

# Quarter to 31<sup>st</sup> December 2020



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

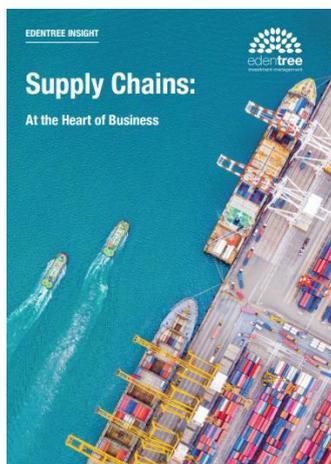


## COVID-19

Throughout the period colleagues have continued to work largely 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

The challenges responsible investors face from investing in China are many and varied. One of our earliest Insights from 2009 looked at **China**, and we felt now is a good time to revisit this important global market. Either by investing directly or via global supply chains, China is a vital component of the global economy that cannot be ignored; however there are many environmental, social and governance challenges to navigate. Our latest Insight will look at these in turn and explore how investors can access China responsibly whilst being mindful of the difficulties. The Insight is due to be published in the spring.



Our 38<sup>th</sup> Insight ‘**Supply Chains: At the Heart of Business**’ was published in October and takes a timely look at global supply chains – the economic glue that binds corporate activity. The Insight looks at the history of supply chains, how they work and how they go wrong. The Insight is available online.

## EXPERT BRIEFINGS

We published one Expert Briefing during the quarter. **Fossil Fuel Divestment 2020** takes a deep-dive into the case for fossil fuel divestment and the urgent need to reallocate capital towards industries and businesses supporting a low-carbon future.

## OTHER RESOURCES

There are a range of other resources online including our four-part series of webcasts on **Healthy Futures** as well as blogs and discussions on responsible and sustainable investment issues; all are available at [www.edentreeim.com](http://www.edentreeim.com)

## OPINION

The RI Team published an opinion piece looking at our **Climate Change Journey So Far**. With five years’ of carbon footprint results for our pooled equity funds, we felt it was a good moment to look at what has been achieved, and what we might do next. Since 2016, the carbon intensity of all our pooled funds have reduced compared to their benchmarks, and following focused engagement with laggards, we have noticed a greater number of portfolio companies setting science-based targets in line with the Paris Agreement. This means that over time, we expect the Funds to transition to be increasingly in line with no more than two degrees of warming.

## 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 2,203 followers regularly read his Tweets on market, economic and sustainability issues. You can also ‘link-in’ with Head of RI, Neville White, where his 1,560 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 – MONTRÉAL PLEDGE

Climate change is fully integrated into our investment process through screening, engagement and transparent reporting. In keeping with our commitment under the Montréal Pledge, we have, for the fifth time commissioned carbon footprints for our

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pooled 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. It is pleasing to note that all the Funds continue to perform well when compared to their respective benchmarks in the range of 11%-58% lower than benchmark.

We are increasingly focused on **science-based targets** (SBT) as the key mechanism for driving portfolio alignment with the Paris Agreement of no more than two degrees of warming. This too is improving across the Funds with our European, Global Equity, International and UK Funds achieving between 28%-51% of holdings having now set a SBT. All report a lower carbon intensity than their respective benchmarks – some considerably so. The carbon footprints for our Equity Funds are located on the Insights Hub at [www.edentreeim.com](http://www.edentreeim.com)

### THEMATIC ENGAGEMENT – CLIMATE CHANGE

In consequence of completing our portfolio footprints, we began engagement with high emitting companies and those where disclosure is poor or targets are missing. During the quarter we had substantive calls with several companies such as **Ashtead Group, Elementis, Johnson Matthey and Union Pacific**. It was particularly commendable to learn that US railroad company Union Pacific is close to setting a SBT. We also had a good catch up with **Hawaiian Electric Industries**, where we discussed their ongoing energy transition as well as greenhouse gas emissions. It's not every day we discuss the impact of volcanic eruptions on a company's operations and emissions!

As a member of the **Investor Decarbonisation Initiative** led by ShareAction we co-signed letters to **Bristol Myers-Squibb, Prysmian, Legal and General** and **Abbvie** asking them to set Science Based Targets, join RE100 or join EV100.

We had a follow up call with **HSBC Holdings** to discuss their recent net-zero commitments. We explored their transition finance targets as well as the bank's approach to helping clients in heavy emitting sectors transition. HSBC will use the PACTA tool to assess clients' transitions and will start reporting on this next year. Whilst the bank hinted that it will hold clients accountable and encourage transition it did not commit to end its support for financing high emitting sectors at the moment.

Finally, we supported a public policy initiative, co-ordinated by Institutional Investors Group on Climate Change, co-signing a

letter to the **UK Prime Minister** asking the UK to lead by example in setting ambitious goals ahead of them hosting COP26 later in 2021.

### THEMATIC ENGAGEMENT – WORKFORCE DISCLOSURE

We concluded our engagement with the **WDI** (Workforce Disclosure Initiative). We wrote to 17 companies asking them to consider participating in what is now the primary reporting tool on social and labour issues. This is still novel for many companies and so our approach has been to encourage. We were pleased that of the 17, five told us they would participate (**Post NL, Prysmian, TUI, Telefonica and HUGO BOSS**).

