CHELVERTON
ASSET MANAGEMENT

SHAREHOLDER ENGAGEMENT AND VOTING POLICY

1. Introduction

The following policy outlines the principles that underpin the Chelverton Asset Management Limited (CAM) approach to shareholder engagement and voting.

Shareholder engagement and voting are central tenets of investor stewardship and lie at the heart of every CAM investment strategy.

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.

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

This Shareholder Engagement and Voting Policy recognises the requirements of the Shareholder Right's Directive (SRD II), which places an obligation on asset managers such as CAM to publicly disclose their policy on shareholder engagement, including their approach to voting.

The policy is intended to be read in conjunction with our annual UK Stewardship Code Report, quarterly Engagement and Voting Reports, and annual Engagement Plans, all available to view on our website.

Our UK Stewardship Code Report outlines how we are aligning our engagement and voting activities with the best-practice Principles of the revised UK Stewardship Code 2020.

Our quarterly Engagement and Voting Reports detail our engagement and voting activity during each quarter period, including the rationale for any votes cast in abstention or against management resolutions at shareholder meetings.

Our annual Engagement Plans outline the process we follow to ensure relevant environmental, social and governance (ESG) issues are appropriately included in company engagements alongside financial considerations.

Interested parties requiring further details about this policy or any of our other responsible investing activities should contact our Head of Responsible Investing, Sally Clifton sdc@chelvertonam.com or Corporate Governance Manager, Gregor Macdonald gmc@chelvertonam.com

2. Integrating Shareholder Engagement into the Investment Strategy

CAM is a boutique asset manager dedicated predominantly to investing in UK quoted and AIM listed small and medium- sized companies. CAM manage one European (ex UK) fund which is permitted to invest across the company size spectrum. However, the managers of this fund share CAM's disposition to invest in small and medium-sized companies.

CAM are active managers following a bottom-up approach to stock selection. Shareholder engagement and voting lies at the heart of each CAM investment strategy as a core activity, and we engage with company management with the objective of protecting and enhancing value for our investors.

We consider engagement to be a particularly powerful investment tool when investing in small and medium-sized companies, due to the prevalence of information gaps and valuation anomalies, and we devote significant time to our engagement activities.

CAM's investment managers undertake engagement and voting activities with the advice and support of CAM's in-house ESG Team, which consists of a responsible investing manager and corporate governance manager.

CAM's fund managers understand that they are responsible for managing assets on behalf of clients and always invest in line with client mandates.

CAM seek to build constructive and supportive relationships with investee companies, engaging through a variety of channels and meeting regularly with executive management teams and other company representatives, such as non-executive management, investor relations, or sustainability professionals as appropriate throughout the investment cycle.

Once CAM establish a committed holding we do not seek to directly involve ourselves in the management of the company but may seek to influence management where we deem this beneficial, including in matters relating to environmental, social, and governance (ESG) issues.

Our engagement activity is guided by a number of general principles, considered within the context of each company's individual circumstances:

Corporate Governance

CAM pay particular attention to corporate governance believing strong and effective governance is an essential element of company success.

We are supportive of the general principles expressed by the UK Corporate Governance Code and Quoted Companies Alliance (QCA) Corporate Governance Code for small and medium sized companies and expect companies to adhere to these standards or explain why they have not done so. This said, we consider the governance issues of each company on an individual basis within the context of company size, level of maturity, and specific circumstances. In relation to our European company holdings, we also consider regional governance code variances, as relevant.

We expect company management to discuss relevant governance matters with us and scrutinise the following, engaging to understand individual circumstances and influence positive change as appropriate:

- Board Size and Composition

We consider the boards of small and medium-sized companies should not become too large for cost and efficiency reasons and that the Board should be well-balanced in terms of executive and non-executive directors, with a majority of non-executive directors.

Non-executive directors are scrutinised for their independence and good historic behaviour.

The tenure of directors should ideally not exceed 10 years. However, this is always considered within the company context.

We prefer non-executives to be on fewer rather than multiple boards whilst acknowledging good non-executives are in short supply.

We look for an appropriate mixture of abilities and relevant knowledge on the Board and consider the experience of an independent Chair to be particularly important.

Diversity and inclusion at board level is considered an indicator of an inclusive company culture and important in relation to the quality of company decision-making. Whilst encouraging boards to ensure their composition is reflective of wider society, we accept this can take time to achieve. However, we will engage to ensure board diversity is a consideration in the nomination process, when appropriate.

- Remuneration

Executive remuneration proposals are reviewed annually using the company Report and Accounts and we will engage with the Chair or Chair of the Remuneration Committee where we consider proposals do not meet the following broad criteria:

Remuneration should encourage long- term value creation and the alignment of management and shareholder interests, including claw back mechanisms in the event of misconduct.

