WHEB Asset Management

January –
December 2021

Stewardship Report

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WHEB

Preface

Our investment time horizon at WHEB is typically at least five years and generally much longer than this. On average, we invest and hold a company in our portfolios for between five and seven years. These long periods of ownership give us an opportunity to engage deeply with a company. Our objective in doing this engagement is to learn more about the company, and its culture. We believe this helps us make better investment decisions.

Engagement also gives us an opportunity to advocate for progressive change. Warren Buffet famously said that his favourite holding period was "forever". Unfortunately, most investors have dramatically shorter time-horizons. In 2020, the average holding period of stocks listed on the New York Stock Exchange was just 5.5 months.[1] *As an impact investor, we see our role as a counterweight to the short-term pressures applied by these investors. We want our companies to be successful businesses over the long-term. We push for strong performance across the spectrum of ESG issues which we believe helps underpin long-term out performance.*

This report sets out the policies and processes that we have at WHEB that direct our stewardship activities. These do not change dramatically year on year. However, the report also documents the extensive work that we have done with portfolio companies throughout the year to encourage them to improve their ESG practices. We utilise the full arsenal of tools at our disposal including voting at company meetings, engaging bilaterally with companies, escalating engagement to work collaboratively with others who share our objectives and occasionally divesting and publicly reporting our reasons for doing so. The report provides summary data of the work undertaken in 2021 as well as detailed case studies that illustrate our decision-making processes and the impact that we can have.

Further information is provided on WHEB's website as well as in our annual Impact Report.

George Latham
Managing Partner

Seb Beloe
Partner – Head of Research

[1] *https://www.weforum.org/agenda/2021/12/long-term-investing-decline/*

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SECTION 1: PURPOSE AND GOVERNANCE

Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

WHEB draws its roots from deep within the ethical, socially responsible and impact investing movement. We have a single investment strategy that focuses on investing in listed companies around the world that are providing solutions to the world's great sustainability challenges. Our purpose as a business is encapsulated in our mission which is 'to advance sustainability and create prosperity through positive impact investments'.

WHEB's investment strategy is designed to deliver on the company's core mission. It is based on a belief that companies that create economic value by providing solutions to critical sustainability challenges will be market winners over the long-term. Assessing the contribution that investee companies make in addressing key social and environmental challenges is a critical element of WHEB's investment process, within which stewardship is fully integrated. WHEB only invests in companies that sell products and services that directly address one or more of nine key social or environmental issues (Figure 1).

Figure 1: **WHEB's investment themes**

WHEB's Culture

Our culture is shaped by our values. We invest sustainably and responsibly. We are passionate about our work. We believe our success only comes after achieving success for our clients. We are a learning organisation and strive to improve continuously.

We think long-term. Our investment time horizon is well-above industry averages[2] and enables us to behave as owners of the companies in which we invest, rather than as short-term market traders. This directly contributes to our ability to effectively encourage behavioural change at investee companies through long-term, ongoing stewardship that spans multiple years.

WHEB Asset Management's business is based on a common philosophy and culture focused on:

- *Identifying and investing in solutions to society's pressing environmental and social challenges;*
- *Applying a long-term, research-based investment approach to uncover areas of value;*
- *Being transparent about our policies and systems and prepared to challenge the status-quo of the investment world; and,*
- *Providing clients with the best possible service and support.*

As a specialist fund manager with a unique focus on sustainable investing we see our culture as a key differentiating factor and source of long-term competitive advantage. We are organised as an owner-managed partnership and a Certified B Corporation. In addition to this, at the time of writing WHEB is currently in the process of implementing a new Deferred Equity Bonus scheme which will see the whole team gradually build an equity interest in WHEB Asset Management LLP over time. These factors create a longer term set of incentives more closely aligned with those of our clients.

WHEB has a unique focus on transparency and governance, which gives our clients confidence that we will remain consistent in our style, philosophy and the promise we have made. Our approach to transparency, including our Stewardship activity, is explained in more detail under Principle 6.

Fundamentally we embrace diversity, inclusion and equality as a core value. We believe that a business culture that allows minority groups to flourish is likely to be more successful over the long run. We also recognise the benefit of diversity for achieving sustainable outcomes. Our understanding of these issues has improved in recent years, and this is evident in the approach and composition of our employees and within our advisory bodies.

We remain committed to fostering further diversity throughout our direct operations as we continue to grow. WHEB's recruitment process aims to be as inclusive as possible from the earliest stage, to create diversity within candidate shortlists which, in turn, creates a pipeline of diverse talent in the business. For more information, see https://www.whebgroup.com/about-us/working-at-wheb/

With stewardship being fully integrated into WHEB's investment strategy, our philosophy aimed at finding solutions to sustainability challenges, and a culture shaped by our values, we have a high conviction that WHEB's investment beliefs, strategy, and culture enable effective stewardship.

Activity and outcomes

WHEB has one of the longest track records in sustainable and impact investing. The investment strategy was first designed and implemented during 2004 and 2005. Since then, we have received a series of accreditations which we believe demonstrate our commitment to be a leader in sustainable and impact investing (Figure 2). In 2021, WHEB Asset Management was named in B Corporation's 'Best for the World' list. Honoured in the 'Customers' category, we were delighted to be recognised in the top 5% of all B Corps in our size group worldwide for our sustainable business practices, based on an independent, comprehensive assessment administered by the non-profit B

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[2] *The average holding period for a company in WHEB's strategy is between five and seven years.*

Lab. This is the fourth time that WHEB has been recognised as one of the companies creating the most positive overall impact in the Customers category. WHEB made the list thanks to exceptional practices which are embedded in our business mission to advance sustainability and create prosperity through positive impact investments.

Figure 2: **Key external accreditations in WHEB's development**

Over the years, the team has regularly reviewed and evolved investment and stewardship processes in order to refine and improve our ability to integrate sustainability and environmental, social and governance (ESG) analysis as a source of investment return.

We have also deepened our understanding of investing for positive impact and its integration within the investment process as a natural evolution of the original definition of 'solutions to sustainability challenges'. For example, we were the first listed equity strategy to publish an impact report in 2016 and in 2020 implemented our 'impact engine' which provides a systematic methodology for assessing the positive impact generated by companies in the portfolio.

In 2021 we also published an overall 'model' and definition of how WHEB creates positive impact. The model is shown in Figure 3 below. This includes the work we do to identify businesses that deliver a positive impact through the products and services they sell. How we measure the positive 'enterprise impact' that these companies create in the world and the 'investor contribution' that WHEB makes both through our engagement with these businesses as well as with the wider financial system. The 'systems-level' investor contribution can involve engagement downstream with regulators, policy makers and standard setters, as well as upstream back to clients and their advisers to support and enable more positive outcomes ('3b' in Figure 3). Termed 'signalling' by the Impact Management Project this activity can play an important role by indirectly supporting positive impact enterprises.[3] Stewardship is embedded at the core of our commitment to be positive impact investors.

Practical examples of this 'system-level' contribution at WHEB include work that we have done in supporting the development of new standards and guidance on sustainable finance for example with the Global Impact Investing Network (GIIN) (see GIIN case study under principle 10); bilateral and collective advocacy on the need for more ambitious public policy targets on climate change with the Institutional Investors Group on Climate Change (IIGCC) among others; and efforts to educate and inform investors on the potential for asset management to have a positive impact through frequent presentations at industry and client events and through our blog and wider publications.

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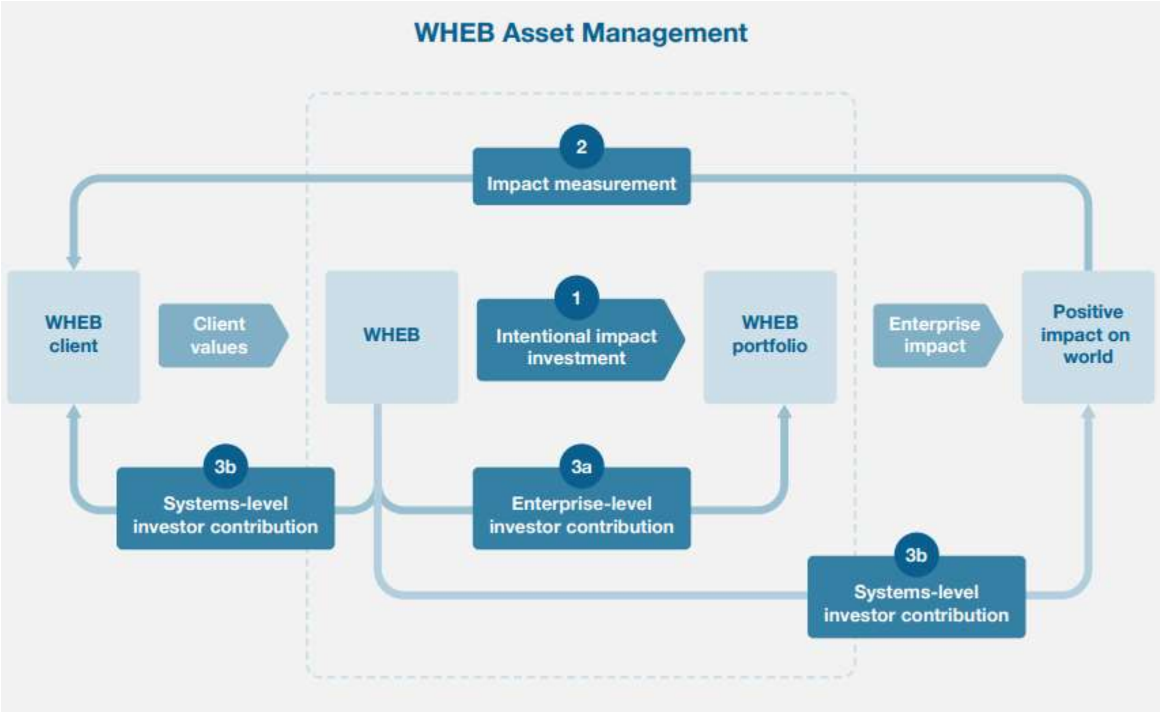
[3] *https://impactmanagementproject.com/wp-content/uploads/ Investor-Contribution-Discussion-Document.pdf*

Figure 3: Impact investment in listed equities **– WHEB's approach**



Investor feedback

WHEB conducted a formal client survey in 2021. We feel that the survey has given the business a more complete picture of our client's views and analysis indicates that these are generally positive, particularly regarding WHEB's strategy and information sharing. The results of the survey and investor feedback is discussed in detail under principle 6.

Further information

- *PRI Transparency Report (Section OO and SG) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *WHEB Overview - https://www.whebgroup.com/about-us/overview/*
- *2020 Impact report - https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf*

Principle 2: Signatories' governance, resources and incentives support stewardship.

Stewardship Resources

At WHEB, investment stewardship is delivered through our engagement and voting activity. Effective stewardship has a dual purpose. It can generate additional insights into company practices which feed into our investment decisions. Stewardship is also central to WHEB's 'investor contribution' when endeavour to influence improvements in corporate management and performance.

It is our firm belief that stewardship activities are best performed by the investment team itself. It is this team who have ultimate responsibility on whether to buy, hold or sell investments in portfolio companies. A core task for WHEB analysts is to monitor and understand the activities and performance of investee companies[4]. Because they have this broader commercial context, we believe that the investment team is best placed to influence company management and integrate any insights back into our investment thesis. The investment team are also supported in their engagement activities with specialist resources including expert opinion on company votes and bespoke reporting frameworks.

-Service Providers

- *WHEB's Stewardship process does not rely heavily on third party service providers. We believe that we are best placed to collect and assess material ESG information, as well as positive impact data relating to products and services. We do not rely on third-party ratings which are often of poor quality, in our view[5].*
- *From time to time, WHEB will use a range of third-party service providers to support proxy voting and provide voting advisory services. Whilst we consider the recommendations of advisory services in how we vote our shares; the investment team independently assesses each individual company vote against our own internal policies before recommending a vote to the rest of the investment team (see principle 12 for more information).*

Incentives

Stewardship is fully integrated into the team incentive plan. Each investment analyst has specific engagement objectives included in their annual appraisal.

Governance

Investment team activities including stewardship, voting and engagement activities are overseen by the Investment and Risk Committee (Figure 4). This committee meets monthly and includes both WHEB's Chief Risk Officer (CRO) as well as the company's non-executive Chair.

In addition, WHEB's independent Investment Advisory Committee also provides independent scrutiny of the investment team's activities including stewardship (Figure 4). This committee is composed of independent experts in the field of sustainable investing and meets every four months.

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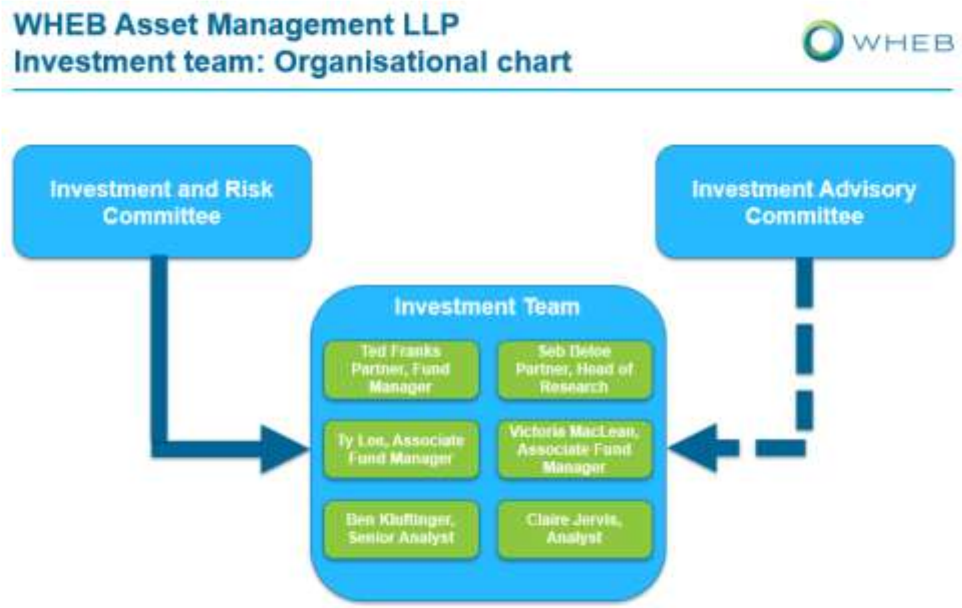
[4] *Our approach is team based. Each stock in the portfolio and on the watch list is assigned a Person in Charge (PIC), which rotates approximately every 18 months. This helps avoid behavioural biases including confirmation bias and equips each team member with the knowledge and experience to be able to challenge the views of others on portfolio holdings.*

[5] *WHEB has written multiple blog posts on this topic, see our latest here: https://www.whebgroup.com/wheb-insights/esg-ratings-a-quick-fix-or-a-bodged-job/*

The Investment Advisory Committee plays an advisory role and summary minutes of this meeting are published on WHEB's website.[6]

Figure 4: **Governance of WHEB's stewardship activities**



[6] *The current composition of the Advisory Committee is available at https://www.whebgroup.com/about-us/advisory-committee/*

Case Study: Investment Advisory Committee (IAC) **discussion on WHEB's decision** to sell Kingspan[1], March 2021

Kingspan is an Ireland-headquartered business that develops and manufactures a variety of building insulation boards and panels. The products are used in new buildings as well as in renovations to improve the energy efficiency of buildings.

WHEB first started a position in Kingspan in May 2014 and has held the shares continuously across all the firm's investment funds until the end of February 2021. At that time WHEB held approximately 0.11% of the company's outstanding equity.

Committee Members

WHEB's work on the issue

Seb Beloe presented a discussion paper to the Committee on the events that surrounded the Grenfell Tower fire that took place on the 14th June 2017. The fire resulted in the loss of 72 lives with a further 70 people sustaining significant injuries.

