



WHEB

January 2017

## Responsible Investing: Engagement Report Q4 2016

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### Introduction

This time last year we were reporting excitedly on the outcome of the Paris Agreement and the long-term framework that this would provide for action on climate change. Twelve months later, in large part due to the election of Donald Trump as the next US President, the mood in low carbon investing is much more sober. However, it is not pessimistic. We report briefly on our involvement in climate policy initiatives below, where we believe momentum is still behind urgent action to tackle greenhouse gas emissions. We also cover the on-going work we are doing alongside other investors to encourage companies to improve their performance on a range of environmental, social and governance issues. There is much to be hopeful about as we see greater and greater engagement from companies and investors in sustainable and responsible investing.

### ESG disclosure among US mid-sized businesses

The WHEB Sustainability Fund has a significant level of exposure to small and mid-sized listed businesses in the US, with more than 30% of the fund invested in these types of companies. Many of these businesses have relatively poor disclosure on environmental, social and governance (ESG) issues and we have been proactively engaging with many of them to encourage improved disclosure.

We've written previously on our work with STERIS and Nautilus in previous reports<sup>1</sup>, and continued this work in the last quarter when we discussed ESG performance at WABCO, a maker of safety and efficiency equipment for commercial vehicles. We already viewed WABCO as a high quality business with strong investment programmes and leading technologies. This perspective was further reinforced by the in-depth conversation that we had with the company. Particularly impressive has been the company's ability to reduce energy and water use which has delivered 12-13% reductions in CO<sub>2</sub> emissions during 2015. The company has also developed innovative programmes around 'remanufacturing' used equipment as part of a circular economy service.

In addition to engaging with WABCO, we are also arranging calls with other US businesses such as Cooper Companies and Rockwell Automation who we hope to speak to in the coming weeks. Both WABCO and Steris, as well as Henry Schein and Stericycle, have indicated that they are reviewing their approach to ESG reporting and our interest has helped support the case for further disclosure. We are also working with a group of US investors in these companies, to explore the best way of working collaboratively to ensure ESG issues are registered as issues of high importance.

### Board independence at Orpea

Orpea is a French headquartered business that operates care homes for the elderly across much of continental Europe. The company has been a long-term investment in the FP WHEB Sustainability Fund and has prospered from the growing demand for high quality elderly care across the continent.

We originally bought into the business when it was still a relatively small French business, but in succeeding years, the company has grown substantially outside of France, doubling its revenues from 2012-16. We have engaged extensively with the business over the years on issues as varied as business ethics, carbon and energy management and board independence. This latter issue has been a particular focus as, for many years, the company had only a minority of independent directors on the Board. At one point just a quarter of Board directors were independent of the company. However, to the company's credit, as it has grown larger, it has recognised the need to bring in more independent oversight of the company. The proportion of independent directors



<sup>1</sup> See our Q3 2016 Engagement report at <http://tinyurl.com/jmltyvs>

*Over the course of 2016 we engaged with 70% (42 individual companies) of the companies in our investment fund.*

*Of the 67 engagements during 2016, 7% were on social issues, 33% on environmental issues and 59% addressed governance concerns.*

*In 2016 we believe 18% of our company engagements were successful, 40% partially successful and 42% unsuccessful.*

at the company has now reached 50% with two new independent directors being appointed in December 2016. In addition, two other directors, while not in our view fully independent of the business, are representatives of private equity businesses with significant long-term stakes in the company.

We will continue to engage with the business on a range of ESG issues including board independence, but see the progress on board independence to date as commendable.

