



CHELVERTON
ASSET MANAGEMENT

UK STEWARDSHIP CODE REPORT

2021

CHELVERTON'S COMMITMENT TO STEWARDSHIP

As boutique asset managers, dedicated to investing in small and mid-sized companies, stewardship has always been at the heart of our investment approach.

We are active managers, following a bottom-up approach to stock selection and we understand successful investment in nimble, under-researched companies requires a high level of commitment to stewardship centred on direct company engagement. We consider our skill in this regard to be value enhancing.

We build commitment to companies slowly, meeting executive and non-executive managers regularly to ensure our understanding of all factors that may impact the investment case.

We consider in-house analysis and data collection particularly important when investing in small and mid-sized companies, given the general paucity of information. This is particularly true in relation to environmental, social and governance (ESG) issues and we have developed a proprietary system for ESG data collection that informs active stewardship of individual companies.

Although we do not manage sustainability focussed or impact investment strategies, we increasingly meet with company sustainability professionals to better understand each company's sustainability focus, and we offer the executive teams of our smallest companies support in their development of improved reporting to address information gaps. Our investment managers devote significant resources to these activities, relying on the support of a dedicated ESG team working alongside them.

Against this backdrop of long-standing commitment to active stewardship, 2021 has nevertheless represented a step change in aspects of our work, resulting from new commitments made in recognition of developing client needs and changing market expectations.

Our aim has been to increase transparency and challenge ourselves to review, structure and improve aspects of our stewardship, to ensure our activities can continue to align with evolving best practice, most notably that set out in the revised UK Stewardship Code 2020.

In 2021 we also became signatory to the United Nations-supported Principles of Responsible Investing (UN PRI), committing to report how we integrate ESG issues within our investment processes and meet best-practice responsible investing standards.

Consequently, we are excited to submit this, our first, UK Stewardship Code Report. It highlights the solid foundations of our stewardship and how this enhances value for our clients. We believe our approach to investing in small and mid-sized companies, so often at the forefront of change trajectories, underpins our contribution to the development of more sustainable business practice at a recognisably pivotal moment in the race against climate change, and in response to other systemic challenges.

David Horner
Managing Director and Investment Manager
Chelverton Asset Management

INTRODUCTION

The following document outlines the Chelverton Asset Management Limited (“CAM”) approach to stewardship and our alignment with the principles of the UK Stewardship Code, for the period to 31 December 2021.

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.

Interested parties requiring further details about this report, or any of our stewardship activities, should contact our Responsible Investing Manager, Sally Clifton at sdc@chelvertonam.com.

Associated stewardship documents, namely CAM’s Engagement and Voting Policy, Quarterly Engagement and Voting Report(s), and annual Engagement Plan(s), are available to view on our website alongside this report.

PRINCIPLE 1

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

Established in 1998, CAM is a boutique asset management company dedicated to investing in quoted and AIM listed small and medium sized companies. We follow a bottom-up approach to stock selection, managing one open-ended investment company (OEIC) comprised of three complementary strategies, and one closed-ended investment trust.¹

Assets under management (AUM) at the end of December 2021 were £2.53 billion, split as follows:

OEIC:

- MI Cheverton UK Equity Growth - Launched October 2014, fund size £1,767m
- MI Chelverton UK Equity Income - Launched December 2006, fund size £516m
- MI Chelverton European Select - Launched March 2018, fund size £188 m

Closed- ended Investment Trust:

- Chelverton UK Dividend Trust - Launched May 1999, gross assets £62.5m

Our clients are the four funds that we manage, shown above.

We are appointed as the investment manager of the OEIC funds by the Authorised Corporate Director (ACD), Maitland Institutional services Ltd, with responsibility for managing the assets according to the mandate set for each fund on behalf of the investors within it.

We are appointed by the Board of the UK Dividend Trust as the investment manager, with responsibility for managing the assets according to the mandate for the Trust on behalf of the investors within the trust.

We recognise our responsibility to the ultimate beneficiaries of the assets that we manage, and our responsibility to other stakeholders, and discuss this further in Principle 6, including how and with whom we communicate. However, for clarity, most fund investors are professional investment advisors investing in our funds on behalf of individuals or institutions. We do not market to retail investors but provide regular monthly updates regarding our investing activities to prospective and current professional investors.

¹ For reasons of fairness and balance relating to proportionality, the Chelverton Growth Trust (NAV: £3.61m), and reference to unquoted investment activities (1% of revenues) are omitted from this report. Further details available on request.

As can be seen from the asset split, we invest predominantly in the UK but also in Europe (ex UK).

The MI Chelverton European Select Fund is the only strategy permitted to invest across the company size spectrum. However, the managers of this fund share CAM's investing belief that superior returns can be delivered over the long-term by investing in small and mid-sized companies, and the fund shares the disposition to invest in these companies.

Stewardship of the assets that we manage lies at the heart of each investment process as a core activity and source of valuation creation. We devote significant resources to stewardship and consider company engagement and targeted collaborative work to be a key factor in securing investment success over the long term. We engage with companies to better understand the investment dynamics, monitor investment risk and, where appropriate, enhance the prospects of targeted companies for the benefit of our clients.

The investment managers of each fund undertake stewardship activities with the support of CAM's dedicated ESG team working alongside them.

The interplay between our purpose, investing beliefs, strategy, and culture coheres to support our stewardship on behalf of our clients.

Purpose

Our purpose is to ensure the delivery of long-term client investment objectives through investing responsibly, predominantly in small and mid-sized companies.

Investing beliefs

CAM is a responsible investor, believing this approach will deliver long term benefits for clients, beneficiaries and the economy, environment, and wider society.

Small and mid-sized companies play an important role within the economy, creating jobs and delivering changing needs at pace.

We recognise our companies as solution providers, innovators, and important change actors who are often relied upon to participate in the delivery of more sustainable business practice.

Small and mid-sized companies are frequently under-researched, generating information gaps and valuation anomalies that CAM seek to identify for the benefit of clients.

Each investment strategy follows its own process regarding the financial criteria chosen to refine the whole universe of stocks to an investible universe for the fund, to deliver their investment mandate.

Each strategy considers qualitative and quantitative factors in their investment decision-making, including relevant environmental, social and governance (ESG) issues. Whilst CAM

do not manage specialist sustainability-focussed or impact funds, we recognise the increasing importance of considering these factors.

We discuss how we integrate stewardship and investment in detail in Principle 7. However, our objective in integrating ESG criteria within analyses is three-fold, and we believe this adds value for clients and other stakeholders:

- To optimise our management of investment risk and opportunity
- To improve the quality of our company engagement and stewardship
- To fulfil our fiduciary duty

We manage well diversified investment portfolios, and whilst we frequently hold substantial stakes in smaller companies, we generally limit ownership of one company to 10% across all strategies, investing for an average period of 3-5 years.

We are not 'forever' investors and look to recycle funds into new opportunities once an investment thesis has been delivered, or circumstances change preventing the delivery of the original investment case.

Our approach is to foster constructive relationships with the executive and non-executive management teams of committed holdings through regular engagement. Increasingly we also foster relationships with sustainability and other associated professionals. We engage in purposeful dialogue on all matters that may impact the success of the company and returns to shareholders.

Business Model and Strategy

Our business model and strategy are simple. The company is a boutique equity asset manager focussed on small and mid-sized company investment.

Our employees are predominantly investment managers, supported by a specialist ESG team, finance and regulatory specialists, and business support staff.

As stated, CAM act as investment managers and are not directly involved in the role of fund administration, custodial roles, or depository.

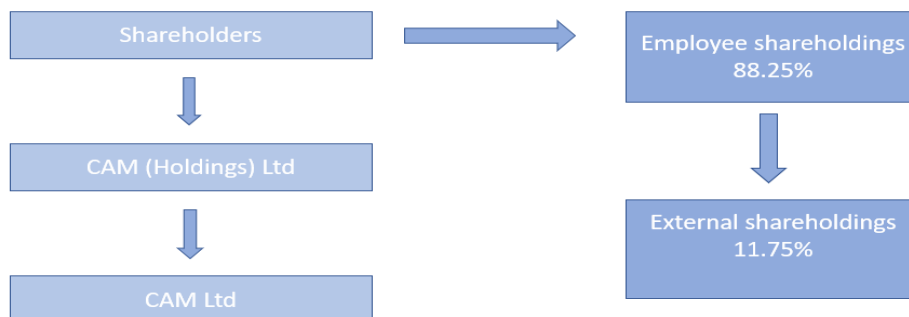
Our investment management activities are the primary source of our revenue.

Our strategy rests on building and leveraging our expertise as investors in small and mid-sized companies. This drives all decisions relating to resource allocation, capability building, and talent management, ensuring we can create, sustain, and protect value for our clients and, in so doing, wider stakeholders.

Culture

Our culture is essential to the delivery of our purpose, investing beliefs and strategy, and influences our stewardship.

We are a majority employee-owned company and our culture, led by our directors, creates a purposeful, collegiate working environment that aligns business and client objectives.



Our culture is supported by a variety of policies and procedures, including an annual culture letter which outlines expectations regarding how we work together and for our clients. This is supported by training, a Compliance Manual containing a Code of Conduct, and a Staff Handbook. Policies include equal opportunities, conflicts of interest, anti-bribery and corruption, data protection, whistleblowing, acceptable behaviour, and disciplinary and grievance.

Policies are reviewed and updated on a regular basis and consistency is ensured by appropriate training. This is discussed further in Principles 3 and 5.

CAM dissuades employees from activities which may negatively impact the business or client interests in a variety of ways, most particularly by aligning employee and client interests in these two ways:

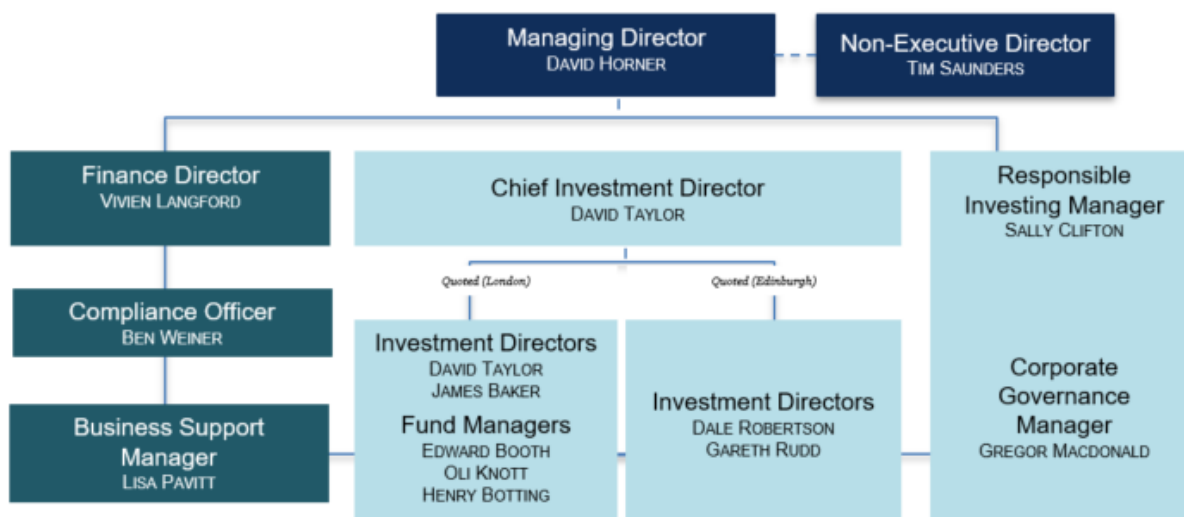
- employee participation in the company's share ownership
- employee participation in the investment strategies that we manage

We operate a 'flat' management structure, designed to optimise oversight and the sharing of ideas and information. Importantly this provides clear lines of responsibility to our board, which consists of four directors: managing director, chief investment director, finance director and a non-executive director².

The managing director and chief investment director are involved in day-to-day investment decision-making and stewardship.

Our organisational structure is discussed in Principle 2 but is represented in this diagram (correct as of December 2021):

² The Non-Executive Director will become Non-Executive Chairman in 2022.



Our team is diverse in respect of age, with a keen eye to succession planning. Twenty-five percent of board members are female, as are twenty-one percent of staff and CAM currently has fourteen employees.

Diversity, Equity and Inclusion is a subject we recognise requires focus in the interests of addressing systemic challenges related to opportunity that are important for the maintenance of a healthy financial and economic system, and indeed society as a whole. We have been discussing the issue pro-actively, including via focussed company-wide discussions, so that we can address it positively in ways that are appropriate to our small size, as we expect of those in whom we invest.

ACTIVITY

Our Engagement and Voting Policy, available [here](#), guides our approach to stewardship.

We devote particular attention to corporate governance (G) and expect investee companies to comply with the principles expressed in the UK Corporate Governance Code, or UK Quoted Companies Alliance (QCA) Code for small and mid-sized companies, or explain why they have not done so. We consider the individual circumstances of smaller companies when reviewing governance code compliance and in respect of European (ex UK) companies, we recognise regional corporate governance code differences and consider these as relevant.

Alongside our primary focus on company governance, as discussed above, we recognise the increasing importance of considering the management of environmental (E) and social (S) issues within company analyses, adding additional resources to support inclusion during 2020 and developing their use in 2021.

