Welcome to our Responsible Investment Activity Report for the three months to 31st March 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:

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
Our first EdenTree Insight of 2020, published in January looks at The Future of Road Transport. It examines how the sector 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. In January we also published our second Responsible Investment Annual Review. Both documents can be downloaded from our website, or available in hard copy on request.

RI EXPERT BRIEFINGS
During the quarter, we published two Expert Briefings in our new ‘Emerging Issues’ series. The first of these looked at an emerging theory – that of the ‘Just Transition’. The Briefing outlines what is meant by the term, and why there has been an uptick in interest in the Just Transition in recent years. We also explore the potential stumbling blocks to transitioning to a net-zero-carbon economy. In the second Emerging Issues Briefing we explore the growth of Veganism and non-protein meat alternatives, concluding that ‘whilst there is growing appetite for non-meat proteins...in Europe and elsewhere, there are only a handful of publicly-listed, specialist companies focused on “vegan meats”. The environmental benefits of these products compared to their meat alternatives is clear, and they could also help reduce the number of animals which are slaughtered for human consumption’.

OPINION
The RI Team published four opinion pieces during the quarter that reflect our views on developing trends and ideas. These looked at: ‘The importance of research in our investment process’; ‘investment integrity and ‘greenwash’; why divestment must be the ultimate ESG sanction’ and ‘engaging on Modern Slavery in the UK construction sector’. All can be viewed online.

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 2,042 followers regularly read his Tweets on market, economic and sustainability issues. You can also ‘link-in’ with Head of RI, Neville White, where his 1,441 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 – BIODIVERSITY
As part of our thematic engagement strategy for this year, we began engagement with 20 global holdings on biodiversity, by asking companies about biodiversity impacts and risks. We are also interrogating company commitments to conservation and enhancement of biodiversity in their operations and supply chains. This is still a fairly novel issue for investors where there are few accepted metrics or methodologies to assess and measure biodiversity. We have targeted house-builders,
food retailers, paper and packaging manufacturers and companies with exposure to mining and quarries.

THEMATIC ENGAGEMENT – AIM GOVERNANCE

We have commenced a second phase of engagement with a number of AIM listed companies in order to challenge their approach to the way directors are elected. We are asking companies to move to annual election of all directors, and to put the Remuneration Report to vote. Companies include 600 Group, Marlowe, Applied Graphene Materials, Frontier Developments and Sosandar.

THEMATIC ENGAGEMENT – GENDER DIVERSITY

 Ahead of the 2020 proxy season we have written to 17 of our holdings on gender diversity. UK companies selected all lack gender diversity at Board level and/or have all-male Executive Committees. We have stressed that as they have not made significant progress to meet the government 33% target set out by the Hampton Alexander Committee we might consider voting against the re-election of the Chair of the Nomination Committee at the upcoming AGM.

COMPANY ENGAGEMENT ROUND-UP

We welcomed the Shareholder Resolution that was filed at the forthcoming Barclays AGM asking the bank to set and disclose targets to phase out providing financial backing to the energy sector and electric and gas utility companies not aligned with the Paris Agreement. We wrote to the bank to tell them we will support the Resolution and asked the Board to recommend support.

We had successful engagement with machinery specialist Deere & Co. and insulation specialist Rockwool during the quarter. As with many large US industrial companies, Deere’s reporting on environmental and social issues is not well advanced and we were keen to find out more about their policies and targets. In the case of Rockwool, we have had good discussions around the due diligence in the company’s basalt supply chain (with respect to environmental and human rights standards), as well as around the company’s GHG and other emissions targets.

We had a meeting with the Head of Sustainability at packaging company DS Smith, which has become a strong ‘circular economy’ story. We discussed the business model that has seen DS Smith move towards 80% recycled feedstock for its packaging business and how this is driving new customer business. We were pleased to learn that the plastics arm of the business is being disposed of. The meeting also covered biodiversity, climate change, resource intensity and targets consistent with meeting a 1.5 degree scenario under the Paris Agreement.

