

QUARTER TO 31ST DECEMBER 2022

Welcome to our Responsible Investment Activity Report for the three months to 31st December 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



Screening



Engagement



Governance


 Responsible Investing

RESEARCH

Our 2022 Montréal Carbon Pledge Report has now been published. It communicates the results of EdenTree's 2022 climate analysis, disclosing the carbon footprints, temperature trajectory, SBT-alignment, and largest emitters of our Funds. Available [here](#). Following on from this, in December 2022 we published our latest **Climate Change Position Statement**. The statement includes new thinking as part of our ongoing strategy, including a 2035 decarbonisation target, a 2025 SBT alignment target, and the creation of a three-year Climate Stewardship Plan to target, via engagement, the heaviest emitters across our Funds. The statement is available [here](#).

This quarter all eyes were on Sharm El-Sheik for **COP27**, we published a blog outlining our thoughts around climate financing, which took centre stage at the conference. We outlined some of the history behind 'loss and damage', why it is such a controversial topic, and our expectations for what the COP would achieve – which weren't overly hopeful. Our thoughts are available [here](#).

Following on from Egypt, **COP15** soon became the centre of attention with the 'biodiversity' COP in Montréal. The summit's aim was to create a new Global Biodiversity Framework with clear targets and actions, in the face of the deterioration of the natural world. We published a blog on what we expected to see from COP15 and what we have seen from our engagement so far with companies. Available [here](#).

The COVID pandemic put the care sector in the spotlight as never before, with some of society's most vulnerable placed at risk. Care remains a challenging area for investment, and our latest Insight **'Investing Responsibly in Care'** takes a look at the history of care, the various types and models that exist in the UK and some examples of good practice as well as bad. We also consider



radical ideas that 'reimagine' care founded on the principles of dignity and flourishing, in order to arrive at some guiding principles that we might look for when investing in the care sector. The Insight is available [here](#).

We published a refresh of our RI Expert Brief on **Modern Slavery**, which explores the prevalence of modern slavery, the effects of the UK Modern Slavery Act, and our response to modern slavery here at EdenTree. Available [here](#).



Controversies, poor practices and ethical concerns have led us to exclude most companies with any mining involvement across our Funds – with one exception: a position in Imerys. **Imerys** is a French speciality materials company which has exposure to over 100 mineral deposits. Carlota went on a site visit to the Imerys Kaolin China Clay mine in Cornwall to find out more about how they operate as a responsible business and why it is suitable for our Funds. Our thoughts are 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 2,325 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,806 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

In the run-up to COP15, we launched a focused biodiversity engagement with **15 food retailers** to better understand their approach to managing biodiversity risk. We met with several companies, including **Hotel Chocolat, Unilever, Nestlé, Associated British Foods, Tate & Lyle, Tesco, Waitrose, M&S** and **Carrefour**, where we discussed topics such as biodiversity measurement, regenerative agriculture, the challenges surrounding biodiversity, and the role of frameworks such as the Taskforce for Nature Related Financial Disclosures (TNFD) and Science Based Targets for Nature. In our view, the ‘leaders’ of the corporate sector are those that are pressing ahead despite the challenges, choosing to take small steps instead of using the immense complexity of the issue as an excuse for inaction and delay.

THEMATIC ENGAGEMENT – CLIMATE CHANGE



This quarter we met with **Hawaiian Electric** as part of our engagement on the CDP’s Annual Non-Disclosure Campaign. The company has made significant progress over the last year including committing to the Science-Based Targets

Initiative and further expanding renewable generation. We were also particularly pleased to learn that in 2022 they disclosed to the CDP Climate Questionnaire for the first time.

Our focus on climate change extends to banks, and we are taking part in several collaborative engagements as members of the IIGCC. This quarter we met with Dutch bank, **ING Groep**, to discuss their decarbonisation strategy, and we remain convinced that they are a leader in this space. We asked questions around their alignment targets for the shipping sector, which is one of the few they have yet to map a net zero pathway for. We also met with the **Royal Bank of Canada (RBC)** to discuss their net zero strategy, including their financing of new fossil fuel infrastructure, aligning their oil and gas targets with the IEA’s (International Energy Agency) net zero scenario, and ensuring their public policy work is ‘Paris aligned’. Whilst the bank is undoubtedly significantly behind European peers, we are encouraged by their openness to a discussion.