Our approach to engagement and voting pivots on a regular cycle of company meetings to monitor each investment, outlining our expectations where appropriate, and providing advice and support in certain cases with the aim of improving company prospects.

Our meeting cycle is now supported by an annual engagement plan, designed to ensure ESG issues are appropriately highlighted. Our Engagement Plan 2021 is available to view [here](#).

During 2021 we sought to maintain and strengthen the delivery of our purpose, adherence to investment beliefs, and the strategy and culture that enables stewardship, in the following ways. Many of the initiatives are discussed in more detail in subsequent Principles, but are nevertheless relevant in support of Principle 1:

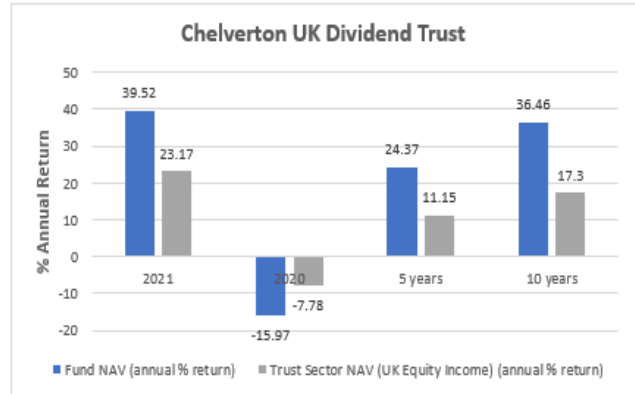
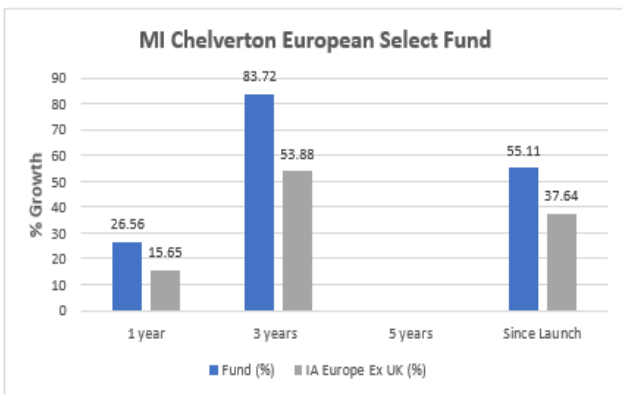
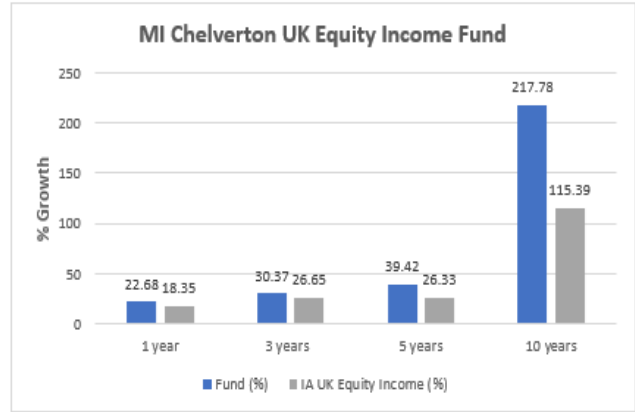
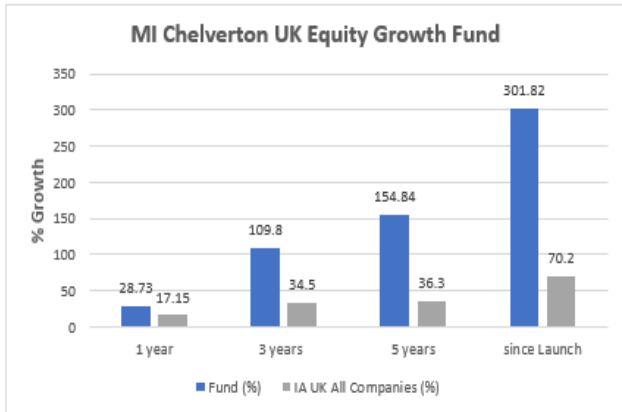
- We reviewed our governance, maintaining our flat organisational structure and adding a non-executive director to our Board.
- We committed to become signatory to the United-Nations backed Principles of Responsible Investing (UNPRI), to ensure we continue to stay abreast of best -practice and provide transparency for our clients in this regard.
- We committed to improve the alignment of our 2021 stewardship activities with the revised UK Stewardship Code to ensure we continue to pursue best-practice stewardship and provide transparency for our clients in this regard.
- We instigated an annual programme of director sponsored culture meetings, to nurture our excellence as small and mid-sized company investors. The CDP (carbon disclosure project), to whom we became investor signatory during 2021, were guest speakers at our first meeting, presenting the CAM team with comparative case studies regarding the use of CDP climate, water and deforestation data within investment analysis and decision-making.
- We launched an annual Engagement Plan designed to enhance company engagement, outlining expectations and informing discussions regarding the management of material ESG issues.
- We built our talent pipeline, recruiting a new assistant fund manager for our largest investment strategy, who shares a professional background in small and mid-sized company investing and has committed to responsible investing training to increase CAM resources in this regard.
- We added more ESG research resources to support our responsible investing activities, enabling the monitoring and reporting of systemic risk at the fund level.
- We established an ESG working group to focus on aspects of responsible business, resulting in a subscription to a carbon footprint service, calculating CAM's business footprint (ex -portfolios), enabling the development of a mitigation strategy.
- We added a monthly ESG meeting to our regular cycle of investment meetings, led by the ESG team, designed to ensure adequate focus on relevant change trajectories and portfolio level ESG risk and opportunity.
- We progressed the inclusion of the ESG team in regular company meetings, and dedicated ESG company meetings, as appropriate.

OUTCOMES

We discuss in subsequent Principles the planned evolution of our stewardship activities. However, in relation to how our purpose, investing beliefs, strategy and culture enables stewardship that creates long-term value for clients and other stakeholders, we point to two indicators:

- the relative outperformance of each strategy over the long term
- the improving ESG quality of each strategy during 2021, using MSCI methodology

Relative Outperformance of Each Strategy over the Long Term:



Sources: OEIC % cumulative performance: Morningstar and Chelverton Asset Management Ltd 31.12.2021; UKDT % Annual Returns: Morningstar and Chelverton Asset Management Ltd 31.12.2021

Fund ESG Quality Score During 2021

This is an MSCI score based on a compilation of three factors:

- the weighted average MSCI ESG score of underlying fund holdings
- the positive or negative momentum of company ESG scores over time
- the total exposure within the fund to below average ESG risk holdings

Links to the methodology for scores can be found [here](#) but it is helpful to say that the scale adopted is from 1 (laggard) to 10 (leader), with MSCI band descriptions shown as follows:

Fund ESG Quality Score	Fund ESG Rating
8.6* - 10.0	AAA
7.1 - 8.6	AA
5.7 - 7.1	A
4.3 - 5.7	BBB
2.9 - 4.3	BB
1.4 - 2.9	B
0.0 - 1.4	CCC

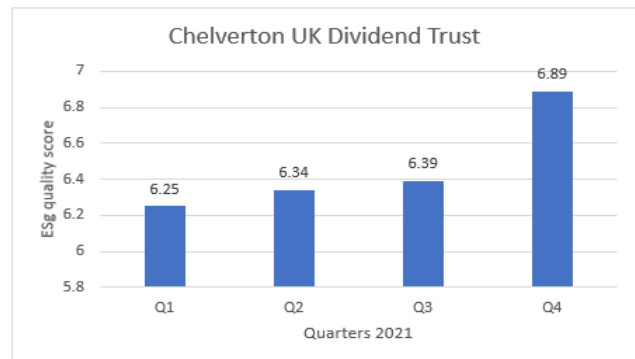
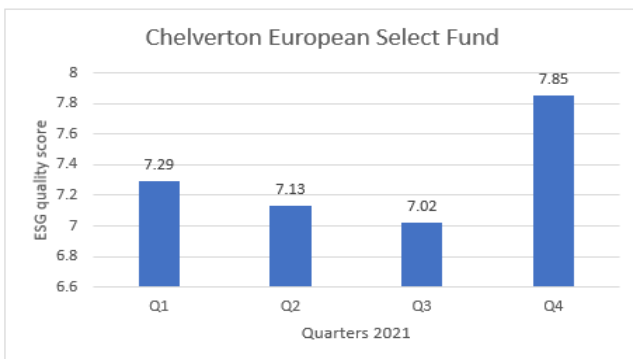
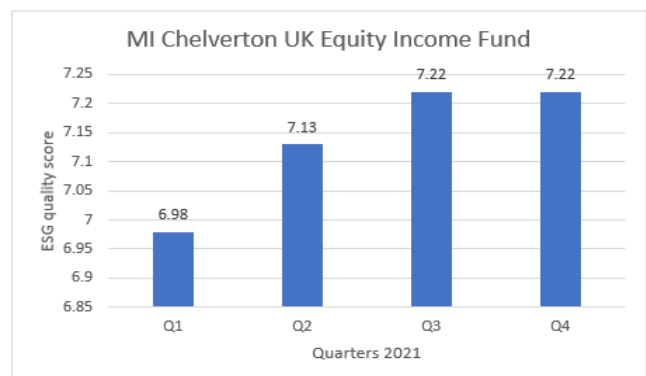
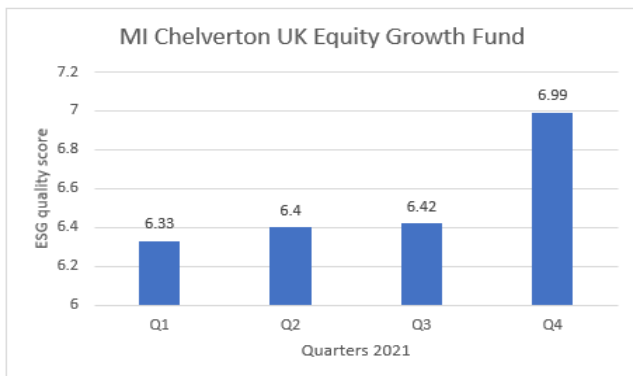
"FUND ESG RATINGS"		WHAT IT MEANS
AAA	LEADER	The fund invests in companies that tend to lead their industry peers in managing their financially relevant ESG risks and opportunities.
AA		
A	AVERAGE	The fund invests in companies that are in line with industry average in managing their financially relevant ESG risks and opportunities.
BBB		
BB		
B	LAGGARD	The fund invests in companies that tend to lag their industry peers in managing their financially relevant ESG risks and opportunities.
CCC		

Source: MSCI ESG Fund Rating Methodology August 2021

We have been monitoring fund ESG quality scores during 2021 by generating internal reports using MSCI data services, amongst a range of other risk parameters.

We consider the results should be viewed within the context of the MSCI company research coverage for each fund, given there are limitations³. However, within the context of these limitations, we feel the information is indicative.

All funds have improved their ESG quality score over the course of the year, and all are in the AA or A band, as shown in the infographic below:



Source: Chelverton Asset Management Ltd internal ESG Risk Reports using MSCI data services, 2021

³ Fund coverage at end Dec 2021, CUEG 45%, CEIF 78%, CESF 57%, UKDT 37%

PRINCIPLE 2

Signatories' governance, resource and incentives support stewardship.

CONTEXT

As discussed in Principle 1, as a majority employee-owned company CAM's simple business model and flat organisational structure support our commitment to stewardship in the following ways:

- niche investment processes
- client focus
- clear lines of responsibility and oversight
- dedicated resources
- alignment of employee incentives with client objectives

As mentioned in Principles 1, stewardship sits at the heart of every investment process as a core, value adding activity.

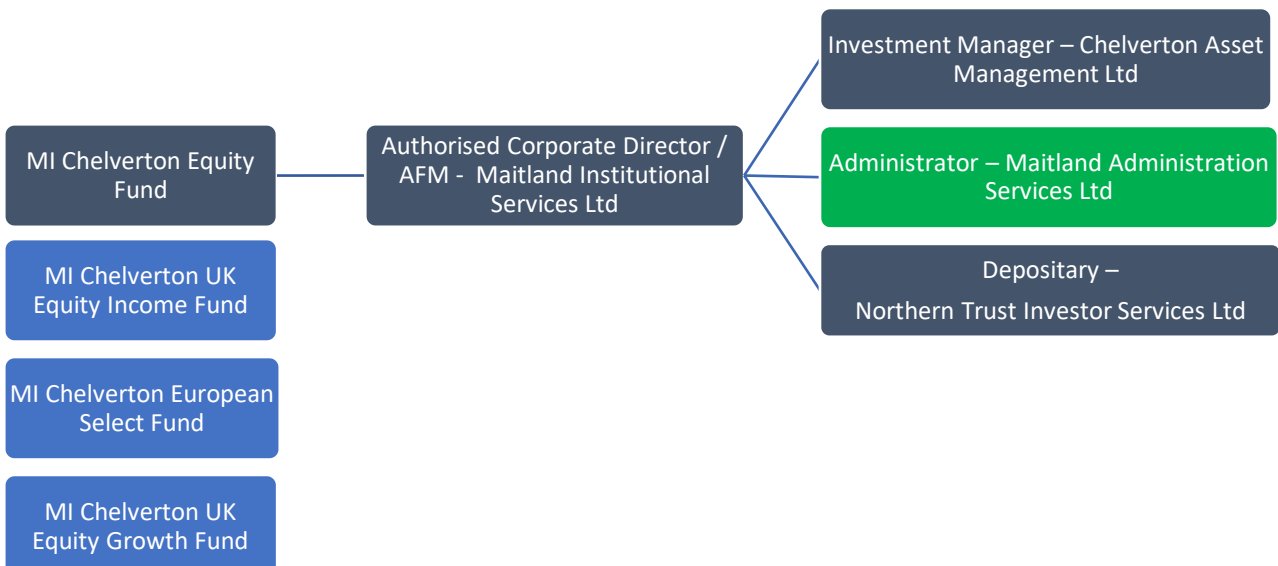
As mentioned, stewardship is guided by an [Engagement and Voting Policy](#) and the addition of a complementary annual [Engagement Plan](#). The advantage of CAM's long-standing approach is manifest in fund outperformance records.

