



CHELVERTON  
ASSET MANAGEMENT

# **ENGAGEMENT PLAN 2021**

## 1. INTRODUCTION

The following document outlines the purpose, context, and structure of the Chelverton Asset Management Limited (“CAM”) Engagement Plan 2021.

The document is intended to be read in conjunction with our Shareholder Engagement and Voting Policy and quarterly Engagement and Voting Report(s), which are available to view on our website.

Interested parties requiring further details about this plan or any of our responsible investing activities should contact our Responsible Investing Manager, Sally Clifton [sdc@chelvertonam.com](mailto:sdc@chelvertonam.com).

## 2. PURPOSE

The purpose of this engagement plan is threefold:

- to support our activities as signatory to the United Nations-supported Principles of Responsible Investing (UN PRI);
- to align with the best stewardship practice set out in the new UK Stewardship Code; and
- to encourage and enable improved environmental, social and governance (ESG) disclosures from our investee companies and those within our investment universe

Responsible Investing is defined by the UN PRI as the incorporation of ESG issues into investment decision making processes with the aim of improving risk management and returns.

Stewardship is defined in the UK Stewardship Code as the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Engagement and voting are central tenets of responsible investing and effective stewardship and involve purposeful dialogue with companies and voting management and shareholder resolutions at shareholder meetings.

## 3. CONTEXT

Established in 1998 CAM is a boutique equity investor specialising in small and medium sized companies, primarily in the UK. CAM manage a complementary European investment strategy which may invest in larger companies as opportunities arise but shares the CAM philosophy that superior value is often found amongst small and medium sized companies.

Respective investment teams take a bottom-up approach to company selection building conviction over time, investing in line with mandates and with the support of a dedicated ESG team.

CAM do not manage specialist ESG mandates that restrict or exclude investments, but as equity investors following a bottom-up approach we recognise the importance of integrating ESG issues within analysis and investment decision-making processes.

The CAM investment universe is typically under-researched, particularly by ESG ratings agencies.

CAM do not rely on third party ESG ratings from agencies but recognise that contradictory, absent or anomalous assessments may negatively impact investor sentiment and inhibit progress towards more sustainable business practices, through capital misallocation or an increased cost of capital.

Consequently, CAM are committed to encouraging investee companies to disclose their management of ESG risks and opportunities in a structured way using recognised frameworks that enable fair assessment by the market.

## 4. SUPPORTING OUR RESPONSIBLE INVESTING ACTIVITIES:

Since establishment in 1998 CAM has always acted as a responsible investor. However, at the start of 2021 we became signatory to the UN PRI with the aim of providing our clients with structured transparency regarding our approach to responsible investing.

PRI signatories commit to six responsible investing principles:

- Principle 1: Incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: Promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: Work together to enhance our effectiveness in implementing the Principles.
- Principle 6: Report on our activities and progress towards implementing the Principles.

This plan actively supports our pursuance of these principles.

## 5. ALIGNING WITH THE UK STEWARDSHIP CODE:

The new UK Stewardship Code outlines a best practice approach to stewardship centred on the context, purpose, and outcome of stewardship activities.

This plan is designed to contribute to the alignment of our stewardship activities with the aspirations of the new UK Stewardship Code, and we look forward to reporting outcomes as the plan matures.

## 6. STRUCTURE OF THE CAM ENGAGEMENT PLAN 2021

### 6.1. Company Engagement

At the start of 2021 CAM committed to initiating a structured dialogue with every investee company held within our UK portfolios, except those targeted for divestment.

#### Stage 1:

Targeted letters were drafted using a segmented approach dependent upon company size and level of maturity. These were sent out to respective Chief Finance Officers or designated executives.

Each letter explained our view of the increasing importance of identifying, monitoring, and reporting relevant ESG information in a structured way using recognised frameworks.

Letters were accompanied by an ESG Questionnaire tailored to company size and level of maturity, except those letters sent out to our smallest companies.

Letters sent to our smallest companies included an invitation to view and discuss an ESG questionnaire with the aim of increasing understanding regarding available reporting frameworks and tools.

The following is a sample list of some of the issues targeted by the letters and questionnaires:

| <b>Environmental Factors</b> | <b>Social Factors</b>     | <b>Governance Factors</b> |
|------------------------------|---------------------------|---------------------------|
| Climate change               | Supply chain issues       | Board Independence        |
| Water scarcity and security  | Labour relations          | Committee structures      |
| Energy security              | Community relations       | Financial disclosures     |
| Deforestation                | Product safety            | Shareholder rights        |
| Biodiversity                 | Trade practices           | Remuneration              |
| <b>Environmental Data</b>    | <b>Social Data</b>        | <b>Governance Data</b>    |
| Total GHG emissions          | No. of safety violations  | No. of board meetings     |
| Total energy consumption     | No. of product recalls    | Board attendance          |
| Total environmental fines    | No. of Community protests | No. of Committee meetings |

| <b>Environmental Ratios</b> | <b>Social Ratios</b> | <b>Governance Ratios</b> |
|-----------------------------|----------------------|--------------------------|
| GHG emissions intensity     | % Employee turnover  | % Independent directors  |
| Water intensity             | % Diversity          | CEO/worker pay ratio     |
| Energy use intensity        | Unionisation rates   | % Board diversity        |

**Stage 2:**

Responses to letters and questionnaires are being monitored by the ESG Team to provide standardised information that can enable further discussions during subsequent individual company meetings.

Follow up engagements will target the following, as appropriate:

- The quality of material risk identification
- The communication of sustainability strategy
- The integration of sustainability strategy within business strategy
- The direction of travel and priorities regarding ESG risk and opportunity management
- Progress and development of ESG reporting capabilities

**Stage 3:**

We will monitor the progress of investee companies in relation to standards and framework adoption, the effective reporting of trend data, and ESG management and commitments.

**6.2. Collaborative Engagement**

Knowledge of our investment universe highlights the challenging position small and medium sized companies often occupy in the economic eco system.

On the one hand, small and medium sized companies are often relied upon to deliver the ESG policy aspirations of governments and the ESG commitments of the larger corporates they supply or serve. They are also relied upon to adapt rapidly to changing ESG customer demands. However, on the other hand, standards and reporting frameworks are rarely designed with small and medium sized companies in mind and often pay little regard to the resource constraints experienced by these companies.

At the start of 2021 CAM committed to participating in targeted collaborations that address this situation with the aim of enabling the ESG monitoring and reporting needs of our investment universe.

**Stage 1:**

At the start of 2021 CAM became investor signatories to the CDP (Carbon Disclosure Project). The CDP is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.

CAM are participating in the CDP's Small and Medium Enterprise Climate Action Tracking, Accountability and Acceleration Project. This project is working to develop a streamlined climate reporting framework specifically for small and medium sized companies.

We have also added our name to an investor letter aimed at improving the ESG disclosures of larger corporates in relation to carbon emissions, water scarcity and deforestation.

**Stage 2:**

We will monitor and report on progress.

**Stage 3:**

We will continue to look for opportunities to participate in collaborate work targeted at the ESG disclosure needs of small and medium sized companies.