# Stewardship Code Report 2021

**FOR THE 12 MONTHS FROM**

01 January 2021 to 31 December 2021

VERITAS
INVESTMENT PARTNERS

# Foreword – Message from our CEO

I am delighted to share this report on our compliance with the UK Stewardship Code. I hope it demonstrates our commitment to integrate stewardship throughout our investment activities and brings our stewardship principles to life.

Being long-term shareholders, whereby we aim to hold shares for five years or more, means we have a responsibility to our clients to ensure that investee companies understand the long-term risks they face and are taking the right steps to manage those risks, including environmental, social and governance (ESG) risks. To that end and despite the continued disruption of the Covid-19 pandemic, our stewardship activities continued apace in 2021. We were fortunate to have some truly valuable interactions with companies as part of our engagement work.

As you will see in the following pages, a strong culture of partnership is woven through everything we do. This includes our stewardship activities which are all undertaken with the aim of building long-term constructive relationships with companies. We have therefore been thrilled to see the steps companies are taking to tackle ESG risks head on and to see our engagements progressing through our milestones. Highlights this year include seeing several of our US companies improve disclosure and set net-zero targets and hearing from a European healthcare company about how much they appreciate our efforts to engage.

We have also loved learning about how our companies are using their scale to have positive impacts, from prioritising employee well-being to collaborating to improve standards in supply chains. We strongly believe that these actions will contribute to the long-term viability of the businesses in which we invest.

Our stewardship activities are continuously evolving. Just as we acknowledge that the companies in which we invest are continuously improving, so too are we. As always, we welcome your feedback on our reporting. We look forward to sharing more details of our stewardship work as it develops over the months and years ahead.

Caroline Stokell

**Review and approval of this report**

This report was prepared by Philippa Bliss. We welcome your feedback and if you would like to discuss the contents of this report or our stewardship work more broadly, please contact

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***The report has been reviewed and approved by all members of the VIP (UK) Ltd Board. The Board comprises our Executive Chair, Chief Executive Officer, Chief Investment Officer and Chief Operations and Technology Officer.***

# Veritas Investment Partners

# Veritas Investment Partners - at a glance

## WHO WE ARE

**£6.1bn**
in assets under management as at 31 December 2021

EST.
**1993**
First fund launched in 2018

**100%**
Independent and employee-owned

**55**
employees, including a 22-person investment team

## WE OFFER CLIENTS

An investment approach aligned to our clients' real return objectives

Personal service
A partnership approach delivered directly with our investment team

Tailored client service and reporting

ESG-specific information and analysis

## OUR INVESTMENTS

Long-term horizon (over five years) to align with needs of our clients

A simple approach, investing primarily in global equities, to provide a transparent and understandable solution for clients

Conviction-led, global best ideas investing

ESG fully integrated in all investment decisions

## HIGHLIGHTS FROM OUR ESG AND STEWARDSHIP WORK IN 2021

For the second year running, we took part in the **CDP**[1] **Non-Disclosure campaign** to encourage companies to measure and disclose environmental data

20%
of meetings with investee companies focused exclusively on ESG issues

We wrote or spoke directly to
90%
of core equity holdings in client portfolios

We voted on
535
proposals at 34 company meetings across seven different countries, meaning we voted 94% of core holdings in client portfolios

We signed the investor letter to **Global Investor Statement to Governments on Climate Change** which was delivered to global leaders in the run-up to the COP26 climate conference in Glasgow

We stepped up our efforts to engage with regulators, responding to the **FCA** consultation on **TCFD**[2] reporting and the discussion paper on the **Sustainable Disclosure Regulation and investment labels**

1. CDP was formerly the Carbon Disclosure Project and it runs a global disclosure system for companies, cities, states and regions to manage environmental risks https://www.cdp.net/en

2. Taskforce for Climate-related Financial Disclosures https://www.fsb-tcfd.org/

# Report Overview and Executive Summary

**We believe that our purpose, strong culture of partnership and investment philosophy enable effective stewardship on behalf of our clients. We are 100% owned by our employees, which helps to align business interests with our clients' objectives.**

We offer our clients the benefits of independence, stability and a long-term perspective. We have always focused on a single objective – to protect and grow the real value of our clients' capital, that is ahead of inflation, over the long term. Discretionary investment management using a global approach is our only business.

We focus on finding companies that benefit from long-term structural changes, rather than investing relative to an index. Should our investment research indicate that a company is exposed to long-term risks that could affect the viability of its business, then we will not buy shares in that company.

Engaging with companies has long been an integral part of our investment process. We view our engagement with companies as a chance to establish and maintain long-term relationships, supporting management with their long-term plans. With any interaction, our goal as investors is always to work with companies for the long-term benefit of the companies themselves and shareholders. This has continued despite the restrictions imposed as a result of the pandemic. In fact, we would argue that during these turbulent times, building constructive partnerships with our investee companies has become even more important. We communicate with companies whenever opportunities arise, in good times and in bad. Our stewardship activities are guided by our four principles:

**An aversion to box ticking**
Our focused investment approach enables us to fully understand the material risks to each business

**A focus on all stakeholders**
We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders

**A culture of partnership with management teams**
We recognise and value progress in pursuit of long-term sustainability

**We are prepared to vote with our feet**
We will not hold shares in companies where we identify a material risk to the long-term viability of the business

As long-term shareholders, we consider all the opportunities and risks associated with environmental, social and governance (ESG) factors as part of our investment case because these are factors which could have a material impact on companies. ESG factors featured heavily in our stewardship work in 2021 and focused on the following topics: *[Continued overleaf]*

- **Environmental and social metrics** – encouraging companies to measure and disclose the metrics which are most material to them
- **Net-zero targets** – encouraging companies to set net-zero targets, along with interim targets so that progress can be monitored
- **Supply chains** – understanding what companies are doing to monitor practices throughout their supply chains and how they deal with any issues identified
- **Auditor tenure** – continuing with our work to encourage US companies with long-tenured auditors to consider putting the audit contract to tender
- **Board composition** – exploring whether companies have the range of expertise they need
- **Director independence** – ensuring board directors have a mix of tenures and that key positions, such as committee chairs, are held by directors who are truly independent

We are pleased that over the last year our stewardship activities have generally been well-received by company management. Our interactions with companies have not only given us the chance to share our thoughts on best practice and to encourage change, but they have also given us the opportunity to increase our understanding of the challenges companies are facing and the opportunities available to them. We hope you enjoy reading our company case studies throughout this document.

**Principle 1**
# Purpose, strategy and culture

## Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

### Context and Activity

For over two decades, we have been guided by a culture of partnership and a common-sense investment philosophy. This serves one purpose: to protect and grow our clients' wealth for the future. Everything we do is guided by three principles:

1. **Real Returns**
Our investment philosophy is aligned with our clients' objectives – to protect and grow the purchasing power of their capital over the long term. We focus on real returns and consider risk as the potential for permanent capital loss.

2. **Partnership**
We have a deep-rooted culture of partnership. The investment team comprises 22 experienced investment professionals who are committed to providing a personal service to all our clients. We are 100% owned by our team which creates stability and focuses us on achieving client objectives.

3. **Stewardship**
When we buy shares in companies, we become business owners. As stewards of our clients' capital, we have an opportunity and a responsibility to contribute to the sustainable success of these businesses, taking the time to understand and support their strategy.

Our purpose and principles have guided us to keep our investment strategy simple and to enable the business to grow organically. We invest in great businesses, with strong and predictable characteristics, that are built to last. These companies offer products and services that will remain in demand for the foreseeable future, regardless of the economic backdrop. This allows us to grow our clients' assets by more than inflation over the long term. We believe that our clients' objectives are inherently aligned with our core investment philosophy and culture. Specifically:

- Our deep-rooted culture of partnership creates stability and aligns our long-term interests with those of our clients. Successful long-term investing takes good judgement. It is a balance of our different skills and experience which enables us to identify great investment opportunities. We continuously question and learn, rigorously analysing opportunities and leaving no stone unturned.

- Focusing on the long term also aligns our investment approach with delivering sustainable benefits for the economy, the environment and society. When we buy shares in companies, we become business owners. As stewards of our clients' capital, we have an opportunity and a responsibility to contribute to the sustainable success of these businesses, taking the time to understand and support their strategy over extended time periods.

- Our focus on a simple investment offering with the objective of achieving real returns by investing in global equities, fixed income and cash, provides a transparent and understandable solution for clients.

- As long-term investors, we believe we have a responsibility to consider any factor that might impact the durability or value of our clients' investments. Environmental, Social and Governance (ESG) factors might all impact the long-term value of a company within our investment time horizon. The opportunities and risks related to ESG are therefore key considerations in every new investment we make, as well as our ongoing decision to hold shares in a business.

- Risk management is inherent in everything that we do. We define "risk" as the potential for permanent capital loss and each part of the portfolio construction process is focused on managing this risk.

- Clients have direct access to their designated investment managers who are responsible for suitability, portfolio construction and investment outcomes. This further aligns interests and accountability to clients.

- Finally, our sole business is the provision of discretionary global investment management, ensuring that our clients are at the centre of our business.

Our culture of partnership extends to our investee companies and guides our approach to our stewardship activities. It is a central part of our investment philosophy and process. As long-term investors, we take the time to understand each business in which we invest. Through open and constructive dialogue, we seek to build lasting relationships with company management to support their ongoing success. When we buy shares in companies, we become business owners. We have an opportunity and a responsibility to contribute to the long-term success of these businesses, taking the time to understand and support their strategy over many years. Stewardship activities are not outsourced. They are undertaken by our investment team who are knowledgeable and familiar with each business. Further information on our approach to integrating our stewardship activities in our investment approach is set out under **Principles 2 and 7**.

## Sustainability in our own business

Just as we expect our investee companies to manage their environmental and social impact, we also embed sustainability into our business practices.

From an environmental perspective, our impact is relatively small due to the nature of our business, but we believe even small changes can be important. We are mindful of our consumption and waste as well as the long-term impact this has on the environment. Specifically:

- We have been carbon neutral since 2018 and offset all our business travel
- We use 100% renewable electricity in our offices
- We encourage everyone in our offices to recycle by providing facilities to do so and all our paper is recycled and comes from Forest Stewardship Council certified sources; it is also carbon neutral
- We source goods from independent, local and fair-trade suppliers wherever possible and expect our suppliers to manage their own environmental impact
- We use environmentally friendly cleaning products
- We are involved in a project to protect wildflower habitats for bees

We have a strong commitment to diversity and believe that having a diverse team and inclusive culture is crucial to the success of our business. We understand the importance of diversity of thought to our investment process and we are proud to employ people from a wide range of backgrounds. In the investment team, we have a 54:46 male:female split and the level of experience varies – ages span five decades. We also have a range of educational backgrounds and have degrees in over ten different subjects, including economics, modern languages, chemistry, physics and philosophy.

We believe in supporting the future of diversity in our industry. We therefore work with the Sutton Trust and the Social Mobility Foundation to offer work experience opportunities, and 10,000 Black Interns for summer internships.

We have ensured the London Living Wage has been paid through our supply chain since 2015.
In addition, we have a history of charitable giving, both as private individuals and as a business. We have an annual budget for Corporate Charitable Giving and everyone in the company is offered the ability to donate privately to charities directly though the Give-As-You-Earn scheme. We support paid leave for staff volunteering, contributing to non-executive or other community-based roles. We are committed to matching individual charitable fund raising and we fund annual team charity events.

### Outcome

Our culture of partnership and our aim to deliver real returns for our clients guide all our investment decisions. Fostering a culture within our business that values and rewards teamwork means that our clients benefit from the diverse perspectives, different skills and varied experience in our team. With inquiring minds and different perspectives, we continuously balance opportunities and potential risks, asking varied questions of ourselves and others to make sure our clients' wealth is preserved for the future.

All investments are assessed for their ability to contribute to our clients' real return objectives and our collegiate approach to decision-making means that investment decisions, including decisions around stewardship and engagement, are taken by the investment team. This means we can harness the diverse skills, knowledge and experience of the team. We are proud of the strong risk-adjusted returns we have delivered for our clients.

Over the long term, we have delivered portfolio returns ahead of our clients' inflation plus targets. In 2021, our clients' portfolios benefited from exposure to high-quality companies in the structurally growing fields of technology and healthcare, and we continue to believe that this combination is the best way to exceed our clients' inflation plus targets over the long term.

Finally, our focus on investing in high quality, predictable companies and our methodology, which targets long-term real capital preservation, mean the volatility of our investment strategies has historically been lower than that of world equity markets.

**Principle 2**

# Governance, resources and incentives

## Signatories' governance, resources and incentives support stewardship.

### Activity

**Governance structure**

As highlighted under **Principle 1**, we have a deep-rooted culture of partnership. The investment team comprises 22 experienced investment professionals who are committed to delivering results for our clients and providing a personal service. The average investment experience in the team is around 20 years. We are an independent business, 100% owned by our employees. This directly incentivises staff to focus on the long term and which creates stability for our clients.

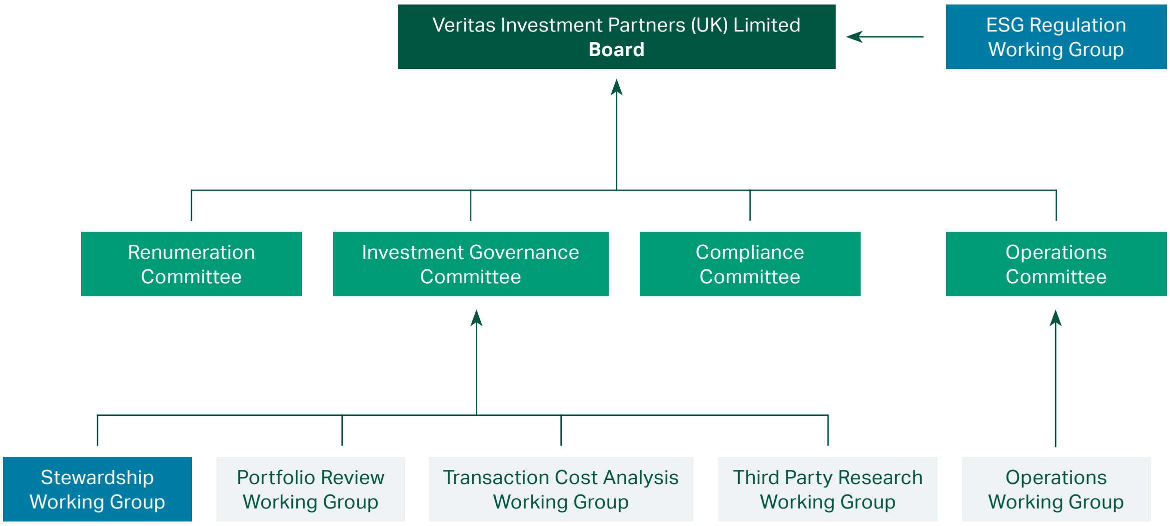
Our collegiate approach to decision-making means that investment decisions, including decisions around stewardship and engagement, are taken by the investment team reaching a consensus together and not by separate investment committees. That said, we do have two working groups which oversee our administration, policies and processes for our stewardship work and our responsibilities in relation to ESG regulation.

