

# The EdenTree Standard: Identifying Sustainable Companies



## About us

EdenTree is an active investment management house dedicated to sustainable and impact investing – it's all we do. We have a 35+ year track record in this space, having launched our first ethical fund in 1988.

Our experienced fund managers work collaboratively with our sustainable investment analysts to identify and support high-quality businesses contributing to positive, long-term structural change.

## Introduction: The EdenTree Standard

The EdenTree Standard is our framework for assessing how sustainable a company is. At its core is the concept that sustainability is synonymous with value-creation for people and planet.

In other words, sustainable companies are those that create value for people, planet and investors through operations, products and services that benefit stakeholders. Unsustainable companies are those that damage value for people, planet and investors through operations, products and services that harm stakeholders.

Across our range of funds, we only invest in companies we believe are creating value. Companies that we deem to be damaging value are excluded from our investment universe. This enables us to build portfolios that are not only sound long-term investment propositions, but which also generate positive outcomes for people and the planet.

The EdenTree Standard applies across our entire fund range, meaning every company we hold is considered to be sustainable as a result of the value it creates. Recognising that company performance exists on a spectrum, the Standard utilises a tiered rating system: the higher the rating, the more value a company is deemed to be creating.

## The EdenTree Standard: Excellence in Sustainability Analysis

With the EdenTree Standard applied across all EdenTree funds, our goal is to ensure clients' assets are invested in companies that are not only financially sound but also demonstrate a deep, authentic commitment to sustainability.

The EdenTree Standard is distinguished by several unique attributes that provide meaningful benefits to our investment process. The Standard:

- 1 Utilises a **qualitative assessment** completed by a dedicated team of sustainability specialists.
- 2 Identifies companies with sustainable business practices that enable **positive outcomes** for people, planet and investors.
- 3 **Protects the portfolio** from material downside risks.
- 4 Focuses on companies demonstrating **resilience and adaptability**.
- 5 **Strengthens our investment proposition** by identifying companies that are more likely to outperform in the long run.

When the Standard is combined with our in-depth investment analysis, we are able to build portfolios of resilient businesses that are well-positioned for long-term outperformance whilst also driving positive change.

# Identifying Sustainable Companies

## The EdenTree Standard Rating



To determine how a company performs against the EdenTree Standard, we follow a three-stage assessment process, capturing all areas of sustainability. The assessment is designed with double materiality at its core, meaning we analyse topics that affect the financial performance of a company and topics that affect the broader planetary and social systems the company operates within.

Across our assessment, we seek to capture a company's impacts and dependencies across the natural, physical and social systems on which it relies. This ultimately allows for a rigorous evaluation of whether a company's practices are benefitting stakeholders and thus creating value.

## Our Philosophy: Sustainable companies create value

We define a sustainable company as one that creates value for stakeholders, including people, planet and investors.

### Defining value creation

In an investment context, value creation refers to the process by which an investment generates returns that exceed its cost of capital. Put simply, it's about enhancing the worth of a company or asset over time.

At EdenTree, we believe value creation is broader than simply generating a profit. Companies that are truly sustainable create value for the social and physical systems they rely upon to operate, as well as creating value for investors.

Our definition of value-creation therefore considers the three below aspects: a company is sustainable when value is created across all three areas. We do not view excellence in one area as commensurate with a sustainable company, as this could be the result of sacrificing another area.



### Creating value for people

A sustainable company is aware of its social dependencies and the impact it has on social groups across its value chain, including employees, supply chain workers, local communities and customers. The company implements measures to ensure the absence of harm to these groups and ensures these groups benefit from the company's activities.



### Creating value for the planet

A sustainable company is acutely aware of its physical dependencies and its impacts on natural ecosystems globally, including its operating sites, surrounding environments and natural resources. The company implements measures to avoid damage to these entities and ensures they prosper from the company's activities.



### Creating value for investors

A sustainable company is aware of the financial impact that sustainability-related risks can have on its operations and products. It acts with integrity and embeds sustainability considerations into core risk and opportunity management.

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## Value creation and long-term outperformance

We believe that sustainable companies are more likely to outperform in the long run. In this sense, value creation across the three areas defined above is also likely to lead to the creation of financial value.

Sustainability can translate into financial performance through a number of mechanisms.