Basic pay awards above inflation should be justified by performance and performance thresholds should be challenging and linked to clear targets. We favour the proportionate inclusion of material ESG management targets within remuneration packages alongside financial targets and consider awards should be sensitive to any constraints imposed on the wider workforce during periods of difficult trading.

Long term incentive schemes should be simple and share-based with minimum holding periods and we favour the inclusion of Total Shareholder Return metrics in long term incentive schemes.

Shareholder dilution resulting from the issuance of options or new shares in remuneration packages should not be excessive.

One-off recruitment awards to secure the right candidate should not become part of ongoing remuneration.

Executive pension contributions should progressively align with the pension contributions of the wider workforce.

- Capital Allocation, Dividend Policy and Capital structure

Capital allocation, dividend policy and capital structure are regularly and openly discussed at company engagement meetings, allowing a two-way dialogue.

CAM seek to invest in companies that recognise their responsibilities to existing shareholders and expect to be consulted regarding any changes in capital allocation or dividend policy.

CAM are not opposed to the retention of cashflow within a business to fund opportunities at attractive rates of return but favour excess cashflow to be paid out in line with a clear policy.

Dividend policies should be appropriate for the current and future cash flows of the business, while recognising the need to deliver returns to shareholders.

Where dividend policies are expressed as a payout ratio, we typically favour a target range rather than an explicit ratio. In the event that there is excess capital to distribute, our preferred method is a gradual increase in the ordinary dividend. We are not opposed to special dividends or share buy-backs in line with policy, but we expect any shares bought back to be cancelled.

CAM do not favour unnecessary equity issuance, or the dilution of existing shareholder returns through aggrandising corporate activity. However, all proposals for new equity are considered on a case-by -case basis.

Environmental (E) and Social (S) Issues

Chelverton understand that a company’s approach to managing material environmental and social issues is a valuation determinant alongside governance issues, and we engage with all investee companies to understand these dynamics, following a structured approach outlined in our annual Engagement Plan, which is available to view on our website.

Whilst we do not consider the EU criteria for environmentally sustainable economic activities as CAM funds are not actively marketed in Europe, and do not manage specialist sustainability-focussed or impact strategies that limit or exclude investment in certain types of companies, we include E and S factors alongside G factors in our analysis with the following aims:

- To optimise our management of investment risk and opportunity
- To improve the quality of our company engagement and stewardship
- To fulfil our fiduciary duty

CAM’s annual Engagement Plan is designed to ensure proportionate inclusion of relevant E and S issues in regular company engagements and includes writing to all committed company holdings regarding the importance we attach to the management of ESG risks and opportunities, and our management expectations.

Chelverton address the general paucity of ESG management information within the small and mid-sized company universe directly, engaging with all investee companies on this issue and asking for a completed ESG questionnaire from all but our smallest-sized company holdings.

In relation to our smallest-sized company holdings Chelverton engage to support and encourage greater understanding of available ESG management standards and reporting frameworks for investee companies, outlining the advantages of standards and framework adoption and improved reporting.

Chelverton use the information we gather from ESG questionnaires to inform our company engagements, monitoring management progress over time.

Chelverton consider climate change risk, the protection of human rights including diversity, equity and inclusion, and nature protection and restoration, to be systemic risks of such magnitude that they require the attention of all market participants to manage. We communicate this expectation to all committed company holdings, including the expectation that executive remuneration should be linked to the delivery of relevant ESG targets and monitor progress.

Beyond this, we focus our questions to all companies on the following:

- Quality of the company's material risk identification
- Sustainability strategy and how relevant it is in addressing their risk
- Integration of the sustainability strategy within business planning
- Priorities set and direction of travel in relation to achieving objectives
- Development of ESG management and reporting capabilities

Escalation

Escalation generally occurs when management actions diverge from those CAM has bought into. In these instances, CAM will seek to engage to re-evaluate the situation and may follow agreed escalation steps if this is considered appropriate.

CAM believes initial conversations should be carried out through company brokers. Where the management strategy or delivery has become contrary to the initial grounds, we will seek to escalate conversations to include meaningful dialogue with the executive directors or Chairman to understand the rationale for divergence.

Where CAM deem management divergence to be unjustified further escalation may take the form of voting in abstention as a signal to management of our concern. Where we deem it necessary, we may vote against a management resolution.

In-extremis we will consider supporting like-minded shareholder resolutions in relation to issues of concern.

Ultimately CAM is not a "forever" investor in a company. Where CAM determines that an investment case has been met, exceeded, or is no longer likely to be met within the investment time horizon due to changed circumstances, we will recycle capital managed on behalf of clients into more appropriate holdings.

