INSIGHTS

Q3 2021 REPORT

Pengana WHEB Sustainable Impact Fund

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GAS PRICES, ‘GREENFLATION’ AND GOVERNMENTAL GATHERINGS

Gas prices in the UK shot up by 37% in a single day in early October. This was on top of a near trebling in price since the Summer of last year. The UK has become more dependent on gas as a back-up to intermittent renewables on the electricity grid and consequently electricity prices have also risen precipitously. According to recent studies, 86% of the rise in electricity price is because of gas.[1] Across the European Union it is 80%.

Much has been written about the cause of the gas price spike. Principal contributors are variously thought to have included:

- a decision by Gazprom (and likely the Russian government) to supply lower volumes of natural gas to Europe;
- competing demand from Brazil, China and South Korea for liquified natural gas (LNG) as their economies emerge from pandemic lock-downs;
- lower levels of storage across Europe due to the cold winter and amplified in the UK by the decision to lose – and not replace – our largest gas storage facility in 2017; and,
- lower wind speeds across much of Europe during the Summer. Orsted, for example reported that average wind speeds during the Summer were 10% below the long-term average.

[1] https://ember-climate.org/commentary/2021/09/21/fossil-gas-uk-electricity-prices/

Missing the wood for the trees

But focusing on the current turmoil in energy markets misses a wider change. COVID-19 revealed the inherent fragility of global supply-chains. These networks have been made even more brittle by the severe geopolitical tensions between China and the US. Extreme weather caused by climate change, which will only get worse in the medium-term, makes a fraught situation even worse. Whether it is semiconductors, steel, pork or pasta, it seems highly likely that volatility in almost any global commodity will be with us for some time.

Just-in-case rather than just-in-time

We've previously commented on the shift that we are seeing in corporate procurement practices.[2] 'Just-in-case' is replacing 'just-in-time' as the dominant paradigm. Near-shoring of manufacturing, diversifying supply-chains by qualifying more suppliers and even holding more working capital are all efforts to build more resilience into business operations. Greater storage capacity for natural gas/electricity/hydrogen would play a similar role in energy markets. As would requirements for energy companies to guarantee capacity and hedge what they pay for energy.

Resilience and greenflation

All these efforts make sense given what we see as a more volatile trading environment. But they are also likely to be inflationary, at least in the short-term. Creating redundancy may support long-term resilience, but it will likely come at the cost of short-term efficiency. Similarly, efforts to decarbonize the economy may also stoke so-called 'greenflation'. Accelerating efforts to decarbonize have already reportedly pushed up prices for pea-protein used in vegetarian alternatives to meat[3] through to the commodities required for electric vehicles.[4]

Most debate about the causes of current inflation and how persistent it is likely to be, is focused on the economic recovery following the coronavirus pandemic. Many of these most likely will be transitory. It is increasingly apparent though that climate change is far from transitory, and neither are efforts to mitigate it.

COP26

For much of the financial industry, COP26 is of only passing interest. After all, the argument goes, just how much can the 26th meeting of anything really matter?

This, however, is the wrong way to think about it. Climate change is no longer only an environmental issue. It is now an economic issue with the power to reshape whole industries, impact public finances, drive inflation and even affect economic growth. In its leader article on the 9th October, The Economist speculates that 'scarcity has now replaced gluts as the biggest impediment to global growth' and that decarbonization, along with protectionism are the leading causes.[5]

It seems likely that in the short-term at least, policies aimed at decarbonization may well dampen growth and boost inflation. In the medium-term though, the outcome could well be a more resilient and more efficient system. The CEO of Audi recently stated that battery electric vehicles

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[2] https://www.whebgroup.com/from-just-in-time-to-just-in-case/
[3] https://www.ft.com/content/689fe9b6-3b1f-4a19-b917-0546def68371
[4] https://www.ft.com/content/49c19d8f-c3c3-4450-b869-50c7126076ee
[5] https://www.economist.com/leaders/2021/10/09/the-world-economys-shortage-problem

are now just as profitable as combustion cars.[6] For drivers, BEVs may already be cheaper to own.[7] They'll be cheaper to buy within a few years.[8] And the same is already true for renewable energy where onshore wind and solar have been the cheapest forms of power in most places for some time.[9]

None of this will be much comfort though to consumers smarting over their latest energy bills. Managing these impacts effectively will be a key preoccupation for Governments in the coming years. Some countries, like China, have quickly loosened environmental constraints in order to increase power production and ease shortages.[10] In the UK at least, it looks like the government sees further decarbonization as the cure for, and not the cause of, higher and more volatile energy prices. With the COP26 talks opening in only a few weeks, we hope other governments will be listening.

[6] https://insideevs.com/news/538396/audi-ev-profits/
[7] https://www.betterenergy.org/blog/consumer-reports-study-finds-electric-vehicle-maintenance-costs-are-50-less-than-gas-powered-cars/
[8] https://www.theguardian.com/business/2021/may/09/electric-cars-will-be-cheaper-to-produce-than-fossil-fuel-vehicles-by-2027
[9] https://www.bloomberg.com/news/articles/2020-10-19/wind-solar-are-cheapest-power-source-in-most-places-bnef-says?sref=YEfLHut7
[10] https://www.reuters.com/world/china/china-liberalise-thermal-power-pricing-tackle-energy-crisis-2021-10-12/

THE ROLE OF HOME HEALTH IN THE PANDEMIC AND BEYOND

Growing role of home health in the pandemic

The COVID-19 pandemic has put enormous strain on the healthcare sector globally. In England alone, there are almost 5.5 million patients waiting for routine hospital treatment.[11] The elderly in care homes have been hit especially hard by the coronavirus. Many now fear moving into a care home, having seen the elevated mortality rate at care homes due to COVID-19.

During the pandemic, home health has been promoted to pick up non-critically ill patients so they can be discharged from hospitals faster and have care at home instead. “Hospital at home” is another emerging trend, which gained traction as hospitalisations have risen. It enables some patients to receive acute care in their homes, rather than in a hospital.

