

Responsible Investment Activity Report

Quarter to 30th September 2023



Welcome to our Responsible Investment Activity Report for the three months to 30th September 2023 with news of our responsible investment research, engagement and governance activities across our managed Funds and strategies. Our RI Activity Reports follow our overarching Responsible and Sustainable Investment pillars:



Research

We published a blog 'Regenerative Agriculture: More than a Buzzword' - following our two-day site visit hosted by **Nestlé** (see below) to see how regenerative agricultural techniques are at the heart of the relationship between the company and its local suppliers. The blog is available [here](#). We published a blog on our '20-year journey towards responsible cocoa', that looks at our early engagement with the confectionary industry and in particular how sustainable chocolate manufacturer Hotel Chocolat is managing sustainable processes on its St Lucia plantation. The blog is available [here](#).



The latest Insight '**Nature Under Threat**', follows thematic engagement with our food retailer and producer holdings on the subject of biodiversity. The Insight explores the drivers of biodiversity loss, our key findings from the engagement, and the areas where we believe investors and companies need to focus their attention. The Insight is available [here](#).

Reporting

We have published our first **Climate Stewardship Report**. The Report launches a refreshed and updated climate change strategy, which includes new ambitions, targets and actions all designed to escalate activity on climate change. It builds on our long-standing commitment within EdenTree in addressing climate risk and supporting de-carbonisation. The Report is available [here](#).

Social Media



We invite you to get involved with the team by following us on social media. You can 'link-in' with Head of RI, Neville White, where his 1,929 connections follow posts on topical ethical issues, research trends, and corporate governance news.

Engagement

Engagement lies at the heart of what we do; we exercise an integrated stewardship approach that includes engagement on a range of environmental, social and governance issues. A flavour of activity carried out this quarter is set out below.

Thematic Engagement – Human Rights & Infrastructure



As part of our engagement with our infrastructure holdings on human rights, we met with **Greencoat Renewables** to discuss their management of solar assets.

It was an excellent call; the company provided considerable detail on how they are working to minimise human rights impacts in their solar supply chain, offering detailed insights on specific suppliers.

Thematic Engagement – Climate Change

We launched the first round of engagements as part of our new Climate Stewardship Plan, a tool for ensuring robust, time-bound, objectives-based engagement with the heaviest emitters in our Funds. We met with **Ashtead Group** to discuss their climate targets, disclosure and strategy. We were pleased to learn that the company has made progress over the last year, particularly around Scope 3 emissions disclosure, but we encouraged further steps, most notably the inclusion of an absolute emissions reduction target.

Thematic Engagement – Fossil Fuel Financing



We had a constructive call with **HSBC** on their climate transition plan and fossil fuel financing. We were pleased to learn that the Bank has now set sectoral targets for aviation, automotives, aluminium, steel,

iron and cement. Further work on agriculture, shipping and real estate. This puts the Bank well ahead of many of its peers. Other topics discussed included client transition plans, climate governance, climate-related remuneration, and nature strategy.

We also had a meeting with **Banco Santander** to discuss the Bank's financing of fossil fuels. We welcomed the Bank's appetite to seek investor feedback, particularly where we felt their biggest reporting gaps were.



We will continue to encourage the Bank to enhance fossil fuel policies, which relative to European peers, are weaker.



We had a call with **Standard Chartered** to discuss fossil fuel financing. They have made some positive progress since our previous conversation, specifically expanding sectoral targets and moving to absolute targets (previously intensity based). However, there remain areas where we would like to see improvements including tightening their coal phase-out, clear red lines around client transition plans and alignment to their net zero pathways. We will continue to monitor progress.



Finally, we continued our involvement in the IIGCC's collaborative engagement with Canadian Banks. With our co-collaborators, we met with **Toronto Dominion (TD)** to discuss the Bank's approach to client engagement, climate lobbying, 'Say on

Climate' votes, and the Bank's financed emissions targets. Canadian banks remain laggards by comparison with European peers on setting targets for decarbonising their loan book.

Thematic Engagement – Water



We had a call with **Avient** as part of the CDP non-disclosure campaign. Avient mainly uses 'dry' manufacturing processes and so their water use, commendably,

is lower than the peer group. In addition, all wastewater is discharged to treatment works, minimising negative environmental impacts. It was a productive call with further meetings planned around water quality.

Thematic Engagement – Plastics

We signed letters to **Carrefour, Danone, J Sainsbury, Tesco** and **Unilever** asking them to step up efforts to address removing plastic from their supply chains. The letters are the third step in a collaborative investor initiative which recently published a Statement calling on corporate users of plastic packaging to reduce their dependence on single use plastics, and additionally asked EU Policymakers for a visionary forward-looking reform of the Packaging and Paper Waste Regulation. EdenTree are leading the engagement with both J Sainsbury and Tesco.

