



CHELVERTON
ASSET MANAGEMENT

RESPONSIBLE INVESTMENT

ENGAGEMENT AND VOTING REPORT QUARTER 2/ 2023

INTRODUCTION

The following report provides the Chelverton Asset Management Ltd (“CAM”) engagement and voting record for the second 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 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 will be another year of progression for CAM as we work to maintain the alignment of our investment processes with evolving expectations, for the benefit of our clients and wider stakeholders.

Within this context the second quarter has been dominated by two activities:

- Implementing our Engagement Plan 2023 to ensure ESG issues are appropriately prioritised within our investment processes and company engagements alongside financial considerations.
- Setting out our ESG management and reporting expectations to committed holdings in our annual letter, focussing on ESG data collection, climate change management, human rights in relation to diversity equity and inclusion, nature restoration and protection, and the inclusion of meaningful ESG targets within executive remuneration. Our annual letter is available on request.

Engagement Record:

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

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

- **Trading Performance and Strategy Updates**

In the second quarter of 2023 CAM's investment managers attended over 127 trading, performance and strategy 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.

Macro perspectives relating to high inflation, rising interest rates, and the impact of the cost-of-living crisis continued to frame discussions, particularly in the UK where an acceleration in core inflation has driven up peak interest rate expectations and the expected duration of higher rates.

The following list of topics were most predominant in regular one-to-one meetings with managers during the quarter:

- Wage and other cost inflation, including energy
- Debt and interest costs
- Exposure to AI opportunities and risks
- Supply chain improvements
- Customer ordering patterns
- Inventory levels and de-stocking of customer inventory
- Updates relating to the management of ESG issues raised in our engagement letters to all companies in 2022 and 2023.

Of note, our European fund managers took the opportunity of a reflective quarter to arrange focused meetings with a selection of their IT services holdings, which represent over 19% of the Chelverton European Select Fund¹.

These meetings were arranged following the release in March of Open AI's Chat GPT-4, which represents a significant step forward in AI language models. The managers spoke to company Chief Technology Officers, or equivalents, to explore their views of the impacts of generative AI on operations and business model development. Discussions ranged from anticipated productivity improvements to regulatory, ethical and privacy considerations related to the technology. The managers also targeted larger holdings across a range of others sectors to understand their data science/AI strategies.

- **Governance**

During the second quarter CAM's Corporate Governance Manager engaged with a number of non-executive board members regarding future changes to base levels of executive remuneration, annual bonuses and long-term incentive schemes (LTIP) likely to be voted upon in upcoming meetings.

As mentioned previously, consultations in advance of shareholder voting are becoming the norm, with companies seeking shareholder views in advance of company meetings. In all cases we seek to 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, needs of other relevant stakeholders, and include relevant ESG targets.

During the quarter, we were asked our views on the changes proposed by the remuneration committees of 4 companies, namely Premier Foods, Surface Transforms, Foresight Group and Luceco.

The respective remuneration Chairs notified us in advance that they were looking to alter remuneration arrangements for executives. In each case the alterations proposed were not material in size or, where they were, a thorough explanation was provided. In all four cases we were happy to remain supportive shareholders with the proviso the proposed

¹ CAM data as at 30/06/2023

performance targets are challenging and appropriately reflect the interests of wider stakeholders.

During the quarter CAM continued to discuss sensitive governance matters with investee companies where we wished to influence outcomes.

Issues this quarter included:

- the re-election of non-executive board members where we believe they have not performed adequately or may have undue influence on corporate matters.
- the re-election of joint CEO's where we need convincing that the roles of each are unique.
- perceived unnecessary cutting of corporate dividends which we view as an important signal of a company's wellbeing.
- **ESG Integration and Engagement**

The second quarter was a busy one for the ESG Team following publication of the previously referenced Engagement Plan 2023, which includes an updated annual letter to committed small and medium-sized company holdings and enhancements to our ESG Questionnaire.

We sent out 274 letters with revised ESG Questionnaires as an integral part of achieving the objectives set in this third year of our Engagement Plan.

Letters reiterated the ESG management and reporting expectations communicated in the previous two years, including an offer of support to our smaller company holdings in the development of ESG management and reporting capabilities, where this is appropriate.

Questionnaires focus on gathering 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 including company adoption of recognized ESG reporting frameworks and relevant standards.

During the second quarter we have progressed from outlining general expectations in relation to climate change management, leadership diversity and talent management, and the inclusion of relevant ESG targets within executive remuneration, to more specific requests relating to the adoption of credible Net Zero targets consistent with national and global commitments² and appropriate focus on a biodiversity policy consistent with national and global nature restoration targets³ linked to the delivery of Net Zero aspirations.

Focused ESG meetings between the ESG Team and relevant company representatives form an iterative element of our annual Engagement Plan, as responses to letters and questionnaires highlight areas of need.