ACTIVITY

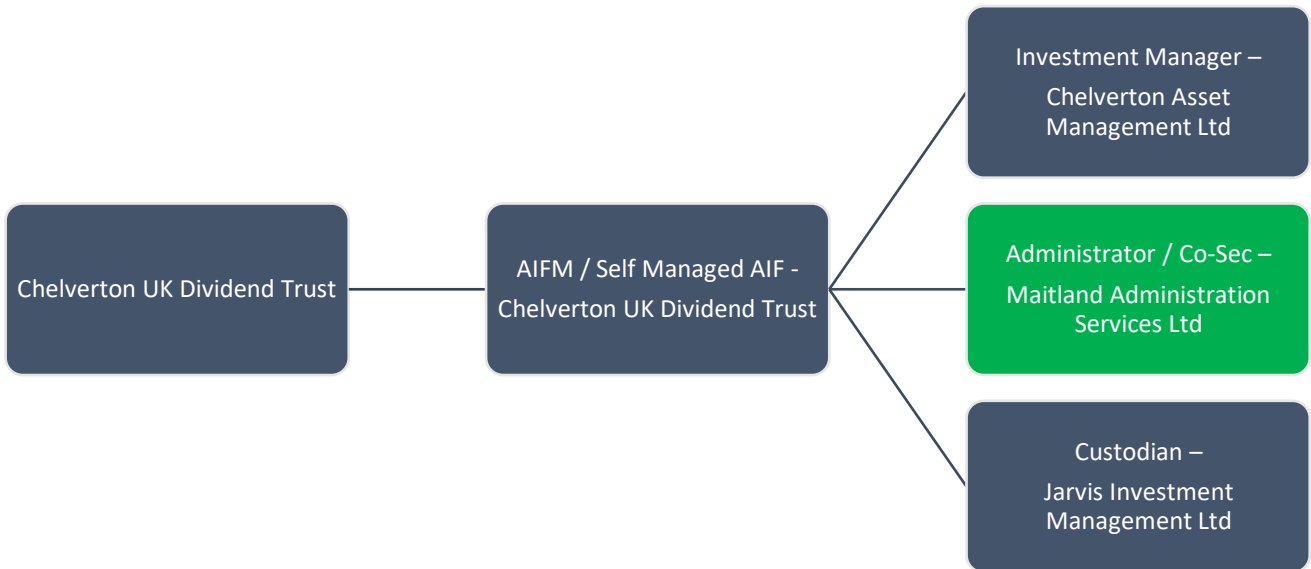
- **Governance**

Stewardship is supported by our flat management structure and size, which create clear lines of responsibility and oversight.

Oversight elements for the OEIC strategies are described in the following diagram:



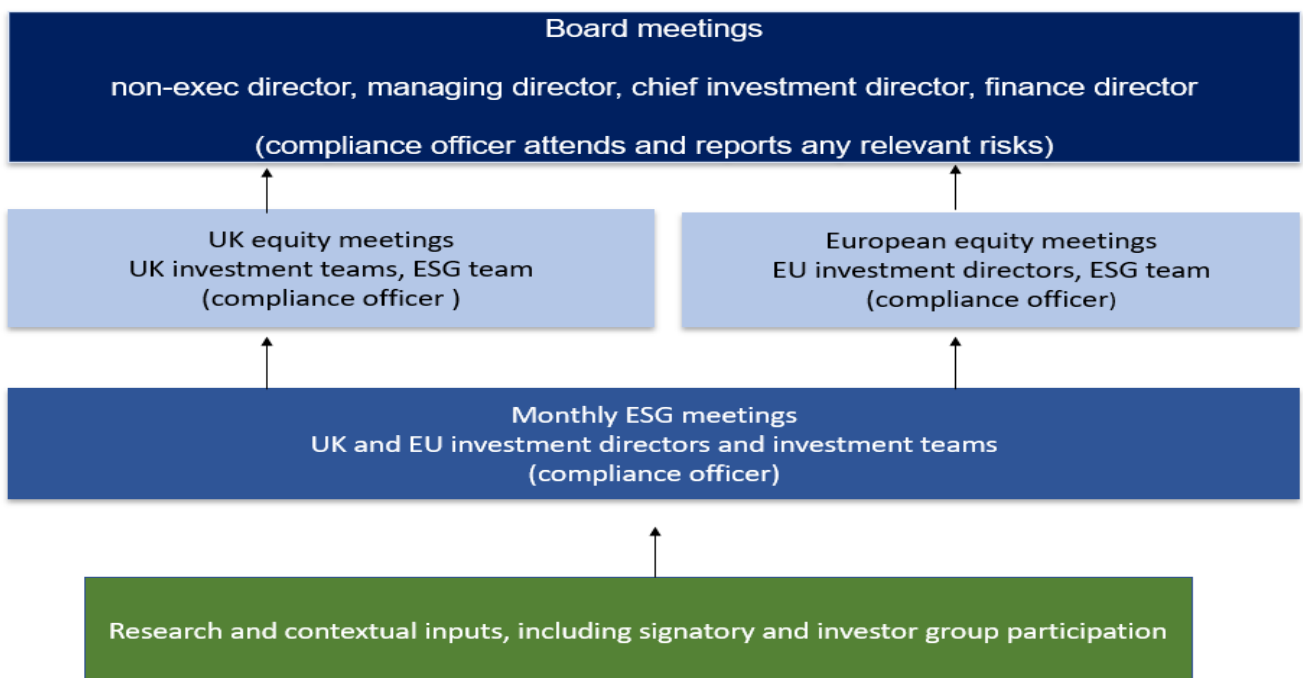
Oversight elements for the UK Dividend Trust are similarly described:



All companies and funds within the dark blue diagram areas are approved by the Financial Conduct Authority. CAM is appointed as Investment Manager on behalf of those funds.

Within this context, management of the funds by CAM managers is supported by a formal meeting structure, designed to provide peer challenge and ensure information flows between teams, informing company engagements in line with each fund’s investing objectives.

The following infographic summarizes the formal meeting structure and information inputs, including the mechanism for reporting investment risk to the board via our compliance officer.



Monthly ESG meetings provide an independent review of fund level ESG risk, with reports flowing to Board level. The forum is an opportunity to discuss the following:

- Company governance issues, agreeing the engagement approach
- Progress against the annual engagement plan, and matters arising
- Relevant ESG themes and news for investment context and to inform company engagement

Inputs from ESG meetings provide a backdrop for regular UK and EU equity meetings, which focus on macro context, the positioning of funds, and relevant investment activity. Again, reports from these meetings flow to the Board.

Information flows are iterative given two board directors are also members of investment teams.

The recent addition of a non-exec director strengthens the independence of the process, and the Compliance Officer also provides independent oversight of investment activity.

- **Resources**

Resourcing of stewardship is discussed in greater detail in Principle 5 and 7. However, CAM's primary resource is the experience of our skilled investment managers, who are all specialist in small and mid-sized company investment.

Each strategy has at least two investment managers working together as a team, with the talent pipeline assured for each strategy.

Each investment team relies on the support of CAM's dedicated ESG Team working alongside, consisting of a corporate governance manager and responsible investing manager.

The ESG team provide in-house governance and voting analysis, E and S pillar analysis, manage the annual Engagement Plan that sits alongside CAM's regular cycle of company meetings, and manage a shared Company Engagement Log that records company interactions to track conversations and progress.

As discussed in Principle 8, whilst each investment process undertakes its own research, each investment team and the ESG team has access to contextual inputs and relevant training from a range of sources, that include:

- Broker research from different research houses specialising in small and mid-sized companies
- MSCI ESG data, thematic research, and educational webinars
- Summary ESG ratings from Sustainalytics, ISS and Robeco SAM via Bloomberg, and sponsored webinars

- CDP environmental data, and sponsored webinars
- Other webinar training by industry groups, such as ICGN and UN PRI
- Industry information and webinar training from groups such as EDIE

At the business level we have access to Carbon Analytics scope 1, 2, and 3 emissions data for our Company (ex-portfolios), plus a range of business support services.

- **Incentives**

As discussed in Principle 1, CAM's employee-ownership structure and employee participation in the investment strategies that we manage, support the alignment between employee interests with the needs of our clients. In so doing, this incentivises the stewardship activity that lies at the heart of each investment process as a key element of investing success.

All full-time employees are shareholders in the firm, and we consider stewardship activity a core capability and investing strength. Individual managers are rewarded based on the firm's overall performance rather than individual fund performance. Thus, whilst stewardship is not explicitly incentivised in individual packages, it is implicit as central to the success of each investment process, and consequently the firm, in whom most employees are shareholders.

OUTCOMES

Despite our long-standing commitment to stewardship, 2021 has nevertheless been a year of review and the implementation of improvements in how we structure and monitor certain activities, most notably in ESG risk management.

Our review process and the developments we have put in place are discussed further in Principles 5, 7 and 8 and in aspects of other Principles. However, in relation to Principle 2, improvements have been implemented in governance and additional resources have been developed:

Regarding governance, our revised meeting structure, enabled by additional resources, has matured to improve oversight:

- The monthly ESG meeting, first introduced in 2020, has become more established. The establishment of the annual Engagement Plan throughout 2021, gathering proprietary ESG data from our companies and communicating expectations regarding the management and reporting of ESG risk, has enabled additional insight, informed targeted engagement, and enabled greater support of our companies as a value creating activity.
- The feed from the ESG meeting through to other meetings and up to board level, has improved the identification, control, and oversight of ESG risks in consequence.
- The addition of a non-executive director has brought an independent perspective, strengthening oversight.

Regarding resources, recruitment in 2020 resulted in the trialling of additional services, the consideration of new signatory commitments, and the approval of development plans to enhance aspects of our stewardship. This led to investment in additional resources in 2021, resulting in a range of outcomes:

- The evolution of our shared Company Engagement Log, enabling more sophisticated monitoring of issue management and voting records.
- New subscription to MSCI ESG data, enabling certain process enhancements.
- The monitoring of fund ESG risk trend data used for indicative guidance and oversight.
- Signatory commitments to CDP and UN PRI, offering access to resources for research, training, and development.
- The ability to provide bespoke ESG risk reports for clients on request.
- A subscription to Carbon Analytics to enable development of responsible business plans.

PRINCIPLE 3

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

CONTEXT

As discussed in Principles 1 and 2, CAM is a largely employee-owned, boutique asset manager placing client interests at the centre of its activities.

There are no separate performance fees in respect of CAM managed funds, and therefore many of the types of conflicts of interest which are relevant to larger investment management groups do not apply to CAM.

CAM have policies and processes in place to manage and identify conflicts of interest, which are supported by our culture and training, and assured and reviewed on an annual basis, as we discuss in Principle 5.

The intention behind our policies and processes is to ensure that conflicts of interest do not negatively impact clients, and implementation is supported by the small size of our company and flat organisational structure, which strengthen oversight, as discussed in Principle 2.

Any conflicts of interest that arise are raised with our compliance function and discussed with senior managers.

All conflicts that are raised are logged on a conflicts of interest register.

The intention is to manage conflicts so that all clients are treated fairly and a link to our Conflicts of Interest Policy can be found [here](#).

ACTIVITY

In terms of managing any conflicts of interest that may arise, the following can be said in respect of our stewardship:

- The firm uses pre-approved brokers when placing orders to buy and sell stock on behalf of our clients.
- CAM never deals on its own account.
- Allocation of orders is managed via the firm's trade allocation policy, which is available on request. All allocation of orders between different clients is recorded within Bloomberg EMSX, and allocation records are kept on the firm's servers.
- CAM has gift and benefit policies in place to ensure no gifts or benefits given or received could give rise to a conflict of interest between clients or the firm. Gifts and Benefits limits are in place, and any increasing amount or frequency of gifts or benefits are likely

to be scrutinised by compliance. No increase in the amount or frequency of gifts or benefits was recorded in 2021.

- CAM has Personal Account Dealing policies in place, with pre-approval required from compliance or a director of the company.
- It is possible a CAM investment strategy may have a stake in a quoted or AIM listed wealth manager, who in turn may invest its client's assets into one of our investment strategies. In this case, our investment management decisions will be made in line with client mandates, as is always the case for all investment decisions.
- Investment trust interests are represented by the independent board of the Trust. CAM managed OEICs have an independent authorised corporate director (ACD). Therefore, all client interests are represented by independent entities, to whom CAM has obligations to monitor and report pertinent Conflicts of Interest.
- No CAM director or employee has a board position on an investee company within any OEIC or the UK Dividend Trust.
- CAM runs annual training, which includes training for all staff on how to spot and manage conflicts of interest.
- The conflicts of interest policy sits within our Compliance Manual, which in turn forms an element of how we embed our company culture.

