



Welcome to our Responsible Investment Activity Report for the three months to 31st March 2024.

This report comes at a time of change for the UK asset management industry, with the FCA's Sustainability Disclosure Requirements (SDR) and labelling rules promising to bring much-needed clarity to the sustainable investment market.

Looking at the year ahead, active engagement remains a core part of our approach and at the start of this year we updated our engagement priorities with a focus on three core themes. Alongside this, we have enhanced the way in which we categorise and track our engagement activity with a greater focus on outcomes. We have also brought all vote execution onto one platform, Glass Lewis, enabling greater oversight. EdenTree use Glass Lewis's Viewpoint platform for vote execution, which applies our bespoke voting template to every proposal we are eligible to vote on and recommends a vote decision in-line with our Corporate Governance policies. The Responsible Investment team are responsible for reviewing these recommendations, and ultimately making a final decision based on our policies and in-house research, as well as any engagements with the relevant company. We have updated the structure of these quarterly reports to reflect these changes.

We hope you enjoy reading our report, and welcome feedback at RITeam@edentreeim.com

Research

Engaging for change: our engagement priorities

We outlined our new engagement priorities: **a just climate transition, water stress, and social & financial inclusion.** These thematic priorities are those we deem to be material to the long-term value of our investments, and where we seek to drive real-world change. These engagements will also be underpinned by ad-hoc fact-finding engagements and cross-cutting engagements on governance and ethics: read our '[Engaging for change](#)' opinion. We have also updated our '[How We Engage](#)' document to reflect these priorities.

SDR and the new investment labels

In January, we published [our views](#) of the Sustainability Disclosure Requirements (SDR) policy statement and labels. Alongside this, we also produced a webinar titled '[The Nuts and Bolts of SDR](#)' where we discuss the new labels in further detail, what they will mean for investors, and how the regulation should help to restore industry confidence.

Reporting & Recognition

Responsible Investment Activity Report



We published our [Annual RI Activity Report](#). This report reflects on our progress and key initiatives, how we have voted in AGMs across the year, and the activity of our CR Committee.

UK Stewardship Code

Following our latest submission to the FRC, we are pleased to share our signatory status to the UK Stewardship Code has been successfully renewed. The [2023-2024 report](#) is 'now' available.



Principles of Responsible Investment

As signatories of the **PRI**, we are required to take part in an annual assessment covering all aspects of our approach. We are delighted to share we scored 5* in all five modules in the [2023 assessment](#).

Engagement

As active managers, engagement with investee companies is fundamental to our approach. This section sets out some of our engagement activity over the quarter across our three core themes: a just climate transition, water stress, and social & financial inclusion. It also summarises our fact-finding company engagement.

A Just Climate Transition

Climate policy engagement European Union



Issue: The European Union is currently in negotiations to set their 2040 climate target, a key milestone ahead of 2050. It will guide EU climate and sustainable finance policy over the next 15 years, so it's essential that an ambitious target is set.

Actions: We signed a statement, along with over 108 other business leaders and investors, calling on the EU to set a greenhouse gas emissions reduction target of at least 90% by 2040. This science-based target reflects the urgency and benefits of near-term action, enabling steep emission reductions before 2040.

Outcome: The letter was handed over to Climate and Environment Ministers and was also sent to Heads of States and Government, representatives from the European Commission, and Members of the European Parliament. More engagement will follow in the lead-up to the June European Council.

Climate capital adequacy Prudential Regulation Authority



Issue: Climate change poses risks to financial stability, something made clear by the Financial Stability Board and member banks. In response, central banks are

increasingly conducting climate stress tests, but bank-specific results are rarely shared with investors. We believe improved climate risk disclosures would benefit both investors and financial stability.

Actions: Along with 21 other investors, [we signed a letter](#) to the Prudential Regulation Authority (PRA), coordinated by Sarasin & Partners. The letter seeks the support of the PRA in delivering better climate disclosures. In particular, it seeks improved disclosure around how material climate risks have been factored into banks' financial statements, auditor reports and capital adequacy reporting.

Outcome: The letter has been publicised in several media outlets, raising awareness of the issue. We have also received acknowledgment of their receipt from the Bank of England and are planning next steps in response.

Fossil fuel financing HSBC



Issue: We believe that Banks have an important role to play in enabling the net zero transition, however, we also recognise that many remain significant lenders to the

fossil fuel industry. As responsible investors, we are encouraging Banks to implement credible transition plans that reduce their fossil fuel lending in favour of sustainable finance. In January 2024, HSBC released their latest transition plan.