THEMATIC ENGAGEMENT – MODERN SLAVERY

We are leading engagement with **Bellway** and the **Berkeley Group** on modern slavery as part of the ‘Find it, Fix it, Prevent it’ collaborative engagement. This quarter we sent letters to both companies to commence a dialogue about the actions they are taking to tackle modern slavery. In particular, as part of this initiative, we are aiming to de-stigmatise the uncovering of modern slavery and encourage companies to report on instances found.

THEMATIC ENGAGEMENT – HEALTH AND WELLBEING



We attended calls with **Tesco** as part of collaborative investor initiatives. The company discussed work to date, and their commitments to increase sales of healthy products. They also discussed the cost-of-living crisis and how this is impacting their business, and about their plans to increase sales from healthy products given the crisis.



We had calls with **Zoetis** and **Dechra Pharmaceuticals** on the topic of antimicrobial resistance (AMR) in feed animals. Both companies spoke about the role of farmer education in tackling the risk of AMR and the impact on their business of the new EU legislation on giving antibiotics to animals for prophylaxis.

COMPANY ENGAGEMENT ROUND-UP



As part of the WBA’s Digital Rights Collective Impact Coalition, we are co-leading the engagement with **Salesforce** on digital rights. This quarter we met with Salesforce to discuss their governance of AI, the development of AI, and their use of client due diligence. Whilst the company has made a public commitment to ‘Trusted AI’, their statement only commits them to providing partners with ‘the tools to use AI safety’, rather than requiring them to follow Salesforce’s standards. We had a constructive first call with the company, and will be scheduling a follow up in the next few months.



We had a fascinating call with **Greatview Aseptic Packaging**. Their sourcing of 100% FSC paper sets them apart from peers, but the company is yet to see the demand from customers for their ‘greener’ products. In their view, price remains the key driver – both in China and Internationally. Nevertheless they are pursuing their strategy and have made significant progress in the last year including the setting of an emissions reduction target.



We met with **Enel** for an update on their decarbonisation targets and strategy. Interestingly the company has decided to manufacture its own solar panels in Sicily and the US in order to overcome forced labour issues connected with sourcing from China. By 2024 Enel will have 3GW of installed capacity at its Sicilian plant and enough to supply all of its needs throughout Europe. Despite energy supply challenges in 2022, they are certain that longer term emission reduction targets are not in jeopardy from short-term volatility.



We met with **HSBC Holdings** following a review of the company to discuss human rights and the situation in Hong Kong. The bank is in a challenging situation. They emphasized the need to respect local laws and felt their focus on private engagement with the government was yielding results. They also provided more colour on the steps the bank has taken to integrate Human Rights across the business, which was encouraging.



We met with the managers of the **Aquila European Renewables Income Fund**, a prospective infrastructure investment, in response to allegations that a wind farm in Norway – ‘The Rock’ – is breaching indigenous rights. The call did not provide

us with reassurance on their management of indigenous rights, and as a result we decided it was not suitable for inclusion in our Funds.



We had an interesting first call with **Applied Materials Inc.** The company noted that they are still at the beginning of their ESG journey, and they have initially decided to focus on tackling GHG emission reductions. Now that they have a strategy

in place for GHG emissions, they will focus on water reduction and then waste.



We were invited by **Thames Water** to attend a site visit to view the **Thames Tideway Tunnel** which is expected to be operational in 2025. The site visit was in the deepest part of the tunnel, going down 60m below ground. During the site visit we were provided with a presentation on the social and environmental benefits the tunnel

will provide. The project involves partnering with different local charities, arranging river cleans, and educating schools on river pollution.



We had a general ESG call with US insurer, **The Hartford** after screening the company. It was an encouraging first call discussing the company’s overall approach to managing ESG risks, their insurance exclusions and investment exclusions. The company also discussed their approach to climate change risk.



We had a call with **Rayonier** as part of the CDP non-disclosure campaign to discuss the company’s reluctance to complete the CDP Forests questionnaire. The company said that they will consider reporting to the CDP in future years. We find this a positive

result and look forward to continuing engaging with the company in the future.



We had a detailed catch up with **Nestlé**, in which they provided updates on some of their ground-breaking regenerative agriculture projects in the UK, as well as product refreshment, climate change strategy and their latest Modern Slavery

report. As the world’s largest food producer, Nestlé is in a commanding position to make a significant difference to farmer livelihoods and the way they farm sustainably, which they have now extended to dairy farming, wheat and sugar. The meeting also touched on their updated approach to the marketing of Breast Milk Substitutes and their commitment to cease marketing in all countries for 0-6 months and to encourage the industry to move to a similar position for follow on foods up to 12 months.