Our overall investment process is overseen by the Investment Governance Committee which is chaired by our Chief Investment Officer, Ross Ciesla. Ross sits on both working groups highlighted below and has responsibility for reporting stewardship matters to the VIP (UK) Ltd Board.

Our **stewardship working group**, chaired by Philippa Bliss, meets on a quarterly basis. It is made up of eight members of the investment team and includes our Chief Executive Officer, Chief Investment Officer and several of our investment partners. This group focuses on the administration, policies and processes for our stewardship work and on ensuring consistency of practices across the investment team. Any activities carried out by this group are communicated to the wider investment team during our weekly investment team meetings, as well as to our compliance and operations teams where necessary. During the last year, the group was responsible for identifying our engagement priorities for the year ahead, updating our voting policies on issues such as auditor tenure and agreeing our approach to collaborative engagement. The group also worked on improving the communication of our stewardship activities to the wider investment team. Further details are included on next page.

Our **ESG regulation working group** is chaired by Sam Cotterell (one of our Investment Partners) and meets on a quarterly basis. It was formed in 2021 to ensure we have the resources, policies and processes to meet our obligations as regulation evolves. Examples include TCFD (Taskforce for Climate-related Financial Disclosure), the UK's SDR (Sustainable Disclosure Regulations). All members of the VIP (UK) Ltd Board (Executive Chair, Chief Executive Officer, Chief Investment Officer and Chief Operations & Technology Officer) as well as our Compliance Officer and Risk Manager are part of this group.

The chart below shows how these groups fit into our overall governance structure.




## Resources – our people

All stewardship work is done by members of our in-house investment team, not a separate ESG or stewardship department, and the working groups highlighted above are predominantly made up of members of the investment team. Our focused investment style (we hold 25-40 equities in client portfolios) means we have an excellent ratio of investment professionals to investee companies. It allows us to know our investments inside out and focus us on what is material for each investee company. Where necessary, individual analysts are supported by members of the stewardship working group to ensure consistency of approach.

We strongly believe that having a diverse team and inclusive culture is crucial to the success of our business. We understand the importance of diversity of thought to our investment process and we are proud to employ people from a wide range of backgrounds. With regard to our investment team specifically, as highlighted under **Principle 1**, we have a 54:46 male:female split and the level of experience varies – ages span five decades. The team also have a range of educational backgrounds and have degrees in over ten different subjects, including economics, modern languages, chemistry, physics, politics and philosophy.

## Resources – research and data

We use a variety of data sources to help us to assess the ESG characteristics of our investee companies and to support our stewardship work. Our primary source of information is that provided by companies themselves (such as annual reports, CSR reports, proxy statements and company websites), enhanced by direct engagement with company management, board directors and investor relations teams.

We also use information from several ESG data providers as part of our investment process. These include Moody's ESG Solutions[3], ISS, Credit Suisse's HOLT and the CDP. During the last year, we chose to also acquire ESG data from Sustainalytics (via the Morningstar platform), primarily to enhance our communication of sustainability factors to clients and further information on this addition is included under **Principles 6 and 8**.

3. Our contract is with VE which, following acquisition, has now been fully integrated into the Moody's ESG Solutions business

It is important to note that we do not make investment decisions based solely on ESG ratings from third-party providers. We believe judgement from experienced investment professionals matters.

The information obtained from ESG data providers is used alongside our analysts' own research and information available directly from our investee companies. We typically use it as a guide to show where more investigation is needed. For example, should a company receive a poor rating from an ESG provider for environmental management, we would seek to engage with the company directly to explore the reasons behind the poor rating and ascertain whether it is down to a lack of disclosure or a lack of action by the company. We would also assess what the company is doing to address these issues.

In addition to the ESG research and data we buy, we use publicly available ESG information where appropriate and international reporting frameworks and standards to inform our views on best practice when it comes to company reporting of ESG issues. This includes standards developed by GRI[4], SASB[5] and TCFD.

## Resources – training

All members of the investment team can (and do) attend conferences and training sessions on stewardship and ESG integration. During 2021, sessions attended included those organised by:

- Brokers: Berenberg, Bernstein, Cowen, Jefferies, JP Morgan, Redburn, Stifel, UBS
- Industry Bodies and Regulators: CFA, IA (Investment Association), PRI (Principles for Responsible Investment), ICAEW (Institute of Chartered Accountants in England and Wales) FCA and FRC
- Global Organisations: CDP, GRI, SASB

Feedback and key points from all such sessions are provided to the wider investment team at our weekly investment team meeting and notes are saved in our research database. Members of the team also frequently provide presentations and training sessions to colleagues. For example, during the last year we had presentations on culture and purpose, sustainability reporting frameworks and regulation, and the outcomes from COP26 amongst others.

In addition, we view our meetings with investee companies as opportunities to increase our knowledge of industry-specific sustainability challenges as opportunities, recognising that individuals working on the frontline may be better-placed than us to understand these issues.

Where appropriate, we organise our training sessions with specialists and further details on some of these sessions is included in the Outcomes section below.

## Incentives

Our incentive policy focuses on aligning our interests with those of our clients. All our investment team and senior staff are equity holders in the business which facilitates an appropriate level of long-term incentive. All short-term incentives are discretionary and based on investment results including stewardship work, teamwork, client service and compliance. We have neither sales targets nor targets for growth in assets under management for any staff member.

As part of our annual review process, all staff, including senior managers, discuss teamwork and their contribution to social and environmental issues to ensure responsible and ethical success for the business and for our clients.

4. Global Reporting Initiative

5. Sustainability Accounting Standards Board

Outcome

We believe our culture and governance structures and resources give us the knowledge, experience and flexibility to carry out effective stewardship on behalf of our clients. Our stewardship activities are carried out by the investment team who also do all other research work on our investee companies. This means we know our companies in detail and are best placed to identify and focus on the issues that are material to each individual company.

Given our focused portfolios of 25-40 companies, high ratio of investors to investee companies and the depth of experience on the investment team, we feel that our current resources are appropriate to support our stewardship work. Strengthening our skills and knowledge remains a focus. In the last year, we identified that our knowledge on how to assess company net-zero targets could be improved, especially as this has been an important topic in our engagement work over the last year. We are therefore working with sustainability specialists to arrange a training session to cover a range of issues in relation to net-zero. For example, these include how to establish whether company targets are credible, any red flags to watch out for, to what extent the use of offsets is acceptable and how governance structures should be organised to support the targets being met. We plan to report on the outcomes and impact of this session in next year's report.

Members of the stewardship working group also highlighted gaps in internal communications around keeping track of engagements and progress made. We therefore established an internal engagement database so that investment team members can find the latest information on our stewardship work in one place. We are also in the process of establishing a similar ESG database that will help the team to stay up to date with the ESG and sustainability commitments and progress of investee companies. We look forward to sharing details of the outcome of this work in next year's report.

**Principle 3**
# Conflicts of interest

## Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

### Context

As we are an independent business, focusing only on discretionary investment management, we do not experience some of the conflicts faced by larger and more complex financial services companies. That said, we still have an obligation to act in the best interests of our clients and treat them fairly in all circumstances, including where there are or could be potential conflicts of interest. We seek to organise our business activities, including external arrangements, such as to avoid conflicts. However, our aim is to ensure that where conflicts do occur, the policies, procedures and controls needed to manage the situation are already in place. Such procedures are designed to ensure that the management of the conflict takes place in such a way that the firm or its employees are not advantaged, and that no client is disadvantaged. Our Conflicts of Interest policy is available on our website and provides more details on the steps we take to identify, consider, mitigate, manage, disclose and record all conflicts.

Through our culture of openness and regular staff training, we aim to create an environment in which conflicts of interest and potential conflicts of interest can be identified and resolved as they arise. All employees have a responsibility to consider any potential or actual conflicts of interest during the course of day-to-day business activities or ad-hoc project work and disclose such conflicts to the Compliance Team. We have processes in place to manage and mitigate conflicts, including a rigorous personal account dealing policy, an anti-bribery and corruption policy and an annual disclosure of outside interests, if any. Staff are also subject to a gifts and hospitality policy which requires that disclosures are made, and prior approval sought where necessary.

In addition, all staff review and sign our Integrity in Business document on an annual basis. This is spear-headed by our Chief Executive Officer and draws together the main points from all our conduct and compliance policies to promote high standards of conduct throughout the business.

Our Conflicts of Interest policy sets out in more detail how we would respond to specific conflicts of interest and potential conflicts of interest. These might include issues arising from order execution, trade allocation or receipt of price sensitive information. Where conflicts arise through our voting and stewardship activities, for example where clients may have differing views on the outcome of a vote or where a director of an investee company standing for (re)election may also be a client, the matter is escalated to our Investment Governance Committee and Compliance Team for resolution. As we only hold 25-40 equity holdings in our portfolios, we do not expect such conflicts to arise very often.

We do not expect to receive price-sensitive or inside information in our engagements with companies, and we always make this clear to companies during our engagement meetings. However, if this were ever to happen, we would handle the information according to our normal compliance policies and procedures which can be found on our website.

Any conflicts of interest or potential conflicts of interest which arise are recorded in the Conflicts of Interest Register. The register is reviewed regularly by the Compliance Team and periodically by the Board.

### Activity and Outcome

In the time period under review, we did not identify any actual or potential conflicts of interest related to stewardship. As set out above, given the nature of our business and our investment philosophy, we do not expect to experience some of the conflicts faced by larger and more complex financial services companies. However, should we encounter an actual or potential conflict of interest, this would be dealt with according to the principles and policies set out above.

**Principle 4**
# Promoting well-functioning markets

## Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

### Activity and Outcome

Risk management is inherent in everything that we do. Our clients' have long-term investment horizons (generally five-years plus, and in many cases multi-generational) so we have a responsibility to identify and respond to risks that will affect the value of our clients' investments and our ability to deliver a real return over the longer term. We recognise that no company operates in a vacuum and each part of our research and portfolio construction process is focused on identifying and managing risks, including market-wide and systemic risks.

We focus on finding large cap, liquid companies that are benefiting from long-term structural changes rather than investing relative to an index. Should our investment research indicate that a company is exposed to long-term risks, including market-wide or systemic risks, that could affect the viability of its business, then we will not buy shares in that company. We focus on investing in large cap, liquid companies which trade on recognised exchanges.

The market wide and systemic risks we prioritised in 2021 included:

- Macroeconomic risks, such as rising inflation and interest rates
- Geopolitical issues, particularly tensions between the USA and Russia and China
- The continuing impact of the Covid-19 pandemic
- Impact of climate change
- Biodiversity loss
- Water security
- Demographic changes, particularly the issues associated with ageing populations
- Human rights
- Cyber-security
- Disruption from new technology, such as artificial intelligence and machine learning

Every member of the investment team is responsible for identifying market wide and systemic risks. Risks are discussed at our daily investment team meetings and at our longer weekly investment meetings, and all members of the team are encouraged to share their views. Specialist analysts are drawn on for particular areas of expertise. For example, our technology specialists have highlighted risks relating to technological disruption and cyber-security while our healthcare specialist has spoken about the risks associated with anti-microbial resistance and the dangers posed by healthcare inequality. We also have an investment analyst who focuses on risks particularly associated to our fixed income holdings, such as interest rates, currency and credit ratings, and he also provides regular updates on macroeconomic developments.

We also seek input from sector and industry experts to help us better assess market-wide and systemic risks and to inform team discussions about the action to take. We do not have in-house economists so these sessions are an important part of our investment process.

## Risk Case Study

**ISSUE**
MACROECONOMIC RISKS

In 2021 we had sessions with economists where we discussed rising levels of inflation, the extent to which they are transitory, potential policy responses from central banks and governments and rising levels of debt. As a result of these sessions and following internal discussions, we increased exposure to assets that could provide some downside protection in extreme policy scenarios, such as gold, index-linked bonds and floating-rate notes. As always, we focus on our number one objective: to meet our clients' real return targets.

Actions to address any risks identified, such as changes to portfolio holdings or to start engagement work, are agreed by the investment team collectively and progress on these actions is monitored on a regular basis.

We raise market-wide and systemic risks with investee companies directly where appropriate and indeed, many of these topics have featured in our engagements over the past two years. Management of these risks is also an important consideration in our investment research process as ESG factors are fully integrated with our research into financial issues. Further information is included under **Principles 7 and 9**.

We work collaboratively with wider stakeholders and industry groups in order understand and tackle market-wide and system risks. This includes senior managers taking part in industry networks, such as those organised by the Investment Association and PAM. For example, our Compliance Officer took part in the PIMFA Regulatory Forum in 2021 and a regulatory roundtable, as well as several sessions organised by the Investment Association on issues such as financial crime, sustainability and responsible investment. We have also stepped up our work to engage with regulators over the last year.

Our Chief Executive Officer and Chief Investment Officer are both involved in an industry network to improve stewardship standards and share best practice about how to tackle risks. Involvement in this group led directly to collaborative engagement with one of our US holdings and further details are set out under **Principle 10**.

