

# Quarter to 30<sup>th</sup> September 2019

*This report covers reported activities across our range of managed products and Funds*

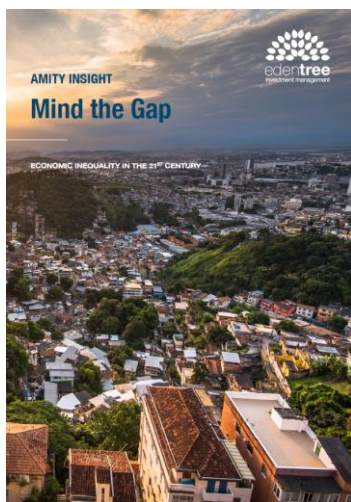


Welcome to our Responsible Investment Activity Report for the three months to 30<sup>th</sup> September 2019 with news of our responsible investment research, engagement and governance activities. Our RI Activity Reports follow our overarching Responsible and Sustainable Investment pillars:



We hope you enjoy this round-up of our activities carried out on behalf of you, our clients, and we welcome any feedback and comments.

## RESEARCH



Our final Amity Insight of 2019 explores the nature of economic inequality in the 21<sup>st</sup> century both within and between countries, as well as examining the impact of climate change as an agent of increasing inequality. Whilst looking at how responsible investors can play a part in promoting a 'race to the top' via support for Living Wages, diversity, strong labour and supply chain standards, and paying fair

taxes, the Insight highlights the systemic drivers of inequality, and asks whether radically new economic thinking is required if we are to meet the needs of all within the planet's ecological boundaries. The Insight 'Mind the Gap – Economic Inequality in the 21<sup>st</sup> Century' is available at [www.edentreeim.com/amity-hub](http://www.edentreeim.com/amity-hub)

The first Edentree Insight of 2020 will complement our earlier work on aviation and shipping by focusing on road transport, its future, how it will need to transition to support a low-carbon economy and the social role transport plays in reducing social inequality. This is planned for release in January.

## RI EXPERT BRIEFINGS

Since 2011 we have published 54 Expert Briefings for clients. These handy 3-4 page briefings are designed to answer client questions on a broad range of topics in an easy to understand way. Always objective, they set out our House positions on everything from tax, investing in banks, palm oil, GMOs and executive pay, to more innovative thought pieces on emerging issues such as Hydrogen and cannabis.

We published three RI Expert Briefings during the quarter, on Gilts and Oppressive Regimes. We updated the Expert Brief on GMOs.

We are often asked how **Gilts** (or Treasury debt) comply with our responsible and sustainable approach to investing. The Briefing sets out our views on their ethical acceptability as an asset class, whilst acknowledging that for some clients they may be challenging owing to the allocation of Gilt proceeds to defence or nuclear programmes. Whilst accepting an allocation to developed market debt as 'ethically acceptable' our ethics Oppressive Regimes screen may prevent our taking a position in some overseas markets.

Our **Oppressive Regimes** ethics screen is among the most challenging to apply. As a result, we have recently refreshed and re-articulated what we mean by an 'oppressive regime' and the criteria we apply in deciding whether to invest. The RI Expert Brief sets out in detail our revised thinking in this area, the characteristics of oppressive regimes, constructing a list of countries, identifying corporate complicity in human rights violations, and scopes some emerging issues that will require more thought.



**GMOs** was among the first RI Expert Briefs we published for clients back in 2012. Now completely refreshed and updated, it reiterates our House position to support evidence based science and the role companies have in fostering consumer and public confidence in the science. We view the genetic

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modification of animals to be highly controversial and remain cautious in respect of its medical or scientific justification.

All of these briefings are available online on our Amity Hub at [www.edentreeim.com/amity-hub](http://www.edentreeim.com/amity-hub)

## TRADE & SOCIAL MEDIA

We provide comment and written pieces for the media and trade press on responsible and sustainable investment, and during the quarter we provided comment *Portfolio Advisor*, *Citywire* and *Fund Calibre*.



