

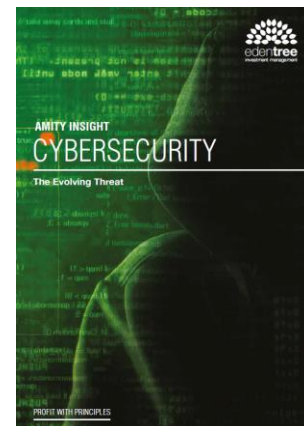
## EdenTree SRI Activity Summary

### July-September 2016



### Research and Publications

As our most recent Amity Insight '**Cyber Security: The Evolving Threat**' went to press, news came through that Yahoo! had suffered a major data breach with 500 million customer account records being stolen including names, email addresses telephone numbers and even some encrypted security passwords. As the Insight emphasises, cyber security is the fastest growing area of criminal and malevolent activity, and one where many businesses are simply unprepared. The Insight looks at the origin of cyber-crime, the nature of the risk and its cost and the market drivers for criminal activity. It also looks at industry responses and the market opportunity for cyber protection services – one of the fastest growing digital markets. The Insight is online at [www.edentreeim.com](http://www.edentreeim.com) and is available in hard copy on request.



Our next Amity Insight due for release in January 2017 will look at the 'Energy Paradox'. We consider how the world can square an exponential growth in demand for energy whilst meeting climate change commitments to reduce GHG emissions. The Insight will also consider theories around 'stranded assets' and what responsible investors can do in responding to the challenges of portfolio carbon risk.

During the quarter we published the last in our 'science suite' of **SRI Expert Briefings** linked to the Amity Insight on Natural Capital. The Expert Brief asks, 'can you invest responsibly in biofuels?' and considers the various types of biofuel available and how second and third generation fuels are generally viewed as more sustainable in that they do not divert land from food production. We do see biofuel feedstock as contributing to a sustainable energy mix, and have exposure through some major holdings such as **Siemens** and **Borregard**.



During the quarter, we were featured in several trade publications writing on executive remuneration in Money Observer and Investment Europe and we were featured in a Trustnet article, 'Does Ethical Investing Mean Compromising Returns? A further piece on shareholder activism in Global Investor included our comments on holding companies to account for excessive executive pay linked to poor performance.

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 1,043 followers regularly read his tweets on market, economic and sustainability issues. You can also 'link-in' with Neville where his 784 connections follow posts on topical ethical issues, research trends, and corporate governance news.



### Company Engagement & Industry Initiatives

We meet over 300 companies a year with sustainability issues forming an integral part of each conversation under our integrated process. During the quarter we made an investment visit to the Netherlands meeting several companies including **Akzo Nobel** and **ING Groep**. The latter continues to make good progress



following its bail-out by the Dutch Government, and has restored trust by integrating strong business ethics protocols into its approach and process. The US bank **Wells Fargo**, which had largely escaped opprobrium during the financial crisis, became embroiled following revelations that it had sought to meet product sales

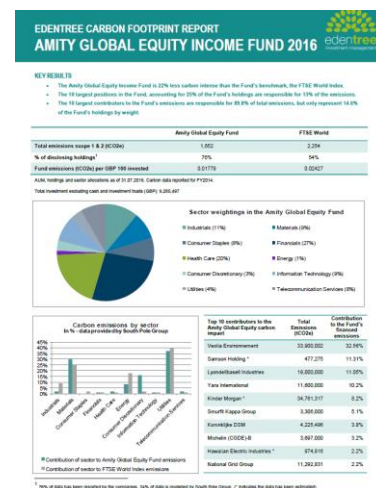
targets by opening up to 2 million false accounts that its customers knew nothing about. The bank received a hefty fine, and we engaged over its conduct, later noting that the Board had taken action to withdraw share awards from senior executives and to separate the roles of Chairman and Chief Executive. We also engaged with **Novartis** following the introduction of new measures to reduce the risk of misconduct and amending remuneration structures that incentivised poor sales practices. We welcomed the imposing of claw-back globally in cases where malfeasance or misconduct is proved.

During the quarter we continued to commission South Pole Group to carry out portfolio footprints of the Amity Global Equity Income Fund and the Amity International Fund. Both resulted in carbon intensity gratifyingly lower than the respective Fund benchmark, and completes the project to survey all of the Amity Equity Funds. Information on each Fund footprint has been published online as part of our commitment under the **Montréal Pledge**. As part of our climate change strategy, we identify the highest contributors to emissions in each Fund with a view to engagement. During the quarter we had constructive conversations with **Kinder Morgan**, **Engie**, **Lyondell Bassell** and **Yara International** to understand their strategy and encourage disclosure around performance and targets. We are also engaging with six Asian companies held in the Amity International Fund whose emissions were identified as outliers. In policy areas, we supported an investor letter addressed to the **G20** leaders calling for rapid implementation of the Paris Agreement and decisions around investment in transition infrastructure. We met with **SSE** on how it is modelling portfolio risk within its inventory as the energy giant begins to transition more visibly towards lower carbon intensive fuel sources (natural gas) and renewables. Dutch insurer **a.s.r** also entered discussion with us on how it should provide more meaningful disclosure for shareholders on climate change.

