Responsible Investment Activity Report

Quarter to 30th September 2024

Welcome to our Responsible Investment Activity Report for the three months to 30th September 2024.

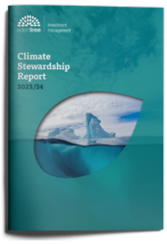
During a busy quarter, we continued to engage on our thematic priorities with the objective of driving change on key sustainability issues. This included kicking off the second round of engagements with our highest emitters under our Climate Stewardship Plan, rounding off our engagement with our renewable energy holdings on human rights, and continuing to push companies for high standards around ethical AI practices. We also continued to hold companies to account on governance best practice, with our full voting figures on page 4.

We hope you enjoy reading our report, and welcome feedback at RITeam@edentreeim.com

Research

Climate Transition and Policy

We wrote an opinion piece published in PA Future about the state of green finance in the UK. In the article, we look at why the UK has fallen behind as a destination for green finance, and what steps the government must take to make climate mitigation and adaptation solutions attractive to both investors and society. The article is available here.



We released our 2023/24 Climate Stewardship Report. It showcases the actions EdenTree have taken in the past year to deliver meaningful change against the four pillars of our Climate Strategy – Decarbonise, Accelerate, Collaborate and Embody. The report is available here.

Recognition

We are delighted to have been awarded Sustainable Investment Fund Group of the Year (AUM under £50million) at Investment Week's 2024 Sustainable Investment Awards. On the same evening, we were pleased to also be awarded Best Sustainable European Equity Fund, and our Head of Responsible Investment, Carlota Esguevillas, was awarded Rising Star Sustainable Investment Champion of the Year.

We are also proud to have been awarded the Moneyfacts "Best Ethical Investment Provider" for the 16th consecutive year – an award voted for by the advisor community and which underscores our commitment to responsible and sustainable investment.

Engagement

As active managers, engagement with investee companies is fundamental to our approach. This section sets out highlights of our engagement activity over the quarter across our three core themes: a just climate transition, water stress, and social & financial inclusion. It also summarises our fact-finding company engagement.

A Just Climate Transition

Fossil Fuel Financing

Issue: We believe that Banks have an important role to play in enabling the net zero transition, however, we also recognise that many remain significant lenders to the fossil fuel industry. As responsible investors, we are encouraging Banks to implement credible transition plans that reduce their fossil fuel lending in favour of sustainable finance.

Actions: In the quarter, we met several banks including **BBVA, Santander,** and **HSBC**. All have sectoral decarbonisation targets and plans in place, however there are elements across all three which need to be strengthened in order to ensure alignment with the Paris Agreement.

Outcome: One particular focus of our engagement with banks has been on their client transition plans. All three of the banks above have now rolled out client transition scores, which feed into their financing decisions. However, in our experience they often lack "teeth" with banks unable to evidence how a poor score will lead to ceasing financing. We provided clear feedback and were able to gain some confidence around direction of travel. We will continue to push for enhanced ambition in our future engagement meetings.

Climate Transition Plans

Issue: Whilst climate change will affect all companies, those with carbon-intensive business models face elevated levels of risk. Further, due to their existing high emissions, successful decarbonisation of such companies would generate the biggest real-world impact. We have developed a proprietary Climate Stewardship Plan, which is our primary tool for engaging with these businesses. On a company-by-company basis, the Plan tracks performance against a series of expectations, allowing us to identify areas for improvement, which are used to inform our engagement activity.

Action: Over the quarter we met with several companies contained in our Climate Stewardship Plan, including **Enel**.

Outcome: Enel continue to demonstrate very robust performance. The company have recovered from the emissions blip that occurred in 2022 due to geopolitical circumstances, and their coal-phase out and absolute emissions reductions are back on track. The company also remain wholly committed to the targets they have set.

Climate Policy Engagement

Issue: We believe that engagement with regulators and policymakers is important as no one organisation can drive the low carbon transition alone. The level of change required to meet the goals of the Paris Agreement requires action from all parts of society. Our policy engagement aims to encourage greater action at this level.

