UK Stewardship Code Report 2022

FOR THE 12 MONTHS FROM

01 January 2022 to 31 December 2022

VERITAS
INVESTMENT PARTNERS

Foreword – Message from our CEO

On behalf of the Board and investment team, I am pleased to present this report on our compliance with the UK Stewardship Code. I hope it demonstrates our commitment to integrate stewardship throughout our investment activities and brings our engagement work to life.

We are long-term shareholders, aiming to hold shares for at least five years and hopefully much longer. Supporting companies with long-term capital means we have a responsibility to ensure that investee companies harness all their long-term opportunities and take steps to mitigate effectively the risks they face. These opportunities and risks include environmental, social and governance (ESG) matters. As we only invest in high-quality, well-run companies, our focus through stewardship is to work with good companies and make them better.

As you will see in the following pages, it has been a busy year for the team. We have been delighted to see the steps companies are taking to tackle ESG risks head on and to see our engagements progressing through our milestones. Highlights this year include seeing one of our US companies make significant improvements in its environmental and social disclosure, and hearing how several companies are embedding sustainability best practice throughout their supply chains. We strongly believe that these actions will contribute to the long-term viability of the businesses in which we invest.

This year we also took additional steps to garner our clients' views on our stewardship work. It was a privilege to receive so many responses to our request for views on our engagement plan for 2023. The face-to-face discussions we held in November and December allowed us to explore our clients' priorities in more detail. As you will see in this report, we have already taken steps to address some of the points raised.

Our stewardship activities are continuously evolving. Just as we acknowledge that the companies in which we invest are continuously improving, so too are we. As always, we welcome your feedback on our reporting. We look forward to sharing more details of our stewardship work as it develops over the months and years ahead.

Caroline Stokell

This report was prepared by Philippa Bliss.

We welcome your feedback and if you would like to discuss the contents of this report or our stewardship work more broadly, please contact:
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Review and approval of this report
The report has been reviewed and approved by members of the Stewardship Working Group and VIP (UK) Ltd Board.

Veritas Investment Partners

Veritas Investment Partners - at a glance

WHO WE ARE

£5.8bn

in assets under management (as at 31 December 2022)

EST. 1993

first launched in 2018

100%

Independent and employee-owned

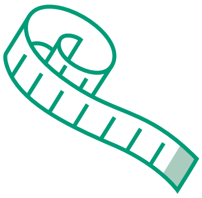
60

employees, including a 22-person investment team

WE OFFER CLIENTS

An investment approach aligned to our clients' real return objectives, that is to grow the value of their capital ahead of inflation

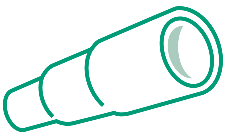
Personal service – a partnership approach delivered directly with our investment team



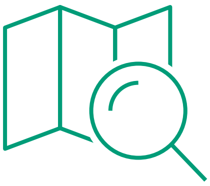
Tailored client service and reporting

ESG-specific information and analysis

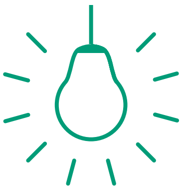
OUR INVESTMENTS



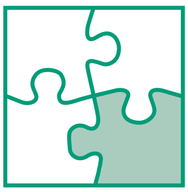
Long-term horizon (over five years) to align with the needs of our clients



A transparent and simple approach, investing primarily in global equities, to provide a transparent and understandable solution for clients



Conviction-led, global best ideas investing



ESG fully integrated in all investment decisions

HIGHLIGHTS FROM OUR ESG AND STEWARDSHIP WORK IN 2022

For the third year running, we took part in the **CDP**[1] **Non-Disclosure campaign** to encourage companies to measure and disclose environmental data

Over
20%
of meetings with investee companies focused exclusively on ESG issues

We wrote or spoke directly to
90%
of core equity holdings in client portfolios

We voted on over
600
proposals at 38 company meetings across six different countries

We joined **GFANZ** (Glasgow Financial Alliance for Net Zero) by signing up to the Net Zero **Asset Managers Initiative** and began work to set a net-zero target for our business

We maintained our commitment to engage with regulators, working with others in the industry to submit a response to the **FCA** consultation on the **Sustainable Disclosure Regulations** and investment labels

We strengthened our commitment to engaging with companies on social issues by becoming an **Endorser to the Principles for Responsible Investing's Advance** collaborative engagement initiative on human rights

1. CDP was formerly the Carbon Disclosure Project and it runs a global disclosure system for companies, cities, states and regions to manage environmental risks https://www.cdp.net/en

Report Overview and Executive Summary

We believe that our purpose, strong culture of partnership and investment philosophy enable effective stewardship on behalf of our clients. We are 100% owned by our employees, which helps to align business interests with our clients' objectives. We offer our clients the benefits of independence, stability and a long-term perspective. We have always focused on a single objective – to deliver long-term returns ahead of inflation. Discretionary investment management using a global approach is our only business.

The golden thread running through all our stewardship work is the power of partnership. To deliver long term returns ahead of inflation, we invest only in high-quality, well-run companies. These need to meet our strict quality of business and financial requirements. Through our engagement, our focus is therefore to work with good companies to make them better. We are long-term shareholders: we aim to hold shares for at least five years and hopefully much longer. This means we have a responsibility to ensure that investee companies harness all their long-term opportunities and take steps to mitigate effectively the risks they face.

Our stewardship activities are guided by four principles:

An aversion to box ticking
With over 20 of us focused on a portfolio of around 30 companies, we make our own decisions based on what is material for each business

A focus on all stakeholders
We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders

A culture of partnership with management teams
We value progress in pursuit of long-term sustainability

We are prepared to vote with our feet
We will not hold shares in companies where we identify a material risk to the long-term viability of the business

Once again, environmental, social and governance (ESG) factors featured heavily in our engagement work. This was not because we believe ESG factors matter more than other issues, such as capital allocation or balance sheet strength. But as the long-term financial risks posed by these ESG factors become increasingly apparent, we believe this is where our companies can make some of the biggest improvements to ensure the long-term durability of their business models.

The main topics we covered included:

- **Board composition** – exploring whether companies have the range of expertise they need, including directors who have experience in fields such as cyber-security, environmental sustainability and supply chain management where relevant
- **Director independence** – ensuring board directors have a mix of tenures and that key positions, such as committee chairs, are held by directors who are truly independent
- **Audit quality** – working to encourage US companies with long-tenured auditors to consider putting the audit contract to tender
- **Supply chains** – understanding what companies are doing to monitor environmental and social practices throughout their supply chains and how they respond to any issues identified
- **Broader environmental issues** – asking companies what they are doing to measure, monitor and manage environmental risks beyond carbon emissions (such as water use, waste and their impact on biodiversity)

We are pleased that over the last year our stewardship activities have generally been well-received by company management. Our interactions with companies have not only given us the chance to share our thoughts on best practice and to encourage change, but they have also given us the opportunity to increase our understanding of the challenges companies are facing and the opportunities available to them.

We also took the opportunity to learn from our clients. Working in partnership with our clients to achieve their long-term goals has always been a central pillar of our investment philosophy and over the last year, we expanded that partnership to garner their thoughts more formally on our engagement work.

We hope you enjoy reading this work and our company case studies throughout this document.

Principle 1

Purpose, strategy and culture

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.

Context and Activity

Since the company was founded almost 30 years ago, we have been guided by a culture of partnership and a common-sense investment philosophy. This serves one purpose: to protect and grow our clients' wealth for the future. Everything we do is guided by three principles:

1 **Real Returns**
Our investment philosophy is aligned with our clients' objectives – to deliver long-term returns ahead of inflation. We consider risk as the potential for permanent capital loss. We believe in providing a sense of security through common-sense investing.

2 **Partnership**
We believe in the unreasonable power of partnership. This cultural mindset is a deep-rooted in our team. The investment team comprises 22 experienced investment professionals who are committed to providing a personal service to all our clients. We are 100% owned by our team which creates stability and focuses us on achieving client objectives.

3 **Stewardship**
When we buy shares in companies, we become business owners. As stewards of our clients' capital, we have an opportunity and a responsibility to contribute to the sustainable success of these businesses, taking the time to understand and support their strategy.

Our purpose and principles have guided us to keep our investment strategy simple and to enable the business to grow organically. We invest in great businesses, with strong and predictable characteristics, that are built to last. These companies offer products and services that will remain in demand for the foreseeable future, regardless of the economic backdrop, as they benefit from long-term, structural changes around the world. This allows us to grow our clients' assets by more than inflation over the long term.

We believe that our clients' objectives are inherently aligned with our core investment philosophy and culture. Specifically:

- Our deep-rooted culture of partnership creates stability and aligns our long-term interests with those of our clients. Successful long-term investing takes good judgement. It is a balance of our different skills and experience which enables us to identify great investment opportunities. We continuously question and learn, rigorously analysing opportunities and leaving no stone unturned.

- Focusing on the long term also aligns our investment approach with delivering sustainable benefits for the economy, the environment and society. When we buy shares in companies, we become business owners. As stewards of our clients' capital, we have an opportunity and a responsibility to contribute to the sustainable success of these businesses, taking the time to understand and support their strategy over extended time periods.

- Our focus on a simple investment offering with the objective of achieving real returns by investing in global equities, fixed income and cash, provides a transparent and understandable solution for clients.

- As long-term investors, we believe we have a responsibility to consider any factor that might impact the durability or value of our clients' investments. ESG factors might all impact the long-term value of a company within our investment time horizon. The opportunities and risks related to ESG are therefore key considerations in every new investment we make, as well as our ongoing decision to hold shares in a business.

- Risk management is inherent in everything that we do. We define "risk" as the potential for permanent capital loss and each part of the portfolio construction process is focused on managing this risk.

- Clients have direct access to their designated investment managers who are responsible for suitability, portfolio construction and investment outcomes. This further aligns interests and accountability to clients

- Finally, our sole business is the provision of discretionary global investment management, ensuring that our clients are at the centre of our business.

Our culture of partnership extends to our investee companies and guides our approach to our stewardship activities. It is a central part of our investment philosophy and process. As long-term investors, we take the time to understand each business in which we invest. When we buy shares in companies, we become business owners. Through open and constructive dialogue, we seek to build lasting relationships with company management to support their ongoing success. We have an opportunity and a responsibility to contribute to the long-term success of these businesses, taking the time to understand and support their strategy over many years. Stewardship activities are not outsourced. They are undertaken by our investment team who are knowledgeable and familiar with each business. Further information on our approach to integrating our stewardship activities in our investment approach is set out under **Principles 2 and 7**.

Sustainability in our own business

Just as we expect our investee companies to manage their environmental and social impact, we also embed sustainability into our business practices.

From an environmental perspective, our impact is relatively small due to the nature of our business, but we believe even small changes can be important. We are mindful of our consumption and waste as well as the long-term impact this has on the environment. Specifically:

- We have been carbon neutral since 2018 and offset all our business travel
- We use 100% renewable electricity in our office
- We encourage everyone in our offices to recycle by providing facilities to do so and all our paper is recycled and comes from Forest Stewardship Council certified sources; it is also carbon neutral

- We source goods from independent, local and fair-trade suppliers wherever possible and expect our suppliers to manage their own environmental impact
- We use environmentally friendly cleaning products
- We are involved in a project to protect wildflower habitats for bees

We have a strong commitment to diversity and believe that having a diverse team and inclusive culture is crucial to the success of our business. We understand the importance of diversity of thought to our investment process and we are proud to employ people from a wide range of backgrounds. With regard to our investment team specifically, we have a male/female split of 59%/41% and the level of experience varies – ages span four decades. We also have a range of educational backgrounds and have degrees in over ten different subjects, including economics, modern languages, chemistry, physics and philosophy.

We acknowledge that diversity alone is not enough and that, in order to truly benefit from the diversity among our staff, we need to create an inclusive culture in which people feel valued, are able to openly express their views and to bring their true selves to work. We have introduced a number of initiatives to promote this culture, ranging from whole firm away days to having cross-team monthly lunches hosted by senior leaders. We also acknowledge, however, that measuring the "success" of these policies is very difficult as there are no standard metrics available to monitor inclusion. That said, we took the first steps towards measuring this in 2021 by conducting a staff survey which focused on wellbeing and the way people feel about their roles. We are conducting the survey every six months and we will monitor results over time, taking action as needed. We hope to be able to provide further information on how the results have evolved in our next report.

We also believe in supporting the future of diversity in our industry. We therefore work with the Sutton Trust and the Social Mobility Foundation to provide inspirational speakers, as well as work experience opportunities and summer internships to students from less advantaged economic backgrounds.

We have ensured the London Living Wage has been paid through our supply chain since 2015.

In addition, we have a history of charitable giving, both as private individuals and as a business. We have an annual budget for Corporate Charitable Giving, for which charities are suggested by employees, and everyone in the company is offered the ability to donate privately to charities directly though the Give-As-You-Earn scheme. We support paid leave for staff volunteering, contributing to non-executive or other community-based roles. We are committed to matching individual charitable fund raising and we fund annual team charity events.

Outcome

Our culture of partnership and our aim to deliver long-term returns ahead of inflation for our clients guide all our investment decisions. Fostering a culture within our business that values and rewards teamwork means that our clients benefit from the diverse perspectives, different skills and varied experience in our team. With inquiring minds and different perspectives, we continuously balance opportunities and potential risks, asking varied questions of ourselves and others to make sure our clients' wealth is preserved for the future.

During 2022, we started work to improve the communication of our purpose internally and to ensure that all team members feel fully aligned with our overarching mission and focus. While this work is still ongoing, the results so far have been positive with employees across the business embracing the project and actively contributing to the formulation of "our purpose on a page".

We feel that our culture has been enhanced and our determination to achieve the best outcomes for our clients is stronger than ever. This process also included garnering feedback from some of our longstanding clients about their views on the business, our team, culture and the service we provide to them.

All investments are assessed for their ability to contribute to our clients' real return objectives and our collegiate approach to decision-making means that investment decisions, including decisions around stewardship and engagement, are taken by the investment team. This means we can harness the diverse skills, knowledge and experience of the team. We are proud of the strong risk-adjusted returns we have delivered for our clients.

Over the long term, we have delivered portfolio returns ahead of our clients' inflation plus targets. During the turbulence in global equity and bond markets in 2022, we were able to use the volatility to buy new positions in high quality, sustainable companies, and thus continue to position client portfolios to generate returns ahead of inflation over the long-term.

Finally, our focus on investing in high quality, predictable companies and our methodology, which targets long-term real capital preservation, mean the volatility of our investment strategies has historically been lower than that of world equity markets.

Principle 2

Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

Activity

Governance structure

As highlighted under **Principle 1**, we have a deep-rooted culture of partnership. The investment team comprises 22 experienced investment professionals who are committed to delivering results for our clients and providing a personal service. The average investment experience in the team is around 20 years. We are an independent business, 100% owned by our employees. This directly incentivises staff to focus on the long term and creates stability for our clients.

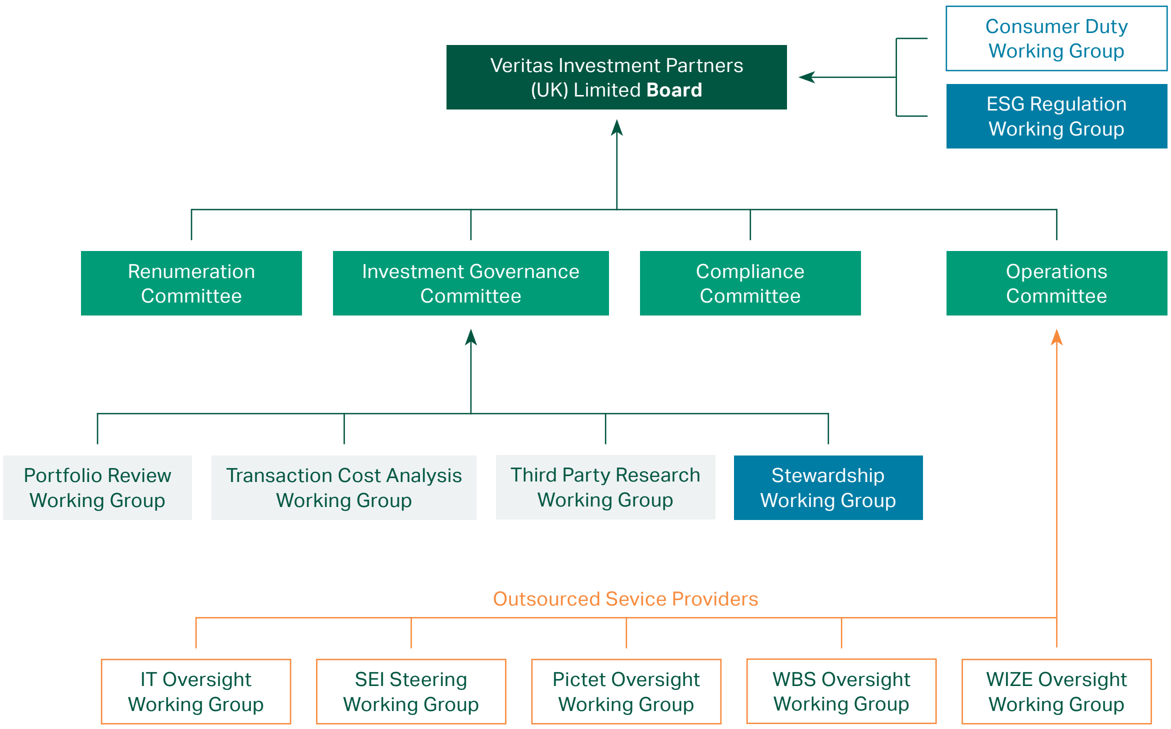
Our collegiate approach to decision-making means that investment decisions, including decisions around stewardship and engagement, are taken by the investment team reaching a consensus together and not by separate investment committees. That said, we do have two working groups which oversee our administration, policies and processes for our stewardship work and our responsibilities in relation to ESG regulation.

Our overall investment process is overseen by the Investment Governance Committee which is chaired by our Chief Investment Officer, Ross Ciesla. Ross sits on both working groups highlighted below and has responsibility for reporting stewardship matters to the VIP (UK) Ltd Board.

Our **stewardship working group**, chaired by Philippa Bliss, meets at least twice a year and more frequently if required. It is made up of eight members of the investment team and includes our Chief Executive Officer, Chief Investment Officer and several of our investment partners. This group focuses on the administration, policies and processes for our stewardship work and on ensuring consistency of practices across the investment team. Any activities carried out by this group are communicated to the wider investment team during our weekly investment team meetings, as well as to our compliance and operations teams where necessary. During the last year, the group was responsible for identifying our engagement priorities for the year ahead, updating our voting policies on issues such as auditor tenure and director independence, and agreeing our approach to collaborative engagement. The group also had responsibility for coordinating our outreach work to clients, where we sought their views on our engagement plan for 2023 and held roundtable meetings to discuss the issues in more detail. Further details on this latter point are included under **Principle 5**.

