EVENLODE

INVESTMENTS FOR LIFE

Evenlode Investment
Annual Responsible Investment Report 2021

evenlodeinvestment.com

TABLE OF CONTENTS

Our purpose is to preserve and enhance the value of our clients' assets through long-term engagement and analysis.

With a focus on long-term investment, we hold only the highest quality companies that are not capital intensive, have a strong economic moat, reliable cash flows and a healthy balance sheet. However, we are not just investors - we also understand the influence we can have on the companies we invest in on behalf of our clients. This is why we feel integrating environmental, social and governance (ESG) factors into our investment process, and actively engaging with our investee companies, can help to sustain and improve returns for our clients.

*The UK Stewardship Code

EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Fund Manager and Director

Looking back at the last year, we at Evenlode can be pleased with the progress that we have made under our stewardship agenda. However, as will be detailed in this document, we do not believe that this means we can sit back and admire a job completed and well done.

Ben Peters, Fund Manager and Director

In fact, the deepening and broadening of our analysis and our engagements with companies only serves to highlight where further work is needed.
It is clear that the body of work that is required to truly capture the risks and opportunities associated with stewardship and ESG is expanding. But by using critical thought and being unafraid to be iterative in our approach, we can be more focused on the things that matter. It is important that where we expand the scope of our analysis and engagement the effort has a clear purpose, and we are not simply creating more work in an unguided attempt to be 'responsible' or 'green'.

For example, our early work on the climate policies and impacts of companies, called the Climate At-Risk Assessment (CARA), is no more. Far from being a failed project, we took a critical look at what we discovered from this iteration of our environmental analysis, and other analyses. As a result, we developed several streams of work, including the emissions analysis, the United Nations Sustainable Development Goals analysis, and net zero analysis that we will discuss below.

We have similarly developed our internal governance around stewardship and ESG. The board formalised the naming of a director responsible for Stewardship and ESG, a role I currently fill. As part of this role, I report to the Evenlode board on how we are executing against the stewardship and ESG elements of our business plan, and am responsible for ensuring that the plan itself contains ambitious ESG targets. The board has committed to including the risks and opportunities of climate change specifically in those targets. This means we have committed to setting a strategy for reaching net zero carbon emissions from the portfolios we manage by 2050. We have joined the Net Zero Asset Managers Initiative (NZAMI), meaning we will be submitting our plans to an independent body.

EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Fund Manager and Director

A commitment to net zero carbon emissions by 2050 sounds a long way off, but we are seeking to align portfolios with the path towards that aim over a shorter time period. The development of our analysis, engagement strategies and internal governance has happened and will continue to happen over a period of many years. Our ambition to continuously invest in our own business is enshrined in our purpose statement and matches with the multi-year time horizon that we believe should characterise equity investing. Much as with our individual engagement activities, we believe that incremental changes over shorter time periods can lead to significant progress over longer ones.

To support the responsible investment effort, we have invested in growing the investment team. As the team has grown, we have integrated one team member across both stewardship and fund management roles. This is a 'prototype' of how we can ensure that stewardship remains at the centre of our investment decision making into the future from an organisational perspective. The stewardship specialists in the team also have responsibility for scoring companies on the ESG risks and opportunities, and lead engagements with those businesses. By having clear objectives and key results, which are reflected across all elements of our business and encouraged by our governance structure, individuals are incentivised to promote strong stewardship.

We believe that all of our work in this area, summarised as 'responsible investment', will lead to improved outcomes for our clients and the broad variety of stakeholders that arise from the management of equity portfolios. We aim to clearly communicate what we are doing on our clients' behalf, and why we are doing it. I hope you find that the remainder of this report meets that aim, and we welcome any feedback that you might have on our activities and how we report them.

Ben Peters, Fund Manager and Director

THE INVESTMENT TEAM

By Sawan Kumar, Head of Stewardship

We are looking for strength in depth within our team and have hired individuals with experience from a range of backgrounds to ensure we address all of the elements of the Evenlode investment process as holistically as possible.

Sawan Kumar, Head of Stewardship

As an employee-owned business the aim is to build a multi-generational team within which, in due course, the business can be handed from one set of employee-owners to another whilst continuing to consistently apply our process to the portfolios we manage. The concept of delivering in the long run for all stakeholders means that the team is structured to take collective ownership for the decisions made on the portfolios we manage, whilst containing lines of individual responsibility to ensure that accountability is not dissolved.

Particularly relevant to delivering our stewardship activities, we created a new 'Sustainable Investment Analyst' role and hired Bethan Rose to the stewardship team at the end of her graduate rotation scheme in July 2021. As market wide and systemic risks resulting from the change in climate become even more realised in the economy, the hybrid nature of her role will look to further integrate the team's ESG analysis into the investment process with a particular focus on the long-term effects of climate-related risks and opportunities on our model. Bethan's knowledge from the Global Income fund team and technical expertise gained from completing her CFA level I and CFA ESG qualification will be a useful diversifier to the team.

THE INVESTMENT TEAM

Evenlode Income

Hugh Yarrow
Lead Manager

Ben Peters
Co-Manager

Evenlode Global Income

Ben Peters
Lead Manager

Chris Elliott
Co-Manager

Evenlode Global Equity

Chris Elliott
Co-Manager

James Knoedler
Co-Manager

Stewardship

Sawan Kumar
Head of Stewardship

Charlie Freitag
Stewardship Analyst

Bethan Rose
Sustainable Inv. Analyst

Research

Chris Moore
Head of Research

Charlotte Lamb
Investment Analyst

Robert Strachan
Investment Analyst

Cristina Dumitru
Trainee Inv. Analyst

Leon Cyril
Trainee Inv. Analyst

Ben Armitage
Trainee Inv. Analyst

Gurinder Samra
Trainee Inv. Analyst

Innovation

Tom Weller
Innovation Analyst

EVENLODE'S STEWARDSHIP STORY

By Sawan Kumar, Head of Stewardship

Evenlode is a signatory of the UK Stewardship Code which was first published by the Financial Reporting Council (FRC) in 2010. After being updated in January 2020, the code sets high stewardship standards for asset owners, managers and service providers that support them. Consisting of twelve guiding principles for asset managers and owners and a separate set of six principles for service providers, the new code aims to encourage engagement between institutional investors and company management and promote a greater level of transparency. It is applicable to those firms who manage assets on behalf of institutional shareholders, including pension funds, insurance companies, investment trusts and other collective investment vehicles.

The Code increasingly helps us navigate around these complex risk mitigating themes and is increasingly recognising that ESG factors are becoming even more material to the long-term success of a company. We have welcomed the emphasis on investor engagement outcomes over the last couple of years. We are hoping this will create more robust long-term engagement strategies with intended positive outcomes on investee companies. In light of the pandemic, the added expectations from companies on the new social contract which is emerging, is welcomed.

To better help us identify key long-term risks and discuss megatrends we attended various webinars and training sessions in the year held by industry groups and organisations such as the United Nations Principles for Responsible Investment (UNPRI), Investor Forum, Carbon Disclosure Project (CDP), and MSCI. We have been a member of the International Corporate Governance Network (ICGN) for many years and in 2021 we also became members of the Natural Capital Committee (NCC) whose focus is on governance relating to the natural environment, ecology and biodiversity including climate change and the United Nations Sustainable Development Goals. These discussions help bring emerging business risks to our attention from a market risk point of view, which has helped us curate the themes for our bespoke analysis carried out in the year. For example, our portfolio emissions analysis (which we detail later in this report), is the first step to a longer piece of engagement which addresses transition and physical risks our investee companies face as we transition to a more sustainable economy. This involvement also provides us with useful data as we look to set portfolio targets for the Net Zero Asset Manager's Initiative (NZAMI) which we signed up to in September 2021.

As the stewardship team grew in 2021, with a view to capture new ideas coming from a more diversified team, we developed a new process called the Annual Stewardship Brainstorming Session (ASBS). It was held at the end of year as an internal assurance exercise to improve our team's internal policies and processes. We reviewed our existing investment process, identified specific policies to update (for example, CSR and controversial weapons), and considered how our ESG specialism could be further embedded within the overall investment strategy. We also finalised the future publication of a Quarterly Stewardship Report (Q1 report for 2022 is now available on our website), created a new template for client presentations and completed a net zero plan for 2022. The outcomes from the session were then presented to the investment team and the board director responsible for implementing stewardship activities, Ben Peters. The team also liaised with the operations teams' new Content and Presentation Manager, Frankie Christy, who they agreed was best placed to take responsibility for the design of the Responsible Investment Report going forward. This allowed the report to be independently reviewed and ensured it was easily digestible for readers.

Evenlode is a signatory to the UNPRI. The principles were developed in 2005 by an international group of investors who wanted to promote the increasing relevance of responsible investment. By becoming signatories, we have committed to implementing these principles and incorporating ESG factors into our investment process to better manage risks for our clients. After signing up to the UNPRI in 2018, our most recent assessment report suggested that we have achieved the highest rating (A+) for both our overall strategy and governance, and for integration of ESG considerations into our investment process. Additionally we have scored an A for engagement and proxy voting, an improvement from the year before.

> 'We have welcomed the emphasis on investor engagement outcomes over the last couple of years. We are hoping this will create more robust long-term engagement strategies with intended positive outcomes on investee companies.'

TO ACCESS THE ASSESSMENT AND TRANSPARENCY REPORTS, PLEASE CLICK HERE

ESG INTEGRATION

By Sawan Kumar, Head of Stewardship

We assess companies in our investable universe on a range of financial and non-financial factors, divided into three different categories:

- Business: Economic moat, pricing power, long-term industry outlook, economic sensitivity, diversification, management and cultural quality and ESG.
- Financial: Balance sheet strength and cash generation.
- Investment: Liquidity risk and valuation risk.

We assign a score of between A to E for each risk factor for each company we follow and analyse. This kind of scoring methodology induces conversation within the investment team at our regular risk scoring meetings and when an investment case is reviewed, ensures a collegiate decision is made considering a range of viewpoints. Companies that score badly on certain issues, or certain combinations of issues, are less likely to be included in our investable universe. For instance, an E for both Balance Sheet and/or Economic Sensitivity, and a Moat score less than a C. If a company scores an E on ESG risk because there are severe ESG concerns that the company is not managing them adequately, it will be excluded from the portfolio/universe. Where a company does not meet minimum ESG standards and consequently scores a D, this leads to active engagement on the identified issues that, if necessary, is escalated from direct engagement with the company to collective engagement through one of the investor initiatives we are members of.

We use several checklists at Evenlode which help us to focus our attention on the most significant and/or value-adding matters on behalf of our clients. Over the course of the year, in order to create more structure around how we score companies on ESG risks, we highlighted market wide ESG issues that presented long-term risks if not addressed:

- Environmental risks: climate-related risks, plastics pollution, deforestation,
- Social risks: lack of transparency within the supply chain, labour violations, material controversies,
- Governance risks: arising from a poor governance framework: misalignment between pay and performance, inadequate independence of board members, disproportionate voting rights.

We wanted to ensure we had clear systems in place in order to eliminate any preconceived notions and biases and have created a checklist which asks 35 ESG- related questions of each company. ESG considerations are weighted differently, with governance having the highest weighting of the three due to its over-arching nature. Example questions include:

- Does the company publish its total greenhouse gas emissions (all scopes)?
- Has the company been involved in labour violations within its own operations?
- Does the company disclose performance metrics targets in its remuneration policy?

Once the score is calculated, an independent judgement and discretion is applied by the stewardship department as a common-sense overlay.

The resulting score is presented and discussed at our weekly investment meeting, and this ultimately acts as one of the key inputs into the maximum position size of the company. Independent discussion, discretion and calibration is useful as it brings in a consideration of the nuances of each potential issue and eliminates a mechanical approach to decision-making. The process is collegiate and seeks to bring in the views of the whole team, having rigorously sought out the most material matters through the initial use of a thorough checklist. It also helps us to highlight which E, S or G factors are most material to the company's industry and/or business model. The idea is for this framework to evolve and improve over time, including thematic analysis carried out as a result of our company-specific work. The number of questions increased from 23 last year as we wanted to further strengthen the matrix by prioritising some specific indicators from the annual general meeting (AGM) analysis and focus more on social issues in the supply chain.

'We wanted to ensure we had clear systems in place in order to eliminate any preconceived notions and biases and have created a checklist which asks 35 ESG- related questions of each company.'

ESG RISK SCORE FRAMEWORK

By Sawan Kumar, Head of Stewardship

Report all emission scopes, 'science-based' net zero strategy with interim targets, conducts scenario analysis, board-level oversight of ESG strategy, overall positive social impact with no material controversies in the supply chain, governance code compliant board, relevant ESG-related metrics in remuneration policy, positive engagement with shareholders.
Engage to learn.

Report on scope 1 & 2 and some scope 3 emissions, long-term environmental targets, ESG strategy reported to the CEO, neutral social impact, moderate controversies not fully managed, majority independent board, metrics other than share price/earnings used in remuneration policy, responsiveness to shareholders.
Engage to address moderate issues.

Do not report any emissions, poor ESG disclosure standards, relatively high emission intensity in portfolio(s), no environmental targets set, detrimental social impact of core product/business model, non-existent net zero strategy, misaligned remuneration policy, serious independence concerns, no engagement with shareholders.
Exclude from portfolio.

Report on scope 1 & 2 and relevant scope 3 emissions, environmental targets set for medium and long-term approved by external body, overall largely positive social impact with only minor controversies that the company seek to address, non-financials measured in remuneration policy, fully independent board committees, consistent engagement with shareholders.
Engage on minor issues.

Report on scope 1 & 2 emissions, weak governance on ESG strategy, only short to medium environmental targets, social issues within operations, supply chain, customers or local communities identified, lack of independence on the board and committees, remuneration policy solely focused on share price/earnings, lack of responsiveness with shareholders.
Actively engage for change.

