to engage again directly (see above)	17/05
Ecolab Inc.	Governance - Remuneration	Wrote explaining vote supporting shareholder resolution for long-term incentive	No response received	28/05
Schneider Electric	Governance – Board structure	Wrote explaining vote against combining CO/Chairman roles	No response received	15/05
Kansas City Southern	Governance – Board structure	Wrote explaining vote in favour of board declassification	No response received	28/05
Danaher	Governance / Disclosure	Wrote explaining abstention on director appointment and votes against on disclosure & remuneration	No response received	04/06
Intuitive Surgical	Governance-Remuneration	Wrote explaining vote against executive share option plan	No response received	12/05
Hera	Governance - Director appointment	Wrote explaining vote against appointment of a board director	No response received	15/05
Praxair	Governance – Remuneration	Wrote explaining vote against remuneration	No response received	15/05