Our **ESG regulation working group** meets at least twice a year and was formed in 2021 to ensure we have the resources, policies and processes to meet our obligations as regulation evolves. Examples include TCFD (Taskforce for Climate-related Financial Disclosure) and the UK's SDR (Sustainable Disclosure Regulation). The group is chaired by Sam Cotterell, one of our investment partners, and includes all members of the VIP (UK) Ltd. Board (our Executive Chair, Chief Executive Officer, Chief Investment Officer, and Chief Operations and Technology), alongside our Compliance Officer and Risk Manager. During the last year, this group has overseen our work to join GFANZ (Glasgow Financial Alliance for Net Zero) by signing up to the Net Zero Asset managers initiative. It is also overseeing the work to set a net-zero target for our business and we hope to provide more detail on the targets we have set in our report for 2023.

The chart below shows how these groups fit into our overall governance structure.



Resources – our people

All stewardship work is done by members of our in-house investment team, not a separate ESG or stewardship department, and the working groups highlighted above are predominantly made up of members of the investment team. Our focused investment style (we hold 25-40 equities in client portfolios) means we have an excellent ratio of investment professionals to investee companies. It allows us to know our investments inside out and focus us on what is material for each investee company. Where necessary, individual analysts are supported by members of the stewardship working group to ensure consistency of approach.

We strongly believe that having a diverse team and inclusive culture is crucial to the success of our business. We understand the importance of diversity of thought to our investment process and we are proud to employ people from a wide range of backgrounds. With regard to our investment team specifically, as highlighted under **Principle 1**, we have a male/female split of 59%/41% and the ages span five decades. The team also have a range of educational backgrounds, holding degrees in over ten different subjects, including economics, modern languages, chemistry, physics, politics and philosophy.

In 2022, we enhanced our expertise by hiring an ESG data analyst who, having previously worked at Bloomberg, has brought invaluable expertise in data management and interpretation to the team. Initially, he is focusing on assisting investment team members by providing the latest ESG data ahead of company engagement meetings, as well as gathering data on carbon emissions to facilitate our TCFD report and net-zero targets. He has also improved our internal engagement tracker, further details of which are discussed in the Outcomes section on the next page.

Resources – research and data

We use a variety of data sources to help us to assess the ESG characteristics of our investee companies and to support our stewardship work. Our primary source of information is that provided by companies themselves (such as annual reports, CSR reports, proxy statements and company websites), enhanced by direct engagement with company management, board directors and investor relations teams.

We also use information from several ESG data providers as part of our investment process. These include Moody's ESG Solutions[2], ISS, Credit Suisse's HOLT, Bloomberg and the CDP. We also use ESG data from Sustainalytics (via the Morningstar Direct platform), primarily to enhance our communication of sustainability factors to clients and to supplement our ESG data where needed.

It is important to note that we do not make investment decisions based solely on ESG ratings from third-party providers. We believe judgement from experienced investment professionals matters. The information obtained from ESG data providers is used alongside our analysts' own research and information available directly from our investee companies. We typically use it as a guide to show where more investigation is needed. For example, should a company receive a poor rating from an ESG provider for environmental management, we would seek to engage with the company directly to explore the reasons behind the poor rating and ascertain whether it is down to a lack of disclosure or a lack of action by the company. We would also assess what the company is doing to address these issues.

In addition to the ESG research and data we buy, we use publicly available ESG information where appropriate and international reporting frameworks and standards to inform our views on best practice when it comes to company reporting of ESG issues. This includes standards developed by GRI[3], SASB[4] and TCFD.

Resources – training

All members of the investment team can (and do) attend conferences and training sessions on stewardship and ESG integration. During 2022, sessions attended included those organised by:

- Brokers: Berenberg, Bernstein, Cowen, Jefferies, JP Morgan, Redburn, Stifel and UBS
- Industry Bodies and Regulators: CFA, IA (Investment Association), PRI (Principles for Responsible Investment), ICAEW (Institute of Chartered Accountants in England and Wales), ICGN (International Corporate Governance Network), FCA and FRC
- Global Organisations: CDP, GRI, SASB and TNFD[5]

Feedback and key points from all such sessions are provided to the wider investment team at our weekly investment team meeting and notes are saved in our research database. Members of the team also frequently provide presentations and training sessions to colleagues. For example, during the last year we had presentations on Board structure and governance best practice, sustainability reporting frameworks and regulation, and the role of hydrogen in the transition to net-zero.

In addition, we view our meetings with investee companies as opportunities to increase our knowledge of industry-specific sustainability challenges, recognising that individuals working on the frontline may be better-placed than us to understand these issues.

Where appropriate, we organise our training sessions with specialists and further details on some of these sessions is included in the Outcomes section on the next page.

2. Our contract was originally with VE which, following acquisition, has now been fully integrated into the Moody's ESG Solutions business
3. Global Reporting Initiative
4. Sustainability Accounting Standards Board
5. Taskforce for Nature-Related Financial Disclosures

Incentives

Our incentive policy focuses on aligning our interests with those of our clients. All our investment team and senior staff are equity holders in the business which facilitates an appropriate level of long-term incentive. All short-term incentives are discretionary and based on investment results including stewardship work, teamwork, client service and compliance. We have neither sales targets nor targets for growth in assets under management for any staff member.

As part of our annual review process, all staff, including senior managers, discuss teamwork and collaboration, as well as integrity and their contribution to sustainability, both for our investments and for our own business (where relevant). For Board, committee and working group members, their contribution to these groups and to ensure effective implementation of processes and controls is also assessed.

Outcome

We believe our culture and governance structures and resources give us the knowledge, experience and flexibility to carry out effective stewardship on behalf of our clients. Our stewardship activities are carried out by the investment team who also do all other research work on our investee companies. This means we know our companies in detail and are best placed to identify and focus on the issues that are material to each individual company.

Given our focused portfolios of 25-40 companies, high ratio of investors to investee companies and the depth of experience on the investment team, we feel that our current resources are appropriate to support our stewardship work. Strengthening our skills and knowledge remains a focus and examples of some of the training/ knowledge-building sessions we had over the last year are set out below.

Net-zero training session

In the last year, we identified that our knowledge on how to assess company net-zero targets could be improved, especially as this has been an important topic in our engagement work over the last year. We therefore worked with sustainability specialists to arrange a training session to cover a range of issues in relation to net-zero. We had hoped that this session would provide us with a "checklist" to assist our engagement work with companies including, for example, how to establish whether company targets are credible and any red flags to watch out for. However, given the complexity of the challenge to reach net-zero and the fact that so much remains sector, country and company-specific, the session did not enable us to draw up such a checklist, but it did give us useful insights to inform our engagements with companies. These included the challenge of measuring and monitoring Scope 3 emissions, the role of the SBTi[6] and its industry-leading position, and some of the pitfalls around offsetting and insetting emissions. We are continuing to look for opportunities to broaden our knowledge in this crucial area and many of the training sessions attended by individual members of the team over the last year covered net-zero.

6. Science Based Targets initiative https://sciencebasedtargets.org/

Conversation on auditor rotation

We spoke to Josef Dinger, Head of Corporate Controlling & Accounting at **Fresenius Medical Care**, to hear about the company's experience of changing auditor from KPMG to PWC in 2020. As explained under **Principle 9**, audit quality and auditor tenure were key engagement topics for us in 2022 as many of our US-based investee companies have auditors with tenure well beyond the best practice maximum in Europe of 20 years. When we speak to US companies, much of their reservation around changing audit firm stems from concerns that the work involved is onerous and would not add value. Fresenius Medical Care sells to 125 countries and generates 70% of its revenues in the US so we felt it was relevant case study despite being a European company. The main things we learned from the meeting were:

- Timeline: Changing auditor was a long process that began in 2018 for a change in 2020
- Complexity: Interestingly, this was not as bad as they expected. Lots of extra documentation was required, especially on internal controls and improvement accounting judgements, but KPMG-PWC managed the handover, accounting policies were agreed up-front and better technology from PWC helped
- Advantages: The company appreciates the new perspectives/methods especially improved technology, and there have been improvements in the audit team; the cost is hard to compare but impression is slightly lower
- Disadvantage: Restating any disclosure will be more difficult for three years
- Other: This change did not meaningfully change consulting relationships

Overall, Mr Dinger said that prior to the change he would have resisted but now that he has made it, he appreciates the benefits. Following this session, we continue to believe that it is reasonable to ask US companies to change audit firm every 20 years.

Changing regulatory landscape in the US

Given the pace of change in regulation around the world, this is an area where we often seek external guidance and training to ensure we stay up-to-date with the latest developments. To that end, we had a session with a Washington-based sustainable and environmental policy expert during the last year. Many of our investee companies are based in the US so developments in this market are particularly important to us. As a result of the session, the team is more aware of the process and timeline of the various SEC rules on climate and broader ESG disclosures. We also understand more about the politicisation of ESG in the US and the real-world impact this may have. We also discussed the significance of the Inflation Reduction Act (IRA) and its importance in supporting new technologies and manufacturing capabilities for the energy transition.

PRI In Person Conference in Barcelona

Two members of the investment team attended this conference in December 2022. As signatories to the PRI, we wanted to use this opportunity to hear more about current best practice in ESG integration and stewardship, as well as to learn more about important ESG topics beyond climate change and hear about the future plans for the PRI. Following attendance at this conference, we discussed our findings with the team which included the fact that we ought to put greater emphasis on some issues in our stewardship work, where relevant to the company. These included the transition to a circular economy, companies' governance around lobbying and how spending aligns with company values, and companies' membership of trade associations and alignment with company values. *Continued overleaf*

We will provide more information in our report for 2023 about the way in which we have elevated these topics in our engagement activities. Attending the conference also helped us improve our knowledge around net-zero, the changing regulatory landscape, and using the UN Guiding Principles. As set in more detail under **Principle 4**, during one of the sessions at this conference, we also identified that we need to improve our knowledge around specific aspects of human rights due diligence, namely unionisation and decent work. This work is ongoing, and we look forward to providing more detail in next year's report.

Internal reporting to inform the investment team

As discussed in last year's report, members of the stewardship working group also highlighted gaps in internal communication, specifically relating to tracking of engagements and progress made. We therefore established an internal engagement database so that investment team members can find the latest information on our stewardship work in one place. We then spent considerable time over the last few months of 2022 improving the tracker to make it more user-friendly and to ensure that team members can find easy to digest, accurate information in one place. For all core companies held in portfolios, the dashboard now includes information on:

- Our latest engagements with companies, milestones achieved and escalations, where relevant
- An overview of the most material ESG risks the company faces
- Scope 1 and Scope 2 emissions data, as well as carbon intensity
- Board and senior management gender diversity metrics
- Involvement in any controversial activities for which clients may have portfolio-specific ethical restrictions (such as tobacco production, gambling or pornography)

We are looking to increase the social metrics in the database as the data available improves.

Principle 3

Conflicts of interest

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

Context

As we are an independent business, focusing only on discretionary investment management, we do not experience some of the conflicts faced by larger and more complex financial services companies. That said, we still have an obligation to act in the best interests of our clients and treat them fairly in all circumstances, including where there are or could be potential conflicts of interest. We seek to organise our business activities, including external arrangements, such as to avoid conflicts. However, our aim is to ensure that where conflicts do occur, the policies, procedures and controls needed to manage the situation are already in place. Such procedures are designed to ensure that the management of the conflict takes place in such a way that the firm or its employees are not advantaged, and that no client is disadvantaged. Our Conflicts of Interest policy is available on our website and provides more details on the steps we take to identify, consider, mitigate, manage, disclose and record all conflicts.

Through our culture of openness and regular staff training, we aim to create an environment in which conflicts of interest and potential conflicts of interest can be identified and resolved as they arise. All employees have a responsibility to consider any potential or actual conflicts of interest during the course of day-to-day business activities or ad-hoc project work and disclose such conflicts to the Compliance Team. We have processes in place to manage and mitigate conflicts, including a rigorous personal account dealing policy, an anti-bribery and corruption policy and an annual disclosure of outside interests, if any. Staff are also subject to a gifts and hospitality policy which requires that disclosures are made, and prior approval sought where necessary.

In addition, all staff review and sign our Integrity in Business document on an annual basis. This is spear-headed by our Chief Executive Officer and draws together the main points from all our conduct and compliance policies to promote high standards of conduct throughout the business.

Our Conflicts of Interest policy sets out in more detail how we would respond to specific conflicts of interest and potential conflicts of interest. These might include issues arising from order execution, trade allocation or receipt of price sensitive information. Where conflicts arise through our voting and stewardship activities, for example where clients may have differing views on the outcome of a vote or where a director of an investee company standing for (re)election may also be a client, the matter is escalated to our Investment Governance Committee and Compliance Team for resolution. As we only hold 25-40 equity holdings in our portfolios, we do not expect such conflicts to arise very often. We do not expect to receive price-sensitive or inside information in our engagements with companies, and we always make this clear to companies during our engagement meetings. However, if this were ever to happen, we would handle the information according to our normal compliance policies and procedures which can be found on our **website**.

Any conflicts of interest or potential conflicts of interest which arise are recorded in the Conflicts of Interest Register. The register is reviewed regularly by the Compliance Team and periodically by the Board.

Activity and Outcome

In the time period under review, we did not identify any actual or potential conflicts of interest related to stewardship. As set out above, given the nature of our business and our investment philosophy, we do not expect to experience some of the conflicts faced by larger and more complex financial services companies. However, should we encounter an actual or potential conflict of interest, this would be dealt with according to the principles and policies set out above.

Principle 4

Promoting well-functioning markets

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

Activity and Outcome

Risk management is inherent in everything that we do. Our clients' have long-term investment horizons (generally five-years plus, and in many cases multi-generational) so we have a responsibility to identify and respond to risks that will affect the value of our clients' investments and our ability to deliver a real return over the longer term. We recognise that no company operates in a vacuum and each part of our research and portfolio construction process is focused on identifying and managing risks, including market-wide and systemic risks.

We focus on finding high-quality companies that are benefitting from long-term structural changes rather than investing relative to an index, allowing us to follow a conviction-led, "best ideas" investment approach. Should our investment research indicate that a company is exposed to long-term risks, including market-wide or systemic risks, that could affect the viability of its business, then we will not buy shares in that company. We focus on investing in large cap, liquid companies which trade on recognised exchanges.

The market wide and systemic risks we prioritised in 2022 included:

- Macroeconomic risks, such as rising inflation and interest rates
- Geopolitical issues, particularly the Russian invasion of Ukraine and ongoing tensions between the US and China
- The longer-term impact of the Covid-19 pandemic, including China's Zero Covid policy
- Ongoing impact of climate change, both in terms of rising emissions and physical climate risks, such as rising sea levels
- Biodiversity loss
- Water security
- Demographic changes, particularly the issues associated with ageing populations and a shrinking global workforce
- Human rights, both in companies' own operations and throughout supply chains
- Cyber-security
- Disruption from new technology, such as artificial intelligence and machine learning

Every member of the investment team is responsible for identifying market wide and systemic risks. Risks are discussed at our daily investment team meetings and at our longer weekly investment meetings, and all members of the team are encouraged to share their views. Specialist analysts are drawn on for particular areas of expertise. For example, our technology specialists have highlighted risks relating to technological disruption and cyber-security while our healthcare specialist has spoken about the risks associated with anti-microbial resistance and the dangers posed by healthcare inequality. We also have an investment analyst who focuses on risks particularly associated to our fixed income holdings, such as interest rates, currency and credit ratings, and he also provides regular updates on macroeconomic developments.

In addition, we seek input from sector and industry experts to help us better assess market-wide and systemic risks and to inform team discussions about the action to take. We do not have in-house economists, so these sessions are an important part of our investment process.

Risk Case Study

ISSUE

MACROECONOMIC AND GEOPOLITICAL RISKS

Actions and outcomes:

- Hosted several meetings with economics and political experts
- Increased exposure to assets that could protect client capital in extreme macro policy scenarios

In 2022, we had a number of sessions with economists which focused on a range of topics such as:

- the rising levels of inflation and the extent to which they are transitory,
- historical precedents and what these can teach us about the likely impact of potential policy responses from central banks and governments,
- the continued impact of China's Zero Covid policy and the subsequent end to this policy,
- the longer-term geopolitical outcomes of the war in Ukraine and the potential for this to reshape global alliances,
- rising levels of global debt and the additional challenge of tackling this with shrinking workforces,
- the potential role of crypto- and digital currencies in the years ahead

As a result of these sessions and following internal discussions, we increased exposure to assets that could provide some downside protection in extreme policy scenarios, such as cash, index-linked bonds and floating-rate notes. As always, we focus on our number one objective: to meet our clients' real return targets.

Actions to address any risks identified, such as changes to portfolio holdings or to start engagement work, are agreed by the investment team collectively and progress on these actions is monitored on a regular basis.

We raise market-wide and systemic risks with investee companies directly where appropriate and indeed, many of these topics have featured in our engagements over the past two years. Management of these risks is also an important consideration in our investment research process as ESG factors are fully integrated with our research into financial issues. Further information is included under **Principles 7 and 9**.

We work collaboratively with wider stakeholders and industry groups in order to understand and tackle market-wide and system risks. This includes senior managers taking part in industry networks, such as those organised by the Investment Association and PAM[7]. For example, our Compliance Officer took part in the PIMFA regulatory roundtables, as well as several sessions organised by the Investment Association on issues such as financial crime, sustainability and responsible investment. We have also stepped up our work to engage with regulators over the last year.

7. Private Asset Manager Directory https://www.pamonline.com/

Our Chief Executive Officer and Chief Investment Officer are both involved in an industry network to improve stewardship standards and share best practice about how to tackle risks. Learning points from these meetings are fed back to the stewardship working group.

Finally, we contribute to campaigns and initiatives run by organisations, such as the PRI and CDP. We were delighted that we were able to expand our collaborative engagement work over the last year to include initiatives focused on environmental and social risks beyond climate change. Further details of our collaborative work are set out in the examples below and later in this document under **Principle 10**.

Risk Case Study

ISSUE

ENVIRONMENTAL RISKS, PARTICULARLY THE IMPACT OF CLIMATE CHANGE AND BIODIVERSITY LOSS

Actions and outcomes:

- Increased engagement with investee companies on setting Net Zero targets
- Signed Global Investor Statement to Governments on Climate Change
- Took part in the CDP's non-disclosure campaign
- Responded to FCA consultations on proposals for Sustainable Disclosure Regulations
- Joined GFANZ by signing up to the Net Zero Asset Managers initiative
- Assessed holdings for exposure to biodiversity loss
- Supported CDP disclosure on Forests

Environmental risks, including those related to climate change, are considered in all our investment decisions. Given the increasing cost of carbon and rapidly shifting regulatory environment, companies that fail to understand and plan for these risks could face significantly higher costs in the future. We would note the cost of carbon in the European Union recently hit €100 per tonne[8]. At the same time, changing consumer preferences mean that companies which do not take the environment into account could lose their social licence to operate. As physical risks related to climate change (such as rising sea levels and extreme weather events) increase too, companies without adequate risk management strategies could see their workforce, supply chains and customer base severely disrupted.

