Metropolis Capital Ltd

UK Stewardship Code

30 April 2023

Reporting period: 1 January 2022 to 31 December 2022

Approved by the Board: 28 April 2023

Approved by the FRC: [Date]

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Introduction

The UK Stewardship Code is a set of principles, published by the Financial Reporting Council (the "FRC"), which aims to enhance the quality of engagement between institutional investors and investee companies to help improve long-term returns to shareholders and to promote the efficient exercise of governance responsibilities.

All investment firms in the UK have a duty to ensure that they invest clients' monies responsibly and carry out thorough due diligence to ensure that the companies they invest in are focused on delivering long-term returns for shareholders and the efficient exercise of governance responsibilities.

For more information, please visit the FRC website (https://www.frc.org.uk/investors/uk-stewardship-code). The most recent UK Stewardship Code was published on 1 January 2020.

This document surveys the period 1 January 2022 to 31 December 2022.

Metropolis Capital Ltd ("Metropolis", "the Firm", "we") agrees with and supports the twelve principles outlined in the code and through our policy set out below, we aim to provide a clear framework for how we exercise our ownership responsibilities, how we monitor the companies we invest in and how we engage with companies when we have identified an issue which we feel could impact long-term returns for our investors.

Metropolis is regulated by the FCA (Registration Number: 507685) and is a Registered Investment Adviser in the United States of America (Registration Number SEC# 801-112310). Metropolis has been granted an exemption from requiring an Australian Financial Services Licence, by the Australian Securities and Investment Commission.

Principle 1:

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Investment beliefs & strategy which enable Stewardship

We believe our purpose is to protect and enhance the real (i.e. inflation-adjusted) value of the capital which our clients entrust to us. This purpose is expressed through our long-term performance target of annualised inflation +10%. In addition, because we use a long-term real discount rate of 6.6% as the return hurdle for the businesses in which we invest - which is the long-term real rate of return from equities - we believe that investing in these companies when there is at least a 30% discount to our estimate of their intrinsic value will generate returns greater than global equity returns over time.

As active investors in public equities, we believe the greatest opportunity for long-term value creation for our clients comes from investing in a small number of deeply researched and well understood companies. For this reason, we have restricted ourselves to a single high conviction strategy. This approach ensures that the Portfolio Managers have the bandwidth to engage with their portfolio companies and exercise their stewardship responsibilities with great care. We offer investors a single long-only global equity strategy, either through our pooled vehicles (commingled funds) or via segregated mandates. The strategy has on average 15-25 positions. Our average holding period is approximately 5 years and we are benchmark-agnostic.

The investment philosophy is value-based. The Portfolio Managers seek to invest in businesses with sustainable competitive advantages which are selling materially below their assessment of intrinsic value. There is an emphasis on identifying management teams who are good allocators of capital. We particularly like "owner occupied" (founder-led) businesses because we believe that the alignment of interests between the owners and the shareholder of a business generally leads to more effective and responsible corporate governance.

The same 'owner occupied' mentality informs the culture and values we share as a firm. The two founders of the Firm are also the Portfolio Managers managing our clients' assets. They and their families have 100% of their financial investments invested in the strategy. The rest of the investment team and other members of staff are also invested in the strategy. This ensures that the stewardship objectives of our clients are fully aligned with those of the investment team.

To deliver effective stewardship for our clients, it is important that our firm, and everyone who works for it, understands that the companies in which we invest are not just 'share prices on a screen' but real businesses affecting people's livelihoods, the environment and wider society.

We embed these beliefs organizationally with a 'flat' and highly collegiate corporate structure. Although the two Portfolio Managers ultimately make decisions about the strategy's investments, they work 'should-to-shoulder' with the Analysts at every step of the due diligence process, joining meetings and calls and discussing feedback at every point. We believe this structure delivers a highly effective level of stewardship for our clients. It ensures optimum communication, collaboration and information-sharing between the Portfolio Managers, the Analysts, the operations team and the marketing and client service team.

To identify investment candidates, the investment team undertakes deep bottom-up fundamental research, executing a private equity style of due diligence which evaluates each holding as if the whole business was being acquired. Importantly, the Portfolio Managers have invested significantly in developing a robust framework which ensures that each investment case and valuation model is extensively documented, and checklists are complete prior to investment. This framework is never compromised and serves to limit the probability of mistakes in our analysis while also capturing our learning. There is a consistent focus on continuous improvement in which all investment team members (Portfolio Managers and Analysts) are stakeholders.

Outcome example: State Street

After reading rumours concerning a potential acquisition of Credit Suisse Group AG, we were concerned that State Street did not come out and refute the rumour explicitly. We understand that being consistent in the way that companies respond to such rumours is important, however, given the uncertainty of the situation and movements in the share price, we decided to write directly to the Chief Financial Officer to express our concerns and opposition to this potential acquisition*:*

"Metropolis Capital has been a shareholder in State Street since June 2016. Across our funds we currently own 3,209,406 shares with a current market value of c.$220m. We are an admirer of both the business and management team and, as you know, were supportive of the BBH Investor Services acquisition, which made a lot of sense to us strategically and financially. We were also very impressed by the clarity with which you presented it to shareholders.

We appreciate that there may be no substance to the current rumour concerning a potential acquisition of Credit Suisse Group AG and that you have already stated publicly that you will not respond to the news report. However, given the fiduciary duty we have to our clients we would like to raise our opposition to any potential acquisition of Credit Suisse, for the following reasons.

A potential acquisition of Credit Suisse would represent a significant strategic shift in State Street's business model into areas where it does not have durable competitive advantages. An acquisition of Credit Suisse would come with elevated legal/reputational risks especially given Credit Suisse's recent chequered past. We also believe that there would be a significant cultural mismatch between a custody/asset servicing business and an investment banking/high net worth wealth management business of this sort. Ultimately, we believe such an acquisition would be significantly dilutive to State Street's intrinsic value and therefore shareholder interests.

We believe that the interests of State Street's shareholders will be best served by focusing on the acquisition of BBH Investor Services and continuing to extend State Street's global leadership position further in the custodian and asset servicing space."

Ultimately, the company did publicly and explicitly deny that it was in discussions with Credit Suisse for any kind of merger. The market value of Credit Suisse has subsequently fallen by 88%.

The effectiveness of our stewardship over time can be measured in a variety of ways. Firstly, our client base has remained very stable. As an example, the family office investor who helped us seed the Firm in 2008 remains an investor with us today. In our 10 years, we are aware of only having 'lost' one discretionary wealth manager client. Secondly, we have significantly enhanced the real (i.e. inflation-adjusted) value of our clients' assets since the inception of the strategy.

Our focus on avoiding excessive business risk, including ESG risks, has also enabled us to protect the value of our client's assets in falling markets, where we have outperformed in over 70% of down quarters[1] Another measure of how effective we have been in serving the interests of our clients is the growth in the volume of clients who have chosen to entrust their assets to us, which reached £2.6bn at the end of 2022 compared with £1.8bn at the end of 2021, an increase of 45%.

We believe there is a direct connection between our growth in assets under management and our focus on sustainability and engagement. Investors are demanding more transparency and better stewardship of their invested capital. In turn the Investment Industry as a whole is evolving and will be forced to act as driver of these changes. We therefore see this as a long-term tailwind which will favour groups such as Metropolis, who do their own fundamental analysis and invest on an unconstrained, high conviction basis. This approach allows us to avoid poorly run companies and certain industries where risk is inherent in their ESG characteristics as well as to invest in companies with positive ESG dynamics. An example is a new mandate which was awarded to us in 2022 by a large UK fiduciary consultant which specifically has 'Active Ownership and Stewardship' as its mandate objective. By focusing our energies on identifying truly sustainable businesses in which to invest, we are contributing to the encouragement of business management behaviour and capital allocation which builds businesses with a culture of long-term management. This provides an excellent work culture for employees and is sensitive to their broader impact on society and the environment.

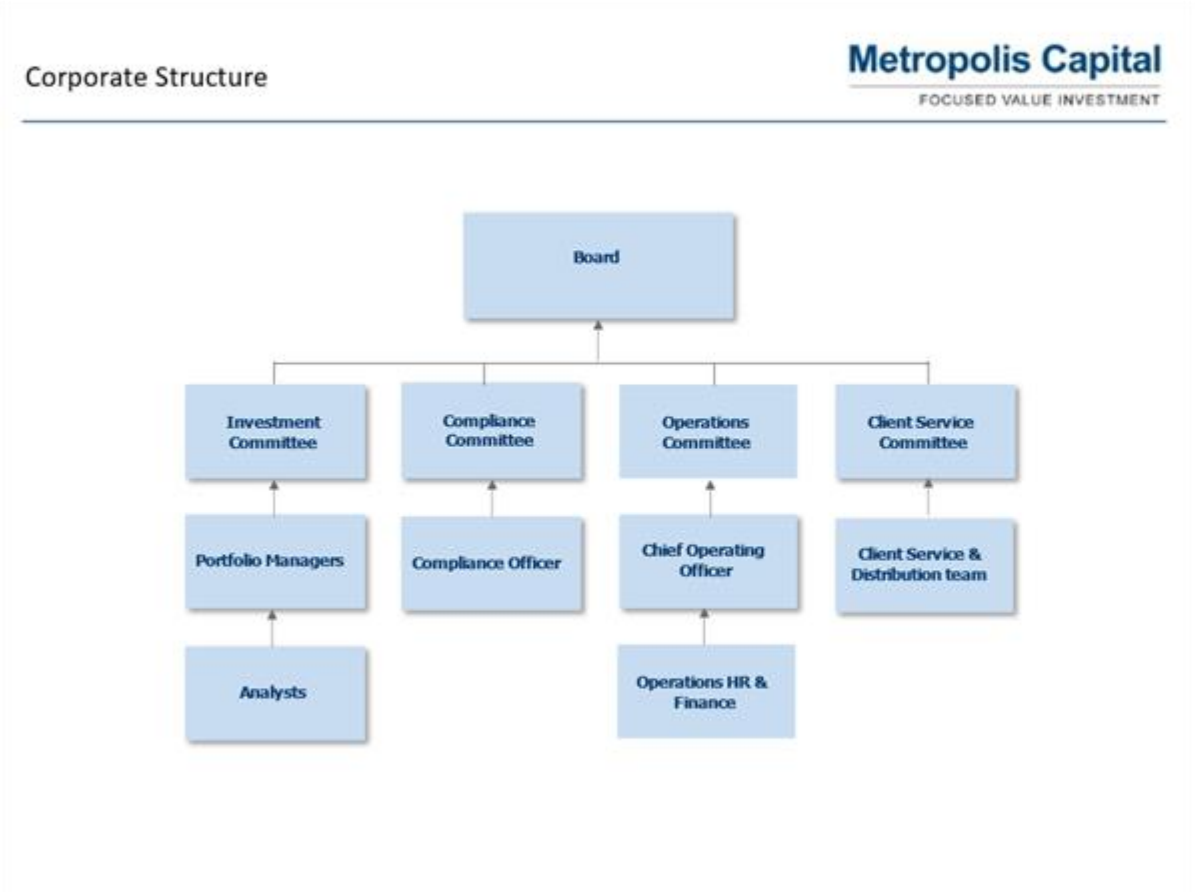
[1] Since the inception of the MI Metropolis Valuefund, our first open ended fund which was launched on 15/04/2011, calculated in GBP. Down quarters of the MSCI ACWI. Source data: Sharefunds, Maitland, MSCI.

Principle 2:

Signatories' governance, resources and incentives support stewardship.

Governance supporting Stewardship

The Board sets the strategy of the organisation and is the ultimate owner of all risk in the business. Each of the executive committees comprise at least 2 board members. This ensures a total alignment of the executive policies and plans put in place and the strategy and risk plan signed off by the Board.



The Board includes the two main shareholders and Portfolio Managers whose personal investments in the strategy aligns with the long-term interests of their clients. To ensure balance and diversity of thinking, the Compliance Officer and Chief Operating Officer have also been appointed to the Board and together bring a combined 50 years of investment banking and investment management experience.

The Compliance Officer has been selected for her deep experience of the finance sector including five years as a partner of a larger investment management business. This background means that the Compliance framework at Metropolis goes well beyond box ticking and has been developed to ensure a culture of positive Compliance, a total alignment between all activities of the team and the long-term mission to deliver outstanding returns for our clients.

The Chief Operating Officer brings with him experience of running all operations, risk and compliance for funds operating in much more esoteric and challenging asset environments than our concentrated portfolio of liquid public equities. He has developed robust back-office systems to ensure that we can meet all client obligations efficiently and with redundancy to ensure that all risks are covered.