[11] https://www.theguardian.com/society/2021/aug/12/record-number-of-nhs-england-patients-waiting-for-routine-hospital-treatment

Home health is a preferred option

People prefer to receive treatment and care at home. 9 out of 10 people aged 65 or above would choose to be supported at home, rather than in a care home.[12] COVID-19 has further exacerbated this preference given the frightening impact of the pandemic on care homes. Home health services offer a variety of care regimens. These include physical therapy, occupational therapy and speech therapy. Several studies show that home health improves clinical outcomes and reduces hospitalisation rates. Dementia patients particularly benefit from care at home as they need familiarity. Those who live at home have a better quality of life, better social contact and higher levels of physical activity than patients in nursing homes.[13]

It's not just the patients themselves who want to stay at home. Hospitals and health insurers are increasingly recommending home health over other care settings. The major reason is cost. In the US, home health is the most cost-effective setting for treatment, nearly three times less expensive than care in a skilled nursing facility.[14] For this reason, home health has become a larger proportion of post-acute care patients discharged from hospitals over the last decade.

With an ageing population, the demand for home health is expected to grow significantly. Under this favourable backdrop, we recently initiated a position in LHC Group. LHC is a national provider of in-home healthcare services in the US. There are two critical metrics in the home care industry: quality and patient satisfaction. LHC demonstrates strong performance on both these metrics. More than half of its home health locations across the US were named among the nation's best as part of an independent industry ranking, HomeCare Elite. According to the Centers for Medicare and Medicaid Services (CMS) Five-Star Quality Rating System, LHC achieved scores significantly above the industry average.[15]

Will policy changes catch up with technological changes?

We have previously discussed how a range of healthcare technologies have helped tackle the COVID-19 pandemic. In the early days of the pandemic, patients were anxious to let nurses into their homes for in-person visits. Hence, the use of telehealth and remote monitoring increased enormously during the past 18 months. A lot of these technologies were already available pre-COVID, but the pandemic has significantly accelerated their adoption. Nevertheless, insurance coverage remains the major hurdle for wider adoption. Based on our conversation with the management at LHC Group, new technologies are unlikely to be adopted widely unless they are covered by the CMS. For example, LHC provides a free personal emergency response device which can detect falls and automatically notifies LHC's response team. It also provides vital monitoring systems to some high acute patients so that more hospital patients can get their care at home. Unfortunately, these services will remain at a small scale until reimbursement policies catch up with technological changes and support their wider adoption.

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[12] https://www.ukhca.co.uk/mediastatement_information.aspx?releaseID=236253
[13] https://bmcgeriatr.biomedcentral.com/articles/10.1186/s12877-016-0312-4
[14] http://s2.q4cdn.com/960461372/files/doc_downloads/2021/01/AMED_JPM-Presentation-v.16.pdf
[15] https://lhcgroup.com/newsroom/lhc-group-earns-top-marks-in-latest-cms-star-and-homecare-elite-performance-measures/

ENGAGEMENT ACTIVITY

Orpea – Social issues in the nursing home sector

COVID-19 impact on nursing homes

The COVID-19 pandemic has laid bare a number of social issues in the nursing home sector including staff shortages, unfavourable working conditions and low wages. These issues can in turn lead to poor quality of care and high staff turnover. While these are long-standing problems which pre-date the pandemic, the pandemic has nonetheless further exacerbated many of these issues.

We began working with UNI Global Union ("UNI") in March 2021, which is a global union federation for the skills and services sectors. It represents two million care workers worldwide. Through the help of UNI, we collaborated with other investors and fiduciaries, representing a combined $3.34 trillion assets under management. Together we have 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 and quality of care.

Lack of industry metrics

The major challenge for this engagement has been a lack of common industry metrics. This has made comparisons across the industry problematic in part due to inconsistent data disclosure by industry players. The investor group decided to focus on six areas in this engagement including governance, staffing, health & safety, wages & contract, freedom of association and quality of care. We drew up a list of key indicators and metrics that we expect to collect from the 17 companies in the sector for each of these areas.

Collaborative engagement

We had our first engagement meeting with Orpea in July. The objective of this initial meeting was to understand where the company stands on these 6 areas and the policies that they have in place to manage them. The company showed reasonable openness in our discussion and provided several rather anecdotal answers to our questions. These included trying to adopt the highest food safety standards across their facilities in multiple European among countries and offering a one-off bonus to all employees in France during the pandemic as an incentive for staff retention.

While it is hard to judge purely based on these anecdotal examples, we are inclined to believe that the company is doing a good job overall based in how it handled the pandemic compared to its peers. For example, Orpea had less than 0.2% of positive COVID case among its residents between July and September this year and more than 98% of its facilities were COVID free in September. However, we would hope to see more firm-wide data in the future to assess if progress is being made which the company has so far declined to do. This engagement is still an ongoing process. We will continue to collaborate with other investors to explore in more depth specific areas where we continue to have concerns.

China Everbright Environment Group

Is waste to energy an environmental solution?

We started a position in China Everbright Environment Group in January 2017. The company 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 itself as 'devoted to ecology and environment for a beautiful China'.

The company has been held in our Cleaner energy theme where we have typically 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. In 2010, for example, 40% of municipal solid waste was disposed of in uncontrolled landfill, 30% was uncollected and only 4.5% was incinerated.[16] By the end of the decade, nearly 50% was being landfilled and nearly 40% was being incinerated.[17] Incineration – even with energy recovery – was 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.[18] What is more, while a significant proportion of municipal waste

[16] Municipal solid waste management in China: Status, problems and challenges, Dong Qing Zhang et al., Journal of Environmental Management, August 2010
[17] Towards separation at source: Evolution of municipal solid waste management in China, Jianguo Liu et al., Environmental Science, 2020
[18] https://www.c40knowledgehub.org/s/article/Why-solid-waste-incineration-is-not-the-answer-to-your-city-s-waste-problem?language=en_US

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.

Engagement on carbon emissions

Over the past two years, 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.

China Everbright Environment Group on its own accounted for nearly 60% of the carbon footprint of WHEB's strategy (measured in terms of tonnes of $CO2_e$ per £1m of revenue).[19] We were particularly keen therefore to see if the company would respond positively to our engagement.

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.

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.

[19] Based on data supplied by ImpactCubed.

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.

Conclusion

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 had with the business, 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.

