

QUARTER TO 30 JUNE 2022

Welcome to our Responsible Investment Activity Report for the three months to 30th June 2022 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

The Condition of Our Rivers



We published our latest Insight Report on **The Condition of Our Rivers** following engagement with eight water and waste water utilities in England & Wales focusing entirely on pollution management and river health. The Environment Agency has stated that just 14% of English Rivers are in a good state of ecological health and we wanted to understand the role

water companies play and the contribution they are making in remediating the problem. Improving river health is complex and relies on a combination of actors that include Government, regulators, the farming industry, urban planners and water utilities; a webinar is also available. The Insight is available [here](#).

We published a refresh of three RI Expert Briefs during the quarter. The crucial context for the **Just Transition** is a need to decarbonise the global economy at an unprecedented rate. The transition to a net-zero carbon economy has to be deep, broad, and rapid if we are to avoid truly catastrophic global heating and irreversible climate change. Any delay in reducing emissions results in an ever steeper pathway to net-zero by 2050. The [Just Transition](#) is about doing this in a socially just and equitable manner.

Banks are seldom out of the news, with the whole sector under scrutiny for financial imprudence. In this updated RI Expert Briefing we outline our views on [Banks](#), and whether there is still a case for them as responsible investments.

Finally, we are often asked by clients for our views on **Gilts** and how these 'comply' with our ethical and ESG screening process. In this RI Expert Brief we take a look at [Gilts](#) as an asset class and present our House view.

The humble omnibus makes a significant contribution to social mobility, access to basic services and to environmental sustainability. As the 200th anniversary of the first public omnibus service fast approaches in 2029, we decided to take a look at the exciting prospects in place for the **UK bus industry**, and in particular through the lens of one EdenTree investment: National Express Group. The RI Expert Brief can be found [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 2,346 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,742 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.

Engagement – Telecommunications



In light of the crisis engulfing Ericsson over alleged payments to terrorist groups, we decided to undertake a focused engagement with ten **telecommunications companies** to probe their compliance due diligence around operating in theatres of conflict where there is high risk of bribery. So far the response has been encouraging with qualitative replies from **Telefonica, BT Group, Nokia, Verizon** and **Telstra**, meetings with **Orange** and **Vodafone**, and confirmation that neither **KPN** nor **Telefonica Deutschland** have operations or exposures that would lead to the kind of ethical issues encountered at Ericsson.

Thematic Engagement – Financial Inclusion



We contacted **Lloyds Banking Group** after it had gone ahead and closed the last remaining retail bank branch on the Scilly Isles. The Bank had conducted a normal

viability review and concluded the branch was not viable whilst at the time not giving guarantees that the last remaining ATM on the islands will remain open. We made representations noting that remote island communities require a different viability assessment to mainland branches where alternatives may only be a bus ride away. Despite increasing online banking, the closure of the last remaining facility on the Scillies may put the economic viability of island communities and their businesses at risk. We have been in touch with the local MP for West Cornwall and the Scillies (St Ives) who is keen to explore the option of a community banking hub for the islands, and we have assisted in providing some leads.

Thematic Engagement – Facial Recognition

We are currently taking part in a collaborative engagement on responsible use of facial recognition technology. As part of this initiative, we have met with **Microsoft** and **NXP** to discuss their approaches to this new technology.

Thematic Engagement – Health and wellbeing

We had meetings with **M&S** and **Tesco** as part of the Healthy Markets collaborative engagement initiative to discuss their approach to healthy diets. Both companies discussed their recent scores in the ATNI UK Retailer index, and we were positively impressed with the steps the companies announced they are taking to promote healthier products. Tesco also announced that it will continue with plans to remove volume-led promotions on HFSS (High in Fat Salt and Sugar) products from October 2022.



We met with **Sanofi** to discuss various topics such as product recalls, litigations, GHG emissions, product life-cycle analysis and animal testing. The company scores highly on the ATMI (Access to Medicines

Index) and has bold plans to support the WHO in eradicating polio and sleeping sickness. The company also discussed its antibiotics production and how they seek to tackle AMR (anti-microbial resistance) in the environment and in patients.

Thematic Engagement – Climate Change

For the sixth successive year EdenTree is taking part as a lead investor in the **CDP Non-Disclosure Campaign**. Over 10,000 companies, cities, states and regions already disclose their emissions through the CDP questionnaire, a very useful tool which we use in our process. The questionnaire, which is fully aligned with the TCFD guidance allows companies to disclose their environmental impact and how they are managing their contribution to climate change as well as risks and opportunities. This year we are leading the engagement with eight companies including **Mears Group, INDUS Holding, Hawaiian Electric Industries** and **Exact Sciences**, and have co-signed letters to 25 others across all three questionnaire requests.