We seek to ensure that the companies in which we invest have management teams who understand the environmental opportunities and risks they face and are taking steps to reduce these risks by setting long-term targets (for example, to reduce greenhouse gas emissions) and putting in place processes to enable these targets to be met.

In 2022, we stepped up our engagement work with companies to encourage them to set net-zero targets, along with short- and medium- term targets so that progress can be monitored. Further information of this work is included under **Principle 9**.

We also maintained our commitment to collaborate with others across the industry and beyond as we recognise the increasing urgency of finding solutions to the challenges posed by climate change. With that in mind, we once again signed the Global Investor Statement to Governments on Climate Change which was delivered to global leaders in the run-up to the COP27 climate conference in Egypt.

8. https://www.ft.com/content/7a0dd553-fa5b-4a58-81d1-e500f8ce3d2a

We believe that increasing corporate environmental transparency around climate change, biodiversity and water security is crucial if we are to meet the goals set out under the Paris Climate Change Agreement. Companies need to first measure and disclose data related to the greenhouse gas emission, biodiversity and water if they are to successfully manage them. In 2022, we took part in the CDP's Non-Disclosure Campaign for the third time by co-signing letters to the small number of our listed equity holdings who did not respond to the CDP's disclosure requests. We were very pleased that one of the companies we addressed in this campaign (freight forwarder **Kuehne + Nagel**) decided to begin disclosing data to the CDP's climate change initiative again, after several years of not responding. While this activity has not resulted in further disclosure from other companies, we will take part in the Non-Disclosure Campaign for 2023.

We are of the view that the finance industry has an important role to play in tackling climate change but that a lack of consistent, fair and understandable reporting is currently limiting the positive impact the industry can have. We therefore worked with others in the industry to respond to the FCA's Consultation on its proposals for the Sustainable Disclosure Regulation. We broadly support the FCA's aims to increase transparency in the industry and hope that our feedback will contribute to this.

For our own business, we joined GFANZ (Glasgow Financial Alliance for Net Zero) by signing up to the Net Zero Asset Managers initiative. We are in the process of setting a long-term net-zero target for our own business, and interim targets for 2030. Our TCFD report will be published in summer 2023, and we look forward to including further details in the next edition of our report to the Stewardship Code.

Against the backdrop of the commitments made at the Kunming/Montreal COP15 Biodiversity Summit, we have also taken steps to increase our focus on biodiversity loss. In addition to being a crucial issue in its own right (for example because more than half of the world's GDP is either moderately or highly reliant on nature's services), we understand that it is also inextricably linked with the climate crisis and it will be impossible to solve one without the other.

However, when it comes to measuring and monitoring biodiversity loss, particularly when looking at the impacts at company level, data is lacking. We therefore fully support the work of the TNFD (Taskforce for Nature-related Financial Disclosure) to establish a reporting framework and we had a call with a representative from the TNFD to better understand their work and to improve our understanding of the type of reporting that will be required. In light of this conversation, we have begun to assess our investments for both their impact and their reliance on nature to ascertain where we have the greatest exposure to potential biodiversity loss and where we can have the greatest impact through our engagement work in helping to tackle this global problem. This work remains ongoing, and we look forward to providing more details of how this initial analysis has fed into our engagement work in our 2023 report. Further details of our work on water security, a key pillar of the TNFD, are included in the next example.

Where relevant to a company's business model, we are also encouraging them to respond to the CDP's disclosure requests on Forests. And we continue to explore further options for collaborative engagement on this topic: we are hoping to become involved with the Nature Action 100 initiative in the years ahead as this initiative expands.

Risk Case Study

ISSUE

WATER SECURITY AND MANAGEMENT

Actions and outcomes:

- Increased engagement with investee companies on water security, specifically around their efforts to measure, manage and disclose water-related risks
- Supported CDP disclosure on water
- Joined the Ceres Valuing Water Finance Initiative

Another environmental issue where we increased our focus during 2022 was water security. We were shocked to learn that according to the UN, a 40% shortfall in the available global water supply is expected by 2030 and that six out of 10 countries are at risk of having unsustainable water resource usage. In addition to the significant risks this poses to life, we also note the serious implications for the global economy: the World Bank predicts a growth rate decline of 6% in global GDP by 2050 as competition for water intensifies, potentially putting $4.5 trillion at risk, and for the companies that reported water data to the CDP in water, a potential $225 billion is at risk because of water security concerns.

We continue to engage with companies directly on this issue and have been encouraging companies to respond to the CDP's water disclosure campaign. We are pleased that the number of our investee companies providing this data has increased year on year.

However, we acknowledge that this is an area where we can have a greater impact working with others. We had been looking for a suitable collaborative engagement option on water security for some time and towards the end of 2022, we were delighted to sign up to the Ceres Valuing Water Finance Initiative. The Initiative aligns with the UN Sustainable Development Goal for Water (SDG 6) and aims to engage with 72 companies with a high water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems. Several of our investee companies in the Consumer Staples and Information Technology sectors are on the engagement list for this Initiative and we have expressed our interest in working with several of them. Our involvement in this work is still at an early stage but we have begun to have conversations with Ceres about sending letters to some companies alongside other investors. We look forward to reporting progress on this in our report for 2023.

Risk Case Study

ISSUE

HUMAN RIGHTS IN COMPANIES' OWN OPERATIONS AND SUPPLY CHAINS

Actions and outcomes:

- Continued to engage with companies on managing risks related to human rights in their supply chains
- Encouraged companies to sign up to the UN Global Compact[9] where they had not yet done so
- Became an Endorser to the PRI's Advance stewardship initiative on human rights
- Increased our focus on unionisation and decent work in our engagement work

Many of the companies in which we invest have complex, global supply chains with several tiers of suppliers and multiple relationships to manage. This is true for companies across a range of sectors including information technology, healthcare, industrials, materials, consumer discretionary and consumer goods.

While we acknowledge that ensuring high standards are maintained throughout supply chains is a significant challenge, we expect companies to have robust policies and processes in place to:

- Assess the extent to which human rights are respected throughout their own operations and supply chains, including a comprehensive audit programme for suppliers
- Identify cases of forced labour, modern labour or child labour within their supply chains
- Ensure issues relating to human rights are included in procurement decisions
- Establish remedial programmes to address any issues identified with their suppliers and to monitor the progress of improvements to ensure these remain on track
- Where appropriate, end relationships with suppliers if sufficient improvements are not made in relation to human rights
- Work with industry and cross-sector bodies to share best practice and improve conditions for workers around the world

As highlighted under **Principles 7 and 9**, human rights have been an important issue in our direct engagement work with investee companies where relevant. For example, in 2022 we discussed how entertainment company Hasbro has taken steps to improve conditions for workers deep in its supply chain. Further details of this example are included under **Principle 9**.

As part of our research process, we identify whether companies are Signatories or Participants to the UN Global Compact. We believe that the 10 Principles of the Compact represent the minimum standards all businesses should adopt and where companies are not already signed up, we encourage them to do so as part of our engagement work. We also use data provided by Moody's ESG to assess the extent to which the 10 Principles are embedded throughout a company's business strategy and operations. We are pleased to note that all core portfolio companies now have an integration rating of at least Average and many received ratings of High or Advanced.

9. https://unglobalcompact.org/what-is-gc/mission/principles

Given the importance of these issues, we have been actively looking to join collaborative engagement opportunities that focus on social issues relating to human rights and modern slavery. In 2021, we formally expressed our interest in joining the PRI's Collaborative Stewardship Initiative on Social Issues and Human Rights and in 2022, we signed up as an Endorser to the Initiative. Further details are included under **Principle 10**.

The statement on our approach to tackling modern slavery through our business operations is included on our website. We are strongly committed to acting responsibly, both in our investment process and in the way we run our own business. We have a zero-tolerance approach to slavery or human trafficking and take a risk-based approach regarding our supply chains.

Unionisation and decent work

During 2022, we identified the issues of unionisation and decent work as areas where we needed to improve our understanding and engagement work. At the PRI Conference in Barcelona, members of the team attended a session organised by the Committee on Workers Capital at which we improved our understanding of the way in which unionisation can help to reduce business and systemic risks: for example, by helping to reduce health and safety issues in the workplace and contributing to a reduction in inequality[10].

This is not an area on which we have focused during our engagement work but following the session, we acknowledged that we need to do more in this area in particular because many of our investee companies are based in the US where the ability to join unions is not guaranteed. Indeed, there has recently been much press coverage of some of the disputes between companies and workers in this area. Following the session at the conference, we arranged follow-up meetings with representatives from the PRI and UNI Global Union for early 2023 and we will report further on the outcomes of these meetings in our next report.

10. https://www.workerscapital.org/IMG/pdf/cwc_foa_cb_report.pdf

Principle 5

Review and assurance

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

Activity

Our policies and processes are subject to continual internal review by members of the investment and compliance teams.

Internal structures, policies and processes

As discussed under **Principle 2**, our stewardship working group, which meets at least twice a year and more frequently if required, focuses on the administration, policies and processes of our stewardship work. In addition, the group ensures consistency of practices across the investment team. As part of this work, the group also assesses the effectiveness of our stewardship work, adapting the processes and policies where necessary. For example, as set out below in the Outcome section, in 2022 we updated our approach to Director independence when it comes to voting at company meetings.

Our stewardship activities are currently not subject to regular external assurance or review but we do seek periodic reviews. However, we do seek external review periodically. Our policies, processes and the effectiveness of our stewardship activities were reviewed by Arkadiko Partners in October 2019.

In 2022, we engaged Mercer to conduct a thorough review of our entire investment process and approach. This has included an in-depth review of our ESG integration and stewardship work through a review of our written policies and communications, as well as face-to-face interviews with team members. We hope that this review will help us to identify, if any, existing gaps or areas for improvement in our policies and process and we look forward to receiving Mercer's final report. As the review is still ongoing, we are not able to share any further details in this report, but we will provide an update in our 2023 report on the outcome of the review and any changes we have made to our ESG integration and stewardship work as a result.

During 2022, we also sought formal feedback from our clients on our engagement work. While clients have long had the opportunity to discuss our stewardship work with members of the investment team, for example during client meetings, this is the first time that we have formally sought their input on this area of our work. Further details of the process and outcome are discussed under **Principle 6**.

We believe this approach of regular internal review involving senior members of staff, complemented by periodic external input, is appropriate given the size of our organisation and the fact that we tend to have only 25-40 equity holdings within portfolios. Our engagement and voting activities are discussed regularly at our investment team meetings and any changes to our policies and processes are highlighted to the team, who also have an opportunity to comment on the changes.

External engagements

We monitor the progress of our engagements by setting ourselves clear objectives at the outset and measuring progress against four milestones:

1. Raising the issue with the company
2. Receiving acknowledgement from the company that our concerns are valid
3. Receiving confirmation from the company that it is developing a plan to address the issue; and
4. Receiving confirmation from the company that the plan is implemented, and the objective is delivered

Examples of some of our engagement work in 2022 and the milestones reached are included under **Principle 9**.

Where we make insufficient progress on an engagement, we will reassess our options and, depending on the impact on the future success of the business, may choose to sell our holding. These decisions are discussed both at the stewardship working group and as part of wider investment team meetings. When we choose to sell following an attempt at engagement, we inform the company in writing of our reasons for doing so. During 2022, we sold our holding in dialysis company Fresenius Medical Care following several years of engagement to encourage the company to improve its governance practices. While we had previously seen progress, new concerns emerged during our engagements with the company in May 2022 and we made the decision to sell our holding. A more detailed explanation of the reasons for this sale and the timeline of our engagement with the company is included under **Principle 7**.

Communication and reporting

To ensure our stewardship reporting is fair, balanced and understandable, all stewardship communication is shared with the investment and compliance teams prior to publication or distribution to clients. All team members can highlight any areas of reporting they believe to be unclear or that could misrepresent our activities. We also seek feedback on our reporting from longstanding clients and others in the investment industry to ensure that our reporting is understandable, but also relevant.

Outcome

As mentioned above, during 2022 our internal reviews led to a change in our voting policy in relation to Director independence and our voting decisions about reappointing Directors at company AGMs. We expect significant Board sub-committees (such as the Audit Committee and Remuneration Committee) to be chaired by truly independent Directors to ensure there is sufficient oversight of risks and processes. We follow the European view that Directors can no longer be considered truly independent once they have been on a Board for 12 years. This contrasts with the view held more widely in the US, where Directors are independent if they have never held an executive role at the company. As a result, and as set out in more detail under **Principle 12**, we abstained on the reappointment of Directors at the AGMs of several of our US holdings. However, we acknowledge that we are unlikely to convince all companies to change leadership roles immediately and we also understand that recruiting and onboarding new Directors takes time. So we aim to get reassurance from our US companies around the culture of the Board, the Board's approach to succession planning, how the Chair ensures there is an appropriate mix of experience and tenure on the Board and the approach to transferring leadership positions to newer Directors. This remains an important component of our engagement work.

We have continued to embed reporting on our stewardship work throughout our investment communications, including on more informal platforms such as LinkedIn. Updates on the outcomes of our ESG integration and the stewardship work are included in our written client quarterly investment reports as well as being fully embedded into face-to-face meetings. We believe this will enable our clients to better understand how we are using our influence as shareholders to have a positive impact on investee companies and will allow clients to more easily track our engagement work over time.

Additionally, we have continued to provide clients with a standalone annual stewardship report, rather than including the annual stewardship report with our client newsletter. Further, the standalone report will include specifics of all our voting activity. This gives us scope to cover our stewardship activities in more detail and therefore continue to ensure that our communication is fair, balanced and understandable.

As highlighted above, the Mercer review is ongoing and will inform further potential enhancements to policies and procedures in 2023.

Further details on how we communicate our stewardship activities to our clients are included under **Principle 6**.

Principle 6

Client and beneficiary needs

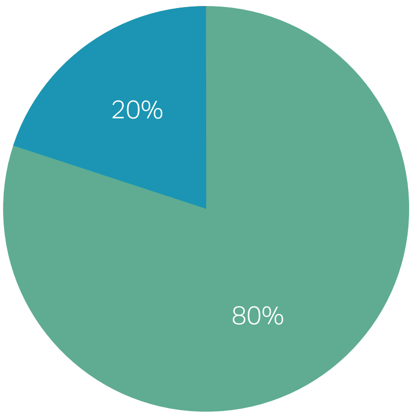
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

Our sole business is discretionary investment management for individuals, smaller institutions and charity clients. Throughout our history, we have focused on a single objective – to protect and grow the real value of our clients' capital over the long term (i.e. five years plus). As highlighted under **Principle 4**, our clients' have long-term investment horizons, in many cases multi-generational, so we have a responsibility to identify and respond to risks that will affect the value of their investments and our ability to deliver a real return over the longer term.

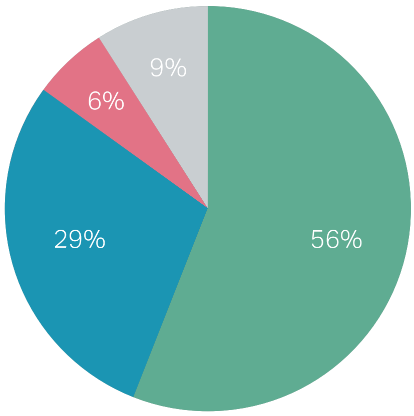
Our stewardship activities and ESG integration, as set out in **Principle 7**, are therefore applied across all portfolios managed for our clients. We do not run separate ESG or stewardship-focused investment strategies. As long-term shareholders in a focused list of companies, we believe we have a responsibility to consider any factor that might impact the durability or value of our clients' investments.

As at 31 December 2022 our assets under management stood at £5.8 billion across approximately 470 client relationships. An overview of our client base is shown below. Most of our clients are retail clients, but we also manage portfolios on behalf of institutional investors.



Breakdown of assets under management by client type as at 31 December 2022

- Retail Clients
- Professional Clients

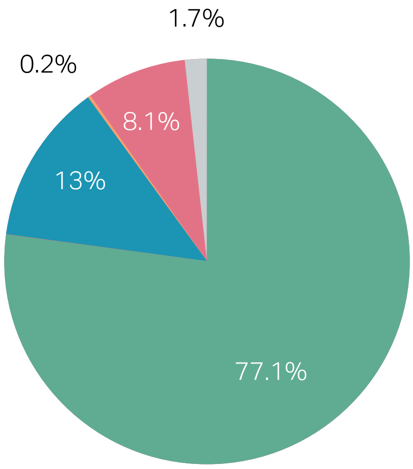


Breakdown of assets under management by client geography as at 31 December 2022

- UK
- Channel Islands and Isle of Man
- European Economic Area
- Rest of World

Whilst our clients share the common objective of protecting and growing their assets ahead of inflation, individual risk tolerance varies. Additionally, an increasing number have ethical investment policies to be taken into consideration. We discuss our clients' detailed requirements before we sign an investment agreement with them and continue to monitor suitability for the duration of our relationship. These discussions form a critical part of the asset allocation decisions taken on their behalf, informing the asset classes we hold, as detailed below.

We invest predominantly in listed equities, fixed income, gold and cash on behalf of our clients. An overall breakdown of assets held as at 31 December 2022 is shown below and more detailed breakdowns of our listed equity and fixed income assets are also included. Our approach to stewardship for these different asset classes is set out in **Principle 7**.



Breakdown of assets under management by asset class as at 31 December 2022

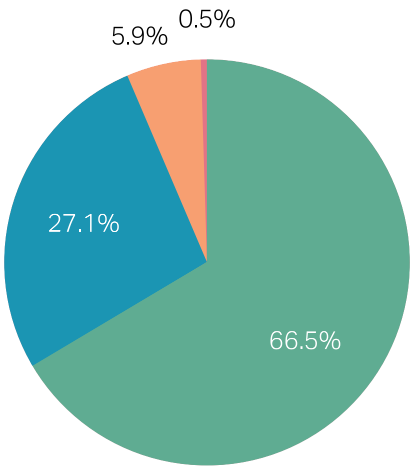
- Listed Equities
- Fixed Income
- Funds
- Cash
- Gold

Listed equities

In the long term, we believe that well-chosen equities, benefiting from structural tailwinds and bought at a reasonable valuation, will be the main driver for achieving real returns. Our investment philosophy and strategy are centred on bottom-up stock selection, driven and supported by a rigorous research process. We invest globally on an unconstrained basis, i.e. with no reference to an index or benchmark.

