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# Stewardship and engagement



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We define stewardship as the responsible management of money on behalf of savers and pensioners, to create sustainable benefits for the economy, the environment and society.

As investors, at WHEB we believe we have a responsibility – and an opportunity – to advocate for progressive change at the companies in which we invest. Done well, we believe this will benefit the companies as well as society more generally. For WHEB, this is achieved through:

- 1) **Capital allocation decisions:**  
We focus on investing in solutions to sustainability challenges.
- 2) **Proxy voting:**  
We exercise our voting rights at company meetings.
- 3) **Company engagement:**  
We enter into dialogue with investee companies bilaterally and/or collaboratively, escalating where necessary.
- 4) **Public policy and industry engagement:**  
We urge a greater focus on sustainability in the wider financial system, indirectly supporting positive impact businesses.
- 5) **Reporting:**  
We communicate efforts back to investors and other stakeholders.

Stewardship is firmly embedded in our investment process, which assesses investee companies' positive impact on social and environmental challenges, as defined by our nine sustainable investment themes. Engagement and voting activity with portfolio companies is undertaken directly by the Impact Investment Team and underpinned by our views on the materiality<sup>1</sup> of key sustainability issues for the investee business. Our focus is on engagement that underpins the long-term success of the businesses that we invest in.

<sup>1</sup> Our views on the materiality of sustainability issues for different business activities are informed by guidance from the International Sustainability Standard Board (ISSB) and other relevant guidance.



# 2023 in review

## The stewardship stampede

New developments such as the UK's Sustainable Disclosure Requirements (SDR)<sup>2</sup> helped to boost asset managers' attention on stewardship activities in 2023. This has been evident in the intensified engagement activities and related disclosures across the industry.<sup>3</sup> However, the quality of some of this work has, quite rightly, been called into question.<sup>4,5,6</sup>

We welcome the greater scrutiny on stewardship and agree with others that there has been an excessive focus on metrics that quantify asset manager stewardship activity levels. But, in addition to unintentionally fuelling the 'stewardship stampede', such datapoints do not adequately capture the depth or nuances of meaningful stewardship work that will influence real-world outcomes.

## Moving from quantity to quality

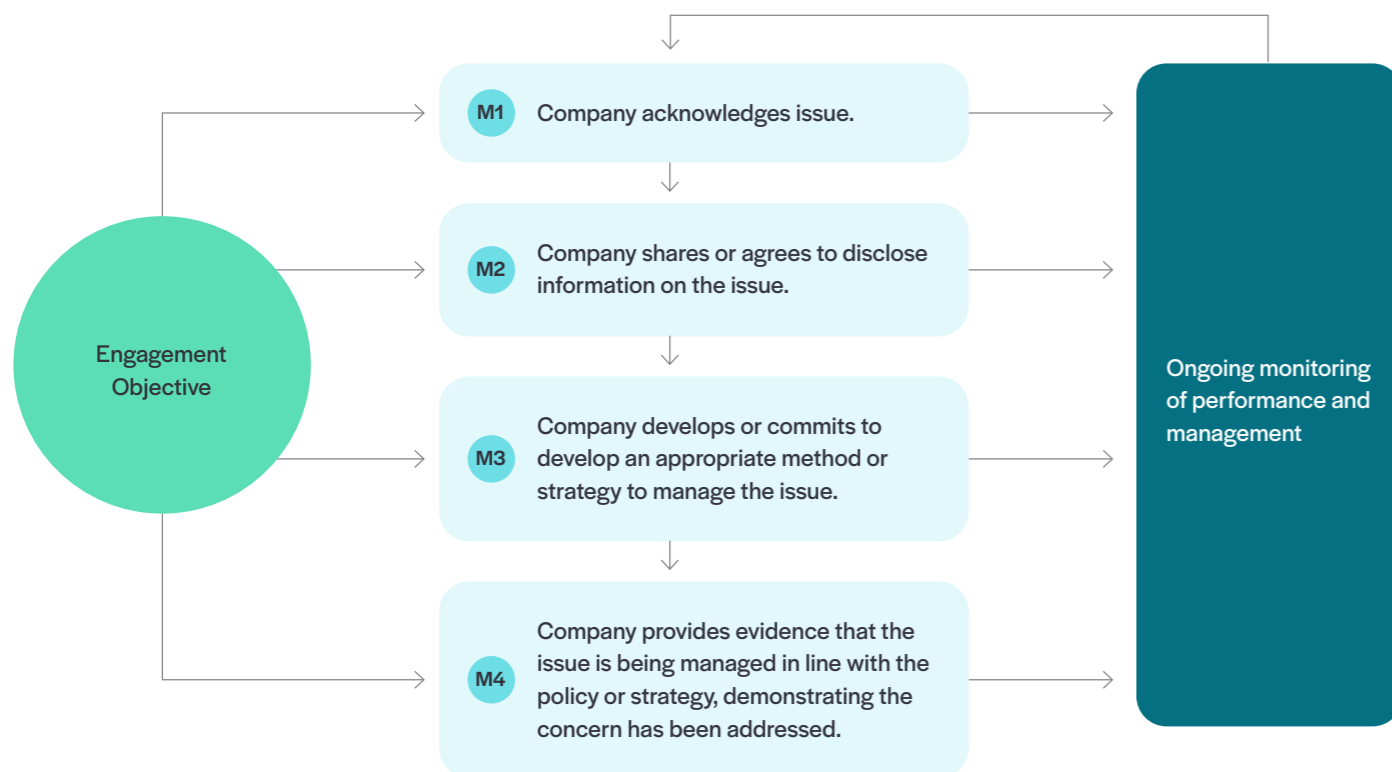
It is critical, in our view, to explain *how* issues are selected, prioritised and then addressed in order to underpin a quality approach to exercising stewardship responsibilities. Though stewardship and engagement are well established within WHEB's investment process, last year we looked to further enhance the overall quality of what we do. We did this by becoming more:

### 1. Methodical

It is not possible, nor desirable, to engage every investee company on every topic. We have put more focus on how we select which engagements to pursue focusing on a) the most material and b) the most controversial and/or strategic issues.

We have also been clearer about our rationale for engagement. Embedding stewardship in our investment process means that our objectives and priorities are closely aligned with our fundamental interest in the long-term success of the companies in which we invest.<sup>7</sup>

Figure 1: Objective Milestones Framework



<sup>2</sup> <https://www.fca.org.uk/publication/policy/ps23-16.pdf>  
<sup>3</sup> <https://redington.co.uk/wp-content/uploads/2022/12/Redington-Stewardship-Code-reporting-FINAL.pdf>  
<sup>4</sup> Hoepner, Andreas G. F., UK Asset Owner Stewardship Review 2023: Understanding the Degree & Distribution of Asset Manager Voting Alignment (November 17, 2023). Available at <http://dx.doi.org/10.2139/ssrn.4643377>  
<sup>5</sup> <https://www.responsible-investor.com/manager-inconsistency-on-stewardship-drives-growing-frustration-among-uk-asset-owners/>  
<sup>6</sup> <https://www.responsible-investor.com/under-resourced-and-ineffective-industry-leaders-deliver-gloomy-verdict-on-stewardship/>  
<sup>7</sup> This is especially important as the power of investor stewardship is increasingly recognised by a variety of stakeholders that may pressure investors to adopt their own agendas.