Actions: We attended a group investor call to learn more about HSBC's new transition plan. The engagement provided an opportunity to discuss the plan, ask questions, and push for enhanced ambition where needed.

Outcome: The Bank are making progress in several areas, and their sector-by-sector transition plans demonstrate leading practice among peers. Despite this, further improvements can still be made, including disclosure of facilitated emissions and enhanced actions for client engagement. We will follow-up directly with the Bank in the next few months.

Indigenous land rights Enel SpA



Issue: Enel manages 60.9 GW of renewable energy capacity, making a key contribution to the climate transition. However, in several projects in Latin America, they have been

involved in controversies related to lack of respect for indigenous and community rights.

Actions: As part of the PRI's Advance Investor Initiative on human rights, we are co-leading the engagement with Enel. Our initial focus is on indigenous rights in Colombia, in particular on the Windpeshi wind farm project where a breakdown of the relationship with the local community led to the indefinite suspension of the project. We met with Enel to understand what led to the controversies, and what remedial action they have taken.

Outcome: Enel described the action taken to consult communities, going over and above the legal requirements. They believe they followed the correct procedure but recognise that human rights is an area of continuous improvement and will seek to learn from this project. We continue to believe Enel demonstrate leadership in the area of human rights due diligence and welcome their commitment to continuous improvement.

Water Stress

Water stewardship and hazardous chemicals Yara and Kemira



Issue: The chemical sector is highly exposed to water-related risks and can have a negative impact on water security through consumption and pollution. In addition, chemical substances can be

damaging to both human and environmental health, particularly persistent chemicals, and substances of high concern.

Actions: We have joined the Investor Initiative on Hazardous Chemicals (IIHC), a collaborative engagement aiming to reduce the adverse impacts of chemicals by encouraging increased transparency, phase out of hazardous and persistent chemicals and the development of safer alternatives. As part of the initiative, we are supporting an engagement with Yara. Separately, we also held a call with the Kemira, to understand their approach to water stewardship and how effectively they manage their water related risks.

Outcome: Kemira have taken positive steps in managing water related risks, which are fully integrated into new project assessments. A key area of strength is their suite of solutions, which they intend to expand. Their approach to target setting could be strengthened, and it is something we will continue to engage on. We have a call planned with Yara in Q2.

Social & Financial Inclusion

Ethical use of artificial intelligence technology Vodafone and Analog Devices



Issue: Artificial Intelligence has the potential to bring significant positive developments, however, it also increases the risk of social harms. If digital technology companies fail to adopt, implement, and disclose robust

governance policies and controls, backed by strong ethical principles, they may face reputational as well as revenue losses, and society as a whole faces tremendous risk.

Actions: As part of the World Benchmarking Alliance's Collective Impact Coalition on Digital Inclusion, we are leading engagements with Vodafone and Analog Devices. The focus of this phase of the engagement is on encouraging companies to disclose ethical principles on the development, deployment, and procurement of AI tools, as well as how these principles are implemented in practice.

Outcome: We are still in the early stages of this engagement, and progress is ongoing. Will report on outcomes once the engagement has progressed further.

Fact Finding Company Engagement

Ethical use of surveillance technology Basler AG



Issue: We recently screened Basler AG, a global supplier of cameras and associated products, for inclusion in our Funds. The screening revealed high risk exposure in areas of ethics, facial recognition, and use

of artificial intelligence. In addition, the company had very little disclosure on its management of these risks.

Actions: We sought a call with the company to determine whether their products and services have the potential to cause or contribute to adverse human rights impacts – for example through the use of their cameras for mass surveillance.

Outcome: The call did not reassure us that the company had adequate oversight or controls in place to mitigate this risk. For example, the company did not have sufficient oversight of how their clients intend to use their products, particularly for the 20% sold via distributors. We felt the risk that their cameras could be linked to human rights abuses was too great, and rated Basler as unsuitable for inclusion in our Funds.

Responsible Waste Management Clean Harbors



Issue: We screened Clean Harbors, a waste management company, for inclusion in our Funds. Our analysis revealed significant thematic upside, but also heightened ESG risk, particularly on the environmental side.

Actions: We sought a call with the company to gather more information prior to issuing our final recommendation. We focused heavily on their landfill controls, climate strategy, and long-term business plan, particularly in the context of global net zero goals.

Outcome: The call with Clean Harbors was highly informative. We were reassured that their landfill controls are of a sufficient standard, and their long-term plan for their oil recycling business is compatible and supportive of global climate goals. As such, we rated Clean Harbors as 'suitable with caution', but intend to continue engagement, given its elevated risk exposure.