In addition to three Board Directors, the Client Services Committee comprises two client services and business development executives with combined experience of 60+ years of servicing institutional and intermediary clients globally. Both individuals have managed the client service requirements of asset management firms significantly larger than Metropolis is today and have been instrumental in supporting the development and execution of our approach to client engagement.

The structure of the investment team is designed to ensure the best possible outcome for our clients. The two Portfolio Managers are intimately involved with every step of the process of analysing the information gathered and processed on all investee companies. This close knowledge of each investee company is critical to ensure that trading in the position throughout our holding of that position is driven by our best knowledge of risks and potential upside of each company in which we invest. Every member of the investment team is responsible for enacting the ESG related items embedded in the investment process.

Resources supporting Stewardship

The lead on Stewardship activities is taken by Jonathan Mills. Jonathan co-founded and has co-managed the Metropolis Valuefund Strategy since its inception in 2008 and the MI Metropolis Valuefund since its public launch in 2011. Prior to this Jonathan worked for Bain & Company as a Strategy Consultant and then for Schroders in their M&A team before setting up Metropolis International, a media and software group which was built through over 30 acquisitions of private businesses, applying a value investing approach to each transaction. Returns to seed investors in Metropolis International were 30%+ per annum under Jonathan's tenure as CEO from 1994-2011. He graduated from Oxford University with a First Class Degree in Philosophy, Politics and Economics. Jonathan's seniority and experience demonstrates the importance we attach to our stewardship activities. He is the author of several articles we have written for clients on our ESG and stewardship philosophy and practices.

Although Jonathan is the Stewardship leader on the team, each one of our four analysts is actively involved 'shoulder to shoulder' with Jonathan and his co-portfolio manager, Simon Denison-Smith, at every step of the due diligence process, joining meetings and calls and discussing feedback at every point in engaging with companies on ESG issues.

The cognitive and cultural diversity of the investment team supports effective stewardship. Firstly, the two co-founders came to fund management with very different backgrounds to most portfolio managers. They began their careers as corporate strategy consultants and then each built successful 'real world' businesses while making over 30 earnings-enhancing acquisitions before transferring their value philosophy to investing in listed companies in 2008. We have sought the same mix of diversity in business experience and academic skills in the four analysts we have hired. They have one thing in common – they each have a 'real world' business experience which makes them passionate and curious about understanding what makes businesses sustainable and they also bring to that a distinctive cognitive and cultural diversity. One has lived and worked in China for most of his career, another read Classics at university but then studied for an MBA at Stanford in Silicon Valley, a third has spent her 22-year career in data analytics while a fourth was a private equity investor for 10 years.

There is some debate as to whether investment management firms should build a 'dedicated' team responsible for ESG research. We believe there are pros and cons to this approach and that it is better suited to firms with multiple strategies investing in a large number of companies. A separate ESG team can, we believe, lead to 'non-joined-up' thinking and even a 'silo' effect in which ESG research is regarded differently, or treated less seriously, or used as a 'training' ground for more junior and inexperienced analysts. On the other hand, a separate ESG research team provides significantly more resources to research ESG issues more generally or issues specific to companies which may not actually be held in a firm's investment portfolios.

Our approach, in contrast, is partly a consequence of our size – our Signatory Category is as a 'Small Asset Manager' (AUM under £50bn - in fact it is at the bottom end of this at £2.6bn[2]) with an investment team of six, but mainly a consequence of the highly-concentrated strategy we manage comprising 15-25 holdings. The investment team has sufficient depth to monitor existing holdings and research new ideas from an ESG and a general investment perspective. Each analyst is responsible for monitoring approximately a third of the existing portfolio companies, i.e. only 7-8 companies each. By fully integrating ESG research within the day-to-day company analysis carried out by our two Portfolio Managers and our four analysts, we can maintain a high level of engagement and interaction with the companies in which we invest on behalf of our clients.

The analysts play a key role in building the detailed qualitative assessments and valuations of each investment company. Their "ownership" of the research process for each company ensures a deep understanding. We promote continuous learning via formal and informal training which is documented in a Training Register completed by all members of staff and reviewed regularly by the Board.

Service Providers, Systems and Processes

We supplement this resource base with subscriptions to third party data sources which provide ESG ratings. In addition to ISS, which provides us with disclosure ratings, we have subscriptions to two further providers: one which provides GHG emission data and the second which provides ratings across a wide spectrum of ESG factors for almost all companies in our universe. These subscriptions were the result of a detailed review of all data providers which was started in 2020. The data is helpful to flag up potential issues in the early stages of our research into new prospective companies for the portfolio but cannot replace the insight we get from our own proprietary due diligence and direct

[2] AUM as of 31/12/2022.

engagement with those companies.

We have enhanced our checklist which is applied prior to any new position being added to the strategy to ensure that we complete specific ESG risk checks such as the existence of an anti-slavery policy. In 2022 we added a sanctions check. Before we invest in a company, as part of our pre-investment checklist, we monitor sanctions list registers to ensure that the company is not listed. Also, on a quarterly basis we review and update our entry in the ESG monitoring report as a sanctions check on all existing portfolio companies to ensure that none of the names have since been added to any of the sanctions databases.

To monitor the portfolio on an ongoing basis, we have continued to improve the Engagement Register created in 2020 which tracks the ESG profiles of all our portfolio companies and highlights the history, progress, and escalation of engagements with company management on key issues. We have also developed our own framework which we use for ongoing monitoring of ESG risk using input from multiple sources including proprietary research and direct engagement with the investee companies. This framework looks at objective measurable parameters. For example, we track greenhouse gas emissions by company in a dynamic comparative context by looking at each company's historical progress over multiple years and by comparison with identified 'best in class' peers in the same industry. The framework also tracks the history and level of disclosures from our portfolio companies and provides input into the agenda of any engagement opportunity we have with an investee company.

In 2022, we developed our ESG analysis further to review how closely our portfolio was aligned with the Paris Net Zero targets. We started by assessing the outputs from our data providers (which we describe in more detail in Principle 8). We found that competing ratings from different analytic products can be very inconsistent. We do believe that portfolio analytics products will improve over time, allowing for a more accurate and codified set of standards for investors to understand real-world environmental impacts, however in the meantime we rely on our own analysis of each company's disclosures and our engagements with these companies.

<u>Incentive structures and performance management</u>

As the Portfolio Managers are also the owners of the business their long-term remuneration is completely aligned with the success of the Company, which is directly linked to their success in delivering outstanding returns to their clients. This alignment is further enhanced by their personal commitment to invest 100% of their respective families' financial assets alongside their clients in the strategy. Most of the staff have also directly invested in the strategy which ensures direct alignment with client outcomes across the Firm.

All staff are paid a competitive basic salary and now share in the growth and success of the Firm through an equity programme which we introduced in 2021. This development has been enthusiastically received and further aligns all of our incentives in delivering strong and sustainable investment returns for our clients as we continue to grow the Firm.

We believe that analyst remuneration should not be linked to short-term personal performance. It is critical to us that analysts maintain intellectual honesty. Attempting to reward based on performance creates conflict in the investment process and the formal appraisal process. Separating analyst remuneration from their performance appraisals ensures that these are critical learning events (rather than self-promotion events) which supports our goal to continuously improve what we do, thereby enhancing the stewardship of our client's capital over the long-term.

To measure and support the development of stewardship skills within the investment team, we have enhanced the performance appraisal template for analysts to specifically encompass ESG integration activities across all four stages of our investment research process.

Effectiveness and suitability of resourcing of approach to stewardship

The suitability of our resourcing is demonstrated by the 74 separate engagements we had with our portfolio companies in 2022 as detailed in the following table (we highlight a number of these in Principles 7 and 9). We use the same definition of 'engagement' as proposed by the Investment Consultants Sustainability Working Group, namely "Purposeful, targeted communication with an entity (e.g. company, government, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk (such as climate)."

Engagements by ICSWG Category 2022:

Topic	**Number of Engagements**
Governance - Board effectiveness - Other	19
Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting)	12
Social - Conduct, culture and ethics (e.g. tax, anti-bribery, lobbying)	9
Governance - Remuneration	9
Social - Human capital management (e.g. inclusion & diversity, employee terms, safety)	8
Strategy, Financial and Reporting - Strategy/purpose	5
Strategy, Financial and Reporting - Risk management (e.g. operational risks, cyber/information security, product risks)	4
Governance - Shareholder rights	3
Other	3
Environment - Climate change	1
Environment - Natural resource use/impact (e.g. water, biodiversity)	1
Total	74

The investment team engages actively in the process of voting on shareholder resolutions. The analyst responsible for each portfolio company reviews each proxy vote and makes a recommendation which is approved by the Portfolio Managers. We lodge voting for all clients unless a client has issued instructions to the contrary or specifically asked us not to vote. Any votes cast against management recommendations, or the advice of the proxy voting service provider are recorded. In 2021 we also started recording the outcomes of our votes, i.e. whether the voting majority was aligned with our view or not.

The constraint of our size, and the engagement approach we have adopted, means that we lack the resources to pursue engagement activities beyond the relatively small number of companies we either hold in the portfolio or review as part of our watchlist, a total of around 200 companies compared with almost 3,000 companies in the MSCI ACWI investable universe. It also limits the extent to which we can collaborate with other investors or industry initiatives, either on general issues or on specific companies which we do not hold.

However, there are several examples in our portfolio where the benefit of managing a concentrated portfolio of companies with whom we are in regular and productive dialogue comes through in a relationship which is always questioning, and sometimes critical, but one which is always looking to hold company management to account. We believe this demonstrates effective stewardship. For example, our engagements with Texas Instruments in 2022 covered: 1. Our ESG monitoring had identified that GHG intensity had increased between 2019 and 2020 and was significantly higher than peers 2. Concerns with respect to CEO remuneration 3. TI's exposure to Russia and Ukraine (both in revenue terms and within its supply chain) 4. A resolution that the shareholder threshold for calling a special meeting should be reduced from 25% to 10%. We were satisfied with the company's response on issues 1-3 but not on issue 4, where we voted against management – a vote which narrowly failed to get a majority (47.4%).

Our attempts to effect change through engagement are not always successful as we also set out in Principle 7.

Principle 3:

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

At a high level many of the conflict of interest challenges of growing a successful asset management firm are addressed by only managing a single strategy on behalf of our clients. This ensures that the entire organisation is focused on the simple mission of investing in a concentrated portfolio of global equities to deliver outstanding returns for a client base whose objectives and investment time horizons are largely homogeneous.

Conflicts of interest are further minimised by closely aligning the objectives of our staff with those of our clients. The Portfolio Managers have 100% of their financial investments in the same strategy as our clients. Most of the investment team is invested in the strategy and all members of staff benefit financially from the success of the business – a direct result of superior investment performance arising from our approach to stewardship.

However, the simplicity of the business model and alignment of staff is not itself sufficient to prevent all conflicts of interest arising. The Board takes its stewardship obligations in this regard very seriously and has put in place a clear Conflicts of Interest Policy and register which are both reviewed and signed off by the Board annually.

The following is a list of the most likely potential conflicts which may exist directly in the management of our client's assets and how we address each to ensure that they are resolved in the best interests of our clients:

Potential conflict of interest	Resolution
A member of staff holds or deals in securities of any company whose securities are held on behalf of a client.	There is a clear PA Dealing Policy in place followed by all members of staff. Any PA trade by any member of staff must be signed off by the Compliance Officer prior to execution. PA dealing by any member of staff in companies which are invested in the strategy is prohibited. Within the investment team, PA dealing in single stocks is restricted only to those holdings which were held prior to employment. This is closely monitored by the Compliance Officer through quarterly attestation and all members of staff are required to submit an annual holdings declaration.
A member of staff is involved in the management of any company whose securities are held on behalf of a client.	All outside business interests must be declared by each new member of staff and these are updated annually. Employment contracts prohibit external commercial roles without prior approval from a Board member.
A transaction is executed in securities where the Firm, or a member of staff is contemporaneously trading or has traded on its/their own account or has either a long or short position.	The restrictions and controls imposed by the PA Dealing Policy (as set out above) address most of this risk. The strategy is long-only so will never trade in short positions on behalf of clients. The Firm will never trade a proprietary book.

