



CHELVERTON
ASSET MANAGEMENT

RESPONSIBLE INVESTING

ENGAGEMENT PLAN 2023

1. INTRODUCTION

The following document outlines the purpose, context, and structure of the Chelverton Asset Management Limited (CAM) Engagement Plan 2023, which forms an integral part of CAM's wider stewardship activity, supporting the inclusion of environmental, social and governance (ESG) issues within our company engagements.

The document represents the continuation and progression of structured ESG engagement work that began in 2021 and is now in its third year.

The document is intended to be read in conjunction with the following associated stewardship and responsible investing documents, which are all available to view on our website:

- UK Stewardship Code Report (s) 2021, 2022
- Shareholder Engagement and Voting Policy
- Engagement Plan(s) 2021, 2022
- Quarterly Engagement and Voting Report(s)
- ESG Policy

Interested parties requiring further details about this plan or any of our responsible investing activities should contact our Head of Responsible Investing, Sally Clifton at sdc@chelvertonam.com.

2. PURPOSE

The purpose of the Engagement Plan 2023 is to progress engagement work that began in 2021.

In 2021 we set out to achieve the following:

- Encourage and enable improved ESG management and reporting from our investee companies, and those within our investment universe.
- Inform targeted discussions regarding relevant ESG issues alongside financial matters during regular company engagement meetings.
- Support our activities as signatory to the United Nations-supported Principles of Responsible Investing (UN PRI)
- Align our engagement activity with the best stewardship practice set out in the new UK Stewardship Code

In 2022 we progressed this work to include gathering information relating to three specific ESG issues deemed relevant for all companies to consider, regardless of materiality:

- Climate change management.
- Diversity, equity, and inclusion (DEI).
- The inclusion of meaningful ESG targets in executive remuneration packages.

In 2023 our objective is to use the baseline information we have gathered during 2021 and 2022 to set improvement targets relating to the following;

- The alignment of our portfolios with Net Zero¹ carbon emissions reduction targets.
- Improving Diversity, Equity and Inclusion

¹ <https://www.un.org/en/climatechange/net-zero-coalition>

- Ensuring the inclusion of meaningful ESG targets within executive remuneration.

Additionally, in the wake of the United Nations Biodiversity Conference (COP15), which outlined the need for global action to halt and reverse nature loss, we will also engage committed holdings on the topic of nature protection and restoration. This work will be focussed on those companies with more significant impacts but will include all our holdings, recognising that all system participants have a responsibility to contribute in this regard.

The focus on natural capital acknowledges the importance of nature services within global systems and the link between a healthy eco-system and the ability to limit global warming to 1.5 degrees above pre-industrial levels, in line with the Paris agreement and global Net Zero 2050 pledges².

3. CONTEXT

Established in 1998 CAM is a boutique equity investor specialising predominantly in small and medium-sized companies in the UK, but also in Continental Europe. Our European strategy is currently the only strategy that may invest in larger companies as opportunities arise³. However, the managers share the CAM belief that unrecognised value is more often found amongst small and medium-sized companies.

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

Active stewardship sits at the heart of each investment strategy and CAM leverage specialist knowledge and expertise when investing in small and medium-sized companies. We seek to build constructive relationships with executive and non-executive management teams over the investment cycle, and our objective is to protect and enhance value for our clients over the long term. This long-term lens necessitates consideration of ESG issues.

CAM do not currently manage any specialist or labelled sustainability-focussed or impact strategies that apply selection criteria limiting, excluding or selecting investments based on sustainability criteria alone. However, as equity investors following a bottom-up approach to investment we recognise the value of integrating material ESG issues within our analyses and investment decision-making. We consider how well a company is managing ESG risk and opportunity to be an important management quality indicator, relevant to sustained competitive advantage. We follow investment processes that ensure ESG risks and opportunities are systematically identified, and exposures monitored, and we adopt a stewardship approach that can provide benefits for wider stakeholders whilst protecting and enhancing value for clients.

The CAM investment universe is typically under-researched, including by ESG ratings agencies, leading to valuation anomalies. CAM do not rely on ESG ratings from agencies but recognise that absent, anomalous, or contradictory ESG assessments, often resulting from inadequate company disclosures, can negatively impact investor sentiment thereby inhibiting progress towards more sustainable business practice through capital misallocation and an increase in the cost of capital.

CAM are committed to addressing this issue through their focussed ESG Engagement Plan, encouraging investee companies to disclose their management of ESG risks and opportunities in a structured way, adopting recognised reporting frameworks and standards that can enable fair market assessments. We have progressively targeted the mitigation of pressing systemic issues considered a risk to all market participants and wider stakeholders, which have become a responsibility for all companies, investors, and other stakeholders to address.