Exclusions

- We do have a formal controversial weapons policy.
- We do not exclude any other sectors outright, but consider each company's ESG risks and opportunities on their own merit.

INVESTMENT CASE FOR ENGAGEMENT

By Sawan Kumar, Head of Stewardship

Why we exclude companies

We judge each business on its own merits when deciding on its ESG risk score, and do not exclude any sector from the outset. It is our belief that all companies face both ESG risks and opportunities, and we should critically assess those as part of our analysis before drawing conclusions. We do, however, formally exclude companies that directly manufacture controversial weapons, and our controversial weapons policy is available on our website.

As noted above, we will give a company an ESG risk grade of 'E' if it has significant ESG-related risks that are not being adequately managed. If a company scores an 'E' it will not be eligible for investment. This is fundamentally a risk control mechanism; it is our belief that companies that do not adequately manage their own business risks face potential liabilities through fines and regulatory censure, reputational damage, and subsequent lost revenues, profitability and cash flow. Such companies present heightened risks for owners of that business' equity. We therefore look elsewhere to achieve good risk-adjusted returns for our clients.

The investment case for engagement

We will engage with those companies that we grade better than 'E'.

We consider engagement with companies as an opportunity. Discussing challenges with companies enables us to understand their business context and obtain more information about their mitigation of and resilience to the risks that we perceive.

Ultimately though we are seeking to create long-term value for our clients through improving the sustainability characteristics of a company. However, we understand that all this takes time and a measured approach. This type of approach requires appropriate engagement objectives and is why we set objectives for each engagement, which allow us stay focused and monitor our ongoing engagements.

Risk management is still a focus for those companies that we do not exclude on ESG grounds. The company's ESG risk score is considered when setting its maximum position size as a routine part of our investment process. Companies that have lower scores will, all other things being equal, have lower maximum position sizes.

'It is our belief that all companies face both ESG risks and opportunities, and we should critically assess those as part of our analysis before drawing conclusions.'

THE ENGAGEMENT TRACKER

By Sawan Kumar, Head of Stewardship

To gain a deeper understanding of the businesses we invest in, we measure the level of accessibility and transparency companies offer to their stakeholders. We have observed over the years that there is a good correlation between companies that are willing to engage with investors proactively and those that have a strong and open culture throughout the organisation. RELX is a good example here. Management is a key asset for the business with Erik Engstrom focused on organic development of sophisticated, information-based solutions. He has steered the group's transformation, directionally reducing structurally challenged operations (e.g., print), and focusing on business fundamentals and earnings quality in favour of short-term performance metrics.

We consider stewardship to be an important part of our investment philosophy, and have over the past few years been developing a framework for engagement with the companies we invest in. We believe it is our fiduciary duty to protect and enhance the value of our clients' assets, whilst responsibly minimizing broad non-financial risks. Monitoring of investee companies is good investment practice and we would never invest on behalf of our investors without undertaking sufficient due diligence.

In 2019, we updated our proprietary investment research software system (EDDIE) which now includes the 'Engagement Tracker' functionality. The 4-step process for documenting engagement activity in EDDIE is shown below:

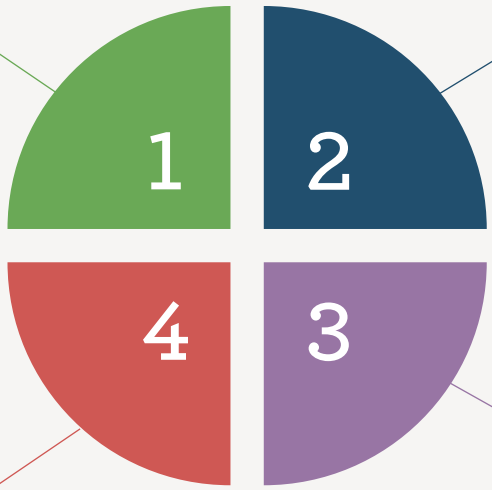
Engagement Tracker

INITIATION

The engagement is created as a result of either a vote against management at an annual general meeting (AGM), a specific issue which has been identified by Evenlode and raised with the company, or alternatively a contact from the company itself.

ACKNOWLEDGEMENT

There is a response from either party with an acknowledgement of any concerns raised.



ACTION

The outcome of the engagement is documented. Has the company implemented a new policy as a result of our engagement or made a strong enough argument to defend its current strategy?

DISCUSSION

The conversation around the engagement topic is documented.

	AGM engagements	Interactions
Initiate Dialogue	30	94
Acknowledgement	14	43
Discussion	16	76
Action	13	41
Total:	**73**	**254**

Data from 2021

THE ENGAGEMENT TRACKER

By Sawan Kumar, Head of Stewardship

Examples of cases that lead us to prioritise an engagement are:

- After concluding the emission analysis, a list of the most emissions-intensive companies is curated for each fund. Next steps are to write to the most carbon intensive as well as the non-disclosers (those who do not report at least 90% of emissions across all scopes), asking for their decarbonisation strategy and improved transparency.

- We have spoken with an investee company because there were reports of poor product quality provided by a subsidiary. We wanted to reach out to understand the issue at hand and to ensure that similar failings do not repeat in the future. For the most part this was an isolated human error in the chain which had resulted because of poor communication. We felt this particular incident in their supply chain was unfairly publicised in the height of the pandemic.

- We have voted against the company at the AGM because we have had concerns about their remuneration policy, board independence or board structure, leading to us writing to the company after the AGM and initiating dialogue for the upcoming meeting. Although we may not see change over the short-term, consistently engaging with the investee company on the issue can prove to be beneficial for the long-term.

In adherence to our voting policy, we initiate dialogue with company management before we action a vote (if we need additional information) and also after actioning a vote (if we vote against management) via a letter. In 2021, we wrote 65 letters to companies about their AGM vote and emissions disclosures.

Due to the differing nature of governance frameworks globally and the complexity of surrounding policies, it can be useful to speak with management before inputting the vote. If voting against management, our policy states that we must write to the company stating the reasons why. This induces a healthy conversation post the AGM about the changes we want to see in the company and allows us (as investors) to better understand the company's point of view. Although the topics may differ between various geographies, the engagement strategy remains the same for all the funds.

Recording each step of the engagement process allows us to record, analyse, monitor and measure the success of our engagements. As the information is now kept in a centralised database, it further enhances transparency and spreads the knowledge in the team, whilst eliminating the risk of sending conflicting messages. Ongoing maintenance of the tracker also has the ability to provide useful data which we can then use to create a more robust engagement framework.

FOR OUR FULL ENGAGEMENT POLICY PLEASE CLICK HERE

ESCALATION

Evenlode does not have a formal escalation strategy, rather we consider each case for engagement on its merits. However, in the past we have collaborated with other investors and voted against the re-election of the relevant directors/committee chairperson. We have in the past had multi-year engagements in order to effect change and have worked with the UNPRI and the Investor Forum to collaboratively engage with other investors.

Using our emissions analysis, we engage with investee companies who do not report at least 90% of emissions across all scopes. The next step of this engagement was to escalate with the CDP's Non-Disclosure Campaign. The objective of the campaign is to drive further corporate transparency around climate change, deforestation, and water security by encouraging companies to respond to annual surveys more consistently. We will also join as co-signatories and lead signatories for climate engagements which currently do not have a lead. An update on this will be in our next Responsible Investment Report.

Although escalation can sometimes have negative connotations, we have had various positive engagements with a recruitment company in the Evenlode Income Fund. The company shared with us their inaugural sustainability report and wanted to garner feedback on their strategy and key targets. We wanted to get a better understanding of their carbon net zero targets, renewables strategy, their emissions reduction vs offset plan, and if value chain emissions were included. In response to our request for more information, we were able to learn that a large proportion of their energy was derived from renewables, stressed the importance of measuring scope 3 emissions and that the business will be looking to formalise their carbon reduction plan aligning to the Science-Based Target Initiative (SBTi) in the coming year. We thanked the business for the detailed explanation and commended them on their rapid progress of their renewables project.

ENGAGEMENT THEMES

By Sawan Kumar, Head of Stewardship

Over the past few years, the rationale for voting against management had centred around remuneration policies being overly reliant on share price appreciation and earnings per share. Although these metrics being used in isolation haven't completely been eliminated from the portfolios, there have been some clear improvements. As new policies have been enacted in the year, company management teams have been listening to shareholders and have added additional performance metrics to long-term incentive plans that give a more rounded view of the company's financial and strategic progress. Measures based on return on invested capital, growth in organic revenue and operating profit have been welcomed. The decline in votes against management – in the Evenlode Income Fund – is a further indication of the effectiveness of exercising our voting rights and follow-up engagements with investee companies.

COLLABORATION

We are active participants of groups such as Corporate Reporting Users Forum (CRUF), Financial Reporting Lab's (FRC) Climate Change and Steering Committees and the International Corporate Governance Network (ICGN). CRUF participants contribute to corporate reporting debates with a wide variety of standard setters and regulators to ensure the investor voice is heard. Our Head of Research, Chris Moore, attends quarterly CRUF meetings and works closely with the stewardship department to achieve the desired objectives of various CRUF initiatives. Additionally, in 2021 Sawan Kumar worked with the FRC to discuss how risk reporting has evolved in the area of Risk and Viability reporting. The report focused on reporting of identification and changes to principal risks, reporting of emerging risks, the time horizons considered and whether and how, the pandemic has changed internal and external reporting and consideration of risk reporting.

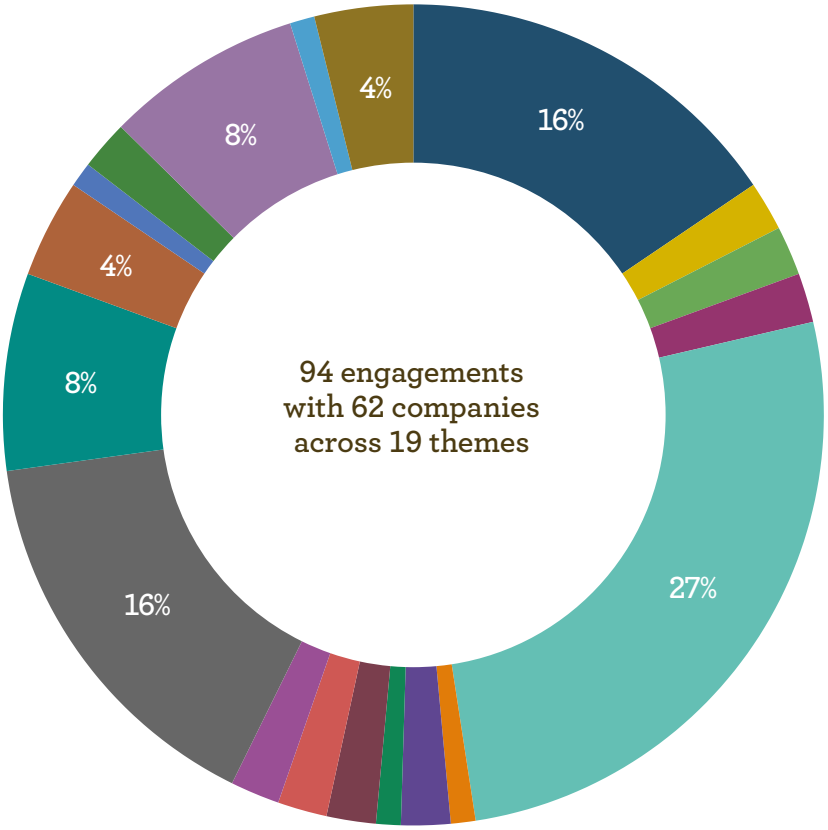
In January 2021, we became members of the FAIRR Initiative, an investor network focused on ESG risks in the global food sector. They engage with 25 of the largest global food retailers and manufacturers to develop a global, evidence-based approach to diversify protein sources and divert from over-reliance on animal proteins. We took part in a collaborative engagement urging governments to improve disclosure of their agricultural emissions targets. While there has been increased awareness of agriculture and land-use recently, only a handful of the Nationally Determined Contributions (NDCs) specifically refer to agriculture in sectoral targets. At present, in the absence of strong policy action to address Greenhouse Gas (GHG) emissions associated with the global animal supply chain, protein producers and retailers face significant risks in the transition to a low-carbon economy. We were part of a group of investors asking the G20 governments to disclose specific targets for emissions reduction in agriculture within or alongside their NDC commitments. The outcome was encouraging - the statement was highlighted at COP26 and also discussed with policymakers and several governments and multilateral organisations. This engagement also provided us with an opportunity to learn more about the industry and support the large exposure we have to consumer goods/staples through our portfolios.

Our overall approach around direct vs collaborative engagements is simple. We believe collaboration is important to strengthen our collective influence in addressing ESG issues and learn from like-minded investors. However as long-term investors we have developed long-term relationships with our investee companies through direct engagements. And we believe that is a key ingredient in effecting change that will benefit both our companies and clients.

ENGAGEMENT THEMES

By Sawan Kumar, Head of Stewardship

Engagement Themes



*Carbon Emissions	27%
Remuneration	16%
Climate Change	16%
Board Structure	8%
Company Strategy	8%
Succession Planning	4%
Company Culture	4%
Use Of Plastics	2%
Deforestation	2%
Use Of Water	2%
Human Capital Management	2%
Labour Conditions	2%
*Product Quality & Safety	2%
Human Health	2%
*Balance Sheet	2%
Human Rights	1%
Supply Chain	1%
*Dividend Policy	1%
Audit Issues	1%
Companies	**62**
Engagements	**94**

*New themes added for recording purposes in 2021.

ENGAGEMENT THEMES

By Sawan Kumar, Head of Stewardship

Below are some examples of engagements with differing outcomes (company names removed).