The firm may when acting as agent for two or more clients need to apply a trade allocation method for aggregated trade orders in the same security for multiple client accounts.	The Best Execution Policy is reviewed and signed off annually by the Board. This policy addresses a number of conflicts including the selection of execution venue, aggregation of orders, partial and o of trade errors (which are always either neutral or to the benefit of the client). Allocation of partially filled trades is in the first instance handled by the Order Management System under the management of the Chief Operating Officer and not the investment team.
The investment team may receive investment research from execution venues (brokers) who are providing such information for free to encourage the Portfolio Managers to use their trade execution services.	As an FCA authorised firm, receiving broker research is prohibited unless the research is specifically paid for by the Firm. Adherence to this law is confirmed in the Best Execution Policy referred to above.
The firm may vote proxy votes for portfolio companies in a manner which is not in the best interests of the client.	Metropolis has a Proxy Voting Policy which is reviewed and signed off by the Board annually. The investment team will review each and every proxy vote for its portfolio companies and consider what is in the long-term interests of its clients. Where Metropolis judges that a recommendation is not consistent with shareholder interests and/or company policies, the Board or management recommendation will not be supported. On these occasions, Metropolis will exercise its right to vote against the resolution or abstain. Metropolis will ensure the same voting instructions are lodged for all portfolios unless clients of segregated accounts have issued instructions to the contrary or specifically asked Metropolis not to vote.
The investment team may receive insider information which could lead to them making transactions on behalf of clients which are both unlawful and in conflict with the objectives of a fair and well-functioning financial system.	On rare occasions, we may be asked by one of our investee companies or a broker to become an insider. Generally, we are not willing to become an insider, as we want the ability to trade in the companies we hold. If we do become an insider, we restrict trading in a company until we are satisfied that the information has come into the public domain or is no longer price sensitive. All staff are trained in how to deal with material non- public information and are required to reaffirm their adherence to Metropolis's Code of Ethics on an annual basis. Metropolis maintains a Restricted List in the internal Compliance Registers and Order Management System of financial instruments that are prohibited or restricted from investment as a result of a conflict of interest or inside information. Access to the restricted list is limited to the Chief Operating Officer and the Compliance Officer to ensure a strict separation from the investment team.

Metropolis expects each member of staff to avoid any situation that presents an actual, apparent or potential conflict between the member of staff's personal interest and our duties and obligations to our clients, the Firm and the law. In addition to the above, there are clear policies and a monitoring programme which address: political donations, the accepting or offering of gifts, entertainment and corporate hospitality.

Where a conflict of interest arises, it is adjudicated upon by the Compliance Officer and, if necessary, escalated to the Board for a final decision and any disciplinary measures. We maintain a Conflicts of Interest Register which we use to record actual and potential conflicts and which is reviewed regularly by the Board. Below we show two examples of potential conflicts which arose during 2022 and how these were addressed:

Potential conflict arising in 2022	**Action taken to mitigate / resolve**
PA dealing timing	One of the Portfolio Managers had clearance to make a personal investment into the Metropolis flagship fund. On the day he considered placing the trade, he learned that a major new client would be funding a substantial investment into the strategy. Given that this client flow could have a positive impact on the share prices of some of the less liquid names in the strategy, it was decided that the PA trade should be delayed until the client trade had been executed. A policy update was also put in place following this incident setting a threshold for any new flows, above which the permission for any PA dealing in the fund would be delayed. This policy clearly puts the interests of the client ahead of any employee.
New mandate restriction which could have impacted the scope of the portfolio and become a distraction to the Portfolio Managers and the research team.	We run a concentrated portfolio of 15-25 positions. It is critical that any new mandate we take on does not force us to invest in companies outside this core portfolio. If we allow this to happen, then the investment process could be compromised as the time of the investment team would become too diluted over too many companies. There is a direct conflict between the desire to grow the business and the best outcome for existing investors. During 2022, we passed on two opportunities to bid for mandates. One required us to manage a larger portfolio; the second placed such material restrictions upon us that it would have resulted in us having to look for additional names outside the core strategy. Taking on either of these mandates would have been in conflict with the interests of our existing clients.

Principle 4:

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

The investment philosophy and approach of Metropolis has many characteristics which ensure that the investment team monitors market-wide, systemic risks and supports a well-functioning financial system.

The investment team identifies market-wide and systemic risks most obviously via their assessment of the 'Quality' score which we assign to each company we consider. For each company in the portfolio, we determine a quality rating. These scores are based on an assessment of the strength of a company's competitive position or 'moat' and how well-placed it is to withstand market-wide and systemic risks. We also add to this calculation of quality a score for the severity of different market-wide and systemic risks potentially threatening the company which we term disruptive threats. We discontinue our analysis of a company if the market-wide and systemic risks are either too large or too unknowable. As a result of this high quality threshold, 92% of our universe fail our quality rating and balance sheet test. We believe this is the best safeguard for protecting against market-wide and systemic risk. Our portfolio allocation model uses the quality rating as one input for determining position size.

When we re-appraise a company's quality score (for any reason), we use the Portfolio Model to reweight the position. Thus, if post investment, we have uncovered a new ESG risk and our engagement process with the company is not leading to any obvious change in the way that management is addressing this risk, then we will consider whether this changes our quality score. This happened with our investment in a European pharmaceutical company: it spent over EUR 10bn on two acquisitions which we felt were over-priced. This misallocation of shareholders' capital led us to downgrade the position and to reduce our valuation of the business by our assessment of the excess cash spent on these two companies. Accordingly, we reduced our position size. Subsequent to this, the company has written down the value of these transactions on their balance sheet.

Our deep understanding of a few companies therefore means that we are able to process market-wide information and consider carefully the impact of unforeseen events on each company in the portfolio. For each portfolio company, we have modelled downside and upside scenarios for different market conditions or events. Both our quality score framework and our detailed valuation can be reassessed under circumstances of severe stress. This information is then fed into our portfolio allocation system providing an actionable trading strategy.

Secondly, our long-term perspective and long average hold-periods, combined with our deep understanding of each business when faced with different macroeconomic environments, helps us to look through short-term headwinds and take advantage of market price over-reaction. This often means that we are adding to our positions when the market narrative is focused on negative short-term conditions. This contrarian approach helps to promote a well-functioning financial system by providing liquidity when the market has shifted into sell-mode.

Having a concentrated portfolio makes one very conscious indeed about downside risk and, as a result, we spend at least as much time thinking about all the ways that each investment can go wrong as we do about the upside it offers and the positive drivers of future growth. This approach is particularly evident when we are presented with binary risks with very significant downside. For example, any serious concerns about a major disruption threat or ESG issue will put us off investing in a company because, while there may be a relatively low percentage chance of it happening, in a concentrated portfolio we do not want to take on such known unknowns at all.

Risk management is therefore at the absolute heart of our investment research and portfolio management processes. There are many different risks that we consider before adding any stock into the portfolio and we have checklists within our investment process to ensure that we have considered them all before investing. The provenance of these checklists goes back to the time the Portfolio Managers were doing buy-outs but has been enhanced and improved over the years of investing in public equities.

We summarise below the major risks to the portfolio which we have identified in 2022. Using the International Corporate Governance Network's definition of some of the most significant systemic threats facing the stability of the financial markets, we can list these as follows:

<u>Governance risk, including corruption, expropriation of control and corporate culture</u>

As we explained in a quarterly Investor Letter to clients in October 2021, we have always excluded investing in Russia, China and Saudi Arabia. History has shown us many examples when outside investors have suffered expropriation by an undemocratic regime that does not have an independent legal system.

Investors in Chinese tech companies listed in the US or other Western markets do not directly own shares in the underlying Chinese companies. Instead, they own shares in offshore companies (usually registered in the Caymans) that have contractual relationships with Chinese companies which then have further contractual relationships with the relevant operating companies, their boards and their shareholders. The web of contracts is designed to give a proxy ownership interest to Western shareholders. The Variable Interest Entity ("VIE") structure was created by clever lawyers and investment bankers to circumvent a Chinese law which expressly forbids foreign ownership in strategically important sectors such as media, telecoms, transport and technology, set out on a publicly available "Negative List".

Essentially, an investor in a VIE is taking it on trust that neither controlling company insiders nor the Chinese government will decide to disenfranchise Western investors. The assumption being made is that they will not do so because it would not be in their long-term interests. There have been occasions where Chinese insiders have decided it was in their interests, most notably when Jack Ma extracted Alipay (now Ant Financial) from Alibaba and moved it into a new company he controlled with very little compensation to Western shareholders of Alibaba.

In legal terms, the Chinese government can remove Western investors in any company it wants to with the stroke of a pen and then simply point to the pre-existing law which forbids such foreign ownership. It can say (truthfully) that Western investors should have realised all along that they were investing in an illegal structure never formally approved by China, designed to evade Chinese law. The fact that China has not enforced its laws in this area more broadly in the past does not weaken its legal right to do so in the future, should it so decide. In 2021 the Chinese decided to crack down on VIE structured private education companies and the same thing could easily happen to other sectors if the government believe it is in China's national interest. In 2021 our avoidance of China helped to protect our clients' portfolios as many VIEs declined in value following Chinese state actions.

With Russia's invasion of Ukraine in February 2022, we have seen the risks to financial markets, and to investors in those markets, when undemocratic regimes effectively become disbarred from the western financial system. Our avoidance of Russia meant that we did not have client assets frozen or had to repatriate assets at fire-sale prices. Where we have assumed impairments and in the case of two stocks (Visa and Mastercard) we have had to write down their Russian businesses to zero, the impact on the intrinsic value of the portfolio overall was less than 1%. We believe this demonstrates effective stewardship.

Social risk, including human rights, income inequality and populism

Social risk is something to which we have been particularly sensitive in the history of our strategy, often anticipating that regulation would ultimately be introduced to outlaw the anti-social practices which made us reject potential investments when we analysed their business models at the time. Two investment candidates which we reviewed and rejected during 2022 are described below:

Social risk: Immoral earnings

We reviewed a South American airport operator. We decided to reject the company in our review at Stage 2 because we discovered historical evidence of the use of some of these airports being used for drug trafficking. We were also concerned that with capital expenditure running so much higher than depreciation, there was a risk that this money might be being expropriated through rigged construction contracts.

Social risk: Animal rights

We ruled out an investment in one of the largest providers of animals for laboratory research. A 2018 study by PEW Research Center found that 52% of adults in the USA are against animal experimentation. Political sentiment could turn quite quickly and push through legislation radically changing the operating environment for the company. Connected with the above, there is also a technological substitution risk: animal rights activists claim that organs-on-chips and in vitro solutions can be used to similar effect without causing harm to animals. It's possible that these technologies could improve, or other genetically engineered subjects could be created which side-step the need for any animal suffering. Political opinion could be swayed swiftly if offered better alternatives. There is no guarantee that the company would still be an industry leader in such new technologies.

Macroeconomic risk

One of the most significant macroeconomic risks we modelled for our portfolio companies during 2022 was the effect on their businesses of a near-term economic slowdown or recession in response to rising interest rates and inflation. One company whose share price was especially hurt by these concerns was Alphabet. In the Summer of 2022, we adjusted our Alphabet model in anticipation of a recessionary slowdown to assume zero growth in Google's advertising business for both 2022 and 2023. Alphabet is on track to comfortably exceed our conservative estimates. A year or two of cyclical deceleration in growth has minimal impact on our assessment of Google's worth, which is based on the long-term earnings potential of the business. We took advantage of this opportunity to buy more Alphabet stock at depressed prices. It is positive that management is also being opportunistic, buying back over $15bn of stock in Q3. If sustained for a whole year, this level of repurchase would amount to over 5% of Alphabet's total market cap. In view of this buyback activity, we believe the share price fall should ultimately prove beneficial to long-term holders.

<u>Market risk</u>

Share price volatility is one of the commonest market-wide and systemic risks. Typically. short-term and sentiment-driven it can result in capital mis-allocation and ultimately capital impairment. The chart below illustrates how persistently volatility remains a feature of markets.

In last year's submission we showed the average spread - defined as the % difference between the calendar high and low share price - for all US stocks from 2005-2020. We showed this for all businesses and segmented the data into different size categories by market capitalisation. Over the whole period, we found that the mean spread of all stocks was 79% in a calendar year. This is lower for Mega Caps (>$100bn) at 57% vs Large Caps ($20-100bn) at 62% and Mid-Caps ($2-20bn) at 83%. The level of volatility is notable and material, even for Mega Caps. These are businesses typically followed by dozens of sell-side analysts and 1000s of institutional investors, and yet the market will typically change its mind to the extent of 57% in just one calendar year.

As long-term investors we focus our analysis on the intrinsic value of a business, which is not typically volatile, rather than its share price which frequently can be volatile (as explained above). As Warren Buffet has said, quoting Benjamin Graham (the 'father' of value investing), "in the short run the market is a voting machine, but in the long run, it is a weighing machine." Our proprietary portfolio management model is contrarian by nature. It means we take advantage of share price volatility to sell or trim our holdings when the share price approaches intrinsic value and to buy or add when share price weakness increases the discount to intrinsic value. During 2022, we updated our analysis of the value of this trading over time – the updated analysis concluded that it contributed an additional c.12% to our investment alpha compared with what our returns would have been had we adopted a pure 'buy and hold' approach. After analysing our trading history, a consultant has fed back to us that we are consistent in adding to positions at 52-week lows and trimming at 52-week highs. From a market-wide perspective this approach to trading around our names provides liquidity when buyers are scarce.

