



# **RESPONSIBLE INVESTMENT ANNUAL REPORT 2019 – UNIGESTION (UK) LTD.**

Signatory of:





During the course of 2019, a number of developments have been undertaken to improve the Unigestion Group's Responsible Investment (RI) behaviour. These efforts are coordinated by the Responsible Investment Committee which brings together senior management and representatives of the various investment teams.

The Unigestion Group has written a Responsible Investment Policy setting out the overarching principles to be applied throughout the company as well as the practices of each of the investment strategies.

On February 19th 2013, The Unigestion Group became a signatory of the United Nations supported Principles of Responsible Investment (PRI). We completed our sixth PRI Reporting Framework in March 2019. This annual filing immediately generates a Transparency Report with the details on how we meet the six PRI principles. This Transparency Report is posted both on the PRI site and on the Our Commitment to Society page of our website. In June 2019, we received our Assessment Report in which the PRI benchmarks our efforts against those of our peers. We were rated an "A" for our Strategy & Governance, Private Equity, Listed Equity – Incorporation, and the Listed Equity – Active Ownership which reflects a combination of Proxy Voting and Engagement activities. In summary, we scored straight "A"s across the board. We are not, however, complacent and will continue to improve our policies and practices as the bar continues to be raised. Taking a leadership role in best practices, and in the spirit of transparency, we also posted this PRI Assessment Report on our website.

During 2019, a group of senior management crafted a set of Responsible Investment Beliefs that reflect the Unigestion Group's core values and that will guide us as we refine and deepen our responsible investment ambitions.

As we announced in last year's report, we set two major themes to be the focus of our RI activities in 2019: Climate and Engagement.

In June 2016, we signed the Montréal Carbon Pledge, an ambitious collaboration between the PRI and investors from around the world. The pledge has attracted commitment from over 120 asset owners and investment managers with over USD 10 trillion in assets under management. By signing the pledge, we committed to measuring and disclosing the carbon footprint of all of our liquid portfolios to help investors better understand, quantify and manage climate change-related impacts, risk and opportunities.

Further on the topic of engagement, in 2019 we engaged directly with 58 portfolio companies on a variety of ESG issues. We did this by writing a letter to corporate management voicing our concern and requesting that they be addressed. The intention is that this then sparks a dialogue with management through emails and phone conversations to clarify our position, personalise the engagement, and advocate for change.

In addition, we chose to add an additional category for engagement during the year. We have defined and incorporated a rule to identify companies within the worst decile of our proprietary ESG scoring that have also shown signs of improvement over recent years. We have decided to keep these companies in the portfolio on the evidence that they are trying to improve, while engaging with them based on our internal evaluations of their issues. It is promising to engage with these companies as we already own them and value them in other aspects.

Last year, we reported on our multi-year Direct Engagement with the US based poultry producer, Sanderson Farms. As a normal course of business, they use antibiotics across the entirety of their flocks, regardless of the health of the bird. They assert that this is safe and is veterinary approved. One by-product of this approach is that birds put on an additional 15% in weight. Furthermore, shareholders like ourselves are concerned about both the birds becoming resistant to antibiotics as well as the downstream impact on the humans that consume them. We are pleased to report that Sanderson Farms has ceased their practice of including Humanly important antibiotics in this regime. We consider this a partial success of our engagement activity. Engagement is an ongoing process rather than a one-off event and persistence over the long-term is often required to get results.

This year, we had an interesting interchange with Starbucks' Global Director, Environment regarding a proposal for a report on sustainable packaging. We noted that 50% of beverages they serve are now cold and are served in plastic cups with no reported recycled content. They explained that they already have initiatives under way in order to reduce the use of plastic and single use cups and to be more transparent about their sustainable packaging performance. We noted that their ambition of increasing the number of beverages served in reusable cups has also not materialised. Finally, on a positive note, Starbucks announced their "Next Gen Cup Challenge," a \$10 million commitment to develop a compostable, recyclable cup.

Finally, on the topic of Direct engagement, we had an insightful dialogue with US based energy producer, Chevron requesting the establishment of an Environmental Issues Board Committee. They explained that most of their board members have climate expertise. Moreover, they have a Global Issues Committee that handles climate issues. They will also endeavour to be more transparent on their carbon footprint.

On the topic of Collaborative engagement, we, together with 450 signatories representing USD 40 trillion of investments, are participating in the Climate Action 100+ initiative. This five-year project by both asset managers and asset owners aims to engage with 161 of the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial



disclosures and improve governance on climate change. In this context, we heard from the CEO of Royal Dutch Shell, which released a joint statement committing themselves to a range of industry leading climate initiatives including carbon reduction targets taking into account scope 3 emissions. They also undertook a review of the lobbying groups that they support to ensure that they are not members of industry associations that oppose positive climate policies. This movement to dig deeper into corporates' lobbying efforts is a trend that we will follow closely in 2020.