- **Long-term resilience.** Companies that integrate sustainability considerations are better prepared to weather future economic and environmental changes.
- **Changing consumer preferences.** As consumers grow more conscious of product impacts, sustainable companies can attract wider demand and gain a competitive edge by offering lower-footprint alternatives.
- **Talent retention.** Sustainability credentials increasingly influence where people choose to work, fostering greater employee loyalty.
- **Regulatory change.** Sustainable companies are better equipped to meet evolving standards as they proactively address the externalities that regulations target.
- **Operational efficiency.** By addressing sustainability risks, companies can streamline operations and uncover cost-saving opportunities.
- **Lower reputational risk.** Sustainable companies face lower reputational risk as they typically have stronger controls over factors that could lead to external damage.

## Our Process: Identifying companies that create value

To assess whether a company is creating value for people, planet and investors, we utilise a proprietary, three-stage assessment process, outlined below.



### Stage 1: Identifying material assessment topics


The first part of our assessment involves identifying material topics. We have created a materiality map for each industry group<sup>1</sup>; they are proprietary, based on comprehensive research and undergo an annual review. Based on the full list of material assessment topics (listed in Table 1), the materiality map identifies those which are relevant for each industry group. Material topics are those that influence an organisation's ability to create value. Under the lens of double materiality, we include

topics if they are material from one of two perspectives. Firstly, 'inward material' topics, which are defined as sustainability issues that could affect the company's financial performance. Secondly, 'outward material' topics, which are areas where the company's actions could impact the world around it. Put simply, if a topic affects the company, or if the topic is affected by the company, then it will feature within the materiality map.

<sup>1</sup>Industry Group defined as Level 2 of the Global Industry Classification Standard

# Identifying Sustainable Companies

## Full list of Material Assessment Topics

 <b>People</b>	<ul style="list-style-type: none"><li>• <b>Human Rights.</b> How companies respect and uphold fundamental rights, such as freedom from discrimination, forced labor and freedom of association.</li><li>• <b>Decent Work.</b> How companies ensure fair wages, safe working conditions and opportunities for voice and development.</li><li>• <b>Community.</b> How companies engage with local communities and ensure respect for cultural and indigenous rights.</li><li>• <b>Product Responsibility.</b> How companies ensure their products and services are safe, ethically marketed and uphold consumer rights and wellbeing.</li><li>• <b>Information Security.</b> How companies manage data privacy, cybersecurity and digital resilience.</li></ul>
 <b>Planet</b>	<ul style="list-style-type: none"><li>• <b>Climate Transition.</b> How companies are aligning their business models with the goals of the Paris Agreement.</li><li>• <b>Climate Adaptation.</b> How companies identify and respond to physical climate risks, such as extreme weather or resource scarcity.</li><li>• <b>Biodiversity.</b> How companies manage their impact on ecosystems, species and land use.</li><li>• <b>Water.</b> How companies use, conserve and discharge water responsibly.</li><li>• <b>Circular Economy.</b> How companies reduce resource use and waste through product design, reuse and recycling.</li><li>• <b>Financing.</b> How companies support fossil fuel extraction, production or infrastructure through their capital market activities.</li></ul>
 <b>Governance</b>	<ul style="list-style-type: none"><li>• <b>Business Conduct.</b> How companies uphold ethical standards, prevent corruption and ensure compliance with global conduct laws.</li><li>• <b>Oversight.</b> How companies ensure effective governance, robust oversight and executive accountability.</li></ul>

## Stage 2: Analysing company performance

We then review a company's performance against the material assessment topics identified by the materiality map. We have flexibility to incorporate additional topics, over and above those identified in the materiality map, if they are deemed relevant.

### Sources that inform the analysis

We believe a qualitative approach is needed to capture the nuances in sustainability analysis. Rather than relying on external ratings, which are often underpinned by opaque and backward-looking methodologies, qualitative research allows us to engage directly with company disclosures. This means we can assess the impact of a company in a way that is tailored, forward-looking and sensitive to sectoral, regional and company-specific dynamics, ultimately providing a much stronger basis on which to form an opinion on suitability.

To complete the assessment, the analyst utilises a variety of sources, including: newsflow, annual and sustainability reports, policies, industry publications and websites, NGO research, investor databases, benchmark initiatives,

and government and academic research. EdenTree also has access to several third-party research providers, including Bloomberg, Sustainalytics, ISS ESG and Glass Lewis, which are used to support the analyst assessment.

