



EVENLODE

INVESTMENTS FOR LIFE



Evenlode Investment
Annual Responsible Investment
Report 2023

[evenlodeinvestment.com](https://www.evenlodeinvestment.com)



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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 companies that we deem to be high quality. We define 'quality' in this context as companies that are not capital intensive, have a strong economic moat, reliable cash flows and a healthy balance sheet. We recognise the profound influence we can wield on the companies we invest in on behalf of our clients. As highlighted through our purpose statement, active engagement is at the core of our stewardship strategy. We place significant emphasis on this approach as it allows us to encourage sustainable practices and drive positive change in the companies we invest in.

Through meaningful dialogue and collaboration, we aim to foster improvements in their ESG practices and contribute to the overall growth and stability of our portfolio companies' businesses. As we hold companies for extended periods, sometimes spanning years, we recognise the value of engaging with these companies in a collective effort to drive continuous improvement for all stakeholders. We firmly believe that businesses demonstrating this commitment to progress are more likely to prosper, creating a virtuous circle that benefits everyone involved.

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EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Portfolio Manager



Ben Peters, Portfolio Manager
and Director

We seek real, durable returns for our clients over the long term, investing in a sustainable way that contributes to a positive future.

For us at Evenlode Investment the concept of 'sustainable investing' is no different to 'investing sensibly'. Our approach to investing in equities takes a long-term view, and if a business' operations are not sustainable over the long-term then we will not invest our clients' capital in that company's stock. We believe that this is the best path to the real, durable returns that we seek.

Businesses that can persist through time must contend with numerous challenges. Many of those are particular to that organisation and the industry in which it operates. Competition is ever-present, and technological innovations change customer requirements and expectations; supply chains evolve. Companies must be willing to invest and adapt within their own industries or face obsolescence. We talk to companies and industry experts to understand these dynamics and assess whether a corporation's strategy gives them the best chance of succeeding. In these matters we generally leave the managing to the executives of the business; if we fundamentally don't think the strategy or the organisational assets are not up to the job, we will not invest.

There are, however, challenges that have become more common to most companies operating in the global economy. Many of these have come to be categorised under the slightly clunky nomenclature of Environmental, Social and Governance, or ESG, factors. There is no business that is not ultimately dependent on using environmental resources in some way; all companies require human capital (to use another clunky expression), and every organisation needs a governance structure that is appropriate to its scale, scope, and culture. As investors across different industries, we gain a holistic view of the challenges and opportunities these elements of the operating environment present, and how different businesses organise themselves to address them. This means that we can meaningfully interact with the companies in which we invest our clients' savings with an informed opinion on certain issues, and appropriately exercise the voting power that equity ownership confers. This is the basis of our Stewardship activities, designed to reduce risk and enhance returns for our clients in the long run. It is our belief that if we constructively do this via the ownership of some of the world's leading companies, then through time positive outcomes will occur on global issues such as ecological sustainability, climate change, and human rights.

2023 Highlights:

Maintained signatory status to UK Stewardship Code 2020.

Engaged with all material companies on their Net Zero Transition Plan.

Hosted our first multi-stakeholder Net Zero roundtable.

EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Portfolio Manager

Taking all of this together we don't view delivery of returns and consideration of externalities as an either/or question. Externalities can affect returns and need to be analysed, and most involve a complex array of considerations. Taking one subject on which we have developed a deeper level of understanding and action, when it comes to decarbonisation and climate change, we see that businesses have motivations to decarbonise their operations and supply chains from multiple sources. Their customers want to reduce their own carbon footprints and demand products that help them do this. Carbon taxation and trading schemes are proliferating, introducing real financial costs to companies. Regulators are insisting on the publication of emissions data and details of plans to decarbonise. Climate change itself will affect supply chains and the risks from exposure of operational assets to extreme weather events. These are all incitements to businesses to act but they, and we, should also consider the social costs of doing so, and the risks associated with new technologies such as the supply chain for critical minerals. We want companies to take a pragmatic approach and we acknowledge that transitions will happen over many years, not overnight.

From a governance point of view the Evenlode Investment Management board is committed to considering the risks and opportunities associated with ESG matters in the company's strategy. To ensure accountability a director is designated as being responsible for the firm's Stewardship and ESG activities, a role I currently fulfil. I execute the responsibilities by working with the Board and Strategy Team to develop our overall approach, and with our Head of Stewardship, Sawan Wadhwa to execute the stewardship and ESG elements of our business plan. We continue to commit our effort and resources to developing these elements further, seen in the expansion of the stewardship

team and development of detailed thematic work such as our analysis of greenhouse gas emissions. We collaborate with other investors in those matters where it makes sense to do so and within the confines of compliance with relevant legislation, shown by our membership of the Investor Forum and hosting a multi-stakeholder round table on the net zero transition. This year's developments will include, amongst others, an integrated report around the four core pillars of governance, strategy, risk management and metrics, and targets for the Evenlode business as well as our investee companies. This will also contain our first Net Zero Transition Plan, updating you on our progress of our emission intensity targets. We will hope to build on our work to date and with a view to satisfying the forthcoming reporting recommendations under the Taskforce on Climate-Related Financial Disclosures in a way that is useful to our investment process and therefore to our clients.

Now that our fundamental approach is well established and resource has been put in place, it is important to us to look to continuously improve and expand our stewardship activities. To do this we must critically re-assess our efforts to date to ensure that any activities that are ongoing are additive to our core aim of delivering durable returns to our clients. Some of that assessment is qualitative and some quantitative, all aided by our proprietary research and portfolio management system EDDIE. This is the repository for all our analysis on companies including engagements and outcomes through its Engagement Tracker functionality. Using the data captured in EDDIE the team have assessed the outcomes from historic engagements and used this to focus engagement efforts more effectively, targeting the quality of interactions and outcomes over their volume. Externally, the EU-domiciled funds that we manage report under

the Sustainable Finance Disclosure Regulation Article 8, and as such our stewardship endeavours are subject to scrutiny by the fund's Management Company. We are assessing the UK Financial Conduct Authority's new Sustainability Disclosure Requirements and will decide whether and which of the four sustainability labels to apply to the Evenlode funds in due course.

We are seeing matters of sustainability being taken increasingly seriously at investee companies, which must be a positive for improving the risk profile of companies and improving prospects for their employees and the communities in which they operate. There will however be challenges as we transition our global economy from an extractive, fossil fuel-based system to a more circular model with greater environmental sustainability. Jobs may be displaced, and progress toward electrification involves extraction of large volumes of minerals, to headline just two matters that will need to be addressed. We will continue to support our investee companies, provided they maintain their positive efforts to comprehensively address these challenges.



Ben Peters, Portfolio Manager and Director

THE TEAM

By Sawan Wadhwa, Head of Stewardship

We are looking for strength in depth within our team and have hired individuals with experience from diverse backgrounds. This ensures we address all Evenlode's business values and enhance our investment process.

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.

Over the course of the year, we have added a new member, Lily Postlethwaite, to the stewardship team. Lily has joined us as a Stewardship Analyst having previously worked as an Investment Manager at Whitley Asset Management. Her primary focus has been to continue working on our annual portfolios' emissions analysis. She will also be working closely with the team on our Net Zero strategy, reporting on our Taskforce on Climate-Related Financial Disclosures (TCFD) obligations and engaging with companies on their biodiversity strategy. She brings with her a strong level of technical financial expertise having completed her CFA Level I, CFA ESG Certificate and a strong desire to learn more about the responsible investment industry.