We had a call with chemicals company **Solvay** as part an investor collaborative engagement on the Chemical Sector's Decarbonisation. The company announced they are in the process of having their emission reduction targets approved by SBTi.



We met with **Barclays** following their AGM to discuss their 'Say on Climate' vote. Barclays has made significant progress in recent years, and is now ahead of many

banks in terms of the ambition of its strategy. There are however a number of areas which could be strengthened further specifically around coal and oil & gas. This was an open and constructive call with the bank, and we heard that they are continuously reviewing their policies to align with 1.5 degrees.



We had a call with **Standard Chartered** on its climate strategy in light of the shareholder resolution at this year's AGM. Standard Chartered's current net zero plans have a number of gaps and we

therefore supported the shareholder resolution asking for revisions to their current plans, whilst abstaining the Bank's own resolution on its net zero transition which attracted 17% opposition. We met to discuss our decision and outline where we would like to see further progress.

Company Engagement Round-Up



We had a call with **National Express Group** the international UK based transport Group to discuss a range of sustainability issues including fleet

transition, improved reporting and vehicle end of life. The company has been through some challenging times as the market for public transport disappeared during COVID, but their eye-catching announcement never to buy another diesel bus is still in place, and it was interesting to note they have ruled out buying hybrid vehicles in favour of battery powered for local urban transport, and believe hydrogen for the long-distance coach network is the likely fuel of the future, but this will take longer to transition.



We met with **Teladoc Health** following our taking a new position. Teladoc is very early on in its sustainability journey, with limited disclosures. We had a constructive call with

the company and expect to remain engaged as they develop their thinking. We will be scheduling a follow up call with a member of their ESG team to encourage further action.



We had two calls and an in-person meeting with the CEO of **Darling Ingredients** to discuss some concerns raised during our screening of the company. In particular

we were concerned about their high emissions intensity and their approach to health and safety. We had a very open conversation, and the company provided significant reassurance that these issues are being prioritised.

We met with **Biffa** to discuss progress towards foundation living wage accreditation. It was a positive conversation – they are hoping to achieve the Recognised Service Provider accreditation this year whilst also working towards full membership of the living wage foundation before 2025.



We had a call with **Avient Corporation** following a screening of the company.

Avient is a global manufacturer of specialised polymer materials. We heard that the company is focused on transitioning its product suite to more sustainable solutions, for example by enabling customers to reduce material usage, and increase reuse potential of materials. More broadly, the company has added significant sustainability resource in recent years and is making good progress against its 2030 sustainability ambitions.



We had a call with **Scotiabank**. The Bank has a strong and compelling social agenda, but is somewhat short of peers in terms of environmental frameworks, divesting from

coal (it has set no date for ceasing to finance coal) and in setting absolute targets. They essentially confirmed that the sector in Canada is hamstrung by Government policy and the need to move within the Government's 'mechanism' on climate change. As a result of this laggard performance we intend to join a collaborative initiative that will engage further with Scotiabank as we have already done with RBC.



We had a call with the Head of Sustainability of **Electrolux**, the Swedish appliance manufacturer. The company has a very ambitious 'circular economy' model

in development which entails the right to repair, end of life take-back and recycle and increasing the overall amount of recycled plastic in their manufactured appliances including a prototype 100% recycled vacuum cleaner. Interestingly, although eminently reusable, the use of recycled steel in white-good appliances is far less developed than incorporating recycled plastics.



We had a call with **INDUS Holding** an investor in German small and medium sized enterprises. Its unusual investment proposition is to invest and hold for the

long-term a range of German manufacturing businesses and to allow them considerable decentralised autonomy. We discussed how the model was affecting the ability of INDUS as a Group to report central data on energy, waste and water and to set appropriate targets when each business was essentially 'going it alone'. INDUS has appointed more resource to drive this, and is beginning to consider what targets and data are meaningful for its business; for instance they appeared unaware of the science based targets methodology. The company to date has set a single target of net zero by 2040 but has no roadmap to get there.



We had a meeting with **Royal Mail Group** following a recent review. In particular we wanted to understand the company's approach to safety management given it reported 31 fatalities in 2020. The company has maintained a policy of reporting any incident that comes into contact with a Royal Mail vehicle, and so many of the fatalities reported were not incidents caused by Royal Mail itself. We also discussed the company's ambitious net zero plans and fleet transition strategy as well as how technology is helping to support postal staff in dealing with dangerous dogs.



