EDENTREE RESPONSIBLE INVESTMENT ACTIVITY REPORT

# Q2 2021

**Welcome to our Responsible Investment Activity Report for the three months to 30th June 2021 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:**


## RESEARCH

Our Annual Responsible Investment Activity Report was published in April. This presents an overview of our research, screening, engagement and governance work during 2020. It also has a forward looking section in which we set out some thoughts on the future of ESG investing at EdenTree and more widely. For the first time the Report also includes disclosure on our own performance such as our carbon footprint and diversity statistics. We published two new RI Expert Briefs in the last quarter. Both of these Expert Briefs are available on the Insights Hub on the EdenTree website **edentreeim.com/insights**

### Expert Briefings

The first on **Conflict Minerals** looks at minerals used in electronic devices, some of which are associated with human rights abuses. The Expert Brief provides an overview of the mineral supply chain, key human rights concerns, what we look for in company responses as well as our approach here at EdenTree.

The COVID-19 pandemic has alerted the world to how fragile our resilience is to new strains of disease. Our second RI Expert Brief focuses on **Antimicrobial Resistance** (AMR). AMR is said to be the next biggest threat after the COVID-19 pandemic leading to annual costs ranging from $300 billion to more than $1 trillion globally by 2050. This RI Expert Brief provides an overview of what AMR is, the main causes for AMR, how industries are responding to it, investor initiatives tackling AMR, and our engagement approach at EdenTree.

As interest in ESG investing continues to gather pace, we see great emphasis being placed on rating agency research and how investee companies are rated for their performance. Our process, whilst taking these ratings into account, is not driven by ratings outcomes which we view as flawed and misleading. In a new Blog we set out our thinking on ratings and why we believe they are not fit for purpose. The Blog also highlights the detailed analysis we bring to bear in our Responsible & Sustainable investment process, and why we believe this provides better risk outcomes for clients.

### Policy Changes

From 1 May, **High Interest Lending** was added to our ethical screens, meaning that these Funds will have an explicit bar from investing in the sub-prime sector. Clients have often told us that they are uncomfortable at the potential to profit from a sector that, whilst legitimate, charges very high interest on small loans to the financially vulnerable. The sector is fairly small and affects only a handful of companies, but in keeping with our strong responsible and sustainable investing focus we view avoidance to be apposite. Following the change in policy we published a Blog setting out the rationale for the change in policy. The Blog reflects on financial exclusion as a neglected ESG issue affecting up to 14 million people in the UK and is something we expect to do more work on.

### 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 2,274 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,618 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 – Climate change

For the fifth successive year EdenTree is taking part as a lead investor in the CDP Non-Disclosure Campaign. Over 10,000 companies, cities, states and regions already disclose their emissions through the CDP questionnaire, a very useful tool which we use in our process. The questionnaire, which is fully aligned with the TCFD guidance allows companies to disclose their environmental impact and how they are managing their contribution to climate change as well as risks and opportunities. This year we are leading the engagement with seven companies including Zoetis, Hella, Hawaiian Electric Industries and John Menzies, and have co-signed letters to 14 others.

We co-signed a letter to Barclays asking it to address the gap between the bank's long-term climate ambition and its financed activities. Barclays was the target of a shareholder resolution in 2020 and was one of the first mainstream banks to set a net-zero ambition. However, one year on the bank has not yet published detailed plans about how the net-zero commitment will affect its financing activities of high impact sectors.

## Thematic engagement – Healthy Diets

Under our Health and Wellbeing pillar, diet and nutrition forms a key part of our holistic approach to wellness. Following a proposed shareholder resolution on healthy diets at Tesco, we attended an investor roundtable to discuss the company's new healthy diets strategy. We were impressed by the company's ambitious commitments, which was recognised by ShareAction withdrawing their resolution in recognition of the significant steps Tesco have taken.

We also sought a call with Wm Morrison to discuss their approach to health and nutrition. Morrisons is in a strong position to improve the nutrition of its own brand products due to its integrated supply chain, and has made significant progress in recent years. However, there is room for improvement on how the company influences the nutrition of branded products sold in its stores.

We attended the ESG event hosted by J Sainsbury, and were impressed by their new strategy - Plan For Better - which sets a number of ambitious targets across three key areas of healthy eating, planet and people. Following our conversations with Tesco and Morrisons, we were particularly interested to hear about the company's plans to increase the sale of healthy foods through collaboration, reformulation and incentives.

## Thematic engagement – Supply Chains

We started a new thematic engagement on the impact of COVID-19 on the supply chain of fashion and apparel companies. We contacted 10 fashion retailers to engage with them on order cancellations, waste generated from cancelled orders, supplier relationships, supplier payments and factory workers health and safety. We received responses and had interesting conversations with most companies including Adidas, Next and Hugo Boss. We will publish outcomes and findings of this engagement in the coming months.

## Thematic engagement – Workforce Disclosure

For the 5th consecutive year, EdenTree is taking part in the Workforce Disclosure Initiative (WDI). Made up of 53 institutions with $7.5 trillion of assets under management, the WDI aims to improve corporate transparency and accountability on workforce issues, providing investors with comprehensive and comparable data on company approaches to human rights and labour rights. This year we are writing to 12 companies asking them to consider participating in what is now the primary reporting tool on social and labour issues.

## Company engagement round-up

We had a call with NCC Group to discuss the company's new sustainability framework. NCC has made some progress in recent years in identifying key topic areas and developing a plan to address these, but it is still at the beginning of its journey with limited KPIs and targets on key impact areas. We were impressed by the team's passion for, and commitment to, sustainability, and will continue to monitor the strategy as it develops.