### THEMATIC ENGAGEMENT – MODERN SLAVERY

As part of an investor initiative called "**Find It, Fix It, Prevent It**" (FFP), aimed at addressing the pervasive issue of Modern Slavery, we had a call alongside other investors with **TUI AG**. In its first round, the FFP initiative is targeting the hospitality and tourism sectors, given its risk profile. Of the companies targeted, TUI's existing disclosures around Modern Slavery are perhaps industry-leading, but our call focused on areas we felt the company does not adequately address such as audit process, victim remediation, methods of identifying Modern Slavery in partner hotels, and whistleblowing hotlines.

### THEMATIC ENGAGEMENT – LIVING WAGE

We supported collaborative investor engagement with **Royal Mail Group** asking the company to remunerate all temporary and contract workers with the Voluntary Living Wage. Whilst Royal Mail's permanent staff are remunerated significantly above this, at Christmas Royal Mail takes on 33,000 contract and short-term workers to assist sorting and delivery who are paid below this.



### COMPANY ENGAGEMENT ROUND-UP



We joined forces with the CFB Methodist Church for a joint catch up with **Nestlé**, in which we covered in some detail their growing health and nutrition division, bottled water and recyclable plastic targets, Breast Milk Substitutes (BMS) and their controversial decision to abandon the Fair Trade Mark in favour of Forest Alliance assured coffee and cocoa. Nestlé admitted they wanted to use one global assurance regime, and that Forest Alliance is more focused on delivering environmental & climate improvements rather than labour ones. Under Forest Alliance the premium paid to farmers will reduce, and so for two years Nestlé will make up the difference.

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### **BINGO** INDUSTRIES **Husqvarna**

We had an ESG catch up with Spanish telecoms company **Telefonica** in which we discussed the company's response to the COVID-19 situation, as well as governance topics and climate change. Whilst governance has improved with increased gender diversity and an independent lead director, governance overall is not in line with what we consider to be best practice. We also had discussions with **Bingo Industries**, the Australian waste company strongly focused on recycling and sustainable waste recovery. We welcomed their improving reporting and disclosure. We had a call with the Sustainability team at **Husqvarna** for a general ESG update. We discussed the company's 2025 strategy including carbon, circularity and supply chain practices. The strategy, called "sustainovate", significantly raises the company's ambitions and it was encouraging to see the progress they have made in the last five years since launching their first strategy.

As a smaller investor we can sometimes engage swiftly on niche issues we feel are important. We lobbied **J Sainsbury** firmly after they revealed a planning application that would destroy an area of native woodland in Surrey and home to an important hedgehog colony. We argued that ecological ruin in pursuit of constructing a larger vehicle delivery park fell far short of their sustainability principles. We were delighted when Sainsbury withdrew the application and committed to protect the woodland site.

Finally, we participated in a call with **Tesco** focused on their approach to tackling issues around packaging and food waste. The company's strategy regarding packaging is 'Remove, Reduce, Reuse, Recycle', and they are currently piloting a scheme with LOOP to reuse packaging. Their goal is to halve food waste by 2035.

### 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 December quarter saw us vote on 452 resolutions at 45 UK meetings, opposing or abstaining in 8% of cases.

Executive pay accounted for 43% of all action taken, with our opposing 16 reports and policies.

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 80% of pay packages where held. Remuneration Policy was opposed at (among others) **Dechra Pharmaceuticals**, **Close Brothers** and **Hargreaves Lansdown**.



Restricted Share Plans have become a more attractive type of variable incentive as COVID-19 wreaks havoc with economic performance. These plans typically reward at lower quantum but have no performance metrics attached. We opposed one such plan at **Informa** where the Equity Revitalisation Plan we viewed as particularly egregious in structure. In the event 40% of shareholders agreed and voted against the Plan. We expressed our disappointment to **Close Brothers** at the relaxation of targets and the enhanced emphasis on personal objectives which, in our view, paid out excessively.



We have continued to engage with AIM-listed companies where remuneration and/or the annual election of directors are not put to an annual vote. We were delighted that **Essensys** agreed to take our request to the Board, and we await their decision.

We are sometimes consulted on remuneration proposals and during the quarter we provided **Mears** with feedback on their forthcoming Policy proposals which will be put to shareholders in the spring.

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 fourth quarter Glass Lewis voted at 22 meetings comprising 135 resolutions in 11 markets. They opposed or abstained 14% of resolutions, with Board balance issues comprising 47% of the action taken.

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### 2020 ANNUAL PROXY VOTING STATISTICS

Our annual proxy voting performance is published as part of the December Quarter Global Corporate Governance Report.

In 2020 we voted at:

- 399 meetings on 5,542 resolutions in 31 markets;
- Opposed around 11% of proposals globally
- Opposition was evenly split between executive pay (38%) and directors (33%);
- In the UK 54% of all oppose votes was exercised against executive pay;
- In the UK we opposed 55% of *all* remuneration reports and policies, rising to 86% of FTSE100 pay policies.

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

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### ACCREDITATION



We were delighted to achieve an eighth 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) and on the Eurosif site.

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### RESPONSIBLE INVESTMENT TEAM

We said farewell to Jon Mowl in late September; Jon joined us in 2018 and has moved on to take up an exciting research role with a charity. We welcomed two additions to the RI Team, Rita Wyshelesky joins us from animal welfare NGO, FAIRR, and brings an EY accounting background. Carlota Esguevilas joins us with a background in advising companies on sustainability. We welcome both to our growing team!

You can contact us direct or at [information@edentreeim.com](mailto:information@edentreeim.com)

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## THE EDENTREE RI TEAM



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



**Esmé van Herwijnen**  
Senior Responsible  
Investment Analyst



**Rita Wysheslesky**  
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 Rita Wysheslesky, 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](mailto:ifa@edentreeim.com)**