



CHELVERTON
ASSET MANAGEMENT

RESPONSIBLE INVESTMENT

ENGAGEMENT AND VOTING REPORT QUARTER 1/ 2023

INTRODUCTION

The following report provides the Chelverton Asset Management Ltd (“CAM”) engagement and voting record for the first quarter of 2023.

The report is intended to be read in conjunction with our Shareholder Engagement and Voting Policy, and annual Engagement Plan(s), available to view on our website.

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

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

Shareholder engagement and voting lie at the heart of every CAM investment strategy. We report our engagement and voting activity to the Financial Reporting Council (FRC) on an annual basis. Our UK Stewardship Code Report(s) are available to view on our website.

Interested parties requiring further information regarding our approach to engagement and voting should contact our Head of Responsible Investing, Sally Clifton at sdc@chelvertonam.com.

Responsible Investing Context

CAM is a responsible investor and committed signatory to the United Nations-supported Principles of Responsible Investing.

We recognise an evolution is taking place in what it means to be a responsible investor and we understand that the use of general terms can lack clarity given the diversity of investing approaches that have emerged in recent years.

We welcome the clarity the proposed UK fund labelling regime should bring when the Sustainability Disclosures Regime (SDR) is finalised in 2023.

However, in the meantime, we offer the following infographic to explain our approach to responsible investing, based on guidance from the United-Nations supported Principles of Responsible Investing (UN PRI) and other relevant bodies, such as the Investment Association.

Style	Traditional Investment	Responsible Investment ESG Integration and Stewardship		Sustainability Characteristics	Sustainable Thematic	Impact
		ESG issues considered within analysis and decision making to protect and enhance investment returns	Active ownership of investments, including voting and engagement, to protect and enhance investment returns			
Definition	Limited or no consideration of ESG issues	ESG issues considered within analysis and decision making to protect and enhance investment returns	Active ownership of investments, including voting and engagement, to protect and enhance investment returns	Investments selected on defined sustainability criteria	Investments selected on defined sustainability themes	Investments targeting defined environmental or social returns
Examples	No systematic inclusion of ESG issues within investment processes	Systematic inclusion of material ESG risks and opportunities within investment processes	Responsible allocation, management, and oversight of investments	Best in class selection criteria Positive tilt selection criteria Exclusion criteria	Thematic inclusion criteria such as those relating to climate, water, biodiversity, or social themes	Impact measured against one or more of the UN Sustainable Development Goals
Approach	✘	✔	✔	✘	✘	✘

As a responsible investor 2023 is intended to be another year of progression for Chelverton, as we work to maintain the alignment of our investment processes with evolving responsible investing expectations, for the benefit of our clients and wider stakeholders.

Within this context the first quarter has been dominated by three things:

- Preparing our annual UK Stewardship Code Report for submission to the FRC.
- Agreeing engagement priorities for 2023 as we progress our annual Engagement Plan, most notably in the areas of climate change, human rights in relation to diversity equity and inclusion, the inclusion of meaningful ESG targets within executive remuneration, and the pressing issue of nature protection and restoration.
- Updating engagement materials, most notably our ESG Questionnaire, to include more specific questions relating to the management of natural resources.

Engagement Record:

The purpose and principles which guide our engagement activities are laid out in the Chelverton Shareholder Engagement and Voting Policy.

In the first quarter of 2023 CAM's investment managers attended over 88 meetings with individual companies within our UK and EU investment universes, supported by CAM's Head of Responsible Investing and Corporate Governance Manager, where appropriate.

As usual, the focus of these discussions ranged from trading, performance, and strategy updates with executive teams, to discussions with non-executive board members regarding board composition, committee structures and executive remuneration, including updates relating to the management of environmental and social issues where relevant.

Macro perspectives relating to high inflation, rising interest rates, and the impact of the cost-of-living crisis framed discussions given the degree of market uncertainty regarding when central bank efforts to curb inflation may produce positive results.

The following list of topics were most predominant in our one-to-one meetings:

- Wage and other cost inflation
- Demand outlook and order books
- Pricing power
- Structural changes in supply chain management
- Availability of key components, materials, and other resource
- Resource efficiency, particularly energy efficiency and cost management
- Recruitment and retention
- Support of workers vulnerable to cost-of-living pressures
- Updates where relevant relating to ESG issues raised in our 2022 letter to all companies, available on request.

During the first quarter we engaged with a number of investee companies regarding future changes to base levels of executive remuneration, annual bonuses and long-term incentive schemes (LTIP) likely to be voted upon in upcoming company meetings.

These consultations in advance of shareholder voting are becoming the norm, with companies seeking shareholder's views in advance of company meetings.

During the quarter, we were asked our views on the changes proposed by the remuneration committees of 4 companies.

The respective remuneration Chairmen notified us in advance that they were looking to alter remuneration arrangements for executives. In each of these cases, the alterations proposed were not material or, where they were, a thorough explanation and rationale for the proposals was provided.

In all cases we emphasize a consistent view that performance metrics and targets should be challenging, sensitive to the experience and cost-of-living pressures of the wider workforce and include relevant ESG targets.

We continued to discuss sensitive governance matters with another 4 other companies where we have historically voted against resolutions or have intimated that we are considering doing so.

Issues discussed included:

- Concern regarding the re-election of non-executive board members where we believe they have underperformed or have undue influence on corporate matters.
- The re-election of joint CEO's where we need convincing that the roles of each are unique.
- The cutting of corporate dividends, which we view as an important signal of any company's wellbeing.