OUTCOMES

Compliance runs an annual training program. The training program is bespoke and delivered by the compliance officer from materials sourced from a third-party compliance consultancy.

As part of the training, which is delivered in different offices for specific teams, there is an open forum to discuss potential and actual conflicts of interest.

An example of a discussion regarding a potential conflict of interest used the example of a former CAM consultant, and was as follows:

Since leaving CAM a former consultant has taken on a role as Chairman of an investee company.

It was discussed that any current consultant wanting to take on such a role within an investee company would be required to disclose a conflict. CAM would attempt to manage the conflict, but it was discussed as unlikely that a current consultant would be permitted to take on a non-executive directorship within an investee company because CAM would need to deem itself permanently inside, and this would not be in the best interests of clients.

During 2021 one conflict of interest was reported to the register for discussion and resolution.

PRINCIPLE 4

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

CONTEXT

As discussed in Principle 1, we consider that small and mid-sized companies play an important role within the economy, creating jobs and adapting to changing market needs at pace.

Small and mid-sized companies can be particularly vulnerable to market-wide and systemic risk whilst relied upon, within supply chains and serving customers, as solution providers and innovators to deliver change, through actions such as improved resource efficiency and circular business model design.

Therefore, the identification of market -wide and systemic risk provides important context for our investment activity and stewardship, and we consider actions that support the specific needs of small and mid-sized companies are important to a well-functioning financial system.

Our investment teams and ESG team scan the horizon for risks and opportunities constantly. Our stock selection processes ensure we select companies with a robust financial profile and wide economic moat, and we maintain a constant dialogue regarding the identification and management of all relevant risks.

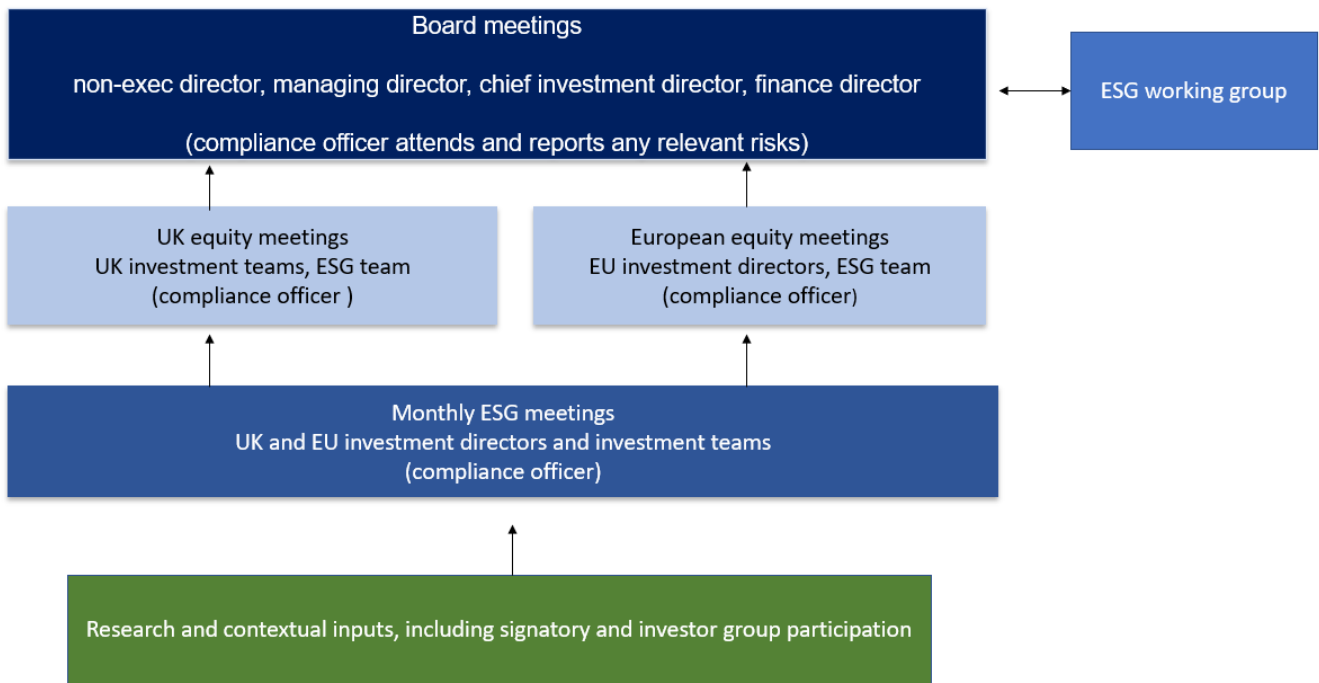
We discuss our bottom-up approach to investment and stewardship in greater detail in Principle 7 but summarise here how we identify issues and have taken collaborative and other action to support our companies in an effort to enhance company prospects for the benefit our clients and, in so doing, wider stakeholders.

ACTIVITY

As discussed in Principle 2, our meeting hierarchy and dedicated resources support the identification of market-wide and systemic risk.

Our investment directors and ESG team lead the input of information from horizon scanning to investment teams via the regular cycle of meetings, and this informs interactions with companies.

The infographic extends that referenced in Principle 2 to show the presence of our ESG working group, established in 2021, and collaborative associations, within our operating and stewardship matrix.



Horizon scanning prior to Covid 19 highlighted change trajectories that we now consider to be accelerating following the pandemic and in relation to other factors. Our focus in 2021 was to correspondingly escalate our actions in response to this accelerated change, with the primary objective of prioritising the needs of small and mid-sized companies within the financial ecosystem, as key contributors.

Ahead of the pandemic we identified climate change, bio-diversity loss, plastics pollution, and a variety of changing market expectations as systemic risks spurring change, such as the transition to clean energy or use of plastic alternatives in packaging and design. We saw focus to address challenges heightened by Covid 19, particularly in relation to supply chain management, resource constraints, labour shortages, and talent recruitment and retention, raising the profile of diversity, equity and inclusion as an issue for our companies to manage better.

In relation to labour shortages, anticipated supply constraints associated with Brexit were compounded by Covid 19 disruption, elevating talent management and the need to address changing employee expectations to more critical.

In relation to talent management and related issues of wider stakeholder management, we noted the complexity and poignancy of management decisions regarding the suspension of company dividend payments and reference communicating with clients in relation to dividend payments in Principle 6.

The confluence of these issues led to the following actions:

- We wrote a letter, tailored to company size and level of maturity, to all our small and mid-sized holdings outlining our belief that improving company disclosures regarding the

management of ESG risk and opportunity should be prioritised, to enable fair market assessments and the appropriate allocation of capital to those best placed to deliver required system change. Letters are available to view on request.

- We requested the completion of an ESG questionnaire, targeting material ESG risks, from all small and mid-sized companies, and made an offer to view and discuss an ESG questionnaire to our smallest companies, by way of developmental support. Questionnaires are available to view on request.
- We increased the number of our company interactions, supported by the continuation of video meetings to ensure no disruption at a moment of heightened stewardship activity.
- We prioritised Covid 19 pandemic impacts in internal discussions and company interactions, particularly supply chain issues and inflationary pressures, as pervasive return to normal challenges.
- Our income funds discussed dividend suspensions and policy with all fund holdings.
- Resource efficiency and human capital management were highlighted in company interactions, where the issues are material.
- Importantly, we used new signatory and investor group participation to support heightened recognition of small and mid-sized companies within the financial ecosystem, to ensure their unique needs are addressed, enabling constructive participation in required change delivery.
- We established an ESG working group, comprised of our Finance Director, Responsible Investing Manager, Business Manager, and Compliance Officer during 2021, to prioritise focus at the business level on identified ESG risk, ensuring CAM participate in controlling impacts.

OUTCOMES

- Company Interactions

During 2021 we had 715 company meetings with the executive and non-executive management teams to discuss company strategy, performance, risk, capital structure and corporate governance, including company culture, diversity, dividend policy, and relevant environmental and social issues.

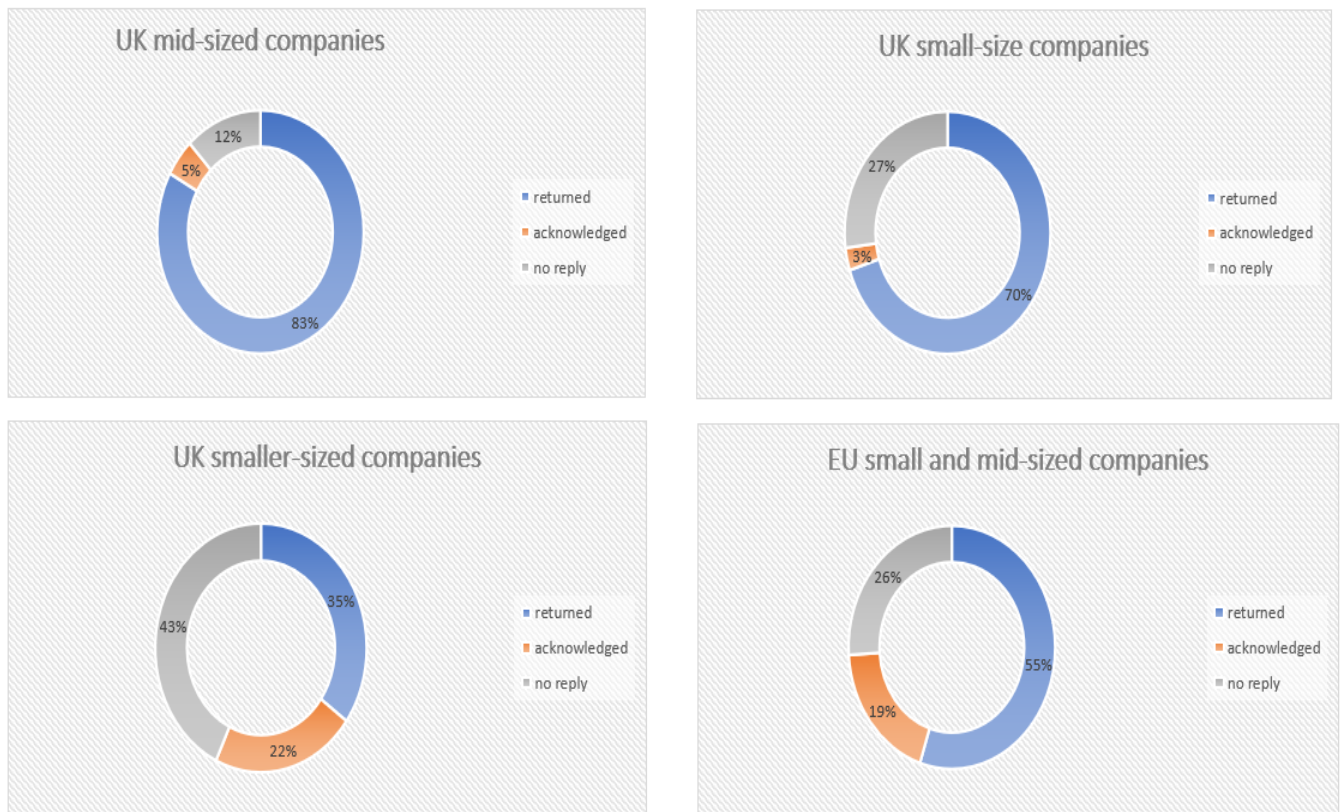
These meetings are discussed in more detail in Principle 9, but the objective was to monitor risk and, where possible, enhance the prospects of the company through our dialogue where appropriate.

Records for the period in our shared Company Engagement Log outline a high frequency of discussions relating to supply chain management, inflationary pressures, talent recruitment and retention, resource efficiency and the resumption of dividend payments.

We also wrote 405 letters to portfolio holdings laying out the importance we attach to ESG management and reporting, offering to work with our companies as appropriate to improve these disclosures.

We worked to create a consolidated proprietary database of ESG information using ESG questionnaires, to systemise the tracking of company progress.

The following infographic summarises our progress during 2021.



Source: Chelverton Asset Management Ltd 2021

- Collaborative Engagement

During 2021, as investor signatory to the CDP (Carbon Disclosure Project), a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impact, we contributed to their Small and Medium Enterprise Climate Action Tracking, Accountability and Acceleration Project, the purpose of which was to develop a streamlined climate reporting framework designed specifically for smaller and mid-sized companies.

This resulted in the launch of an SME Climate Disclosure Framework in November 2021, an element of their collaborative work with the UK Government to support the SME Climate Hub, a resource hub for small and mid-sized companies wishing to commit to halve greenhouse gas emissions by 2030 and reach net-zero emissions before 2050.

We consider this type of work to be particularly important for the inclusion of small and mid-sized companies in their efforts to combat climate change, supporting more accessible climate and other target setting and reporting frameworks. We note many ESG reporting frameworks designed for larger organisations fail to consider the resource constraints of

leaner smaller companies wishing to participate in efforts, presenting a barrier to their inclusion.

The next stage of this project is to refine the framework and consider the inclusion of further additional modules, and we plan to continue working with the CDP in 2022 to contribute to this development, in the interests of our companies and wider stakeholders.