The events surrounding the fire were the subject of an extensive Public Inquiry. From the start of this Inquiry it was clear that only a small amount of Kingspan product was used on the building. Furthermore, the company had no involvement in the design or specification of the cladding system and was not initially even aware of the use of their product on the building.

WHEB had been in regular contact with the company over a number of months. We developed our own framework for what we consider to be best practice in product safety[iv]. We compared Kingspan's historic behaviour and their response to Grenfell against this framework and shared this analysis with the company.

Decision to sell

On the basis of this analysis, we concluded that we were unable to continue to invest in Kingspan. We do not believe Kingspan was in any way directly culpable for the Grenfell Tower fire. We do believe however, that the culture within the UK business enabled – even encouraged – an attitude that prioritised commercial advantage over product safety. Furthermore, based on the evidence presented at the Inquiry and our knowledge of the business, this culture was at least tacitly endorsed by group management. We do not believe that the proposed remedies would go far enough to address these concerns.

Notwithstanding the positive steps the company has taken, and the undoubted positive role the products play in improving building efficiency, we chose to sell the company from our portfolios. We fully exited our position on the 26th February 2021.

Investment Advisory Committee View	Committee Members supported the thorough process that WHEB undertook in reviewing the company's response to the Grenfell Tower fire. Members were also supportive of the decision to sell and agreed that, given the conclusion and the consequent lack of trust in the governance of the company, it would be difficult to do anything else. We agreed to share our findings directly with the company.

[i] https://www.whebgroup.com/media/2021/04/202103-Summary-minutes-Final.pdf
[ii] Most notably Peter Wilson, the Managing Director of Kingspan's insulation boards division, resigned at the end of 2020
[iii] The review was conducted by Eversheds Sutherland
[iv] Derived from Lucia Suhanyiova, Amy Irwin and Rhona Flin, 'Product safety culture: a preliminary study in the UK manufacturing industry', Journal of Risk Research, 19 August 2020

Activity and outcomes

Being a leading steward of our clients' capital is a core part of WHEB's proposition to our clients. It is embedded in how our investment team is assessed and incentivised and is a regular part of investment and risk committee meetings and is a topic that we address with our independent advisory committee.

We routinely assess the effectiveness of all our company engagement activity as part of our quarterly reporting (See principle 9 for detail). We also publish this information annually in our impact report (see Principle 6 below). We believe that our governance structures and processes have been effective in directing our engagement activity over the year. Our engagement activities typically cover more than three-quarters of all portfolio holdings.

Our ambition is to do more and drive deeper engagement (which WHEB defines as being more than three interactions with company executives on the issue in question) with these companies. In 2021, we increased the size of our investment team by 50%. Each investment analyst undertakes engagement with a sub-set of companies for which they have primary responsibility. This has enabled us to increase the depth of the engagement that we conduct with portfolio companies. Because engagement is led by the investment team, it is contextualised and connected to the company's specific commercial objectives and strategy. We plan to invest further in additional head-count and IT systems to support our engagement activities in 2022.

Further information:

- *PRI Transparency Report (Section SG) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *Investment Advisory Committee Summary Minutes - https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/*

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

WHEB is an independent business that focuses solely on managing, on behalf of its clients, investment funds invested in the equity of publicly quoted companies. WHEB is currently in the process of implementing a new Deferred Equity Bonus scheme which will see the whole team gradually build an equity interest in WHEB Asset Management LLP over time, alongside the partners and WHEB Group[7]. It is committed to carrying out its business in compliance with the highest standards of corporate governance and integrity.

WHEB operates a Conflict of Interest Policy which is applied to avoid or reduce any actual or potential conflict of interest arising (i) between WHEB, its staff, any appointed representative or any person directly or indirectly linked to them by control and a client of WHEB; or (ii) between a WHEB client or clients. The key elements of our conflicts of interest policy are summarised below.

Our conflicts of interest policy is focused on five main areas:

- 1) Identification of conflicts of interest*: WHEB and its staff are required to take all reasonable steps to identify conflicts of interest between WHEB and its clients or between two or more clients. The Compliance Officer maintains a conflicts of interest register related to staff and WHEB. Staff are required to inform the Compliance Officer if they become aware of an actual or potential conflict of interest between WHEB and a client or between clients.*
- 2) Record of Conflicts*: WHEB maintains a record of the kinds of service or activity carried out by, or on behalf of WHEB, in which a conflict of interest leading to a material risk of damage to the interest of a client or clients has arisen or may arise.*
- 3) Prevention*: We have in place a wide range of measures that are designed to prevent conflicts of interest from arising. These measures include proactively identifying conflicts of interest, documenting investment recommendations, restricting the receipt or offer of gifts or inducements and reporting on conflicts or potential conflicts of interest.*
- 4) Managing conflicts*: While there are many types of conflicts of interest that may emerge in other aspects of our business and which are addressed in our Conflicts of Interest Policy, conflicts as they relate to stewardship are relatively limited. Conflicts may emerge, for example, between the interests of clients and our voting policy (for example between a corporate pension fund as a WHEB client, and our voting position at the associated company's general meetings). In such cases it may not be possible to prevent conflicts of interest from arising. In these cases, we manage conflicts of interests by monitoring, appropriate disclosure to the client, and/or declining to provide the service. The Compliance Officer with the assistance of the Investment and Risk Committee will manage actual and potential conflicts of interest. In any case, before a potential conflict of interest becomes an actual conflict of interest, or as soon as is reasonably practicable after becoming aware of an actual conflict of interest, WHEB will manage that conflict to ensure that no client is prejudiced as a result.*
- 5) Monitoring*: Where staff are involved in transactions involving carrying out activities on behalf of clients whose interests may conflict, or whose interests may conflict with the firm, those members of staff will be monitored by the Compliance Officer. In addition, the Compliance Officer may disclose the nature of the risk to the client in order to enable the client to take an informed decision about the service in the context of which the conflict of interest has arisen. Equally, the Compliance Officer may decide that it is not possible to avoid or manage a conflict of interest and so decline to provide the service requested.*
- *With specific regard to our stewardship activities, the central objective when reviewing which companies, we engage with, and how we engage and vote, is to act in the interests of clients*

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and to treat all clients fairly. Our independent Investment Advisory Committee reviews our voting and engagement activity and may assist us in deciding how best to resolve and address any conflicts arising in the context of our corporate governance and wider stewardship activity.

- *We may also be provided with inside information and made an 'insider' by a listed company or their advisors on specific corporate actions. WHEB considers this to be permissible but requires it to happen on a controlled basis and with the prior consent of the Compliance Officer or a member of WHEB's Senior Management. Should WHEB receive inside information, the relevant company will be placed on the restricted list and WHEB staff may not trade in (or arrange a transaction in the securities in) issuers on the restricted list, whether on their personal account or on behalf of a fund, without the prior written permission of the Compliance Officer, which would normally only be provided following legal advice and in exceptional circumstances.*

Conflicts of Interest in 2021

As a relatively small, boutique business with a single strategy, conflicts of interest are rare at WHEB. This continued to be the case during 2021, in which time there were no conflicts of interest reported.

WHEB launched a new sub-set of the main strategy in December 2021, with the launch of the new WHEB Environmental Impact Fund (WEIF). This fund invests only in the five environmental themes (cleaner energy, environmental services, resource efficiency, sustainable transport and water management), from the nine included in the main WHEB strategy. As this fund will invest in a sub-set of the WHEB strategy portfolio, conflicts of interest are not expected to arise between this vehicle and the existing WHEB funds. On launch, WHEB has purchased one share of each of the non-seed share classes of WEIF, permitting closure of the Initial Offering Period and making the classes immediately available for investment by interested parties. These investments were redeemed once external investments were made into the relevant share classes.

Potential conflicts of interest in respect of the six WHEB Fund vehicles are monitored on a continuous basis, however, as all of these are managed as a mirror to the same strategy, issues in relation to conflicts of interest are not expected to arise.

Further information:

- *A full copy of WHEB's conflicts of interest policy is available on request.*

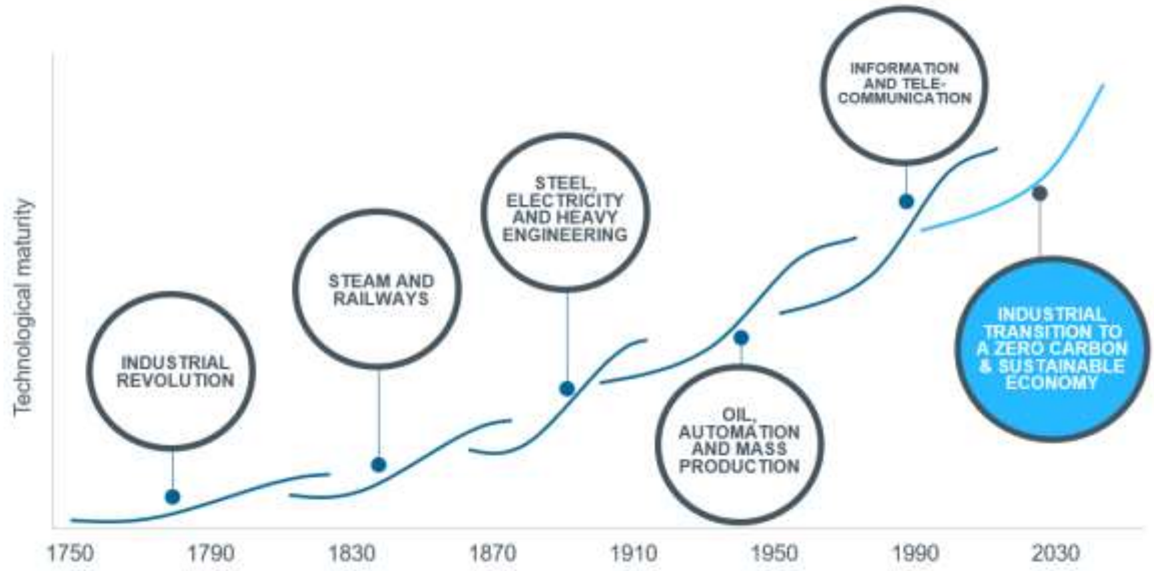
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Identifying and responding to market-wide and systemic risks

As an active and responsible financial market participant, WHEB has the opportunity, and responsibility, to help ensure that financial markets are cognisant of, and responsive to critical systemic risks.

Indeed, the WHEB strategy was established as a response to global megatrends such as resource scarcity, climate change, ageing and growing populations and their associated risks. It is our conviction that these trends will persist for decades and it is our view that we are in the early stages of a fundamental transition to a zero carbon and more sustainable global economy. This is sometimes referred to as the sixth industrial revolution (Figure 5).

Figure 5: The sixth industrial revolution [8]



This transition itself is creating risks that, for some sectors, are existential threats. For others transition risk is better described as a transition opportunity, as the global economy orientates towards companies providing low and zero carbon solutions.

The thematic nature of WHEB's investment process means that the strategy is entirely absent from areas of the economy which are most susceptible to this transition risk, such as fossil fuel production or power generation, cement, steel and bulk chemicals. It is also structurally focused on those parts of the economy that we believe are well placed to both enable and benefit from the transition, such as renewable energy, energy efficiency in buildings and manufacturing, sustainable transport and water management.

It also means that the strategy embeds a <1.5°C scenario and mitigation actions taken by regulators will, we believe, have strong positive impacts on our portfolio. This is an explicit objective that is core to WHEB's investment strategy, within which stewardship is fully integrated.

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[8] Derived from: Technological revolutions and Financial Capital, Carlota Perez, 2002 adapted by WHEB Asset Management LLP

Our scenario testing and long portfolio track record suggest that the portfolio does show resilience in times of crisis.

For our clients' benefit, WHEB's frequent reporting and commentary often draws links between investee companies and how their products and services may address systemic and market-wide risks. For instance, in August 2021, Associate Fund Manager Ty Lee wrote about recent extreme weather events (such as heatwaves in California and Nevada, flooding in Western Germany and in Zhengzhou, China and sub-zero temperatures in several South African cities) and how these events serve as a reminder of the urgent need for climate mitigation and adaption[9]. Renewable energy holdings First Solar and Vestas play a vital role in clean energy. Cutting emissions alone, however, is not enough and adaptation solutions such as those from portfolio holdings Arcadis and Advanced Drainage Systems will be essential for flood modelling and stormwater management.

Systemic risks are complex by nature and companies can be susceptible to being affected by and/or affecting some issues whilst also being resilient to/mitigating others. As a shareholder, WHEB therefore recognises the importance of using our influence with investee companies to engage the company on risk mitigation strategies where this is appropriate. As described under Principle 2, WHEB's engagement and voting activity is fully integrated within our investment process. As a result, our stewardship activity benefits from the consideration of systemic and market-wide risks that investee companies are not only vulnerable to, but also, may exacerbate (See the Infineon case study below).

Case Study: Disruption in the Semi-Conductor Supply Chain Q3 2021

Infineon Technologies manufactures semiconductors and related systems. The company's products include power semiconductors, as well as microcontrollers and radio frequency products and sensors. The products are key enablers of several important end markets including electric and hybrid road vehicles, renewable power generation including wind turbines, efficient power management in industrial systems and applications and in other types of electrical infrastructure.

Rationale & Objective	*Texas is the centre of semiconductor manufacturing in the US, with more facilities than any other state. However, in February 2021, severe winter storms in the region caused massive electricity failures.* *The Texas Freeze led to significant lost production for semiconductor manufacturers like Infineon, in our portfolio. This, in turn, contributed to the global shortage of semi-conductors in global supply-chains which is still ongoing today. In a world where extreme weather events are becoming uncomfortably common, physical asset risk from climate change needs to climb up corporate and investor agendas.*

[9] *https://www.whebgroup.com/wheb-insights/extreme-weather-a-wake-up-call-on-climate-mitigation-and-adaptation/*

Strategy	*WHEB sought a meeting with Infineon in September 2021 with a view to discussing the company's strategy for asset risk mitigation.*
Company Response	*Infineon was responsive to our request and agreed to the meeting. The company was forthcoming in sharing information on their approach to addressing physical climate risks to date, stating that it had instructed the services of a third party to oversee an audit of the organisational climate risk.* *In addition to this, the company is very much taking the steps necessary to manage risks that are already known to it. For example, appropriate measures are being taken at the local level where risks, such as flooding, pose a more imminent threat. Moreover, physical risks are reported to the board.*
WHEB's analysis and engagement outcome	Partially Successful: *We were reassured to learn that Infineon had already undertaken work to understand the potential for physical climate asset risks, that structures are in place for reporting of risks to the board and, that known risks are being managed where appropriate. We were unable to find out who the third party was overseeing the audit and, therefore, assess the level of independence brought by this. In addition, we would like to see the company improve its disclosure in this area as we are concerned that Infineon may be underestimating its risk. This remains a topic of engagement with Infineon and throughout our portfolio.*

Net Zero

WHEB was delighted to become a founding signatory of the Net Zero Asset Managers initiative in December 2020 and commit to a goal of net zero emissions from our investment portfolio by 2050 or sooner. The Net Zero Asset Managers Initiative represents a very significant undertaking. In it, WHEB has committed to have at least 50% of the emissions produced by WHEB investee companies covered by net zero carbon commitments by 2025 and by 2030 to have 100% covered by such commitments. Critically, under the initiative we have also committed to absolute carbon emission reductions. This includes having a net zero carbon portfolio by 2050 at the latest. We have also set an interim target to achieve absolute carbon reductions by 2030 that are consistent with a 50% global reduction in carbon emissions. This 50% reduction is what is considered necessary to achieve global net zero carbon emissions goal by 2050. These commitments cover WHEB's entire investable assets and consequently, was a significant focus of our bilateral engagement with investee companies during 2021.

Promoting a well-functioning financial system

Together with key stakeholders including clients, investee companies, non-governmental organisations, regulators and standard-setters, WHEB helps to develop investment tools and frameworks that codify and standardise the financial market response to key systemic issues.