Public policy and standards

Climate change

In the run-up to the Conference of the Parties (COP) 26th meeting in Glasgow in November, we have been supporting a range of investor initiatives aimed at putting pressure on national governments to commit to ambitious action on climate change. This involved co-signing letters to administrations in Korea (with the Asia Investor Group on Climate Change) and the UK[20] (with WWF-UK) as well as co-signing a 'Global Investor Statement to Governments on the Climate Crisis'. This last has the support of over 580 other investors representing US$46 trillion in assets under management.[21]

WHEB will be attending and speaking at a series of events at COP26 and will report back in our next quarterly review on the outcomes of the conference.

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

PERFORMANCE COMMENTARY

Global equities had a mixed third quarter, with the Fund's global benchmark, the MSCI World Index (in AUD) gaining 3.9%. In the first part of the quarter healthy earnings and optimism over the end of the pandemic lifted markets. The tide turned in the latter part of the quarter as a significant rise in natural gas prices in Europe and global supply chain disruption drove fears of inflation. Central banks are now walking a fine line between growth and inflation, considering when to increase interest rates and to withdraw quantitative easing.

The strategy outperformed the benchmark with a return of 4.2%. Our Health and Environmental Services themes provided the strongest positive contributions to performance. They were offset by weaker performances from our Safety and Cleaner Energy themes.

Our Health theme was the largest positive contributor in the quarter. Our life sciences tools companies, **Thermo Fisher**, **Agilent** and **Danaher**, drove much of the outperformance. These companies have clearly benefitted from selling tools and equipment which are used to develop COVID-19 tests and vaccines. But the pandemic has also paved way for brighter long-term outlook for these companies. Danaher recently upgraded its long-term sales growth from 5-6% pre COVID to “above mid-single digit”. Similarly, Thermo Fischer also upgraded its long-term growth outlook from 5-7% to 7-9%. Thermo Fischer is leveraging its strong client relationships and expertise in the fast-growing pharma and biotech industry to drive growth above its historic trends.

ICON was also a standout in the Health theme. It is a clinical research organisation, helping pharmaceutical companies develop new therapies. ICON's services and technologies were particularly useful to facilitate remote clinical trials during the pandemic. Its share price has now more than recovered the loss suffered when it announced the acquisition of its peer PRA Health Services in February this year. We believe the recent comments from the management have boosted investor enthusiasm over the acquisition.

Our Environmental Services theme was another positive contributor, with strong performances from two Dutch stocks, **DSM** and **Arcadis**. DSM manufactures a range of nutritional and pharmaceutical ingredients, and industrial materials that help reduce environmental impacts. It is seeing strong demand in many of its markets, and also announced a strategic review of its materials business, which was well-received.

Arcadis is an environmental consultant with a particular focus on the buildings, infrastructure and water sectors. Its stock did well after it published a strong set of results. The company benefits from the growing scale of public stimulus programs for sustainable infrastructure, as well as a renewed focus on carbon reduction and environmental adaptation across its client base.

Our Safety theme underperformed this quarter. **MSA Safety**, a manufacturer of safety equipment, performed badly due to rising raw material costs and its exposure to some sectors which are still recovering from the pandemic. Global testing, inspection, and certification company **Intertek** was also a negative contributor. Its services ensure product safety and provide sustainability assurance across global supply chains. It published disappointing results suggesting some challenges to organic growth. We have been investors in Intertek for nearly a decade and seen slower patches like this come and go before.

Our Cleaner Energy theme also underperformed again this quarter mostly due to inflationary pressure and supply chain disruption. The weakest performance came from **TPI Composites**, a leading outsourced manufacturer of wind turbine blades. The company has reduced its full-year guidance due to higher raw material costs and lower expected wind blade demand for the rest of this year. Despite this short-term volatility, we remain confident over the long-term demand for wind energy and remain bullish over the long-term demand for renewable energy.

The drawdown at the end of third quarter marked the largest decline in the global stock markets (using our benchmark MSCI World Index as a proxy) since October 2020. As Central Banks are considering scaling back quantitative easing and raising interest rates in view of the rising inflation, equity markets may exhibit higher volatility in the near term.

We continue to monitor supply chain disruption, inflation, rising interest rates and reduced market liquidity, but our focus is always the long-term potential from meeting the sustainability challenge.

PORTFOLIO ACTIVITY

We initiated one position and sold two positions in the quarter.

Recent purchase

We initiated a new position in **LHC Group** in our Wellbeing theme. LHC is one of the largest home care and hospice operators in the USA. Efficient home care has a great potential to reduce the cost burden created from lengthy hospital stays. Several secular trends support a long-term expansion in home care. They include favourable demographic changes and the increasing adoption of healthcare technologies such as telehealth and remote monitoring.

LHC is well positioned in this strongly growing market. It is a high-quality operator with a clear focus on patient care and service quality. It has a unique growth strategy of forming partnerships with hospitals to provide home care. It also has scale advantages relative to most of its competitors. The ever-changing regulatory environment also favours bigger players with abundant resources, like LHC, who can more easily adapt to those changes.

Recent sales

We sold **China Everbright Environment** in our Cleaner Energy theme. It is China’s largest environmental protection company focusing on waste-to-energy, biomass, and water treatment. We do not consider waste-to-energy as a preferable solution in developed markets. With the continued growth and maturing of China, the company moved below our impact hurdle for investment.