COMPANY A

One holding in the Global Income Fund had not published their annual general meeting (AGM) voting results, which we use to understand other shareholders' views on specific governance-related matters. Given that this is an important piece of information for our ESG risk score matrix and AGM analysis, we reached out to the holding to enquire. The Investor Relations team explained that they do not publish voting records since their respective countries' company laws do not require publishing, unless requested by a shareholder before voting has taken place. Last year, not one shareholder had requested. Through our enquiry, we were able to get the voting results published for the AGM in 2021, which highlighted that two directors on the board, including the chairman, had received a 10% vote against them. This additional detail further strengthened the company's risk score matrix and highlighted a potential point of engagement with the company going forward.

COMPANY B

We wrote to a holding in the UK Income and Global Income fund after voting with management at their AGM. We reached out to them to explain our position and also raise concerns around board independence and succession planning. In particular, there was a combined Chair/CEO, a lead independent director who had been serving for 17 years and had passed his eligibility criteria to serve on the board. The company appreciated the feedback and justified their position on the basis of their own succession criteria and regulations for director independence. This was concerning, since their policies and regulations were weak and not in line with market standards. We consider the UK to be the best-in-class model for good governance. Although there are complexities when comparing governance standards across geographies, especially considering tenure expectations of board members, the engagement helped us to better assess the case. As a result, we concluded that, despite the company's justification, shareholders would benefit from an increased level of independence. Reaching out to the company allowed us to consider the facts of an important issue in more detail. Due to the unsatisfactory response, will vote against management next year if changes have not been made.

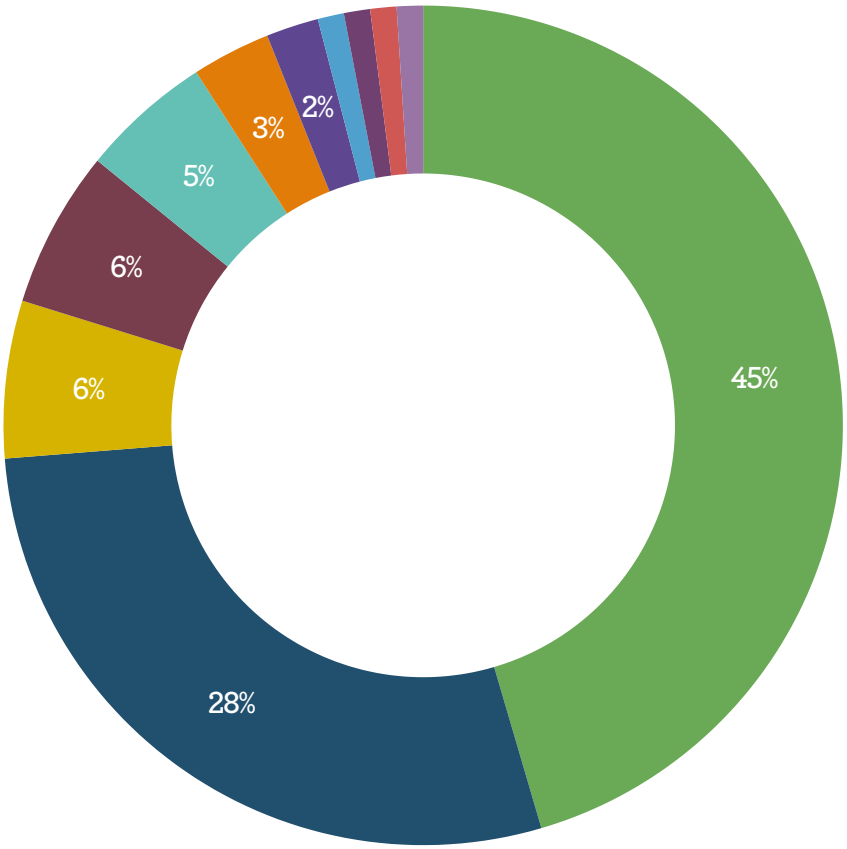
COMPANY C

We wrote to a holding in the Global Income and Equity fund to explain why we voted against management on their remuneration report. The company had placed large emphasis on earnings per share growth in both short- and long-term components of their policy. However, our analysis showed that the company had not considered long term net zero targets covering scope 3, beyond short term scope 1 and 2 targets. We also shared feedback on the company's emission reporting. Our concern was that their report emissions covered only ca. 48% of their estimated total emissions. As a result of the engagement, the company have been asked to improve their emissions disclosure. This has now become part of a longer consultation with the company on alignment and disclosure, the outcome of which will feed into our ESG risk score matrix and Net Zero work.

ENGAGEMENT THEMES

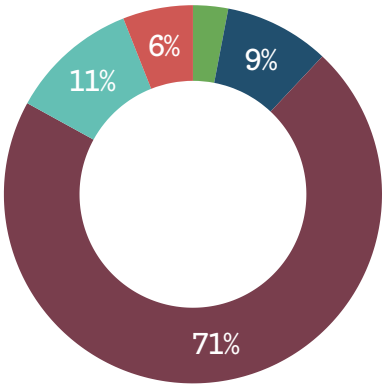
By Sawan Kumar, Head of Stewardship

Engagements by Region



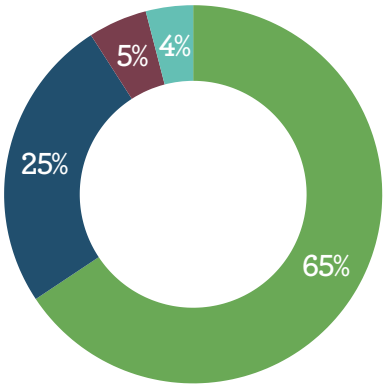
Engagement by Region	Total
United Kingdom	42
United States	26
Switzerland	6
Germany	6
France	5
Sweden	3
Netherlands	2
Japan	1
Australia	1
Belgium	1
Spain	1
Engagements	**94**

Who we Engaged



- Executive
- Board-level
- Investor Relations
- Sustainability
- Other

How we Engaged



- Letter
- Email
- Video Call
- Other Exchange

STEWARDSHIP IN PRACTICE

By Sawan Kumar, Head of Stewardship

By carrying out sufficient due diligence we invest in companies that are being managed according to a strategy and principles with which we fundamentally agree. With this in mind, Evenlode's policy is to usually vote with management on resolutions put forward unless we have initiated an engagement in the previous year showing our discontent and asking for change which has not yet materialised. As a firm, we do not engage in stock lending and vote all our shares using the proxy voting service provider, Proxyedge. We have a close relationship with their representatives where we can use their platform to check for upcoming meetings (helping us to plan for AGM seasons), monitor voting rights and, finally, action our votes. Voting with the board is not automatic and in cases where we disagree with a specific issue we will vote against. Where possible this will happen after dialogue with the officers of the company has taken place.

We do not use external proxy research providers as we believe it to be our fiduciary duty to vote shares in accordance with the investment philosophy that we set out to our clients. All of our research is carried out in-house by our stewardship analysts, using both publicly available information and internal research carried out by our fund managers and investment analysts. Due to the size and nature of our business – and in addition to being a signatory and reporting annually to the UNPRI – we do not seek independent assurance of our proxy voting and stewardship activities. Instead, we undertake an annual review of all of our stewardship activities (voting and engagement) at the end of the proxy voting season to better understand the market and how we can structure our engagement style going forward. For example, at the end of our review for 2021, we created a more targeted engagement strategy for our AGM voting season. We will look to proactively engage with companies where we have a significant ownership at a portfolio and company level. The aim is to initiate dialogue early for with our most material holdings and highlight any areas of concern we have with the company **before** we input the vote.

Although we don't use proxy research providers, we continue to rely on external organisations such as Sustainalytics for their ESG and Product Involvement research and Carbon Disclosure Project (CDP) for their Emissions Reporting tool. We hold research reviews every six months with the Chief Operating Officer (COO) to monitor the service providers and hold them to account for the investment team. The reviews have led to removals of some research tools and subscriptions to better ones. The Product Involvement tool from Sustainalytics is a good example to illustrate this: we noticed that we were experiencing a large amount of queries from clients on portfolio involvement in a range of specific product and business activities (such as animal testing and palm oil). A stewardship team representative raised this in a review and, after considering budget and business needs, we received approval to incorporate a tool to assist with this issue.

We consider the UK corporate governance model as best-in-class. However, we do understand that other jurisdictions and geographies have different requirements and take these into consideration when making our voting decisions.

We disclose all our voting activity in the stewardship section of our company website on a quarterly basis. In the interests of best practice, transparency and investor information, we also provide details of when we have voted against management and the reasons for this.

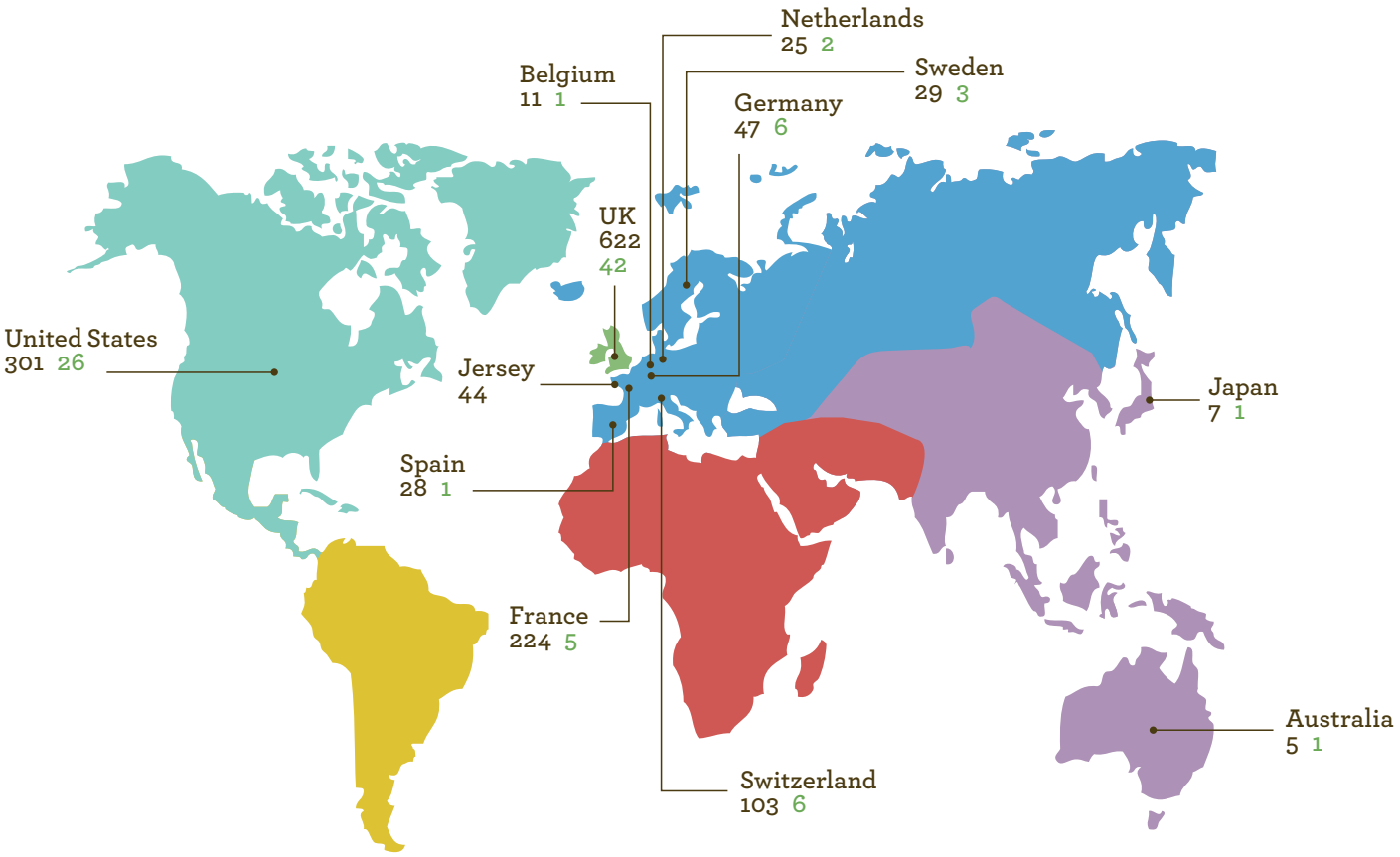
With the aim to better understand shareholders' views on governance-related matters, we capture and analyse the outcomes of resolutions that have been voted on through our ESG risk score matrix. This allows us to identify the most material issues for other minority shareholders, which ultimately acts as an input into their overall ESG risk score. We currently store this in an excel spreadsheet; however, we are working with our internal technology team to integrate this data into EDDIE. We look forward to providing you with this extra level of detail through our reporting in the coming year.

To access our voting records and full stewardship policy, please visit the following link

VOTING RECORDS

'All of our research is carried out in-house by our stewardship analysts, using both publicly available information and internal research carried out by our fund managers and investment analysts.'