## 2. Effective

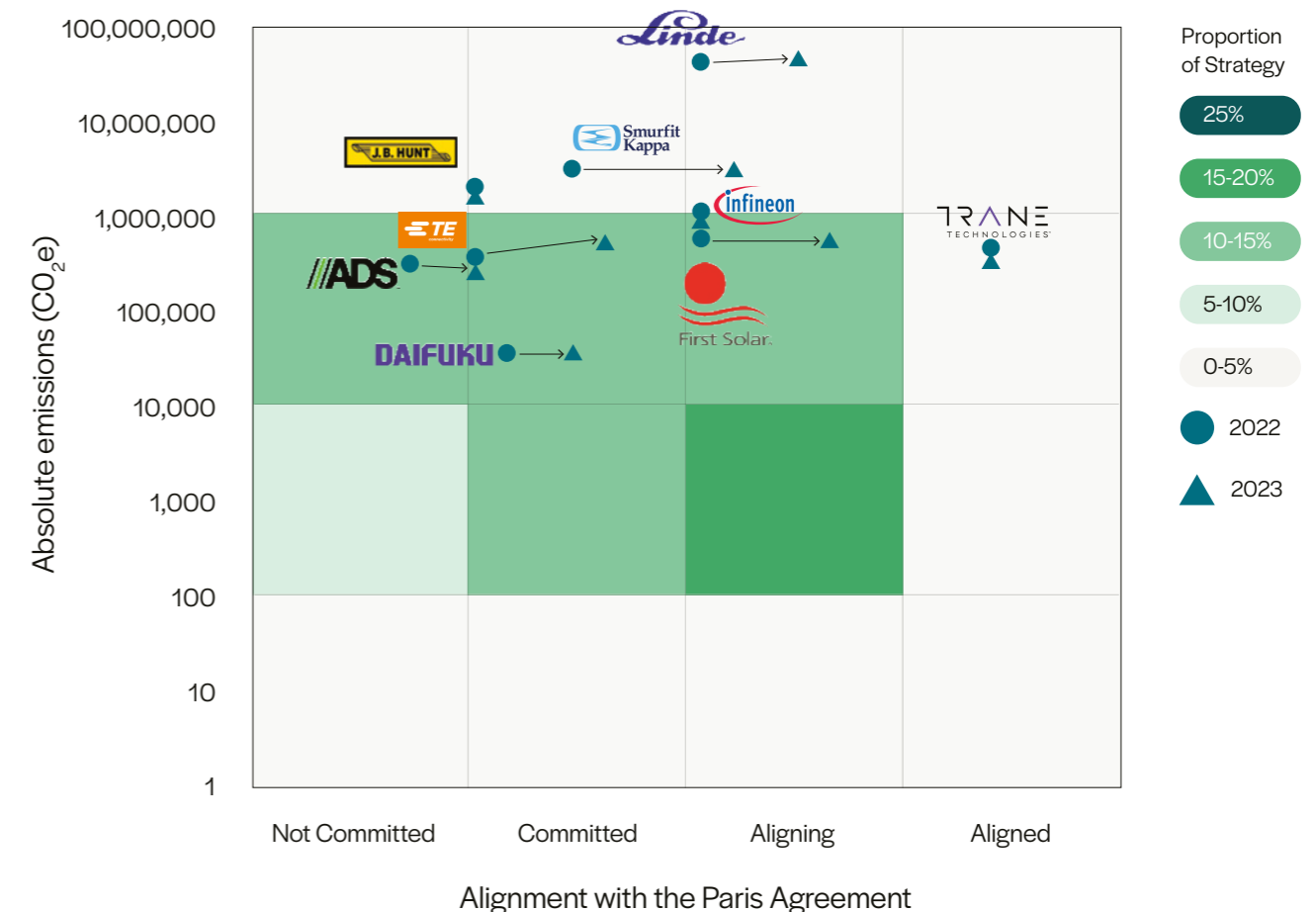
As asset managers we believe we can show correlation but not causation between our stewardship and engagement efforts and real-world outcomes. We do not look to claim additionality in our engagement because outcomes are almost inevitably the result of the efforts of multiple stakeholders. Instead our aim is to look beyond activity levels and understand our effectiveness. Implemented in late 2022, our Objective Milestones Framework (Figure 1) helps this evaluation process.

## 3. Clear

Reporting is a vital part of our stewardship toolkit. Our focus has been on finding reporting methodologies that help readers and investors interpret our contributions without overwhelming them with voluminous data sets or providing case studies which may not be representative of our engagement activity and outcomes.

We have therefore developed complementary disclosures to evidence how our actions align with outcomes for core issues. Figure 2, for example, shows how the biggest emitters of GHG emissions 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. In the coming year we aim to develop this approach to reporting to cover other key issues such as gender diversity, biodiversity and hazardous chemicals.