We believe this demonstrates effective stewardship: taking advantage of the market-wide and systemic risk of volatility to improve the stability of our clients' investments and enhance their risk-adjusted returns. In organizational terms, this is a team-led governance initiative, as two of our analysts are responsible for monitoring the Portfolio Model and suggesting the trades to the Portfolio Managers for their review and implementation.

Environmental risk, including climate change, water scarcity and pollution

Environmental risk and specifically climate change is one of the gravest long-term challenges to the long-term sustainability of a company's business model. An assessment of climate change risk is a key part of our disruption analysis.

In 2022 we continued to develop our own framework for the ongoing monitoring of ESG and climate change risk. Our Engagement Register which tracks the ESG profiles of all our portfolio companies and highlights the history, progress and escalation of engagements with company management on key issues. One of our analysts is responsible for managing this register and it is reviewed regularly by the whole team. We have also developed our own framework which we use for ongoing monitoring of ESG risk using input from multiple sources including proprietary research and our own engagement with the investee companies directly. This framework looks at objective measurable parameters in the form of greenhouse gas emissions by company and tracks these in a dynamic comparative context by looking at each company's historical progress over multiple years and by comparison with identified 'best in class' peers in the same industry. The framework also tracks the history and level of disclosures from our portfolio companies. This data is informing our discussions with companies when we engage with them. Many of the engagements included in Principle 7 consisted of getting better disclosure from our portfolio companies of their GHG emissions.

One measure of the effectiveness of our approach is the low carbon and fossil fuel metrics characterizing our strategy which are typically significantly below those of the benchmark.

Engagement Outcome: Environmental Risk - Gruma

Prior to investing in Gruma, we discussed with the company the lack of a report detailing sustainability initiatives and outcomes. We followed up on this engagement in the summer of 2022 and were informed that a report was imminent. Gruma released their first ESG Report on 5 Oct 2022. The report is comprehensive, covering business ethics, promotion of human rights, health, nutrition & safety and impact on the environment including climate. In addition to providing detail on the initiatives the Firm is taking to reduce its own impact on the environment, the report also highlights the positive impact its process of making cornflower in Mexico has by reducing water usage per m/t of corn processed by 70% when compared with the traditional Nixtamalization method.

Engagement Outcome: Environmental Risk – Booking Holdings

In our 2021 submission we highlighted how, in an engagement with the company in May 2021, we urged the company to improve its disclosure on emissions and also suggested offering a way for consumers to easily offset carbon emissions when making a hotel booking. On the 22 April 2022, the company published its first Climate Action Plan, which addresses scope 1, 2 and 3 emissions and a commitment to net zero. This included the following statement which also addresses a welcome enhancement to their consumer proposition:

"We are pleased our operations remained carbon neutral during 2021, and we have transitioned to 100% renewable electricity across our organization, through the purchase of unbundled energy attribute certificates. We are now pushing forward on the path to achieve science-based net-zero impact by 2040. To help lead the industry, we launched new product features that demonstrate our ability to facilitate more sustainable travel, including a first-of-its-kind Travel Sustainable badge. This identification of a property as one following sustainable practices now appears next to nearly 80,000 property listings on Booking.com and will be rolled out further across our other brands before the end of 2023."

Collaboration / Industry initiatives

As a fundamental investment manager, we identify and respond to market-wide and systemic risk through the prism of each individual company we analyse. The examples above illustrate this. We acknowledge that a shortcoming of our approach is that our size and limited resources restrict our ability to work with other stakeholders or share in industry initiatives to any great extent in addressing these risks. Nonetheless, we did join with a number of industry-wide collaborations during 2022 (mentioned below and in Principle 10). We provided comments to the US SEC on proposed changes to ESG disclosures by US listed companies. We responded to the European Commission on whether ESG rating providers should be regulated in the same way as credit agencies. We joined the PRI-led Collaborative Stewardship Initiative on Social Issues and Human Rights. We also became a signatory to an investor letter calling on US rail companies to disclose their paid sick time benefit for US workers, including part-time, subcontracted, and temporary workers.

Another significant risk which is market-wide and systemic is the lack of female participation in the asset management industry. Within our own experience as a small growing business, it has manifested itself in the very poor representation of female candidates who have directly approached our company for the role of research analyst (less than 5% up to 2015). We have addressed this proactively in the last six years by being more proactive in our recruitment processes. Since 2015, 50% of the new employees hired are female and three of four summer intern analysts have been female. Since 2021, we have become actively involved with GAIN, an initiative to promote greater female participation in the asset management industry at grass-roots level.

Social Risk: Lack of diversity in the asset management industry

In 2021, we participated in GAIN's ('Girls are Investors) inaugural internship programme (www.gainuk.org) which aims to increase the percentage of women working in asset management. As a result, we hired a female intern working with the investment team over the summer. This was a success, so we hosted another GAIN programme intern (this time also from the LGTBQ+ community) in 2022 and have recently made an offer to a third GAIN intern for the summer of 2023. In addition, four of our members of staff have now undertaken mentoring roles for GAIN students in 2023.

Principle 5:

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Metropolis reviews and, if necessary, revises its policies regularly to ensure the effectiveness of its activities.

In addition to this UK Stewardship Code disclosure, Metropolis has in place policies and statements which set out its stewardship objectives with respect to Modern Slavery and Human Trafficking, Proxy Voting, and Responsible Investment and Engagement. During 2021 all of these documents were made accessible via a dedicated stewardship page on our website (https://metropoliscapital.co.uk/responsible-investing). Each policy is reviewed and signed off formally by the Board on an annual basis.

As a team we have a responsibility to keep abreast of best practice in stewardship activities by attending conferences, reading relevant publications and listening to webinars and podcasts. Fortunately, there is a content-rich stream of updates and articles about ESG and Sustainability issues published by MSCI, ISS, Bloomberg, Arabesque, Sustainalytics, Willis Towers Watson, The Journal of Portfolio Management, Citywire and others which we regularly share among the team.

So how do we assess the effectiveness of our activity?

In due diligence meetings with clients and potential clients, we are happy to demonstrate in detail all of our processes, sharing examples of collateral which supports each stage of the investment process and a detailed review of our Engagement Register and ESG monitoring programme. Through many such meetings during 2022, we have received positive feedback about our stewardship activities from investment consulting firms and fiduciary managers who are happy to put us forward to their clients. Their feedback is that our stewardship, and in particular our readiness to develop our stewardship approach, ranks among the best of the boutique managers of our size which they rate.

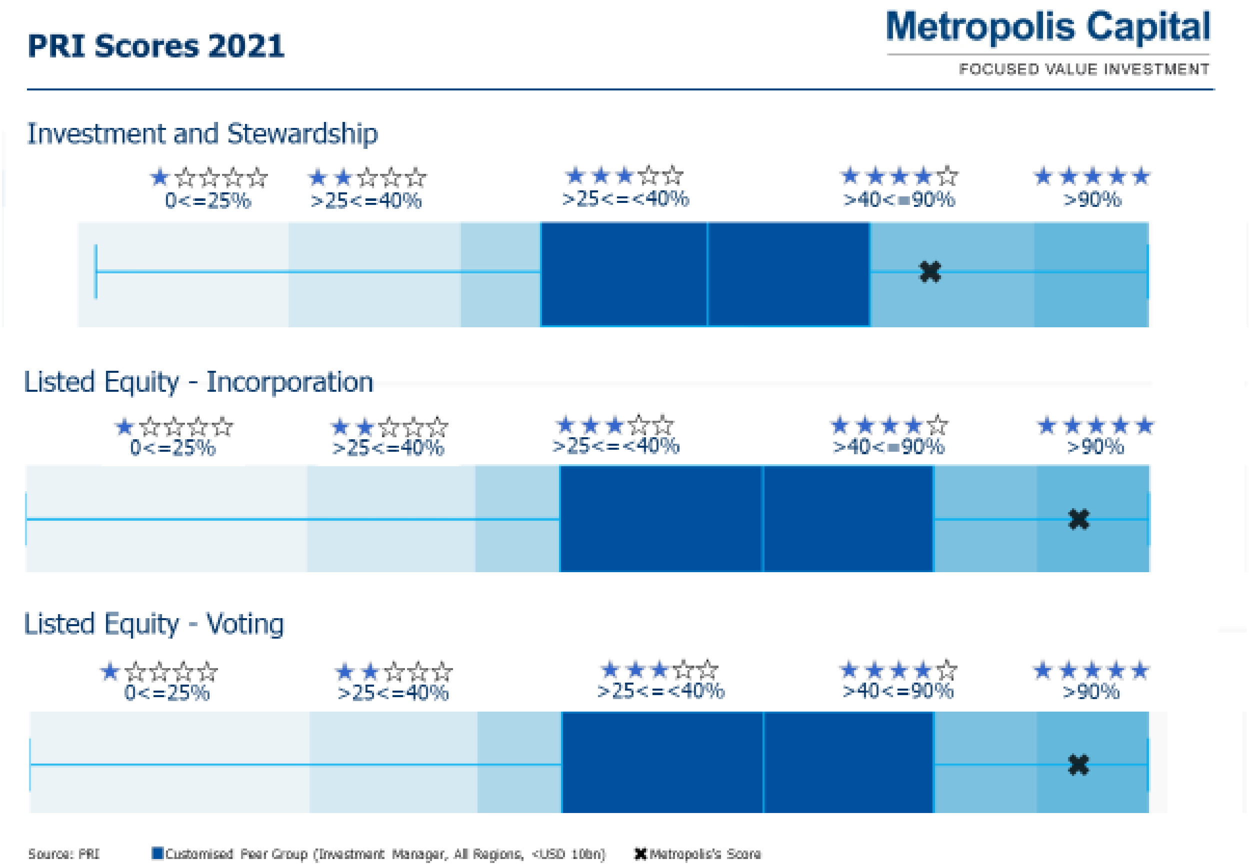
In terms of the portfolio, we are aware of how our approach is measured by some external ESG agencies. A significant contributor to these scores is the relatively poor rating for one of our largest holdings, Berkshire Hathaway; so the removal of one company from our strategy would significantly improve our score relative to the benchmark. This underlines the challenge of using 3rd party agencies to assess effectiveness of stewardship within a highly concentrated portfolio. We would also argue that the rating for this one holding is potentially quite wrong. Berkshire Hathaway receives two contradictory ratings from two of the best-known ESG rating agencies. Through our own analysis we believe there is an under-appreciated ESG story developing at Berkshire Hathaway which we explain in more detail in principle 7.

We believe that our stewardship reporting is fair, balanced and understandable. We are proud of our strengths but are also aware of the limitations of our approach, particularly with regards to collaboration, as well as engagements which do not achieve the desired outcome (see Principle 7). In our submission for 2021, we identified that we were behind best practice in climate-related reporting and in particular in reporting on the alignment of our portfolios with the Paris climate targets. During 2022, we completed a review of these two areas; this included an assessment of third-party data providers for measuring the alignment of the portfolio to Paris Net Zero targets. We found that inconsistency of methodology between different data providers led to materially different conclusions on the percentage of the portfolio which aligned to the Paris Net Zero targets. Our conclusion has been to conduct our own research based on the material published by each investee company and from our engagements with them; we enhanced our ESG monitoring programme for ongoing collection of this data. In addition, during 2022 and 2023, we have held review discussions with institutional clients and consultant relationships to establish how we can improve (inter alia) upon our climate reporting to clients. Early prototypes of the additional client reporting format, which includes our internally collected data on our strategy's alignment with Paris Net Zero targets, have undergone initial reviews by the Board. We will report on the outcome of this in more detail in our 2023 submission.

How are processes assured?

A significant source of information for the content used in this report is our Engagement Register. The register is maintained by one of the investment analysts and is reviewed regularly by the investment team. This data is used to populate most of the case studies in this report. Additional input specific to the activities of the Firm rather than the portfolio is sourced more broadly from managers of different parts of the business and the outcome letter received from the FRC and the Review of Stewardship Reporting for the previous year.