Voted Resolutions by Region



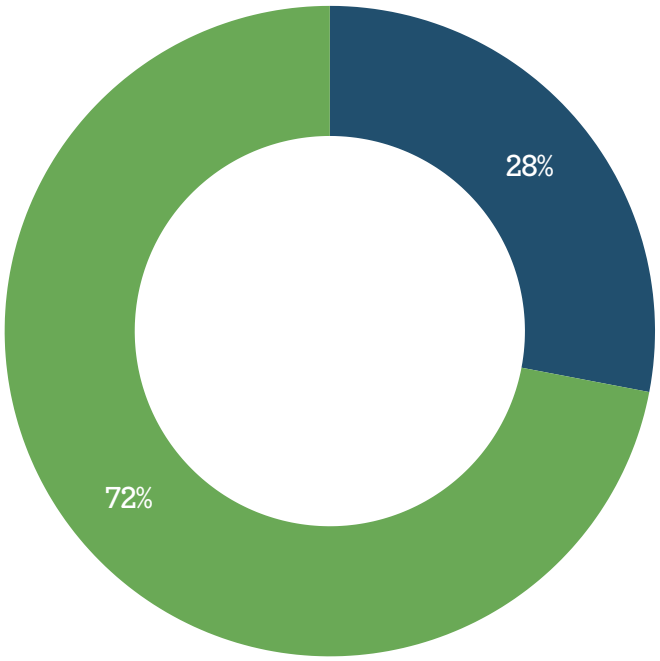
Engagements indicated in **green**

VOTING STATISTICS FOR 2021

Meetings	74
Resolutions	1446
For	1384
Against	62
Against Management	44
Unvoted	0
Abstain	0

3% of the total votes cast were against management

Votes Against Management (per meeting)

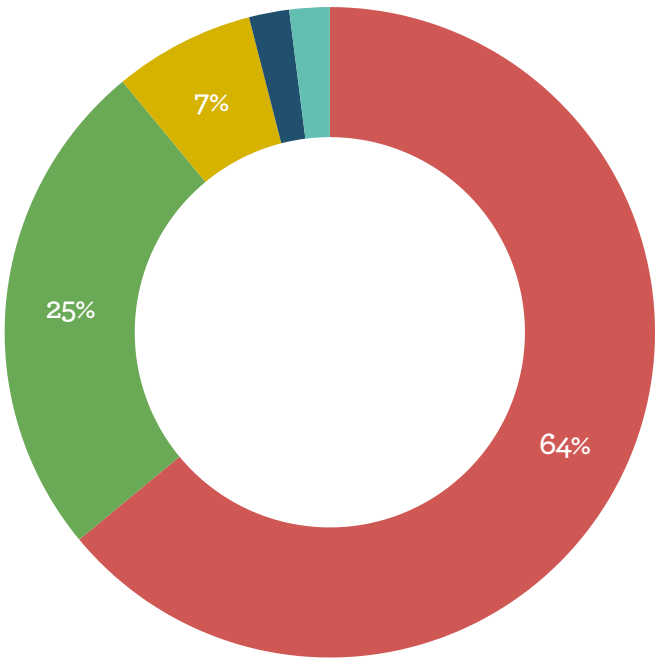


Votes against management

Votes with management

In 2021, we voted a total of 74 meetings, voting 100% of the time on all resolutions. We voted against management at 28% of the meetings on at least one resolution.*

Votes Against Management Themes



Themes	Total	%
Remuneration	28	64%
Director Related	11	25%
Minority Shareholders Rights	3	7%
Audit-Related	1	2%
Pay Inequality	1	2%
Votes against management	**44**	**100%**

*We were unable to vote on 9 companies in 2021 on the Evenlode Global Equity Fund due to a technical error on the voting platform. This has now been resolved.

STEWARDSHIP IN PRACTICE

By Sawan Kumar, Head of Stewardship

Below are some examples of situations of where we have voted against management (with company names removed).

COMPANY A

Evenlode chose to vote AGAINST management on the company's remuneration report on the grounds that there was a duplication of metrics across the short and long-term incentive plans. Existing metrics could incentivise acquisitions. Although we commended the company's disclosure standards, we thought the policy would benefit from additional financial and non-financial metrics. The AGM results suggested just over 8% of the shareholders voted against the policy in 2021. We initiated an engagement with the company, however we have yet to receive any feedback. If over multiple years, the company has not responded adequately to shareholder's concerns, this would have an impact on their ESG risk score and consequently potentially a downgrade in their maximum position size in our portfolio(s).

COMPANY B

Evenlode chose to vote AGAINST management on the re-election of a lead independent director who had been with the company for 28 years. This was even more problematic as the company had a combined Chair and CEO. Lack of engagement from the company on the succession of the role contributed to the reasons for the vote against which ultimately downgraded the company's ESG credentials. This was not technically against the country's corporate governance guidelines and/or listing standards, however we followed our internal voting policy and UK best-in-class standards. Some companies justify the decision not to consider 'length of service' as an obstacle to a director's independence on the basis that the experience of the director takes precedence. However, in this case, after sending 2 letters over the last 2 years asking the company to provide us with more information on his re-election, a vote against his re-election this year was warranted.

COMPANY C

Evenlode chose to vote AGAINST management and WITH the shareholders to allow unlimited number of shareholders to combine to reach 3% to get proxy access. Developed governance standards in the US are still weaker than the standards shareholders experience in the more ESG developed markets. Although boards should be able to protect themselves from the use of such provisions, different groups of shareholders should have the right to nominate director candidates without restrictions and burdensome thresholds. We have not seen the use of this provision within our investee companies, however we felt that its existence will create further accountability, dialogue and ultimately be beneficial for minority shareholders.

CARBON EMISSIONS ANALYSIS

By Charlotte Freitag, Stewardship Analyst

2021 has seen a lot of focus on climate change, with COP26 taking place in Glasgow and part 1 of the 6th assessment report by the IPCC stressing that the climate has already changed by 1.1°C and that current plans to reduce emissions are insufficient to meet the goal of staying below 2°C warming.[1] The message is clear: there is a rapidly closing window of opportunity to prevent the worst effects of climate change.

Charlotte Freitag, Stewardship Analyst

Evenlode has been analysing its financed emissions, or the greenhouse gas emissions embedded in its investments, since 2019. We look at the carbon footprint – the amount of emissions expressed as carbon dioxide equivalents (CO_2e) – that are released as a result of the activities of companies in our investment portfolios and apportion a part of these emissions to our funds based on our holdings in these companies. We do this because it gives us an idea of the impact our investee companies have on the climate, and the risk they face from regulation and consumer pressure on climate transition. This in turn allows us to manage systemic risk from climate change in our investment portfolios better and proactively engage with the highest emitting companies on their emission disclosure and progress in cutting their emissions.

In 2020, we became the first UK asset manager to disclose our financed emissions in alignment with the PCAF standard for financial emission accounting.[2] In 2021, we continued to improve our methodology and for the first time included two recently launched funds, the Evenlode Global Equity and Evenlode Global Opportunities Fund.

The insights from this analysis have allowed us to better target our research and engagements around climate risk, focusing on the biggest emitters and those companies that fail to report their full emissions.

The analysis allows us to identify the top emitters for each fund by emission intensity and absolute contribution to the fund's footprint, which we prioritise for engagements. The data from this analysis also contributes to our net zero alignment assessment, which we started in 2021 as part of our net zero strategy. Following the Paris Aligned Investment Initiative's Net Zero Investment Framework.[3] We assess all portfolio companies in material sectors on their net zero targets and climate action plans, emission disclosure and progress on their emission reductions, and engage with companies with high impact companies that are not currently aligned. Companies' emission intensity and the results of our further analysis feed into companies' ESG risk score, which is integral to the investment process and influences the maximum position size for each holding.

We also use the data to engage with companies that do not disclose their emissions. In 2021, we engaged with 50 companies across our portfolios (ca. 60% of portfolio companies) that reported less than 90% of their emissions (including scope 1, 2 and 3) according to our estimates. Of these, 20 companies (40%) responded to us and three quarters of these shared more information on their current disclosure or future disclosure plans. We also reached out to 6 companies (7% of portfolio companies) that had recently improved their emission disclosure to at least 90% of total emissions to commend them. In 2022, we will continue to engage with those companies disclosing less than 90% of emissions. To escalate our engagement with the non-responders, we will also participate in the CDP's[4] 2022 Non-Discloser Campaign.

1 IPCC, August 2021: Climate Change 2021: The Physical Science Basis. View here

2 PCAF, November 2020. The Global GHG Accounting & Reporting Standard for the Financial Industry. View here

3 Paris Aligned Investment Initiative, March 2021: Net Zero Investment Framework – Implementation Guide. View here

4 The Carbon Disclosure Project (CDP) runs the largest disclosure system for environmental data for investors, companies, cities, states and regions, including on climate change, water and deforestation risks and impacts. The CDP annually engages with companies to improve disclosure and to set science-based targets.

CARBON EMISSIONS ANALYSIS

By Charlotte Freitag, Stewardship Analyst

The chart and table opposite summarise the emissions associated with an investment of £10,000 in each of the Evenlode funds. For context, according to Our World In Data, the average UK resident was responsible for 4.85 tonnes of CO_2e in 2020.[5] This is based on emissions produced in the UK; if you take into account imported and exported goods, the per-capita emissions are 13 tonnes.[6]

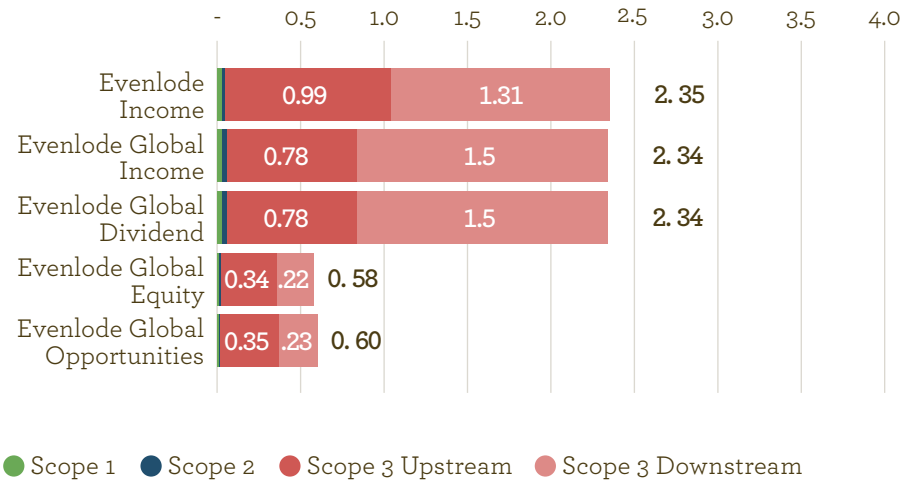
The Evenlode Global Dividend (EGD) fund is a mirror of the Evenlode Global Income (EGI) fund, and the Evenlode Global Opportunities (EGO) fund is a mirror of the Evenlode Global Equity (EGE) fund so although the two mirror funds are smaller overall, they have the same proportions of scopes and the same emissions per £10,000 invested as the funds they are mirroring. The similarity between Evenlode Income (EI) and EGI/EGD can be explained by the uniform investment process and the significant overlap – about a third of the portfolio companies are the same.

EGE and EGO, our growth funds, have about a fourth of the emissions per £10,000 invested compared to the three income funds. This can be partly explained by sector distribution. EGE and EGO have a higher exposure to services companies, predominantly found in the technology and finance sectors (e.g. Mastercard, Amadeus, Accenture, Microsoft, Alphabet, Electronic Arts, RELX), which are generally emission-light and a lower exposure to those that produce physical products, such as the consumer staples and healthcare sectors, which have larger footprints especially in scope 3. Nintendo appears a notable exception, as the only high-emissions IT company in EGE/EGO, however the Japanese company manufactures games systems, so straddles the line between products and services. Nintendo was a small position at only 1.7% of net asset value for EGE at the end of 2021.

5 Our World In Data, January 2022. View here

6 Mike Berners-Lee, 2020. How Bad Are Bananas. Profile Books.

Tonnes of CO_2e per £10k invested



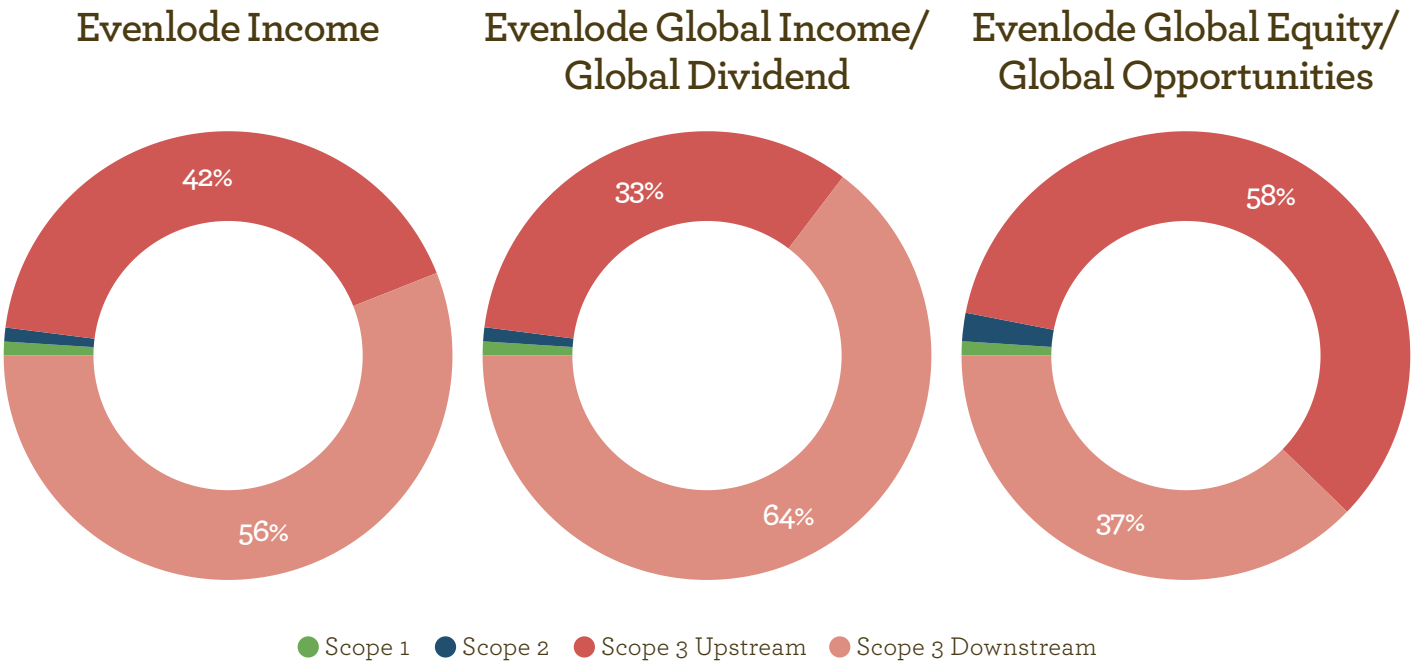
Fund	Scope 1	Scope 2	Scope 3 Upstream	Scope 3 Downstream	Total
Evenlode Income (EI)	0.03	0.02	0.99	1.31	2.35
Evenlode Global Income (EGI)	0.03	0.03	0.78	1.50	2.33
Evenlode Global Dividend (EGD)	0.03	0.03	0.78	1.50	2.34
Evenlode Global Equity (EGE)	0.01	0.01	0.34	0.22	0.58
Evenlode Global Opportunities (EGO)	0.01	0.01	0.35	0.23	0.60

Tonnes of CO_2e/£10k invested across scopes 1, 2 and 3 as at 31 December 2021. Source: CDP and Evenlode Investment. Evenlode portfolios as at 31 December 2021, using data from the CDP 2021 Full GHG Emissions Dataset, which collates annual corporate emission data for emission accounting years ending between June 2020 and June 2021.