Action: We have signed the 2024 Global Investor Statement to Governments on the Climate Crisis. It is one of the most comprehensive investor calls for climate action yet, with 534 signatories managing more than $29tn in assets. It represents a unified investor call to governments to implement the policy actions needed to address the climate crisis and accelerate the transition to a net zero emissions economy.

Outcome: The letter has been officially released to the public and will be presented to governments at the UN Climate Conference (COP29) in Baku, Azerbaijan. Find the full letter here.

Human Rights & Renewable energy

Issue: The climate crisis requires the rapid expansion of renewable energy capabilities. Yet it is crucial that the energy transition does not harm people, workers or communities. As companies deploy renewable technologies, we believe they must also consider the broader social impact of their operations and supply chain for the transition to be just.

Action: Over the past few years, we have met with several of our renewable energy holdings on the topic of human rights. In the last quarter we met with **Cadeler**, a key player in the offshore wind farm market.

Outcome: We had a constructive conversation. The company has areas of elevated risk – in particular its offshore employees and Asian shipbuilding activities – but was able to point to strong processes to uphold health & safety and human rights. We were pleased to hear that nearly all of their offshore employees are now directly employed, and of their plans to carry out a human rights impact assessment to better determine where to focus their efforts. We also discussed governance best practice, providing feedback on areas where Cadeler could improve, something they are looking to enhance going forward.

Water Stress

Water Stress & Hazardous Chemicals

Issue: The chemical sector is highly exposed to water- related risks which can negatively impact water security. In addition, chemicals can pollute waterways and damage both human and environmental health, particularly persistent chemicals and substances of high concern.

Actions: We met with **Victrex** as part of our thematic engagement on water stewardship and hazardous chemicals. It was a positive first call, and similar to other companies in the sector, they are more active on water risk management than their reporting suggests.

Outcome: We were pleased to hear that they have no facilities operating in areas of high-water stress, and that they are building efficiencies to reduce water usage across their operations. They have also set internal water targets, which we encouraged them to make public. They viewed PFAS chemicals as an area of opportunity for them, as their PFAS free products could offer viable replacements, particularly in the food space.

Social And Financial Inclusion

Ethical Artificial Intelligence

Issue: Artificial Intelligence has the potential to bring significant positive developments, however, it also increases the risk of social harms. If digital technology companies fail to adopt, implement, and disclose robust governance policies and controls, backed by strong ethical principles, they may face reputational risks as well as revenue losses, and society as a whole faces tremendous risk.

Actions: As part of the World Benchmarking Alliance's Collective Impact Coalition on Digital Inclusion, we are leading the engagement with **Vodafone**. During the last quarter we met with the company to discuss their AI implementation.

Outcome: It was a positive first engagement. The company described their governance structures and explained how all areas of the business are engaged on ethical AI, to ensure it is embedded at the ideas phase of any new technology. A key ask of the collaborative engagement is for companies to conduct human rights impact assessments and on the call they referenced this as something they already do, however because their disclosures on AI are very high level this was not made public. As such we asked that they strengthened their disclosures on AI to help investors ascertain how appropriately they manage this risk. Vodafone were receptive to our suggestions for improvements and were keen to continue a dialogue on AI.

Fact Finding Company Engagement

Saint Gobain

Issue: Celotex, Saint Gobain's former subsidiary, provided the majority of the insulation for the Grenfell Tragedy. The final Inquiry report was recently published and states that the "primary cause" of the fire's rapid spread was the cladding (made by US company Arconic). However, several actors including the contractors, architects, local authority and insulation providers (including Celotex, a Saint Gobain subsidiary at the time) had all played a role in the tragedy.

Action: Since the fire, given the severity of the situation, we have had a stop placed on Saint Gobain's stock. Following the publication of the final Grenfell Inquiry report, we met with the company to assess their response since the fire.