Figure 2: Mapping outcomes on WHEB's portfolio GHG emissions



# Engagement activity in 2023

We define a company interaction as an engagement activity where there is a:

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

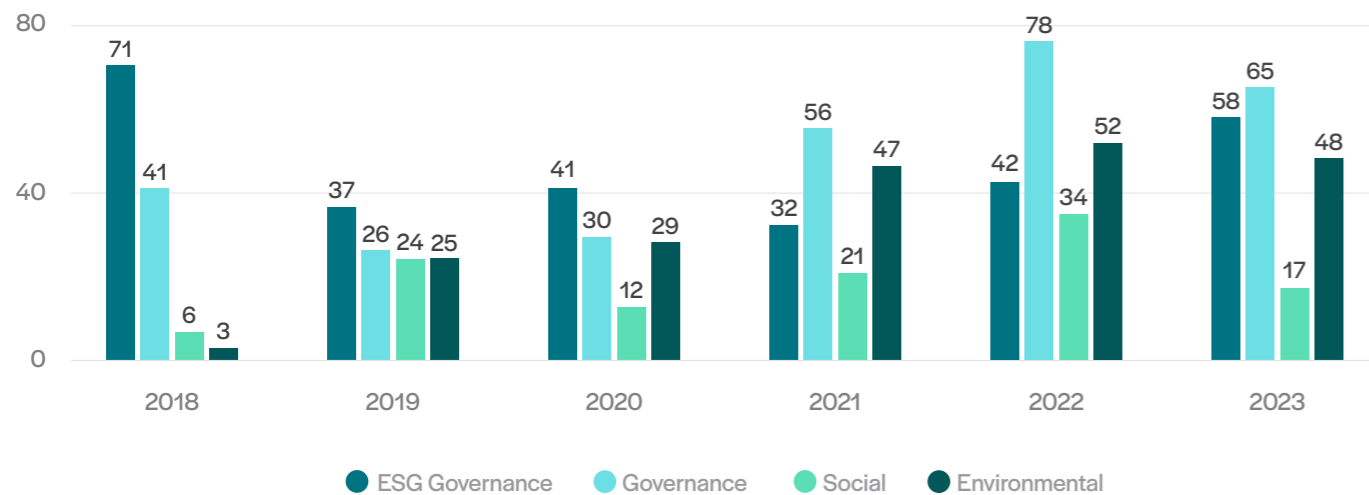
In 2023, we recorded 188 engagement activities approximately in line with increased activity levels from 2020.<sup>8</sup> We continue to engage roughly three quarters of investee companies annually with engagement activities having occurred across 46 companies in 2023 representing 72% of all holdings.<sup>9</sup>

In terms of the topics addressed, (Figure 3) Governance represented the largest proportion, mostly due to persistently low auditor independence. ESG Governance issues constituted a larger portion of our engagement activity 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 activity last year though this work was once again primarily focused on promoting gender diversity.

While this data may indicate our engagement priorities, it reveals little about a) the depth of engagements and b) the progress made which we consider further below.

Figure 3: Engagement topics



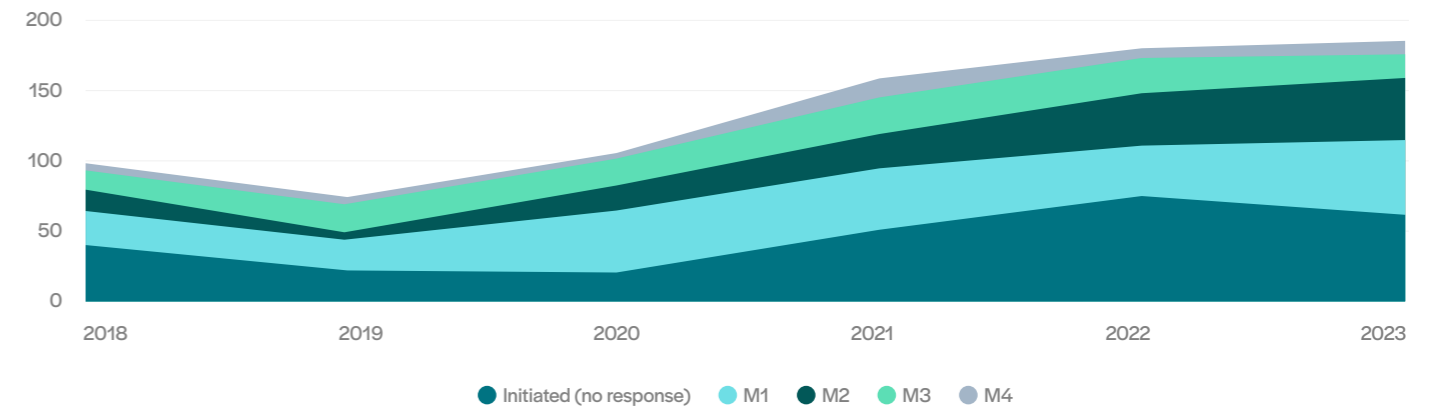
## Effectiveness, objectives and milestones

