

Quarter to 31st March 2019



Welcome to our first Responsible Investment Activity Report for 2019 with news of our responsible investment research, engagement and governance activities for the quarter to 31st March. Our quarterly Activity Report has been refreshed to follow our overarching Responsible Investment pillars:



In February we announced some changes to our Responsible Investment process to reflect feedback from clients and to reflect more accurately how we conduct responsible investment at EdenTree. These can be summarised as:

- Transition away from ‘SRI’ in favour of ‘Responsible & Sustainable’ investment
- Re-articulate our core criterion as:
 - ‘Ethics/Values (avoidance)’
 - Responsibility/ESG (areas of risk)
 - Sustainability/Thematic (our four RI themes)
- Re-label ‘Urban Regeneration’ as ‘Social Infrastructure’
- Add a fourth theme – ‘Sustainable Solutions’

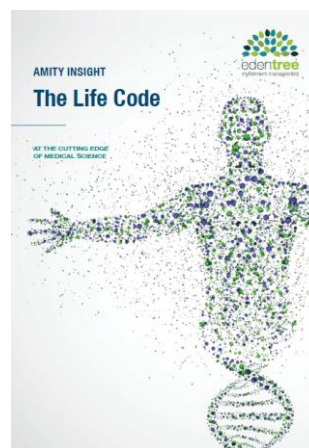
We published our first annual **Responsible Investment Activity Report** (2018) in January. Clients have often told us they would like a summary ‘round-up’ of responsible investment work and this looks at the year’s highlights from the perspective of four overarching pillars:

- Research
- Screening
- Engagement
- Governance

The Report presents some statistics on voting, engagement and screening, and also provides a ‘look-ahead’ to some of the things we will be doing in 2019. The Report is available to download, and can be obtained on request in hard copy.

RESEARCH

Our first Amity Insight of 2019, **Amity Insight: The Life Code**, was published in February. The Insight considers the revolution in genetic science and its potential impact on personalised medicine. Unlocking the human genome will afford considerable opportunities for decoding hard-to-treat conditions by tailoring treatments to the individual rather than prescribing in an ad-hoc way. We explore the investment opportunities in sequencing, diagnostics, research, and precision medicine, as well as scoping the acute ethical issues arising from this novel area of medical research. The Insight is available at www.edentreeim.com.



Our second Amity Insight of 2019 will look at sustainability from an investment perspective’. We are seeing intense interest in this as a style of investment, but definitions remain nebulous and challenging for the end client. We consider the problem of definitions and set out to provide a working definition of ‘sustainable investing’ for EdenTree that

our clients can have confidence in. We look forward to sharing this piece of thought leadership in May.



In addition to publishing an Expert Briefing on our Responsible & Sustainable Approach (see above), we also reflected on the **2018**

Access to Medicine Index results. We have been a supporter of the Index since inception in 2008 as it ranks 20 of the largest global pharmaceutical companies for their policies and approach to improving ‘access to medicine’ in developing

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countries. The Amity Funds are well represented in the Index leaders, notably GSK, Novartis, Merck, Sanofi and AstraZeneca. GSK has led the Index results since inception.

We provide comment and written pieces for the media and trade press on responsible and sustainable investment and during the quarter we provided comment to the *Financial Times* on the gig economy and the potential for mis-selling of 'sustainability' funds in the UK.

As well as accessing all of our publications, you can also follow Fund Manager Ketan Patel on Twitter (@Kethical) where his followers regularly read his Tweets on market, economic and sustainability issues. You can also connect with Head of RI, **Neville White**, on LinkedIn where his connections follow posts on topical ethical issues, research trends, and corporate governance news.

We invite you to get involved with the team by following us on Twitter and LinkedIn by following the icons below:



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.



Climate change is a key theme as part of our 2019 engagement strategy, and during the quarter we continued discussions with companies on this topic. We encouraged German medical and safety device manufacturer Draegerwerk (Amity European) to provide more disclosure on its greenhouse gas emissions. Similarly we met with TT Electronics (Amity UK) and questioned their non-response to the CDP questionnaire in 2018; the company aims to report again in 2019.