Sawan Wadhwa, Head of Stewardship



THE TEAM

By Sawan Wadhwa, Head of Stewardship

Evenlode Income



Hugh Yarrow
Lead Manager



Ben Peters
Co-Manager



Chris Moore
Co-Manager



Charlotte Lamb
Investment Analyst



Leon Cyril
Investment Analyst

Evenlode Global Income / Evenlode Global Dividend



Ben Peters
Lead Manager



Chris Elliott
Co-Manager



Robert Strachan
Investment Analyst



Ben Armitage
Investment Analyst

Evenlode Global Equity / Evenlode Global Opportunities



Chris Elliott
Co-Manager



James Knoedler
Co-Manager



Cristina Dyer
Investment Analyst



Gurinder Samra
Investment Analyst



Stewardship Team



Sawan Wadhwa
Head of
Stewardship



Bethan Rose
Sustainable
Investment Analyst



Rebekah Nash
Governance Analyst



Lily Postlethwaite
Stewardship Analyst

Innovation Team



Tom Weller
Head of Innovation



Phoebe Greenwold
Impact and
Innovation Analyst

Research Trainee



Samuel Ratcliffe
Junior Investment
Analyst

EVENLODE'S STEWARDSHIP STORY

By Sawan Wadhwa, Head of Stewardship

Evenlode, a signatory of the UK Stewardship Code, adheres to the high stewardship standards set by the Financial Reporting Council (FRC) since its first publication in 2010 and subsequent update in January 2020. The Code, comprising twelve principles for asset managers and owners and six for service providers, encourages engagement between institutional investors and company management and enhances transparency. It targets firms managing assets for institutional shareholders, including pension funds and insurance companies.

Recognising the increasing materiality of ESG factors in a company's long-term success, Evenlode values the Code's recent emphasis on investor engagement outcomes. This approach is seen as a pathway to more effective, long-term engagement strategies with positive impacts on investee companies. The evolving pivot towards focusing on biodiversity, nature and double materiality, in the wake of public scrutiny is also seen as a positive development.

To identify key long-term risks and discuss megatrends, Evenlode participates in webinars and training sessions organised by various industry groups, including the UN Principles for Responsible Investment (UNPRI), Investor Forum, Carbon Disclosure Project (CDP), and NatureAction 100. As a longstanding member of the International Corporate Governance Network's (ICGN) Nature Capital Committee, Evenlode contributes to discussions on governance related to the natural environment, ecology, biodiversity, and climate change. These discussions inform our bespoke analysis of emerging business risks from a market perspective.

As a signatory to the UNPRI since 2018, Evenlode has committed to integrating ESG factors into the investment process, enhancing risk management for clients. Our recent assessment report reflects significant achievements in Confidence Building Measures (100%), Policy Governance and Strategy (84%), and Active Fundamentals (84%), scoring well above PRI medians in these areas.

To access the assessment and transparency reports, please follow to the UNPRI section on the following link:

<https://evenlodeinvestment.com/stewardship/assets>



ESG INTEGRATION

By Sawan Wadhwa, 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, ensuring 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, 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 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 present long-term risks if not addressed:

- **Environmental risks:** net zero transition plan, emission intensity, oversight of climate strategy.
- **Social risks:** lack of transparency within the supply chain, labour violations, material controversies, pay parity.
- **Governance risks:** arising from a poor governance framework: misalignment between pay and performance, inadequate independence of board members, disproportionate voting rights.



ESG INTEGRATION

By Sawan Wadhwa, Head of Stewardship

Reports scope 1, 2 and 3 emissions, coherent '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 its supply chain, governance code compliant board, relevant ESG-related metrics in rem policy, positive engagement with shareholders.

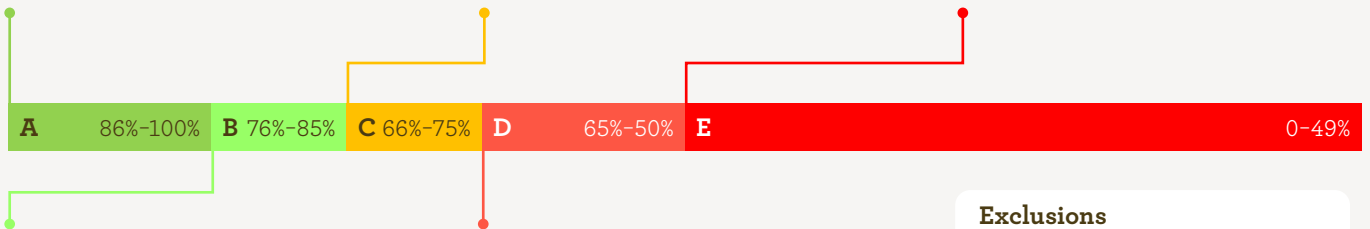
Engage to learn.

Reports 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 Total Shareholder Return/Earnings per Share used in rem policy, responsiveness to shareholders.

Engage to address moderate issues.

Does 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 rem policy, serious independence concerns on the board/committees, no engagement with shareholders.

Exclude from portfolio.



Reports 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 minor controversies that the company seeks to address, non-financials measured in rem policy, fully independent board committees, active engagement with shareholders.

Engage on minor issues.

Reports on scope 1 & 2 emissions, weak governance on ESG strategy, only short to medium term environmental targets, recurring controversies within supply chain left unmanaged, lack of independence on the board and committees, opaque rem 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 have a formal exclusions policy for tobacco, mining, oil and gas activities because our investment process already precludes investing in sectors which are capital intensive and can cause negative harm to the environment and/or society.

We want to ensure we have clear systems in place to eliminate any preconceived notions and biases and have created a checklist which asks 36 ESG-related questions of each company. Environmental, Social and Governance considerations are each weighted differently, with environment having the highest weighting of the three due to the increased importance we have attributed to our net zero targets. Example questions include:

- Is there board-level oversight of its climate transition plan?
- Has the company had any material social controversies in its supply chain?

- Does the company disclose performance metrics targets in its remuneration policy?
- Has the company had any historical tax controversies?

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

The resulting score is presented and discussed at our weekly investment meetings, serving as a crucial factor in determining the maximum position size for each company. This process benefits from independent discussion, discretion, and calibration, allowing

for a nuanced consideration of each potential issue and avoiding a purely mechanical approach to decision-making. Our process is collaborative, incorporating the perspectives of the entire team. We diligently use a comprehensive checklist to identify the most material matters. This approach not only highlights the most relevant Environmental, Social or Governance factors for a company's industry and business model, but also facilitates the continual evolution and improvement of our framework. This includes integrating thematic analysis derived from our specific company research.

ENGAGEMENT AND EXCLUSIONS

By Sawan Wadhwa, 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. We do, however, formally exclude companies that directly manufacture controversial weapons. Our controversial weapons policy is available on our website. 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. To provide more context, we have shared the investment case (see right) of a holding which is present in all our funds. It is one of the world's largest producer of spirits and a niche producer of beer.

The investment case for engagement

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

We view engagement with companies as an opportunity. Engaging in discussions about challenges with companies allows us to understand their business and gain insight into how they mitigate and adapt to the risks we identify. Ultimately, our goal is to enhance long-term value for our clients by improving a company's sustainability characteristics. We recognise that this process demands time and a considered approach. Such an approach necessitates well-defined engagement objectives, which is why we establish specific objectives for each engagement. These objectives help us maintain focus and monitor our ongoing interactions.

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.