Finally, we contribute to campaigns and initiatives run by organisations, such as the PRI and CDP. Further details of our collaborative work are set out in the examples below and later in this document under **Principle 10**.

## Risk Case Study

**ISSUE**

ENVIRONMENTAL RISKS, PARTICULARLY THE IMPACT OF CLIMATE CHANGE

Environmental risks, including those related to climate change, are considered in all our investment decisions. Given the rapidly shifting regulatory environment and changing consumer preferences, companies that do not understand and plan for these risks could lose their social licence to operate. As physical risks related to climate change (such as rising sea levels and extreme weather events) increase too, companies without adequate risk management strategies could see their workforce, supply chains and customer base severely disrupted.

We seek to ensure that the companies in which we invest have management teams who understand the environmental opportunities and risks they face and are taking steps to reduce these risks by setting long-term targets (for example, to reduce greenhouse gas emissions) and putting in place processes to enable these targets to be met.

In 2021, we stepped up our work to collaborate with others across the industry and beyond as we recognise the increasing urgency of finding solutions to the challenges posed by climate change. With that in mind, we signed the Global Investor Statement to Governments on Climate Change which was delivered to global leaders in the run-up to the COP26 climate conference in Glasgow.

We believe that increasing corporate environmental transparency around climate change, biodiversity and water security is crucial if we are to meet the goals set out under the Paris Climate Change Agreement. Companies need to first measure and disclose data related to the greenhouse gas emission, biodiversity and water if they are to successfully manage them. In 2021, we took part in the CDP's Non-Disclosure Campaign by co-signing letters to the small number of our listed equity holdings who did not respond to the CDP's disclosure requests. We were very pleased that one of the companies we addressed in this campaign (payments and software provider Fiserv) disclosed data to the CDP's climate change initiative. While this activity has not resulted in further disclosure from other companies, we will take part in the Non-Disclosure Campaign for 2022.

We are of the view that the finance industry has an important role to play in tackling climate change but that a lack of consistent, fair and understandable reporting is currently limiting the positive impact the industry can have. We therefore responded to the FCA's Consultation on mandatory TCFD reporting with the asset manager industry and its proposals for the Sustainable Disclosure Regulation. We broadly support the FCA's aims to increase transparency in the industry and hope that our feedback will contribute to this.

Managing environmental risks has also been an important feature of our engagement work with companies and further details are set out under **Principle 9**.

## Risk Case Study

**ISSUE**
HUMAN RIGHTS

Many of the companies in which we invest have complex, global supply chains with several tiers of suppliers and multiple relationships to manage. This is true for companies across a range of sectors including information technology, healthcare, industrials, materials, consumer discretionary and consumer goods.

While we acknowledge that ensuring high standards are maintained throughout supply chains is a significant challenge, we expect companies to have robust policies and processes in place to:

- Assess the extent to which human rights are respected throughout their own operations and supply chains, including a comprehensive audit programme for suppliers
- Identify cases of forced labour, modern labour or child labour within their supply chains
- Ensure issues relating to human rights are included in procurement work
- Establish remedial programmes to address any issues identified with their suppliers and to monitor the progress of improvements to ensure these remain on track
- Where appropriate, end relationships with suppliers if sufficient improvements are not made in relation to human rights
- Work with industry and cross-sector bodies to share best practice and improve conditions for workers around the world

As highlighted under **Principles 7 and 9**, human rights have been an important issue in our direct engagement work with investee companies where relevant. For example, in 2021 we discussed how a technology company how they are ensuring employees in factories in Malaysia are looked after and we discussed the management of human rights in the supply chain with a UK-based apparel company.

As part of our research process, we identify whether companies are Signatories or Participants to the UN Global Compact. We believe that the 10 Principles of the Compact represent the minimum standards all businesses should adopt and where companies are not already signed up, we encourage them to do so as part of our engagement work.

Given the importance of these issues, we have been actively looking to join collaborative engagement opportunities that focus on social issues relating to human rights and modern slavery. In 2021, we identified the Find It, Fix It, Prevent It initiative, which focuses on tackling modern slavery in supply chains, as an option that might be suitable given our portfolio holdings and long-term investment approach. We have also formally expressed our interest in joining the PRI's Collaborative Stewardship Initiative on Social Issues and Human Rights. Further details are included under **Principle 10**.

The statement on our approach to tackling modern slavery through our business operations is included on our website. We are strongly committed to acting responsibly, both in our investment process and in the way we run our own business. We have a zero-tolerance approach to slavery or human trafficking and take a risk-based approach regarding our supply chains. based approach regarding our supply chains.

**Principle 5**

# Review and assurance

## Signatories review their policies, assure their processes and assess the effectiveness of their activities.

### Activity

Our policies and processes are subject to continual internal review by members of the investment and compliance teams.

As discussed under **Principle 2**, our stewardship working group, which meets on a quarterly basis, focuses on the administration, policies and processes of our stewardship work. In addition, the group ensures consistency of practices across the investment team. As part of this work, the group also assesses the effectiveness of our stewardship work, adapting the processes and policies where necessary. For example, as set out below in the Outcome section, in 2021 we updated our approach to voting on reappointing auditors at company AGMs. As well as several investment partners, the group includes our Chief Executive Officer and Chief Investment Officer, who are able to escalate issues to the Board or Investment Governance Committee if needed. In 2021, no issues were escalated to the Board.

Our stewardship activities are currently not subject to regular external assurance or review. Our policies, processes and the effectiveness of our activities were last reviewed by Arkadiko Partners in October 2019. Given that 2022 marks three years since this external review, we are considering seeking further external assurance in the coming year. We will report further details of this in our next report. We will of course continue to review the need to obtain external assurance and will seek external review more urgently should the need arise.

During the last year, members of the investment team took part in a stewardship roundtable with external parties to share examples of best practice and experience of tackling challenges in relation to stewardship. This was an important opportunity to contrast our policies and processes with those of others in order to improve internal assessment of our activities.

We believe this approach of regular internal review, involving senior members of staff, is appropriate given the size of our organisation and the fact that we tend to have only 25-40 equity holdings within portfolios. Our engagement and voting activities are discussed regularly at our investment team meetings and any changes to our policies and processes are highlighted to the team, who also have an opportunity to comment on the changes.

We monitor the progress of our engagements by setting ourselves clear objectives at the outset and measuring progress against four milestones:

1. Raising the issue with the company
2. Receiving acknowledgement from the company that our concerns are valid
3. Receiving confirmation from the company that it is developing a plan to address the issue
4. Receiving confirmation from the company that the plan is implemented, and the objective is delivered

Examples of some of our engagement work in 2021 and the milestones reached are included under **Principle 9**.

Where we make insufficient progress on an engagement, we will reassess our options and may choose to sell our holding. These decisions are discussed both at the stewardship working group and as part of wider investment team meetings. When we choose to sell following an attempt at engagement, we inform the company in writing of our reasons for doing so. During 2021, we made no such sales.

### Communication and reporting

To ensure our stewardship reporting is fair, balanced and understandable, all communication is shared with the investment and compliance teams prior to publication or distribution to clients. All team members can highlight any areas of reporting they believe to be unclear or that could misrepresent our activities. We also seek feedback on our reporting from longstanding clients and others in the investment industry to ensure that our reporting is understandable, but also relevant.

### Outcome

As mentioned above, during 2021 our internal reviews led to a change in our voting policy in relation to auditor tenure and our voting decisions about reappointing auditors at company AGMs. We take our responsibility for auditor appointment seriously, especially as several high-profile failures over the past two decades have highlighted the importance of this issue. Most notable among them is the Enron scandal which cost shareholders over $70 billion when the company collapsed and resulted in employees losing billions in pension benefits[6]. Changing audit firm can help to highlight any issues before they get this extreme. Best practice in Europe is to re-tender audit contracts after 10 years and change audit firm every 20 years. However, in the US indefinite tenure is common and we have been raising this issue with several of our US-based companies. While there will always be some exceptions, we have updated our voting policy in this area: for companies with auditor tenure over 20 years, we will abstain and engage for a maximum of two years. But if there is still no change, while we will continue to engage with companies, we will start to vote against proposals to reappoint auditors and eventually, Board members on the Audit Committee. However, we acknowledge that we are unlikely to convince all companies to change, so we aim to get reassurance from our US companies that there is sufficient challenge in place, where the same auditor has been in place for several decades. This remains an important component of our engagement work.

> Over the last year, our internal review of our written communication has also led to an improvement in the way in which we communicate our stewardship activities to clients. Updates on the outcomes of our ESG integration and the stewardship work are now included in our written client quarterly investment reports as well as being fully embedded into face-to-face meetings.

6. https://www.investopedia.com/updates/enron-scandal-summary/

We believe this will enable our clients to better understand how we are using our influence as shareholders to have a positive impact on investee companies and will allow clients to more easily track our engagement work over time. Additionally, we have decided to provide clients with a standalone annual stewardship report, rather than including the annual stewardship report with our client newsletter. Further, the standalone report will include specifics of all our voting activity. This decision was made in part in response to client feedback requesting more information on our stewardship activities and we hope this new approach will give us scope to cover our stewardship activities in more detail and therefore continue to ensure that our communication is fair, balanced and understandable.

Further details on how we communicate our stewardship activities to our clients are included under **Principle 6**, including details of how we have started to discuss portfolio sustainability metrics in client meetings.

**Principle 6**

# Client and beneficiary needs

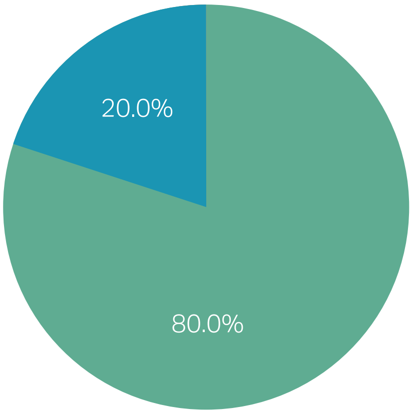
## Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

### Activity

Our sole business is discretionary investment management for individuals, smaller institutions and charity clients. Throughout our history, we have focused on a single objective – to protect and grow the real value of our clients' capital over the long term (i.e. five years plus). As highlighted under **Principle 4**, our clients' have long-term investment horizons, in many cases multi-generational, so we have a responsibility to identify and respond to risks that will affect the value of our clients' investments and our ability to deliver a real return over the longer term.

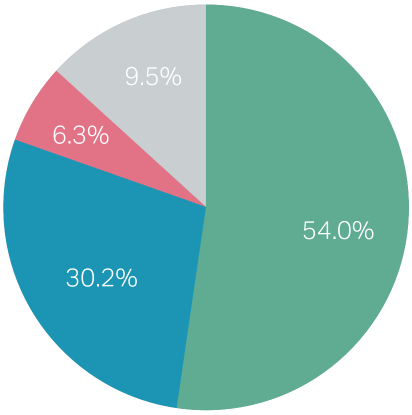
Our stewardship activities and ESG integration, as set out in **Principle 7**, are therefore applied across all portfolios managed for our clients. We do not run separate ESG or stewardship-focused investment strategies. As long-term shareholders in a focused list of companies, we believe we have a responsibility to consider any factor that might impact the durability or value of our clients' investments.

As at 31 December 2021, our assets under management stood at £6.11 billion across approximately 480 client relationships. An overview of our client base is shown below. Most of our clients are retail clients, but we also manage portfolios on behalf of institutional investors.




**Breakdown of assets under management by client type as at 31 December 2021**

- Retail Clients
- Professional Clients

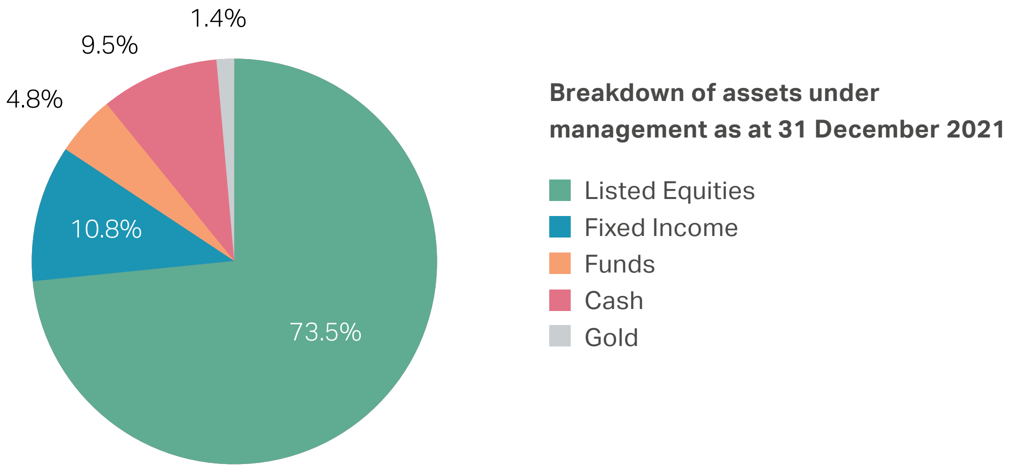



**Breakdown of assets under management by client geography as at 31 December 2021**

- UK
- Channel Islands and Isle of Man
- European Economic Area
- Rest of World

Whilst our clients share the common objective of protecting and growing their assets ahead of inflation, individual risk tolerance varies. Additionally, an increasing number have ethical investment policies to be taken into consideration. We discuss our clients' detailed requirements before we sign an investment agreement with them and continue to monitor suitability for the duration of our relationship. These discussions form a critical part of the asset allocation decisions taken on their behalf, informing the asset classes we hold, as detailed below.

We invest predominantly in listed equities, fixed income, gold and cash on behalf of our clients. An overall breakdown of assets held as at 31 December 2021 is shown below and more detailed breakdowns of our listed equity and fixed income assets are also included. Our approach to stewardship for these different asset classes is set out in **Principle 7**.