We added our name to a collaborative investor letter aimed at larger companies, given their importance to the shared efforts to control environmental risks linked to carbon emissions, water scarcity and deforestation.

However, we did not participate in several collaborative letters from the CDP targeting our portfolio holdings, preferring to address discussions about reporting standards directly, within the context of our detailed knowledge of the strategy and operations of those companies.

In 2021, we joined the IIMI (Independent Investment Managers Initiative) ESG working group.

The IIMI is a think tank that gives voice to owner-managed independent asset management firms that are entirely focused on and aligned with the interests of their clients and investors, recognising the growing role these firms play in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large.

The core values of the IIMI are to serve as an independent, expert voice in the debate over financial reform, to restore society's trust in the financial sector, to promote the values and practices of owner-managed firms which align their interests with those of their clients, and to raise awareness of the positive, stabilising contribution small entrepreneurial firms can make to the economy and society as a whole.

As members of the IIMI ESG working group we participated in a number of meetings including a collaborative meeting with the UN PRI. The format was a short presentation from the UN PRI, with a focus on the benefits to smaller asset managers of participation. Importantly we were then able to reflect the concerns of smaller, often niche, asset managers under pressure to adopt standards designed for larger system participants, potentially diluting dedication to investing strengths that could be counter-productive to the maintenance of a healthy financial system. The UN PRI were receptive to concerns and conversations are planned to continue as we discuss how the contributions of small asset managers can be recognised and accommodated within best- practice reporting frameworks.

PRINCIPLE 5

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

CONTEXT

CAM's stewardship and associated policies are reviewed internally on a regular basis, and at least annually. However, as discussed in Principles 1, 2, and 3, our size and operating structure ensures CAM's directors monitor stewardship in line with related policies continuously.

CAM recognise stewardship policies form a part of wider firm culture and fit within the context of conduct and compliance risk. Conduct and compliance risk is also reviewed annually and supported by relevant training and reference to our staff Code of Conduct and Compliance Manual.

CAM is committed to working continuously to improve its policies and associated monitoring processes. Enhancements have resulted from efforts to align activities better with the Principles of the revised UK Stewardship Code, and this will remain ongoing in the spirit of continuous improvement.

We consider internal review is adequate assurance of our stewardship and other policies, when viewed within the context of CAM's employee-ownership structure, culture, and the importance we attach to stewardship activity as an investing success factor. However, we will keep this under review.

The Board has ultimate responsibility to assure our policies, associated processes, and assess the effectiveness of our activities. However, transparency regarding stewardship objectives and activities adds additional strength.

ACTIVITY

During 2021 CAM constantly monitored its stewardship activity within the context of our Engagement and Voting Policy and aspirations of the associated Engagement Plan, running in conjunction with other investment risk review processes.

We continuously discussed and reviewed, both formerly through our meeting structures and informally on an ad hoc basis, stewardship activity, the records contained within our shared Company Engagement Log, and voting decisions. We worked to reconcile records with objectives set, including voting instructions with records held by the administrator.

Improvements to processes in 2021 included the following:

- The production of quarterly Engagement and Voting Reports following a review of 2020 reporting.
- The reconciliation of voting instructions with records provided by the proxy voting service used to cast votes on our behalf by the fund administrator
- The design and implementation of the annual Engagement Plan in response to a review of 2020 engagement activity. This aimed to improve the inclusion of material ESG issues alongside the monitoring of financial risk factors during company meetings.
- The inclusion of the ESG team in company meetings alongside the investment team as appropriate, to ensure adequate discussion of ESG issues identified as requiring monitoring.

Engagement and Voting Reports were prepared by the ESG team and reviewed and amended by the investment teams, as necessary.

Engagement and Voting Reports were approved by [the Chief Investment Director](#), to ensure fair, balanced and understandable reporting to clients. The Chief Investment Director has oversight of stewardship activities and therefore, in CAM's opinion, reports do not require further external confirmation.

OUTCOMES

- CAM's Engagement and Voting Policy was amended to reflect revisions to UK Stewardship Code in 2020.
- CAM instigated quarterly reporting of engagement and voting activity from Q1 2021, publishing data on their website.
- CAM reviewed its internal meeting structure, including culture meetings, as an adjunct to policy development and implementation.
- CAM has reviewed how it reconciles voting instructions with records of votes cast. We pass voting instructions to the fund administrator. The administrator uses a proxy voting service to cast votes on CAM's behalf. We have requested periodic data regarding votes cast to ensure instructions are carried out correctly.
- Wider conduct and compliance risk relates to Conflicts of Interest, discussed in Principle 3. As discussed, CAM review its conflicts of interest policy on an annual basis, as part of an external review of its compliance policies and procedures, from a third-party compliance consultant. The result of this review of the firm's systems and controls resulted in no significant breaches in 2021.
- A non-executive director was appointed to the Board during 2021⁴, with the intention to be appointed as Chairman, to provide additional oversight of policies and processes that is independent of investment functions.
- Fund managers discussed and agreed all policy and process improvements.

⁴ Final approval for this appointment was made by the FCA in February 2022

PRINCIPLE 6

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

CONTEXT

As discussed in Principle 1, CAM's clients are the four investment funds that we manage. To remind, these are one open-ended investment company (OEIC) comprised of three complementary strategies, and one closed-ended investment trust⁵.

OEIC:

MI Chelverton UK Equity Growth - Launched October 2014, fund size £1,767m

MI Chelverton UK Equity Income - Launched December 2006, fund size £516m

MI Chelverton European Select - Launched March 2018, fund size £188 m

Closed-ended Investment Trust:

Chelverton UK Dividend Trust - Launched May 1999, gross assets £62.5m

We are appointed as the investment manager of the OEIC funds by the Authorised Corporate Director (ACD), Maitland Institutional Services Ltd, with responsibility for managing the assets according to the mandate set for each fund on behalf of the underlying investors within the funds.

Similarly, we are appointed by the Board of the Chelverton UK Dividend Trust as the investment manager, with responsibility for managing the assets according to the mandate set for the Trust on behalf of the underlying investors within this fund.

The investors within the funds are primarily Professional Clients and Eligible Counterparties, such as wealth managers and Independent Financial Advisors, acting as professional advisors to their clients.

We have a responsibility to communicate with the ACD of the OEIC, the Board of the investment trust, and with the underlying professional clients in the funds according to their needs and information requests. We never market to retail investors.

We communicate regularly and directly on a formal and impromptu basis with the ACD of the OEIC and Board of the investment trust, in response to their reporting needs and information requests. We similarly communicate regularly and directly on a formal and impromptu basis with the professional investors in response to their reporting needs and information requests.

⁵Due to proportionality the Chelverton Growth Trust (NAV £3.61m) and reference to unquoted investment activities (1% of revenues) are omitted from this report. Further details are available on request.

ACTIVITY

As mentioned, we communicate with the underlying investors in the funds via updates to our website, through relevant partners, and via individual one-to-one meetings and written communications in response to investor reporting needs and information requests.

The ACD of the OEIC and Board of the investment trust approve Prospectuses and Key Investor Documents (KIDs) for current and prospective investors in the fund. These documents outline all relevant details relating to investment in our funds, including the investment objectives and details of the investment approach.

CAM ensures communications with the ACD of the OEIC and Board of the investment trust remain appropriate and meet expectations through regular discussion.

CAM prepare quarterly investment trust Board reports and investment team representatives join board meetings to ensure that board members have adequate opportunity to discuss the investment manager's performance and relevant topics relating the period, or prospective periods. This is the forum where any stewardship questions or concerns are reported and can be discussed.

Similarly, CAM have regular updates with Maitland Institutional Services Ltd, the ACD of the OEIC. Maitland has a regulatory obligation to monitor the funds' performance and investment risk, and review CAM against investment objectives on a quarterly basis, as well as conducting an annual review of the firm's policies and procedures, which may or may not include the firm's stewardship and voting arrangements. CAM respond to all requests for communications in these regards.

In relation underlying professional investors, we communicate routinely via monthly factsheets, which include details of fund holdings and relevant contextual investment information, such as current investment views, macro investment context, and fund activity. CAM communicates ad hoc investment information as needs arise and in response to individual requests. As discussed in Principle 1 and 2, CAM is also able to produce bespoke ESG risk reports for clients in response to individual requests.

Stewardship and other relevant policies are communicated to underlying professional investors via our website and relevant partners, alongside our quarterly Engagement and Voting Reports, details of our annual Engagement Plan, and investing updates.

Voting reports are discussed in more detail in Principle 12.

In addition to these routine communications and one-to-one requests for information, CAM investment managers also participate in one-to-one meetings with prospective and current underlying investors in response to enquiries or requests for updates and information, including in relation to our stewardship activities.

Communicating why stewardship sits at the heart of each investment process, and how stewardship activities are designed and targeted to protect and enhance value for clients, is a key message for all CAM investment managers to get across in their communications and

considerable time and resources are devoted to these communications, with the support of the ESG team.

OUTCOME

In 2021 we adapted the frequency and tone of our communications to account for any increased client needs, or in response to requests. Professional investors, in consequence, continued to invest in our funds despite the continued challenging backdrop of the pandemic.

During 2021 the MI Chelverton UK Equity Income Fund produced additional updates for investors in respect of the cancellation and resumption of dividend payments pursuant to Covid 19 disruptions, in response to perceived investor needs and individual requests. The managers also made themselves available for individual investor meetings on request.

During 2021 we produced a COP26 bulletin available [here](#) outlining our views regarding the likely impacts of the UN Climate Summit in Glasgow on small and mid-sized companies, in response to perceived client interest and need.

Partly as a result of producing the COP26 Bulletin, we have reviewed perceived client communication needs and decided to introduce similar topical macro ESG communications going forward. We plan to make these available through relevant channels including a dedicated Responsible Investing area within an updated website, currently in design. This website area will be home to all published stewardship communications for ease of access.

During 2021 MI Chelverton UK Equity Growth Fund intentionally limited its marketing activities and therefore certain communications, to limit new investment into the fund given its large size relative to the asset class from which investments are selected. However, the fund managers continued with all routine and on demand updates for existing clients, including making themselves available on a one-to-one basis to discuss the fund in response to requests.

During 2021 the MI Chelverton European Select Fund distributed several additional investment updates in response to client needs, including producing an investment manager diary, and have made themselves available for individual investor meetings on request.

In 2020 CAM reviewed the ongoing communication needs of underlying investors, resulting in a commitment to provide greater transparency regarding our stewardship activities. This report forms a part of this commitment.

PRINCIPLE 7

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

CONTEXT:

CAM funds systematically integrate stewardship and investment. This includes the consideration of relevant ESG issues, such as climate change, in investment decision-making.

Interactions between the ESG team and investment managers, to support the inclusion of ESG issues in investment decision-making, has been discussed in Principle 2 and 4. ESG team members are not investment decision-makers. However, the ESG team work alongside the investment teams, participating in daily interactions, relevant meetings, and joining company meetings or adding comment prior to meetings as appropriate.

As mentioned in Principle 1, 2, and 4, small and mid-sized companies are under-researched, generating information gaps and valuation anomalies that CAM seek to identify for the benefit of clients.

The managers of each investment strategy undertake their own company research, assessing quantitative and qualitative information within the context of the current market valuation.

Significant time and resources are devoted to company engagement and voting, which lies at the heart of each process, and is discussed in greater detail in Principles 9, 10, 11 and 12.

The financial criteria used to select investments varies according to the objectives of each fund and all managers research qualitative characteristics to build a comprehensive picture of the business and management dynamics.

Managers focus on management and business strengths, opportunities, barriers to entry, disruptive threats, competitive dynamics, and ESG influences, and assess how these factors relate to the current market valuation and the anticipated macro environment throughout the investment time horizon.

Once a committed holding has been established the managers constantly review the investment case to ensure the investment trajectory is maintained. Valuation, risk and sell disciplines vary according to each investment mandate and these are communicated to clients, as discussed in Principle 6.

In relation to climate change and other ESG issues, CAM do not manage sustainability-focussed or impact strategies that apply selection criteria based solely on ESG characteristics, limiting or excluding investments in certain types of companies. However, whilst CAM do not apply exclusion policies, the investment focus of all strategies is on the quality of management and risks and opportunities over the investment time horizon, which includes assessing each company's recognition and management of material ESG risk. This

tends to exclude companies within inherently high-risk sectors that are assessed as managing ESG risk badly, or with no credible strategy or development plan.

ACTIVITIES

The following description outlines the investment and stewardship approach for each fund:

The **MI Chelverton UK Equity Growth Fund** focuses on small and mid-sized growth stocks. The aim is to generate long-term outperformance by buying cash generative companies on sensible valuations that can grow faster than the market. Key to this is finding companies that are sufficiently cash generative to fund their own development, so that growth is not dissipated by new equity issuance. The fund takes advantage of the long-term small and mid-cap outperformance effect, exploiting relatively inefficient market pricing to find attractively priced growth opportunities.

The **MI Chelverton UK Equity Income Fund** and the **Chelverton UK Dividend Trust** are amongst the longest standing UK equity Income funds investing for income and capital growth solely in small and mid-sized companies. The managers seek to capture the long-term outperformance effect of investing in small and mid-sized stocks, combined with the superior total returns of higher yielding equities. The managers apply the disciplines of equity income investing to the pricing inefficiencies inherent within the small and mid-cap universe. The funds aim to find relatively high and growing dividends from a broad range of sectors and industries.

