

# JANUARY – MARCH 2018



## AMITY – 30 YEARS OF RESPONSIBLE INVESTING

March 2018 celebrates 30 years since the launch of the Amity UK Fund, the first in our suite of ethically screened Funds, and only the second such equity Fund to be launched in the UK. In the years since, our flagship publication the Amity Insight has tackled a range of vital environmental, social and governance subjects with the first such Insight on Cocoa published 10 years ago in 2008. Our January 2018 Insight Sustainable Cities marked the 30<sup>th</sup> such publication, continuing a strong commitment to report to clients on topics of interest and relevance.

## RESEARCH AND PUBLICATIONS

In 2012 our Insight 'Hungry Planet' examined how the world will feed a global population expected to reach 9bn people. Our next Amity Insight, 'Hungry Planet Revisited' re-engages with this vital topic and provides an update for clients with new areas of focus including climate change and food waste. It will also provide our latest thinking on GMOs. The Insight is due to be published in June.

From time to time the SRI team produces 'thought pieces' on topical ESG (environmental, social and governance) issues. During the quarter we published a SRI Expert Briefing on sand mining to accompany our recent publication on Sustainable Cities. It looks at an emerging topic for investors as the ecological and social issues around sand sourcing, a key component for building materials including concrete, becomes acutely constrained.



We also published an Expert Briefing reflecting on the 30<sup>th</sup> anniversary of the launch of the Amity UK Fund. In the Briefing, we highlighted two holdings in the Fund in

which we have a high conviction and which have contributed to fund performance over many years: Dechra Pharmaceuticals, a specialist veterinary pharmaceuticals company which fits well with our positive pillar on Health & Wellbeing and RELX, a provider of information and data analytics for professional and business customers which fits

well with our positive pillar on Education. Publications are available at [www.edentree.im.com](http://www.edentree.im.com)



We invite you to get involved with the team by following us on Twitter and LinkedIn. As well as accessing all of our publications, you can also follow

Ketan on Twitter @Kethical where his followers regularly read his Tweets on market, economic and sustainability issues. You can also connect with Neville on LinkedIn where his connections follow posts on topical ethical issues, research trends, and corporate governance news.

## SAND SOURCING

Linked to our recent publication on sustainable cities and sand mining we began conversations with construction and building materials companies on how they source sand. In particular, we discussed supply chain transparency, extraction methods used and countries of origin as well as due diligence of suppliers in sourcing sand. We contacted eight companies including house-builders Taylor Wimpey (Amity UK and Global Equity) and Bellway (Amity UK) as well as building materials specialists Saint Gobain (Amity European) and CRH (Amity UK). We also met construction company, Galliford Try (Amity UK) in which sand was discussed. Our conversations continue around ecological impact of sand sourcing and country related risk. It appears that despite relying heavily on sand, this is not yet on the risk radar of most companies and we will continue to engage on this novel topic.

## ENGAGEMENT AND INDUSTRY INITIATIVES

Collectively we meet over 600 companies a year and have an integrated Stewardship approach that includes a range of environment, social and governance (ESG) issues.

The intense focus on the consequences of plastic waste has thrown a spotlight on industries where single-use and largely non-recyclable plastic is a feature. We were delighted to have early conversations with US based 'As You Sow', a non-profit foundation committed to improving corporate accountability on an evolving coalition of concerned investors. We are excited

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that a US-European group of concerned investors is now developing, motivated to engage in depth with a range of companies in the food, beverage and packaging industries. A Global Investor Statement will be available soon.

## RSPO

Roundtable on Sustainable Palm Oil

Companies are facing increased and more sophisticated forms of digital attack. As part of a PRI coalition that EdenTree joined in 2017, we have begun engagement with companies around cybersecurity risk. EdenTree co-led discussions with ING Groep (Amity European, Global Income and International) and Deutsche Telekom (Amity Balanced, European and Global Income). We discussed their governance of cybersecurity, including reporting lines for chief security officers, as well as Board competencies and training on cyber risk. We also discussed risk management and teams responsible for cybersecurity. As digitalisation continues, we will continue to monitor closely company preparedness in this area.

EdenTree has long supported the Living Wage Foundation's work and ShareAction's investor led campaign around fair pay. We have written to companies in the past to encourage Living Wage accreditation, and during the quarter we met with Marks & Spencer (Amity Balanced, Sterling Bond, Short Dated Bond and UK Funds) to discuss the work of the living wage foundation and M&S's approach to fair work. We welcome M&S's commitment to pay a living wage, applying this to all their operations. We aim to continue the discussion around the Living Wage in the UK by engaging with non-accredited holdings in the FTSE100 later this year.