CASE STUDY

The holding has an excellent competitive position built on a diversified portfolio of world class alcoholic beverage brands, with strong scale and distribution advantages. The strategy of premiumisation enhances their market position, as consumers are inclined to spend more on premium products. A strong distribution network is crucial for spirits, which can be expensive to establish due to global shipping from single production sites to various individual markets. This network delivers value to both distributors and retailers and poses a significant barrier for new market entrants to overcome. Moreover, their substantial scale affords them negotiating clout with suppliers, leading to favourable cash flow.

From an ESG perspective, there is a clear reputation risk present for the company due to the industry it operates in. Alcohol consumption can lead to negative consequences for both physical and mental health, particularly when consumed in excess. Our investment process dictates that companies with the lowest ESG risk score (score of an 'E' through our internal matrix) are uninvestable. It is important to note that this is assessed on a case-by-case basis. We grade this company as having a risk score of a 'C', and it therefore remains investable under our process. The company has strong environmental policies, a robust and transparent climate transition plan, and a governance framework which is compliant to the UK Corporate Governance Code. But given the nature of its products we chose to downgrade the score to a 'C'. As a reminder, weaker risk scores lead to smaller maximum position sizes in our portfolios. Whilst there are negatives associated with alcohol consumption, there are some offsetting factors. The strategy of premiumisation and expansion of low/no alcohol categories plays a significant role in mitigating risks associated with responsible consumption. While acknowledging potential risks related to regulatory changes and health awareness, the long-term industry outlook for spirits remains positive. Increasing per-capita incomes, especially in emerging economies, support growth particularly in premium products. Although regulatory and health concerns may lead to reduced consumption for the overall alcoholic beverage market, the trend towards quality over quantity is advantageous for premium spirits. Furthermore, the development of emerging markets sees positive health-related trends where premium brands gain market share from inexpensive and illicit alternatives. The company runs a successful responsible drinking programme and results around 'Positive Drinking' form part of their executive remuneration policy.

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. 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. For holdings where these risks have been identified, a more nuanced approach is adopted, setting a reduced maximum position size to reflect those heightened risks.

THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

To better understand the businesses we invest in, we assess their level of accessibility and transparency towards stakeholders. Our observations over the years reveal a strong correlation between companies proactive in engaging with investors and those exhibiting a transparent, open culture throughout their organisation. A prime example is Savills, part of the Evenlode Income fund's portfolio. This company stands out in our investment universe with its exceptional engagement level, boasting a 100% response rate from its executive and Investor Relations team. The leadership, including the long-

serving CEO Mark Ridley, is notably robust. Savills adeptly navigated the challenges of the Covid-19 pandemic, a period particularly tumultuous for industries reliant on transactional and advisory services, while maintaining consistent communication with stakeholders.

Stewardship is a cornerstone of our investment philosophy. In recent years, we have been crafting a framework for engaging with our investee companies. We recognise our fiduciary responsibility to safeguard and augment the value of our clients'

assets while carefully reducing broad non-financial risks. Regular monitoring of investee companies is a hallmark of sound investment practice, and we commit to thorough due diligence before investing on behalf of our clients.

We created a proprietary investment research software system (EDDIE) in 2017 which now includes the 'Engagement Tracker' functionality. The 4-step process for documenting engagement activity in EDDIE is shown below:

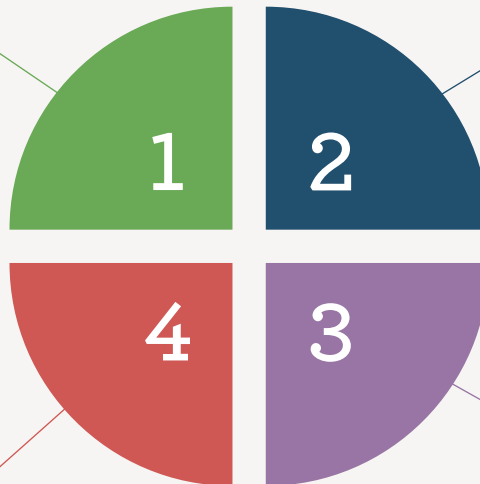
Engagement Tracker

INITIATION

The engagement is created because 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.

ACTION

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



ACKNOWLEDGMENT

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

DISCUSSION

The conversation around the engagement topic is documented.

	Interactions	2023
Initiate Dialogue	65	38%
Acknowledgement	37	21%
Discussion	50	29%
Action	21	12%
Total:	173	100%

THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

EXAMPLES OF CASES THAT LEAD US TO PRIORITISE AN ENGAGEMENT ARE:

When we are asked to attend collaborative engagements with other investors.

The annual Chair roundtable of one of our holdings in our Global strategies was attended by notable investors. It offered a comprehensive view into the company's approach to ESG challenges and strategies. A major focus was the company's significant challenge in managing greenhouse gas emissions, particularly from the dairy segment of their portfolio. Ingredient sourcing was identified as a major contributor to emissions, with a substantial portion originating from dairy and livestock. The company is actively pursuing regenerative agriculture as a solution, collaborating with both small-scale farmers and larger corporations. Methane reduction was highlighted as a specific short-to-medium term goal in this strategy.

When discussing progress on tackling deforestation, the company was unable to achieve a deforestation-free supply chain target by the end of 2022. The shortfall was attributed to the ambitious nature of the target, which risked impacting small-scale farmers and the social component of their ESG strategy. This was a learning point for the company, influencing future goal setting to be more realistic and achievable.

Regarding the company's remuneration policy, there was a noted lack of transparency in disclosing Short-Term Incentive Plan (STIP) targets. The company's rationale centred around the compensation committee's discretion and responsibility. This led to a vote against the management's remuneration policy by some investors, including those at the roundtable, who plan continued engagement on this issue. The discussion also touched on the challenges of achieving Net Zero, with a focus on farming and particularly regenerative farming practices. Packaging operations and addressing obesity through board-level nutrition discussions were also identified as crucial areas.

When we think a company can improve its net zero strategy with a simple, yet important change to their existing transition plan.

We engaged with the ESG specialist of a holding in our Global Income fund, with the aim to provide feedback on their net zero strategy. Our primary concerns were the absence of a long-term target, which we still believe is crucial for genuine commitment to alignment and their scope 3 emissions disclosure. We also wanted more information on their succession plans for the chair of the board and inquired about initiatives to enhance the board's diversity. The company responded appreciatively, acknowledging our feedback and indicating that the company is currently revising its overall sustainability strategy, including its environmental commitments.

Regarding the independence of the chairman of the supervisory board, the specialist highlighted the constraints imposed by the company's ownership structure under the German Corporate Governance Codex. The parent company holds a significant stake in the holding, influencing governance structures. The succession plan prioritises the competence profile of candidates, and the concept of a lead independent director which is common in the Anglo-Saxon governance model, is not established in the German system. On diversity, as of the start of 2023, the supervisory board included four female members out of ten, contributing to the board's diversity. They viewed six out of ten board members as independent. The company has set ambitious targets for women in senior management positions, aiming for 30% by 2030, with an intermediate goal of 26% by 2026. In the fiscal year 2022, they achieved 23%.

We thanked them for their swift response and further inquired about the timeline and objectives of the sustainability strategy revision. They indicated that the revision aims to set more ambitious targets in key focus areas like access and innovation, environment, and social. The new targets and revised strategy are expected to be published with the upcoming sustainability report. We have planned to review this report upon its release to assess if the revisions align with the Net Zero Investment Framework regarding the setting of a long-term science-based target.

THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

When we want additional information for our Sustainable Finance Disclosure Regulations (SFDR) for our Irish-domiciled funds.

