



WHEB

October 2017

Responsible Investing: Engagement Report Q3 2017

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Introduction

In the past quarter we have participated in a number of collaborative initiatives with other investors to encourage governments to move forcefully to implement the provisions of the Paris Agreement on Climate Change. We, along with other investors, believe that a robust response is critical at this juncture in order to strongly rebut the position of the US Administration which has chosen to withdraw from, and undermine, this agreement. We describe some of these initiatives along with our bilateral corporate engagement below.

Lenzing's response to NGO criticism

WHEB's investment strategy is to invest in companies providing solutions to sustainability challenges, and as a consequence we tend not to invest in businesses that are large users of energy themselves or run operations with a negative environmental impact. However, there are some businesses which require substantial amounts of energy and materials in order to manufacture their products, even where the products themselves play an important role in sustainability. Lenzing is just such a business where the products, in their case wood-based cellulose fibres (WBCF), have a major positive impact by displacing cotton, a highly water and pesticide intensive crop. However, manufacturing these materials requires the use of significant volumes of raw materials, chemicals and energy. Most of Lenzing's operations are run with sustainability as a core principle, but one facility in Indonesia was highlighted by an NGO as having a poor record on local river and air pollution and having poor relations with local communities and other stakeholders.

Following the publication of a report by the NGO that made these allegations, we spoke to the author of the report who confirmed that on most environmental, health and safety issues Lenzing is considered to be a leader. However, she did also confirm that the company's operations in West Java lag far behind the rest of the company.

We have subsequently spoken to the Chairman, Sustainability Director and Director of Investor Relations at the company to understand their plans to address these allegations. The company had already written to the NGO to understand better the concerns that they raised and did acknowledge that there had been some issues at their facility. They also pointed out, however, that another company operates a separate factory nearby which they believe is the source of much of the pollution.

Lenzing's Chief Technology Officer is in any case now leading an investigation into the allegations, with a sustainability group visiting the factory in September. Their aim is to produce some initial conclusions and follow-up actions in October. We plan to have a further discussion with the company in the coming weeks to get an update on progress.

Company engagement elicits very different responses to requests for greater ESG disclosure

We have reported in previous quarters on our efforts to encourage mid-sized US businesses to improve the quality and quantity of information that they disclose on environmental, social and governance (ESG) issues. During the past quarter we have continued to engage with four companies which have previously produced minimal ESG disclosures. The responses that we have received have been very varied as detailed overleaf.



Sulphur pollution in village adjacent to viscose factories in West Java (Source: Changing Markets Foundation)

We have co-filed a shareholder resolution alongside other investors at Acuity Brands asking for an ESG report to be issued in 2018.

The IIGCC letter helped to reassure the German government that isolating the US on the issue of climate change was supported by leading investors.



IPG Photonics has appointed the Investor Relations Director to lead an effort to compile more detailed ESG data as an update to their 2015 Sustainability report. This will be released as part of the company's third quarter results in October/November 2017



Cooper Companies have publicised the strong environmental performance of their operations in ad hoc press releases including reducing raw materials usage by 60% and saving \$4.5m in 2016. They have also appointed someone in the company to develop a system to collect this information from across the business with a view to reporting in future



Wabtec has historically been reluctant to produce any detailed ESG related disclosures, but following a recent acquisition, they assigned someone to coordinate ESG disclosures across the business. This included submitting their first response to the CDP detailing their approach to climate change. Thus far they have not however made plans to produce a fuller ESG or sustainability report and we continue to engage with them on this.



Having initially had a very promising call with the Investor Relations Director at Acuity Brands, further engagement indicated that efforts to publish an ESG report had stalled. We have therefore co-filed a shareholder resolution alongside other investors asking for a report to be issued in 2018.

Public Policy Engagement

Investors respond to Donald Trump's intention to withdraw from the Paris Agreement

In light of the US President's decision to withdraw the United States from the Paris Agreement on climate change, investors have written to the leaders of the G7, the G20 and the Prime Minister of the United Kingdom to encourage them to accelerate plans to implement the commitments made as part of the Paris Agreement. The letters were written in July ahead of key meetings of these groupings that took place in Germany over the Summer. The letter that was sent to the G20 leaders is available at <http://investorsonclimatechange.org/>.