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 Amity Fund Manager, Ketan Patel on Twitter @Kethical where his 1,935 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,340 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 (ESG) issues.

### FOCUSED ENGAGEMENT – CLIMATE CHANGE

Climate change is fully integrated in our investment process through screening and engagement. In keeping with our commitment under the Montréal Pledge, we have, for the fourth consecutive year, conducted carbon footprints for our equity portfolios. As in previous years, emissions within the portfolios are concentrated in a handful of stocks and the carbon footprint forms the starting point of our engagement with the heaviest emitting companies. Once again it is pleasing to note that the Amity European, Global Equity, International and UK Funds all report a lower carbon intensity than their respective benchmarks – some considerably so. The carbon footprints for our Amity Equity Funds are located on the Amity Hub at [www.edentreeim.com](http://www.edentreeim.com)

Across our equity portfolios we engaged with 20 companies to encourage them to report their emissions, to set science based targets and to understand why some are struggling to reduce emissions. Positive responses were received from

**SSE** (Amity Balanced, Short Dated Bond, Sterling, UK) and **Tate & Lyle** (Amity Balanced, Sterling Bond), both of which are currently working on developing science based targets.

### THEMATIC ENGAGEMENT – MODERN SLAVERY



We have begun to conduct a thematic engagement with our UK construction sector/house-builder holdings on the issue of Modern Slavery and human trafficking. We have identified nine companies for this engagement: **Berkeley Group** (Amity Global Equity, UK), **Landsec** (Amity Balanced), **Morgan Sindall** (Amity UK), **Bellway** (Amity UK), **Inland Homes** (Amity UK), **British Land** (Amity UK), **Great Portland Estates** (Amity UK), **Taylor Wimpey** (Amity Global Equity, UK), and **Urban & Civic** (UK Equity Growth). We also wrote to *Galliford Try*, which has since been sold. The aim of the engagement is to understand the impact of Modern Slavery policies and practices, the level of due diligence conducted with respect to direct employees and those in the supply chain/business partners/contractors etc.

We are particularly interested in establishing whether low reported instances of Modern Slavery/trafficking in supply chains and among contractors'/sub-contractors' labour forces are the result of strong policies and due diligence (i.e. the policies have ensured that there are no instances), or indicate that methods of identifying and reporting instances of Modern Slavery are insufficiently mature to be able to show they are occurring. By drawing attention to potential shortcomings and best practice, we hope to contribute meaningfully towards improved management of these risks.

### THEMATIC ENGAGEMENT – WORKFORCE DISCLOSURE INITIATIVE



We continue to support the **Workforce Disclosure Initiative** (WDI), which is now in its third year. As well as writing to a number of companies to encourage participation in this year's survey, we took part in a Roundtable in September which convened investor signatories and a number of representatives from companies which have been invited to complete the 2019 WDI survey; these included **J Sainsbury** (Amity Balanced, Sterling Bond), **National Grid** (Amity Balanced, International, Short Dated Bond, UK) and

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**Infirma** (Amity UK). The Roundtable was an opportunity for investors to discuss the benefits of WDI reporting, how investors are using the data, as well as some of the challenges for companies when it comes to collating and submitting data.

### COLLABORATIVE ENGAGEMENT – ‘GHOST GEAR’

We have supported a collaborative investor initiative calling on the **Marine Stewardship Council** to strengthen its fisheries standard to include abandoned, lost or discarded fishing gear as part of its certification process. ‘Ghost gear’ is a significant contributor to marine pollution, adversely affecting biodiversity.