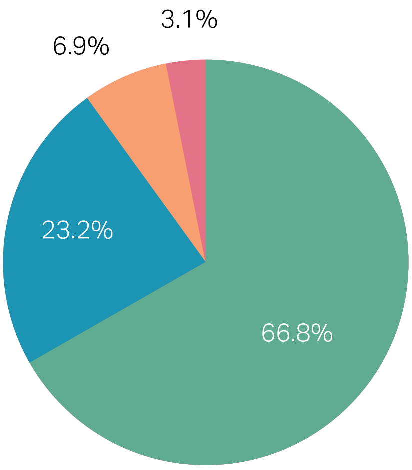

**Breakdown of assets under management as at 31 December 2021**

## Listed equities

In the long term, we believe that well-chosen equities, benefiting from structural tailwinds and bought at a reasonable valuation, will be the main driver for achieving real returns. Our investment philosophy and strategy are centred on bottom-up stock selection, driven and supported by a rigorous research process. We invest globally on an unconstrained basis, i.e. with no reference to an index or benchmark.

Within equities, structural shifts shape the context within which we invest. We believe that no company operates in a vacuum, and each will benefit from tailwinds and face headwinds that may be common to other organisations. We seek to identify companies which are likely to benefit from these structural tailwinds and, if bought at a reasonable valuation, will be the main driver for achieving real returns. We generally hold between 25-40 equity positions in client portfolios, which bear no relation to any index, but reflect the fruits of our research. However, we do seek prudent geographic and industry diversification. We believe that owning a focused list of companies that we know well is lower risk than managing a widely diversified portfolio where not every stock is held with conviction.

A geographic breakdown of our listed equity holdings is shown below. As you can see, the majority of our holdings are listed in developed markets, predominantly the US and Europe.

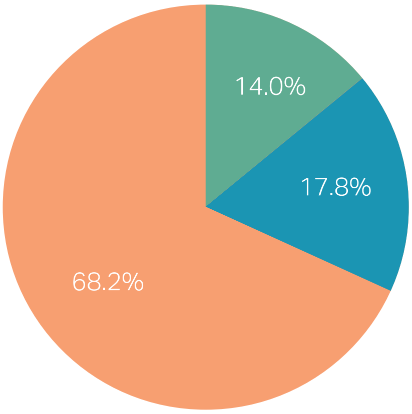



**Breakdown of listed equity holdings by geography as at 31 December 2021**

- North America
- Europe excluding UK
- UK
- Asia Pacific excluding Japan

## Fixed Income

As set out above, our fixed income holdings account for approximately 11% of our total assets under management. Our fixed income strategy focuses on delivering cash-plus returns, risk control, a source of some income, hedges against inflation/deflation, and transparent diversification. The result of this approach is that we currently target investment grade sovereign or corporate bonds. We also prefer short and medium-dated maturities in order to reduce duration risk. A more detailed breakdown of our holdings as at 31 December 2021 is included below.




**Breakdown of assets under management as at 31 December 2021**

- Soverign (predominantly UK and US
- Supranational
- Corporate

| Maturity Date | **Percentage of fixed income holdings** by market value |
|---|---|
| Under 2 years | 37.3% |
| Between 2 & 5 years | 43.8% |
| Between 5 & 10 years | 18.7% |
| Over 10 years | 0.1% |
| Not Available | 0.1% |
| **Total** | **100.0%** |

| Rating[7] | **Percentage of fixed income holdings** by market value |
|---|---|
| AAA | 31.2% |
| AA+ | 1.1% |
| AA | 2.3% |
| AA- | 10.3% |
| A+ | 16.2% |
| A | 14.0% |
| A- | 6.4% |
| BBB+ | 9.6% |
| BBB | 3.7% |
| BBB- | 3.8% |
| BB+ | <0.1% |
| BB | No holdings |
| BB- | <0.001% |
| Not Rated | 1.2% |
| **Total** | **100.0%** |

As the tables above show, over 80% of our fixed income holdings have a maturity of under five years and, again, over 80% of holdings are rated A- or above. We have minimal exposure to holdings with a rating of BB+ or below.

As set out in more detail under **Principles 7 and 9**, the nature of our fixed income assets and the purpose they serve in portfolio has informed our approach to ESG integration and engagement for this asset class.

## Funds

Third-party funds are not part of our core offering. We only utilise funds for specialist investment exposure, such as to the gold price (as set out on the next page).

The due diligence is similar to that for any individual equity purchased. We gather sufficient information on which to base a sound investment decision. We meet with the management of the fund. Ongoing due diligence is undertaken to ensure our investment view remains valid, current and appropriate.

7. Ratings are based on S&P ratings, or Moody's and Fitch ratings for holdings where S&P ratings are unavailable

## Cash

Cash is considered a risk diversifier within the context of our investment process and serves to dampen the overall volatility of the portfolio. It is generally held in the base currency of a client's portfolio. These currencies are GBP, USD, Euros and Swiss Francs. We have no emerging market exposure in our cash holdings. Longer term strategic allocations to non-equity assets will, as far as possible, be invested in appropriate fixed interest investments, seeking returns superior to those available on cash but with consideration to investment risk. We do not hedge currencies within portfolios.

## Gold

We have long had exposure to gold in client portfolios through a gold-royalty company which is included with our listed equities. However, over the last two years as the Covid-19 took hold and governments and companies struggled to adjust, we increased our exposure to gold through an ETC (Exchange Traded Commodity) to provide an additional hedge against extreme inflationary or policy scenarios. The securities are backed by physically allocated, segregated and individually identified gold bullion held by HSBC and secured by an independent trustee. The security is listed and tradable on the London Stock Exchange, and issue and redemption rights ensure that the security closely reflects the value of the underlying gold.

**We do not invest in other asset classes**.

## Activity and Outcome

The needs of our clients and beneficiaries are central to all our investment decisions. Our clients want to protect and grow the value of their assets ahead of inflation which therefore means assessing all risks and opportunities for potential investments, including ESG ones, and focusing on investing in assets that will enable them to achieve this aim. ESG factors are considered for all client portfolios.

Importantly, our investment managers have a direct relationship with clients so we can tailor our service and communication to ensure we meet the evolving needs of clients. We discuss our clients' requirements before we sign investment management agreements with them and the suitability of our investment approach and strategy is monitored continuously throughout our relationships with our clients. We place great importance on delivering excellent client service. Portfolios are managed by two dedicated investment managers, a lead and a co-manager. The investment team are directly accountable to clients and spend time ensuring that they fully understand clients' investment objectives, risk profile, and income requirements.

This process also involves ensuring that we understand clients' ethical investment policies where relevant. Around 60% of our charity clients and a number of our private clients apply ethical restrictions to their portfolios. Where ethical restrictions are applied, our investment managers spend time ensuring they understand the reasons for the restrictions and encourage clients to focus on materiality. We can therefore ensure that beneficiaries' wishes are reflected without compromising investment objectives.

We have face-to-face meetings with most clients at least once a year, often more frequently, and we discuss our stewardship activities at every meeting. This information can take many forms including engagement case studies, highlighting the ESG factors that are most material to a new equity purchased or an overview of the voting decisions made on behalf of our clients. In addition, we now provide all clients with a sustainability score for their portfolios and the carbon intensity of the portfolio for Scope 1 and 2 emissions using the Sustainalytics data we obtain through the Morningstar platform. Our intention is to provide this information to clients on an annual basis so they have a better understanding of how the portfolio looks from a sustainability perspective over time.

As highlighted under **Principle 5**, we have also made improvements to the way we communicate our stewardship activities to clients through written communications. We provide updates on our ESG integration and stewardship work in our quarterly investment update report. In addition, all clients can receive our annual stewardship report which sets out the engagement and voting activities we have carried out on their behalf. Given the nature of our client base and the focused nature of our portfolios, we believe that this is the most appropriate reporting frequency. As clients have direct access to our investment managers, they can request more frequent and detailed updates on our stewardship activities if required.

Client feedback on our stewardship activities and communication approach comes directly to our investment managers, usually either by email or in our face-to-face meetings. Where appropriate, this feedback is shared with the relevant members of the investment team and is usually also shared during our weekly investment team meetings so that any changes needed can be discussed and addressed by the team.

## Principle 7

# Stewardship, investment and ESG integration

### Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

#### Context

As long-term shareholders in a focused list of companies, we have a responsibility to consider any factor that might impact the durability or value of our clients' investments.

Environmental, Social and Governance (ESG) are all factors that might impact the long-term value of a company. The opportunities and risks related to ESG are key considerations in every new investment we make, as well as our ongoing decision to hold shares in a business.

In the long term, we believe that well-chosen equities, benefiting from structural changes and bought at a reasonable valuation, will be the main driver for achieving real returns. A key part of the thinking is the belief that we are in the foothills of a major shift to manage the planet's resources more sustainably. This is being driven by the demands of an increasing global population, expanding middle class and need to address the challenges associated with climate change and biodiversity loss. Poor governance and environmental and social risks are business risks. We look for management teams that understand and plan for these risks; we believe companies need to maintain their social licence to operate given rapidly changing regulation and consumer preferences.

All research is done by our in-house investment team, not a separate ESG department. As set out under **Principle 2**, we use a range of sources to obtain this information, predominantly the information we obtain directly from companies. Throughout the year, we have therefore been actively encouraging companies to be more transparent in their disclosure of ESG metrics. We supplement this with information provided by third parties such as Credit Suisse's HOLT, ISS, Moody's ESG (formerly VE), sell-side analysts and industry specialists. Our focused investment style (whereby we hold only 25-40 companies in client portfolios) allows us to know our investments inside out, focusing us on what is material, and allowing us to punch above our weight in terms of influence.

Our stewardship activities are also an integral part of our approach to sustainable investment. When we buy shares in companies, we become business owners. How we behave as shareholders is closely aligned with the long-term nature of our clients' objectives. Good stewardship involves voting and engagement on issues that will impact the long-term durability of a business.

Our stewardship work is guided by our four principles:

| | |
|---|---|
| **An aversion to box ticking**<br>Our focused investment approach enables us to fully understand the material risks to each business | **A focus on all stakeholders**<br>We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders |
| **A culture of partnership with management teams**<br>We recognise and value progress in pursuit of long-term sustainability | **We are prepared to vote with our feet**<br>We will not hold shares in companies where we identify a material risk to the long-term viability of the business |

Engaging with management as long-term stewards of capital helps promote a world that prospers sustainably. Further information can be found in our Stewardship and Engagement Policy which is available on our website.

## Activity and Outcome – Listed Equities

Stewardship and ESG integration feature at every stage of our investment process.

Our process for considering new equity investment opportunities has two stages. Firstly, the investment team assesses key pieces of information on a company including our internal Quality of Business checklist which, amongst other things, considers several ESG factors such as the track record on sustainability, setting and progressing sustainability targets, management compensation and governance structures. As highlighted previously, in order to make these assessments, we use a range of sources including information from companies themselves and select third-party data providers.

We consider ESG factors (and other non-financial factors) just as we consider financial factors. In the same way that we would not do further work on a company that did not meet our financial criteria, so we would not do further work on a company that has large ESG/non-financial risks where company management are not taking steps to address these. We know that over time, what may start off as a non-financial risk can easily become a financial one too. Examples of the main issues we consider are listed below.

- We want to invest in companies whose management teams understand the environmental opportunities and risks the companies face and are taking steps to address these risks by setting long-term targets (for example, to reduce greenhouse gas emissions or waste or enabling their customers to be more energy efficient) and putting in place credible strategies and processes to enable these targets to be met.

- We believe that companies should have a defined purpose which is communicated throughout the business, and they should understand the opportunities available through attracting, retaining and developing talent and have policies and procedures in place to enable this. We like to see that senior management and/or Board Directors have ultimate responsibility for employee engagement, diversity and inclusion and there are policies in place to ensure the welfare of individuals throughout the supply chain.

- We want to ensure that the culture of the company is one which encourages management to plan for the long term rather than focusing on quarterly results. We look at a range of factors which include, but are not limited to, how the purpose of the company is defined and communicated throughout the business, the Board structure and the tenure of Directors, Board diversity and the range of expertise on the Board, the committee structure, management compensation structures, talent management programmes, management's history of setting and meeting targets, capital allocation discipline and auditor tenure. We also consider the quality and nature of dialogue we have with management and the Board when assessing culture.

We apply the same standards to all companies, regardless of where they are located or listed. While we acknowledge that the regulatory backdrops for ESG issues vary around the world (for example, the US currently has no equivalent of the EU's Taxonomy or Non-Financial Reporting Directive), companies around the world are facing similar ESG risks, and we believe all companies should be taking steps to monitor and manage these risks. This is increasingly important in a world where companies operations, supply chains and customer base tend to be global. Adopting the same ESG standards across all geographies is one of the reasons why we have no direct exposure to emerging markets and China in client portfolios: to date, we have been unable to get comfortable with the governance structures that tend to exist in these markets.

As in previous years, we have chosen not to pursue investment opportunities because of ESG factors. We chose not to conduct further research into a number of companies that passed our initial financial screening. These included a Japanese recreational products company on poor disclosure, a UK building products supplier on contentious social issues and a Chinese electrical 'smart home' appliances manufacturer on governance. Interestingly, all these companies were identified as potential investments due to sustainability elements in their business models, but these were felt to be insufficient to mitigate underlying ESG risks in their own operations.

If a company passes the investment team's initial assessments, we will then continue with our full initiation process which includes more robust research, input from sector specialists and meeting company management where possible. This includes doing work to understand a company's approach to managing ESG risks and, where necessary, engaging with the company to gain a better understanding of its approach and encouraging greater disclosure.

While we do not separate financial and non-financial issues, we have increased our use of ESG-specific meetings with investee companies to ensure that sufficient time is allocated to these issues. Having meetings focused on particular issues also means we can ensure that the most relevant people, both from our own business and from the investee company, are included in the meeting. In 2021, over 20% of the meetings we held with companies were focused on ESG issues, such as setting and disclosing net-zero targets, supply chain management and employee wellbeing. Some of these meetings were part of our initial research process with companies where we were not yet shareholders. For example, we spoke to a US-based veterinary diagnostics company to gain additional insight into how the company addresses sustainability and governance issues. Fortunately, no major risks or concerns that would prevent us from investing in the company were identified. The representatives we met were able to answer our questions well and also took note of our suggestions on best practice for future consideration.

