

## EdenTree SRI Activity Summary

### October-December 2016



### Research and Publications

Our next Amity Insight due for release in February 2017 looks at the 'Energy Paradox'; how the world can meet its future energy needs whilst tackling climate change. The Insight will bring together work we have been conducting on climate change, including portfolio footprints of the Amity equity Funds. It will also present our views on fracking (first published in a 2013 Insight), and look at why China was so willing to seek a climate deal at the Paris climate talks in December 2015. The Insight also considers theories around 'stranded assets', the fossil fuel divestment campaign, and what responsible investors can do in responding to the challenge of portfolio carbon risk.

During the quarter we published two **SRI Expert Briefings**. The first profiled two stocks held in the Amity UK Fund – **Hotel Chocolat** and **Patisserie Valerie**. We have conducted engagement with both specialist retailers on their sustainability performance, including supply chain and energy use. The Expert Brief considers the investment and sustainability cases for these two interesting holdings.

'Globally, two billion people cannot access the medicine they need' and in our second Expert Brief we reviewed the results of the 2016 **Access to Medicine Index**, to which we are an investor signatory. Launched in 2008, the Index is a biennial ranking of the world's largest pharmaceutical company's efforts to improve access to medicine. As one of our nine positive screening pillars, access and affordability are part of the case for our having a strong bias towards healthcare, and 12 of the 20 companies surveyed in the Index are held in the Amity Funds. We have positions in the top seven ranked companies, and our overweight position in GSK is supported by the company being ranked #1 in the Index for the fifth successive time.



We participated in **Good Money Week** events during October in Leeds, Liverpool and Manchester, and presented our analysis on climate risk at the Investment Week Sustainable Investment Awards in London. Following the launch of our Amity Insight on Cyber Security, EdenTree Associate Fund Manager, Thomas Fitzgerald, (right) was interviewed on Share Radio, also in October. During the quarter, we were featured in several trade publications writing on sustainability trends and executive remuneration in particular.



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 1,078 followers regularly read his Tweets on market, economic and sustainability issues. You can also 'link-in' with Neville where his 808 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 a bovine bull stud owned by **Genus** (Amity UK). The company is a global leader in animal genetics and reproduction services, serving the porcine and bovine sectors. The company is a science-led proposition that provides farmers globally with breeding pig and bull semen to produce high-quality milk or meat through genomic selection and editing. Its capabilities



afford potential to tackle common animal diseases such as Porcine Reproductive and Respiratory Syndrome (PRRS) by altering particular proteins of an animal's DNA that are virus receptors. Deactivating the faulty gene results in animals that are resistant to the PRRS virus. The visit allowed us to see the pristine conditions in which these highly valuable animals are kept and to understand the breeding and welfare issues more fully.

We met senior personnel from **Nestlé UK** (Amity Global Equity Income) to discuss company initiatives around cocoa and coffee sustainability; it was also an opportunity to discuss their initial report in response to the UK Modern Slavery Act. We met the new Chief Executive of **Bonmarché** (Amity UK), a specialist women's apparel retailer, to understand their approach to supply chain auditing and monitoring.



Human rights remain a pressing concern and a material risk to companies operating in challenging markets. During the quarter we engaged with three companies over their operations in the disputed territory of **Western Sahara**, which although not subject to sanctions, has aroused concern in some quarters. We sought to understand what human rights due diligence had been carried out and how companies seek to manage any emerging human rights risks. We have also been in dialogue with Amnesty International as part of this research - the work is ongoing. In 2017 we will begin to engage with companies more methodically on their response to the Modern Slavery Act. During the quarter we met with representatives from **CP Foods**, the Thai seafood company often in the vanguard of criticisms regarding Thai seafood slavery. The company appears very sensitive to the concerns raised by investors and has taken steps to improve transparency in their supply chain, notwithstanding the systemic challenges. At present the company is not considered suitable for inclusion in the Amity Funds, but we remain engaged as this issue potentially affects all retailers and food producers sourcing shellfish.



