

# QUARTER TO 31<sup>ST</sup> DECEMBER 2021

Welcome to our Responsible Investment Activity Report for the three months to 31<sup>st</sup> December 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



We published two new RI Expert Briefings in the last quarter. Both of these are available on the Insights Hub on the Edentree website [www.edentreeim.com](http://www.edentreeim.com)

### RI Expert Briefings

The first on **The Access to Nutrition Index (ATNI)** assessed

the results of the latest Index which considers how major food producers are responding to the twin 'crises' of malnutrition and obesity. Across seven indicators over 38,000 products were assessed, with **Nestlé** judged #1 with a score of 6.7 out of a possible 10. The average score achieved across the 22 companies in the Index is just 3.6, which indicates how much progress is still needed. Other companies of interest to us are **Unilever** (#2) and **Danone** (#4). The Index is one tool of use to us in assessing food producers and processors as part of our Health & Wellbeing theme which includes nutrition and diet.

assessed as putting the world in line for 2.4 degrees of warming by 2050. However we conclude with some optimism, that *"beyond the headlines and the action taken – or lack thereof – it is important to also recognise the extraordinary momentum now underway in the private sector. With swarms of business executives at this year's conference, Glasgow may well be remembered as the turning point when companies from all sectors turned their full attention to driving decarbonisation"*.

### 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 2,343 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,651 connections follow posts on topical ethical issues, research trends, and corporate governance news.



COP26 took place in Glasgow in November, and to coincide with the conference we published an Expert Brief on **Climate Change and Net Zero**. The Brief explored the concept of 'Net Zero' and how this differs from 'Carbon Neutral'

and what we look for in corporate reporting – particularly a commitment to setting science based targets in line with the Paris Agreement to reduce emissions to within 1.5 degrees of warming.

We published a blog in December 'the future isn't ready yet' reflecting on the outcome of COP26. Whilst progress was made, particularly on methane and deforestation, a trajectory exceeding 1.5 degrees is still likely, with pledges made by world governments



## ENGAGEMENT

Collectively we meet over 300 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

Following publication of our fund carbon footprints, we began engagement with several laggards reaching out to **Air Products & Chemicals, Ashtead Group, Northern Ireland Electricity Supply Board, Elementis, Greatview Aseptic Packaging, Hawaiian Electric, Hop Fung Group, Kemira, Mersen** and **Northern Powergrid** to discuss their efforts to reduce emissions and encourage the setting of Science Based Targets (SBTs). Our discussions to date have been very positive, with a number of companies including Hawaiian Electric, Northern Powergrid, Electricity Supply Board and Mersen all indicating an intention to set a SBT.



As members of the Institutional Investors Group on Climate Change (IIGCC), we met with **ING**. ING lead the banking sector with their Terra Approach, which focuses on nine of the most highly emitting sectors. They

are now planning to refresh their targets for each of these nine sectors to ensure alignment with 1.5C, and to use a number of tools to support clients in transitioning in line with these goals.

### Thematic engagement – Living wage



As part of ShareAction's Good Work Coalition, we signed letters to **J Sainsbury** and **Tesco** on the topic of real Living Wages. They asked both companies to prepare a cost-benefit

analysis of uplifting worker and contractor wages to the real living wage, as well as their key considerations for matching the real Living Wage year on year. We also joined a collaborative investor call with **Rentokil**, to discuss their potential to become living wage accredited.



We met with **Biffa** the waste contractor, to discuss their progress towards Living Wage accreditation. The company is committed to doing the right thing, and hoping to achieve the recognized service provider accreditation by the end of the year.

### Company engagement round-up



**Advanced Drainage Systems (ADS)** is the second largest recycler of plastic in North America, with around 51% of purchased material currently recycled plastic. Whilst the company would like to

increase this, we heard about challenges in doing so including the limited supply of recycled plastic and regulatory restrictions for certain product lines. More broadly, the company is planning to set science based targets and has made significant progress in improving lagging health and safety indicators.



We met with **SSE** to discuss their Just Transition strategy. The company's approach is market leading, and we discussed the importance of a focus on community and challenges around

measurement of the 'S' (social) in ESG.



Poor traceability of vital semiconductor industry materials can lead to the financing of armed conflict and human rights violations. Together with the PRI and a number of other investors, we signed letters to **Infineon, Samsung,**

**TSMC, Apple** and **Microsoft** advocating increased transparency and traceability.



Together with governments, civil society and financial institutions we signed the **Glasgow Declaration for Fair Water Footprints**. The Declaration calls for fair water footprints which ensure: zero pollution; sustainable water withdrawals;

full access to water supply, sanitation, and hygiene; protection and working with nature; and effective planning for drought and floods. The Declaration will form a key part of any future engagement we undertake on access to water.



We attended the **Nationwide Building Society** ESG call where the company discussed their Net Zero commitments, the challenges in reaching Net Zero, as well as their products which are designed

to help clients achieve greener houses. The company also discussed the myriad challenges around retrofitting buildings.



We had a call with **Bluefield Solar Income Fund** which invests in solar parks. We sought to understand their land management and biodiversity strategies, as well as touching on supply chain and end of life issues.



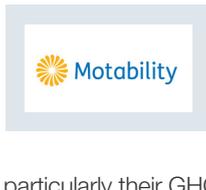
We met with **Hollywood Bowl Group** to discuss a range of issues such as retrofitting standalone sites with solar panels to self-generate energy, recruitment and paying the Living Wage, healthy menu options and allergen awareness training. The call provided fascinating insight on a range of key ESG issues at a major leisure conglomerate.