In this engagement, our objective was to clarify one of our holding's adherence to the Organisation for Economic Co-operation and Development (OECD) and UN Guiding Principles on Business and Human Rights, a vital component of our SFDR reporting. We contacted the Investor Relations (IR) team to confirm their commitment to these principles and alignment with OECD tax guidance. The response from the head of IR was prompt and affirmative. They confirmed their dedication to the UN Guiding Principles, ensuring their policies and procedures were aligned with these guidelines and ensured us that they will improve their disclosure in the following year's reporting. This commitment helps in identifying and mitigating human rights impacts related to their operations and those of their key business partners. This proactive engagement reflects a continuous journey towards improvement and transparency. We acknowledged and appreciated the thoroughness of their response, marking this interaction as a positive step in shareholder engagement and transparency.

We highlighted the need for clearer communication of their adherence to the OECD and UN Guiding Principles on Business and Human Rights in their company reports. This feedback was crucial as such detailed information was not easily accessible to the average stakeholder. Following this interaction, the company's increased transparency and commitment allowed us to upgrade them to a 'sustainable investment' status which aligns with our obligations under the SFDR requirements.

In adherence to our voting policy, we initiate dialogue with company management before we action a vote (if we need additional information) and after actioning a vote (if we vote against management) via a letter. **In 2023, we wrote 41 letters to companies about their AGM vote, emissions disclosures and net zero targets.**

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 can also provide useful data which we can then use to create a more robust engagement framework.

For our full engagement policy, please visit the following link:

<https://evenlodeinvestment.com/resources/stewardship-assets/Engagement-Policy.pdf>

THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

ESCALATION

Engagement is a vital component in achieving our net zero targets, offering a more advantageous approach than divestment. It allows for opportunities to learn, collaborate, and leverage the insights of like-minded investors, thereby facilitating long-term positive changes in companies. To be effective, our engagement strategy incorporates a clear and robust escalation process. Divestment is a last resort, considered only when all other options are exhausted and when significant, unmanaged risks are identified.

This year, we took decisive action against companies that failed to respond to our queries on issues such as their annual general meeting (AGM) votes, emission intensity, and inadequate climate transition plans. We downgraded their ESG risk scores, reflecting the importance we place on proactive engagement. For instance, some companies saw their ESG risk score drop from a C to a D, leading to a reduction in their maximum position size within our portfolio, with reductions ranging from 7% to 6% in certain cases. Generally, we adjust the position size of stocks based on a variety of risk factors, but in certain instances, we target reductions specifically due to one significant risk factor.

In addition to environmental concerns, we maintain strict standards for corporate governance. Specifically, we require our portfolio companies to engage independent external auditors, with independence defined as a tenure of 20 years or less. This policy is in line with the Financial Reporting Council's Audit Tenders Notes on Best Practice, which advocates for auditor retendering every 10 years and rotation after 20 years. Even if an incumbent firm is reappointed, the tendering process is believed to enhance the audit approach. This practice is what we consider the gold standard.

Our commitment to these standards led us to scrutinise a company in our UK and Global income funds for its exceptionally long auditor tenure, which has not changed since 1890. Despite regular rotations of the audit partner, the company's justification for the perceived independence of their auditor was insufficient. Historically, we responded by voting against related resolutions and explaining our position through letters. This year, we escalated our approach by also voting against the Audit Committee chair. Over the coming 12 months, we will continue to monitor this issue, and we are prepared to further reduce the maximum stock position size in our portfolio, if necessary.



ENGAGEMENT THEMES

By Rebekah Nash, Governance Analyst

In 2023, we refined our engagement approach based on the insights we gained the year before. Our analysis revealed that while the volume of our engagements had increased significantly in recent years, this expansion came at the cost of meaningful dialogue and, consequently, diminished interaction with our investee companies. Moreover, this approach was diverting precious resources from our team.

As a result, we shifted our strategy to focus solely on the most material ESG-related issues, choosing to combine thematic issues with individual engagements rather than sending multiple letters sporadically throughout the year. Engagements via teams or face-to-face meetings remain a key part of our overall stewardship strategy. This change does not preclude us from contacting companies about identified issues. However, we recognise that data on emissions, governance-related analyses, and net-zero assessments generally do not vary on a quarterly basis. As a result, in 2023, we consolidated our engagements around voting decisions and net-zero transition plans.

This targeted approach has led to more positive interactions with portfolio companies, encouraging us to continue this strategy into 2024 while seeking to further streamline the process. Notably, Net Zero and Remuneration emerged as the top two themes we engaged on.

COLLABORATION – NET ZERO ROUNDTABLE

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.

Throughout 2023 we did not have any significant collaborative engagements with other investors. However, near the end of the year, we hosted our first Net Zero Roundtable which gathered a diverse group of stakeholders, including representatives from public and private companies, charities, academic institutions, and industry standard setters, each providing their own unique perspective and expertise. The objective of the day was to assess the significant challenges that businesses will face on their journey toward achieving net zero emissions. Through presentations, breakout sessions and a panel discussion, the day looked to address the following series of crucial questions and ideas:

1. Are current strategies and initiatives adequate?
2. What systemic changes are necessary within the market?
3. Key stakeholders in your organisation for sustainability collaborations.
4. Focus on climate winners and narrative improvement.

Our learnings from the day were that the global transition to reduce carbon emissions underscores the need for coordinated, long-term strategies, emphasising the importance of a just transition that navigates cultural conflicts and financing challenges, including higher upfront costs. In the context of a just transition, fair treatment for the global south was spoken about as an important metric which should be monitored. Who should bear the cost of the transition? The term “green hushing” was introduced, i.e. reluctance of some companies to openly discuss their sustainability efforts. Carbon credits were deemed essential if used credibly, and the role of nature in the energy transition, supported by Taskforce on Nature-related Financial Disclosures (TNFD) was welcomed.

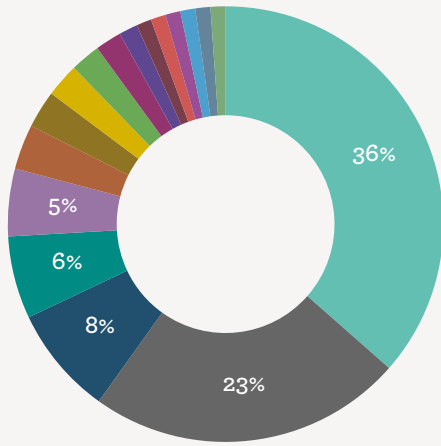
Engagement with portfolio companies and the supply chain is crucial for tangible decarbonisation impacts, stressing the need for robust data management tools, sector-specific strategies, and the importance of starting with imperfect goals. Supply chain dynamics present both challenges and opportunities in emissions reduction, with a focus on incentivisation, education, and the need for consistent policies and regulation across industries. Regulatory compliance involves both time and cost, impacting customer relations and overall business operations. We explored the challenges posed by regulatory requirements, emphasising the burden it places on businesses and consumers. The high-impact founders on the day, however, offered hope with a call for collaboration between large organisations and innovators, and the development of new financing models to support scalable solutions, highlighting a multi-faceted approach to achieving net zero commitments.

Building on the success of our initial roundtable, we plan to host two roundtables in 2024. The first will engage the value chain within our business, and the second will be dedicated to our clients. This latter roundtable offers clients the opportunity to gain insights into our net zero transition plan and to discuss the societal challenges anticipated in the short, medium, and long term as we strive towards achieving a net zero economy.

