

Quarter to 30th June 2019

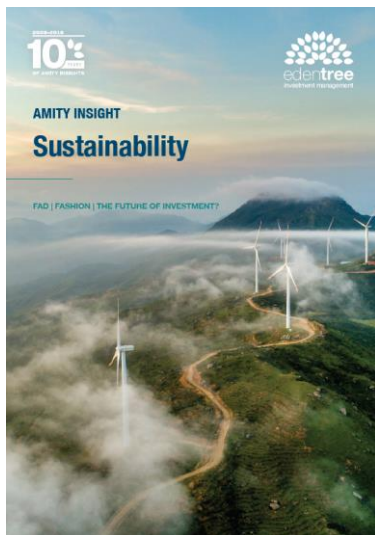


Welcome to our Responsible Investment Activity Report for the three months to 30th June 2019 with news of our responsible investment research, engagement and governance activities. Our RI Activity Reports follow our overarching Responsible and Sustainable Investment pillars:



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 Amity Insight of 2019 was published in June. This explores the concept of ‘Sustainability’ from an investment perspective. There is growing interest in this as a form of investing, and the Insight points out the challenges and opportunities from what is, at present, an ill-defined concept. The Insight in particular seeks to define what we mean by ‘Sustainable Investing’ so that clients

may fully understand how it is being applied. We have arrived at a definition in which a stock can either be viewed as a *Transition Champion* or as a *Sustainable Solution*. We have also produced a webcast on the Insight and encourage clients to take a look at the Insight.

Our next Amity Insight, planned for release in September, will consider economic inequality in the 21st century, and will examine various dimensions of income and wealth inequality on a global and national scale, placing them squarely within the context of current climate and ecological crises. It will consider ways of tackling inequality within planetary limits. In

doing so, the Insight will cast a critical eye over the role investors might be able to play in tackling inequality, and highlight systemic drivers of growing inequality that have prevailed since the 1980s.

RI EXPERT BRIEFINGS



We published two RI Expert Briefings during the quarter, on sugar and updating our existing Expert Brief on Palm Oil. Nutrition forms part of

our Health & Wellbeing theme, and the Brief explores the effects of over consuming **sugar** on health, the Government’s response via taxation, and industry efforts to reformulate products. It sets out our position on investing in food and drink companies where sugar may be an issue, and how we assess companies from the perspective of product responsibility. We are also investor supporters of the Access to Nutrition Index, and use their findings to inform our thinking.



Palm Oil was among the first RI Expert Briefs we published for clients back

in 2011. Now completely refreshed and updated, it reiterates our House position to avoid investing in palm plantations, with exposure chiefly limited to companies using it as a product ingredient. We look for commitments to source sustainably, and for banks to avoid financing deforestation. To help us, we use investor tools such as SPOTT, developed by the Zoological Society of London, which tracks transparency in the palm oil supply chain.

RI EMERGING ISSUES

New for 2019, is our new thematic suite of occasional briefings looking at ‘emerging issues’. These may be themes that are attracting attention, but are perhaps too early for us to have a clear or finished House view. We published two during the June quarter looking at cannabis and Hydrogen.

CANNABIS

There has been considerable excitement over the market for legalised cannabis as deregulation continues apace. The RI Emerging Issues Brief explores the potential of therapeutic cannabis, but suggests this will be insufficiently economic as a business model. Our Health & Wellbeing theme would support properly prescribed and professionally administered cannabis for a range of acute conditions however we believe companies will seek to profit from deregulated recreational cannabis use, which is unlikely to pass our ethical screens.

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HYDROGEN

The Emerging Issues Brief explores the potential for Hydrogen to become an alternative fuel source in a range of industries such as automotive and public transport. In a zero-carbon future we believe Hydrogen has an interesting role to play, where there may be room for battery technology alongside Hydrogen. Investment opportunities remain thin at present, but the potential is exciting, especially for the bus and commercial fleets.

All of these briefings are available online on our Amity Hub at www.edentreeim.com/amity-hub

TRADE & SOCIAL MEDIA

We provide comment and written pieces for the media and trade press on responsible and sustainable investment, and during the quarter we provided comment to the *Financial Times* on the gig economy and the potential for mis-selling of 'sustainability' funds in the UK.



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 1,865 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Head of RI, Neville White, where his 1,292 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.

FOCUSED ENGAGEMENT – CLIMATE CHANGE



During the quarter we participated once more in the annual CDP non-disclosure campaign. EdenTree is a member of CDP and every year the CDP sends thousands of companies an invitation to respond to the CDP survey which provides a valuable way for investors to assess corporate climate related risks. Not all companies respond, and EdenTree has been

leading engagement with four non-responding companies to encourage them to participate this year: **TT Electronics** (Amity UK), **Autoliv** (Amity UK, European, International,

Global Equity), **Hawaiian Electric** (Amity Global Equity) and **Draegerwerk** (Amity European).



We also engaged with two of our holdings in the electric utility sector: **Enel** (Amity European, Sterling Bond, Short-dated) and **Centrica** (Amity UK, Balanced,

Sterling Bond). With Enel we discussed its ambitious science based targets and how its generation mix will evolve over time, and with Centrica, we spoke about the direction of travel of its E&P business, 'Spirit Energy'.

THEMATIC ENGAGEMENT – BANKS' EXPOSURE TO FOSSIL FUELS

During the quarter, we engaged with 14 of our bank sector holdings, including **SocGen** (Amity European), **Standard Chartered** (Amity UK, Balanced, Sterling Bond), **DBS** (Amity International, Global Equity) and **Commerzbank** (Amity European) regarding their exposure to financing fossil fuel projects. In particular, we are asking banks about their exposure to fossil fuels and thermal coal, as well as some of the more ecologically destructive oil & gas infrastructure projects. We are also encouraging banks to align their loan books with a 1.5 or 2 degree scenario, consistent with the Paris Agreement.

