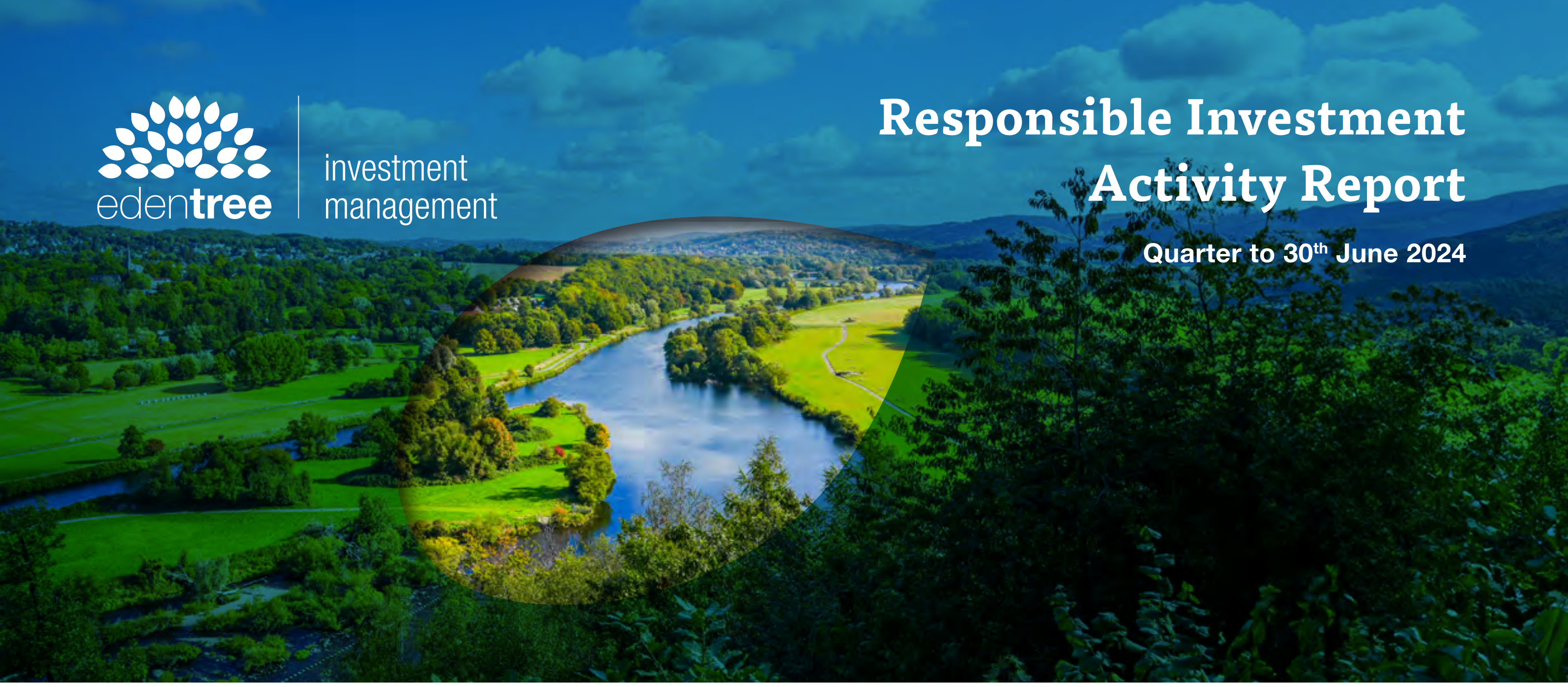

Responsible Investment Activity Report

Quarter to 30th June 2024

Welcome to our Responsible Investment Activity Report for the three months to 30th June 2024.

Our last report reflected on a time of change for the UK asset management industry, a theme which has extended to this report given the recent elections across the UK and Europe.

During the quarter, we made good progress across our priority engagement themes, both across collaborative and direct engagement efforts. Amid an eventful proxy season, we also continued to strengthen our voting approach, most notably through pre-declaring our voting intentions ahead of a selection of AGMs and using voting to escalate engagement efforts where necessary.

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

Research

The Value of Chemical Stewardship

We published an article setting out our work on water stewardship and hazardous chemicals. Despite the critical role chemicals play in society, the sector is exposed to growing ESG risks, particularly in relation to water stress. The article outlines how we are managing these risks, which includes the launch of our three-year thematic engagement with our chemical holdings to drive best practice on water stewardship and hazardous substance phase-out.