\* - Non-independent directors incl. employee and shareholder representatives who we view as non-independent

| Date | Orpea independent/Non-independent Board Directors* |
|------|--|
| 2016 | 6/12   |
| 2015 | 6/10   |
| 2014 | 3/9  |
| 2013 | 2/8  |

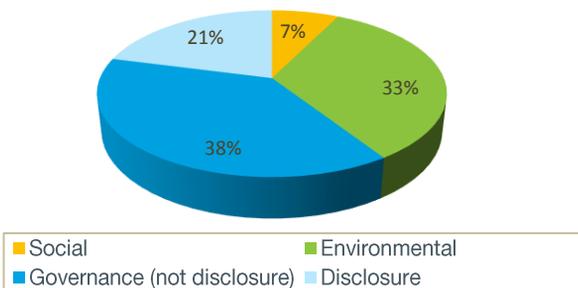
### Engagement impact in 2016

Assessing the impact of our company engagement work is a difficult thing to do and is in any case just one of the reasons that we choose to engage with businesses in our portfolio. With a relatively long-term (c.5 years) average investment period, it makes sense, we believe, to talk and meet with companies that we invest in as these engagements often yield helpful insights into the quality and prospects of the businesses.

Given this investment time horizon, it does also make sense to encourage practices that we believe help to underpin the long-term value and success of the business. Over the course of 2016 we engaged with 70% (42 individual companies) of the companies held in the FP WHEB Sustainability Fund.

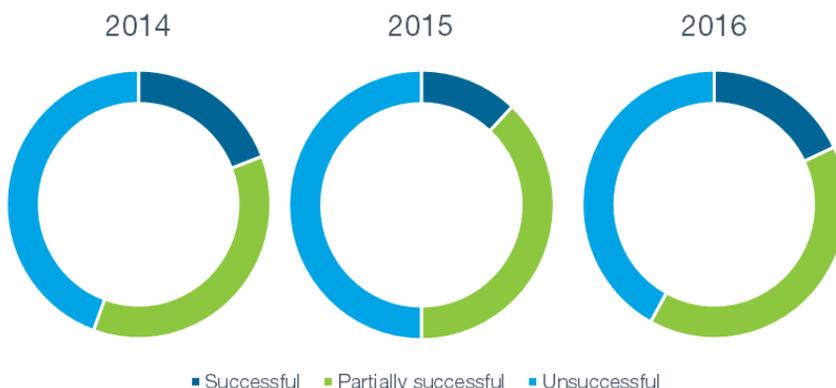
In addition, we engaged with seven companies that we sold during the course of the year. In some cases the engagement involved was simply a letter stating our position on key ballots at the Annual General Meeting. In others, it involved multiple meetings, in some cases on several issues during the course of the year. Of the 67 engagements that we conducted during the year, approximately 7% were focused on social issues, 33% focused on environmental issues and 38% addressed governance concerns including 21% which were focused on the issue of better ESG disclosure.

Company engagement 2016 (by topic)



For the third year running, we also report here on how successful we believe we have been with our engagement. As in previous years, we assess each engagement as being 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. In 2016 we believe 18% of our engagements were successful, 40% partially successful and 42% unsuccessful. This represents a modest improvement on the results from 2015 and is broadly equivalent with the result in 2014.

### Company engagement impact in 2016



*In the likely absence of ambitious policy action on climate change from the US Government, we believe that a more assertive and visible investor voice will be critical over the next four years.*

## Other Company Engagement

### CVS Health

In previous quarterly engagement reports we have covered the work that we have done with other investors and NGOs to encourage companies to replace hazardous chemicals with greener and less toxic alternatives. We are pleased to report that CVS Health, a pharmacy chain and primary healthcare provider held in the FP WHEB Sustainability Fund, was ranked third by 'Safer Chemicals Healthy Families in the US' safer chemicals programme. The company was considered to have strong oversight, policies and action in tackling toxic chemicals, but was encouraged to bring forward safer products in its stores and demonstrate continuous improvement. In a related development, the company agreed at the end of December to join as a signatory to the Chemical Footprint Project which is an NGO whose mission is 'to transform global chemical use by measuring and disclosing data on business progress to safer chemicals'.<sup>2</sup>

### Intertek

We spoke to the UK testing and inspection company Intertek following our letter earlier in the year that highlighted a range of issues raised through our implementation of the AMNT's Red Lines voting initiative. The company confirmed that they have no employees in the UK that are paid below the National living wage and that employees are unrestricted in their ability to join trades unions. They also confirmed that they will be publishing a Board-approved tax policy in 2017.