SCOPE 1	SCOPE 2	SCOPE 3	
Emissions generated directly in a company's operations from sources owned or controlled by the company. For example, burning gas or coal in a power plant or diesel or petrol in a company car.	Indirect emissions from electricity, steam, heat or cooling purchased by the company. For example, the emissions associated with the electricity that is running your computer.	Basically everything else, up and down the company's value chain, including:	
		Upstream	**Downstream**
		Emissions in the supply chain associated with purchased goods and services; transportation of these goods to the company; capital goods; waste; use of leased assets such as offices or data centres; the supply chain of energy used by the company; business travel; and employee commuting.	Emissions that occur as a consequence of using the organisation's products and services, that is emissions from transportation of products to the consumers; processing, use and end of life treatment of sold products; investments, franchises and leased assets.
Our estimates include all greenhouse gases covered by the Kyoto Protocol – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).			

Source: Greenhouse Gas Protocol[7]

For all three funds, the emissions from scope 3 vastly outstrip emissions from scope 1 and 2 – reflecting the low exposure to industrial firms within the funds.

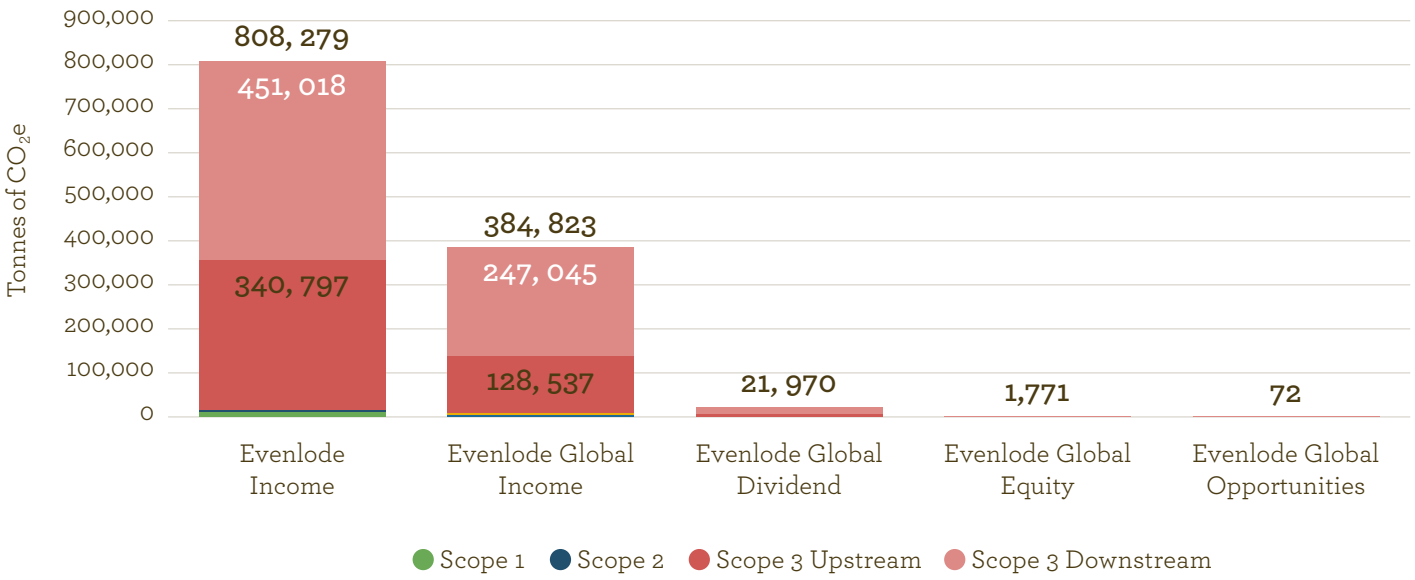


Breakdown of fund emissions by scope. Source: CDP 2021 Full GHG Emissions Dataset, Evenlode Investment. Evenlode portfolios as at 31 December 2021.

7 Greenhouse Gas Protocol, 2013. View here

We now turn to the bigger picture; the total emissions financed through Evenlode's funds. They are summarised in the figure and table below. The EI fund contributes the most with 66% of total emissions because of its bigger size and slightly higher emission intensity per invested amount. As relatively recent additions to the Evenlode range of funds, the EGD, EGE and EGO funds contribute less than 0.2% together. Again, the disproportionate contribution of scope 3 emissions is visible.

Total financed emissions per fund



Fund	Scope 1	Scope 2	Scope 3 Upstream	Scope 3 Downstream	Total	Percentage (%)
Evenlode Income (EI)	10,679	5,785	340,797	451,018	**808,279**	**66.4**
Evenlode Global Income (EGI)	4,998	4,242	128,537	247,045	**384,823**	**31.6**
Evenlode Global Dividend (EGD)	285	241	7,327	14,116	**21,970**	**1.81**
Evenlode Global Equity (EGE)	40	37	1,036	659	**1,771**	**0.15**
Evenlode Global Opportunities (EGO)	2	1	42	27	**72**	**0.01**
Total	**16,003**	**10,307**	**477,739**	**712,866**	**1,216,915**	**100**

Total financed emissions by scope in tonnes of CO_2e. Source: CDP 2021 Full GHG Emissions Dataset, Evenlode Investment. Evenlode portfolios as at 31 December 2021.

CARBON EMISSIONS ANALYSIS

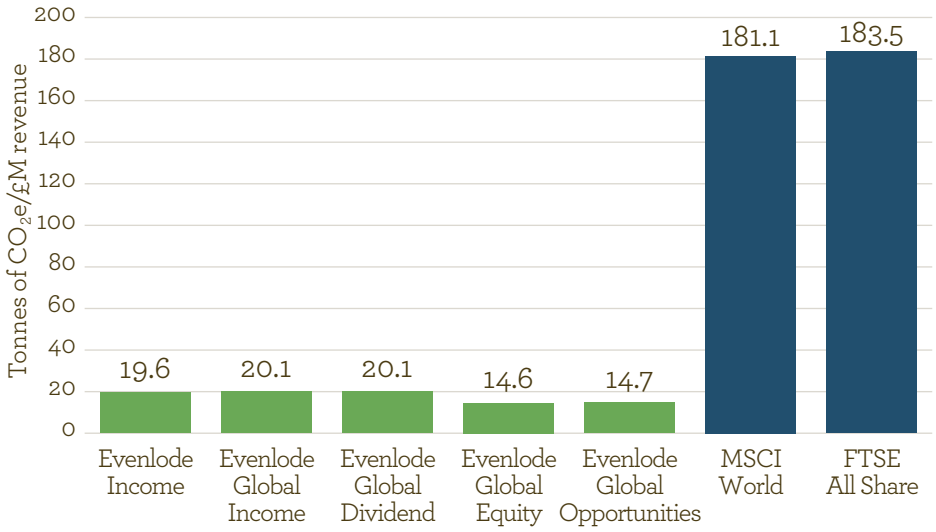
By Charlotte Freitag, Stewardship Analyst

Due to the nature of our investment process, the funds naturally have low exposure to energy-intensive industries such as the energy industry itself, utilities, materials and real estate. This explains why the funds have a lower weighted emission intensity across scope 1 and 2 compared to the FTSE All Share Index, Evenlode Income's benchmark, and the MSCI World Index, benchmark to the other funds, which contain a much broader coverage of sectors (see chart opposite). Scope 3 data is not available for the benchmark indexes, so we are comparing only across scope 1 and 2.

Ca. 13% of the MSCI World Index and 19% of the FTSE All Share Index were comprised of energy, materials, utilities and real estate at the end of 2021, sectors that have high scope 1 and 2 emissions. In contrast, none of the funds have exposure to energy and utilities, and materials and real estate make up less than 3% of the EI and EGI/EGD funds, and none of the EGE/EGO funds. Instead, the majority of holdings are consumer goods, industrials, IT, healthcare and services, which have lower scope 1 and 2 emissions relative to their revenue.[8]

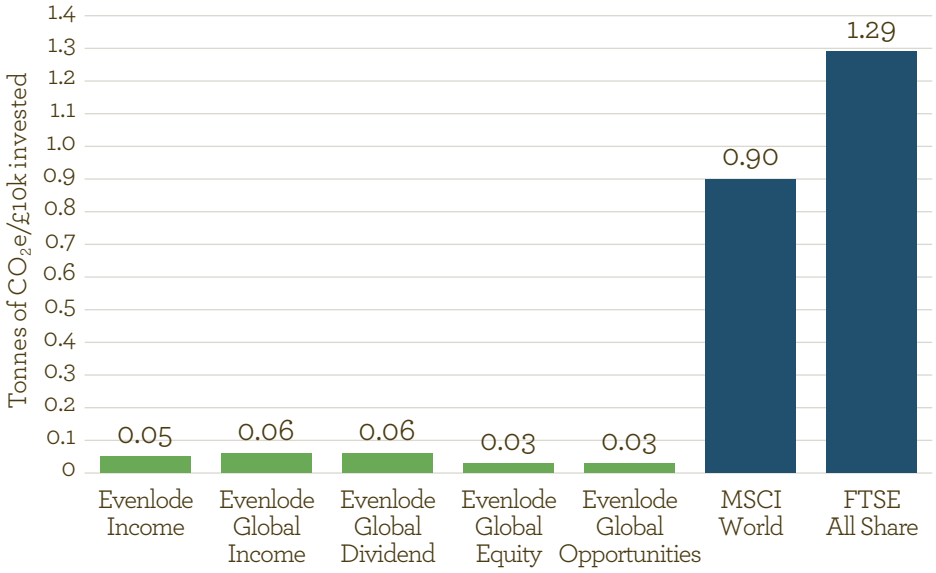
In addition to emissions per unit of revenue, which is often reported by fund managers, we also show emissions per £10,000 invested for a better sense of the footprint your investments might have if invested in a fund tracking the MSCI World Index or FTSE All Share Index compared to an investment in one of the Evenlode funds.

Scope 1 & 2 emissions per £1M of revenue



Weighted average emission intensity across scopes 1 and 2 as at 31 December 2021. Source: CDP 2021 Full GHG Emissions Dataset, Evenlode Investment, FTSE Russell,[9] MSCI.[10] Evenlode as at 31 December 2021. FTSE All Share portfolios as at 31 December 2021 and converted to GBP using that day's exchange rate. MSCI World portfolio as at 29 October 2021 and converted to GBP using that day's exchange rate.

Scope 1 & 2 emissions per £10k invested



Scope 1 and 2 emissions per £10k invested as at 31 December 2021. Source: CDP 2021 Full GHG Emissions Dataset, Evenlode Investment, FTSE Russell,[9] MSCI.[10] Evenlode and FTSE All Share portfolios as at 31 December 2021. MSCI World portfolio as at 29 October 2021. Index data converted from weighted average emission intensity into emissions per £10,000 invested based on portfolio revenue and asset value as at 31 December 2021

8 Based on GICS sector classification for FTSE All Share, MSCI World and Evenlode portfolios as at 31 December 2021.

9 Provided directly by FTSE Russell, 2022.

10 MSCI, 2021. View here

This can also be converted to emissions per million dollars invested to aid comparison with international funds.

Tonnes of CO_2e per $1M invested

Fund	Scope 1	Scope 2	Scope 3 Upstream	Scope 3 Downstream	Total
Evenlode Income	2.3	1.2	73.0	96.6	173.2
Evenlode Global Income	2.2	1.9	57.5	110.5	172.2
Evenlode Global Dividend	2.2	1.9	57.6	111.0	172.7
Evenlode Global Equity	1.0	0.9	25.3	16.1	43.2
Evenlode Global Opportunities	1.0	0.9	25.8	16.8	44.5
MSCI World	66.7		-	-	-
FTSE All Share	94.9		-	-	-

Data as above, Evenlode data converted into USD based on the exchange rate as at 31 December 2021.

Despite the focus on lower-carbon sectors, some of Evenlode's holding companies have substantial emissions from the inputs from their supply chains and, especially in the case of consumer goods and technology, high downstream emissions from products with a significant contribution from the energy consumed when the products are used ('use phase emissions'). These lead to substantially larger scope 3 than scope 1 and 2 emissions. Both Reckitt Benckiser, the top contributor to EI's emissions, and Procter & Gamble, top contributor for EGI's and EGD's footprint, for example make consumer goods products such as laundry detergents and shampoos that require heating water and running washing machines, with the associated emissions. Other high emitters like Siemens Healthineers manufacture MRI, CT and X-Ray scanners which require a huge amount of electricity to run in hospitals, explaining their high downstream scope 3 footprint.

MSCI does not provide scope 3 emission intensities for their indices, so we are not able to make a meaningful comparison for Evenlode's scope 3 emission intensities. However, it is clear that scope 3 accounts for the vast majority of the emissions in our portfolios (see the figures on the previous page). The companies in the Evenlode portfolios need to grapple with their supply chains and engage with their suppliers if total carbon emissions are to be reduced, which in many ways is harder than reducing operational emissions over which companies have more direct influence (see Why scope 3 is important opposite).

