WHEB

January 2018

Responsible Investing: Engagement Report Q4 2017

Introduction

Being long-term investors with an average holding period of around five years, affords us with both the opportunity and the incentive to try to understand companies in our portfolio in all their complexity. Our particular focus is on understanding and engaging on those environmental, social and governance (ESG) issues that we believe represent the most material risks and opportunities for businesses in the portfolio.

Quite often this means pursuing issues with companies that are away from the mainstream investment spotlight. For example, our ongoing engagement with Lenzing on the issues associated with viscose production is not one that has attracted the interest of mainstream investors. Equally our engagement work with CSL on the ethical issues associated with plasma collection may sound somewhat esoteric. In both cases, we believe that these issues represent critical challenges to the long-term health of these franchises.

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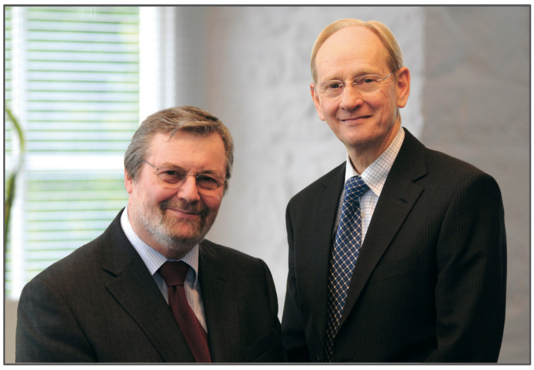
Our approach also means that we quite often adopt positions that are uncomfortable for larger investors who apply more standardised approaches to ESG issues. We believe a more bespoke approach that is informed by a deeper understanding of a company, its history and culture allows to adopt more nuanced positions that better address the on the ground realities. An example of this is our approach to corporate governance issues at the UK-based business Renishaw, as we describe below.

Putting Director independence in perspective

WHEB's voting policies at company meetings are fundamentally intended to promote long-term shareholder value creation and risk mitigation at companies that we invest in. It is with this objective in mind that we support the principle that Boards should be sufficiently independent to provide effective supervision of management's performance and remuneration, for the benefit of all shareholders. However, while we support the principle of independence, we are not slavish in its application, recognising that there are other approaches that deliver long-term shareholder value creation and risk mitigation with less than fully independent boards.



John Deer (Deputy Chairman) and Sir David McMurty (Chairman and CEO), Renishaw PLC.

We support the principle of Board director independence, but we are not slavish in its application.

Once such business that is held in the portfolio is the UK-based Renishaw PLC. Renishaw's corporate governance is given a very poor score of 9 out of 10 (ten being worst) according to governance experts Institutional Shareholder Services (ISS). And on the face of it, governance – specifically independence – is dire. Sir David McMurty is the Chairman and is also the CEO and he is accompanied on the Board by the Deputy Chairman John Deer. There are three other Executive Directors on the Board and only four independent non-executives including a Senior Independent Director Sir David Grant. The full Board is only 44% independent and while the Audit and Compensation Committees are 100% independent, the Nominating Committee is only 80% independent being chaired by Sir David McMurty. ISS routinely advise shareholders against the reappointment of both Sir David McMurty and John Deer at the company's Annual General Meeting.

What this analysis fails to disclose however, is that Sir David and John Deer were both founders of the company and have, over the 44 years that they have been at the helm, successfully built the company into a world-class engineering business with a total enterprise value of nearly £4bn. What is more, the pair between them still own more than 53% of the business. There is strong evidence that businesses where founders retain a significant equity stake have higher profitability, are more disciplined in capital allocation strategies and hold less debt than non-controlled companies. At Renishaw, the core objective of corporate governance – that is to promote long-term shareholder value creation and risk mitigation – has been adroitly managed by the two founders who remain highly exposed to the long-term performance of the company. In our view this more than compensates for the lack of board-level independence, and consequently we continue to vote for the reappointment of Sir David McMurty and John Deer to their roles on the company's Board.

Of course, none of this means that there aren't areas where we think governance could not be improved. For example, Sir David McMurty is still paid a handsome seven figure salary on top of the nearly £14m he received in dividends in 2017. The company's disclosure is generally poor. Renishaw is almost uniquely uncommunicative with investors outside of their one annual capital markets day and finally Sir David McMurty and John Deer are now both in their late seventies and perhaps the biggest risk now facing their business is one of succession. These are issues on which we remain attentive and engaged.

