

# Quarter to 31<sup>st</sup> March 2023



Welcome to our Responsible Investment Activity Report for the three months to 31st March 2023 with news of our responsible investment research, engagement and governance activities across our managed Funds and strategies. Our RI Activity Reports follow our overarching Responsible and Sustainable Investment pillars:



## Research

As responsible and sustainable investors engagement with companies is one of the most important aspects of our work, and one which can result in the most profound real-world outcomes. Every year the RI Team chooses new engagement themes to focus on for the year ahead. Our latest blog outlines **our engagement priorities for 2023** including biodiversity, human rights in green infrastructure, and financial inclusion. Available [here](#).

**The Access to Medicine Index (ATMI)**, ranks 20 of the world's largest research-based pharmaceutical companies' efforts in how they improve access to medicine in low-to middle-income countries. The data generated by the Index is used by investors, government, non-governmental organizations (NGOs) and pharmaceuticals companies with the aim of improving access to medicine. Our expert brief covers the findings of the 2022 ATMI index, its importance and how EdenTree uses the index. The Expert Briefing is available [here](#).

During the quarter we refreshed our RI Expert Briefing on **Palm Oil**. The Briefing sets out our position on investing in palm oil plantation companies, and how we deal with manufacturers using palm oil in the supply chain. Palm oil is a versatile vegetable oil that is used in nearly every application from detergents and soaps to ice cream, however, it has led to deforestation and a loss of biodiversity in the key regions in which it is grown (Indonesia and Malaysia mostly), and so remains high risk for EdenTree as responsible investors. The Briefing is available [here](#).

## Social Media



We invite you to get involved with the team by following us on social media. As well as accessing our publications, you can also follow Fund Manager, Ketan Patel on Twitter @KEthical where his 2,315 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,848 connections follow posts on topical ethical issues, research trends, and corporate governance news.

## Engagement

Engagement lies at the heart of what we do; we exercise an integrated stewardship approach that includes engagement on a range of environmental, social and governance issues. A flavour of activity carried out this quarter is set out below.

### Thematic Engagement – Biodiversity



As part of our thematic engagement on biodiversity we met with two companies, **J Sainsbury** and **Unilever**. With Sainsbury, we discussed their nature commitment and the progress they are making against their biodiversity targets. With Unilever we focused mostly on the company's zero-deforestation strategy and discussed their work to define, measure

and monitor deforestation in their supply chain relating to their top five commodities. We were impressed with their approach and view their deforestation work as industry leading.

### Thematic Engagement – Banks & Climate Change



We signed investor letters to **Barclays** and **Credit Agricole** calling on them to cease direct financing of new oil and gas fields. The letters call on the banks to match HSBC's latest commitment to cease such financing. We also signed a letter, as part of our IIGCC collaborative engagement to the **Bank of Nova Scotia (Scotia Bank)**

asking for the Bank to consider bolder action to align its financing with a 1.5-degree pathway. Following this, we attended a call with the Chair of the Bank to discuss the contents of the letter in more detail. As part of targeted engagement with Canadian bank holdings we also had a call with **Toronto Dominion Bank** to discuss their climate change strategy. Finally, we attended climate presentations with **Lloyds Banking Group** and **NatWest Group** to hear more about their decarbonisation strategies and sectoral emissions reductions targets.

### Thematic Engagement – River Pollution



As part of our ongoing engagement with English water companies surrounding river quality, we met with industry leader **Severn Trent** who updated us on their strong performance and their long-term resilience strategy. We also spoke to **Yorkshire Water** and **Southern Water**, two of the sector laggards that have struggled with pollution incidents. Yorkshire Water spoke of their ambitions to improve environmental performance through technology roll out, whilst Southern Water are now seeing significant investment have a positive impact.

We also met with **Ofwat** and the **Environment Agency (EA)** to discuss the challenges and pressures on the sector to improve pollution management. Ofwat updated us on the regulatory regime whilst the EA welcomed the positive pressure investor engagement could bring.

Lastly, we attended the **Barclays Water Fit Seminar** with panel sessions involving water companies, regulators and the Times journalist leading the campaign on river pollution. It was highlighted that around £100bn of new investment will be required to turn the industry round to tackle security, resilience and pollution. This places the industry in the same league as the energy transition, except there is no current Government water management strategy built around resilience.

### Thematic Engagement – Modern Slavery



As part of the Find it, Fix it, Prevent it investor coalition on modern slavery, we led an engagement with house-builder **Bellway**. It was a positive first call with the company and whilst a few of their processes are a little generic at present, we were pleased at their willingness to engage and discuss best practice with the coalition.

We also joined a call with global catering company **Compass Group** and were impressed by the progress made – particularly in their Middle East operations where they have been singled out by the International Labour Organization (ILO) as an example of best practice.

