Stewardship Report

Jan – Dec 2023

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 Buffett 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 five and a half months. 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 outperformance.

This report sets out the policies and processes 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 2023 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.

Seb Beloe
Partner – Head of Research

George Latham
Managing Partner

Contents

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 Asset Management draws its roots from deep within the ethical, socially responsible and impact-investing movement. We have a single investment strategy, which 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'.

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WHEB's investment strategy is designed to deliver on this 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).

WHEB's culture

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

Our values

Our culture is shaped by our values. WHEB is built on five core values, which support our mission and shape our culture:

1. **Passionate About Impact:** Our intention is to have a positive impact on people and planet in all that we do.
2. **Teamwork:** We build relationships based on trust and mutual respect. We promote an environment that enables our team to thrive and that drives client success.
3. **Continuous Improvement:** We foster a sense of purpose and a passion for progress, and we share what we learn along the way.
4. **Leadership:** We are creating a movement for positive change, within our company and beyond.
5. **Integrity:** Strong ethical principles guide all areas of our work. We are honest in our approach and treat all stakeholders fairly.

These values help align WHEB's staff with our purpose and identity, and enable stakeholders to understand how we do business. Co-created with the WHEB team, the values underpin everything we do, from strategic decisions to everyday systems and processes. Our values are important to us and are integrated into the management process that is used to assess the team's performance throughout the year.

Quick links

Stewardship commentary

Working at WHEB

Figure 1: WHEB only invests in companies that sell products and services that directly address one or more of nine key social or environmental issues

Our philosophy

WHEB's business is based on a common philosophy 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.
- Providing clients with the best possible service and support.

We think long term, and so our investment time horizon is well above industry averages.[1] As a result, we behave as owners of our investee companies, rather than as short-term market traders. This directly enables the WHEB team to effectively support behavioural change at investee companies through long-term, often multi-year stewardship work.

Recent research[2] indicates that it is more likely that investors with more concentrated portfolios will push for changes that lead to higher profitability and valuations with company management. Meanwhile, those with highly diversified portfolios are less effective, potentially due to resources being more thinly spread across more holdings or because less is at stake for each company. The WHEB strategy holds between 40 and 60 stocks and with a maximum weight of less than 6% each; as such, we believe that the structure of the strategy inherently supports effective shareholder engagement.

Activity and outcomes

A deep-rooted alignment of interests between the WHEB team, our clients and other stakeholders in the business is central to WHEB's culture. In 2022 an important milestone for the business was achieved upon the implementation of our Deferred Equity Plan. WHEB was already organised as an owner-managed partnership and a Certified B Corporation, but under this new scheme, employees have become Members of the Partnership and will gradually build an equity interest in WHEB Asset Management LLP over time. These factors create a longer-term set of incentives that are more closely aligned with those of our clients.

[1] The average holding period for a company in WHEB's strategy is between five and seven years.
[2] https://research.liberum.com/view/49D84B52-7BB3-4662-9A4D-819538AF6B82?docRef=3fa7fbf5-47a0-49a1-a141-df31816476db&uid=92f98b43-c1ef-4508-85c9-122618e2ea8a&jobRef=6908c3d3-9fb2-4564-9cab-b38a11bda9b5

WHEB has a unique focus on transparency and governance, which gives our clients confidence that we will remain consistent in our style and philosophy and keep the promise we have made. We undertook a major redevelopment of our website in 2022 to bring together all our impact reporting alongside fund reporting, underscoring the integrated nature of our approach to impact investing. A key resource to investors, the website provides details of our approach to impact investing, our sustainability objectives, our policies, our reports and much more.

In 2023 we expanded our regular quarterly reporting to include a dedicated stewardship commentary. This allows us to delve into macro-level stewardship themes and the actions WHEB is undertaking to tackle them.

Anecdotal feedback on the website and the new commentary has been positive. How we work towards transparency, including in our stewardship activity, is explained in more detail under Principle 6.

Diversity, equity and inclusion (DEI) continues to be a fundamental consideration for WHEB. We strongly 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 composition of our staff and our advisory bodies.

Specifically, in early 2023 we engaged a DEI partner – Wider Thinking – to run a DEI workshop and ongoing training for the whole WHEB team. Wider Thinking has also helped us gather data on a range of diversity characteristics and helped us understand where we may need to do further work. For example, neurodiversity was identified as an area for improvement, so we organised a lunch-and-learn with Special Networks, an expert consulting firm on neurodiversity in the workplace.

We are also pleased to be a founding member of City Hive, the think tank and advocacy group working to build an inclusive investment management industry. WHEB also became one of the founding signatories of City Hive's Action, Challenge and Transparency (ACT) framework, which supports investment companies creating cultural change towards diversity. As part of this initiative, we support a cross-company mentoring scheme focused on ethnicity and race, in addition to broader mentoring schemes. Esther Muschamp, our HR Manager, sits on the City Hive Academy Advisory Committee.

CASE STUDY: WHEB Asset Management LLP

Aligning interests with long-term growth and success

WHEB	**WHEB Asset Management LLP** WHEB is a boutique asset manager focused solely on impact investing in listed equities.
Objective	Further alignment of the team's interests with the long-term growth and success of the WHEB strategy.
Background/ issue	We want to make WHEB a great place to work and build a career. In addition to the generous benefits package and flexible working arrangements, we have considered how else to reward the team. We were keen to ensure this was done in a way that aligns with the long-term success of the business.

Actions	In April 2022 WHEB introduced a Deferred Equity Plan to all employees. How it works: - Team members who opted to take part in the Deferred Equity Plan are granted equity as a component of their compensation package. - Instead of receiving the equity immediately, employees are able to vest this equity after a three-year period. - By deferring the vesting of the equity component, employees are further incentivised to stay with the business for the long term. They are also incentivised to perform well and contribute to the company's success, knowing their efforts will ultimately lead to a financial award through their vested equity.
Outcomes	The Deferred Equity Plan has successfully been implemented, with awards being made in April 2023 and April 2024.

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 being a leader in sustainable and impact investing (Figure 2). In 2022 WHEB Asset Management was named in B Corporation's 'Best for the World' list.[3] 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 Lab. This is the fifth 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: Specialist sustainable and positive impact investors since 2005

*The Industries of the Future strategy was established at Henderson Global Investors in 2005

Over the years, the WHEB team has regularly reviewed and updated the investment and stewardship processes in order to refine and improve our ability to integrate sustainability and 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 2014.

[3] https://www.whebgroup.com/news/wheb-recognised-as-a-2022-best-for-the-world-b-corp-for-exceptional-impact-on-its-customers

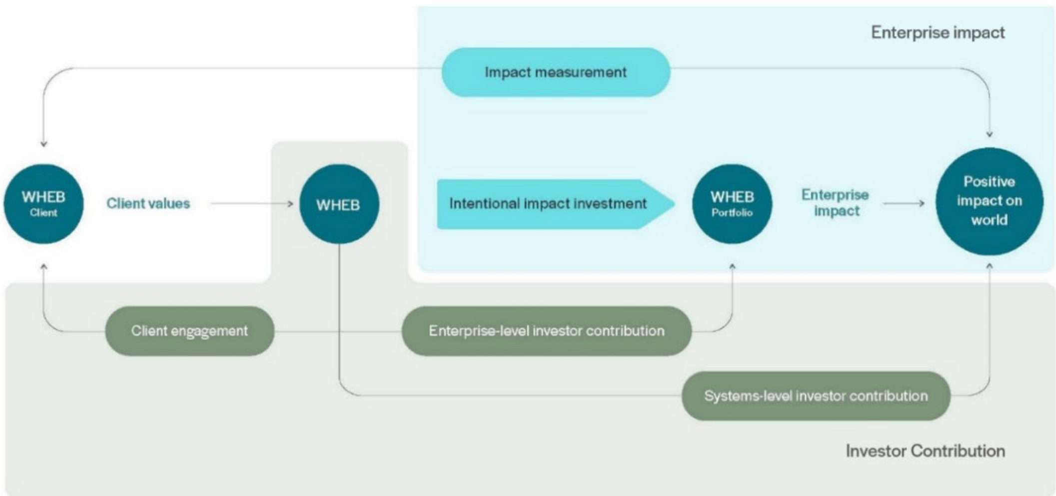
- In 2020 we implemented our 'Impact Engine', which provides a systematic methodology for assessing the positive impact generated by companies in the portfolio.
- In 2021 we also published an overall 'model' and definition of how WHEB creates positive impact. The model is shown in Figure 3 below. The model has been a valuable resource throughout WHEB's involvement in the Financial Conduct Authority (FCA)'s consultations on the Sustainability Disclosure Requirements (SDR). We were pleased to note that the guidance, published in late 2023, adopted language mirroring that used in WHEB's model to highlight the distinction between, and importance of, an 'investor contribution' and 'enterprise contribution'. Feedback into public policy, such as the SDR, is critical for ensuring that the correct incentives exist to generate returns and that consumers can navigate sustainable investment markets effectively.

Within the model, WHEB's 'investor contribution' includes the work we do to identify businesses that deliver a positive impact through the products and services they sell. It also includes 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'[4] 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. Termed 'signalling' by the Impact Management Project, this activity plays an important role by indirectly supporting positive impact enterprises. Stewardship is embedded at the core of our commitment to be positive impact investors.

Practical examples of this systems-level contribution at WHEB include work that we have done in supporting the development of new standards and guidance on sustainable finance including:

- Contributing to the consultations on the proposed SDR regime in 2023 (see Principle 4).
- 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), amongst others.
- 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[5] and wider publications.

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



Based on the above, we feel very confident that WHEB's mission, culture and investment philosophy are aligned with the principles and objectives of the UK Stewardship Code and a transition towards a more sustainable, zero carbon future.

[4] Also known as 'systemic' or 'macro' stewardship.
[5] https://www.whebgroup.com/our-thoughts

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

Stewardship resources

For WHEB, stewardship is achieved through the following five elements:

1. **Allocation of capital:** WHEB's strategy is focused on investing in solutions to sustainability challenges.
2. **Proxy voting:** This involves exercising our shareholder voting rights at AGMs and other meetings.
3. **Company engagement:** We do this through dialogue with investee companies bilaterally and with other investors, on a collaborative basis, using escalation tactics where appropriate.
4. **Public policy and industry engagement:** This engagement is broadly aimed at the wider financial system, indirectly supporting positive impact businesses.
5. **Reporting:** We communicate our efforts back to investors.

Effective stewardship has a dual purpose: (1) generating insights into company practices which feed into our investment decisions, and (2) enabling us to influence company policy, strategy and performance. Stewardship is therefore a fundamental component of WHEB's investor contribution.

WHEB's integrated approach to stewardship is performed by the Impact Investment Team (Figure 4), which includes the Investment Team and the Impact Research Team. We believe it is optimal for stewardship activities to be primarily led by the investment analyst team, as it is this team who has ultimate responsibility on whether to buy, hold or sell investments in portfolio companies.[6] Each analyst has responsibility for approximately ten companies and is responsible for engaging these companies on material ESG and impact issues as well as for voting at company meetings.

Rachael Monteiro, our Stewardship and Climate Analyst, is responsible for co-developing and implementing our stewardship strategy and for coordinating stewardship activities across the whole Impact Investment Team. She is supported in this role by Seb Beloe, Head of Research, and Kavitha Ravikumar, Senior Impact Analyst.

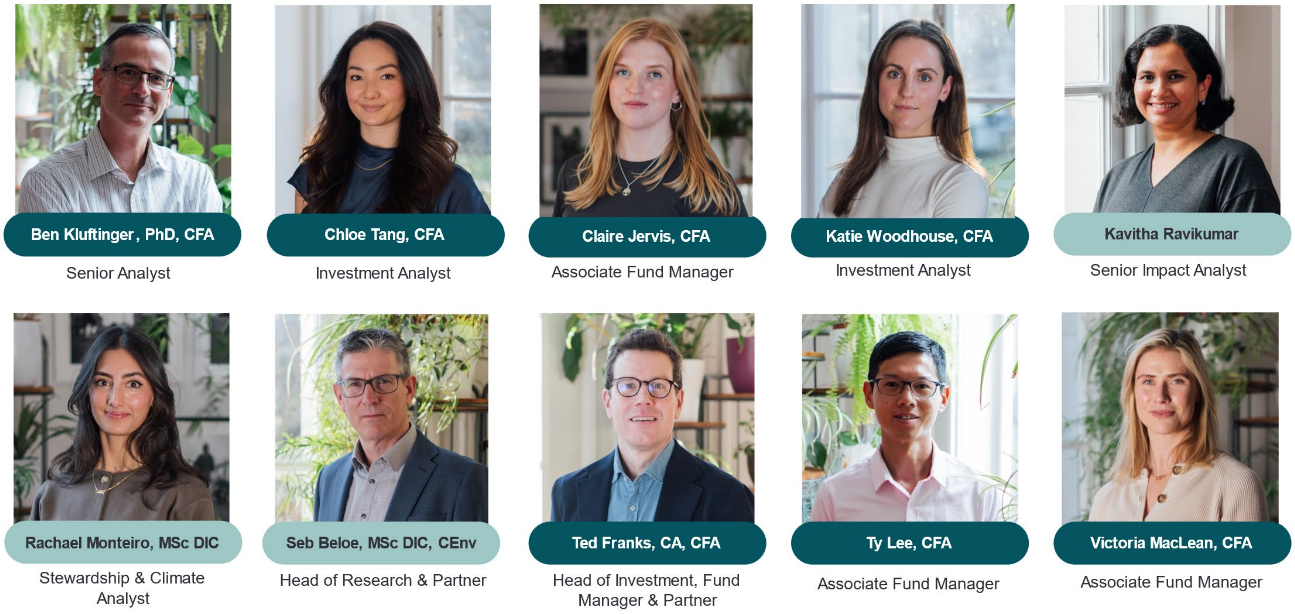
Further resources were added to the Impact Investment Team in 2023, including:

- Rachael Monterio was moved fully into the Impact Investment Team as Stewardship & Climate Analyst (previously her role was split 50/50 between the Impact Investment Team and the client team).
- Katie Woodhouse was appointed as an Investment Analyst, having previously been a Climate and Data Analyst.
- Chloe Tang joined the firm in January 2024 as an Investment Analyst.
- Kavitha Ravikumar continues to increase the time she spends with the team as she nears the completion of her PhD.

In aggregate, these changes mean that as at January 2024, there were ten people in total on the Impact Investment Team, equating to 9.4 full-time equivalents (FTEs), an increase compared to January 2023 from nine people (and 7.8 FTEs).

[6] 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.

Figure 4: WHEB's Impact Investment Team was created in 2022



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 in our view are often of poor quality.[7]

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 Impact 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).

In 2022 WHEB contracted for a range of services to support the Impact Investment Team. This included:

- Using Net Purpose to provide more complete data sets to support impact measurement and reporting.
- Using Sevva, an AI-based platform, to assess the credibility of net zero carbon (NZC) targets and claims.
- Expanding our use of data from the sustainability impact analytics provider Impact Cubed to inform our understanding of our portfolio carbon strategy.
- Using public company data and analysis provider Canalyst for the efficient integration of recent financial data in our financial models.
- Using the provider of behavioural data analytics Essentia Analytics to help us analyse our investment decisions and uncover biases in a way that helps us learn and improve.

We also continue to use financial data and analysis provider FactSet for our Internal Research Note (IRN) system and, in 2023 we developed a bespoke engagement-monitoring system that was built within the IRN. This has further improved integration of engagement monitoring and coordination alongside investment analysis and decisions. Within this system, we record engagement objectives, plans, methods, topics, milestones and expectations on timings. We are currently working on further developing this tool to enable more efficient reporting for clients.

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

Incentives

Stewardship is fully integrated into the team incentive plan. Each investment analyst has specific engagement objectives included in their annual appraisal. For example, each investment analyst is required to contribute to at least four meaningful engagements throughout the year – that is to say, engagements that:

- Achieve progression through WHEB's objective milestones.
- Generate useful investment insights or useful communications with clients.
- Involve three or more interactions with relevant stakeholders.
- Involve the significant contribution of a Person In Charge (PIC).

The Stewardship and Climate Analyst has a variety of explicit stewardship-focused objectives integrated within their incentive plan touching on engagement research and support, and the development of strategies, policies, priorities and systems for stewardship.

In their role heading up the company's stewardship and engagement activities, the Head of Research is responsible for ensuring that WHEB's engagement is impactful. This is assessed through a bottom-up analysis of the success of engagements with investee companies. We also apply a qualitative review of our engagement in policy- and standards-setting initiatives.

Governance

The Impact Investment Team's activities, including stewardship, voting and engagement, are overseen by the Investment Risk Committee (Figure 5). This committee meets monthly and includes both WHEB's Chief Risk Officer and the company's non-executive Chair.

In addition, WHEB's independent Investment Advisory Committee also provides independent scrutiny of the Impact Investment Team's activities, including stewardship (Figure 5). This committee is composed of independent experts in the field of sustainable investing and meets every four months. The Investment Advisory Committee plays an advisory role, and summary minutes of its meetings are published on WHEB's website.[8]

Quick links

WHEB's PRI report

Investment Advisory Committee minutes

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 Impact Investment Team is assessed and incentivised, is a regular part of Investment Risk Committee meetings (Figure 5) and is a topic that we address with our independent Investment Advisory Committee.

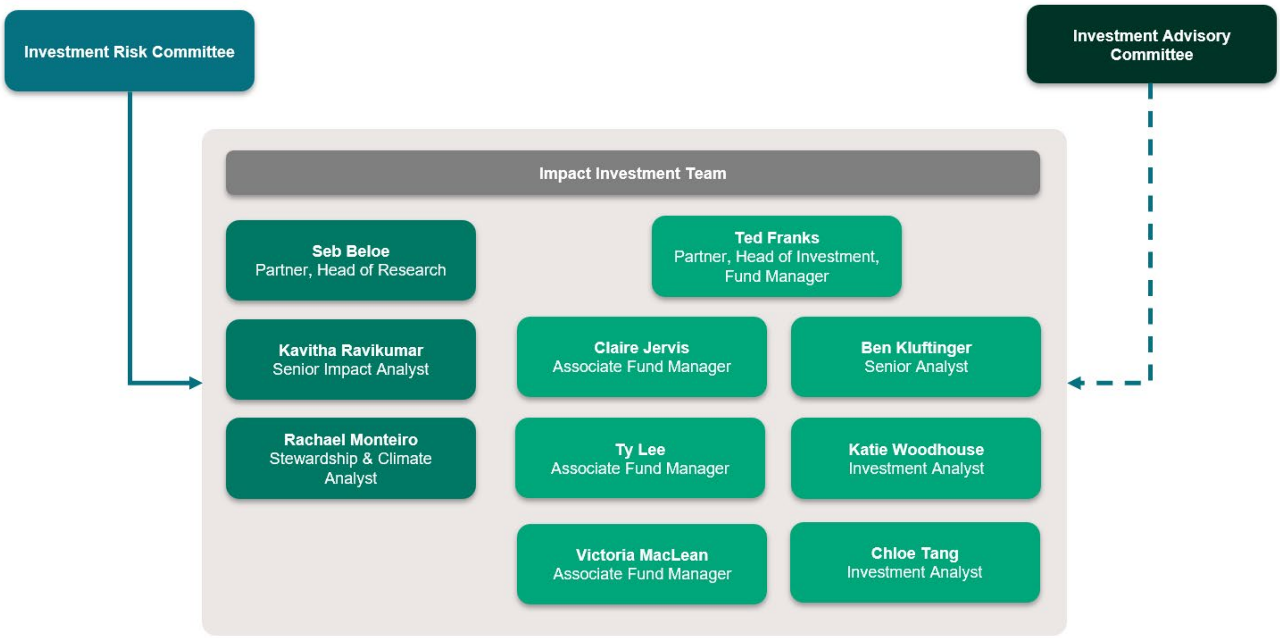
We routinely assess the effectiveness of all our company engagement activity as part of our quarterly reporting (see Principle 9 for detail). We also publish this information annually in our Impact Report (see Principle 6 below). In 2023 we believe that our governance structures and processes continued to be effective in directing our engagement activity, and we voted at the meetings of 63 (100%) of our portfolio companies.

