

Quarter to 30th September 2020



Welcome to our Responsible Investment Activity Report for the three months to 30th September 2020 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:



COVID-19

Throughout the whole period colleagues have been largely working remotely from home in response to the COVID-19 pandemic. All of our normal activity has recommenced, although for logistical reasons, publications are currently in digital format only. We hope you enjoy this round-up of our activities carried out on behalf of you, our clients, and, as ever, we welcome any feedback and comments.

RESEARCH

Our final EdenTree Insight of 2020 will look at supply chains. A phenomenon of globalisation, modern supply chains are complex and extended, with significant, often invisible, embedded environmental and social risks. Whether it is human rights such as child or bonded labour or deforestation from palm oil or timber sourcing, much modern corporate risk stems indirectly from the supply chain. The Insight looks at the history of supply chains, how they work and how companies have to commit increasing resource to their oversight and management. We also look at some future trends including supply chains that are low-carbon and climate resilient, as well as applying new technology such as blockchain. The Insight is due to be published online in October.

Expert Briefings

We published two Expert Briefings during the quarter. **Fast Fashion** is a relatively new concept, but is a highly profitable and fast paced model in which lines turn over constantly, such that consumers now buy 60% more items than 15 years ago. Whilst affording the consumer almost constant choice, the model is wasteful and exploitative, underpinned by poor labour conditions and leading to a range of environmental damages.

The Brief explores Fast Fashion in depth and sets out our House position in terms of investment avoidance and opportunity. The second Expert Brief explored two UK utility stocks we hold and like for their strong environmental and sustainability credentials; **Severn Trent** and **SSE**. All our Expert Briefings are available online.

Opinion

The RI Team published three opinion pieces over the quarter that reflect our views on developing trends and ideas. These looked at 'Purposeful Capital' in which we explore the moral purpose of investing, and whether capital can be purposeful over and beyond making a return. Our thematic engagement on biodiversity saw us blog on 'Engaging for Nature: An Investor Perspective on Biodiversity' looking at engagement outcomes but also exploring why we remain so passionate about the role investors can play in seeking to protect and enhance the natural world. The final opinion piece was Part II of our series looking at the 2020 AGM season and exploring our thoughts on what has been a strange and unusual proxy voting season. All can be viewed online.

Social Media

We invite you to get involved with the team by following us on social media. As well as following us on Twitter @EdenTreeIM, you can also find us on LinkedIn or follow Head of RI, Neville White, where his 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 on Climate Change

As a member of the **ShareAction Investor Decarbonisation Initiative**, we co-signed five letters in Q3. These included a letter to **Solvay** to encourage better energy efficiency at its operations and **ITV** to encourage increased use of renewable energy. We also signed three letters to **Adidas**, **M&S** and **Vodafone** on low carbon fleet management and the adoption of electric vehicles.

We participated for the fourth time in the **CDP Non-Disclosure Campaign**. Every year hundreds of companies are invited to take part in the CDP's climate, water and forest questionnaires, but not all companies participate. EdenTree has led the engagement with **Hawaiian Electric Industries**,

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Draegerwerk and **Zoetis** for the climate survey and co-signed letters to another 12 companies. Unfortunately, Hawaiian Electric has responded to say that they will not take part, however we had encouraging conversations with Zoetis and are pleased that, in the future, Draegerwerk will take part.

Thematic Engagement on the WDI

We began our engagement with 20 companies in relation to this year's **Workforce Disclosure Initiative (WDI)** survey. EdenTree has supported the WDI since its inception, and this year we have written to these companies to encourage completion of the 2020 survey. Given the social and economic disruption caused by Covid-19, we consider workforce-related issues to be more pertinent than ever. We have had several encouraging calls, including with **Vivendi** and **Prysmian**, working alongside WDI representatives, with **Post NL** and **Telefonica** which stated their intention to complete the survey.