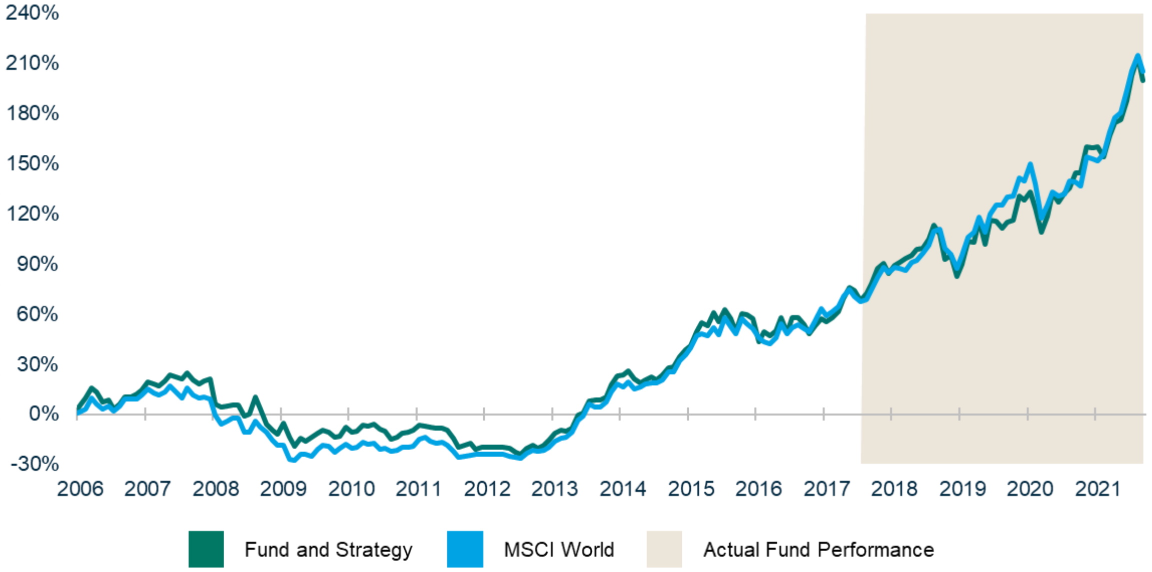
We closed our position in **Hella** in our Sustainable Transport theme. Hella is a leading auto OEM supplier of lighting solutions and a wide range of electronics around automated driving, electronification and emission reduction. During the quarter, Hella agreed to be acquired by one of its larger competitors, Faurecia.

INVESTMENT PERFORMANCE

Cumulative Investment Returns

Net performance for periods ending 30 September 2021					
	3 mth	**1 yr**	**3 yrs p.a.**	**5 yrs p.a.**	**Since inception p.a.**
Fund	4.2%	22.8%	13.0%		
Strategy (partial simulation)[22]				14.3%	7.2%
MSCI World[23]	3.9%	27.8%	13.2%	15.1%	7.4%

Performance Since Strategy Inception

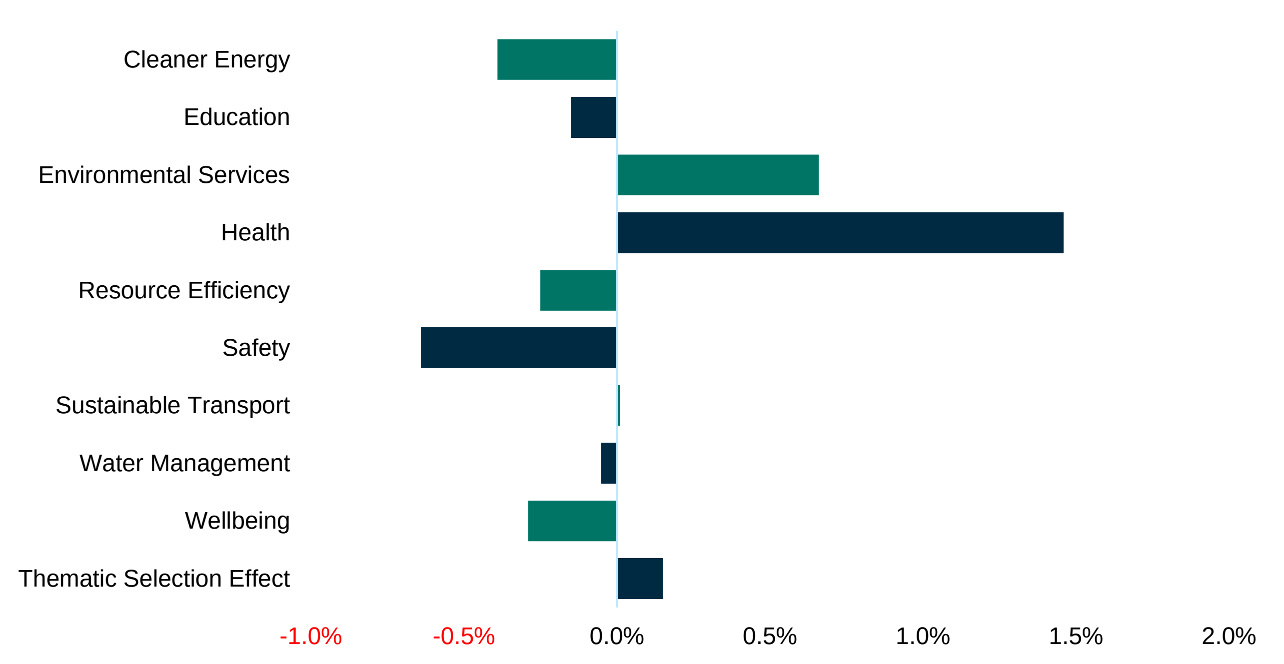


[22] From August 2017, performance figures are those of the Pengana WHEB Sustainable Impact Fund's class A units (net of fees and including reinvestment of distributions). The strategy's AUD performance between January 2006 and July 2017 has been simulated by Pengana from the monthly net GBP returns of the Henderson Industries of the Future Fund (from 1 January 2006 to 31 December 2011) and the FP WHEB Sustainability Fund (from 30 April 2012 to 31 July 2017). This was done by: 1) converting the GBP denominated net returns to AUD using FactSet's month-end FX rates (London 4PM); 2) adding back the relevant fund's monthly ongoing charge figure; then 3) deducting the Pengana WHEB Sustainable Impact Fund's management fee of 1.35% p.a. The WHEB Listed Equity strategy did not operate between 1 January 2012 and 29 April 2012 – during this period returns are zeroed. The Henderson Industries of the Future Fund's and the FP WHEB Sustainability Fund's GBP net track record data is historical. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