SUPPORTING OUR RESPONSIBLE INVESTING ACTIVITIES:

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

² <https://unfccc.int/process-and-meetings/the-paris-agreement>

³ CAM has a global investment strategy under development. However this is currently beyond the scope of the Engagement Plan 2023

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

PRI signatories commit to six responsible investing principles:

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

This Engagement Plan is designed to support our pursuance of principles 1, 2, 3, 5 and 6.

Principle 4 is indirectly supported by this Plan and directly supported by our investment communications that include ESG Bulletins and topical commentaries for professional clients and wealth managers who invest in our funds on behalf of the ultimate asset beneficiaries.

4. ALIGNING WITH THE UK STEWARDSHIP CODE:

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

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

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

This plan is designed to ensure the alignment of our stewardship activities with the aspirations of the UK Stewardship Code 2020.

We report our engagement activities, including the outcome of our engagements, on an annual basis in our UK Stewardship Code Report.

5. STRUCTURE AND TARGETS FOR 2023

5.1. Company Engagement

At the start of 2021 CAM committed to structured dialogue with every investee company held within our UK portfolios, except those targeted for divestment. As the year progressed and our EU strategy grew, we included small and medium sized EU holdings within the process.

In 2022 we iterated, using information gathered during 2021 to inform subsequent company interactions, assessing the progress of our companies in their management and reporting of ESG issues and introducing important expectations.

In 2023 we are iterating again, introducing engagement targets against which we may measure the success of our engagements and adding an additional area of focus, following the steps outlined below:

Stage 1:

Sending an annual letter to all committed holdings following a segmented approach, dependent upon whether a holding is new or existing, the size of the company, and the level of company maturity.

Letters are sent to Chief Finance Officers and/or designated executives and are accompanied by a repeat request to complete an ESG Questionnaire, except in relation to our smallest company holdings.

Letters sent to our smallest companies include an invitation to view and discuss our ESG questionnaire with the aim of increasing understanding regarding available ESG reporting frameworks and management tools and supporting framework and standards adoption.

Annual letters continue to explain our view regarding the importance of identifying, monitoring, and reporting material ESG issues in a structured way using recognised frameworks and standards.

Letters in 2022 referred to expectations regarding following:

- Climate change management and the associated prioritisation of energy efficiency
- Diversity, equity, and inclusion (DEI) within leadership and the workforce
- The inclusion of meaningful ESG targets in executive remuneration packages

As a plan progression, letters in 2023 are highlighting the following:

- Our commitment to identifying, monitoring and improving the ESG issues highlighted in our annual letter, in preparation for the adoption of relevant environmental and social targets expected of all responsible investors.
- The urgent need to focus on halting and reversing the decline in natural capital in the interests of all stakeholders and to enable Net Zero goals.

In 2023 we have asked committed holdings for the following:

- The adoption of a science-based Net Zero target.
- The adoption of a diversity, equity, and inclusion strategy for leadership and within the workforce.
- The inclusion of meaningful ESG management targets within exec remuneration packages.
- Increased focus on nature protection and restoration and the adoption of a biodiversity policy.

Finally, in 2023, we are highlighting within the Engagement Plan our continued focus on the relevance of framework and standards adoption for upholding accepted Global Norms, such as UN Global Compact Principles, UN General Principles of Business and Human Rights, and International Labour Organization Convention.

Stage 2:

Responses to letters and questionnaires are monitored by the ESG Team to provide standardised information that can inform and further management discussions.

Follow up engagements target improvements in the following, as appropriate:

- The quality of material risk identification.
- The communication of sustainability strategy.
- The integration of sustainability strategy within business strategy.
- The direction of travel and priorities regarding ESG risk and opportunity management.
- Progress and development of ESG reporting capabilities.
- Progress against baseline data towards the adoption of highlighted targets, frameworks and standards, and strategy commitments.

The following is a sample list of some of the issues targeted by our ESG questionnaires:

Environmental Factors	Social Factors	Governance Factors
Climate change	Supply chain issues including human rights abuses	Board Independence
Water scarcity and security	Talent management and labour relations	Committee structures

Energy security	Community relations	Financial disclosures
Deforestation	Product safety	Shareholder rights
Biodiversity	Trade practices	Remuneration

Stage 3:

Progress will be reported in published responsible investing transparency reports alongside our progress towards the adoption of a credible Net Zero target that includes our financed emissions. We will continue to review the relevant Net Zero reporting initiatives for asset managers in preparation for adopting the most appropriate initiative. We will continue to review the ten Net Zero Asset Manager (NZAM) initiative commitments with a view to a pledge and prepare for TCFD reporting (Task Force for Climate-Related Disclosures) at our earliest opportunity, as one of those 10 commitments.

5.2. Collaborative Engagement

We will continue to look for opportunities to participate in collaborate work targeted at the ESG management and disclosure needs of small and medium sized companies, with the aim of ensuring our companies are supported in their efforts to deliver more sustainable business practice and contribute to pressing environmental and social goals.