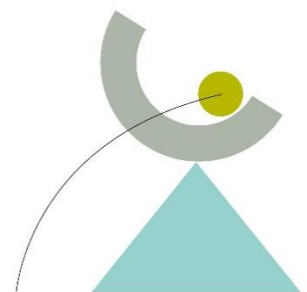




RESPONSIBLE INVESTMENT

ENGAGEMENT AND VOTING REPORT  
QUARTER 2 / 2024



## INTRODUCTION

The following report provides the Chelverton Asset Management Ltd (“CAM”) engagement and voting record for the second quarter of 2024.

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 [sdcc@chelvertonam.com](mailto:sdcc@chelvertonam.com) or Corporate Governance Manager, Gregor Macdonald at [gcm@chelvertonam.com](mailto:gcm@chelvertonam.com).

## RESPONSIBLE INVESTING CONTEXT

CAM is a responsible investor, believing this approach can deliver long-term benefits for clients, beneficiaries, the economy, environment, and wider society.

We recognise an evolution is taking place in what it means to be a responsible investor and that the use of general terms can lack clarity given the diversity of investing approaches that have emerged.

The PRI and other recognised bodies have attempted to offer clarity regarding accepted approaches to responsible investing, by agreeing terminology.

The below infographic summarises the range of different responsible investing styles identified and highlights the position of CAM’s approach within this range.

Style	Traditional Investment	Responsible Investing ESG Integration and Stewardship		Screening	Thematic	Impact
<b>Definition</b>	Limited or no consideration of ESG issues	ESG issues considered within analysis and decisions to protect and enhance investment returns.	Active ownership of investments, including voting and engagement, to protect and enhance investment returns.	Investments selected on rules-based sustainability criteria	Investments selected on defined sustainability themes	Investments targeting positive, measurable social and/or environmental impact, alongside a financial return
<b>Examples</b>	No systematic inclusion of ESG issues within investment processes	Systematic inclusion of material ESG issues within investment processes	Responsible allocation, management and oversight of investments, including exercising influence towards common economic, social and environmental goals	Best-in-class selection criteria Norms-based selection criteria Exclusions* Positive selection criteria Negative selection criteria	Thematic inclusion criteria such as those relating to climate, water, biodiversity or social themes	Impact measured and reported against one or more of the UN Sustainable Development Goals
<b>Approach</b>	x	✓	✓	x*	x	x

\*The Chelverton Select Consumer Staples Fund is the only CAM managed fund to follow an exclusion policy.

As a responsible investor the second quarter was again busy as we worked to ensure the alignment of our investments with the evolving risks, opportunities, and market expectations identified by our investment processes.

We continued to monitor the progress of the companies in whom invest, directing company engagements to ensure we protect and enhance investment returns for our clients over the long term.

Within this context the second quarter was dominated by the following activity:

- Meeting investee companies to monitor the investment thesis.
- Finalising our annual Engagement Plan 2024, including our annual engagement letter to companies outlining ESG management and reporting expectations for committed holdings.
- Submitting our UK Stewardship Code Report 2023 for review by the Financial Reporting Council, as required to maintain signatory status.
- Participating in collaborative work supporting the needs of companies within our investing universe as they seek to deliver more sustainable business practice.
- Participating in collaborative work supporting the role of boutique investors contributing to more efficient capital allocation within defined investing niches.
- Updating our responsible investing policies, where appropriate.

## ENGAGEMENT RECORD

The purpose and principles which guide our engagement activities are laid out in the Chelverton Shareholder Engagement and Voting Policy, which is reviewed and updated annually, as appropriate.

The focus of company meetings ranges from:

- Trading, performance, and strategy updates with executive teams.
- Discussions with non-executive board members regarding board composition, committee structures, and executive remuneration.
- Dedicated ESG discussions regarding any ESG management or reporting issues considered material to the investment thesis, where appropriate.

## TRADING PERFORMANCE AND STRATEGY UPDATES

In the second quarter of 2024 CAM's investment managers attended 87 meetings with investee companies within our UK, European and Global (consumer staples) funds, supported by CAM's ESG Team where applicable. This represents meetings in aggregate with roughly 24% of the companies that we own.

In addition to these meetings our managers met with 14 companies not currently held within any portfolio and attended various conferences and events at which both holdings and non-holdings were presenting and available for questioning.

For example, our global managers, who invest in large cap companies within the global consumer staples sector<sup>1</sup>, attended an annual global consumer conference in Paris to meet both holdings and non-holdings in the sector, engaging on the range of topics and taking the time to attend a meeting dedicated to the sustainability issues most relevant to sector participants.

