WHEB

January 2015

# Responsible Investing: Engagement Report Q4 2014

## Introduction

The fourth quarter was a busy period for our engagement work involving a range of activities around companies held in the fund. We report here in particular on the work that we have been doing to encourage deeper and higher quality sustainability reporting from companies in the fund. We've also been involved in a range of initiatives supporting policy development on critical social and environmental issues of relevance to the fund and the wider practice of sustainable investing. Finally, we report on some work that we have had commissioned to 'carbon footprint' our fund and how we will use this to inform our engagement work over the next year.

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

*We were particularly pleased to see the US railroad business Kansas City Southern produce its first sustainability report.*


## Why sustainability reporting is so important

WHEB is a strong supporter of more and better quality sustainability reporting. We believe companies that actively manage their sustainability performance tend to perform better financially over the long-term. Sustainability reporting provides both an incentive and a mechanism for companies to demonstrate strong performance on relevant environmental, social and governance issues.

We are active both in investor networks promoting sustainability and ultimately fully integrated annual reporting, as well as in voting at company meetings and engaging with companies bilaterally to encourage better disclosure. In 2014, for example, we engaged with approximately 20 companies to encourage better Environmental, Social and Governance (ESG) disclosure and a more direct link between ESG performance and executive compensation.

In the course of the year, we had some notable successes including seeing Oxford Instruments, a UK-based business, begin to report carbon emissions and commit to responding to the annual CDP[1] questionnaire. We were also particularly pleased to see the US railroad business Kansas City Southern produce its first full sustainability report. This was something that we had explicitly called for when meeting with the CEO in 2013. The report provides detailed information on key areas such as accidents, fuel efficiency and carbon emissions; issues that we believe are important both in themselves and to the future success of the business.

During 2015 we will continue to prioritise sustainability disclosure and will use our voting power at company meetings to impress on management the importance with which we think this agenda should be treated.

*In November, the Government agreed to include corporate supply-chain reporting into the Modern Slavery Bill*

## Public policy issues:

### Modern slavery

Over the past year or so we have participated in an investor coalition led by Rathbone Greenbank to encourage the UK Government to include corporate supply-chain reporting in the Modern Slavery Bill which is currently going through Parliament. The new provisions require listed companies to disclose the existence of a policy as well as a process for assessing the company's exposure to human rights issues including bonded slavery in the company's supply-chain. In November, the Government agreed to include these provisions in the Modern Slavery Bill which we believe will support higher labour standards across the market and in so doing advance those responsible businesses that already comply with the regulations.

[1] – CDP, formerly the Carbon Disclosure Project (www.cdp.net)

*"WHEB has been the driving force in convincing UK investors to… engage collectively with chemical companies to foster substitution of hazardous chemicals."*

## Chemical regulations

We've continued to work with the environmental NGO ChemSec to encourage European policy-makers to maintain their commitment to phasing-out the most harmful chemicals on the European market and create the space for lower impact chemicals to replace them. Seb Beloe was invited to speak at the launch of an updated list of chemicals that ChemSec and other NGOs want to see prioritised for further scrutiny by the European Chemicals Agency (ECHA).


We have also begun to build a coalition of institutional investors from across Europe to write to the European Commission and ECHA. We hope to build a significant investor community that will encourage these bodies to fully implement the REACH regulations. We believe that this is critical in order to ensure that new markets for more sustainable, lower impact chemicals are created and that those chemicals considered to be most harmful to human health and the environment are phased out. NGO ChemSec said of WHEB's involvement: "WHEB has been the driving force in convincing UK investors to share knowledge and engage collectively with chemical companies to foster substitution of hazardous chemicals and innovation of safer alternatives."