WHY SCOPE 3 IS IMPORTANT

Scope 3 emissions are harder to control and measure for companies but make up the vast majority of Evenlode portfolio companies' emissions. In particular for the low capital intensive companies we tend to invest in, scope 1 and 2 only represent a small proportion of total emissions. If we only looked at scope 1 and 2, we would only see a small part of the real picture. A company might outsource parts of its operations, thereby pushing them outside of the boundaries of its scope 1 and 2 footprint, even though their suppliers might operate in a less environmentally friendly way. The other side of the coin is that companies can make a difference by choosing more climate-friendly suppliers, lower-carbon ways to transport supplies to their sites, optimising operations to minimise waste and redesigning their products so they use less energy during their lifetime for example – all of which would impact scope 3 emissions. Understanding one's scope 3 footprint also forms the basis for setting emission reduction targets, which cover companies' full footprint, including scopes 1, 2 and 3. Setting such targets can have a snowball effect down the supply chain because it incentivises companies to engage with their suppliers to reduce their emissions, and it means that when a company outsources certain operations, they do not disappear from the carbon picture. By understanding the scope 3 emissions of our holdings, we can meaningfully engage with them to report set ambitious scope 3 emission reduction targets that are in line with 1.5°C.

CARBON EMISSIONS ANALYSIS

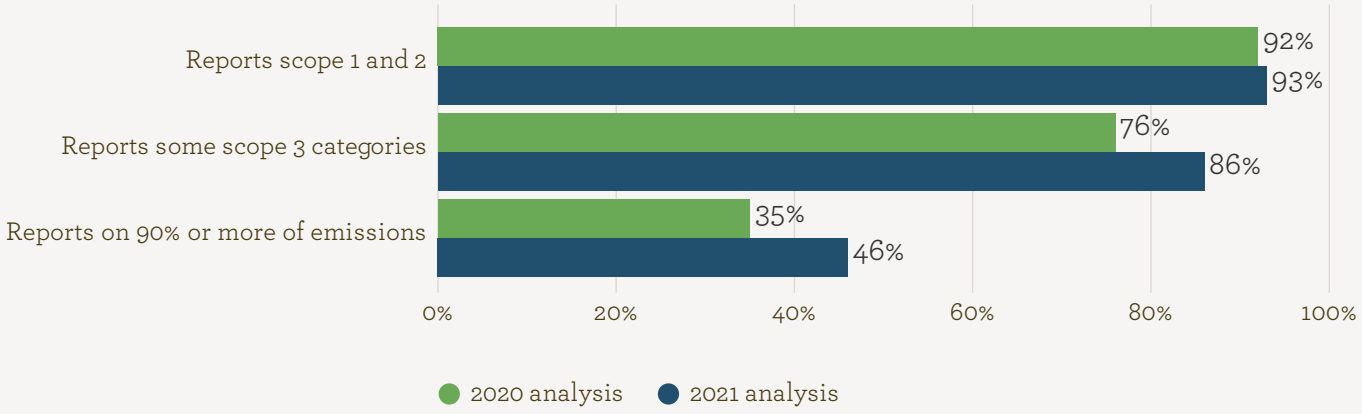
By Charlotte Freitag, Stewardship Analyst

Our financed emissions are calculated in alignment with the PCAF standard, using data from the CDP's 2021 Full GHG Emissions Dataset and emission disclosures in company reports. In 2021, we continued to improve our methodology by closing the time gap between financial and emissions data and recalculated our 2020 emissions.

There has been a steady increase in emission reporting by our portfolio companies. While progress on scope 1 and 2 reporting has stalled, scope 3 reporting has increased from 2020 to 2021. An additional seven companies now report at least some scope 3 emissions, nine companies have caught up to their peers reporting on 90% or more of their total emissions (a 33% increase relative to last year), and seven more are now reporting all their emissions (a 56% increase vs. 2020). Those seven are Compass, eBay, Heineken, L'Oréal, Sage Group, SGS and WPP. The improvement in reporting was particularly big for Sage which leaped from only reporting scope 1 and 2 and Business travel (ca. 11% of total emissions) to all of scope 3 (100%). Another positive example is KLA which reported only scope 1 and 2 (ca. 1% of total emissions) in 2020 but also reported almost all of its scope 3 (97%) in 2021. Overall, 83% of Evenlode's financed emissions are now reported by the company, up from 77% in 2020. This is higher than the percentage of companies reporting at least 90% because the main contributors to Evenlode's financed emissions in absolute terms tend to be better at reporting their emissions.

This increase in disclosure makes our analysis more robust, as emission estimates reported by the company are much more tailored than modelled emissions and therefore carry less uncertainty. Overall, almost half of all companies across the funds now report on almost all their emissions. We will continue to engage with the other half in 2022 on their emission disclosure and other parts of their climate risk management.

Holding companies' emission reporting by scope



Percentage of companies in Evenlode portfolios reporting across the different scopes. Source: CDP and Evenlode Investment. 2021 analysis based on Evenlode portfolios as at 31 December 2021, using data from the CDP 2021 Full GHG Emissions Dataset. 2020 analysis based on Evenlode portfolios as at 31 December 2020, using data from the CDP 2020 Full GHG Emissions Dataset.

11 PCAF, November 2020. The Global GHG Accounting & Reporting Standard for the Financial Industry. View here

This is probably a good point to stress that emission footprints are only estimates which try to approximate the 'true' emissions. They are never perfect but provide a good-enough indicator that we can work with. We can be fairly confident in scope 1 and 2 estimates. Upstream scope 3 is more difficult to estimate, but uncertainty is biggest for downstream scope 3; in particular, use phase estimates as they rely on many assumptions about exactly how products are used. This is why we report scope 3 emissions segregated into upstream and downstream. Despite the uncertainty about the exact figure, these estimates still give us an important indication of what companies should focus on to improve their climate impact. A company for which the majority of emissions comes from purchased goods and services (i.e. upstream scope 3) and that purchases a lot of animal products, could for example focus on switching to plant-based proteins which have a lower footprint.

By their very nature, one company's scope 3 are the scope 1 and 2 emissions of their suppliers and customers, and their suppliers' supplier and customers' customers. Unlike the MSCI World Index and the FTSE All Share Index, Evenlode's portfolios are sufficiently small that there is minimal overlap between companies, thereby avoiding double-counting of emissions, but there might be a small element of overestimation due to double counting.

These are just the highlight of this year's carbon analysis. We provide more detailed findings and a summary of our methodology in our longer Carbon Analysis report.

CONCLUSION

In 2019, we started measuring and reporting our financed emissions for the first time. Since then, we have continued to refine our methodology to align with the evolving best practice guidance. Under pressure from investors, regulators and civil society, companies are improving their emission disclosure, making our analysis more robust. Our best estimate of the portfolio footprint for the income funds is around 2.3 tonnes of CO2e per £10k invested for scope 1, 2 and 3 or around 50 kilogrammes for scope 1 and 2 alone. That is around 18 times lower than the MSCI World Index at ca. 0.9 tonnes and 26 times lower than the FTSE All Share Index at 1.3 tonnes per £10k invested. The growth funds are even less emission intensive at ca. 0.6 tonnes of CO2e per £10k invested for scope 1, 2 and 3 and ca. 25kg for scope 1 and 2 alone. But there is still some way to go until the funds are fully aligned with the goals of the Paris agreement to limit warming to 1.5°C. As member of the Net Zero Asset Manager Initiative and to fulfil our fiduciary duty, Evenlode will continue to engage proactively with portfolio companies to improve reporting and drive action to cut emissions, both through direct engagement and collective action.

THE IMPORTANCE OF CARBON PRICING

By Bethan Rose, Sustainable Investment Analyst

Bethan Rose,
Sustainable Investment Analyst

'Climate analysts estimate the world is on track for about 2.4°C of warming, with a best case estimate of a 1.8°C temperature rise if countries manage to meet all their 2030 promises, as well as pledges to cut their emissions to net zero by 2050.'

Wake of COP26, The Paris Agreement, and keeping a lid on emissions

In the wake of the recent climate change conference (COP26), the enormity of satisfying The Paris agreement - which aims to keep global warming well below 2°C and preferably below the safer limit of 1.5°C - is largely apparent and requires us to tackle key issues like reducing emissions head-on. Climate analysts estimate the world is on track for about 2.4°C[1] of warming, with a best-case estimate of a 1.8°C temperature rise if countries manage to meet all their 2030 promises, as well as pledges to cut their emissions to net zero by 2050. To reach the 1.5°C goal, the consensus is that reaching it would require global emissions to halve by 2030.

With this in mind, the importance of understanding and grappling with how we can help control or reduce the level of carbon emitted is high. As a result, the conversation around taxing companies on carbon and the associated pricing mechanisms continues to gain pace.

So, what is carbon pricing?

Carbon pricing is the umbrella term used to describe a set of tools that can be used to achieve decarbonisation goals by placing the cost of emissions on the polluters. The aim is to place the price on the emitter to capture and connect the negative externalities created by greenhouse gas (GHG) emissions. An example would be the human health impact and healthcare costs created due to air pollution. Carbon pricing mechanisms can take the form of carbon taxes, emission trading systems (ETS) or carbon offsets, amongst other mechanisms. According to Bernstein analysis, there are roughly 64 carbon pricing initiatives globally (covering only 22% of global emissions)[2]. 33 involve carbon taxes and 31 involve emissions trading systems, and these figures continue to increase as countries launch new initiatives. Additionally, experts estimate that a carbon price of $50 - $100/tCO2e is needed by 2030 to meet Paris Agreement goals, whereas the UN Global Compact had already called for businesses to adopt an internal carbon price of at least US$100/tCO2e by 2020.

Carbon pricing mechanisms explained

An ETS is where emitters can trade emissions units to meet their targets with the carbon price being determined by the market. The EU ETS is probably the most well-known system covering 41% of EU emissions. It works by setting a cap on the total amount of allowances which is then reduced over time to incentivise companies to decrease their total emissions. The system allows companies to trade emission allowances to ensure they have enough allowances to cover their annual emissions or roll over to offset future emissions. There is a dual penalty for failing to deliver sufficient permits to cover emissions; a penalty of €110 per permit as well as a requirement to make good on the permit shortfall in the following year. The cap is then reduced over time so that emissions fall by a linear reduction factor which in turn means the annual supply of allowances is reduced every year. The EU ETS is a key tool for reducing GHG emissions cost effectively from power stations and other energy intensive industries such as cement production. The objective of the system is to reduce net GHG emissions by at least 55% by 2030 (compared to 1990 levels).

There are other systems around the world like the two regional systems in the US (RGGI for utilities in Northeastern states and the California Carbon Market) which cover roughly 6% of US emissions. China also initiated a new national emissions trading market

1 Climate Action Tracker

2 Bernstein – Global Carbon Primer – Putting a Price on Carbon

in 2021 which will initially cover the power generation industry and then be extended to other industries such as construction, oil, and chemicals. The UK was part of the EU ETS until 2020 and has recently launched a separate UK ETS which started trading in May 2021. The scheme works in a similar fashion to the EU ETS, a cap-and-trade system where a cap is set on the total amount of GHG that can be emitted by certain sectors. These sectors include energy intensive industries, power generation and aviation.

Alternatively, there are voluntary carbon markets. In this case, corporates can buy carbon offsets where prices vary between $3 - $5/tCO2e. There are continuing arguments surrounding offsets given the lack of transparency and quality. High-quality offsets adhere to a strict set of standards, and there are several internationally recognised verification standards including those from the United Nations Framework Convention on Climate Change. The carbon credits come from projects that reduce carbon emissions through reforestation or renewable energy. Once the credits are issued, corporates purchase them and retire the credits, so they can't be offset against other emissions. The issuance and use of carbon offsets has grown rapidly as they have become a requirement for a credible and science-based net-zero commitment. As demand increases so will the prices and research conducted by UCL and Trove Research shows that this could see carbon credit prices rise to US$20-50/tCO2e by 2030[3].

Many companies use little to no offsets whereas others believe it's an important part of their climate strategies. Taking Unilever as an example, they believe the focus should be on emissions reduction rather than simply offsetting and will therefore not seek to meet their emissions reduction targets through the purchase and retirement of carbon credits. Conversely, Procter & Gamble have pledged $100m to spend on carbon offsets in a bid to neutralise a portion of their GHG emissions. This highlights the importance of monitoring offsets across companies given how the different use of them as a tool can affect both net zero commitments and decarbonisation strategies.

Another mechanism is an internal 'shadow price'. An internal shadow carbon price creates a theoretical or assumed cost per tonne of carbon emissions and is often used as a capital allocation tool for firms to make decisions about projects alongside other objectives. Most companies use internal carbon pricing to achieve one or more of three key objectives: driving low carbon investments, driving energy efficiency, and changing internal behaviour. Additionally, some companies will also use it for supplier engagement, by using a shadow price to attach a hypothetical cost of carbon to each ton of CO2 as a way to reveal hidden risks and opportunities. The Carbon Disclosure Project (CDP) estimates the median internal price to be $25/tCO2, and this will look to increase as carbon prices continue to soar. Additionally, CDP's data from 2020 shows that nearly half of the world's 500 biggest companies (by market cap) are putting a price on carbon or are planning to do so in the future[4].

As an example, an internal fee mechanism will impose an internal fee on GHG emissions which can be applied to operational decisions, and revenue from the fee can be used to establish a low-carbon fund or be redistributed. An example of this is Microsoft, who use a company-wide internal carbon fee set at $15 a metric ton, to fund carbon neutrality through green projects whilst driving accountability with internal stakeholders thereby ultimately taking responsibility for reducing their own carbon footprint. This fee mechanism was also extended in late 2020 to include Scope 3 emissions beginning at a lower rate of $5 per ton.

Carbon tax, what is it and what's out there?

Arguably, the simplest system proposed is a carbon tax, where governments levy tax on GHG emissions directly on companies or the emitter. A carbon tax fixes the price rather than the quantity of emission reduction and as a result carbon taxes are easier to administer. Current carbon taxes operating across the world vary widely from between $1/t to $133/t. Notably, the High-Level Commission on Carbon Prices estimated that the carbon price needed to be at least $40-80/tCO2 by 2020 and $50-$100/tCO2 by 2030 to reduce emissions in line with the Paris Agreement.

