

# Red line voting: Experience from the front-line

February 2017

[www.whebgroup.com](http://www.whebgroup.com)



WHEB

## **Our Mission:**

To advance sustainability and  
create prosperity through  
positive impact investments.



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# Transparent, accountable and long-term



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### Responsible Investing: Engagement Report Q3 2016

**Introduction**

While preparing the addition of the quarterly responsible investing report, the news arrived that the European Union had successfully revised the Paris agreement on climate change. The agreement will now enter into force from the beginning of December. We believe that this is an historic moment, but also recognize that in more respects the fund must do only one thing: not to be misled or misled in this process through the IPCC and report from its work as well as other policy work that we are doing through other fora to support the development of a sustainable financial system.

**Keeping the pressure on climate policy**

Through the Institutional Investor Group on Climate Change (IIGCC) WHEB has been supporting efforts to ensure that the world's governments remain ambitious in their efforts to accelerate action to reduce greenhouse gas emissions and limit climate change.

In August, WHEB, along with other members of the IIGCC, wrote to the governments of the G20 nations calling on them to verify the Paris agreement, implement the recommendations of the 2015 Global Investor Statement on Climate Change and support the doubling of investment in clean energy by 2025.

We've been delighted at the speed with which the Paris agreement has been ratified by the world's governments and believe this sends a clear signal in the response of this issue. The agreement will now enter into force in November 2016.

We were also pleased to see the emphasis put on green finance at the G20 meeting that took place in China in September. The final communiqué issued by the G20 leaders emphasized the need to scale up green financing as a vehicle to delivering economic growth while addressing environmental and financial risks.<sup>1</sup> These points were then subsequently reiterated by the President of the Asia of England John Cameron when he encouraged investors, which holds the next presidency of the G20 to keep the focus on green finance.<sup>2</sup>

**Supporting sustainable finance**

WHEB has also been a supporter of an initiative from the think-tank E3G to encourage the European Commission to ensure that the Capital Markets Union (CMU) strategy includes a capital commitment to sustainable finance. The Capital Markets Union is a European initiative to help mobilize capital for projects around Europe. The E3G initiative aims to encourage the Commission to ensure that sustainable finance is an integral part of this objective by focusing on sustainable infrastructure and resource development that respects the Paris agreement on climate change and that companies and financial institutions properly understand and report on their exposure to climate-related and other ESG risks.

The group supporting the initiative, which includes investment managers as well as NGOs such as Carbon Tracker, International and other and investors such as the Smith School at the University of Oxford hopes to meet with Commissioners involved in the CMU in the coming weeks.

**April 2016**

July 2016

October 2016

we received a fund to look approach was being with a longer term view.

the quality of information presented, the of investment in the sector

looked at ESG as well, while not investors

as we found a no particular, most change present, the "higher" and products and

united ESG report. Total 4th their core a product for 100 million of 1st, these projects in on the projects.

did that the project in our first quarter

third quarter

see them, the problem in solving the problem encourages a

ip.com

ip.com

<sup>1</sup> The full text of the letter is available at <http://www.whebgroup.com>

<sup>2</sup> <http://www.whebgroup.com>

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### Investment Advisory Committee: Summary minutes

**Attendees:**

Chairman: Rachel Crossley (Advisor)

Members: John Bence (Head of Research), Kate Clark (Advisor), Mike Clark (Advisor), Phoebe Oliver (Advisor)

**Apologies:** Geoff Hall (Chair), George Latham (Managing Partner), Chris Brook (Advisor)

**Business update**

WHEB's business continues to grow with assets in the IP WHEB Sustainability fund now over £120m for the first time. The fund provides a brief update on business opportunities and highlighted the milestones achieved in respect of positive impact investing including more pension funds and new institutional investors. The fund also noted that the Sustainable Investment Trust has decided to bring management of its 100% equity strategy in-house and directed committee members to the public statement that WHEB has issued on this decision.