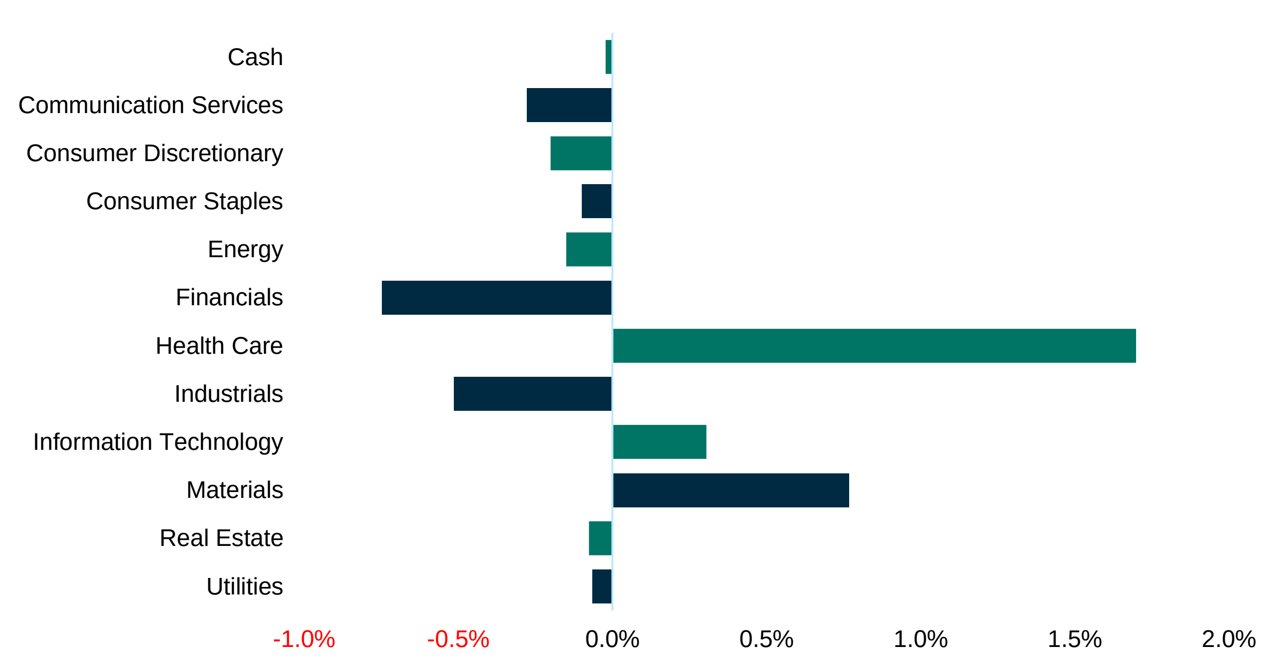
[23] MSCI World Total Return Index (net, AUD unhedged).

Performance Attribution – Last 3 Months[24]

Attribution by Sustainability Theme[25]

