

## Governance & Engagement Report: Q4 2013

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### Introduction

In this quarter's update we report on the work that the WHEB team has been doing to encourage companies to report more broadly on their environmental and social performance. As investors, we believe that this information can provide important insights into the quality of a business and its ability to deliver superior returns to investors. Unfortunately, while a significant number of companies do now report such data, there are still large parts of the market that do not.

A second feature of the engagement work that we do is how we have developed relationships with non-governmental organisations (NGOs) on particular topics. We delve further into the nature and value of these relationships below.

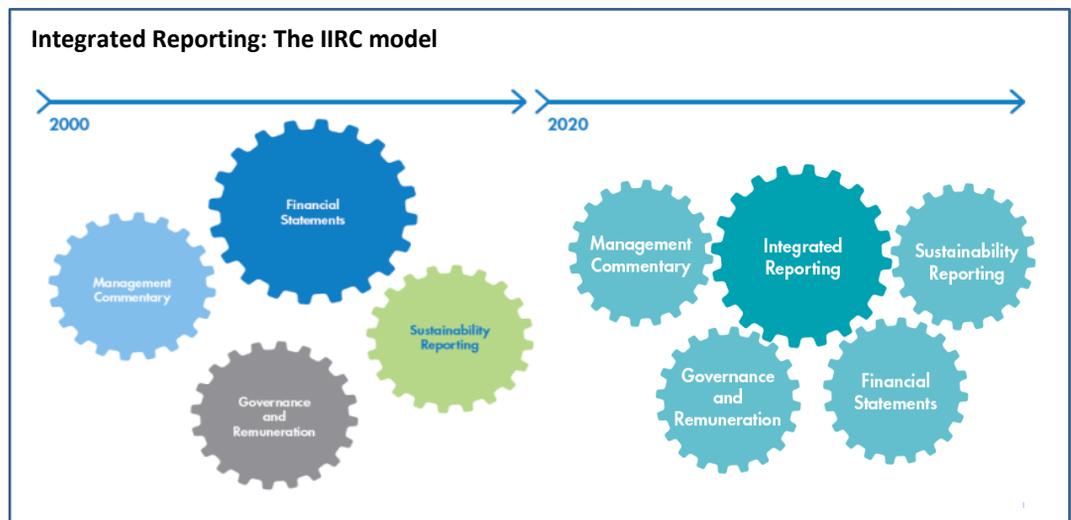


### Sustainability reporting: Getting companies to open up

Investors have for many years been involved in efforts such as the Global Reporting Initiative (GRI) to improve the quality of reporting by companies. Initially, this was driven by ethical concerns about the negative impacts that companies were having on the environment and human rights. More recently, however, investors have begun to see performance on key environmental, social and governance (ESG) issues as important lead indicators of financial performance.

WHEB is very much in this category and indeed a core part of our investment process is designed to capture wider ESG data and insights as part of our stock selection process. It is for this reason that we spend a significant amount of our time encouraging companies to develop more sophisticated ways of reporting ESG-related information in ways that are meaningful to their investors.

One initiative that is very helpful in this regard is the IIRC which has brought together accounting firms, companies, investors, listing agencies and regulators to develop a framework for integrated reporting that



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*'WHEB has been the driving force in convincing UK investors to engage with chemical companies to substitute hazardous chemicals and innovate safer alternatives.'*

- Sonja Haider,  
ChemSec

sees sustainability reporting as a key element in how companies report to their investors. WHEB is represented on the IIRC's investor network which informs the development of the framework and works to ensure that it remains useful to investors. With the help of initiatives like the IIRC and the GRI, high quality ESG reporting is becoming increasingly common. Within our own portfolio we have successfully engaged with companies such as Intertek and Spectris to help them understand how investors are using ESG data and to convince them of the benefits of wider ESG reporting on issues of particular relevance to their businesses.

However, there are still plenty of companies that are reluctant to embrace increased transparency. Often this is due to concerns about cost as well as reputational issues. Two companies that we have held in our portfolio, the US-based medical waste management firm Stericycle and the Chinese bicycle battery manufacturer Tianneng Power fall into this category. We've engaged with both to encourage improved levels of disclosure though have now sold our position in Tianneng, in part because of our lack of confidence in the management of environmental issues at the business, an issue that was exacerbated by poor disclosure by the company.

