CHELVERTON
ASSET MANAGEMENT

Shareholder Engagement and Voting Policy

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INTRODUCTION

Stewardship of our investors assets lies at the heart of every Chelverton Asset Management Ltd (CAM) investment strategy.

The following shareholder engagement and voting policy has been written in response to the requirements of the Shareholder Right's Directive (SRD II), which places an obligation on asset managers such as CAM to publically disclose their policy on shareholder engagement, including their approach to voting.

Our stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on those matters as well as on issues that are the immediate subject of votes at general meetings.

1. INTEGRATING SHAREHOLDER ENGAGEMENT INTO THE INVESTMENT STRATEGY

CAM are fundamental equity investors predominantly investing in UK smaller and medium sized companies through four different investment strategies. CAM also manages one European all-sized companies strategy.

Shareholder engagement and voting is an integral part of each CAM investment strategy.

The Chelverton UK Equity Income Fund ("CEIF"), UK Dividend Trust ("Dividend Trust"), UK Equity Growth Fund ("CUEG") and Chelverton Growth Trust ("CGT") each invests in predominantly smaller and medium sized companies, and considers these will deliver superior investment returns over the longer term to the patient investor.

Smaller and medium sized companies are typically followed by fewer analysts than larger companies allowing information gaps and valuation anomalies to occur. CAM managers have demonstrated the knowledge, experience and skills to identify these anomalies and make investments in undervalued situations to create portfolios that aim to provide superior returns over the medium term to the diligent investor.

The Chelverton European Select fund ("CESF") invests in Continental European listed equities. This is an all-cap strategy. However, depending on the market opportunity, the fund may have a significant exposure to small and medium sized companies, sharing the CAM belief that superior returns can be generated by investing in smaller and mid-sized companies.

CAM's fund managers understand that they are responsible for managing assets on behalf of clients and invest it in line with client mandates.

CAM believes that when representing our investors we should not directly involve ourselves in the management of the investee companies but may seek to influence the management team, including in matters of corporate governance, sustainability, social or other ethical considerations.

CAM is supportive of the general principles expressed by the UK Corporate Governance Code and Quoted Companies Alliance (QCA) Corporate Governance Code for smaller and medium sized companies and, encourages investee companies to discuss governance matters with a CAM representative.

CAM considers that the board should be balanced in terms of having the right balance of executive and non-executive directors and a good mixture of abilities, knowledge and experience. However, CAM also believe that in exceptional circumstances it may be appropriate to break with convention and make allowance for unique skillsets and unusual circumstances and that this is particularly pertinent when investing in smaller and medium sized companies.

Ultimately, CAM in not a "forever" investor in a company. Where CAM determines that its investment case has been met, exceeded, or is not likely to be met within the investment time horizon, it will recycle shareholders capital into another more appropriate holding.

2. MONITORING & COMMUNICATING WITH INVESTEE COMPANIES

Monitoring and communicating with investee companies is undertaken by the investment team, corporate governance manager and responsible investing manager working together as a team.

Once CAM has bought into a company, we believe it is important to allow the management team time to effect both positive corporate change and deliver on the investment case which attracted our investment in the first place.

As responsible shareholders, CAM engages with management teams where appropriate, to understand evolving business risks and the dynamics of the investment to ensure confidence in management and the maintenance of the investment case over time.

CAM re-evaluates the business case on each investment as new information becomes available and balances the expected returns with the associated risks to arrive at an informed investment view.

CAM believes there is a balance to be achieved across the business cycle between reinvesting in the underlying business, the remuneration of directors and employees and returns to other stakeholders.

CAM invests across a multitude of investment sectors. Both macro-economic and micro risks are inherent and evolving in each sector. CAM manages its portfolios in line with investment mandates and regulatory requirements, and manages risk accordingly to mitigate risks in line with CAM's risk management policies. If CAM identifies a risk it may look to engage with portfolio companies to seek clarifications where it deems appropriate.

Each of our funds should hold an appropriate number of holdings for the strategy being pursued, with the aim of managing overall portfolio risk.