- The Impact Engine: *Because impact data remains poorly defined by the market, WHEB developed the impact engine as a tool to underpin a systematic approach to codifying impact across different themes and end markets. This tool was finalised and implemented in 2020 and now represents a core part of our investment process. It is used to collect and organize impact data across six dimensions and leads to an overall impact 'intensity' rating. The Impact Engine draws on the work of the Impact Management Project and the Future Fit Foundation, both of which we participate in and contribute to. WHEB has made the details of the impact engine* *available publicly within our 2019 and 2020 impact reports*[10] *and instructed a third party to conduct a review of the tool during 2021 (See principle 8 for more information).*

- Impact Reporting and the Impact Calculator: *WHEB produced the first impact report on a listed equity strategy in 2015 and developed the first impact calculator in 2017. The Impact Management Project defines 'signalling' as engagement downstream with regulators, policy makers and standard setters, as well as upstream back to clients and their advisers. We believe that WHEB's commitment to transparency within our reporting of impact (including publishing our peer-reviewed impact data methodology*[11] *and the commentary and opinion pieces we produce on wider environmental and social themes*[12]*) is an important signalling contribution towards the promotion of a well-functioning financial system.*

- *In particular, our Impact Calculator helps to communicate the positive impact generated by the companies held in the strategy, thereby helping people understand the opportunities resulting from transition risks (Figure 6). Similarly, reporting negative impacts associated with the strategy creates accountability for negative externalities which contribute to systemic risks and encourages reductions over time. WHEB reports on scope 3 emissions in the strategy within the 2020 impact report (as well as a number of different climate metrics, including Scope 1 & 2). However, more work is needed for reporting of negative product impacts, which are also considered within our investment process as we note in this report. This is something that we plan to address in the 2021 Impact Report.*

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[10] *The impact engine is described on page 17 of the 2019 report (https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf) and on 24 & 25 of the 2020 report (https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf).*

[11] *WHEB's detailed methodology document is available on our impact microsite. It sets out WHEB's approach to assessing and measuring the positive impact associated with the products and services sold by companies held in the investment strategy and was reviewed by the Carbon Trust in 2020. https://impact.whebgroup.com/media/2021/07/2021-Methodology-Final.pdf*

[12] *These contributions are outlined in more detail under Principle 6.*

Figure 6: **WHEB's impact calculator showing the positive impact associated**[13] with owning **£1m in WHEB's investment started in 2020**.

Collaborative efforts

As detailed under Principle 10, WHEB has a long history of collaborating with other investors, non-governmental organisations, regulators and standard setters (see GIIN case study under Principle 10). Many of these organisations seek to shape the financial system to address systemic risks and support and enable more sustainable and positive impact investment.

In November 2020, WHEB became one of 21 Future-Fit Pioneers. Pioneers commit to becoming businesses that deliver their core purpose in a way that does not cause any harm to the planet or

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[13] Investors in WHEB's strategy are aligned with these positive impacts by investing in companies that form part of crucial supply chains that manufacture these products and provide these services. WHEB's investments contribute to the attainment of the impact, however, are not solely responsible. The impact is therefore referred to as 'associated'. CO2e avoided is based on a global average carbon price of £16 per tonne based on World Bank and IHS Markit's Global Carbon Index (https://carboncreditcapital.com/value-of-carbon-marketupdate-2020/). Landfill costs are based on a landfill tax of £94.15 per tonne of waste which is equivalent to the UK's landfill tax in 2020.

society. We will also assist other businesses on their own journey, 'acting as a guide and rallying call for all businesses to join this movement'[14]. At the core of the Future-Fit philosophy is the recognition that sustainability is fundamentally the property of a system and not of an individual business. The destination of 'sustainable development' requires the whole global economy to change, not just individual businesses. The Future-Fit framework is an important platform that we believe will help us make robust business decisions which will ultimately make us a better business.

In 2021, WHEB produced a Level One Statement of Progress[15] using the Future-Fit methodology which identifies our positive purpose, alongside areas where business activity may pose a risk to society and should consequently be addressed as a priority.

Further information:

- *PRI Transparency Report (section SG09, SG11) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *WHEB Networks - https://www.whebgroup.com/about-us/industry-networks/*

[14] *https://futurefitbusiness.org/become-a-pioneer/*
[15] *https://pioneers.futurefitbusiness.org/p-WHEB.html*

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Stewardship and Engagement policy and WHEB's Responsible Investment policy are developed and implemented by the Senior Management Team. Both are subject to regular review and are considered in light of evolving industry best practice.

The application of the policies is overseen by the WHEB's Investment and Risk Committee. In addition, WHEB's independent Investment Advisory Committee also scrutinises our voting and engagement activities. Summary minutes of the Advisory Committee meetings are published on the WHEB website. The Advisory Committee also reviews WHEB's Annual Impact Report and includes a statement outlining their findings and overall view of the report.

All details on company engagement are stored as part of our investment research database. Analysts capture key information from their engagements typically including the date, the issues discussed as well as the name and title of investee company representatives and the type of engagement. This is linked to the specific company, or companies, that are the subject of the engagement. The database is updated in real time as new information on engagement is added and allows analysts to track their engagement and report on related outcomes.

We then report on our engagement activity in our quarterly client reports. This typically includes more detailed disclosures around key issues that have been a focus during the quarter as well as a summary of all engagement undertaken in the quarter.

Review and assurance processes

We are convinced that effective engagement is best delivered through the investment analysts who have responsibility for the companies in question. Outsourcing engagement to a separate team – let alone a separate company – severs the link with the investment decision. It also means that engagement conversations are disconnected from the investment thesis. We think this undermines the credibility of the engagement and reduces the opportunity to learn and reflect this back into the investment thesis.

It is in part for this reason that we boosted the analyst team at WHEB by 50% during 2021 by recruiting a new Associate Portfolio Manager and an Analyst. The new team has a shorter company list for which they are responsible and more capacity therefore to conduct engagement with portfolio companies.

WHEB's Head of Research oversees all our engagement to ensure that it is fully aligned with the firm's philosophy, strategy and culture.

In addition, we have also commissioned third parties to assess the quality of our internal processes and methodologies and in recommending improvements to the effectiveness of our processes, particularly on our assessment and measurement of impact. In 2020, we reported that we had commissioned the Carbon Trust to review our methodology for calculating impact measures including levels of carbon avoided, waste recycled, water treated and numbers of patients treated with healthcare products and services. In 2021 we commissioned the Carbon Trust again to review the data that we collected covering the period 2020. While they recommended some modest changes to our data collection and calculation, their overall conclusion was that 'WHEB's approach to data sourcing is fit for purpose and provides a reasonable basis for impact calculations. Overall, the Carbon Trust believes that the data used is of reasonable quality'.

Finally, as expectations have changed over time, we have also made some small revisions to our voting policies. This has included voting against the Chair of the Nomination Committee if Board-

level gender diversity is less than 33% (previously less than 25%). We also vote against the Chair of the Board if there is no target to achieve net zero carbon emissions by 2050 at the latest. We also vote against the executive remuneration package if there is no evidence of ESG criteria in the performance conditions.

In 2022, we plan to invest in more IT systems to support and track our engagement activity and this is work that we have already instantiated at the time of writing this report. We will update our progress in this area in our 2022 Stewardship Report.

Further information:

- *WHEB's 2020 Annual Impact Report - https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf*
- *Investment Advisory Committee Summary Minutes - https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/*

SECTION 2: INVESTMENT APPROACH

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

WHEB's clients and investment time horizon

Figure 7 shows a breakdown of WHEB's clients, both in terms of geography and segmentation, by AuM. As the charts show, the majority of WHEB's investors are professional investors based in the UK. This has not changed since 2020.

As a boutique asset manager dedicated to positive impact investing, WHEB's view is inherently long-term. Our investment philosophy is underpinned by a belief that businesses that successfully turn sustainability challenges into an opportunity will access faster growing markets and gain a long-term competitive advantage. Our thematic focus and interest in ESG issues is driven by our desire to understand the fundamental quality of businesses that we are researching over a multi-year investment horizon.

As a result, the expected holding period for the strategy is 4-7 years, well-above industry averages and in line with our investors time horizons[16]. This enables us to act as owners of investee companies, rather than as short-term traders. WHEB's integrated engagement activity is therefore typically structured as proactive initiatives that are aimed at long-term issues affecting whole sectors and/or companies in our investment universe. In addition, we also conduct a range of 'reactive' engagement activity in response to specific issues at individual companies. This gives us the opportunity to encourage more progressive approaches to ESG and sustainability issues which, in our view, help to generate superior risk-adjusted returns over the medium to long-term.

Figure 7: Investor breakdown by AuM as of 31st December 2021

[16] 97% of the respondents to WHEB's 2021 client survey expected to hold most of their investments for 4 years or more.

WHEB's Policies: alignment with client's views

As a boutique asset manager with a long track record, WHEB has developed a close relationship with many of our investors. This has been possible through our extensive reporting, hosting events, such as our Annual Investor Conferences and Christmas Teas and webinars, as well as through regular client meetings. These channels are also a means through which we build relationships with new and potential investors in the strategy and our regular communications have generally informed us on what their needs and views are.

We are confident that the WHEB's Stewardship & Engagement and Responsible Investment Policies align well with our client's needs. Many clients have been long-term investors in the strategy because they appreciate WHEB's disciplined approach to applying the definition of 'solutions to sustainability challenges'. This was reflected in the positive client feedback we received in response to our approach to divesting form Kingspan following the Grenfell Tower Fire inquiry, as detailed in our 2020 Stewardship Code Report[17]. Client feedback is also discussed in more detail below.

"WHEB's disclosures on their decision to sell their position in Kingspan was one of the most transparent and telling narratives of ESG decision-making that I have seen. This is why I invest in WHEB funds."

Lucy Carmody,
Private investor, ESG advisor and Non-executive director.

Our voting policies are based on the AMNT's[18] 'Red Lines', which are typically more demanding than the market standard and cover environmental, social and governance issues. We vote on all our active positions in the strategy. As a result, we have always found our voting policy covers clients' voting requirements and, in many cases, goes above and beyond their expectations.

-Client feedback

Until recently, client feedback had typically been collected on an ad hoc basis. It was either volunteered or requested and a response to reports, commentary, events, webinars and generally within the normal course of business (within meetings and in response to tender processes).

We have found this to be an effective method for two reasons. Firstly, we find that insights and feedback from clients are possibly less constrained than through more formal methods, such as surveys, and allow a conversation to develop on the topic in question in real time. The second reason is that this has been the most appropriate option within the scope of our relatively small team's resources as it allows for easy collection and almost immediate synthesis of feedback.

With the increase in team size at WHEB in 2021, however, we decided to conduct a formal client survey to a) assess client satisfaction across all aspects of WHEB's offering and, b) understand investor attitudes towards sustainable investing. Though limiting in certain aspects, as outlined

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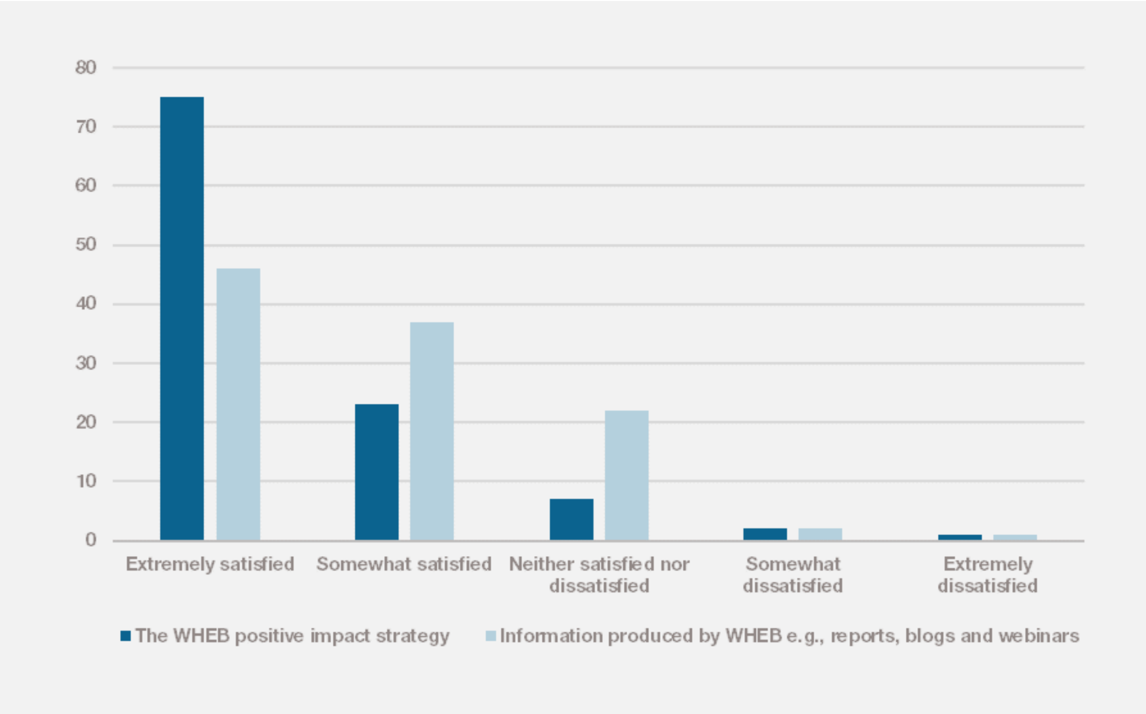
[17] https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf
[18] AMNT: Association of Nominated Trustees

above, the ideas was for the survey to complement existing methods for collecting client feedback. As well as a more structured approach to questioning, it also enabled anonymity, encouraging feedback that was honest.

On the whole, we feel that the survey has given the business a more complete picture of our client's views and analysis indicates that these are generally positive, particularly in regard to WHEB's strategy and information sharing (Figure 8).

Figure 8: Clients generally have high levels of satisfaction with WHEB**'s** positive impact strategy and information produced by WHEB.



Survey findings also helped to shed light on the views of private investors, who are WHEB's smallest client segment (Figure 8). This is a group that WHEB generally has the least direct contact with and is therefore at risk of not meeting all their needs. Based on responses to the survey, we found that WHEB's private investors typically prioritise sustainability performance highly, even over fees or performance, when looking at sustainable investments. This group also tends to engage with WHEB's marketing materials less consistently than others. This shows us that successful communication of stewardship and investment activity and outcomes is important to meeting private investor needs and, to do so, requires WHEB to clearly sign post information in reports and on WHEB's website.

Our client survey indicated that WHEB's investors think of our website, newsletters and webinars as a valuable source of information regarding sustainable investing. Nonetheless, we have been aware of the need to update and develop WHEB's website to better service investors' growing information requirements. With a larger team on board in 2021, it has been possible for us to begin a website redevelopment project in 2021 with the aim of launching in mid-2022.

Other changes made in 2021, in response to client feedback include:

- ***WHEB' Company Profiles Document (June 2021):*** *WHEB has a long history of publishing all holdings in the strategy. Responding to investor requests to see more examples of companies held in the strategy, we redesigned this document and added considerably more detail. The 'Company Profiles' document includes: a summary of the business model; the impact engine score and the fundamental quality score, as well as a snapshot of the justifications for both; links to the most relevant SDG; recent stewardship topics; and, finally, links to related commentary pieces.*
- *Introduction of lower investment fees, the Digital Investor platform and reduced minimum investment (August 2021): In an effort to increase accessibility to the WHEB strategy, we launched the R share class, to allow retail investors to benefit from a lower management fee of 1.13% per annum. We also introduced the 'Digital Investor' portal, which allows investors to manage their investments at myaccount.whebgroup.com and reduced the minimum investment amount from £3,000 to £1.*
- *Launch of the WHEB Environmental Impact Fund (December 2021): The WHEB Environmental Impact Fund was launched with a seed investment from Rothschild & Co Wealth Management, in 2021. This fund is a targeted version of WHEB's global equity strategy, that is focused solely on its five environmental themes (Resource Efficiency, Clean Energy, Water Management, Sustainable Transport and Environmental Services). Over recent years we have seen an increasing focus amongst asset owners on investing in line with a 1.5-degree target for limiting global warming, alongside commitments to build net zero carbon portfolios. WHEB's existing investment strategy allows investors to focus on investments which enable and therefore benefit from the shift to a more sustainable economy.*

Communication of Stewardship

Transparency and accountability are central to WHEB's philosophy. Our main reports are the annual impact report[19] which is also complemented by quarterly client reports[20] (with accompanying webinars). These include detailed reporting of stewardship activity as well as impact and ESG data.