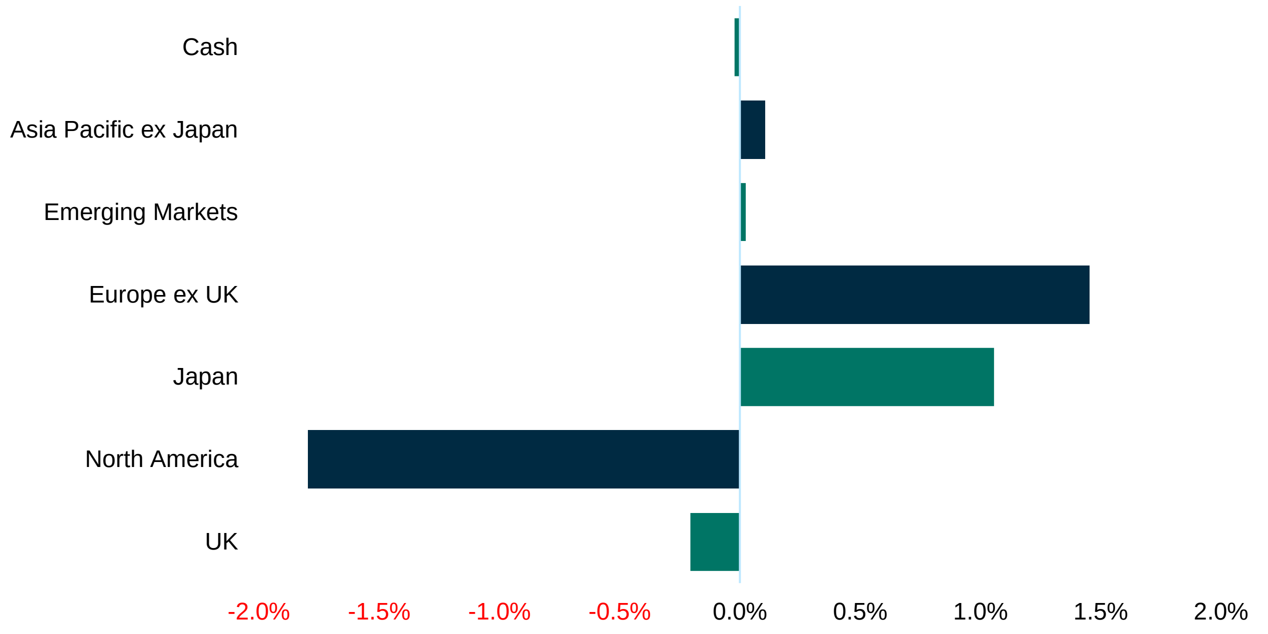


Attribution by Sector

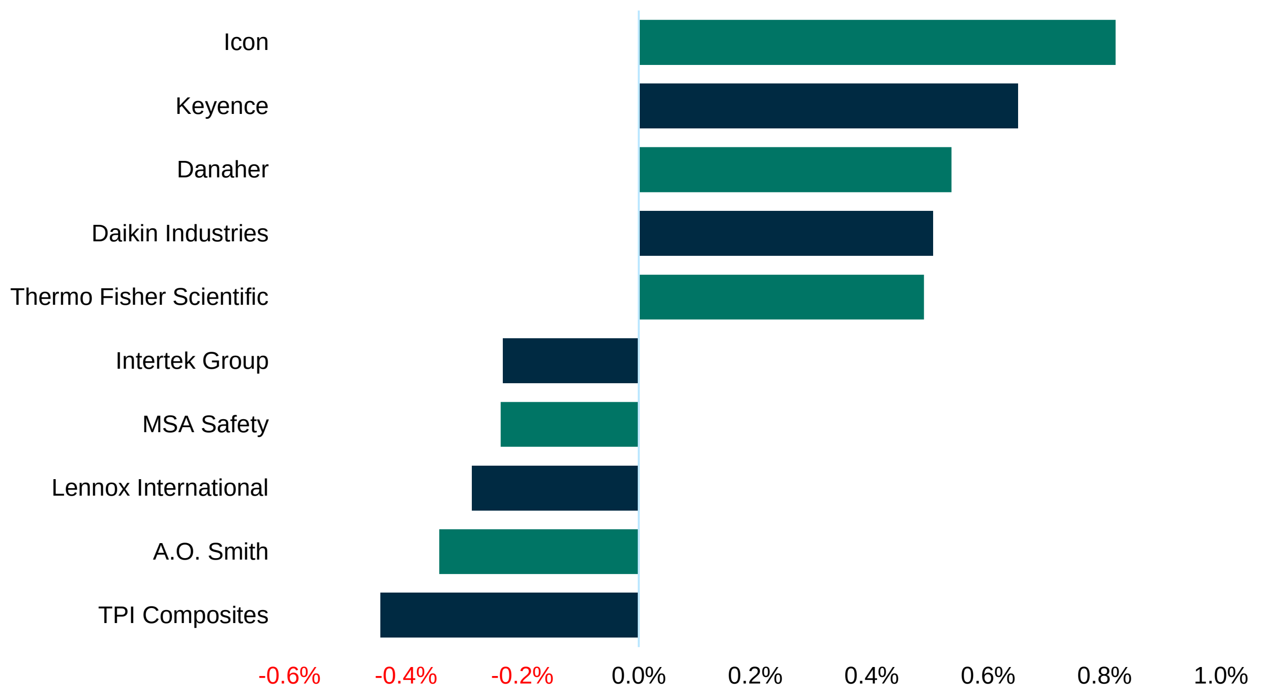


[24] Performance attribution is calculated with reference to the MSCI World Index
[25] The "Thematic Selection Effect" is calculated as the attribution from not having any holding in stocks which are constituents of the MSCI World Index but are not in WHEB's investable universe.

Attribution by Geography

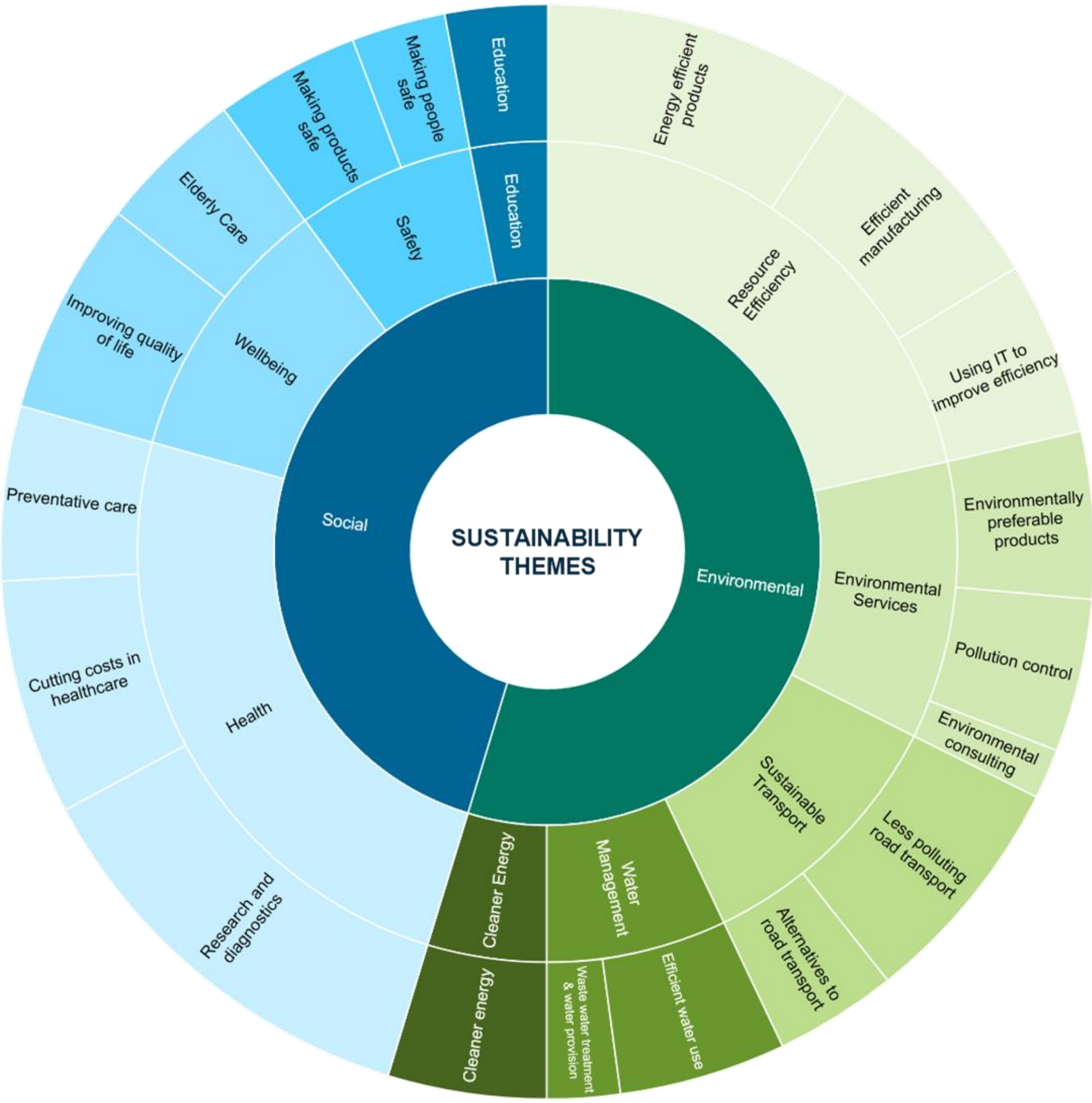


Contribution by Stock (Top and Bottom 5)



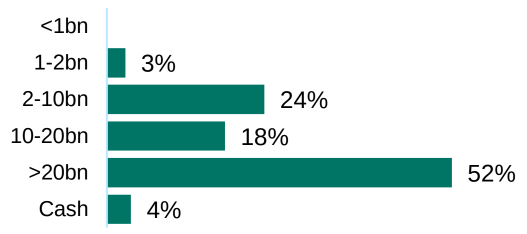
PORTFOLIO ANALYSIS AND POSITIONING[26]

Sustainability Theme Exposure

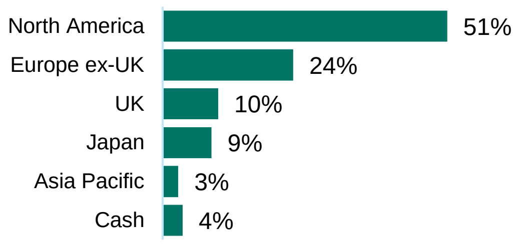


[26] As at 30 September 2021.