ENGAGEMENT THEMES

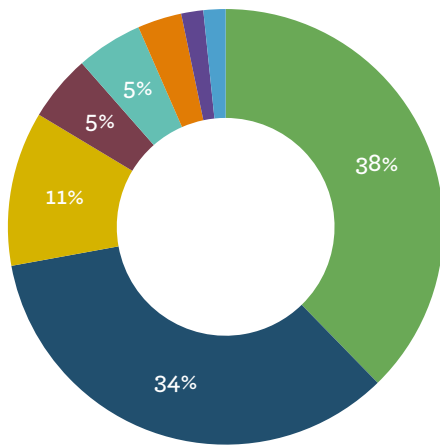
By Rebekah Nash, Governance Analyst

Engagement Themes



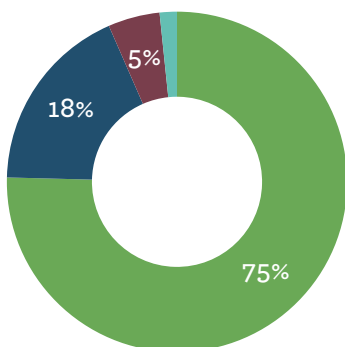
Net Zero	
Remuneration	
Board Structure	
Company Strategy	
Carbon Emissions	
Climate Change	
Company Culture	
Human Capital Management	
Supply Chain	
Succession Planning	
Audit Issues	
Deforestation	
Biodiversity	
Human Rights	
Labour Conditions	
Product Quality and Safety	
Balance Sheet	
Companies	54
Engagements	61

Engagement by Region



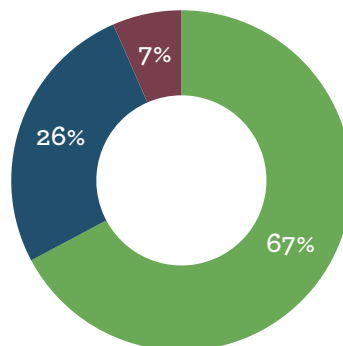
Engagement by Region	
United Kingdom	
United States	
France	
Switzerland	
Germany	
Netherlands	
Japan	
Spain	
Engagements	61

Who we Engaged



Investor Relations	
Board Level	
Sustainability	
Executive	

How we Engaged



Letter	
Video Call	
Email	

STEWARDSHIP IN PRACTICE

By Rebekah Nash, Governance Analyst

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, 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 2022, we created a more targeted engagement strategy for our 2023 AGM voting season. We will look to proactively engage with companies where we have a significant ownership in, at a portfolio and company level. The aim is to initiate dialogue early with our most material holdings and highlight any areas of concern we have with the company before we input the vote. In addition, we will combine engagement issues to ensure quality over quantity.

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.

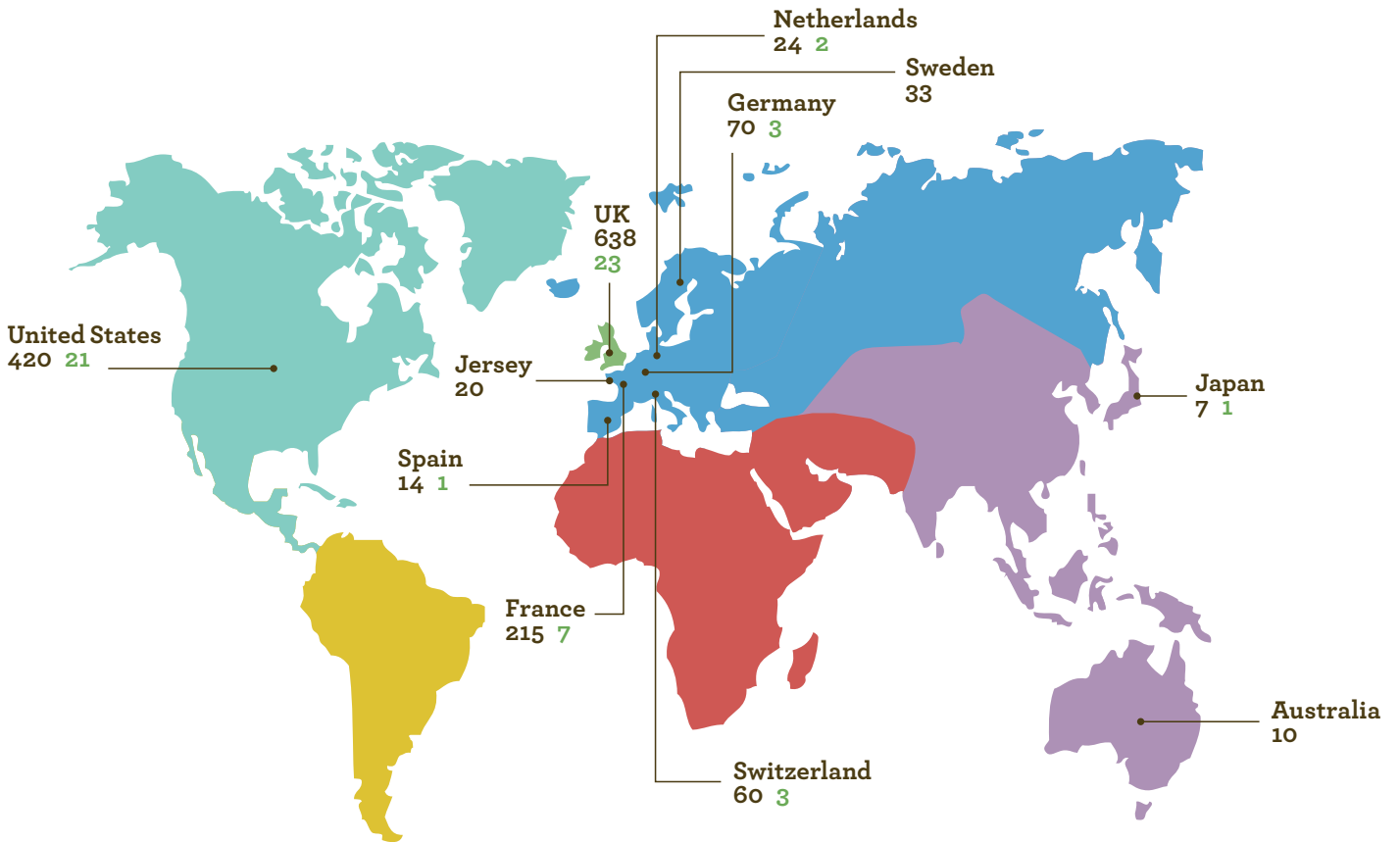
To access our voting records, please visit the following link:

<https://evenlodeinvestment.com/resources/stewardship-assets/Voting-Records-Q1-2023.pdf>

STEWARDSHIP IN PRACTICE

By Rebekah Nash, Governance Analyst

Voted Resolution by Region



Number of voted resolutions shown in **grey** and company engagements in **green**

VOTING SUMMARY FOR 2023

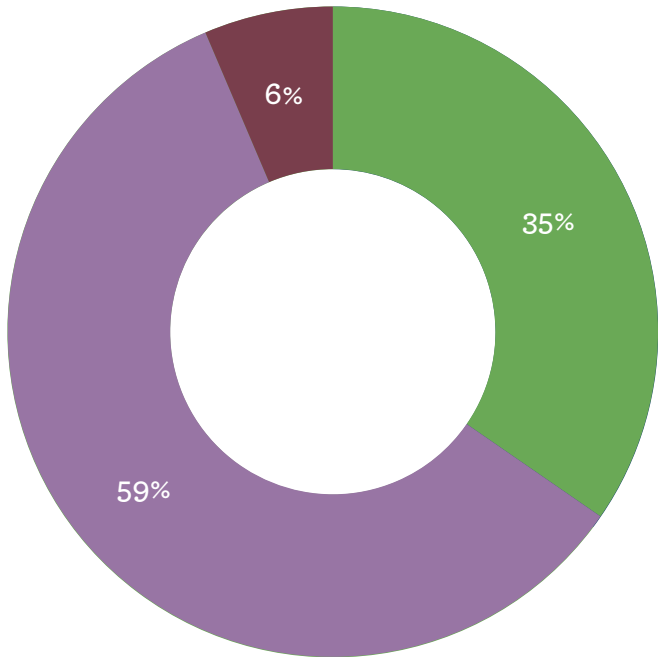
Meetings	78
Resolutions	1,511
With Management	1,355
Against Management	67
Abstain	89

4% of the total votes cast were against management.

