



WHEB

June 2015

Responsible Investing: Engagement Report Q2 2015

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Introduction

The second quarter of the year includes the busiest period for voting activities with 80% of the companies in the fund holding their annual general meetings during the period. A complete list of all 538 votes is published in the Appendix to this report (at <http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/>) and we provide brief summaries of our voting activities in the tables on the following pages as well as a discussion of the key themes.

As we highlighted in the last report, 2015 is also a critical year for public policy negotiations on climate change and we describe how we have been working to try and secure a positive outcome at the Paris conference in December. We have also had a series of successful outcomes in our bilateral engagements with companies which we describe below.

We voted at 51 company meetings – voting against management at 36 of them

We have had an intense period of company voting over the past three months voting on 538 votes at 51 company meetings. The vast majority of these votes are routine re-elections of directors and approval of standard items. However, at WHEB we have particularly assertive voting policies on several issues including auditor independence, executive remuneration and sustainability disclosure.



▪ Auditor independence

We think it is wrong that auditors can be considered 'independent' no matter how long their relationship with the company that they audit. For example, we invest in the US firm Rockwell Automation which provides industrial automation products and services and has used the same audit firm for 81 years. In the European Union this has recently changed with new rules¹ agreed in May (and applying from June 2016) that require audit contracts to be retendered after ten years².

Our policy is to vote against or abstain on the approval of the auditor's annual report where the tenure of the auditor is more than ten years. This means that we regularly vote against this item on the AGM agenda, particularly at US companies. In 2015 we voted against the auditor's report at 17 companies on this basis. Where companies respond to our engagement on this issue, they typically argue that the lead auditor is rotated within the firm and that the benefit of having an auditor that has deep experience of the business more than compensates for any concerns about independence. We do not believe that these represent robust arguments against the importance of a demonstrably independent auditor and so plan to maintain this policy.

▪ Executive remuneration

The remuneration of senior executives at listed companies remains a point of contention for many investors. In the UK, average CEO pay at the FTSE 100 was just over £4m – down from a peak of nearly £5m in 2011. In part this decline may be due to investor pressure, but CEO salaries still remain nearly 100x that of their average worker. In the US the gap is even larger at nearly 350x average pay³.

Our voting position on remuneration is decided on a case-by-case basis considering the pay of peer company CEOs, the term of the incentive structures, as well as the proportion of net income that a CEO package represents. We are also inclined to vote against any package that exceeds US\$10m in any one year.

¹ <http://www.journalofaccountancy.com/news/2014/may/201410229.htm.html>

² The existing auditor can be reappointed for another ten years following the tender but must then be changed after this second period.

³ <http://blogs.ft.com/ftdata/2015/03/06/uk-chief-executive-pay-explained-in-charts/>

In our experience, the initial response from companies tends to be to resist fuller sustainability reporting.

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Smurfit Kappa confirmed that they are developing a long-term plan to become carbon neutral based on use of 100% biomass-based power.

In 2015 we voted against eight remuneration proposals that we believed were excessive. Two US companies, the industrial gases business Praxair and the conglomerate Roper Industries paid their CEOs US\$22.5m and US\$22.6m respectively. Praxair's remuneration report was opposed by 37% of the shareholders and we have written to both companies to express our opposition to this level of pay.

We also voted against the package for the incoming CEO at the UK testing and inspection business Intertek. The package was rejected by 51% of shareholders at the AGM and as a consequence the new CEO agreed to forgo a £560,000 guaranteed bonus.

■ Sustainability disclosure

We've also been engaging with several companies in the portfolio on various aspects of their sustainability reporting and disclosure. For six companies we have used the opportunity of the Annual General Meeting and the publication of the Annual financial report to write and encourage them to produce fuller disclosures on sustainability issues. In our experience, the initial response from companies tends to be to resist fuller reporting of this nature. However, we believe that persistent requests tend to be rewarded in the longer term as companies come to acknowledge broad stakeholder interest in sustainability reporting. We describe some of our successes in this regard below.

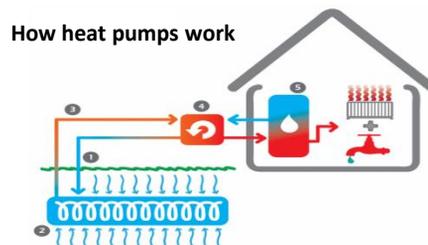
Company engagement

■ Staying ahead of regulations: Nibe Industrier (Resource efficiency)

Nibe is one of the world's leading manufacturers of heat-pumps. Heat pumps are both highly efficient and are a critical technology in decarbonising the heating of residential and commercial properties. The technology uses refrigerants including synthetic refrigerants which have very high global warming potentials (GWP⁴).

We have been leading an investor group to engage with Nibe to encourage them to phase out the use of synthetic refrigerants and instead use natural refrigerants (such as propane and carbon dioxide) which have a much lower GWP.