Within equities, structural shifts shape the context within which we invest. We believe that no company operates in a vacuum, and each will benefit from tailwinds and face headwinds that may be common to other organisations. We seek to identify companies which are likely to benefit from these structural tailwinds and, if bought at a reasonable valuation, will be the main driver for achieving real returns. We generally hold between 25-40 equity positions in client portfolios, which bear no relation to any index, but reflect the fruits of our research. However, we do seek prudent geographic and industry diversification. We believe that owning a focused list of companies that we know well is lower risk than managing a widely diversified portfolio where not every stock is held with conviction.

A geographic breakdown of our listed equity holdings is shown on the next page. As you can see, the majority of our holdings are listed in developed markets, predominantly the US and Europe.

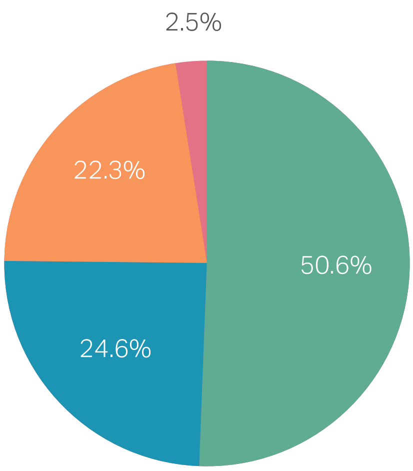


Breakdown of listed equities by geographic region as at 31 December 2022

- North America
- Europe excluding UK
- UK
- Asia Pacific excluding Japan

Fixed Income

As set out above, our fixed income holdings account for approximately 13% of our total assets under management. Our fixed income strategy focuses on delivering cash-plus returns, risk control, a source of some income, hedges against inflation/deflation, and transparent diversification. The result of this approach is that we currently target investment grade sovereign or corporate bonds. We also prefer short and medium-dated maturities in order to reduce duration risk. A more detailed breakdown of our holdings as at 31 December 2022 is included below.



Fixed Income holdings by type (by market value)

- Corporates
- Sovereign (predominantly UK and US)
- Supranational
- Fixed income funds

Maturity Date	Percentage of fixed income holdings by market value
Under 2 years	38.7%
Between 2 & 5 years	45.1%
Between 5 & 10 years	8.6%
Over 10 years	0.1%
Not Available	7.5%
Total	**100.0%**

Rating[11]	Percentage of fixed income holdings by market value
AAA	34.1%
AA+	0.5%
AA	0.8%
AA-	23.2%
A+	9.7%
A	7.7%
A-	8.7%
BBB+	6.4%
BBB	4.0%
BBB-	2.3%
Not rated	2.6%
Total	**100.0%**

We note that the percentages in the tables above categorised as "Not Available" and "Not Rated" have increased slightly compared to last year. This is because of exposure to the Royal London Short Term Fixed Income Fund which, owing to its status as a fund, has no defined maturity and is unrated by the credit agencies. However, we know from speaking to the fund management team that the majority of the holdings in the fund are very short-dated, investment grade bonds and so we are confident that this holding is suitable for our clients.

As the tables above show, over 80% of our fixed income holdings have a maturity of under five years and, again, over 80% of holdings are rated A- or above. We have minimal exposure to holdings with a rating of BB+ or below.

As set out in more detail under **Principles 7 and 9**, the nature of our fixed income assets and the purpose they serve in portfolio has informed our approach to ESG integration and engagement for this asset class.

Funds

Third-party funds are not part of our core offering. We only utilise funds for specialist investment exposure, such as to the gold price (as set out on the next page).

The due diligence is similar to that for any individual equity purchased. We gather sufficient information on which to base a sound investment decision. We meet with the management of the fund. Ongoing due diligence is undertaken to ensure our investment view remains valid, current and appropriate.

11. Ratings are based on S&P ratings, or Moody's and Fitch ratings for holdings where S&P ratings are unavailable

Cash

Cash is considered a risk diversifier within the context of our investment process and serves to dampen the overall volatility of the portfolio. It is generally held in the base currency of a client's portfolio. These currencies are GBP, USD, Euros and Swiss Francs. We have no emerging market exposure in our cash holdings. Longer term strategic allocations to non-equity assets will, as far as possible, be invested in appropriate fixed interest investments, seeking returns superior to those available on cash but with consideration to investment risk. We do not hedge currencies within portfolios.

Gold

We have long had exposure to gold in client portfolios through a gold-royalty company which is included with our listed equities. However, over the last two years as the Covid-19 took hold and governments and companies struggled to adjust, we increased our exposure to gold through an ETC (Exchange Traded Commodity) to provide an additional hedge against extreme inflationary or policy scenarios. The securities are backed by physically allocated, segregated and individually identified gold bullion held by HSBC and secured by an independent trustee. The security is listed and tradable on the London Stock Exchange, and issue and redemption rights ensure that the security closely reflects the value of the underlying gold.

We do not invest in other asset classes.

Activity and Outcome

The needs of our clients and beneficiaries are central to all our investment decisions. Our clients want to protect and grow the value of their assets ahead of inflation which therefore means assessing all risks and opportunities for potential investments, including ESG ones, and focusing on investing in assets that will enable them to achieve this aim. ESG factors are therefore considered for all client portfolios as a result of our multi-year investment horizons.

Importantly, our investment managers have a direct relationship with clients so we can tailor our service and communication to ensure we meet the evolving needs of clients. We discuss our clients' requirements before we sign investment management agreements with them and the suitability of our investment approach and strategy is monitored continuously throughout our relationships with our clients. We place great importance on delivering excellent client service. Portfolios are managed by two dedicated investment managers, a lead and a co-manager. The investment team are directly accountable to clients and spend time ensuring that they fully understand clients' investment objectives, risk profile, and income requirements.

This process also involves ensuring that we understand clients' ethical investment policies where relevant. Around 60% of our charity clients and a number of our private clients apply ethical restrictions to their portfolios. Where ethical restrictions are applied, our investment managers spend time ensuring they understand the reasons for the restrictions and encourage clients to focus on materiality. We can therefore ensure that beneficiaries' wishes are reflected without compromising investment objectives.

Client input into our stewardship work

New for 2022, we established a more formal process for clients to provide input to our stewardship work. As highlighted previously, working in partnership with our clients to achieve their long-term goals has always been central to our investment philosophy and process. Expanding that partnership to gather clients' thoughts on our stewardship work has strengthened that partnership and given us invaluable insights.

Over 40 clients responded to our request for views on our proposed engagement plan for 2023, the results of which are set out below.

We asked clients to rank each of the four broad topics from 1 (Somewhat Important) to 5 (Extremely Important). The results are as follows:

1

Talent Management and Employee Welfare
Average rating = 3.8

Including issues such as human rights in the supply chain, pay equity, talent attraction and retention and approach to unionisation

2

Board Structure and Dynamics
Average rating = 3.6

Including issues such as Board diversity across a range of factors (e.g. age, gender, ethnicity, relevant skillsets), independence of Directors and succession planning for new Directors

3

Wider Environmental Issues
Average rating = 3.5

Including issues such as measuring and disclosing other environmental metrics including water and biodiversity, incorporating the principles of a circular economy in product design and manufacture and preparation for future environmental reporting frameworks

4

Roadmap to Net-Zero
Average rating = 3.3

Including issues such as verification of long-term net-zero targets by external parties (such as the Science-Based Targets initiative), setting interim targets and disclosure of progress metrics, and the use of carbon offsets.

During face-to-face meetings in November and December, we had the opportunity to discuss these topics in more detail with clients who expressed an interest in doing so. We have already taken steps to address some of the issues raised. For example, where relevant to a company's business model, we have stepped up our questioning in relation to the circular economy and the efforts being made to ensure that sustainability is considered across the entire lifecycle of a product, from design to disposal. And as set out under **Principles 4 and 10**, we also joined a collaborative engagement initiative to encourage companies to monitor and reduce their use of water, particularly in water-intensive sectors such as consumer goods and technology. While we were already considering joining additional collaborative engagements, feedback from clients helped us to prioritise our focus in this area.

We were also reminded of the law of unintended consequences and the need to take care when setting diversity targets. One client informed us of what happened in Norway when a target to ensure Boards were 40% female was introduced. While the target was met, gender diversity at company management level plummeted as senior women left these roles to take on more Board positions because a similar commitment to diversity had not been extended throughout the recruitment pipeline. When discussing diversity with companies, we always ask about gender diversity at every level of the business, and in recruitment processes, and emphasise the need to consider all forms of diversity, including diversity of thought, skills and experience.

This process also gave us the opportunity to reassure clients that our stewardship work is part of our work to achieve their long-term real return goals and is not in place of long-term strategic and financial analysis. For example, several clients raised concerns about the feasibility of reaching net-zero, particularly given the lack of progress made so far and the state of existing government policies. While we do share many of these concerns, we explained we still believe it is in companies' best interests to take steps to reduce emissions now, as rising global carbon prices and increasing regulation could significantly add to costs. In addition, the first step of most net-zero plans is to look for ways to be more energy efficient which can help companies to cut costs.

We very much look forward to continuing this dialogue with clients in the year ahead and holding further in person discussions towards the end of 2023.

Client reporting

This more formal feedback process on stewardship activities has not replaced any of our previous reporting processes. It was put in place in addition to our existing communication channels with clients on our stewardship work. We continue to hold face-to-face meetings with most clients at least once a year, often more frequently, where we have the opportunity to discuss our stewardship activities. This information can take many forms including engagement case studies, highlighting the ESG factors that are most material to a new equity purchased or an overview of the voting decisions made on behalf of our clients. In addition, we continue to provide all clients with a sustainability score for their portfolios and the carbon intensity of the portfolio for Scope 1 and 2 emissions using the Sustainalytics data we obtain through the Morningstar platform. We are providing this information to clients on an annual basis, so they have a better understanding of how the portfolio looks from a sustainability perspective over time.

We also provide updates on our ESG integration and stewardship work in our quarterly investment update report. In addition, all clients can receive our annual stewardship report which sets out the engagement and voting activities we have carried out on their behalf. Given the nature of our client base and the focused nature of our portfolios, we believe that this is the most appropriate reporting frequency. As clients have direct access to our investment managers, they can request more frequent and detailed updates on our stewardship activities if required.

When client feedback on our stewardship activities and communication approach comes directly to our investment managers, usually either by email or in our face-to-face meetings, this feedback is shared with the relevant members of the investment team. Where appropriate, it is usually also shared during our weekly investment team meetings so that any changes needed can be discussed and addressed by the team.

Principle 7

Stewardship, investment and ESG integration

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

Context

As long-term shareholders in a focused list of companies, we have a responsibility to consider any factor that might impact the durability or value of our clients' investments.

Environmental, Social and Governance (ESG) matters are all factors that might impact the long-term value of a company. The opportunities and risks related to ESG are key considerations in every new investment we make, as well as our ongoing decision to hold shares in a business.

In the long term, we believe that well-chosen equities, benefitting from structural changes and bought at a reasonable valuation, will be the main driver for achieving real returns. We look for high quality companies that benefit from opportunities arising from significant and durable shifts such as meeting the demands of an increasing global population with the sustainability of our planet's resources in mind. For example, many of our portfolio companies are exposed to ESG-related opportunities as they enable electrification and digitalisation, and help other companies assess, monitor and reduce their environmental impact or promote sustainable consumption. At the same time, poor governance, and environmental and social risks are business risks. We look for management teams that understand and plan for these risks; we believe companies need to maintain their social licence to operate given rapidly changing regulation and consumer preferences.

All research is done by our in-house investment team, not a separate ESG department. As set out under **Principle 2**, we use a range of sources to obtain this information, predominantly the information we obtain directly from companies. Throughout the year, we have therefore been actively encouraging companies to be more transparent in their disclosure of ESG metrics. We supplement this with information provided by third parties such as Credit Suisse's HOLT, ISS, Moody's ESG (formerly VE), sell-side analysts and industry specialists. Our focused investment style (whereby we hold only 25-40 companies in client portfolios) allows us to know our investments inside out, focusing us on what is material, and allowing us to punch above our weight in terms of influence.

Our stewardship activities are also an integral part of our approach to sustainable investment. When we buy shares in companies, we become business owners. How we behave as shareholders is closely aligned with the long-term nature of our clients' objectives. Good stewardship involves voting and engaging on issues that will impact the long-term durability of a business.

Our stewardship activities are guided by four principles:

An aversion to box ticking
With over 20 of us focused on a portfolio of around 30 companies, we make our own decisions based on what is material for each business

A focus on all stakeholders
We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders

A culture of partnership with management teams
We value progress in pursuit of long-term sustainability

We are prepared to vote with our feet
We will not hold shares in companies where we identify a material risk to the long-term viability of the business

Engaging with management as long-term stewards of capital helps promote a world that prospers sustainably. Further information can be found in our stewardship policy which is available on our website.

Activity and Outcome – Listed Equities

Stewardship and ESG integration feature at every stage of our investment process.

Our process for considering new equity investment opportunities has two stages. Firstly, the investment team assesses key pieces of information on a company including our internal Quality of Business checklist which, amongst other things, considers several ESG factors such as the track record on sustainability, setting and progressing sustainability targets, management compensation and governance structures. As highlighted previously, in order to make these assessments, we use a range of sources including information from companies themselves and select third-party data providers.

We consider ESG factors (and other non-financial factors) just as we consider financial factors. In the same way that we would not do further work on a company that did not meet our financial criteria, so we would not do further work on a company that has large ESG/non-financial risks where company management are not taking steps to effectively address these. We know that over time, what may start off as a non-financial risk can easily become a financial one too. Such an issue was discussed during an engagement call with one of our US healthcare companies as shown in the example on the next page.

ESG meeting case study

Company: **LabCorp** (Laboratory Corporation of America Holdings)

ASSET CLASS	SECTOR	GEOGRAPHY:
Listed Equities	Healthcare	North America

ISSUE
IMPACT OF SOCIAL FACTORS ON FINANCIALS

Engagement milestone: NA – engaging for information

One example was discussed during our annual engagement call with LabCorp, where a high level of turnover among frontline staff and recruitment struggles resulted in weaker-than-expected growth in its drug development division. Against the backdrop of a very tight labour market, LabCorp was very quick to respond in order to reduce turnover and attract new employees, offering a broad range of incentives (such as improved health and wellness benefits and expanded employee resource groups) alongside pay increases and creative recruitment activities. At Board level, the Quality and Compliance Committee is monitoring the situation carefully and requested a special report assessing whether staffing challenges were impacting quality and compliance across the business. We were reassured to hear that the activities are gaining momentum and making progress.

Examples of the main non-financial issues we consider are listed below.

- **Environmental sustainability**: We want to invest in companies whose management teams understand the environmental opportunities and risks the companies face and are taking steps to address these risks by setting long-term and interim targets appropriate for their business (for example, to reduce greenhouse gas emissions or waste, manage their water use and other scarce resources, or enable their customers to be more energy efficient) and putting in place credible strategies and processes to enable these targets to be met.

- **Talent management and workforce welfare**: We believe that Boards and management teams should understand the opportunities available through attracting, retaining and developing talent and have policies and procedures in place to enable this. We like to see that senior management and/or Board Directors have ultimate responsibility for employee engagement, diversity and inclusion and there are policies in place to ensure the welfare of individuals throughout the supply chain.

- **Long-term strategy and corporate culture**: We want to ensure that that the culture of the company is one which encourages management to plan for the long term rather than focusing on quarterly results. We look at a range of factors which include, but are not limited to, how the purpose of the company is defined and communicated throughout the business, the Board structure and the tenure of Directors, Board diversity and the range of expertise on the Board, the committee structure, management compensation structures, talent management programmes, management's history of setting and meeting targets, capital allocation discipline and auditor tenure. We also consider the quality and nature of dialogue we have with management and the Board when assessing culture.

We apply the same standards to all companies, regardless of where they are located or listed. While we acknowledge that the regulatory backdrops for ESG issues vary around the world (for example, the US currently has no equivalent of the EU's Taxonomy), companies around the world are facing similar ESG risks, and we believe all companies should be taking steps to monitor and manage these risks. This is increasingly important in a world where companies operations, supply chains and customer bases tend to be global. Adopting the same ESG standards across all geographies is one of the reasons why we have no direct exposure to emerging markets and China in client portfolios: to date, we have been unable to get comfortable with the governance structures that tend to exist in these markets. Moreover, regulation is increasing. The SEC has published draft climate disclosure rules for US companies and the EU's new Corporate Sustainability Reporting Directive (CSRD) will apply to global companies with significant business activities in Europe, regardless of where those companies are based.

As in previous years, we have chosen not to pursue investment opportunities because of ESG factors. We chose not to conduct further research into several companies that passed our initial financial screening, such as a Danish healthcare company on regulation and board structure. We also ended our long-term monitoring of a US food and drink retailer, which we had previously been looking to buy, because of concerns about succession planning and talent development.

If a company passes the investment team's initial assessments, we will then continue with our full initiation process which includes more robust research, input from sector specialists and meeting company management where possible. This includes detailed work on a company's approach to managing ESG risks and, where necessary, engaging with the company to gain a better understanding and encouraging greater disclosure.

While we do not separate financial and non-financial issues, we have increased our use of ESG-specific meetings with investee companies to ensure that sufficient time is allocated to these topics. Having meetings focused on particular issues also means we can ensure that the most relevant people, both from our own business and from the investee company, are included in the meeting. In 2022, over 20% of the meetings we held with companies were focused on ESG issues, such as setting and disclosing net-zero targets, supply chain management and employee wellbeing. Increasingly, we are engaging with executives in departments such as Legal & Compliance, Technology, Human Resources and Facilities. Some of these meetings were part of our initial research process with companies where we were not yet shareholders. For example, we spoke to a Swiss-based speciality chemicals company to gain additional insights into how its products can enable the transition to more efficient and environmentally-friendly building and transport systems around the world.

Once an investment has been made, we continue to monitor companies and we seek to have dialogue with all our investments at least annually. Furthermore, we always respond when companies write to us or request a meeting. As part of our ongoing monitoring process, we consider the extent to which companies are:

- Pursuing strategic objectives that build a long-term sustainable business model and prioritising the achievement of these strategic objectives over short-term performance

- Implementing high quality business practices
- Managing risk effectively, as seen from the perspective of multiple stakeholders
- Implementing an appropriate capital structure, through a process of sound capital allocation
- Promoting good corporate governance, including strong corporate cultures and appropriate remuneration and incentives; and,
- Communicating transparently and producing high quality, consistent disclosures and reporting

Should our monitoring or engagement work lead us to conclude that the investment case for a company has changed or should we make insufficient progress on an engagement, we will reassess our options and may choose to sell our holding. When we choose to sell for ESG reasons or following an attempt at engagement, we inform the company in writing of our reasons for doing so.

