

# HOW WE SCREEN



## Why do you screen?

Screening is one of EdenTree's four core pillars that support our approach to responsible and sustainable investment. Screening, at its simplest, entails reviewing the suitability of companies to be included in our funds in accordance with their ethical, ESG and thematic policies.



EdenTree's 'Profit with Principles' approach means we aim to achieve superior long-term performance delivered responsibly and sustainably. Ever since the launch of our first screened fund in 1988, we have taken ethical considerations into account as well as environmental, social and governance (ESG) issues. We strongly believe that investing should not compromise values, which is why we apply a robust screening process, avoiding companies that cause harm and seeking to invest in companies that are good corporate citizens.

## What screening criteria are applied?

Our responsible and sustainable screening is based on three drivers: Ethics/values (absence of harm criteria), Responsibility/ESG (risk-based) and Sustainability/Thematic.

To be considered suitable for inclusion within our range of responsible and sustainable funds, an investment idea must meet the criteria laid down in this screening model.

The ten absence of harm criteria that make up Ethics/Values aim to avoid activities that are harmful to society. Companies that derive more than 10% of their profits or turnover from these activities are excluded from our portfolios.

We then integrate six areas of business risk under the Responsibility /ESG screen. Although this screen is designed to commend stocks into the Funds, they can also act as a brake on investment.

Finally, we look at companies through a sustainability and thematic focus. This includes our positive weighting towards education, health & wellbeing, social infrastructure and sustainable solutions. As we screen stock ideas, we will consider the positive sustainability case in terms of products and solutions. This is a discretionary part of stock selection, as not all companies provide 'sustainable solutions'.

Ethics/Values	Responsibility/ESG	Sustainability/Thematic
Alcohol production	Business ethics	Education
Tobacco production	Corporate governance	Health & wellbeing
Gambling operations	Community	Social infrastructure
Weapon production	Employment & labour	Sustainable solutions
Pornographic & violent material	Environment & climate change	
Animal testing	Human rights	
Intensive farming		
Oppressive regimes		
Fossil fuel exploration & production		
High interest lending (Non-standard sub-prime credit)		

## What exclusion criteria do you apply?

The nine exclusion criteria which make up the Ethics/Values screen, aim to avoid activities that are harmful to society. Companies that derive more than 10% of their profits or turnover from these activities are excluded from our universe of investible stocks.

- **Alcohol production:** Manufacturers of alcoholic beverages, but not retailers (except dedicated pub companies).
- **Gambling operations:** Includes betting shops, internet sites, bingo and casino, racing venues, lotteries and the supply of gaming machines.
- **Pornographic & violent materials:** Includes print, digital and broadcast media plus companies operating dedicated licensed sex premises showing live shows.
- **Weapon production:** The manufacture of weapons and weapon systems or goods and services specifically to support those systems.
- **Tobacco production:** The manufacture of tobacco products, but not tobacco retailers.
- **Fossil fuel exploration & production:** Avoids oil & gas exploration & production, as well as thermal coal extraction and production.
- **High Interest Lending (non-standard sub-prime credit):** Companies operating wholly or mainly in high interest lending (non-standard sub-prime credit) where this is defined as (and limited to) door-stop lending, pay-day loans and/ or pawn-broking sub-prime credit..

Specific policies have been produced to cover other areas including indiscriminate or strategic weaponry; animal testing; oppressive regimes; and intensive farming.

- **Animal testing:** We will not invest in companies that use animals to test cosmetic or household products. We do invest in pharmaceuticals companies that may conduct animal testing, but we encourage them to adopt the 3R principles refine, reduce, and replace
- **Intensive farming:** We avoid companies involved in intensive farming in the beef, dairy, poultry and fish sectors.
- **Oppressive regimes:** Based on our proprietary, weighted system we avoid companies operating in countries identified as being oppressive regimes; these are reviewed on a case-by-case basis.

## How do you assess ESG risks?

We assess investment ideas across six areas of potential business risk, which forms the Responsibility/ESG screen. This informs the decision making process as to whether a company is suitable for inclusion in the Funds or not. The Responsibility/ESG risk criteria may also act as a brake on investment.

- **Business Ethics** – includes codes of conduct, ethical practices, culture and behaviours, ethical sourcing, supply chain, taxation and lobbying.
- **Community** – includes license to operate, giving programmes, employing local people, offering work placement schemes.
- **Corporate Governance** – includes code compliance with ‘market best practice’, commitment to the standards of good governance practice and process
- **Environment & Climate Change** – includes climate change, GHG emissions, natural capital, water and waste, biodiversity, air pollution and supporting renewable energy.
- **Employment & Labour** – includes promoting equal opportunity and diversity, anti-discrimination, health & safety, fair reward structures including Living Wage, union representation, ILO Conventions, whistle-blower protection.
- **Human Rights** – includes support for UN Universal Declaration of Human Rights, bonded, child and forced labour, land rights, indigenous people.

Each business risk is assessed and we look at companies’ policies, disclosure and targets, as well as any controversies. We then apply a ‘traffic light’ system, assigning a green, red or amber flag to each of the ESG risks as we analyse them:

ESG/ Responsibility (Positive) Criteria: Conclusion		
Business Ethics	Community	Corporate Governance
Employment & Labour	Environmental Management	Human Rights

Poor disclosure might lead to amber, as might evidence that a key indicator is going in reverse e.g. GHG emissions or accident rates. Red is used when the company shows poor practice or has been involved in a serious controversy.

## What do you mean by themes?

Our Funds apply a discretionary thematic approach by looking at companies from a Sustainability/Thematic angle. These are typically areas of the market we are positive on for their strong social utility or their sustainability credentials.