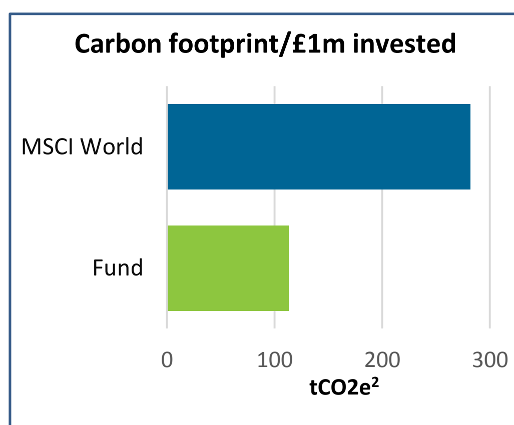
## Tax Avoidance

Corporate tax avoidance has hit the headlines as a major issue in many jurisdictions including the UK and the US. We have been monitoring the tax rates paid by companies that we hold in the fund as a red flag for potential risks to those businesses. We have reported on this work in the past, but have been updating it with more recent research undertaken by a variety of analysts. One company that was highlighted as having an unexpectedly low tax rate was the recycled packaging manufacturer Smurfit Kappa. We have subsequently met with the management and raised this issue with them. While the 2013 cash tax rate of 10.5% is low, this is explained by their tax domicile in Ireland where statutory tax rates are low (13%). In addition, the company has losses from previous years which it can use to offset taxes. These will run out in 2015 and then the tax rate is expected to return to a level more equivalent to peers. We will continue to monitor this issue across the fund's holdings.

*"The FP WHEB Sustainability Fund has a carbon footprint that is 60% lower than the MSCI benchmark."*

## Carbon footprinting

We have commissioned a carbon 'footprint' of the fund measuring the carbon emissions that are generated for every £1 million invested in the fund. As of December 2014, this figure was 113 $tCO_2e$/£1m[2]. This compares with 282 $tCO_2e$/£1m invested in the MSCI World Index which is the benchmark index for the fund. The FP WHEB Sustainability Fund therefore has a carbon footprint that is 60% lower than the MSCI benchmark and is in the top quartile of the 379 funds rated by CSSP[3].




The carbon footprint does not take into account the full life-cycle emissions of products or services. For example, solar module companies use energy in manufacturing, but the net reduction in emissions associated with the use of the modules is not included in the calculation. Given our thematic focus, we believe that this analysis under-represents the fund's outperformance relative to the index. We plan to work with our data providers to develop a methodology that includes the full life-cycle emissions in the footprint.

The research has also highlighted companies in our portfolio that appear to be emitting more emissions than their peers. We plan to use the full report to prioritise which companies we should engage with in order to encourage stronger performance on emissions reduction and improved energy efficiency.

[2] $tCO_2e$ - tonnes of carbon dioxide equivalents.
[3] CSSP - Center for Social and Sustainable Products (AG)

## 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 held during the quarter.

| Company | Topic | Comment | Outcome | Date |
|---|---|---|---|---|
| Smurfit Kappa | Low tax rate | Met with company and raised issue with them | Tax rate is low due to losses in previous years being offset against tax (see above) | 3 Dec 2014 |
| Canadian Solar | Environmental reporting and performance | Working with broker to encourage company involvement in industry questionnaire | Company is reviewing its involvement | 4 Dec 2014 |
| CT Environmental | Governance – Audit independence, Equity issuance | Met with company to discuss audit independence and sustainability reporting | Auditor was involved in IPO (hence large non-audit business) but no plans for sustainability reporting | 5 Dec 2014 |
| Boer Power | Governance – Independence of audit, equity issuance | Wrote outlining why we voted against the audit and equity issuance | Some of the non-audit work is related to internal review/audit | 11 Dec 2014 |
| NIBE Industrier | Use of high GWP[1] gases | Wrote to company to follow-up on discussion of phase-out of high GWP gases | Company stated that it currently has no plans to publish phase-out commitments | 18 Dec 2014 |
| Stericycle | Governance & environmental performance | Call with new CFO on auditor tenure, executive remuneration and sustainability reporting | Co. re-locating Utah waste incinerator due to local opposition. We welcome this but the key is to improve environmental performance | 20 Dec 2014 |
| Kansas City Southern | Sustainability reporting | Co. has published its first sustainability report covering a range of material EHS issues | We have written to the company congratulating them and asking to follow-up with a call | 22 Dec 2014 |

[1] GWP – Global Warming Potential

## Voting record: Q4 2014

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 October – 31 December 2014. Full details of how we voted on each of the individual votes are detailed in Appendix 1 (http://www.whebgroup.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 | 3 | - |
| # meetings at which votes were cast | 3 | 100% |
| # meetings at which we voted against mgmt. or abstained | 0 | 0% |

| Resolutions | # of resolutions | % |
|---|---|---|
| # votes cast with management | 24 | 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.