

Quarter to 30th June 2020



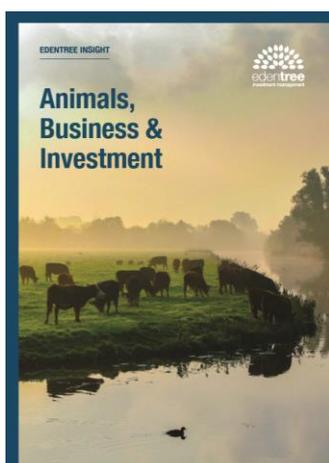
Welcome to our Responsible Investment Activity Report for the three months to 30th June 2020 with news of our responsible investment research, engagement and governance activities across our managed Funds and strategies. Our RI Activity Reports follow our overarching Responsible and Sustainable Investment pillars:



COVID-19

Throughout the whole period colleagues have been working remotely from home in response to the COVID-19 pandemic. In the early part of lockdown we paused all engagement, recognising many businesses would be focused on coping with momentous change and on occasion, survival. In late May in a phased way we recommenced engagement and so this report reflects a quarter of unprecedented disruption for companies – and us. Nevertheless 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 second Edentree Insight of 2020 was published in digital form in June. *Animals, Business and Investment* explores the myriad ways animals and animal derived parts are used in manufacturing and processing and how animals form an often invisible part of many supply chains. It also provides in one place our House view on intensive farming, animal testing, fur, genetics and traditional medicine. The

Insight, whilst exploring how animals are used and exploited, also looks at those areas of the market that support and provide services for animals in health, insurance, veterinary practice and companion animals.

Our next Insight, due for publication in September, will look at supply chains. Drawing on previous research, the Insight will

consider the origins or complex, globalised supply chains and look at issues such as waste, Modern Slavery, deforestation, and shipping as they relate to supply chains. Having explored a range of these risks and impacts, and what some companies are doing to try to mitigate them, we also consider the future of supply chains and how they could look in a post-COVID world.

OPINION

The RI Team published three opinion pieces over the quarter that reflect our views on developing trends and ideas. These looked at: 'The under-appreciated consequences of the EV revolution' and 'The Social implications of COVID-19'. In the first of a two-part blog, we also published our reflections on the 2020 AGM season'. The second part will be published in early August at the close of the UK proxy voting season. 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 2,095 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,498 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

We completed our **biodiversity** thematic engagement during the quarter. This targeted 20 companies in the food retail, construction and paper & packaging sectors and included **BillerudKorsnas, Carrefour, Tesco, Wm Morrison, Land Securities, Imerys** and **CRH**. Biodiversity has long been overlooked by investors and has not featured as a material risk for many companies. We wanted to understand whether and how companies were considering biodiversity loss and protection as part of 'business as usual'. We had constructive calls with a strong cross section of businesses from all three sectors, with leading practice observed at **Urban & Civic, Imerys** and **Carrefour**. A blog will be published shortly.

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THEMATIC ENGAGEMENT – CLIMATE CHANGE



We are participating for the fourth time in the **CDP Non-Disclosure Campaign**. Every year hundreds of companies are invited to take part in the CDPs climate, water and forest questionnaires. We are leading engagement with **Hawaiian Electric Industries, Draegerwerk, and Zoetis** for the climate survey, and co-signed letters to a further 12 non-reporting companies. We are part of another coalition, the **Investor Decarbonisation Initiative**. During the quarter we encouraged **Union Pacific** to set a science based target to reduce emissions; we asked **GSK** to increase its use of renewable power and nudged **Siemens** to join the EV100 initiative aiming to increase its electric fleet.

THEMATIC ENGAGEMENT: HUMAN RIGHTS



We are supporting a new investor-led initiative, “Find It, Fix It, Prevent It”. The initiative is designed to assess how the hospitality and tourism sector manages Modern Slavery risks – how they uncover instances of Modern Slavery in their workforce and in their supply chains; how they remediate when Modern Slavery is found, and the measures put in place to prevent re-occurrence. We are leading the engagement with **TUI Group**.



We wrote to **Johnson Matthey**, Europe's largest independent manufacturer of lithium ion battery systems, in respect of its supply chain management. This follows allegations implicating Johnson Matthey in purchasing lithium from Chilean mining company SQM, which in turn is alleged to be extracting lithium in the Atacama, against the will of local communities. We hope to provide an update on this engagement at the end of September.

We contacted **Rio Tinto** regarding its mining activities in the Pilbara region of Australia in which Rio has substantial iron ore mining operations. Controlled explosions at its mine destroyed ancient indigenous caves nine times older than Stonehenge representing an irreplaceable loss to humanity's collective memory. We expressed our profound concern around the decision-making process within Rio Tinto that allowed such an act to be carried out, despite it being legally permissible. The company has acknowledged the destruction as a grave error and instigated an independent internal Board review that will seek input from a range of stakeholders including traditional owners. We will monitor the outcome of this review.

COMPANY ENGAGEMENT ROUND-UP

We had a call with **Borregaard**, the Norwegian bio-chemicals specialist, to discuss corporate responsibility reporting with them as well as specific issues such as water quality around its manufacturing sites, and social audits. We are pleased with progress, and welcomed the fact that the company intends to participate in the CDP water and forests surveys next year. We also noted progress with the work being done with local environmental bodies to restore the River Glomma to a ‘good’ ecological rating in the vicinity of its Sarpsborg facility.