In 2023 we also continued to aim for higher-quality, in-depth engagement dialogue with our investee companies, which we think leads to more effective outcomes, over amassing a large volume of engagement activity. That being said, we still found that we were able to vote at the meetings of 63 (100%) of our investee companies in 2023 as well as to undertake extensive additional engagement with many of these companies.

This has become possible with a larger Impact Investment Team, which is further enabling us to ensure engagement is contextualised and connected to the company's specific commercial objectives and strategy.

[8] The current composition of the Investment Advisory Committee is available at https://www.whebgroup.com/reporting-impact-investment/advisory-committee-minutes

Figure 5: Governance of WHEB's stewardship activities



Dotten line represents advisory nature of the Investment Advisory Committee's oversight

With an expanded Impact Investment Team, we have been able to improve our engagement approach in 2023. This is covered in more detail under Principle 5 and has been achieved by:

- Ensuring a methodical approach to undertaking stewardship and engagement.
- Becoming more effective through the use of our objective milestones.
- Providing our clients with greater assurance by improving clarity in our reporting, particularly with respect to showing the correlation between WHEB's stewardship efforts and outcomes at portfolio companies.

We will continue to develop our tools and infrastructure in 2024 and welcome feedback from clients as we improve our stewardship reporting.

CASE STUDY: WHEB's Investment Advisory Committee

Escalation and objective milestones

WHEB's Investment Advisory Committee

Alice Chapple
- Founder of Impact Value
- Chair of Investor Watch, Trustee of the Shell Foundation

Carole Ferguson
- CEO, Carbon Transition Analytics
- Previously Head of Investment Research at CDP

Jayne Sutcliffe
- Non-Exec Chair of WHEB Asset Management
- Founder and former CEO at Charlemagne Capital

Martin Rich
- Co-founder and executive director of Future-Fit Foundation
- 25 years' experience in mainstream and social investment

Abigail Rotheroe
- NED HydrogenOne, Baillie Gifford Shin Nippon, Templeton
- Previously Investment Director at Snowball Impact Management

Objective

Receive feedback on the newly introduced WHEB objective milestones.

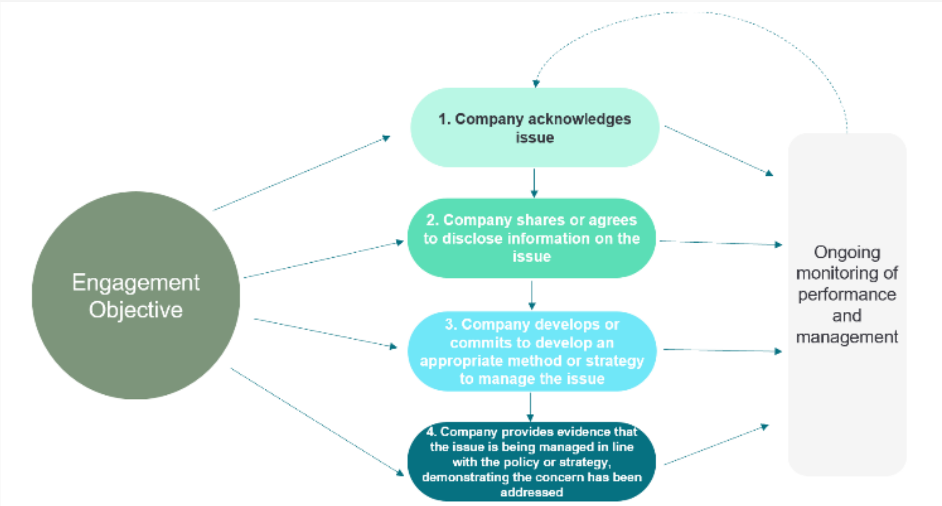
Background/ issue

In the November 2022 committee meeting, members had asked WHEB to present more detail on direct company engagement. Rachael Monteiro, WHEB's Stewardship and Climate Analyst, had recently updated the company's approach to measuring progress and escalation and presented this to the committee in March 2023.

Actions

With the additional support of a dedicated Stewardship function, WHEB has been able to build a more systematic approach to managing engagement. This includes setting out clearer engagement plans for portfolio companies, with timeframes for the engagement and clearer decision points on how and whether to escalate the engagement.

WHEB has also developed a new 'milestone' framework for tracking progress, starting with the company acknowledging the issue, agreeing to share or disclose additional information, developing or committing to developing an appropriate policy or strategy for managing the issue, and finally providing clear evidence that the issue is being effectively managed.



Outcomes	**Successful and ongoing** Committee members welcomed the additional detail and wondered whether WHEB tries to attribute engagement success, particularly in collective engagements. Members were also interested in how WHEB selects who to collaborate with.[9] Our view is that attribution between investors is very difficult, and thus our focus is more on the achievement of key milestones. Collaborative engagement is still often relationship-based but is being professionalised through the involvement of dedicated secretariats including, for example, groups like ShareAction, Shareholders for Change and the Institutional Investors Group on Climate Change (IIGCC).

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 has recently implemented a new Deferred Equity Plan to allow the team to build an equity interest in WHEB Asset Management LLP over time, alongside the partners and WHEB Group. We are committed to carrying out usiness in compliance with the highest standards of governance and integrity.

WHEB operates a Conflict of Interest Policy that is applied to avoid or reduce any actual or potential conflict of interest arising (1) between WHEB, its staff, any appointed representative or any person directly or indirectly linked to them by control and a client of WHEB; or (2) between a WHEB client or clients. The key elements of our Conflicts of Interest Policy are summarised below. The policy itself can be provided upon request.

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 services or activities 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 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:** Whilst 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 (e.g. 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, and we manage these 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 Risk Committee, will manage actual and potential conflicts of interest. In any case, before a

[9] WHEB publishes summary minutes of the Investment Advisory Committee meetings. These are available at https://www.whebgroup.com/reporting-impact-investment/advisory-committee-minutes

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 conflict or 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 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 activities. We may also be provided with inside information and made an 'insider' by a listed company or their advisers 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 of) 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 2023

As a relatively small, boutique business with a single strategy, conflicts of interest are rare at WHEB. This continued to be the case during 2023, in which time there were no conflicts of interest reported. Potential conflicts of interest in respect of the seven WHEB fund vehicles are monitored on a continuous basis by Compliance.

Potential conflicts of interest

We have mapped three areas of potential conflict of interest in relation to stewardship at WHEB.

The first is where a company included in the WHEB strategy is also an investor in the fund via a corporate investment vehicle.

The second relates to management arrangements. Fund management decisions (to buy/add to/trim/sell a position in the portfolio) or company engagements are undertaken independently of business development considerations, at both the underlying investee company level and the WHEB Asset Management level and are subject to the oversight and scrutiny of the Investment Risk Committee and the independent Investment Advisory Committee. Any potential conflict is required to be disclosed to the investor/investee company prior to corporate investment in a WHEB fund or proposed investment from the fund(s) included in the WHEB strategy. Preferential terms for investment would not be offered or permitted.

A broader-based potential conflict is one we identified in 2022 arising from WHEB having been appointed as sub-advisor and fund manager of the iMGP Sustainable Europe Fund from 1 July 2022. This is a European-focused mid-cap vehicle with around 25–28 stocks held from a universe of around 150 stocks. This universe is a direct carve-out from the universe from the WHEB Sustainability strategy, so all stocks will qualify for both portfolios. However, the main strategy has only 12–14 European stocks. Therefore, of the 25–28 stocks in the iMGP Sustainable Europe Fund, it is expected that around 12–14 will be common to both the main strategy and to this fund, and a similar number will be held only in this fund and not the main strategy . The iMGP portfolio will usually hold all the European stocks held in the main global strategy, plus additional names from the universe to build a portfolio of 25–28 stocks. WHEB's Trade Allocations Policy and process in respect of this and the other WHEB fund vehicles, providing for failed allocation of aggregated orders and transactions, is detailed in our compliance and operations manuals and monitored by the Investment Risk Committee.

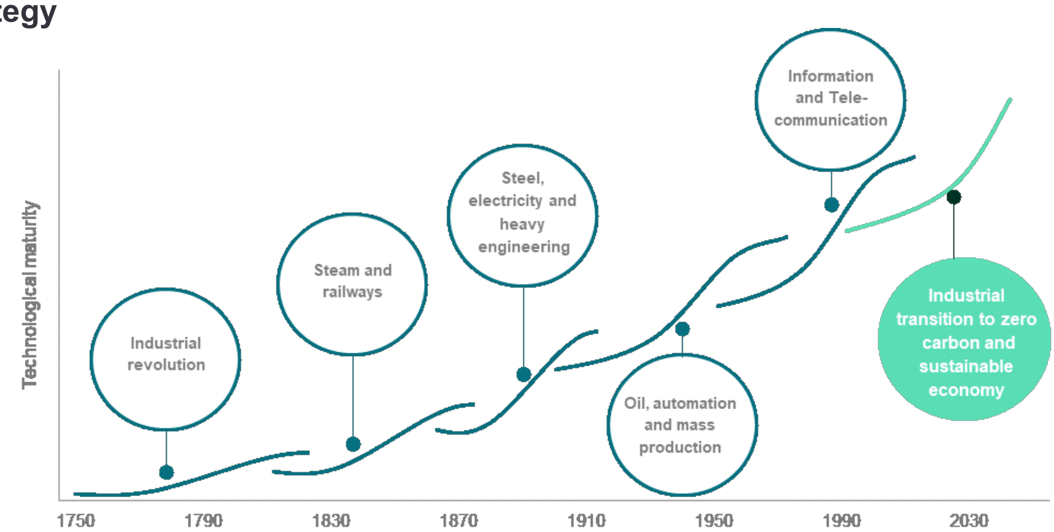
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Identifying and responding to market-wide and systemic risks

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

We live in a rapidly and profoundly changing world. A growing global population aspires to continually rising living standards for both current and future generations. Historically, such progress has been enabled through continuing growth in resource use. Physical boundaries of resource scarcity are now being breached, driving a need to fundamentally change our systems to sustain current standards of living, let alone aspire to continuing improvement. The starting point for the WHEB strategy, therefore, is our view that the global economy is 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 6).

Figure 6: The sixth industrial revolution[10] is the starting point for the WHEB strategy



Addressing risk by investing in solutions providers

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 reorientates 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, resource efficiency in buildings and manufacturing, sustainable transport and water management.

[10] Derived from Carolota Perez, *Technological Revolutions and Financial Capital* (2002); adapted by WHEB Asset Management LLP.

It also means that the strategy embeds a <1.5°C scenario, and that mitigation actions taken by regulators will, we believe, have strong positive impacts on our portfolio. This was evidenced in 2022, in part,[11] by the landmark legislation of the US's Inflation Reduction Act, as our best-performing theme was Cleaner Energy, in which First Solar, SolarEdge and Vestas all performed strongly.

Alignment with the Paris Agreement is an explicit objective that is core to WHEB's investment strategy, within which stewardship is fully integrated. Our scenario testing and our long portfolio track record suggest that the portfolio does show resilience in times of crisis.

Addressing risk through engagement and voting

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. We recognise the significance of WHEB's shareholder influence and the role we play in encouraging companies to mitigate these risks where appropriate.

Moreover, with a stewardship approach that is integrated within the investment process, we are better equipped to consider the systemic and market-wide risks that investee companies are not only vulnerable to but may also exacerbate.

1. Biodiversity and nature

The threats of climate change and reduced biodiversity, for example, are closely interconnected. Climate change is a threat multiplier for biodiversity loss, whilst the destruction of ecosystems undermines nature's ability to regulate greenhouse gas (GHG) emissions and protect against extreme weather. Despite this strong interdependence, we are witnessing global energy systems being decarbonised often to the detriment of habitats that support wildlife.

Being cognizant of this paradox, we have targeted Vestas, a leading wind turbine manufacturer, within our strategic engagements, aiming to boost the company's approach to biodiversity risk management and opportunity capture in 2023 (see case study under Principle 11). On this topic more broadly, we have also engaged Smurfit Kappa (see case study under Principle 10) and Arcadis (see case study under Principle 9).

As detailed in a 2022 commentary written by Seb Beloe[12], the WHEB strategy also has an implicit objective to preserve and regenerate biodiversity, as the topic relates directly to our Environmental Services theme and to WHEB's philosophy of investing in sustainability solutions. This means we are almost entirely absent from the highest-risk sectors such as agriculture and extractive industries.

2. Micropollution, including antimicrobial resistance (AMR) and per- and polyfluoroalkyl substances (PFASs)

Micropollution is another key market and systemic risk WHEB makes efforts to address through our investment activities. Micropollutants are tiny man-made molecules that include antibiotic residues, synthetic hormones, pesticides and industrial chemicals, such as per- and polyfluoroalkyl substances, or PFASs. They enter our bodies through the food chain, with severe health impacts from chronic exposure.

Left unaddressed, the human and economic costs of micropollution will be severe. The United Nations Environment Programme (UNEP), for example, estimates 10 million deaths annually due to antimicrobial resistance (AMR) by 2050, and the World Bank puts the cost of associated healthcare at around $1 trillion by the same timeframe.[13, 14]

[11] The war in Ukraine also further highlighted the need to move away from volatile and politically costly fossil fuels.
[12] https://www.whebgroup.com/search?query=biodiversity
[13] https://www.unep.org/news-and-stories/press-release/reduce-superbugs-world-must-cut-down-pollution
[14] https://www.who.int/news-room/fact-sheets/detail/antimicrobial-resistance

The numbers reach even dizzier heights when PFASs enter the equation. It is thought that the bill for related direct healthcare and environmental remediation could be as much as $17.5 trillion across the global economy.[15]

As detailed in the case study below, the WHEB team has been using stewardship and engagement tools to mitigate micropollution risk for over a decade. WHEB's Q1 2024 stewardship blog[16] also explains how our investments support companies providing solutions to the micropollutant challenge and will likely benefit from new regulations on the issue.

CASE STUDY: WHEB's engagement

Addressing micropollution through the WHEB Strategy

Objective	Addressing the systemic risk of micropollution through WHEB's investor contribution.
Background/ issue	Naked to the human eye, 'micropollutants' – tiny man-made molecules that include antibiotic residues, synthetic hormones, pesticides and industrial chemicals such as per- and polyfluoroalkyl substances (PFASs) – are lurking everywhere, creating a planetary-scale health risk. Left unaddressed, the human and economic costs of micropollution will be severe. Thankfully, the legal and regulatory landscape is beginning to catch up. In early April 2024, the US Environmental Protection Agency (EPA) introduced the first legally enforceable limits on certain PFAS-levels in drinking water.[17] However, a systemic problem requires systemic action, meaning financial markets have a role to play too.
Actions	At WHEB, we have been addressing the risk of micropollution through our stewardship and engagement activities for over a decade. In recent years we have joined several investor initiatives to support different aspects of our work on the topic. In fact, in 2023 around 6% of our engagement activities focused on topics related to micropollution: - Though not a manufacturer of PFAS chemicals, MSA Safety uses the chemicals in meeting regulatory water and oil resistance requirements in protective firefighter turnout gear. In light of regulatory and technological developments, we have sought to get the company to commit to a time-bound phase-out of the chemicals. - Since 2021, we have been leading a collaborative engagement with Ecolab via ChemSec's Investor Initiative on Hazardous Chemicals (IIHC). Ecolab's cleaning products and services enable better water and energy efficiency in a range of downstream industries. However, a small number of its products contain substances of very high concern (SVHC). Here we have sought to secure a commitment from the company for a time-bound phase-out of SVHCs, as well as improved product circularity and better marketing of its safer alternative products. - Along with our partners in the Investors for Sustainable Solar[18] initiative, we have been encouraging solar photovoltaic manufacturer First Solar on the safe use of cadmium telluride, a heavy metal, in its panels, as well as on the use of alternatives to other toxic chemicals (e.g. in solvents) that are used in the manufacturing process for solar panels. - We also believe that investors can, and should, utilise policy advocacy as a complementary method to direct company engagement. WHEB is therefore in the process of joining the Investor Action on Antimicrobial Resistance (AMR) initiative.[19]

[15] https://chemsec.org/reports/the-top-12-pfas-producers-in-the-world-and-the-staggering-societal-costs-of-pfas-pollution/
[16] https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-managing-micropollution
[17] https://www.reuters.com/world/us/us-sets-first-standard-curb-forever-chemicals-drinking-water-2024-04-10/
[18] https://iehn.org/our-work/investors-for-sustainablesolar#:~:text=Investors%20for%20Sustainable%20Solar%20is,and20Asset%20Management%20LLP
[19] The Investor Action on AMR Initiative is a coalition between the Access to Medicine Foundation, the FAIRR Initivative and the UK Government.

Outcomes	We hope this initiative will further support investor efforts to address AMR globally, and complement our own direct engagements. **Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue.** Progress across these efforts varies. For example, PFAS phase-out for MSA Safety has so far been challenging due to the company's reliance on certain suppliers. Still, the company has actively been working with the International Association of Firefighters to support the PFAS Alternatives Act, which would secure federal funding to support innovation. Similarly, Ecolab's progress has been graded Milestone 3 because it has increased its ambitions for SVHC phase-out and has outlined intentions to publish a roadmap of how to achieve this in its forthcoming corporate sustainability report (due in May 2024). This is covered in more detail under Principle 10. First Solar confirmed that it already substitutes hazardous materials where possible. It also argued that cadmium telluride is more stable than its parent components, and because it is essential for the production of its panels, there are well-established processes in place to recover and recycle it. Having joined the Investor Action on AMR initiative in April 2024, we are yet to have any outcomes to report related to our involvement, though we will be publishing details as and when they are available.

3. Climate action: net zero carbon (NZC) commitments

WHEB was delighted to become a founding signatory of the Net Zero Asset Managers initiative in December 2020 and to commit to a goal of net zero emissions from our investment portfolio by 2050 or sooner. This covers 100% of WHEB's investable assets, and consequently has since been a significant focus of our bilateral engagement with investee companies.

Back in 2020, under this initiative we also committed to ensuring that, by 2025, 50% of our portfolio would have set a net zero carbon (NZC) target for 2050 or earlier. By 2030, the ambition was that 100% of the portfolio would have such a commitment.

