



WHEB

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Responsible Investing: Engagement Report Q4 2015

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Introduction

The agreement at the UN talks on climate change on the 12th December represents a milestone in global efforts to tackle climate change in our view. In this edition of our Quarterly Responsible Investing report we report on why we think this is a significant event for all types of investors. Alongside the efforts that we put into the Paris conference, we also engaged companies and governments on the issues and we report on these efforts too.

Beyond climate change, we have also undertaken our usual bilateral conversations with companies. A summary list is provided on page 4-5 and we provide detail below on our engagements with Henry Schein, a US dental business, and Novo Nordisk, a Danish pharmaceutical company.

Finally, we also highlight below the annual results of our engagement work across the year – and in particular report on how we view the success or otherwise of this work.

The Paris Climate Agreement – WHEB's role and did it change the world?

We believe that the global agreement on how to tackle climate change that was secured in Paris in December represents a very significant step forward. Coming 18 years after the previous agreement in Kyoto, the Paris agreement achieves a number of important milestones including:

- **Agreeing a long-term greenhouse gas reduction target** to achieve 'a balance between sources and sinks of greenhouse gases from 2050';
- the ambition to **keep global temperatures 'well below' 2°C and to pursue efforts to limit it to 1.5°C;**
- **a legally binding process to review and report on efforts to achieve national targets;** and
- **\$100bn of annual climate finance** to help poorer countries to reduce emissions and adapt to climate change.



We believe that while the immediate implications of the agreement for investors are muted, the medium and long term effects will be profound. The real impact of the agreement will be felt through the national plans that were submitted in advance of the conference. These are varied and complex, but in aggregate clearly signal a trajectory away from fossil fuels and towards low carbon sources of power and resource efficiency.

We believe that the financial community, and the private sector more generally, played a very important role in securing an agreement. In previous summits the private sector has either been absent or, led by the fossil fuel industries, has worked to undermine any form of agreement. In Paris, the role of the private sector – extending even to oil and gas businesses – was to support a strong deal. Laurent Fabius, the urbane French Foreign Minister and Chair of the conference singled out the financial sector in particular by proclaiming that *"The financial industry is much more present at COP 21... You are major players and we congratulate you."*

WHEB's involvement was principally through the Institutional Investment Group on Climate Change (IIGCC) which set out a strong position in support of a deal. WHEB has also been very involved in supporting foundations, charities and individuals in making visible commitments to reduce (or exit entirely) their position in fossil fuels businesses and invest instead in low carbon activities. Investors representing over \$5 trillion are now adopting at least some elements of this strategy.

In truth, the Paris Agreement is just the start of the energy transition. WHEB will continue to work hard with investor groupings like the IIGCC and other investors seeking to reduce their exposure to carbon intensive assets to ensure that policy-makers and regulators remain committed to ensuring that greenhouse gas emissions remain within safe limits for our planet.

In the last year we engaged 74 times with 50 companies – c.75% of all the companies in our portfolios

50% of our engagement is either successful or partially successful representing 36 individual engagements.

We believe that the publication of clinical trials results is an important corporate responsibility issue that also has important risk mitigation and reputational impacts.

Engagement impact in 2015

Our engagement activity with companies is driven both by a desire to understand them better, and also to advocate for practices that we believe will help secure the company's long-term success. In the past twelve months we have had 74 engagements with 50 companies representing approximately three quarters of all the companies in our portfolios. Our engagement is also broadly aligned with our geographical exposure with 61% of our engagement with US businesses, 28% with European companies and 11% with companies located in Asia and the Pacific region.

We engaged on a wide range of topics over the year. The majority of issues related in some way to governance including engagement with companies to encourage high quality sustainability disclosures, strong and clear auditor independence, reasonable executive remuneration and effective rights for minority shareholders. This type of engagement constitutes the majority of our work. In addition we engaged on a variety of specific environmental issues including automotive emissions and greenhouse gases and social issues such as health and safety and worker rights.

We attempt to assess the ultimate effectiveness or impact of our engagement work by ascribing a rating to each engagement as either successful, where the company agrees to amend its approach; 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:

Based on this analysis our engagement has been moderately less successful than in 2014. Anecdotally, we have found that our in-depth engagements on sustainability related issues often end either successfully or partially successfully. Several portfolio companies over the course of the year have for example agreed to start or upgrade their reporting and disclosure on sustainability issues or increase their performance targets on these issues.

	2015 Engagement Activity (2014)
Successful	12% (19%)
Partially successful	38% (36%)
Unsuccessful	50% (44%)

We have however struggled to achieve real traction on many of the core governance issues. For example, our policy is to vote against the reappointment of auditors if their tenure exceeds ten years. This policy is routinely rejected in North America (though is now supported in European legislation) and we are reaching something of an impasse with several companies where they have already explained their opposition to our position. We plan to revisit the best way of engaging on these types of issues which may also involve targeting regulators and other investors in an attempt to secure broader support for this issue.

Notwithstanding these challenges, we are broadly happy with the level of traction that we get with companies when we engage with them. We are keen however to reduce the proportion of engagements that are unsuccessful and plan to focus on this area in 2016.