In addition to this regular cycle of company meetings and interactions, CAM's ESG Team attended 2 focused meetings with company executives, investor relations, or sustainability experts.

Focused ESG meetings form an iterative element of our annual Engagement Plan, which is now in its third year.

Focussed discussions fell into 2 categories:

- Stakeholder consultation relating to improved identification of material ESG risk.
- Proposed sustainability management development plans.

In the first quarter, as an integral part of achieving the objectives set out in CAM's Engagement Plan, CAM wrote again to 30 investee companies reiterating ESG management expectations and offering support in the development of ESG capabilities, where appropriate.

These letters specifically outlined expectations regarding energy efficiency and climate impacts, talent management including diversity, equity and inclusion, and our hope that meaningful ESG targets will be included within executive remuneration packages alongside financial targets.

We asked the majority of companies to whom we wrote to update our ESG questionnaire, providing information regarding the identification and management of material ESG risks, sustainability strategy, the integration of the sustainability strategy within business planning, and company ESG priorities.

In relation to progressing our annual Engagement Plan in 2023, the ESG Team spent the first quarter collating ESG questionnaire responses over the previous two-year period, with several development aims:

- Prioritising companies for targeted engagements where we have identified a need.
- Agreeing an escalation strategy where our requests for information or management improvements have met with no response, in line with our Shareholder and Engagement and Voting Policy
- Setting targets that we can monitor in preparation for adopting expected commitments, most notably in relation to the control of climate change risk.
- Increasing our active engagement lens on natural capital and nature restoration

CAM hope to agree the progression of our Engagement Plan in the second quarter, including enhancements to our ESG Questionnaire, a revised letter to all companies, and publication of the Engagement Plan 2023.

Collaborative Engagement

Finally, during the quarter, CAM continued to participate as niche investors in relevant collaborative engagements that represent the needs of small and medium sized companies and enable their participation in the successful delivery of required systemic changes, particularly in relation to climate change and diversity, equity and inclusion.

During the quarter our collaborative engagement included additional feedback, via the Independent Investment Managers Initiative (IIMI) to the Financial Conduct Authority (FCA), regarding the proposed UK Sustainability Disclosures Regime (SDR), following focused engagement by the group with the FCA during 2022.

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 niche firms play in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large.

The FCA are proposing to introduce a package of regulatory measures in 2023, embodied in the SDR regime, aimed at clamping down on greenwashing. This includes the introduction of

sustainable investment labels, disclosure requirements, and restrictions on the use of sustainability-related terms in product naming and marketing.

Voting Record:

The principles that guide CAM's voting activity are laid out in the Chelverton Shareholder Engagement and Voting Policy. We consider voting to be an important shareholder right and a key tool for escalating shareholder action in the event we consider this is required in the interests of our clients and wider stakeholders.

Chelverton do not use the services of a third-party proxy voting advisor for voting 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.

During the first quarter the Chelverton UK Equity Income Fund, UK Equity Growth Fund, UK Dividend Trust, and European Select Fund, in aggregate, voted on more than 650 company resolutions at shareholder meetings*, casting our votes in line with our Shareholder Voting and Engagement Policy.

The breakdown of voting activity between individual funds during Q1 2023 was as follows:

Fund Name	Resolutions	Vote in Favour	Vote Against	Abstentions
UK Equity Income	179	179	0	0
UK Equity Growth	199	196	3	0
UK Dividend Trust	135	132	3	0
European Select	145	145	0	0
Totals*	658	652	6	0

(* For reasons of proportionality votes cast by the Chelverton Growth Trust are omitted. Further details available on request)

Chelverton consider all votes to be significant. However, in total, 6 votes were cast from 1st January 2023 to 31st March 2023 which differed from our standard procedure of "Vote in Favour", as detailed in our Shareholder Engagement and Voting Policy.

We consider the reasoning behind these votes to be significant to report and offer the following rationales:

- **Topps Tiles**

On 6th December 2022, Topps Tiles received notice on behalf of their largest shareholder, MS Galleon, who own approximately 29.9% of the voting share capital, requesting resolutions be put forward at the company's Annual General Meeting.

MS Galleon is a Polish holding company active in the tiling, bathrooms and furniture sectors. In addition to its Topps Tiles shareholding, MS Galleon owns Cersanit, a major European producer of tiles.

Cersanit has been a minor supplier to Topps Tiles since 2020/2021, with an expressed desire to supply 29.9% of products and have board representation. Indeed, Cersanit has been seeking a position on the Topps Tiles board for the last 2 years.

The Topps Tiles board believes flexibility of sourcing is important to competitiveness. Currently no more than 10% of products are bought from a single supplier.

The MS Galleon's proposal was to have Darren Shapland, the existing Topps Tiles non-executive Chairman, removed from office and Lidia Wolfinger and Michael Bartusiak appointed as non-executive board members.

The Topps Tiles board strongly rejected the proposals put forward by MS Galleon and unanimously recommended that the shareholders should vote against the proposals.

Chelverton are supportive of the existing board and their current strategy and therefore voted against the MS Galleon proposals.

In summary, the Chelverton UK Equity Growth fund and Chelverton UK Dividend Fund each voted against the following 3 resolutions:

- Shareholder Proposal to remove Darren Shapland as Non-executive Chair with immediate effect.
- Shareholder Proposal to appoint Lidia Wolfinger as Non-executive Director with immediate effect.
- Shareholder Proposal to appoint Michal Bartusiak as Non-executive Director with immediate effect.