### COLLABORATIVE ENGAGEMENT – PRI IN PERSON

In early September, the RI team joined around 1,700 other delegates in Paris for this year’s three-day ‘**PRI in Person**’ conference. This year the conference was focused on climate breakdown – the defining issue of our time. PRI in Person framed this through the tagline “responsible investing in an age of urgent transition”, and it was encouraging to see some sessions dedicated to the often-neglected social aspects of responsible and sustainable investing and the transition to a low-carbon economy. We continue to be concerned by the couching of certain issues in terms of “financial materiality” – this was particularly true of human rights discussions. Whilst in Paris, the team met with three French companies in which we are invested, **Carrefour** (Amity European, International), **Orange** (Amity Balanced, European, International), and **Société Générale** (Amity European) and had useful and constructive dialogue across a range of ESG issues.

### COLLABORATIVE ENGAGEMENTS – COBALT AND JUST TRANSITION

In addition to the engagements conducted by EdenTree alone, we also take part in collaborative engagement alongside other investors on key issues where leveraging collective knowledge and resource is helpful.

In the third quarter we have continued to work with other PRI signatories as part of PRI-led engagement streams on (i) responsible sourcing of **cobalt** and (ii) ensuring a **Just Transition** to a low-carbon economy. In relation to the former, we are leading the engagement with **Infineon** (Amity International), supported by investors in Europe and Australia, and have opened a dialogue with the company to establish the extent of their exposure to cobalt, and the steps they are taking to ensure universal human rights are upheld in their cobalt supply chain. With regard to the latter, the PRI investor group on the **Just Transition** is at an early stage, scoping the objectives of the engagement stream and establishing the role

investors can play in ensuring a Just Transition over the next decade.

### COMPANY ENGAGEMENT ROUND-UP

We undertake periodic reviews of companies held in the Funds and assess the requirement for further engagement based on issues which are flagged during the review process. US companies can be difficult to engage with in a meaningful way, but we had fruitful conversations during the quarter with **Microsoft** (Amity Global Equity, International), **Eaton Corp** (*not currently held*), **Pfizer** (Amity Global Equity, International, UK), and **Valmont Industries** (Amity International).

Other company meetings during the quarter included an investor meeting with the Chief Executive and Chief Ethics Officer of **Novartis** (Amity European, Global Equity, International). It was very clear that the CEO is focused on restoring trust and integrity after a series of scandals. Whilst this will take time, we believe our intensive engagement with the company has been positive.

We had a useful conference call with **Direct Line Group** (Amity Balanced, Short Dated Bond, Sterling Bond) that focused on the Group’s approach to environmental and social issues, and particularly accrediting to the Living Wage and its response to climate change. We have also encouraged the company to participate in the insurance industry’s response to climate change, Climate Wise.

We engaged with Swedish telecommunications company, **Ericsson** (Amity European) as routine monitoring revealed elevated disclosure on fatalities among suppliers and ‘members of the public’. We were informed that Ericsson’s reported fatalities occurred during work conducted directly on behalf of the Ericsson business. The company’s Investor Relations team indicated that the majority of all fatalities that have occurred are a result of “high risk activities”, which include project driving (between sites), climbing and working at heights, along with working with electricity. Ericsson’s IR team stated that the company is working closely with suppliers to improve health and safety in these high risk areas and we will monitor the situation closely going forward.

We wrote to **Victrex** (Amity Global Equity, UK) for an update on its GHG emission targets and the recyclability of its key polymer product, PEEK. The company continues to improve the quality of its disclosure, but confirmed that whilst it has not reported on progress in reducing emissions, they stressed the 2023 target of reducing them by 50% per £ revenue is on



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track. PEEK, we learned, is recyclable, however given it is employed for its high-performance durability in the aerospace, automotive, electrical and medical sectors, endless reusability is not desirable, making Victrex less of a 'circular economy' stock. The company finally stressed it intends to improve disclosure overall in 2020, which we welcomed and will monitor.