Once an investment has been made, we continue to monitor companies and we seek to have dialogue with all of our investments at least annually. Furthermore, we will always respond when companies write to us or request a meeting. As part of our ongoing monitoring process, we consider the extent to which companies are:

- Setting strategic objectives that build a long-term sustainable business model and prioritising the achievement of these strategic objectives over short-term performance
- Implementing high quality business practices
- Managing risk effectively, as seen from the perspective of multiple stakeholders
- Implementing an appropriate capital structure, through a process of sound capital allocation
- Promoting good corporate governance, including strong corporate cultures and appropriate remuneration and incentives; and,
- Communicating transparently and producing high quality, consistent disclosures and reporting

Should our monitoring or engagement work lead us to conclude that the investment case for a company has changed or should we make insufficient progress on an engagement, we will reassess our options and may choose to sell our holding. When we choose to sell for ESG reasons or following an attempt at engagement, we inform the company in writing of our reasons for doing so. There were no such cases in this reporting period.

Our ESG-focused calls with companies over the last year were generally positive and reassured us that management teams understand the risks they are facing and are taking action to address these. One example of these meetings is included below and further examples of how ESG factors have featured as part of our stewardship work in 2021 are included under **Principle 9**.

| ESG meeting case study | | |
|---|---|---|
| Company: **Infineon Technologies** | | |
| **ASSET CLASS**<br>Listed Equities | **SECTOR**<br>Information Technology | **GEOGRAPHY:**<br>Europe ex UK |
| **ISSUE**<br>INTEGRATION OF ESG FACTORS THROUGHOUT BUSINESS STRATEGY AND CORPORATE PRACTICES | | |

### Engagement milestone: NA – engaging for information

Our meeting with Infineon Technologies was particularly insightful. We have long known that Infineon's power semiconductors play an important role in the shift to renewable energy and electrification and that the company has very high standards when it comes to the disclosure of environmental metrics. But during our meeting, we got a much better glimpse of how sustainability, particularly around social issues and workforce well-being, is embedded throughout the culture and business model.

For example, Infineon ran a campaign in which all employees could submit ideas to help the company reach its sustainability targets. The company planted a tree for each idea submitted (successful or not). We were also reassured to hear that Infineon applies high employment standards worldwide, making it an employer of choice in many regions. In Malaysia, where Infineon has a large manufacturing base, local laws allow long working hours of over 100 hours per week. But even there, Infineon follows its global maximum of 60 hours per week. Having shorter working hours means the company can attract the best workers, reduce staff turnover and, ultimately, improve product quality for customers as staff with experience and expertise are retained. This demonstrates that looking after employees can bring direct business benefits.

In order to better manage and monitor the ESG information we have on companies, we developed an ESG database over the past year which tracks numerous data points for the companies in which we invest as well as for companies that we are still researching. The data points we monitor vary by company to ensure that the most material ESG risks for each company are captured, but the metrics we monitor for all companies include the following:

- Ratings from ESG data providers
- The carbon emissions and carbon intensity of the company
- Whether the company has a net-zero target and if so, whether this has been approved by the Science-Based Targets initiative (SBTi)
- Whether the company discloses climate, forest and water information to the CDP and if so, what scores they received
- Whether the company is a signatory to the UN Global Compact
- The gender diversity of the company at different levels of seniority (where disclosed)
- Key governance information, such as auditor tenure, whether ESG factors are included in executive compensation and any issues with ownership and share class structures

This internal database also links to records of our engagement work and allows us to track company progress on ESG issues more easily.

### Activity and Outcome – Fixed Income

As set out under **Principle 6**, fixed income assets make up around 11% of our assets under management. As a result of the fact that listed equities make up the majority of our assets under management, we had prioritised our ESG integration work for these assets over the last few years as this is where we have the greatest exposure to ESG risk.

However, we are also pleased that over the last year we have made progress in developing our ESG integration process for our fixed income holdings.

Amongst our corporate debt holdings, there are several companies for which we hold both the listed equities and some debt. These include Avery Dennison, Bunzl, Experian, Fiserv, GlaxoSmithKline, Kuehne + Nagel, Mastercard, Nestle, Next, Thermo Fisher Scientific, Unilever and UnitedHealth. For these companies where we hold listed equity and fixed income assets, we apply our research and engagement work to both asset classes. This applies to around 20% of our total fixed income assets.

For companies where we hold debt but not equity assets, we have developed ESG sheets which record key information on the companies. This includes:

- Ratings from ESG data providers which are tracked over time to monitor improvement
- The carbon intensity of the company
- Whether the company discloses climate information to the CDP and if so, what scores they received over the last three years
- Whether the company is a signatory to the UN Global Compact
- The company’s involvement in controversial activities which may breach some clients’ ethical restrictions, such as involvement in tobacco production, gambling or pornography.

We combine this information with core data on the credit rating of the company and important financial metrics most relevant to bondholders, such as EBIT interest cover and Net Debt / EBITDA ratio.

We have prioritised pulling together this information for our largest bond holdings, as these holdings pose the greatest potential ESG risk to our clients but hope to expand this work to cover a broader range of our bond holdings over the next year.

Should this information reveal that the company has high exposure to ESG risks which are not being sufficiently managed, we would raise this at our investment team meeting and discuss the appropriate action to take with the investment team.
We have not yet identified any bond holdings where we have concerns about how ESG risks are being managed within our investment time horizon.

Just under one-third of our fixed income holdings are developed market sovereign bonds (predominantly UK and US) or supranational bonds (for example, the European Investment Bank) which all have high credit ratings and tend to score well in screenings from the ESG data providers we use. We therefore believe that the ESG risk posed by these assets is lower than for our corporate debt holdings, so we have prioritised the development of our ESG integration process for our corporate debt holdings over the last year, as set out above. We do not hold emerging market sovereign or corporate debt and the majority of our corporate debt holdings are investment grade.

## Activity and Outcome – Gold

As set out under **Principle 6**, we have exposure to gold through the WisdomTree Physical Gold ETC. Our due diligence is similar to that for any individual equity purchased. We gather sufficient information on which to base a sound investment decision. We also meet with the management of the fund. Ongoing due diligence is undertaken to ensure our investment view remains valid, current and appropriate.

In 2021, we switched our holdings to a new product, the WisdomTree Core Physical Gold ETC which has a commitment to target post-2019 responsibly sourced gold and to promote high ethical standards in the gold market.

## Principle 8

# Monitoring managers and service providers

### Signatories monitor and hold to account managers and/or service providers.

### Context

We use a variety of data sources in our investment research process to help with our assessment of a company's approach to ESG factors and in our stewardship work.

Companies themselves are our primary source of information (through annual reports, CSR reports, proxy statements and on company websites). We also use information obtained through directly engaging with company management and investor relations teams. All research is done by our in-house investment team, not a separate ESG department. Our focused investment style (25-40 companies) allows us to know our investments inside out, focusing us on what is material on a case-by-case basis.

We supplement this research with information provided by third parties including ESG data providers, sell-side analysts, industry specialists and proxy advisors. The information obtained from these providers is used alongside our analysts' own research and information available directly from our investee companies, and we often use it as a guide to show where more investigation is needed.

It is important to note that we do not make investment or voting decisions based solely on information provided by third parties.

As set out under **Principle 2**, the third-party providers we use as part of our investment research and stewardship process are:

- Moody's ESG for ESG research and screening for involvement in controversial activities
- Credit Suisse's HOLT for information on company governance structures and compensation
- CDP (formerly Carbon Disclosure Project) for information on a company's approach to managing environmental risks
- ISS for proxy voting recommendations and environmental data
- Sustainalytics ESG data provided through the Morningstar platform

### Monitoring data providers

The data provided in relation to ESG research and stewardship is continuously reviewed by our stewardship working group because our research process and stewardship activities are constantly evolving and therefore so too are our data requirements. Twice a year, the group will discuss the quality and accuracy of the information received from third parties, the timeliness of the information and the relevance it has for our investment process. Should any issues with our current providers be identified, for example inaccurate information is provided, we will contact the provider directly to raise our concerns and to find a solution. This occurred during 2021 when we picked up an inconsistency in the third-party ethical screening tool we use. We raised the issue with provider and the issue was quickly resolved.

If the issue is not addressed in a timely manner, then we may look to find an alternative data provider. The universe of data providers is growing which affords us increased scope to replace data providers if needed. Where necessary, any issues in relation to data providers will be escalated first to our Broker Review Group, and then if needed, to Investment Governance Committee.

In 2021, we conducted a formal review of our data providers and further information is included below under Activity and Outcome.

## Monitoring voting activity

For clients of our UK business, voting choices are submitted via our custodian (SEI Investments Europe Ltd). After each vote has been submitted, we obtain confirmation from the custodian that the vote has been processed correctly. If any issues are identified, we will work with the custodian to understand the reason for them and to ensure that a solution is found for future votes, escalating the issue to senior staff at the custodian if necessary.

## Activity and Outcome

### Monitoring data providers

In 2021, we carried out a full review of the providers we use to obtain information for ESG research and our stewardship activities. This process involved:

- Reviewing the information we currently receive from our data providers in the context of our investment process and client needs.
- Identifying additional information that may be required in the future as our investment thinking evolves or to enhance client reporting or for regulatory reasons.
- Exploring the research and methodology options presented by a range of providers and trialling the use of this research in our investment process.

At the end of this review, we made the decision to continue using our current providers as they have enhanced the service provided and can give us the additional information we need at this stage.

As highlighted under **Principles 2 and 6**, in addition to our existing providers, we recently decided to purchase Sustainalytics ESG data through the Morningstar platform to enhance client communications. We now provide all clients with a sustainability score for their portfolios and the carbon intensity of the portfolio for Scope 1 and 2 emissions. Our intention is to provide this information to clients on an annual basis to track progress and so we expect to continue using this ESG data for some time. Given the upcoming regulation in relation to ESG issues, such as mandatory TCFD reporting in the UK, we are also exploring the extent to which we can use this data to meet our reporting requirements under the regulation.

While ESG data from third-party providers can be useful in highlighting areas that require further research, the data has several limitations including inconsistent ratings methodologies across different providers, a reliance on backward looking data and the application of arbitrary rules and standards. As a result, we prefer to engage with investee companies directly to gain a broader understanding of the policies and processes they have in place to measure and manage ESG risks.

We will continue to review whether the information we receive is meeting our requirements and those of our clients.

**Principle 9**

# Engagement

## Signatories engage with issuers to maintain or enhance the value of assets.

### Context

Our engagement activities are an integral part of our approach to responsible investment and are carried out by our investment team. Our focused investment style (25-40 companies) allows us to know our investments inside out, focusing us on what is material for each company.

Throughout our engagement work, we follow our four stewardship principles which are:

**An aversion to box ticking**
Our focused investment approach enables us to fully understand the material risks to each business

**A focus on all stakeholders**
We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders

**A culture of partnership with management teams**
We recognise and value progress in pursuit of long-term sustainability

**We are prepared to vote with our feet**
We will not hold shares in companies where we identify a material risk to the long-term viability of the business

On initially investing in a company, we introduce ourselves in writing to the Chair of the Board and CEO outlining our investment strategy and approach to stewardship. This letter sets out what we expect of companies and what they should expect from us. Following investment, we engage with companies on issues which, if addressed, will further improve real returns over the long term and enhance the sustainability of their businesses. We seek to engage directly with company management, the Chair of the Board and other Board members. We also engage with companies before becoming shareholders, for example, if the company does not disclose much information about managing environmental risks or if we have questions in relation to governance structures.

Our investment approach and the in-depth research that we carry out prior to becoming shareholders, both in relation to financial and non-financial issues, make it unlikely that we would become shareholders in a company which faces significant, material risks. Our stewardship activities are, therefore, generally focused on issues which will enhance the long-term sustainability of the company but if not addressed by the company, would not change our investment thesis.

As set out under **Principle 5**, where we do engage with companies to encourage improvements, we monitor the progress of our engagements by setting ourselves clear objectives at the outset and measuring progress against four milestones: *[Continued overleaf]*

1. Raising the issue with the company
2. Receiving acknowledgement from the company that our concerns are valid
3. Receiving confirmation from the company that it is developing a plan to address the issue
4. Receiving confirmation from the company that the plan is implemented, and the objective is delivered

Where we make insufficient progress on an engagement, we will reassess our options and may choose to sell our holding. When we choose to sell following an attempt at engagement, we inform the company in writing of our reasons for doing so. However, as set out in our stewardship principles, we recognise that it can take time for companies to make changes and we value progress in pursuit of long-term sustainability.

Further details on our overall approach to engagement is set out in our Stewardship and Engagement Policy which is available on our website.

As set out under **Principles 5 and 6**, we communicate our engagement activities to clients through our annual stewardship report, our quarterly newsletters and throughout the year in client meetings. A copy of our latest Stewardship Report to clients is available on our website.

### Activity and Outcome – Listed Equities

Our engagement work continued throughout 2021 despite the restrictions imposed as a result of the pandemic. In fact, we would argue that during these turbulent times, building long-term and constructive partnerships with our investee companies has become even more important. We held 109 company meetings, voted on over 500 proposals and sent over 20 letters to investee companies as part of our efforts to engage for long-lasting change. These letters included introductory letters to companies we added to portfolios, such as **Broadridge Financial Solutions**, **Intuit** and **Synopsys**, as well as letters explaining why we chose not to support some management voting recommendations at recent AGMs.

Overall, we engaged with 90% of our core equity holdings. As set out under **Principle 7**, we also engaged with a number of companies as part of our initial research process.

We apply the same stewardship principles and practices to listed equities across all geographies, although we acknowledge there may be cases where we do not have the same access to management (for example, where we hold American Depositary Receipts for a company based in Asia).

As highlighted previously, as long-term shareholders, we consider all the opportunities and risks associated with ESG factors as part of our investment case because these are factors which could have a material impact on companies. ESG factors featured heavily in our stewardship work over the last year and were the focus of our engagements. Some examples are set out on the next page.

## 1 Environmental and social metrics – encouraging companies to measure and disclose the metrics which are most material to them, following an internationally-recognised standards[8].