Fair pay and the quality of work is an important issue for clients, resulting in our publishing a dedicated Amity Insight in 2017 on the Future of Work. We were therefore delighted to be asked to participate in a focus group led by the St Paul's Institute on Fair Pay; Fair Work as part of its mission to address social inequality at work.

We supported an investor coalition letter representing assets of \$3.2trillion calling for reform of the RSPO (Roundtable on Sustainable Palm Oil) after persistent allegations that the RSPO has failed to uphold its standards with respect to labour rights. The RSPO is a vital part of encouraging sustainable palm oil production and certifies 19% of global supply, however the organisation has been accused of ignoring reports of child, forced and bonded labour in RSPO certified operations.

### VOTING AND STEWARDSHIP

The Financial Reporting Council which oversees the UK Corporate Governance Code announced a Code consultation in late 2017, and we submitted our detailed responses during the quarter. These welcomed some proposals but urged caution on others. A revised Code is expected to be published later this year for operation from 2019.



Monetary Authority of Singapore

We also submitted a detailed response to a consultation led by the Monetary Authority of Singapore on the Singaporean Corporate Governance Code. Singapore is a principal investment market for us, with confidence in its governance regime of vital importance. Whilst welcoming many of the MAS proposals, we objected to the proposal not to offer investors a 'say on pay', which is now routine in many developed markets.

We published 2018 UK and Overseas Corporate Governance Policies in January, setting out the areas of priority for this year's proxy voting, which include enhanced action where Board diversity is poor and tightening our procedure for assessing auditor rotation. Our 2018 Stewardship Code Statement has also been published at [www.edentreeim.com](http://www.edentreeim.com); we remain a Tier I Code signatory, as assessed by the FRC.

We routinely engage with companies on corporate governance, and welcomed the opportunity to attend a meeting hosted by the Chairman and non-executive directors of Dunelm Group (Amity UK) to discuss the company's governance regime. We lobbied Inland Homes (Amity UK) an

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AIM listed company, urging it to put its remuneration policy to shareholder vote and to offer directors for annual re-election rather than by rotation.

of the preference share market and our clients would all have been adversely affected.



The first quarter is traditionally light as a prelude to the main proxy voting season in the UK. We voted at 38 UK company meetings, comprising 410 resolutions.

We voted to oppose or abstain 31 resolutions, the majority against remuneration and the re-election of directors. We opposed Remuneration Policy at Smith & Nephew and Porvair (both Amity UK).

Overseas, our strategic partner Glass Lewis & Co. votes all proxies in markets other than the UK, voting against poor corporate governance board structures or where unlimited powers are ascribed to the Board to the detriment of shareholders. The first quarter saw Glass Lewis vote at 22 meetings comprising 247 resolutions; they opposed/abstained 9% of resolutions, mostly against executive compensation (four resolutions) and the re-election of directors (nine resolutions).

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## EXERCISING STEWARDSHIP



The little-known preference share market is an attractive area of investment for the Amity Sterling Bond Fund. Irredeemable debt, issued at attractive yields was offered by major institutions such as Aviva. During the quarter, the company announced it may seek to cancel and redeem existing preference shares 'at par' thereby significantly affecting investors in this specialist market. The company announced the move, as from 2026, preference shares will no longer count as regulatory capital. Led by EdenTree, investors reacted strongly and swiftly, accusing Aviva of unethical treatment of investors. We, and a coalition of investors met with the Chairman in March, following which, the company announced a reversal of its intentions. We view this as a significant endorsement of active stewardship, where the reputation of Aviva, the wider impact

THE EDENTREE RI TEAM



**Neville White**  
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Responsible Investment  
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We have a specialist in-house Responsible and Sustainable Investment (RI) team who carry out thematic and stock-specific research to identify investment ideas for our range of Amity Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowl, the team is also creates an on-going dialogue with companies, allowing us to engage on a wide variety of responsible and sustainable investment concerns. Our is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

We hope you enjoy this Responsible Investment Activity Report and find it useful and informative. For any further information please contact us on 0800 011 3821 or at [ifa@edentreeim.com](mailto:ifa@edentreeim.com)