At that point,[20] only 10% of the portfolio had a NZC target and so 50% by 2025 seemed like a challenging ambition. By the end of 2022, 55% of the value of WHEB's strategy was covered by NZC commitments.

In light of these achievements, we have increased our ambition and are now focusing on the proportion of 'financed'[21] emissions that are covered by targets, rather than the proportion of the companies in the portfolio that have targets.[22, 23] Based on this new metric, the percentage of financed emissions currently covered by an NZC target sits at 82%.[24] In addition to changing the parameters, we will also be increasing the aim of our target, with 85% of the financed emissions in the portfolio to be covered by an NZC target by 2025, and 100% by 2028. See Table 1 below.

One of the features of our portfolios is that a large majority of Scope 1 and 2 greenhouse gas (GHG) emissions come from a small number of companies. In fact, the top five emitting companies in our portfolio account for over 75% of the entire portfolio's emissions. In contrast, the bottom five account for approximately 0.5% of financed emissions. In order to deliver significant emission reductions across the portfolio, we need these high-emitting companies to set NZC targets and reduce their emissions.

[20] June 2020.
[21] 'Financed emissions' refers to the emissions associated with WHEB's specific level of investment in the investee company.
[22] The new financed emissions target will be more volatile as it depends on the enterprise value of the portfolio company as well as the value of our holding in the company, which both change constantly. Consequently, we use a rolling 12-month average of the financed emissions data point to provide a clearer trend.
[23] More details on progress in 2023 will be published in the forthcoming 2023 Impact Report and will be available on our website at https://www.whebgroup.com/reporting-impact-investment/nzc-carbon-data
[24] Based on the FP WHEB Sustainability Fund.

Table 1: Top five GHG-emitting companies within the FP WHEB Sustainability Fund (financed emissions)

Engagement activity	% of Scope 1 2 financed emissions	NZC target date	SBTi-validated
Linde	36%	Net zero by 2050	Yes
Smurfit Kappa	29%	Net zero by 2050	Yes
J.B. Hunt Transport Services	7%	No target set	N/A
Advanced Drainage Systems	4%	Net zero by 2050	No[25]
Infineon Technologies	3%	Net zero by 2030	No[26]

WHEB's approach to mitigating the emissions generated by portfolio companies is to encourage company management to set demanding NZC targets and then to assess these targets and monitor the absolute CO_2e reductions across the portfolio on an annual basis.

We do this through our voting rights and in engagement dialogue. In 2023, the topic accounted for nearly 14% of our engagement activity and 7% of our votes against management.

CASE STUDY: WHEB's engagement

J.B. Hunt – engagement on net zero

J.B. Hunt is a logistics and transportation service provider in the US and one of the largest providers of intermodal rail transport. Intermodal rail is an attractive alternative to road trucking from both a cost and emissions perspective, saving shippers 10%–20% on costs, and dramatically reducing the emissions of transporting freight.

Objective

For J.B. Hunt to set a Science Based Target initiative (SBTi)-validated net zero carbon (NZC) target.[27]

Background/ issue

In 2023,J.B. Hunt was the only one of the top five highest emitters in the WHEB strategy not to have set an absolute NZC target. The company has therefore been a core target of our engagements on net zero.

For example, during its 2020 AGM, we voted in support of a shareholder resolution requesting the company to produce a climate report covering a 2°C analysis and strategy. The resolution gained an impressive 54.5% support from investors. However, when we followed up to see details of the report the following March, the company told us we were the only investors to have followed up with such a request.

In our previous calls on the topic, J.B. Hunt has stated that its emission reductions hinge on the availability of, as well as improvements to, new industry technologies such as electric trucks and associated infrastructure like charging points and access to renewable

[25] Advanced Drainage Systems has committed to having its 1.5°C-aligned target approved by the SBTi.
[26] Infineon has committed to having a near-term target approved by the SBTi.
[27] This includes Scope 3 emissions, as J.B. Hunt's Scope 3 emissions are more than 40% of its total emissions.

energy. Consequently, this has been the main barrier it has faced in setting an SBTi-validated NZC target.

Actions

Following the news of J.B. Hunt's acquisition of 13 zero-emissions trucks in the summer of 2023, WHEB was eager to learn whether the company's views on its ability to set a SBTi-validated NZC target had changed. We therefore scheduled a time to speak in detail and reminded them of our own commitments under the Net Zero Asset Managers initiative.

Outcomes

Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue.

The conversation reassured us that the company is looking closely at how it can reduce emissions, through a three-pronged strategy targeting:

1. Better fuel economy in current internal combustion engine vehicles.
2. Increasing the use of renewable diesel and other renewable fuels.
3. Increasing the proportion of its fleet that is more carbon-efficient, for example through natural gas, fuel cells, hydrogen and battery-electric drive trains.

J.B. Hunt reiterated that its ability to meet a 1.5°C-aligned target, which is needed for SBTi validation, relies heavily on technology and infrastructure developments that are out of its control. More specifically, it referred to the industry challenges such as not being able to access enough cheap renewable power due to poor grid infrastructure. It also stated difficulties in electrifying its truck fleet due to:

- A limited supply of electric trucks.
- Constraints imposed by the existing technology for electric trucks that mean a substantial increase in the number of trucks in the company's fleet would be necessary should it switch fully to electric vehicles.

After careful consideration, J.B. Hunt felt compelled to set targets that it had a better (more than 50%) chance of meeting, meaning those aligned with a 2°C scenario.
Most of J.B. Hunt's Scope 3 emissions come from the use of rail for intermodal transportation services. As all the rail companies associated with its rail transport for intermodal services have now set SBTi-validated targets, the main focus for the company is on addressing Scope 1 and Scope 2 emissions. For example, it has begun work on a project to develop 5MW of solar power for its corporate operations, which it hopes to complete in 2024.

Clearly, J.B. Hunt is still some way from having SBTi-validated NZC targets. However, we believe that the company is serious in its efforts to develop a robust strategy on carbon. This is borne out by the decision to appoint the former Chief Operating Officer, the second-most senior person in the company, to the new position of Chief Sustainability Officer. We will continue to engage with the business in pushing for faster progress in reducing its emissions and in setting ambitious targets.

WHEB sold its position in J.B. Hunt in Q1 2024. After a long hold period, we think we have now seen the best part of the penetration of intermodal into the US freight market. Paired with a weakening freight environment, cost pressures have taken a hit on the company's margins. We have therefore closed our position in J.B. Hunt, a sale which was also considered to make space for new names in the portfolio.

CASE STUDY: WHEB's engagement

Linde – engagement on net zero

Linde plc produces and distributes industrial gases. The company operates globally supplying oxygen, hydrogen and other gases to a very wide range of downstream markets, including into the manufacturing, petrochemical and electronics industries. The gases are used in a variety of applications, including making manufacturing processes more efficient and reducing harmful emissions. The company is establishing a strong presence in the green hydrogen market and also sells oxygen and other gases into the healthcare sector.

Objective

For Linde to enhance its Science Based Target initiative (SBTi)-validated near-term net zero carbon (NZC) target covering Scope 1 and Scope 2 greenhouse (GHG) emissions by developing absolute targets covering Scope 3 emissions.

Background/ issue

Having identified the largest GHG emitters in the strategy, WHEB has been undertaking a project to assess the credibility of these companies' strategies for achieving NZC emission targets and to encourage further progress.

Linde is responsible for nearly 40% of the FP WHEB Sustainability Strategy's Scope 1 and Scope 2 financed emissions, making it the top GHG emitter in the strategy. As a result, we have been engaging them on this topic since 2019.

In our time engaging with the company on GHG emission reductions, we found that the company's management were initially reluctant to set absolute targets. Whilst there has been progress on this for Scope 1 and Scope 2 emissions, as evidenced by the SBTi validation of targets to address these emissions, work is still needed to address Scope 3 emissions.

Actions

We wrote to the company's chairman in the summer following the AGM to explain our rationale for the votes where we chose not to support management. We then had two subsequent conversations with the company – the first focusing on the company's approach to pay and the excessive CEO/employee pay ratio; and the second, in October, focused on the credibility of their NZC strategy.

Outcomes

Milestone 2 – company shares or agrees to disclose information on the issue.

Linde is continuing to make progress towards emission reduction targets. Though the SBTi has not yet laid out a pathway for setting absolute Scope 3 targets for Linde's sector, we believe there is a clear intention to meet its goal of setting SBTi-validated (i.e. absolute) targets for Scope 3 emissions in 2025/2026.

For example, in the absence of SBTi guidance, Linde is currently working with other chemicals businesses to help guide its process for setting absolute Scope 3 reduction targets.

However, with regards to Scope 1 and 2, we learned that Linde was pausing work on decarbonisation due to human resources constraints.

Linde believe they will still meet the 2035 target to reduce emissions by 35% compared with a 2021 baseline. Progress has been made on its climate action plan, under which it intends to triple renewable energy sourcing by 2035. It is increasing the use of renewable feedstocks, each Linde plant around the world has a decarbonisation plan and tracks emissions monthly, and it is the only industrials company that has an absolute GHG reduction target as part of the compensation plan.

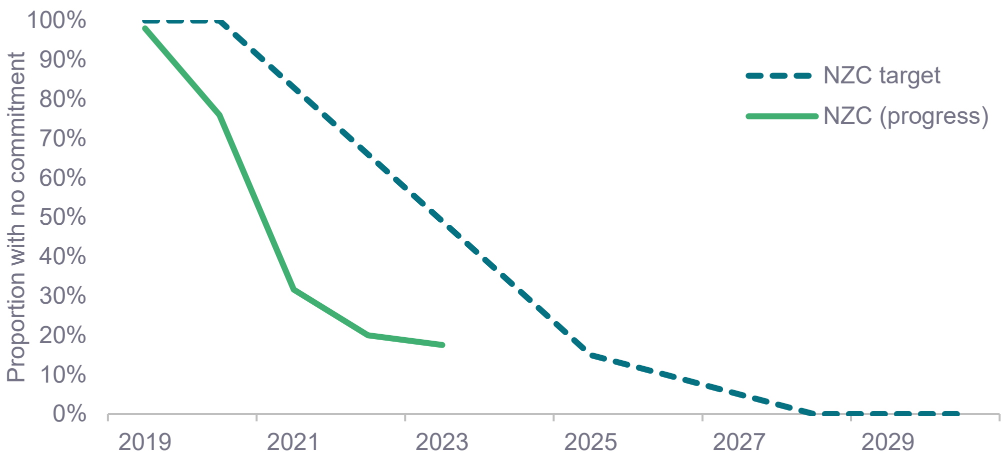
The recent news flow has included individual project announcements suggesting that this strategy is now bearing fruit. For example, in early 2024 the company announced that it had begun supplying clean hydrogen and captured carbon dioxide to Celanese, a global chemicals and speciality materials company, from one of its facilities in Texas, and the following week the company announced that it has signed two separate 25-year deals to secure 320GWhs of renewable energy for its operations in China.

Linde also highlighted that, because of its dependency on the grid, the company may need to consider using offsets in the future.

We continue to monitor for further developments in both the company's progress as well as sectoral guidance on Scope 3 targets from the SBTi. In the meantime, we expect to see outcomes from the work Linde is doing with other chemicals companies to identify processes for establishing absolute Scope 3 emission targets.

Please also refer to the TE Connectivity net zero case study under Principle 11 for another example of our engagement on net zero..

Figure 7: WHEB strategy NZC targets and progress



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 a long time we have frequently provided examples of this in our monthly and quarterly reporting.[28]

Through our dedicated quarterly stewardship commentary, introduced in 2023, we are now also regularly detailing WHEB's 'investor contribution' to addressing systemic risks. So far, in this series we have covered both areas of thematic topics for engagement, such as biodiversity[29] and micropollution (including PFASs and antimicrobial resistance (AMR)),[30] as well as WHEB's view on key trends and what we believe is best practice for effective outcomes.[31, 32, 33]

Promoting a well-functioning financial system

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

One of these tools is our '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 assessing and comparing impact

[28] For example, https://www.whebgroup.com/our-thoughts/first-we-feed-the-people-then-we-plan-the-revolution
[29] https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-nature-calls-from-assessment-to-action
[30] https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-managing-micropollution
[31] https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-the-stewardship-stampede
[32] https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-our-hopes-for-voting-practices-in-2023
[33] https://www.whebgroup.com/our-thoughts/investor-engagement-the-corporate-perspective

across different themes and end markets (Figure 8). This tool was finalised and implemented in 2020 and now represents a core part of our investment process. It is used to collect and organise impact data across six dimensions and leads to an overall impact score. 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, 2020 and 2021 Impact Reports[34] and instructed a third party to conduct a review of the tool during 2021.

Figure 8: WHEB's Impact Engine

Systematic analysis of the positive impact or products/services

Another of these tools and frameworks is our impact reporting and 'Impact Calculator': WHEB produced the first impact report on a listed equity strategy in 2014 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[35] and the commentary and opinion pieces we produce on wider environmental and social themes)[36] is an important signalling contribution towards the promotion of a well-functioning financial system.

Quick links

- **WHEB's Impact Reports**
- **WHEB's Impact Calculator**
- **Our portfolio (company profiles)**
- **Our industry networks**

As detailed under Principle 2 and Principle 6, WHEB invested a significant amount into redeveloping our website under a commitment to transparency and communication with investors. The website now better serves as a key resource, explaining WHEB's approach to impact investing and housing key documentation such as policies and reports.

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 9). Similarly, reporting negative impacts associated with the strategy creates accountability for negative externalities which contribute to systemic risks, and encourages reductions over time. Almost all products and services will also have some negative impacts that need to be acknowledged and actively mitigated. As part of our impact analysis,

[34] The Impact Engine is described on page 17 of the 2019 report and on pages 24 and 25 of the 2020 report (https://www.whebgroup.com/reporting-impact-investment/impact-reports)
[35] 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://www.whebgroup.com/investing-for-impact/how-we-invest/our-methodology
[36] These contributions are outlined in more detail under Principle 6.

we capture information on the key negative impacts associated with products and services supplied by investee companies, which can be seen in the 'Our portfolio' company profiles on our website.

However, in many cases, negative impacts are not routinely acknowledged by the companies themselves. Where they are acknowledged, they are typically described qualitatively. It is rare for companies to have developed clear management plans and targets on negative impacts associated with their products and services. The only exception is the reporting of GHG emissions associated with product use.

More work is therefore needed for reporting of negative product impacts, which are also considered within our investment process, as we note in this report.

Figure 9: WHEB's Impact Calculator showing the positive impact associated[37] with owning £1m in WHEB's investment strategy in 2023

Collaborative efforts

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

The Senior Management Team at WHEB, and Seb Beloe especially, have been significantly involved in providing feedback for the FCA's Sustainability Disclosure Requirements (SDR) and fund-labelling consultation paper. We have also been significantly involved in the work done by the Global Impact Investing Network (GIIN) to develop guidance on impact in listed equities.

[37] Investors in WHEB's strategy are aligned with these positive impacts by investing in companies forming part of crucial supply chains that manufacture these products and provide these services. WHEB's investments contribute to the attainment of the impact but are not solely responsible. The impact is therefore referred to as 'associated'. CO_2e avoided is based on a global average carbon price of £25 per tonne based on IHS Markit's Global Carbon Index, which estimated an average weighted carbon price of $34.99 (£25) in 2021 (https://carboncreditcapital.com/value-of-carbon-market-update-2021-2/). Waste materials is based on a landfill tax of £96.7 per tonne of waste, which is equivalent to the UK's landfill tax in 2021.

CASE STUDY: WHEB's public policy engagement

The FCA's proposed Sustainability Disclosure Requirements (SDR)

FCA FINANCIAL CONDUCT AUTHORITY

The FCA's proposed SDR
In October 2022 the FCA published proposals for a new labelling system for retail products to be launched in 2024 that would affect funds using certain terms in the names and marketing of their investment products.

Objective

The FCA to make amendments to fund categorisation under the SDR, specifically with respect to what funds are eligible for the 'Sustainability Impact' label. Reduce confusion for consumers when selecting sustainable investments. More general support of the principle of FCA action in requiring more rigour in the use of key terminology in sustainable investing.

Background/ issue

WHEB has been very supportive of FCA regulation of the sustainable investment market in principle; however, we were highly concerned that the new labels were not appropriately scoped and thus would have the unintended consequences of reducing transparency and increasing confusion for consumers, in our view.

The key area of disagreement for us was in the definition of the Sustainability Impact label. We felt it did not adequately recognise the enterprise contribution of the investment product and instead focused primarily on the contribution that the investor makes through their engagement with companies, or their influence on asset prices or on decisions to allocate capital to underserved markets.

WHEB recognises the distinction between the enterprise contribution and the investor contribution and believes both are important. In our view, the 2022 proposals would dramatically reduce the size and scale of the impact fund market in the UK. They would create a label that would only be useable by illiquid, unlisted and often sub-market rate of return products. Consequently, this label would be largely irrelevant to the retail market, in our view.

What is more, many strategies that currently define themselves as 'impact' would likely be forced to use the 'Sustainable Focus' or 'Sustainable Improver' labels, conflating different types of strategies under a single label. The result in our view would be reduced transparency and consumer choice and increased consumer confusion – the opposite of what the labels are intended to achieve.

Actions

WHEB has been intensively involved in conversations with the FCA, peers, investor groups and associations, clients and other stakeholders in making these arguments throughout 2022 and 2023.As a member of the Disclosures and Labels Advisory Group (DLAG), we have been able to talk directly to the FCA. We have also successfully worked with groups including the UK Sustainable Investment and Finance Association (UKSIF), the Impact Investing Institute, the Institutional Investors Group on Climate Change (IIGCC) and the Global Impact Investing Network (GIIN) to make these points through their submissions.

Working more broadly with impact-focused clients including The Big Exchange and Worthstone as well as peers and suppliers, we have sought to build a coalition of practitioners within the industry to provide a clear set of recommendations to the FCA.

