

## Governance & Engagement Report: Q3 2013

Government policy can represent a 'two-edged' sword for investors.

We have encouraged government to adopt a 2030 carbon target and implement legislation on human trafficking.

Engaging with chemical companies on hazardous chemicals remains a priority.

### Introduction

Regulation and government policy are very much a double-edged sword for investors. On the one hand, the fickle nature of politics can mean that companies that are exposed to government policy can be very volatile as policy-makers swing between one approach and another. The experience of the renewable energy sector is a classic case in point. On the other hand, stable government policy is very important in helping to direct markets and improve standards in key areas of social and environmental performance.

Over the last three months we've switched focus from the voting at Annual General Meetings that dominates the second quarter, to engaging with companies and stepping up our engagement with policy-makers, particularly in the UK, to encourage a robust approach to regulation on critical social and environmental issues.



### Policy engagement: Decarbonisation target, human rights in supply-chains

The electricity generation market in the UK is going through a period of profound change as the government seeks to develop new market structures to deal with the challenges of energy security, climate change and affordability. We believe it is critical that the framework that the government develops includes a clear, meaningful decarbonisation target for the year 2030 that will give investors and businesses the confidence that the UK is committed to developing a low carbon energy market that can meet this target. We wrote to the Chancellor George Osborne alongside a group of other investors to encourage him to include such a target in the Energy Bill that is currently going through Parliament.



We've also been working alongside other investors and the charity Unseen UK to support Government's plans to introduce a Modern Slavery Bill on human trafficking. We've written to Ministers in the Department for Business, Innovation and Skills as well as the Deputy Prime Minister encouraging them to include a provision in the Bill requiring large listed companies to report actions they are taking to ensure that their supply-chains are free of modern slavery. Similar legislation has been successfully trialled in California that has helped put pressure on human traffickers and we believe UK businesses would benefit from similar legislation.

### Reducing exposure to hazardous chemicals: Update

A major initiative for WHEB over the past six months has been an initiative that we have taken to bring together a group of investors to engage with chemical companies about the levels of hazardous chemicals that are still being put on to the market. We have been working closely with the non-governmental organisation The Chemical Secretariat ([www.chemsec.org](http://www.chemsec.org)) to help inform our approach and with other investors representing over £100bn of assets under management, wrote to and have now met with both Johnson Matthey and Umicore.

Both of these companies are businesses that are providing technologies to reduce automotive emissions and recycle waste materials and fit within our Sustainable Transport theme. However, they also both have businesses that produce a range of substances of very high concern (SVHCs) that are subject to registration and authorisation under the EU's REACH programme. Our engagement was principally aimed at finding out how the companies think about the risks and opportunities of being involved in these materials.

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*We believe that 15% of our company engagement has led to specific, tangible outcomes and that we judge to have been successful.*

*Where a sponsor corporation understands the importance of sustainability, it should also matter to how the corporate pension fund invests.*

We have met and corresponded with both companies and have learnt a great deal about the levels of exposure and the sophistication of the companies in integrating stakeholder concerns about hazardous chemicals into new product development. We also heard impressive examples of areas where new innovations have been introduced replacing incumbent materials with new lower toxicity products.

We have however written to the companies to encourage them to give the issue a higher management priority and to provide us with clearer information on how the businesses determine which products are most vulnerable to phase-out and what the company should do about it.

We are also keen to expand the initiative to address a wider group of companies within the chemical sector and hope to make progress on this during the next quarter.



**umicore**  
materials for a better life

## **What impact does company engagement have?**

We often get asked by investors whether our company engagement actually leads to anything. We certainly have anecdotal evidence that well-argued, persistent and respectful engagement can lead to real change at companies. We know of many companies that have changed their governance structures, have appointed sustainability officers or have improved their management and reporting of social and environmental issues at least in part as a result of our engagement. But it often takes months if not years, and is not guaranteed.

Measuring the level of success that we have is not straightforward, but of the direct engagement that we have undertaken in the last six months, we believe that 15% of our company engagement has led to specific tangible outcomes that we judge to have been successful. This includes changes in governance structures (ComfortDelGro, Pennon and Stantec), commitments to improved disclosure (Intertek, Johnson Matthey, Tianneng) and commitments to further review and consultation (Nibe, Pentair). A further 44% have been partially successful in that we have had some response from the company, but have not yet achieved any specific changes and a further 41% have been unsuccessful; mainly involving companies that have not responded to us.

