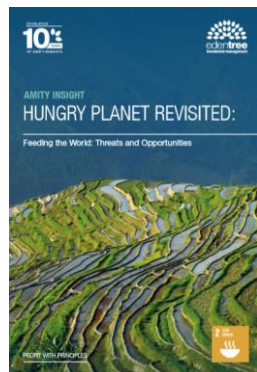


A DECADE OF THOUGHT LEADERSHIP

2008-2018



Our commitment to thought leadership as responsible investors saw us publish our 31st Amity Insight, ‘**Hungry Planet Revisited**’ in June. The Insight re-visits themes from 2012 where we examined the challenges of feeding a population expected to rise to 9 billion. The new Insight looks at the issues for responsible investors including food waste, deforestation and climate change, and examines five investible themes for making the food chain more sustainable. The Insight is available online and in hard copy.



in June bringing all of our research together and concluding that at present this is not easily achievable for mainstream equity funds, although it does lend itself favourably to fixed interest instruments. We will monitor developments and continue to engage with service providers as tools mature and corporate data improves. We will also reference the SDGs in our publications where relevant e.g. Hungry Planet Revisited and SDG 2 (No Hunger). Clients are invited to review the Expert Brief where our view on ‘Impact’ and its relevance to EdenTree is also assessed. Publications are available at www.edentreeim.com

RESEARCH AND PUBLICATIONS

Our next Amity Insight, due for publication in September is ‘**The Waste Problem**’. The world generates at least 3.5m tonnes of solid waste a day, or 10 times the amount generated a century ago.¹ The Insight will examine what is needed to make waste part of the ‘circular economy’, and focuses on plastic, fast-fashion, electronic and construction waste, whilst considering some investment opportunities in the waste value chain.

We provide comment and written pieces for the media and trade press on responsible investment and during the quarter we provided comment for The Times on plastic, to the Daily Telegraph on executive remuneration at AstraZeneca, had a letter published in the Financial Times on the ‘overheating of expectations’ surrounding impact investing, and wrote a piece for Charity Finance on ‘charities and diversity’.



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

Ketan on Twitter @Kethical where his 1,695 followers regularly read his Tweets on market, economic and sustainability issues. You can also ‘link-in’ with Neville where his 1,115 connections follow posts on topical ethical issues, research trends, and corporate governance news.

THE SUSTAINABLE DEVELOPMENT GOALS



We are beginning to see some client interest around the concept of integrating the 17 UN Sustainable Development Goals (SDGs) into portfolio construction. We have carefully researched the issue by reviewing five service providers with tools to help investors map and integrate the goals. All the models we reviewed have drawbacks, including a reliance on assumptions rather than hard data; the application of methodologies that are inconsistent, and the absence of reporting by companies. We published a **SRI Expert Briefing**

PHARMACEUTICALS

Health & Wellbeing is one of three themes employed as part of our positive approach to investing. The sector is unique in its purpose: to save lives through science based pharmacology. However, the sector has also been the subject of serial challenges in respect of bribery and misconduct around sales & marketing practices. Given the importance of the sector to us we have conducted a comprehensive engagement strategy during the quarter with many of the companies in the portfolios. Meetings with **Smith & Nephew** (Amity UK) and **AstraZeneca**, (Amity Balanced and UK) and a call with **Sanofi** (Amity European, Global Equity and International) covered a broad range of ethical issues around conduct, culture and behaviour.

Intensive engagement has been conducted with Novartis (Amity European, Global Equity and International Funds). The company has diversified interests in cardio-vascular, oncology

¹ <http://www.worldbank.org/en/news/feature/2013/10/30/global-waste-on-pace-to-triple>



and respiratory disciplines, and has been implicated in multiple misconduct challenges. Focused engagement including with the company's Chief Ethics & Compliance Officer, led to our writing to the Chief Executive regarding the importance of his setting the tone for future ethical conduct. He has sent a reply confirming ethical behaviour and restoring trust are a top priority under his leadership. We will continue to engage at a deep level with the company as change is progressed.

EXERCISING STEWARDSHIP: ENGAGEMENT

Collectively we meet over 600 companies a year and have an integrated Stewardship approach that includes a range of environment, social and governance (ESG) issues.

CYBERSECURITY



We are part of an investor led coalition facilitated by the PRI focusing on cyber security and its attendant risks. During the quarter we had a detailed investor call with the Chief Security Officer at **Lloyds Banking Group** (Amity Balanced, Global Equity and UK) which looked at the bank's governance procedures, security protocols and the current nature of cyber risk. As digitalisation continues, we will continue to monitor closely company preparedness in this area.