Outcomes	**Milestone 4 – evidence showing our concern has been addressed.** Almost a year after the second consultation period closed and two years since the original discussion paper, the FCA finally published its 'Sustainability Disclosure Requirements (SDR) and investment labels' policy statement[38] in November 2023. WHEB was relieved to see that the final policy statement has taken account of our and others' feedback on the framing of the Sustainable Impact label and other contentious points. Our intention will be to adopt the Sustainability Impact label at the first opportunity for all our in-scope funds. Seb Beloe outlined WHEB's views on the impact that SDR will likely have on the sustainability investment market in the UK in a December 2023 blog available on our website.[39]

CASE STUDY: WHEB's public policy engagement

The GIIN's Listed Equities Working Group

GIIN GLOBAL IMPACT INVESTING NETWORK	**Global Impact Investing Network (GIIN)** A not-for-profit network dedicated to increasing the scale and effectiveness of impact investing around the world.
Objective	WHEB has been a core member of the working group defining guidance for impact investing in listed equities since 2021. This working group has two main objectives: 1. To understand how strategies delivering impact in listed equities can align with the expectations of the 'Core Characteristics' of impact investing.[40] 2. To provide reference points for best practice in order to support investors in structuring and deploying effective impact strategies in listed markets.
Background / issue	The project began with the formation of the GIIN's Listed Equities Working Group in 2019 after the GIIN Investor Survey identified listed equities as one of the fastest-growing asset classes for impact investing. Its purpose has been to assess how funds investing in listed equities could engage in impact investing. The working group has conducted research to evaluate market trends and has engaged with fund managers offering investments identified as impact funds to understand their approaches. WHEB has been a core member of the working group, defining guidance for impact investing in listed equities since 2021.
Actions	Over the course of 2021–2022, WHEB participated in fortnightly meetings of the core working group to review drafts and recommend amendments and updates. WHEB also facilitated sessions with the wider working group on conference calls and at the GIIN Annual Conference, as well as participated in outreach to journalists on behalf of the working group during the launch of the guidance in 2023. WHEB's contribution was singled out for praise by the GIIN: 'Listed equities are a key asset class in scaling sustainability solutions. WHEB has been a valued contributor to our work, developing our approach to impact investing in listed equities.' – Sean Gilbert, Chief Investor Network Officer, Global Impact Investing Network (GIIN)
Outcomes	Whilst not 'regulation', the guidance, which was published in early 2023, has already been an influential and widely quoted document that has fed into regulatory and standard-setting processes all over the world. WHEB continues to work with the GIIN in promoting the guidance and in determining a next phase of activity. Full details of what the working group has achieved to date can be found here: https://thegiin.org/listed-equities-working-group/

[38] https://www.fca.org.uk/publication/policy/ps23-16.pdf
[39] https://www.whebgroup.com/our-thoughts/three-reasons-why-sdr-really-matters
[40] https://thegiin.org/characteristics/

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

WHEB's view is that engagement is most effective when conducted as part of the overall analysis of a business and its strategic objectives. Embedding stewardship in the investment process in this way means that we can ensure that engagement objectives and priorities remain closely aligned with the long-term success of our investee companies. Similarly, insights gleaned through our engagement and voting activities reveal important information about a company's growth potential and risk profile.

Policies

WHEB's Stewardship and Engagement Policy as well as 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 WHEB's Investment Risk Committee. In addition, our independent Investment Advisory Committee also scrutinises our voting and engagement activities. Summary minutes of the committee meetings are published on our website. The committee also reviews WHEB's Annual Impact Report and includes a statement outlining their findings and overall view of the report.

Quick links

- **WHEB's sustainability policies**
- **Investment Advisory Committee minutes**
- **Stewardship reporting**

All details on company engagement are logged and stored in a bespoke engagement-monitoring system built within our investment analysis research database in 2023. This has further improved integration of engagement monitoring and coordination alongside investment analysis and decisions. Within this system we record engagement objectives, plans, methods, topics, milestones and expectations on timings.

This information 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 the team to easily record their engagement and report on related outcomes.

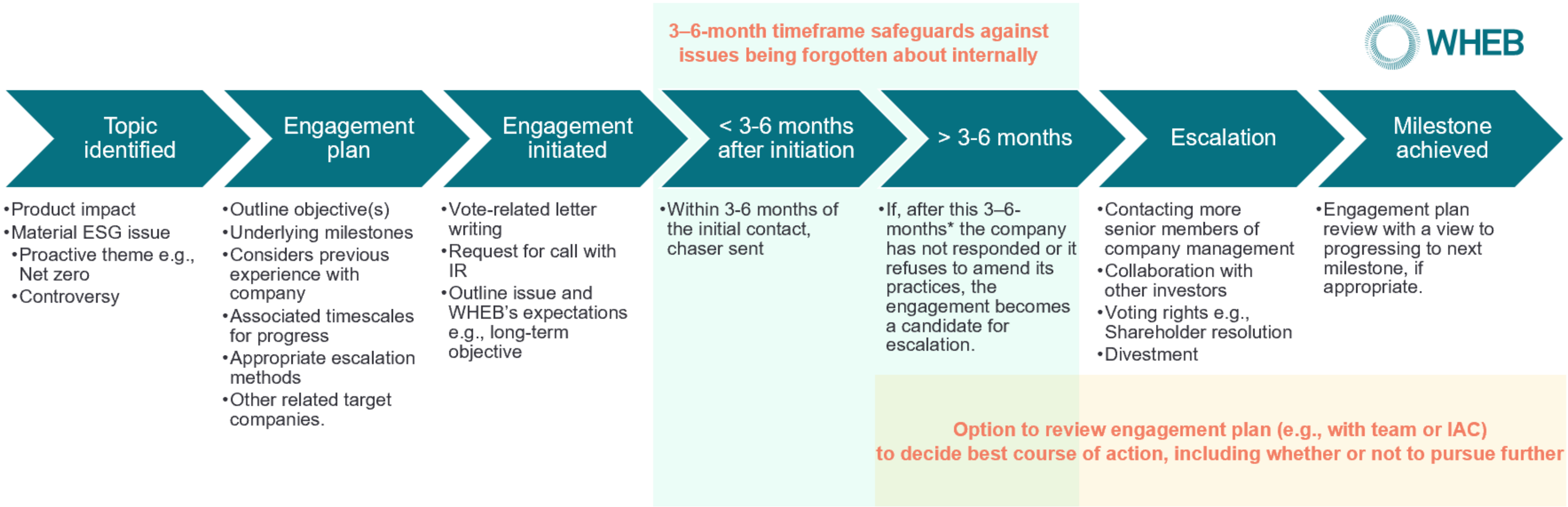
In early 2023 we updated WHEB's Stewardship and Engagement Policy in order to better articulate existing processes and ensure consistency of approach across the expanded Impact Investment Team. In doing so, we aimed to:

- Improve efficiency for better outcomes for investors and improving time efficiency for the Investment Team.
- Improve communication to clients and provide more granular reporting on key engagements.

The updates resulted in the introduction of WHEB's objective milestones, discussed below and under Principle 2, as well as the clarification of our time-bound Escalation Policy:

- Impact Investment Team members review progress against the engagement objective three to six months after the topic has been raised with the target company. This timescale may be shortened or lengthened depending on the specific context of the engagement.
- Discussions with the broader team and/or independent Investment Advisory Committee may inform the decision to escalate. We believe that this timescale will serve as a useful prompt for analysts to revaluate materiality and progress and to determine next steps whilst also safeguarding against issues being forgotten about. Reviewing the progress against long-term objectives will be iterative as each milestone is reached (Figure 10).

Figure 10: An overview of WHEB's engagement process including timescales for escalation[41]



[41] In some cases, where our analysis shows that this is justified, a period greater than six months may be allowed for a company to respond. Timescales for the achievement of objective milestones are case-specific and feed into decisions as to what and when various escalation methods are used.

Review and assurance processes

Having grown the Impact Investment Team in 2022, with more resources available, we sought to elevate the overall quality of WHEB's already well-established stewardship approach in 2023. This work primarily focused on improving processes and reporting to become more methodical, effective and clear, and is outlined below.

1. Methodical

For WHEB, stewardship is more than simply engaging with companies and voting at their AGMs. It is an important mechanism that allows us to influence investee company behaviour, as well as the financial services system more broadly. As such, stewardship is vital for WHEB's 'investor contribution' to positive impact.

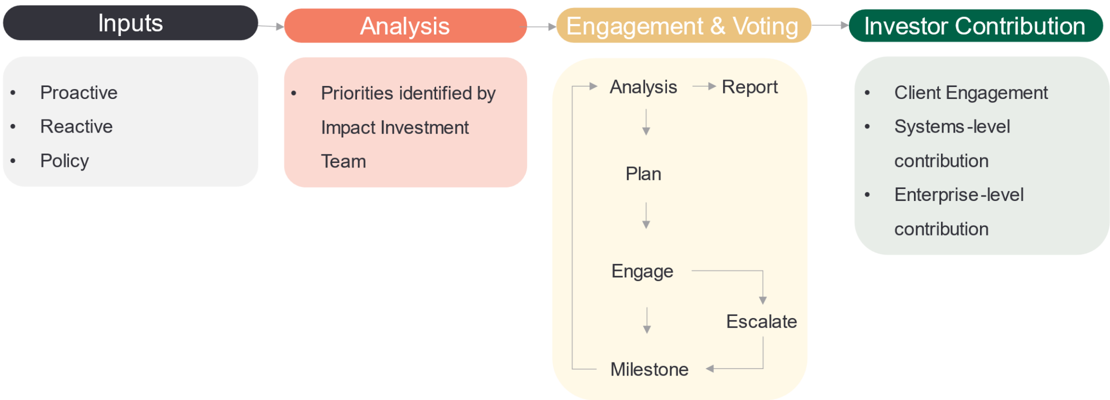
We think that being transparent with clients about how we go about achieving our investor contribution in a methodical way helps them to see a correlation between WHEB's stewardship actions and the real-world outcomes.

As shown in Figure 11, this comprises:

1. Identifying the issues on which to engage, whether proactively or reactively (the 'inputs').
2. Prioritising material issues and setting long-term objectives and relevant engagement milestones ('analysis').
3. 'Engaging and voting' (iteratively) to achieve progress against these milestones and feeding this back into our investment analysis, along with reporting our progress to clients and other stakeholders.
4. All three actions above result in our 'investor contribution' to positive impact.

Our work to address biodiversity across the portfolio, covered under Section 3, is an example of this approach in practice.

Figure 11. A systematic approach to managing company engagement

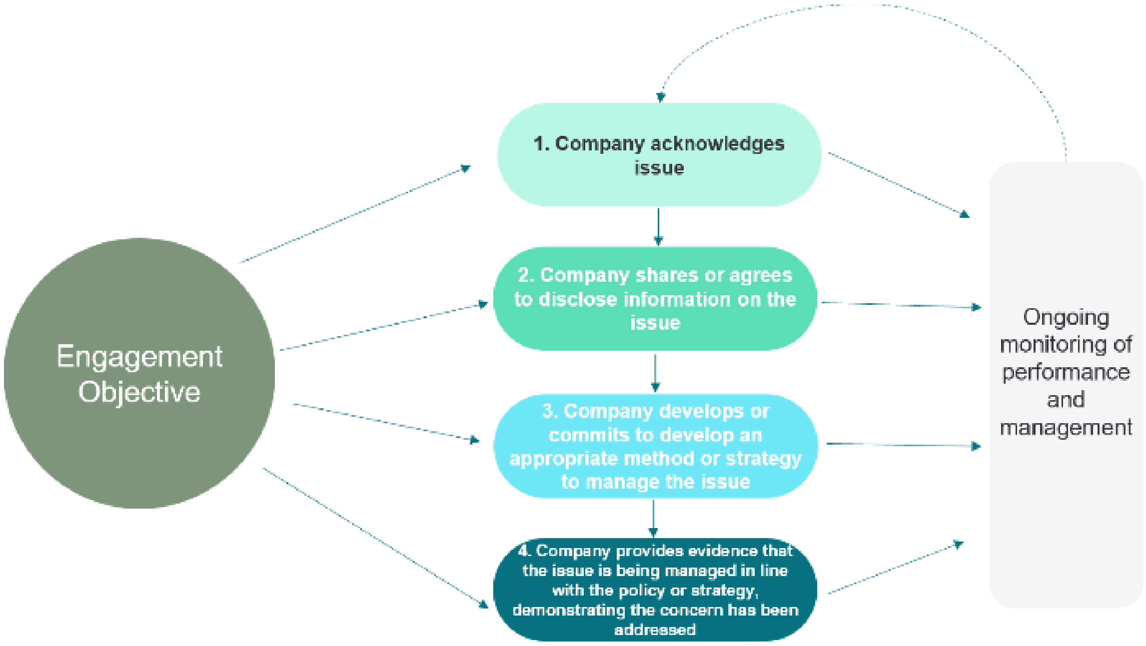


2. Effective

In early 2023 we introduced WHEB's 'objective milestones' as a way of recording outcomes from our engagement work with greater granularity. Previously, outcomes were recorded as successful, partially successful or unsuccessful. However, as the team grew and the volume of activity engagement grew with it, we found that more detail was needed to draw insights and conclusions about our own effectiveness against engagement objectives.

The milestones acknowledge the key stages of progress against the objective in a long-term engagement aimed at changes in company strategy or governance (Figure 12). We believe these milestones provide a better framework for tracking engagement progress and improve WHEB's ability to communicate this back to clients.

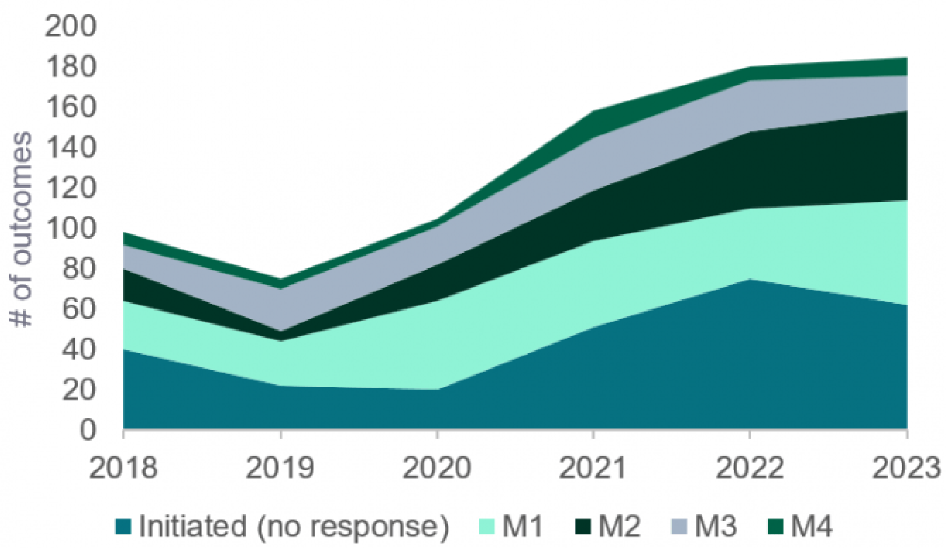
Figure 12: WHEB's objective milestones



During 2023 we reviewed our engagement activities over the past six years to identify the milestones that have been achieved over this period. Figure 12 shows how the overall amount of engagement has increased during this period, with a greater number of engagements initiated from 2020 to 2022. In turn, this has fed into a proportionally larger number of Milestone 1 (M1) and Milestone 2 (M2) outcomes.

As shown in Figure 13, we do not expect every engagement to conclude with a Milestone 4 (M4), but with WHEB's engagement objectives often targeting ambitious, long-term changes to strategy and policy, we hope that over time we will see an increase in Milestone 3 (M3) and Milestone 4.

Figure 13: Milestone progress 2018–2023



3. Clear

We often speak of our 'radically transparent' and comprehensive reporting, which extends to all of our engagement and voting work. Though serving as a form of assurance for our investors, we understand that this alone is not always helpful, as navigating large volumes of data can be a challenge.

In our efforts to avoid, on the one hand, overly selective 'cherry-picked' anecdotes and on the other, extensive technical data, we have developed complementary disclosures to evidence how our actions align with client priorities and values. We hope this makes our actions more meaningful. So far, efforts have centred around demonstrating overall progress on the highest-priority issues. Figure 14, for example, shows how the biggest emitters of GHGs in WHEB's portfolio have changed their emissions between 2022 (dots) and 2023 (triangles), and also whether their approach to managing their emissions has become more or less aligned with the Paris Agreement.

Currently, we are working to develop this visualisation tool further and to expand coverage to other key stewardship priorities such as gender diversity, biodiversity, and executive remuneration.

Figure 14: Progress in GHG emission reduction and alignment with the Paris Agreement 2022–2023

In previous Stewardship Reports we have detailed that we have also commissioned third parties to assess the quality of our internal processes and methodologies and recommend improvements to the effectiveness of our processes, particularly on our assessment and measurement of impact.

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 NZC 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.

Section 2: Investment approach

Principle 6: Signatories take account 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 15 shows a breakdown of WHEB's clients, both in terms of geography and segmentation, by assets under management (AuM). As the charts show, the majority of WHEB's investors are professional investors based in the UK. This has not changed since 2020.

Quick links

2023 Annual Investor Conference

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 opportunities will access faster-growing markets and gain a long-term competitive advantage. Our thematic focus on 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 five to seven years – well-above industry averages and in line with our investors' time horizons.[42] 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. 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 15: Investor breakdown by assets under management (AuM) as at 31 December 2023

WHEB's policies: alignment with client's views

As a boutique with a long track record, WHEB has developed a close relationship with many investors. This has been made possible through extensive reporting, our Annual Investor Conferences and our webinars, as well as through regular client meetings. We also regularly make note of our asset owner clients' responsible investment approach as published in their Statement of Investment Principles documents and ensure that we are responding to their beliefs and objectives in both our investment activity and reporting.

We are confident that WHEB's Stewardship and Engagement Policy as well as Responsible Investment Policy 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'.

[42] 97% of the respondents to WHEB's 2021 client survey expected to hold most of their investments for four years or more.

Our voting policies are based on the Association of Member Nominated Trustees' (AMNT) 'Red Lines', which are typically more demanding than the market standards and cover ESG issues. We vote on all our active positions in the strategy. As a result, we have always found that our voting policy covers, or goes beyond the expectations of, those belonging to our clients.

Quick links

'Our thoughts' – WHEB's blog

Engagement case studies

Client feedback

WHEB typically collects feedback on an ad hoc basis with specific comments being volunteered or requested, including responses to reports, commentary, events, webinars and generally within the normal course of business.

'We greatly appreciate WHEB's strong commitment and highly authentic approach to impact investing in listed equities.'

Daniela Barone Soares, CEO, Snowball Impact Management Ltd.

Client feedback has informed decisions to improve client communication. For example, in 2021 we introduced the company profiles document in 2021 and launched the WHEB Environmental Impact Fund, a targeted version of WHEB's global equity strategy that is focused solely on its five environmental themes.

We have previously considered onboarding a fintech platform that enables 'expression of wish voting'.[43] However, these platforms are not suited to our needs, as they do not cater to proactive voting policies like WHEB's, which focus on using routine votes to raise issues.

Communication of stewardship

Transparency and accountability are central to WHEB's philosophy. Our main report is our Annual Impact Report,[44] which is complemented by quarterly client reports[45] (with accompanying webinars). These include detailed reporting of stewardship activities as well as impact and ESG data, often integrated into or alongside our reporting of investment performance. We also provide monthly updates.

Our annual reporting consists of:

- The Impact Reports summarise portfolio impact and ESG analysis, portfolio carbon emissions and how investee companies contribute to the Sustainable Development Goals (SDGs), WHEB's stewardship activities, and our approach to sustainability over the calendar year.
- WHEB's website[46] combines all sustainability and fund information, such as our interactive Impact Calculator, and WHEB's peer-reviewed methodology document.[47]
- Stewardship reports.
- Stewardship Brochure: a four-page document designed to summarise key information from the Stewardship Reports in a way that is more accessible for all clients, and especially a retail audience.
- Net Zero Carbon Brochure: as above, and focused on net zero.

