EDENTREE RESPONSIBLE INVESTMENT ACTIVITY REPORT

QUARTER TO 30TH SEPTEMBER 2021

Welcome to our Responsible Investment Activity Report for the three months to 30th September 2021 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

Fund Carbon Footprints 2021

We have published the 2021 carbon footprints for our range of equity and fixed interest Funds. The equity range now has a six year track record of reporting their carbon footprint, whilst for the first time this year we have published a footprint of the two fixed interest and one charity fund Balanced products. We know this information is important for clients, and once again we are delighted that the majority of the range shows a trend of being significantly below relative benchmark for intensity. As well as providing a wealth of statistics, our two publications (for the retail and charity funds respectively) provide a 'heat read' temperature tool to indicate how well placed the Funds are for alignment with the Paris Agreement by 2050 based on being one and a half degree compliant. All of our Funds are in the range 1.5-1.8° of warming and are therefore well placed. The two reports can be found on the Insights Hub a **www.edentreeim.com**

Expert Briefings

The first of two Expert Briefings published in the September quarter was on the sale and marketing of BMS, **Breast Milk Substitutes**. This takes a deep dive into one of the longest running and most protracted ethical investment issues for investors. The sale and marketing of BMS products were controversial in the 1970s when dubious marketing practices, particularly in developing markets was alleged to have contributed to infant morbidity and preventable deaths. In developing markets mothers used contaminated water to prepare BMS products or overly diluted the formula to make it last longer. This led to infant malnutrition, diarrhoea, gastroenteritis, and increased mortality. BMS falls under several of our ethical, ESG and thematic pillars, for instance as part of Health & Wellbeing, but it is also a Business Ethics and Human Rights issue. We view the issue to be of high impact and importance, and we take special care to ensure only the most responsible companies in the available universe are suitable for inclusion in the screened Funds. The Expert Brief explains how we engage for best practice and the guidelines we use to assess suitability.

Our second Expert Brief on **Oppressive Regimes** updates an earlier briefing. We use a proprietary matrix to determine our approach to oppressive regimes, based on the annual ratings published by Freedom House (80%), Transparency International (10%) and the World Economic Forum Gender Gap Assessment (10%). We have developed a weighted score for every country's regime. For our purposes, countries which fall under a certain threshold – 30% - are considered to be an Oppressive Regime and would preclude investment based on a specific set of criteria. The screen is invoked for Bond issuers, where sanctions are in place or where there is high risk of possible complicity in human rights violations by the company or issuer. The Briefing sets out in detail how this screen works and why it is important.

Opinion - Apparel Supply Chains

In the June Quarter RI Activity Report we noted thematic engagement on the impact of COVID-19 on supply chains in the fashion and apparel industry. We contacted 10 retailers to engage with them on order cancellations, waste generated by cancelled orders, supplier relationships, supplier payments and factory workers health and safety. In August, as the engagement came to a close, we published a Blog on the findings 'Industry Disrupted: Textile supply chain management in times of COVID-19' which concluded that whilst companies maintained business had returned to near normal, we remain concerned that the pandemic will have left many garment workers exposed and facing near-poverty.

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 2,301 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,637 connections follow posts on topical ethical issues, research trends, and corporate governance news.

ENGAGEMENT

Collectively we meet over 600 companies a year and have an integrated stewardship approach that includes engagement on a range of environmental, social and governance issues.

Thematic engagement – Climate change

Last quarter we wrote about our fifth consecutive participation as a lead investor in the **CDP Non-Disclosure Campaign**. With the deadline now passed, we are pleased to share some progress. A significant win was **Zoetis** which, following the appointment of their first head of Sustainability, will now take part. Long-term engagement target **Hawaiian Electric Industries** has not yet agreed to take part but they have acknowledged that this would be the logical next step in their reporting journey and will likely take part next year.

As part of the **IIGCC** (Institutional Investors Group on Climate Change), we joined a collaborative engagement with **Royal Bank of Canada** to discuss their fossil fuel financing and climate change strategy. We discussed the challenges they face given the dependence of the Canadian economy on fossil fuels, and whilst we were sympathetic of the challenges, we stressed the importance of setting ambitious targets and 'red lines'. This collaborative engagement will continue, in particular to encourage the bank to set intermediary targets and to disclose more information on its loan book and methodology used for target setting.