During 2023 we reviewed our engagement activities from 2018 to identify the milestones that have been achieved over this period. Figure 4 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. With

WHEB's engagement objectives often targeting ambitious, long-term changes to strategy and policy, we expect a longer analysis period to demonstrate a similar increase in Milestone 3 and 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 we achieve. These are available from our website.<sup>10</sup>

Figure 4: Engagement effectiveness



## Collaboration and escalation

Collaborative engagement is an important tool to influence portfolio companies and the financial system as a whole. In 2023, 10% of our activity was conducted in this way, mostly as a means of escalation.

We prefer escalating in this way for several reasons. First, dialogue most easily allows us to ensure that objectives and priorities are positioned within the context of our interest in the company's long-term success. Second, collaboration also avoids certain technical and temporal hurdles linked with escalating through proxy voting and AGM attendance. Finally, given WHEB's longstanding advocacy for sustainable investing, it is not difficult for us to connect with like-minded investors to collectively engage companies.

At the same time, the power of investor stewardship is increasingly being recognised as a key catalyst for effecting change and delivering tangible real-world outcomes.

Consequently, more opportunities to join investor initiatives are becoming available each year.

In 2023, for example, we addressed net-zero carbon targets at TE Connectivity via the Institutional Investors Group on Climate Change (IGCC)'s Net Zero engagement Initiative (NZEI).<sup>11</sup> We have also worked with other investors as part of ChemSec's Investor Initiative on Hazardous Chemicals (IIHC).<sup>12</sup> We joined this initiative in 2021, which aims to phase out hazardous chemicals (Figure 5). WHEB also became a member of Nature Action 100 on its launch in the second half of 2023. We hope this will support the work we have been doing to engage companies on biodiversity and nature loss since 2020.<sup>13</sup>

Collaboration alone is not always effective, though, and occasionally it is necessary to escalate further using other tools such as AGM attendance, as was recently the case in our efforts to engage TE Connectivity via the NZEI.

Figure 5: WHEB's industry networks and associations



<sup>8</sup> Explained by the growth of the Impact Investment Team and WHEB being appointed as subadvisor and fund manager of the iMGP Sustainable Europe Fund in July 2022, which includes additional European stocks to the main strategy.

<sup>9</sup> This number decreased slightly to 62% in 2022 after onboarding the iMGP Sustainable Europe Fund.

<sup>10</sup> <https://www.whebgroupp.com/investing-for-impact/stewardship/engagement-case-studies>

<sup>11</sup> <https://www.whebgroupp.com/te-connectivity-nzc-case-study>

<sup>12</sup> <https://www.whebgroupp.com/ecolab-engagement-case-study-chemicals>

<sup>13</sup> <https://www.whebgroupp.com/our-thoughts/stewardship-in-the-spotlight-nature-calls-from-assessment-to-action>

WHEB also aims to shape the wider financial systems to incentivise businesses to deliver more positive social and environmental outcomes. This work is often done through industry initiatives. In the past year, for example, we have collaborated with other investors to promote regulations at International, European and UK level to encourage, among other things, the phase-out of hazardous chemicals, the elimination of plastic waste in the world's oceans, the mandatory publication of climate transition plans and faster action to tackle climate change.