To further our work on Climate Action 100+, we are also participating in the PRI-lead Oil & Gas Collaborative Engagement. Together with 125 signatories representing approximately USD 6.3 trillion of investments, we are engaging with companies active in the Oil & Gas industry.

In line with our commitment to engaging in support of Sustainable Development Goal 13, Climate, we have also recently signed on to the PRI's Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies.

One worrying development during the year has been the SEC's release of a set of draft rules that, if passed, would greatly impact the ability of proxy voting firms, such as ISS, to conduct their business. We rely substantially on their impartial analyses and recommendations on corporate issues as we vote on over 10,000 items per year. We, and a number of PRI signatories, have sent a letter to the SEC in support of the value that proxy voting firms bring to the industry.

We are currently completing a Due Diligence on ISS and our other outsourced ESG providers to ensure that there are no unaddressed conflicts of interest, operational or cyber security issues.

Our Group CEO, Fiona Frick, moderated a panel on ESG integration, at the first-ever Building Bridges Summit which took place October 10<sup>th</sup> in Geneva. This was the highlight of a week which featured 31 events, organized and supported by 52 partners, with an estimated 1000+ people in attendance from the finance industry, governments, business, the United Nations, international organizations, academia and civil society. The week fostered new conversations and collaborations aimed at accelerating the finance industry's contribution to the achievement of the UN's 17 Sustainable Development Goals.

Over the course of 2019, a number of enhancements were made in terms of how we integrate ESG factors into our investment decision-making processes. The Unigestion Group developed its own company-focused ESG score to further integrate ESG criteria into the investment process. The score provides a comprehensive measure of companies' efforts in terms of ESG issues. We believe using a quantitative factor provides consistency of analysis across companies and portfolios as well as transparency in our choices.

In addition, excessive carbon emitters are likely to face regulatory and pricing headwinds, and some activities (or "stranded assets") may simply not be viable under strict scenarios. Unigestion (UK) Ltd. recognises climate-related risks as part of the companies' risk profile and excludes any company with a carbon footprint of more than 3,000 tons of CO<sub>2</sub>/USD millions in revenues within the global universe. At the aggregated portfolio level, we ensure that the total carbon footprint is, at worst, 20% lower than the market reference. This target will be implemented in Q1, 2020.

During the course of 2019, we defined a firm-wide common exclusion list which addresses: human rights, labour rights, environmental issues, business ethics, controversial weapons, adult entertainment producers, tobacco producers, thermal coal and predatory lending

A number of members of the RI Committee have been working to achieve the AFNOR Environment Rating for our Uni-Global - Equities Eurozone fund.

During the year, we updated the Terms of Reference of the RI Committee and delineated the responsibilities of the RI Committee and those of the Investment Lines. We want ESG integrated into each investment strategy according to their respective investment process and the asset class under consideration. The integration of ESG criteria, and how they are applied, will naturally differ between equities, bonds, private equity, and liquid alternatives and we therefore need to apply a degree of flexibility in determining the specifics of the approach for each of these asset classes. Furthermore, the Investment Lines are ultimately responsible for the performance of their portfolios, and should therefore be responsible for determining their approach. Nevertheless, coordination at a firm level is crucial for overall guidance. This will be provided by the RI Committee to ensure consistency of messaging around firm wide values and principles and to ensure a coordinated approach that avoids duplication of efforts. Furthermore, the RI Committee will: validate firm wide policies on exclusions and engagement, monitor the progress of ESG R&D and operational projects, monitor the progress on ESG implementation within the Investment Lines, review our proxy voting and corporate engagement activities as well as portfolio carbon footprints, follow legal developments in RI, engage on how best to report on and promote our RI approach to climate, monitor ESG research, and suggest best practices on how the Unigestion Group can operate more responsibly as a firm.



A task force of the RI Committee began meeting in the summer of 2018, to prepare a five year ESG RoadMap for the Unigestion Group. Our aim is to systematically integrate ESG within the investment process across all our assets under management as well as offering bespoke ESG solutions to meet the specific requirements of our clients.

By 2022, we aim to meet, among others, the following objectives:

- ▶ Increase our engagement initiatives to 75 companies that represent significant holdings each year.
- ▶ Demonstrate the benefit of our engagement on risk-adjusted performance of the companies engaged with
- ▶ All Private Equity holdings will go through our full ESG process. We will update our ESG score on each investment annually, and then identify and engage on the weaknesses.
- ▶ Use ESG considerations to improve how we operate, not just how we invest.
- ▶ Obtain an ESG label for Uni-Global – Cross Asset Navigator.
- ▶ Have 90% of our externally managed assets incorporating ESG criteria.
- ▶ Explore practical solutions on short positions.
- ▶ Become a thought leader on the integration of ESG in Alternatives.
- ▶ Increase participation in global, industry-wide efforts to promote good ESG practices.