We met with **Standard Chartered** to discuss the company's financing of Indonesian coal giant Adaro Energy. Standard Chartered has significantly improved internal climate capabilities in recent years and appears to have robust processes in place to assess client climate risk and the ability to transition. However, their financing of Adaro seems at odd with this. We remain sceptical of Adaro's ability to transition given they are currently over 90% dependent on coal – they have nine years to decarbonise to below 5% or face being de-listed under Standard Chartered's own prohibition policy.

Thematic engagement – Workforce disclosure initiative

Last quarter we wrote about our fifth consecutive participation as a lead investor in the **Workforce Disclosure Initiative**. A significant win in terms of encouraging participation is **DS Smith**, which confirmed it will take part for the first time this year. Another long term engagement target Vivendi have also agreed to take part. **JD Sports** and **Bellway**, although not agreeing to take part, have acknowledged this would be the logical next step in their reporting journey and will likely take part next year.

Thematic engagement – Access to Nutrition Index (ATNI)

We engaged with **Nestlé, Danone** and **Unilever**, as part of a collaborative **Access to Nutrition Index** engagement. Nestlé was rated 1st in the 2021 ATNI Global Index, however, it noted that improvement is still encouraged. Nestlé stressed that providing products to meet their broad-based consumer needs will be a key pillar to their nutrition strategy in the near future. The company was leading in the engagement category where it is rated 1st; and Nestlé highlighted their plans to strengthen their lobbying policies and improve transparency on trade association memberships.

Unilever was rated 2nd in the index. Unilever discussed their product profile, the importance of product reformulation, as well as work to achieve their future healthy portfolio targets. Additionally the company addressed the key ask by ATNI to introduce specific targets on affordability of healthy products, and lobbying activities to address all forms of malnutrition.

Danone was rated 4th in the index. The company discussed their progress on the areas identified by ATNI for improvement, such as their advertising policies for children between ages 12-18, their front-of-pack product labelling and future plans to implement a global commercial strategy to improve the accessibility and affordability of their healthy products.

We met with **Synthomer** to discuss the company's sustainability plans. Synthomer is in the early stages of a long-term strategy to transition from a heavy, oil and solvent based chemical play to one that is more based on sustainable solutions through water-based solvents. As part of its 'Vision 2030', the company is in the process of setting science-based targets, publishing its first TCFD report, and has increased its sourcing of renewable electricity to 100%. It is also working to address issues such as the use of oil as a raw material for chemical processes and recyclability of polymers.

We had a call with **London & Quadrant Housing Trust** the largest UK housing association based largely in the South-East with over 250,000 tenants and 100,000 homes. The company rates strongly against our social pillars, however its environmental performance is more mixed. We have asked to be kept in touch as they develop more thinking around sustainability.

We had a call with **Exact Sciences** to discuss their environmental and social reporting. The company is proud of its record in supporting health & wellbeing, but is still in the early stages of developing its environmental strategy.

We had a call with **Eli Lilly** for a general ESG discussion, which was constructive. We questioned their reporting in some areas, and noted they operate an affordable insulin scheme that allows people who are not insured in the US to buy insulin at reasonable cost.

We have engaged with **Biffa** several times over the last quarter. We had a call with the company to discuss their latest sustainability report. We were impressed with the company's progress and commitment to divert waste from landfill through recycling to reach a circular economy. The company also took note of our comments on their current sustainability report. Additionally, we had a call with the company to discuss their progress in becoming a Living Wage accredited employer and the challenges they are facing fully to implement this across all UK operations.

We attended the **Severn Trent** investor event at their Draycote Water site. The day included presentations on the company's triple carbon pledge, a recap of their performance on customer performance metrics, and their plans on biodiversity as part of their 'Green Recovery' focus. We also attended a similar event hosted by **United Utilities** the water and waste water provider in the North West. We were impressed at the company's 'best in class' performance for environmental incidents, and its integration of social purpose as part of the company's culture.

We received responses from **Southern Water** to questions on environmental performance. Operating in the counties of Kent, Sussex, Hampshire and the IOW, Southern has had several recent environmental controversies including a fine of £93m and a High Court judge accusing the company of being wantonly criminal in its disregard for the environment. We have still to analyse the response and expect to respond in due course as part of wider engagement with the water sector.

