



WHEB

Responsible Investing: Engagement Report Q3 2014

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Introduction

In this edition of our Engagement report we have repeated our annual assessment of the impact that our company engagement work is having. Overall we feel that our work is having reasonable success with nearly one in five engagements proving successful, and with a further third culminating in partial success. We've also remained busy with our engagement work over the Summer and report on some of these projects here. This has included work with the US waste management business Stericycle and also with a group of foundations aimed at encouraging them to adopt a more proactive stance on positive sustainable impact investing.

A full list of our engagement is also included in tables on pages 3-4 with summary details of our voting record during the quarter on page 4.



What impact has our engagement had in 2013-14?

'Like absentee landlords' was how one politician described the asset management community's role in the years preceding the financial crisis in 2008-09. Since then responsible ownership or stewardship has become an important and visible part of equity investing. In part this has been driven by the development of quasi-regulatory tools such as the UK's Stewardship Code, and partly because of wider support for more responsible approaches to investment generally as seen, for example, in the extraordinary scale of support for initiatives like the UN's Principles for Responsible Investment (UN-PRI).

At WHEB, we strongly support initiatives promoting responsible ownership, including the importance of investor engagement with companies. We believe that this is both a responsibility and an opportunity to encourage companies to build structures and frameworks that will help them to create value for investors and other stakeholders over the long-term.

Over the past year, we have engaged with businesses on critical environmental, social and governance issues 73 times to raise with them specific points about their management of these matter. Often this is in the form of a letter explaining our decision not to support management on one of the votes at the company annual general meeting. But we have also engaged directly with companies, sometimes more than once over the course of the year, and sometimes also in concert with other investors. Many of these have been described in previous editions of this quarterly report.

We also attempt to measure the impact of our engagement work. This is not always straightforward, but we apply a fairly simple measure of impact which classifies our work as either 'successful', where the company agrees to amend or alter its approach to the issue at hand; partially successful, where the company acknowledges the problem and agrees to review it further but does not commit to change anything, or unsuccessful where the company either does not respond to our engagement or refuses to amend its approach. Over the past 12 months we've rated our engagement as follows:

	2013-14 Engagement activity (2012-13)
Successful	19% (15%)
Partially successful	36% (44%)
Unsuccessful	45% (41%)

One company that we have engaged over the course of the year has been the US healthcare waste management firm Stericycle.

WHEB... signed a statement alongside other leading investors supporting strong domestic & international policies on climate and clean energy.

Proposed changes to fiduciary responsibility will make sustainability & social impact investing something that is explicitly permissible for foundations.

Stericycle: Waste incineration and environmental performance

One company that we have engaged over the course of the year has been the US healthcare waste management firm **Stericycle**. Over the past few years the company has shifted its waste treatment away from incineration and towards recycling and autoclaving for medical waste. Nonetheless, the company continues to run a small number of incinerators in the US. One of these, near Salt Lake City, and has been the focus of local community concerns about air pollution from the incinerator.

We have engaged the company a number of times on this issue, but had not made significant progress. However, over the Summer we arranged a call between a group of investors and the new CFO at Stericycle. While he was not able to comment directly on the case, he was much more receptive to our requests for a proactive approach to the management and reporting of environmental performance across the business, building on their first report which was issued this year.

We have considered this engagement to be a partial success as we believe the tone from the CFO is much more supportive of our agenda and he has committed to look further into how the company's reporting can be improved, including in controversial areas like waste incineration.



Policy issues: Supporting strong regulations on climate and human rights

One of the higher profile events that took place during the quarter was the UN Climate Summit that was organised by the UN Secretary General Ban Ki Moon. The Summit was primarily intended to generate momentum in advance of discussions to agree a global deal to minimise carbon emissions in Paris in 2015. WHEB, as a member of the Institutional Investors Group on Climate Change (IIGCC), signed a statement alongside other leading investors that was sent to policy makers supporting strong domestic and international policies on climate and clean energy.

Foundations and sustainable investment

We have been working over the past eighteen months to encourage charitable foundations to become more enthusiastic supporters of sustainable investment. This has involved a series of seminars co-organised with Goldsmith Family Philanthropy and the Tellus Mater Foundation that have focused on how foundations can: 1) support work to make capital markets more sustainable, 2) get their investment managers to actively engage with companies they hold and 3) they can invest their own money more sustainably.