Outcome: Saint Gobain emphasized the findings of the report were not a surprise to them, and were consistent with the findings of their own internal enquiry. They recognized that this behaviour was unacceptable and were keen to stress, and able to evidence, that there have been widespread changes to culture, processes and controls following this discovery to ensure that the root issue was addressed. They also emphasised that subsequent testing of the product after the fire, exactly as described in the marketing literature (i.e. without the adjustments which were not disclosed), showed the product met the relevant safety criteria. We are currently reviewing the company's response to determine whether we are satisfied with it before lifting the stop on the stock.

IDEX Corporation

Issue: IDEX Corporation was recently screened for inclusion in the funds, and passed with the outcome of 'suitable with caution'. This reflected its elevated ESG risks in several areas, most notably in environment and employment & labour.

Action: Following its inclusion in the fund, we met with the company. During the call we sought further information on the company's management within the elevated risk areas.

Outcome: We spoke about the company's risk management and whilst their environmental processes remains slightly weaker, the direction of travel appears positive. We also spoke in depth about their approach to acquisitions – something IDEX regularly partake in – and were reassured to learn that sustainability considerations form part of their decision-making process, and that after a company is acquired there are robust methods to integrate employees and ensure the IDEX culture is adopted.

Roche

Issue: Roche, the multinational healthcare company, has been held in our Funds for several years. As part of a periodic review of our holdings, we identified that their climate transition plan is more nascent than peers and therefore commenced an engagement on the topic.

Action: We had a call with Roche to catch up on their sustainability strategy, with a focus on their decarbonisation approach.

Outcome: Roche have moved from viewing sustainability as a compliance function to making it more of a priority, particularly by hiring a Chief Sustainability Officer. We were pleased to hear that they will soon publish their new sustainability strategy which will include scope 3 decarbonisation targets, which was one of our key asks. In addition, they spoke through their water stewardship practices in detail, which were some of the most advanced we have seen.

Governance

We seek to vote at all meetings in all territories for which we have a shareholding. The only exception is where meetings are 'share blocked', where we would otherwise have to waive our right to trade in the stock for a period prior to the meeting.

During the quarter, we voted all meetings we were eligible for, and voted against management at least once at 72% of these meetings. Our headline figures over the period are summarised below:

Q3 2024 Voting Summary:	
No. proposals eligible to vote on	808
Proposals voted on	100%
Proposals supported	89%
Proposals opposed	10%
Proposals abstained	1%
Proposals voted against management's recommendation	11%
Proposals voted against Glass Lewis's recommendation	9%
No. meetings voted at	54

Compensation

Over the period, we continued to challenge companies on poor pay practices and compensation disclosures, opposing 58% of the remuneration-related items we voted on.

Remuneration

Tatton Asset Management

Issue: We identified poor remuneration practices at Tatton Asset Management, particularly around the lack of disclosures and poor pay structure in place. We were concerned that Tatton do not disclose the targets underpinning the company's bonus scheme, and a high percentage of awards vest for threshold performance, allowing for high pay outs when performance is poor.

How we voted: Due to the poor disclosures, shareholders are unable to assess the link between pay and performance. We therefore chose to oppose the remuneration report, and may escalate our voting actions next year if the company do not improve this.

Board

Over the period, we did not support the election of a director on 28 occasions. Nine of these were a result of escalated voting measures relating to independence concerns, oversight failures, and poor remuneration practices.

Independence

Fujikon Industrial Holdings

Issue: Having previously identified poor corporate governance practices at Fujikon Industrial Holdings, we were disappointed by their lack of progress ahead of this year's AGM. Our most significant concerns related to the erosion of independent decision-making processes, with poor overall Board independence, insiders sitting on sub-committees, and questions around the oversight of, and procedures relating to, related-party transactions.

How we voted: We escalated our voting action by voting against two directors, citing potential misalignment with shareholders due to our corporate governance concerns. Furthermore, we also voted against the authorisation of the board to issue shares without pre-emptive rights due to the issue price discount not being disclosed and the potential dilution exceeding the recommended threshold.

Telecom Plus

Issue: The Chair of the Board at Telecom has a tenure of 26 years, far over the recommended nine-year best practice. We also felt the Board did not have a strong succession plan in place considering his tenure and influence. While we recognise the Chair brings an important level of business knowledge and expertise, we felt the potential combination of poor succession planning and overall levels of independence were a risk that the Board should address.