In support of this, we also spent a morning volunteering at the London Wetlands Centre. We believe aligning our volunteering and engagement efforts deepens our commitment to the high environmental standards which we believe are integral for a health planet. Read the article which summarises the day here.

Water Quality and the Role of Investors

For many years now, UK water companies have been under fire for their environmental performance. It is clear that the sector needs to evolve, and we believe investors have a crucial role to play in this transition. We have been engaging with the sector since 2022, and whilst we are seeing signs of improvement from the sector leaders, more work is needed: read our opinion piece for Portfolio Advisors.

Staying Informed on Industry Developments

As part of our research, we regularly attend events and conferences to remain abreast of the latest RI trends and developments. In June, we attended RI Europe, which covered an array of topics including the evolving EU regulatory landscape, biodiversity, human rights due diligence, the relevance of proxy voting and the future of ESG data. Regulation was a prominent discussion point, with general consensus that more guidance and clarity would be welcome from regulators and policymakers.

We also attended several events as part of London Climate Action Week. Some of our key takeaways included, firstly that policy engagement needs to be a priority for climate-aware investors, and secondly, the UK risks losing momentum on net zero, and would benefit from greater government stability to generate investor confidence in the UK transition.

Recognition

We are pleased to be shortlisted in four categories at the Investment Week Sustainable Investment Awards 2024. Our nominations include: Best Sustainable Investment Engagement Initiative for our work on the just transition in renewable energy, Best Sustainable European Equity Fund, Sustainable Investment Fund Management Group of the Year (AUM under £50bn), and EdenTree's Head of Responsible Investment, Carlota Esguevillas, has been nominated for the Rising Star Sustainable Investment Champion of the Year.

Engagement

As active managers, engagement with investee companies is fundamental to our approach. This section sets out highlights 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

Human rights & renewable infrastructure

Issue: The climate crisis requires the rapid expansion of renewable energy capabilities. Yet it is crucial that the energy transition does not harm people, workers or communities. As companies deploy renewable technologies, we believe they must also consider the broader social impact of their operations and supply chain for the transition to be just.

Actions: Last year we met with 12 renewable energy investment trusts on the topic of human rights with the objective to increase the number of companies with public human rights commitments, addressing Free, Prior and Informed Consent where relevant. Over the last quarter we have held follow up conversations with **TRIG, Greencoat UK Wind, SDCL, Greencoat Renewables, Gore Street Energy, Canadian Solar Infrastructure Fund** and **Bluefield Solar**. We also met with **NextEnergy Solar** and **Atlantica Sustainable Infrastructure** for the first time.

Outcome: We were pleased to see progress by several companies against our key asks. For instance, TRIG and Greencoat Renewables both publicly addressed indigenous rights for the first time. We also heard of several initiatives to strengthen human rights due diligence, and we welcomed efforts which extended beyond forced labour in solar (which has historically been the foucs) towards a more holistic assessment of all potential human rights abuses across the value chain.

Fossil Fuel Financing

Toronto Dominion (TD)

Issue: Banks continue to be dominant players in providing loan capital for fossil fuel projects which hinders the transition to a low carbon economy. This is particularly prevalent in the Canadian banking sector which lags European peers when it comes to climate ambition. **Toronto Dominion** (TD) is no exception: between 2016-23 the Bank has provided $178.439bn in fossil fuel financing. We believe this needs to change.

Actions: We are members of the IIGCC's decarbonisation initiative and engage with TD collaboratively through this organisation. We met with the Bank in April to discuss their performance against the Transition Pathway Initiative assessment and their framework for reviewing client transition plans.

Outcome: In 2024, TD introduced their first framework for assessing client transition plans. We welcome this development, as TD previously shared little information on how they assessed their clients' readiness for the transition. However, despite this progress, we believe that the Bank could go further as their framework is not as robust as some of their peers. We will continue to push for enhanced ambition in our future engagement meetings.

Water Stress

Plastic Pollution

Issue: Over recent decades, the production and consumption of plastics, particularly single-use items, has surged. The resulting increase in plastic waste and pollution is a significant and growing threat to climate change, biodiversity, human rights, and public health. These risks cannot be mitigated simply by diversifying financial portfolios, and therefore require urgent collaboration by all actors, including the international finance community.

Actions: We signed a statement calling for an ambitious Internationally Legally Binding Instrument (ILBI) to end plastic pollution. The statement demonstrates the financial sector's support for an ambitious treaty and sets out what a robust agreement would include from the perspective of the financial community.