In order to deliver on this five-year plan, we set shorter-term objectives and review our progress on an annual basis. Our goals for 2019 included:

- ▶ Create a proprietary ESG scoring system for equities (Achieved)
- ▶ Directly engage with 50 portfolio companies (Achieved)
- ▶ Increase proxy voting activity from 90% to 95% (Achieved)
- ▶ Formalise enhanced private equity due diligence and engagement processes (Achieved)
- ▶ Integrate ESG considerations into our flagship multi asset strategy (Achieved)

For 2020, we have set further milestones to help us track our progress towards the achievement of our long-term ESG RoadMap. Our goals for 2020 include:

- ▶ Finalise the ESG scoring of our Private Equity Direct portfolios
- ▶ Design our first dedicated ESG Report for Private Equity
- ▶ Introduce our second generation of ESG scoring for Equities
- ▶ Explore methodologies to incorporate ESG criteria within equities factor portfolios
- ▶ Improve the scope, coverage and ratings methodology in evaluating external managers
- ▶ Write a thought leadership piece on ESG integration for liquid alternatives

We believe in the importance of being an active shareholder and have therefore decided to exercise the shareholders' rights of our clients through an outsourcing arrangement with a third-party proxy voting specialist firm. The Unigestion Group's proxy voting is carried out by ISS based upon a newly created customised policy built upon their International Sustainable Proxy Voting policy with enhancements to address Taft-Hartley rules for US based firms as well as the incorporation of ISS's Climate Voting Services, which uses their Climate Scorecard. During 2019, Unigestion (UK) Ltd. voted on 98.90% of 1,904 voteable items. We voted against management on 7.49% of the votes we cast. Significant votes cast by Unigestion (UK) Ltd. at general meetings during 2019 were the following:

#### **The Coca Cola Company**

Product Toxicity and Safety: Report on the Health Impacts and Risks of Sugar in the Company's Products. A vote FOR this shareholder proposal was made for the following reasons. Additional disclosure would benefit shareholders by increasing transparency regarding the company's efforts to address the risks related the use of sugar; Disclosure of the requested information would serve to provide greater assurance to shareholders that the firm's initiatives and practices sufficiently guard against potential financial, litigation and operational risks to the firm; and Implementing the proposal should not be an unduly burdensome or prohibitively costly endeavour for the company to undertake.

#### **Ross Stores Inc.**

Adopt Quantitative Company-wide GHG Goals. A vote FOR this shareholder proposal was made, as additional information on the company's GHG emissions, GHG reduction goals, and oversight mechanisms for reduction activities would allow shareholders to better assess the company's management of these emissions and related risks.

#### **Walmart Inc.**

Elect Director Gregory B. Penner. Significant risks to shareholders stemming from severe ESG controversies have been identified at the company, which reflects a failure by the board to proficiently guard against and manage material environmental, social and



governance risks. Votes AGAINST board chair Gregory B. Penner were made for the following reasons. The board chair ultimately bears the most responsibility amongst all board members for effective oversight and management of the firm's performance on ESG issues, and should, therefore, be held the most accountable for the firm's questionable management of ESG-related risks.

**The TJX Co.**

Report on Human Rights Risks in Operations and Supply Chain. A vote FOR this proposal was made, as additional information regarding the processes the company uses to assess human rights impacts in its operations and supply chain would allow shareholders to better gauge how well TJX is managing human rights related risks.

**Rio Tinto Ltd.**

Report on Climate Change. Approve Transition Planning Disclosure. A vote FOR this resolution was made, as shareholders would benefit from more information on how the company is assessing and managing any potential risks related to climate change.

At the close of 2019, the Unigestion Group managed USD 12.7 billion in ESG portfolios.

Investment Team	AUM Mn USD	ESG AUM Mn USD	ESG %
Cross Asset Solutions	2'268.97	666.24	29%
Equities	13'461.46	11'348.65	84%
Private Equity	7'216.02	665.06	9%
<b>Total</b>	<b>22'946.4</b>	<b>12'679.96</b>	<b>55%</b>

Source: Unigestion.

The methodology used to reach the figures above figures requires a clear inclusion of ESG criteria within the investment process. Normative exclusions of selected sectors (e.g. tobacco) or subjects (e.g. controversial weapons) is not sufficient for defining assets as integrating ESG criteria. Furthermore, as investors, we are actively modifying our portfolio weights on the basis of ESG criteria for these portfolios. Additionally, external funds with no clear ESG integration are excluded.

Finally, Sara Razmpa, Portfolio Manager, Equities, has been named Head of Responsible Investment and now chairs the Responsible Investment Committee, while Eric Cockshutt will act as vice-chair.