In the second quarter the ESG Team held 2 focussed ESG discussions outside of our normal company meeting cycle to discuss:

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

² <https://sciencebasedtargets.org/net-zero>

³ <https://www.unep.org/news-and-stories/story/cop15-ends-landmark-biodiversity-agreement>

Collaborative Engagement

CAM continues to participate in relevant collaborative engagements that promote the needs of small and medium sized companies and enable their participation in the successful delivery of required systemic change, particularly in relation to climate change, diversity, equity and inclusion and, increasingly, nature restoration.

During the quarter our collaborative engagement included knowledge sharing and signatory participation in the following events and forums:

- PRI Signatory Networking Event, focused on Nature and Finance, offering the opportunity to learn and share relevant insights on biodiversity risk and developments in the Task Force on Nature-Related Financial Disclosure (TNFD) regime.
- CDP's UK Signatory Day, focused on how this Environmental Disclosure database can support the delivery of Science Based Targets for Climate and Nature through the Climate, Water and Deforestation disclosure frameworks they offer corporates, now including the recently developed Plastics disclosure.

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 our shareholder action when 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 3,400 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 Q2 2023 was as follows:

Fund Name	Resolutions	Vote in Favour	Vote Against	Abstentions
UK Equity Income	906	901	5	0
UK Equity Growth	1227	1225	0	2
UK Dividend Trust	456	450	6	0
European Select	852	852	0	0
Totals*	3441	3428	11	2

(* 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, 13 votes were cast from 1st April 2023 to 30th June 2023 which differed from our standard procedure of "Vote in Favour", as detailed in our Shareholder Engagement and Voting Policy. This figure includes 11 votes against resolutions in aggregate and 2 abstentions.

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

Restaurant Group – Chelverton UK Dividend Trust (1 Vote Against), Chelverton UK Equity Income Fund (1 Vote Against).

The Chelverton UK Equity Income Fund and Chelverton UK Dividend Trust each took the decision to vote against the Director's Remuneration Policy, which has received widespread criticism over the last 12 months.

The remuneration policy continues to support the use of a restricted share plan for part of executive remuneration. This plan provides the opportunity for the executives to earn up to 125% of their basic salary in addition to annual bonus awards. Whilst the annual bonuses have stretching performance criteria attached, the restricted share plan offers executives greater certainty of vesting with such awards not being subject to traditional performance conditions.

This style of restricted share plan can provide recipients with bonuses based on continued employment as the sole basis for payment. Shareholders are told there are robust underpins to ensure fairness, but these underpins are not clear and hence threaten to undermine the alignment between shareholders and executives. During a period of poor share price performance for shareholders, the executives may well continue to be well remunerated. We prefer bonus plans to have robust performance criteria attached.

The resolution was carried by 65% of votes in favour. However, widespread voting against this and other resolutions has prompted the Board to review all remuneration policies.

The Board of directors has agreed to re-engage with their largest shareholders to discuss whether the Restricted Share Plan should be replaced by some other long-term incentive plan.

RTC Group – Chelverton UK Dividend Trust (4 Votes Against)

Trading was again difficult in 2022 for RTC Group and despite robust discussions with the Chair, little change is evident. The shares have continued to perform poorly, and the dividend has been cut.

In keeping with our voting for last year, we voted against 4 resolutions relating to director remuneration at the RTC Group Annual General Meeting on 31st May 2023. However, despite our voting behavior the resolutions were voted through.

RM Group – Chelverton UK Equity Income Fund (3 Votes Against).

The company decided to embark on an Information Technology - Enterprise Resource project over the last 18 months. The rollout and implementation of the project was delayed and more costly than originally forecast. In addition, corporate debt levels have increased to unsustainable levels during the period. The resultant impact on the company's results has reduced their market capitalisation to a size where we would like to see corporate overheads reduced. We therefore voted against the re-election of some non-executive directors to reduce corporate overheads in the now smaller company. However, despite our voting behavior, the resolutions were voted through at the AGM.

AFC Energy – Chelverton UK Equity Growth Fund (2 Votes Abstain)

At the time of the company AGM, the Report and Accounts were not published and therefore

we Abstained on the resolutions dealing with the receipt of the Report and Accounts and the receipt of the Remuneration Report. Shortly after the AGM, the Report and Accounts became available and contained nothing to give cause for concern. We are content that the delayed Report and Accounts had mitigating factors.

The resolutions were voted through at the AGM.

iEnergizer – Chelverton UK Dividend Trust (1 Vote Against) and Chelverton UK Equity Income Fund (1 Vote Against).

The company announced their wish to cancel their AIM market listing with the directors expressing the view that a continued listing would be unlikely to provide access to wider capital.

CAM opposed the resolution as the de-listing undervalued the company. At the time of the proposed de-listing, EICR (Cyprus) Ltd, the major shareholder in iEnergizer held 82.74% of the shares and hence our ability to influence matters was limited.

On May 16th, 2023, the Company announced that the resolution was duly passed, and the company ceased trading on AIM.