The **MI Chelverton European Select Fund** aims to deliver capital growth to investors over the longer term by buying companies with strong free cash flow characteristics that the managers believe are undervalued by the market. The fund invests across the size spectrum down to a minimum market capitalisation of €50m. The managers believe by focusing on free cash flow yield it is possible to take advantage of the mis-pricings in stocks across the market cap spectrum, with a disposition to target small and mid-cap companies. Qualitative and quantitative analyses undertaken by European Select managers are incorporated within valuation, risk and sell disciplines via adjustments to cash flow forecasts and the discount rate applied to future cash flow forecasts.

UK and European funds build conviction to stocks slowly over time and company governance is always a focus of attention as leadership is considered the guiding hand of success.

As referred to Principles 1, 2 and 4, in recognition of the rising ESG risks that we have identified, including climate and other environmental and social risks, CAM adopted a more structured approach to ESG integration at the beginning of 2021.

Process enhancements during 2021 include the use of pre-investment ESG risk sense checks, referencing a recognised ESG materiality map to highlight relevant issues. Managers review ESG management and priorities within this context, referring to the ESG team if they have concerns. Referral boundaries guide managers and relate to risk levels.

Once a company enters the conviction building stage more detailed analysis is undertaken. As discussed, a company operating in a sector with inherently high ESG risk and identified as managing this poorly, without a credible plan, is unlikely to reach a fund.

Once a company enters a UK or European fund monitoring begins with a heavy reliance on company engagement.

In relation to ESG issues we write to each company, outlining the importance we attach to ESG management and reporting. We request an ESG questionnaire. The ESG questionnaire is designed to assess the following:

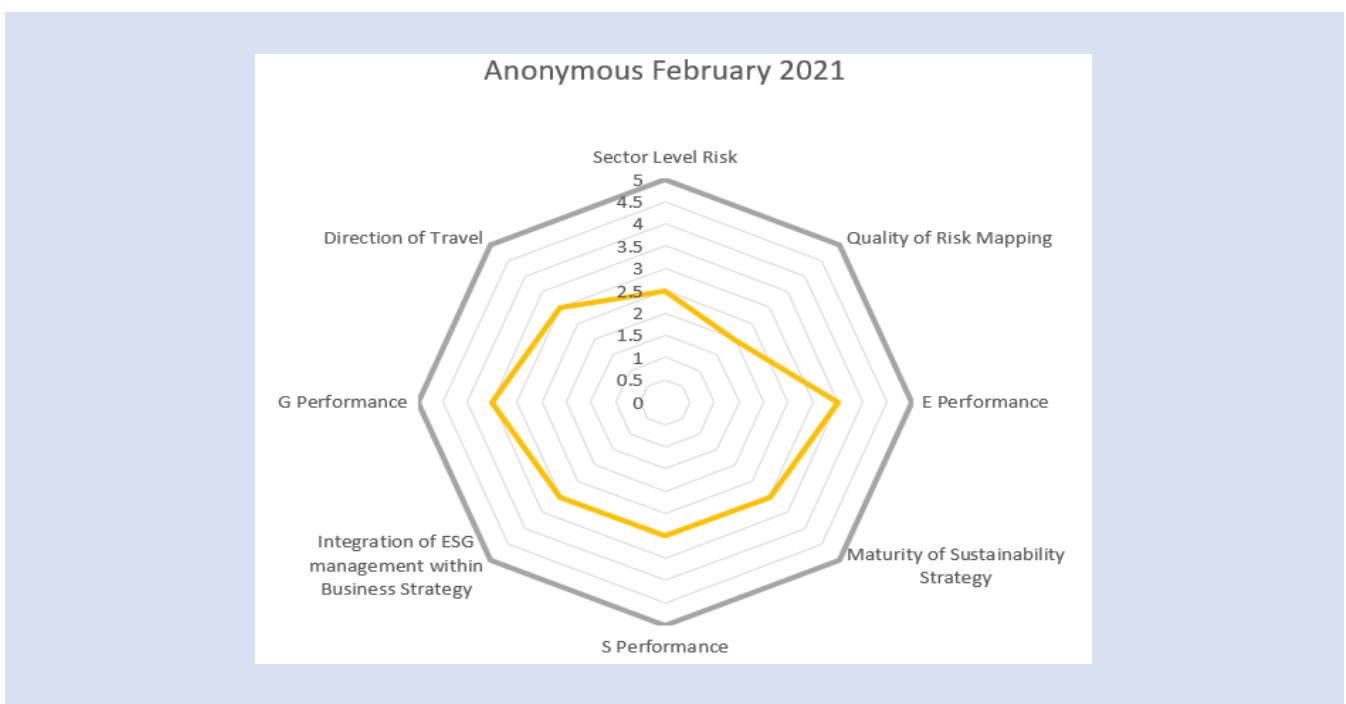
- Quality of the company’s material risk identification
- Sustainability strategy and how relevant it is in addressing their risk
- Integration of the sustainability strategy within business planning
- Priorities set and direction of travel in relation to achieving objectives
- Development of ESG management and reporting capabilities

UK and European managers consider information should be viewed relative to company size and level of maturity.

UK teams do not favour E, S, and G pillar scores for individual companies, and no CAM funds rely on third party ESG scoring other than contextually, considering the backward lens of most scoring methodologies to be inappropriate for dynamic smaller companies.

The UK funds have adopted dynamic diagrams that summarise the fields targeted by our ESG questionnaire, in preference to ESG scoring. These diagrams are used to communicate improvements in time series.

An anonymised example is offered here, accompanied by a comment exert, to describe how the diagram and comment inter-relate and are used to communicate.



“We received a relatively weak questionnaire in February. Adequate in terms of risk control but little evidence of viewing strong ESG management as competitive advantage. The overall risk context is low and the direction of growth away from print to online has provided a tailwind. However, given their brand reach S responsibility cannot be ignored. In February they articulated acceptable focus on managing E risks but no sustainability strategy, materiality mapping, no designated board oversight of ESG risks, and a meagre questionnaire fill from investor relations. Since then, I’m pleased to report significantly improved focus with a new website area dedicated to responsibility, CEO level messaging regarding using global reach to address S responsibilities, targets for managing certain impacts better, a new Board Responsibility Committee with dedicated board member responsibility for each pillar, a net zero target, and improved board diversity. Now mapping to UN SDGs. Overall momentum good. Improvements likely driven by COP26 impacts given the company are positioned to be alert to changing customer interests and needs, but reactive dynamism is timely given brand positioning and competition for talent. There is evidence of improvement to questionnaire fields. Whilst I’m certain many different forces have played into this it is heartening.”

European managers favour the use of in-house E, S and G pillar scores, using adjustments to the discount rate they apply to cash flow projections to reflect their view of heightened or well controlled ESG risk and opportunity, an approach they have adopted since the inception of this strategy in 2018.

Shareholder voting is an important element of our stewardship and is discussed in Principle 12. The team rely on in-house voting analysis from CAM’s dedicated corporate governance manager, who has been part of the team since 2018.

As discussed in Principles 2 and 4, CAM’s flat organisational structure and regular cycle of ESG and Equity meetings ensures informal and formal information flows between teams, enhancing stewardship.

Monitoring of investments is supported by IT and other resources, including our Company Engagement Log, enabling progressive dialogue.

Investment and stewardship activity is guided by relevant policies and the annual Engagement Plan.

Links to our Engagement and Voting Policy and annual Engagement Plan are found [here](#) and [here](#). Information regarding other policies contained in our code of conduct are available on request. Our Conflicts of Interest policy is available [here](#).

OUTCOMES

Company interactions and voting lie at the heart of our approach and are discussed in Principles 9, 10, 11, and 12. However we consider work during 2021 to inform investment selection and enhance company interactions, particularly in relation to ESG issues, has improved investment decision-making.

Examples of ESG integration influencing investment decisions are as follows.

SIGNIFY (Environmental and Social)

Signify is a global supplier of lighting products, systems and services. The company, through its Head of Sustainability, Nicola Kimm, is a frequent presenter on long-term sustainability targets. The company has already achieved carbon neutrality, using 100% renewable energies, as well as removing all plastics from its consumer packaging. Their efficient lighting solutions can increase yields in areas such as indoor crop growth, reduce energy consumption and reduce water consumption. Their melanopic lighting products can also enhance wellbeing. During the first Covid lockdown, the Leadership Team took a 20% cut to their compensation. Further, the vast majority of employees supported a 20% worktime reduction and pro-rata payment to help the company navigate difficult times. Recognising this gesture, Signify were able to return the reduced contributions from employees later that year, confirming the strong relationship with employees as stakeholders in the business.

DRAX (Carbon Emissions)

Drax is a power generation company. It has a number of hydro-electric power plants but the group's primary asset is the Drax power plant in Yorkshire. We were initially attracted to the investment due in part to its significant progress reducing CO2 emissions, having converted the Drax plant from a coal firing plant to a sustainable biomass plant. A key element of the future potential for the group is also its BECCS carbon capture technology, which it hopes to utilise to become a Carbon Negative company. While these positive drivers are still in place, we have noted increasing concern about the categorisation of biomass as a "sustainable, renewable energy source" given the significant carbon footprint of transferring the biomass pellets across the world and the CO2 released when burning them. Given these concerns we believe there is a chance the group's government subsidies may be under threat in the medium term, which would significantly impact the business model. As such we have begun to reduce our exposure to Drax within the portfolio.

FORESIGHT (Energy Transition)

Foresight is a specialist alternatives asset manager focused on niches within the Infrastructure and Private Equity markets. It manages approximately £6.1bn of infrastructure investments, focused on end markets such as Solar, Recycling, Bioenergy, Energy Storage and Wind. ESG and Sustainability have been embedded characteristics of Foresight's approach to investment since 2007, when it made its first environmental investment in the nascent Solar Power market. In a society increasingly focused on environmental issues and the requirement for investment in the energy transition, exposure to Foresight's underlying infrastructure investments made a compelling case for investment at IPO.

BLANCCO (Resource Efficiency, Circular Principles, Data Protection and Privacy)

Blancco Technology is an industry leader in the data erasure market, providing thousands of organisations with the tools needed to protect sensitive data when an electronic device reaches the end of service. A key attraction of Blancco is the part they play in responsibly recycling hardware that would otherwise be destroyed. In helping corporates reduce waste and Scope 3 emissions, Blancco provides a valuable service that we feel will remain robust through the coming economic cycle and is a key factor in our decision to invest in the company.

ASHTEAD TECH (Environment and Social)

The attraction of Ashtead Technology is twofold; its involvement in the renewables market, where it leases offshore wind repair and maintenance equipment, and its role providing rental equipment used in the decommissioning of oil and gas assets in the North Sea. During our pre-IPO meetings with the company, we were encouraged by management's proactive stance towards the energy transition and the need to support both the construction of renewables and retiring of fossil fuel assets. Given its involvement at both ends of this transition, we considered the business well positioned to continue benefitting from a strong pipeline of future work.

PRINCIPLE 8

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

CONTEXT

As discussed in Principles 1, CAM are equity stock pickers and therefore manager selection is not a feature of our activities.

Regarding service providers, as discussed in Principle 2, the following can be said:

- We do not subscribe to third-party proxy voting advice, preferring in-house analysis. We consider third-party proxy voting advice to be of generally poor quality in relation to small and mid-sized companies, due to the application of large company standards to smaller companies without regard to developmental context or individual circumstance.
- We do not rely on ESG ratings from third-party ESG data providers due to poor coverage of our investment universe and inconsistency in the quality of some assessments. However, we do subscribe to ESG data and company research from MSCI, and receive summary ESG ratings from Sustainalytics, ISS and Robeco SAM via Bloomberg, to provide context and inputs for our own assessments and monitoring purposes.
- We receive broker research from different research houses specialising in small and mid- sized companies, to provide context for our own assessments.
- All other service providers, such as administration, IT, and the appointment and review of audit teams are part of the individual engagement and wider firm policies.
- Our process for considering new services is to trial new services before subscription and, where possible, trial competitive services concurrently or consecutively.

ACTIVITIES

The research outputs of ESG data providers are monitored on a daily basis by the investment team and ESG team as appropriate, as an adjunct to our own analyses and as part of our stewardship.

Where we find material errors in MSCI ESG company research that we consider may impact the market perception of an individual investee company, we have a process by which the ESG team raise this with MSCI via client services and inform the investee company.

We also review ESG service coverage on a monthly basis in our ESG meetings. We raise our coverage list with MSCI on an annual basis, the last time being April 2021, to ensure our coverage priorities can be considered in MSCI's development plans.

CAM has semi-annual broker review meetings, which review trading performance as well as the research provision. Any alpha to be paid to brokers for good performance are discussed

during these meetings. Brokers are placed into tiers as to the level of research provider, with lower tier provisions being those ‘under review.’

The administrator of our OEIC sends monthly KPI (key performance indicator) reports to CAM, as well as providing an annual third-party audit (ISAE 3402 document.) Any queries in relation to these documents can be raised by compliance or the wider team.

