



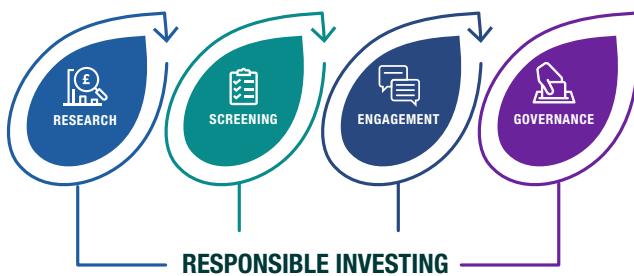
HOW WE ENGAGE



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WHAT DO YOU MEAN BY ENGAGEMENT?

Engagement is one of EdenTree's four core pillars that support our approach to responsible and sustainable investment. Engagement, at its simplest, entails dialogue with companies as part of our exercising shareholder stewardship.



We undertake three key 'types' of engagement: thematic; screening related and reactive. Each year, EdenTree's Responsible Investment (RI) Team outlines its strategy for the next twelve months, highlighting engagement areas where we will focus. Below is the strategy for 2022 which details the thematic areas of focus.

WHY DO INVESTORS ENGAGE WITH INVESTEE COMPANIES?

As active fund managers, engaging with investee companies is fundamental to understanding the risks and challenges they face from an environmental, social and governance (ESG) perspective. Engagement is usually prioritised according to risk factors we identify, and we actively monitor ethical and financial issues as part of our research into companies.

We believe that the way we engage with businesses enables us to make sound, responsible investment decisions and to act as a force for change. We form constructive long-term relationships with the companies in which we invest and continue to engage with them after we have invested as part of an active, ongoing monitoring programme. Engagement commences at the investment ideas stage and is intended to either gain information or clarification on key risks, raise concerns and/or raise business standards over time.

THEMATIC ENGAGEMENT

CONTINUOUS ENGAGEMENT



* Signatory Partnerships include: Principles for Responsible Investment; Institutional Investors Group on Climate Change; Task Force on Climate-Related Financial Disclosures; Carbon Disclosure Project; Access to Nutrition Index; Access to Medicines Index; Business Benchmark on Farm Animal Welfare; Corporate Human Rights Benchmark; Farm Animal Investment Risk & Return; Workforce Disclosure Initiative; Montréal Pledge; Paris Pledge; World Benchmarking Alliance; Just Transition Alliance.

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WHAT ARE THEMATIC ENGAGEMENTS?

Thematic engagement usually focuses on a particular issue, such as climate change, Board diversity, modern slavery, or biodiversity. We either conduct thematic engagement by ourselves, or in collaboration with other stakeholders. Depending on the theme, we may look to engage with companies across a number of sectors, or focus on just one. Another way of engaging thematically is to concentrate efforts on a specific sector, and engage across a wide range of issues, as we did in 2019 with UK food-retailers.

Targeting a large number of companies at the same time helps us to conduct peer group comparisons, identify leaders and laggards in a sector, and helps inform future engagement. Core thematic strands around the issues of climate change and Board diversity form a consistent part of our annual strategy. Some other examples of thematic engagement include:

- Modern Slavery focused engagement with UK construction companies/house-builders
- Engagement with food retailers on plastic, food waste, the living wage, and nutrition
- Engagement with bank sector holdings on fossil fuel project financing
- Engagement with AIM-listed companies on corporate governance practices

Collaborative thematic engagements are another core strand of our work. These typically involve EdenTree joining groups of stakeholders – usually other investors – to engage with companies on a particular issue. Some of these engagement streams are often co-ordinated by NGOs, such as ShareAction, or the PRI (Principles for Responsible Investment). Collaborative engagements can span a number of years, and our involvement typically ranges from signing investor letters or investor statements, to leading engagement with companies on the topic in question. For example, we are part of an ongoing collaborative engagement on human rights and facial recognition technology, and we have led collaborative engagement with members of the 30% Club on Board diversity.

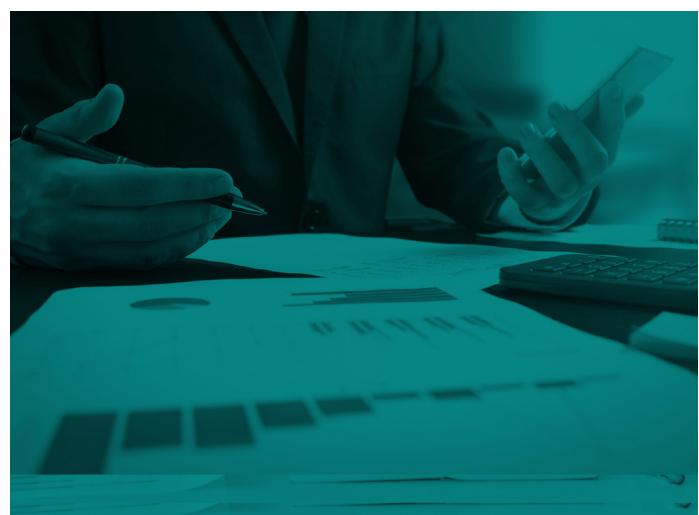
WHAT IS SCREENING AND REVIEW-RELATED ENGAGEMENT?

As we screen new investment ideas and review existing holdings in our Responsible & Sustainable Funds, we will often identify issues that need further clarification. On occasion – for instance if we need to confirm details around animal testing or exposure to the defence sector – we will recommend that this engagement is conducted before we issue a final decision on a company's suitability for the Responsible & Sustainable Funds.

In the case of reviews, our engagement may focus on specific risks identified, or if disclosure is poor, a general catch-up. It is also possible that new issues, previously not on the radar, are flagged for discussion during periodic reviews.