Impact reports summarise portfolio impact and ESG analysis, carbon emissions and the SDGs, stewardship activity (including bilateral and collaborative engagement and voting) and WHEB's approach to sustainability over the calendar year. WHEB's impact microsite[21] houses our interactive impact calculator, which demonstrates the positive impact associated with a chosen investment amount. It also includes WHEB's peer-reviewed methodology document for calculating the impact associated with investments in the WHEB strategy. As mentioned above, we are currently undertaking a significant redevelopment of our website to improve its functionality.

Our quarterly reports include thematic and performance commentary, recent purchases and sales, stewardship activity and outcomes as well as quantitative information on fund positioning and on WHEB's impact and ESG measurement frameworks. In terms of stewardship, these reports are the most comprehensive. They include a summary table in the data pack covering all engagement activity for the quarter including Company, topics, tool (i.e., method: letter, email, conference call,

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[19] *https://impact.whebgroup.com/impact-reports/*
[20] *For UK domiciled OEIC: https://www.whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/quarterly-reports/ and for Dublin domiciled ICAV: https://www.whebgroup.com/investment-strategy/fund-options/wheb-sustainable-impact-fund/quarterly-reports/*
[21] *https://impact.whebgroup.com/*

collaboration) and outcome[22]. This is supported by sections of narrative reporting providing more detail on the bilateral and collaborative engagement activity from the quarter. It is also supported by our Voting Appendices[23] which contain a record of every shareholder resolution on which WHEB is eligible to vote in the quarter, how we have voted and a rationale for each vote. Full fund holdings[24] are also published every quarter in our Company Profiles document including investment rationales to indicate why a stock fits with the fund's investment policy.

On a monthly basis, WHEB circulates and publishes Fund Factsheets along with a newsletter and links to commentary and opinion pieces written by the team, many of which go into longer detail on specific engagement examples[25]. All of this information is published on our website and so is not limited only to investors but is available to the public to see.

As outlined under Principle 2, WHEB's Investment Advisory Committee also provides independent scrutiny of our stewardship activity three times a year, and the minutes of these meetings can also be found on our website[26].

Feedback from clients on WHEB's reporting and transparency is generally positive. Nonetheless, we strive for continual improvement and so know we have work to do in 2022. This will largely be through the addition of detail in stewardship reporting and increasing accessibility of information through a website redevelopment. Another key area of focus for 2022 will be to proactively seek investor views on WHEB's stewardship activity and reporting to gain a deeper insight, potentially through the use of another formal survey, or via organisations such as Tumelo[27] with whom we already have a relationship.

Client Communications and COVID-19

Over the course of the COVID-19 pandemic, communication methods and styles with clients have changed to accommodate the need for reduced in-person contact. In 2021, WHEB continued to offer video conferencing meetings as well as webinars to accompany quarterly reporting cycles. While video communications obviously can lack certain advantages offered by in person meetings, not least because they do not require a reliable internet connection, feedback has been generally positive.

WHEB's 2021 client survey showed that quarterly webinars were ranked as the fourth most informative communication method from WHEB, after our impact report and monthly and quarterly commentary. In addition to this, the use of video calls for client meetings has allowed the business development and investment teams to meet not only with a greater volume of investors or prospective investors but also, accommodate a larger team size in those meetings. This has resulted in improved efficiency of direct communications, which is important to WHEB as a boutique manager with a relatively small team size.

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[22] We systematically rate the success of each engagement as: 'Successful': the company agrees to amend its approach, 'Partially successful': the company acknowledges the issue but does not commit to change; or 'Unsuccessful': the company either does not respond to us or refuses to amend its practices.
[23] https://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/
[24] https://www.whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/fund-holdings/
[25] https://www.whebgroup.com/news-views/wheb-insights/
[26] https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/
[27] Tumelo is a platform that educates on and enables retail investors to become more involved in engagement with the companies that they invest in https://www.tumelo.com/personal/about

Further information:

- *WHEB Investment Advisory Committee Summary Minutes - https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/*
- *WHEB Fund Holdings - https://www.whebgroup.com/investment-strategy/fp-wheb-sustainability-fund/fund-holdings/*
- *WHEB Blog - https://www.whebgroup.com/news-views/wheb-insights/*
- *WHEB Impact Reports - https://impact.whebgroup.com/impact-reports/*

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Integration of sustainability in WHEB's investment process

WHEB is wholly focussed on this single global equity strategy that seeks to generate superior returns by investing in companies providing sustainability solutions. 100% of everyone's time is therefore spent on this strategy. The entire WHEB team, especially the investment team, are responsible for implementing the strategy.

WHEB's process differs from our competitors', in that we integrate sustainability and financial analysis of companies at every stage of the analytical process. We believe that this reveals important information about a company's growth potential and risk profile.

- Universe creation

WHEB has selected nine investment themes which we use to focus our attention on companies that provide solutions to sustainability challenges and therefore have the potential to significantly grow their earnings. They include four social (Education, Health, Safety and Well-being) and five environmental themes (Cleaner Energy, Environmental Services, Resource Efficiency, Water Management and Sustainable Transport).

We are only interested in companies that have genuine exposure to these themes and set a threshold of having at least 50% of their revenues or profits coming from these areas. In practise, most holdings in the fund are 100% exposed to the themes, and the weighted average across the fund is over 80% exposure. We capture evidence to support our decisions on whether companies fit our themes or not and assess the intensity of their positive impact[28], and share this publicly with our investors[29].

Our analysis of sustainability trends and themes enables us to construct an 'investment universe' of stocks which qualify for investment in one or more of the themes. We select the best ideas from our universe for a portfolio of between 40 and 60 holdings.

- Stock Selection

Our guiding principle is that the success of the stock should be driven by the success of the sustainability solution it provides. In other words, 'the sustainability story is the equity story'. Our assertion is that as the world becomes more sustainable, these stocks are likely to outperform. We also want to be supportive shareholders, remaining invested for the duration of the sustainability-led growth, and not increasing the cost of capital by frequent trading.

Our integrated analysis helps to protect the fund from companies that are poorly positioned to deliver market out-performance over the long-term. We assess companies with respect to both the products and services provided, via the impact engine (as described under Principle 4), and multiple dimensions of the fundamental quality of a company organisation and operational performance (Figure 9). We therefore consider a range of measures relating to both financial and ESG management and performance.

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[28] The Impact Engine helps us to assess the intensity of the positive impact generated by products and services sold by investee companies.
[29] For example, through our annual impact and quarterly reports.

Figure 9: **WHEB's** Impact Engine **and Fundamental Quality score feed into the WHEB's** integrated analysis

Once companies have been through this analysis and the valuation is appropriate for the level of quality determined, the company will be considered for investment. In some cases, companies may *be suitable for investment whilst also having weaker performance on some ESG matters*[30]*. In this case, such issues will be discussed within stock initiation meetings between the investment team and an engagement plan will be agreed, based on WHEB's engagement and voting policy. Likewise, if a company already held in the strategy is subsequently found to have weak performance on an ESG matter, this will be discussed by the investment team and an engagement plan will be agreed. WHEB's engagement can be loosely defined as either proactive or reactive, as outlined under Principle 9.*

We believe that engaging with companies to challenge them on a range of topics, including ESG and sustainability issues, and analysing their responses, further adds to our knowledge and understanding of a company. All engagement activity is logged in our company profiles with conclusions feeding directly into our assessment of company quality scores. Engagement therefore feeds into investment-decision making and escalation strategies (such as those described under Principle 11) may even contribute towards a decision to divest in some circumstances. An example of this is outlined in a case study focused on China Everbright (below).

Activity & Outcomes

We are confident that our investment process achieves a very high standard in terms of the integration of stewardship, sustainability, and material ESG issues (including climate change). The strategy was set up in 2012 with this integrated nature at its heart and over time we have evolved the process to further embed these characteristics in it.

That said, there is always room for improvement and consequently during 2021 we commissioned a third-party consultant to review WHEB's proprietary 'impact engine' methodology. This tool is core to our investment process and is used to codify our assessment of impact in our investment process.

The outcomes of this review included subtle changes in the focus areas of the questions and the methodology for scoring. For example, a sixth dimension was added to the Impact Engine with the question "How widely applicable is the product" (Figure 10). The scoring was also simplified.

We have also started to utilise financial models for portfolio companies that are supplied by a third-party provider. We adapt these models by factoring in additional data points and use them to help stress test our valuation assumptions about portfolio businesses.

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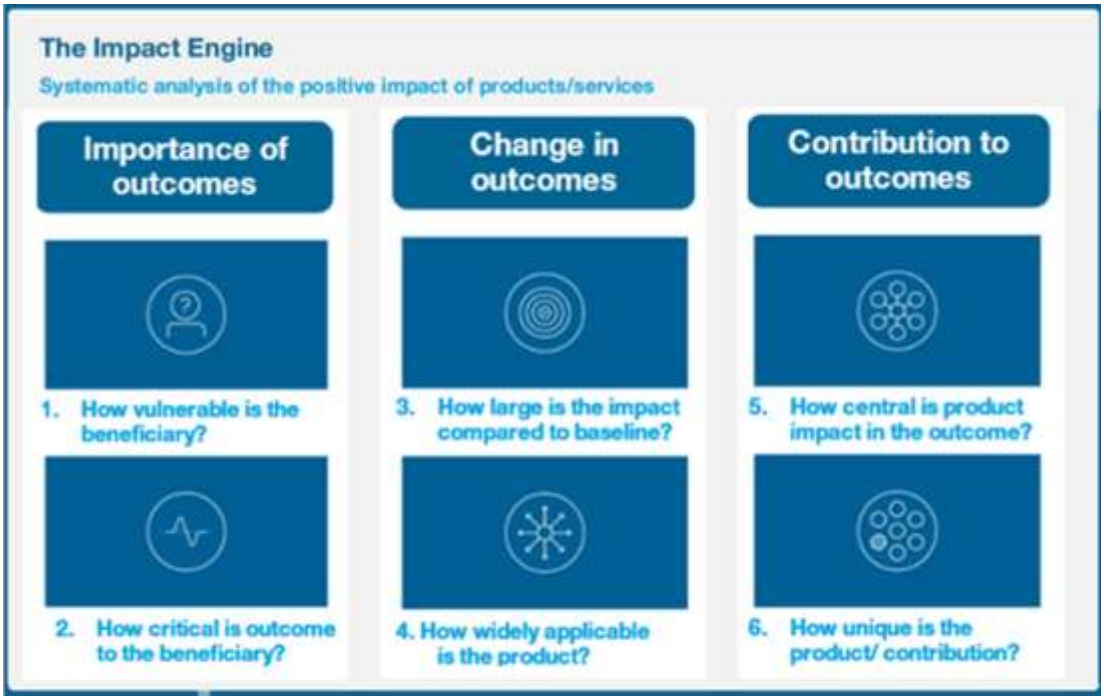
[30] If the company is, in our view, exposed to excessive reputational risk, or has significant activity in areas that are not consistent with the philosophy of the fund, then it is unlikely to be selected for investment.

Figure 10: **The Impact Engine '2.0'**



While this mechanistically results in slightly lower impact engine scores for issuers, it has helped to avoid unintended consequences in the original scoring system. The lower score doesn't imply a reduction in the underlying impact. Now that these improvements have been finalised, the investment team is working to put each holding in the strategy through the new impact framework to produce new scores that are comparable across the portfolio. We believe that the impact engine is a highly innovative investment tool which is not widely replicated across the market.

Following the successful review of the impact engine, we have plans in 2022, to review our fundamental quality assessment process (which includes an integrated analysis of ESG policies and performance).

- Service Providers

It is also worth stressing that the WHEB process does not rely heavily on third party service providers. We believe that we are best placed to collect and assess material ESG information as well as positive impact data relating to products and services. We do not rely on third-party ratings which are often of poor quality. Furthermore, while we do utilise third-party providers to inform our voting positions at company meetings, we have our own bespoke voting policies that we use to determine our ultimate voting decisions (see principle 12 for more detail).

Case Study: Carbon reduction targets at China Everbright, 2Q2021

China Everbright is a major operator of waste to energy facilities in China. It also operates water treatment facilities as well as renewable energy generation plants. The company is widely regarded as a leader in its overall approach to sustainability and describes its mission as 'devoted to ecology and environment for a beautiful China'.

光大控股 EVERBRIGHT LIMITED

Rationale & Objective	*We started a position in China Everbright Environment Group in January 2017. The company has been held in our Cleaner energy theme where we have historically regarded waste to energy as a cleaner source of power compared to traditional fossil fuel power generation. It has also been seen as a preferable way of managing the growing volume of municipal waste in the country. This is particularly true in emerging economies which have tended to have less mature waste management infrastructure. Alternative treatment options in these countries have typically involved landfilling or even just dumping waste in the natural environment.* *However, our view on waste to energy has evolved since 2017. Waste management infrastructure has been maturing rapidly and incineration – even with energy recovery – is now no longer replacing uncontrolled waste disposal in the waste management industry. Instead, there was evidence that it may have even begun to undermine markets for recycling[1]. What is more, while a significant proportion of municipal waste is composed of plant-based materials and is arguably a renewable source of energy, a major proportion of municipal waste include plastics which is based on fossil hydrocarbon and is not therefore renewable.* *As our views have developed, we have been engaging with the management of China Everbright Environment to encourage them to set a demanding carbon emissions reduction target. This is a challenging proposition for a business that is focused on incineration! However, our view has been that it should be possible to put in place systems to filter out fossil-based materials leaving plant-based materials (wood and food waste for example) that could still be considered as a source of renewable power.*
Strategy	*Our engagement has involved voting against Board Directors due to a lack of action on greenhouse gas emissions as well as writing to senior executives in connection with our voting positions and separately on the need for ambitious net-zero carbon targets. We have also had the opportunity to talk directly with employees responsible for investor relations and sustainability.*

Company Response	*The company has been responsive to our engagement and has argued that the level of fossil-based carbon emissions lies largely outside of their control. In fact, fossil-based carbon emissions have increased in recent years because of the growing proportion of plastics in municipal waste streams.* *We do have some sympathy with this position, but also believe that the company has not aggressively pursued strategies to filter out and recycle plastic wastes. They admitted that filtering out plastic waste would not necessarily cause problems in terms of power generation and the company has now started to trial plastic waste recovery at some facilities.*
WHEB's analysis and engagement outcome	Unsuccessful: *The company indicated to us that they are keen to set a carbon reduction target, but that this will take up to three years to agree. They were not willing to accelerate this timeline, nor were they willing to prioritise plastic waste recycling.* *Overall, combined with other concerns that we have had with the business (such as poor performance on gender equality), we concluded that management was not giving these issues the high priority that we believe they deserve. We think that this will ultimately undermine the position of waste incineration in the market and consequently chose to sell our position in the business at the end 2Q2021.* *In selling this holding, we have significantly reduced the scope 1 and 2 emissions associated with WHEB's investment strategy. However, the business continues to operate, and these emissions are still being produced, though now without our involvement as a shareholder.* *We are intensely conscious that divestment is not a solution on its own to reducing carbon emissions in the real world. However, we do believe that divestment can send an important signal to companies that their practices need to improve. This is particularly the case where clearly signalling the reasons for divestment is done both to management and to the wider market. As we have discussed elsewhere, this should be an important part of impact investing[2].* *In the case of China Everbright Environment Group, we published our rationale for divesting the business in our quarterly report and have posted this separately as an article on the WHEB website. We also wrote to the company and subsequently had a number of exchanges with executives setting out our belief that the company needs to significantly accelerate its efforts to set a net zero carbon target.* *It is relatively rare that we divest a business primarily due to concerns about a company's performance on environmental, social or governance issues. Where this is the case though, we have been public about these reasons for exiting the position. This was the case at China Everbright Environment Group and this was also the case at Kingspan that we divested at the start of 2021. We believe that we have a responsibility – and an opportunity – to influence corporate behaviour in being public in this way.*

[1]https://www.c40knowledgehub.org/s/article/Why-solid-waste-incineration-is-not-the-answer-to-your-city-s-waste-problem?language=en_US
[2]https://www.whebgroup.com/media/2021/10/WHEB-Quarterly-Review-Q3-2021.pdf
[3]https://impact.whebgroup.com/white-papers/

Further information:

- *PRI Transparency Report (Section LEI) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *Eurosif Transparency Code Submission Statement - https://www.whebgroup.com/media/2020/01/2020-WHEB-AM-Transparency-Code-.pdf*

Principle 8: Signatories monitor and hold to account managers and/or service providers.