CAM managers engage in continuous dialogue with management teams throughout the life of the investment, with the aim of achieving a balanced outcome for all stakeholders. All managers are knowledgeable, experienced and have a patient approach towards investment management in line with investment mandates.

CAM seeks to have regular meetings face to face with the management of investee companies. Where appropriate, CAM enters into an ongoing dialogue with them on strategy, remuneration, capital structure, corporate governance, environmental issues, social issues, ethics and corporate culture.

Different investment objectives between CAM funds mean we employ a range of investment strategies which take an even-handed view on varying risk and return expectations through time, seeking to protect and enhance the value of client assets whilst responsibly minimising broad non-financial risks.

3. EXERCISING VOTING RIGHTS

In principle, having made an investment, CAM is likely to be fully supportive of the company management. The process of understanding the management, its style, culture and strategy is a crucial part of the investment process. CAM encourages respective management teams to contact a CAM representative directly on governance matters of likely concern to discuss matters more fully and provides them with a sounding board where appropriate.

Normally, CAM votes in favour of management resolutions at shareholder meetings, and the default position is to support management resolutions.

However, when management actions diverge from those CAM has bought into or, the return expectations change markedly from the original investment hypothesis, CAM seeks to engage directly with the company management to re-evaluate the situation.

If CAM believes the management strategy or delivery has become contrary to the initial grounds for the investment, or if CAM believes that further shareholder action has become necessary, it will look to have a meaningful dialogue with the Chairman or non-executive directors to understand the new situation.

In the main, CAM believes these conversations, should, in the first instance, be carried out through company advisors.

In the event CAM decides it has become necessary to vote against a management resolution, CAM will discuss this with the company prior to the vote whenever possible.

CAM do not use the services of a third party proxy voting advisor, believing in house governance analysis considered alongside the knowledge of the investment team is more pertinent for the CAM universe of predominantly smaller and medium sized companies.

4. CO-OPERATING WITH OTHER SHAREHOLDERS

With regard to participating in efforts to ensure the future sustainability of financial markets through the control systematic risks such as climate change, biodiversity loss or social issues, CAM will work collaboratively with other shareholders, as appropriate.

In relation to an individual shareholding, in extremis, where we consider further action to be warranted CAM may endeavour to engage with other like-minded shareholders, again through appropriate qualified channels, to provide a springboard for positive change.

5. MANAGING CONFLICTS OF INTEREST

CAM's employees and directors manage Conflicts of Interest in line with its policy, which is available on the CAM website (Conflicts of Interest policy).

6. DISCLOSURE OF VOTES CAST

CAM considers all votes for investee companies to be significant and votes every resolution.

The Chelverton UK Equity Income Fund ("CEIF"), UK Dividend Trust ("Dividend Trust") and UK Equity Growth Fund ("CUEG"), Chelverton Growth Trust ("CGT") voted on 4406 resolutions in the calendar year 2020.

Disclosure of votes cast from 1 January 2020 to 31 December 2020 which differed from our standard procedure of "Vote in Favour" were:

- 25/8/2020 – XPS Pensions Group – Having raised the issue at prior face to face meetings with the company we chose to Abstain on the re-election of the joint Chief Executive Officers as directors of the company. We believe that responsibility for executive control is best served by having one Chief Executive Officer at the helm of a company. We have raised this issue with the management on numerous occasions but they remain steadfast in their belief in having dual Chief Executives.
- 11/12/2020 - Codemasters - Having raised the issue at the face to face meetings with the company we Voted Against cancelling the companies listing on the AIM Index and re-registering itself as a private company. We believe that being shareholders in a private company is not in the best interests of our investors since it reduces our influence on the executives of the company, it makes trading of the shares more difficult and may lead to a reduction in equity value.