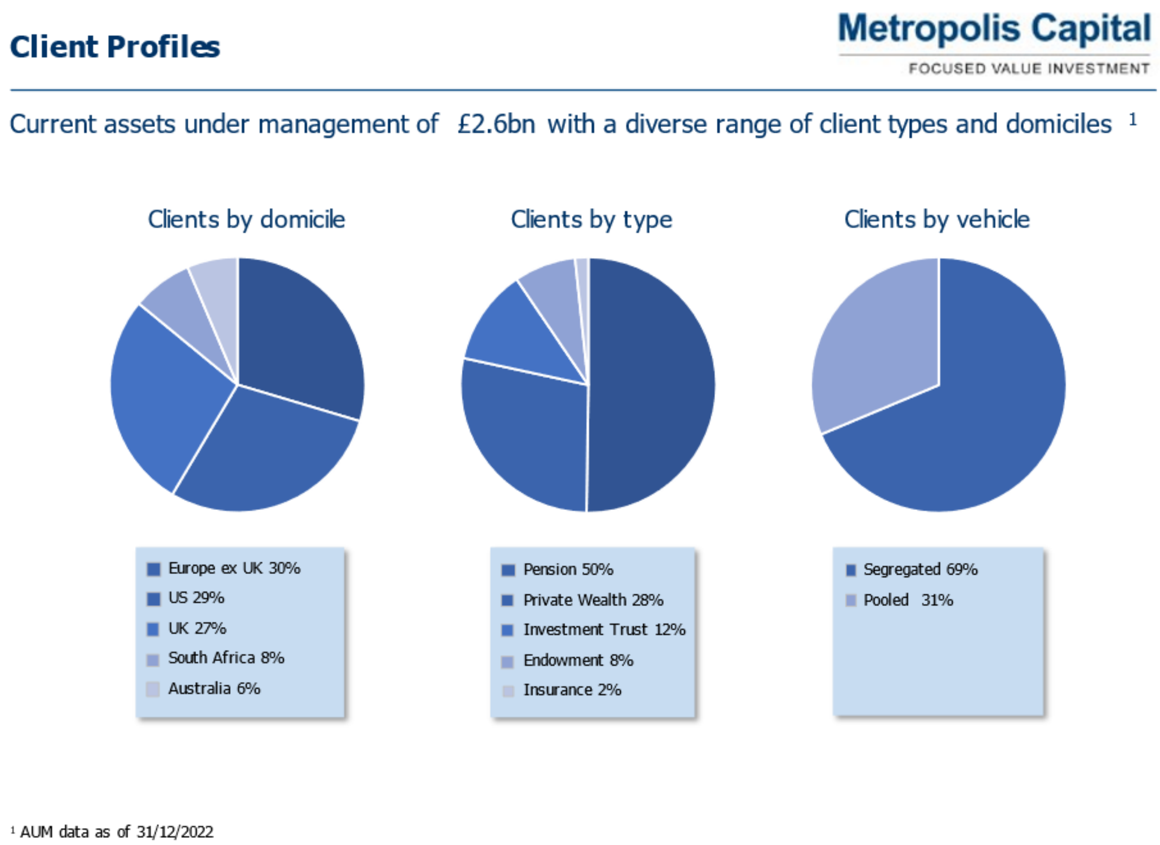
The compilation and review process for this report contains a series of steps. A draft report was created with suggested stewardship content and then a board member (also a Portfolio Manager) took responsibility for editing this material. Once in initial draft, the submission was reviewed and edited by the other Portfolio Manager (also a board member) before then being reviewed by each of the client facing managers and the other two board members. The submission was then formally approved and signed off in a Board meeting. The review by managers and board members outside the Investment Team is designed to build an internal assurance process and where necessary create challenge to the Portfolio Managers to determine whether our approach to stewardship is set up to achieve the best possible long-term outcome for our clients. This review process, following feedback received on our 2021 UK Stewardship submission, led to us conduct the client survey on our reporting and is leading to enhancements to cover client climate reporting as set out above. In terms of external assurance, our PRI scores and the quartile rankings for our submission relative to the peer group of other investment managers were published in 2022. Our ratings were 4 or 5 stars in all categories and, in a universe of 829 peers globally, Metropolis Capital was in the top quartile for Investment and Stewardship Policy. Additional external validation of our approach to stewardship comes from our ongoing discussions with our clients.


PRI Scores 2021
Metropolis Capital
FOCUSED VALUE INVESTMENT
Investment and Stewardship
0<=25%
>25<=40%
>25<=<40%
>40<=90%
>90%
Listed Equity - Incorporation
0<=25%
>25<=40%
>25<=<40%
>40<=90%
>90%
Listed Equity - Voting
0<=25%
>25<=40%
>25<=<40%
>40<=90%
>90%
Source: PRI
Customised Peer Group (Investment Manager, All Regions, <USD 10bn)
Metropolis's Score

Principle 6:

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Funds under management as of 31 December 2022 are broken down by strategy, client type, and location as below.

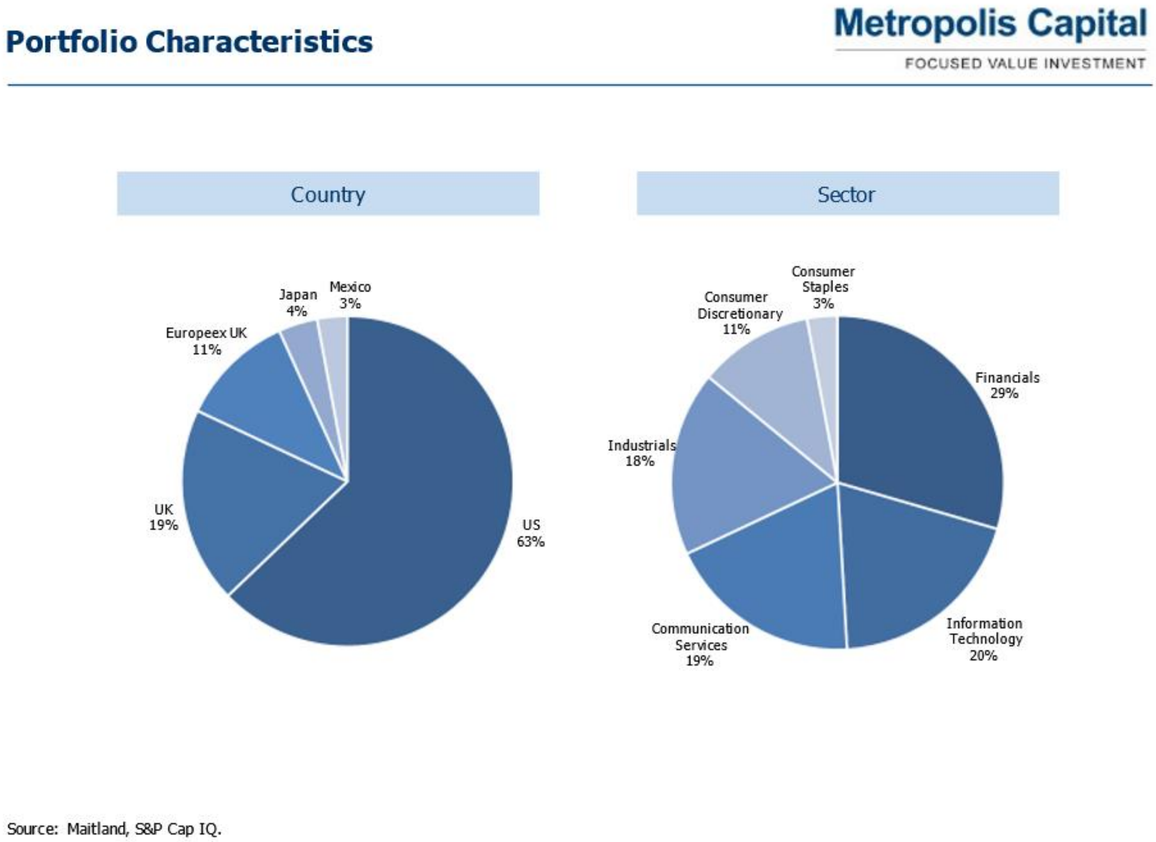


By assets, our client base is 65% institutional[3]. 100% of the assets are invested in a concentrated portfolio of up to 25 global equities (across all accounts) and a residual amount of cash. By offering a single strategy to a client base of informed and professional investors we have a high level of certainty that our clients know what they are buying and why they are appointing us. Clients typically have a 'risk budget' which may include an allocation to lower risk assets and passively managed products, but which also allows for an exposure to a more actively managed high-conviction strategy such as ours. In general, we are recommended to clients by investment consultants who have made a thorough assessment of our suitability for their clients' objectives. Furthermore, we find that

[3] Based on AUM as of 31/12/2022.

institutional clients are increasingly allocating to us as active managers because they appreciate the enhanced stewardship value which we bring to our investment strategy.

The breakdown of assets (which are 100% listed equity) under management across sectors and geographies is shown below:



In terms of the length of investment time horizon appropriate to deliver to the needs of our clients, we aim to outperform for them over rolling five-year periods net of fees. The reason is partly because it is the length of the average economic cycle but also because it is consistent with our average holding period. As our name turnover is 15-20% per annum, it suggests that we hold stocks for between 5-6 years on average - although we also have stocks in the portfolio which we have held for 10 years. In 2022, we added three names to the strategy and exited three.

How do we know that this objective actually meets our clients' requirements?

Processes for managing mandate requirements

Each of our institutional mandates are supported by detailed Investment Management Agreements (IMA) setting out the mandate objectives and restrictions. Stewardship goals and restrictions are set out in the IMA. Since client needs, requirements and objectives are so thoroughly examined and discussed during the drafting of these IMA's, a process typically taking several weeks and comprising multiple drafts and re-drafts, it is a highly effective mechanism for ensuring that we thoroughly understand our clients' needs prior to assuming responsibility for investing their mandates. These are then communicated both to the investment team, who build these rules into their checklists prior to initiating a new position and to the Operations team, who hard-wire any rules into the pre-trade compliance module of our order management system.

Client communication

The nature of our client base is also very disintermediated. We only manage 16 accounts. These accounts may comprise many underlying investors, but their client relationship is with the fiduciary consultant, the UCITS manager, the investment trust, the ACD or the multi-manager for whom we are a delegated sub-advisor. The key client relationship for us is therefore to keep these intermediaries fully informed of our strategy and our views so that they can communicate this to their investors. The feedback we have received is that our communication meets their requirements. Given the size of our client base we have not yet felt the need to commission a third-party client satisfaction survey.

During 2021 we created a new ‘Stewardship’ page on our website where we publish all our ESG related policies and statements, including our Proxy Voting Policy and in 2022 we included our full voting record for the past year – addressing an omission which was highlighted in the FRC’s feedback on our previous Stewardship Code submission. We highlight this in more detail in reporting on Principle 12.

Detailed quarterly analysis on all shareholder resolutions voted on their behalf is available on request for all clients, many of whom have taken up this option. We are open to taking direction on voting, although on all mandates thus far we have been given discretion to make all voting decisions.

We communicate regularly with all our clients via a detailed quarterly investor letter written by the two co-founders/Portfolio Managers. This is not a delegated task and these letters frequently prompt appreciative responses from our clients who value the ‘personal touch’ involved in this form of communication. These letters, typically 15-20 pages long, provide information about the analysis behind new and existing positions covering all aspects of the investment thesis including ESG risks and opportunities. Through these letters, we also share with our investors any significant engagement we had with an investee company. A good example is our analysis of what we described as ‘the under-appreciated ESG story at Berkshire Hathaway’ which we highlight in more detail in Principle 7.

In 2022, we initiated a survey with our institutional clients and consultants to establish how we can improve our marketing material and client. This process has continued into 2023. Enhancements to our reporting coming out of this process are work in progress. We will report on the outcome of this in more detail in our 2023 submission.

Our client services team is in regular contact with each of our accounts and will facilitate communication directly with members of the investment team via ad-hoc emails, telephone calls, video conferencing and face-to-face meetings as required by the client. Through this process we maintain a dialogue with our clients and beneficiaries about their needs and requirements.

Principle 7:

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

How do we integrate Stewardship and Investment?

Central to our investment philosophy is that we think about each investment we make as if we are buying the entire business to own it forever. Driven by this long-term thinking, at the core of our valuation of each new position is an assessment of the long-term sustainability of a company's economic model.

Ultimately, we believe that good corporate governance results in management thinking long-term about their businesses and acting sensibly to ensure that the economic model is not imperilled by social, environmental, or other threats. As such, we feel that a focus on governance must come first.

The research process at Metropolis is split into discrete stages. The first stage is a quantitative screen from which Analysts select interesting candidates for an initial piece of research, which is the second stage. This stage is supported by a semi-automated template with charts and data populated from 3rd party information sources; the Analysts then complete several questions which support our initial qualitative review of the business. Included in this stage of the research are questions which ensure that we are considering a broad range of disruption threats including environment (encompassing climate change), social and governance risks. The main purpose of identifying potential risks at this stage is to guide the more detailed research which is conducted in stages 3 and 4. The emphasis of stage 3 is on desktop research and stage 4 on bottom-up valuation work, supported with interviews with industry participants and external data sources. A checklist is used in stage 3 to ensure that we have covered off all potential analysis. Included in this checklist are 30 questions which can be addressed to help in the assessment of ESG risk. The Analysts seek out third party data sources that are specific to the company and its industry to validate their assessments of each risk area. Engagement with the company directly typically takes place as part of the 4th stage and we use this opportunity to address all risk areas including ESG concerns.