We met with **Croda International** to have a post-screening catch-up. We discussed several aspects of their sustainability strategy, covering climate change, science-based targets for nature, palm oil sourcing, waste management

and lifecycle assessments. We also met with French water and waste management company, **Veolia Environnement**, following a review of the company for an ESG catch up. We discussed their decarbonisation strategy and gained reassurance that they are on track to meet their emission reduction targets. We also touched on their approach to health and safety given an increasing incident rate in recent years, as well as their approach to recycling and the circular economy.



We had a call with **a2dominion**, a private housing provider and developer in the UK. We covered how the company manages consumer complaints effectively, and their plans to improve the energy efficiency of the housing stock and how they are supporting customers during the cost-of-living crisis.



We joined a call with **Top Build**, a US buildings materials and insulation installer. We asked questions around the company's management of health & safety, oversight of fire risk, and appetite for enhanced ESG disclosure. We welcomed the company's management of health & safety which appeared strong as well as their appetite towards improved reporting.



Michelin faced allegations of involvement in deforestation and violating indigenous land rights in Jambi Indonesia. In light of this, we contacted them to gain an understanding into these allegations which they deny. We received reassurance and will continue to monitor.

The team attended the **PRI in Person** conference in early December in Barcelona. It was the first time the conference had been in person since the pandemic, with thousands of investors attending. Whilst climate change dominated the conference, it was important to see other topics included such as human rights and the investor role in public policy.

With the highest rates of rising inflation in decades, the UK faces a cost-of-living crisis that is affecting millions of working people. Together with 17 institutional investors with £3.2 trillion of AUM, we signed an **investor statement on the cost-of- living-crisis**, asking businesses to support low paid workers during the crisis, consider meeting Living Wage rates, and approach executive remuneration in a proportionate way. This is available [here](#).

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 December quarter saw us vote on 418 resolutions at 29 UK meetings, opposing or abstaining in 7% of cases. Executive pay accounted for 57% of all action taken, with our opposing 16 reports and policies, and two long-term incentive plans.

We continue to oppose remuneration packages which we view as excessive or poorly structured. During the quarter we opposed remuneration reports at **Ashmore Group, Hargreaves Lansdown, Smiths Group** and **Hotel Chocolat**. We opposed several Remuneration Policy proposals, including those at **Genus, Spectris** and **Associated British Foods**.



At **Ferguson**, we unusually opposed adoption of the Annual Report & Accounts owing to a deterioration in the company's approach to corporate governance following its re-location to the United States. The company, which is domiciled in the US, registered in Jersey and headquartered in London, is now taking a 'pic-n-mix' approach to governance which we viewed negatively. We also opposed a bundled resolution amending the Group's Articles which included a provision for lower reporting thresholds and the introduction of political donations.



We had a meeting with the Chair of **Frontier IP Group** over their remuneration proposals. FIP planned to move to more conventional pay arrangements, however we had some concerns around the planned rises in base salary of over 33%, coupled with the introduction of two new variable pay schemes with a maximum 400% salary. We were delighted that following the meeting the Board agreed to reduce overall limits to 300% in line with our Policy.



We attended an investor group meeting with **Lloyds Banking Group** on Board Governance. The Board covered both long and short-term key focus areas going forward, board diversity, remuneration, audit committee updates, and the climate change strategy of the company.



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 16 meetings comprising 152 resolutions in 10 markets. They opposed 16% of resolutions, with executive compensation comprising 40% of action taken. We find few US pay packages that we can easily support, and during the quarter we opposed compensation packages at **Paychex, ADP, Lam Research, Medtronic, Microsoft Corp.** and **Palo Alto Networks**.

From time to time we are invited to consult on remuneration proposals prior to their being put to shareholders. During the quarter we provided views to **Synthomer** and **PostNL**.

SHAREHOLDER AND CLIMATE RESOLUTIONS



There were no shareholder or climate related resolutions in the UK during the final quarter of 2022. Overseas, we supported four shareholder proposals at **Microsoft Corporation** including calls for greater tax transparency and more

disclosure on the harmful uses to which technology can be put. We also supported a shareholder proposal calling for greater tax transparency at **Cisco Systems**.

Our Global Corporate Governance Voting Reports are online at 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. During the quarter we published our Stewardship Report 2022, reflecting our submission under the Code to the Financial Reporting Council. The Report is available [here](#).

CONTACT US

We welcome client feedback, and you can contact us direct at information@edentreeim.com

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 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.



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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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