Company Engagement Round-Up



We had an update call with **Valmont**, a strong, sustainable solutions play in the agricultural, infrastructure and water space; we commended the progress the company is making. They are finding strong support from European investors for their overall sustainability strategy, but less interest in their home market of the US where the focus remains resolutely on financial performance.



We met **Keller Group** following news that NEOM, the megacity development in Saudi Arabia they are involved in, has led to alleged human rights abuses. The company has undertaken a substantial review of their due diligence procedures with new working groups and external advisory help focused on human rights. They accepted the project has not been without its challenges and no decision has been taken on whether they will tender for future contracts. We continue to monitor the situation.



We had our first engagement call with **Enel** as lead investor in the PRI's 'Advance' collaborative initiative. Enel's human rights disclosures are impressive however, the focus is on policy rather than performance. Our call covered their overarching policy and governance on human rights and went into detail on their due diligence. In future conversations we will be exploring how they approach remediation and encouraging better disclosure around progress and outcomes.

We attended a public policy meeting with **DEFRA, Food Standards Agency** and the **Department of Health & Social Care** as part of an investor coalition on mandatory reporting standards for the food industry.



We were the guests of **Nestlé** for a trip to Carlisle to understand how the company is working with local farmers to embed sustainability and regenerative agriculture at the heart of what they do. We had a tour of their Dalston, Carlisle factory and visited a farm near Penrith which is one of 39 that supplies liquid milk to Nestlé under a premium contract from a dairy co-operative First Milk. The farm had invested heavily in technology to make dairying viable, and in particular installing robots that operate 24-7 so that cows can be milked when they want without any human intervention. In addition, we were able to see enhanced regenerative practices such as soil health in operation.



We attended two further site visits this quarter. **Taylor Wimpey** hosted investors at their Sudbury site where they have built five prototype 'House of the Future' units. From 2025 all new build will have to be up to 75% more energy efficient than an equivalent home built under the 2013 regulations. Taylor Wimpey is experimenting across 2,3,4, and 5 bed homes a range of potential technologies to understand what the optimum solutions to bring to market might look like.



The second site visit was to **Johnson Service Group's** London Linen facility in West London. The laundry services up to 2.1m pieces a week and largely serves the catering and hospitality sectors (table wear, work wear, chef wear). The company has introduced significant sustainability positives in a traditional laundry setting such as closed loop water systems and low energy washing as well as increased automation.



We had a call with **Schneider Electric**. Schneider Electric is an impressive ESG play, providing consistently detailed and rich responses to all of our questions. They remain well-ahead of peers in the areas of climate and biodiversity and are conducting some equally thorough research into their supply chain, with the aim of reducing their exposure to human rights risks. We also had an ESG catch up with **SSE**, incorporating topics around health & safety, climate change, the Just Transition and waste. We were interested to learn about several new targets and initiatives designed to improve the company's health and safety rates. We also asked for an update on their climate and just transition strategies, both of which continue to be market leading.



We have been engaging with **Salesforce** for the past year on the topic of ethical AI, with a focus on improving their disclosures and red lines around the sale of their technology. Since we last spoke, they have met a number of our asks, in particular, they have updated their externally facing Ethical and Humane Use website to reflect their commitment to ethical AI. They have also published a new externally facing AI Acceptable Use Policy document that governs how customers can and cannot use their AI technologies.

Investors Statements & Collaborations

We have signed a **letter to the UK Prime Minister** calling for greater consistency in the Government’s messaging about the net zero economy. The letter, coordinated by UKSIF and signed by 36 investors representing invested capital of £1.5tn, makes clear our industry’s concerns about the Government’s recent policy signals and outlines how an ambitious approach to sustainable finance can be a huge benefit to the UK.



We have joined two new partnership initiatives: **Climate Action 100+** is the largest global investor engagement initiative on climate change. The initiative has recently moved into Phase 2, with multiple new sectors in its sight, and we believe now is the right time to lend our support given the first iteration focused entirely on the energy and mining sectors. **Nature Action 100+** is billed as the biodiversity equivalent to Climate Action 100+ and is focused on driving greater corporate ambition to reverse biodiversity loss by 2030. Investor engagement groups are currently being finalised, and we intend to join at least one of them.



We have joined a collaborative engagement on the **Just Transition**, co-ordinated by the LSE’s Financing a Just Transition Alliance. The objective is to encourage the adoption of a formal Just Transition strategy and assessment of the social risks associated with climate strategy, with a focus on sectors which have historically received less attention (i.e. not oil and gas). We will be leading the engagement with **Veolia Environnement** and will conduct a base-line assessment of performance over the next few months.