### Assessing organisations' performance

For each material assessment topic, we have defined a set of baseline expectations. These criteria apply on a topic-by-topic basis and list the minimum expectations an organisation must meet to add value against a material topic.

The extent to which an organisation exceeds the baseline expectations determines the amount of value it adds within an area. This is decided by the qualitative and quantitative assessment of the analyst. When making this judgement, the analyst will consider the organisation's ambitions, targets, policies, initiatives, safeguards, disclosures and practices within that area.

### Scoring on material topics

The output of this assessment is a flag assigned to each material assessment topic.

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## Scoring company performance against material assessment topics



### Outperforming

The company significantly exceeds our expectations for a sustainable company in the topic area. It demonstrates leading practices to ensure stakeholders benefit from the company's activities.



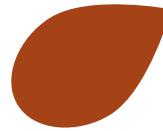
### Delivering

The company meets our expectations for a sustainable company in the topic area. It demonstrates sufficient practices to ensure stakeholders benefit from the company's activities.



### Exceeding

The company exceeds our expectations for a sustainable company in the topic area. It demonstrates strong practices to ensure stakeholders benefit from the company's activities.







### Failing

The company does not meet our expectations for a sustainable company, and/or is involved in material controversies in that topic area. It does not demonstrate sufficient practices to ensure stakeholders benefit from the company's activities.

Receipt of a 'delivering', 'exceeding', or 'outperforming' flag indicates a company is creating value against that material assessment topic. The extent of value created increases as the company moves up the scale from 'delivering' through to 'outperforming'. Receipt of a 'failing' flag indicates a company is damaging value in that area. We will not invest in a company if it receives a failing flag against one or more material assessment topics.

The table below provides an example of some of the expectations we have within the climate mitigation topic. It does not provide an exhaustive list of all our expectations within this topic; rather it uses a subset to give an insight into how our expectations evolve as companies score more strongly. An equivalent set of expectations exist for each material topic.

## A subset of our expectations under the climate mitigation topic

Flag	Climate Mitigation	Flag	Climate Mitigation
 <p><b>Outperforming</b></p>	<ul style="list-style-type: none"> <li>Near term and long-term science-based targets</li> <li>Majority of electricity consumed derived from renewable sources</li> <li>Detailed and quantified climate transition plan</li> <li>Emissions reductions aligned with target pathway</li> </ul>	 <p><b>Delivering</b></p>	<ul style="list-style-type: none"> <li>Discloses scope 1+2 emissions</li> <li>Makes a clear commitment to climate action</li> <li>Discloses its climate-related risks and impacts, and has a plan in place to address them</li> </ul>
 <p><b>Exceeding</b></p>	<ul style="list-style-type: none"> <li>Ambitious absolute emissions reduction target</li> <li>All emission scopes disclosed, with independent verification</li> <li>Year-on-year reduction in absolute emissions</li> <li>Reasonable climate transition plan</li> </ul>	 <p><b>Failing</b></p>	<ul style="list-style-type: none"> <li>Doesn't disclose scope 1+2 emissions</li> <li>Makes no commitment to climate action</li> <li>Fails to disclose its climate-related risks and impacts, and has no plan in place to address them</li> <li>Is involved in material climate related controversies</li> </ul>

# Identifying Sustainable Companies

## Stage 3: Determining the EdenTree company rating

Companies receive one of four possible ratings when assessed against the EdenTree Standard. The rating ladders up from the flags assigned to the material topics. Given that companies are assessed against a number of

topics, and therefore receive a number of flags, the final rating corresponds to the proportion of a certain flag received.

EdenTree Standard Rating	Definition	Threshold
<b>Maximising Value</b>	Companies in this category are sustainable and demonstrate sector-leading practices that significantly outperform our minimum expectations.	Receives majority 'outperforming' flags and no 'fail' flags
<b>Enhancing Value</b>	Companies in this category are sustainable and demonstrate practices that exceed our minimum expectations	Receives majority 'exceeding' flags and no 'fail' flags
<b>Adding Value</b>	Companies in this category are sustainable and demonstrate practices that are aligned with our minimum expectations.	Receives majority 'delivering' flags and no 'fail' flags
<b>Damaging Value</b>	Companies in this category are unsustainable and will not be held by EdenTree.	Receives one or more 'fail' flag

Our funds will only contain companies deemed as “adding value”, “enhancing value” or “maximising value”. We will not hold companies that are “damaging value”.

