



WHEB

April 2015

Responsible Investing: Engagement Report Q1 2015

2015 is a critical year for public policy action on climate change and we have prioritised this issue in our engagement work

Introduction

We are expecting 2015 to be a critical year for the global environment and by extension for sustainable investing. Our Independent Advisory Committee underlined this fact in our meeting with them earlier this year¹, stressing the importance both of the UN's replacement for the Millennium Development Goals due in September as well as the next meeting of the UN Framework on Climate Change meeting in Paris in December. We have been active in adding our voice to a range of collaborative initiatives focused on these issues which we describe below.

Climate change has also been a focus of our discussions with companies following the publication of the Fund's carbon footprint. We describe this initiative along with other bilateral discussions we have been having with companies in this edition of our Engagement Report.

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.

Working collaboratively through the UN-PRI

■ Climate Change

As discussed above, 2015 is a critical year for public policy action on climate change. We have prioritised this issue in our engagement work and have decided that the best way that we can support efforts to agree ambitious climate targets is to work with other investors through the UN-PRI and other joint investor initiatives.



Lobbying activities of companies has been highlighted by several participants in the policy process as a particularly important issue. We have therefore agreed to participate in a UN-PRI co-ordinated investor engagement with companies focusing on their public policy lobbying activities. The initiative will involve investors writing to companies in their portfolios to set out our expectations that lobbying activities on climate change should be supportive of cost-effective measures to mitigate climate change risks and support low carbon investments and the companies should report on their activities. We will report back in future editions of this report on the specific companies that we engage and what the outcomes are.

A separate but related initiative is the CDP's 'Road to Paris 2015' initiative. This initiative encourages companies to commit to a series of steps including science-based carbon reduction targets and procurement strategies for 100% renewables. As a signatory of the CDP we are supporting this initiative and are pleased that Suez Environnement, one of the largest contributors to the fund's carbon footprint (see below) has already committed to this initiative. We are engaging with other companies in the portfolio to encourage them to participate as well.

■ Clinical trials

Finally, we are also participating in an initiative co-ordinated by the UN-PRI that calls on pharmaceutical, medical device and nutraceutical companies to register and publicly report the results of clinical trials.

The fund does have some exposure to these industries which have been widely criticised for not publishing the results of clinical trials which are not supportive of the product being tested. Independent studies have found that trials with negative results are twice as likely to remain unreported as those with positive results². This lack of transparency can have serious effects both in potentially compromising the safety and efficacy of

¹ Summary Minutes of this meeting are available at <http://www.whebgroupp.com/media/2015/04/20150226-Summary-minutes-final1.pdf>

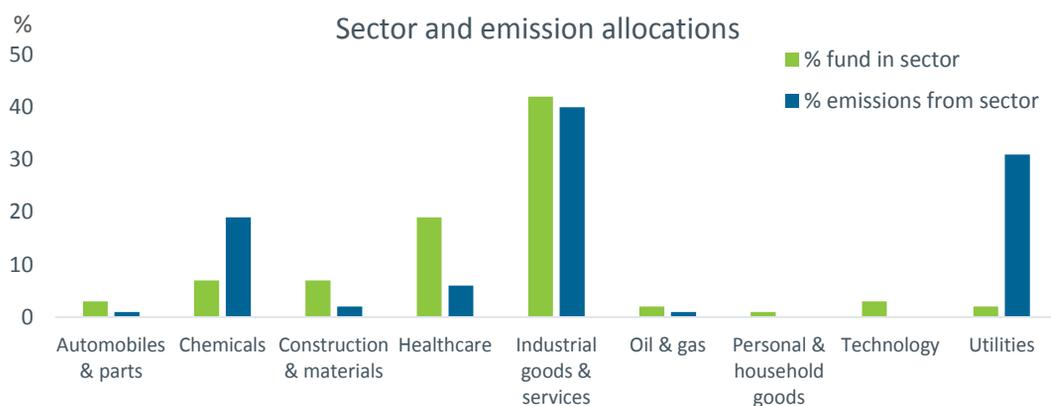
² http://www.journalslibrary.nihr.ac.uk/_data/assets/pdf_file/0005/64751/FullReport-hta14080.pdf

treatments and for the companies that conduct the trials and their investors. Several pharmaceutical companies, for example, have had to pay multi-million dollar fines for minimising life threatening side effects³.

Our involvement in the initiative will be to engage with companies in our portfolio, such as Novo Nordisk, that conduct clinical trials, to call on them to adopt a clear policy on clinical trial transparency and to publish the results of all trials that they undertake.