Outcome: The statement received positive acknowledgment at several high-level events and at the start of the negotiations. Member states progressed in advancing the zero draft treaty text, although with some mixed outcomes against the financial sectors' asks. In particular, the treaty itself faced some opposition from several countries, which goes against the core asks of the statement. However, membe have established two working groups to focus on finance and chemicals of concern, both of which are seen as wins.

Water Stress & Hazardous Chemicals

Issue: The chemical sector is highly exposed to water- related risks which can negatively impact water security. In addition, chemicals can pollute waterways and damage both human and environmental health, particularly persistent chemicals and substances of high concern.

Actions: We met with **Johnson Matthey, Croda, Yara** and **Borregaard** to discuss their water-related risks, impacts and dependencies. We called on companies to have more ambition on their overarching water strategies which includes setting water withdrawal targets, improving governance and disclosures. We also met with Yara again separately as members of the **Investor Initiative on Hazardous Chemicals** collaborative group to talk through their approach in more detail.

Outcome: We heard from several companies that water had moved up their materiality matrix and is considered a more material risk. We were pleased to hear from Johnson Matthey, Croda and Borregaard that they are looking to enhance their action on water in 2024 and they were largely receptive to our key asks around target setting and disclosure. In addition, Yara clarified that they do not produce PFAS chemicals and are looking for alternatives to other hazardous chemicals.

Anti-microbial resistance

Issue: Antibiotics and active pharmaceuticals pollute waterways which affect environmental health and poses a key threat to human health through resistance.

Action: As such we signed the Investor Action on AMR Statement aimed at Global Policy Makers in the lead up to the UN General Assembly High Level Meeting on AMR in September.

Outcome: The letter calls on global leaders to reinvigorate efforts, coordinate action and to reaffirm commitments to combat AMR with 7 key asks. The statement received positive acknowledgment across the industry.

Water Stress

Issue: The threat to freshwater resources will harm people, the environment and also pose significant financial risks. Companies with very high water footprints can further exacerbate water stress, endangering not only their own operations but the local communities they operate in.

Actions: We engaged with **Alphabet** as part of the **Valuing Water Finance Initiative**, a collaborative engagement which calls on companies with very high water footprints to align to six science based expectations on water. The coalition asked for more detail on Alphabet's water replenishment target and their water risks through semiconductor production in their value chain.

Outcome: We heard from Alphabet that they are receptive to our suggestions of how they can improve their disclosures, and welcomed feedback. Although we were unable to schedule a call engagement over email is proving fruitful and we will continue to share best practice with Alphabet.

Fact Finding Company Engagement

Energias de Portugal SA

Issue: We recently reviewed **Energias de Portugal** (EDP) as part of our ongoing monitoring process. The company flagged as part of this review due to their relatively high carbon emissions. We also identified a fairly high human rights risk, due to the company's large supply chain – something which is not unusual within the Utilities sector.

Actions: We sought a meeting with the company to learn more about their approach to ESG risk management, with a particular emphasis on their climate transition plan and human rights management.

Outcome: The call with EDP was constructive, and we were impressed with the company's dedication to ESG risk management. In particular, their climate strategy demonstrates leading practice: they are on track to be coal-free by 2024, have approved science-based targets, and have mapped each of their decarbonisation actions to a projected reduction in GHG emissions. Their approach to human rights was slightly more nascent, but the company acknowledged this and shared detail on several initiatives which will strengthen their approach in the future. We offered feedback around best practice on engaging with indigenous peoples, to which the company said they'd take on board. As such, we hope to see a commitment to Free, Prior and Informed Consent in the company's future disclosures.

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 14% of all proposals. These votes were most commonly on management proposals relating to Compensation (44%) and Board Related (11%) matters. Our voting activity over the last quarter is summarised below:

Q2 2024 Voting Summary:	
No. proposals eligible to vote on	3,251
Proposals voted on	99%
Proposals supported	86%
Proposals opposed	12%
Proposals abstained	2%
Proposals voted against management's recommendation	13%
Proposals voted against Glass Lewis's recommendation	9%
No. meetings voted at	194

Compensation

Over the period, we continued to oppose poor pay practices and compensation disclosures, voting against 173 remuneration-related proposals.

Excessive Remuneration

Broadcom

Issue: Broadcom's 2024 AGM followed a failed say-on-pay vote in 2023 which received just 32% support. Of particular concern, was the significant disconnect between pay and performance, the response to historic shareholder dissent, high levels of internal pay inequity, and the overall quantum of CEO compensation. In 2023, the CEO took home $315m, resulting in a ratio of 510:1 between the CEO and median employee.