Management of service providers

WHEB uses a range of third-party service providers which provide services to our fund vehicles, including host Authorised Corporate Directors (ACD), Transfer Agents, Fund Accounting, Custody and Depository services, research and information services and trade execution. We regularly review the performance of these service providers to ensure that services continue to be delivered to a standard that meets our needs and those of our clients, performing obligations effectively and within agreed service levels. This oversight includes weekly calls and monthly service review meetings, which are supplemented by ad hoc control arrangements as required. We review any incidents, including near misses, to investigate the underlying causes and identify process improvements (the effectiveness of which being subsequently monitored and reported on in the context of regular oversight meetings). The IT support function of WHEB has been outsourced to a specialist provider, in order to leverage economies of scale and access expertise from this larger IT-focused service organisation. A formal analysis to identify and report on critical outsourcers for the business is carried out on an annual basis.

Proxy voting services

From time to time, WHEB uses a range of third-party service providers to support proxy voting and provide voting advisory services. When considering how to vote shares, we appraise the governance standards of the relevant investee company and compare these with local market standards (such as the UK Corporate Governance Code for UK-listed companies). Whilst we consider the recommendations of advisory services in how we vote our shares; the investment team independently assesses each individual company vote against our own internal policies before recommending a vote to the rest of the investment team. WHEB's voting policies are modelled on the AMNT's 'Red Lines'. These are typically more demanding than the market standard. We regularly engage with service providers to encourage them to adopt more progressive voting policies on issues ranging from auditor independence to greenhouse gas emission reduction targets.

NZC engagement activity and outcomes

During 2020 we started engaging with every service provider where we spend more than £10,000 annually, to encourage them to implement progressive policies and practices on ESG, particularly covering their approach to managing their own carbon footprint and setting net zero carbon targets. We track all net-zero carbon commitments and review progress against targets.

In the first year of engagement 40% of suppliers actively tracked their scope 1 and 2 emissions and have carbon reduction targets. A further 26% of the suppliers in 2020 were in the process of committing to carbon reduction targets. We are currently engaging with our suppliers to update these statistics for 2021, which we expect to publish in our 2021 Impact Report.

Investment research and data

We annually review providers of investment research and other inputs into our investment research to ensure that they are providing added value to the investment process. Providers are selected and a budget set annually by the Head of Research which is reviewed by the Senior Management Team. At the beginning of 2020 we removed the Research Payment Account structure previously used to pay for external research, and instead put in place a single management fee structure covering all the costs and charges included in Ongoing Charges and Fees (OCF), including research. This single fee structure provides greater certainty and transparency for our investors; research costs are now borne directly by WHEB rather than being included in the OCF.

We continuously review data providers for data quality and utility. We use multiple data providers, which enables us to compare different data sources. We use several different sources of data as part of our impact measurement and reporting, including carbon measurement. The data underlying the calculations in our 2020 Impact report was reviewed by the Carbon Trust, who found WHEB's approach to data sourcing to be "fit for purpose and provides a reasonable basis for impact calculations".

SECTION 3: ENGAGEMENT

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

WHEB's approach: proactive and reactive engagement

- Proactive engagement

Proactive engagement tends to be centred around an issue that affects a significant proportion of the portfolio and is seen as a material issue for the company in question. The selection of topics is done by each investment analyst based on their review of the companies they monitor in consultation with the Head of Research, Seb Beloe. Proactive engagement objectives may also be set based on analysis of the strategy's performance against 14 well-established measures of ESG performance against the strategy benchmark (MSCI World)[31].

For example, while the fund outperforms or matches the benchmark in most of the 14 criteria, gender equality is the strategy's weakest area. This is largely attributable to the strategy's overweight to traditionally 'male' industries compared to the benchmark. As a result, improving the gender-equality performance of the strategy through engagement has been an ongoing objective since 2019[32].

The same analysis, conducted at the end of 2020, showed that disparity between the strategy and the benchmark on gender equality had reduced for the first time. On average, more than 20% of board directors and senior executives in WHEB investee companies are female, compared with just under 25% for companies in the MSCI World Index. We were pleased to have seen this improvement and have aimed for further developments via engagement in 2021. We will report on this in the 2021 impact report which is due to be published in June 2022.

Similarly, engaging investee companies on setting net zero carbon targets continued to be an objective of proactive engagement in 2021, in line with WHEB's own NZC commitments (described under Principle 4). In fact, in 2021, the topic of Net Zero Carbon (targets, strategies, carbon emissions) was the most significant single thematic issue of engagement for us, with just under 17% of engagement focused on this issue.

We have a strategy for managing 100% of our assets in line with a NZC target. There are obviously challenges associated with how different companies approach this topic and so the focus of our work with them might differ from company to company. For example, our focus with some companies is getting them to commit to a Science Based Target while, for others, we may be focus on understanding their application of the different terminology/definitions associated with the topic. Overall, though, WHEB's approach is to get the companies to commit to targets which are aggressive, transparent and consistent with the science.

The objective of our engagement activity is often a combination of information-seeking and encouraging behavioural change in investee companies, as demonstrated by our approach to NZC targets. Information-seeking or fact finding is usually a higher priority during the earlier phases of engagement and informs behavioural change which comes later.

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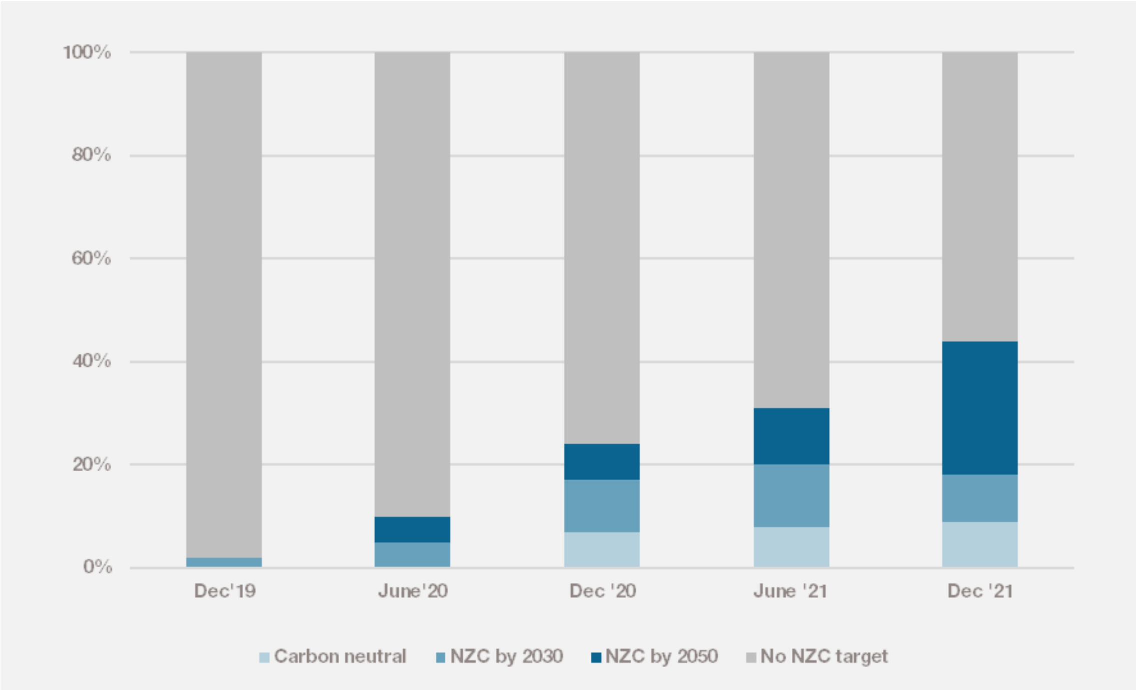
[31] This analysis is included in our Annual Impact Reports. The year-on-year change in the ESG performance of the strategy is shown on page 34 of the 2020 Impact Report and a narrative summary of these changes is found on pages 33-34. https://impact.whebgroup.com/media/2021/06/WHEB-Impact-Report-2020-1.pdf
[32] Please refer to the IPG Photonics Case Study published on page 19 of our 2020 Stewardship Code Report https://www.whebgroup.com/media/2022/03/20211028-WHEB-Asset-Management-Stewardship-Report-January-December-2020.pdf

As of 31st December 2021, approximately 44% of our assets in the strategy have already committed to be net zero carbon by 2050 at the latest or have achieved net zero carbon emissions. Of this total, nearly 10% have committed to NZC by 2030 and just under 10% have achieved carbon neutrality already. Figure 11 shows the strategy's progress against net zero carbon commitments from December 2019 – December 2021.

Figure 11: Progress of the WHEB Sustainability Strategy against net zero carbon commitments from December 2019 – December 2021.



Biodiversity was also an area of proactive engagement for WHEB in 2020, as outlined in the First Solar case study below:

Case Study: First Solar and Biodiversity, Q4 2021

First Solar is a US-based manufacturer of solar photovoltaic (PV) panels that we initiated a position in during Q2 2021. Headquartered in Arizona, the company is the leading supplier of thin-film modules that are used primarily in utility-scale and commercial power plants. The company has manufacturing facilities in Malaysia and Vietnam as well as the United States and operates a sector leading approach to manufacture and recycling of its solar modules.

Rationale & Objective	*During the fourth quarter, WHEB's independent Investment Advisory Committee asked the investment team to set out our approach to tackling biodiversity loss in the strategy. We presented a discussion paper to the Committee and the summary minutes of this discussion are published on WHEB's website[1]. We've also described our approach in more depth in our January monthly commentary[2].* *The key conclusion from this analysis is that WHEB's portfolio is, to a large degree, not invested in the sectors of the economy that create the largest negative impacts on biodiversity. That said, there are of course areas in the portfolio where negative impacts on biodiversity are more material. Our analysis concluded that several of these businesses, including* Smurfit Kappa *and* Arcadis *already give biodiversity impact a high management priority.* *However, there are other businesses for which biodiversity impact is significant and which, in our view, do not assign sufficient priority to the management of this issue.*
Strategy	*Renewable energy generation is central to tackling climate change which is itself a major threat to biodiversity. At the same time, the deployment of wind turbines and solar panels can also have direct impacts on biodiversity. These can be negative, but if well managed they can also be positive.* *We have been engaging with First Solar to better understand their approach to biodiversity and the potential impacts associated with solar farms. First Solar has sold its project development business but nonetheless as a supplier of solar modules has an important role to play in addressing biodiversity impacts, in our view.*
Company Response	*The company has been reasonably proactive on this topic and has worked directly with environmental NGOs such as WWF in order identify bast practices in solar park development and has also contributed to academic and industry research aimed at codifying best practices[3].* *Much of this work is though quite old, and more recent research has indicated that with sensitive siting, construction, operations and decommissioning, solar parks can have a positive impact on biodiversity[4]. This is particularly true in areas that have previously been intensively farmed or have otherwise been developed such as airports or brown field sites[5].*
WHEB's analysis and engagement outcome	*We have been pleased to see that First Solar has taken a proactive approach to encouraging best practices in mitigating negative and maximising the positive impacts of solar power on biodiversity. We have encouraged them to continue with this leadership and to report more comprehensively on their activities.*

	We have also begun to engage with Vestas to understand their approach. Wind energy faces similar issues to solar, with the negative impacts of wind turbines on bird and bat populations particularly well documented[6]. Equally wind power, and particularly offshore wind power, can also have a positive impact on biodiversity by supporting the development of marine ecosystems and then in protecting those ecosystems as offshore wind parks are typically closed to commercial fishing activities. We will report on the outcomes of this engagement in the Q1 2022 report.

[1]https://www.whebgroup.com/media/2021/11/202110-Summary-minutes-final.pdf
[2]https://www.whebgroup.com/whebs-approach-to-biodiversity/
[3] For example: http://awsassets.panda.org/downloads/solar_pv_atlas_final_screen_version_feb_2013.pdf, file:///C:/Users/SebB/Downloads/CSE_FirstSolar_Biodiversity_Whitepaper%20(1).pdf and https://c1.sfdcstatic.com/content/dam/web/en_us/www/assets/pdf/sustainability/sustainability-more-than-megawatt.pdf
[4] https://www.sciencedirect.com/science/article/pii/S1364032121003531
[5] https://www.vox.com/2021/8/18/22556193/solar-energy-biodiversity-birds-pollinator-land
[6] https://www.iucn.org/sites/dev/files/02_biodiversity_impacts_associated_to_on-shore_wind_power_projects.pdf

- Reactive engagement

Reactive engagement often occurs in response to media or other third-party commentary on the company. Objectives for reactive engagement are identified by the responsible investment analyst based on their review of the company and the issue in question, in consultation with the Head of Research, Seb Beloe. The Orpea case study below provides an example of reactive engagement (though, initially this engagement started as a proactive/thematic piece).

Case Study: Orpea, Employee Protection in the Nursing Home Sector Q1 2021 – Q1 2022

Orpea operate nursing homes for the elderly as well as health clinics for post-acute care and psychiatric care. The company had been held in the WHEB strategy for more than nine years and has grown significantly over this period. It has had a good reputation in the sector and had, for example, managed provide COVID vaccinations to over 80% of Orpea residents and 44% of employees by the end of March 2021.