How we voted: Companies should strive to have independent Board Chairs in accordance with the UK Code. As such we opposed the Chair's re-election and opposed the re-election of the Chair of the Nomination Committee for failing to identify plans for the Chair's succession.

Salesforce

Issue: We have concerns around several elements of the corporate governance structures and practices at Salesforce, which include a combined CEO / Chair position, two over-tenured directors, low gender diversity on the board, and excessive auditor tenure. Further compounding our concerns, was the company's decision to seek approval to amend the company's certificate of incorporation to add a provision exculpating officers from personal liability for certain breaches of fiduciary duty, following recent updates to Delaware law.

How we voted: We voted against management on a number of the proposals tabled at Salesforce's AGM, including the advisory vote on executive compensation due to excessive total combined opportunity. Regarding officer exculpation, we saw the same proposal at three different companies over the quarter, and have opposed in all cases. This is because, if approved, the amendment essentially removes liabilities for an officer's breach of their duty of care. This is not in the best interest of shareholders. We will continue monitoring the uptake of this proposal by companies going forward.

Shareholder Proposals

We carefully consider all shareholder proposals for which we are eligible to vote on, engaging with the relevant parties where possible. In select cases, we also publicly pre-declare our voting intentions on the PRI resolution database. Below are two examples of cases where we took this measure:

Q3 2024 Shareholder Proposals	
No. shareholder proposals voted on	7
Environmental voted on	1
Social voted on	3
Governance voted on	2
Compensation voted on	1

Nike

Issue: A number of shareholder proposals were tabled at Nike's AGM, primarily focused on human rights in the supply chain and the company's sustainability performance. We supported three of these.

How we voted: We supported a proposal relating to supply chain management reporting. While we recognise the progress made in the company's disclosures, additional information regarding potential human rights risk exposures would be valuable with ongoing regulatory issues. Furthermore, following Nike's removal of several related targets they failed to meet, we supported a proposal requesting disclosure around this decision. The company attributed failure to "consumer preference" and "marketplace demand," effectively absolving themselves of responsibility. We felt disclosures around why the targets were abandoned, feasibility of reinstatement, and discussion of how these risks are managed, would ultimately benefit shareholders.

Climate Transition Plans

The number of companies seeking shareholder approval for their climate change strategies and targets has increased significantly in recent years. We consider each proposal on its merits with a view to our supporting them where they are detailed, ambitious and clearly set out intermediate milestones and targets. We may oppose where they lack ambition or relevant milestones.

National Grid

Issue: In our view, the company's transition plan is highly credible, broken down into seven actionable areas, each of which contains a list of decarbonisation actions linked to quantified emissions reductions. Whilst the company have removed their net zero SBT commitment, we welcome their continued pursuit of their near-term SBTs (which are highly ambitious) and note their intention to remain in collaboration with the SBTi to help improve the sectoral methodology which, in its current form, prevents National Grid from achieving validated net-zero status.

How we voted: Recognising both their commitment to near-term action and their continued support of the SBTi pathways, we voted to support their updated transition plan.

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Our Responsible Investment Team

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock specific research on environmental, social and governance issues.

The team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of sustainability topics. For investors, it's an added layer of assurance that our clients' 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.

Carlota Esguevillas
Head of RI

Amelia Gaston
Senior RI Analyst

Hayley Grafton
Senior RI Analyst

Cordelia Dower-Tylee
RI Analyst

Why EdenTree?

Partnering with us can empower your clients with a suite of investment strategies designed to help address pressing environmental and social challenges, while seeking to deliver competitive rates of return.

Contact us today to explore our innovative investment solutions and discover how we can support your clients' sustainable investment objectives.

Further information and support

We serve the professional investment community across the entirety of the UK, with our Business Development Team consisting of dedicated and experienced regional representatives, who are on hand to provide exceptional levels of client support.

For additional information, please contact your EdenTree relationship manager, or get in touch with us at:

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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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