We attended the **Tesco** (Amity International, Sterling Bond, UK) ESG day at their head office in Welwyn Garden City. Tesco's first ESG day provided an insight into the key ESG issues facing the company, how it is managing these and how it is finding solutions to sustainability challenges. The tone from the top was very clear about its commitment to responsible business. It was particularly encouraging to see the CEO and CFO personally driving the sustainability agenda.

We had a call with the Group Counsel at **WPP** (Amity Balanced) to discuss how the company manages reputation risk given its decentralised model of semi-autonomous businesses. As among the world's largest media and communications groups, contract risk from clients with poor human rights records is a material challenge. The company gave an overview of their internal risk process, however, they have not developed any 'red lines', preferring to review contract risk on a case by case basis.

We contacted **Philips** (Amity European) following ongoing allegations of bribery investigations in China and Brazil. Despite some news-flow, the company was not at the time aware of any SEC enquiry into bribery concerning three medical manufacturers in China. Investigations in Brazil are continuing, and the company is co-operating with the authorities. We remain comfortable with Philips, although we will continue to monitor.

## 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.*

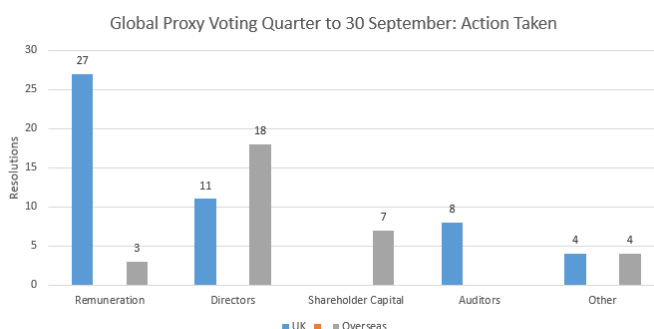
## PROXY VOTING

The third quarter saw us vote at 49 UK meetings on 736 resolutions, opposing or abstaining in 7% of cases. Executive pay and Board directors were the main areas of opposition, with 54% of all action taken being against remuneration.

We continue to find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs and poor links to performance. Of 52 pay-related resolutions in the September quarter, we opposed or abstained 44%. Within the FTSE100 where we see the greatest 'excess', we opposed all but one remuneration proposal (93%). Companies where we opposed included **Land Securities** (Amity Balanced), **BT Group** (Amity Balanced, International, UK), **Vodafone Group** (Amity Balanced, Sterling Bond, UK), **Tate & Lyle** (Amity Balanced, Sterling Bond), **National Grid** (Amity Balanced, International, Short Dated Bond, UK) and **Berkeley Group** (Amity Global Equity, 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 second quarter saw Glass Lewis vote at 13 meetings comprising 111 resolutions in eight markets. They opposed/abstained 29% of resolutions, mostly against the re-election of directors (56%) and shareholder capital issues (22%).



Our Global Corporate Governance Voting Reports are online at [www.edentreeim.com](http://www.edentreeim.com)

## RECOGNITION

We were delighted to have been named 'Best Ethical Investment Provider' in the Moneyfacts Investment Life & Pensions Awards 2019 for the 11<sup>th</sup> successive year in a highly competitive category that included nine other Fund houses.

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This is testament to our commitment to be the best ethical and responsible investment provider for clients, and a huge vote of confidence from all our supporters who nominated and voted for us. Thank you.



**Best Ethical  
Investment Provider**

### PRI ANNUAL ASSESSMENT

For the fifth consecutive year EdenTree achieved an **A+** in the annual PRI Assessment Report for **Strategy & Governance**. We achieved 'A' ratings in our core Equity and Fixed Interest strategies, and are delighted that our process and approach continues to be recognised as among the best.

## THE EDENTREE RI TEAM



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



**Esmé van Herwijnen**  
Responsible Investment  
Analyst



**Jon Mowll**  
Responsible  
Investment Analyst

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 Amity funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Esmé van Herwijnen and Jon Mowll, 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. Our ethical and responsible investment process 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 RI Expert Briefing 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)**