ORPEA GROUP

Background / Objective	*The nursing home sector has come under intense scrutiny as a consequence of the COVID-19 pandemic. Care homes proved to be particularly vulnerable to the virus with care home residents representing a significant proportion of total COVID-19 related deaths. Nursing home workers have also been exposed to the virus creating significant additional risks for them.*

	Despite Orpea's good management of the virus and vaccine roll-out, we believed that there was certainly room for improvement, particularly in how the company protects and supports its own employees and so began engaging the company on this topic from Q1, 2021. *In January 2022, Orpea's share price came under intense pressure as a result of two articles published in the French press. The main article referenced a book which was published in late January by an investigative journalist which accused the company of mistreating employees and elderly residents including rationing food and treatment. There were also allegations about the nature of certain political relationships. The second article questioned the company's use of employment contract structures which would potentially be contrary to French labour regulations.* *Given the gravity of the accusations, we immediately put the stock under review and sought third party expert input on the company as well as a direct meeting with company executives..*
Strategy	*In March 2021, we began working with UNI Global Union ("UNI"). UNI is a federation of unions in representing two million workers in the skills and services sectors. Through the help of UNI, we collaborated with other investors and fiduciaries, representing a combined $3.34 trillion assets under management. Together we engaged with Orpea on these and related social issues.* *We started off by sending an Investor Statement to the company in April to clearly state our expectations on working conditions. More specifically, these expectations covered areas such as understaffing, health and safety, wages and contracts, freedom of association and collective bargaining and quality of care.* *WHEB continued to participate in this collaborative engagement until receiving news of the mistreatment allegations in January 2021. In the days following the news, WHEB's investment team met several times to discuss our position. The ultimate veracity of the allegations was, at the time, still to be determined. However, in our view, the extensive details supplied in the book as well as the credibility afforded to them by parliamentarians and reputable media outlets suggested that it was probable that some of the misconduct was likely to have been proven true.*[33]

[33] *At the end of March the French Government published a summary of its initial findings which found evidence of misappropriation of Government funds which it will seek to recover through criminal proceedings. The report also found weaknesses in support for residents both in terms of sanitary and nutritional provision, though not on the scale that was alleged.*

	We contacted the company asking for an urgent meeting. We also canvassed views from our independent Advisory Committee asking them to provide their perspective on our potential courses of action. *We held a video conference with the company's investor relations team at the end of January. The call did not shed further light on the allegations and there was little new information that the company could share on the investigation. The company did stress that the absolute scale of the allegations in the context of Orpea's business was 'a very small number' and that they were not expecting to uncover any major issues.*
Company Response	*The company was largely open and responsive to our original engagement in 2021, including providing more detailed disclosures on employee welfare and training. The company has also made progress on other important ESG issues during our holding period, including improving board independence, investing more in staff training and committing to setting a net zero carbon target.* *In the days following the newspaper articles and book publication, Orpea's stock price dropped dramatically. Initially the company rejected all the accusations which they considered 'false, outrageous and prejudicial'. In subsequent statements they argued that they have not pretended 'that we never made mistakes', but that allegations concerning systemic abuse were entirely false. At the end of January, the Board terminated the CEO's contract and announced that two independent investigations would be conducted to 'shed light' on the allegations. Meanwhile, the French Government have announced their own investigations including a parliamentary commission to hear testimony direct from the author.*
WHEB's analysis and engagement outcome	Unsuccessful*: Following the exchange with the company, we concluded that we would sell our position in Orpea. The specific allegations levelled at Orpea remain the focus of politicians, regulators and the media. In addition, we believe that the wider context is also problematic. The absolute number of elderly requiring residential care is going to continue to increase in the coming decades. At the same time, the available budgets to support this care will almost certainly fail to keep pace. In a tight labour market, the challenges facing care home operators which typically pay just the minimum wage to care home workers, is going to intensify.* *Investing in such a troubled sector that cares for individuals who are among the most vulnerable in our society, is extremely challenging. Even more so for listed equity investors who are inevitably far removed from day-to-day operations. It is likely, in our view, that Orpea is one of the highest quality listed operators in the care home sector in Europe. This seems not to be enough and increasingly we believe that in the absence of massive systematic changes in the industry, the*

sector will become increasingly uninvestable for investors concerned about the long-term health of the care home sector and for its residents.

While Orpea was the only investment WHEB has made in elderly care homes, we still consider a range of residential healthcare providers as investable in the strategy. This includes companies that operate long-term acute care hospitals, rehabilitation clinics as well as providing care to patients in residential settings. As a consequence of our experience with Orpea, we are reviewing our investments in these sectors to examine whether risks of similar types of malpractice and abuse are effectively mitigated by these companies and that long-term trends surrounding care activities are still positive.

[1]*https://www.reuters.com/article/us-sustainable-investing-carehomes-exclu/exclusive-top-investors-to-call-for-improved-working-conditions-in-care-homes-idUSKBN2BN3LN?edition-redirect=in*

Prioritising engagement

WHEB's mission is 'to advance sustainability and create prosperity through positive impact investments'. As outlined under Principle 2, stewardship is fully integrated within WHEB's investment process and both proactive and reactive approaches are of equal importance for WHEB in fulfilling its mission. Prioritisation of engagement is done by the investment team based on severity of the issue in question.

Engagement methods

WHEB aims to proactively identify problems at an early stage prior to investment. After investment, we regularly review and monitor investee companies to ensure that they remain appropriate investments for the relevant fund(s). Where we identify issues of concern, we will enter into dialogue with management and escalate where necessary. This largely is a process of voting against company management or abstaining to vote (explained in more detail under Principle 11), and then writing to the company to explain our reasons for doing so seeking further engagement as appropriate.

Our engagement activity is therefore often closely linked to company AGMs. Writing to company management to explain our reasons for voting against management's recommendation typically leads to further engagement. This often presents opportunities to discuss other issues as well as the subject and/rationale for the vote. This engagement is driven by our voting policies.

We have found this to be an effective strategy as company management is typically more receptive to investor dialogue on engagement topics around the time of AGMs. We therefore find that we achieve more progress this way, resulting in positive outcomes for our investors. As a result, a significant proportion of our engagement is initiated by writing letters to company management. This leads to meetings ((and, increasingly, e-meetings following the pandemic) with company management in many cases. WHEB also engages with company advisors and uses collaborative engagement methods (detailed under Principle 10).

Whilst WHEB tracks all engagement activity, we previously had not reported the engagement method used consistently within in the engagement tables published in the quarterly reports. This is something we have corrected in 2021 and reported in the table below (Table 1). Understandably, a significant proportion (42%) of WHEB's individual engagements are communicated via letters due to engagement activity often being linked to, or initiated by, voting at company AGMs. Typically, this leads to further communication in the form of meetings/e-meetings (27%), calls (8%), emails (15%) or a combination of these methods (6%). Occasionally WHEB is involved in collaborative engagements which are led by organisations, such as the CA100+. However, this method is rarer (2%) as our aim is to lead on any engagement initiative that focuses on companies held in our portfolios. On one occasion, we were asked to participate in a questionnaire that aimed to collect investor views for the purpose of a materiality assessment (1%).

Table 1. Letters are the most frequently used tool in WHEBs engagement, as engagement is often closely linked with AGMs which then leads to the use of other methods, such as meetings.

Method of Engagement	Total	%
Letter	65	42%
Meeting/E-Meeting	42	27%
Email	123	15%
Conference Call	12	8%
Combination of various methods	10	6%
Collaborative	3	2%
Questionnaire	1	<1%
Total	156	100%

Overview of company engagement in 2021

In 2021, we engaged on 156 occasions with 41 companies representing 79%[34] of the strategy. Approximately 50% of these engagements were 'deep' engagements in which we had more than three interactions with company executives on the issue in question.

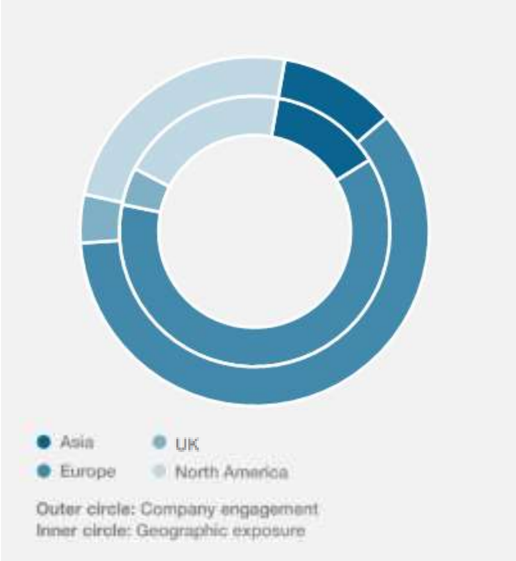
- By geography

Figure 12 illustrates the geographic exposure of the strategy (inner ring) and the corresponding engagement in that region (outer ring). Engagement continued to be broadly in line with the underlying exposure of the strategy in 2021. There was a minor skew of activity towards Europe in 2021, which accounted for 24% of company engagement compared to 20% of geographical exposure. Conversely, there was slightly less engagement (11%) in Asia Pacific compared to exposure to this region (13%). In the UK (4%) and North America (60%), engagement was basically in line with company geographic exposure (4% and 61%, respectively) to these regions.

We wrote about a tendency for asset managers to show a bias towards their home country in their engagement activity, possibly because of fewer cultural barriers[35], in our 2020 report. We are pleased to see a less evidence of such a bias in 2021 and an overall greater indication that our resources for engagement have been more evenly applied across geographies.

[34] During the course of 2021, there were a total of 52 companies held in the strategy.
[35] Bauer R, Clark GL, Viehs M. The geography of shareholder engagement: Evidence from a large British institutional investor. Available at SSRN 2261649. 2013 May 15.

Figure 12: Engagement continued to be broadly in line with the underlying exposure of the strategy in 2021



By topic

Corporate governance issues continued to be the focus (by number) of WHEB's company engagement in 2021, representing 36% of all engagement (Figure 13). Mainly this was related to auditor independence, (7%), director independence or overboarding (12%), CEO/executive remuneration (7.7%), all of which are topics we tend to engage on frequently, but with less success. Other aspects of corporate governance we have engaged on are combined chair/CEOs, equity issuance, the Grenfell Tower Inquiry[36], share purchase programmes and tax practices.

The second significant area of focus in 2021 was on environmental issues (30%), largely derived from WHEB's continued thematic engagements to encourage companies to set targets and strategies related to NZC commitments. This topic accounted for around 19% of total engagements in the year. The remainder of environmentally-focused engagement was regarding Biodiversity impacts (at 2% of all engagement – see earlier for First Solar case study), physical climate risk, single-use plastics, soya/palm oil sourcing, packaging and wind blade recycling.

ESG disclosure and governance was less of a focus (21%) this year, compared to the previous year[37]. Nonetheless, disclosure continued to be a priority (albeit less systematically) due to our requirements under the EU Taxonomy. Additionally, inclusion of sustainability strategy and targets in executive remuneration remained an important topic within our engagement. Often these issues are linked to areas of thematic priority for WHEB for example, NZC targets and biodiversity.

We have seen an improvement in disclosure from companies on sustainability topics in recent years and expect that we will continue to do so. It is our view that this trend will continue and, as it does, we anticipate that we will spend more of our time engaging with companies to encourage progress from disclosure to performance objectives, which is ultimately a more demanding requirement on portfolio companies.

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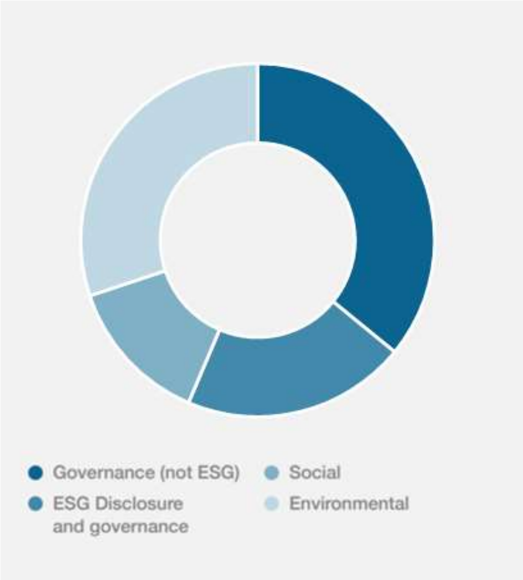
[36] Please refer to our 2020 Stewardship Report which outlines or approach to corporate governance at Kingspan following the Grenfell Tower Inquiry, P32-34, https://www.whebgroup.com/media/2022/03/20211028-WHEB-Asset-Management-Stewardship-Report-January-December-2020.pdf
[37] In 2020, ESG disclosure and governance accounted for 27% of all engagement whereas Environmental issues accounted for 25%.

At 14%, social issues again accounted for the smallest proportion of WHEB's company engagement however, this is an increase on the previous year. In addition to gender diversity and response to the COVID-19 pandemic our engagement was much more varied in this area in 2021. This is due to a thematic piece on drug-pricing, conflict minerals, employee health, safety and conditions/protection/welfare and unionisation.

Figure 13: Company engagement by topic (2021)



Effectiveness

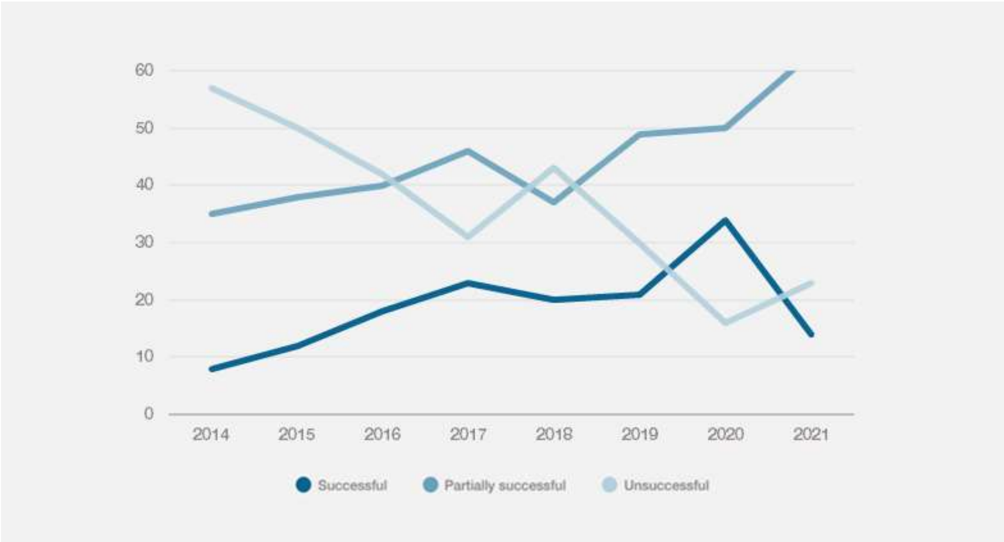
We rate the success of each company engagement as either 'successful' when the company agrees to amend its approach, 'partially successful' when the company acknowledges the issue but does not commit to change and 'unsuccessful' when the company either does not respond to us or refuses to amend its practices.

In 2020, we saw an increase in the proportion of successful engagements and a decline in those that were unsuccessful (Figure 14). While, anecdotally, we knew of several examples where changes had been made by companies following WHEB engagement, we believed that the increasing profile of ESG issues across the whole market to have been the primary cause of company management responsiveness to these issues.

During the period, the investment team size was increased, creating additional resource for investment analysis and stewardship. Processes for prioritisation, execution and escalation of stewardship have remained the same and geographical and topical focus have remained relatively consistent with the year before, as outlined above.

We would therefore have hoped to see a continued improvement in effectiveness however, that was not the case, which was disappointing for WHEB. Overall, slightly more than 10% of WHEB's engagement was successful, 56% was partially successful, 23% was unsuccessful, and 11% ongoing.

Figure 14: Company engagement effectiveness (2014 – 2021)



Naturally, we have considered possible explanations for reduced effectiveness in 2021 so that we might address obstacles to effectiveness in future activity. We believe that this is largely a result of prioritising more demanding objectives for company management. Producing a sustainability report, which has been a source of many successful engagements, is easier and takes less time than strategic performance objectives.

In addition to this, WHEB records 'partially successful' engagements, which grew by 10% year on year, as those where a company acknowledges the issue, but does not commit itself to change. As long-term investors who partake in multi-year engagements, we often find that our efforts result in at least a dialogue with company management. More demanding engagement objectives take longer to implement and at times more encouragement from shareholders. It is therefore understandable that these objectives result in a smaller proportion of successful outcomes and larger proportion of partially successful or unsuccessful outcomes.

Engagement is critical for WHEB to execute its objective as an impact investor. It is therefore of utmost importance that WHEB approaches engagement with companies in the portfolio strategically to improve effectiveness. Methods will likely need to differ based on context for engagement. This is something that we aim to explore in 2022 and will report on in 2023.

Case Study: Engaging Dakin Industries Limited on NZC commitments, 1Q2021

Daikin's core business is in manufacturing energy-efficient air conditioning and refrigeration equipment including air conditioners, heat pumps, air purifiers and water boilers for both commercial and residential use. The company also produces chemical products including refrigerants used in air conditioning systems, as well as a small business selling hydraulic equipment for industrial machinery. Its chemical business supplies products used in the renewable energy, battery and healthcare sectors.