As an example, in 2019 South Africa became the first country in Africa to put a price on carbon. Additionally, Canada had a federal level fossil fuel charge CAN$20/tCO2 in 2019 set to increase by CAN$10 per year to CAN$50 in 2022. A uniform global carbon price delivered through a carbon tax could also be an ideal way to reduce GHG. However, gaining consensus on the price, on what would be a highly politicised issue, will be difficult.

3 UCL and Trove Research – Future Demand, Supply and Prices for Voluntary Carbon Credits – Keeping the Balance
4 CDP – Putting a Price on Carbon

THE IMPORTANCE OF CARBON PRICING

By Bethan Rose, Sustainable Investment Analyst

The overall idea of a carbon tax is that it encourages companies to adjust their investment away from intensive technologies and towards greener alternatives. An additional benefit of a carbon tax is that it is somewhat easier to implement and will also help incentivise reduction. However, many sceptics highlight that the actual amount of reduction is not guaranteed unlike a cap-based system. Additionally, 'carbon leakage' can also occur whereby the carbon in one jurisdiction could lead to emission increase in another (pollution havens). Finally, another argument is that the companies or emitters would simply pass through the carbon cost to customers through the means of higher prices. Therefore, the true bearer of the cost is the consumer and the company itself has lower incentive to reduce internal inefficiencies and emissions. This is compounded by the current cost of living crisis.

What does that mean for the Evenlode portfolios?

So, what does that mean for the companies we invest in on behalf of our clients? We can already see that many companies are using internal or shadow carbon prices for scenario analysis purposes and this in turn will help drive improved (and hopefully greener) investment and capital allocation decisions. Some are even going as far as modelling the effect of a carbon tax in anticipation of future changes. As an example, LVMH has looked at calculating the financial impact of a carbon tax using its carbon emissions from upstream and downstream transportation for all its business segments, i.e. Maisons. The company has considered several scenarios compatible with a 1.5°C world and this in turn has helped inform their process, create realistic emissions reduction goals as well as show the impact a carbon tax may have. We view this sort of analysis as incrementally positive in terms of the company making sure they are prepared for and target both positive and negative outcomes relating to carbon emissions reduction and related pricing mechanisms. As far as our analysis goes, we don't know yet how this could affect the companies we invest in. As a result, we will be running a project in the coming year after our annual carbon emissions analysis to see how a carbon tax would affect the companies we invest in and hence the Evenlode portfolios as a whole. This sort of analysis is in our view, extremely valuable for not just us and our clients but also in terms of the feedback we can provide to our investee companies.

'The overall idea of a carbon tax is that it encourages companies to adjust their investment away from intensive technologies and towards greener alternatives.'

ARE WE GREEN YET?

By Cristina Dumitru, Investment Analyst

Cristina Dumitru, Investment Analyst

In 1970 Nobel laureate economist Milton Friedman wrote "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits"[5].

Fast forward to the present day, businesses must think and manage their way around many salient social issues that broadly fall under the ESG umbrella. Especially pressing now is the need for real and transformative climate action from businesses to help tackle the climate and biodiversity crises in which we find ourselves. Whilst Friedman's view on corporate social responsibility now seems outdated, he was right to point out that many businesses couching their actions in moral rhetoric were being deceptive, so-called 'greenwashing' in today's terms.

Corporate greenwashing can be described as the practice of deliberately or unintentionally disseminating distorted or unsupported claims that promote a positive environmental image around the company's products, business strategies or actions. Through greenwashing companies could positively differentiate themselves, so to boost brand image and increase sales, but at the same time fail to honour their outlined environmental commitments. Greenwashing erodes the trust of investors and consumers, fuels cynicism and creates the false perception that critical problems are being tackled, when they are not, potentially having an adverse effect on the intended outcome.

A 2021 review of the UK Competition and Markets Authority across c500 corporate websites found that c40% of green claims made by marketing materials were exaggerated or deceptive[6]. This high percentage suggests that companies believe they will not be held accountable for their green claims. Although consumer law can be used to upheld honesty in green advertisement campaigns, there is still no regulation, like that for financial statements, to monitor greenwashing in corporate ESG commitments, carbon disclosures or net-zero pledges. Most environmental data released by companies is unaudited and often voluntary. Due to the variation in the quality and content of data, it is challenging for investors to assess risks and opportunities related to sustainability and climate for individual companies and to incorporate these into the asset management process.
At COP26 the International Financials Reporting Standards (IFRS) Foundation announced that it is in advanced stages of creating a set of global sustainability disclosure standards to provide more transparent and comparable ESG data to investors[7]. A newly established committee, called the International Sustainability Standards Board (ISSB), will sit alongside IFRS, and will oversee the sustainability disclosure standards. Nevertheless, widespread adoption of the new standards will take time as companies will only be required to comply once the standards have been adopted by national regulators.

Investors still play a key role in fighting corporate greenwashing. At Evenlode we believe the integration of ESG considerations and risks into our decision-making process can help sustain and improve returns for clients. Through active engagement with our investee companies on climate disclosures and target setting we augment our research, clarify public information, and inform our proxy voting decision. We believe investor engagement and voting is an important aspect in driving more transparent corporate sustainability disclosures and tackling corporate greenwashing. Here we discuss two often overlooked criteria to consider when evaluating corporate environmental claims.

5 A Friedman doctrine - The Social Responsibility Of Business Is to Increase Its Profits - The New York Times (nytimes.com)
6 Global sweep finds 40% of firms' green claims could be misleading - GOV.UK (www.gov.uk)
7 IFRS New body to oversee global sustainability disclosure standards | Financial Times (ft.com)

Less Net, more Zero

Over the last years, most major global companies have made pledges on carbon emission reduction with goals of net-zero by 2030 to 2040 depending on the carbon intensity of the business model. Net-zero does not mean a total absence of emissions, modest amounts are still envisaged even under the most ambitious targets as currently there is no realistic way to fully eliminate the use of fossil fuels in industrial processes by 2050. The premise of net zero is that emissions which cannot be reduced are offset - either through reforestation, and carbon capture / storage, or through carbon credits that are bought and sold on a commodities-like market. While the use of offsets can be positive in the short-term by allowing corporations the time to reconfigure their business models to genuinely reduce carbon emissions, it is not an alternative for emissions reduction in the long run.

Businesses have enjoyed significant discretion on setting their paths to net-zero, leading to corporate net-zero targets being called-out as mostly greenwash. In 2020 several US large cap companies were found to be advertising carbon offset projects by funding the preservation of forests in Pennsylvania[8]. However, these forests were already well-preserved and not under threat of being cut. So, the carbon-absorbing effect of the forest would have occurred already even in the absence of funding from the companies.

Science Based Targets Initiative (SBTi) released the first global standard for evaluating corporate Net-Zero targets in Oct 2021. Under the new SBTi standards companies will require deep decarbonization of 90-95% to reach net-zero and only 5-10% of emissions can be offset[9]. This provides investors with welcome criteria to evaluate corporate net zero commitments and help distinguish the wheat from the greenwashed. We consider alignment to industry-wide standards like the SBTi when we determine an investee company's ESG risk score and, whenever possible, we encourage companies to adopt the most comprehensive standard for their reporting.

Talking green while lobbying brown

In response to greater scrutiny and pressure from the public, most large global companies have now adopted environmentally oriented images. However, some of the same companies are using lobbying to block or reverse the adoption of markedly better governmental environmental practices. This misalignment of a corporation's sustainability image from its lobbying activities is also a form of greenwashing.

In 2021, thinktank InfluenceMap reported that key industry trade associations were actively lobbying against efforts to implement the EU climate goals, despite many of the same groups representing companies that are publicly supporting net zero by 2050[10]. Most itional organisations were those from hard-to-abate sectors like energy, utilities and transportation. The Evenlode funds inherently have low exposure to these industries as they tend to not have the financial characteristics that we seek - low capital intensity that generates a high return on assets.

Lobbying potentially represents the biggest impact a company can have on climate change policy. Thus, investors should cross-check a company's messaging with its lobbying practices. Nevertheless, this form of greenwashing is hard to detect as in most jurisdictions there is no requirement for companies to disclose what position they are lobbying for. A first step could be engaging with the company to secure more disclosures on its climate lobbying practices in an aim to identify lobbying activities that may be inconsistent with the company's stated climate targets, or failing this, voting against lobbying resolutions at AGMs. The Evenlode Stewardship team engages actively with the companies in which the Evenlode funds are invested and often seeks enhanced disclosures in areas that can provide meaningful information towards our investment decision-making process.

While a lot has changed since Friedman's article in 1970, there is still much work left to do in order to address the disconnect between business and social responsibility. ESG disclosures and net zero pledges provide a great opportunity to improve a company's climate and biodiversity performance, but if executed poorly, these can just be a greenwashing exercise. Like with financial disclosures, investors have a duty to hold companies accountable and ask tough questions when companies assert their green credentials. Engagement through regular dialogue is crucial to mitigate the risk of greenwashing in portfolio holdings and to encourage better corporate disclosures and climate policy alignment.

8 bloomberg.com. View here

9 Science-Based Net-Zero Targets: 'Less Net, more Zero'. View here

10 influencemap.org. View here

PHILANTHROPIC ACTIVITIES

By Sasha Fisher, Executive Director & Co-Founder of Spark Microgrants and Sawan Kumar, Head of Stewardship

Under our Evenlode Foundation Programme, we allocate a percentage of our profits each year towards charitable activities. In 2020, we wanted to create a more structured approach towards our philanthropic endeavours and that is why we started working with Greenwood Place.

Sasha Fisher,
Executive Director & Co-Founder
of Spark Microgrants

Sawan Kumar,
Head of Stewardship

Known as a 'Philanthropic Accelerator' they provide strategic advice and support to individuals, families, charitable organisations and businesses. They help clients connect with charities whose values and long-term ambitions align. After surveying the whole of the Evenlode team, they helped us create our philanthropic mission statement of **'Empowering communities to address global problems in a sustainable and a scalable way'**. In our philanthropic activities we therefore look to focus on charities that focus on environmental challenges including climate change and biodiversity loss, and those working on reducing poverty and inequality.

Due to the overarching nature of the themes from our charitable endeavours and sectors in our investable universe, we can triangulate information and further increase our understanding of the positive impact companies are having on society, adding more colour to their ESG credentials.

Sasha Fisher is the Executive Director & Co-Founder of Spark Microgrants. She moved to East Africa in 2010 to develop the Spark Microgrant model and has been passionate about community-led development ever since. She explains the Spark Microgrants model below, its purpose and long-term ambition.

All too often, communities facing poverty are sidelined by the very programmes meant to uplift them. Spark flips development from prescriptive to community-led, so that every village can define their own future. For more than ten years, Spark Microgrants has worked with communities, civil society, and governments to activate the collective power of people facing poverty and advance their shared prosperity. Recognised by the media, development actors, and governments, including the national government of Rwanda, for its cost-effective and impactful approach, Spark supports communities to organize and drive local change.

Spark's key innovation – the Facilitated Collective Action Process (FCAP) – pairs a village planning process with a seed grant to facilitate community-first solutions to poverty. The FCAP equips communities with the tools to set shared goals and the resources to pursue them. With these tools and the seed grant, communities go on to launch at least one project whether it be an agricultural business, a motorcycle-taxi service, or the construction of a new school building. Research shows that the FCAP results in families doubling the meals they eat and a sevenfold increase in women engaging in leadership roles. More than four in five communities establish inclusive governance structures that sustain.

PHILANTHROPIC ACTIVITIES

By Sasha Fisher, Executive Director & Co-Founder of Spark Microgrants and Sawan Kumar, Head of Stewardship

Dollar for dollar, the FCAP outperforms other forms of aid. It provides a 6x return on every dollar invested. Indeed, compared to prescriptive models of aid that are high-cost and produce only short-term benefits, the FCAP is more cost-effective, at $23 per person, and more durable, sustaining for more than five years. In fact, for every one project catalyzed by the FCAP, a community launches another, showing a 2x impact multiplier.

While most of its funding partners are from private philanthropy, since 2016, Spark has partnered with World Centric, a leading producer of compostable and zero waste products, to directly support more than two dozen villages in three countries across East Africa. In collaboration with this corporate partner, Spark has positively impacted the lives of more than 16,000 people facing poverty.

Spark has reached more than 500,000 people in over 500 villages in eight countries, including through our flagship programme with the Government of Rwanda, since its founding in 2010. Today, Spark trains partner organizations and works with governments to scale the FCAP as the system of choice to advance social and economic development, improve lives, and secure lasting change. As the need has increased, government demand has too. The governments of Ghana, Liberia, Malawi, Rwanda, and Uganda have all requested national programmes.

Spark currently works with the World Bank, Comic Relief, philanthropic partners, and the Government of Rwanda on an existing pilot to scale the FCAP nationwide. To accelerate growth in 2022, Spark is targeting countries that seek to replicate the Rwanda national programme. Spark's accelerated strategy features a model to pilot national programmes over a three-year period that includes adaptation of the FCAP system by a local civil society organization, a 50-community pilot, and the establishment of a policy working group with national governments.

CONFLICTS OF INTEREST

By Nicole Harrington, Chief Operating Officer and Richard Taylor, Compliance Manager

Investment firms operating under the EU 'Markets in Financial Instruments Directive' (MIFID) have long been required to consider and manage potential conflicts of interest that arise between the firm and its clients that results in 'material risk', to take steps to manage conflicts and where it is not possible to manage the conflicts, to disclose them to the clients.

Nicole Harrington,
Chief Operating Officer

Richard Taylor,
Compliance Manager

With effect from 3 January 2018 MIFID II enhanced the requirements above with the directive stating that a firm must consider all risks rather than just material risks and that a firm should take steps to identify, manage and prevent conflicts of interest, and only as a last resort, disclose to the client if this is not possible.