Carbon footprinting

In our previous engagement report we described the headline results of the carbon footprint that we commissioned on the fund. One of the key insights from this report was that a relatively small number of companies in the fund are responsible for a disproportionate amount of the carbon that is generated. The figure below underlines this point, demonstrating that the chemicals and utilities sectors account for just 9% of the value of the fund, but are responsible for 50% of the carbon emissions.



In addition to this sector-based analysis, the footprint also looked at the relative performance within sectors. For example, treating wastewater is currently an inherently carbon intensive business. This second part of the analysis helped us to understand how companies we hold in the portfolio compare with peers with similar businesses. This analysis showed us that most of our businesses have a lower carbon intensity relative to their peers. Of the ten largest contributors to the fund's overall footprint, seven are strong performers relative to their peers, and three are poorer. These three companies are Suez Environnement in the utilities sector, Smurfit Kappa in industrial goods and services and Orpea in Healthcare. We are engaging with all three of these businesses to better understand their emissions profile and what the source is of their relative under-performance.

N.B. Renewable energy companies are currently (and perversely) classified in the Oil & Gas sector. Our holdings in this sector are purely renewable energy companies and we have no exposure in oil and gas companies.

Update: Modern slavery and hazardous chemicals

We are pleased to report that The Modern Slavery Bill which we have been an active supporter of received Royal Assent at the end of March. Our particular focus has been to encourage the Government to include a 'Transparency in Supply Chains' provision which will require companies to report on the actions they have taken to ensure their supply chains remain free of modern slavery. The Modern Slavery Act does contain such a provision although the exact detail of what the turnover threshold should be and what specific areas it should cover will be left to secondary legislation to be agreed in the next Parliament.

As we described in the previous edition of this report, we coordinated an investor group to write to the European Commission and the European Chemical Hazards Agency to underline our support for robust legislation on chemical hazards. While we have not heard back directly from the Commission, we have heard from campaigners that our intervention has "made a big impression and was heavily discussed within the Commission".

³ In 2013 only, minimising adverse side effect by withholding or downplaying clinical trials results was the reason for 53% of total marketing-related litigations facing pharmaceutical companies (Société Générale 2014)

A relatively small number of companies in the fund are responsible for a disproportionate amount of the carbon that is generated.

We are pleased to report that The Modern Slavery Bill, which we have been an active supporter of, received Royal Assent at the end of March.

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
Kansas City Southern	Sustainability reporting	We provided feedback to the management on its first sustainability report	Report produced in part because of investor demand – next report in June 2015	8 Jan 2015
Acuity Brands	Sustainability reporting / Audit independence	Wrote explaining concern with long tenure of auditor and lack of ESG disclosure	No response as of 01/04/2015	12 Jan 2015
Praxair	Executive remuneration policy	Conference call on structure and quantum of remuneration	Co. open to including environmental criteria in incentive but not on absolute annual limit of <US\$10m	12 Jan 2015
NIBE Industrier	Use of high GWP ⁴ gases	Wrote to company to follow-up on discussion of phase-out of high GWP gases	No response as of 01/04/2015	25 Feb 2015
United Natural Foods	Labour relations	Met with co. to discuss alleged anti-union campaign by company	Co. disputes union accusations & claims to have higher standards than peers	24 Mar 2015
Agilent Technologies Inc.	Executive remuneration policy / Audit independence	Wrote explaining concern with long tenure of auditor and excessive CEO remuneration	No response as of 01/04/2015	31 Mar 2015
Cooper Companies Inc.	Sustainability reporting / Audit independence	Wrote explaining concern with long tenure of auditor and lack of ESG disclosure	No response as of 01/04/2015	31 Mar 2015
Smurfit Kappa plc.	Carbon emissions	Wrote asking for a meeting to discuss their high carbon emissions relative to peers	No response as of 01/04/2015	31 Mar 2015
Suez Environnement	Carbon emissions	Wrote asking for a meeting to discuss their high carbon emissions relative to peers	No response as of 01/04/2015	31 Mar 2015

⁴ GWP – Global Warming Potential

Voting record: Q1 2015

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 January – 31 March 2015. 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	9	100%
# meetings at which votes were cast	8	89% ⁵
# meetings at which we voted against mgmt. or abstained	4	50%
Resolutions	# of resolutions	%
# votes cast with management	61	91%
# resolutions where votes cast were against mgmt. or abstained (see list in appendix ⁶)	5	7%
# resolutions where votes were withheld	1	2%

⁵ We did not vote at the Johnson Controls AGM because we had sold our shares in advance of the meeting.

⁶ A complete list of resolutions and how we voted is available at <http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/>