### Thematic Engagement – Human Rights & Infrastructures



We met with **Harmony Energy Income Trust** as part of our thematic engagement with our infrastructure holdings on human rights. It was an open call, with the Trust keen to get feedback on where we felt

they could improve. They have made good progress in the last year and have recently expanded the team with plans to further enhance their human rights due diligence and publish a human rights policy.

### Company Engagement Round-Up



We had a call with **Nokia's** Chief Compliance Officer in the quarter, specifically on the topic of their controls in high-risk countries. We sought

reassurance that their processes were such to avoid a similar situation as had occurred at Ericsson. We were impressed by their values-led approach; in particular, we were pleased that they were able to provide examples of decisions not to enter markets that wouldn't allow them to live up to their values (of which there were many), and with their use of human rights due diligence prior to any decision being made.



We had a call with **International Distribution Services – (Royal Mail Group)** to discuss the ongoing labour dispute with the Communication Workers' Union. Royal Mail has been seeking to come to an agreement which puts 'pay

and change' together, emphasising that without significant efficiencies being rolled out across the business they will be unable to sustain any pay increases. Whilst the pay element seems to now have support from the union, there is more opposition to some of the proposed changes to working hours and contracts.



As part of the The World Benchmarking Alliance's (WBA's) Digital Rights Collective Impact Coalition, we are co-leading the engagement with **Salesforce** on digital rights. This quarter we met with the Chief Ethical and Humane Use Officer to discuss

how they apply their Trusted AI principles and gained reassurance around their guardrails and implementation of the policy. We are comfortable with their management of the issue and have encouraged Salesforce to improve disclosure on the topic.



We joined the regular ESG investor call with **Compagnie de Saint Gobain** led by the CEO. CSG has an impressive transition story and focused on its move towards lighter and lower carbon intensive construction products. CSG has seen overall emissions fall by 27% between 2017 and 2022 and has created the world's first Net Zero glass manufacturing facilities in France and Canada, as well as plasterboard made from 50% recycled materials.



We had a general ESG call with **Siltronic** following a screening of the company. We were pleased to hear that the company has now set scope 3 targets and has committed to setting SBTs, and that injury rates have fallen. The company uses large amounts of water, and one of our key asks was to increase investment in water reduction technologies.



We met with specialist laundry and workwear company **Johnson Service Group**, which has multiple material impacts from energy use and emissions

to water use. The company has achieved some commendable results in reducing water intensity and energy use and we expect to have a deeper dive into the company's strategy and performance with the Head of Sustainability soon.



We had an interesting call with **Diploma** following its inclusion in our funds. The engagement covered GHG emissions, waste, diversity and injury rates. The

company faces some challenges due to its decentralised business model, but we were encouraged by their improving ESG practices.

**kemira**

We had a meeting with the Chief Financial Officer of **Kemira**. The company discussed their employee health & safety programme, their emissions reduction

targets, and their bio-based products. The company have a strong commitment to generate €500m of revenue from bio-based products by 2030. Despite the challenges associated with the premium from bio-based products, Kemira are optimistic they will achieve their target.

**Roche**

We had an ESG catch-up with **Roche** to discuss the company's approach to sustainability. The call was broad, covering their emissions, ESG disclosure, product recalls, environmental fines and corporate

governance. We were pleased to hear about the company's affordability schemes outside the Access to Medicine Index, particularly on the diagnostics side, which is not covered by the Index.

**MERCK**

We met with **Merck & Co** to discuss the risk of anti-microbial resistance in animals. The Company discussed their alternative therapies to antibiotics, and felt they were

doing sufficient work in this space.

**ZF**

We had a call with **ZF Friedrichshafen AG** following a flag for potential animal testing and defence exposure. The call reassured us that their exposure to defence is negligible and that they do not conduct animal testing. Overall, we were impressed with their dedication to sustainability, particularly their view that offsetting is a 'cop-out'.

**CLEANAWAY**

We met with Australian waste management company **Cleanaway** following a screening of the company, it was a fascinating call where they

shed light on their business model and focus on circularity and sustainability. They acknowledged difficulties surrounding the measurement of total waste collected due to the structure of their municipal contracts but are determined to overcome this issue given they see the circular economy as a key business driver.

## Governance

**We vote at all meetings in all territories unless these are share-blocked. Our Governance work also includes public policy and remuneration consultations, as well as engaging with companies on governance issues.**

The March quarter saw us vote on 214 resolutions at 14 UK meetings, opposing or abstaining in 9% of cases. Executive pay accounted for 45% of all action taken, with our opposing seven pay reports and policies, and one long-term incentive plan.