* For a comprehensive review of the literature in this area see 'Why do Family-Controlled Public Companies Outperform? The Value of Disciplined Governance', UBS Q-Series, 13 April 2015

Company Engagement

- **The ethics of plasma collection at CSL**

CSL is a large Australian-listed healthcare company and is a long-term holding in the portfolio with its principle business in the provision of human blood plasma-derived products to treat bleeding disorders, infections and autoimmune diseases. The company operates nearly 90 centres across the US for the collection of blood plasma from which the company then produces a variety of blood plasma products. While in some parts of the world (such as Australia and the UK) blood donations are given voluntarily, forty countries are dependent on paid or family donations including China, Germany, Russia and the US.

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The ethical issues associated with payment for blood donations were highlighted in the documentary 'Blood Business' which alleged industry profiteering off the back of naïve or impoverished blood donors. The companies involved, including CSL, argue that without some form of 'compensation' the supply of blood would be wholly inadequate for an industry that is growing at more than 10% annually**.

CSL recognise that there are ethical issues associated with donating blood. Most of their donors are students or forces personnel in the US who have time and the inclination to participate. Each donor received $40 per donation. CSL argue that it is in their own interests to look after their donors who, in addition to receiving notification if the screening process indicates that they have health issues, are not allowed to give blood more frequently than every two days.

We believe that CSL, and the wider industry, will be best placed to retain their license to operate in this sensitive market by ensuring that where voluntary donations are insufficient, paid donations are managed safely and in the best interests of the donor. We will continue to engage with CSL on these issues.

** https://www.businesswire.com/news/home/20160118005352/en/Global-Blood-Plasma-Market-Growth-10.54-CAGR

Lenzing's ambition is that all viscose sites will be compliant with the EU's Ecolabel regulations by 2021 and we will continue to monitor the company's progress against this objective.

- **Update on engagement with Lenzing AG**

We've reported in two previous editions of this report (2Q and 3Q 2017 reports) on our engagement with Lenzing on their plans to address concerns raised by an NGO about the local environmental and health impacts of their West Java viscose manufacturing facility.

Since then, the company has appointed an independent auditor to raise the performance of all Lenzing sites (including West Java) to 'the highest standards in the viscose industry'. Several steps have already been identified including in implementing closed loop manufacturing processes and reducing both air and water emissions. One waste contractor has had their contract terminated due to non-compliance with Lenzing standards.

LENZING
LEADING FIBER INNOVATION

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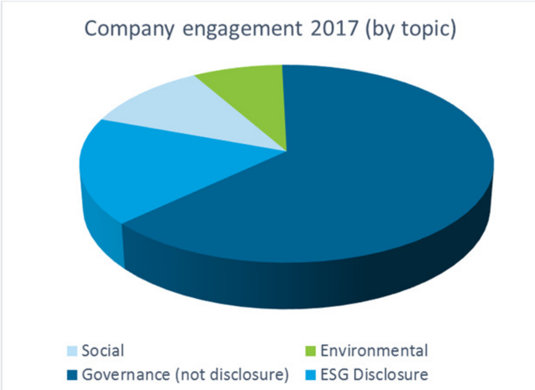
In 2017, nearly two thirds of our engagement (63%) was focused on governance issues such as director and auditor independence, remuneration policies and proposals and CEO compensation.

In 2017, we believe that 23% of our engagements were successful, 46% were partially successful and 31% were unsuccessful. This represents a significant improvement again on previous years.

