

HOW WE ENGAGE

What do you mean by engagement?

Engagement is one of EdenTree's four core pillars that support our approach to Responsible, Sustainable and Impact investment. Engagement, at its simplest, entails dialogue with companies and policymakers as part of our stewardship approach.



Research



Screening



Engagement



Governance

Why do you engage with 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. We use engagement as a tool to assess how companies are considering and managing their ESG risk, which feeds into our investment case. Engagement is also a core way in which we can leverage our influence as investors to drive real-world, positive change and contribute towards a more sustainable future.

In the past three decades of engaging with companies in our portfolios, it has proved a powerful way of improving investee companies' performance on a range of environmental, social and governance topics.

How do you conduct engagement?

To achieve the best outcomes for our clients, we look to focus our time and attention on issues that are most material to our investments, and where engagement can have the greatest impact on company behaviour.

We seek to form constructive long-term relationships with the companies in which we invest – across both equity and bond holdings – and engage as part of an active, ongoing monitoring programme.

We categorise our engagement into two 'types':

- Thematic: long-term engagement with a specific objective(s) to drive change

- Fact-finding: Ad-hoc and reactive engagement, often with an aim to gain information on a specific topic

As an active asset manager, most of our company engagement meetings are conducted on a one-to-one basis. However, we recognise that many of the issues we are tackling cannot be solved alone. We therefore seek to collaborate with other investors and organisations, where partnering will help us exert greater influence.

All engagement is conducted with a clear purpose, and we endeavour for every engagement to have a clear objective and timeline, which we track and report to clients. Where engagement is suitable for quantitative outcomes, these are also tracked.

What constitutes a thematic engagement?

Thematic engagement usually focuses on a specific topic, theme or sector, and includes a time-bound objective to achieve a desired outcome.

At a firm level, we have set out our thematic engagement priorities outlining our core areas of focus. These thematic priorities are those that are most material to our investments, and where we believe engagement can have the greatest impact on company.



A Just Climate Transition

Priority Engagements:

- Decarbonisation of high emitters
- Paris Alignment of Banks
- Just transition in renewable energy



Water Stress

Priority Engagements:

- River pollution in the UK
- Water stewardship of chemical companies



Social & Financial Inclusion

Priority Engagements:

- Financial Inclusion within the UK
- Responsible use of technology

These themes are underpinned by cross-cutting foundations such as business ethics, human rights, corporate governance, as well as ad-hoc 'fact-finding' interactions

These three thematic priorities are supplemented by ad-hoc engagement on cross-cutting foundations such as business ethics, human rights, and corporate governance.

We will review our priorities against these themes annually, to ensure we continue to push for change in the right areas.

What constitutes a fact-finding engagement?

Our thematic engagement priorities are supplemented by ongoing, reactive engagement – typically with a focus on fact-finding. For example, this could be when we screen new ideas for investment, in response to negative news flow, or as part of our ongoing monitoring program.

In some cases, for instance in the case of negative news flow or emerging controversies, we may need to take urgent action. Typical issues that may require 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, and determine the appropriate means of escalation.

Do you collaborate with other investors?

Collaborative engagements are key to wider progress on ESG issues, by leveraging the collective voice and expertise of like-minded investors and other stakeholders to drive change.

We take part in collaborative where they support our broader engagement, and where engaging collaboratively will provide us with a greater chance to influence.

We are signatories of leading industry bodies and members of several investor networks to support our collaborative work, some of which are shown below:



Do you take part in public policy work?

We believe engagement with regulators and policymakers is fundamental to driving change and addressing systemic sustainability challenges.

We engage directly with policy makers where supportive of our wider engagement objectives, and we also engage with our industry associations – in particular UKSIF, the IIGCC, and the Investment Association – to make representations on our behalf. This may include signing letters to policy makers and regulators, or responding to industry consultations.

How do you escalate engagements?

As responsible and sustainable investors, we engage with company management in an open and constructive manner in order to understand the issues and to raise concerns.

We recognise that the topics on which we engage are complex and many progress over a long-time horizon, so we retain flexibility in our response recognising that no one-size-fits all escalation pathway is suitable for all issuers, sectors or asset classes.

However, where we have engaged repeatedly and seen no meaningful progress, or where we have received an inadequate response, we may employ a combination of the steps outlined below to escalate our concerns:



1. Initial outreach and conversations with company

Our engagement approach always begins with an initial outreach via email or letter, followed by meetings with management and subject matter experts. Companies are normally given two to three weeks to respond to our enquiry before a second attempt is made via the same contact. In the event of the company failing to reply after a second or third attempt, we may utilise brokers to facilitate contact and dialogue.

2. Formal correspondence

If a company does not respond to multiple attempts of contact, or if it demonstrates insufficient progress and the topic is of a severity that necessitates further action, we will initially escalate via a formal letter to the CEO or Board. This will formally set out our expectations, and potential means of escalation.

3. Collaborative intervention with other investors

Failing this, we will actively collaborate with other like-minded investors as a means to escalate our engagement. This may include joining or leading collaborative engagement efforts or signing onto joint letters.

4. AGM Voting

Where necessary, and where we continue to see a need for escalation, we will exercise our voting power at company meetings. For instance, we may vote against members of the Board where our engagement objectives are not being met. We will also support shareholder resolutions which align with our engagement objectives.

5. Divestment

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 and clear red lines. If following a period of engagement we fail to achieve adequate progress, we will consider divestment.

Do you report on engagement activity

We track all company engagement, and report on this activity on a quarterly and annual basis in our annual Responsible Investment Activity Report and our Quarterly Activity Reports.

We endeavour for every engagement – both thematic and fact-finding – to set a clear objective and timeline for action. Whilst we recognise that our influence is rarely the sole driving force for change, where an engagement is suitable for reporting on outcomes, we seek to track progress towards the objectives we have set. We track progress against five milestones:

- Company has not acknowledged the concern
- Company has acknowledged the concern
- Company has shared information on the concern
- Company has committed to address the concern
- Company has implemented a strategy to address the concern

Progress against these milestones is reviewed, and reported on, annually. For updates on our engagement work throughout the year, look out for our quarterly RI Activity Reports on our website.

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 progress in companies recognising the importance of ESG factors.

Our Responsible Investment Team

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify responsible and sustainable investment ideas for our range of Funds. The team is headed up by Carlota Esguevillas, Head of RI and supported by Senior Responsible Investment Analyst Amelia Gaston and Responsible Investment Analyst Cordelia Dower-Tylee. The team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of environmental, social and governance topics. For investors, it's an added layer of assurance that our clients' money is being invested in companies that are operating in a responsible and sustainable way. Our responsible and sustainable 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.



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We hope you find this useful and informative.
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