We continue to oppose remuneration packages which we view as excessive or poorly structured. During the quarter we opposed remuneration reports at **WH Smith, Victrex, Sage Group and SSP**. We opposed two Remuneration Policy proposals at **Diploma and Victrex**.

**On the Beach**

We opposed one long-term incentive plan proposal at **On the Beach Group**. We have taken the view that we will not usually support a move to introduce Restricted Share Plans, which typically award a lower grant of shares but with no performance attached. On the Beach proposed to move to such a plan.

**CALEDONIAN TRUST PLC**

At **Caledonian Trust**, where we have had ongoing discussions around poor governance, we opposed all of the resolutions on grounds that the company has failed to take into account our concerns around Board independence. We opposed the re-election of a non-independent non-executive director due to the lack of any Board refreshment.





We were invited to consult on remuneration proposals by **Synthomer** and met with the Chair to discuss our response. The Chair was sympathetic to our two main asks regarding not increasing the bonus maximum and applying

stretch targets under the LTIP ‘additional grant’. We welcomed confirmation that these two conditions have been agreed by the Committee. We met with the Chair of **Kier Group** following a long period of disagreement over Remuneration Policy. The company’s stance in paying well above market levels at a time of severe share price decline resulted in significant shareholder dissent. We stressed we would not support increasing maximum levels of variable pay further, nor unusual increases in base salary which went up 26% in 2021 under new pay policy proposals.



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. In the December quarter Glass Lewis voted at 26 meetings comprising 413 resolutions in 10 markets. They opposed 9% of resolutions, with executive compensation comprising 36% of action taken. We find few US pay packages that we can easily support, and during the quarter we opposed compensation packages at **Acuity Brands, Air Products & Chemicals, Visa, Deere & Co.** and **Apple**, where executive pay is particularly egregious and where we also opposed the Chair and Members of the Compensation Committee.

In European markets, we opposed remuneration at **Siemens, Mapfre, Novartis** and **Randstad**.

### Shareholder and Climate Resolutions

As we look forward to the 2023 Proxy Season it is likely to be among the more controversial and challenging from a USA perspective. We are expecting a number of resolutions linked to the cultural debates between opposing policy positions. We expect to review these - as we always do – on a case-by-case basis, however we will not support or oppose highly politicised debates in the US where an abstention might be more judicious. As a result statistics for 2023 may show a higher-than-normal number of proposals that we have not supported.

There were no shareholder or climate related resolutions in the UK during the March quarter. Overseas, we supported a shareholder proposal at **Visa Inc.** calling for the separation of the roles of Chair and Chief Executive. Although becoming more common, there is no requirement to separate these key Board roles which we view as best practice.

Our Global Corporate Governance Voting Reports are online at [www.edentreeim.com](http://www.edentreeim.com) together with our 2023 UK and Overseas Corporate Governance Policies.

### Stewardship



We have been signatories to the UK Stewardship Code since inception in 2012, and during the quarter we were delighted to learn that our submission for 2022/23 under the Code has been re-accredited by the Financial Reporting Council. The Report is available [here](#).

We have been signatories to the European SRI Transparency Code since 2011. Eurosif recently announced withdrawal of the Code due to its being superseded by the EU Taxonomy (SFDR). We have therefore reluctantly allowed our status to lapse.

### Responsible Investment Advisory Panel

We have added two [new members](#) to the Responsible Investment Advisory Panel: Annette Fergusson and Paul Simpson OBE. Annette brings more than 25 years of experience of working in sustainability and human rights and was previously Vodafone Group’s Head of Sustainability. Paul co-founded the CDP, initiated the Science Based Targets Initiative (SBTi), and has held board positions with SBTi, We Mean Business, EIRIS, The Investor Agenda and the Climate Disclosure Standards Board. Both bring a wealth of knowledge on ESG, and we look forward to welcoming them on the Panel.



**Annette Fergusson**  
Independent Consultant



**Paul Simpson**  
Strategic Advisor

### Contact Us

We welcome client feedback, and you can contact us direct at [information@edentreeim.com](mailto:information@edentreeim.com)

## Our Responsible Investment Team

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of screened Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Senior Responsible Investment Analysts Carlota Esguevillas and Rita Wyshesky and Responsible Investment Analysts Amelia Gaston and Cordelia Dower-Tylee, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that our client's money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Advisory Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



**Neville White**  
Head of RI Policy  
and Research



**Rita Wyshesky**  
Senior RI Analyst



**Carlota Esguevillas**  
Senior RI Analyst



**Amelia Gaston**  
RI Analyst



**Cordelia Dower-Tylee**  
RI Analyst

We hope you find this Responsible Investment Activity Report useful and informative. For any further information please contact us on:

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