Ted Francis provided a brief recap on the performance of the fund over the past four months. This included strong performance as well as the end of the fund as well as the top quartile among the global equity peer group on both a one and three year time period. Since September, the fund has experienced some headwinds, particularly during October. From a perspective in both the financial and energy sectors which the fund has very limited exposure to.

Ted Francis, the lead portfolio manager, also described the evolution of the fund to focus on high quality growth companies with good environmental, social and governance characteristics which have an explicit positive impact. This has always been one of WHEB's investment process, but Ted is keen to make the more explicit, particularly in how this is communicated to the wider market. For example, we are explicitly categorizing each company we invest in as being either a 'leading' or 'transforming' sector of impact.

**New advisory committee member**

John Bence, who was standing in for Committee Chair Geoff Hall, welcomed Mike Clark the newest member of the committee. Mike established Asia Advisory in 2014, a firm offering responsible investment advisory services. Mike has extensive experience of the financial sector most recently as Director, Responsible Investment, at Royal Leakehouse. Mike also represents the UK academic profession on the Advisory Council of the Smith School's Sustainable Finance Programme at the University of Oxford. The fund also thanked Nick Rolton for his role over his four-year term on the advisory committee.

**Changes to the investment portfolio**

The committee reviewed the additions to and sales from the portfolio over the past four months, focusing in particular on whether new holdings represented suitable additions to the fund. The four new businesses that have been purchased by the fund over the past four months include:

**April 2016**

July 2016

October 2016

on for the remainder of the year is, such as new, these a positive

and a positive impact on the economy, leading to

10 straight in for also made and

verticals, enter the

1

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<sup>1</sup> A copy of our statement please see <http://www.whebgroup.com>

<sup>2</sup> For more information on our impact framework see our annual report report at <http://www.whebgroup.com>

[www.whebgroup.com](http://www.whebgroup.com)

# Red-lines: built-in not bolted on





Comprehensive across E, S & G

Clear and linked to specific action

Well-governed companies address vast majority of red-lines

Creates deeper knowledge about companies

Excellent platform for engagement



Insensitive to sector differences

Quite prescriptive (though comply or explain provision)