We had a catch-up call with **Sensata Technologies**. The topics discussed were GHG emission reduction targets, water management, supply chain management, employee H&S, and executive remuneration.



We had a call with **Lam Research** where we discussed their ESG strategy and targets, as well as efforts to improve diversity and the responsible sourcing of cobalt.



We had a meeting with **Motability**. The company is very focused on the social aspect of ESG as the core of their business. We discussed a wide range of topics, including the company's ESG strategy particularly their GHG emissions, future ESG reporting, their pricing model, and challenges surrounding the transition to EVs.



We had our first substantive update since 2019 with **Novartis** following the intense engagement we had with them as a result of multiple misconduct issues. The company appears to have moved firmly beyond a series of reoccurring crises to a position that is positive and outward looking. Most of the legacy issues have been solved and the new culture and ethics regime appears to have bedded in well.



Other general meetings in which we discussed ESG were with **GlobalData** and **Talanx**. GlobalData has grown swiftly, but remains a relatively low impact business that provides digital related market research to a broad range of clients. The biggest impact is from the use of data centres. The company is currently developing a more forward looking strategy that will include data capture and improved reporting. We were also delighted to note a significant improvement in Governance and a decision to put the Remuneration Report to vote, which we had lobbied for in 2019 as part of our AIM related governance engagement. We have had considerable impact with our engagement over time with German insurer, Talanx. The company recently strengthened its sustainability strategy and has a stated ambition to achieve net zero investments and underwriting by 2050, with underlying targets including full withdrawal from coal by 2038.



## 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

The December quarter saw us vote on 491 resolutions at 38 UK meetings, opposing or abstaining in 8% of cases. Executive pay accounted for 38% of all action taken, with our opposing or abstaining 15 pay reports and policies, and three long-term incentive plans.

Owing to excess or poor links to performance we declined to support executive pay at (among others) **Ashmore, Dechra Pharmaceuticals, Mattioli Woods, Close Brothers** and **Smiths Group**.



Where a dissenting vote exceeds 20%, companies are now expected to return to investors with a response; we opposed re-electing the Chair of the Remuneration

Committee at **Ferguson**, where the Committee had failed to respond constructively to investor disquiet over pay. In three other cases we opposed the re-election of the Remuneration Committee Chair where, in our view, the Committee has presided over excessive pay awards; these were at **Smiths Group, Kier Group** and **Close Brothers**.



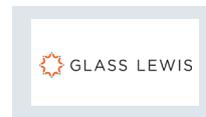
We had several conversations with **Kier Group** as part of their consultation on executive pay. The proposals effectively escalated CEO pay to the low FTSE100 range when its performance demoted it

to being a small cap. We provided recommendations for a more prudent and appropriate package but Kier pressed ahead with, what in our view, was a wholly egregious package. We opposed the new Policy and the re-election of the Chair of the Remuneration Committee.



At engineering company **Renishaw**, we took the unusual step of opposing the Annual Report & Accounts as well as the re-election of the Executive Chair and Deputy Executive Chair. Renishaw is a 'controlled

company' and in such cases investors are required to be given the opportunity to elect the Board separate to the controlling shareholder. The company has been in breach of this requirement and has declined to allow an independent shareholder vote. We view this to be a material breach of best practice.



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 December quarter Glass Lewis voted at 17 meetings comprising 117 resolutions in seven markets. They opposed or abstained 24% of resolutions with executive pay (29%) and the re-election of directors (37%) being the main areas for action being taken.

In the United States action against the re-appointment of the external auditors continues to exercise our attention. Unlike in Europe, there is no requirement in the US to tender the audit and consequently we see examples of very excessive tenures which may compromise independence. In the fourth quarter we opposed ratifying the auditors at **Nike, Automatic Data Processing, Lam Research, Microsoft, Cisco** and **Medtronic** where there had been no audit tender for up to 58 years.

### 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. During the quarter we supported shareholder proposals at **Nike, Automatic Data Processing** and **Microsoft Corporation**.



In the UK, **BHP Group** (non-screened clients) sought investor approval at the AGM for its Climate Transition Plan. We supported this as the Plan's 'net-zero' strategy was in line with Paris and had a supporting timeline with published milestones.



## 2021 Annual proxy voting statistics

Our annual proxy voting statistics are published as part of the December Quarter Global Corporate Governance Report.

In 2021 we voted at:

- 385 meetings on 5,388 resolutions in 26 markets;
- Opposed around 9% of proposals globally;
- Opposition was strongly targeted at executive pay (45%) and directors (28%);
- In the UK 48% of all action was exercised against executive pay;

Our Global Corporate Governance Voting Reports are online at [www.edentreeim.com](http://www.edentreeim.com)

## Accreditation



We were delighted to achieve a ninth accreditation under the European SRI Transparency Code. This commits us to 'provide accurate, adequate and timely information to enable

stakeholders to understand the responsible and sustainable investment policies and practices relating to the Funds'. Our submissions under the Code for both equity and fixed interest are available on our website and on the Eurosif website, as sponsor of the Code.

## THE RESPONSIBLE INVESTMENT TEAM

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research. Headed up by Neville White, Head of RI Policy & Research, and supported by Responsible Investment Analysts Carlota Esguevillas and Rita Wyshelesky, 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 investment concerns. For investors, it's an added layer of assurance that client 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.



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



**Carlota Esguevillas**  
RI Analyst



**Rita Wyshelesky**  
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We hope you enjoy this RI Expert Brief and find it useful and informative.

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