During the quarter we concluded a long-running engagement with **Microsoft** in relation to its investment in AnyVision, a facial recognition technology company. Microsoft came under scrutiny as it was alleged the technology had been deployed for mass surveillance purposes. Following concerted pressure by a number of stakeholders including investors, Microsoft commissioned former US Attorney General Eric Holder to conduct an investigation into the company's investment in AnyVision. The report was published in May and Microsoft has determined to divest its minority shareholding even though the report did not find compelling evidence of the technology being used such that it breached Microsoft's human rights policy. The use of such technology continues to be an area of growing concern for us as responsible investors, but we have commended Microsoft for its transparency throughout the engagement process and we view this to be a very favourable engagement outcome.

We engaged with **NEXT** on a range of topics, including living wages (in both the direct workforce and supply chains), fleet emissions, waste, and customer credit facilities. The sector as a whole faces supply chain challenges around low wages, but NEXT's relationships with suppliers and its in-country sourcing teams appear to provide greater transparency and control over suppliers' environmental and social performance than in some of its peers.

Following a review of **Deutsche Telekom**, we engaged with the company on its health & safety track record as well as fleet management. The company is making progress and improving in both areas. We also discussed freedom of association in the US following allegations of Deutsche Telekom's practices.

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We sought high-level discussions with representatives of both **HSBC and Standard Chartered**, following the banks' public displays of support for new national security legislation being imposed by Beijing on Hong Kong. This legislation – which is already having a dramatic effect - places in doubt the viability of the 'one nation-two systems' agreed in 1997 with fears for political and civil freedoms. Both banks provided explanations for their actions, and outlined the governance procedures that led to their issuing statements; we remain concerned that both publicly supported legislation without sight of its contents. We anticipate further discussions with the banks now that details of the National Security Law have become clearer.

We supported an open letter as part of the Retail Soy Group's campaign of awareness around **Amazon deforestation**. The letter was aimed at Brazilian parliamentarians urging caution around ending a moratorium that could see more illegal logging and land-grabbing in the Amazon. We were among a handful of investors to sign, but the letter had heavyweight support from major retailers such as Tesco, Wm Morrison, J Sainsbury, ASDA, Ocado and Metro.

Prior to completing screening of **Everbridge**, a US technology company, we engaged with them around the use of software and the potential human right risks, especially when used by governments. We had concerns about surveillance and violation to human rights, but gained reassurance from the company that it will not sell its solutions where it suspects it may be used for any purpose that it wasn't built for. This allowed us to recommend its suitability for investment.

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 June quarter represents the core of the UK proxy voting season and saw us vote at 85 meetings on 1,551 resolutions, opposing or abstaining in 10% of cases. Executive pay accounted for 43% of all action taken, opposing 66 reports and policies (58% of all those voted).

2020 is a Policy year requiring companies to put a binding Remuneration Policy to shareholder vote; on the whole we saw companies exhibiting restraint, with little overt escalation in pay levels. However, we find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs and poor links to performance, especially within the FTSE100 where we opposed 94% of pay packages where held. We opposed pay proposals at **RELX, HSBC Holdings, ITV, AstraZeneca, Schroders, GSK, IHG, SLA** and **Prudential** among others.

Individual incentive plans are put to investor vote every 10 years and during the quarter we opposed new plans at 12 companies including **IHG, NEXT, Marshalls, IP Group, 31 Group** and **Lloyds Banking Group**.

We supported a shareholder resolution at **Barclays** focused on climate change; whilst this only attracted 23% support, it did prompt the Barclays Board to propose its own climate related proposal that was adopted with 99% support – we also supported this resolution.



Tesco attracted considerable criticism for retrospectively amending the peer group attached to its long-term incentive plan. The effect was to enhance Tesco performance leading to a higher than expected pay-out for executives. In the event 67% of proxies were voted in opposition – including ours. **Wm Morrison** also saw a significant shareholder revolt as under new Policy proposals it failed to reduce the cash pension element to be in line with the wider workforce as market best practice stipulates. 35% of proxies were cast against.

We responded to a **Dunelm Group** consultation on its new Remuneration Policy and temporary provisions for executive pay for the rest of 2020. Like all retailers, Dunelm was largely furloughed and operating through a skeleton online offer – the CEO took a 90% pay reduction and the proposals, which we indicated we could support, look to incentivise appropriately during an extreme time.

During the pandemic dividend payments emerged as a point of contention if these had been paid despite a company taking Government support. We said we would not support dividend payments where companies are furloughing staff and taking advantage of the 80% wage subsidy paid by the government. We spoke with **CRH** to discuss this given its recent dividend

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payment. Whilst CRH received government support, they went ahead with the final dividend payment. We were reassured on the financial strength of the group hence its ability to pay out as well as continued commitments to other stakeholders including employees and suppliers. We nonetheless questioned whether the payment was justifiable.

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 second quarter saw Glass Lewis vote at 126 meetings comprising 1,785 resolutions in 24 markets. They opposed or abstained 12% of resolutions, with Board balance issues comprising 36% of the action taken.

Our Global Corporate Governance Voting Reports are online at 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 **Travis Perkins** and overseas at 15 global companies including **Alphabet, AT&T, Valmont** and **Union Pacific** where Board diversity remains poor.

We support the **30% Club**, and as part of its new three-year strategy to improve diversity, it has set targets to include: 30% of all new FTSE350 Chair appointments should be women by 2023; zero all male Boards (by 2023) and Ex-Cos (by 2025); a minimum 30% women on all Ex-Cos by 2025, and a minimum 30% women on Boards.

In light of the 'Black Lives Matter' campaign, we recognise our industry must do more to encourage and support diversity in its fullest and richest sense. To that end we welcomed 30% Club stating that 'it is time to set goals that make clear our commitment to ethnic diversity' with an aim to drive proposals within six months.

EDENTREE RECOGNITION

We were delighted to be a nominee within the **Outstanding Achievement in Sustainable & ESG Investing** category at the Investment Week Fund Manager of the Year Awards held in June.

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