How we voted: While the board engaged with shareholders following the failure and provided some additional disclosure, we view their response as inadequate. In particular, the compensation committee should have taken further steps to improve the Company's remuneration practices and policies. We therefore voted against the 2024 say-on-pay, and escalated our action to vote against all members of the compensation committee.

Board

Over the period, we opposed the election of a director on 111 occasions. These votes were most commonly due to concerns around: 1) Independence and insiders on committees, 2) Board diversity and skills, and 3) Director overcommitment.

Independence

Merck

Issue: We voted on three shareholder proposals at the **Merck** AGM this year. The first concerns the right to act by written consent, which is a means shareholders can use to raise important matters outside the normal annual meeting cycle. This proposal has been filed at a previous AGM in 2020 and received high support of 42%. This was largely due to high dissent rates against the re-election of over-tenured directors: Merck have several directors who have served on the Board for over twenty years, yet the company still classifies them as 'independent'. Over tenured directors erode independence and therefore accountability and oversight, which is why this resolution has been filed again in 2024.

How we voted: We have historically voted against over-tenured directors at Merck, and as an escalation measure given the Board's inaction on the matter, decided to support the shareholder proposal. In addition, we abstained from supporting two further shareholder proposals on government censorship and civil rights reports deeming them to be overly political and filed where the company already provides adequate management of these areas.

Oversight of Material Risk Areas

UnitedHealth Group

Issue: Earlier this year, **UnitedHealth Group** experienced a cyberattack. Investigations revealed that actors had penetrated the company's systems and operated undetected for nine days before deploying ransomware, during which they exfiltrated sensitive patient and client data including the protected health information and personally identifiable information belonging to up to a third of Americans. Furthermore, the application breached by the cyber-attackers lacked multi-factor authentication, a basic cybersecurity measure. The company paid a $22 million ransom, and currently estimate costs to recover from the incident will reach up to $1.6 billion this year alone.

How we voted: We were particularly concerned with the failure to implement adequate cybersecurity measures, of which the company delegate oversight to the audit and finance committee of the board of directors. Upon review, we found that the board, particularly the committee, had no relevant skills or experience. We therefore ultimately chose to vote against all directors on the audit committee for insufficient oversight as well as the ratification of the auditor to reflect our tenure and fees concerns. We also chose to signal our dissatisfaction by voting against the chair of the Nomination Committee, who should be held accountable for the lack of relevant skills on the board. We have since exited our position.

Shareholder Proposals

Q1 2024 Shareholder Proposals	
No. shareholder proposals voted on	47
Environmental voted on	2
Social voted on	22
Governance voted on	14
Compensation voted on	6
Miscellaneous voted on	3

We carefully consider all shareholder proposals for which we are eligible to vote on, engaging with the relevant parties where possible. In select cases, we also publicly pre-declare our voting intentions on the PRI resolution database. Below are two examples of cases where we took this measure:

Setting Science-Based Emissions Targets

Yara

Issue: A resolution was tabled at **Yara**, calling on the company to commit to publishing science-based targets to reduce its scope 3 emissions over the short, medium, and long term, in line with the ambition to limit global temperature rise to 1.5C. Climate Change and indeed the Just Transition has been an engagement priority at EdenTree for a number of years. In our proprietary Climate Stewardship Plan, which engages with our highest emitting companies we track and report on climate related performance and engage to drive improvements. We measure our highest emitting companies against 13 climate related expectations, and against these Yara has moved backwards on some KPIs.

How we voted: We engaged with the filer of the resolution to better understand the intention of the proposal. We also engaged with Yara on climate change, and understand they expect to release a more detailed transition plan in 2024, which we welcome. However, as a demonstration of discontent at their current performance on climate change and as an escalation of our engagement we have supported this resolution filed at their AGM.

Shareholder Rights and AI

Alphabet

Issue: Alphabet's multi class structure, whereby common shareholders carry less than half of the voting rights while baring significantly more of the economic risk, has been destructive to the shareholder experience in recent years. After 20 years and no sunset-clause, we believe the benefits of this structure have long since expired. Three separate shareholder proposals were also filed on artificial intelligence, highlighting that it is both a material risk for Alphabet and one of increasing concern to shareholders.

How we voted: We voted in favour of recapitalisation and voted against the re-election of several directors as an escalation against the unequal share structure.

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:

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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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