

## EdenTree SRI Activity Summary

### October-December 2015

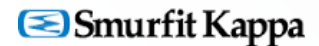


### Research and Publications

In 2016 we will cover three different subjects for our Amity Insight publication, starting with a look at **Natural Capital**. This is a novel issue for investors, but can be best defined as the stock of natural resources we have access to and the benefits they provide. It includes non-renewable resources such as fossil fuels and mineral wealth, as well as renewable natural capital such as land, water, soil, habitat and associated eco-systems. We will explore what all this means for the responsible investor and the impact business has on the natural world.



We published an SRI Expert Briefing during the quarter profiling two interesting holdings that deliver strongly against our nine positive screens. Irish based **Smurfit Kappa** (Amity European and Amity Global Equity Income) is a global provider of packaging for the retail, food and industrial sectors, but is present throughout the whole value chain, owning forests, paper mills and manufacturing facilities. The company has a strong presence in the recycled paper and board market, reducing the need for virgin fibre; as of 2015, all of its paper based products are made from 100% renewable resources and are recyclable. We also featured specialist investment company, **Vietnam Holding**, (Amity International) among the few dedicated sustainable investment funds focused on South-East Asia. The Company integrates environmental, social and governance (ESG) factors into its investment approach, excluding companies that fail its human rights, labour or environmental standards, whilst positively investing in companies that have a strong sustainability case.



During the quarter, we were featured in several publications, providing market and sustainability comment for CityAM, FTFM, FT Adviser and Investment Week. The latter included an article, '*Business Ethics: The Spare Wheel in the Auto Industry*' exploring the series of governance scandals to have hit the autos sector following exposure of the Volkswagen emissions scandal. As part of 2015 Good Money Week we took part in public events in Norwich, Leeds and London. We were invited by Charity Finance Magazine to discuss potential liabilities Trustees may face from investing in fossil fuel companies following a legal opinion that Trustee vigilance may be required in assessing the potential portfolio risks from investing in high impact fossil fuel companies.



We invite you to get involved with the team by following us on Twitter and LinkedIn. As well as accessing all of our publications at [www.edentreeim.com](http://www.edentreeim.com), you can also follow Ketan on Twitter @Kethical where his 853 followers regularly read his tweets on market, economic and sustainability issues. You can also 'link-in' with Neville where his 693 connections follow posts on topical ethical issues, research trends, and corporate governance news.



### Company Engagement & Industry Initiatives



We met a number of companies during the quarter. We met with **St Modwen** (Amity Sterling Bond) on its environmental strategy and targets, and were encouraged and impressed at the progress the company is making. Eliminating waste to landfill is of particular note, with the company recycling over 100,000 tonnes of concrete and aggregate waste generated at its construction sites.

We were delighted to support the launch of a new report '*Forced Labour, Human Trafficking & the FTSE100*' In December, produced by Stop the Traffik, ECCR and Rathbone Greenbank. The report makes an important

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contribution towards understanding the material business risk trafficking presents in the textiles, gold, leisure and seafood industries. Our Amity Insight '*Human Rights: Human Wrongs*' has been reissued to reflect our ongoing commitment to engage with companies on supply chain monitoring and trafficking risk.



We continue to engage with the UK banks on culture and business ethics in the wake of successive corporate scandals. We took part in an Investment Association convened meeting with Sir Sandy Crombie, the Senior Independent Director at **Royal Bank of Scotland** who outlined the progress the bank is making in recovering from legacy issues including multiple scandals. We also took part in a similar meeting with **Lloyds Banking Group** which has established a Responsible Business Committee, accountable to the Board with a Code of Responsible Business for the Group. Both banks remain 'in transition' after the financial crisis, but are viewed more positively as regards corporate culture and undue risk taking.

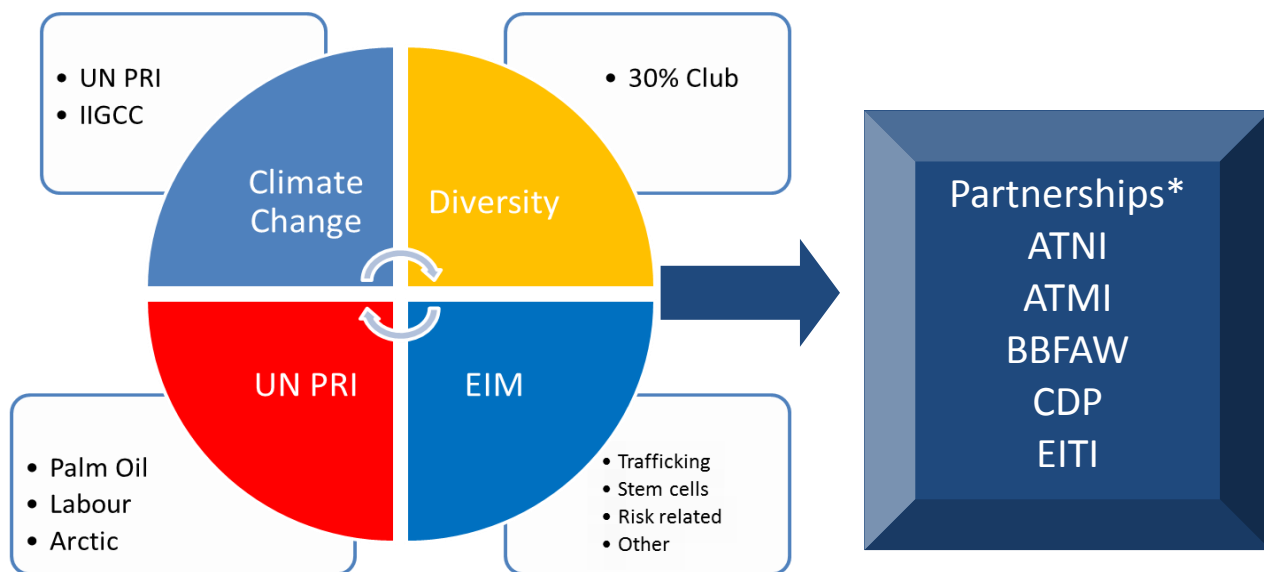
Five international banks were also approached on their policies of financing controversial weapons providers. A report by Dutch NGO, PAX, investigated the degree to which financial institutions provide funding or finance for controversial weapons. The report points to over 40 well-known banks that have adopted policies around excluding these producers from loan finance (including Barclays). We engaged with **Deutsche Bank**, **RBS**, **Commerzbank**, **Societe Generale** and **Sumitomo Mitsui Financial** to understand how they manage this exposure. We received a comprehensive response from RBS whereby the Bank prohibits the financing of manufacturers of Cluster Munitions, Anti-Personal Landmines, Biological and Toxin Weapons, Chemical Weapons and Blinding Laser Weapons. RBS also confirmed it maintains enhanced due diligence for companies involved in the manufacture of nuclear weapons. **Societe Generale** provided similar reassurance, and that financing of nuclear weapons is restricted to countries that have ratified the Nuclear Weapons Non-proliferation Treaty.