[43] Also known as pass-through voting or split voting

[44] https://www.whebgroup.com/reporting-impact-investment/impact-reports

[45] 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/

[46] https://impact.whebgroup.com/

[47] https://www.whebgroup.com/investing-for-impact/how-we-invest/our-methodology

Our quarterly reporting consists of:

- Quarterly reports that include thematic and performance commentary, recent purchases and sales, and stewardship activities and outcomes, as well as quantitative information on fund positioning and on WHEB's impact and ESG measurement frameworks.
- In 2023 we introduced a quarterly stewardship commentary, and now publish three detailed engagement case studies on our website per quarter.
- Since 2017, WHEB has published full quarterly voting records of every resolution we are eligible to vote, including the vote decision and rationale.[48]
- Full portfolio holdings[49] in our Company Profiles document including investment rationales indicating why a stock fits with the fund's investment policy.

Our monthly reporting consists of:

- WHEB publishes and circulates monthly fund factsheets along with a newsletter and links to commentary and opinion pieces written by the team, many of which go into additional detail on specific engagement examples.[50]

All of this information is published on our website and so is not limited to investors but is available for the public to see. As outlined under Principle 2, WHEB's Investment Advisory Committee also provides independent scrutiny of our stewardship activities three times a year, and the summary minutes of these meetings can also be found on our website.[51]

Feedback from clients on WHEB's reporting and transparency is generally positive and we received strong positive feedback on the new website, which supports our efforts around reporting.

Quick links

- **WHEB's 2023 Impact Report**
- **Stewardship reporting**
- **WHEB's Impact Calculator**
- **Mapping WHEB's impact**
- **'Our portfolio' company profiles**
- **Quarterly reports**
- **Fund Factsheets**

Principle 7: Signatories systematically integrate stewardship and investment, including material ESG issues and climate change, to fulfil their responsibilities

Integration of sustainability in WHEB's investment process

WHEB is wholly focused on a single global equity strategy that seeks to generate superior returns by investing in companies providing sustainability solutions. Thus, 100% of everyone's time is spent on this strategy. The entire WHEB team, especially the Impact Investment Team, are responsible for implementing the strategy. Positive impact, sustainability, ESG and stewardship are therefore integrated at every stage of our investment process. We believe that engagement is most effective when conducted as part of the overall analysis of a business and its strategic

48 https://www.whebgroup.com/investment-strategy/fund-governance/engagement-and-voting-records/
49 https://www.whebgroup.com/investment-strategy/fund-options/fp-wheb-sustainability-fund/fund-holdings/
50 https://www.whebgroup.com/news-views/wheb-insights/
51 https://www.whebgroup.com/investment-strategy/fund-governance/investment-advisory-committee-minutes/

objectives. We further believe that this reveals important information about a company's growth potential and risk profile.

WHEB's policies and processes for stewardship underwent minor improvements in 2023, as outlined earlier in this report.

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 themes (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 we have set a threshold of having at least 50% of their revenues or profits coming from these areas. In practice, 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 and assess the intensity of their positive impact,[52] and share this publicly with our investors.[53]

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 40–60 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 impact 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 outperformance over the long term. Via the Impact Engine, we assess companies with respect to the products and services they provide as well as multiple dimensions of the fundamental quality of their organisation and operational performance (Figure 16). We therefore consider a range of measures relating to both financial and ESG management and performance.

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.[54] In this case, such issues will be discussed within stock initiation meetings between the Impact Investment Team and an engagement plan will be agreed, based on WHEB's engagement and voting policies. 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 team and an engagement plan will be agreed. On this basis, WHEB's engagement can be loosely defined as either proactive or reactive. We also organise our company engagement as being focused on product impact or ESG issues, and targeting fact finding or behavioural change, as explained 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

[52] The Impact Engine helps us to assess the intensity of the positive impact generated by products and services sold by investee companies.

[53] For example, through our annual impact and quarterly reports.

[54] 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.

(such as those described under Principle 11), and may even contribute towards a decision to divest in some circumstances.

Figure 16: WHEB’s Impact Engine and Fundamental Quality Score feed into the WHEB’s integrated analysis

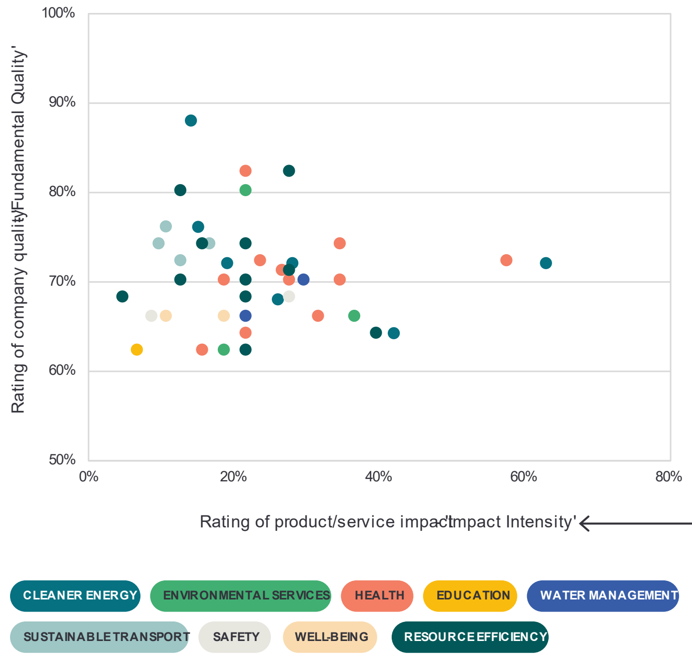
Impact diagram

Fundamental Quality

Integrating financial and ESG analysis of company operations

- Financial analysis
- Market position
- Governance
- Supply chain
- Safety
- Environmental risks
- Ethics
- Engagement response

The Impact Map



The Impact Engine

Systematic analysis of the positive impact or products/services

Importance of outcomes	Changes in outcomes	Contribution to outcomes
1. How vulnerable is the beneficiary?	3. How large is the impact compared to the baseline?	5. How central is product impact in the outcome?
2. How critical is outcome to the beneficiary?	4. How widely applicable is the product?	6. How unique is the product / contribution?

*Our principal materiality framework is the Sustainability Accounting Standards Board (SASB).
**For the Impact Engine methodology see https://impact.whebgroup.com /methodology/

CASE STUDY: Investment decisions informed by stewardship and ESG analysis

AstraZeneca plc

AstraZeneca is a high-quality pharma company with a strong portfolio of commercial products that lead to better overall health outcomes for patients, who are often suffering from life-threatening or debilitating illness. The company's products treat a broad range of issues and target areas of high unmet need, particularly in the oncology and rare disease portfolios.

Decision type	Acquisition: we initiated a new position in AstraZeneca in our Health theme in Q3 2023.
How stewardship influenced the decision	A critical question for the pharmaceutical industry is what 'fair' pricing for pharmaceutical products is, and what responsibility pharmaceutical companies have for enabling access to what are often life-saving therapies. WHEB considers this issue to be an important one – not just for patients and healthcare systems but also for the company's own long-term licence to operate and innovate. We have developed a specific drug-pricing and access checklist that considers key elements in a company's approach to these issues. This includes questions on policies, governance structures and ownership, staffing and qualifications, and performance, as well as independent evidence on pricing and access (e.g. via regulatory assessments and/or NGO research). Having completed the checklist, we then assess the company's approach relative to its peers and this feeds into our overall view on the quality of the company and our conviction in the business.
How is the decision made?	The decision to start a position in the business is made by the Investment Team and is based on a range of inputs including the pricing and access checklist. This is used to inform our view on the quality of the company and its ability to deliver positive impact through its products and services, which in turn will drive long-term revenue growth for the business. Typically, this analysis also identifies outstanding issues that we will want to continue to engage the management team on once it is under ownership.

CASE STUDY: Investment decisions informed by stewardship and ESG analysis

First Solar

First Solar is a US-based manufacturer of solar photovoltaic panels and a leading supplier of thin-film modules that are used primarily in utility-scale and commercial power plants. The company operates a sector-leading approach to the manufacturing and recycling of its solar modules.

Decision type	Hold.
How stewardship influenced the decision	Despite its products representing a critical technology in decarbonising the global economy, First Solar is one of the WHEB strategy's top greenhouse gas (GHG) emitters by financed emissions. An additional frustration of ours has been that the company has failed to capture the opportunity to use its own panels to help reduce their own Scope 2 emissions. WHEB has therefore been engaging the company on this, as well as other issues, jointly with the Investors for Sustainable Solar initiative. During the latest call, in December 2023, the company highlighted its commitment to sourcing 100% renewable energy by 2028. Disappointingly, this has been pushed back by two years primarily due to First Solar's considerable growth rate, which will cause a continued increase in its emissions through to 2026. A positive, though, is that it has now achieved Science Based Targets initiative (SBTi) validation of both near-term and long-term net zero carbon (NZC) targets and has published a carbon reduction roadmap. First Solar has since announced plans for its Indian operations to be 70% powered by renewable electricity provided by its own panels by the end of 2024. On top of this, emissions overall have not increased, which is impressive given its rate of growth.
How is the decision made?	As the global economy continues to decarbonise, First Solar is positioned to benefit from increased solar demand. Its decarbonisation targets are now aligned with the Paris Agreement, and it is implementing robust systems and processes to reduce its absolute emissions, which we hope to see in the next five years. The progress with our engagement is discussed with the whole Investment Team and forms part of the discussion on our conviction in the stock. The engagement in 2023 has reaffirmed our decision to hold a position in First Solar.

Activity and 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. For example, and as detailed in previous Stewardship Reports, following a third-party review of WHEB's proprietary 'Impact Engine' methodology, we made subtle changes in the focus areas of the questions and the methodology for scoring. 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.

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, whilst 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).

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

Management of service providers

The range of third-party service providers used for WHEB's fund vehicles includes host Authorised Corporate Directors (ACDs), transfer agents, fund accounting, custody and depository services, research and information services and trade execution.

We regularly review their performance to ensure that services continue to be delivered to a standard that meets WHEB's needs and those of our clients, and that they are performing obligations effectively and within agreed service levels. 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 is subsequently monitored and reported on in the context of regular oversight meetings).

WHEB's IT support function has been outsourced to a specialist provider 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

WHEB occasionally uses 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, the Impact Investment Team independently assesses each individual vote against our own internal policies before recommending a vote. WHEB's voting policies are modelled on the Association of Member Nominated Trustees (AMNT)'s 'Red Lines'. These are typically more demanding than the market standards.

We regularly engage with these service providers to encourage them to adopt more progressive voting policies on issues ranging from auditor independence to GHG emission reduction targets.

NZC engagement activity and outcomes

From 2020 we have been engaging with every service provider where we spend over £10,000 annually and with more than 50 employees to encourage them to implement progressive ESG policies and practices, particularly covering their approach to managing their own carbon footprint and setting NZC targets. We track all NZC commitments and review progress against targets.

As of 2023, 57% of these suppliers now publish their Scope 1 and 2 emissions and have carbon reduction targets, with a further 17% being carbon neutral. We continue to engage with these suppliers throughout the year to encourage further disclosure of emissions across our purchased goods and services. Additionally, in 2024 we will be engaging further with suppliers by developing improvement plans for those who have yet to start measuring emissions or set carbon reduction targets.

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, replacing it with a single management fee structure covering all 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.

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 2021 Impact Report was reviewed by the Carbon Trust, who found WHEB's approach to data sourcing to be 'fit for purpose' and to provide

Section 3: Engagement

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

Direct company engagement: WHEB's approach

As an impact investor, stewardship and engagement are central to WHEB's 'investor contribution' to positive impact. It is through these activities, as well as the impact of our own business activities, that we are able to catalyse change for real-world outcomes that advance sustainability. We define a company interaction as an engagement activity where there is a:

- Purposeful dialogue with a company, either bilaterally or collaboratively.
- A clear objective to address a material sustainability or governance risk or opportunity.
- An identifiable outcome, as gauged by our objective milestones.

Engagement objectives

Behaviour change versus fact finding

When engaging companies, WHEB's objectives are often ambitious and target improvements in the company's governance, strategy or policies, which may take multiple years to achieve. Our engagement therefore mostly (around 80% of activity in 2023) seeks behavioural change.

Information gathering also plays a role in our engagement work (around 20% of activity in 2023).[55] Whilst the outcomes from these interactions feed into our fundamental analysis, they are distinct from business-as-usual company meetings, as their purpose is to inform longer-term objectives aimed at behavioural change.

Product impact versus ESG

WHEB's engagement objectives may also be categorised as being focused on product impact or ESG. Product impact-focused engagements are directly linked to the strategy's 'theory of change',[56] as the objectives are aimed at increasing the positive impact associated with the target company's products and services. In 2023 product impact engagements accounted for around 40% of our engagement activities. Where these engagements are fact-finding, they provide additional insights that help us build a stronger 'impact investment case' for the stock, deepening our analysis and refining the impact score we give to the companies.

ESG-focused engagements, which accounted for around 30% of our engagement activities in 2023, tend to concentrate on seeking improvements on traditional operational sustainability, social responsibility and corporate governance topics.

Both product impact and ESG engagements focus on the most material and highest-priority topics as they relate to the company in question. The outcomes of all engagements are monitored using WHEB's objective milestones.

Examples are provided in Table 2.

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[55] Information seeking or fact finding is usually a higher priority during the earlier phases of engagement and informs behavioural change which comes later.
[56] WHEB's 'theory of change': the global economy currently consumes resources at a rate that is unsustainable. WHEB's investment strategy invests in companies selling products and services that provide solutions to these challenges and that protect and enhance quality of life.

Table 2 Examples of WHEB's engagement objective types

	Product impact	ESG
Behavioural change	**Ecolab – hazardous chemicals** Objective: 1. Increase transparency. 2. Publish time-bound phase-out plan of products that are, or contain, persistent chemicals. 3. Develop safer alternatives for hazardous chemicals. Link to case study: **https://www.whebgroup.com/ecolab-engagement-case-study-chemicals**	**MSA Safety – gender diversity** Objective: For MSA Safety to improve its gender diversity by improving female board-level representation to at least 33%. Link to case study: **https://www.whebgroup.com/msa-safety-2023q4-case-study** (also available below).
Fact finding	**Steris – discussion on role of human error in efficacy of equipment** Objective: Strengthen our understanding of the positive impact associated with Steris's products and services. Link to case study: **https://www.whebgroup.com/steris-engagement-case-study-product-impact**	**Belimo – potential controversy** Objective: Understanding a potential UN Global Compact Principle violation. Link to case study: **https://www.whebgroup.com/belimo-engagement-case-study-ungc**

Prioritisation

Our approach is to research, analyse and prioritise material engagement topics as they relate to each stock. We do this both proactively and reactively (e.g. in relation to controversies as and when they arise). This 'bottom-up' approach helps us to clearly contextualise engagement objectives within the commercial reality of the business and means we often focus on company-specific issues. This makes more sense to company management, which helps us maximise the likelihood of positive outcomes.

That being said, thematic priorities may emerge where topics are identified as a material priority for a large proportion of the portfolio. We may also carry out top-down engagements across the portfolio on priority issues such as climate change and diversity. Here, too, we aim to focus on those companies for whom these represent material issues, or on businesses that are clear laggards.

Both the materiality and severity of the topic in question are considered by the Impact Investment Team when prioritising engagements.

Engagement themes in 2023

Thematic engagement priorities in 2023 were climate change, biodiversity and nature loss, micropollution (specifically, hazardous chemicals) and gender diversity:

- WHEB's engagement on climate change (around 14% of our engagement activities) was driven predominantly by our NZC commitments, which we made as part of the Net Zero Asset Managers initaitive, as outlined in Principle 4, as well as through our involvement in the Institutional Investors Group on Climate Change (IIGCC)'s Net Zero Engagement Initiative. Related case studies are included under Principle 4 and 11.
- Our work on micropollution is also covered under Principle 4 (around 6% of our engagement activities).
- Though DEI is a many-faceted topic, to date our approach to addressing the issue in our direct company engagement has predominantly focused on gender diversity, especially at board level (around 6% of our engagement activities). In part, this has been driven by our Voting Policy, which explicitly requires a vote against the chair of the nominations committee if there is less than 33% female board-level representation. It is also driven by the fact that this is one aspect of DEI where data is available for all companies in the

portfolio. As a consequence, (inadequate) gender diversity accounts for 4%–12% of our votes against management each year. As is WHEB's policy, we then write to company management explaining our vote rationale, which often leads to further dialogue on the topic. Engagement on gender diversity accounts for 6%–8% of our yearly engagement activities (see the MSA Safety and Xylem case studies below).

- As also mentioned under Principle 4, biodiversity and nature loss is another critical issue (around 4% of our engagement activities). In 2023, we continued to engage the 10% of our portfolio companies for whom we believe this to be a material issue (see the Arcadis case study below, the Smurfit Kappa case study under Principle 10 and the Vestas case study under Principle 11) .

CASE STUDY: Bilateral engagement

Engaging MSA Safety on gender diversity

MSA The Safety Company

Founded in Pittsburgh in 1914, MSA originally stood for 'Mine Safety Appliances'. This was changed in 2014 to 'MSA Safety' to reflect the broader range of products the company has developed. Today, MSA still manufactures products such as fixed gas and flame detection systems which are used across industry. They are also a leading manufacturer of self-contained breathing apparatus and fire helmets for firefighters as well as fall protection equipment for working at height.

Objective	For MSA Safety to improve its gender diversity by improving female board-level representation to at least 33%.
Background / issue	We have previously engaged MSA Safety on the topic of gender diversity. In 2022 we used our voting rights to vote against the re-election of Lead Director Robert A. Bruggeworth and wrote to the company explaining our dissatisfaction with less than 33% of board members being female. We raised the topic again later that year during a call, and MSA mentioned a challenging period for making diverse hires, possibly due to the pandemic. It did, however, express intentions to make improvements and highlighted that a diversity metric had been included in pricing a credit facility (meaning that the company would have to pay a higher interest rate if specified targets were not met). Later, MSA's 2022 impact report highlighted other diversity-related metrics, including 30% gender diversity at board level and 36% gender diversity at the executive leadership level.
Actions	We spoke to MSA Safety's chief financial officer and their investor relations team at the same conference the following year and took the opportunity to raise several ongoing engagement issues[57] other than gender diversity. Specifically, WHEB outlined how reporting all facets of diversity under a single metric does not allow for a sufficiently detailed understanding of the different dimensions of diversity in the organisation. Instead, MSA should be aiming for a minimum of 33% female board-level representation, as well as improving representation of, and reporting on, other aspects of diversity.
Outcomes	**Milestone 2 – company shares or agrees to disclose information on the issue.** Though we attempted to probe the company about whether there is an internal differentiation between measures of diversity, we remain concerned about MSA Safety's strategy for improving diversity, and especially gender diversity at board level. There is not only a moral case justifying the need for businesses to address DEI concerns, but

[57] Including phasing out the use of PFAS chemicals in fire-fighting equipment and progess towards NZC emissions.

also a strong business case. Diversity at the executive level has, in some studies, been shown to improve the likelihood of financial outperformance.[58]

In its 2022 impact report,[59] MSA states that it defines diversity using US government guidelines that define 'individuals as diverse if they belong to one or more of the following groups: female gender, racial or ethnic minority, protected veteran class, or persons with a disability. Employees in multiple groups are only counted once.' However, there is no requirement to report all diverse individuals in a single metric.