We also wrote to two banks regarding their financing policies; this is a theme we recognise is of growing importance to the climate debate, and we expect to conduct more work with the financial sector later in the year on aligning policies with a low carbon transition. We signed a collaborative letter to HSBC Holdings (Amity UK, International, Global Equity, Balanced, Sterling Bond, Short Dated Bond) regarding the bank's coal financing policy. In April 2018, HSBC refined its policy so that it now includes a three-country exemption for coal project finance. However, the countries where HSBC plans to continue project finance - Indonesia, Bangladesh and Vietnam - are also those countries with some of the fastest expanding coal sectors. We wrote to the company asking them to strengthen their policy and to adopt a global ban. We also contacted Sumitomo Mitsui (Amity Global Equity, International) on the topic of fossil fuel project finance and asked for more disclosure on how environmental and social risk assessments are carried out in project finance.

We continued a significant round of engagement with UK food retailers on a broad range of issues, including plastic packaging, human rights, living wages, biodiversity, animal welfare, and nutrition.



EST. 1884

Our conversations with M&S (Amity UK, Balanced, Sterling Bond, Short Dated Bond) showed the company continues to be at the forefront of innovative thinking through its ambitious 'Plan A'. Whilst our engagement focus was on living wages in the supply chain, nutrition, and packaging, we also discussed an interesting "select grower" programme that encourages regenerative agricultural practices, reducing and reversing soil erosion, improving nutrient sequestration, and reinstating field margins to encourage biodiversity and support pollinators.



In mid-January, we engaged with Tesco (Amity International, UK, Sterling Bond). Given Tesco's size, the potential to effect positive change cannot be underestimated. Good progress is being made with regard to the company's target of net-zero deforestation by 2020, and we were also encouraged by the company's work to encourage customers to make

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healthier dietary choices. A follow up call centred on the company's approach to human rights, Modern Slavery and gender equality in the supply chain. We were impressed with the range and depth of Tesco's work across these areas, whilst the continuing challenges were not understated.



We also had a constructive meeting with Wm Morrison (Amity UK, Sterling Bond). Morrison's integrated model is markedly different to those of Tesco, M&S, and Sainsbury, and lends itself to greater oversight of the supply chain. This is particularly reassuring in terms of animal welfare and supporting local farmers (a particular focus of Morrison's).



Our final round of engagement was with J Sainsbury (Amity Balanced, Sterling Bond) in which similar initiatives were discussed.



In October, we published our **Amity Insight: The Waste Problem**. In this Amity Insight we explored the issue of waste and how our economic model has led to the depletion of resources and an exponential increase in waste production. According to Defra, construction, demolition and excavation waste accounts for almost 60% of all waste generated in the UK; this led us to conduct a round of thematic engagements with our construction sector holdings to find out more about their approaches to waste management and to encourage more public disclosure on this topic. We wrote to ten companies including Taylor Wimpey (Amity UK, Global Equity), Bellway (Amity UK), Landsec (Amity Balanced) and Morgan Sindall (Amity UK). In particular we asked companies about the types of waste generated, waste reduction targets, landfill diversion and circular economy

opportunities. More information on the outcomes will be provided in our Q2 Activity Report.

During the quarter we engaged with various companies. We met with Halma (Amity UK) to discuss oversight of its 40+ divisions and how sustainability policies and processes are integrated across the Group. We spoke to a.s.r. Nederland (Amity Global Equity, International) to explore ESG integration into its investments, and we contacted Microsoft (Amity Global Equity, International) to gain better understanding of its operations in China and how it manages potential conflicts surrounding censorship and privacy. We also met with Norwegian specialist chemicals and sustainable solutions company Borregaard (Amity Global Equity, International) to discuss a range of issues including fire safety management and biodiversity.