Our experience is that the likelihood of a successful engagement is often framed by cultural issues in the company we are engaging with. For example it is typically more difficult to engage successfully with large US and Japanese companies which tend to be less transparent about non-financial aspects of their business and less open to shareholder engagement. In some cases, such as at Emerson Electric, after many years of trying to engage, we have resorted to co-filing a shareholder resolution to get them to publish a sustainability report.

We have also found that our relatively small size is no barrier to effective engagement. It is clear that the very largest investors, such as those that hold more than 5% of a company, do get very good access to company management. But in our experience, so long as the engagement is cogent and respectful, company management is very likely to listen to any changes that we might suggest. We believe that our impact is often disproportionate in fact because on several occasions we have been told that we are often the only investor to make our views known to the company.

## **Catalysing change in the financial industry**

Trying to get the financial services industry to take sustainability issues more seriously is a part of what WHEB is seeking to achieve. In the past quarter we have been involved in lobbying industry awards schemes such as the Thomson/Extel awards to expand the range of awards that they give to sustainable and responsible investing. We hope that this will provide an additional incentive and profile for leading brokers and asset managers who consider sustainability issues in their investing.

We have also been working with a group of pension schemes from nine FTSE100 companies, arguing that where the corporation now understands the importance of sustainability to their core business, it should also matter to how the pension fund invests. We have now had two meetings of this group, which combines corporate sustainability professionals with the heads of the corresponding corporate pension fund with a commitment to meet again to discuss practical steps that corporate pension funds can take to begin to integrate sustainable and responsible investment principles into their activities.



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.

## Voting record: Q3 2013

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 July – 30 September 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	6
# meetings at which votes were cast	6 (100%)
# meetings at which we voted against mgmt. or abstained	1 (17%)

Resolutions	
# votes cast with management	76 (97%)
# resolutions where votes cast were against mgmt. or abstained (see list in appendix)	2 (3%)
# resolutions where votes were withheld	0 (0%)

## Engagement activity Q3 2013

While there was a small amount of voting during the quarter, our principle focus has been on our chemical sector initiative which we've described above, alongside a number of policy-related initiatives in which we have participated. Alongside these initiatives we have also done a wide variety of other company engagement, often in response to specific issues that have cropped up in portfolio companies ranging from business ethics standards in China (Mettler-Toledo) to marketing ethics associated with the promotion of drugs that are being used to treat obesity. We provide summary comments on these engagements in the table below.

Company	Topic	Comment	Outcome	Date
Orpea	Governance – Equity issuance & severance payments	Wrote explaining our reasons for voting against at the AGM	Co. responded defending their decision on severance payments and clarifying their position on equity issuance	18/07
Thermo-Fisher	Governance - Remuneration	Wrote outlining why we voted against the executive remuneration package	Co. responded arguing that the package is competitive with a significant focus on long-term performance	29/07
Pennon	Governance – auditor independence	Wrote asking company to explain approach to auditor appointment	Co. will run a tender process for the audit in 2013 with appointment at 2014 AGM	12/08
Pentair	Governance - Remuneration	Spoke about remuneration package following Tyco deal	Co. recognised flaws in package (though not the scale) & will further consult us on changes	05/09
Umicore	Management of hazardous chemicals	Wrote as part of chemicals engagement (see above)	Good response outlining approach and extent of commercial vulnerability	8/09
Mettler-Toledo	Business ethics	Spoke about their approach to business ethics in China	Led by compliance committee co. has rigorous & systematic approach to biz ethics with comprehensive training & audit	13/09

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Johnson Matthey	Management of hazardous chemicals	Met company as part of chemicals engagement (see above)	Good response outlining approach and extent of commercial vulnerability	17/09
Novo Nordisk	Marketing ethics	Wrote asking company to explain its approach to marketing ethics in relation to its Victoza drug for obesity	Company responded setting out the legal basis for the advertising campaign	25/09
Mednax	Governance – remuneration	Wrote explaining vote against executive remuneration	No response received	08/07
Roper	Governance - remuneration	Wrote explaining our reasons for voting against at the AGM	No response received	08/07
East Japan Railway	Governance – Board independence & accountability	Wrote explaining our reasons for voting against at the AGM	No response received	17/07
Keyence	Governance – low pay-out ratio & lack of director independence	Wrote explaining vote against two directors	No response received	18/07
Daiseki	Governance – director independence	Wrote requesting great director independence	No response received	18/07
Emerson Electric	Sustainability reporting	Co-filed a shareholder resolution requesting that the company produce a sustainability report	No response received	29/07