Market Cap (U$) Exposure



Geographic Exposure



Largest 10 Positions

Name	Sustainable Investment Theme	Description
A.O. Smith	Resource Efficiency	Energy efficient products
Agilent Technologies	Health	Research and diagnostics
CSL	Health	Preventative care
Danaher	Health	Research and diagnostics
DSM	Environmental Services	Environmentally preferable products
Icon	Health	Research and diagnostics
Linde	Environmental Services	Pollution control
Orpea	Wellbeing	Elderly care
TE Connectivity	Sustainable Transport	Less polluting road transport
Thermo Fisher Scientific	Health	Research and diagnostics

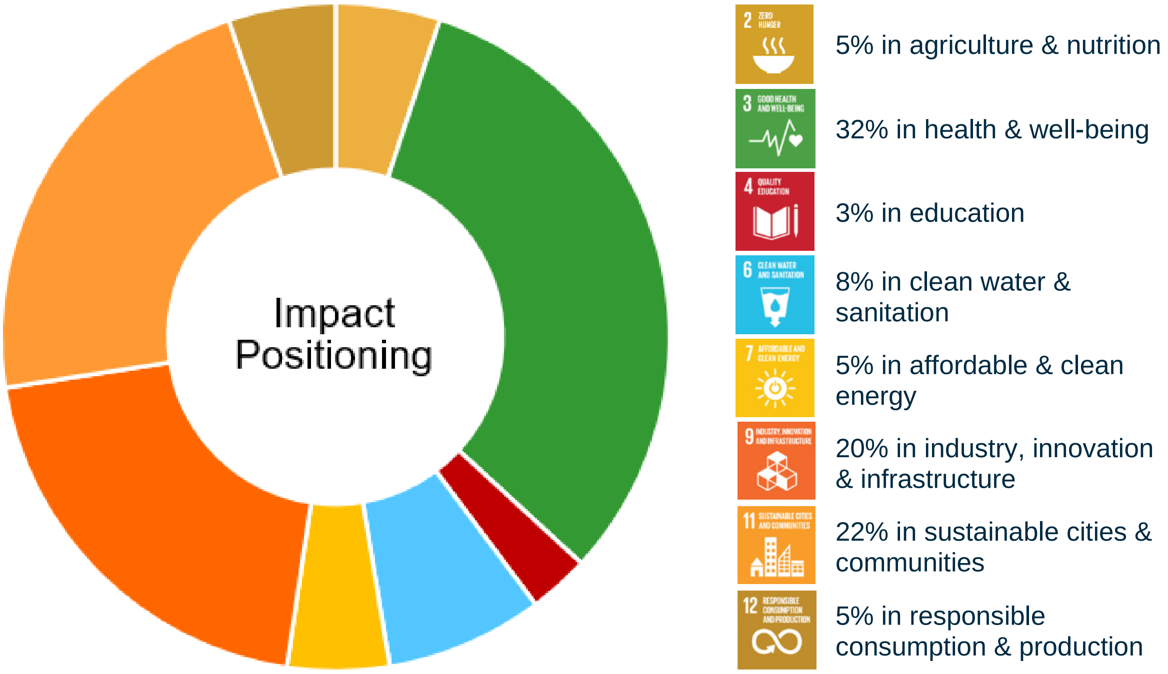
Strategy Characteristics

	WHEB	MSCI
FY1 Price/Earnings (PE)	28.64x	28.42x
FY2 Earnings Growth	13.99%	15.57%
FY1 PE/FY2 Earnings Growth (PEG)	1.73x	1.44x
3-year Volatility	17.18%	18.47%
Beta (predicted)	0.94	
1-year Tracking Error (predicted)	4.84%	
5-year Tracking Error (ex-post)	6.36%	

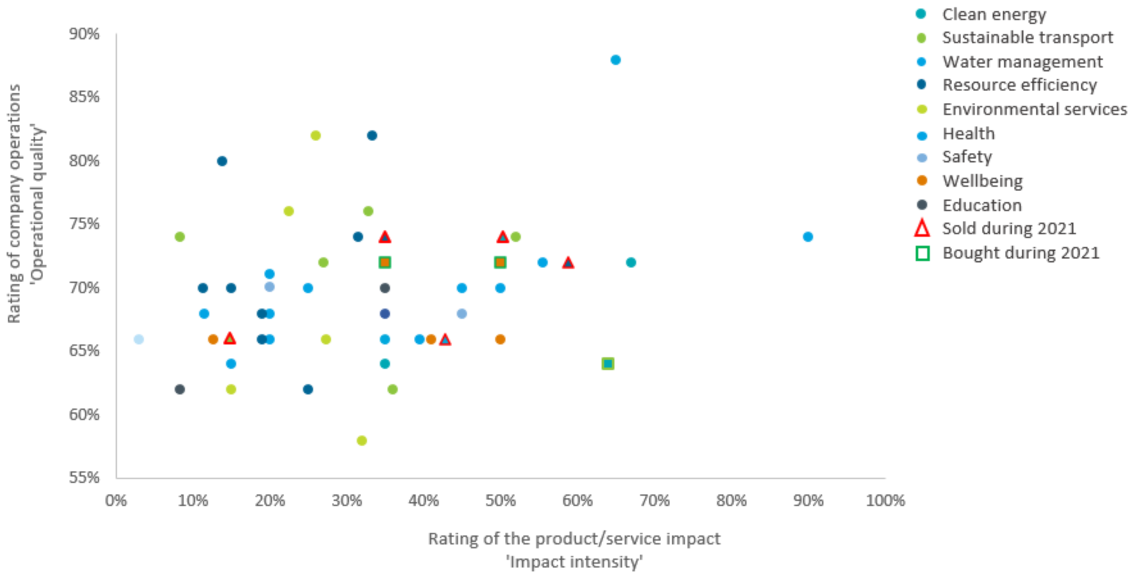
Trading Activity – Significant Portfolio Changes

Stock Name	Purchase or sale	Theme	Brief description or sale rationale
China Everbright	Sale	Cleaner Energy	No longer meets our impact hurdle
Hella	Sale	Sustainable Transport	The company is going to be merged with Faurecia.
LHC Group, Inc	Purchase	Wellbeing	High quality provider in the attractive home health market.