Determination of a conflict-of-interest situation

The following situations are governed by the MIFID rules on conflicts of interests. A conflict of interest may exist where Evenlode:

- Is likely to make a financial gain or avoid a financial loss at the expense of a client.
- Has an interest in the outcome of a service provided or a transaction carried out on behalf of a client, which is different from the client's interest.
- Has a financial or other incentive to favour the interests of one client or group of clients over the interests of another client or group of clients.
- Carries on the same business as a client.
- Receives an inducement from a third party in relation to a service provided to a client, in the form of monies, goods or services, that is different from the standard commission or fee for that service.

Regulated activities carried out by Evenlode that may give rise to conflicts of interest include:

- Reception and transmission of orders in relation to one or more financial instruments.
- Execution of orders on behalf of clients.
- Portfolio Management.

Included in the activity of Portfolio Management are both research activities and shareholder engagement activities.

Conflicts of Interest Policy

Evenlode Investment Managements' clients are the authorised funds it currently manages. However, we take our responsibilities to the investors in the funds very seriously and will always consider if our action adversely impacts the underlying investor as well as the funds. The MIFID rules around conflicts of interest apply regardless of the client type, be it Retail, Professional or Eligible counterparty.

In order to meet our obligations under MIFID II in relation to conflicts of interest, Evenlode will:

- Identify circumstances which may give rise to a conflict, material or otherwise to either the fund(s) or the underlying investors.
- Put in place appropriate and proportionate systems and controls to manage or prevent the conflict.
- Disclose to its clients when a conflict cannot be managed or prevented.
- Review this policy at least annually or before should the conflicts of interest change.
- Provide a report to the board annually on the management of conflicts of interest.

CONFLICTS OF INTEREST

By Nicole Harrington, Chief Operating Officer and Richard Taylor, Compliance Manager

Potential Conflicts of Interest

Taking into consideration all of the above, Evenlode has identified the following areas that may give rise to a conflict of interest, and has also identified mitigating controls:

Conflicts	Controls
Inducements – unsolicited research	We only accept research from agreed providers and pay for it from our P&L. Unsolicited research is rejected.
Inducements – Gifts and hospitality	Any gifts or hospitality above a certain threshold has to be approved by the Compliance Manager.
Receipt of non-public information	Has to be reported to the Compliance Manager. Trading ban put in place until information made public.
Personal Account Dealing	Personal Account Dealing requires pre-trade approval from the Compliance Manager.
Fee setting	Periodic reviews performed.
Allocation of orders between funds	Funds receive proportionate allocation.
Shareholder engagement	Voting guidelines are in place which are designed to advance our clients' interests over the long term. Engagement policies, voting history and the annual Responsible Investment Report are also made public.

A practical example – Personal Account Dealing

In order to prevent market abuse, misuse of confidential information or conflicts with the firm's obligations to clients, FCA regulated firms such as Evenlode Investment Management have an obligation to monitor staff trading in certain assets, including shares, for their own account or for people with close links (e.g. close family members).

Evenlode's Personal Account Dealing (PAD) policy states that staff require prior approval from the Compliance Team for relevant trades (e.g. shares) and staff are not permitted to trade in any shares that are held within the Evenlode portfolios or the investable universe.

When a staff member wishes to place a PAD transaction prior approval needs to be obtained from the Compliance Team who will review the transaction and grant permission if satisfied that there is no conflict of interest. The permission is valid until the close of the business day following granting of permission, and copy contract notes need to be supplied within two business days.

During the year a new Compliance system was implemented, which has streamlined and strengthened the PAD approval process. The system also enables a 'blacklist' to be maintained of shares held within the Evenlode portfolios. Compliance monitoring records, registers and annual fitness and propriety assessments are also maintained using the new system.

In addition staff are also provided annual compliance training and assistance by our Compliance Team to help identify and manage conflicts of interest.

TO ACCESS OUR FULL CONFLICTS OF INTEREST POLICY, PLEASE CLICK HERE

CLIENT BREAKDOWN

Evenlode Investment Management Ltd currently manages three open-ended UK OEIC funds and two Irish domiciled open ended ICAV funds. All of these funds were launched with UCITS status and are adhering to the same rules post-Brexit, so are broadly suitable for all client types as defined by MIFID. The register of investors is well-diversified and the funds are marketed to and mainly held by intermediate investors such as wealth managers, private banks, fund of funds and platforms in the UK. It is important to note that as collective investment schemes, Evenlode is responsible for all stewardship activities including voting and engagement, on behalf of the underlying unitholders in these funds. This is a duty that Evenlode takes extremely seriously.

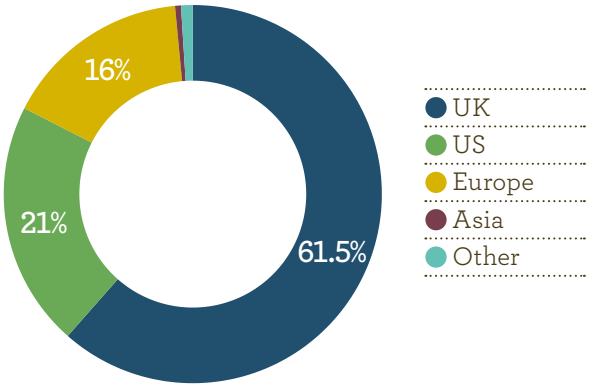
Evenlode states that investors should be prepared to invest for the long term, as with any stock market investment. The investor profile stated in the UK OEIC prospectus is as follows:

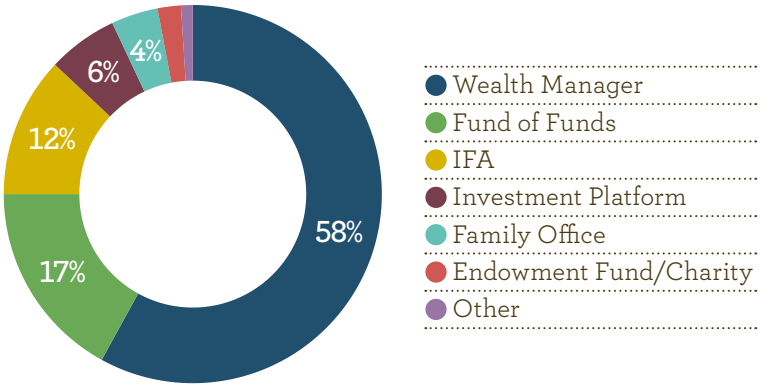
The Sub-funds are marketable to all eligible investors provided they can meet the minimum age and subscription levels. The Sub-funds may be suitable for investors who see collective investment schemes as a convenient way of participating in investment markets. They may be suitable for investors wishing to seek to achieve defined investment objectives. Such investors must have experience with or understand products where the capital is at risk. Investors must be able to accept some risk to their capital, thus the Sub-funds may be suitable for investors who are looking to set aside the capital for at least five years. If you are uncertain whether these products are suitable for you, please contact a financial adviser.

Evenlode currently manages £5,220m (as at 31 December 2021).

Growth in AUM over 5 years					
Year end	**2017**	**2018**	**2019**	**2020**	**2021**
Total assets in Evenlode Funds (£)	2,045m	2,519m	4,200m	4,761m	5,220m

Evenlode invests 100% in equities, mainly in large capitalisation firms. As at end of 2021, the geographical and client breakdown of assets under management (GBP) was as follows:





CLIENT BREAKDOWN

We pride ourselves on our engagement, not just with investee companies, but also with investors. We use a third-party marketing company, Spring Capital Partners Ltd to provide sales and marketing support as well as tailored client communication. Both Spring Capital and Evenlode take their commitment to clients very seriously and ensure that investors' views are sought through face-to-face meetings, webinars and investor days (where these are allowed under the current restrictions). The portfolio managers and stewardship team are active and available to clients, and all meetings are a two-way process, where clients are encouraged to question and give feedback to the team. As mentioned, all of Evenlode's current mandates are collective investment schemes with many thousands of underlying investors. For this reason, it is our approach to ensure that our ESG policy is clearly articulated to clients, giving them full opportunity to understand our policies and their intended benefits. We believe that transparency is key.

We believe in full disclosure and alignment of clients' stewardship and investment policies with our own. As collective investment schemes the Evenlode funds aim to strike a balance between our long-term performance objectives and ESG criteria rather than to sacrifice one for the other. Regardless of the diversity of our client base, it is all of our investors' wish that Evenlode makes informed decisions about where to invest, and proactively oversees the assets once invested. ESG integration and engagement effort at Evenlode has been broadened further over the last 18 months, with two new members added to the stewardship team.

We communicate very actively with clients about stewardship and investment activities. In addition to the face-to-face contact mentioned above, we produce a wealth of materials to keep our clients informed. Some examples of these are:

- Monthly factsheets with fund manager commentary and in-depth portfolio detail. This includes the fund's ESG ratings from external rating agencies such as MSCI and Morningstar.
- Monthly investment views of the managers, looking at the investment landscape and discussing how the fund is positioned.
- Regular interactive webinars with clients which are recorded and published on the Spring Capital website.
- The Annual Responsible Investment Report which is distributed to clients, published online and made available on the Spring Capital website.
- Publication of full voting records for every company within the portfolio on a quarterly basis. Also disclosing the rationale for when we have voted against management.
- Full disclosure of investment and stewardship policies through Spring Capital and/or the Evenlode website.
- Ad hoc videos by the portfolio managers or stewardship analysts, on a range of topics such as on our risk management framework, proxy voting season and how Evenlode engages with companies in its portfolio(s).
- The Annual Portfolio Emissions report, a relatively new initiative, commenced in 2019. Evenlode now measures and reports on the greenhouse emissions embedded in our portfolios using methodology aligned with the Partnership for Carbon Accounting Financials (PCAF).

Evenlode and Spring Capital work together to analyse and respond to the requests for information we receive from clients. Over the last year, we have seen a sharp increase in the number of stewardship / ESG questionnaires we have been asked to complete by clients. Together with Spring Capital, we have responded to 100% of these in a full and comprehensive manner. Our aim is then to include much of this type of requested detail in the materials we regularly provide. This has led to an expanded range of collateral presented to clients over different media as described above. The feedback we have received is that the breadth and depth of material produced is welcomed and encouraged by clients, and they are happy with Evenlode's development and progress on ESG integration and engagement.

To better understand the needs of our clients we regularly review the content we post on our website and analyse this information to evaluate the usefulness of our communications with clients and propose and agree changes at our 'Content Calendar' meetings with the investment team.

LOOKING AHEAD

As stated at the beginning of this report, Evenlode's ultimate goal in stewardship is to **'preserve and enhance the value of our clients' assets through long-term engagement and analysis'**. We believe it is our fiduciary duty to protect and increase the value of our clients' assets through robust ESG analysis and long-term dialogue. Our ESG analysis highlights the best-in-class companies and The Engagement Tracker allows us to highlight the companies which we feel can improve on ESG-related matters, providing us with crucial data on how to constantly improve our engagement approach.

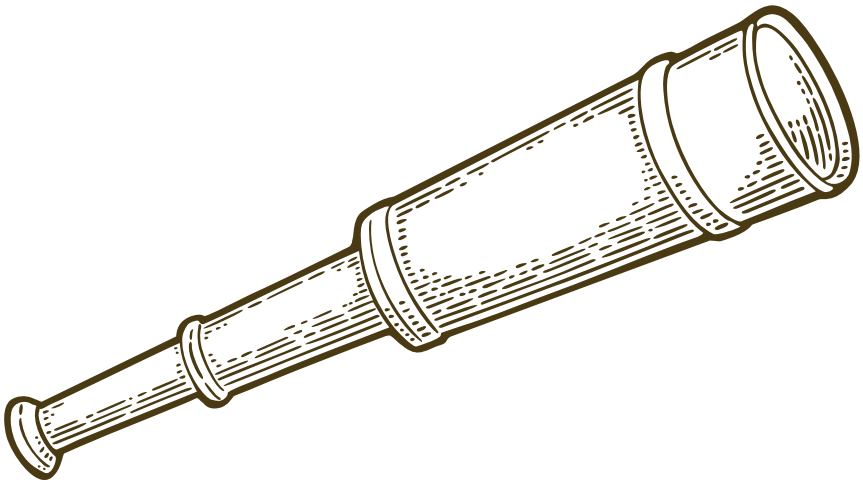
Our key area of focus for the year was to complete our ESG risk analysis for all companies in the portfolio(s) using the new and refined ESG risk score matrix. The process which is composed of both quantitative and qualitative criteria is able to highlight the most material ESG-related issues that each company and its respective industry faces or is likely to face in the future. As alluded to earlier, this checklist and risk score has the ability to evolve and become more robust as more bespoke ESG analysis is done. We will look to integrate the outcome of our carbon pricing report into the framework in the coming year.

Next year will bring the challenge of achieving net zero carbon emissions into our analysis. As the market struggles with unreliable and often unverified ESG data, our annual emissions analysis will prove to be an invaluable tool, helping to cut through the noise and bringing advantages to our risk analysis and engagement agenda. Accurate data is crucial in setting baselines, interim and long-term emission reduction targets and giving us leverage to target our engagements. We will be developing our decarbonisation strategy for financed emissions from the Evenlode portfolios in the coming months and will be completing our submission to the Net Zero Asset Managers Initiative (NZAMI) in early June 2022.

We hope this report has given you a sense of how we go about investing responsibly at Evenlode, and the actions we have taken on behalf of our clients during 2021. We look forward to updating you on our progress during 2022.

Should you wish to learn more in the meantime, please feel free to contact our Stewardship team.

'We believe it is our fiduciary duty to protect and increase the value of our clients' assets through robust ESG analysis and long-term dialogue.'



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Interested in investing in the Evenlode funds? Get in touch:

Tel +44(0)1608 695200

Email evenlode@evenlodeinvestment.com

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