We also participate in industry initiatives promoting high standards in sustainable investing. In 2023 a major focus was on the UK's Sustainability Disclosure Requirements (SDR). WHEB is a member of the Financial Conduct Authority (FCA)'s Disclosure and Labels Advisory Group (DLAG) and has been deeply involved in inputting into this regulation. Further discussion of asset managers' role in shaping financial systems is included below.

## WHEB's view on voting

We endeavour to vote all our shares as per our voting policy, and we use voting to complement our other stewardship strategies to achieve effective outcomes.<sup>14</sup> For example, it is our policy to write to company management when we vote against their recommendations, which often leads to further dialogue.

WHEB's voting policy leads us to proactively use routine proposals, such as the election of the chair, as a way of asserting our views on key governance and sustainability issues. For example, our policy states that if a company does not have a NZC target, we will vote against the election of the chair. This approach differs from most fund managers and proxy advisers, who typically vote on sustainability issues only where they are specifically raised in a shareholder resolution.

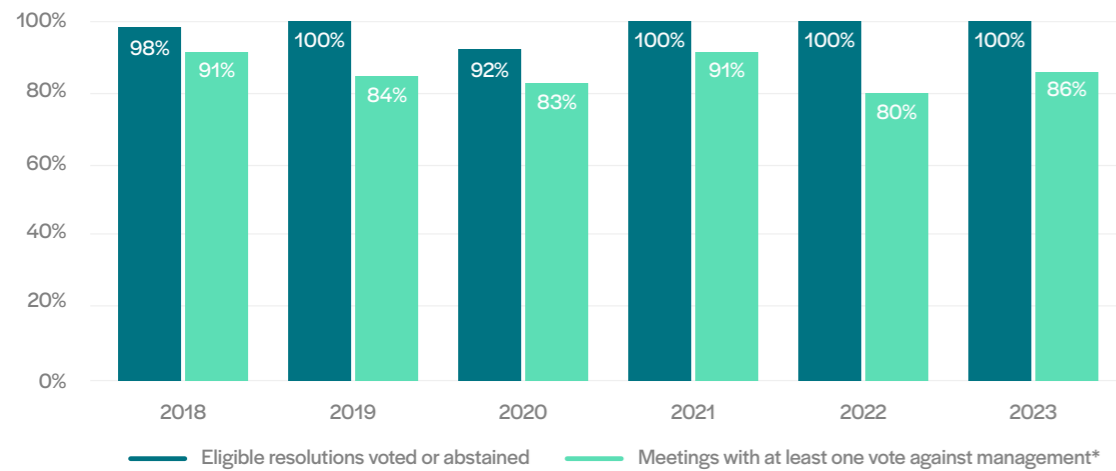
## Voting activity in 2023

In 2023 WHEB cast votes on 100% of the resolutions on which we were entitled to vote in that year (Figure 6). We also voted against at least one resolution at 86% of these meetings.

We voted against management on 201 occasions, representing 21% of our votes cast and, in a pattern consistent with the previous six years (Figure 7).

WHEB currently uses Institutional Shareholder Services (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 8. The vast majority of these votes are to vote against management when ISS's policy is to vote for management.