We attended the 2019 launch of the Business Benchmark on Farm Animal Welfare (BBFAW), an initiative we helped design and have supported since inception in 2012. The Benchmark is the leading measure of company performance on animal welfare and now ranks 150 global food producers, processors and retailers on their policies and performance (43 more than in 2018). The Benchmark ranks companies in a series of Tiers (I-VI) from leaders to laggards. We use the results as part of our engagement with companies – most recently with the UK food retailers. The overall average score across the benchmark (on a like for like basis) was 38%, and for 'trend companies' (those continually tracked since 2012), 48%. A key movement in performance for 2018 included all UK food retailers now being ranked Tier II with Morrison improving from Tier III to Tier II, to join Sainsbury and Tesco. M&S continues to lead the benchmark as a Tier I company on animal welfare.

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The 2018 Workforce Disclosure Initiative (WDI) scorecard was released at the end of the quarter.

We have been supporters of the WDI since its inception; the initiative now includes more than 120 investor signatories, with combined assets-under-management in excess of \$13 trillion. In 2018, 90 companies – including representatives from 38 industries, and 21 of the 100 largest companies in the world – responded to the WDI’s investor-led request for data. We will continue to support the WDI by leading engagement with several companies in our Amity Funds to encourage them to participate in the 2019 WDI survey.

GOVERNANCE

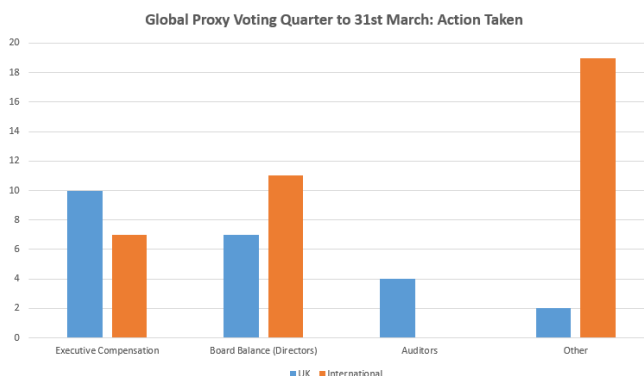
We vote at all meetings in all territories unless these are share-blocked. Our Governance work also includes public policy and remuneration consultations, as well as engaging with companies on governance issues.

We submitted a detailed response to the Investment Association consultation on ‘Sustainable and Responsible Investment’. The IA recognises the confusion in market terminology in this area of the market and is proposing, following consultation, the introduction of a UK ‘label’ that will help end consumers when choosing and selecting Funds. We are broadly supportive of the IA proposals, although in our response we argued that the vibrancy of models available in the UK (from ethical exclusions to impact) needs to be preserved in order for the market to flourish. The IA will present the consultation findings later in the spring.

Our **2019 UK Stewardship Code Statement** is available online, and has been reviewed and updated to reflect changes in our activity during 2018.

Our **2019 UK and International Corporate Governance** policies have been published online, which have been reviewed and updated in line with best practice.

The first quarter is traditionally quiet in global markets as far as proxy voting is concerned.



We voted at 21 UK company meetings, comprising 242 resolutions, with our opposing or abstaining 23 resolutions (10%); 48% of all action taken was against executive remuneration. We continue to find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs and poor links to performance. During the quarter we opposed remuneration at Sage Group and WH Smith (Amity UK). At Sage we also opposed the re-election of the Chair of the Nomination Committee as Board diversity remains poor.

We were invited to consult on amendments to remuneration policy at N Brown (Amity Balanced, UK). These were broadly acceptable against our House Policy, and so we informed the company that we would be in support of proposals when put before shareholders.



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 first quarter saw Glass Lewis vote at 22 meetings comprising 319 resolutions in 14 markets. They opposed/ abstained 11% of resolutions, mostly against the re- election of directors (30%).

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

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THE EDENTREE RI TEAM



Neville White
Head of SRI 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 Responsible Investment Activity Report and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com