7. SHAREHOLDER ENGAGEMENT IN ACTION

The following vignettes offer examples of our shareholder engagement policy in action:

Company A (UK): The original face to face governance meeting with this company was to review the remuneration of the executive directors and changes proposed for the company Annual General Meeting. As is usual at these types of meetings, we reiterated our stance that we like any Long Term Incentive Plan (LTIP) for the executives to be spread as broadly as is practicable amongst the senior management and other key employees. We believe this engenders a greater breadth of employee loyalty and focus on the future wellbeing of the company not just short term considerations. Additionally, we are keen to see the Total Shareholder Return (TSR) measure used as, at least part of the basis for bonus calculations paid out in any LTIP. This measure factors in both Capital Gains and Dividends when measuring the total return generated by a stock to an investor. We see the payment of a dividend by a company as evidence of a maturing corporate situation. The meeting then broadened out into discussions regarding the Board composition. The company have a large legacy shareholder who is deemed to be non independent. Whilst not overly concerning in itself, it makes the formation of subsidiary Boards within the company difficult to achieve. We were keen to see this situation resolved to improve the internal function of the company. Subsequent to our meeting we were pleased to note it has been agreed that a TSR measure will be included in the LTIP calculation for the Executive Directors going forward. Additionaly, the "Non Independent" director will serve one more year on the Board but will be expected to stand down at the 2021 AGM.

Company B (UK): An investment which had suffered a downturn in profitability leading to the downsizing of the overall entity. A new Chief Executive was sought, at a salary comensurate with the new size and reduced complexity of the business. The Chairman undertook an extensive search and was successful in recruiting a new Chief Executive Officer at a lower salary than that of the outgoing one. Because of the international nature of the successful appointment, it was felt a one off relocation allowance was in order to move the new person to the United Kingdom. This relocation allowance has now become a recurring payment since the executive has not, and does not now intend to fully relocated to the UK. The payment is therefore to be changed in the Report and Accounts to being an "accomodation allowance" paid in addition to the salary. The sum of the Chief Executives salary plus the accomodation allow now exceeds the outgoing CEO's salary. Whilst we believe the new Chief Executive is doing a reasonable job to turn the company around, we are disappointed that the Chairman has not done a more robust job in reducing the corporate overhead in what is now a much smaller entity. Consequently, in a group telephone conversation with the company we have intimated our displeasure. However despite this the company intend to go ahead with the change of "allowance". As a result we are considering voting against the Chairman's reappointment at the next AGM.

Company C (UK): Has experienced a high profile shareholder rebellion around executive pay following a large acquisition. Fundraising for the acquisition, which was perceived to be expensive, was not handled well and led to significant reduction of shareholder value. Despite engagement with the Non Exec Chair outlining it was our belief that the dividend payment would be paramount going forward, it was subsequently cut. Following internal discussions we concluded it was in the best interests of our investors to vote against the re-election of the Chairman and Senior Independent Director at a time when the company was coping with many adverse factors. However we continue to make our displeasure known to the Non Executives whilst remaining supportive of the continuing work of the Executives.

Company D (UK): The company has suffered a number of setbacks in the last two years. We have begun to question whether the management response to past debacles been adequate and if the correct board structures are now in place to control and monitor events. Given the nature of their activities (Oil E & P) and the impact more rapid energy transitions may impart on their business model, have decided to increase our engagement with the company in a structured way to ensure a greater understanding of their transition plans and the strucutures and processes in place to deliver those plans.

Company E (European): A bank we invest in has changed the details of a long-standing profit sharing scheme. Allocations will still be made to the scheme but going forward employees will decide whether to take cash or shares – previously it was all shares. These announcements have led to questions over structural change. Having listened to management we back their decisions and will vote with them on related resolutions. There is still a strong collective responsibility and share ownership culture at the company and by delivering a 12%+RoE consistently for over 25 years we believe management have earned the right to be trusted in decisions such as these.

Company F (European): One of our smaller e-gaming investments has hitherto been domiciled in Malta. We had expressed concern over this and the company acknowledged that they were looking at the situation as this feedback had come from other investors also. At the start of 2021 the company announced a change in domicile from Malta to Luxembourg which we view as a positive development as should help underpin better governance and broaden interest in the shares.

8. REVIEW OF POLICY

This policy is will be reviewed at least annually