This year, we made the difficult decision to sell our equity holdings in dialysis company **Fresenius Medical Care** because of governance concerns, despite the fact that we had been engaging with the company on governance issues since 2019 and previous signs of improvement.

Fresenius Medical Care timeline Key engagement activity	
October 2016	Bought initial holdings in the company
May 2019	Voted against the two management proposals at the AGM after the company was fined by US authorities for historic fraud and bribery throughout its operations. We also abstained on the reappointment of the auditor due to tenure. We wrote to the company to explain the reasons for our votes and received a response from the Chairman of the Supervisory Board.
June – November 2019	Correspondence and meetings to discuss the fine, internal controls and our voting record. Included a meeting with the Chairman of the Supervisory Board to discuss corporate governance. We were encouraged that the company had implemented significant personnel and process changes following the fraud investigation and had begun to make improvements to its governance e.g. through greater board diversity and appointing a new auditor. We also encouraged the company to improve disclosure around its approach to managing ESG risks.
August 2020	Voted for all management proposals at the AGM, including adding ESG targets to management compensation plans and appointing the new auditor.
January 2021	Further meeting with the Chairman of the Supervisory Board and Legal Counsel to discuss progress on Board structure, including Director diversity, tenure and refreshment process. They asked for our views on the proposed appointment of a Lead Independent Director (LID) for the first time and we expressed wholehearted support for the move as a further step to improve governance.

Fresenius Medical Care timeline Key engagement activity *continued*	
February 2021	Meeting with CEO and CFO to discuss issues behind profit warning and FME25 restructuring plans
March 2021	Meeting with Global Head of Sustainability for an in-depth update on the three-year ESG programme which was launched in 2020.
May 2021	Voted for all management proposals at the AGM, including the appointment of the LID. This appointment made Fresenius only the second German company to appoint a LID.
November & December 2021	Meeting with CFO to discuss the financial outlook and FME25 Transformation Project, followed by a corporate governance meeting with the Chairman and new LID amongst others. While we still had some governance concerns, the direction of travel seemed positive, and we were impressed by the LID and the willingness of the Board to consult on remuneration.
March 2022	Meeting with the Head of Corporate Controlling & Accounting to hear about the experience of changing audit firm in 2020 to improve our understanding of the work involved.
May 2022	Voted for all proposals at the AGM.
May - June 2022	We had concerns around the Board's succession planning in relation to the appointment of a new CEO, which meetings with the CFO and Chairman did not assuage. The appointment process made us question the extent to which governance practices had improved. We also felt the senior management changes increased the risk over the successful delivery of the FME25 transformation project, the company's ability to retain talent and the likelihood of meeting its earnings guidance.
June 2022	Sold our holdings and sent exit letters to the Chairman and LID explaining our reasons for selling.

Governance issues also contributed to our decision to sell generator business Generac. Following a product failure in the clean energy business, the investment case changed. During a meeting with the CEO it became apparent that insufficient due diligence had been done on acquisitions, partly because of a gap in expertise on the Board relating to clean energy. The Board was strengthened with expertise in this area before we bought shares in the company but in future, we will be more alert to companies entering new markets without experienced Board members to provide oversight.

Overall however, our ESG conversations with companies over the last year were generally positive and reassured us that management teams understand the risks they are facing and are taking action to address these. Examples of how ESG factors have featured as part of our stewardship work in 2022 are included under **Principle 9**.

In order to better manage and monitor the ESG information we have on companies, we have continued to build out our internal ESG database which tracks numerous data points for the companies in which we invest as well as for companies that we are still researching. The data points we monitor vary by company to ensure that the most material ESG risks for each company are captured, but the metrics we monitor for all companies include the following:

- Ratings from ESG data providers
- The carbon emissions and carbon intensity of the company
- Whether the company has a net-zero target and if so, whether this has been approved by the Science-Based Targets initiative (SBTi)
- Whether the company discloses climate, forest and water information to the CDP and if so, what scores they received
- Whether the company is a signatory to the UN Global Compact
- The gender diversity of the company at different levels of seniority (where disclosed)
- Key governance information, such as auditor tenure, whether ESG factors are included in executive compensation and any issues with ownership and share class structures

This internal database also links to records of our engagement work and allows us to track company progress on ESG issues more easily.

Activity and Outcome – Fixed Income

As set out under **Principle 6**, fixed income assets make up around 13% of our assets under management. As a result of the fact that listed equities make up the majority of our assets under management, we had prioritised our ESG integration work for these assets over the last few years as this is where we have the greatest exposure to ESG risk.

However, we are also pleased that over the last year we have continued to make progress in developing our ESG integration process for our fixed income holdings.

Amongst our corporate debt holdings, there are several companies for which we hold both the listed equities and some debt. These include **Avery Dennison**, **Bunzl, Experian**, **Fiserv**, **GSK**, **Kuehne + Nagel**, **Mastercard**, **Nestle**, **Next**, **Thermo Fisher Scientific**, **Tesco**, **Unilever** and **UnitedHealth**. For these companies where we hold listed equity and fixed income assets, we apply our research and engagement work to both asset classes. This applies to around 20% of our total fixed income assets.

For companies where we hold debt but not equity assets, we have continued to complete ESG sheets which record key information on the companies, expanding this work from only covering our largest bond holdings so it now incorporates a greater range of our fixed income assets. The ESG sheets include:

- Ratings from ESG data providers which are tracked over time to monitor improvement
- The carbon intensity of the company
- Whether the company discloses climate information to the CDP and if so, what scores they received over the last three years
- Whether the company is a signatory to the UN Global Compact
- The company's involvement in controversial activities which may breach some clients' ethical restrictions, such as involvement in tobacco production, gambling or pornography.

We combine this information with core data on the credit rating of the company and important financial metrics most relevant to bondholders, such as EBIT interest cover and Net Debt / EBITDA ratio.

Should this information reveal that the company has high exposure to ESG risks which are not being sufficiently managed, we would raise this at our investment team meeting and discuss the appropriate action to take with the investment team. We have not yet identified any bond holdings where we have concerns about how ESG risks are being managed within our investment time horizon.

As explained above, we sold our equity holdings in **Fresenius Medical Care** during 2022. However, we did not sell our fixed income holdings at the same time. This highlights the difference in our approach, and importantly the time horizons, for equity and fixed income holdings. We hold bonds to maturity and we do not believe the governance issues identified through our engagement work would put our clients' capital at risk in the next three years (the date at which the longest Fresenius Medical Care bond we hold matures).

We have also started to consider carbon intensity data when looking for potential bond holdings. When looking at possible bonds to buy, assuming the expected financial return and credit rating are equal, we would prioritise bonds which have better carbon intensity and ESG credentials. As set out previously, the purpose of our fixed income holdings remains to deliver cash-plus returns, risk control, a source of some income, hedges against inflation/deflation, and transparent diversification.

Around 46% of our fixed income holdings are developed market sovereign bonds (predominantly UK and US) or supranational bonds (for example, the European Investment Bank) which all have high credit ratings and tend to score well in screenings from the ESG data providers we use. We therefore believe that the ESG risk posed by these assets is lower than for our corporate debt holdings, so we have prioritised the development of our ESG integration process for our corporate debt holdings over the last year, as set out above. We do not hold emerging market sovereign or corporate debt and the vast majority of our corporate debt holdings are investment grade as seen in **Principle 6**.

Activity and Outcome – Gold

As set out under **Principle 6**, we have exposure to gold through the **WisdomTree Physical Gold ETC**. Our due diligence is similar to that for any individual equity purchased. We gather sufficient information on which to base a sound investment decision. We also meet with the management of the fund. Ongoing due diligence is undertaken to ensure our investment view remains valid, current and appropriate.

In 2021, we switched our holdings to a new product, the WisdomTree Core Physical Gold ETC which has a commitment to target post-2019 responsibly sourced gold and to promote high ethical standards in the gold market. In 2022, we continued to hold this product in client portfolios.

Principle 8

Monitoring managers and service providers

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

Context

We use a variety of data sources in our investment research process to help with our assessment of a company's approach to ESG factors and in our stewardship work.

Companies themselves are our primary source of information (through annual reports, CSR reports, proxy statements and on company websites). We also use information obtained through directly engaging with company management and investor relations teams. All research is done by our in-house investment team, not a separate ESG department. Our focused investment style (25-40 companies) allows us to know our investments inside out, focusing us on what is material on a case-by-case basis.

We supplement this research with information provided by third parties including ESG data providers, sell-side analysts, industry specialists and proxy advisors. The information obtained from these providers is used alongside our analysts' own research and information available directly from our investee companies, and we often use it as a guide to show where more investigation is needed.

Specifically, while ESG data from third-party providers can be useful in highlighting areas that require further research, the data has several limitations including inconsistent ratings methodologies across different providers, a reliance on backward looking data and the application of arbitrary rules and standards. As a result, we prefer to engage with investee companies directly to gain a broader understanding of the policies and processes they have in place to measure and manage ESG risks. This allows for a more nuanced and company-specific approach.

It is important to note that we do not make investment or voting decisions based solely on information provided by third parties.

As set out under **Principle 2**, the third-party providers we use as part of our investment research and stewardship process are:

- Moody's ESG for ESG research and screening for involvement in controversial activities
- Credit Suisse's HOLT for information on company governance structures and compensation
- CDP (formerly Carbon Disclosure Project) for information on a company's approach to managing environmental risks
- ISS for proxy voting recommendations and environmental data
- Sustainalytics ESG data provided through the Morningstar platform

Monitoring data providers

The data provided in relation to ESG research and stewardship is continuously reviewed by our stewardship working group because our research process and stewardship activities are constantly evolving and therefore so too are our data requirements. Twice a year, the group will discuss the quality and accuracy of the information received from third parties, the timeliness of the information and the relevance it has for our investment process. Should any issues with our current providers be identified, for example inaccurate information is provided, we will contact the provider directly to raise our concerns and to find a solution.

If the issue is not addressed in a timely manner, then we may look to find an alternative data provider. The universe of data providers is growing which affords us increased scope to replace data providers if needed. Where necessary, any issues in relation to data providers will be escalated first to the Investment Governance Committee if needed.

Monitoring voting activity

For clients with UK and Guernsey-based custody, voting choices are submitted via our custodian (SEI Investments Ltd). After each vote has been submitted, we obtain confirmation from the custodian that the vote has been processed correctly. If any issues are identified, we will work with the custodian to understand the reason for them and to ensure that a solution is found for future votes, escalating the issue to senior staff at the custodian if necessary.

For clients with custody at Pictet and Cie, and also for our fund holdings, voting choices are submitted through the ISS online voting platform. After each vote has been submitted, we obtain a vote confirmation report to ensure that the votes have been Approved. If any issues are identified, we would contact our relationship manager at ISS to resolve the issue as soon as possible. There were no such issues in 2022. We also use the voting analytics provided by ISS to track our voting activity.

Activity and Outcome

Monitoring data providers

As we carried out a formal and full review of the providers we use to obtain information for ESG research and our stewardship activities in 2021, we did not conduct a formal review in 2022. However, the providers were subject to the continual monitoring process of the stewardship working group as highlighted above. Factors considered as part of this ongoing monitoring included:

- Reviewing the information we currently receive from our data providers in the context of our investment process and client needs
- Identifying additional information that may be required in the future as our investment thinking evolves or to enhance client reporting or for regulatory reasons
- Assessing value for money of the information provided

We will continue to review whether the information we receive is meeting our requirements and those of our clients. We expect to conduct another formal review of the data providers in 2023 and will include details of the process and outcome in our 2023 report.

Principle 9

Engagement

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

Context

Our engagement activities are an integral part of our investment process and are carried out by our investment team. Our focused investment style (whereby we hold shares in 25-40 companies) allows us to know our investments inside out, focusing us on what is material for each company.

Throughout our engagement work, we follow our four stewardship principles which are:

An aversion to box ticking
With over 20 of us focused on a portfolio of around 30 companies, we fully understand what is material for each business

A focus on all stakeholders
We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders

A culture of partnership with management teams
We value progress in pursuit of long-term sustainability

We are prepared to vote with our feet
We will not hold shares in companies where we identify a material risk to the long-term viability of the business

As outlined previously, engagement occurs at all stages of the investment process including before becoming shareholders, for example, if the company does not disclose much information about managing environmental risks or if we have questions in relation to governance structures.

On initially investing in a company, we introduce ourselves in writing to the Chair of the Board and CEO and in companies where this role is combined to the LID (Lead Independent Director), outlining our investment strategy and approach to stewardship. This letter sets out what we expect of companies and what they should expect from us. Following investment, we engage with companies on issues which, if addressed, will further improve real returns over the long term and enhance the sustainability of their businesses. We seek to engage directly with company management, the Chair of the Board and other Board members.

Our investment approach and the in-depth research that we carry out prior to becoming shareholders, both in relation to financial and non-financial issues, make it unlikely that we would become shareholders in a company which faces significant, material risks. Our stewardship activities are, therefore, generally focused on information gathering or issues which will enhance the long-term sustainability of the company but if not addressed by the company, would not change our investment thesis. We work with good companies to make them better.

We apply the same stewardship principles and practices to listed equities across all geographies, although we acknowledge there may be cases where we do not have the same access to management. For example, until June 2022 we held American Depositary Receipts for a company based in Asia.

As set out under **Principle 5**, where we do engage with companies to encourage improvements, we monitor the progress of our engagements by setting ourselves clear objectives at the outset and measuring progress against four milestones:

1 Raising the issue with the company

2 Receiving acknowledgement from the company that our concerns are valid

3 Receiving confirmation from the company that it is developing a plan to address the issue; and

4 Receiving confirmation from the company that the plan is implemented, and the objective is delivered

Where we make insufficient progress on an engagement, we will reassess our options, and depending on the long-term impact on the future viability of the business, we may choose to sell our holding. When we choose to sell following an attempt at engagement, we inform the company in writing of our reasons for doing so. However, as set out in our stewardship principles, we recognise that it can take time for companies to make changes and we value progress in pursuit of long-term sustainability.

Further details on our overall approach to engagement is set out in our Stewardship and Engagement Policy which is available on our website.

As set out under **Principles 5 and 6**, we communicate our engagement activities to clients through our annual stewardship report, our quarterly newsletters and throughout the year in client meetings. A copy of our latest Stewardship Report to clients is available on our website.

Activity and Outcome – Listed Equities

It has been a busy year. We held 145 company meetings, voted on over 600 proposals at company meetings and sent 25 letters as part of our efforts to work with companies for long-lasting change. Overall, we engaged with 90% of our core equity holdings. As set out under **Principle 7**, we also engaged with companies as part of our initial research process.

As in previous years, our letters included introductory letters to companies we added to portfolios, such as **Intuitive Surgical**, **DSM** and **Nike**, “exit” letters to the companies we sold explaining our reasons for doing so (for example **Fresenius Medical Care** and **Generac** as set out under **Principle 7**), and letters explaining why we chose not to support some Board/management voting recommendations at recent AGMs. Some of our introductory letters prompt immediate engagement as described on the next page.

Engagement case study

Company: **Koninklijke DSM**

ASSET CLASS	SECTOR	GEOGRAPHY:
Listed Equities	Materials	Europe ex UK

ISSUE
BOARD COMPOSITION

Engagement milestone: 2

Following our introductory letter to **DSM**'s management, we had a follow up call with DSM's investor relations team and Sustainability and Reporting Manager. The call focused on a number of governance and sustainability aspects which will be particularly relevant as the company navigates the merger with Firmenich. It was an open conversation which left us reassured about the direction of travel for the company.

We learned that as per Dutch Governance Code, no Directors are over-boarded since some of their non-executive positions are not viewed as a full board seat under Dutch code. The only Board member that could have been considered over-boarded was Carla Mahieu, and she gave up one of her Board positions to address this. DSM is aiming to be a leader in governance as well as on environmental and social issues. The Firmenich merger will see changes to the Board, and we have provided feedback on our thoughts relating to best practice on over-boarding.

On governance more broadly, succession planning is managed by Supervisory Board and there is a strong focus on maintaining the culture and vision of the company. DSM's Supervisory Board Sustainability Committee is quite unique. It guides all sustainability issues, rather than just focusing on reporting e.g. portfolio activity and ensuring no theme is prioritised over others. The Committee has deep expertise to capture the breadth of issues. It was important to the Board that Firmenich shared the same values as DSM around sustainability – privately owned Firmenich has the highest Sustainalytics ratings of food and consumer companies. Both companies can learn from each other, e.g. to date, Firmenich has done more work on sustainability in its supply chain while DSM has done more on reducing its greenhouse gas emissions.

As highlighted previously, as long-term shareholders, we consider all the opportunities and risks associated with ESG factors as part of our investment case because these are factors which could have a material impact on companies. Once again, ESG factors featured heavily in our engagement work. This was not because we believe ESG factors matter more than other issues, such as capital allocation or balance sheet strength. Rather, as the long-term financial risks posed by these factors become increasingly apparent, we believe this is where our companies can make some of the biggest improvements to ensure the long-term durability of their business models. Some examples are set out on the next page.

1 Board composition – exploring whether companies have the range of expertise they need, including directors who have experience in fields such as cyber-security, environmental sustainability and supply chain management where relevant

Given the increasing importance of non-financial issues to the long-term viability of companies, we believe it is essential that board directors have experience of dealing with the full range of risks companies face. The skills and experience that are most relevant will vary by company, but we would generally like to see board directors with appropriate experience in fields such as cyber-security, environmental sustainability, employee well-being and supply chain management. We would also expect directors to have relevant geographic experience reflecting the global operations and customer base of the company.

Engagement case study

Company: **Avery Dennison**

ASSET CLASS	SECTOR	GEOGRAPHY:
Listed Equities & Fixed Income	Materials	North America

ISSUE
BOARD COMPOSITION

Engagement milestone: 3

At the AGM of label-maker **Avery Dennison** earlier this year, we chose to abstain on the reappointment of the Lead Independent Director (LID) and the Chair of the Nominations Committee because of poor succession planning for the Board of Directors. We had previously had conversations with the LID explaining our concerns that the Board is running near its minimum size target and there seemed to have been little progress in appointing new members. Having written to the company to express our views following the AGM, we were pleased to have a call with the LID to discuss the issues in more detail. We were encouraged to hear that the company expects to appoint one or two new Board members over the next 12 months, and hopefully one new member every year in the coming years. The selection process will focus on finding candidates with skills that match the emerging opportunities and risks the company faces, such as experience in the European consumer sector and digital expertise. Since our call, the company has appointed a new Director with significant digital experience.