Rationale & Objective	*Increasing temperatures from climate change and greater wealth in many middle-income countries means that HVAC demand is outrunning improvements in efficiency. The result is that energy demand from space heating is expected to triple between 2018 and 2050.* *With more than a third of sales in Asia and Africa, Daikin is well-placed to ensure burgeoning demand in these regions is satisfied with equipment that is typically upto one third more efficient than competing systems. But still, the sheer volume of units is expected to increase loads on electricity grids. It is therefore critical that Daikin, and others in this sector, pursue aggressive efficiency improvements and support market-based incentives to adopt the most efficient technologies.*
Strategy	*With Daikin, we have been working with the CA100+ initiative since Q2 2020 to encourage the company to set out a commitment to achieve net zero carbon emissions by 2050. While we have engaged bilaterally with the company through conference calls with senior executives, we are also keen to leverage the influence of other larger shareholders in the company. Daikin has been identified by the CA100+ network as a candidate for engagement. The company limits direct engagement to two large institutional shareholders (CalSTRS and Mitsubishi UFJ Financial Group). Consequently, we have previously liaised directly with CalSTRS to share our perspective on the company and to encourage a more ambitious engagement strategy on behalf of the CA100+ network.*
Company Response	*During Q2 2020, Daikin announced that it aims to achieve net zero carbon emissions by 2050, suggesting that the engagement had been successful. In 2021, we have continued to work with CA100+ investors to secure additional detail and milestones for Daikin's net zero carbon strategy. As of September 2021, Daikin had published a net-zero carbon strategy aiming to achieve NZC emissions by 2050.*
WHEB's analysis and engagement outcome	Partially Successful: *That Daikin set a net zero carbon target for 2050 was a very important first step. Following investor intervention, the company published its strategy for achieving its target however, we were unhappy with a number of aspects of the strategy. As a result, this continues to be a subject of engagement with Daikin via CA100+.*

[viii] *IEA (2018)*

Further information:

- *PRI Transparency Report (Section LEA) - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf*
- *WHEB 2020 Impact Report (pp 36-39) - https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf*
- *Engagement Case Studies - https://impact.whebgroup.com/engagement-case-studies/*

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

WHEB's approach to collaborative engagement

- Industry Networks and associations

In addition to the contribution that WHEB makes at the level of an individual enterprise, we also believe that our contribution is important at a wider level. As a business WHEB explicitly seeks to shape the wider financial system to support and enable more positive outcomes. We do this through our engagement downstream with regulators, policymakers and standard setters, as well as upstream back to clients and their advisers. WHEB is also represented in several industry initiatives aimed at supporting long-term sustainable investing. A full list of these initiatives is available on our website and is included below in Table 2.

WHEB's contributions to these efforts includes sharing our thinking and collaborating including in the promotion of sustainability issues to investee companies, as well as by hosting, participating and/or speaking at conferences and seminars and through the WHEB blog.

Table 2: Industry initiatives and networks that WHEB is involved with

Organisation	Description	WHEB Involvement	Affiliate Since
B Corps	B Corps are for-profit companies certified by the non-profit B Lab as meeting rigorous standards of social and environmental performance, accountability, and transparency.	WHEB Asset Management is a Certified B Corporation and George Latham, Managing Partner, is a B Corp Ambassador	2016
United Nations Principles for Responsible Investment (UNPRI)	An international network of investors working together to put the Principles for Responsible Investment into practice.	WHEB is a signatory.	2012
Institutional Investors Group on Climate Change (IIGCC)	A forum for collaboration on climate change for European investors.	WHEB is a signatory and member of the Policy Group and has been an active participant in formulating the Paris Aligned Investment Initiative.	2013
UK Sustainable Investment and Finance Association (UKSIF)	A membership association for sustainable and responsible financial services.	WHEB is a member and is regularly involved with events and initiatives including for example in helping to develop responses to the UK **Government's sustainable** finance proposals (e.g. the Sustainability Disclosure Requirements).	2009

European SRI Association (EUROSIF)	A pan-European network and think-tank whose mission is to develop sustainability through European financial markets.	WHEB is a signatory and has been awarded the EUROSIF Transparency logo for the past ten years.	2012
FRC Stewardship Code	Aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.	WHEB is a signatory to the UK Stewardship Code.	2012
Carbon Disclosure Project (CDP)	An international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information.	WHEB is a signatory and assists with research projects and speaks at events.	2012
Net Zero Carbon 10/20	An initiative focusing on delivering absolute carbon reductions at the fund level.	WHEB is a founding signatory and participates in events aimed at promoting the standard.	2019
Chemical Footprint Project	NGO-led initiative focused on eliminating hazardous chemicals from global supply chains	WHEB is a signatory and is involved in collaborative engagements with companies (e.g. First Solar).	2019
CA100+	Collaborative engagement initiative focused on major carbon emitters	WHEB is involved in collaborative engagement initiatives with companies (e.g. Daikin)	2020
Access to Medicines Foundation	Initiative aimed at encouraging the pharmaceutical industry to address key corporate responsibility issues in their industry	WHEB is a signatory and has worked as part of an investor collaboration to promote action by pharmaceutical and related businesses.	2013
Future Fit Business	The Future Fit business benchmark is a strategic management tool for companies and investors to assess, measure and manage the impact of their activities	Seb Beloe is a member of the Development Council	2019

Impact Management Project	A forum for organisations to build consensus on how to measure, compare and report impacts on environmental and social issues	WHEB is an active contributor	2020
The Big Exchange	A pioneering new investment platform launched by Big Issue Invest	WHEB is a founding partner, and Seb Beloe is a member of the impact advisory board.	2019
British Standards Institute (BSI)	**The UK's national standards** body responsible for creating standards on sustainable finance among many other areas	WHEB has been represented on a variety of technical committees developing specifications on sustainable finance with BSI.	2019
Global Impact Investing Network (GIIN)	A not-for-profit network dedicated to increasing the scale and effectiveness of impact investing around the world	WHEB is a member and part of the Working Group defining guidance for impact investing in Listed Equities	2021
Net Zero Asset Managers Initiative (NZAMI)	An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner	WHEB is a founding signatory.	2020
Glasgow Financial Alliance for Net Zero (GFANZ)	GFANZ is a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy.	WHEB is a member through our work with the NZAMI	2021

Case Study: Global Impact Investing Network (GIIN) Working Group on Impact Investing in Listed Equities, Q2 2021 to date

The Global Impact Investing Network (GIIN) is a not-for-profit network dedicated to increasing the scale and effectiveness of impact investing around the world. Understanding how to effectively measure and manage impact is critical to ensuring impact investors are achieving their desired impact results to address the world's most pressing social and environmental challenges.

Objective	*In Q2 2021, the GIIN set out to develop guidance on best practices in impact investing in listed equities.* *In our white paper published last year, WHEB wrote about expanding the scope and scale of impact investing, which had originally been focused primarily on private markets[i]. We believe that it is self-evident that all assets and all investors have impact. This impact can be positive or it can be negative, or more often a messy combination of both.* *We are keen to see greater clarity in what impact investing in listed equities should involve, and the GIIN forum represents a great opportunity to contribute WHEB's expertise in developing guidance.*
Strategy	*We were therefore eager to contribute to the working group and build on the work we had done in compiling our white paper. Specifically, this involved Seb Beloe's involvement in working group session and in chairing working group discussions on topics such as:* • *what investors need to demonstrate to claim to be investing with impact in listed equities* • *the theory of change at both the stock and strategy levels* • *the role of engagement and investor contribution* *In addition, Seb has been directly involved in helping to draft the guidance developed by the working group.*
Outcome and WHEB's analysis	*The GIIN is due to finalise and publish the guidance that has been developed in this working group at the end of Q2 2022. We will discuss our analysis of this in the 2023 Stewardship Code Report.*

[i] https://impact.whebgroup.com/media/2021/10/20211014-Impact-Investing-in-Listed-Equtities-WHEBs-Approach.pdf

Case Study: Investor Initiatives on Climate Change in the run up to COP26, 2021

In addition to the contribution that WHEB makes at the level of an individual enterprise, we also believe it is important that we contribute at a wider level and seek to shape the wider financial system to support and enable more positive outcomes. We do this through our engagement downstream with regulators, policymakers and standard setters, as well as upstream back to clients and their advisers. WHEB is also represented in several industry initiatives aimed at supporting sustainable investing.

Rationale & Objective	*In the run-up to the Conference of the Parties (COP) 26th meeting in Glasgow in November 2021, we supported a range of investor initiatives aimed at putting pressure on national governments to commit to ambitious action on climate change.*
Strategy	*This involved co-signing letters to administrations in Korea (with the Asia Investor Group on Climate Change) and the UK[1] (with WWF-UK) as well as co-signing a 'Global Investor Statement to Governments on the Climate Crisis'. This last statement was the strongest-ever investor call for governments to raise their climate ambition and implement robust policies. It had the support of over 580 other investors representing US$46 trillion in assets under management[2]. WHEB also attended and spoke at an event at COP26 aimed at encouraging other financial services businesses to embrace B Corporation principles including developing 'purpose-led' businesses.*

Outcome and WHEB's analysis	*Our view is still best captured by the Financial Times headline that proclaimed that more was achieved at COP26 than expected, but still less than hoped. There were positive steps accomplished at the conference, but these need to be immediately caveated by what was not achieved. For example, the new emission reduction pledges that were made amount to a not insignificant reduction of 0.3°C in anticipated warming. But even with all targets fully met this still amounts to a central forecast of 1.8°C of warming.* *The list goes on. The Glasgow Climate Pact mentioned fossil fuels in the text for the first time in a global agreement, but commitments on coal were limited to 'phasing down' rather than 'phasing out'. The need for a 'just transition' was also acknowledged, but financial commitments to support the zero-carbon transition in developing countries were still inadequate. Ultimately the Glasgow conference was only ever going to be a step down the road to a zero-carbon economy. Planning for COP27, taking place in Egypt in November 2022, is already well underway and more progress will be needed then.* *For a more detailed analysis from WHEB on COP26, please refer to p.3 of WHEB's Q4 2021 Report: https://www.whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/quarterly-reports/*

[1]https://todayuknews.com/banking/make-net-zero-strategies-a-mandatory-requirement-uk-firms-urge-government/
[2]https://www.pensionsage.com/pa/587-investors-sign-statement-calling-on-govts-to-step-up-effort-in-climate-change-fight.php

Seb Beloe, Partner and Head of Research represents WHEB in many of the above affiliations, also listed on our website under Industry Network's and Associations[38]. He is also a member of the Future-Fit Development Council, part of the Working Group on Listed Equities with the GIIN and a member of the impact advisory board for The Big Exchange. George Latham, managing partner actively contributes towards the B Corp Finance and Investment Working group.

We may also be invited to participate in collaborative engagement targeting investee companies by third parties (for example the CDP or the CA100+[39]) or other investors. We elect to be involved in such initiatives on a limited basis and only where the issues are of relevance to our investee companies. We aim to lead any engagement initiative that focuses on companies held in our portfolios.

Collaborative engagement

In 2021, we continued to engage proactively across much of our portfolio including setting specific and measurable targets[40] in areas such as carbon emissions and gender diversity. With a more concentrated portfolio and increased resource, we have also initiated collaborative work with other investors to accelerate progress at investee companies. This work covers a number of different

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[38] https://www.whebgroup.com/about-us/industry-networks/

[40] These targets include 50% of portfolio companies having set a NZC target by 2025 and at least 33% of companies' board directors should be female.

holdings in our portfolio and includes collaborative engagements that we initiated and led as well as collaborating with broader coalitions of investors (e.g., CA 100+).

Escalation strategies

Collaboration is also an explicit part of our escalation policy for engagement. We typically act to involve other like-minded investors in our engagement activity where we have not been successful in our bilateral engagement with a company. The Intertek case study under Principle 11 elaborates on collaborative engagement as an escalation strategy.

We seek to collaborate with other investors to effect change in investee companies where we consider it appropriate, consistent with our investment policies and having considered potential legal and regulatory consequences (including conflicts of interest and insider information). This will typically take the form of a joint letter initially, followed up with a meeting or conference call.

As shown in Table 3, the majority (97%) of WHEB's collaborative engagement efforts are through industry networks and initiatives that we contribute to. We believe that these networks are most effective for amplifying our voice due to the scales achieved when many organisations come together, and many align with our proactive approach. Collaborative engagement outside of industry initiatives (for example, with one or a small number of other investors) is often, but not always, part of an escalation strategy and therefore tends to be more reactive.

Table 3: Summary of collaborative engagement, 2021

	Count	%
Number of industry initiatives and networks WHEB was involved with	23	n/a
Total number of collaborative engagements undertaken by WHEB	31	100%
Number of individual collaborative engagements undertaken by WHEB via industry initiatives and networks	30	97%
Number of collaborative engagements undertaken by WHEB independently to industry initiatives and networks	1	3%

Further information:

– *PRI Transparency Report (LEA05)* - https://www.whebgroup.com/media/2020/07/2020_Public_Transparency_Report_WHEB-Asset-Management_2020.pdf
– *WHEB 2020 Impact Report (pp 36-39)* - https://impact.whebgroup.com/media/2020/06/WHEB-Impact-Report-2019.pdf
– *Engagement Case Studies* - https://impact.whebgroup.com/engagement-case-studies/
– *WHEB Network* - https://www.whebgroup.com/about-us/industry-networks/

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

As described under Principle 9, WHEB's engagement approach includes a combination of proactive and reactive engagement. Our escalation policy is applied consistently across the strategy, has not changed since our 2020 report and can be summarised in the following steps:

1. *Where WHEB votes against company management's recommendations on shareholder resolutions (or abstains from voting), it is our policy to write to company management after the vote to explain our rationale for the vote against. Voting decisions are based on WHEB's voting policy, and engagement dialogues may be initiated without the need for a vote against (or abstaining to vote) a resolution, as outlined under Principle 12.*
2. *Writing to company management often leads to further engagement in the form of letters, emails, calls or meetings (via video call or in person) to discuss the matter in more detail. Dialogues may be focused on seeking clarification or justifications for company actions or encouraging improved behaviour within the target company. Which of these options is selected will be based on the overall objective of the engagement, which is determined by the investment team*
3. *After careful analysis of the company's response to initial engagement efforts, a decision will be made as to whether escalation is warranted. This is based on our assessment of an engagement as being either:*
    - *Successful: when the company agrees to amend its approach*
    - *Partially successful: when the company acknowledges the issue, but does not commit itself to change*
    - *Unsuccessful: when the company either does not respond to us or refuses to amend its practices.*

    Escalation is deemed appropriate where engagement is unsuccessful or only partially successful.
4. *A decision to escalate bilateral engagement will result in collaboration with other institutional investors (refer to the Intertek case study below). We seek collaborations to effect change in investee companies where we consider it appropriate, consistent with our investment policies and having considered potential legal and regulatory consequences (including conflicts of interest and insider information). In these cases, we may work with other institutional investors to put our concerns to the company jointly. This will typically take the form of a joint letter initially, followed up with a meeting or conference call.*
5. *Ultimately if this approach is unsuccessful also, we may use our voting rights to effect change through, for example, filing or co-filing shareholder resolutions.*
6. *Should these efforts be unsuccessful, we may reduce or sell investments in the investee company concerned (See China Everbright case study under Principle 7).*
7. *We may also be invited to participate in collaborative engagement by third parties (for example the CDP or the UN-PRI) or other investors. We elect to be involved in such initiatives on a limited basis and only where the issues are of relevance to our investee companies. We aim to lead any engagement initiative that focuses on companies held in our portfolios.*

Case Study: Engaging Intertek on NZC commitments, 2Q2020	
Intertek provides testing, inspection and certification services, including to the consumer goods industry where it focuses on safety testing of consumer products such as toys and clothes. The company also tests the safety and regulatory conformity of food and beverages, healthcare products, electrical goods and commodities, and supplies broader services to businesses including on sustainability and climate change.	intertek
Rationale & Objective	*WHEB's strategy has been designed to focus on parts of the economy enabling and benefitting from the transition to a zero carbon, more sustainable economy. It was also entirely absent from areas of the economy which are most susceptible to this transition risk as the world moves towards zero carbon. Nonetheless, WHEB seeks to improve the way that we approach and integrate these issues into our investment process and fund, based on improving knowledge and tools.* *This, in combination with WHEB's own net zero carbon commitments[ix] has meant that portfolio company engagement on net zero carbon commitments was a significant area of thematic, proactive engagement for the team in 2020.* *The objective was to encourage Intertek, as one of many portfolio companies, to set a target of net-zero carbon emissions by 2030 ideally or by 2050 at the latest.*
Strategy	*We first wrote to Intertek to encourage the company to set a 2030 net-zero carbon emissions target in 2019.*
Company Response	*At that time, the company elected to reaffirm an existing target 'to strive for a reduction in greenhouse gas emissions per employee by 5% against a 2018 base year'.*
WHEB's analysis and engagement outcome	Partially successful and then successful, following escalation: *With a strong practice in carbon measurement and advisory, we felt that Intertek was well positioned to set a more ambitious emission reductions target for their own business. We responded to the company encouraging them to set a target that is aligned to the Paris Agreement and consistent with a business that has a leading approach to sustainability. We also led a collaborative initiative with another investor to jointly put this issue to the company.* *Intertek has since announced more progress. It has now committed to achieving a net-zero carbon target by 2050 and fully offset its carbon emissions in 2020. Furthermore, it will ensure that the 2050 target is science-based. We continue to engage the business to encourage it to publish detailed plans and set interim carbon-reduction targets.*

[ix] *Including a goal of net zero emissions from our investment portfolio by 2050 or sooner:* *https://www.whebgroup.com/media/2021/03/202102-NZC-Policy-Portfolio-emissions.pdf*

SECTION 4: EXERCISING RIGHTS AND RESPONSIBILITIES

Principle 12: Signatories actively exercise their rights and responsibilities.