Other engagement meetings we arranged during the quarter included conversations with regional legal firm **Knights Group**, fund manager **Mattioli Woods** and wealth manager **St James's Place**. We also met with the executive team of **Marlowe**, a provider of water treatment, fire safety & security, air hygiene and risk & compliance products. The company has a decentralised business model, and so the engagement focused on standardising reporting across the businesses to help investors understand the key risks and impacts.

We are cognisant that new technologies can present fundamental risks to human rights. Together with 50 investors representing over $4.5 trillion, we have signed an **Investor Statement on Facial Recognition**. This addresses the risks raised by facial recognition technology, and will form the basis of a dialogue with companies as part of a collaborative engagement programme in the coming months. During the quarter we also signed an **Investor Statement on Chemicals Decarbonisation**, convened by ShareAction, to encourage progress in a sector responsible for 5.8% of global emissions. As part of this initiative we will be engaging with our holdings in the chemical sector to discuss emission reductions.

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.

Proxy voting

The September quarter concludes the main proxy voting season in the UK. The quarter saw us vote on 814 resolutions at 58 UK meetings, opposing or abstaining in 6% of cases. Executive pay accounted for 59% of all action taken, with our opposing 27 pay reports and policies from 53 voted (51%). At the three quarter way point we opposed or abstained 52% of all executive pay proposals.

An increasing number of companies have now introduced so called 'Restricted Share Plans', which although delivered at a lower quantum, have no performance conditions attached. We view these as displacing best practice in terms of variable pay being performance tested. We opposed Remuneration at **BT Group** and **Burberry** where such plans deliver excessive rewards without regard for performance.

Among FTSE100 companies we find it challenging to support remuneration owing to the multiples involved; for instance we opposed pay at **3i Group** and **Vodafone** where multiples of 800% and 600% salary respectively were on offer. At **Halma** we opposed the new Remuneration Policy which would see the total opportunity increase from 350% to 500% salary without justification. **JD Sports** continues to observe structures that are unconventional and designed to reward excessively. We opposed Remuneration where an element of long-term variable pay continues to be paid in cash in breach of best practice. There continue to be examples where executives have been paid bonuses but where Government support has not been repaid, or where staff remain on furlough; for this reason we declined to support remuneration at **N Brown**.

A number of remuneration reports were opposed for reasons including poor structure, excessively tiered towards short-term performance or excessive in quantum. Examples were **Land Securities, National Grid, Tate & Lyle, Johnson Matthey, DS Smith** and **Autotrade**r.

Finally, at **Pennon Group**, we opposed remuneration as near maximum bonuses were awarded despite the company's environmental and pollution record being poor. Environmental criteria form part of the bonus metric and the company failed to meet them, whilst the Environmental Agency rating fell from 3 to 2. We felt insufficient weight was given to this in the award of a 96% bonus (from the maximum of 125%).

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. In the September quarter Glass Lewis voted at just 12 meetings comprising 112 resolutions in nine markets. They opposed or abstained 18% of resolutions, with Board Directors accounting for 40% of all action taken.

Climate Transition resolutions

We are seeing a number of UK companies put their climate transition action plans to an advisory shareholder vote. We analyse these closely, and support them where we feel the plans are rigorous, with ambitious targets and intermediate milestones for delivery. During the quarter there were three such votes at **Severn Trent, SSE** and **National Grid**, which we supported.

Our Global Corporate Governance Voting Reports are online at **www.edentreeim.com**

Edentree Recognition

We were delighted to win for the 13th successive year 'Best Ethical Investment Provider' in the Moneyfacts Investment Life & Pensions Awards 2021. We feel this is testament to our commitment to be the best responsible and sustainable investment provider for clients, and a huge vote of confidence from all our supporters who nominated and voted for us, not least as this remains a highly competitive field that included nine other Fund houses.

Responsible Investment Team

We said farewell to Esmé van Herwijnen in early August after six years with the Team. Esmé joined us in 2015 and as the Senior Responsible Investment Analyst led all of our environmental and climate change work. Esmé has decided to return to France and we wish her every success for the future. We are now actively seeking to recruit a successor environment lead to join the team!

THE 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 Responsible Investment Analysts Carlota Esguevillas and Rita Wyshelesky, 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 client 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.

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We welcome client feedback and you can contact us direct at:

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