



CHELVERTON
ASSET MANAGEMENT

**ENGAGEMENT AND VOTING REPORT
QUARTER 2 / 2022**

INTRODUCTION

The following report provides the Chelverton Asset Management Ltd (“CAM”) engagement and voting record for the second quarter of 2022.

The report is intended to be read in conjunction with our Shareholder Engagement and Voting Policy, and Engagement Plan 2022. Both are available to view on our website.

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.

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

Engagement and voting are central to the CAM investment approach.

Interested parties requiring further information regarding our approach to engagement and voting should contact our Head of Responsible Investing, Sally Clifton at sdc@chelvertonam.com or Corporate Governance Manager, Gregor Macdonald at gcm@chelvertonam.com

Engagement Record:

In the second quarter of 2022 CAM’s investment managers attended over 140 meetings with individual companies within our UK and EU investment universe, supported by CAM’s corporate governance manager and responsible investing manager.

The focus of discussion during these meetings ranged from trading, performance, and strategy updates with executive teams, to discussions with non-executive board members regarding board composition, committee structures and executive remuneration. In particular, given current inflationary pressures, tight labour markets, continuing supply chain issues, and the threat of recession, the topics discussed most were the following:

- Wage inflation
- Demand outlook
- Pricing power
- Structural changes in supply chain management
- Shortages of key components or materials
- Experience during previous recessionary periods

In addition to these meetings, we also participated in 3 focussed meetings with company investor relations or sustainability experts canvassing stakeholder opinions regarding company environmental, social and governance (ESG) material risk, or garner feedback on proposed sustainability development plans.

During the quarter we implemented our Engagement Plan 2022, building on the work we began in 2021. We wrote to 82 existing holdings and 6 new holdings outlining the importance we attach to effective ESG management and reporting, outlining expectations regarding energy efficiency and the management of climate impacts, talent management including the management of diversity, equity and inclusion, and our hope that meaningful ESG targets can be included within executive remuneration packages alongside financial targets.

We also sent out 88 ESG questionnaires seeking updated information regarding each company’s identification and management of material ESG risks, the sustainability strategy, the integration of the sustainability strategy within business planning, and company priorities going forward.

Finally during the quarter, CAM continued to participate in relevant collaborative engagements that support the needs of small and medium sized companies in their control of market-wide and systemic risk.

In particular, we participated as investor signatories to the Carbon Disclosure Project (CDP), in the development of proposals to include questions relating to plastics in CDP Questionnaires from 2023, providing our feedback on the proposals.

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. The ambition of the work is to extend the current CDP reporting framework to include information relating to the production, use and disposal of plastics, to help companies better understand and mitigate plastic-related risks and accelerate the delivery of a sustainable circular economy for plastics.

Voting Record:

During the second quarter the Chelverton UK Equity Income Fund, UK Equity Growth Fund, UK Dividend Trust, and European Select Fund, in aggregate, voted on more than 3,300 company resolutions at shareholder meetings*, casting our votes in line with our Shareholder Engagement and Voting Policy.

We voted against 16 resolutions and abstained from voting on 2 resolutions during the period.

The breakdown of voting activity between the individual funds in Q2 2022 was as follows:

Fund Name	Resolutions	Vote in Favour	Vote Against	Abstentions
UK Equity Income	917	916	1	0
UK Equity Growth	1318	1312	0	6
UK Dividend Trust	491	480	3	8
European Select	597	597	0	0
Totals*	3323	3305	4	14

(* please note that for reasons relating to proportionality votes cast by the Chelverton Growth Trust are omitted. Further details available on request)

Chelverton consider all votes cast to be significant. However, in total, 18 votes were cast between 1 April 2022 to 30 June 2022 which differed from our standard procedure of "Vote in Favour", as detailed in our Shareholder Engagement and Voting Policy. We consider these votes to be significant to report and thus outline the rationale below:

- **John Wood Group**

The Chelverton Equity Income Fund voted against Resolution 2 'To approve the Report on Directors Remuneration'.

Sales in the 12 months to 31st December 2021 were down 15%, earnings fell 25%, and the shares have consistently underperformed the FTSE 250 index over a 5-year period. Dividend payments have been suspended since the payment of the interim dividend in 2019 and the company share price has fallen from 310p to 191p per share in the year.

Despite these disappointing indicators the executive directors received short term bonuses of £318K in aggregate, and long-term bonuses with face value awards of £2.4m (subject to performance), in addition to salary awards of £1.3 m.

The company is now a smaller entity having recently sold its consultancy arm. A new CEO has been appointed and we await contact to ask him to consider the size and makeup of the board given our disappointment in the management.

- **Randall & Quilter Investment**

The Chelverton UK Growth Fund and UK Dividend Trust abstained from votes relating to a recommended cash offer for the company (6 abstentions from each fund).

The shareholders received a “recommended cash offer” for the company from the largest shareholder. We believed the offer substantially undervalued the company, despite the existence of an urgent funding issue. We discussed with management the option of going to the market to recapitalise in preference to recommending the bid. However, the board proceeded to recommend the bid.

The bid was rejected by a narrow margin and the company has subsequently successfully completed a Placing and Open Offer to recapitalise the company. Despite this preferable outcome we are concerned by the actions of board members in relation to the original bid and are actively seeking discussions with the Chairman regarding these concerns.

- **RTC Group**

Chelverton UK Dividend Trust abstained on 2 votes and voted against 3 company resolutions.

During a difficult trading year, the company suspended payment of the dividend citing the poor trading environment. Despite this, the directors received an aggregate £280k in annual bonuses and on 24th May 2021 carried out a repurchase, from the directors, of 1.5m share options at the market share price of 46.5p. Chelverton were offered the opportunity to sell some shares to the company at the same price.

Following a substantial fall in the share price in the wake of failure to secure contract renewals, we have engaged with the Chairman to voice our disquiet, and in particular the payment of “performance bonuses” to executives despite the poor total shareholder return.

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In conclusion, we mentioned in our last Engagement and Voting Report that during the first quarter of 2022 we had agreed revisions to the Shareholder Engagement and Voting Policy which guides our engagement and voting activity. We can now report that during the second quarter we have published this revised policy, which is available to view on our website.