Voting against sometimes feels heavy-handed

UK focus limits application to other geographies

Compliance/disclosure frame may be limiting

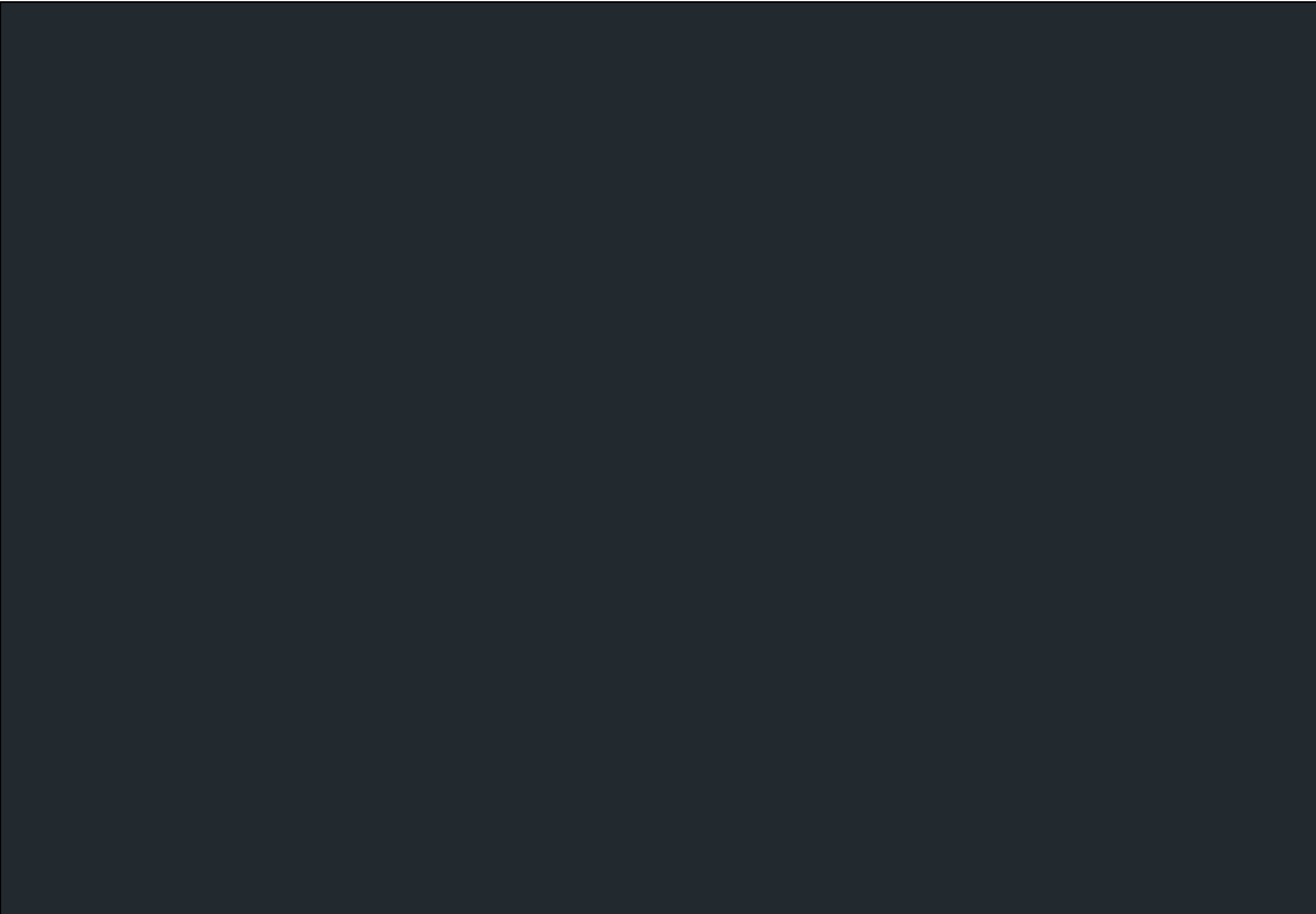
- **Apply to UK and European holdings**
- **Adapting red-lines**
  - Some have been overtaken by events (climate change)
  - Some are not directly applicable to European markets (takeover panel)
  - Aligning with our/ISS policies
    - ‘Overboarding’ criteria for NEDs as well as executive directors
    - Absolute limit on remuneration (US\$10m)
- **Focus on performance not disclosure (eg tax and diversity)**
- **Focus E and S criteria by sector (eg SASB framework)**

“Shareholder engagement is neither good nor bad in itself: it is the character and quality of that engagement that matters.”

*The Kay Review of UK Equity Markets  
& Long-term Decision making, July 2012*



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# Executives are pressured by short-termism

87%

of executives and directors  
feel most pressured to  
demonstrate strong  
financial performance  
within 2 years or less

65%

of executives and  
directors say short-term  
pressure has increased  
over the past 5 years

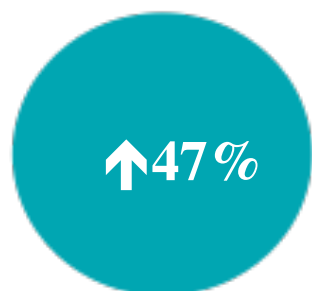
55%

of executives and directors  
at companies without a  
strong long-term culture  
say their company would  
delay a new project to hit  
quarterly targets even if it  
sacrificed some value

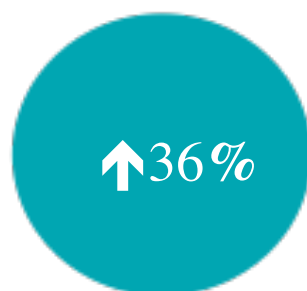
Source: Rising to the challenge of short-termism, FCLT Global, September 2016