During 2021 we trialled 2 potential additional services:

- Bloomberg ESG data services as an adjunct to existing Bloomberg services
- Carbon Analytics, who are experts in carbon foot-printing and reporting using financial transactions, to help us identify and manage our business carbon footprint (excluding portfolios), as part of our responsible business agenda

OUTCOMES

The following are specific examples of our monitoring of ESG research services and holding MSCI to account for data errors impacting the ESG rating assessment of individual companies that we own:

RM PLC is a market leader in the provision of IT products and services to UK schools and other educational establishments. In March 2021 the investment manager noted that MSCI’s ESG rating for the company was poor at BBB relative to our own assessment, due to concerns regarding ‘significant related party transactions’ and ‘board independence issues’. However, we noted MSCI had over-stated the related party transactions of 2 board members (CEO and a non-exec director) by a magnitude of 1000x and applied an inappropriate standard to an acceptable board composition of 3 independent non-executive directors, non-executive chairman, plus 2 executive directors. Consequently, we raised these issues with MSCI, who re-assessed their rating on the back of our comments, significantly upgrading their governance assessment resulting in a revised end Q2 2021 of A.

Diversified Energy operates in the Appalachian Basin and central US states of Louisiana, Oklahoma and Texas. They acquire mature assets (primarily natural gas) and invest in operational efficiencies, retiring wells responsibly at the end of their economic life. In October 2021 we noted anomalies in the carbon intensity trend data reported by MSCI compared with that reported by the company, distorting a downward underlying trend. On investigation this had resulted from the use of estimated data by MSCI for 2019, rather than data reported for the period in the company’s sustainability report. We raised this with both the company and MSCI and anticipate a revision in the company’s ESG rating in combination with their improved methane emissions management capabilities and an improved net zero emissions reduction target.

During 2021, across the fund range, we ran a number of trials with research providers, which we did not take on. We removed two research providers from our EU products and added one new one. We added one research provider in respect of our UK products.

During 2021, the operations team had various discussions with our IT service provider about the level service due to a number of issues (none of which had an impact on clients.) The IT service providers continued provision of service was placed into doubt in 2021, with a potential change anticipated in 2022.

Regarding new services following trials, we agreed the following:

- To extend the Bloomberg ESG services trial to give us more time to assess the value of a subscription.
- To subscribe to Carbon Analytics services, using the carbon emissions data generated for our business to pro-actively manage our Scope 1, 2, and 3 carbon emissions (ex-portfolios) downward where possible, and work on a plan during 2022 to offset hard to abate emissions using an accredited scheme.

PRINCIPLES 9, 10 AND 11

Signatories engage with issuers to maintain or enhance the value of assets.
Signatories, where necessary, participate in collaborative engagement.
Signatories, where necessary, escalate stewardship activities to influence issuers.

CONTEXT

We have chosen to combine our reporting against Principles 9, 10 and 11 to minimise repetition, given our stewardship approach is simpler than many asset manager counterparts due to our size, niche, and consistent approach.

As discussed in Principle 1 and 7, and aspects of other Principles, constructive company engagement sits at the heart of CAM's stewardship and always has done.

We have chosen to enhance long-established engagement processes, which relative fund outperformance indicates have delivered value for clients historically, for the following reasons:

- to stay abreast of best-practice
- to enable greater transparency and continued value creation for clients as certain change trajectories accelerate
- to ensure we play an active role in the control of rising systemic risk, including but not limited to climate change, given the importance of small and medium size companies within the financial eco-system

New structures and monitoring capabilities are maturing and whilst we are developing our approach, the core of our activity remains unchanged. This includes:

- High frequency of regular and constructive company interactions
- Flexible approach that considers individual circumstances, size, and maturity when applying standards
- Focus on strong governance as the guiding hand of company success

Our Engagement and Voting Policy, which guides our activities, is available [here](#).

Engagement enhancements in 2021 relate to structured engagement alongside regular company meetings, as described in our annual Engagement Plan 2021 available [here](#), to be progressed in the annual Engagement Plan 2022 available [here](#). These aim to:

- Raise the profile of material ESG issues within decision making, where appropriate
- Build our proprietary ESG tools (questionnaire database and shared Company Engagement Log) to enhance our interactions
- Outline our ESG management expectations to fund holdings

- Support improved ESG management and reporting from small and mid- sized companies, as a value creation exercise

Collaborative work aims to support the needs of small and mid-sized companies. Given we seek to foster constructive relationships with companies we do not favour collaborative engagement that targets individual holdings as a form of escalation, preferring one-to-one dialogue, except in exceptional circumstances.

Regarding escalation, the desired outcome of engagement is to reduce investment risk and enhance the prospects of the companies in whom we invest through dialogue and support. However, we are not 'forever' investors and sell holdings where the investment case is in doubt due to perceived management failure or circumstance.

Escalation may include shareholder voting and this is discussed in Principle 12. However, our investment approach results in a high commitment to fund holdings and we expect to be supportive of management resolutions, discussing contentious issues prior to voting on a one-to-one basis.

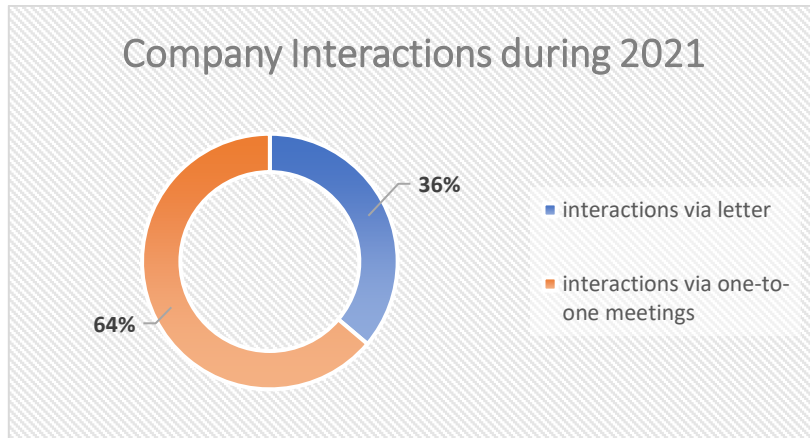
ACTIVITY

As discussed in Principles 1, 4 and above, we engage in a high frequency of company meetings.

In 2021 meetings remained largely remote and we remained happy to support this to ensure our interactions continued. Although we welcome a gradual return to face-to-face meetings as a preferable way to build and maintain rapport, we appreciate there is a balance to be struck between controlling the negative impact of unnecessary business travel and embracing changing practice, and optimising company engagement outcomes on behalf of our clients.

In 2021 we increased the volume of written engagements as part of our Engagement Plan 2021, to enable the build and maintenance of our proprietary ESG database.

In future we will consider the benefit of a manager of our size providing more detail regarding how we engaged i.e., the split between virtual, face-to-face, telephone and written engagements, and with whom we engaged i.e., the split between executive, non-executive, sustainability or other relevant company specialists, and investor relations. However, as per the detail offered in Principle 4, we provide the following relating to the 715 company meetings we attended in 2021, and the 405 letters that we wrote on the subject of ESG management and company disclosures, circulating 315 ESG questionnaires.



Source: Chelverton Asset Management Ltd 2021

In 2021 we expanded the shared Company Engagement Log that was established in 2018 to improve the tracking of engagement themes. We plan to consider the benefit of a manager of our size providing segmented rather than aggregate information regarding the topics discussed in meetings. However, we can list the following topics, in aggregate, as those most regularly discussed in one-to-one meetings during 2021:

- Trading performance, outlook and KPIs including Covid 19 impacts and recovery
- Financials, including dividend policy, and progress towards KPIs
- Strategy implementation and progress
- Recruitment and retention issues
- Supply chain management
- Sustainability planning, focus and KPIs

Leadership and remuneration issues are generally discussed apart from these company meetings with investment managers, between our corporate governance manager and a relevant non-executive director or the Chairman, following discussion with the investment team.

As referenced in Principle 4, collaborative work in 2021 included the following:

During 2021, as investor signatory to the CDP (Carbon Disclosure Project), a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impact, we contributed to their Small and Medium Enterprise Climate Action Tracking, Accountability and Acceleration Project, the purpose of which was to develop a streamlined climate reporting framework designed specifically for smaller and mid-sized companies.

This resulted in the launch of an SME Climate Disclosure Framework in November 2021, an element of their collaborative work with the UK Government to support the SME Climate Hub, a resource hub for small and mid-sized companies wishing to commit to halve greenhouse gas emissions by 2030 and reach net-zero emissions before 2050.

We consider this type of work to be particularly important for the inclusion of small and mid-sized companies in their efforts to combat climate change, supporting more accessible climate and other target setting and reporting frameworks. We note many ESG reporting frameworks designed for larger organisations fail to consider the resource constraints of leaner smaller companies wishing to participate in efforts, presenting a barrier to their inclusion.

The next stage of this project is to refine the framework and consider the inclusion of further additional modules, and we plan to continue working with the CDP in 2022 to contribute to this development, in the interests of our companies and wider stakeholders.

We added our name to a collaborative investor letter aimed at larger companies, given their importance to the shared efforts to control environmental risks linked to carbon emissions, water scarcity and deforestation.

However, we did not participate in several collaborative letters from the CDP targeting our portfolio holdings, preferring to address discussions about reporting standards directly, within the context of our detailed knowledge of the strategy and operations of those companies.

In 2021, we joined the IIMI (Independent Investment Managers Initiative) ESG working group.

The IIMI is a think tank that gives voice to owner-managed independent asset management firms that are entirely focused on and aligned with the interests of their clients and investors, recognising the growing role these firms play in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large.

The core values of the IIMI are to serve as an independent, expert voice in the debate over financial reform, to restore society's trust in the financial sector, to promote the values and practices of owner-managed firms which align their interests with those of their clients, and to raise awareness of the positive, stabilising contribution small entrepreneurial firms make to the economy and society as a whole.

As members of the IIMI ESG working group we participated in a number of meetings including a collaborative meeting with the UN PRI. The format was a short presentation from the UN PRI, with a focus on the benefits to smaller asset managers of participation. Importantly we were then able to reflect the concerns of smaller, often niche, asset managers under pressure to adopt standards designed for larger system players, potentially diluting dedication to investing strengths that could be counter-productive to the maintenance of a healthy financial system. The UN PRI were receptive to concerns and conversations are planned to continue as we discuss how the contributions of small asset managers can be recognised and accommodated within best-practice reporting frameworks.

Source: Chelverton Asset Management Ltd 2021

OUTCOMES

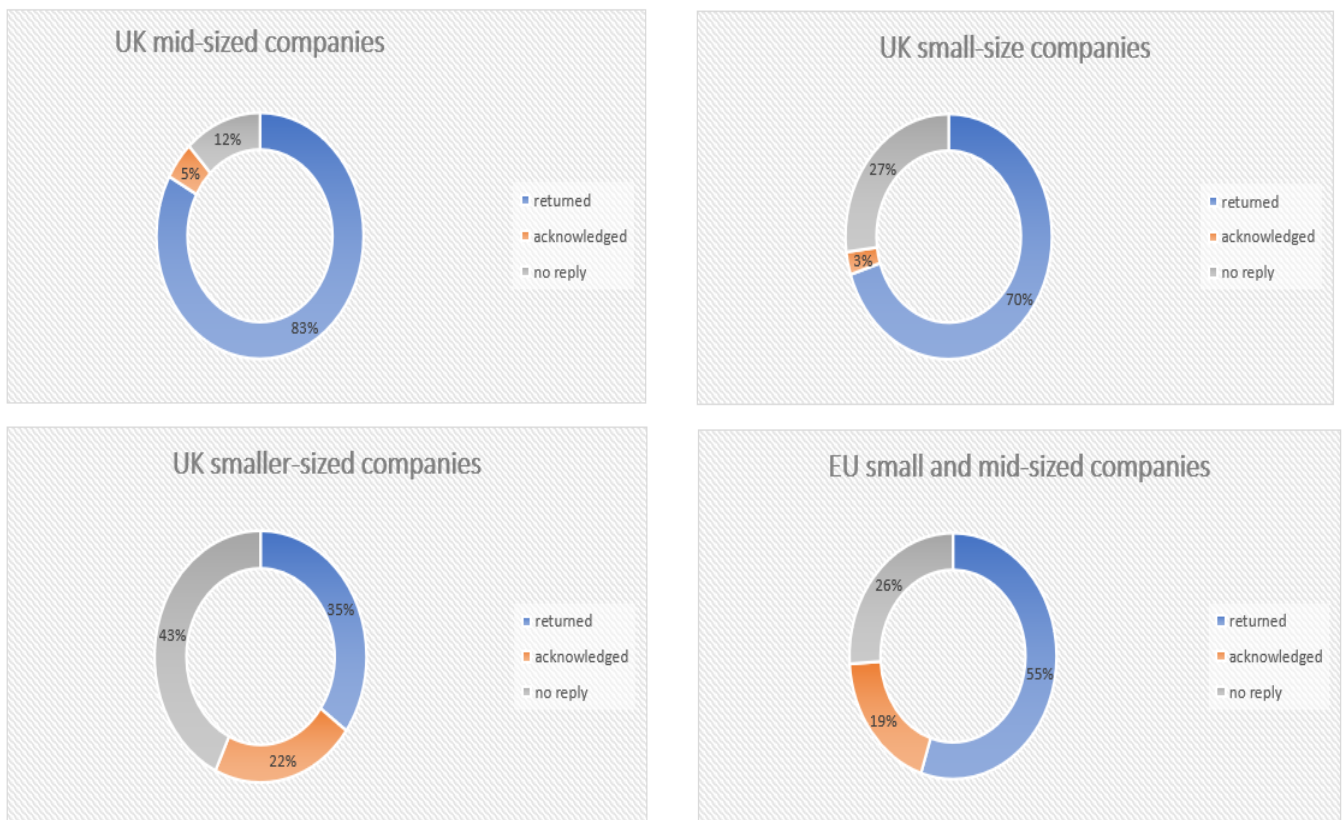
In relation to outcomes the following is reported for 2021.