A pillar of our engagement strategy is to work collaboratively with other global investors. We do this mainly through our involvement with the Principles of Responsible Investment (PRI). During the quarter, we joined signatory coalitions by writing to the Indonesian President urging action on deforestation. In the run up to the COP21 Paris Climate Change talks, we signed the **Paris Pledge**, a French Government initiative harnessing over 1,000 non-state actors (investors, business, cities, regions, trades unions and NGOs) supporting the Paris outcomes to ensure these are met or exceeded.



## Our Engagement Strategy

We have been developing a more focused engagement strategy designed to maximise our impact across several initiatives. We recognise we can be more effective on behalf of clients by working with others where this makes sense, and that consequently our important climate change work is best carried out through our memberships of IIGCC and PRI. We are already seeing the fruits of this with specific engagement undertaken via IIGCC collaboration. Similarly we intend to leverage our signatory status to PRI by working with like-minded international investors on issues such as palm oil, Arctic drilling and labour rights. We are a member or signatory to several initiatives (such as Access to Medicines, Access to Nutrition and Carbon Disclosure Project); we will use these valuable resources to target laggard companies in specific areas. Our work on diversity will continue into 2016 as we prepare to integrate the 2015 Davies Recommendations to achieve 33% women on FTSE350 Boards by 2020 into our voting policy. Finally, we will also seek to engage on a variety of ESG issues that present either a material business risk or are of importance to clients such as labour rights, trafficking and supply chain management. Overall, going forward, we will define our strategy as shown below:



\* ATNI (Access to Nutrition Index) ATMI (Access to Medicines Index) BBAFW (Business Benchmark on Farm Animal Welfare) CDP (Carbon Disclosure Project, including CDP Water and Forest Footprint) EITI (Extractives Industries Transparency Initiative)

## Voting and Stewardship



The final quarter of the year is traditionally quiet. 42 UK meetings were voted but unusually over 25% of these were special or extraordinary meetings representing a strong element of corporate activity as the year closed. We voted on 437 resolutions, opposing or abstaining 35 (8%). We opposed or voted an abstention against eight remuneration reports, and took action against the re-election of 10 Board directors. We take a robust approach towards executive pay that fails our excess tests or is poorly aligned with delivering superior out-performance for shareholders. Companies where we voted against remuneration on grounds of excess included **Sky**, **Smiths Group**, **Close Brothers** and **Dunelm**. Long-term incentive plans were opposed at **Scapa** and **Smiths Group** owing to concerns around excess or poor performance links. We take action on excessive requests to approve non-party political expenditure as caught by the Companies Act. We engaged with **Wolseley** to seek a reduction in their requested mandate to conform to market norms. Their resistance resulted in our voting to oppose the request. From 2016, we have changed our Policy automatically to oppose requests to allow political expenditure in excess of £100,000pa.

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 final quarter saw Glass Lewis vote at 22 meetings comprising 140 resolutions. They opposed or abstained 19% of resolutions, mostly against directors (14 resolutions). Our Global Corporate Governance Report for the final quarter of the year is available at [www.edentreeim.com](http://www.edentreeim.com)



Our UK and Overseas Corporate Governance Policies have been re-issued for 2016 and are available from the website. 2016 will see us further embed voting on diversity and clarify our House position in applying voting principles to the financial services sector and specifically the issue of 'role based pay' and fixed allowances.

## UK Stewardship Code

We are signatories to the **UK Stewardship Code**, first published in 2010, which seeks to enhance the quality of engagement between asset managers and companies to help improve



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long-term performance. The Code sets out seven Principles in which managers can aspire to embed best practice. With nearly 300 signatories, the Code has gained traction as an important component in the corporate governance armoury and we have published our response to the seven Principles annually since 2010. The latest version for 2016 is now available online at [www.edentreeim.com](http://www.edentreeim.com)

## External Recognition

We are delighted that the Amity UK Fund has been rated an 'Elite Fund' by FundCalibre in its responsible investing category, one of only five UK Funds so rated.



## Your Team and Further information



We welcome your comments, feedback and suggestions. To comment, or for further information on EdenTree's range of Amity SRI Funds please contact your EdenTree Business Development Manager, visit [www.edentreeim.com](http://www.edentreeim.com) or call our sales support team on 0800 011 3821. If you have feedback on our research, or there are topics that you would like to see covered, please do contact us.