We were pleased to have a one-to-one call with the CEO and CFO of **PostNL** the Dutch post and logistics operator, which has become mired in controversy at its Belgian operations, including allegations of child labour. As well as an update on markets, volumes and margins (all under pressure) we were able to learn more of the two ongoing criminal and regulatory investigations at their Belgian business, which the company has aggressively contested. We remain alert to developments but have kept in close contact with the company.

We were interviewed as part of a materiality assessment for **Talanx**, following a meeting with the company last year. They are in the process of updating their sustainability strategy and disclosures in response to increasing stakeholder expectations. We also took part in a materiality assessment for **Harmony Energy Income Trust** and provided feedback on areas where we would like to see more focus including emissions and human rights in battery supply chains.



We met with **Currys and Iberdrola** as part of our company monitoring meetings. Currys, the UK electrical and electronics retailer, has made good progress on environmental issues including setting a science based target and is among the largest recyclers of e-waste in the UK. On the social side however, we encouraged the company to make more progress on health and safety disclosures and employee pay issues. Iberdrola, the Spanish energy giant, is a strong sustainability play with over 20 years' experience of investing primarily in renewable energy. The company provided a comprehensive update on progress towards their 2030 targets.



We had a call the Canadian insurer **Manulife**. The company hired its first Head of Sustainability 18 months ago and it was pleasing to note that the company appears to be developing a strategy, although some aspects are behind their peers for instance in not considering divestment from high emitting sectors, and still holding a 12.5% stake in an oil & gas exploration company.



We had a pre-investment call with **Zuken** a Japanese software and consulting company. The company acknowledged that they are behind in terms of their sustainability journey in comparison to their European peers, however they reassured us that they are 'eager to learn and improve' and they have provided us with additional information with regard to our ESG questions. The opportunity to engage with Japanese companies is an exciting one, not least when they are keen to understand how we as investors view best practice.

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 June quarter and peak of the UK proxy voting season saw us vote on 1,354 resolutions at 81 UK meetings, opposing or abstaining in 6% of cases. Executive pay accounted for 51% of all action taken, with our opposing 38 reports and policies, and two long-term incentive plans.

We continue to oppose excessive remuneration packages such as at **GSK, Smith & Nephew** and **Elementis**. So far in 2022 we have not been able to support any FTSE100 remuneration given the return, post-COVID to maximum and increased variable pay rewards, such as at **AstraZeneca** where the CEO received 800% of salary. At **Next** we wrote to the company to protest the payment of executive bonuses when Government furlough support had not been repaid.



We met with the Chair of the Remuneration Committee at **IP Group** regarding the introduction of a Restricted Share Plan. We continue to see poor justification for these plans which remove the performance element; we opposed the Plan at IP.



We had significant correspondence with the Chair and CEO of **Caledonian Trust** over ongoing governance concerns. The Trust is a controlled company and our concerns centre on the lack of Board refreshment and director elections. The Trust's Nominated Advisor (NOMAD) also engaged with the Board and some concessions were extracted. We have given notice that we are unlikely to support the Board until these concerns have been addressed.



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 June quarter Glass Lewis voted at 117 meetings comprising 1,762 resolutions in 19 markets. They opposed or abstained 14% of resolutions, with Compensation and Board Balance issues comprising 48% of action taken. We find few US pay packages that we can easily support, and during the quarter we opposed compensation packages at **Adobe, Pfizer, Cerner, Abbvie, Bristol-Myers Squibb, Gilead Sciences** and **AT&T**.

Shareholder and Climate Resolutions

We are seeing more climate transition plans being put to vote in the UK and France and we support these where we view them to be ambitious. In the June quarter we supported climate resolutions at the **Coventry Building Society, Aviva, Barclays,** and **Centrica** as well as a shareholder resolution on climate at **Standard Chartered**. In France we supported similar proposals at **Engie, Mercialis** and **Carrefour**.

Overseas, we support shareholder resolutions where they are reasonable and proportionate and in keeping with our general stance on ESG (environmental, social and governance) positives. Where they appear to mandate an unreasonable financial charge or represent narrow lobby interests we may exercise discretion to oppose or abstain. We supported 39 proposals including at 14 US companies and a record 14 individual shareholder resolutions at **Alphabet**.

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

HOW WE...CLIENT AIDS

We know clients are keen to understand the 'nuts and bolts' of how we go about managing investments responsibly, and so we have published three new client 'primers' that get under the bonnet of how the RI Team does its work. [How We Screen](#); [How We Engage](#) and [How We Vote](#) are all available on the website.

RECOGNITION

We were delighted to be recognised in the ESG Clarity Awards where the Responsible & Sustainable Managed Income Fund won the award for best fund in the Multi-Asset class. Fund Manager Chris Hiorns is seen here collecting the award with Carlota.



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 Wyshesky, 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.



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

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