Portfolio carbon footprint disclosure under the **Montréal Pledge** has now been published online for all four Amity Equity Funds (Amity UK, European, International and Global Equity Income). The results outlined in previous Activity Reports, allow us to focus engagement on those companies that contribute the most in terms of GHG emissions. In total, 28 companies were identified for intense engagement, with conference calls held with many. During the quarter, we had one such call with French utility **Veolia** (Amity Global Equity Income, Amity Balanced and Amity Sterling Bond), which provided detailed information on the company's approach to climate change across its global business. We also opened a dialogue with **Michelin** (Amity European and Amity Global Equity Income) which was among the top 10 contributors to emissions in both Funds.



We continue to be a signatory and partner to several industry initiatives and collaborate with like-minded investors through the **PRI** (Principles of Responsible Investment). During the quarter we were invited to join the Cyber Security steering committee which will take forward collaborative engagement on this pressing, emerging risk. We have continued to press FTSE350 companies to disclose their approach to improving diversity at Board and executive level, and in November we attended the launch of the **Hampton-Alexander Review** (the successor body to the Davies Committee), which has set a voluntary target of 33% of women on Boards by 2020. We are commencing a period of intense engagement with FTSE250 laggards on diversity in preparation for more targeted action via proxy voting in 2018.

## Voting and Stewardship



Proxy voting in the final quarter of the year is usually light, and 2016 closed with our voting at just 40 UK meetings, comprising 450 resolutions. We voted to oppose or abstain 40 resolutions, predominately against executive remuneration, auditor rotation and the re-election of directors. During the quarter we opposed remuneration at **Sky**, **Close Brothers** and **Smiths Group** among others, and opposed an award of shares to the non-executive Chair of **John Menzies** which we judged to be inappropriate. We oppose the re-appointment of the external auditor

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

where these have not changed for a decade or more; in the fourth quarter auditors were opposed at 10 companies including **Sky**, **Close Brothers**, **Dunelm** and housebuilder, **Bellway**.

Overall in 2016, we took action in around 6% of cases, opposing and abstaining 89 remuneration policies and reports, the re-election of auditors at 46 companies and the re-election of 56 directors. We also took action to oppose 25 long-term incentive plans. We voted at 265 UK meetings comprising 3,776 resolutions in all.

Our 2017 UK and International Corporate Governance policies have been published and are available online. As we move into the 2017 UK proxy voting season (which will see a second binding vote on remuneration at many companies), we have strengthened our voting intentions as far as diversity, auditors and remuneration structures are concerned.

Our overseas strategic partner **Glass Lewis & Co.** votes all proxies in markets other than the UK, voting against poor corporate governance board structure or where unlimited powers are ascribed to the Board to shareholder detriment. The fourth quarter saw Glass Lewis vote at 21 company meetings comprising 120 resolutions. They opposed or abstained 18% of resolutions mostly against director re-election (12 resolutions). In 2016, Glass Lewis voted at 209 meetings, comprising 2,366 resolutions in all. They took action in 16% of cases, including 70 compensation schemes and the re-election of 157 Board directors.



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



We were delighted to be rated a Tier I Signatory under the **UK Stewardship Code** by the Financial Reporting Council (FRC). Since September, signatories have been rated Tier I-III depending on the quality of their supporting Statement. Tier I responses are judged as providing '*a good quality and transparent description of their approach to stewardship*'. Our expanded 2017 Statement under the UK

Stewardship Code requirements is now available online at [www.edentreeim.com](http://www.edentreeim.com)

## External Recognition

We were delighted to be Highly Commended at the Investment Week Sustainable Investment Week Awards 2016 in the Best Ethical Investment Fund Management Group and Best Ethical Investment Fund (Amity UK) categories. We were particularly delighted to win in the Best Thought Leadership Paper on Sustainable Investment category for our Amity Insight 'Natural Capital – Exploring Nature's Investment Case'.



## Your SRI 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.

EdenTree Investment Management Limited (EIM) Reg. No. 2519319. This company is registered in England at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, UK. EdenTree is authorised and regulated by the Financial Conduct Authority and is a member of the Financial Ombudsman Service and the Investment Association

January 2017