Impact Positioning: Supporting the UN Sustainable Development Goals[27]



Impact Map of the strategy's portfolio following changes in Q1 to Q3 2021[28]



[27] For descriptions of impact mapping methodologies please see WHEB's impact reports, available at https://impact.whebgroup.com/methodology/. The SDG mapping methodology is described in the 2019 Impact Methodology Report, available at https://impact.whebgroup.com/methodology/, and the impact positioning graph is described in detail in the 2019 impact report.
[28] As above.

ENGAGEMENT AND VOTING ACTIVITY

Voting Record: Q3 2021

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 July – 30 September 2021. Full details of how we voted on each of the individual votes are detailed on our website: https://pengana.com/our-funds/wheb-sustainable-impact-fund/

Meetings	No. of meetings	%
# votable meetings	4	
# meetings at which votes were cast	4	100%
# meetings at which we voted against management or abstained	4	100%

Resolutions	No. of resolutions	%
# votes cast with management	35	67%
# votes cast against mgmt. or abstained (see list in appendix)	17	33%
# resolutions where votes were withheld	0	0%

Company Engagement Activity

Company	Topic	Method	Detail	Outcome
AO Smith	Combined CEO-Chair / director independence / CEO compensation / Auditor independence	Letter	We have not been successful in convincing the company to apply a higher standard of independence to Board directors or the auditor. Nor has the company responded to our concerns about CEO Remuneration	Unsuccessful
Advanced Drainage Systems	Board diversity / CEO compensation / Auditor independence	Letter	Only 17% of the Board of Directors is female, the CEO's long-term compensation plan can exceed 300% of base salary, the auditor has been in place for eighteen years and there is no GHG reduction target.	Ongoing
Aptiv	CEO compensation / gender diversity / director overboarding / director independence / auditor independence	Letter	We have not heard back from the company regarding out votes against the company at the AGM on these issues.	Unsuccessful
China Everbright Environment	Director independence / carbon targets / gender diversity / equity issuance	Conference call	Company recognised our concerns over director independence, gender diversity and on carbon emissions. The company does have plans to improve on these issues but see this as an issue to address over the next 2-3 years which we consider to be inadequate.	Partially successful
CSL	Net-zero carbon target	Group e-meeting	We spoke to the CFO about the new sustainability strategy and the lack of a net-zero carbon target. She confirmed that the company is more focused on social impacts but are planning to commit to NZC by 2050 and are looking to develop more medium-term milestones.	Partially successful
Daikin Industries	Net-zero carbon target	Group e-meeting	Company has now published a net-zero carbon strategy aiming to achieve NZC emissions by 2050. We are unhappy with a number of aspects of the strategy and have engaged the company to make our points to them.	Partially successful
HelloFresh	Use of non-recyclable packaging	Email	The company intends to publish specific targets to reduce non-recyclable packaging by mid-2022	Partially successful
Hikma	Overboarding / Excessive CEO remuneration	Letter	The company has acknowledged our concerns and will discuss with the Chair of the Nomination and Governance Committee.	Partially successful
	Net-zero carbon target	E-meeting	NZC target will be set in 2022 the CEO will also have environmental factors in his compensation starting in 2021.	Successful
	Drug-pricing	Email	The company set out their policy on drug pricing focusing on quality, availability and price. This latter point focuses on the whole sale price that Hikma sets.	Partially successful
ICON	Classified board	Letter	Classified board with directors appointed for more than two years.	Ongoing
Infineon	Physical risk from climate change	E-meeting	Company has audited their sites for physical risk from climate change and are taking mitigating actions	Partially successful

	Carbon emissions reporting		Their key target is normalised by sales (although they still have a NZC target by 2030).	
JB Hunt	Net-zero carbon target	E-meeting	No net-zero carbon target yet because the company is dependent on the development of E-trucks and trains. We pushed them to remain ambitious in identifying ways to accelerate progress in carbon emissions reduction.	Partially successful
DSM	NZC strategy	Letter	Further clarity on decarbonisation strategy including moving away from controversial solutions (eg use of biomass and offsetting).	Ongoing
Lennox International	NZC target	Letter	Asking for a clear net-zero carbon target and strategy	Ongoing
Linde	Auditor independence / CEO remuneration / NZC target / Board tenure	E-meeting	Audit was put out to tender for joint Praxair/Linde business so now just 1yr of auditor tenure. CEO Remuneration is justified against peer group. New merged company so Board Directors' tenure has been reset. Agreed that NZC target needs to be absolute reductions (not normalised by EBITDA as it currently is).	Partially successful
Littelfuse	Director independence / gender diversity / CEO Remuneration	E-meeting	More board diversity is a priority for the company (although no target). Acknowledged concerns on director tenure and remuneration.	Partially successful
	ESG reporting	E-meeting	Company will produce an ESG report in Q4.	Successful
Orpea	Employee health, safety and conditions	E-meeting	See above	Partially successful
Premier	Director independence	Various	Company has reduced board size and so it is now 90% independent with an average board tenure of 5yrs.	Successful
	Gender diversity	Various	Board is now 28% female which is an improvement but still below our 33% threshold	Partially successful
Smurfit Kappa	Gender diversity / carbon emissions / biodiversity	Meeting	Requested more information on how the company plans to achieve gender diversity and carbon emissions targets. Encouraged the company to explore how it could enhance biodiversity through its operations (rather than just minimise negative impacts).	Partially successful
Steris	Director independence / ESG reporting / Gender diversity / Auditor independence / CEO compensation	Letter	Several directors have a tenure of >10yrs making the Board majority non-independent in our view, ESG reporting is currently poor, 22% of Directors are female, the auditor has tenure of >10yrs and the CEO's compensation has no link to ESG performance.	Unsuccessful