## Public policy Engagement

### Climate change

Our principal activities in the fourth quarter have been in supporting the work of groups like the Institutional Investors Group on Climate Change (IIGCC) and the Portfolio Decarbonisation Coalition (PDC). In the likely absence of ambitious policy action on climate change from the US Government, we believe that a more assertive and visible investor voice will be critical over the next four years. The IIGCC, for example, was strongly represented at the COP 22 negotiations in Marrakech in November. WHEB is also a signatory to the PDC and our approach and commitment to decarbonisation was highlighted in the organisation's annual report which underlined the progress that large institutional shareholders are making in reorienting their investment portfolios to a low carbon economy.<sup>3</sup>

### UK Financial Reporting Council's Stewardship Code

WHEB was pleased to be considered a 'Tier 1' signatory to the UK FRC's Stewardship Code. The assessment was done independently by the FRC on the basis of the quality of company submissions to the code.<sup>4</sup>

## Voting record: Q4 2016

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 October–31 December 2016. Full details of how we voted on each of the individual votes are detailed in Appendix 1 (<http://www.whegroup.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             | 100% |
| # meetings at which votes were cast                     | 3             | 100% |
| # meetings at which we voted against mgmt. or abstained | 2             | 67%  |

| Resolutions   | # of resolutions | %   |
|---|------------------|-----|
| # votes cast with management  | 20               | 83% |
| # resolutions where votes cast were against mgmt. or abstained (see list in appendix) | 4                | 17% |
| # resolutions where votes were withheld   | 0                | 0%  |

<sup>2</sup> The Chemical Footprint Project - <http://www.chemicalfootprint.org/>

<sup>3</sup> Investment Portfolios in a carbon constrained world - <http://tinyurl.com/jaq2lho>

<sup>4</sup> For more information on the Stewardship Code and the assessment please see: <http://tinyurl.com/zk59tfr>

## Company engagement activity

| Company                | Topic   | Comment                          | Outcome   |
|------------------------|---|----------------------------------|---|
| Fresenius SE           | ESG disclosure  | Teleconference with company      | Company agreed to improve disclosure                      |
| Orpea                  | Board independence  | December Company General Meeting | Company appointed 2 new independent directors (see above) |
| WABCO                  | ESG disclosure  | Teleconference with company      | Company encouraged to improve disclosure (see above)      |
| Rockwell Automation    | Resource efficiency and carbon emissions  | Letter asking for teleconference | Teleconference scheduled for January 2017                 |
| Intertek               | Living wage / Union recognition / tax avoidance   | AGM voting letter                | Discussed issues with company (see above)                 |
| The Advisory Board Co. | Lack of auditor independence / Separation of Chair/CEO                                    | AGM voting letter                | Company acknowledged receipt of letter                    |
| Canadian Solar         | Lack of auditor independence  | AGM voting letter                | Company acknowledged receipt of letter                    |
| Cooper Companies       | ESG disclosure  | Letter asking for teleconference | Company acknowledged receipt of letter                    |
| Stericycle             | Lack of auditor independence  | AGM voting letter                | Company acknowledged receipt of letter                    |
| Acuity Brands          | Lack of auditor independence / CEO remuneration   | AGM voting letter                | No response as of 9 January 2017                          |
| Danaher                | Lack of auditor independence / Lack of ESG disclosure / CEO remuneration / Share pledging | AGM voting letter                | No response as of 9 January 2017                          |
| Hella                  | Lack of auditor independence  | AGM voting letter                | No response as of 9 January 2017                          |
| Johnson Matthey        | Gender Diversity, executive remuneration and ESG  | AGM voting letter                | No response as of 9 January 2017                          |
| Mettler-Toledo         | Lack of auditor independence / Lack of detail on long-term incentives                     | AGM Voting letter                | No response as of 9 January 2017                          |
| Oxford Instruments     | Gender Diversity, executive remuneration and ESG  | AGM voting letter                | No response as of 9 January 2017                          |

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