Our concern is that a combined diversity metric represents a considerable lack of ambition from leadership to improve firm-wide diversity. This may indicate, at best, a weak understanding of the benefits experienced by more diverse businesses or, at worst, implicit bias causing a resistance against efforts to diversify the workforce.

These concerns are further reinforced by the fact that, despite targets and supporting incentive structures, senior-led diversity continues to remain flat in recent years. As such, we continue to monitor developments at the company and are considering how to engage on this issue further.

CASE STUDY: Bilateral engagement

Engaging Xylem on gender diversity

xylem Let's Solve Water

Xylem manufactures a wide range of products and provides services to the water industry. The company's water infrastructure business provides a range of pumps and filtration, testing and treatment equipment to water utilities. The company also supplies commercial and residential markets with water and wastewater systems, and provides measurement and control solutions. Xylem's strategy is characterised by the application of intelligent technology to improve water efficiency, in products such as smart meters and intelligent monitoring equipment.

Objective

Improve gender diversity within company leadership by achieving at least 35% board-level female representation.[60]

Background / issue

WHEB has been using its voting rights and engaging Xylem's management to improve its board-level gender diversity since 2019.

In a 2020 call, Xylem highlighted a range of 2025 sustainability goals that it had set, with one being equal representation of gender in leadership positions. To achieve this, the company planned to implement measures to increase diversity in the company's talent pipeline, focusing particularly on traditionally more difficult areas, such as engineering and technology.
We continued discussing gender, with a focus on reproductive rights, in 2022,[61] and at this time expressed our concerns that the gender goals had been pushed out without details of revised timelines. Xylem explained that its female leaders had been disproportionately affected by the COVID-19 pandemic. In response, it had chosen to

[58] The precise nature of this relationship is likely to be complex and to relate to the type of diversity being measured. See for example https://www.spectator.co.uk/article/is-diversity-actually-good-for-business/ and https://www.mckinsey.com/~/media/mckinsey/featured%20insights/diversity%20and%20inclusion/diversity%20wins%20how%20inclusion%20matters/diversity-wins-how-inclusion-matters-vf.pdf
[59] https://s7d9.scene7.com/is/content/minesafetyappliances/5000%2D1041%2DMC%5FMSA%2DImpact%2DReport.pdf
[60] This is Xylem's own corporate target.
[61] https://www.whebgroup.com/vestas-xylem

revise its policies and processes to support gender diversity across the business and would publish a revised goal in the near future.

Actions

During a recent research trip to the US,[62] we met with Xylem to discuss the company's water-saving technologies, carbon emission targets and diversity within the leadership team. We took this opportunity to follow up on the 2025 gender and minority leadership targets. At the same time, we emphasised the importance of flexible working arrangements for parents as an enabler of improved gender diversity.

Outcomes

Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue.

Disappointingly, Xylem is still likely to miss its 2025 target for 35% female representation in leadership. Currently the figure sits at 25% and will be lowered further because of its acquisition of Evoqua Water Technologies.

Still, gender balance is now more equal at entry and mid-management level, ensuring a good female talent pipeline. We believe that Xylem is genuinely trying to think creatively about how to improve the gender balance across the business. For example, since setting targets in 2019, it has focused on enabling internal moves to equalise diversity amongst teams, looking for talent from ancillary industries and implementing leadership programmes with strong female representation.

Still, there remains the hurdle of moving women into senior roles. We pushed on this point during the discussion. Xylem responded saying that it has strengthened parental leave policies. We believe that these measures, which include eight weeks of paid leave for all new parents and flexible working and time off, are progressive for a US company, and hope they are sufficient to meet objectives.

We will continue to support the company in updating its original 2025 target and look forward to hearing about further developments in their strategies. In the meantime, we commend Xylem for its work to improve other measures of diversity and were pleased to hear it is on track to meet a separate target of 25% minority representation in leadership positions by 2025, as this figure currently sits at 21%.

CASE STUDY: Bilateral engagement

Engaging Arcadis on biodiversity

ARCADIS

Arcadis is a design and consulting firm that provides engineering and environmental services particularly focused on buildings, infrastructure and water businesses. The company also specialises in integrating climate adaptation specifically and sustainability more generally into their services. Arcadis also has a large environmental consulting business which advises clients on all aspects of environmental management, including soil and groundwater contamination, land remediation, waste and water management and ecological projects.

Objective

To understand the scale of the biodiversity-driven business opportunity for the company and ongoing efforts to capture this.

[62] https://www.whebgroup.com/our-thoughts/a-walk-down-water-street-highlights-from-our-recent-us-research-trip

Background / issue	We assessed biodiversity risk and opportunity exposure in our portfolio in October 2021, as detailed in previous blog posts.[63] This assessment catalysed a decision to proactively address the biodiversity opportunity, as well as risk, in the portfolio.
Actions	We requested a call with Arcadis's investor relations team specifically to discuss the company's biodiversity disclosure, strategy and targets, its assessment of skill gaps and its perceived role in promoting biodiversity across various levels.
Outcomes	**Milestone 2 – company shares or agrees to disclose information on the issue.** The resulting discussion deepened our understanding of Arcadis's work in defining a global biodiversity impact measurement methodology and its competitive advantage through its track record in nature-based solutions. For example, the company has set biodiversity targets that include: - No net biodiversity loss will occur at Arcadis sites (based on land intake changes and mean species abundance scores). - For sites with more than 20% open areas, Arcadis will deliver a biodiversity net gain of 10% by 2030. Delivering against its 2030 biodiversity net gain target requires work in order to standardise the biodiversity business case and report client impact. We continue to monitor the company's progress on this.

Engagement methods

Where possible, 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 enter into dialogue with management and escalate where necessary. This process may involve voting against company management or abstaining to vote[64] and then writing to the company to explain our reasons for doing so, seeking further engagement as appropriate. This often presents opportunities to discuss other issues in addition to the subject and rationale for the vote. Our engagement activities can therefore be closely linked to company AGMs.

A significant proportion of our 2023 engagement subsequently involved voting with accompanying letter writing. This led to further dialogue via calls, emails and meetings. Whilst this is consistent with previous years, we are increasingly initiating engagement dialogues separate to our voting activity – for example through calls or our involvement in collaborative engagement initiatives, and this is made possible by the expanded Impact Investment Team (Table 3).

[63] **https://www.whebgroup.com/our-thoughts/stewardship-in-the-spotlight-nature-calls-from-assessment-to-action** and **https://www.whebgroup.com/our-thoughts/whebs-approach-to-biodiversity**
[64] We withhold or abstain from voting where there is no option to vote against management's recommendations.

Table 3. Engagement methods 2022–2023

Method of engagement	2022	2023
Vote/letter	56%	50%
Email	12%	14%
Call/video call	18%	20%
Meeting	6%	6%
Collaborative	8%	10%

Overview of company engagement in 2023

Materiality underpins WHEB's engagement activity, ensuring that our resources are focused on the highest-priority areas. For that reason, we do not always engage with every portfolio company in a calendar year. Still, over the last three years we have consistently engaged with approximately two-thirds of our portfolio companies or more. With a larger Investment Team, and support from the Impact Research Team, the number of grew significantly between 2020 and 2023 (Table 4).

Table 4. Level of engagement activities 2020–2023

Engagement activity	2020	2021	2022	2023
Number of engagements	112	156	201	188
Number of companies engaged	38	41	42	46
Number of companies held in WHEB funds	47	52	68	64
% of portfolio engaged	81%	79%	62%	72%

By geography

Unlike previous years, our engagement activity was skewed towards European companies for the first time in 2023, which is likely the result of WHEB taking over the management of the iMGP Sustainable Europe Fund in July 2022[65] (Table 5).

65

Table 5: Geographic exposure and location of engagement activities 2023

Region	Geographical exposure	Engagement activity
Asia Pacific	12%	11%
North America	63%	37%
UK	8%	2%
Western Europe	17%	50%

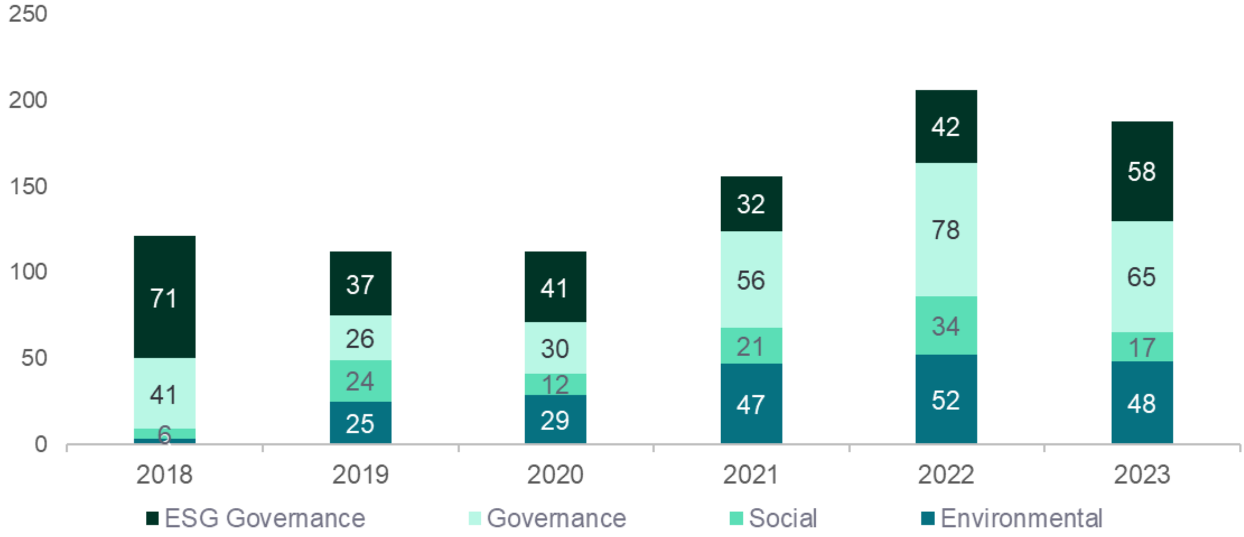
By topic

In terms of the topics addressed (Figure 17), Governance represented the largest proportion, mostly due to persistently low auditor independence. ESG Governance issues constituted a larger portion of our engagement activities compared to the previous year and focused mostly on problematic executive compensation practices. Efforts to advance environmental objectives remained significant once again, including activities on NZC commitments, biodiversity and nature loss, and WHEB's involvement with investor initiatives on hazardous chemicals.

Conversely, Social issues comprised the smallest proportion of our engagement activities in 2003, though this work was once again primarily focused on promoting gender diversity.

Whilst this data may indicate our engagement priorities, it reveals little about (1) the depth of engagements and (2) the progress made, which we consider further below.

Figure 17: Company engagement by topic 2018–2023



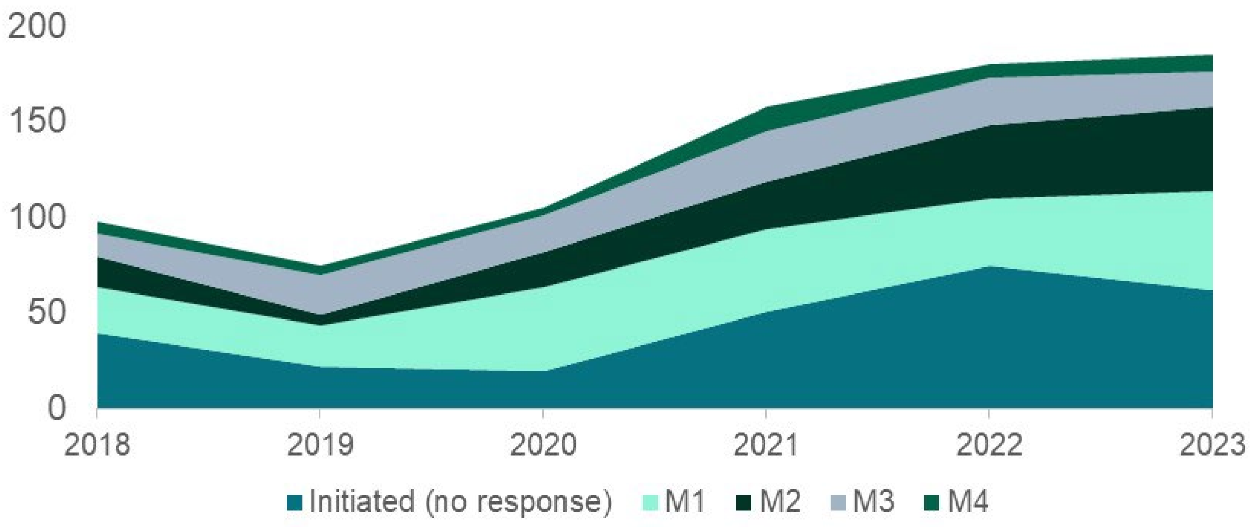
Effectiveness, objectives and milestones

During 2023 we reviewed our engagement activities from 2018 to identify the milestones that have been achieved over this period. Figure 18 shows how the overall amount of engagement has increased during this period, with a greater number of engagements initiated from 2020 to 2022.

In turn, this has fed into a proportionally larger number of Milestone 1 (M1) and Milestone 2 (M2) outcomes (Figure 18). With WHEB's engagement objectives often targeting ambitious, long-term changes to strategies and policies, we expect a longer analysis period to demonstrate a similar increase in Milestone 3 and Milestone 4 (M3 and M4).

More detailed case studies of our engagement are provided quarterly. Typically, these updates include three case studies that represent the range of issues we engage on and the outcomes that we achieve. These are available to download from WHEB's website.[66]

Figure 18: Engagement effectiveness (2018–2023)



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, policy makers 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 6.

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.

66 **https://www.whebgroup.com/investing-for-impact/stewardship/engagement-case-studies**

Collaborative engagement

Collaborative engagement is an important tool for institutional investors to influence portfolio companies and the financial system as a whole. Where asset managers or owners collaborate with other investors to engage an issuer to achieve a specific change, or work as part of a coalition of wider stakeholders to engage on a thematic issue, there can be advantages in doing so bilaterally, because:

- Investors may enjoy enhanced power, legitimacy and urgency as their collective weight behind a unified message can be more difficult for company management to ignore. This is especially helpful as an escalation tactic where previous attempts to engage or effect change when firms are acting individually have been unsuccessful. We have found this to be a particularly effective approach when previously discussing NZC targets with Intertek[67] alongside another investor.

- Collective expertise and research can be shared and developed amongst group members, supporting knowledge and skills sharing, with wider-ranging effects beyond the scope of the engagement. For example, WHEB has benefited greatly from the expertise of ChemSec when engaging on hazardous chemicals[68] in an initiative that has effectively combined the NGO's technical knowledge with the clout of a number of institutional investors.

- Efficiency gains can be achieved where companies are collaborating but would otherwise have engaged the same company separately, therefore reducing duplication of work (for both investors and issuers) and potentially costs, as was the case when we engaged Aptiv on labour standards[69] alongside another sustainability-focused investor.

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 6, WHEB is involved in a large number of industry networks and initiatives, many of which support our collaborative engagement. We believe that these networks are most effective for amplifying our voice due to the scales achieved when many organisations come together, and many organisations align with our proactive approach. Collaborative engagement outside of industry initiatives (e.g. with one or a small number of other investors) is often, but not always, part of an escalation strategy.

We may also be invited to participate in collaborative engagement targeting investee companies by third parties (e.g. via Climate Action 100+) 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, and we aim to lead any engagement initiative that focuses on companies held in our portfolios.

To support our engagement with stocks held in the iMGP Sustainable Europe Fund, WHEB has joined the European network for shareholder engagement Shareholders for Change (SfC) as of April 2023.

Collaboration and escalation

Collaboration is also an explicit part of our Escalation Policy for engagement. In 2023, 10% of our engagement activities were conducted in this way, mostly as a means of escalation. We typically act to involve other like-minded investors where we have not been successful in our bilateral engagement with a company. This is covered in more detail under Principle 11.

[67] https://www.whebgroup.com/intertek-case-study
[68] https://www.whebgroup.com/hazardous-chemicals-engagement-case-study-2023
[69] https://www.whebgroup.com/aptiv-engagement-case-study

CASE STUDY: Bilateral engagement

Engaging Smurfit Kappa on biodiversity

Smurfit Kappa

Smurfit Kappa Group plc collects, manufactures and sells recycled cardboard. The company is headquartered in Ireland and operates throughout Europe and the Americas. Smurfit Kappa is the largest producer of recycled cardboard products in Europe, with clients in food, beverages, household consumables and industrial markets.

Objective

To convince the company to help regenerate biodiversity as an opportunity for the business rather than focus primarily on limiting negative impacts as part of compliance.

Background / issue

As a manufacturer and wholesaler of recycled cardboard, we note Smurfit Kappa's high-level of awareness of biodiversity through its forest certification work. For example, the company has certified all its plantations and forest holdings to either FSC or PEFC standards and 99.8% of the fibre used by the company is chain of custody (CoC) certified. However, in order to bolster its sustainability leadership claims, our objective is for the company to embrace the opportunity to actively regenerate biodiversity rather than focus only on the compliance aspect of limiting its negative impacts on biodiversity.

In late 2021 we briefly discussed this with the company's chief sustainability officer, and they acknowledged the opportunity, mentioning their partnership with WWF for Colombian forest management.[70] We requested more details on progress, but at the time our engagement priorities had shifted to other areas.

Actions

After a previous unsuccessful attempt to initiate a collaboration, we took the opportunity to support a biodiversity campaign arranged through our involvement in the Shareholders for Change (SfC) network, and later had a more detailed follow-up conversation directly with the company in Q4.

WHEB joined Nature Action 100 on its launch in September 2023 in order to collaboratively engage Smurfit Kappa.

Outcomes

Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue.

WHEB has found Smurfit Kappa to be highly cooperative on the issue, and over time we have become more confident that the company has been improving its understanding of biodiversity. For example, its 2022 sustainable development report disclosed details of:

- KPIs related to nature and biodiversity (e.g. water quality, water consumption, chain of custody (CoC) certification, landfill, etc.), which are also linked to executive remuneration and in some cases to cost of funding through green bond issuance.
- Biodiversity and nature assessments as part of an ongoing double materiality assessment.
- The ongoing work with local Colombian universities to collect and begin baselining species richness inventory data.
- The use of biological pest controls in place of chemicals.

In discussions that took place in late 2023, we took the opportunity to suggest further improvements to disclosure in subsequent reports, for example through:

- Improving quantitative reporting by providing comparisons of species richness data with national and local averages, as well as more detail on data coverage

[70] https://www.smurfitkappa.com/newsroom/2020/smurfit-kappa-announces-new-partnership-with-wwf

for species richness and proportions of forests under integrated pest management.
- Providing additional details on how its principles to 'maintain forest biodiversity and sustainability' are being met.
- Demonstrating how it is going above and beyond in conforming to the comprehensive legal technical and environmental regulations, given the geographical context and its exposure to biodiversity. We think this will cement its position as a leader on sustainability.