FAIR WORK: WORKFORCE DISCLOSURE INITIATIVE (WDI)



We are supporters of the newly formed **Workforce Disclosure Initiative**, where over 100 investors with \$12 trillion of assets are collaborating around improved transparency in workforce and supply chain disclosure. We attended the launch of the pilot year study which saw 34 companies (from a survey list of 76) respond in detail to the WDI; over two-thirds replied to 70% of the survey topics, suggesting there is some way to go before companies collect adequate data – particularly through the supply chain. We are working with the WDI to improve the quality of the survey in light of speaking to companies such as **HSBC Holdings**.

FOCUSED ENGAGEMENT

We engaged with **HSBC Holdings** (Amity Balanced, Global Equity and UK Funds). This covered material environment, social and governance issues, as well as business ethics and culture. We contacted **Ericsson** (Amity Balanced, European and International Funds) regarding its exposure to potential human rights violations in Burma/Myanmar following the Amity Panel review. They wanted to understand how the company was responding to the upsurge in violence in Rakhine State, and the degree of reputational risk Ericsson might be exposed to from becoming associated with violations of human rights. The company provided a detailed response. A routine update meeting with fashion retailer **Bonmarché** (Amity UK) led to a call with the company's Head of Quality Assurance & Sourcing to discuss supply chain integrity and waste. The company has adopted a 'circular economy' model for soiled and unsold stock in which it works with charity partners to find non-landfill routes for all non-viable stock.

Finally we had a detailed meeting with house-builder **Bellway** (Amity UK) in which affordable housing, natural capital and sustainable sourcing were discussed.

COLLABORATIVE ENGAGEMENT

We work collaboratively with a range of partner organisations to effect change and supported the Office of the Independent **Anti-Slavery Commissioner** by joining other investors in co-signing letters to several UK and European companies regarding their disclosure on Modern Slavery and anti-trafficking procedures. We signed an investor letter to companies calling on them to commit to non-exploitation of the **Arctic Refuge**, to leaders of the **G7** on progressing Paris Agreement targets on climate change, and to **General Electric Inc.**, calling on the company to commit to the non-exploitation of a UNESCO World Heritage Site in Kenya, as part of its proposed acquisition of Amu Power in Nairobi. We view the proposed coal plant in Lamu to be at odds with GE's public position on climate change, whilst the plant itself will impact negatively on the local environment and communities.

VOTING AND STEWARDSHIP

The second quarter marks the height of the UK proxy voting season. We voted at 114 UK company meetings, comprising 1,860 resolutions. We voted to oppose or abstain 132 resolutions (7%), the majority against remuneration (43%) and the re-election of Board directors (30%). We continue to find it challenging



to support pay packages in the FTSE100 owing to excessive pay-outs and poor links to performance. Of 37 FTSE100 companies voted during the quarter, we supported remuneration at just six.

We notified **Rentokil-Initial** and **Informa** (both Amity UK) that we could not support Remuneration Policy owing to increases in executive pay that we viewed as unjustified.

The audit profession is increasingly under regulatory scrutiny in the UK for apparent failures in audit practice, and we have increased our voting action where external auditors have been in place for an excessive length of time. During the quarter we opposed the re-appointment of auditors at 23 companies including **Shire**, **Prudential**, **Pearson** and **ITV**.



GLASS LEWIS

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 118 meetings comprising 1,160 resolutions in 24 markets. They opposed/ abstained 18% of resolutions, mostly against the re-election of directors (37%) and shareholder capital issues (20%).

STRENGTHENING ETHICAL OVERSIGHT: THE AMITY PANEL

The Amity Panel meets three times a year and provides independent oversight and assurance to the Amity process. Whilst the Panel cannot mandate a course of action, it is there to advise and provide counsel on complex ethical dilemmas and challenges. During the quarter we refreshed the Panel's Terms of Reference and strengthened its complement with the addition of two new members. Mr William Seddon brings long experience as the former Chief Executive of the Central Finance Board of the Methodist Church, and Mr Julian Parrott is the inaugural client representative on the Panel.



Julian Parrott
Client Member,
Ethical Futures



Bill Seddon
Former CEO CFB
Methodist Church

THE EDENTREE SRI TEAM



Neville White
Head of SRI Policy
and Research



Esmé van Herwijnen
Responsible Investment
Analyst

We have a specialist in-house Socially Responsible Investment (SRI) 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 SRI Policy & Research, and supported by Responsible Investment Analyst Esmé van Herwijnen, 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. 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 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 SRI Activity Report and find it useful and informative. For any further information please contact us on 0800 011 3821 or at ifa@edentreeim.com