Engagement Impact in 2017

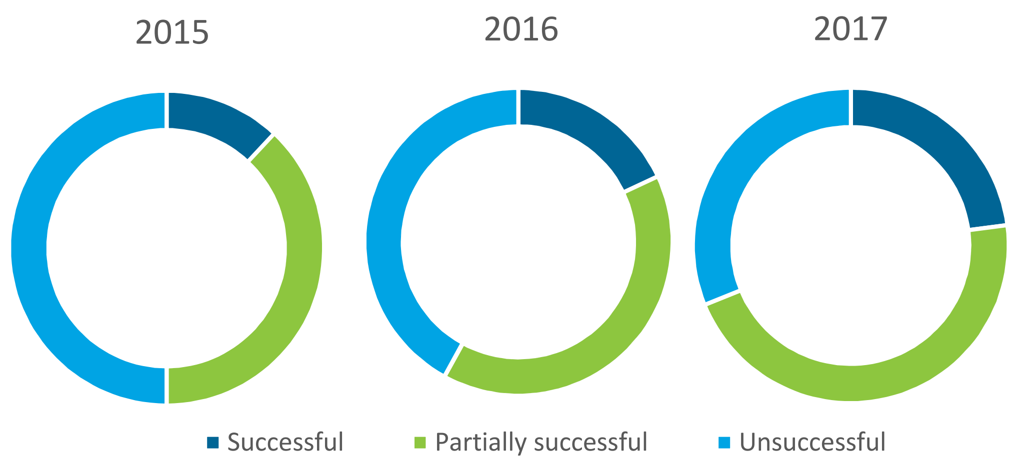
As with previous years, we have assessed the impact and extent of our company engagement. Over the course of 2017 we engaged 41 individual companies representing over two-thirds (68%) of the companies held in the portfolio at the year end. In many cases we engage businesses on more than one issue in the course of the year. In total there were 111 issues that we engaged portfolio companies on with the most widespread issues being the independence of directors (28 companies) and the independence of the auditor (24 companies). On both of these two issues, we have adopted a policy that is in line with UK standards which is significantly stricter than the standards found in the US and Asia. As a consequence we routinely engage with businesses from these regions on this issue.

In total, across the year nearly two thirds of our engagement (63%) was focused on governance issues such as director and auditor independence, remuneration policies and proposals and CEO compensation. Due to the adoption of stricter policies in 2017, particularly on director independence, but also on share buy-backs, this was a significant increase on the 38% of engagement that was focused on governance issues in 2016.



We also capture information on how successful we believe we have been with our engagement. As in former years, we assess each engagement as being either 'successful', where the company agrees to amend its approach; 'partially successful', where the company acknowledges the issue but does not commit to change anything, or 'unsuccessful' where the company does not respond to our engagement or fails to acknowledge our concerns. In 2017, we believe that 23% of our engagements were successful, 46% were partially successful and 31% were unsuccessful. This represents a significant improvement on previous years.

Company engagement impact in 2017



Public Policy Engagement

- **Supporting the TCFD**

During the quarter WHEB its name to the list of investors and companies affirming our commitment to support the voluntary recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). For more see https://www.fsb-tcfd.org/supporters-landing/

- **Investor statement on antibiotic use**

WHEB also signed a statement supporting the phasing out of routine non-therapeutic uses of antibiotics in livestock supply-chains. For more see http://antibioticsstatement.fairr.org/

Voting record: Q4 2017

The table below summarises the voting record at companies held in WHEB's investment strategy from 1 October – 31 December 2017. Full details of how we voted on each of the individual votes are detailed in the Appendix 1 of this report available at http://www.whebgroup.com/investment-strategies/listed-equity/fund-governance/engagement-and-voting-records/. This provides rationales for votes against management and abstentions and where we supported shareholder resolutions.

Meetings	# of meetings	%
# votable meetings	4	N/A
# meetings at which votes were cast	4	100%
# meetings at which we voted against mgmt. or abstained	3	75%
Resolutions	**# of resolutions**	**%**
# votes cast with management	27	79%
# votes cast against mgmt. or abstained (see list in appendix)	4	12%
# resolutions where votes were withheld	3	9%

Company engagement activity

Company	Topic	Comment	Outcome
Lenzing AG	Allegations of poor environmental, health and safety standards at West Java facility	Conference call and email correspondence	(see above page 2)
CSL Ltd.	Director tenure and remuneration	AGM Voting letter	Sent letter (Jan. 2018) setting out our concerns on Director tenure and independence
CSL Ltd.	Ethical issues in blood plasma collection	Conference call	(see above page 2)
Murata Manuf. Ltd	Human rights issues in cobalt supply-chain	Email correspondence	Company set out their response which is based on OECD Due Diligence guidance. We've requested additional reporting in future CSR reports
Acuity Brands	Sustainability reporting	AGM Voting letter	We've written (Jan. 2018) detailing our reasons for co-filing a shareholder resolution asking the company to produce a sustainability report
Wabtec	ESG Disclosure	Letter and emails	Company has committed to producing a sustainability report in 2018.
Premier Inc.	CEO remuneration and director independence	AGM Voting letter	Company clarified both the level of CEO remuneration (which is acceptable) and the link between social impact and remuneration.

Company	Topic	Comment	Outcome
IPG Photonics	ESG Disclosure	Email / conference call	Company has published additional ESG information
China Longyuan Power	Board independence	EGM Voting letter	No response as of 3 January 2018
Grand Canyon Education Ltd.	ESG Performance and disclosure	Email	No response as of 3 January 2018