Working with the Global Impact Investing Network (GIIN) and the law firm Bates Wells Braithwaite (BWB) we focused on this final point at a final seminar held during the quarter. The seminar included a presentation from BWB on proposed changes to the interpretation of fiduciary responsibility. This will make sustainability and social impact investing something that is explicitly permissible for foundations. The group of sixty or so foundation trustees also heard from a panel of foundations that are between 50% ->90% invested in 'impact' investments. Trustees felt that their impact investments were now a critical part of the overall positive impact that their foundations exist to create. In addition, the trustees' experience was that the positive social/environmental impact of these investments has not come at a financial penalty in most cases.



The group also believed that proposed changes in fiduciary responsibility, combined with the expanding number of foundations that are practicing sustainable and impact investments are expected in turn to accelerate the adoption of this approach by the foundation community more generally.

Summary of other areas of work

The following section details the range of engagement work that we have done bilaterally with individual companies in our portfolio and in the wider investment themes as well as the voting that we have done at annual general meetings that were hosted during the quarter.

Company	Topic	Comment	Outcome	Date
Stericycle	Governance & environmental performance	Call with new CFO on auditor tenure, executive remuneration and sustainability reporting	Believes remuneration & audit tenure are in-line with or better than average, will investigate improvements in reporting	17/7
Georg Fischer	EHS Performance	Call with Sustainability team to encourage greater disclosure of EHS data	Company will consider expanded reporting	22/7
Boer Power	Governance – Independence of audit, equity issuance	Wrote outlining why we voted against the audit and equity issuance	No response as of 1/10	24/7
Orpea	Governance – Independent directors, environmental reporting	Wrote outlining why we voted against the appointment of directors	Company defended track record and plans to improve quality of reporting	24/7
CT Environmental	Governance – Audit independence, Equity issuance	Wrote outlining why we voted against the audit and equity issuance	No response as of 1/10	24/7
HMS Holdings	Governance – Audit independence	Wrote outlining why we voted against the audit	Brief response acknowledging receipt of letter	24/7
Oxford Instruments	Environment – Carbon reporting	Have engaged over many years to encourage disclosure to the CDP	Company confirmed that it will be responding to the CDP in future	27/7
Smurfit Kappa	Environment - Biodiversity	Encouraged the company to monitor status of endangered species on their estate	Company supports third party surveys which it reports in its annual report	12/8
Infinis	Environment – Carbon reporting	Encouraged company to report detailed measures of the carbon intensity of their power generation	Company has started to report this figure in their 2014 Annual report	8/9
NIBE Industrier	Governance – Independence and Diversity	Met with the company for a general update and suggested they should aim to increase Board-level independence & diversity	Company stated that individual business units have much more diversity which will trickle up	16/9

Company	Topic	Comment	Outcome	Date
Arcadis	Governance - Independence	Update meeting suggested that company should reorganise governance and eliminate share class structure	Company indicated that it has understood investors' concerns but is not committed to change anything	16/9
Canadian Solar	Environmental reporting and performance	Met with the company to encourage more disclosure and engagement with third party ratings	Company agreed that environmental disclosure is increasingly important and will set up call to discuss further	24/9
Zhuzhou CSR Electric Times	Human Rights	Engaged with company to understand its involvement in military activities	Investor Relations team to investigate further	30/9

Voting record: Q3 2014

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 July – 30 September 2014. Full details of how we voted on each of the individual votes are detailed in Appendix 1 (<http://www.whebgroupp.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/>) including with rationales for votes against management and abstentions and where we supported shareholder resolutions.

Meetings	# of meetings	%
# votable meetings	7	-
# meetings at which votes were cast	7	100%
# meetings at which we voted against mgmt. or abstained	0	0%

Resolutions	# of resolutions	%
# votes cast with management	81	100% ¹
# resolutions where votes cast were against mgmt. or abstained (see list in appendix)	0	0%
# resolutions where votes were withheld	0	0%

¹ It is unusual that we vote so consistently with management. More typically we vote against or abstain at 10-15% of company meetings.