Company engagement

■ Novo Nordisk: Bringing transparency to clinical trials

After several months of trying, we finally secured a conference call with Novo Nordisk to discuss their response to efforts including specifically the All Trials campaign¹ for pharmaceutical companies to publish all the results of their clinical trials. The campaign has received strong support from the investment community including WHEB to encourage companies that conduct clinical trials (or have them conducted on their behalf) to publish this information. We believe that this is an important corporate responsibility issue that also has important risk mitigation and reputational impacts on the businesses in question.

Novo Nordisk is the most exposed company to this issue in the fund. We've been working with a group of investors on this topic and spoke to the company in November. The company has committed to publish all clinical trials back to 2006, but does not disclose trial results for products that are used in off-label applications that are not licensed. Some other companies do publish this wider information and we plan to continue to engage with Novo Nordisk on this point.



¹ For more on the All Trials campaign see <http://www.alltrials.net/>

Mercury containing waste is a significant problem with dentists now responsible for 50% of all mercury entering local US wastewater treatment facilities.

We also made several submissions to a UK government consultation on their recently implemented cuts to support for renewable energy.

Novo has also committed to publishing all results within 12 months of the completion of the trial and does not use contractors to conduct their trials but conducts them all in house – an approach that we support as it also reduces risks of malpractice in our view. The company did however state that they are not intending to support the All Trials campaign themselves, but are happy to maintain a dialogue with investors on this topic.

- **Henry Schein Inc.: Minimising toxic pollution from dentistry**

Henry Schein Inc. is a US based distributor of dental and other medical equipment. They were recently challenged in the media for their on-going use of dental amalgams that contain mercury and that are used in fillings and other dental applications. We coordinated a small group of investors to ask the company what action they have taken to reduce risks associated with the amalgams themselves and the mercury containing waste related to their use.

The company was very responsive to our questions and argued that the key risk is not in the amalgam itself (which has been proven safe over many decades of use) but in the mercury containing waste that is created. This is a significant problem with dentists now responsible for 50% of all mercury entering local wastewater treatment facilities in the US. The US Environment Protection Agency has proposed some strict standards on how dental waste containing mercury should be handled and once these are finalised the company will work to ensure that its customers (the dentists) ensure that this waste is appropriately handled. The company has for example already developed a separator that will assist dentists in complying with the new standard.

We also spoke to the company about its relatively poor disclosure on sustainability issues. The company confirmed that they are recruiting for a new position who will be dedicated to improving their performance in this area which they recognize that they need to improve.

Public policy:

- **Corporate lobbying and climate change**

Alongside our work with the IIGCC in the lead-up to the Paris climate negotiations, we have also participated in a number of efforts to ensure greater transparency and accountability for public policy positions on climate change. To this end we participated in an investor initiative coordinated by UKSIF to write to major car companies and ask them to clarify their lobbying positions on greenhouse gas emissions and climate change. We will report back on this initiative once the companies have responded.

- **Lobbying government for strong regulation on climate change**

We've also been involved in several initiatives in the past three months to encourage national and regional governments to implement stronger policies in support of low carbon energy. This has included writing as part of an investor coalition to the Albertan government who have responded to us, welcoming our support for low carbon technologies.

We also made several submissions to a UK government consultation on their recently implemented cuts to support for renewable energy. We have been strongly opposed to these cuts and made these and other points to the consultation through submissions via a variety of industry bodies. We also wrote to the government encouraging them to retain carbon reporting requirements for publicly listed companies – a point that also received strong support from Mark Carney, the Governor of the Bank of England during the climate change talks in Paris.

Voting record: Q4 2015

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 October – 31 December 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	6	100%
# meetings at which votes were cast	6	100%
# meetings at which we voted against mgmt. or abstained	2	33%

Resolutions	# of resolutions	%
# votes cast with management	21	88%
# resolutions where votes cast were against mgmt. or abstained (see list in appendix ³)	3	12%
# resolutions where votes were withheld	0	0%

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
Canadian Solar	Sustainability report	Company published first sustainability report in English in Sept	We provided high-level feedback on the report.	5 Oct
Henry Schein	Mercury in dental amalgam	Conference call – co. sees issue in mgmt. of waste but not from product	Co. will work with customers to address issues, also hiring head of CSR (see above)	23 Oct
Umicore	Sustainability reporting	Asked by company for feedback on their materiality analysis	Feedback will be used to inform company's sustainability strategy	29 Oct
Novo Nordisk	Clinical trials transparency	Conference call with group of investors	Positive meeting. NN performs well on many aspects though not all (see above)	3 Nov
Dassault Systemes	Sustainability strategy	Meeting to discuss sustainability strategy	Encouraged co. to produce more data on key issues incl. cyber security, product impact, governance	24 Nov
Roper Technologies	Auditor independence	Conference call and raised this as an issue	Co. said changing auditors worries most investors but it will consider the issue	4 Dec

Company	Topic	Comment	Outcome	Date
Suez	Carbon strategy	Met with them and raised concern about apparent poor performance on carbon emissions	Co. will set up a call with Head of Sustainability	9 Dec
Shimano	Sustainability reporting	Asking for an opportunity to engage with them on their ESG disclosure	No response as of 7 Jan 2016	9 Nov
United Natural Foods	Auditor independence	Wrote to explain votes against auditor ratification (tenure of 23 yrs) and equity award proposal	No response as of 7 Jan 2016	8 Dec
Fresenius SE	Manufacturing safety	Wrote asking for more information on their manufacturing safety	No response as of 7 Jan 2016	10 Dec

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