



CHELVERTON
ASSET MANAGEMENT

ENGAGEMENT PLAN 2022

1. INTRODUCTION

The following document outlines the purpose, context, and structure of the Chelverton Asset Management Limited (“CAM”) environmental, social and governance issue (ESG) Engagement Plan 2022, undertaken alongside and informing CAM’s other company engagement activities.

The document represents a continuation and progression of ESG engagement work that began in 2021.

The document is intended to be read in conjunction with CAM’s Engagement Plan 2021, Shareholder Engagement and Voting Policy, and quarterly Engagement and Voting Report(s), which are available to view on our website.

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

2. PURPOSE

The purpose of this Engagement Plan 2022 is to continue and progress the ESG engagement work we began in 2021, working alongside and informing our other company engagement activities.

The broad purpose of work in 2021 was:

- to support our activities as signatory to the United Nations-supported Principles of Responsible Investing (UN PRI)
- to align with the best stewardship practice set out in the revised UK Stewardship Code
- to encourage and enable improved ESG disclosures from our investee companies and those within our investment universe
- to leverage improved ESG disclosures to support and encourage more sustainable business practice in line with evolving risks and opportunities

3. CONTEXT

Established in 1998 CAM is a boutique equity investor specialising in small and medium sized companies, primarily in the UK but also in Continental Europe. Our Continental Europe strategy may invest in larger companies as opportunities arise, 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 aim to build constructive relationships with executive and non-executive management teams with the aim of creating value for our clients over the investment cycle.

CAM do not manage specialist ESG mandates that restrict or exclude certain types of investments, but 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.

The CAM investment universe is typically under-researched, particularly by ESG ratings agencies.

CAM do not rely on ESG ratings from agencies but recognise that absent, anomalous, or contradictory ESG assessments, fuelled by inadequate company disclosures, can negatively impact investor sentiment, and misrepresent management capabilities, inhibiting progress towards more sustainable business practice through capital misallocation or increased cost of capital.

Consequently, CAM remain committed to the ESG Engagement Plan started in 2021, which we will progress in 2022, encouraging investee companies to disclose their management of ESG risks and opportunities in a structured way, adopting recognised reporting frameworks that can enable fair market assessments.

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 activities.

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.

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 contribute to the alignment of our stewardship activities with the aspirations of the UK Stewardship Code, and we will be reporting outcomes as the plan matures.

5. STRUCTURE OF ENGAGEMENT PLAN 2022

5.1. Company Engagement

At the start of 2021 CAM committed to initiating a 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 are continuing with this approach, using the information gathered during 2021 to inform our company interactions and assess the progress our companies have made in their management and reporting of ESG issues.

Stage 1:

Targeted letters are drafted using a segmented approach dependent upon whether the holding is new or existing, the company size, and the level of maturity. Letters are sent to Chief Finance Officers or designated executives.

Letters explain our view of the increasing importance of identifying, monitoring, and reporting relevant ESG information in a structured way using recognised frameworks and set out our expectations for improved ESG disclosures.

2022 letters make additional specific reference to our expectations regarding following:

- Climate change and the associated prioritisation of energy efficiency

- Diversity, equity, and inclusion
- The inclusion of meaningful ESG targets in executive remuneration packages

Letters are accompanied by an ESG Questionnaire tailored to company size and level of maturity, except those letters sent out to our smallest companies.

Letters sent to our smallest companies included an invitation to view and discuss our ESG questionnaire with the aim of increasing understanding regarding available reporting frameworks and tools.

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

Environmental Factors	Social Factors	Governance Factors
Climate change	Supply chain issues	Board Independence
Water scarcity and security	Labour relations	Committee structures
Energy security	Community relations	Financial disclosures
Deforestation	Product safety	Shareholder rights
Biodiversity	Trade practices	Remuneration

Stage 2:

Responses to letters and questionnaires are monitored by the ESG Team to provide standardised information that enables further management discussions during subsequent individual company meetings.

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

Stage 3:

We continue to monitor the progress of investee companies in relation to standards and framework adoption, the effective reporting of trend data, and the quality of ESG management and commitments.

5.2. Collaborative Engagement

Knowledge of our investment universe highlights the challenging position small and medium sized companies often occupy in the economic eco system.

On the one hand, small and medium sized companies are often relied upon to deliver the ESG policy aspirations of governments and the ESG commitments of the larger corporates these companies supply or serve. They are also relied upon to adapt rapidly to changing ESG customer demands and expectations.

On the other hand, standards and reporting frameworks are rarely designed with small and medium sized companies in mind and often pay little regard to the resource constraints experienced by these companies.

At the start of 2021 CAM committed to participating in targeted collaborations that address this situation with the aim of enabling the ESG monitoring and reporting needs of our investment universe.

During 2022 we are continuing to participate in this work.

Stage 1:

At the start of 2021 CAM became investor signatories to the CDP (Carbon Disclosure Project). The CDP is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.

In 2021 CAM participated in the CDP's Small and Medium Enterprise Climate Action Tracking, Accountability and Acceleration Project. The project aimed to develop a streamlined climate reporting framework specifically for small and medium sized companies. This was achieved and the SME Climate Disclosure Framework was launched in November 2021.

During 2022 CAM will participate again in work with the CDP to refine this framework and consider the inclusion of further additional reporting modules.

During 2022 CAM will also continue to add our name to a CDP investor letter aimed at improving the ESG disclosures of larger corporates in relation to carbon emissions, water scarcity and deforestation.

Stage 2:

We will continue to monitor this work and report on progress.

Stage 3:

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.