In its recently published 2023 sustainability report, Smurfit Kappa has detailed work undertaken in the year to baseline species diversity in its Colombian forest.

In summary, our view is that Smurfit Kappa has demonstrated a strong understanding and management of the negative impacts that the company's operations can have on biodiversity and is making reasonable progress in developing more robust systems and processes to enable the company to have a positive impact on biodiversity.

At WHEB we are keen to use our strong relationship and history with the company to continue supporting it in addressing biodiversity risk and opportunity.

In April 2024 WHEB led an introductory call with the company as part of the Nature Action 100 initiative during which Smurfit Kappa outlined their progress with their LEAP assessment in preparation for the adoption of the Taskforce on Nature-Related Financial Disclosures (TNFD)'s guidance in 2025. We will be clarifying our objectives and priorities as part of this initiative once the Nature Action Benchmark Assessment is finalised, and in the context of their potential merger with WestRock.

CASE STUDY: Collaborative engagement

Engaging Ecolab on hazardous chemicals

ECOLAB

Ecolab sells cleaning products and services to restaurants, hotels, hospitals, food and beverage producers and other businesses. The company has a particular focus on energy and water efficiency. Ecolab has developed a range of products and services that help to reduce, and in some cases even eliminate, the use of water in a wide range of industrial applications. In turn, this helps to lower costs through a reduction of energy and water impacts.

Objective

1. Increase transparency.
2. Publish a time-bound phase-out plan of products that are, or contain, persistent chemicals.
3. Develop safer alternatives for hazardous chemicals.

Background / Issue

ChemSec – the International Chemical Secretariat – is an independent non-profit advocating for the substitution of toxic chemicals with safer alternatives. WHEB has been engaging Ecolab on the phase-out of hazardous chemicals since 2012 and we have involved ChemSec's Investor Initiative on Hazardous Chemicals (IIHC) since 2021.

Through previous engagements, we were confident that Ecolab had a good understanding of the need to move away from hazardous chemicals. It had, for example, committed in 2021 to prohibiting the development of any new products containing substances of very high concern (SVHC), and incorporated the SVHC authorisation list into its internal chemical ingredient policy in support of an internal target to eliminate the remaining <2% of products using these chemicals.

However, whilst ChemSec had identified 18 SVHCs for the company to phase out, Ecolab considered there to be only one. It therefore intended to speak to ChemSec to explain that the others were monomers being used as intermediaries (i.e. the monomer is being used to make another chemical) and so did not leave the factory gates.

Our priority in 2023 was therefore to better understand the extent to which this has been resolved with ChemSec, as well as progress made against the overarching objectives, set by ChemSec, listed above.

Actions

When working on collaborative engagements, WHEB aims to be as active a participant as possible. Having already been involved in a long-term engagement with Ecolab on hazardous chemicals, we volunteered as co-lead for the investor group targeting the company.

We began the 2023 IIHC engagement season by speaking to ChemSec's experts for an update on the disputed SVHCs. ChemSec had told Ecolab they would agree not to class the monomers in question as SVHCs should Ecolab state publicly on its website that these chemicals are used only as (1) intermediaries or (2) to produce a polymer in a process that is irreversible under normal conditions.

We then led an investor call with Ecolab in November 2023, which covered:

- Ecolab's discussions with ChemSec about which chemicals to phase out.
- The proportion of revenue and of production volumes linked to chemicals identified for phase-out.
- Timeframes and roadmaps for the phase-out, and the extent to which the company plans to make this information publicly available.

Outcomes

Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue.

During the call, Ecolab explained its increased ambitions for SVHC phase-out, which include a decreased revenue target of <1% sales from SVHCs by 2030 and the intention to publish its roadmap for achieving this target in May 2024, through improving its systems engineering to minimise risks and increase safety, through R&D investments, and through working with strategic partners to find safer alternatives.

The company has now also met ChemSec's requirements for the disputed SVHCs to be reclassified as non-SVHCs by publishing information about how the company uses them on its own website.

There is room for improvement, though, which we made clear to Ecolab. For example, improving disclosure on circularity would bolster its ChemSec transparency score. Still, we were pleased to learn that the company was considering publishing its responses submitted to the Chemical Footprint Project.

We also emphasised the importance of Ecolab listing its products on ChemSec's marketplace for advertising safer alternative products.

Ecolab is continuing to work on credible plans for the phase-out of SVHCs and expects to see its ranking improve in future ChemScore reports. We will continue discussions after seeing what information is published in Ecolab's corporate social responsibility report.

Table 6: WHEB's involvement in industry initiatives and networks in 2023

Initiative/ organisation	Background	WHEB's participation	Its effectiveness	Affiliate since
B Corps	B Corps certification is a designation that a business is meeting high standards of verified performance, accountability and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials.	WHEB Asset Management has been a Certified B Corporation since 2016. Katie Woodhouse and Laura Grenier are co-leads of the B Corp Finance and Investment Net Zero Sub-Working Group. The objective of this group is to curate and share challenges, learnings and best practice amongst members regarding carbon measurement, auditing and offsetting. We focus on collaboration and knowledge sharing to guide members through their B Corps net zero journey. The group is best suited to those leading in the measurement and offsetting process within their company. George Latham, Managing Partner, is a B Corps Ambassador.	Outcomes from the working group in the past year include engagement with common suppliers on setting net zero carbon (NZC) targets and the measurement of emissions, as well as researching projects in the UK to meet offsetting obligations and generate other co-benefits, such as rewilding.	2016
CA100+	Climate Action 100+ is a collaborative engagement initiative focused on major carbon emitters.	WHEB is involved in collaborative engagement initiatives with companies (currently Air Liquide and Trane) and has worked with CA100+ since 2020 (Daikin, sold in 2023).	The ongoing CA100+ campaign with Daikin has been effective in achieving progress and has enriched our understanding of the challenges the company faces. For example, Daikin has set out its Vision 2025 strategy to achieve NZC emissions. This includes working to promote inverter-enabled air conditioner systems, which allows great energy efficiency. The company has also co-established the GX public–private collaborative working group for accelerating action on climate change, which we hope to learn more about in further conversations, particularly where activity is policy-related. WHEB has also joined the engagement teams for Trane and Air Liquide in 2024.	2020
Carbon Disclosure Project (CDP)	The CDP is an international, not-for-profit organisation providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information.	WHEB has been a signatory since 2012, assists with research projects and speaks at events.	Please review our latest CDP response here: https://www.whebgroup.com/assets/files/uploads/wheb-cdp-response-2022.pdf	2012
Finance for Biodiversity Pledge	The Finance for Biodiversity Pledge is a commitment from financial institutions to protect and restore biodiversity through their finance activities and investments.	Financial institutions that have signed the Finance for Biodiversity Pledge can become members and join the working groups of the Finance for Biodiversity Foundation. We became a signatory in December 2022 and will become more involved with the initiative throughout 2023.	In 2024 we will prepare to report in line with our commitments in 2025.	2022

FRC Stewardship Code	The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.	WHEB has been a signatory to the Stewardship Code since 2012.	The UK Stewardship Code is widely considered to have improved the quality of engagement and encouraged resources available for stewardship across the market. Stewardship has been a core part of WHEB's investment process for a long time. We are pleased to have seen a deeper level of interest in our work from our investors, which we attribute to the code. We look forward to contributing to the Financial Reporting Council (FRC)'s consultations on the 2020 Code in 2024.	2012
Global Impact Investing Network (GIIN)	The GIIN is a not-for-profit network dedicated to increasing the scale and effectiveness of impact investing around the world.	WHEB has been a core member of the working group defining guidance for impact investing in listed equities since 2021. This working group has two main objectives: 1. Understand how strategies delivering impact in listed equities can align with the expectations of the Core Characteristics.[71] 2. Provide reference points for best practice in order to support investors in structuring and deploying effective impact strategies in listed markets.	WHEB's contribution was singled out for praise by the GIIN (quote published in our 2023 Impact Report). Full details of what the working group has achieved to date can be found here: **https://thegiin.org/listed-equities-working-group/**. In 2023, WHEB has continued to feed into the GIIN's response to the European Commission consultation on the Sustainable Finance Disclosure Regulation (SFDR) as well as responses to the FCA's Sustainability Disclosure Requirements (SDR) consultation.	2021
Institutional Investors Group on Climate Change (IIGCC)	The IIGCC is a leading global investor membership body and the largest one focusing specifically on climate change.	WHEB has been a signatory and member of the Policy Group since 2013. We have also been an active participant in formulating the Paris Aligned Investment Initiative.	Please refer to the TE Connectivity IIGCC case study for more details (Principle 11).	2013
Investor Initiative on Hazardous Chemicals (ChemSec)	The Investor Initiative on Hazardous Chemicals (IIHC) is an investor-led initiative that encourages chemicals companies to increase transparency and stop the production of persistent chemicals.		Please refer to the case study in Principle 10 covering our engagements with Ecolab on hazardous chemicals. Work remains ongoing.	2021
Nature Action 100	Co-led by Ceres and the IIGCC, Nature Action 100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.	WHEB joined the Nature Action 100 on its launch in September 2023 in order to collaboratively engage the two portfolio companies, Smurfit Kappa and DSM-Firmenich, that have been identified by the group.	This initiative is still in its early stages, but we hope to make a significant contribution to collaborative engagements with Smurfit Kappa on biodiversity. WHEB sold its position in DSM-Firmenich in late 2023 and so will focus only on Smurfit Kappa via the initiative in 2024.	2023
Net Zero Asset Managers initiative (NZAMi)	NZAMi is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner.	In 2020, WHEB became a founding signatory.	In 2020 we committed to reaching a target in 2025 of 50% of portfolio holdings to have set their own target to achieve NZC carbon emissions by 2050 at the latest and of 100% of the portfolio to have set such a target by 2030. In 2022 we reached this 2025 target three years early when 55% of portfolio holdings had set a target to achieve NZC emissions by 2050 at the latest.	2020

[71] In 2019 the GIIN released a set of Core Characteristics of Impact Investing that help consolidate key practices to support investors in the formulation of impact-investing strategies and to guide the market in developing effective approaches to impact investing.

			We believe that our own bilateral engagement efforts have benefited from the significance of this initiative and that it has been a contributing factor to many of our portfolio companies setting NZC targets. In January 2023 we updated our targets and are now committed to having 85% of financed portfolio carbon emissions covered by an NZC target by 2025, and that by 2028 100% of emissions will be covered by such a target.	
Net Zero Carbon 20	NZC20 is an initiative focusing on delivering absolute carbon reductions at the fund level.	WHEB was a founding signatory of the first phase, NZC10, in 2019 and participates in events aimed at promoting the standard.	NZC20 was developed following the success of the Net Zero Carbon (NZC10) target. NZC20 increases the minimum proportion of fund/portfolio assets that have set an NZC target with a target date of 2030 from 10% to 20%, including those portfolio companies that are subject to engagement. Already, 14% of the strategy, representing 6.5% of portfolio emissions, have committed to an NZC 2030 target as of March 2024. Additionally, NZC accounted for nearly 14% of our engagement activities and 7% of our votes against management in 2023.	2019
Responsible Investment Association Australasia (RIAA)	Responsible Returns is an initiative of the RIAA, which champions responsible and ethical investing in Australia and New Zealand. It operates the world's longest-running responsible investment certification programme.	The Pengana WHEB Sustainable Impact Fund has been certified since 2017.		2017
ShareAction Investor Decarbonisation Initiative	This working group aims to use investor action to engage with key European chemicals companies to accelerate their alignment with a 1.5°C pathway through high-impact, sector-specific asks backed by in-depth research.	WHEB joined this working group in 2023 and has since been involved with collaboratively engaging several portfolio companies with the support of ShareAction. These include Croda and Air Liquide.	This initiative has been helpful in enabling collaborative engagement between a wide group of investors with these companies. However, we do have concerns about its effectiveness, as engagement has on occasion been overly confrontational, in our view, and insufficiently connected to the business case for action on the underlying issues.	2023
Shareholders for Change (SfC)	The SfC network is a group of institutional investors involved in active engagement with corporations. The network's objective is to 'support the development of sustainable financial markets and a global economy aligned with the SDG framework'.	To support our engagement with stocks held in the iMGP Sustainable Europe Fund, WHEB has joined the European network for shareholder engagement Shareholders for Change (SfC) as of April 2023. Since joining we have contributed to engagements on biodiversity with Smurfit Kappa and Siemens Healthineers and to establishing a standard for 'Credible Engagements' that helps identify and avoid engagement washing.	This initiative has been helpful in enabling collaborative engagement between a wide group of investors with these companies. However, we do have concerns about its effectiveness, as engagement has on occasion been overly confrontational, in our view, and insufficiently connected to the business case for action on the underlying issues.	2023
TCFD	The Financial Stability Board created the Task Force on Climate-Related Financial Disclosure to improve and increase the reporting of climate-related financial information.	WHEB bases its carbon reporting around the TCFD framework and has been a supporter since 2017. Our current carbon policies, commitments and reporting respond to its requirements.	TCFD is a key platform for rigorous reporting on company (and investor) approaches to managing climate risk. However, it does not provide sufficient guidance on how to address exposure to climate solutions, which is a key focus for our strategy.	2016

The Big Exchange	The Big Exchange is a mission-led business that is striving to build a new financial system in the UK that works for everyone and delivers a positive impact on people and the planet.	WHEB is a founding partner, and Seb Beloe is a member of the impact advisory board of this pioneering new investment platform launched by Big Issue Invest.	The Big Exchange has been the recipient of a number of awards in recognition of its work in sustainable and ethical investing: https://www.bigexchange.com/our-blog	2019
UK Sustainable Investment and Finance Association (UKSIF)	UKSIF exists to bring together the UK's sustainable finance community and support our members to expand, enhance and promote this key sector.	WHEB has been a member since 2009 and is regularly involved with events and initiatives including for example helping to develop responses to the UK government's sustainable finance proposals (e.g. the Sustainability Disclosure Requirements or SDR).	Please refer to the Appendix 'WHEB public policy engagement 2023' for examples of our work with UKSIF in 2023.	2009
Principles for Responsible Investment (PRI)	The PRI works to support investors in incorporating ESG factors into their investment and ownership decisions.	WHEB has been a signatory since 2012.	Please refer to the 2022 Stewardship Report for examples of our work with PRI.	2012
Engaging the FCA on SDR	The Sustainability Disclosure Requirements (SDR) are intended to be the main regulatory tool to substantiate sustainability claims and disclosures against minimum safeguards, an important first step to enact the UK's Greening Finance Roadmap.	Please refer to our recent blog covering this topic: https://www.whebgroup.com/our-thoughts/whebs-view-on-the-fcas-proposals-for-sustainable-disclosure-requirements-sdr	This work remains ongoing. Please refer to the case study under Principle 4.	2022
Investor Initiative on Hazardous Chemicals	The Investor Initiative on Hazardous Chemicals (IIHC) is an investor-led initiative that encourages chemical companies to increase transparency and stop the production of persistent chemicals.	Please refer to the above case studies covering our engagements with Ecolab and Linde on hazardous chemicals.	This work remains ongoing.	2021
ESMA	The European Securities and Markets Authority has consulted on guidelines on funds' names using ESG or sustainability-related terms.	WHEB has participated in this consultation working in particular with the Global Impact Investing Network (GIIN) to share our views on the definition of 'impact investing'.	The final rules will have a major bearing on the definitions and labelling requirements for funds like WHEB's that use sustainability- and ESG-related language.	2021

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 was updated in early 2023, as outlined under Principle 5, and can be summarised in the following steps:

1. Where WHEB votes against company management's recommendations (or abstains from voting), it is our policy to write to company management after the vote to explain our vote rationale, based on WHEB's Voting Policy.
2. Writing to company management after voting often (but not always) initiates an engagement dialogue. Initial dialogues may be via letters, emails, calls or meetings (via video call or in person) and aim to discuss the engagement issue with management, as per the objectives and relevant milestones.
3. After careful analysis of the company's response to initial engagement efforts, a decision will be made as to whether escalation is warranted:
    a. Within three to six months of the initial contact with the company on this engagement, the responsible analyst supported by other team members may send chasers to the company to prompt a response, if appropriate.
    b. If, after this three-to-six-month window the company has not responded or refuses to amend its practices, the engagement becomes a candidate for escalation. In some cases, where our analysis shows that this is justified, a period greater than six months for a company to respond may be allowed. Using the three-to-six-month timeframe as a starting point ensures that matters are pursued internally. Timescales for the achievement of objective milestones are case-specific and feed into decisions as to what various escalation methods are used and when.
    c. Engagements where the company agrees to amend its approach are successful and do not warrant escalation.
4. A decision to escalate bilateral engagements may result in the responsible analyst raising the matter with more senior members of company management. If this is unsuccessful, we will seek collaboration with other institutional investors. 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 also unsuccessful, we may use our voting rights to effect change through, for example, filing or co-filing shareholder resolutions or voting against the re-election of key board members with oversight for the function relevant to the engagement issue.
6. Should these efforts be unsuccessful, we may reduce or sell investments in the investee company concerned.

CASE STUDY: Escalation of engagement

Engaging TE Connectivity on net zero

TE Connectivity is a US-based manufacturer of electronic components and wireless systems. The company's main market is the automotive industry, where its products are used to improve safety and fuel efficiency through increased levels of automation and electrification. The company does also sell products into the industrial and telecommunications markets, where they are often used in applications to help improve energy efficiency and safety.

Objective

TE Connectivity has already committed to strong and credible near-term targets in line with the Science Based Targets initiative (SBTi). Still, as long-term targets are crucial, our objective is for the company to commit to SBTi net zero carbon (NZC) by 2050. We are also keen to discuss plans for reducing Scope 3 emissions and how climate-related governance is structured.

Background / issue

As one of the top ten emitters (by financed emissions) in the strategy, TE Connectivity is a high priority company for our NZC engagements. WHEB had already been engaging TE Connectivity and encouraging it to scale its climate ambition (by moving from greenhouse gas (GHG) emission reduction targets to setting a 2050 NZC target) when we joined the Net Zero Engagement Initiative (NZEI) in 2023.

Established by the Institutional Investors Group on Climate Change (IIGCC), the NZEI was launched in March 2023 to support investors in aligning their portfolios with the goals of the Paris Agreement. At the time of launch, the IIGCC sent letters asking companies that are heavy users of fossil fuels, beyond those captured in the Climate Action 100+ list, to produce a corporate NZC transition plan that includes:

- A comprehensive NZC commitment.
- Aligned GHG targets.
- The tracking of emissions performance.
- A credible decarbonisation strategy.

Although it acknowledged receipt, TE Connectivity ignored several follow-up attempts made by WHEB and our co-collaborators.

Actions

After six months, we suggested that escalation might be necessary. We wrote to the chair in January 2024 to explain our position again and stated our intent to attend the forthcoming AGM if the company still refused to respond. WHEB also invited another of TE Connectivity's institutional investors to sign the letter, adding further weight to our requests.

Outcomes

Milestone 2 – company shares or agrees to disclose information on the issue.