Business Ethics and product recalls
Koninklijke Philips NV



Issue: Philips has faced controversies over its sleep apnoea Dreamstation devices for several years. Millions of breathing devices and ventilators were recalled due to concerns that noise reduction foam used within them could potentially degrade and become toxic.

Actions: We have engaged with Philips several times since the initial product recall and sought a call with the company to determine how internal remediation has progressed and understand their key learnings to prevent future failings.

Outcome: The call gave us a clearer understanding of the root cause of the recalls. Philips shared details on their remediation programme which is focused on employee training and embedding accountability and safety into all business lines. We view the company to have made improvements and are content with the direction of travel but will continue to look for further improvements. As a result of this progress, we chose to abstain the ratification of the Management Board, and will look for further improvement to support this vote at next year's AGM.

Governance

We vote at all meetings in all territories for which we have a shareholding. The only exception is where meetings are 'share blocked', where we would otherwise have to waive our right to trade in the stock for a period prior to the meeting.

During the quarter, we opposed or abstained 11.2% of all proposals. These votes were most commonly on management proposals relating to Compensation (43.1%) and Audit/Financials (11.5%). Our voting activity over the last quarter is summarised below:

Q1 2024 Voting Summary:	
No. proposals eligible to vote on	613
Proposals voted on	100%
Proposals supported	88.6%
Proposals opposed	9.9%
Proposals abstained	1.3%
Proposals voted against management's recommendation	9.9%
Proposals voted against Glass Lewis' recommendation	8.1%
No. meetings voted at	41

Compensation

Over the period, we continued to oppose poor pay practices and compensation disclosures, voting against 24 remuneration-related proposals.

Excessive Remuneration
Novartis AG



Issue: We have a detailed framework on executive pay and find it very challenging to support pay packages where we view the majority to be excessive, and where the annual variable pay multiple exceeds 350%.

How we voted: Novartis' maximum opportunity between its short and long-term incentives was 950%. This is far in excess of our policy, and we opposed the compensation report.

Auditors

Over the period, we opposed the appointment and ratification of auditors on 11 occasions due to concerns around auditor tenure.

Ratification of Auditor
Analog Devices



Issue: In order to maintain independence and effectiveness, we believe auditors must be tendered and changed at least every 20 years. EY have been the auditors for Analog Devices for 57 years. They also have a former partner of EY on the audit committee, limiting independence.

How we voted: In line with our policy and supported by wider shareholder support decreasing year-on-year, we view the company's practices as a cause for concern and opposed the ratification of its auditor.

Board

Board diversity: Parker Review Diploma Plc and Victrex



Issue: Diversity of experience, thought and skills strengthens board oversight and resilience. Aligned with this we expect FTSE 350 companies to align to the requirements of the Parker Review to have one director from an ethnic minority on their Board by 2024. We engaged with both Diploma Plc and Victrex to assess their progress on meeting the target.

How we voted: After engaging with Diploma, we were not confident in their ambition to meet the Parker Review target and chose to oppose the re-election of their Nomination Committee Chair. We also engaged with Victrex, who reassured us that fulfilling the Parker Review target was a priority and they were confident in their ability to recruit the appropriate candidate, as such we supported the re-election of their Nomination Committee Chair.

Shareholder Proposals

Q1 2024 Shareholder Proposals

No. shareholder proposals voted on	18
Environmental voted on	1
Social voted on	6
Governance voted on	7
Compensation voted on	4

Responsible use of artificial intelligence Apple Inc



Issue: Artificial intelligence is already bringing transformational positive change across industries; however, evidence has shown it can also increase the risk of social harms. A shareholder proposal was filed at Apple requesting that they prepare a transparency report on the use of AI and any ethical guidelines associated with its use.

How we voted: Apple has long lagged its peers on artificial intelligence disclosure. Given the ethical risks surrounding its use, paired with the legislative risk of new regulation on AI, we voted to support this shareholder proposal. Unfortunately, it failed to receive sufficient support, and we will continue our engagement on embedding ethical principles within AI development.



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.



Carlota Esguevillas
Head of RI



Amelia Gaston
Senior RI Analyst



Hayley Grafton
Senior 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.

Further information and support

We serve the professional investment community across the entirety of the UK, with our Business Development Team consisting of dedicated and experienced regional representatives, who are on hand to provide exceptional levels of client support.

For additional information, please contact your EdenTree relationship manager, or get in touch with us at:

 0800 011 3821

 clientservice@edentreeim.com

 edentreeim.com

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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