We encourage all companies to measure and disclose information around environmental and social risks as this is the first step in being able to manage these risks. After all, it's difficult to manage what you can't measure. However, we believe staying focused on materiality is key. We want companies to concentrate on what is relevant to them, rather than on issues that may not have as much impact on the long-term durability of their business. We believe this applies to all companies, regardless of geography. We acknowledge that US-based companies are not subject to the same disclosure regulation as their European and UK counterparts. But we feel that best practice should apply globally. We also note that the SEC (Securities and Exchange Commission) is considering introducing mandatory reporting requirements for listed companies around environmental issues and it is therefore in companies' best interests to take steps now to enable comprehensive disclosure.

Two examples are included below, one where we have had some success and one where we believe there is still more progress to be made, although the direction of travel is positive.

### Engagement case study

Company: **Cerner Corporation**

| ASSET CLASS | SECTOR | GEOGRAPHY: |
|---|---|---|
| Listed Equities | Healthcare | North America |

**ISSUE**
DISCLOSURE OF MATERIAL ENVIRONMENTAL AND SOCIAL METRICS

#### Engagement milestone: 4

Following the AGM in 2020, we began a dialogue with healthcare technology company Cerner about the most appropriate metrics for the company to disclose. For a healthcare technology company, the most material sustainability risks, according to SASB, include energy management, consumer privacy, data security, employee engagement, diversity and inclusion. We discussed with the company how we believed this approach would provide a solid framework, not only for disclosure, but for Cerner's on-going work on establishing long-term objective targets.

We were therefore delighted to see disclosures, in line with the SASB Materiality Matrix, included in the annual report published in 2021, followed by the publication on the company website of benchmark environmental data later in the financial year.

8. These include the Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), CDP and Taskforce for Climate-related Financial Disclosures (TCFD).

| **Engagement case study** | | |
|---|---|---|
| Company: **Align Technology** | | |
| **ASSET CLASS**<br>Listed Equities | **SECTOR**<br>Healthcare | **GEOGRAPHY:**<br>North America |
| **ISSUE**<br>DISCLOSURE OF MATERIAL ENVIRONMENTAL AND SOCIAL METRICS | | |

### Engagement milestone: 3

We first engaged with clear-aligner manufacturer Align Technology on ESG disclosure before we became shareholders in 2019. Despite a strong investment case, we were concerned that during our initial research process we had been unable to find evidence that management fully understood and was addressing these risks. However, our conversation at the time was reassuring: management was tackling ESG issues but the different regulatory requirements and investor interest in the US meant that disclosure had been less of a priority. For example, we learnt that the plastic content of their core aligner products had already been reduced by 50% and that Align offered global employees packages above local standards and norms.

We have continued to raise the importance of disclosure during every interaction with the company, both in writing and in person. In a 2021 meeting with several representatives from the company, including the CFO, Chief Legal and Regulatory Officer, SVP Global Human Resources and the Investor Relations Team, the level of progress being made was clear. Efforts are underway to improve Align's approach to ESG, as evidenced by its addition to the Nominating & Governance Committee Charter and several hires in the Legal department. Management is currently assessing different disclosure frameworks to decide which is the most appropriate for the company and external consultants are advising the company on how to integrate ESG throughout the corporate strategy.

We will continue to engage with the company to ensure that the direction of travel remains positive but we are pleased with these initial steps.

## 2 Net-zero targets – encouraging companies to set net-zero targets if they have not done so already, along with short-term/interim targets so that progress can be monitored

Given the increasing urgency to address the climate crisis, particularly after the IPCC report published in 2021 and the COP26 climate summit in Glasgow, we believe that companies should be taking steps to set net-zero targets and provide a roadmap of how they intend to reach these targets. While we acknowledge that meeting these targets will be a challenge for companies, particularly for those with global operations and supply chains, we are encouraging companies who have not done so already to take the first steps towards establishing targets.

Companies that are not working towards net-zero targets could face additional risks in the future which could put the long-term viability of the business at risk. For example, carbon pricing initiatives (such as carbon taxes and emission trading schemes) are growing and carbon prices are rising. In 2021, carbon pricing schemes covered 21.5% of global greenhouse gas emissions[9] and the price of carbon in the EU reached over €90 per tonne[10]. Furthermore, consumers and employees are increasingly expecting companies to take action to reduce emissions so companies that fail to do so may find that they lose their social licence to operate and find it increasingly difficult to attract and retain talent.

For companies who already have net-zero targets, we are encouraging them to get their targets verified by the Science-Based Targets initiative (SBTi).

## Engagement case study

### Company: **Themo Fisher Scientific**

| ASSET CLASS | SECTOR | GEOGRAPHY: |
|---|---|---|
| Listed Equities & Fixed Income | Healthcare | North America |

**ISSUE**

TARGET-SETTING IN RELATION TO ENVIRONMENTAL METRICS, INCLUDING CARBON EMISSIONS

### Engagement milestone: 3

We started engaging with life sciences and clinical research company Thermo Fisher Scientific to encourage better disclosure of material environmental data and target setting in 2020. Despite being a leading provider of scientific equipment that can be used to monitor and address environmental challenges, Thermo's own processes for collecting and disclosing environmental data throughout its operations had fallen behind global best practice. The company only had one publicly disclosed environmental target; to reduce GHG emissions by 30% by 2030.

In an ESG-focused call with management in December 2021, we were therefore delighted to discuss Thermo's enhanced CSR Report which included disclosure under GRI, SASB and TCFD standards and the fact that management announced a target to be net zero for emissions by 2050 in July 2021. Thermo is currently formulating the operational roadmap, which is to be completed in 2022, and once it is approved by the SBTi, they will update shareholders and introduce interim milestones.

It was also interesting to hear that the push to improve ESG practices is equally strong from employees as it is from shareholders. The company said it is the top issue raised at 'town hall' meetings, with employees wanting Thermo to do more to further its mission and be an industry leader in this area. This demonstrates the importance of this work to a company's ability to attract and retain employees.

9. https://carbonpricingdashboard.worldbank.org/map_data
10. https://www.reuters.com/markets/commodities/eu-carbon-price-could-hit-100-euros-by-year-end-after-record-run-analysts-2021-12-08/

## 3 Supply chains and product lifecycle – understanding what companies are doing to monitor practices throughout their supply chains and product lifecycles, and how they deal with any issues identified

For many companies, the biggest environmental and social risks they face come, not from their direct operations, but from their supply chains. For example, from an environmental perspective, extreme weather events and rising sea levels could threaten manufacturing sites, particularly in Asia and emerging markets. Any links to deforestation could pose reputational and regulatory risks, especially as regulators in the EU, UK and US are imposing new authentication standards to ensure that commodities linked to illegal deforestation are not imported. From a social perspective, allegations of forced labour within supply chains could result in a significant reputational hit for a company. In addition, failure to look after workers properly can lead to lower quality products being produced, as higher turnover of staff and disengaged employees can lead to lower quality products being produced.

We acknowledge that managing these risks is not easy and that companies have to take a risk-based approach to overseeing their supply chains, but we expect companies to have robust procedures for monitoring practices at all levels of their operations and formal processes in place to deal with any issues identified. Where possible, we would prefer companies to work with suppliers to resolve issues rather than simply ending contracts with them as soon as issues are identified.

Given the importance of this issue, we have also been exploring collaborative engagement options as set out under **Principle 10**.

**Engagement case study**

Company: **Next PLC**

| ASSET CLASS | SECTOR | GEOGRAPHY: |
|---|---|---|
| Listed Equities & Fixed Income | Consumer Discretionary | North America |

**ISSUE**
SUPPLY CHAIN AND PRODUCT LIFECYCLE MANAGEMENT

Engagement milestone: 3

Next operates in one of the most challenging sectors from an environmental and social perspective. The apparel industry a large emitter (contributing 4%-8% of global carbon emissions depending on estimates) and faces numerous issues in supply chains and product lifecycles, from ethical cotton and plastic microfibres to clothing waste and human rights abuses.

We first discussed sustainability with clothing company Next when we met the CEO back in 2017. While the company's commitment to sustainability was clear even then, the sense of urgency around the need for change has increased. *[Continued overleaf]*

Our conversation with Next's Company Secretary and Head of Corporate Responsibility in August 2021 and subsequent written correspondence reassured us that Next is working hard to manage the environmental and social risks it faces. Its 2025 strategy includes ambitious plans for sustainable sourcing and its Code of Practice team, which works with suppliers to ensure high standards for workers throughout the supply chain, is industry leading. Furthermore, Next recognises that these issues cannot be tackled by one company alone and is involved in numerous industry collaborations and technology investments, such as using blockchain and isotope testing to enhance supply chain transparency.

It is unlikely that these issues will be "fixed" in the short or medium term. We have challenged Next on its target for responsible sourcing of polyester, given that the technology needed to achieve this is still in its infancy and not widely available, and as shareholders will continue to hold them accountable. So rather than focusing on being able to tick issues off the list, our engagements efforts with Next are centred around ensuring the company maintains its high standards and continues to evolve its processes to meet, and contribute to, industry best practice.

We were also pleased to hear that some of our companies with relatively small environmental footprints from their own direct operations are putting considerable effort into working with other stakeholders to bring about large-scale change. For example, **Mastercard** has partnered with *Doconomy* to build the Mastercard Carbon Calculator which will allow card holders to measure and manage the carbon dioxide emissions associated with their spending. We will always encourage companies making such long-term investments to continue doing so.

## 4 Auditor tenure – continuing with our work to encourage US companies with long-tenured auditors to consider putting the audit contract to tender

As highlighted under **Principle 5**, we take our responsibility for auditor appointment seriously, especially as several high-profile failures over the past two decades have highlighted the importance of this issue. Changing audit firm can help to highlight any issues within a business before they get this extreme. Best practice in Europe is to re-tender audit contracts after 10 years and change auditor firm every 20 years. However, in the US indefinite tenure is common and we have been raising this issue with several of our US-based companies.

| Engagement case study | | |
|---|---|---|
| Company: **LabCorp** (Laboratory Corporation of America Holdings) | | |
| **ASSET CLASS**<br>Listed Equities | **SECTOR**<br>Consumer Discretionary | **GEOGRAPHY:**<br>North America |
| **ISSUE**<br>AUDITOR TENURE | | |

### Engagement milestone: 4

Following our decision to abstain on the reappointment of the auditors at LabCorp's 2019 and 2020 AGM, we wrote to the Board to explain our reasons for this and to start a dialogue with the company on the issue. The audit firm had first been appointed in 1997 so its tenure was above the 20-year limit that applies to European companies.

Our letter led to a call with the Company Secretary and Chief Legal Officer during which we were able to discuss the issue in more detail, explain our perspective and gain a better understanding of the company's position on the issue.

At the 2021 AGM, we were delighted to see that the company had appointed a new audit firm and voted to support the appointment.

While there will always be some exceptions, we have updated our voting policy in this area: for companies with auditor tenure over 20 years, we will abstain and engage for two years. But if there is still no change, we will start to vote against proposals to reappoint auditors and ultimately, Board Directors on Audit Committees. Further details on how we voted on this issue are included under **Principle 12**.

However, we acknowledge that we are unlikely to win over all companies on the issue, so we remain focused on getting reassurance from our US companies that, where the same auditor has been in place for several decades, there is sufficient challenge. This year, we raised the issue with several other companies including **Align Technology**, **Avery Dennison**, **Hasbro** and **Thermo Fisher Scientific** but these companies are yet to take any action to address our concerns in this area.

## 5 Board composition – exploring whether companies have the range of expertise they need, including directors who have experience in fields such as cyber-security, environmental sustainability and supply chain management where relevant

Given the increasing importance of non-financial issues to the long-term viability of companies, we believe it is essential that board directors have experience of dealing with the full range of risks companies face. The skills and experience that are most relevant will vary by company, but we would generally like to see board directors with appropriate experience in field such as cyber-security, environmental sustainability, employee well-being and supply chain management. We would also expect directors to have relevant geographic experience reflecting the global operations and customer base of the company.

### Engagement case study

Company: **Avery Dennison**

| ASSET CLASS | SECTOR | GEOGRAPHY |
|---|---|---|
| Listed Equities & Fixed Income | Materials | North America |

**ISSUE**
BOARD COMPOSITION

Engagement milestone: 2

The enhanced focus on sustainability is providing long-term business opportunities for label-maker Avery Dennison, which came across strongly in our recent engagement call with the Lead Independent Director. Providing labelling materials that are sustainable and enable a shift to a more circular economy is an opportunity to gain market share with consumer goods companies, such as Adidas and H&M, and potentially increase the recyclability of products.

This fact fed into a discussion on the challenges related to finding the right balance of background and skills in board composition. Half of the Avery Dennison Board will be retiring in the next seven years and the Lead Independent Director highlighted some of key factors and skills they are thinking about as they seek to appoint new directors. These include ethnic and geographic diversity, digital skills, and deep sustainability experience. He also noted that everyone has some ESG/sustainability experience today but finding candidates with depth is hard. The board is currently debating whether to go with someone who has regulatory experience related to sustainability or someone who specialises in innovation in this area. The Lead Independent Director explained that he leans towards someone with experience in sustainability innovation because it is this area that the biggest opportunities and risks for the business will sit in the coming years.

## 6 Director independence – ensuring board directors have a mix of tenures and that key positions, such as committee chairs, are held by directors who are truly independent

We believe that boards should have a majority of non-executive directors able to hold executive management to account. Directors should be re-elected with sufficient frequency to provide shareholders with the opportunity to support those performing their role responsibly and to remove those not promoting best practice.

We do not subscribe to the view that director tenure needs to be capped, as we recognise the benefits to the board, company and shareholders that come from the retention of knowledgeable and experienced directors. However, we believe it is important for boards to have a mix of tenures and that there should be balance between directors who have long-term experience of the company's operations and those who can bring a fresh, independent perspective.

We acknowledge that views on what counts as independent differ between Europe and the US. The European view tends to be that once a director has been a board for 10 years, he/she can no longer be considered truly independent whereas in the US, the length of tenure of a director is not considered when assessing the independence of a director. We engaged with **UnitedHealth** on this issue and further details on this example are included under **Principle 11**.