Company Engagement Round-Up

An engagement that spanned the second and third quarters, we have spoken with **HSBC** and **Standard Chartered** about their support, however explicit or implicit, for the Hong Kong National Security Law (NSL) imposed by Beijing. The NSL, the effects of which became evident shortly after its imposition, places in doubt the viability of the 'one nation-two systems' approach agreed in 1997, and has led to fears for political and civil freedoms. Both banks provided explanations for their actions, and outlined the governance procedures that led to their issuing statements. Despite several discussions with each bank, we remain concerned that both effectively publicly supported legislation without sight of its full contents, and that both failed to issue further statements condemning aspects of the NSL once its full effects and contents were known.



We conducted engagement with **HUGO BOSS** and **Burberry** on the subject of forced labour in garment supply chains. We received an alert from our data provider, ISS-ESG, that a certain Lu Thai Textile Co Ltd – which has faced past allegations of poor human rights and labour standards across its operations in Asia – is now alleged to be exposed to state-sponsored forced labour provided by Uyghurs and other Muslim minority groups in internment camps in the Xinjiang Uyghur Autonomous Region, China. Lu Thai, in turn, is understood to be a supplier to a number of familiar fashion brands, including HUGO BOSS and Burberry. We sought clarity on the issue from both companies. Both reaffirmed their

commitment to upholding human rights across their operations, including their supply chains. HUGO BOSS have subsequently instructed an audit of Lu Thai's facilities in its supply chain, whilst Burberry assured us that it does not source any cotton from China's Xinjiang region. Whilst we are broadly content with the steps being taken by both companies, this episode highlights the challenges of monitoring sprawling global supply chains, something which we reflect on in our latest EdenTree Insight.

Following reports in the UK and US media, we wrote to **The Disney Company** to express our concerns about worker and customer health & safety as the company's Florida theme park reopened following a Covid-19-related lockdown. We received some assurances around measures in place to prioritize the health and well-being of staff and guests, including PPE, social distancing measures, with strict capacity restrictions etc.



VERRA MOBILITY

We had an introductory call with **Verra Mobility** which was screened for inclusion in the funds in January. We focused on plans to roll out

ESG-related disclosures, and the extent of ESG data Verra currently collects but doesn't publish. We also sought to understand whether their commercial relationships with law enforcement bodies in the US exposes the company to reputational risk, especially in light of the Black Lives Matter protests which were sweeping the country at the time of our call. We were reassured that Verra's technology is non-discriminatory, only using license-plate information, and that the ability to issue fines remotely can limit the potential dangers of direct confrontation between law enforcement and the public.



Following the addition of **Danone** to the funds, we contacted the company for a first discussion on a range of ESG topics including carbon neutrality, supply chain practices, the bottled water business, BMS marketing and WDI participation.

Following a review of **Yara**, we have engaged with the company on a range of environmental issues. We particularly discussed the company's greenhouse gas emissions as well as the potential reduced demand for its products as regenerative agricultural practices gain traction. Yara is committed to the Paris Agreement and is working on a Science Based Target. Yara does recognise the changes in

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agricultural practices and its strategy will focus on driving more efficient, 'precision agriculture'.

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 marks the close of the main UK proxy voting season and saw us vote on 937 resolutions at 61 meetings, opposing or abstaining in 9% of cases. Executive pay accounted for 49% of all action taken, with us opposing 41 reports and policies (55% of all those voted).

