

# Quarter to 31<sup>st</sup> December 2019



Welcome to our Responsible Investment Activity Report for the three months to 31<sup>st</sup> December 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

The first EdenTree Insight of 2020 takes a look at the Future of Road Transport and how it will need to transition to support a low-carbon economy. The Insight also looks at the important social role public transport plays in reducing social inequality and explores the investment value chain where responsible investors can gain exposure. The Insight will be published in late January.

### RI EXPERT BRIEFINGS

Since 2011 we have published 58 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 re-published four RI Expert Briefings during the quarter on Tax, Executive Remuneration, Banks and Voting. All four were previously published in 2011-2015, and have been completely revised and updated.

### SOCIAL MEDIA



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 1,991 followers regularly read his Tweets on market, economic and sustainability issues. You

can also 'link-in' with Head of RI, Neville White, where his 1,393 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.

### THEMATIC ENGAGEMENT – CLIMATE CHANGE



During the quarter, we continued our thematic engagement on climate change and greenhouse gas reduction targets. We spoke to Irish paper and packaging manufacturer,

**Smurfit Kappa** (Amity European; Global Equity; International) about its plans to reduce GHG emissions and the challenges the company faces in improving efficiency. Paper manufacturing remains an energy intensive activity and we will continue to encourage investee companies to increase their ambitions. We specifically asked the company to set a Science Based Target, i.e. a carbon reduction target which is aligned with the goals of the Paris Agreement.

We also engaged with **Prudential** (Amity Global Equity; International; Short Dated Bond; Sterling Bond; UK) prior to the demerger of its M&G Investment business. This was in the context of seeking more information on its approach to climate change as far as portfolio management is concerned.



We remain committed to encouraging companies to provide transparent disclosure on climate risks and opportunities. We participated in a **Taskforce on Climate related Financial Disclosure** (TCFD) roundtable with construction companies. We provided input on the type of disclosures that we find useful as investors, highlighted the importance of science based targets and discussed the challenges related to scenario analysis. In collaboration with other investors and as a member of the ShareAction led Investor 'Decarbonisation Initiative', we co-signed a number of letters to companies.

We encouraged **Deutsche Telekom** (Amity Balanced; European; Global Equity) to decarbonise its vehicle fleet and we asked **Roche** (Amity European; Global Equity;

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International) to consider making its operations more energy efficient.

## THEMATIC ENGAGEMENT – MODERN SLAVERY



During the quarter we concluded our thematic engagement on Modern Slavery with our construction sector holdings. The aim of the engagement was to understand the impact of Modern Slavery policies and practices, and to encourage further efforts to eradicate Modern Slavery/human trafficking in the industry. A blog, to be published in due course, will reflect on this engagement stream and the conclusions reached.



A new investor initiative called *‘Find It, Fix It, Prevent It.’* aims to bring together investors, NGOs, and academic research institutions to encourage businesses to find victims of slavery within their supply chain and support their rehabilitation. There are four parts

to the initiative: (i) an investor statement, which we have signed; (ii) an investor engagement group which will initially target 16 companies in the UK hospitality sector; (iii) an investor group which will seek to drive public policy change, focusing on strengthening the Modern Slavery Act; and (iv) a group bringing together academics, ESG ratings providers, and investors, to develop metrics on Modern Slavery which can be incorporated into ESG ratings. We have provisionally pledged support across three groups, with the engagements expected to begin in March/April 2020.

## THEMATIC ENGAGEMENT – LIVING WAGE

We again supported collaborative engagement with a number of companies requesting them to accredit to the Living Wage. This is an annual process in which we encourage all FTSE 100 companies to move towards Living Wage accreditation. Targets included **Halma** and **United Utilities** (Amity UK), **Royal Mail Group** (Amity Balanced; UK) and **Phoenix Group Holdings** (Amity Balanced; Short Dated Bond; Sterling Bond).

## COLLABORATIVE ENGAGEMENT – WDI



We continue to be long-term supporters of the **WDI** (Workforce Disclosure Initiative), facilitated by ShareAction. In November, we attended a roundtable which focused on the outcomes of the 2019 survey, engagement strategies for 2020, and improving the accessibility of the WDI dataset. We look forward to working with ShareAction and other investor signatories in 2020.