2 Director independence – ensuring board directors have a mix of tenures and that key positions, such as committee chairs, are held by directors who are truly independent

We believe that boards should have a majority of non-executive directors able to hold executive management to account. Directors should be re-elected with sufficient frequency to provide shareholders with the opportunity to support those performing their role responsibly and to remove those not promoting best practice.

We do not subscribe to the view that director tenure needs to be capped, as we recognise the benefits to the Board, company and shareholders that come from the retention of knowledgeable and experienced directors. If you impose a rigid-12-year limit to tenure, there would be no-one on Boards who had seen companies through the global financial crisis in 2008. However, we believe it is important for Boards to have a mix of tenures and that there should be balance between Directors who have long-term experience of the company's operations and those who can bring a fresh, independent perspective.

We acknowledge that views on what counts as independent differ between Europe and the US. We follow the European view that Directors can no longer be considered truly independent once they have been on a Board for 12 years. This contrasts with the view held more widely in the US, where Directors are independent if they have never held an executive role at the company, regardless of their tenure on the Board.

Importantly, we expect significant Board sub-committees (such as the Audit Committee and Remuneration Committee) to be chaired by truly independent, non-executive Directors to ensure there is sufficient oversight with minimal risk of conflict of interest from extended relationships with executive management. As set out under **Principle 12**, as a result of this approach, we abstained on the reappointment of Directors at the AGMs of several of our US holdings. These included **Align Technology**, **Franco-Nevada, Intuit**, **Intuitive Surgical**, **LabCorp**, **Marsh McLennan** and **Thermo Fisher Scientific**. In each case, we followed up in writing with the company and in many cases had meetings with the company to discuss the issues further.

Engagement case study

Company: **Themo Fisher Scientific**

ASSET CLASS	SECTOR	GEOGRAPHY:
Listed Equities & Fixed Income	Healthcare	North America

ISSUE
DIRECTOR INDEPENDENCE AND COMMITTEE LEADERSHIP ROLES

Engagement milestone: 2

Having abstained on the votes to reappoint the Lead Independent Director and Chair of the Audit Committee because of long tenure, we wrote to the company to explain our reasons and in December, we had a call with the VP Deputy General Counsel & Company Secretary.

We were reassured to hear that succession planning is done annually and includes considering the rotation of leadership roles. As new Directors join the Board, **Thermo Fisher** expects tenured ones to roll off to keep the Board at 12 members. This is felt to be the right size as it allows robust discussion whilst avoiding key risks and skills (e.g. cyber, finance, ESG) sitting with just one Director. However, the company did not agree with our view that tenure impacts independence, believing that long-standing Directors provide as much or more challenge than newer ones, through their institutional memory.

Reviewing Board approval ratings with us, the company acknowledged lower support for Board Chair and the Chair of Nominations & Governance because Thermo has a combined Chair/CEO role. Combined with this, the long-tenured LID also has a lower approval rating than other Directors.

During the call, we also heard about the governance priorities for the company:

1. Adding more diversity to the Board, specifically hitting the target of 1/3 female by end of 2023. We also gained a better understanding of the challenges in meeting this target as they are not finding female candidates with the desired seniority, SEC experience and specific skill set. This is the same message we have heard from other companies.

2. Modernising and updating governance charters to reflect greater maturity of the company, e.g. extending the remit of the Audit Committee to oversee sustainability and the responsibility of the Compensation Committee extended beyond just executive pay.

Overall, we were encouraged by the company's approach to Board recruitment and refreshment, we acknowledge that there is unlikely to be a change to its approach on allowing long-tenured Directors to hold Committee leadership roles. We are therefore likely to continue our engagement on this issue.

3 Audit quality – working to encourage US companies with long-tenured auditors to consider putting the audit contract to tender

As highlighted in our previous report, we take our responsibility for auditor appointment seriously, especially as several high-profile failures over the past two decades have highlighted the importance of this issue. Most notable among them is the Enron scandal which cost shareholders over $70 billion when the company collapsed and resulted in employees losing billions in pension benefits[12], and more recently we have seen cases involving Wirecard and Carillion. Changing audit firm can help to highlight any issues within a business before they get this extreme. Best practice in Europe is to re-tender audit contracts after 10 years and change auditor firm every 20 years. However, in the US indefinite tenure is common and we have been raising this issue with several of our US-based companies. While there will always be some exceptions, in 2021 we updated our voting policy in this area: for companies with auditor tenure over 20 years, we will abstain and engage for a maximum of two years. But if there is still no change, while we will continue to engage with companies, we will start to vote against proposals to reappoint auditors and eventually, Board members on the Audit Committee. However, we acknowledge that we are unlikely to convince all companies to change, so we aim to get reassurance from our US companies that there is sufficient challenge in place, where the same auditor has been in place for several decades. This remains an important component of our engagement work.

As highlighted under **Principle 2**, we were able to hold an information gathering session with one of our healthcare companies to improve our understanding of the work involved in changing audit firm. Following this session, we remain of the view that while there will be considerable work involved for a company when changing audit firm, the benefits to both the company and shareholders make the effort worthwhile.

12. https://www.investopedia.com/updates/enron-scandal-summary/

While none of our investee companies changed audit firm during 2022, we were encouraged to hear during our engagements with **Avery Dennison** that the company is considering putting the audit contract out to tender. Semiconductor firm **Infineon Technologies** also confirmed that it would be appointing a new audit firm at next year's AGM. So we were pleased to note some progress on this issue.

Further, examples of our voting on this issue and escalation process are included under **Principles 11 and 12**.

4 Supply chains – understanding what companies are doing to monitor environmental and social practices throughout their supply chains and how they deal with any issues identified

For many of our investee companies, the biggest environmental and social risks they face come, not from their direct operations, but from their supply chains. For example, from an environmental perspective, extreme weather events and rising sea levels could threaten manufacturing sites, particularly in Asia and emerging markets. Any links to deforestation could pose reputational and regulatory risks, especially as regulators in the EU, UK, US and China are imposing new authentication standards to ensure that commodities linked to illegal deforestation are not imported. From a social perspective, allegations of forced labour within supply chains could result in a significant reputational hit for a company. In addition, failure to look after workers properly can lead to product quality issues because of higher turnover of staff and disengaged employees.

We acknowledge that managing these risks is not easy and that companies have to take a risk-based approach to overseeing their supply chains, but we expect companies to have robust procedures for monitoring practices at all levels of their operations and formal processes in place to deal with any issues identified. We encourage companies to work with suppliers to resolve issues rather than simply ending contracts with them as soon as issues are identified.

Given the importance of this issue, we have also been exploring collaborative engagement options as set out under **Principle 10**.

ESG meeting case study

Company: **Hasbro**

ASSET CLASS	SECTOR	GEOGRAPHY:
Listed Equities	Consumer Discretionary	North America

ISSUE
INTEGRATION OF SUSTAINABILITY FACTORS THROUGHOUT THE SUPPLY CHAIN AND PRODUCT LIFECYCLE

Engagement milestone: For the issues where we would like to see more action - 3

We had a very insightful engagement call with entertainment company Hasbro, during which management demonstrated that they continue to have an effective and well-thought through sustainability programme. The following key points gave us confidence that Hasbro is taking its responsibilities seriously and is making progress in important areas.

- **Extending emissions targets** – The company confirmed that we should expect to see 2030 emissions targets aligned to SBTi standards (including Scope 3 emissions) and that they would be setting a net-zero target. *The company has since achieved these steps.*

- **Supply chain auditing is strong** - Hasbro goes beyond the baseline requirement for auditing. It audits 100% of its manufacturers every year and most of the sub-contractors. Hasbro has a robust responsible exit programme for suppliers that do not meet its high standards, which includes remediation as a first step and aims to protect workers as far as possible. Hasbro also has the ability to facilitate positive change: for example, it found a major supplier with 30,000 workers did not have an HR policy and was able to get one implemented, benefitting the workers and other companies using this supplier.

- **Recycling** - Hasbro's toy recycling scheme is industry-leading and is being used a blueprint for other toy companies (e.g. Mattel).

The company also continues to put resource behind the sustainability programme, having appointed a Chief Purpose Officer who was knowledgeable and passionate about the work Hasbro is doing. In addition, we were told they continue to add people to the sustainability team and it is clear that other efforts around data collection have been stepped up.

However, we also pushed the company for more action in two areas:

- **Sustainable products** – We asked Hasbro to provide more reporting and disclosure on how they are transitioning to using more sustainable materials within the products. They understand this is important and that stakeholders / consumers will see this as an increasingly important aspect of a brand. They are working hard on various pilots and R&D programmes and we should start to hear more in the coming years.

- **Sustainable logistics** – We asked how they are factoring in different options when it came to sustainability in their logistics chain, including Sustainable Aviation Fuel (SAF). Compared to other areas, management had less information to hand on this but did say that the team is looking at all sustainability opportunities in logistics.

We would highlight that since our engagements with the company on these issues, Hasbro has confirmed that its environmental targets have been approved by the SBTi and the company has published more information on its pilots for sustainable products on its website. However, these materials and processes used in these pilots have yet to be rolled out more broadly.

5 Broader environmental issues – asking companies what they are doing to measure, monitor and manage environmental risks beyond carbon emissions (such as water use, waste and their impact on biodiversity)

As set out under **Principle 4**, we are increasingly concerned by the long-term systemic risks posed by environmental issues beyond carbon emissions and climate risks. These include water security, biodiversity loss, waste and pollution, and the human rights impact associated with these issues.

We note the estimates that $44 trillion of global economic value generation is highly or moderately dependent on nature[13] and is being put at serious risk as the natural environment comes under increasing strain. The World Wildlife Fund's Living Planet Report for 2022 showed how wildlife populations have declined by an average 69% in the past 50 years[14] while the Global Footprint Network says we are overusing the planet's resources by at least 75%, the equivalent to living off 1.75 Earths[15].

13. https://tnfd.global/
14. https://livingplanet.panda.org/en-GB/#:~:text=Wildlife%20populations%20plummet%20by%2069,in%20species%20populations%20since%201970.
15. https://www.weforum.org/agenda/2022/10/nature-loss-biodiversity-wwf/

In addition to the considerable challenges this presents to citizens around the world, it also presents considerable risks to businesses. Those who rely on natural resources, from technology companies who use water to cool data centres to clothing companies who rely on pollination and soil quality for cotton plants, could see supply chains seriously disrupted if there is long-term damage to the natural environment. At the same time, as consumers become more aware of the need to protect nature, companies that fail to take steps to address their environmental footprint could see their social licence to operate increasingly under pressure. We also note that increasing regulation in this area could add costs for companies that fail to act.

In addition to the collaborative engagements highlighted under **Principles 4 and 10**, we have engaged with companies individually on these topics. We acknowledge that the most material issues in this area will vary by company, for example, depending on the business model, manufacturing footprint and supply chain structure. So the actions needed by companies will vary too. Our focused approach and deep understanding of our investee companies' operations is helping us to identify these. We also acknowledge that it will take time for companies to put systems in place to measure, monitor and manage their broader environmental risks, so for many companies our engagements at this stage are focusing on finding out what steps the companies are taking to collect this data. As our engagements in this area progress, we hope to be able to include more details and specific examples in next year's report.

As highlighted under **Principle 6**, engaging with companies on broader environmental issues and the transition to a more circular economy is an important issue for our clients so stepping up our engagements in this area is also a direct response to the views they shared with us.

Engagement case study

Company: **Next PLC**

ASSET CLASS	SECTOR	GEOGRAPHY
Listed Equities & Fixed Income	Consumer Discretionary	UK

ISSUE
SUPPLY CHAIN AND PRODUCT LIFECYCLE MANAGEMENT

Engagement milestone: Polyester – milestone 2, Water – milestone 3

Next operates in one of the most challenging sectors from an environmental and social perspective. The apparel industry faces numerous issues in supply chains and product lifecycles, from ethical cotton and plastic microfibres to clothing waste and human rights abuses.

As we highlighted in last year's report, we first discussed sustainability with clothing company Next when we met the CEO back in 2017. While the company's commitment to sustainability was clear even then, the sense of urgency around the need for change has increased. We have continued our conversations with Next's Company Secretary and Head of Corporate Responsibility since we became shareholders and in September 2022, we had a constructive conversation around raw materials and water.

We learned that while Next has a very comprehensive Responsible Sourcing Strategy for 2025, it is unlikely to meet its targets for all polyester to be responsibly sourced by that date. There are a number of reasons for this, including the fact that the company takes a (welcome) cautious approach and insists on thorough certification for raw materials. In addition, progress on technology to recycle polyester has been slower than expected when targets were set back in 2017, and in the current environment, what customers are able to pay for products is a major consideration. That said, Next has increased its usage of post-consumer certified recycled product in polyester (i.e. recycled from plastic bottles) up to 12% compared to an industry average of 14%, so it is not far behind.

We encouraged the company to be on the front foot on this and improve communication around the options being explored. The emergence of a French company with an enzyme that allows mixed materials (e.g. polyester and cotton) to be separated and reused was very encouraging, but this is not expected to scale to industrial scale until 2027.

On water, we explained that we were very pleased to see that the company reported to the CDP's Water Security disclosure campaign for the first time, scoring a B, and that it is a founding signatory of WRAP's Textile 2030 initiative[16]. However, we also expressed our disappointment that the company has not published any interim targets for the Textile 2023 water target. During our conversation, it became clear that the company has focused efforts on wet processes in its supply chain to date and that they hope to share public targets soon.

We will continue to monitor progress on these issues and hold the company to account when it comes to fulfilling its targets.

6 Target setting – encouraging companies to set net-zero targets if they have not done so already, along with short-term/interim targets so that progress can be monitored, as well as wider environmental and social targets as relevant to the business

We encourage all companies to measure and disclose information around environmental and social risks as this is the first step in being able to manage these risks. After all, it's difficult to manage what you can't measure. However, we believe staying focused on materiality is key. We want companies to concentrate on what is relevant to them, rather than on issues that may not have as much impact on the long-term durability of their business. We believe this applies to all companies, regardless of geography. We acknowledge that US-based companies are not subject to the same disclosure regulation as their European and UK counterparts. But we feel that best practice should apply globally. We also note that the SEC (Securities and Exchange Commission) is considering introducing mandatory reporting requirements for listed companies around environmental issues and it is therefore in companies' best interests to take steps now to enable comprehensive disclosure.

Specifically on net-zero and greenhouse gas emissions, given the increasing urgency to address the climate crisis, we believe that companies should be taking steps to set net-zero targets and provide a roadmap of how they intend to reach these targets. While we acknowledge that meeting these targets will be a challenge for companies, particularly for those with global operations and supply chains, we are encouraging companies who have not done so already to take the first steps towards establishing targets.

16. https://wrap.org.uk/resources/guide/textiles-2030-roadmap

Companies that are not working towards net-zero targets could face additional risks in the future which could put the long-term viability of the business at risk. For example, carbon pricing initiatives (such as carbon taxes and emission trading schemes) are growing and carbon prices are rising. In 2022, the IMF estimated that carbon pricing schemes covered 30% of global greenhouse gas emissions and average global carbon prices would need to rise from $6 per tonne today to $75 per tonne by 2030 if we are to meet the goals set out in the Paris Climate Change Agreement[17]. Furthermore, consumers and employees are increasingly expecting companies to take action to reduce emissions so companies that fail to do so may find that they lose their social licence to operate and find it increasingly difficult to attract and retain talent.

For companies who already have net-zero targets, we are encouraging them to get their targets independently verified, for example, by the Science-Based Targets initiative (SBTi).

Engagement case study

Company: **Fiserv**

ASSET CLASS	SECTOR	GEOGRAPHY
Listed Equities	Information Technology	North America

ISSUE
DISCLOSURE OF MATERIAL ENVIRONMENTAL AND SOCIAL METRICS

Engagement milestone: Disclosure of metrics – 4, Target-setting - 3

Since we became shareholders in payments and software provider Fiserv in 2019, we have been encouraging the company to improve its disclosure of environmental and social metrics. A meeting with the Head of Sustainability in 2022 highlighted just how much progress the company has made. It has completed a materiality assessment for ESG risks, aligned its sustainability reporting with international standards including GRI[18] and SASB[19] and submitted environmental data to the CDP's disclosure project for the first time. This is not the end of the road for our engagement, however. The company acknowledges that there is still more to be done: for example, management intends to set environmental targets this year and improvements could be made to the social data the company reports. But it was rewarding to see this moving through our engagement milestones, and we are delighted with progress to date.

Engaging in response to events and requests

We would also engage with investee companies in response to specific events. An example from 2022 was an engagement with had with Hasbro when the company faced a contested proxy at its AGM from an activist shareholder Alta Fox Capital Management. We engaged with both the company and Alta Fox prior to voting at the AGM and used these interactions to inform our voting decisions. Further details are included under **Principle 12**.

We view voting at company meetings as an important part of our engagement work and further details of how this interacts with our broader engagement work are included under **Principle 12**.

17. https://www.imf.org/en/Blogs/Articles/2022/07/21/blog-more-countries-are-pricing-carbon-but-emissions-are-still-too-cheap
18. Global Reporting Initiative https://www.globalreporting.org/
19. Sustainability Accounting Standards Board https://www.sasb.org/

Our commitment to partnering with our companies means we always respond if they ask for our input. For example, we provided input into **Broadridge Financial Solutions**' remuneration policy and gave feedback to **Experian** on its new Diversity, Equality and Inclusion report.

Engagement case study

Company: **Experian**

ASSET CLASS	SECTOR	GEOGRAPHY
Listed Equities & Fixed Income	Industrials	Europe ex UK

ISSUE
PROVIDING FEEDBACK ON THE DIVERSITY, EQUALITY AND INCLUSION REPORT

Engagement milestone: NA – responding to the company's request for feedback

Members of the investment team have a longstanding relationship with Experian, and we were delighted to be able to provide very positive feedback on the company's new Diversity, Equality and Inclusion (DEI) report.

Some of the specific points we highlighted as best practice included:

- The clear link between DEI and Experian's purpose as a business which was covered right at the start in the CEO's comments and was evident throughout the report
- The snapshot of the workforce – we liked the fact that it also covered diversity by age alongside other issues, as this is often overlooked
- The case studies and real-life examples throughout the report demonstrated a genuine commitment to DEI and were fascinating to read
- The detail provided about Experian's five specific commitments to DEI was excellent, and the steps the company is taking to make them a reality. We particularly liked the Executive Sponsorship programme – it is nice to see a broad range of senior staff involved and shows the focus on DEI is embedded throughout the business
- The tables on page 25 showing DEI data over time and the breakdown by business level and geography. As we discussed during our meeting with the company, we do not expect to see lots of targets in relation to diversity as for many areas, such as ethnic diversity, it is almost impossible to know what target to set. Our focus is therefore on looking for progress over time and the information provided allows monitoring of progress.