We also like to see boards appoint committees of independent, non-executive directors to oversee nomination, remuneration and audit practices on behalf of shareholders. We expect the chairs of these committees to be truly independent in order to ensure that the committees can carry out their responsibilities.

### Engagement case study

Company: **Fresenius Medical Care**

| ASSET CLASS | SECTOR | GEOGRAPHY |
|---|---|---|
| Listed Equities & Fixed Income | Healthcare | Europe excluding UK |

**ISSUE**
DIRECTOR INDEPENDENCE

Engagement milestone: Varied (see details in example)

We have been building a relationship with dialysis company Fresenius Medical Care since 2019 to encourage the company to improve governance and disclosure practices. Recent engagements have shown us that progress is being made.

We had previously expressed our support for appointing a Lead Independent Director and had discussed the benefits of doing so with members of the Supervisory Board. We were therefore delighted to vote in favour of the creation of this position at the company's 2021 AGM and to speak to the new LID on a call later in the year, when we were impressed by her candour and enthusiasm. Though common elsewhere, it is rare to find such a position of the boards of German companies and Fresenius Medical Care is only the second German company to make such an appointment. We therefore consider this engagement to have reached milestone 4. *[Continued overleaf]*

However, we believe the company could take further steps to ensure independence of committee chairs. Following the 2021 AGM, we wrote to the Chair of the Supervisory Board to explain that, although we voted to support the reappointment of all directors, we were concerned that three committees were chaired by a director who had been on the Board for 10 years and had reached their defined upper age limit. We discussed this issue with members of the Board during a call as part of the company's corporate governance roadshow in late 2021. We were informed that the director in question will step back from some of these committee chair roles at the 2023 AGM and we were informed of the challenges the company is facing in recruiting experienced directors in the current environment. We therefore consider this to have reached engagement milestone 3.

We also gained further information on the new director appointed at the 2021 AGM and we were pleased to hear about the skills and experience in healthcare and technology he will bring to the Supervisory Board. We believe he will be well-placed to strengthen the Board's committees and encouraged the company to consider appointing him to these roles once his induction is complete.

## Engaging in response to events

We would also engage with investee companies in response to specific events. An example from 2021 was a further engagement we had with **LabCorp** when an activist investor took a stake in the company.

### Engagement case study

Company: **LabCorp** (Laboratory Corporation of America Holdings)

| ASSET CLASS | SECTOR | GEOGRAPHY |
| --- | --- | --- |
| Listed Equities | Healthcare | North America |

**ISSUE**
ACTIVIST STAKE AND PROPOSALS FOR CHANGES TO THE COMPANY

#### Engagement milestone: 4

We reached out to management, by email and then by telephone, within days of the public announcement that Jana Investors had taken a holding of 812,000 shares in LabCorp, seeking to change the corporate structure. As part of a strategic review, Jana was in favour of breaking up the company into two separate businesses, a diagnostics business and a contract research business.

We expressed our support for the existing combined company structure as we believe this gives the divisions a competitive advantage and strengthens the long-term sustainability of the entire organisation. Our shareholding at the time was larger than Jana Investor's so we hoped that our voice of support for the existing structure would carry some weight with management and the Board.

During the engagement, we were asked for feedback on what we would recommend to enhance shareholder value. We made several suggestions, such as the introduction of a dividend, rather than purely focusing on share buybacks, and improving guidance around the long-term growth opportunities for the business exiting the pandemic. *[Continued overleaf]*

We were contacted directly on the morning of the press release announcing the results of the strategic review and spoke to the CEO and CFO a few hours later. We were pleased to see no change to the company structure, the introduction of a dividend and a timeline for enhancing guidance to include the first publication of mid-term financial targets.

We view voting at company meetings as an important part of our engagement work and further details of how this interacts with our broader engagement work are included under **Principle 12**.

### Activity and Outcome - Fixed Income

Because of a lack of voting rights, bondholders are unlikely to have the same access to company management as shareholders. We are exploring options for extending our engagement work to cover this asset class in the years ahead, for example, through collaborative engagement.

As set out under **Principle 6**, listed equities make up the majority of our assets under management so we have focused on enhancing our engagement work for these assets over the last few years as this is where we can have the biggest impact for our clients. It is also worth noting that around one-third of our fixed income holdings are developed market sovereign bonds or supranational bonds (for example, the European Investment Bank) so as a first step, we are focusing on our corporate debt holdings.

As highlighted in the examples above and under **Principle 7**, where we hold both listed equity and fixed income assets for a company, we apply our engagement work to our research for both asset classes.

As detailed under **Principle 10**, we explored some collaborative engagement options for our fixed income holdings during the reporting period.

**Principle 10**

# Collaboration

## Signatories, where necessary, participate in collaborative engagement to influence issuers.

### Context

As shareholders, we seek to build long-term, direct relationships with our investee companies. Our focused portfolios (25-40 holdings), high number of investment professionals to investee companies, in-depth research process and long-term approach mean we can get to know our investee companies in great detail, something which we believe is vital for successful engagements. We are therefore confident that where we choose to pursue engagements with investee companies on our own, we can reach a successful outcome for our clients.

However, where appropriate, we will engage with other investors to increase the probability of a good outcome for our clients. We may consider collaborative engagement to influence both issuers and supervisory bodies, such as regulators or governments.

To facilitate collective engagement, we are members of the Principles for Responsible Investment and are investor signatories to the CDP (formerly Carbon Disclosure Project).

Our investment approach means that we do not invest in companies in sectors we believe to be fundamentally challenged or where we believe companies are not managing ESG risks sufficiently. This approach means that we currently do not invest in the equities of any oil and gas, cement, chemicals or mining companies and so we have found that, to date, many of the environmental-focused initiatives predominantly target companies of which we are not shareholders. However, we are continuing to look for other opportunities to join collaborative engagement initiatives that are relevant for our investee companies. Further details of this are included in the Activity and Outcome section below.

### Activity and Outcome

**All assets**

We recognise that there are occasions when it is appropriate to work with others when engaging with companies, regulators or governments to increase the likelihood of having a long-term positive impact.

With that in mind, we signed the Global Investor Statement to Governments on Climate Change which was delivered to global leaders in the run-up to the COP26 climate conference in Glasgow.

### Listed Equities

As set out under **Principle 4**, we believe that increasing corporate environmental transparency around climate change, biodiversity and water security is crucial if we are to meet the goals set out under the Paris Climate Change Agreement. In 2021, we took part in the CDP's Non-Disclosure Campaign by co-signing letters to the small number of our listed equity holdings who did not respond to the CDP's disclosure requests. We were very pleased that one of the companies we addressed in this campaign (payments and software provider Fiserv) disclosed data to the CDP's climate change initiative.

While this activity has not resulted in further disclosure from other companies, we will take part in the Non-Disclosure Campaign for 2022. We will also continue to engage directly with companies to encourage broader disclosure around environmental issues.

As highlighted under **Principles 4** **and 9**, we have increased our engagements with companies on issues to do with supply chains, particularly understanding what companies are doing to monitor practices throughout their supply chains and how they deal with any issues identified. Given the increasing importance of these issues, we have been actively looking for opportunities to join collaborative engagement opportunities that focus on supply chain management. We identified the 'Find It, Fix It, Prevent It' initiative, which focuses on tackling modern slavery in supply chains, as an option that might be suitable given our portfolio holdings and long-term investment approach. We are currently waiting for a response to our expression of interest in joining. We have also formally expressed our interest in joining the PRI's Collaborative Stewardship Initiative on Social Issues and Human Rights. This will be launched in 2022 and we look forward to providing an update in our next report.

As highlighted under **Principle 4**, an opportunity for collaborative engagement resulted from our Chief Investment Officer's involvement in an industry group to share best practice in relation to stewardship. We had been talking to a US-based information technology company, which manufactures sensors and connectors for electronic devices, about improving disclosure on environmental issues and increasing the use of renewable energy in manufacturing operations. While the company was receptive to our views and we had a follow-up call to discuss these issues in more detail with IR and the CFO, we felt that we could have more impact if we collaborated with another shareholder. Our CIO met a representative from another shareholder at a meeting of the industry group and towards the end of 2021, we began communicating with them to discuss whether we could take a joint approach to engaging with the technology company. We hope to be able to report further progress over the year ahead.

## Fixed Income

As set out under **Principle 9**, we recognise that as bondholders we are unlikely to have the same access to company management as shareholders. We therefore believe that collaborative engagement could be an effective means to increase our influence when it comes to our engaging with companies in which we only hold bonds.

In 2021, we explored the possibility of signing up to a collaborative engagement initiative, facilitated by ISS, which identifies companies potentially in breach of the United National Global Compact (UNGP) and writes to ask them to take steps to address the relevant issues. While we felt that this would align well with our investment approach and the engagement work we carry out directly ourselves, at the time of our enquiry, the list of target companies did not include our bond holdings. We were therefore unable to sign up to the initiative but continue to explore further options for collaboration with our fixed income holdings.

**Principle 11**

# Escalation

## Signatories, where necessary, escalate stewardship activities to influence issuers.

### Context

Our stewardship work is always undertaken in the spirit of partnership. We recognise and value progress in pursuit of long-term sustainability and with any interaction, our goal is to work with companies and to encourage improvement over the long term. While we track all engagements using our engagement milestones, as set out under **Principle 9**, we understand that it can take time for companies to make the changes we are seeking, and we take this into consideration when setting our engagement objectives.

Because of our investment approach and the in-depth research that we carry out prior to becoming shareholders, both in relation to financial and non-financial issues, it is unlikely that we would become shareholders in a company which faced significant, material risks. Our stewardship activities are, therefore, generally focused on issues which will enhance the long-term sustainability of the company but if not addressed by the company, would not change our investment thesis.

Where we have concerns, we would usually hope to raise these through the introductory letter we send to companies when we first become shareholders and through our regular meetings with company management and investor relations teams. However, we recognise that there may be instances where a company does not respond constructively to our concerns and where we believe the company will not take any action to address these concerns. In such circumstances, depending on the nature and the severity of the issue, we may decide to escalate our engagement activities.

As a first step, escalation would normally involve holding additional meetings with company management to better explain our position and to improve our understanding of the company's position. Should this step not be successful, we will consider further escalation including:

- Writing to or meeting with senior board members, such as the senior independent director or the Chairman
- Abstaining or voting against management, including the reappointment of specific directors, at general meetings
- Collaborating with other investors
- Voting with our feet and selling our shares

Where we vote against company management with whom we have been in dialogue, we aim to communicate with the company prior to casting our vote to restate our concerns and explain our voting intention. In addition, for all companies where we vote against a management recommendation, we aim to write to them to inform them of our decision, explain our reasons and encourage future dialogue on the issue.

Should we decide to sell our shares following unsuccessful engagement activity, we will again write to the company to explain our actions and the reasons for the sale.

### Asset classes

We expect to apply this policy to listed equities held across all sectors and geographies. However, there may be instances where direct access to company management and directors is more limited, for example where we hold the American Depositary Receipt (ADR) shares for an Asian technology company. We do have access to the Investor Relations team for this company and while we did not need to escalate any issues for this particular company in the period under review, they would be our first port of call to discuss any issues.

As highlighted under **Principle 9**, we are still developing our stewardship and engagement activity in relation to fixed income assets and we understand that where we only hold bonds in a company, our rights and access to management will not be the same as for shareholders. Given more limited engagement opportunities, divestment is more likely to be the escalation action pursued for any fixed income holding found to have a sustainability issue that posed a threat to achieving our clients' objectives.

### Activity and Outcome

During the past year, our stewardship activities have been well-received by company management and we have not felt it necessary to move beyond our initial engagement activities of seeking meetings with company management and investor relations teams.

One example of where we have highlighted to a company that we would be prepared to take further action is highlighted below.

**Escalation case study**

Company: **UnitedHealth**

| ASSET CLASS | SECTOR | GEOGRAPHY |
|---|---|---|
| Listed Equities & Fixed Income | Healthcare | North America |

**ISSUE**
BOARD INDEPENDENCE AND TENURE

#### Engagement milestone: 3

UnitedHealth Group is a meaningful shareholding in client portfolios and yet, as the largest company in the global healthcare sector, we are very small shareholders for them. Direct engagement opportunities had therefore been limited but in 2020, we conducted our first one-to-one call with management. One item high on our agenda was to understand the role of Richard T Burke as Lead Independent Director (LID). He was a founder of the company and has been on the board for over 40 years.

We were reassured by the Secretary to the Board of Directors that he plays a key role in driving the inclusive nature of the board, ensuring all views are aired and all directors contribute. *[Continued overleaf]*

However, while we acknowledge that long-tenured directors can bring a wealth of experience to boards, we believe that after such a long period a director cannot be considered independent and reasonably be expected to fulfil the unique responsibilities of a LID.

We therefore chose to abstain on the vote to reappoint this director at the 2021 AGM. We wrote to the company explaining our decision and asking them to urgently consider reassigning the position of LID to another director. We made it clear that we would be prepared to vote against all members of the Nominating and Governance Committee if the issue was not resolved before the AGM in 2022.

The company has since transferred the role to another director. However, she has been on the board for 15 years and so again, we do not believe she can be considered truly independent. Our engagement on this issue therefore continues.

## Principle 12

# Exercising rights and responsibilities

### Signatories actively exercise their rights and responsibilities.

#### Context

As shareholders, we build relationships with companies and use our influence to improve long-term value creation. We regard shareholder voting as an important means of communicating with companies and we therefore exercise our right to vote on behalf of clients.

We seek to understand each company's individual circumstances and history, enabling us to apply our voting principles flexibly, where appropriate, and consistently with supporting the company's long-term success.

In line with our stewardship principle of focusing on materiality, each voting decision is taken on a case-by-case basis by our investment managers, based on independent judgement, analysis, and the outcome of engagements with companies. As we aim to invest only in well-run companies which have strong management teams and governance structures, we typically expect to vote with the board recommendations.

Further details are set out in our Voting Policy which is available on our website.

