

# Responsible Investment Activity Report

Quarter to 31<sup>st</sup> December 2024



**Welcome to our Responsible Investment Activity Report for the three months to 31<sup>st</sup> December 2024.**

During the quarter we continued to engage on our thematic priorities with the objective of driving change on key sustainability issues. This included meeting with our highest emitters as part of our Climate Stewardship Plan, engaging with policymakers on critical topics such as battery waste and anti-microbial resistance, and addressing the topic of human rights in artificial intelligence. We also continued to hold companies to account on governance best practice, with our full voting figures enclosed below.

Lastly, regulation continued to be a major focus over the quarter and we were delighted to have adopted the “Sustainability Impact” label on three of our funds: the EdenTree Green Future Fund, the EdenTree Green Infrastructure Fund, and the EdenTree Global Impact Bond Fund. We are also adopting the “Sustainability Focus” label on our recently launched EdenTree Global Select Government Bond Fund. This Fund will be renamed to EdenTree Global Sustainable Government Bond Fund in recognition of its label, effective 3<sup>rd</sup> February 2025.

We hope you enjoy reading our report, and welcome feedback at [RITeam@edentreeim.com](mailto:RITeam@edentreeim.com)

## Research

Earlier this year, the Financial Reporting Council (FRC) announced a review of the UK Stewardship Code “to ensure that the principles of the Code are still driving the right stewardship outcomes for investors”. Against this backdrop, we [wrote an opinion piece](#) reflecting on the strengths of the current Code, and what we would like to see from its next iteration.

We [wrote an opinion piece](#) published in Funds Europe about the role of AI in assessing ESG risk in portfolios. In the article we agree that whilst AI is a powerful tool and does have a role to play in ESG research, it will always remain complimentary rather than core. ESG analysis is human at heart, and to unpack the complex and layered topics that form the ESG acronym, a human qualitative lens is required.

## Reports

We published our [2024 Stewardship Report](#). We refreshed it this year to align with the rest of our reporting suite, also constitutes our disclosure under the UK Stewardship Code covering the 12-month period to 31 December 2023. In addition to setting out how we applied the Code’s principles over the period, the report details our stewardship approach, including how it is integrated within the wider investment process and relevant case studies.



## 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

#### Climate Stewardship Plan

**Issue:** Whilst climate change will affect all companies, those with carbon intensive business models face elevated levels of risk. We have developed a proprietary Climate Stewardship Plan, which is our primary tool for engaging with these businesses. On a company-by-company basis, the Plan tracks performance against a series of expectations, allowing us to identify areas for improvement, which are used to inform our engagement activity.



**Actions:** Across the quarter we met with several holdings as part of our Climate Stewardship Plan. This included a meeting with circular flooring provider

**Mohawk Industries.** Since we last spoke with Mohawk in 2023, they have disclosed their scope 3 emissions for the first time, which is a welcome step. The company have done a lot of work around implementing a new global reporting platform which makes it easier for them to collect and clean data. They are also in the process of exploring future climate targets.

**Outcome:** Previously, Mohawk have taken an intensity-based approach to target setting and we strongly encouraged them to move towards absolute targets, referencing SBTs as the gold standard for target setting. The company were receptive to this, but have some concerns about their ability to set a scope 3 absolute emissions reduction target which could act as a block towards achieving SBTi validation. We will continue to encourage them to pursue this aim.

#### Decarbonisation Targets

**Issue:** We recognise that it's not just the heavy-emitting companies that have an impact on global environmental goals. We believe that all our holdings need to take this issue seriously and implement a robust plan to manage climate risk. As such, we have also been engagement with our small- to medium-cap companies to encourage improved climate disclosure.



**Action:** We have been engaging with **Bruker Corp** for several years on their climate change strategy – specifically encouraging them to set emission

reduction targets, and ideally Science-Based Targets. We reached out to them over the past quarter to continue the conversation on the importance of climate targets.

**Outcome:** In our most recent exchange, the company confirmed that they are looking at setting science-based targets and that they are likely to feature as part of their 2025 report. We will continue to engage on this topic.

#### Fossil Fuel Financing

**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.



**Actions:** In the quarter, we met with **Standard Chartered** on their climate strategy and targets. Our call was focused on their climate transition plans

and their coal phase-out targets, and they were able to provide additional colour for their chosen approach.