STEWARDSHIP IN PRACTICE

By Rebekah Nash, Governance Analyst

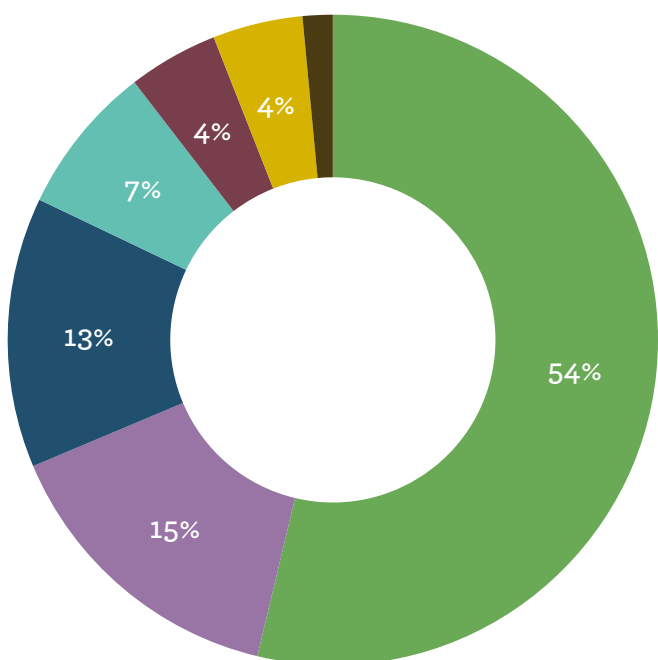
Votes Against Management (per meeting)



- Votes Against Management
- Votes With Management
- Votes Abstained (due to no longer holding)

In 2023, we voted at a total of 78 meetings, voting 100% of the time on all resolutions where we held ownership. We voted against management at 35% of the meetings on at least one resolution.

Votes Against Management Themes (per resolution)



Themes	Total	%
● Remuneration	36	54
● Director Related	10	15
● Social	9	13
● Environment	5	7
● Tax	3	4
● Audit Related	3	4
● Other	1	1
Votes Against Management	67	100

STEWARDSHIP IN PRACTICE

By Rebekah Nash, Governance Analyst

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

COMPANY A

For this AGM, we voted against the approval of the actions of the management board due to the company's slow progress on their net zero strategy combined with a lack of engagement on the issue.

They are amongst one of our most emission intensive holdings and although it has set net zero 2040 targets, they have not been approved by the SBTi and they have not integrated the TCFD recommendations into their reporting. At the time they also did not carry out a scenario analysis. Finally, we have engaged with them for multiple years on their transition plan to understand it in further detail, but have we never received a response. Therefore, we felt we needed to escalate these elements to vote against management.

The resolutions were passed at the AGM, however, the exact percentage was not disclosed. The company stated that it was a majority.

COMPANY B

We didn't consider the remuneration policy to be best-in-class, when compared to the UK corporate governance model. There was a lack of disclosure in the short-term incentive plan coupled with unambitious targets where the maximum payout had been reached for multiple years in a row. The remuneration policy was also being measured against companies in a different sector with higher compensation thus causing un-just inflation in the remuneration policy. This led to a very high CEO pay ratio, well over 300:1 which is the highest Evenlode would be comfortable with. We therefore voted against the remuneration policy as we have done in previous years. In other situations, we would have escalated this to vote against the chair of the remuneration committee, however, they were not standing for re-election. We will escalate this as necessary next year if changes are not seen.

The vote on remuneration was passed with 89% of shareholders voting for the resolution.

COMPANY C

There was a shareholder resolution requesting a report on the human rights due diligence processes carried out on the supply chain of this holding. Management recommended a vote against, however we voted for the resolution and against management on this matter.

We understand there is additional work in reporting for the company, especially given the complexities of the supply chain. However, the importance of being diligent when it comes to the supply chain, especially when it relates to human rights hotspots, is essential to manage the risk which supply chain exposure can pose. Therefore, we voted for a report that would examine the implementation and robustness of the company's human rights due diligence process.

The shareholder resolution was not passed, however, 33.57% of shareholders voted for the report; this is a significant number and the highest vote against management on all the resolutions proposed at this AGM.



CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst



Lily Postlethwaite, Stewardship Analyst

Planet Earth span through 2023 at more than 1.5°C above pre-industrial temperature levels for 11 out of the year's 12 months.

Temperature records are being broken continuously, every month between June and December was the hottest of its kind¹ and global warming is occurring at an ever-accelerated rate. Sea levels and temperatures continue to rise, with our oceans bearing 90% of the impacts of excess greenhouse gas (GHG) emissions. For context, the entire global economy uses about a half of a zettajoule (ZJ) of energy per year to run and in 2023 oceans absorbed in the region of 287 ZJ worth of heat, which represents a staggering 15 ZJ more than in 2022². The natural climate warming weather pattern, El Niño, exacerbated the situation in the latter half of the year but it is undeniable that human activity is behind the long-term warming trend which is causing extreme and adverse impacts on people and nature around the globe³. Across emerging and developed markets alike there is a desperate need to dramatically reduce GHG emissions if we are to avoid the most severe and catastrophic impacts of climate change.

It is our view that by assessing the financed emissions of our funds annually and reporting our findings publicly, we stand a better chance of understanding the climate impacts of our companies as well as the transition risks they are likely to face. The analysis enables us to allocate our engagement resources more effectively, thereby helping us in achieving our medium-term net zero emission intensity targets. As an asset manager, financed emissions comprise the vast majority of Evenlode's emissions and if we are to meet our target of becoming net zero by 2050 or sooner across 100% of our investment portfolios we will need to actively engage and consider divesting from emission-intensive holdings that are not reducing their scope 1, 2, and 3 emissions over time, and are consequently failing to manage their environmental risks.

Evenlode's 2023 emissions profile across our investment portfolios:

Total financed emissions	836,303 tCO ₂ e (27.7% decrease from 2022)
Weighted average emissions per investment	1.47 tCO ₂ e/£10k invested (32.2% decrease from 2022)
Weighted average emissions intensity	390 tCO ₂ e/£m revenue (42% decrease from 2022)
Proportion of portfolio companies reporting 100% of their emissions	47/79 (4.4% increase from 2022)

1 EU's Copernicus Climate Change Service. [View here.](#)

2 Cheng, L., Abraham, J., Trenberth, K.E. et al. New Record Ocean Temperatures and Related Climate Indicators in 2023. *Adv. Atmos. Sci.* (2024). [View here.](#)

3 Synthesis Report of the Sixth Assessment Report, Synthesis Report of the Sixth Assessment Report A Report of the Intergovernmental Panel on Climate Change. [View here.](#)

CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Results – Emissions disclosure of our portfolio companies

Having seen a steady increase in emissions disclosure at a portfolio level in recent years, name changes within the funds over the course of 2023 have meant that the total number of companies reporting >90% of their scope 1, 2 and 3 emissions has dropped from 58 to 54 out of 79 holdings. Clorox, Estée Lauder, Money Supermarket, AstraZeneca and eBay were all reporting their CO₂e emissions in full and these companies have been sold in favour of better value elsewhere. We see this as an engagement opportunity with companies reporting <5% of their emissions, such as Clarkson, Spirax and Snap-on over the course of 2024.