The majority of investment candidates which go through the third and fourth stages of the research process are added to our watch or reject lists. If, however, we believe that we have found a business which is of sufficient quality that we can conservatively value it and is priced with a sufficient margin of safety to this valuation, we will initiate it in the strategy. Before we do this, we take the thesis through one further checklist which ensures that we have asked all the fundamental questions, including ESG factors. This checklist has been derived from 20 years of investing experience, first applied to the due diligence process of buying whole businesses and since 2008 for the purpose of public equity investing.

The strategy is global; however, we have not found that our approach to integrating stewardship and investment has had to adapt very differently because of the geographic markets in which we invest. Our investment universe is restricted to large international companies in well-regulated markets where we have experienced good communication and generally high standards of corporate governance.

Since we began investing in public markets in 2008, we have always actively engaged with the companies we have invested in. This goes back to our history of buying, controlling, and managing entire companies. To us, an investment in a public company is not a piece of paper, it is a very real (albeit minority) ownership stake. We have a fiduciary obligation towards our underlying investors to try to influence the companies in which we invest in a positive way. In addition, we sometimes believe that we have something to contribute to key management decisions.

The case study below demonstrates the stewardship related insights brought about by our investment process:

Case study: Investment Process – Integrated ESG Appraisal

<u>Berkshire Hathaway: 'A very positive ESG story which is simply not being told'</u>

We have held Berkshire Hathaway ("Berkshire") in our portfolio for over a decade and at the time of writing it is our largest position. We originally started following the business in the mid-1990s and attended shareholder meetings from 2001 but did not invest until 2011. At this time, it was clear that Berkshire was significantly undervalued, a point recognised publicly by Warren Buffett a few months later when he announced that he would start to do share buybacks.

Because Berkshire owns a large energy company (which produces some of its electricity from coal) and a large freight railroad (which runs on diesel), it has a large carbon footprint. Partly for this reason, and partly because Berkshire has not embraced new governance and disclosure practices, it often scores poorly on ESG measures by the likes of ISS. However, we believe that it has a very positive ESG story which is simply not being told.

It is in the area of carbon emissions that Berkshire receives most ESG attention. The first reason is that Berkshire has relatively high carbon emissions in absolute terms. As estimated by MSCI, it has a carbon intensity of 275 million tonnes of CO_2 equivalent per $m of revenue, vs the index score of 151 (weighted average). This puts it 82% above the MSCI ACWI index. Within our portfolio, on MSCI's measurements, Berkshire currently makes up over 50% of all our portfolio emissions, despite being an 8.6% position for us.

The second reason that Berkshire faces criticism in this area is that it does not produce consolidated numbers for its scope 1 or scope 2 carbon emissions. The reason it does not do this is because it is a radically decentralised organisation, a subject which we discuss in more detail below. Essentially this means that it is not set up at its head office level to gather this kind of data, and culturally Buffett believes that doing so by mandate from him would affect the true independence that each of its subsidiaries has always maintained.

This lack of data has created a strange anomaly whereby Berkshire as a whole is estimated by third parties such as MSCI and S&P Capital IQ to have a lower carbon output than the two largest carbon emitters among its subsidiaries, which do publish such data: Berkshire Hathaway Energy and BNSF (the freight railroad).

Despite this, there are a number of positives that one needs to consider when looking at Berkshire's carbon emissions and broader environmental record:

1. Buffett himself is no climate change sceptic – in 2015 he wrote in his shareholder letter that "if there is only a 1% chance of the planet heading toward a truly major disaster and delay means

passing the point of no return, inaction now is foolhardy."

2. The second biggest carbon emitter in the Berkshire portfolio is BNSF. It does report detailed scope 1 and 2 emissions data. The most important point about rail from an environmental perspective is that it is the most environmentally efficient mode of land-based transportation with 66%+ less greenhouse gas emissions than road haulage. In addition, BNSF has been investing heavily in locomotive upgrades and retrofitting efficient energy management systems, with automated braking and acceleration, to improve fuel efficiency. Newer locomotives have also reduced its emissions of nitrogen oxide and particulate matter which pollute more locally. It was stated at the 2021 AGM that BNSF has committed to science-based targets consistent with the Paris agreement, with a 30% reduction in BNSF's carbon footprint by 2030.

3. The largest Carbon emitter within Berkshire by some distance is Berkshire Hathaway Energy ("BHE"). It has a very positive story indeed to tell about its record: In 2015 BHE was the first US energy company to commit to the Paris Agreement. In line with Paris, it pledged to reduce its carbon intensity from the 2005 levels by 28% by 2025. It met this pledge in 2020, five years early. By 2030 BHE has pledged to reduce its emissions further: to 50% of the 2005 level, again hitting the Paris target (which under Biden the US has again signed up to).

• As part of this process, BHE has been closing coal power stations, with 16 retired to date, another 16 to be closed by 2030 and the remaining 14 units closed by 2049. So in total, coal will decline from 71% of BHE's generated and purchased power in 2005 to 33% in 2020 and zero in 2049.

• Rather than focus BHE's move away from coal into the transitional carbon technology of natural gas, which many utilities have done, BHE has taken the much bigger step of moving from coal directly to wind and solar. In order to do this, it has already invested $35.5bn directly into renewables and $5bn into high power transmission lines which enable it to generate renewable electricity in one area and transmit it to another. These renewable and transmission investments have made BHE the largest investor-owned renewable energy company in the US.

• Overall BHE's CO_2 per unit of net generated energy has declined by 39% from 2005 to 2020. Today, 32% of BHE's electricity generation comes from renewables vs 20% for the US as a whole.

• BHE's investments continue apace with another $13bn to be spent on transmission upgrades over the next decade and an additional $4.9bn directly into renewables by 2023.

In our opinion, Berkshire does not make the most of its carbon credentials because it does not present its case at the corporate level. We would hope that, given the importance which investors now attach to these issues, Berkshire will in time create a carbon audit of its group. This would largely be a consolidation of material already created by BHE and BNSF but should also include consolidated information from other subsidiaries which report on carbon, which they are increasingly doing. This consolidation of information would enable investors to assess trends that might affect Berkshire more accurately rather than having to try to piece together information from third party data sources which make estimates. It would also help companies within the group to benefit from sharing the environmental expertise of other Berkshire companies.

We note that Berkshire appears to be moving in this direction with the recently formed "Berkshire Hathaway Sustainability Leadership Council (SLC)". This is 'an autonomous group of representatives from Berkshire Hathaway companies committed to championing the sustainability efforts of their organizations and serving as a resource to other Berkshire Hathaway subsidiaries'.

The SLC has the following goals:

• Share sustainability strategies

• Advance best practices on sustainability and ESG-related areas

• Provide subject matter expertise

• Support development of resource library

• Identify and communicate emerging sustainability issues

As long-term shareholders of Berkshire we support and encourage these internal initiatives and we wrote to the CEO, Warren Buffett setting out our analysis and highlighting the areas we felt were most important. We had several further communications directly with him about the issues involved.

How do we think about stewardship?

<u>1. We do not invest in companies with serious ESG issues</u>

A key part of our investment analysis is to look at the disruption threats that every business faces from changes in the world around them. These disruption threats include changes in technology, changes in competitive intensity and changes in demand. One of the biggest areas that we focus on is the threat of increased regulation.

Thinking about a business from the point of view of regulation (which includes all government action and taxation policies) enables us to pinpoint potential issues which could compromise its cash generation over future decades. This approach led us to specifically exclude certain industries such as thermal coal and tobacco. More generally it has ensured that our portfolio has very good social and environmental characteristics, in particular very low carbon and fossil fuel risk.

Another central part of our analysis is to look at corporate governance. We look hard at management pay and incentives, any dangers of expropriation by majority shareholders, poor records in relation to employee safety or customer relations, poor Glassdoor scores, any issues in supply chains, and many other metrics. Our focus on governance has meant that we have always ruled out direct investments in certain countries where corporate governance is at best opaque, such as Russia. As with our approach to external disruption threats, our approach to governance has ensured that our portfolio is composed of companies which have well above average standards of corporate stewardship.

<u>2. We actively engage with companies, and we always vote our shares</u>

A shareholder with 40% ownership of a private business would, of course, expect to have a greater say over how it is run than a shareholder with 0.4%. This is the essence of the shareholder democracy that applies to any joint stock company and is enshrined in legislation and listing rules in every public market. Companies with dual share classes (which create a gap between voting power and economic stake) are a distortion to this but one that investors are aware of at the time they invest.

Companies are subject to external pressures from small shareholders. It is possible for an individual to buy a single share, attend an AGM and then ask an embarrassing question which might change a management's approach to an issue. In addition, companies are subject to the opinions of non-shareholders expressed through both social media and mass media. This is not new. In 1990 McDonald's changed its recipe for French fries (which Ray

Kroc once called “sacrosanct”) as a result of a multi decade health campaign by one man, Phil Sokolof, who used his own fortune to place adverts in newspapers after having suffered a heart attack which he blamed on unhealthy food.

Employees of companies also have an increasingly loud voice within board rooms. This is particularly the case for technology companies like Alphabet, which need to constantly recruit and keep happy large numbers of young, highly mobile employees. These employees regularly put pressure on senior management regarding environmental and social issues.

As part-owners of our portfolio companies, it is a duty for us to look carefully at all votes that are put before shareholders and to always vote. We take into account the opinions of proxy advisers (such as ISS) and then engage in detail with the companies before voting. Usefully, voting provides a very opportune time to discuss issues with companies. We have had detailed discussions with the General Counsels of large US companies around AGM votes. These people are not generally available to speak to outside shareholders at other times.

When we engage and when we vote, we are focusing on issues which we believe are important to our underlying investors. A table setting out the number of engagements in 2022 is set out under Principle 2.

Below are some examples of our 2022 engagements:

For a number of our companies, we have been requesting better ESG disclosures, particularly about carbon emissions. Successful outcomes in this respect were: 1. Booking.com published its first Climate Action Plan on 22 April 22; 2. Gruma published its first ESG report on 5 October 2022; and Ashtead released its first Sustainability Report on 04 November 2022.

In a call with the CFO of Admiral, we highlighted that the Admiral Trustpilot score seemed relatively low (3.5 stars out of 5 at time of call). The CFO thanked us for highlighting this and said that he would have the relevant team look into it. When Metropolis met with the CEO we brought up the Trustpilot score again; she confirmed they had been engaging with Trustpilot and working on how to improve their score since Metropolis brought the issue up in May. We note that there has been some improvement in the score in recent months.

On a practical level, our ability to influence any company is proportionate to the size of our shareholding. Currently, our percentage ownership ranges from 3.1% of Hargreaves Lansdown down to 0.01% of Progressive. Across all of our holdings, as a simple average, we currently have a 0.55% ownership stake.

2022 Engagements that have not achieved our desired outcomes

Reflecting our size and the limited resources we have, there will inevitably be cases where we attempted to effect change but failed. Below are some examples from 2022. All of these examples we characterise as ‘low risk’ to our investment thesis and therefore do not require immediate escalation at this stage:

Oracle We remain opposed to the changes made in 2021 to the Performance-based Stock Options (PSO) plan for the Chairman and the CEO. The performance period terminus was extended by three years from May 2022 out to May 2025, which allowed the Chairman and the CEO another three years within which to fulfil the original goals of the plan and trigger the vesting of further option award tranches. The strike price of these option awards was low compared to the current share price. The Board has not taken any steps to address this issue since we had raised our original concerns on a call with the company. In November 2022, we voted against the re-election of the Director responsible for the compensation committee and against the advisory vote to ratify Executive Officers compensation; we set out our reasons in a letter to the company. The votes Passed respectively with 66.49% and 66.99% votes in favour.

Alphabet: We contacted Alphabet on 26th May in relation to discuss various shareholder resolutions. We decided to vote against management on a shareholder resolution to produce a Report on Metrics and Efforts to Reduce Water Related Risk. We believed that the proposed report would increase transparency into Alphabet's exposure to climate-related water risks, which we understand is of particular relevance to Google, given its intense use of water in data centre cooling. We set this out in the letter to the company. 27% of shareholders voted in favour of this proposal.

We have a risk-based approach to escalating issues. As we designated both these issues 'low risk' to the overall investment thesis for each company we will continue to advocate for these issues as our engagement opportunities allow.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

We maintain a register of all service providers with a note of when they were last reviewed and a date for when they will be reviewed again. The review process is very thorough and is led by our Chief Operating Officer reporting through to the Board. For incumbent providers it starts with an internal review of service satisfaction from team members before formally 'testing the market' through approaching non-incumbent firms.

