



WHEB

April 2017

## Responsible Investing: Engagement Report Q1 2017

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### Introduction

It is now five years since WHEB started to issue quarterly voting and engagement reports. During this time, we have engaged with a huge variety of businesses, regulators and policy makers across a wide spectrum of ESG issues.

A perennial issue during this time however has been the poor quality of corporate ESG disclosure. While this remains the case, for the first time we now sense that companies that had previously paid lip-service to the agenda now recognise the value in communicating their approach and performance on key ESG issues. Five years ago companies would typically have to ask *why* they should publish ESG data as so few of their investors were asking for it. Today the questions focus more often on *how* to report rather than *why* to. We believe that our engagement work, alongside that of other investors, has played a key role in this shift among the companies that we engage with.

### Reinvigorating our voting policies

During 2016, WHEB pilot-tested the Association of Member Nominated Trustees' (AMNT) Red Line Voting initiative<sup>1</sup>. We have now decided to substantially strengthen our own internal voting policies in order to bring them into line with, and in some cases exceed, the requirements set out by the AMNT.

We've strengthened our positions on a wide variety of governance related issues including for example adopting stricter time limits on how long a non-executive director can be considered 'independent' of a company. This time limit is now set at ten years of continuous service after which a director is no longer considered to be independent. This definition has major implications for several aspects of our voting policies given the importance that we place on the overall independence of the Board as well as of Board committees.

We also remain highly exercised by what we consider to be the excessive senior executive pay policies of many companies. We have already had strict criteria on this issue for several years, for example being inclined to vote against any pay package that exceeds US\$10m. We've supplemented these policies with stricter criteria on the remuneration policy, for example voting against remuneration policies where there are no provisions for claw-backs or for withholding benefits on cessation of employment or where there are signing-on bonuses without conditionality. We've also strengthened our policy on the total remuneration package and will be inclined to vote against an award if it is more than 100x the average pay in the company or is more than 5% of net income.

We are implementing these new policies during 2017 and will report back on their impact in future editions of this quarterly report.

### ESG disclosure at Acuity Brands and IPG Photonics

Our programme of engagement with US-based mid-sized businesses continued during the first quarter of 2017, with two conversations with **Acuity Brands** and **IPG Photonics**.

Acuity Brands is a US\$8 billion US-based lighting business that is focused on developing and distributing predominantly LED-based lighting products and services. The company is held in our Resource Efficiency theme on account of the massive improvement in efficiencies that LED lighting offers. However, the company



<sup>1</sup> <http://redlinevoting.org/>

*Acuity confirmed that they have appointed a senior executive to lead a planning process that will end in an ESG report in 2018.*

*IPG Photonics believes that their lasers helped avoid 650,000 tonnes of CO<sub>2</sub>e in 2016.*

*As part of our role in helping in the development of market standards, we were asked to contribute to the development of the criteria for a Nordic Swan Eco-label on sustainable investment funds.*

has not historically provided any meaningful ESG disclosures. We spoke to the company along with three other investors and encouraged them to issue an annual report covering their management of and performance on the critical ESG issues facing their business. We were much encouraged by the company's response: it has appointed a senior executive to lead a planning process which will end in a report in 2018 that will respond directly to investors' interest in ESG issues. We were able to provide suggestions as to how this might best be done and plan to follow up with the company in the next few months to understand how this process has progressed. In particular we encouraged the company to address issues around waste management and energy efficiency as well as employee-related issues, particularly in the manufacturing operations.

Our conversation with IPG Photonics was similarly productive. IPG is a US\$6 billion business based in the US but selling its high efficiency fibre laser technology around the world. The company issued its first and only ESG report in 2015. Much of this report focuses on the enormous efficiency gains associated with shifting from traditional to fibre laser technology. The company believes, for example, that their lasers helped avoid approximately 650,000 tonnes of CO<sub>2</sub>e in 2016. The company is also focused on addressing their own internal ESG issues including in expanding the use of high efficiency industrial equipment in their operations, fully paying what the CEO considers to be a fair rate of tax (the company's tax rate is currently 29%) and focusing on greater gender diversity within the business (the company has for example recently appointed their first female board member). They agreed that this information needs to be better structured and reported to investors and committed to starting work on a second report during the Summer.

**AcuityBrands™**



## Market Engagement

### ■ IIGCC event on Investing in climate solutions

In March, WHEB co-hosted a major event with the Institutional Investors Group on Climate Change (IIGCC) aimed at sharing best practices among pension funds and other asset owners on how to scale-up their investments in low carbon assets. The event hosted presentations from several of the world's largest pension funds including the Dutch pension funds ABP and PGGM, the Danish pension funds PKA and the pension fund of HSBC, one of the largest corporate pension funds in the UK. Among these large pension funds there has already been substantial progress in low carbon investing. For example, 72% of respondents to an IIGCC survey indicated that they have already made at least one 'green' investment. What is more, 100% of respondents plan to make investments in low carbon assets.

The event is part of a dedicated stream of work that the IIGCC is developing which is intended to help support pension funds and asset owners to invest in low carbon assets. A summary of the meeting is available from the WHEB website<sup>2</sup>.

### ■ Nordic Swan Eco-Label

As part of our role in helping in the development of market standards, we were asked to contribute to the development of the criteria for a Nordic Swan Eco-label on sustainable investment funds. The Nordic Swan is a label that is used in the Nordic region to help consumers to 'actively choose environmentally sound products and services'. The label has also been influential in the development of ecolabel criteria by other regions including the European Union.

Nordic Ecolabelling, the organisation responsible for developing and applying the criteria behind the Swan Ecolabel is developing criteria for the eco-labelling of investment funds. We have contributed to this process which we believe is a significant development in the standardisation and definition of sustainable investing.



<sup>2</sup> <http://www.whegroup.com/scaling-up-green-investments-from-ambition-to-asset-allocation/>

## Voting record: Q1 2017

The table below summarises the voting record for the FP WHEB Sustainability Fund from 1 January – 31 March 2017. 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 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	6	75%
Resolutions	# of resolutions	%
# votes cast with management	55	67%
# resolutions where votes cast were against mgmt. or abstained (see list in appendix)	27	33%
# resolutions where votes were withheld	0	0%

## Company engagement activity

Company	Topic	Comment	Outcome
IPG Photonics	ESG disclosure strategy	Joint engagement letter with investor coalition	Company has agreed to issue a further report within 12 months
Acuity Brands	ESG disclosure strategy	Joint engagement letter with investor coalition	Company has agreed to issue a further report within 12 months
Henry Schein	ESG disclosure strategy	Joint engagement letter with investor coalition	Company produced a CSR review in Summer 2016 and plans to issue a fuller report in Summer 2017
Agilent	Lack of Board director independence / Lack of auditor independence / Excessive remuneration	AGM voting letter	Company responded outlining why they disagree with our views
JB Hunt	Lack of strategy on GHG emissions	Joint engagement letter with investor coalition	No response as of 10 April 2017
Shimano	Lack of Board director independence / Inappropriate bonus	AGM voting letter	No response as of 10 April 2017
The Cooper Companies	Lack of Board director independence / Lack of auditor independence / Inadequate bonus plan	AGM voting letter	No response as of 10 April 2017

Company	Topic	Comment	Outcome
Johnson Controls Inc	Lack of auditor independence / Excessive CEO remuneration / Inappropriate share buy-backs	AGM voting letter	No response as of 10 April 2017
Varian Medical Systems	Lack of auditor independence	AGM voting letter	No response as of 10 April 2017
Rockwell Automation	Lack of auditor independence	AGM voting letter	No response as of 10 April 2017

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