- **Education:** Education, training, human development, promoting girls education, student housing and support.
- **Health & Wellbeing:** affordable healthcare, access to medicine, pharmaceuticals R&D, biotechnology, critical care, nutrition & Wellbeing.
- **Social Infrastructure:** Social housing, affordable housing, community & housing associations, urban regeneration, brownfield development, public facilities.
- **Sustainable Solutions:** Products & solutions, circular economy, sustainable development goals, impact investing (fixed income). We have identified 12 sub-categories in which a sustainable solution may be apparent; these include energy efficiency, pollution prevention, water, waste, transport, safety & security and green finance.

## How does the screening process work?

As bottom-up, active stock pickers, the investment and responsible & sustainable case is considered in parallel. Fund managers suggest new stock ideas and the Responsible Investment Team will then screen those. All screenings are peer reviewed within the Responsible Investment Team to ensure rigor and consistency. There are several potential screening outcomes:

- **Passes:** this means the company passes the ethics screens and our ESG/responsibility tests.
- **Suitable with caution:** this means the company passes the ethics screens, however there may be some residual concerns over management of ESG risk, this is then flagged to the fund manager and we engage on the identified issues.
- **Engagement needed prior to investment:** this specific case is reserved for situations where we may need more information on the ethics screens before we can make a final decision or want to talk to the company prior to investing on material ESG risk. This is a temporary outcome, once the engagement has successfully completed (or not) we may invest in the company or fail it.

- **Fails:** the fund manager cannot invest, because the company does not pass the ethics screens and/or fails to meet minimum ESG standards, and/or is a clear anti-sustainability stock. The RI Team's decision is final whatever the outcome.

## Can you give some examples of the different outcomes?

**Pass:** Companies that pass our screens typically have transparent disclosure and show strong management of key ESG issues. Key risks are well understood and demonstrate leadership in improving practices in their industry. Companies that pass our screens are seeking to reduce their impacts; all metrics tend to be reducing. Examples of companies in our portfolios that passed the screens (green) are Novo Nordisk, which provides excellent disclosure and Enel because of its interesting low carbon transition.

**Suitable with caution:** these are companies that still pass our screens and are suitable for inclusion in the funds, but the RI Team flags a number of residual issues that are of concern. This could be because of controversies a company has been involved in, poor corporate governance, or a lack of disclosure on important ESG issues. Examples in our portfolios are The Disney Co. or Valmont Industries, where disclosure could be improved and Ericsson which had higher than average workforce accidents and fatalities, and is exposed to human rights risks.

**Engage before Invest:** these are companies where more information is required to ensure they do not breach our screens. Abbott Laboratories and Thermo Fisher both required engagement owing to insufficient information in key risk areas.

**Fails:** these companies show significant failings and do not or no longer meet our criteria. Examples include Lyondell Basell because of a lack of commitment to managing climate risks Facebook because of concerns on business ethics and poor corporate governance and Neste Oil owing to its exposure to palm oil and high risk environmental management.

## What information do you use for screening?

The Responsible Investment Team has access to a range of sources to conduct its screening. We use ESG data ratings provided by ISS, a service provider which specialises in rating companies within an industrial sector peer group; this is used for the purposes of our first-tier analysis. However ESG ratings provided by third party data providers do not mandate our screening decisions; the RI Team then conducts additional research and analysis from publicly available materials. This can include company literature (annual reports, websites and sustainability reports), industry or trade body publications and websites, as well as NGO reports and websites. Government and academic research and investor benchmark initiatives are also useful. Investor databases such as CDP and WDI provide additional detail on specific topics.

## Can you ensure only screened companies are allowed?

We have integrated the 'Charles River system' into our screening process; this places automatic tags on all stocks (including excluded ones) preventing fund managers from dealing. It also ensures fund managers are unable to trade in an unscreened stock that has not been signed off by the RI Team. The RI Team is the ultimate guardian of screening decisions.

Companies that fall into breach (i.e. they acquire a business that breaches the ethics screen) would be sold down over a period of time – usually three months. The Charles River system will prevent any further investment. Stocks are monitored on an ongoing basis to ensure they continue to meet the Funds' positive criteria.

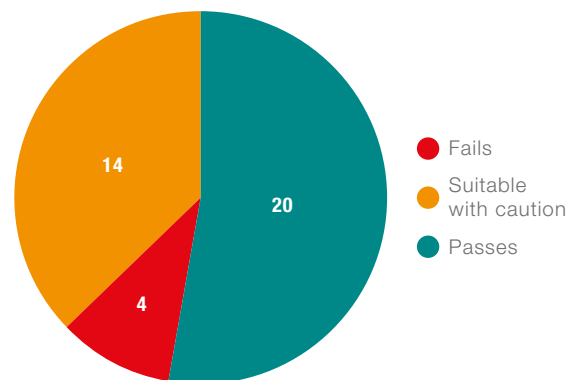
We maintain an updated database of excluded stocks, which is uploaded into the Charles River system on a regular basis.

To strengthen the process, routine checks are carried out by our compliance team to ensure screened companies are coded correctly into our system.

## Do many companies fail your screens?

In 2020, 53% of stock ideas passed our screens. 37% were passed with caution and 11% failed. This is broadly in line with the outcomes for 2019.

2020 screening outcomes



## Is there any oversight of the screening process?

Our responsible and sustainable investment process is overseen by an independent Responsible Investment Panel. The panel meets three times a year and may advise and inform but not mandate a course of action. The panel is made up of independent experts and panel meeting agendas always include discussions on new stocks that have been screened or where controversies affect holdings in screened portfolios.

## How do you take clients' views into account?

We respond regularly to enquiries from clients about individual holdings, and we also periodically hold client focus groups to discuss specific screening examples with ethical challenges.



## OUR 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.



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

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