We engaged successfully with a number of our smaller company holdings to discuss improvements to ESG disclosures and contributed to an increasing number of ESG materiality mapping exercises.

We received 188 completed ESG questionnaires targeting the following issues, as discussed in Principle 7:

- Quality of the company's material risk identification
- Sustainability strategy and how relevant it is in addressing their risk
- Integration of the sustainability strategy within business planning
- Priorities set and direction of travel in relation to achieving objectives
- Development of ESG management and reporting capabilities

This represents the following response rate:



Source: Chelverton Asset Management Ltd 2021

In relation to collaborative engagement our participation is discussed in the earlier section.

Regarding the success of our active engagement activity, in relation to the target we set ourselves of improving the ESG disclosures of our companies, we offer the following by way of examples:

Diversified Energy

As mentioned in Principle 8 of this report, Diversified Energy operates in the Appalachian Basin and the central US states of Louisiana, Oklahoma and Texas. The company's expertise lies in the ability to acquire mature assets (primarily natural gas) and invest in improved operational efficiencies, retiring wells responsibly at the end of their economic life.

The ESG case pivots on the position of natural gas in the energy matrix as the cleanest hydrocarbon transition fuel, and in the efficiency advantages of the Diversified Energy business model.

Progressive reporting improvements noted since our first investment in 2018 include an inaugural sustainability report in 2020.

We sent an ESG Questionnaire to the Company in 2021, including a request for improved ESG target setting and reporting.

During 2021 our investment team and ESG team had 9 individual interactions with various company representatives, including the Chairman, Senior Leadership Team, Vice President of ESG and Sustainability, and IR consultant.

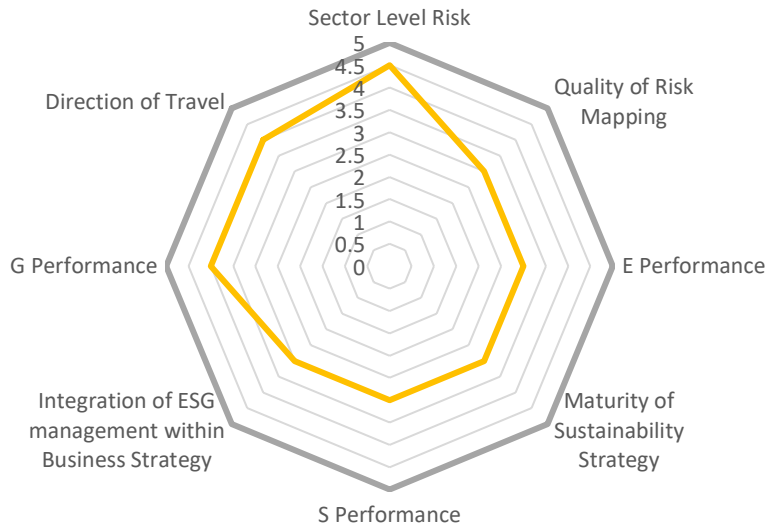
Our teams participated in stakeholder engagement pre and post the publication of the company's second sustainability report, resulting in improved emissions reduction targets (from net zero by 2050 to 2040), supported by interim methane reduction targets of 30% on 2020 levels by 2026. The company also established board level oversight of sustainability management targets and executive remuneration linked to sustainability targets.

We welcome a continued improvement in our assessment of the company's integration of ESG management within their business strategy during 2021, and believe these improvements are supported (in part) by our engagement activity.

We also note that since MSCI initiated ESG research coverage of this company, that their rating has also progressively improved from B in July 2019 to BB in June 2020, and BBB in September 2021.

Diagrammatically we have summarised our assessment of their progression thus:

Diversified Energy (January 2021)



Diversified Energy (November 2021)



Source: Chelverton Asset Management Ltd 2021

Severfield Plc

Severfield is a specialist steel works and construction company in whom we have invested since 2017. With a total capacity of c.165,000 tonnes of steel per annum, Severfield is the UK's market leader in the design, fabrication and construction of structural steel. The Group also has an established presence in the expanding Indian market through its joint venture partnership with JSW Steel (India's largest steel producer).

ESG sector risks for Severfield are relatively high and effective ESG management is becoming an increasingly important element of competitive advantage and value creation.

We have engaged with the company throughout our investment and the company have demonstrated an appropriately progressive focus on ESG management, developing a credible sustainability road map, including ambitious carbon emissions reduction targets as well as specialist product development capabilities.

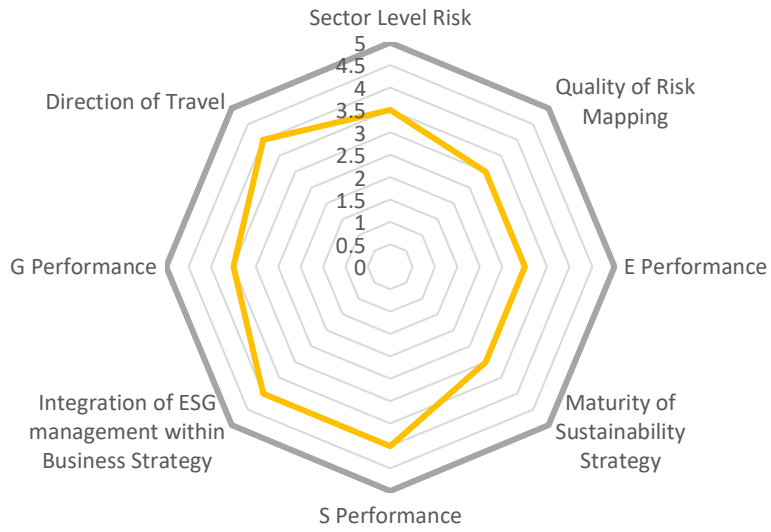
They earned recognition for these efforts in the FT's recent 'Europe Climate Leaders' list (May 2021).

However, during engagements with company in 2021, which included writing at the start of the year to ask for improvements in ESG communications, we noted the company did not have an ESG slide in investor presentations by June.

The investment team raised this issue with the management and by November welcomed the inclusion of an ESG slide in the company's next investor presentation.

Within our universe of stocks ESG management strength is often under-reported due to resource constraints. Communications often under-represent the ESG management strength that lies within small and mid-sized companies adding to valuation anomalies, and we see raising this issue with those in whom we invest as potentially value creating in generating fairer market assessments.

Severfield PLC (February 2021)



Severfield PLC (November 2021)



Source: Chelverton Asset Management Ltd 2021

PRINCIPLE 12

Signatories actively exercise their rights and responsibilities.

CONTEXT

Principles 1, 7 and 8 discuss aspects of our approach to exercising shareholder rights and responsibilities.

Company engagement sits at the heart of our approach and is central to how we exercise our responsibility. We seek to build constructive relationships with the management of the companies we choose to invest in and engage with the objective of monitoring risk and enhancing value where appropriate.

Once a company has entered a fund as a committed holding, we have satisfied ourselves that we support the company's strategy and management approach and are unlikely to vote against management resolutions at shareholder meetings, preferring to communicate and influence matters arising on a one-to-one basis.

We consider voting an important shareholder right and consider every shareholder vote to be significant. Consequently, we vote on every management and shareholder resolution at general meetings. However, having said this, given our disposition to vote in favour of management resolutions, reporting of significant votes relates only to those which differ from this standard practice of voting in favour.

As previously discussed in Principle 8, we do not use the services of a third-party proxy voting advisor for advice preferring to view company governance, and management and shareholder resolutions, within the context of company size, level of maturity, and our understanding of the dynamics of the company.

Our managers rely on their detailed knowledge of each company and their expertise as small and mid-sized company investors when making voting decisions. As discussed, managers have the support on in-house voting analysis from our dedicated corporate governance manager in making their decisions and consider this more appropriate than advice from third-party advisors focussed on larger organisations.

As a general rule, as discussed in Principle 1, CAM expects all investee companies to comply with the principles expressed in the UK Corporate Governance Code or Quoted Companies Alliance (QCA) Code for UK small and mid-sized companies or explain why they have not done so. We consider the individual circumstances of smaller companies when reviewing governance code compliance. In relation to European companies, we also recognise regional corporate governance code differences and consider these as relevant.

We do not participate in stock lending. We believe that whilst this practice can add to market liquidity at the large company end of the market, it has the opposite effect for small and mid-sized companies and can lead to adverse share price movements for those companies where the stock has been borrowed.

As discussed in Principles 1 and 8, we are not 'forever' investors, and look to recycle investments when we consider the moment is right. Our usual investment time horizon is 5 years and our average holding period 3 – 5 years. However, as equity investors our ultimate shareholder right is to sell if we are not happy with an investment. We exercise this right in the event of unforeseen management issues that we cannot reconcile through constructive dialogue.

Our Engagement and Voting Policy guides our approach to voting and can be found [here](#).

We report our voting activity on a quarterly basis in our Engagement and Voting Report(s) are found [Q1, 2021](#), [Q2, 2021](#), [Q3, 2021](#) and [Q4, 2021](#).

ACTIVITY

During 2021 our managers followed our Engagement and Voting Policy, reviewing and voting in favour of all management resolutions except in a small number of exceptional circumstances.

Explanations for voting decisions which differed from our standard procedure of 'vote in favour' are provided in the Outcome section of this Principle, including any planned escalations.

No voting decisions were taken by another entity on our behalf.

Reconciliations between voting instructions and votes cast by the proxy voting service used by our administrator to place votes on our behalf are discussed in Principle 5.

OUTCOMES

Votes cast from 1 January 2021 to 31 March 2021 which differed from the standard procedure of "Vote in Favour" were:

AFH Financial – Vote Against Bid for the Company

We Voted Against a total of 8 resolutions in connection with an original offer and a subsequent increased bid for this financial services company.

We believe that neither the first bid approach for the company early in March 2021, nor the revised bid, was at a sufficiently high price to reflect the true value of the company.

As well as voting against the takeover proposals we also voted against the re-election of two of the board directors whom we believe were not acting in the best interests of stakeholders.

Ultimately, there were sufficient votes in favour of the takeover. The bid was successful, and the company has been sold.

Votes cast from 1 April 2021 to 30 June 2021 which differed from the standard procedure of "Vote in Favour" were:

RPS Group – Vote Against Remuneration Report

We voted against a resolution to receive and approve the Board's remuneration report for each fund holding shares.

We had been in communication with the company over the preceding 12 months and had outlined to the RPS remuneration chair that we are not generally in favour of "CEO Accommodation" allowances in addition to salary. We believe such allowances are better considered as part of competitive overall remuneration.

In the run up to the AGM vote we indicated we were likely to Vote Against the resolution. At the AGM, a total of 31% of votes were cast against the remuneration report. However, the percentage of votes in favour were sufficient for the resolution to pass. 16% of shareholders voted against the re-election of the Chairman, Ken Lever to the Board. We will continue to engage with the non-executive directors of the company to resolve our remuneration concerns.

RTC Group – Vote Against Remuneration Report and Abstain Re

We voted against the resolutions to receive and approve the remuneration report, to issue new shares, and to dis-apply pre-emption rights for existing shareholders.

We abstained to vote to re-elect the Chairman W Douie.

In this instance we chose to use our vote to reinforce a view previously expressed that a disconnect appears to be developing between the remuneration paid to the directors and the strategy and performance of the company. Our abstention to vote to re-elect the Chairman W Douie was intended to reinforce this message and our belief that the Chairman should be addressing this concern.

Votes cast from 1 July 2021 to 30 September 2021 which differed from the standard procedure of "Vote in Favour" were:

XPS Group – Vote Against Board Re-Election

We voted against resolutions to re-appoint Ben Brammel and Paul Cuff to the board. During our regular communications with the company over the preceding 36 months we have

maintained our stance that we are not generally in favour of “Joint CEO’s” on the board of a PLC. However, the company believe it is in the best interests of the company to continue with joint CEO’s. We will continue to present our view.

TXT Esolutions – Vote Against a Board Re-Election in favour of a recommended alternative

We voted in favour of the appointment of Antonella Sottito to the board, in support of the board recommendation.

This was done in preference to supporting the re-election of Silvia Bordi, whom we voted against.

Votes cast from 1 January to 31 December 2021 which differed from the standard procedure of “Vote in Favour” were:

Clinigen Group – Vote Against Remuneration Report

The Chelverton UK Equity Growth fund voted against a resolution to approve the remuneration report for this company, on the basis we considered the proposed LTIP (long term incentive plan) for the executive team to be too generous, lacking ambitious enough trigger targets.

Recticel NV - Vote Against offer cash offer for the company

The Chelverton European Select fund voted against accepting a cash offer for this company following a preliminary bid approach that undervalued this company, in favour of supporting the sale of a division to optimise shareholder value.

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Fund performance figures are net of the ongoing charges and portfolio transaction costs unless otherwise stated.

The Investments underlying CAM managed funds do not take into account the EU criteria for environmentally sustainable economic activities.