



WHEB

April 2016

Responsible Investing: Engagement Report Q1 2016

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Introduction

Public equity markets got off to an energetic start to the year with a rapid sell-off in January that was reversed equally rapidly in February. Our long-term holding period of more than five years means that we tend to look through these short-term gyrations and focus instead on longer-term dynamics. Our long-term approach also means that we can benefit from share price appreciation linked to the work that we do engaging with companies to understand their culture and operations better and to encourage them to adopt a longer-term perspective that is consistent with a strong approach to environmental, social and governance ("ESG") issues.

The big news at the end of the last quarter was the successful conclusion of the international climate negotiations in Paris. Working with our colleagues at the Institutional Investor Group on Climate Change (IIGCC), we have continued to engage with governments to encourage a rapid adoption of this agreement. We have also been spending a significant amount of time working with companies and the wider investment industry to establish clearer definitions of 'positive impact' investing. We describe these efforts in the section below along with the on-going bilateral engagement that we do with portfolio companies.

'Impact' vs. ESG

There has over the past few years been a sea-change in the way that the investment community looks at ESG issues. A growing number of investors are using ESG data to inform their investment decisions and, while many still pay it only lip-service, even this is a significant improvement from the disdain that most investors showed only a few years ago.

But in the industry's new enthusiasm for ESG, many investors are conflating ESG with impact. This may sound like pedantry gone mad, but the distinction is important. ESG is a term that increasingly focuses on policies, processes and performance that address a company's own operations 'inside the factory gate'. 'Impact' also covers these issues, but also crucially includes the social and/or environmental impact of the products and services supplied by the company.

This distinction is important because there are several companies that have highly developed ESG management that operate in industries where the product/service has a significant negative impact. Royal Dutch Shell, for example, is rated by the agency Sustainalytics as an ESG outperformer even though their core product is a major contributor to climate change. In Shell's case the negative impact of the product far outweighs the company's strong ESG performance and should give it an overall negative rating, in our view.

Impact is more than ESG



We have in recent months published a series of articles¹ setting out our arguments on these issues and have been actively engaging with rating agencies and asset owners on the importance of understanding these distinctions.

We have also spoken to a number of companies in our portfolios about these issues and have encouraged them to start reporting more clearly on the positive impacts of the products and services that they supply.

For example, in our Water Management theme, Ecolab provides detailed reporting of the positive impact of their products and services in reducing

demand for fresh water. Xylem, a company that provides a variety of equipment for water treatment and distribution, only covers ESG issues in their reporting. We have met with both companies to encourage a greater focus on this aspect of their impact.

¹ For example see <http://www.whebgroup.com/news-views/wheb-insights/>

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The lack of disclosure is even more apparent among companies in our social themes. Novo Nordisk is the only company that provides regular reporting on the positive impact of their products. We have engaged with several companies in our Health and Safety themes including CSL, a manufacturer of healthcare products including vaccines, and Intertek, a provider of product safety testing, to encourage them to provide more tangible data on these issues.

Company Engagement

■ Henry Schein: Antibiotics and livestock

The FP WHEB Sustainability Fund does not have any direct exposure to businesses involved in intensive livestock production or in the routine use of antibiotics in livestock production. The routine prophylactic use of antibiotics in livestock farming has become increasingly controversial as it has become clear that a variety of bacteria are developing resistance as a direct consequence of this practice.² The FP WHEB Sustainability Fund does invest in Henry Schein Inc. because of its main operations as a distributor of dental and medical equipment. The company does also have a smaller business involved in distributing veterinary equipment and products including antibiotics. Some of these antibiotics are also distributed to farms – a business that in total accounts for c.2% of company revenues.

We spoke with executives at the company including their Head of Global Animal Health and their Chief Veterinary Officer in mid-March about their risks associated with their exposure to the prophylactic use of antibiotics.

The company confirmed that the issue is significant and has led to a sales reduction of 10% in Europe in the last three years. In the Netherlands, where there is specific legislation discouraging antibiotic use in livestock production, they have seen reductions approaching 50%. The company confirmed that they believe that these trends will continue in the EU and are likely to accelerate in other regions such as the US.