Activity and Outcome - Fixed Income

Because of a lack of voting rights, bondholders are unlikely to have the same access to company management as shareholders. We are exploring options for extending our engagement work to cover this asset class in the years ahead, for example, through collaborative engagement.

As set out under **Principle 6**, listed equities make up the majority of our assets under management so we have focused on enhancing our engagement work for these assets over the last few years as this is where we can have the biggest impact for our clients. It is also worth noting that around one-third of our fixed income holdings are developed market sovereign bonds or supranational bonds (for example, the European Investment Bank) so as a first step, we are focusing on our corporate debt holdings.

As highlighted in the examples above and under **Principle 7**, where we hold both listed equity and fixed income assets for a company, we apply our engagement work to our research for both asset classes.

As detailed under **Principle 10**, we have continued to explore collaborative engagement options for our fixed income holdings during the reporting period.

Principle 10

Collaboration

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

Context

As shareholders, we seek to build long-term, direct relationships with our investee companies. Our focused portfolios (25-40 holdings), high number of investment professionals to investee companies, in-depth research process and long-term approach mean we can get to know our investee companies in great detail, something which we believe is vital for successful engagements. We are therefore confident that where we choose to pursue engagements with investee companies on our own, we can reach a successful outcome for our clients.

However, where appropriate, we will engage with other investors. We may also consider collaborative engagement to influence both issuers and supervisory bodies, such as regulators or governments.

To facilitate collective engagement, we are members of the Principles for Responsible Investment and are investor signatories to the CDP (formerly Carbon Disclosure Project). In 2022, we also joined the Institutional Investor Group on Climate Change (IIGCC) to assist with our work to set a net-zero target for our business and to broaden our options for collaborative engagement.

Our investment approach means that we do not invest in companies in sectors we believe to be fundamentally challenged in the longer term or where we believe companies are not managing ESG risks sufficiently. This approach means that we currently do not invest in the equities of any oil and gas, cement, chemicals or mining companies and so we have found that, to date, many of the environmental-focused initiatives predominantly target companies of which we are not shareholders. However, we are continuing to look for other opportunities to join collaborative engagement initiatives that are relevant for our investee companies and have had some success in finding new opportunities for collaboration in 2022. Further details of this are included in the Activity and Outcome section below.

Activity and Outcome

All assets

We recognise that there are occasions when it is appropriate to work with others when engaging with companies, regulators or governments to increase the likelihood of having a long-term positive impact.

With that in mind, we signed the Global Investor Statement to Governments on Climate Change which was delivered to global leaders in the run-up to the COP27 climate conference in Egypt.

We also believe it is important to provide our views and opinions to initiatives and surveys when asked to do so, in order to contribute to long-term positive change in the industry. We therefore responded to the PRI's signatory survey "The PRI in a Changing World" and contributed to a survey conducted by Rivel on our approach to considering ESG factors in our investment process.

Listed Equities

As set out under **Principle 4**, we believe that increasing corporate environmental transparency around climate change, biodiversity and water security is crucial if we are to meet the goals set out under the Paris Climate Change Agreement. In 2022, we took part in the CDP's Non-Disclosure Campaign by co-signing letters to the small number of our listed equity holdings who did not respond to the CDP's disclosure requests. We were very pleased that one of the companies we addressed in this campaign (freight forwarder Kuehne + Nagel) decided to begin disclosing data again to the CDP's climate change initiative, having stopped doing so for a number of years. While this activity has not resulted in further disclosure from other companies, we will take part in the Non-Disclosure Campaign for 2023. We will also continue to engage directly with companies to encourage broader disclosure around environmental issues.

We have also broadened our collaborative work to environmental issues beyond climate change. We are awaiting more details on the Nature Action 100 initiative which is aiming to drive greater corporate ambition and action on tackling nature loss and biodiversity decline.

As highlighted under **Principle 4**, we have stepped up our collaborative efforts in relation to water security. We continue to engage with companies directly on this issue and have been encouraging companies to respond to the CDP's water disclosure campaign. We are pleased that the number of our investee companies providing this data has increased year on year.

Towards the end of 2022, we were delighted to sign up to the Ceres Valuing Water Finance Initiative. The Initiative aligns with the UN Sustainable Development Goal for Water (SDG 6) and aims to engage with 72 companies with a high-water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems. Several of our investee companies in the Consumer Staples and Information Technology sectors are on the engagement list for this Initiative and we have expressed our interest in working with several of them.

Our involvement in this work is still at an early stage but we have begun to have conversations with Ceres about sending letters to some companies alongside other investors. We look forward to reporting progress on this in our report or 2023.

As highlighted under **Principles 4 and 9**, we have increased our engagements with companies on issues to do with supply chains, particularly understanding what companies are doing to monitor practices throughout their supply chains and how they deal with any issues identified. In our report for 2021, we described how we had formally expressed our interest in joining Advance, the PRI's Collaborative Stewardship Initiative on Social Issues and Human Rights. This initiative was formally launched in 2022 with the Metals & Mining and Renewable Energy sectors as its first target sectors. Unfortunately, we have no direct exposure to these sectors and none of our portfolio holdings were included on the target company list, so we are not currently able to be actively involved in this initiative. *Continued overleaf.*

However, we have signed up as an Endorser and remain committed to becoming more involved in the future once the initiative begins to target other sectors.

We also took part in third-party surveys initiated by two of our investee companies, Intuitive Surgical and **Generac**. As highlighted previously, we always respond when companies write to us and seek our views as we believe this gives us the opportunity to strengthen relationships with companies and contribute to their long-term sustainability.

Fixed Income

As set out under **Principle 9**, we recognise that as bondholders we are unlikely to have the same access to company management as shareholders. We therefore believe that collaborative engagement could be an effective means to increase our influence when it comes to our engaging with companies in which we only hold bonds.

We continued to explore collaborative engagement options for our bond holdings. However, at the time of our enquiries, we were not able to find one where the list of target companies aligned with our bond holdings. We were therefore unable to sign up to any initiatives in 2022 but continue to explore further options for collaboration with our fixed income holdings.

Principle 11

Escalation

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

Context

Our stewardship work is always undertaken in the spirit of partnership. We recognise and value progress in pursuit of long-term sustainability and with any interaction, our goal is to work with companies and to encourage improvement over the long term. While we track all engagements using our engagement milestones, as set out under **Principle 9**, we understand that it can take time for companies to make the changes we are seeking, and we take this into consideration when setting our engagement objectives.

Because of our investment approach and the in-depth research that we carry out prior to becoming shareholders, both in relation to financial and non-financial issues, it is unlikely that we would become shareholders in a company which faced significant, material risks. Our stewardship activities are, therefore, generally focused on issues which will enhance the long-term sustainability of the company but if not addressed by the company, would not change our investment thesis.

Where we have concerns, we would usually hope to raise these through the introductory letter we send to companies when we first become shareholders and through our regular meetings with company management and investor relations teams. However, we recognise that there may be instances where a company does not respond constructively to the issues raised in our engagements and where we believe the company will not take any action to address concerns. In such circumstances, depending on the nature and the severity of the issue, we may decide to escalate our engagement activities.

As a first step, escalation would normally involve holding additional meetings with company management to better explain our position and to improve our understanding of the company's position. Should this step not be successful, we will consider further escalation including:

- Writing to or meeting with senior board members, such as the senior independent director or the Chairman
- Abstaining or voting against management, including the reappointment of specific directors, at general meetings
- Collaborating with other investors
- Voting with our feet and selling our shares.

Where we vote against company management with whom we have been in dialogue, we aim to communicate with the company prior to casting our vote to restate our concerns and explain our voting intention. In addition, for all companies where we vote against a management recommendation, we aim to write to them to inform them of our decision, explain our reasons and encourage future dialogue on the issue.

Should we decide to sell our shares following unsuccessful engagement activity, we will again write to the company to explain our actions and the reasons for the sale.

Asset classes

We expect to apply this policy to listed equities held across all sectors and geographies. However, there may be instances where direct access to company management and directors is more limited, for example where we have held the American Depositary Receipt (ADR) shares for an Asian technology company. However, we sold our shares in this company during 2022 for strategic and financial reasons.

As highlighted under **Principle 9**, where we only hold bonds in a company, our rights and access to management will not be the same as for shareholders. Given more limited engagement opportunities, divestment is more likely to be the escalation action pursued for any fixed income holding found to have a sustainability issue that posed a threat to achieving our clients' financial objectives.

Activity and Outcome

During the past year, our stewardship activities have been well-received by company management and in most cases, we have not felt it necessary to move beyond our initial engagement activities of seeking meetings with company management and investor relations teams.

However, we have escalated our voting activities when it comes to auditor tenure. As set out under **Principle 9**, we believe that changing audit firm can help to highlight any issues within a business before there are serious financial implications. Best practice in Europe is to re-tender audit contracts after 10 years and change auditor firm every 20 years. However, in the US indefinite tenure is common and we have been raising this issue with several of our US-based companies. While there will always be some exceptions, our voting policy in this area is as follows: for companies with auditor tenure over 20 years, we will abstain and engage for a maximum of two years. But if there is still no change, while we will continue to engage with companies, we will start to vote against proposals to reappoint auditors and eventually, Board members on the Audit Committee.

Having excluded 2020 from our count of years for abstaining and engaging (we felt it was not appropriate to expect companies to change audit firm in the middle of a global pandemic), we have now reached the stage with some of our US companies where we are voting against the reappointment on their auditors. In 2022, these companies were:

- **Align Technology**
- **Hasbro**
- **Microsoft**
- **Fiserv**
- **Mastercard**

In each case, we again wrote to the company explaining our reasons for our votes and emphasising the benefits we believe changing audit firm can bring to a company, such as the opportunity to lower fees, increase transparency and gain exposure to new perspectives and audit practices. We also set out the possible next steps for us to escalate the issue, which could include voting against the reappointment of the Chair of the Audit Committee, although we will continue to engage with companies to encourage a change.

We would also highlight that we do take specific company circumstances into account when making these voting decisions. For example, we chose to abstain rather than vote against the reappointment of the auditors at the AGM of insurance and consultancy provider **Marsh McLennan**. Having acquired Jardine Lloyd Thompson in 2019 and spent considerable time bedding down the new business while dealing with the Covid-19 pandemic, we fully understood the company's rationale for not putting the audit contract to tender during this time. However, we have indicated to the company that we are likely to escalate the issue and vote against the reappointment of the auditors going forward.

Principle 12

Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

Context

We believe shareholder voting is an important way of communicating with companies and helps in our efforts to build long-term partnerships. Although separated here for reporting purposes, voting is not an isolated act and therefore goes hand-in-hand with our broader engagement work as the examples below will hopefully demonstrate.

We seek to understand each company's individual circumstances and history, enabling us to apply our voting principles flexibly, where appropriate, and consistently with supporting the company's long-term success.

In line with our stewardship principle of focusing on materiality, each voting decision is taken on a case-by-case basis by our investment managers, based on independent judgement, analysis, and the outcome of engagements with companies. As we aim to invest only in well-run companies which have strong management teams and governance structures, we typically expect to vote with the board recommendations.

Further details are set out in our Voting Policy which is available on our website.

This policy includes details of our voting policies in relation to board directors, shareholder voting rights, remuneration, auditors and capital allocation. In general, we support diverse boards with a majority of independent non-executive directors, remuneration packages which use share rewards and ownership plans to align management's incentives with those of long-term shareholders and the re-tendering of audit contracts on a regular basis.

Use of proxy advisors

We subscribe to a proxy voting service provided by Institutional Shareholder Services (ISS)[20], a global leader in corporate governance and responsible investment advice. ISS provides us with in-depth analysis of shareholder meeting agendas and voting recommendations based on its Sustainability Policy.

However, we do not automatically follow ISS' recommendations on any votes. As noted above, each voting decision is taken on a case-by-case basis. Investment managers consider ISS reports, alongside their own analysis, experience and dialogues with the company concerned and apply their independent judgement when reaching each voting decision. Should ISS recommend voting against company management, where appropriate we will engage with company management to improve our understanding prior to voting.

Client views on voting decisions

As part of our discretionary investment management agreements, our clients have given us voting authority for the equities we hold on their behalf. To date, we have had no voting directions from clients for shares held in discretionary portfolios.

20. Institutional Shareholder Services https://www.issgovernance.com/solutions/proxy-voting-services/

Our clients understand that we aim to invest in well-run companies which have strong management teams and governance structures, so we would not expect to have many votes on contentious issues for which clients may have strong views. We are mindful that, with the increasing number of shareholder proposals, this may change.

However, if our clients did express a view on a particular vote, then we would of course take this into consideration.

Stock lending

We do not lend stock.

Reporting on voting

We provide our clients with an annual stewardship report, detailing our voting and engagement on their behalf. This report will also be publicly available on our website. We also provide regular updates during our client meetings.

Our report includes an overview of our voting record and, in line with the Shareholder Rights Directive II, detailed case studies of any significant votes. Given that we only make an investment when we are satisfied that appropriate governance structures are in place and we therefore typically expect to vote with company management, we define significant votes as those where we voted against company management or abstained.

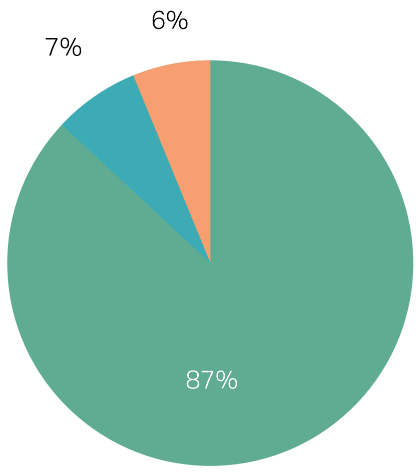
Activity and Outcome

We aim to vote on all equities for which clients have given us voting authority. However, we recognise this may not always be possible. For example, because of share registration requirements, we are currently unable to vote at meetings for Swiss-listed equities, but we are working with our custodian to try to find a solution to this. We were also unable to vote at the 2022 AGMs of three new holdings in portfolios as we bought the shares after the AGM had taken place.

Our focused investment approach means we only hold 25-40 companies in portfolios and in 2022, we voted on 609 proposals at 38 company meetings across six different countries. This means we voted over 90% of core equity holdings in client portfolios.

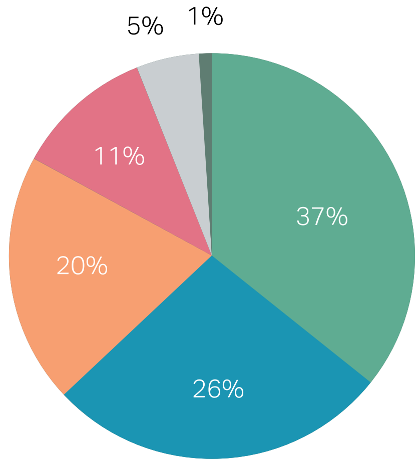
An overview of how we voted and the reasons for our votes against management and abstentions are included on the next page. Our full voting record for 2022 is available in the appendix to this document and we can provide more information on request.

As we aim to invest only in well-run companies which have strong management teams and governance structures, we typically expect to vote with board recommendations. But as in previous years, there have been cases this year when we felt it necessary to vote against certain management proposals and for some shareholder proposals.



Overall voting record to 31 December 2022

- Votes with company management
- Votes against company management
- Abstentions



Breakdown of votes against management and abstentions for 2022

- Shareholder proposal - disclosure
- Director independence
- Auditor tenure
- Remuneration
- Shareholder proposal - proxy access
- Board diversity

We firmly believe voting is not an isolated act and therefore goes hand-in-hand with our broader engagement work. Whenever possible, we will engage with companies prior to voting. One of our most interesting experiences during last year's proxy season was the AGM of entertainment company **Hasbro**. The company faced a contested proxy when shareholder, Alta Fox Capital Management, sought to replace longstanding Board members because of concerns around share price performance, capital allocation, disclosure and director tenure. This was a new experience for us and one where our efforts to engage prior to voting came into their own. We had a call with the Chair of the Board and senior leaders at Hasbro a few weeks before the AGM during which they set out the steps they are already taking to address the issues raised by Alta Fox. These included recruiting two new Board members and committing to further refreshing the Board over the next two years. We also had a call with Alta Fox to improve our understanding of their concerns. While we had sympathy with some of their views, we ultimately felt the most constructive approach would be to acknowledge the changes the Board were making, support the company in our votes and engage to ensure they honoured the commitments they made.

Furthermore, in each case where we voted against company management, either on a management proposal or on a shareholder proposal, we wrote to the company to explain our decision and to encourage dialogue with the company. This has yielded results. For example, our post-AGM letter to **UnitedHealth** led to a call with the Chief Legal Counsel and Company Secretary with whom we had a constructive and wide-ranging discussion on auditor tenure, disclosure of political donations and lobbying, severance pay and Board composition.

Voting case studies, giving specific examples of our voting activity and the outcome of this, are included below.

Voting case study

Company meetings: **Multiple**

ISSUE
SHAREHOLDER PROPOSALS ON IMPROVING DISCLOSURE

As we highlighted in last year's report, when it comes to shareholder proposals, we take the same approach as we do for company proposals: decisions are made on a case-by-case basis particularly as voting for shareholder proposals often means voting against company management. In 2022, we voted for several shareholder proposals aimed at improving disclosure, including at the AGMs for **Alphabet**, **Amazon**, **Mastercard**, **Microsoft** and **UnitedHealth**.

At the Alphabet AGM, we supported shareholder proposals asking for greater disclosure on environmental issues, such as reports on climate lobbying, physical climate risks and efforts to reduce water-related risks. We also supported a proposal on disclosure around data security, given that this is a material risk for the company.

At the Amazon AGM, we supported 10 of the 14 shareholder proposals tabled which encouraged greater disclosure and action on the issues which are most material to the company and which we had previously discussed during our engagement calls. These included the proposals asking for a third-party audit on working conditions, a report on the median gender/racial pay gap, a report on worker health & safety disparities and disclosure on the company's efforts to reduce plastic use. We voted against the shareholder proposals areas which are less material for the company or where the company already provides sufficient disclosure, in our view.

At Mastercard's AGM, we supported proposals requesting greater disclosure around political contributions and the steps Mastercard is taking to manage the risks associated with its networks being used for the purchase and sale of ghost guns (i.e. untraceable firearms, firearm kits or components and accessories used to assemble privately made firearms). While the company already provides some disclosure, there is an increasing focus on the issue of ghost guns given tragic events in the US. We therefore felt that by providing additional information on its approach to this issue, Mastercard could reassure all stakeholders that its risk management processes reflect the ever-changing social risks the business faces.

The ultimate outcome of these proposals is set out later in this report.

We would highlight, however, that because of the share class structure and associated voting rights (B shares have 10 votes per share, A shares one vote per share and C shares do not have voting rights), the most important shareholder proposal at the **Alphabet** AGM was the one asking for the recapitalisation plan to give one vote per share. Research from ISS notes that Larry Page and Sergey Brin currently control over 51% of the total voting power while owning less than 12% of stock. This proposal has been submitted at every AGM for the last 10 years and support for it is rising.