**Outcome:** We were encouraged to hear of improvements to their client climate risk assessments however we felt that they could be clearer on escalation where clients are “not aligned” and challenged them on this point. We also encouraged them to strengthen their coal-phase out targets, which they argued wouldn't be appropriate given their emerging markets focus. This is another area we will continue to engage on. More broadly, sustainability governance has been strengthened with the addition of a CSO, and their climate disclosures are improved – we particularly welcome their disclosure of financed emissions and the verification they have pursued for their climate targets.



## Policy Engagement

**Issue:** We believe that engagement with regulators and policymakers is important as no one organisation can drive the low carbon transition alone. The level of change required to meet the goals of the Paris Agreement requires action from all parts of society. Our policy engagement aims to encourage greater action at this level.

**Action:** We have signed an investor statement designed to draw government attention to policy and procedural weaknesses in the battery storage sector. The letter calls on the government to tackle uneconomic skipping of batteries in the dispatch process by transitioning more quickly to Open Balancing Platforms, accelerating energy updates, and providing greater visibility on battery dispatch. These actions would generate early momentum in transforming the UK’s power system and can be delivered relatively quickly.



**Outcome:** We received a positive response from the [National Energy System Operator \(NESO\)](#) detailing the steps they are taking to tackle this issue.

They have also offered a meeting to discuss concerns and actions being taken, which will be co-ordinated in 2025.

## Water Stress

### 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.



**Action:** We signed an investor letter coordinated by the Investor Initiative on Hazardous Chemicals to [Yara International](#), [Johnson Matthey](#) and [Akzo Nobel](#) requesting companies to implement three core asks. Firstly, to disclose the share of revenue and production volume of products that are, or contain, hazardous chemicals. Secondly, to publish a time-bound phase-out plan of products that are, or contain, persistent chemicals; and thirdly, to set a 2030 target for the share of revenue generated by safer solutions and publish a strategy to achieve it.

**Outcome:** The letter has been sent to all three companies and we are awaiting a response.

## 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:** We previously reported that we signed the Investor Statement on Anti-Microbial Resistance (AMR), which called on the international community to combat AMR through seven key asks. After the UN General Assembly concluded, the new Political Declaration was approved reinforcing the world’s commitment to address AMR.

**Outcome:** We are pleased that in line with our key ask, the declaration committed to creating an Independent Panel for Evidence for Action Against AMR by 2025. This panel will provide scientific data and policy recommendations to governments, ensuring coordinated, evidence-based responses to AMR. Several other asks including taking a one health approach, target setting and recognising the role of the private sector were referenced, which we welcome.

## Social And Financial Inclusion

### Ethical Artificial Intelligence

**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 risks 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 the engagement

with [Analog Devices](#). During the last quarter we met with the company to discuss their AI implementation. The company were very open to engagement on the topic, and we gained clarity on how AI is defined and considered across three pillars: 1) within business operations, 2) in products, and 3) with products.

**Outcome:** While the company appear to be prioritising transparency to some extent, we highlighted some gaps in their disclosures and publicly available information. Despite this, our concerns were mitigated to some degree given the existence of internal policies, active hiring into a recently formed AI function, and their intention to publish an AI policy for employees and customers. The company also shared they would likely be publishing something around their human rights approach or policy in the next year, as such this would be a good opportunity to follow up in 2025.



## Fact Finding Company Engagement

### Sandoz



**Issue:** In October 2023, [Sandoz](#) spun off from Novartis to create a global leader generic and biosimilar medicines. Following the spin-off, we sought a meeting to discuss its sustainability approach as a stand-alone company.

**Action:** We met with Sandoz to gain a better understanding of its sustainability governance and strategy. We met with senior members of their Sustainability team.

**Outcome:** The company have strong and ambitious environmental programmes, including plans to set an SBT “as soon as possible” and product-level footprints to ensure environmental considerations form part of product R&D. On the social side their practices on AMR are particularly strong, as is their focus on access.

### Rayonier



**Issue:** US forestry company [Rayonier](#) is held in our Green Future Fund. Rayonier has forestry assets in the US and New Zealand (which sequester carbon) and has plans to lease land for solar and wind developments, as well as carbon capture and storage.

**Action:** We met with Rayonier, in part as a fact-finding exercise to understanding the opportunity to increase its positive impact (emissions avoided), while reducing the potential negative impacts of its operations with a particular focus on indigenous land rights.

**Outcome:** Our discussion was wide-ranging and included the business’s longer-term sustainability strategy, the potential impact of the US election on their land-use plans, their approach to conservation and indigenous rights, as well as how they can improve disclosures around their hunting business.