From a business perspective, the company is also a supplier of other products such as vaccines and analgesics as well as diagnostics tools. These products are benefiting from higher demand as the use of antibiotics declines. The company is also investing in further developing these alternatives to antibiotics as a growing part of its product portfolio. As a consequence, we believe the company is both well-placed to benefit from, and to accelerate the shift way from the prophylactic use of antibiotics in livestock production.

■ Association of Member Nominated Trustees (AMNT) – Red Lines Voting

WHEB announced that it is the only asset manager to actively trial the new AMNT red-lines voting policy.³ The policy, which was developed collaboratively by the AMNT sets out a range of strict voting policy guidelines on environmental, social and governance issues at UK companies. WHEB will be trialling the new policy by applying it to UK companies in our portfolio. We will report back on our experience in our next report in July.

Public policy:

■ Keeping up the pressure post Paris

We supported a letter sent by the IIGCC to the Presidents of the European Commission and European Council as well as European Heads of State asking for them to work to maintain the strong European consensus behind the implementation of the Paris Agreement. We are concerned that any delays in ratification of the agreement (only achieved once 55 countries representing at least 55% of global emissions have signed the agreement) could undermine the ambition of the agreement. The first signatures to the agreement will be made at the end of April during a ceremony in New York.

■ Investor Forum consultation on long-termism in investment

WHEB submitted feed-back on a draft version of a new report on long-termism in investment that is being put together by the UK's Investor Forum. We are strongly supportive of greater long-termism in financial markets and so welcome the attention that the Forum is giving this issue. In addition, we also encouraged the Forum to adopt rigorous methodologies on calculating portfolio turnover figures which we believe should be regularly published.

² For example see <http://www.nhs.uk/news/2015/12December/Pages/Antibiotic-use-in-farm-animals-threatens-human-health.aspx>

³ <http://amnt.org/red-line-voting/>

Awards

■ Sustainable Cities Award

We were thrilled to receive the prestigious 'Sustainable Cities Award' in the Sustainable Finance category at a ceremony at London's Mansion House in March. These national awards are given to organisations which have demonstrated excellence in sustainable development.

Voting record: Q1 2016

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 January– 31 March 2016. 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	8	100%
# meetings at which votes were cast	8	100%
# meetings at which we voted against mgmt. or abstained	7	88%

Resolutions	# of resolutions	%
# votes cast with management	65	86%
# resolutions where votes cast were against mgmt. or abstained (see list in appendix)	10	13%
# resolutions where votes were withheld	1	1%

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 our voting at annual general meetings that were held during the quarter.

Company	Topic	Comment	Outcome
CSL	Impact reporting	Engaged to encourage impact reporting	Company hopes to have a better data-set for reporting in 2017
Henry Schein	Prophylactic use of antibiotics in agriculture	Conference call to understand exposure to risks around this issue	Company is well-placed to benefit from, and support, shift to alternative diagnosis and therapies
Intertek	Impact reporting	Engaged to encourage impact reporting	Company hopes to have a better data-set for reporting in 2017
Praxair	Impact reporting	Engaged to encourage impact reporting	Company already produces several case studies on positive impact
Shimano	Sustainability reporting	Encouraging fuller sustainability disclosure	Company produced CSR report in early 2016. We are working with other investors to discuss this
Stantec	Impact reporting	Engaged to encourage impact reporting	Company does not currently do this other than on specific projects
Xylem	Impact reporting	Engaged to encourage impact reporting	Company hopes to have a better data-set for reporting in 2017

Company	Topic	Comment	Outcome
Cooper Companies	Auditor independence & ESG disclosure	Auditor tenure of 30yrs and poor ESG disclosure	No response as of end of March
Fresenius SE	Manufacturing safety	Wrote asking for more information on their manufacturing safety	Engaged as part of investor coalition. Company recognises need for greater disclosure but sees this as a multi-year process
Rockwell Automation	Auditor Independence & Change of jurisdiction	Wrote about the 82 yr. auditor tenure and our opposition to a proposed change in jurisdiction for incorporation	No response as of end of March
Varian Medical Systems	Poor board attendance	Wrote to express our concern at Board director attendance	No response as of end of March

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