We met with Royal Mail Group as part of a general sustainability catch up, and to address specific allegations of bullying within Royal Mail. The company has a well-articulated corporate responsibility strategy, and has recently made an announcement placing a large order for EVs. Alongside BT, Royal Mail operates the largest corporate fleet in the UK and has a very significant carbon footprint. The new CEO has made eradicating all forms of bullying and harassment a key commitment, and the company was able to provide strong reassurance that this is not tolerated and is a priority.

Finally, we attended a number of company hosted investor presentations. We met with National Grid to discuss the company's perspective on climate change, the future of gas, and potential for stranded assets in their network. The company expects demand for gas to continue in the short-medium term, and believes that longer term its network will be repurposed for alternative fuels such as hydrogen.

We met with 4imprint Group for a general ESG catch up and were impressed by the company's progress in recent years. In particular, we were pleased to hear about the company's efforts to improve the sustainability of its product range and steer customers towards more 'eco-friendly' choices, its increased focus on climate change including the upcoming publication of its first TCFD report, and plans to extend supply chain audits beyond Tier 1.

We attended RELX's corporate responsibility briefing and heard an update on the company's ESG performance in 2020, and we attended a webinar hosted by Novartis on materiality and corporate purpose.

For the second time we supported a collaborative public policy initiative aimed at encouraging the Brazilian legislature to prevent a measure being passed that would provide an amnesty for illegal logging in the Amazon. The letter which has gained wide media traction, has in the main been supported by food retailers who have threatened to boycott Brazilian suppliers if illegal logging is not staunched. Although having only tangential direct impact for EIM, we view the issue to be of critical importance in seeking legislative protection for the world's largest tropical rainforest.

# 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

COVID has disrupted performance at many businesses, and in voting our proxies we have been concerned to ensure rewards were commensurate with the employee and investor experience i.e. we would not support bonuses, for instance where furlough support had been accessed and not repaid, or where dividends had been suspended. Although companies in the main exercised prudence, we have seen evidence of poor practice and we have responded accordingly

The June quarter is the peak voting season in many markets including the UK. The quarter saw us vote on 1,537 resolutions at 92 UK meetings, opposing or abstaining in 7% of cases. Executive pay accounted for 49% of all action taken, with our opposing 54 pay reports and policies, and 10 long-term incentive plans.

An increasing number of companies have now introduced so called 'Restricted Share Plans', which although delivered at a lower quantum, have no performance conditions attached. We view these as displacing best practice in terms of variable pay being performance tested. We opposed such plans at Travis Perkins, ITV and Lloyds Banking Group.

Following last year's engagement with education publisher Pearson regarding the appointment of the new CEO who received a golden hello exceeding £9million, we took action at the recent AGM. In addition to opposing the Remuneration Report, we also opposed the re-election of the Chairs of the Remuneration and Nomination committees.

Several companies delivered rewards that failed to take into account poor performance or where performance hurdles had been manipulated: We opposed pay proposals at RELX, Rotork, Centrica, Spectris, John Menzies and Legal & General where we felt awards were unjustified.

At exhibitions business Informa, where COVID has sharply impacted business performance, the company has had a recent history of shareholder revolts. We strongly objected to new remuneration proposals by opposing the re-election of most of the Remuneration Committee. The company's report was voted down by a large majority.

Elsewhere the Remuneration Reports at Wm Morrison and Rio Tinto (held in non-screened Funds) were also voted down, and we opposed both.

As shareholders we vote at building society meetings where we hold preference shares. We wrote to the Leeds Building Society informing them we would be opposing the 2021 Remuneration Report and Abstaining Remuneration Policy. Whilst remuneration is not usually contentious at building societies, we do find examples of poor practice. In this case Leeds, owing to the pandemic, opted to reduce the variable performance element of executive pay and compensate executives with very significant salary increases.

We take the potential for excess into account in making our voting decisions, and vote against remuneration proposals where proposals are, in our view unjustified. Despite public support for its performance during the pandemic, AstraZeneca was strongly criticised for the excessive package paid to its Chief Executive which totalled over 700% salary in variable pay. We opposed this and the Chair of the Remuneration Committee for presiding over undue excess.

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. In the June quarter Glass Lewis voted at 111 meetings comprising 1,601 resolutions in 22 markets. They opposed or abstained 12% of resolutions, with Compensation accounting for 41% of all action taken. We also opposed the re-election of 43 directors at a range of companies.

## Shareholder Resolutions

We support shareholder resolutions if they are reasonable and proportionate and in keeping with our general stance on ESG (environmental, social and governance) positives. Where they appear to mandate an unreasonable financial charge or represent narrow lobby interests we may exercise discretion to oppose or abstain. We are seeing an increase in such proposals globally and during the quarter we supported shareholder proposals in the UK, France, Denmark, and the US, at companies including Alphabet, American Express, Orange, Bristol-Myers Squib, Union Pacific and PayPal on issues as wide ranging as appointing an independent chair. human rights, plastic packaging, setting emission targets and gender and racial equality. A climate related resolution was tabled at General Electric, which we supported.

The UK saw several climate related resolutions proposed during the quarter. We supported these at Barclays, HSBC Holdings, Unilever, and in our non-screened Funds, at BP, whilst we abstained at Shell.

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

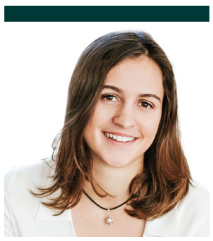
## THE RESPONSIBLE INVESTMENT TEAM

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 responsible and sustainable funds. Headed up by Neville White, Head of RI Policy & Research, 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 Responsible Investment Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.

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

**Esmé van Herwijnen**
Senior RI Analyst

**Rita Wyshelesky**
RI Analyst



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We hope you find this useful and informative.
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