WHAT CONSTITUTES A REACTIVE ENGAGEMENT?

We may need to take urgent action in the case of negative news-flow or emerging controversies. Typical issues that may require urgent, reactive engagement include involvement in a controversial project, allegations of misconduct, product quality/safety issues, or any other environmental, social or governance controversy. These usually prompt us to conduct a short engagement to seek information and the company's position or response. In rare instances, engagement arising from negative news-flow may result in companies breaching our Ethics screens, in which case, (and following engagement), divestment may be recommended.



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HOW WOULD YOU ESCALATE ENGAGEMENT?

We have a process for the escalation of engagement depending on the nature of the issue. As responsible investors, we engage with company management in an open and constructive manner in order to understand the issues and to raise concerns. Escalation would normally occur if a request goes unanswered or is inadequately addressed.

Companies are normally given two to three weeks to respond to our enquiry before a second attempt is made via the same contact. The usual method of escalating contact with investee companies is then via senior management; the Chief Executive (for strategic and operational matters) or the Chairman or Senior Independent Non-executive Director for governance and other issues. In the event of the company failing to reply after a second or third attempt, we may utilise House brokers to facilitate contact and dialogue.

We are willing to make our views known when concerns are not fully met, and in some circumstances we will actively collaborate with other like-minded investors in the event of an escalated approach. Where necessary, we will escalate by exercising our voting power at company meetings. For instance, if diversity targets are repeatedly being missed, we will vote against the election of the Chair of the Nomination Committee. We also support shareholder resolutions where appropriate.

As long-term investors, we believe that a healthy balance between good stock selection and constructive engagement – with the ultimate sanction of divestment – provides a robust process of risk assessment for clients, and reassurance that, as a Fund Manager, we do have clearly established values, with divestment ‘red lines’.

WHAT HAPPENS IF A COMPANY WILL NOT ENGAGE?

As long-term investors, we will normally have positive relationships with company investor relations or relevant sustainability teams whom we can contact at the outset of our engagement. Sometimes, if we haven’t engaged with a company before, engagement can be a protracted process, but there are very few occasions where a company simply refuses to engage. Where this happens, we will escalate via other contacts or use Brokers.

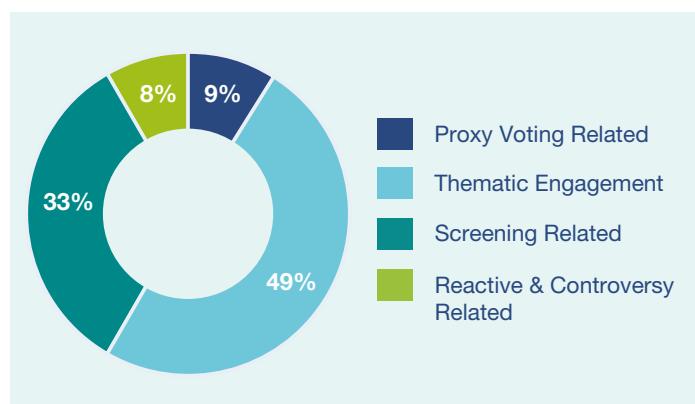
Despite being a smaller investment manager, we have had successful engagement with some of the world’s largest companies in which we are invested. For instance we have secured one-to-one calls with Microsoft’s human rights team to discuss the ethical issues surrounding technology and oppressive regimes, provided a video on corporate ethics and values to Novartis, which has been shown to 500 of the company’s senior management, and had a number of constructive meetings with HSBC’s sustainable finance team in relation to green finance and winding down exposure to fossil fuel projects.

HOW OFTEN DO YOU ENGAGE WITH INVESTEE COMPANIES?

Engagement is a constant feature of our approach to delivering responsible and sustainable investment for clients. Reactive engagement is conducted on an ad-hoc basis when the need arises. Similarly, screening and review-related engagement is conducted when these are reassessed. Thematic engagement tends to be planned in advance, and are delivered as part of our strategic programme.

We track every engagement throughout the course of a year, and publish details in our annual Responsible Investment Activity Report. The chart shows the number of ‘unique’ engagements we conducted in 2021, broken down by ‘engagement type’.

We consider the low number of reactive engagements reflects well on the composition of the Funds and the lack of emerging controversies and risks.



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DO YOU TRACK ENGAGEMENT OUTCOMES?

To some extent. Some clients and industry bodies are increasingly interested in how we measure the outcome of engagement.

This remains challenging as drawing a straight and definitive line between our engagement and a future event can be problematic (and inaccurate). In only a very few cases can we definitively point to an outcome as having arisen directly from our engagement.

We do track all engagement in terms of its objective and how we view the outcome to have progressed against that objective; this is materially different from stating the outcome was as a direct result of our actions.

DO YOU OUTSOURCE ENGAGEMENT?

No. We engage individually and collaboratively with other investors. We have in-house capacity to engage with our holdings and believe it is our duty as active shareholders to be directing ESG engagement ourselves. Engagement is therefore never outsourced to any third party service provider.

DOES IT MAKE A DIFFERENCE?

Yes. We believe strongly that the exercise of shareholder stewardship via engagement has made a powerful difference in business behaviour and the raising of standards. We do not take lone credit for this; the hundreds and thousands of individual engagements made by investors across the world has catalysed significant change in recognising the importance of ESG factors to companies, and the need for it to be reported on and well managed.



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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 screened Funds. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Carlota Esguevillas and Rita Wyshesky, 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. For investors, it's an added layer of assurance that our client's money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Advisory 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



Carlota Esguevillas
RI Analyst



Rita Wyshesky
RI Analyst



**We hope you find this useful
and informative.**

**For any further information
please contact us on [0800 011 3821](tel:08000113821)
or at ifa@edentreeim.com**

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