# Economic impacts of short-termism

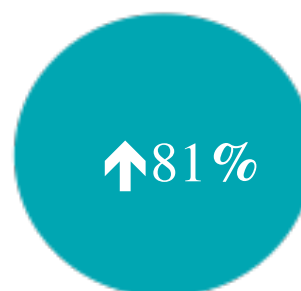
## Revenue



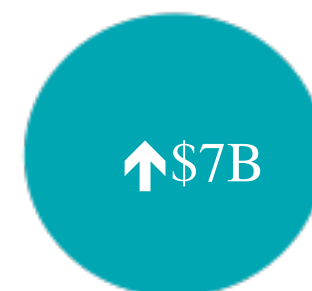
## Earnings



## Economic profit

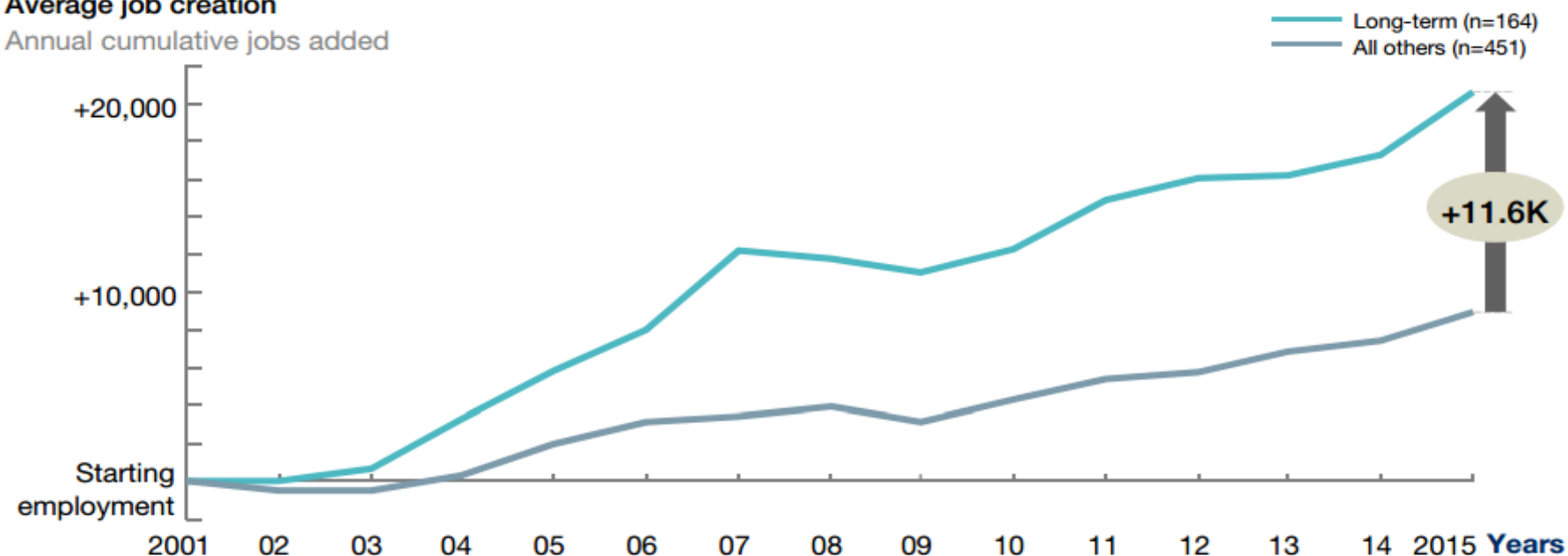


## Market cap.



## Average job creation

Annual cumulative jobs added



Source: Measuring the economic impact of short-termism, McKinsey & Company, February 2017