



CHELVERTON
ASSET MANAGEMENT

RESPONSIBLE INVESTMENT

ENGAGEMENT AND VOTING REPORT QUARTER 3 / 2023

INTRODUCTION

The following report provides the Chelverton Asset Management Ltd (“CAM”) engagement and voting record for the third 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 third quarter has been dominated by following activities:

- Implementing our Engagement Plan 2023 to ensure ESG issues are appropriately prioritised within our investment processes and company engagements alongside financial considerations.
- Continuing to set out ESG management and reporting expectations to committed holdings through the circulation of our annual letter, focussing on the provision of ESG data, 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.
- Targeted meetings with selected committed holdings to discuss their ESG journey, provide ESG questionnaire feedback, and provide guidance on the development of ESG management and reporting capabilities where this may be helpful or appropriate.
- Completing our first report as signatories to the UN PRI.
- Considering the feedback offered by the Financial Reporting Council (FRC) following acceptance as UK Stewardship Code signatories for a second year, announced during the third quarter.

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 third quarter of 2023 CAM's investment managers attended 157 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 inflation, interest rates trends, and the impact of the cost-of-living crisis on wages and consumer behaviour continued to frame discussions, particularly in the UK where the persistence of 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 company meetings with investment managers during the quarter:

- The effects of inflation on wages and other factors, such as raw material costs
- Company and household debt and the impact of higher interest rates on business and consumer confidence
- Exposure to AI opportunities and risks
- Supply chain issues and management
- 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.

As mentioned in our second quarter Engagement and Voting Report, European fund managers continued to hold focused meetings with selected IT holdings regarding the impact of generative AI. These meetings follow the release in March of Open AI's Chat GPT-4, widely recognized as representing a significant step forward in AI language models. European fund managers continued to speak with company Chief Technology Officers, or equivalents, to explore views of the impact on operations and business model development. Discussions ranged from potential productivity improvements to regulatory, ethical and privacy considerations related to the technology.

During the third quarter European fund managers broadened these conversations out to include a wider range of holdings, with the objective of understanding any evolution in data science/AI strategies. This activity mirrored conversations during UK company meetings, where fund managers have taken the opportunity to discuss the impact of generative AI on operations, staff training, recruitment and planning.

Finally, the end of the third quarter heralded a number of UK government announcements rowing back on the delivery timescale for some UK Net Zero commitments. These announcements sparked conversations with potentially impacted company holdings, which will continue into the fourth quarter.

Conversations included the impact of the following policy changes:

- Ban on sale of new petrol and diesel cars pushed back from 2030 to 2035
- Phaseout of installation of new gas boilers relaxed from 2035
- Abandonment of some energy efficiency rules (for example, required EPC ratings for rental properties)

- **Governance**

During the third 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 three companies, namely Kier Group, Mattioli Woods and STV Group.

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 three cases we were happy to remain supportive shareholders with the proviso the proposed 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 and dilutive fundraising from a company with a reasonably strong balance sheet.

ESG Integration and Engagement

As mentioned, during the third quarter CAM welcomed repeat acceptance as signatories to the UK Stewardship Code 2020 by the FRC, following submission and review of our UK Stewardship Code Report 2022.

The ESG Team continued to highlight relevant ESG issues to investment managers for inclusion in company meetings, as responses to ESG questionnaires sent out in earlier quarters were considered and discussed. We also continued to provide feedback to committed holdings regarding questionnaire responses and ask further questions where this was deemed appropriate.

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 third quarter the ESG Team participated in 3 focussed ESG meetings outside of the

normal company meeting cycle, to discuss the following:

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

Collaborative Engagement

During this quarter, CAM supported the Climate Disclosure Project's (CDP's) Science-Based Targets Campaign for the second year running. In collaboration with 307 other financial institutions, we signed the CDP's letter that was directed at 2132 companies identified to have a high climate impact, encouraging them to set science-based targets.

Although only five CAM-held companies were targeted by the campaign, we are committed to playing an active role in promoting a net zero transition.

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 third quarter the Chelverton UK Equity Income Fund, UK Equity Growth Fund, UK Dividend Trust, and European Select Fund, in aggregate, voted on more than 1,700 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 Q3 2023 was as follows:

Fund Name	Resolutions	Vote in Favour	Vote Against	Abstentions
UK Equity Income	260	258	2	0
UK Equity Growth	314	313	1	0
UK Dividend Trust	248	244	0	4
European Select	31	31	0	0
Totals*	853	846	3	4

(* 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, 7 votes were cast from 1st July 2023 to 30th September 2023 which differed from our standard procedure of "Vote in Favour", as detailed in our Shareholder Engagement and Voting Policy. This figure includes 3 votes against resolutions in aggregate and 4 abstentions.

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

Revolution Beauty – Chelverton UK Equity Growth Fund (1 Vote Against).

The Chelverton UK Equity Growth Fund took the decision to vote against the election of one Non - Executive Director (NED), for two reasons. Firstly, the NED in question was not considered to be independent, potentially compromising their role in providing independent oversight and constructive challenge to the executive directors. Secondly, Chelverton does not consider a company of this small size requires 6 NEDs to provide oversight.

The resolution was carried by 96% of votes in favour.

XPS Group – Chelverton UK Equity Income Fund (2 Votes Against)

In keeping with our voting during last year, we voted against 2 resolutions to re-elect the joint Chief Executive Officers. We remain of the view that joint CEO positions are not optimal and there should be one person with ultimate responsibility for the decisions made by the executive team.

The resolution was carried by 97% of votes In Favour.

T Clarke Group – Chelverton UK Dividend Trust (4 Abstentions).

We abstained from voting on 4 resolutions to approve a dilutive fundraising exercise for the company. We believe that the fundraising was unnecessary for a company which has reasonable amounts of cash on the balance sheet.

The resolution to approve the fundraising by way of Placing was carried by 85% of votes In Favour.