Figure 6: Exercising WHEB's voting rights<sup>15</sup>

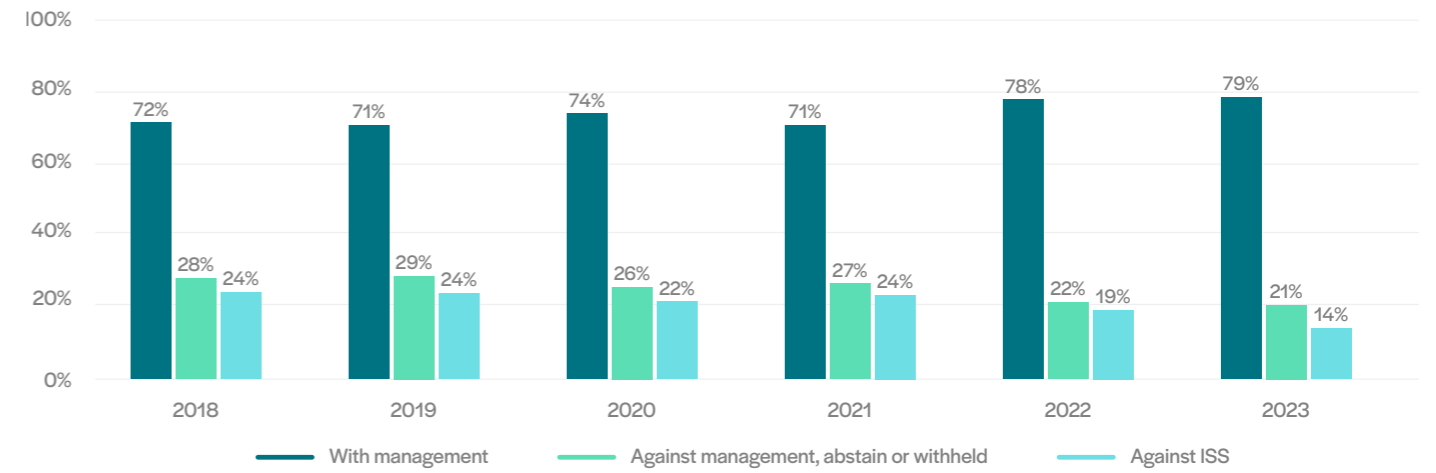


\*Votes against management included votes where we abstained or withheld our vote because voting against was not an option.

<sup>14</sup> <https://www.whebgroupp.com/assets/files/uploads/20221201-wheb-voting-policy.pdf>

<sup>15</sup> The proportion of company meetings that included at least one vote against management also includes meeting where votes were withheld.

Figure 7: A proactive voting policy in action

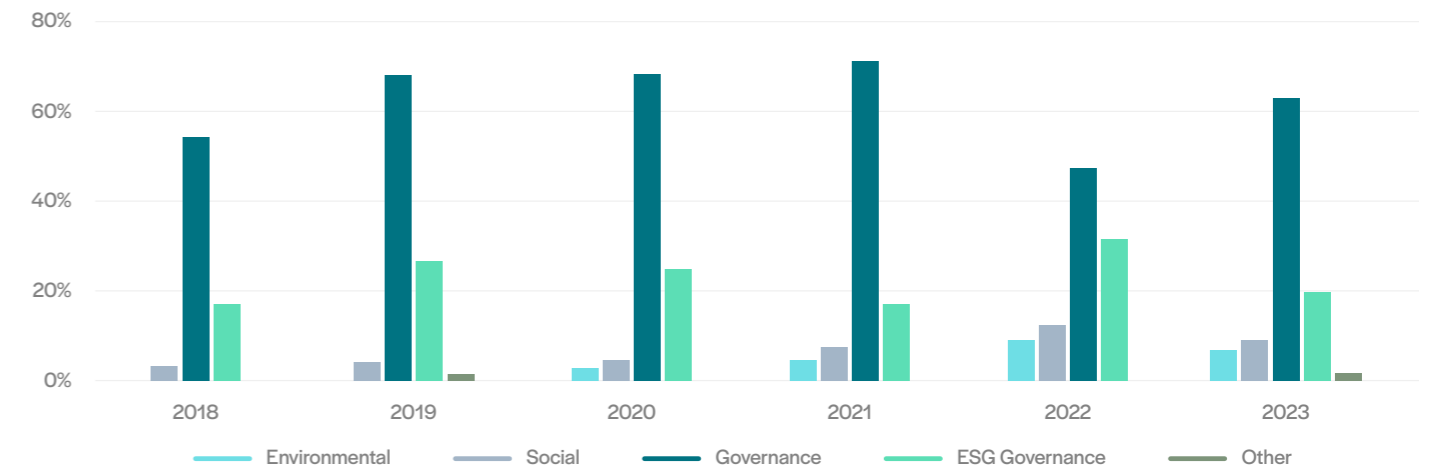


## Of the votes where we voted against management:

- 63% of these votes were on Governance issues (especially auditor independence, director independence and executive remuneration).
- 7% of these vote 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 8).

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.

Figure 8: Votes against management by topic



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