Voting case study

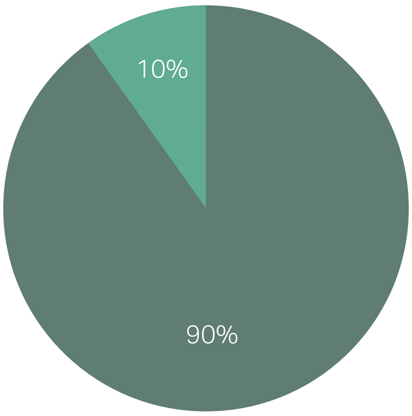
Company meetings: **Multiple**

ISSUE
DIRECTOR INDEPENDENCE

As highlighted previously, we expect certain Board sub-committees (such as the Audit Committee and Remuneration Committee) to be chaired by truly independent Directors to ensure there is sufficient oversight of risks and processes, free from the potential conflict of interest that could arise from long associations. We follow the European view that Directors can no longer be considered truly independent once they have been on a Board for 12 years. This contrasts with the view held more widely in the US, where Directors are independent if they have never held an executive role at the company. As a result, we abstained on the reappointment of Directors at the AGMs of several of our US holdings. These were **Align Technology**, **Avery Dennison**, **Fiserv**, **Franco-Nevada**, **Intuit**, **Intuitive Surgical**, **LabCorp**, **Marsh McLennan**, **Synopsys** and **Thermo Fisher Scientific**.

We fully acknowledge the benefits to both companies and shareholders of having experienced Directors on the Board. Rather, it was the combination of tenure and position of responsibility that made us uncomfortable. In each case, we wrote to the company to explain our views and have already had several constructive follow-up discussions.

As well as voting against company management, our approach means we sometimes vote against the recommendations of proxy services provider ISS.



Breakdown of votes in line with and against ISS recommendations in 2022

- Votes in line with ISS recommendations
- Votes against ISS recommendations

As set out in our Voting Policy, we read ISS' recommendations as helpful guides, but make our own voting decisions to take account of our in-depth knowledge of company-specific circumstances.

For example, at the AGM of distributor **Bunzl**, ISS recommended voting against the reappointment of Board Chair Peter Ventress because under 33% of Directors were women. In this case, a female board member had resigned less than two months before the AGM to take up an executive role elsewhere and we felt that it was unreasonable to expect the company to be able to replace her in this time. Furthermore, the company is targeting 40% of the Board and executives to be female and has also doubled the number of women in senior leadership roles in the last four years. We will, however, be keeping a close eye on Board composition at the 2023 AGM.

Reporting outcomes of our votes against management

One area where we have worked to improve our voting processes is around recording centrally whether proposals at company meetings ultimately passed or failed, and then communicating that information to clients. We have used our internal engagement tracker to track the longer-term impacts of our engagement and voting activity but in previous years, we have reported the outcome of individual proposals, although of course individual members of the investment team have tracked this for the companies they follow.

We are still exploring options for the best way to provide clients with insightful, decision-useful information on our voting and the outcomes, without overwhelming them with data points. But as a starting point, we are reporting on whether the proposals where we voted against company management passed or failed. For the purposes of the reporting requirements under the Shareholder Rights Directive II (SRD II), this is how we have defined "significant votes" and so seemed an appropriate to place to start with this reporting. This data is set out in next table, and we hope to be able to expand it further in 2023.

We would highlight that in 2022, generally the management proposals which we did not support were passed at the AGM and the shareholder proposals we chose to support did not pass. But while they are still comfortably being reappointed, some long-tenured Directors with positions of responsibility are starting to see their approval ratings fall. We discussed this with some of our US-based companies (such as **LabCorp** and **Thermo Fisher Scientific**) during the year and are optimistic that these trends will inform Board refreshment planning.

One notable exception was at the **Fiserv** AGM. A shareholder proposal calling for "the Board to seek investor approval for senior managers' new or renewed pay packages that provide severance or termination payments with an estimated value exceeding 2.99 times the sum of the executive's base salary plus a target bonus" passed by a slim margin (50.7%). Fiserv's Board had recommended voting against the proposal, but we chose to support it as the existing pay structure would have seen the CEO paid more to leave within three years rather than stay at the company for the long term. Since the result of the AGM, Fiserv has adopted a new policy to put such severance payment arrangements to an advisory shareholder vote. We are pleased that our votes contributed to this outcome.

It is also worth noting that at the **Mastercard** AGM, a shareholder proposal to lower the ownership threshold required to call a special meeting to 10% only received a 32% approval rating and was not passed. But a management proposal to lower the same threshold to 15% received a 98% approval rating and was passed. We supported both of these proposals.

Company & Meeting Details	**Proposal(s)** where we voted against management	**Voting result for this proposal** (% votes cast in favour of the proposal)
Synopsys AGM, 12 April	Shareholder proposal – voted for a proposal to allow shareholders to raise and vote on important matters outside of meetings	Failed (47%)
GSK Plc AGM, 04 May	Remuneration - new remuneration plan significantly increases the CEO's bonus and has a greater focus on short-term performance. Abstained on reappointment of Directors who sit on the Remuneration Committee as a result	Passed (61%)
Tractor Supply AGM, 11 May	Shareholder proposal – voted for a proposal calling for a "Report on Costs of Low Wages and Inequality and the Impact on Diversified Shareholders"	Failed (14%)
Align Technology AGM, 18 May	Auditor tenure – PwC first appointed in 1997 (previously abstained for two years so voted against reappointment)	Passed (91%)
Fiserv AGM, 18 May	Auditor tenure – Deloitte first appointed in 1985 (previously abstained for two years so voted against reappointment) Shareholder proposal – voted for a proposal to submit future severance packages to a shareholder vote if above 2.99x base salary plus bonus	Passed (94%) Passed (51%)
Amphenol AGM, 18 May	Shareholder proposal – vote for a proposal reducing the ownership threshold to call a special meeting from 25% to 10%	Failed (43%)
Amazon AGM, 26 May	Remuneration – lack of performance metrics in executive compensation plan Shareholder proposals – supported 10 of the 14 proposals including those asking for reports on a third-party assessment of the company's Human Rights Due Diligence Process, Efforts to Reduce Plastic Use, Worker Health and Safety Disparities and the Median Gender/Racial Pay Gap	Passed (56%) All failed (approval ratings ranged from 9% to 48%)

Company & Meeting Details	**Proposal(s)** where we voted against management	**Voting result for this proposal** (% votes cast in favour of the proposal)
Alphabet AGM, 01 June	Omnibus stock plan – benefits to shareholders not clear Shareholder proposals – voted for proposals asking for a Recapitalisation Plan for all stock to have one-vote-per-share, reports on climate lobbying, managing risks related to data collection, and a third-party racial equity audit amongst others	Passed (96%) All failed (approval ratings ranged from 4% to 33% for the proposal to introduce one-vote-per-share)
UnitedHealth AGM, 06 June	Shareholder proposal – voted for a proposal requesting greater disclosure on political contributions	Failed (37%)
Hasbro AGM, 08 June	Auditor tenure – KPMG first appointed in 1989 (previously abstained for two years so voted against reappointment)	Passed (91%)
Mastercard AGM, 21 June	Auditor tenure – PwC first appointed in 1989 (previously abstained for two years so voted against reappointment) Shareholder proposals – voted for proposals requesting a 10% ownership threshold to call a special meeting, a report on political contributions and a report on the risks associated with the sale and purchase of ghost guns.	Passed (95%) Ownership threshold – Failed (32%) Political contributions – Failed (10%) Ghost guns – Failed (10%)
NIKE AGM, 09 September	Remuneration – lack of performance awards in the long-term incentive plan for executive compensation	Passed (65%)
Microsoft AGM, 13 December	Auditor tenure – Deloitte first appointed in 1983 (previously abstained for two years so voted against reappointment) Shareholder proposals – voted for proposals asking for reports on government use of Microsoft technology, the development of products for the military and tax transparency.	Passed (95%) Government use of Microsoft technology – Failed (20%) Development of products for the military – Failed (10%) Tax transparency – Failed (22%)

Appendix
Voting Data Table - 01 January to 31 December 2022

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Intuit AGM, 20 January	12	0	3	We abstained on the vote to reappoint EY as the audit firm as it was first appointed in 1990. We also abstained on the votes to reappoint Suzanne Nora Johnson and Dennis Powell as directors. Suzanne Nora Johnson used to be the Lead Independent Director but was appointed Chair in Nov 2021. The LID role has been dropped as there is in theory an "independent" Chair now. However, by European standards a director, in this case the Chair, who has been on the Board for 14 years is not independent. Dennis Powell has been on the Board for 17 years and is Chair of the Audit Committee. Again, we think he is not truly independent and therefore should not be the Chair of the Audit Committee.
Accenture AGM, 26 February	16	0	0	
Infineon Technologies AGM, 17 February	23	0	1	We abstained on the vote to reappoint KPMG as the audit firm as it was first appointed in 2000. The company has indicated that it intends to change audit firm next year.
Synopsys AGM, 12 April	10	1	2	We abstained on the reappointment of Director Roy Vallee and on the vote to reappointment KPMG as auditors. Mr Vallee's almost 20-year tenure on the board makes his position as Lead Independent Director difficult to support, especially given Dr de Geus' combined roles as CEO/Founder and Chairman. KPMG was first appointed as audit firm in 1992 so is over the 20-year mark. We also voted to support a shareholder proposal to provide the right to act by written consent (this allows shareholders to raise and vote on important matters outside of meetings).
Bunzl AGM, 20 April	17	0	0	ISS recommended voting against the Chairman, Peter Ventress, because of a temporary lack of diversity on the Board. But as one female director left only two months ago, we felt there was not sufficient time to replace her before the AGM and the company has committed to addressing the issue, so voted to support Mr Ventress' re-election.

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Intuitive Surgical AGM, 28 April	10	0	4	We abstained on the following reappointments: Amal Johnson due to her 12yr tenure and role as Chair of the Compensation Committee; Alan Levy due to his 22yr tenure and role as Chair of the Nominations & Governance Committee; and, Mark Rubash due to his 14yr tenure and role as Chair of the Audit Committee. We also abstained on the vote to approve amendments to the omnibus stock plan as we felt we did not have enough information from the company to support the proposal.
Avery Dennison AGM, 28 April	7	0	3	We abstained on the following reappointments: Patrick Siewart because of his 17yr tenure and roles as Lead Independent Director and Chair of the Nominating and Governance Committee; and, Julie Stewart because of her 19yr tenure and role as Chair of the Audit Committee. We abstained on the vote to reappoint PwC as auditors as they were first appointed in 1960 and we had said to the company that we would abstain again this year.
Kerry Group AGM, 28 April	21	0	0	
British American Tobacco AGM, 28 April	20	0	1	We abstained on the vote to reappoint Luc Jobin as Chair of the Nominating Committee. ISS were recommending a vote against his reappointment because of a lack of gender diversity on the Board. We chose to abstain as the company has a plan to rectify the issue but will vote against him next year if the issue is not solved.
Franco-Nevada AGM, 04 May	10	0	2	We abstained on the following reappointments: Louis Gignac because of his 14yr tenure and role as Chair of the Compensation and ESG Committee, and Derek Evans because of his 13yr tenure and role as Lead Independent Director.
GSK Plc AGM, 04 May	24	1	3	We voted against the new remuneration plan because of a significant increase in the CEO's bonus and the shift to a greater focus on short-term performance. In light of this, we also chose to abstain on the votes to reappoint the Board Directors who sit on the Remuneration Committee.
Unilever AGM, 05 May	21	0	0	

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Phoenix Group AGM, 05 May	24	0	0	
Tractor Supply AGM, 11 May	10	1	1	We abstained on the vote to reappoint Ernst & Young as auditors as they were first appointed in 2001, and so are now over the 20-year mark. We voted for a shareholder proposal calling for a Report on Costs of Low Wages and Inequality and Impact on Diversified Shareholders.
LabCorp AGM, 11 May	12	0	1	We abstained on reappointing Kerrii Anderson given the combination of her long tenure (16yrs) and role as chair of Audit Committee. We voted against the shareholder proposal to remove the one-year holding requirement to call a special meeting. The one-year holding period is standard, is consistent with SEC requirements for filing shareholder proposals and provides a reasonable safeguard against abuse of the right.
Fresenius Medical Care AGM, 12 May	6	0	0	
Derwent London AGM, 13 May	22	0	0	
Align Technology AGM, 18 May	8	1	3	We abstained on the following reappointments: Joe Lacob because of his 24yr tenure and role as Chair of the Nominating and Governance Committee; George Marrow because of his 16yr tenure and role as Chair of the Compensation Committee; and, Greg Santora because of his 18yr tenure and role as Chair of the Audit Committee. We voted against the reappointment of PwC as audit firm as it was first appointed in 1997 and we abstained for the last two years.
Fiserv AGM, 18 May	8	2	2	We voted against the proposal to reappoint Deloitte as audit firm as it was first appointed in 1985. We also voted to abstain on the following two proposals: to elect Doyle Simons as the Lead Independent Director as he has been on the Board for 15 years, and to approve the executive compensation as the structure means that the CEO will be paid more if he leaves rather than stays for three years. We voted for the shareholder proposal to submit future severance packages to a shareholder vote if above 2.99x base salary plus bonus.

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Thermo Fisher Scientific AGM, 18 May	11	0	3	We abstained on the following reappointments: Nelson Chai because of his 11yr tenure and role as Chair of the Audit Committee; and, Scott Sperling because of his 15yr tenure and role as Lead Independent Director. We also abstained on the reappointment of PwC as audit firm as it was first appointed in 2002 so has reached the 20-year mark.
Amphenol AGM, 18 May	10	1	1	We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1997. We voted to support a shareholder proposal reducing the ownership threshold to call a special meeting from 25% to 10%.
Marsh McLennon AGM, 19 May	11	0	4	We abstained on the following reappointments: Stephen Mills because of his 11yr tenure and role as Chair of the Compensation Committee; Morton Schapiro because of his 20yr tenure and role as Chair of the Nominating and Governance Committee; and, Bruce Nolop because of his 14yr tenure and role as Chair of the Audit Committee. We also abstained on the reappointment of Deloitte as audit firm because it was first appointed in 1989. We discussed the issue with the company last year who said they were reviewing the auditors and it was the first sensible opportunity for them to do so post the JLT acquisition.
Next Plc AGM, 19 May	21	0	0	
Amazon AGM, 26 May	16	11	1	We voted for all directors and the stock split. We voted against the compensation plan because of a lack of performance metrics, and we abstained on the vote to reappoint Ernst & Young as audit firm as it was first appointed in 1996. We supported 10 of the 14 shareholder proposals, calling for greater transparency/disclosure. These were: Report on Retirement Plan Options Aligned with Company Climate Goals; Commission Third Party Report Assessing Company's Human Rights Due Diligence Process; Report on Efforts to Reduce Plastic Use; Report on Worker Health and Safety Disparities; Report on Risks Associated with Use of Concealment Clauses; Publish a Tax Transparency Report; Report on Protecting the Rights of Freedom of Association and Collective Bargaining; Commission a Third-Party Audit on Working Conditions; Report on Median Gender/Racial Pay Gap; Commission Third-Party Study and Report on Risks Associated with Use of Rekognition.

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Alphabet AGM, 01 June	16	13	1	We abstained on the vote to reappoint Ernst and Young as audit firm and we voted against the omnibus stock plan. We voted to support a number of shareholder proposals asking for a Recapitalisation Plan for all stock to have one-vote-per-share, reports on climate lobbying, physical climate risks, efforts to reduce water-related risks, managing risks related to data collection, security and privacy, a third-party racial equity audit, a third-party assessment of the company's management of misinformation and disinformation, and the establishment of an Environmental Sustainability Board Committee.
UnitedHealth AGM, 06 June	10	1	1	We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 2002. We voted for the shareholder proposal asking for more disclosure on political contributions and against the shareholder proposal asking for future severance payments to be submitted to a shareholder vote.
Hasbro AGM/Contested Proxy, 08 June	14	1	0	This was a contested proxy with Alta Fox Capital Management submitting a dissident proxy. We had a call with Board members to discuss this prior to voting. We also had a call with Alta Fox to discuss their concerns about the company and the Board composition. While we understood some of their concerns about share price performance, disclosure and director tenure, we ultimately felt that the most constructive approach would be to acknowledge the changes the Board is making, support them in the votes and engage over the next year to make sure they honour the commitments they made and make the necessary changes. We therefore supported management, apart from the reappointment of the auditors as they were first appointed in 1968.
TSMC AGM, 08 June	4	0	0	
Tesco Plc AGM, 17 June	23	0	0	

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Mastercard AGM, 21 June	16	4	0	We voted against the reappointment of PwC as the audit firm as it was first appointed in 1989. We abstained in previous years and have raised the issue with the company. We voted for three shareholder proposals asking the company to provide a 10% ownership threshold to call a special meeting, a report on political contributions and a report on the risks associated with the sale and purchase of ghost guns.
Pacific Assets Trust AGM, 28 June	15	0	0	
GSK Plc Special, 06 July	2	0	0	Special meeting to approve the demerger of Haleon.
Biotech Growth Trust AGM, 19 July	13	0	0	
Experian AGM, 21 July	17	0	0	
Nike AGM, 09 September	6	1	0	We voted against the proposal to approve the executive officers' compensation because of a lack of performance awards in the long-term incentive plan. While NIKE has committed performance incentives being 50% of the mix, this will be phased in over multiple years and performance is still relatively small in the mix; we would prefer them to increase the weight of performance metrics more quickly. We voted against the shareholder proposal (in line with management) asking the company to pause sourcing cotton and other raw materials from China. We did not support this proposal because the company has been very clear on its sourcing policy in China and has done further auditing specifically around sourcing from Xinjiang to ensure it is in compliance with all relevant restrictions.
ADP (Automatic Data Processing) AGM, 09 November	13	0	1	We abstained on the vote to reappointment Deloitte as audit firm as it was first appointed in 1968.
Broadridge Financial Solutions AGM, 10 November	14	0	0	

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Microsoft AGM, 13 December	16	4	0	We voted against the reappointment Deloitte as audit firm as it was first appointed in 1983, and we have abstained previously and written to the company about the issue. We also supported three shareholder proposals, asking for reports on government use of Microsoft technology, the development of products for the military and tax transparency.
Totals	**529**	**42**	**38**	

Please note that the table above sets out the voting activities of VIP (UK) Ltd. from 01 January to 31 December 2022. It may therefore include details for companies that are not held in your portfolio.

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If you no longer wish to receive, please contact us on the above number.