## COMPANY ENGAGEMENT ROUND-UP

### COMMERZBANK

We met with the Chair of the **Commerzbank** Supervisory Board (Amity European) and discussed a range of topics including Board composition and elections, cyber risk, climate change, and remuneration. We encouraged the company to introduce annual resolutions on Director elections and remuneration reports, and also urged the bank to play a more active role within the financial sector to lead the low carbon transition.

Following a review of our holding in **Rentokil Initial** (Amity UK) we engaged with the company on its current reporting and encouraged enhanced disclosure especially on chemicals management and waste.

We had calls with two of our holdings in the pharmaceutical sector: **Novo Nordisk** (Amity Global Equity) and **Pfizer** (Amity Global Equity; International; UK). With **Novo Nordisk** we discussed animal testing, insulin pricing and affordability initiatives as well as lobbying practices. The call with **Pfizer** was organised by the Interfaith Center on Corporate Responsibility (ICCR) and the Access to Medicine team, and focused on Pfizer’s work to improve access to medicines in all markets, irrespective of income per capita.



### *Telefonica*

We engaged with Spanish telecom company **Telefonica** (Amity Balanced; European; Global Equity; International; Sterling Bond). We welcomed the opportunity to provide feedback on the company’s governance practices and ESG disclosure. We commended the company for its excellent disclosure practices, but expressed our concerns over its poor governance framework including Board composition and excessive variable pay.

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Following a review of **Walt Disney Co.** (Amity Global Equity) we had a call with the company in order to discuss a range of issues including human rights and labour standards in Disney supply chains. We also touched on the company's strategy to reduce carbon emissions and animal welfare at its resorts.



An investment trip to the Netherlands, an important market for Edentree saw us visit eight companies that we either own or have interest in. On combined trips investment and ESG discussions are integrated. Key holdings we met included **a.s.r** (Amity European; Global Equity; International), **Philips** (Amity European), **Post NL** (Amity Balanced; European; Global Equity) and **Randstad** (Amity Balanced; European). At Post NL, the Dutch postal operator, we met the Head of Sustainability to learn about the company's ambitious carbon zero approach

## 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 final quarter of 2019 saw us vote at 32 UK meetings on 370 resolutions, opposing or abstaining in 9% of cases. Executive pay and Board directors were the main areas of opposition.

Although a quiet quarter, we voted on 26 remuneration reports and policies, taking action in 46% of cases. We find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs and poor links to performance. Within the FTSE100 where we see the greatest 'excess', we opposed pay proposals at **Ferguson** and **Smiths Group** (both Amity UK).

Remuneration was also opposed (or abstained) at **Close Brothers** (Amity Global Equity; Short Dated Bond; Sterling Bond and UK); **Genus** (Amity UK) and **Dunelm Group** (Amity UK). We opposed Remuneration Policy and two new long-term incentive plans at **Spectris** (Amity UK) on grounds that increases in overall pay was unaccompanied by more stretching performance.



## GLASS LEWIS

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 final quarter saw Glass Lewis vote at 15 meetings comprising 109 resolutions in nine markets. They opposed/abstained 14% of resolutions on a range of issues.

### PROXY VOTING OUTCOMES: 2019

In 2019, across all markets we voted on 5,095 resolutions at 367 meetings in 30 markets, taking action in 10% of cases. In two-thirds of cases, this was against either executive pay (31%) or Board directors (33%).

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

### DIVERSITY

We attended the launch of the fourth Hampton Alexander Review on gender balance in FTSE leadership. 2019 has seen the strongest progress so far with women on boards close to meeting the 2020 target of 33%. The number of women on FTSE250 Boards has also seen good progress with 29.6% of appointments now female. We continue to support the investor led 30% Club on diversity, and will once again be scoping thematic engagement around diversity in the run up to the 2020 proxy season. We opposed the Chair of the Nomination Committee at **Smiths Group** (Amity UK) as diversity has remained below 25% at Board level since 2015.

## ACCREDITATION



We were delighted to achieve a seventh accreditation under the European SRI Transparency Code. This commits us to 'provide accurate, adequate and timely information to enable stakeholders to understand the responsible and sustainable investment policies and practices relating to the Funds'. Our submissions under the Code for equity and fixed interest are available at [www.edentreeim.com](http://www.edentreeim.com)

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## 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)**