This policy includes details of our voting policies in relation to board directors, shareholder voting rights, remuneration, auditors and capital allocation. In general, we support diverse boards with a majority of independent non-executive directors, remuneration packages which use share rewards and ownership plans to align management's incentives with those of long-term shareholders and the re-tendering of audit contracts on a regular basis.

#### Use of proxy advisors

We subscribe to a proxy voting service provided by Institutional Shareholder Services (ISS), a global leader in corporate governance and responsible investment advice. ISS provides us with in-depth analysis of shareholder meeting agendas and voting recommendations based on its Sustainability Policy.

However, we do not automatically follow ISS' recommendations on any votes. As noted above, each voting decision is taken on a case-by-case basis. Investment managers consider ISS reports, alongside their own analysis, experience and dialogues with the company concerned and apply their independent judgement when reaching each voting decision. Should ISS recommend voting against company management, where appropriate we will engage with company management to improve our understanding prior to voting.

#### Client views on voting decisions

As part of our discretionary investment management agreements, our clients have given us voting authority for the equities we hold on their behalf. To date, we have had no voting directions from clients for shares held in discretionary portfolios.

Our clients understand that we aim to invest in well-run companies which have strong management teams and governance structures, so we would not expect to have many votes on contentious issues for which clients may have strong views.

However, if our clients did express a view on a particular vote, then we would of course take this into consideration.

### Stock lending

We do not lend stock.

### Reporting on voting

We provide our clients with an annual stewardship report, detailing our voting and engagement on their behalf. This report will also be publicly available on our website. We also provide regular updates during our client meetings.

Our report includes an overview of our record voting and, in line with the Shareholder Rights Directive II, detailed case studies of any significant votes. Given that we only make an investment when we are satisfied that appropriate governance structures are in place and we therefore typically expect to vote with company management, we define significant votes as those where we voted against company management.

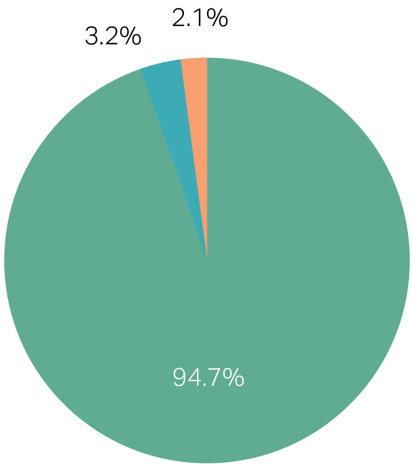
### Activity and Outcome

As highlighted above, we aim to invest in well-run companies which have strong management teams and governance structures, so we typically expect to vote with the board recommendations.

We aim to vote on all equities for which clients have given us voting authority. However, we recognise this may not always be possible. For example, because of share registration requirements, we are currently unable to vote at meetings for Swiss-listed equities, but we are working with our custodian to try to find a solution to this. We were also unable to vote at the 2021 AGMs of three new holdings in portfolios as we bought the shares after the AGM had taken place.

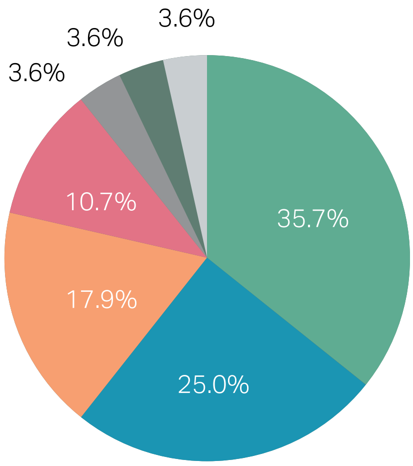
Our focused investment approach means we only hold 25-40 companies in portfolios and in 2021, we voted on 535 proposals at 34 company meetings across seven different countries. This means we voted 94% of core equity holdings in client portfolios.

An overview of how we voted and the reasons for our votes against management and abstentions are included on next page. Our full voting record for 2021 is available in the appendix to this document and we can provide more information on request.




**Overall voting record to 31 December 2021**






**Votes against companies & abstentions by theme**



We firmly believe voting is not an isolated act and therefore goes hand-in-hand with our broader engagement work. In each case where we voted against company management, either on a management proposal or on a shareholder proposal, we wrote to the company to explain our decision and to encourage dialogue with the company. This has yielded results. For example, we wrote to payments and software provider Fiserv following its AGM to explain why we abstained on two proposals (further details in the case study below) and also took the opportunity to encourage the company to improve disclosure around environmental issues. We received a detailed response to our letter from the Chair of the Board and subsequently had the opportunity to speak to the Head of Corporate Sustainability.

Voting case studies, giving specific examples of our voting activity and the outcome of this, are included on next page.

## Voting case study

Company: **Fiserv and Mastercard AGMs**

| ASSET CLASS | SECTOR | GEOGRAPHY |
|---|---|---|
| Listed Equities | Information Technology | North America |

**ISSUE**

EXECUTIVE COMPENSATION

When reviewing proposals for executive compensation, there are certain characteristics we look for, such as appropriate weightings towards long-term versus short-term metrics and performance-linked versus fixed metrics, the setting of sensible metrics for annual bonus and LTIP and the inclusion of ESG goals where appropriate. There are also a number of red flags that might stop us supporting remuneration plans, such as resetting of targets to meet minimum thresholds for performance-linked pay, changing the peer group against which any relative compensation is set to flatter the company's results and changing the structure of compensation to make it more short-term and perhaps less performance-based.

However, as highlighted above, all voting decisions are taken by members of the investment team on a case-by-case basis. At two AGMs, we chose to abstain on votes to approve executive officers' compensation.

The first abstention was at **Fiserv**'s AGM. ISS recommended a vote against this proposal because of problematic features included in the former CEO and executive chairman's transition agreement. But on reflection, we abstained because we felt that although the package for the outgoing CEO/Chair was unusual, the remuneration for the current CEO is reasonable. There were no bonus metrics which were not hit due to the Covid-19 pandemic and total compensation is below the peer group despite good operational performance in what could be controlled during such a difficult time.

We also chose to abstain on the vote to approve compensation at the **Mastercard** AGM. Again, ISS had recommended voting against the proposal because of Covid-related adjustments to performance goals. However, our investment partner who covers Mastercard felt that abstaining was more appropriate for the following reasons:

1. Mastercard adjusted the 2020 bonus and LTIP targets to "neutralise the COVID impact on travel and PCE". The former seemed valid: the fact that no one could travel was beyond their control. Pre-pandemic travel was 20% of revenues and nearer 30% of EBIT. However, the latter did not seem reasonable: PCE (Personal Consumption Expenditures i.e. consumer spending) was down in the same way that the economy is down when we have a recession and companies should adjust targets just because the economy is weak.

2. Management did a really good job leading the business in 2020 despite the difficult circumstances. Despite revenues being down 9%, EBIT margins only fell 3% to 51%. They also returned over $6 billion to shareholders. Management did a really good job leading the business in 2020 despite the difficult circumstances. Despite revenues being down 9%, EBIT margins only fell 3% to 51%. They also returned over $6 billion to shareholders. *[Continued overleaf]*

3. The company was also quick to offer their assistance to governments and small businesses during the pandemic (e.g. free cyber consultations as more small businesses went online) and made numerous other gestures within their communities to help.

Separately, we note the positive development that going forward, metrics on carbon neutrality, financial inclusion and median gender pay gap will be included in executive compensation (this is not linked to the decision set out above, but we were encouraged by this development).

## Voting case study

### Company: **Multiple**

**ISSUE**

SHAREHOLDER PROPOSALS ON IMPROVING DISCLOSURE

When it comes to shareholder proposals, we take the same approach as we do for company proposals: decisions are made on a case-by-case basis particularly as voting for shareholder proposals often means voting against company management.

In 2021, we voted for a number of shareholder proposals aimed at improving disclosure, including at Alphabet and Microsoft's AGMs. As highlighted under **Principle 9**, improving disclosure around environmental and social factors has been an important theme of our engagement work over the last year as we believe measuring and disclosing information are important steps on the path to improvement.

With Microsoft, we chose to support shareholder proposals calling for reports on the gender pay gap and racial pay gap, the effectiveness of workplace sexual harassment policies and the alignment of lobbying activities with company policy. Following the AGM, we wrote to the Lead Independent Director setting out why we chose to support the proposals. Our letter highlighted our belief that companies which show leadership by adopting best practices and increasing relevant disclosures in these areas are likely to achieve better results for all stakeholders in the long term.

We have yet to receive a response to our letter to Microsoft and will follow-up again with the company to try to start a dialogue on these issues.

# Appendix to Stewardship Code Report 2021 – Voting Data Table

VIP (UK) Ltd. Voting Record for 01 January 2021 to 31 December 2021

| Company and Meeting details | Votes cast | | | Additional details |
|---|---|---|---|---|
| | With company management | Against company management | Abstentions | |
| **Kerry Group** Special Meeting, 28 January | 3 | 0 | 0 | As a result of the UK's withdrawal from the EU, Irish companies were required to migrate their central securities depositary from CREST to Euroclear Bank |
| **Accenture** AGM, 03 February | 17 | 0 | 0 | |
| **Tesco** Special Meeting, 06 February | 6 | 0 | 0 | In line with previous communication to shareholders, the Board proposed to return a portion of the proceeds from a recent disposal to shareholders by way of a special dividend |
| **Infineon Technologies** AGM, 25 February | 32 | 0 | 1 | We abstained on the vote to reappoint KPMG as the audit firm as it was first appointed in 2000 |
| **Bunzl** AGM, 21 April | 23 | 0 | 0 | |
| **Avery Dennison** AGM, 22 April | 10 | 0 | 1 | We abstained on the vote to reappoint PwC as the audit firm as it was first appointed in 1960 |
| **British American Tobacco** AGM, 28 April | 18 | 1 | 0 | We voted against the remuneration report given the significant pay increases for the CEO and CFO on top of increases received last year |
| **Kerry Group** AGM, 29 April | 22 | 0 | 0 | |
| **Franco-Nevada** AGM, 05 May | 12 | 0 | 0 | |
| **Unilever** AGM, 05 May | 26 | 0 | 0 | |
| **Tractor Supply** AGM, 06 May | 12 | 0 | 0 | We voted against the shareholder proposal asking the company to become a Public Benefit Corporation. Given the way the business is run and the sustainability measures it already has in place, we felt this was unnecessary |
| **LabCorp** AGM, 12 May | 13 | 0 | 0 | We voted against the shareholder proposal to amend access to the proxy. LabCorp already meets US standards, has a relatively consolidated investor base and management is already dealing with an activist investor |
| **Derwent London** AGM, 14 May | 23 | 0 | 0 | |
| **Align Technology** AGM, 19 May | 13 | 0 | 1 | We abstained on the vote to reappoint PwC as the audit firm as it was first appointed in 1997 |

| Company and Meeting details | Votes cast | | | Additional details |
|---|---|---|---|---|
| | With company management | Against company management | Abstentions | |
| **Amphenol** AGM, 19 May | 13 | 0 | 1 | We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1997 |
| **Cerner** AGM, 19 May | 5 | 1 | 1 | We supported a shareholder proposal to eliminate super-majority voting. We abstained on the vote to reappoint KPMG as audit firm as it was first appointed in 1983 |
| **Fiserv** AGM, 19 May | 10 | 0 | 2 | We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1985. We also chose to abstain on the proposal on executive compensation |
| **Thermo Fisher Scientific** AGM, 19 May | 14 | 1 | 0 | We voted for the shareholder proposal to reduce the ownership threshold required to call a special meeting |
| **Fresenius Medical Care** AGM, 20 May | 12 | 0 | 0 | |
| **Hasbro** AGM, 20 May | 12 | 0 | 1 | We abstained on the vote to reappoint KPMG as audit firm as it was first appointed in 1968 |
| **Marsh & McLennan** AGM, 20 May | 15 | 0 | 0 | |
| **Next Plc** AGM, 20 May | 20 | 0 | 0 | |
| **Alphabet** AGM, 02 June | 13 | 8 | 0 | We voted to support a number of shareholder proposals including the proposal to introduce one-vote-per-share. We also voted against the reappointment of Ann Mather to the Board as she is over-boarded |
| **UnitedHealth** AGM, 07 June | 11 | 1 | 1 | We abstained on the reappointment of the Lead Independent Director as he has been on the board for 44 years. We voted for the shareholder proposal to reduce the ownership threshold to call a special meeting |
| **TSMC** AGM, 08 June | 13 | 0 | 0 | |
| **MasterCard** AGM, 22 June | 17 | 0 | 2 | We abstained on the vote to reappoint PwC as audit firm as it was first appointed in 1989. We also chose to abstain on the proposal on executive compensation. While we generally do not support companies adjusting targets because the economy is weak, management did a really good job leading the business through very difficult circumstances and provided significant support to governments, businesses and the wider community. |

| Company and Meeting details | Votes cast | | | Additional details |
|---|---|---|---|---|
| | With company management | Against company management | Abstentions | |
| **Tesco**<br>AGM, 25 June | 26 | 0 | 0 | |
| **Pacific Assets Trust**<br>AGM, 29 June | 16 | 0 | 0 | |
| **Biotech Growth Trust**<br>AGM, 14 July | 14 | 0 | 0 | |
| **Experian**<br>AGM, 21 July | 20 | 0 | 0 | |
| **ADP (Automatic Data Processing)**<br>AGM, 10 November | 12 | 0 | 1 | We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1968 |
| **Broadridge Financial Solutions**<br>AGM, 18 November | 13 | 0 | 0 | |
| **Sonic Healthcare**<br>AGM, 05 November | 5 | 0 | 0 | |
| **Microsoft**<br>AGM, 30 November | 16 | 4 | 0 | We voted to support shareholder proposals calling for reports on the gender pay gap and racial pay gap, the effectiveness of workplace sexual harassment policies and the alignment of lobbying activities with company policy |

| | | | | |
|---|---|---|---|---|
| **Totals** | **507** | **17** | **11** | |

*Please note that the table above sets out the voting activities of VIP (UK) Ltd. from 01 January to 31 December 2021. It may therefore include details for companies that are not held in your portfolio.*

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If you no longer wish to receive, please contact us on the above number.