



CHELVERTON
ASSET MANAGEMENT

SHAREHOLDER ENGAGEMENT AND VOTING POLICY

1. INTRODUCTION

The following policy outlines the Chelverton Asset Management Limited (CAM) approach to shareholder engagement and voting.

Shareholder engagement and voting are central tenets of investor stewardship and lie at the heart of every CAM investment strategy.

Shareholder engagement is purposeful dialogue with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including company culture, remuneration and matters relating to environmental and social issues.

Shareholding voting is the exercise of voting rights in support, abstention or against management and shareholder resolutions at shareholder meetings.

This 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 publicly disclose their policy on shareholder engagement, including their approach to voting.

The policy is intended to be read in conjunction with our quarterly Engagement and Voting Report (s) and our Engagement Plan 2021. Both are available to view on our website.

Interested parties requiring further details about this policy or any of our other responsible investing activities should contact our Responsible Investing Manager, Sally Clifton sdc@chelvertonam.com or Corporate Governance Manager, Gregor Macdonald gmc@chelvertonam.com

2. INTEGRATING SHAREHOLDER ENGAGEMENT INTO THE INVESTMENT STRATEGY

CAM are equity investors following a bottom-up approach to stock selection. We predominantly invest in UK small and medium sized companies through four different UK investment strategies. We also invest in EU companies through one European (ex UK) all-sized companies' strategy.

Our investment purpose is to ensure the sustainable delivery of our client's investment objectives, in line with investment mandates.

Shareholder engagement and voting is integral to the delivery of our investment purpose and is a central element of the investment process of each CAM investment strategy.

Engagement and voting activities are undertaken by respective investment teams with the specialist support of the responsible investing manager and corporate governance manager working alongside each investment team.

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

The Chelverton European Select fund (CESF) invests in Continental European listed equities, including larger companies as opportunities arise. This fund may also have significant exposure to small and medium sized companies, sharing the CAM belief that superior returns can be generated by investing appropriately in small and medium sized companies.

Small 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 to longer term to the diligent investor.

CAM's fund managers understand that they are responsible for managing assets on behalf of clients and always invest 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 relating to relevant environmental, social, and corporate governance (ESG) issues.

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

We consider that the board of a company should be balanced in terms of executive and non-executive directors, contributing an appropriate mixture of abilities, knowledge, and experience. However, we 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 small and medium sized companies.

Ultimately CAM is not a “forever” investor in a company. Where CAM determines that an investment case has been met, exceeded, or is not likely to be met within the investment time horizon, we will recycle capital managed on behalf of clients into more appropriate holdings.

3. 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 the evolving business risks and the dynamics of the investment, ensuring confidence in management and the maintenance of the investment case over time.

As signatories of the United Nations-supported Principles of Responsible Investing (UN PRI) we are committed to incorporating ESG issues into our investment decision making processes with the aim of improving risk management and returns and engage with investee companies to better understand their management priorities in this regard.

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 each strategy 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 investee companies to seek clarifications, where it deems this 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 an ongoing dialogue 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.

4. 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 style, culture and strategy is a crucial element 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 we provide 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, every resolution is individually assessed by our dedicated corporate governance manager in discussion with the investment team.

When management actions diverge from those CAM has bought into, or the return expectations change markedly from the original investment hypothesis, CAM will seek 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 such as brokers.

In the event CAM decides it is necessary to vote against a management resolution we 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 and responsible investing manager is more pertinent for the CAM universe of predominantly small and medium sized companies.

5. CO-OPERATING WITH OTHER SHAREHOLDERS

Regarding participating in efforts to ensure the future sustainability of financial markets through the control of 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 and where we consider further action to be warranted, CAM may endeavour to engage with other like-minded shareholders through appropriate channels such as brokers, to provide a springboard for positive change.

6. MANAGING CONFLICTS OF INTEREST

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

7. DISCLOSURE OF VOTES CAST

CAM considers all votes for investee companies to be significant and votes on 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 during face-to-face meetings with the company we voted against cancelling the company's listing on the AIM Index and re-registering the company as a private company. We believe that being shareholders in a private company is not in the best interests of our clients as it reduces our influence on the executives of the company, makes trading the shares more difficult, and may lead to a reduction in equity value.

8. SHAREHOLDER ENGAGEMENT IN ACTION

The following vignettes offer examples of our shareholder engagement and voting policy in action during 2020:

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 Long Term Incentive Plans (LTIPs) for the executives to be spread as broadly as practicable amongst senior management and other key employees. We believe this engenders greater breadth of employee loyalty and more focus on future company wellbeing, not just short-term considerations. Additionally, we reiterated that we are keen to see the Total Shareholder Return (TSR) measure used as part of the basis for bonus calculations paid out in any LTIPs. The TSR measure factors in both capital gains and dividends when measuring the total return generated 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 Board composition. The company have a large legacy shareholder who is deemed to be non-independent. Whilst not overly concerning, 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. After 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. Additionally, the "Non-Independent" director will serve one more year on the Board and will then 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 commensurate 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 needed 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 relocate to the UK. The payment is therefore to be changed in the Report and Accounts to an "accommodation allowance" in addition to salary. The sum of the Chief Executives salary plus the accommodation 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 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): This company 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 a significant reduction of shareholder value. Despite engagement with the Non-Executive Chairman to outline our belief that the dividend payment would be paramount going forward, it was subsequently cut. Following internal discussions, we concluded it was not 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 is 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 several setbacks in the last two years. We have begun to question whether the management response has been adequate and if the correct board structures are in place to control and monitor change trajectories. Given the nature of their activities (Oil E & P) and the impact

more rapid energy transitions may impose on their business model, we have decided to increase our engagement with the company in a structured way to ensure a greater understanding of transition plans and the structures 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 decision 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 have taken the view that management have earned the right to be trusted with 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.

9. REVIEW OF POLICY

This policy is reviewed at least annually.