### Bentley Systems



**Issue:** As part of screening the suitability of [Bentley Systems](#) for inclusion in our funds, we identified a number of governance-related concerns.

We determined engagement was required to inform our assessment of their practices.

**Action:** The company went public in 2020 with considerable weaknesses in their corporate governance structures, however the Board decided to separate the CEO and Chair positions in 2023, which we took as a positive indication. We therefore viewed this engagement as an opportunity for the company to speak to how their corporate governance has improved since

the IPO, and how they’ve ensured no one director has undue influence on the board decision-making process.

**Outcome:** We were unable to gain confidence from the company in our engagement, most notably due to continued uncertainty around the CEO succession process. In combination with our initial concerns around independence, the Chair’s retention of operational authority that would usually sit with the CEO suggests limited reduction of his influence, exposing the board to potential vulnerability down the line given the lack of clarity around decision delegation and risk management. As such, we determined Bentley Systems was unsuitable for inclusion in the screened funds

## Governance

We seek to 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 voted at all meetings we were eligible for, and voted against management at least once at 63% of these meetings. Our headline figures over the period are summarised below:

### Q4 2024 Voting Summary:

No. proposals eligible to vote on	433
Proposals voted on	100%
Proposals supported	84%
Proposals opposed	11%
Proposals abstained	4%
Proposals voted against management's recommendation	12%
Proposals voted against Glass Lewis's recommendation	12%
No. meetings voted at	38

## Compensation

Over the period, we continued to challenge companies on poor pay practices and compensation disclosures, opposing 23 of the remuneration-related items we voted on.

### Close Brothers



**Issue:** Earlier this year, we participated in the company’s remuneration consultation, ahead of their proposal to introduce a restricted stock plan for the CEO and CFO

due to the extraordinary circumstances [Close Brothers](#) face in light of the FCA’s Motor Finance Review. We also engaged with the company to seek further information relating to their governance processes, including oversight structures, board composition, and succession planning.

**How we voted:** Following our engagements with the Chair of the Remuneration Committee, we had reservations regarding the RSP introduction. While we commended the Board for its proactive shareholder consultation and understand the company faces unique circumstances, we were unable to support the Remuneration Policy due to uncertainty around implementation post-FY2025 and concerns that the policy allows for amendments to the performance underpins in place.

## AIM Governance

Over the quarter, we continued our engagements with AIM holdings in order to improve governance transparency and accountability. In addition to informing our voting actions, these engagements have helped shape our wider AIM engagement strategy and objectives going forward.

### Bioventix



**Issue:** Whilst supportive of the greater regulatory flexibility offered to our AIM-listed holdings, we believe that certain basic principles of corporate governance

and disclosure expectations should apply to all companies. As such, we engaged with [Bioventix](#) ahead of their AGM to inform our voting decisions and request more information on matters relating to board composition, director replacement processes, and remuneration.

**How we voted:** We were pleased to receive a detailed response from Bioventix, and subsequently amended our voting action regarding the re-election of the Audit Committee Chair. We also used the opportunity to highlight potential areas for improvement in their disclosures, and directly pre-declared our voting intentions regarding the independence classification of one director and their remuneration reporting. The company agreed to consider our comments in their next disclosures, which we will follow up on ahead of the next AGM.

## Shareholder Proposals

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.

### Q4 2024 Shareholder Proposals

No. shareholder proposals voted on	8
Environmental voted on	1
Social voted on	4
Compensation voted on	1
Misc voted on	2

### Microsoft



**Issue:** In addition to voting against management on compensation and audit-related matters, we voted on a number of shareholder proposals tabled

at Microsoft’s AGM relating to AI, human rights, and bitcoin investments. Of particular interest, was a shareholder proposal requesting disclosures from the company around the financial, reputational, and human-capital related risks that could be realized via the Company’s work with the military.

**How we voted:** We felt there was a strong case for supporting the military-related shareholder proposal given the recent user shift in Microsoft’s Integrated Visual Augmentation System from gaming to military programmes. While not a material revenue exposure, we felt the company should improve their transparency around potential involvement in the development of weapons and their outlook on defence exposure going forward. We also supported two shareholder proposals on AI: the first on AI misinformation and disinformation, and the second on the risks of AI data sourcing. In total, we supported four shareholder proposals at the meeting, and publicly pre-declared our voting intentions via the PRI platform, to strengthen the collective voice of shareholders pushing for better practice across these areas.



## 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



**Aaron Cox**  
Impact Strategist

### 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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