Typically, it is difficult to assess what impact these letters have on the positions that politicians subsequently adopt, but the German Secretariat for the G20 meeting thanked the signatories of the letter and acknowledged that the letter had helped to reassure the German government that isolating the US on the issue of climate change was a strategy that was supported by leading investors.

The UK Prime Minister also responded positively to the letter and we have subsequently been pleased to read the UK Government's Clean Growth Strategy. Published in the Autumn, the strategy strongly reaffirms the UK Government's commitment to the Paris Agreement by providing more detailed policy proposals on how the UK will achieve a 57% reduction in greenhouse gas emissions by 2032 when compared with 1990.

Responding to the High Level Expert Group (HLEG) on Sustainable Finance

As part of the Institutional Investors Group on Climate Change (IIGCC) we have provided responses to the consultation issued by the High Level Expert Group on Sustainable Finance. The initial report from the group sets out what they believe should be Europe's priorities in embedding sustainability into financial policy. In particular, we've been focused on ensuring that the Group's proposals for defining 'sustainable assets' reflect the latest developments in the market. The group will issue its final report in December.

Market Engagement

Supporting ShareAction's RE100 and EP100 initiatives

WHEB has been a supporter of an initiative from the NGO ShareAction to encourage large corporations to source 100% of their energy from renewable resources. The initiative has now secured the involvement of over 100 companies.

ShareAction is now launching a second initiative called the EP100 which is asking companies to double their targets for energy productivity. So far the initiative has secured the support of 11 companies including Johnson Controls, a holding in WHEB's investment strategy.

Voting record: Q3 2017

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 July – 30 September 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	6	N/A
# meetings at which votes were cast	6	100%
# meetings at which we voted against mgmt. or abstained	5	83%
Resolutions	# of resolutions	%
# votes cast with management	41	63%
# votes cast against mgmt. or abstained (see list in appendix)	24	37%
# resolutions where votes were withheld	0	0%

Company engagement activity

Company	Topic	Comment	Outcome
BTG Plc.	'Overboarding'* Board-level gender diversity Auditor independence CSR performance targets	AGM voting letter	Chairman has resigned some other Board roles Audit contract being retendered
Lenzing AG	Board independence and gender diversity Remuneration	AGM voting letter and conference call	Chairman will review independence on board sub-committees and to improve gender diversity
	Allegations of poor environmental, health and safety standards at West Java facility	Letter and conference call	(see above page 1)
CVS Corporation	Director independence Auditor independence Remuneration of executive and non-executive directors Renewable energy goals	AGM voting letter	Company: 1) will comply with pay ratio disclosure rules in 2018 2) has set out environmental targets in latest CSR report 3) Disagrees with our concerns on independence & remuneration
Acuity Brands	Sustainability reporting	Conference call / Shareholder resolution	(see above page 2)
Wabtec	ESG Disclosure	Letter and emails	Company has responded to the CDP but has yet to issue an ESG report.

* 'Overboarding' is the term given to a Board Director who is a member of four or more Boards which we view as excessive, compromising their ability to be an effective Board member.

Company	Topic	Comment	Outcome
Steris Corporation	CEO remuneration Auditor independence	AGM voting letter	Acknowledgement of receipt of letter
Henry Schein	Board independence CEO remuneration	AGM voting letter	Company responded to say that they disagree with our positions
HMS Holdings	Board independence Auditor independence CEO remuneration and CSR incentives	AGM voting letter	Company responded to say that they disagree with our positions
Stantec	Auditor independence Long-term incentive plan (LTIP)	AGM voting letter and company meeting	Company disagrees with our position on auditor independence and has adopted a change that addresses our concern on LTIP
IPG Photonics	Director independence Auditor independence CSR criteria in CEO remuneration	AGM voting letter	Acknowledgement of receipt of letter
	ESG Disclosure	Letter and conference call	Company plans to release a new update in Q3 2017
Cooper Companies	Director independence Auditor independence Executive bonus plan Sustainability disclosure	AGM voting letter and conference call	Company disagrees with our position on independence and the bonus plan but reported that they are ramping up reporting on ESG issues incl appointing internal resource to coordinate

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