2020 is a Policy year requiring companies to put a binding Remuneration Policy to shareholder vote; on the whole we saw companies exhibiting restraint, with little overt escalation in pay levels. However, we find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs, significant awards vesting at threshold or poor performance links. This disconnect is particularly evident at FTSE100 companies where we opposed 76% of pay packages where held. Remuneration Policy was opposed at (among others) **J Sainsbury, M&S, Homeserve, Experian, Johnson Matthey, Tate & Lyle, Vodafone and DS Smith.**

Individual Performance Share Plans or LTIPs were opposed at five companies including **Tate & Lyle, Great Portland Estates and Johnson Matthey.**

Both **BT Group** and **Burberry** introduced new-style long-term incentive plans that are uncommon in the UK. Both incentive plans rest on issuing restricted shares without performance conditions attached. In return the overall expected quantum of award is reduced by 50%. We opposed both plans. Although long-term incentive plans are flawed in their design, we do believe that performance conditions provide incentive and credibility. Without performance they have little genuine merit other than to elevate executive packages. Both schemes were strongly supported by shareholders suggesting they may not meet with investor push-back.



We strongly opposed the introduction of a Co-investment Plan for the incoming CEO of **Pearson**. Although Pearson

introduced a new Remuneration Policy only in the spring, this, they argued, was insufficient to attract global talent and required



a special award, whereby the new CEO would be awarded co-investment shares worth close to \$10m over three years. We viewed this as excessive with few lock-in guarantees to ensure value. We had a call with the Chair of Pearson and the Remuneration Committee Chair in which they spoke at length of the need to go 'off policy'. In the event, 37% of shareholders opposed the Plan, alongside EdenTree.

We continued to have success with our thematic engagement focused on AIM-listed companies. Targeting those that do not put remuneration or the election of directors to an annual vote, we were pleased that **Applied Graphene Materials** notified us that they would introduce both with immediate effect.



We received a reply from **Syncona** in response to questions on diversity and executive talent. Syncona has a small team and so we recognise the challenges that exist, however the very strong endorsement we received is encouraging. Across the team Syncona has already achieved the Hampton-Alexander target of 33% female representation, whilst acknowledging the all-male Executive Committee is the one area that continues to lag. We also received a response from **JP Morgan Japanese Investment Trust** in answer to questions about the Board's poor gender balance. Investment Trusts are challenging to engage with, so we view this as a positive. The Trust noted it intends to be fully compliant with the Hampton Alexander recommendations on diversity by the end of 2020, and indeed made a new non-executive appointment in July that brought the female complement to 33%. This we welcomed.

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 third quarter saw Glass Lewis vote at 18 meetings comprising 127 resolutions in 9 markets. They opposed or abstained 23% of resolutions, with Board balance issues comprising 51% of the action taken.

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

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Diversity

We fully integrate Board, Executive Committee and Pipeline diversity across all of our voting in the UK and overseas.

The Senior Independent Director (SID) at specialist waste company **Biffa** contacted us to discuss our recent voting decisions. At the latest AGM, EdenTree voted against the re-election of the Board Chair who is also the Chair of the Nomination Committee: Mr Lever received c.20% against his re-election. Our decision had been in line with our voting policy, owing to poor diversity at Board level. He was understanding of our views, although he commented that diversity had not been mentioned as a reason for the vote by other investors. The SID noted that there are no valid reasons why the Board should not be more diverse, and that he would take our comments back for discussion.



We also opposed the Chair of the Nomination Committee at **Homeserve** and **Scapa** owing to continuing poor overall diversity. Overseas, Glass Lewis opposed directors at four companies on diversity grounds.

EDENTREE RECOGNITION

We were delighted to win – for the 12th successive year – ‘Best Ethical Investment Provider’ in the Moneyfacts Investment Life & Pensions Awards 2020. In a highly competitive category that included nine other Fund houses, 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. Thank you.



Best Ethical
Investment Provider



We have also been nominated in three categories in the Investment Week Sustainable & ESG Investment Awards 2020: Best Sustainable & ESG Bond Fund (Amity Sterling Bond); Best Thought Leadership Paper (*Mind the Gap: Economic Inequality in the 21st Century*) and Best Sustainable & ESG Fund Management Group of the Year. The winners are to be announced on 26 November.

THE EDENTREE RI TEAM



Neville White
Head of RI Policy
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Esmé van Herwijnen
Senior 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 Activity Report and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com