Despite seeing a slight increase from 45 to 47 companies reporting 100% of their emissions for 2023, overall, 89.9% of Evenlode’s total financed emissions are now reported by our portfolio companies, which represents a slight decline since last year where 91.6% of the invested universe’s emissions were reported. We rely primarily on emissions reported by our portfolio companies alongside the Carbon Disclosure Project (CDP) estimations to measure our financed emissions.

Our emissions by scope

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 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. Downstream Emissions that occur as a consequence of using the company’s products and services, which include the emissions from transportation of products to the consumers; processing, use and end of life treatment of sold products; investments, franchises; and leased assets.

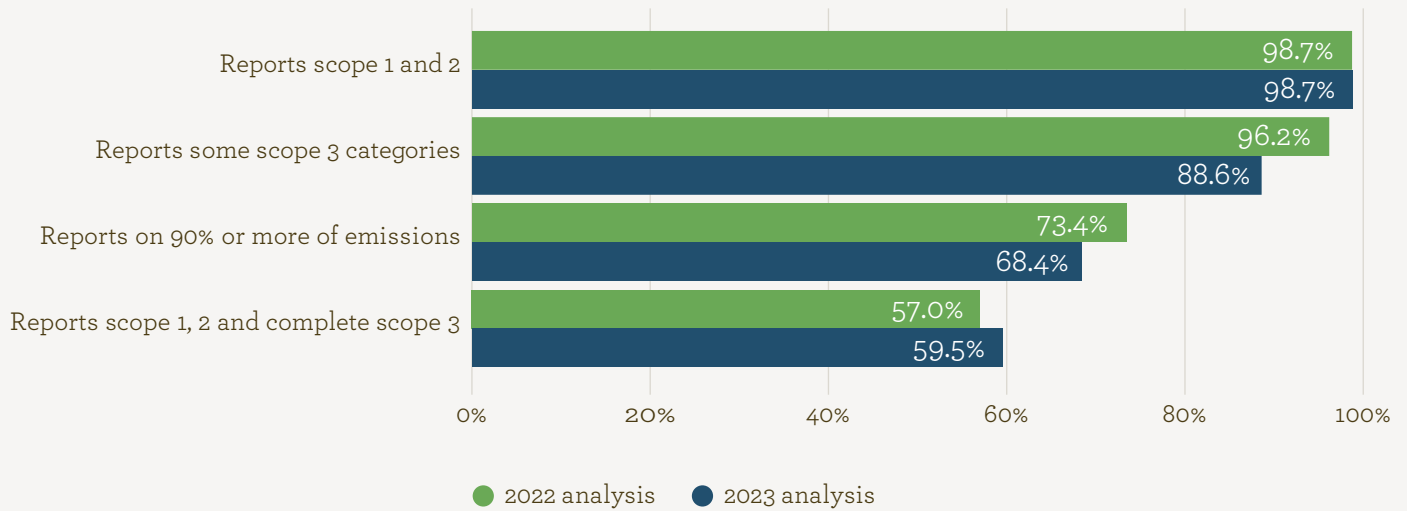
Our estimates include all greenhouse gases covered by the Kyoto Protocol – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

Source: Greenhouse Gas Protocol

CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Holding companies' emission reporting by scope



Percentage of companies in Evenlode portfolios reporting across the different scopes. Source: CDP and Evenlode. 2022 analysis based on Evenlode portfolios as at 30 December 2022, using data from the CDP 2022 Full GHG Emissions Dataset. 2023 analysis based on Evenlode portfolios as at 29 December 2023, using data from the CDP 2023 Full GHG Emissions Dataset.

Due to enhanced reporting, six companies no longer require one or more of their scope 3 categories to be modelled up. Those businesses are Compass Group, Howden Joinery, Marsh & McLennan, Smith & Nephew, Sonic Healthcare and Victrex. This year, we modelled nine companies, representing a 25% decrease compared with the previous year's analysis. We welcome this improvement and hope to see this trend continue.

We acknowledge that our financed emissions are only estimates which attempt to approximate the 'true' emissions of our investments. With continuous improvement in the availability and quality of emissions data from our portfolio companies, our analysis will continue to improve and provide a more representative view of our financed emissions.



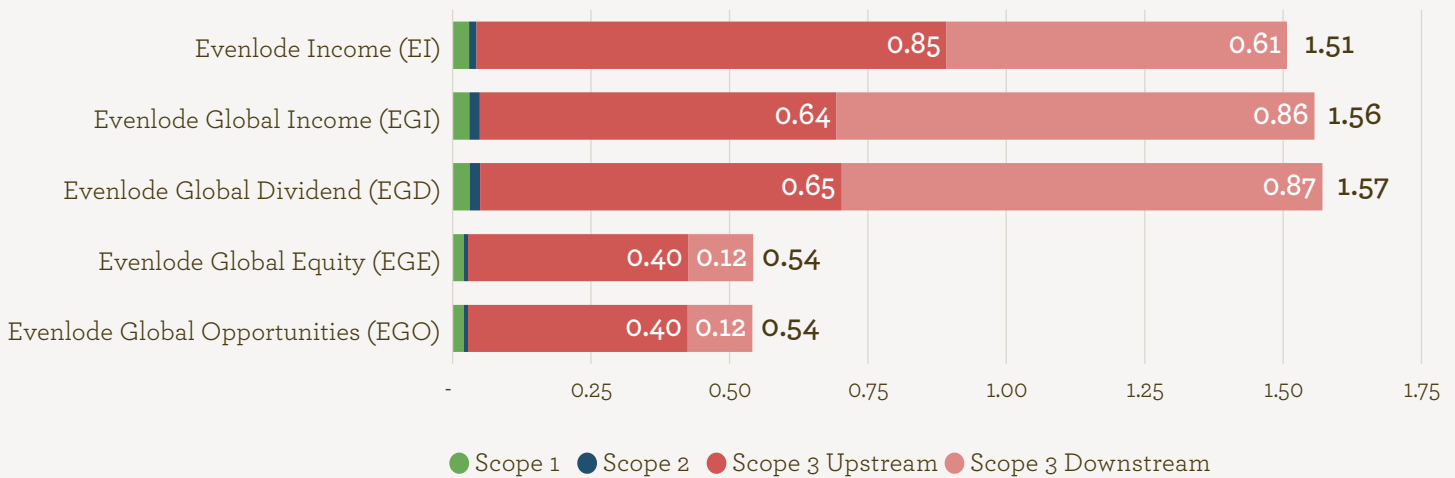
CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Results – The impact of your investment

The emissions associated with investing £10k in one of our funds was between 0.54 and 1.57 tCO₂e. For context, the average UK resident was responsible for 4.7 tCO₂e and the average US resident was responsible for 14.9 tCO₂e in 2022.⁴ Mike Berners-Lee advocates for a ‘five-tonne lifestyle’ as a per capita emissions budget in his book, *How Bad Are Bananas?*⁵.

Emissions per £10k invested



Tonnes of CO₂e/£10k invested across scopes 1, 2 and 3 as at 29 December 2023. Source: CDP and Evenlode. Evenlode portfolios as at 29 December 2023, using data from the CDP 2023 Full GHG Emissions Dataset, which collates annual corporate emission data for emission accounting years ending between June 2022 and June 2023.