THEMATIC ENGAGEMENT – CONSTRUCTION WASTE



In our Q1 RI Activity Report we shared the engagement we conducted with holdings in the construction sector around construction waste. This is now completed and we have written an online blog on the findings. Whilst the sector has made significant progress on diverting waste from landfill, we are disappointed that few companies have set targets to reduce the overall volumes of waste generated.

THEMATIC ENGAGEMENT – WORKFORCE DISCLOSURE INITIATIVE



We have targeted six companies in relation to the 2019 **WDI** survey, including **Tesco** (Amity UK, International, Sterling Bond), **Carrefour** (Amity European, International), and **Siemens** (Amity Balanced, European, Global Equity, International), inviting them to complete the survey request.

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We also attended the WDI conference which brought together companies, investors and NGOs to discuss workforce issues. It was an opportunity for us to speak directly to companies we hold and that have not yet participated in the initiative. One of these, Tesco, has subsequently confirmed that they will be participating this year.

ENGAGEMENT SITE VISIT – MARSHALLS



We visited a **Marshalls** manufacturing (Amity UK) site during the quarter. The visit allowed us to see where some of the company's concrete products are made and to discuss with managers and the site team environmental and social issues connected with sourcing and manufacture.

COMPANY ENGAGEMENT ROUND-UP

Other company meetings during the quarter included **Novartis** (Amity European, Global Equity). This followed our earlier, intense engagement around trust and business ethics; the call was encouraging, with a strong emphasis placed on rebuilding a culture of honesty. We have commenced engagement with **Booking Holdings** (Amity International) around improved ESG disclosures, and we engaged with **Rexel** (Amity European) on several issues including conflict minerals, plastic use and exposure to the minerals sector.

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 second quarter represents the height of the proxy season in the UK, Europe and the US. We voted at 104 meetings in the UK, comprising 1,709 resolutions, opposing or abstaining 7% of resolutions. Executive pay and director re-election remains the main focus of opposition, with 44% of all action taken being against remuneration.

We continue to find it challenging to support pay packages in the FTSE350 owing to excessive pay-outs and poor links to performance. Of 103 pay-related resolutions voted, we opposed or abstained 51%. Within the FTSE100 where we see the greatest 'excess' we opposed 83% of remuneration proposals. Companies where remuneration was opposed

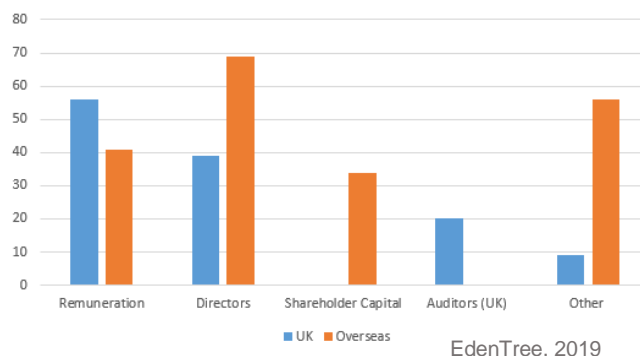
included **Prudential, Tesco, J Sainsbury, Lloyds Banking Group, Centrica, Standard Chartered** and **GSK**.

Diversity is fully integrated into our voting policy, and where companies fail significantly to improve diversity over time, we vote to oppose the Chair or members of the Nomination Committee. During the quarter we took action at **Centrica** (Amity UK, Balanced, Sterling Bond), **Prudential** (Amity UK, Global Equity, International, Short Dated, Sterling Bond) and **National Express Group** (Amity UK).



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. The second quarter saw Glass Lewis vote at 111 meetings comprising 1,499 resolutions in 19 markets. They opposed/abstained 13% of resolutions, mostly against the re-election of directors (35%) and executive pay (21%). We support shareholder resolutions in the US where these are in support of our wider ESG aspirations; in particular we supported the election of independent Chairs at **AT&T** (Amity Balanced), **Pfizer** (Amity UK, International, Global Equity), **Abbvie** (Amity Global Equity), **General Electric** (Amity International) and **Merck & Co** (Amity Global Equity).

Global Proxy Voting Quarter to 30 June: Action Taken



GOVERNANCE ENGAGEMENT

We met with the Chair of the **Lloyds Banking Group** Remuneration Committee (Amity UK, Balanced, Global Equity, Short Dated) to discuss the bank's 2018 remuneration outcomes. The company was keen to hear investor views on how to improve remuneration. We raised our concerns about quantum and high variable opportunities as well as an

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apparent disconnect between executive pension allowances and the wider workforce. We have opposed the bank's pay reports annually since 2014.

We provided input into the remuneration policy consultation at retailer **N Brown** (Amity Balanced, UK). Remuneration is not viewed as excessive, and we indicated our support.

SHAREBLOCKING

Voting is a right, and in most jurisdictions exercising these rights is automatic. The European Union outlawed the practice of 'share-blocking' as long-ago as 2007, however in some markets shareholders are still required to waive their right to trade the stock for up to three weeks in order to exercise their proxies. Along with many Houses we have declined to waive these rights and so during the quarter, five meetings were not voted owing to their share-blocked nature; these were located in Norway, and Germany.

Our Global Corporate Governance Voting Reports are online at www.edentreeim.com

THE EDENTREE RI TEAM



Neville White
Head of SRI Policy
and Research



Esmé van Herwijnen
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