### Case Study

#### Enel SpA

**About:** Enel is an Italian multinational manufacturer and distributor of electricity. It is the world’s largest renewable energy company.

**EdenTree Standard Rating:** **Maximising Value**

**Assessment Summary:** Enel is highly sustainable, demonstrating sector leading practices that significantly outperform our minimum expectations. The company has robust frameworks to ensure no harm is done to people, planet or financial stakeholders, and implements numerous initiatives to maximise benefits and ensure positive outcomes for these groups.

**Performance against material assessment topics:** Enel is assessed against 11 material topics. It receives an ‘outperforming’ flag against six topics, and an ‘exceeding’ flag against five topics.



**Climate Transition**



**Climate Adaptation**



**Circular Economy**



**Water**



**Biodiversity**



**Human Rights**



**Decent Work**



**Community**



**Information Security**



**Oversight**



**Business Conduct**

# Identifying Sustainable Companies

## Case Study

### MercadoLibre

**About:** MercadoLibre is an Argentine company operating online marketplaces. It is one of South America's largest e-commerce online retailers.

**EdenTree Standard Rating:** **Damaging Value**

**Assessment Summary:** MercadoLibre is exposed to a number of sustainability risks in its position as one of the largest e-commerce online retailers in South America. There are concerns around the management of their most significant risk areas, most notably the significant social and environmental impacts of its operations and the products sold on its MarketPlace platform.

**Performance against material assessment topics:** MercadoLibre is assessed against 11 material topics. It receives an 'outperforming' flag against one topic, an 'exceeding' flag against four topics, a 'delivering' flag against four topics, and two 'fails' flags.



Climate Transition



Climate Adaptation



Biodiversity



Water



Human Rights



Product Responsibility



Decent Work



Community



Information Security



Oversight



Business Conduct

## Our Monitoring: Ensuring companies continue to create value

We maintain a rigorous monitoring process for all holdings within the fund to ensure they continue to generate long-term value and operate sustainably. Our monitoring framework includes several key mechanisms, including: ongoing controversy tracking, annual reviews, targeted engagement and climate analysis.

These tools allow us to assess whether companies remain aligned with the EdenTree Standard. Should a company no longer meet the Standard, we will escalate in line with our escalation framework, with the ultimate sanction of divestment. We provide further information on our monitoring tools below.

Mechanism	Actions
Controversies	Controversy monitoring serves as a key indicator in our reactive engagements and company outreach. It enables us to take quick and decisive action in response to emerging issues and potential oversights where required.
Annual Review	We conduct an annual review of portfolio holdings to ensure all companies continue to create value. If a company has moved down the spectrum and is no longer deemed to be creating value, we will divest from the holding.
Engagement	We use engagement as a tool to assess how companies are performing against sustainability topics, which feeds into our investment case. We track engagements using a proprietary system and identify where escalation or further action is needed.
Climate Analysis	Funds are annually assessed against five key climate metrics, including: financed emissions, carbon intensity, weighted average carbon intensity and SBTi alignment.

In addition to the EdenTree Standard, there are certain sectors and economic activities where we consider the sustainability risks fundamentally misaligned with our sustainable investment approach. We therefore apply baseline exclusions to actively exclude such companies from our investment universe. Please refer to our Exclusions Policy for more information.

## Our Team

### Our Sustainability Specialists

We have an in-house team of sustainability and impact specialists who carry out thematic and stock specific research on sustainability topics.

The team is also responsible for creating an ongoing dialogue with companies, allowing us to engage on a wide variety of issues.



**Carlota Esguevillas**  
Head of SI



**Hayley Grafton**  
Senior SI Analyst



**Cordelia Dower-Tylee**  
Senior SI Analyst



**Will Oulton**  
EdenTree Panel Chair



**Julian Parrott**  
Client Member,  
Ethical Futures



**Paul Simpson OBE**  
Strategic Advisor



**Aaron Cox**  
Impact Strategist



**Ross Albany-Ward**  
SI Analyst



**Sue Round**  
Chair, EdenTree  
Investment  
Management



**Mike Barry**  
Former Director of  
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**Verity Mitchell**  
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**Annette Fergusson**  
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The value of an investment and the income from it may go down as well as up and the investor may not get back the amount invested.

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