The following list of topics were most discussed during one-to-one meetings the first quarter:

- The general outlook for the year ahead, including any anticipated impact of upcoming elections in the UK and in other regions.
- The ongoing effects of inflation and interest rate expectations on demand and supply for goods and services and the impact on company operations and investment plans.
- Supply chain issues and management, including the ongoing or resurgent impact of geopolitics on freight rates, relating to issues in the Red Sea.
- Inventory levels, de-stocking, and future expectations in this regard as companies look ahead to the resumption of growth.

## GOVERNANCE

Our Corporate Governance Manager continued to engage with remuneration committees regarding future changes to base levels of executive remuneration, annual bonuses and long-term

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<sup>1</sup> Defined as companies operating within the Food, Beverage, Household Goods and Personal Care sectors.

incentive schemes (LTIP) likely to be voted upon in upcoming shareholder meetings.

Consultations in advance of shareholder voting have become increasingly the norm and we engage when we would like to influence outcomes. We emphasize a consistent view that performance metrics and targets should be challenging, remain sensitive to the experience and cost-of-living pressures of the wider workforce at this time, and include relevant and challenging ESG targets.

In line with our engagement objective of supporting more sustainable business practice, we have identified a list of companies to engage regarding the inclusion of meaningful ESG targets within executive remuneration packages.

## ESG INTEGRATION AND ENGAGEMENT

The ESG Team continued to highlight relevant ESG issues to investment managers for inclusion in company meetings, providing pre-meeting insights ahead of 9 meetings in response to Investment Team requests. This represents focussed ESG input for just over 10% of meetings held during the quarter.

Focused 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 CAM requested one focussed ESG meeting outside of our normal company meeting cycle, with an existing holding with whom we have been engaging regarding ESG management and reporting since 2021.

[Bodycote](#) is a UK-based global supplier of heat treatments, metal joining, and hot isostatic pressing and coating services for the automotive, aerospace and defence, energy, and general industrial markets. Heat treatments and processing improve the properties of metals and alloys, extending component life.

Bodycote's business strategy is focussed on capturing customer demand for more efficient component parts with lower Scope 4 emissions (carbon emissions avoided) for products in use. Given the energy intensive nature of the company's industrial processes, and other ESG risks tied to toxic discharge and waste, strong management focus is needed to maintain competitive advantage.

Chelverton have noted significant company awareness with management efforts supported by both strong oversight and the inclusion of ESG targets in executive remuneration. The company demonstrate comprehensive adherence to internationally recognised ESG standards and reporting frameworks, providing confidence and transparency.

However, whilst energy efficiency and decarbonisation efforts include Science Based Targets initiative (SBTi) validation of the company's Net Zero target, and water efficiency measures include adherence to a policy and the reporting of water intensity metrics, our managers noted the absence of reported waste intensity metrics despite adherence to a policy and control standard.

During our meeting with the company's Chief Sustainability Officer and Head of Strategy, our ESG Team were able to discuss the advantage we see in improving this transparency, in line with our Engagement Plan objectives.

[Amorepacific Corporation](#) of South Korea is a holding in the Chelverton Select Consumer Staples Fund (formerly known as the Chelverton Global Consumer Franchise Fund). Since the start of the year the managers have been discussing with management the impact of limiting sustainability

reporting to the Group entity rather than providing a report for the two separately listed Amorepacific entities, in line with CAM's annual Engagement Plan objective to improve company sustainability reporting.

During the second quarter the managers were pleased to note the company's commitment to producing a sustainability report for both the Group and the Corporation going forward, to address the issues our managers felt were negatively impacting certain external ESG rating agencies perceptions.

In addition, the company have committed to providing a number of product brand sustainability reports to improve transparency.

Finally, the managers were pleased to note validation of the Group's Net Zero target by the SBTi as another milestone relevant to Chelverton's Engagement Plan objectives.

## COLLABORATIVE ENGAGEMENT

We believe collaborative engagements focused on the needs of companies within our investing niches, and the needs of boutique investors seeking to allocate capital efficiently within investing niches, can be a valuable contributor to future market stability by supporting more sustainable business practice and the control of systemic risk.

During the quarter we contributed to several consultations and events with this broad objective in mind:

- We attended a consultation with His Majesty's Treasury (HMT), sponsored by the Independent Investment Manager's Initiative (IIMI), to discuss the proposed regulation of ESG ratings by agencies. The IIMI is a member-led think tank that gives voice to owner-managed independent asset management firms, many of whom are boutique investors dedicated to investing within a niche.