We hosted a telephone conversation with experts at Nibe who confirmed the company is the market leader in using natural refrigerants, with approximately one third of their heat pumps using less harmful refrigerants. The company is actively researching ways to increase this but is reluctant to publish a timeline which they view as commercially sensitive. We encouraged them to pursue this actively in order to stay well-ahead of regulatory phase-out deadlines and to provide regular disclosure to investors on their progress.



■ Accelerating carbon reduction initiatives: Smurfit Kappa (Environmental Services)

Our last engagement report covered the results of our carbon footprint highlighting two companies as performing particularly poorly in terms of their carbon emissions relative to their peers. One of these companies is the recycled packaging manufacturer Smurfit Kappa. We spoke to the company's investor relations and sustainability directors who argued that a significant proportion of their energy use is generated from waste biomass and so should not be considered in the company's carbon footprint. They also said that a competing research agency had actually placed them first in their industry for emissions per unit of revenue. The company also confirmed that they are developing a long-term plan to become carbon neutral based on use of 100% biomass-based power. They also agreed to look into joining a collaborative corporate lobbying initiative supporting an ambitious deal in Paris in December.

■ Improving sustainability disclosure: Stericycle and Tianneng Power

As described above, we put significant efforts into convincing companies of the value and importance of regular sustainability disclosure and reporting. This is particularly true in the US and Asia where sustainability disclosure is often poor or non-existent. We have, however, had two notable successes in recent months where two businesses have now issued their first sustainability reports in response to investor demand for better disclosure in this area.



⁴ Global Warming Potential is a relative measure of how much heat a specific gas traps in the atmosphere. It compares the amount of heat trapped by the gas in question to the amount of heat trapped by a similar amount of carbon dioxide.

We heard that the IIGCC letter had an important impact on the G7 leaders' negotiations.

The Chemical Footprint project will provide stakeholders with critical benchmarking data on how companies manage chemicals in their products, manufacturing operations, and supply chains.

The first company is Stericycle, which we have been engaging with for over two years to encourage them to produce a sustainability report. We have subsequently provided feed-back to the company on how the report could be further improved in future years.

The other company is Tianneng Power, a Chinese based manufacturer of electric bicycles. We actually sold our position in the company in 2013 partly on the basis of their lack of disclosure. They have subsequently written to let us know that they have now published their first 'ESG' report.

Public policy activities

■ G7 leaders agree to phase out fossil fuels

As a member of the Institutional Investors Group on Climate Change (IIGCC) we wrote an open letter to the Finance Ministers of the G-7 urging them to include a long-term emissions reduction goal in the forthcoming international climate agreement. We were therefore very pleased to see the G7 leaders agree to phase out fossil fuel emissions by the end of this century. In their final statement the leaders said that in line with scientific findings, "deep cuts in global greenhouse gas emissions are required with a decarbonisation of the global economy over the course of this century."



The IIGCC has subsequently heard from Christina Figueres the Executive Secretary of the UN Framework Convention on Climate Change that our letter had an important impact on the leaders' negotiations.

■ Chemical footprint disclosure project

WHEB has been pushing chemical companies and downstream users of chemicals to increase disclosure of their use of hazardous chemicals. We were very pleased therefore to directly support and recruit additional investors to support the launch of the Chemical Footprint Project. The project will provide stakeholders with critical benchmarking data on how companies manage chemicals in their products, manufacturing operations, and supply chains and will, we hope, serve to accelerate the substitution of hazardous chemicals with lower toxicity alternatives. More information on the initiative is available at <http://www.chemicalfootprint.org/>

Voting record: Q2 2015

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 April – 30 June 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	52	100%
# meetings at which votes were cast	51	98% ⁵
# meetings at which we voted against mgmt. or abstained	36	69%

Resolutions	# of resolutions	%
# votes cast with management	538	88%
# resolutions where votes cast were against mgmt. or abstained (see list in appendix ⁶)	65	11%
# resolutions where votes were withheld	4	1%

⁵ We did not vote at the Pentair 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/>