We have begun a second phase of dedicated engagement on **diversity** targeting FTSE250 companies that have made little progress towards greater gender balance at Board level. The Hampton-Alexander Review (successor to the Davies Review Group), has set an ambitious target of 33% of women on FTSE350 Boards by 2020. In support of these ambitions we plan to engage proactively with laggards during 2017 with a view to voting against Nomination Committee Chairs in 2018 should engagement and progress appear lacking. Those targeted include **National Express Group**, **Bodycote**, **Supergroup**, **Dignity** and **Jardine Lloyd Thompson**. We co-signed an investor letter published in the Financial Times setting out the case for improved diversity, and became a founding investor to sign the **30% Club** Statement of Intent.

We met many companies during the quarter in which environmental, social and governance issues were raised including **Cambian**, **Biffa**, **Galliford Try** and **Genus**. We contacted **Pennon Group** over its very poor environmental record (as reported by the Environment Agency) compared to its peers in the water and waste water sector. The company had scored particularly poorly for pollution and serious pollution incidents. We received a satisfactory response indicating the company was committed to improvement and had implemented action in key areas. An independent Non-Executive Director at **Hotel Chocolat** reached out to us for a conversation around sustainability and what, as shareholders, we look to see in the way of performance disclosure. We met with management of **Vietnam Holding** one of Asia's few responsible Funds, investing in Vietnam based companies that have strong sustainability positives. The Fund now measures its carbon footprint with a very positive lower than benchmark outcome.

Collaborative engagement is an important part of our strategy to leverage influence with a view to effecting change. During the quarter we joined other investors to support several sustainability initiatives including signing a PRI led investor statement on Arctic drilling; a PRI led investor statement on water disclosure; signing a FAIRR<sup>1</sup> led Global Statement on antimicrobial resistance supported by 77 institutional investors with



combined assets of \$569bn, and conducting further work on the responsible sourcing of cobalt in the supply chain together with other investors and relevant industry bodies.

## Voting and Stewardship



Traditionally, the third quarter sees the close of the UK proxy voting season as companies with a March year-end hold their AGMs. We voted at 58 UK meetings voting on 822 resolutions. We voted to oppose or abstain 49 resolutions, predominately against executive remuneration, auditor rotation and the re-election of 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, and we took action in 17 cases during the quarter. Companies where we voted against remuneration on grounds of excess included **BT Group, British Land, Tate & Lyle, Vodafone, SSE** and **Nationwide Building Society**. At **Royal Mail Group** we declined to support proposals that would see a significant shift towards short-term incentives and an unwarranted increase in maximum opportunity. Seven proposals to amend or introduce new share incentive schemes were opposed including at **Royal Mail Group** and **Dixons Carphone**. We integrate auditor rotation into our voting policy, and during the quarter we voted to oppose or abstain, the re-appointment of external auditors at 11 companies where there had been no audit tender for some considerable time.

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 third quarter saw Glass Lewis vote at 20 meetings comprising 169 resolutions. They opposed or abstained 21% of resolutions mostly against shareholder capital arrangements (15 resolutions), and director re-election (11 resolutions).



Our Global Corporate Governance Report for the third quarter is available at [www.edentreeim.com](http://www.edentreeim.com)



We were delighted to have received an A+ for strategy and governance in our second PRI Assessment Report 2016. With a median score of B for reporting signatories, this places EIM in the top 10% of investment manager responses.

We continue engagement with PRI work streams including labour rights, palm oil sourcing and Arctic drilling.

## External Recognition

We were delighted to win the award for **Best Ethical Investment Provider** in the Moneyfacts Investment, Life & Pensions Awards 2016, our *eighth* successive win in this category against a very strong field of nominees. This is testament to our commitment to be the best ethical and responsible investment provider for clients, and a huge vote of confidence from all our supporters who nominated and voted for us. Thank you.



We have been nominated in three categories at the Investment Week Sustainable Investment Awards for Best Ethical Investment Fund Management Group, Best Ethical Investment Fund (Amity UK), and Best Thought Leadership Paper on Sustainable Investing for our work on Natural Capital.

This information is for investment professional only and should not be relied upon by private investors.

## Your SRI Team and Further information



We welcome your comments, feedback and suggestions. To comment, or for further information on Eden-Tree'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.

<sup>1</sup> FAIRR – Farm Animal Investment Risk & Return