3. Monitoring & Communicating with Investee Companies

Monitoring and communicating with investee companies is undertaken by respective investment teams for each strategy, with the support and participation of the ESG Team, comprised of the Head of Responsible Investing, Corporate Governance Manager and Responsible Business Trainee.

Once CAM has bought into a company, we believe it is important to allow the management team time to effect both positive corporate change and deliver on the investment case which attracted our investment in the first place.

As responsible shareholders, CAM engages regularly with management teams to monitor our understanding of any evolving business risks and the dynamics of the investment, ensuring confidence in management and the maintenance of the investment case over time.

CAM re-evaluates the business case for each investment as new information becomes available and balances the expected returns with the associated risks to arrive at an informed investment view.

CAM believes there is a balance to be achieved across the business cycle between reinvesting in the underlying business, the remuneration of directors and employees, and returns to other stakeholders.

CAM invests across a multitude of investment sectors. Both macro-economic and micro risks are inherent and evolving in each sector. CAM manages each strategy in line with investment mandates and regulatory requirements and manages risk accordingly to mitigate risks in line with CAM's risk management policies.

If CAM identifies a risk it may look to engage with investee companies to seek clarifications or communicate expectations, where it deems appropriate. In relation to relevant ESG risks this process is structured following CAM's ESG Policy and annual Engagement Plan objectives.

Each of our funds should hold an appropriate number of holdings for the strategy being pursued with the aim of managing overall portfolio risk.

CAM managers engage in continuous dialogue with management teams throughout the life of the investment. All managers are knowledgeable, experienced and have a patient approach towards investment management in line with investment mandates.

CAM seeks to have regular meetings face to face with the management of investee companies to update themselves on relevant business dynamics and monitor and discuss progress. Where appropriate, CAM will enter an ongoing dialogue on strategy, remuneration, capital structure, corporate governance, environmental and social issues, ethics.

Different investment objectives between CAM funds mean we employ a range of investment strategies which take an even-handed view on varying risk and return expectations through time, seeking to protect and enhance the value of client assets whilst responsibly minimising broad non-financial risks.

4. EXERCISING VOTING RIGHTS AND REPORTING SIGNIFICANT VOTES

CAM consider voting to be an important shareholder right and we vote on every management and shareholder resolution.

In principle, having made an investment, CAM is likely to be supportive of company management. It is our default to vote in support of management resolutions at shareholder meetings. However, CAM managers expect to be consulted on all contentious resolutions.

CAM do not employ the services of a third-party proxy voting advisor, believing in-house governance analysis considered alongside the contextual knowledge of the investment team is more pertinent for small and mid-sized companies.

In the event CAM decides it is necessary to vote against a management resolution we will discuss this with the company or a company representative prior to the vote whenever possible.

We may use an abstention vote as a signal to the Board that we remain concerned about an issue and would like to discuss the situation further, as a pre-cursor to a vote against management should our engagement remain unsuccessful.

CAM consider all votes to be significant but report the reasoning for every vote cast in abstention or against a management resolution.

With regard to shareholder resolutions, we consider each resolution within the context of the expected investment thesis, current investment dynamics, and engagement with the company, voting accordingly.

5. Co-operating with other shareholders

Our investment approach is premised on nurturing constructive relationships with the companies in whom we invest. Consequently, we prefer to address individual company issues of concern on a one-to-one basis wherever possible.

However, in extremis and where we consider further action to be warranted, CAM will endeavour to engage with other like-minded shareholders through appropriate channels such as brokers, to provide a springboard for positive change.

With regard to working to ensure the future sustainability of financial markets through the control of systemic risks such as climate change, biodiversity loss or social issues, CAM will work collaboratively with other industry bodies and shareholders to support required change. Our collaborative work targets the needs of small and mid-sized companies and aims to address any barriers that may exist to small and mid-sized company participation in initiatives.

6. Managing Conflicts of Interest and Becoming Insiders

CAM's employees and directors manage Conflicts of Interest in line with our policy, which is available on the CAM website (Conflicts of Interest policy).

Becoming an insider at times is a natural consequence of our equity investment process and we expect to be consulted by Boards on significant matters.

Becoming inside typically occurs via a Market Sounding, in compliance with Market Abuse Regulation and it triggers a process that creates a record for each event and ensures affected shareholdings are made unavailable for trading until the information has been made public.

7. Disclosure of votes cast

All votes cast are disclosed in our quarterly Engagement and Voting Reports, including the reasoning behind any votes that do not follow the usual policy of 'vote in favour' of management resolutions. This includes voting in relation to shareholder resolutions.

8. Shareholder Engagement in action

Our annual UK Stewardship Code Report and quarterly Engagement and Voting Reports offer examples of our shareholder engagement in action, including case study vignettes.

9. Review of Policy

This policy is reviewed at least annually.