We engage when companies in the Funds become involved in controversies. This quarter, for instance, we engaged with Siemens and HSBC on climate-related issues. We wrote to Siemens to express concern over the company’s decision to go ahead with its contracts in relation to the Adani-Carmichael coal mine in Queensland, Australia. Siemens will be providing signalling systems on the railway which will transport coal from the mine site to a terminal for shipping abroad. We asked that the decision be reviewed and, whilst it appears unlikely that Siemens will cease its involvement with the Adani-Carmichael project, we hope that the adverse reaction will ensure that it does not become embroiled in similar projects in the future.

Similarly we had a call with HSBC following reports about the potential impact of dredging Payra Port in Bangladesh, a project which HSBC is financing. It has been suggested that the port expansion will potentially pave the way for 40m tonnes of coal to be imported per year for regional power generation. HSBC said that the impact of dredging had been considered when assessing the reputational risk of financing the project, but the Bank maintained the economic benefits to Bangladesh outweighed these risks.

Home furnishings retailer Dunelm hosted its biennial meeting for investors on corporate governance. This is an opportunity to meet all of the non-executives and Chairman to discuss a range of issues. We were pleased to attend the 2020 meeting held in January.
We attended the sustainability capital markets day at Severn Trent’s head office in Coventry. It provided an excellent insight into the company’s culture and commitment in having a social purpose. The day included presentations on the company’s triple carbon pledge, its environmental efforts on biodiversity and water management, how they treat vulnerable customers, create a diverse and inclusive workforce and contribute to the local community.

We had a call with US animal healthcare company Zoetis Inc. The company, since its de-merger from Pfizer, has so far not provided qualitative reporting to investors on ESG issues. We were able to discuss company plans to improve disclosure, and how the new Chief Executive is personally committed to this agenda.

As a member of the Investor Decarbonisation Initiative, led by ShareAction, we signed letters to two companies asking them to improve energy efficiency; Fortum and General Electric and encouraged five others to improve fleet management; Ceconomy, Michelin, Carrefour, Veolia and Telefonica.

**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.

**CORPORATE GOVERNANCE POLICY**

Our 2020 UK and Overseas Corporate Governance Policies were published in January and are available online. We also published our 2020 UK Stewardship Code Statement, and were delighted to retain our Tier I ranking.

**PROXY VOTING**

The first quarter of 2020 saw us vote at 23 UK meetings on 303 resolutions, opposing or abstaining in 10% of cases. Executive pay accounted for 43% of all action taken. Although a quiet quarter, we voted on 21 remuneration reports and policies, taking action in 62% of cases. We find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs and poor links to performance. We opposed pay proposals at WH Smith, Compass Group, SSP and Smith & Nephew.

At Future where executive pay has been ratcheted year on year with poor justification, we opposed three non-executive directors who had presided over these increases, in addition to opposing the Remuneration Policy and the Remuneration Report.

We opposed one long-term incentive plan during the quarter at Smith & Nephew where the scheme maxima provided for a significant increase without additional performance hurdles.

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 19 meetings comprising 251 resolutions in 11 markets. They opposed/abstained 14% of resolutions, with Board balance issues comprising a third of the action taken. Our Global Corporate Governance Voting Reports are online at [www.edentreeim.com](http://www.edentreeim.com).

**DIVERSITY**

We have integrated Board diversity across all of our voting in the UK and overseas. In the UK we opposed the Chair of the Nomination Committee at Sage Group and SSP and overseas at Deere & Co. Inc. where in all three cases Board diversity remains poor.

**EDENTREE RI ADVISORY PANEL**

The EdenTree Responsible Investment Advisory Panel which meets three times a year has had its governance refreshed and revised from 1 January with the Panel now being given an oversight role across all mandates and Funds as it relates to responsible and sustainable investment. In addition, the Panel is undergoing a period of refreshment which will see new members appointed over time.
THE EDENTREE RI TEAM

Neville White  
Head of RI Policy and Research

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 Expert Briefing and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com

Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance is not necessarily a guide to future returns. EdenTree Investment Management Limited (EdenTree) Reg. No. 2519319. This company is registered in England at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom. EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Investment Association. Registered Firm Number 527473.