Many companies are undoubtedly seeing real value in embracing wider frameworks for disclosing business relevant ESG information. We will continue to work with these companies to further improve and refine reporting frameworks while also pushing those that are still resisting to recognise the value that reporting brings to improvements in environmental, social and financial performance.

### Unexpected allies: Working with Non-Governmental Organisations

In spite of the progress that has been achieved in the quantity and quality of disclosure by companies themselves, it is often prudent, and sometimes necessary, to look to other sources of reliable data to build up a more complete picture of a company's performance on ESG issues.

While often seen as unrelated to the investment industry, Non-Governmental Organisations (NGOs) are typically highly expert in their area of focus and can provide insights on company performance that are both objective and well-informed. Indeed work by groups such as the CarbonTracker initiative and Transparency International are now referenced by significant numbers of investors in their analysis of risks in equity and sovereign debt markets.

In recent years we have worked in partnership with two NGOs on two distinct initiatives. The first, focused on improving health, safety and environmental standards in the solar industry, involved working with the US-based Silicon Valley Toxics Coalition (SVTC). More recently, we have worked with the Chemical Secretariat (ChemSec) encouraging chemical companies to phase out the most toxic chemicals on the market in Europe and elsewhere.

These groups and their academic advisors have enormous technical knowledge but typically limited ability to engage directly with company management teams. By working together we can get access to their technical and company insights, and in return we are able to build investor coalitions and engage with companies on these issues. In both cases, our work with NGOs has led to tangible social/environmental benefits and lower investment risks in these sectors.

We've also been working with charitable foundations to identify ways to build capacity within NGOs to engage more effectively with the financial community. For example we hosted a workshop with the Tellus Mater and JMG Foundations for a group of large UK foundations to explore the barriers to activity in the sector and to identify ways in which foundations might support more and more effective campaigns.

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### Summary of other areas of work:

During the quarter we have continued to work alongside other investors promoting public policy, specifically on climate change, with key political leaders in the UK and beyond. WHEB, as part of the Institutional Investors Group on Climate Change, wrote in November to the Polish Prime Minister Donald Tusk in advance of the UN climate talks hosted by Poland in December, to encourage a more ambitious policy programme in Poland and as the chair of the UN talks.



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The following section details the wider 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 the rather limited number of annual general meetings that were hosted during the quarter. We have been particularly pleased to note that our work promoting more robust management of business ethics issues is something that the management of several companies in the portfolio have embraced, most recently at Orpea (see below).

### Voting record: Q3 2013

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 October – 31 December 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	# of meetings	%
# votable meetings	4	-
# meetings at which votes were cast	4	100%
# meetings at which we voted against mgmt. or abstained	2	50%
Resolutions	# of meetings	%
# votes cast with management	20	91%
# resolutions where votes cast were against mgmt. or abstained (see list in appendix)	2	9%
# resolutions where votes were withheld	0	0%

### Engagement activity Q4 2013

The table below summarises the ad-hoc engagement work that we have been doing with companies over the past quarter.

Company	Topic	Comment	Outcome	Date
Orpea	Business ethics in China	Met with company and discussed how the business manages ethical risks in Chinese operations	Company is prioritising its business ethics framework in Chinese operations	20/11
Novo Nordisk	Marketing ethics – promotion of obesity drugs	Spoke to company about their approach to managing the promotion of obesity drugs	Company is developing guidelines on responsible approach to marketing obesity drugs	03/10
Linde	Environment – CO <sub>2</sub> emissions	Spoke to company encouraging broader reporting of CO <sub>2</sub> emissions	Will consider broader disclosure that is comparable to industry peers	14/10
Stericycle	Allegations of poor environmental performance	Wrote and spoke to company about allegations and encouraging improved ESG disclosure	Has promised to review their approach to ESG disclosure	10/10
Johnson Matthey	Environment – hazardous materials	Met company to encourage the phase-out of most toxic substances	Company will detail their approach to the issue in their 2014 Annual Report	18/12

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.

Company	Topic	Comment	Outcome	Date
Hera	Corporate Governance – Director elections & Severance pay	Wrote to company about concerns over excessive severance package and lack of transparency in director elections	Company wrote clarifying but not changing their position	11/10
Emerson Electric	ESG Disclosure	Shareholder resolution asking for sustainability report	Company has responded to say they will be opposing the resolution	15/11
Pall Corporation	Executive Remuneration	Wrote expressing concern over what we consider to be excessive CEO pay	No response received	11/12
Orpea	Board independence	Wrote expressing our concerns over insufficient board independence	No response received	27/11