CAM welcomed the opportunity to discuss the impact the recognised large cap ESG rating bias can have on investment in small and medium sized companies, given widespread reliance on ratings by large agencies. We put forward the view that regulation should address any lack of transparency in ratings, particularly any inappropriate use of estimated data that may lead to ratings anomalies in combination with the tendency to reward the number of ESG datapoints reported over the significance of the data.

- Following earlier participation in PRI consultations and surveys contributing to the co-design of proposed Progression Pathways for PRI signatories, CAM applied to participate in the next stage of this co-design i.e. focus group testing of proposed Progression Pathways. We were pleased to be accepted as focus group participants to ensure the inclusion of boutique investors in best-practice design, attending our first focus group during the quarter.
- We joined two other IIMI-sponsored events. The first of these events discussed the participation of boutiques in sustainability initiatives and the second the support for Women and Girls careers in financial services, following continued evidence of marginal representation. The 'Women in Financial Services' event was an opportunity to understand the levers available for educating girls as a pre-cursor to attracting and supporting this talent.

## 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 shareholder action when required in the interests of 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 second quarter of 2024, Chelverton's UK Equity Income Fund, UK Equity Growth Fund, UK Dividend Trust, European Select Fund, The Investment Company, and the Global Consumer Staples Fund, in aggregate voted on more than 3,800 company resolutions at shareholder meetings, casting votes in line with our Shareholder Engagement and Voting Policy.

In total, we voted against 2 resolutions and abstained from voting on 1 resolution.

The breakdown of voting activity between the individual funds in Q2 2024 was as follows:

FUND NAME	RESOLUTIONS	IN FAVOUR	AGAINST	ABSTENTIONS
UK EQUITY INCOME	846	846	0	0
UK EQUITY GROWTH	1090	1089	1	0
UK DIVIDEND TRUST	578	577	1	0
EUROPEAN SELECT	900	900	0	0
THE INVESTMENT COMPANY	339	339	0	0
CONSUMER STAPLES	143	142	0	1
TOTALS*	3896	3893	2	1

*\*For avoidance of doubt, the Chelverton Global Consumer Franchise Fund has been renamed the Chelverton Select Consumer Staples Fund.*

Chelverton consider all votes cast to be significant. However, in total, 3 votes were cast during the quarter that differed from our standard procedure of "Vote in Favour", detailed in our Shareholder Engagement and Voting Policy.

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

- ALPHAWAVE IP - CHELVERTON UK EQUITY GROWTH FUND (1 VOTE AGAINST)

In June 2024, as part of the Annual General Meeting voting, the Board of Directors sought approval of the Directors Remuneration Report set out in the Company's audited Annual report and Accounts for the financial period to 31<sup>st</sup> December 2023. As part of the remuneration report, the remuneration

committee proposed increases in salaries for two executives which we believe are excessive within the context of the company's size, level of maturity, and progress towards targets. We therefore voted against the resolution.

The result of the Annual General Meeting saw the resolution passed with 98.4% of shareholders voting in favour.

- T CLARKE - CHELVERTON UK DIVIDEND TRUST (1 VOTE AGAINST)

In May 2024 the company sought approval at a Court Meeting and General Meeting, to allow a recommended offer pursuant to which a major shareholder, Regent Acquisition Limited, would acquire the entire issued capital of T Clarke Plc. In these circumstances, at least 75% of shareholders must vote in favour for the proposed deal to go ahead.

We did not consider that the offer represented the true value of the company and so voted against the deal. This decision followed a number of prior discussions with the management regarding management actions we did not support.

On 29<sup>th</sup> May 2024 the company announced that 77.8% of shareholders had voted in favour of the offer and hence the takeover would proceed.

- BECLE - CHELVERTON SELECT CONSUMER STAPLES FUND (1 ABSTENTION).

We abstained on the resolution approving the Remuneration Report at the Annual General Meeting. The Remuneration Report offered in the company's annual Report and Accounts includes attendance allowances for Remuneration Committee members but does not disclose the Remuneration for the Board of Directors or the Supervisory Board. Becle trades on the Mexican Stock Exchange and corporate governance guidelines in this region recommend disclosure of remuneration packages for the Board of Directors. Our managers discussed the rationale for their vote with company management and will continue to advocate for more appropriate disclosure.