The escalation proved successful. TE Connectivity provided a written response, sharing some of the challenges faced in setting a Scope 3 NZC target. The main problem is that collecting accurate and complete data to develop a full reduction plan is difficult with the more than 10,000 suppliers that make up more than 95% of overall emissions.

The company did, however, explain that steps are being taken to overcome this barrier and increase response rates to Scope 3 data enquiries through supplier training programmes, additional guidance on how to complete their annual supplier survey, renewable electricity and GHG accounting advice, and improving circularity in their own operations to reduce procurement. In addition to this, a team has been developed to work with metal providers that will provide carbon footprinting and education on how to reduce GHG emissions.

TE Connectivity also emphasised a commitment to continuous improvement and requested that best practice from companies facing similar issues be shared. We also note that in the weeks since receiving the letter, the company has published an incremental increase in its Scope 3 ambition in its 2023 sustainability report, with the target now being 30% Scope 3 GHG emission reduction by 2032, up from 25% previously.

Whilst this is still a long way off a Scope 3 NZC commitment, we are reassured to learn that the company is taking appropriate measures to overcome the hurdles to doing so. We will continue to monitor its progress in the coming 6–12 months and have the option of escalating with our collaborators again if necessary.

CASE STUDY: Escalation of engagement

Engaging Vestas on biodiversity

Vestas

Vestas Wind Systems is one if the world's largest manufacturer of wind turbines. The company manufacturers both onshore and offshore wind turbines. It also provides operation and maintenance services for wind power parks.

Objective

For Vestas to mitigate the negative impacts and maximise the positive impacts of its activities in terms of biodiversity.

Background / issue

In early 2022, having previously identified Vestas as having an elevated level of exposure to potential biodiversity impacts (both positive and negative),[72] WHEB tried to initiate a discussion with the company around its approach to managing biodiversity. However, the company continually procrastinated in revealing any information and later indicated that the topic was not a priority. We grew concerned that Vestas had no real plans to address biodiversity and identified this as a candidate for escalation.

Actions

We initiated a collaborative engagement initiative with a like-minded client in early 2023 which then expanded to include other investors that agreed with us that Vestas needed to demonstrate a greater sense of urgency on managing its biodiversity impacts.

Together, we wrote a letter, addressed to the CEO, calling on the company to support nature conservation and biodiversity in the transition to renewable energy. The letter also outlined our belief that it is critical for Vestas to develop and articulate a clear position on biodiversity and to publish its approach to mitigating its negative biodiversity impacts and maximising its positive biodiversity impacts.

Outcomes

Milestone 2 – company shares or agrees to disclose information on the issue.

Vestas's investor relations team responded in quite some detail, for example disclosing its use of bird and bat protection systems, its environmental impact assessments and its instruction of specialist consultants to aid with the development of its biodiversity strategy.

Overall, we were pleased to see so full a response, and are currently arranging a time for a follow-up call in Q2 2024. Especially, we are keen to discuss the extent to which the investor group can participate in the development of the biodiversity strategy for mutual learning and feedback.

[72] **https://www.whebgroup.com/vestas-biodiversity-engagement-case-study**

CASE STUDY: Escalation of engagement

Engaging Air Liquide via an NGO initiative

Air Liquide is one of three leading global industrial gas companies. The company produces and sells industrial gases to a wide range of customers and end markets. It has an engineering division used for designing its own facilities. Unlike the other two global gas companies, Air Liquide owns cogeneration plants to produce energy and steam primarily for its large industries customers but also to sell off to third parties such as utilities.

Objective

To commit to setting a Science Based Targets initiative (SBTi)-aligned Scope 3 target covering upstream and downstream emissions and to improve the communication of the company's approach to Scope 3 emissions.

Background / issue

WHEB joined an NGO-lead Initiative in 2023. The initiative aims to use investor action to engage key European chemicals companies to accelerate their alignment with a 1.5°C pathway.

Actions

WHEB joined a group call with the company in Q4 2023, as well as preparatory and debrief sessions led by the NGO. We decided against escalating in this case.

Outcomes

Milestone 3 – company develops or commits to developing an appropriate policy or strategy to manage the issue.

In WHEB's view, the company call was positive as Air Liquide provided detailed clarification on several points including, notably, its intention to set Scope 3 net zero carbon (NZC) targets as soon as the SBTi sector guidance becomes available.

We feel that Air Liquide's intentions to do so are credible. In the absence of SBTi sector guidance, the company is working with peers to help define its own guidance; downstream targets have been set to engage its top 50 customers to ensure commitment alignment; and it is supporting commitments with suppliers by developing a standardised methodology for quantifiable emission reporting.

Conversely the NGO thought Air Liquide should have set NZC targets sooner, as its peers have, and wanted to escalate. However, it failed to consider that these peers are (1) not in the industrial gas sector and that (2) of those that are, none have set Scope 3 targets due to the lack of SBTi guidance. In this instance, we felt the NGO's expectations were unrealistic and some of the criticisms were unfair.

WHEB's view is that Air Liquide is demonstrating a sensible approach to reducing emissions and we are keen not to undermine its willingness to collaborate further. As such, we have explained our concerns to the NGO and suggested softening the tone of the proposed follow-up.

Whilst other investors felt similarly, the NGO decided against amending the wording, and so we decided not to participate. As investors, we believe we are strongly positioned to contextualise engagements within our detailed company analysis. We find that we are more effective in our engagements with companies where we can show that our objectives align with long-term value creation and, therefore, the success of the business. We continue to monitor developments from Air Liquide and may join in further actions with the NGO initiative if we feel they align with our view.

Section 4: Exercising rights and responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities

WHEB's approach to voting at company meetings

As equity holders, our voting rights are an opportunity to exercise progressive influence on investee company strategies and governance. We therefore endeavour to vote all our shares, following the guidelines set out in WHEB's Voting Policy.

To achieve effective outcomes, we use voting to complement our other stewardship strategies. Our objective is not just to fulfil an obligation as part of a siloed process, but to use voting alongside wider engagement with company management to achieve a change in policy or performance.

For example, when voting against management's recommendations,[73] WHEB's policy is to explain to the company why we have done so, which often leads to further dialogue with management. This way, even if the vote outcome is not what we hoped for, our time has been well spent, as the activity has enabled a conversation with the company, which we find effective for driving change.

WHEB's Voting Policy is therefore primarily designed to guide voting on governance and sustainability issues in relation to routine proposals. For instance, where there is no board-level responsibility for sustainability, our policy recommends a vote against the election or re-election of the chair of the board.

Quick links

WHEB's Voting Policy

Routine resolutions occur far more frequently than shareholder resolutions relating to ESG issues. In 2022 a mere 1% of the resolutions WHEB voted on were proposed by shareholders and none related to environmental or social issues (in 2022 a total of 6 out of 583 resolutions were proposed by shareholders and related exclusively to governance issues). This is likely because WHEB's investee companies tend to avoid major social or environmental controversies and do not therefore attract regular shareholder resolutions.

WHEB's approach is uncommon amongst fund managers, as many voting policies, especially those offered by proxy advisers, tend to focus voting guidance on sustainability issues only in relation to shareholder resolutions.

However, we find it advantageous to have a highly proactive policy that enables opportunities for conversations with company management and to exercise good stewardship. Combined with the high standards we require from our companies, this reinforces WHEB's impact-focused investment strategy.

Transparency and accountability are central to WHEB's philosophy, so reporting voting activity is important to us. We have published all our voting activity, including voting rationale, for many years.[74] This is more resource-intensive than publishing summary statistics, which, whilst helpful (and we do also publish these quarterly and annually), do not tell the whole story. Qualitative justifications linking activity and policy ensure accountability to our investors and provide assurance that capital is being managed in line with our policies.

WHEB's Proxy Voting Policy

Our Proxy Voting Policy is intended to promote long-term shareholder value creation and risk mitigation at portfolio firms through support for responsible global corporate governance practices.

Proxy advisers

We typically use the services of specialist proxy voting agencies to advise on our Voting Policy and to facilitate voting shares listed on stock exchanges around the world.

[73] We also typically write when we abstain from a particular vote. In some cases, companies have policies which only offer investors the option of voting for a policy or abstaining.
[74] https://www.whebgroup.com/investing-for-impact/stewardship/voting-records

Whilst 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.

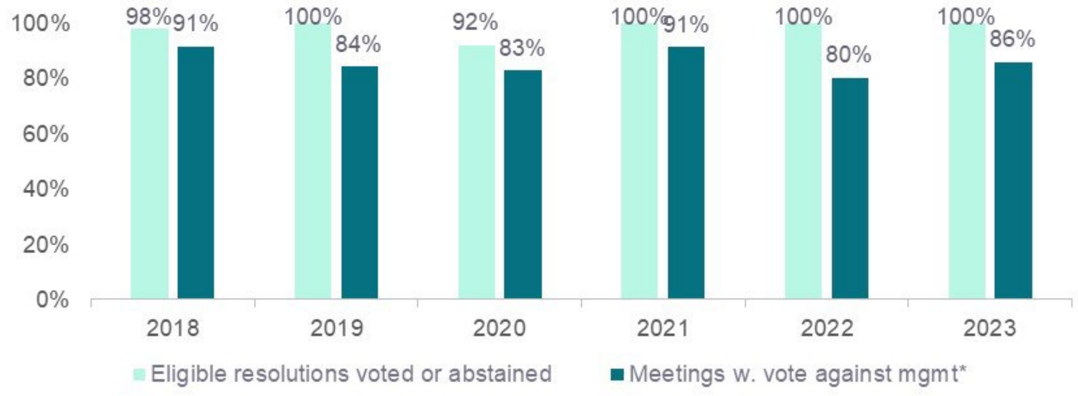
Stock lending

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

Activity and outcomes

We typically vote against or abstain on at least one vote at more than three-quarters of all company meetings (Figure 19).

Figure 19: Exercising WHEB's voting rights



In 2023 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 7 below.

Table 7: Voting activities in 2023

	Number	Proportion of total
Meetings voted at	63	100%
Meeting with at least one vote against management	54	86%
Votes against management	201	21%
Votes with management	21	79%
Do not vote	0	0%
Votes withheld	7	
Votes abstained	5	
Resolutions voted	959	100%
Votes against ISS[75]	135	14%
Shareholder resolutions	5	0.5%

[75] ISS is WHEB's proxy advisor

We voted against management on 201 occasions, representing 21% of our votes cast and in a pattern consistent with previous years (Figure 20)

- 63% of these votes were on Governance issues (especially auditor independence, director independence and executive remuneration).
- 7% of these votes were on Environmental issues, mostly carbon reduction targets.
- 9% of these votes were on Social issues, the majority aimed at improving board-level gender diversity (Figure 21)

Our escalation process of writing to company management provides an opportunity to widen the scope of engagement to cover Environmental and Social issues as well as Governance issues.

WHEB currently uses ISS as a third-party research provider to help inform our voting decisions and to deliver the votes to company meetings. However, we actively consider each vote ourselves to confirm whether it is line with our own, typically stricter, voting policies. We report the proportion of votes that go against ISS's policy in Figure 20. The vast majority of these votes are to vote against management when ISS's policy is to vote for management.

Figure 20: A proactive Voting Policy in action

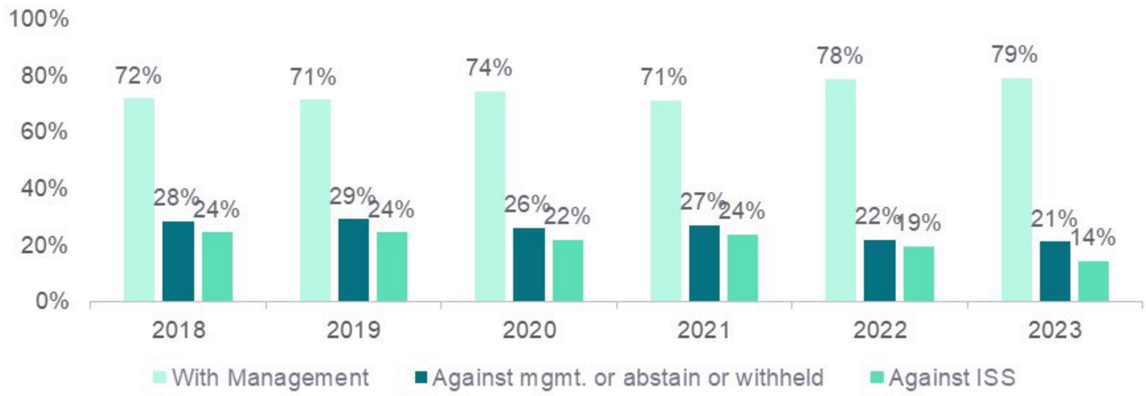
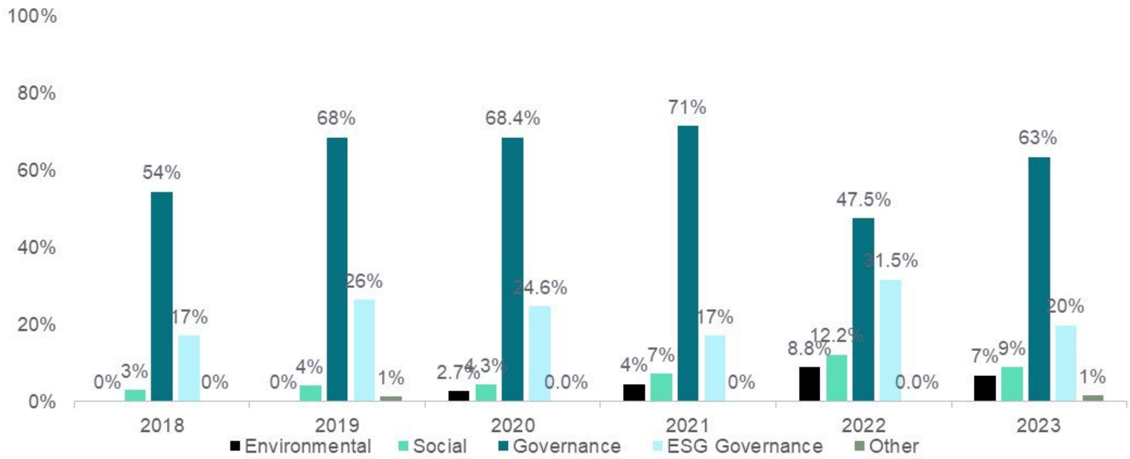


Figure 21: Votes against management by topic (2020–2023)



CASE STUDY: Shareholder resolutions

Voting on a DEI shareholder resolution at Danaher's AGM

DANAHER	**Danaher is a diversified business that designs, manufactures and sells laboratory equipment and consumables to clinical and medical laboratories including microscopes, analytical software and imaging and molecular devices. These tools are used in the development of new drugs and for diagnosing critically ill patients.**
Objective	Report on the effectiveness of Diversity, Equity and Inclusion (DEI) efforts.
Background/ Issue	For WHEB's portfolio companies, routine resolutions occur far more frequently than shareholder resolutions relating to ESG issues. In 2023 a mere 0.5% of the resolutions WHEB voted on were proposed by shareholders. This is normally the case across the portfolio each year, and typically the shareholder resolutions relate to governance matters. This is likely because WHEB's investee companies tend to avoid major social or environmental controversies and do not therefore attract regular shareholder resolutions. WHEB's Voting Policy is therefore primarily designed to guide voting on core governance and sustainability issues in relation to routine proposals. However, in 2023 we did see one shareholder proposal focused on a social issue at Danaher. The non-profit As You Sow and co-filers have filed a precatory proposal requesting that Danaher publish a report assessing the effectiveness of its DEI efforts. Specifically, the proposal called for 'transparency on outcomes, using quantitative metrics for hiring, retention and promotion of employees, including data by gender, race and ethnicity.' They argue that Danaher is a laggard in its decision to withhold hiring, retention and promotion rate data by gender, race and ethnicity in line with the Equal Employment Opportunity Commission (EEOC)-defined categories, and that quantitative data is sought so investors can assess and compare the effectiveness of companies' DEI programmes.
Actions	WHEB voted for the shareholder proposal '6. Report on Effectiveness of Diversity, Equity and Inclusion Efforts'. This was against the recommendations of Danaher's management those of our third-party voting research provider, ISS. Where we vote against company management or abstain, we typically write to the company in question, explaining our reasons for doing so and seeking further engagement as appropriate. This communication takes place after the vote. We believed that a vote for this proposal was warranted. Whilst we applaud Danaher in setting 2025 global workforce DEI targets in relation to gender (40%) and ethnicity (38%), we would like to see more transparency on this topic to better evaluate the company's talent management processes.
Outcomes	Unknown. - The resolution was not passed, though it did receive 16.1% support according to As You Sow.[76] Considering the politicisation of ESG in the US especially, and the resulting decline in support for pro-ESG shareholder proposals in 2023,[77] we believe that this proposal received a reasonably good level of support. Other investors are clearly also keen to see greater disclosure and ambition from

[76] https://www.asyousow.org/2023-shareholder-impact-review
[77] https://shareaction.org/reports/voting-matters-2023

	Danaher on DEI. We will continue to monitor the company’s progress and engage further as necessary.

Appendix

WHEB public policy engagement 2023

Public policy topic	Other orgs	Notes	Quarter in which work took place
SDR consultation	FCA DLAG, various	See case study under Principle 4.	1–4
Investor statement on fossil fuels in chemicals Sector	ShareAction	A multi-trillion-dollar coalition of investors coordinated by ShareAction issued a joint statement targeting the 13 biggest chemical companies in Europe, insisting that they end their high-risk reliance on fossil fuels and live up to the climate policies many have publicly committed to.	1
Investor letter re sustainable chemical criteria in EU Taxonomy	IIHCC	Letter sent to the EU Commission emphasising the importance of having truly sustainable criteria in the EU Taxonomy regulation to encourage sustainable innovation and the development of safer chemicals. Funding for harmful chemicals should not be seen as sustainable. Key asks of letter: 1. We would like to see robust and ambitious chemicals criteria in EU Taxonomy. 2. We support Appendix C of the Taxonomy Climate Delegated Act, where regulated hazardous substances and substances meeting the criteria of substances of very high concern (SVHCs) are excluded, except for 'essential use'. 3. We also support the Taxo4 report by the EU Platform on Sustainable Finance, which lists sustainable economic activities whilst limiting the use of a wide range of hazardous substances and adding more hazard property groups to the SVHCs. We believe this aligns with the European Green Deal and its Chemicals Strategy for Sustainability and adds to EU's strategic autonomy. We are looking forward to the delegated act and its enforcement in due course.	1, 2
Letter to UK government on transition plans	Aldersgate Group	Ahead of COP26, a leading coalition of business and investors called on the then Chancellor of the Exchequer of the UK, Rishi Sunak MP, to commit to making the disclosure of NZC transition plans mandatory for all large companies.	1
Letter to UK Prime Minister on NZC	UKSIF	In response to the recent announcements by the UK government on its NZC policy, UKSIF have worked on a series of public interventions to make clear our industry's concerns about the government's signals and to outline how an ambitious approach to sustainable finance can be a huge benefit to the UK. The key message is that we need clarity, certainty and confidence to allow investors to drive funds into the transition.	3

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