How do we monitor and hold to account our trade execution service providers?

In the trading function Metropolis' strategy is to use external brokers and rely on their expertise as regular market traders to get the best results for our clients. The rationale for this approach is that Metropolis trades infrequently. As such, any internal trading function would be very part-time. Given the frequency of trading, it is unlikely that Metropolis would be able to attract and retain the talent required to ensure the best possible outcome for its clients.

Brokers are approved by the Board of Metropolis following thorough Broker due diligence. It is the Firm's policy that only approved brokers may be used for any trading. Metropolis has determined that it will maintain at least three broker relationships. This ensures that it can constantly benchmark the relative service levels, efficiency, and performance of the different providers.

Each trade is recorded in a trade register and there are checks undertaken for whether the price being offered appears to be a good result for the client:

1. The Portfolio Manager will check the price achieved against actual market spreads to ensure that the price is appropriate for its volume based on the liquidity of the stock.
2. We record and monitor the difference between initial order price, executed price and day high-low trading range on all trades.
3. A sample of at least 20 trades per quarter are checked on a random sample basis by the Compliance Officer who performs a detailed process monitoring all aspects of the trade including pre-trade compliance, call records and transaction records.
4. A sample of trades executed are checked retrospectively on a quarterly basis versus the day high low range of the relevant trading day.

To support trading, Metropolis uses a cloud-based order management system (OMS). Being cloud-based, the Firm is reliant on uptime SLAs being met. During 2022, there was one outage which lasted beyond the SLA timeframes (i.e. greater than a few minutes). The COO held the service provider to account by ensuring that there was a detailed explanation for the outage and what steps were being put in place to avoid this happening again. Metropolis maintains books and records outside the OMS and can place trades by recorded telephone and email with brokers so such instances would not impact clients.

How do we monitor and hold to account information providers?

Whilst Metropolis uses several different sources of information to support the detailed research work undertaken by the Analysts, this data is never entirely relied on to develop the thesis. We develop extensive proprietary collateral which underpins our investment decisions such that third party data is cross-verified and validated by other data sources. As an example, we currently use S&P CapIQ for financial data to help the building up of initial valuation models and to facilitate financial analysis. However, the data which drives the bottom-up model which is created to complete a detailed company valuation in the final stage of our process is always sourced directly from the firm's Annual Report and Accounts. Where discrepancies between S&P CapIQ data and original data sources are spotted, the Analyst will contact the S&P CapIQ data analysts to understand the issue and to hold them to account, which often results in S&P CapIQ making updates and thereby ensuring that they continue to meet our specific needs. Similarly, use of broker research to which we subscribe or data from Bloomberg is only used to enhance our qualitative understanding of the business and industry. During 2022, we reviewed a number of new service providers to enhance our research process: we completed trials of three new research providers; we terminated one existing relationship and replaced it with one new provider which provided a broader scope of coverage for a similar budget.

As set out in Principle 5, during 2022, we completed an assessment of third-party data providers for measuring the alignment of the portfolio to Paris Net Zero targets. We found that inconsistency of methodology between different data providers led to materially different conclusions on the percentage of the portfolio which aligned to Paris Net Zero targets. Our decision is therefore not to rely on these data sources but instead to conduct our own research based on the material published by each investee company and from our engagements with them. We believe that portfolio analytics products will improve over time, allowing for a more accurate and codified set of standards for investors to understand real-world environmental impacts and as such we will continue to monitor how this develops.

How do we monitor and hold to account proxy voting service providers?

Metropolis has engaged ISS Proxy Voting Services to help facilitate its voting and engagement activities. ISS enhances its platform to facilitate the voting process with research reports for each vote which include recommendations on whether to vote in line with management, against management or to abstain. These recommendations are based on the NAPF (National association of Pension Funds) guidelines and ISS's own proprietary research. Metropolis will review each vote carefully along with its own detailed research of the company. The ISS recommendation is just one input which is taken into consideration when voting. Metropolis does not vote in line with ISS's recommendations if it believes that to do so would not be in the best interests of its clients. In 2022, we voted against the recommendation of ISS in 420 out of a total 4197 votes.

Metropolis monitors closely the following aspects of this service:

1. 100% of all votes are executed in a timely manner for all client accounts.

2. Reporting from ISS on voting activity is delivered in a timely manner such that we can ensure that we meet our own voting disclosure requirements with our clients.

We have recently met with our proxy voting provider to understand and engage with them on a vote recommendation with respect to a specific investee company, with which we disagree. We will describe this in more detail in our submission for 2023.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Our objective is to deploy such a thorough research process that we avoid investing in companies which require extensive engagement to keep them on track. As such most of the engagement with our portfolio companies is to seek information to support our detailed understanding of the business, the assumptions which underpin our valuation models or for clarification on issues and risks identified by the investment team. This engagement starts prior to investing in the company and continues actively throughout our ownership period.

We maintain an Engagement Register which tracks our interactions with investee companies and the issues addressed with them. With this, we track all issues on which we have engaged so that we can monitor progress towards resolution. We assess the risk level of each issue to determine the pathway of escalation in engagement.

If the issue is left unresolved, then we will seek to exercise our fiduciary rights as shareholders and vote against the Board at AGMs and EGMs. Sometimes, the vote will be direct, e.g. in the case of a resolution to improve disclosure on gender pay gap, or sometimes indirect, e.g. we will vote against the election of the Director heading up the remuneration committee if we have any issue with management incentivisation and are not able to vote on the issue directly. Our voting intentions are communicated to the company with an offer for further dialogue. The pathway from this point is then determined by the risk level. Where we deem the issue to be a fundamental risk, then we will review our quality score and valuation assumptions. In some cases, this can lead to an exit or early exit from the position. Where the risk is deemed to have the potential to impair our valuation but not to a material level, we will continue to engage with the company and at the next opportunity widen the level of voting against the Board, particularly the re-election of specific board members.

Our Engagement Register records the date of the engagement initiation, the company, the description of the issue, the risk level we attribute to it, the actions we have taken, the company's response, how we have subsequently voted (if a voting issue), and whether the issue is open or closed and any outcome.

Our definition of engagement is one we endorse from the Inter-Consultants Sustainability Working Group (ICSWG), namely: Purposeful, targeted communication with an entity (e.g. company, industry body, regulator) on particular matters of concern with the goal of encouraging change at an individual issuer and/or the goal of addressing a market-wide or system risk.

In Principle 2 we listed our engagements by theme and under Principle 7 we included some examples of how we identify and prioritise engagements. Our Engagement Register ensures we have well-informed and precise objectives for engagement, reviews whether outcomes are followed up or updated with further action points if necessary. Below we aggregate our engagements with different companies by theme as required by the ICSWG using the theme Strategy Financial and Reporting as an example:

	Theme Engagement Case Study **Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting)**
Rationale for the engagement	Metropolis engaged 12 times during the period regarding Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting). Metropolis believes issuer reporting and transparency is critical to monitoring assessment of quality and intrinsic value of a company. The Firm's Responsible Investment and Engagement Policy includes issuer reporting and transparency amongst the factors it monitors as part of its assessment of a company. Issuer reporting and transparency is monitored for every company in the portfolio. Objectives are catalysed by a requirement for information. This engagement topic is not directly linked to UN Development Goals but underlies good company governance which is fundamental to the achievement of many of the 17 goals.
What have we done	Alphabet, Ashtead, Booking, Comcast, Gruma, J. Smart, Microsoft, Texas Instruments and Visa, were engaged on the topic of Strategy, Financial and Reporting - Reporting (e.g. audit, accounting, sustainability reporting) in 2022. During this period engagements related to Strategy, Financial and Reporting – Reporting) were catalysed by: Climate related reporting where a shareholder has been the proponent of a proxy voting proposal in 5/12 instances (Booking, Comcast, Microsoft and Alphabet); Fulfilment of sustainability reporting in 3/12 instances (Ashtead, Booking and Gruma); and heightened carbon emissions in recent reporting in 1/12 instances (Texas Instruments). Deterioration of ESG scores in 1/12 instances (Visa). 5/12 engagements took the form of a call and the same number were made in writing. In 10/12 cases Metropolis engaged with the IR team. Metropolis has voted against management on this topic 4/8 times during the period. All entities where this topic was identified as a risk have been engaged. Metropolis did not participate in any collaborative engagements on this topic. In all cases the engagements were led by the Portfolio Managers.
Outcome and next steps	8/12 instances of Metropolis's engagement were related to a proxy vote. In one case the vote against management had been made in 2021 leading to the requirement for Booking to publish a Climate Action Plan in April 2022. Engagements with Ashtead and Gruma concerned the final publication of Sustainability reports which Metropolis has engaged with these companies on prior to 2022. In 1/4 cases where Metropolis has voted against management the vote was passed leading to the eventual publication of the Booking Climate Action Report in April 2022. No divestment has occurred as the result of the engagements. Metropolis continues to monitor closely all portfolio companies for issues relating to Strategy, Financial and Reporting.

Below, we a provide a specific multi-year example of an engagement which led to a measurable outcome. The engagement activity for this started in 2020 and continued through 2021. It was covered in our submission in 2021. We continued to monitor the situation through 2022 and the positive outcome was confirmed on 22 April 2022 as described below.

	Booking: Environment / Climate change
Rationale for the engagement	This example demonstrates Metropolis's objective to encourage investee companies to consider how their products and services can help to improve sustainable practices in the industry in which they operate. We see this initiative as a positive for their consumers and partners (travel companies) and will enhance Booking's market position and contribute to shareholder returns in the long-term as well as directly aligning with UN Sustainable Development Goals 11 and 13.
What have we done	We wrote to the company in 2020 with respect to poor GHG emissions disclosure. We were provided a limited amount of data. In a follow up call in which we raised the issues of poor disclosures and ESG ratings from 3rd party providers, we learned that they had established an ESG department and were taking this issue seriously. In a subsequent call in May 2021, we suggested offering a way for consumers to easily offset carbon emissions when making a hotel booking. The company said that it is an option that they will consider. They did describe an initiative which they are working on to provide a climate related rating system so that customers can include this as part of their selection criteria. Whilst we were pleased with the progress, we believed the company still had room to improve. In June 2021, we voted against management and in favour of a shareholder resolution for the company to publish an annual climate transition plan. The vote went against management.
Outcome and next steps	On 22 April 2022, the company published its first Climate Action Plan. This plan addresses Scope 1, 2 and 3 emissions and sets out a commitment to near zero for the company by 2030 and Net Zero by 2040. In addition, Booking has now introduced a filter in their search mechanism for choosing travel sustainable properties; "The Travel Sustainable badge is available to any kind of property that has implemented a combination of sustainable practices that are destination-specific". The Climate Action Plan sets out an intention to roll this out to all brands by the end of 2023, including non-accommodation services such as cars, rides and flights.

The strategy is global; however, we have not found that our approach to engagement has had to adapt very differently because of the geographic markets in which we invest. Our investment universe is restricted to large international companies in well-regulated markets where we have experienced good communication and generally high standards of corporate governance.

We are active but not activists

We endeavoured to explain in Principles 1, 6 and 7 the reasons and context for our chosen approach to engagement. It is perhaps also worth explaining why we are active but not activists. An activist shareholder will typically invest in a company that has corporate governance or other issues with a view to effecting change over a relatively short time period, then they will exit. Ultimately, we believe that if we invest with good management teams running good companies, then we should never need to become activist. But there are several further reasons why we do not wish to play this role:

1. In order to be an effective activist, one needs to be a top 10, ideally the largest, shareholder. Only at this level will management take a hostile activist seriously. One also must be willing to increase one's position in a company further so that management feel an increasing level of threat. This approach does not fit with our Portfolio Model or the importance we attach to liquidity. In addition, positioning oneself as hostile makes it impossible to have a constructive relationship with a company, and more difficult to do so with other companies in the future as one's reputation is affected.

2. Very large companies in the portfolio like Berkshire Hathaway and Alphabet are immune to activists (even the world's largest) partly because of their size, partly because they often have dual class share classes. If one approached investing primarily with a view to making change, one would never invest in these mega cap companies, but would instead invest in small and mid-caps where one might have an ownership stake of 10% or more. If we adopted this strategy, we believe we would significantly damage our investment returns. We like investing in mega cap companies, when they are undervalued, because they are more likely to meet our quality scores and because their businesses can survive management mistakes.