Governance

We vote at all meetings in all territories unless these are share-blocked. Our Governance work also includes public policy and remuneration consultations, as well as engaging with companies on governance issues.

The September quarter concludes the main proxy voting season and saw us vote on 718 resolutions at 46 UK meetings, opposing or abstaining in 5% of cases. Executive pay accounted for 68% of all action taken, with our opposing 25 pay reports and policies, and three long-term incentive plans. Of 53 remuneration proposals, we opposed 47%.

2023 is a Remuneration Policy year for many companies and we took action to oppose Policies at a number of UK companies including **J Sainsbury, BT Group, DS Smith, Vodafone, Tate & Lyle** and **Oxford Instruments**. We have noted a trend towards increasing variable pay multiples at many companies and have strenuously opposed egregious increases.

We also opposed a significant number of Remuneration Reports where we viewed executive packages to be excessive or poorly structured including at **Land Securities, British Land, National Grid** and **Nationwide Building Society**.

New long-term incentive Plans were opposed at **British Land, Vodafone** and **Telecom Plus**.



targets missed.

At **Pennon Group** we once again opposed remuneration where variable pay had been awarded despite environmental performance being poor, and financial



We opposed remuneration last quarter at **Pearson** where we have had regular disagreements over pay. In August we had a meeting with the Chair of the Remuneration Committee to discuss their response to 46% of investors opposing the company’s Remuneration Policy. The Chair admitted that they had decided to settle for a ‘mid-Atlantic’ remuneration package; to that end the Committee strove to put in place a more-or-less conventional UK structure but with a US style quantum. The meeting was constructive without there being a meeting of minds.

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Finally, **Kier Group**, with whom we have had substantial dialogue over excessive remuneration invited us to consult with the Chair of the Remuneration Committee. The new Chair was very much in listening mode and this was a constructive meeting that served as a ‘re-set’ in the relationship. We have indicated we would be able to support the Committee’s new Policy proposals which will come to the AGM in November and welcomed renewed engagement by the company.

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Governance: Remuneration Consultations

From time to time we are invited to consult on remuneration proposals prior to their being put to shareholders for approval. During the quarter we provided positive input into consultations at **Mattioli Woods** and **Porvair**.



We had a constructive call with Supervisory Board members at **PostNL** as they proposed to increase variable pay for the first time in many years. We were able to provide positive feedback on their overall strategy, whilst suggesting some useful improvements, such as a financial underpin, to ensure financial performance is kept in focus.

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Governance: Engaging with AIM Companies

We have continued to engage with our AIM holdings in order to improve governance transparency and accountability. We have had two further companies state that they are broadly in favour of moving towards annual director elections and are taking proposals forward to their respective Board (**Diaceutics** and **Sosandar**).



Keystone Law Group however declined our requests. In order to probe this decision, we met with the Chair who reiterated that the Board had discussed the proposal but was not minded to

refresh the company governance structure, which they view as appropriate and compliant with the QCA Code that sets governance standards for AIM. This was disappointing, as in passing the Chair indicated that other investors were unhappy with there being no vote on remuneration.



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. In the September quarter Glass Lewis voted at 12 meetings comprising 81 resolutions in six markets. They opposed 21% of resolutions, with opposing directors 35% of action taken. We find few US pay packages that we can easily support, and during the quarter we opposed compensation packages at two companies: **Advanced Drainage Systems** and **Nike**.

In European markets, we opposed remuneration at discount retailer **B&M European Value Retail**.

Shareholder and Climate Resolutions

We abstained two shareholder proposals at **Nike** which called for more disclosure in some areas, but where we judged existing reporting to be acceptable. In the UK we supported company proposed Climate Transition Plans at **SSE** and **Pennon Group**.

Recognition



We were delighted to be recognised once again in the **Moneyfacts Investment Life & Pensions Awards** in winning for the 15th successive year in the category ‘Best Ethical Investment Provider’. The Award is voted for by clients and is therefore one we hold as being very special.

We were also delighted to receive a ‘Highly Commended’ citation in the ‘Best Sustainable Investment Thought Leadership Paper’ for our work on ‘Investing Responsibly in Care’, at the **2023 Investment Week Sustainable Investment Awards**.

CONTACT US

We welcome client feedback, and you can contact us direct at information@edentreeim.com

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.



Neville White
Head of RI Policy
and Research



Carlota Esquivillas
Senior RI Analyst



Amelia Gaston
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.

We hope you find this Responsible Investment Activity Report useful and informative. For any further information please contact us on:

0800 011 3821
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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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