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
NIBE Industrier	Environmental emissions &	Use of high GWP refrigerants	See discussion above on GWP refrigerants.	22 June 2015
NIBE Industrier	Director independence	Excessive use of non-independent directors	Wrote to company about independent directors but no response as of 7/7/2015.	22 June 2015
China Longyuan Power	Equity issuance	Proposed issuance is excessively dilutive.	Wrote to company but no response as of 7/7/2015.	3 June 2015
China Longyuan Power	Environmental emissions	Emissions performance of thermal power plants	Co. responded detailing efforts to reduce emissions	3 June 2015
Smurfit Kappa	Greenhouse gas emissions	Discussed company's poor performance in WHEB carbon audit	See discussion above.	11 May 2015
Stericycle	Sustainability reporting & auditor tenure	Auditor tenure of 26yrs. Co. issued sustainability report	See discussion above.	5 June 2015
Intertek	CEO remuneration Auditor tenure	Remuneration considered excessive & auditor tenure 19yrs.	CEO has waived his right to a guaranteed bonus (see above).	5 June 2015
Tianneng Power	Sustainability reporting	Co. issued sustainability report	Following engagement in 2013, company issued first report in 2015 (see above).	18 May 2015
Canadian Solar	Sustainability reporting	Publication of sustainability report	Company to publish report on sustainability but won't complete Solar Scorecard	5 May 2015
Suez Environnement	GHG emissions Director independence	Main board has insufficient number of independent directors	Conference call being arranged for next few months	3 June 2015
Ecolab	CEO remuneration & Auditor tenure	Remuneration considered excessive & auditor tenure 45yrs.	Company replied acknowledging our letter.	5 June 2015
Quanta Services	CEO remuneration Auditor tenure GHG disclosure	Remuneration considered excessive & auditor tenure 13yrs. No response to CDP	Company responded to letter presenting their arguments on these points.	5 June 2015
MSA Safety	Director independence	Nominating committee has insufficient independent directors	Company responded to letter presenting their arguments on these points.	18 May 2015
Mettler-Toledo International	Auditor tenure & shareholder rights	Auditor tenure is 16yrs. Opposed to restricting shareholder litigation rights	Company responded to letter presenting their arguments on these points.	5 June 2015

Company	Topic	Comment	Outcome	Date
IPG Photonics	Sustainability reporting	Company does not publish a sustainability report	Conference call to be arranged in next few months	22 June 2015
Westinghouse Air Brake Technology	Auditor tenure	Auditor tenure is 13yrs.	Company replied acknowledging our letter.	5 June 2015
Kansas City Southern	Auditor tenure	Auditor has been in place for 14 years.	Company replied acknowledging our letter.	5 June 2015
Xylem	Auditor tenure & shareholder rights	Auditor tenure is 14yrs. Opposed to restricting shareholder litigation rights	Wrote to company but no response as of 7/7/2015.	5 June 2015
Fresenius SE	Allocation of dividends	Wrote explaining our view that allocation of dividends was too low	Wrote to company but no response as of 7/7/2015.	18 May 2015
Mednax	Auditor tenure & Chairman conflict of interest	Auditor tenure is 16yrs. Chairman has conflict of interest with a firm supplying legal services	Wrote to company but no response as of 7/7/2015.	3 June 2015
Stantec	Auditor tenure	Auditor tenure is 22yrs.	Wrote to company but no response as of 7/7/2015.	5 June 2015
Praxair	CEO remuneration & Auditor tenure	Remuneration considered excessive & auditor tenure 20yrs.	Wrote to company but no response as of 7/7/2015.	3 June 2015
JB Hunt	Greenhouse gas (GHG) reduction goals	Wrote to explain our support for shareholder resolution on GHG goals	The vote achieved 17% support at the AGM. Wrote to company but no response as of 7/7/2015.	18 May 2015
Keyence Corporation	Allocation of dividends	Wrote explaining our view that allocation of dividends was too low	Wrote to company but no response as of 7/7/2015.	6 June 2015
Newalta	Auditor tenure	Auditor has been in place for 16 years.	Wrote to company but no response as of 7/7/2015.	5 June 2015
Dassault Systemes	Equity issuance Board independence CEO remuneration	Proposed issuance is excessively dilutive. Insufficient director independence. CEO severance package overly generous.	Wrote to company but no response as of 7/7/2015.	5 June 2015
AO Smith Corporation	Auditor tenure	Auditor has been in place for 56 years.	Wrote to company but no response as of 7/7/2015.	4 June 2015
Air Methods Corporation	Auditor tenure	Company does not disclose auditor tenure.	Wrote to company but no response as of 7/7/2015.	5 June 2015

Company	Topic	Comment	Outcome	Date
Thermo Fisher Scientific	CEO remuneration	Remuneration considered to be excessive	Wrote to company but no response as of 7/7/2015.	18 May 2015
Umicore	Director effectiveness	One board director considered to be on too many boards	Wrote to company but no response as of 7/7/2015.	3 June 2015
Danaher Corporation	Auditor tenure & CEO remuneration	Remuneration considered excessive & auditor tenure 13yrs.	Wrote to company but no response as of 7/7/2015.	5 June 2015
Roper Technologies	Auditor tenure & CEO remuneration	Remuneration considered excessive & auditor tenure 13yrs.	Wrote to company but no response as of 7/7/2015.	29 May 2015
China Singyes Solar	Equity issuance	Proposed issuance is excessively dilutive.	Wrote to company but no response as of 7/7/2015.	5 June 2015
Rockwell Automation	Auditor tenure	Auditor has been in place for 81 years.	Wrote to company but no response as of 7/7/2015.	4 June 2015
BorgWarner	Shareholder rights	Supported resolution to enact a lower threshold for shareholders to call special meetings	Wrote to company but no response as of 7/7/2015.	18 May 2015
Trimble Navigation	Auditor tenure	Auditor tenure is 29yrs.	Wrote to company but no response as of 7/7/2015.	6 May 2015