Activism is tremendously time consuming, and this has a significant opportunity cost. In two cases we did become activist because companies we were invested in were being taken private in MBOs at a significant discount to what we assessed they were worth, and management were compromised because their financial interests were diametrically opposed to minority shareholders. In both of these cases we happened to have a large enough stake for us to influence the outcomes. However, what we found was that we were in an extended battle with management teams who were able to spend their entire working days on winning. Moreover, they used company money to engage investment banks to assist in their campaigns. In both cases the process went on for several months during which we spent a lot of time talking to other shareholders who all had different views. In each example we had a measure of success, lifting the price that was offered by 25% and 7% respectively, but there was an opportunity cost to all this activity and the overall impact of our success on the performance of the portfolio was marginal.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

As members of the PRI we are looking to see if there may be opportunities for us to collaborate with other investors on joint actions to lobby companies in our portfolio.

In 2022, we joined with the following industry-wide collaborations. We provided comments to the US SEC on proposed changes to ESG disclosures by US listed companies. We responded to the European Commission on whether ESG rating providers should be regulated in the same way as credit agencies. We joined the PRI-led Collaborative Stewardship Initiative on Social Issues and Human Rights. We also became a signatory to an investor letter calling on US rail companies to disclose their paid sick time benefit for US workers, including part-time, subcontracted, and temporary workers. .

In 2021, we started our support of the GAIN ('Girls are Investors') greater diversity internship project by offering an internship from the programme and we repeated the internship in 2022. These internships were successful for the Firm and the candidate (based on formal feedback). Four of the firm's employees are now actively mentoring GAIN affiliated students in 2023 looking for future careers in the investment management industry and we have made an offer to a third Gain intern for the Summer of 2023.

As we mentioned in last year's report, we launched our 'Net Zero' project in 2021 to look further into how we can align our portfolio more closely with the Paris climate transition targets and whether joining a specific collaborative climate organisation might contribute further to this. Our conclusion was that, while we concur with the aims of this Initiative and can confirm that our strategy already aligns with its Paris-aligned objectives, we do not believe that adding our name to it serves a useful purpose while the measurement metrics are still so diverse and inconsistent between data providers and there is a risk of such initiatives being branded as "green washing". We will continue to monitor this.

As we explained in principle 5, we are size-constrained in our ability to join in with collaborative issuer engagements. We are willing to participate in collaborative engagement to influence issuers as long as it does not prove too much of a distraction from the effective stewardship of our clients' assets in general. In the past we have been asked if we should become more activist which would involve instigating and coordinating a much more active level of collaborative engagement with other investors to influence issuers. As we described in Principle 9, we have had two experiences of being activist (fighting the MBOs of portfolio companies in 2009 and 2016). Whilst in both cases we were able to achieve higher prices from our actions, both processes were a significant investment of time. Our view today is that we serve our investors better by focusing that time on finding alternative investment ideas.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

When we identify risks and issues which we believe the company is not properly addressing, we open a direct dialogue with the company. This can help to clarify the extent to which the company's management team has already started to address the issue.

We have put in place a framework for formal escalation of issues where we do not believe that there is sufficient progress being made towards resolution. We start by assessing the risk level. This determines the pathway of engagement.

If the issue is left unresolved, then we will seek to exercise our fiduciary rights as shareholders and vote against the Board at AGMs and EGMs. Sometimes, the vote will be direct, e.g. in the case of a resolution to improve disclosure on gender pay gap, or sometimes indirect, e.g. we will vote against the election of the Director heading up the remuneration committee if we have any issue with management incentivisation and are not able to vote on the issue directly. Our voting intentions are communicated to the company with an offer for further dialogue. The pathway from this point is then determined by the risk level. Where we deem the issue to be a fundamental risk, then we will review our quality score and valuation assumptions. In some cases, this can lead to an early exit from the position. Where the risk is deemed to have the potential to impair our valuation but not to a material level, we will continue to engage with the company and at the next opportunity widen the level of voting against the Board, particularly the re-election of specific board members.

Under Principle 7 we included examples of our 2022 engagements and in Principle 9 we included a summary of our 2022 Engagement Register which shows outcomes, follow-ups and further escalation where required. In the majority of cases the outcome was 'closed' either because we were satisfied with the response from the company, or we resolved the information gap which had prompted the engagement.

One of our successful escalations, begun in 2020 and completed in 2021, had resulted in the Board of New Corps eliminating the 'poison pill' provision from its Articles of Association. We still had some ESG concerns about the company, however, and in November 2021 we engaged with them again to discuss the fact that the ISS scores for various ESG matters had deteriorated for News Corp in 2021 vs 2020, particularly Audit & Risk Oversight and Labour, Health & Safety. Although not related to any AGM item we raised this issue with the company on a call held on 11th November 2021 held in advance of the AGM of 17th November. News Corp advised that there had been no changes of policy or procedure or new information which could have driven this, and they would review this in more detail and try to understand what was driving it. It had not been raised by ISS as an issue with News Corp when they had engaged with them. Escalating these concerns, in October 2022 we had another call with News Corp's IR team and general counsel specifically to talk about ESG matters. We discussed their relatively poor Trucost2 ESG scores. They were disappointed but suggested that this was likely to reflect poor disclosure, which they are improving. They have just released their second annual ESG report and the increased disclosure in this report should filter into next year's scores. They have also included ESG goals in their executive compensation scheme for the first time in 2022. Both of these enhancements we believe we were the result of our continuing to escalate the issues within the company.

We also discussed a proposal calling for them to disclose granular detail on lobbying payments. News Corp is increasing its disclosure voluntarily on its approach to lobbying this year. They argued that it is not practical to give a full list of every direct and indirect lobbying payment, and it's difficult to know how to define the activity. They spend less than $1m a year on lobbying, so it is not a significant activity for them in any case.

We pressed News Corp on their shared services programme, which is designed to create cost synergies in IT and other central spending. They admitted that the programme is proving to be challenging and taking longer than they initially had hoped, but they will pass on our concerns to the CFO - it is something she is concerned about too. We also asked for added transparency on the split out of the overhead cost, something IR took on board. This is an issue we will continue to monitor and which we could escalate further with the company in 2023.

Principle 12

Signatories actively exercise their rights and responsibilities.

How does Metropolis ensure it exercises its rights and responsibilities when Proxy Voting for its Clients?

Metropolis's Proxy Voting Policy sets out the standards that Metropolis uses to manage the proxy voting process. This policy covers the proxy voting of Metropolis's MI Metropolis Valuefund and all other Client accounts based on the strategy. Proxy voting is conducted for all countries where Metropolis is able to vote. However, while the policy remains the same, the process may differ between regions.

The policy outlines that, except in special cases where Metropolis feels abstention is required, Metropolis will endeavour to consider and vote all proxies for every resolution in respect of holdings beneficially owned by the funds or mandates for which it provides delegated investment management duties.

During 2022 we maintained a new 'Stewardship' page on our website where we publish our ESG related policies and statements, including our Proxy Voting Policy and the results of all our voting activity for the past year.

<u>Proxy Voting Policy overview</u>

The guiding principle of this policy is that voting rights should be exercised and proxy votes should be cast in a way designed to ensure that proxies are voted in the best interests of clients.

Metropolis will consider and vote all proxies for every resolution in respect of holdings beneficially owned by the funds or mandates for which it provides delegated investment management duties except in special cases where Metropolis feels abstention is required. Metropolis Capital does not engage in stock lending.

Voting decisions are made on a case-by-case basis by an assessment of the matter at hand and after taking into consideration the likely effect on the performance of the portfolio.

Metropolis recognises the strong link between good corporate governance and investment value. The objective is to increase the return on funds invested. Within these parameters, Metropolis aims to enhance shareholder returns by discouraging disadvantageous corporate policies through discussion, where possible, with company management and the exercise of voting power. Similarly, there are opportunities to encourage effective management through the endorsement given by positive votes.

Metropolis believes that by adopting high standards in relation to corporate governance, environmental and social factors companies can avoid potential damage to trade or reputation and therefore enhance and protect the long-term wealth of their shareholders.

Metropolis's research activity not only seeks to monitor the integrity of companies in which it invests and to reduce the risk of corporate mismanagement and failure, but also seeks to protect the rights of all shareholders.

Principles

Metropolis is of the view that the exercise of voting rights is an important aspect of any investment decision process. Metropolis has an obligation to add value to the portfolios which clients have entrusted to them.

When lodging voting instructions, Metropolis takes into account a broad range of best-practice governance principles, these include:

- As the representative of its clients, Metropolis will review every proxy vote for its portfolio companies and consider what is in the long-term interests of its clients. Resolutions will be voted upon in a manner that is deemed most likely to protect and enhance the long-term value of a security as an asset to the portfolio.
- Where Metropolis judges that a recommendation is not consistent with client interests and/or company policies, the Board or management recommendation will not be supported. On these occasions, Metropolis will exercise its right to either vote against the resolution or abstain.
- Conflicts of interest are considered when voting.
- Metropolis will ensure voting instructions are lodged for all portfolios unless a client has issued instructions to the contrary or specifically asked Metropolis not to vote.
- Metropolis's voting intentions and the rationale underlying these votes will be communicated privately to management in advance of the meeting in which the vote is cast.
- Any votes cast against management recommendations, or the advice of the proxy voting service provider will be recorded by Metropolis.
- Metropolis will check following the meeting that voting instructions have been executed accurately by the proxy voting service provider.

Conflicts of Interest within the Voting Process

Metropolis is focused on the execution of a single 'high conviction' investment strategy either via the MI Metropolis Valuefund or via segregated accounts. Voting will be consistent across accounts unless specifically guided by a client.

Metropolis has a documented Conflicts of Interest Policy. Metropolis is required to manage conflicts of interest fairly, both between the Firm and its clients as well as between one client and another client. As applicable, Metropolis is also required to identify conflicts of interest between an investor in a fund managed by the Firm and other investors, funds managed by the Firm, other clients of the Firm or the Firm itself. Metropolis trains its staff to always look out for potential conflicts.

Metropolis's policy is to take all appropriate steps to maintain and operate effective organisational and administrative arrangements to identify and to prevent or manage, potential and actual conflicts of interest in the Firm's business.

Use of Proxy Voting Advisors

Metropolis has engaged ISS Proxy Voting Services to help facilitate its voting and engagement activities. Metropolis reviews all Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) agendas prior to voting. Metropolis considers carefully each and every vote and will vote against the recommendations of its proxy advisor. In 2022, we voted against the recommendation of ISS in 420 out of a total 4197 votes. Metropolis will vote against the Board's recommendations if it does not believe the actions proposed are in the best interests of its investors. In 2021, Metropolis voted against management in 268 votes out of 4197 votes placed.

If, following detailed analysis, Metropolis does not have a strong view for or against a Board recommendation, it will follow the ISS recommendations, which are based on the NAPF (National association of Pension Funds) guidelines and ISS's own proprietary research. Metropolis's relationship with ISS is reviewed on a triannual basis.

Client input to the voting process

A client may specify a Proxy Voting Advisor other than ISS. For one major client, we have access to a second Proxy Voting Advisor and as requested by the client, will consider their recommendations as part of our process. Where clients request it, we will follow any specific guidelines for voting on their proportion of the shares of any business. This has not happened in 2022. During the year, we have continued to provide detailed monthly reports on our voting activity, to our clients who request it. This transparency provides them with an opportunity to discuss and debate our approach to voting on shareholder resolutions.

Voting Activity

How Metropolis has cast votes in the general meetings of companies in which its clients hold shares is set out below.

Metropolis Capital Ballot Level Voting Activity 2022			Management Proposals		Shareholder Proposals	
	Total	%	Total	%	Total	%
Votable Proposals [1]	4197		3709		488	
Proposals Voted	4197	100.00%	3709	100.00%	488	100
FOR Votes	3703	88.23%	3572	96.31%	131	26.84%
AGAINST Votes	446	10.63%	89	2.40%	357	73.16%
ABSTAIN Votes	0	0.00%	0	0.00%	0	0.00%
WITHOLD Votes	48	1.14%	48	1.29%	0	0.00%
DNV Proposals	0	0.00%	0	0.00%	0	0.00%
Votes WITH Management	3929	93.61%	3572	96.31%	357	73.16%
Votes AGAINST Management	268	6.39%	137	3.69%	131	26.84%
Votes WITH Policy [2]	3777	89.99%	3366	90.75%	411	84.22%
Votes AGAINST Policy	420	10.01%	343	9.25%	77	15.78%

[1] Investee company related proposals.

[2] Policy of the Proxy Voting Research Provider for the relevant mandate.

Metropolis's annual voting activity report is available on our website via this link: www.metropoliscapital.co.uk/responsible-investing

Last reviewed: 28 April 2023

Approved by the Board of Metropolis Capital Limited: 28 April 2023

For more detailed information on the strategy, please contact Richard Meyrick rm@metropoliscapital.co.uk or Mark Archer ma@metropoliscapital.co.uk.

Metropolis Capital Limited
Amersham Court
154 Station Road
Amersham
HP6 5DW
United Kingdom

Tel:+44 (0)1494 911155
www.metropoliscapital.co.uk