WHEB's approach voting at company meetings

We view the voting rights that we have as equity holders as an opportunity to exercise a progressive influence on company governance and strategy. We exercise these rights at company meetings in accordance with WHEB's voting governance and policies. We typically use the services of specialist proxy voting agencies to advise on voting policy and facilitate voting shares listed on stock exchanges around the world.

While we consider the recommendations of advisory services in how we vote our shares, the investment team assesses each individual company vote against our own internal policies before agreeing on how to vote. We typically vote against or abstain on at least one vote at more than three-quarters of all company meetings. We endeavour to vote all shares and report quarterly on our voting and wider engagement activity through the WHEB website. These reports include commentary on our voting and engagement activity, as well as a more detailed appendix which sets out how every single vote is cast and includes explanations where the vote is against management or was otherwise considered controversial.

Our policy is not to undertake stock lending from any WHEB funds. Clients in segregated accounts may direct voting. As described under Principle 6, we have found that our voting policy covers clients' voting requirements and, in many cases, goes above and beyond their expectations.

WHEB's detailed proxy voting policies are set out below.

WHEB's Proxy voting policy

Our proxy voting policies are intended to promote long-term shareholder value creation and risk mitigation at portfolio firms through support for responsible global corporate governance practices. At their core, our approach is based on a set of four core principles that apply globally. These are detailed below.

1. Accountability:
   - *Boards should be accountable to shareholders, the owners of the companies, by holding regular board elections, by providing sufficient information for shareholders to be able to assess directors and board composition, and by providing shareholders with the ability to remove directors.*
   - *Directors should respond to investor input such as that expressed through vote results on management and shareholder proposals and other shareholder communications.*
   - *Shareholders should have meaningful rights on structural provisions, such as approval of or amendments to the corporate governing documents and a vote on takeover defenses. In addition, voting rights should be proportional to their economic interest in the company; each share should have one vote. In general, a simple majority vote should be required to change a company's governance provisions or to approve transactions.*
2. Stewardship
   - *A company's environmental, social, and governance (ESG) practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers and investors should recognize constructive engagement as both a right and responsibility.*

- *WHEB has adopted a strict interpretation of the ESG standards that we expect of companies, and this influences how we vote at company meetings. We have utilized a range of third-party sources to define specific thresholds in this area.*[41]

3. Independence

- *Boards should be sufficiently independent so as to ensure that they are able and motivated to effectively supervise management's performance and remuneration, for the benefit of all shareholders.*
- *Boards should include an effective independent leadership position and sufficiently independent committees that focus on key governance concerns such as audit, compensation, sustainability and the selection and evaluation of directors.*

4. Transparency

- *Companies should provide sufficient and timely information that enables shareholders to understand key issues, make informed vote decisions, and effectively engage with companies on substantive matters that impact shareholders' long-term interests in the company.*

Because we vote globally, we base our voting decisions on the policies developed by our proxy voting agent in each of the geographies in which we vote. We scrutinize every vote recommendation and reach our own decisions on how to vote following consultation within the investment team. All our voting decisions are disclosed publicly through a quarterly report and detailed appendix.[42] *Currently, our proxy voting agent is ISS and further details on ISS's voting policies across the different regions in which we operate are available from their website.*[43]

The WHEB Lines

In addition to the principle-based policies highlighted above, we also provide analysts with detailed voting guidance and a template for capturing and recording their decisions. This guidance is detailed in the tables below.

Section	#	WHEB Line	Action
Governance	*1*	*Company has a combined chair and CEO.*	*Vote against Chair of Nominations Committee.*[44]
Governance	*2*	*Executive director of the company concurrently holds chair of another public company or is a director of more than one other public company.*	*Vote against that person's re-election.*
Governance	*3*	*Non-executive directors of the company are concurrently a director of more than three companies (chairmanship counts as two).*	*Vote against that person's re-election.*
Governance	*4*	*Not clear if existing directors or candidates for election to the board, are independent*	*Vote against individual or Chair of Nominations Committee.*
Governance	*5*	*Company does not have minimum number of independent directors (>50% threshold) (independence based on tenure of <11yrs)*	*Vote against the re-election of the Chair of the Nominations Committee.*

[41] *For example, this includes the Association of Member Nominated Trustees' 'Red Lines Voting' policies (http://redlinevoting.org/).*
[42] *See http://www.whebam.com/index.php?option=com_content&view=article&id=243&Itemid=90*
[43] *See https://www.issgovernance.com/policy-gateway/2017-policy-information/*
[44] *If the Chair of the Nominations Committee is not on the ballot, vote against: 1) Chair of the Board, if not available then 2) another Nomination Committee member, if not available then, 3) any non-independent board member 4) any other appropriate vote.*

Governance	*6*	*Director has served continuously as such for more than two years without having been re-elected at a general meeting.*	*Vote against the re-election of the Chair of the Nominations Committee.*
Governance	*7*	*Tenure of the company's statutory auditor or auditors is >10yrs.*	*Vote against the re-election of the Chair of the Audit committee.*[45]
Governance	*8*	*Over the reporting period relevant to the latest accounts of a company, its auditors were due to be paid an amount in fees for non-audit services greater than 50% of that properly fixed as remuneration for audit work.*	*As above*
Governance	*9*	*Any Board committee does not consist of a majority of independent non-executive directors.*	*Vote against the re-election of the Chair of the Nomination Committee.*
Governance	*10*	*The company's tax rate looks low relative to its domicile and peers.*	*Talk to IR to understand the tax rate and manage regulatory and reputational risks associated with their tax policy. If unsatisfactory vote against Chairman of the Board*
Governance	*11*	*Authorisation is sought to disapply pre-emption rights beyond the next AGM, and/or pre-emption is sought over more than 5% of issued share capital (or more than 10% if for a specified acquisition or capital investment), or if a specific exclusion is sought over more than one-third of issued share capital.*	*Vote against authorisation*
Governance	*12*	*In general, we support remuneration policies that incentive appropriate pay-for-performance with a focus on long-term shareholder value. More specifically we follow our proxy advisor in voting against a remuneration report/policy if it:* *• Fails to incentivise performance over at least three years* *• Awards a 'sign-on' bonus without conditionality;* *• Layers bonus schemes on top of existing bonus schemes;* *• Provides uncapped bonuses;* *• Has no provision for claw back; or* *• Has no provision for withholding of benefits on cessation of employment*	*Where a remuneration proposal breaches any of these criteria, vote against the remuneration policy*

[45] *If the Chair of the Audit Committee is not on the ballot, vote against: 1) Chair of the Board, if not available then 2) another Audit Committee member, if not available then, 3) any other appropriate vote.*

Governance	*13*	*Total remuneration package of any director is either: - >100 times median pay; or - >5% of company's net income. We have no absolute pay threshold, but analysts can recommend voting against where the quantum is considered egregious.*	*Vote against the remuneration report or policy and Chairman of the Remuneration Committee.*[46]
Governance	*14*	*CEO's remuneration package does not include criteria for awards to be linked to relevant corporate social responsibility and/or environmental sustainability targets or does not include criteria linked to fundamental economic performance (e.g., revenue, margins etc.).*	*Vote against the remuneration report*

Section	#	WHEB Line	Action
Environment	1	Company does not have a board director with responsibility for 'sustainability' (or equivalent terminology) in this area as evidence of appropriate concern.	Vote against the chair of the board.
Environment	2	The company has failed to disclose quantitative and/or qualitative information (beyond 'boiler plate language') on material environmental issues (refer to SASB framework).	Vote against the re-election of the Board member with responsibility for 'sustainability' or in the absence of this role, vote against the re-election of the Chair of the main Board.
Environment	3	Company has a history of major incidents of environmental damage, or a major incident in the year under report, and the directors' report does not include a substantial account of how it is responding and how it proposes to minimise the risks of repetition.	Vote against the reappointment of the chair.
Environment	4	The company has not set a net-zero carbon target to be achieved by 2050 at the latest.	Vote against the re-election of the Board member with responsibility for 'sustainability' or in the absence of this role, vote against the re-election of the Chair of the main Board.

Section	#	WHEB Line	Action
Social	1	Company has inadequate gender diversity on the Board (<33%). Combined targets	Vote against the Chair of the Nomination Committee.

[46] If the Chair of the Remuneration Committee is not on the ballot, vote against: 1) Chair of the Board, if not available then 2) another Remuneration Committee member, if not available then, 3) any other appropriate vote.

		(e.g., gender and minority ethnic) are not acceptable.	
Social	2	Company has inadequate diversity throughout the organisation and no strategy to address this.	Year 1: engage to encourage development of a strategy Year 2: If no progress vote against Chair of Nomination Committee
Social	3	Where there is clear evidence of a company failing to uphold freedom of association and the effective recognition of the right to collective bargaining.	Vote against the re-election of the Chair of the Board
Social	4	The company has failed to disclose quantitative and/or qualitative information (beyond 'boiler plate language') on material social issues (refer to SASB framework).	Vote against the re-election of the Board member with responsibility for 'sustainability' or in the absence of this role, vote against the re-election of the Chair of the main Board.
Social	5	The company has a history of major breakdowns of industrial partnership, or of serious endangerment of health and safety, or of fraud, bribery or other corrupt practices among its staff, or has sustained major damage from any of those causes in the year under report, and the directors' report does not include a substantial account of how it is responding to resulting criticism and of the ways in which it proposes to minimise the risks of repetition. Furthermore, the remuneration policy proposes any increase in salary or bonus for directors employed at the time of the incident.	Vote against the reappointment of the Chair of the Board and vote against the remuneration report.
N.B. For other issues our policy is to vote in-line with ISS guidance unless agreed otherwise with the investment team.			

Activity and outcomes

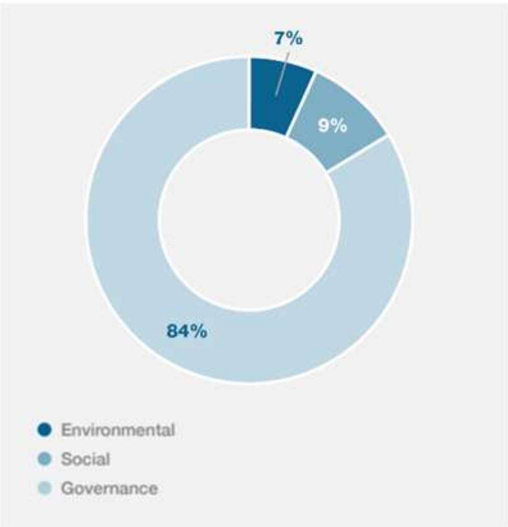
In 2021, WHEB cast votes on 100% of the resolutions at 100% of the company meetings at which we were entitled to vote in that year. The key figures are summarised in Table 4 below.

Table 4: Voting activities in 2021

	Number	Proportion of total
Meetings voted at	47	100%
Meeting with at least one vote against management	42	89.4%
Votes against management	140	23.7%
Votes with management	437	73.9%
Do not vote	0	0.0%
Votes withheld	12	2.0%
Votes abstained	2	0.3%
Resolutions voted	591	100%

In addition, we report on the topic of the votes where we elected to vote against management. In 2021, of the 140 votes where we voted against management. 84% were on corporate governance issues including primarily on director independence. 7% were votes against management linked to environmental issues, mostly carbon reduction targets. Social issues accounted for 9% of votes against, all of which were focused on improving board-level gender diversity (see Figure 15 below).

Figure 15: Votes against management by topic (2021)



Most frequent topic by category

# of votes	Vote topic
12	Environmental / Carbon reduction targets
17	Social / Gender diversity
149	Governance / Director independence

Last year we reported that we find that the majority of resolutions on which we are eligible to vote are focused on governance issues, rather than environmental or social issues. We believe that this is largely because WHEB's focus is on companies that provide solutions to sustainability challenges and consequently are not typically targets for shareholder resolutions focused on social and *environmental issues. As a result, much of our voting activity and the 'WHEB Lines' is focussed on governance issues. This continues to be the case in 2021. As mentioned earlier, our escalation process of writing to company management provides an opportunity to widen the scope of engagement to cover environmental and social issues too.*

Case Study: Voting on a shareholder resolution, JB Hunt Q1, 2021

JB Hunt is a large operator of logistic services in the US. Their core business is in supplying intermodal transport services whereby they enable freight be transported by rail for long journeys across North America. They company also operate a large truck fleet that supports the intermodal service and provides other freight logistic services for clients.

Rationale & Objective	*The company's intermodal services have a clear positive impact by reducing GHG emissions and other air pollution associated with road transport. These benefits have been documented for many years through the company's own carbon footprint calculator[1]. Nonetheless, when it came to the company's own GHG emissions they have historically been something of a laggard.* *Our objective was to encourage the company to make plans to reduce its GHG emissions.*
Strategy	*In 2020 a shareholder resolution was tabled at the company's Annual General Meeting that required the company to produce a report detailing how the company plans to reduce its total contribution to climate change. WHEB voted for this resolution.*
Company Response	*The resolution was opposed by management but secured support from 54.5% of shareholders including WHEB. Since then, the company has published a detailed 'Climate Action Report'. This sets out short and long-term targets on increased efficiency as well as conversion of the company's truck fleet to alternative power sources[2]. The company's former Chief Operating Officer has taken up the position of Chief Sustainability Officer and will lead these efforts.*
WHEB's analysis and engagement outcome	*We're pleased to have seen progress from JB Hunt since the resolution was passed, despite management opposing the resolution. The company has so far not set a net zero emissions target, but is actively considering different approaches that will help the business significantly reduce its overall carbon footprint. We have had several video conference calls with the Chief Sustainability Officer, General Counsel and other senior executives to understand the company's strategy and to encourage them to accelerate these efforts further.*

[1] https://home.jbhunt.com/company/investor_relations/esg/environmentalsustainability/engineering-solutions/
[2] https://www.jbhunt.com/content/dam/jbhunt/jbh/pr/pressreleases/J.B.%20Hunt%20Climate%20Action%20Plan.pdf

Further information:

- *Quarterly client reports - https://www.whebgroup.com/investment-strategy/fp-wheb-sustainability-fund/quarterly-reports/*
- *Detailed quarterly voting appendix - https://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/*

January – December 2021

WHEB Asset Management Stewardship Report

WHEB