EGE and EGO had the lowest emissions per £10k invested compared with the other Evenlode funds. This can be partly explained by sector bias; EI, EGI and EGD, have a higher exposure to more emissions intensive sectors such as Consumer Staples and Industrials, and EGE and EGO have a higher allocation to Financials and Communication Services, which are less intensive.

EGI and EGD have seen the most dramatic reduction in their emissions per £10k invested; last year the fund’s top three emitters were Henkel, C. H. Robinson, and Quest Diagnostics at 18.5, 16.0, and 13.4 tCO₂e per £10k invested respectively. For comparison, the average emissions footprint per investment across all our portfolio companies in 2023 was 1.3 tCO₂e per £10k invested. Henkel has been sold from the portfolio, and after engaging with Quest Diagnostics last year it was discovered that they mistakenly reported a hugely inflated figure for their ‘Purchased Goods and Services’ scope 3 category. This year we have continued to engage with the company and have used CDP’s estimated figure for the category, thus bringing down Quest’s emissions intensity figure to 1.06 tCO₂e (from 13.4 tCO₂e) per £10k invested.

C. H. Robinson remains the most emissions intensive holding for EGI and EGD by some margin at 22.7 tCO₂e per £10k invested. This is due to a 17% increase in their reported figure for ‘Downstream Transportation and Distribution’. As a global leader in freight and logistics, this category is very difficult to decarbonise. Hexagon saw a dramatic drop in their financed emissions, and this was a result of improved disclosure. In the absence of a reported figure for ‘Use of Sold Products’ in 2022 we elected to accept the CDP’s estimate for the category. This year however, Hexagon have reported the data, and the figure is significantly lower than the estimate calculated by CDP.

⁴ Our World In Data based on the Global Carbon Project, 2023. [View here](#).

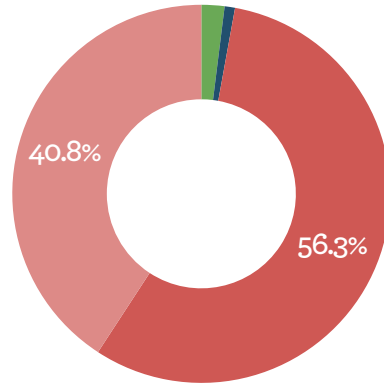
⁵ Berners-Lee, Mike. *How Bad Are Bananas?: The Carbon Footprint of Everything*. London: Profile, 2010.

CARBON EMISSIONS ANALYSIS

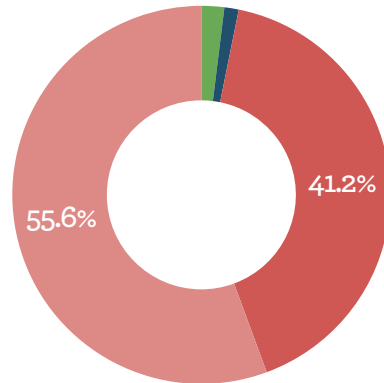
By Lily Postlethwaite, Stewardship Analyst

Across all Evenlode's funds, scope 3 emissions vastly outstripped scope 1 and scope 2 emissions. This highlights the importance of disclosing value chain emissions across the life cycle of a product or service.

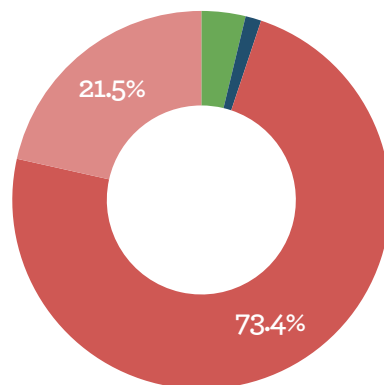
Evenlode Income



Evenlode Global Income/Global Dividend



Evenlode Global Equity/Global Opportunities



● Scope 1 ● Scope 2 ● Scope 3 Upstream ● Scope 3 Downstream

Breakdown of fund emissions by scope. Source: CDP 2023 Full GHG Emissions Dataset, Evenlode. Evenlode portfolios as at 29 December 2023.

CARBON EMISSIONS ANALYSIS

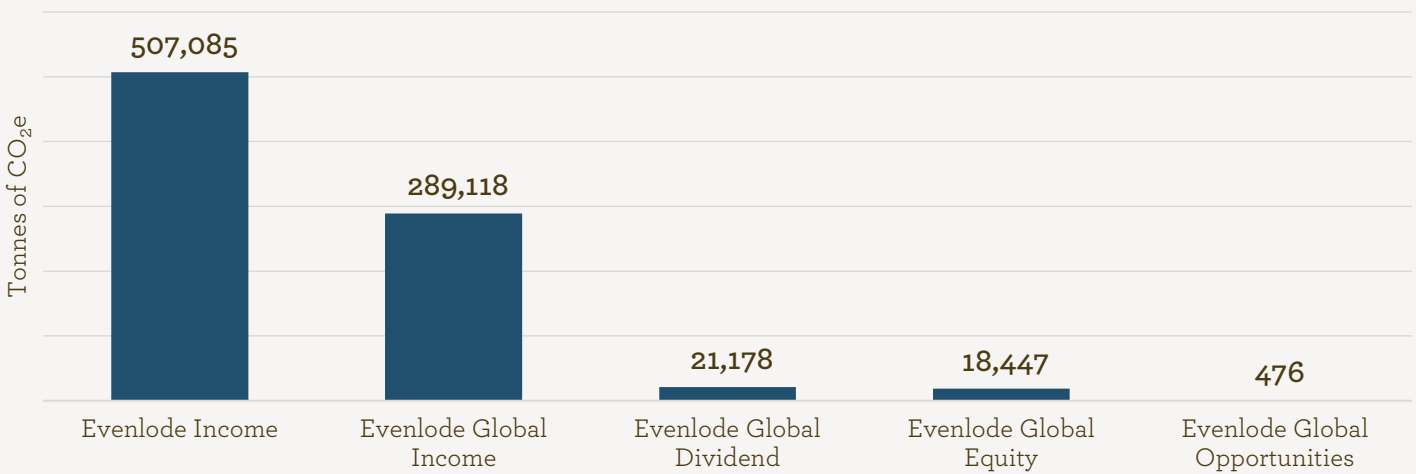
By Lily Postlethwaite, Stewardship Analyst

Results – The impact of our funds

The chart and table below summarise the total financed emissions of Evenlode’s strategies. As is to be expected, across all funds, scope 3 comprises the vast majority of tCO₂e emitted. EI and EGI make up 58.9% and 32.6% of our AUM

respectively and as such they represent a combined 95.2% of Evenlode’s total financed emissions. EGD, EGE and EGO collectively contributed 4.8% to the total.

Total financed emissions per fund



Fund	Scope 1	Scope 2	Scope 3 Upstream	Scope 3 Downstream	Total
Evenlode Income (EI)	10,000	4,500	285,716	206,869	507,085
Evenlode Global Income (EGI)	5,639	3,539	119,126	160,813	289,118
Evenlode Global Dividend (EGD)	416	262	8,685	11,816	21,178
Evenlode Global Equity (EGE)	696	250	13,535	3,967	18,447
Evenlode Global Opportunities (EGO)	18	7	349	102	476
Evenlode Total	16,768	8,558	427,411	383,567	836,303

Total financed emissions by scope in tonnes of CO₂e. Source: CDP 2023 Full GHG Emissions Dataset, Evenlode. Evenlode portfolios as at 29 December 2023.

CARBON EMISSIONS ANALYSIS

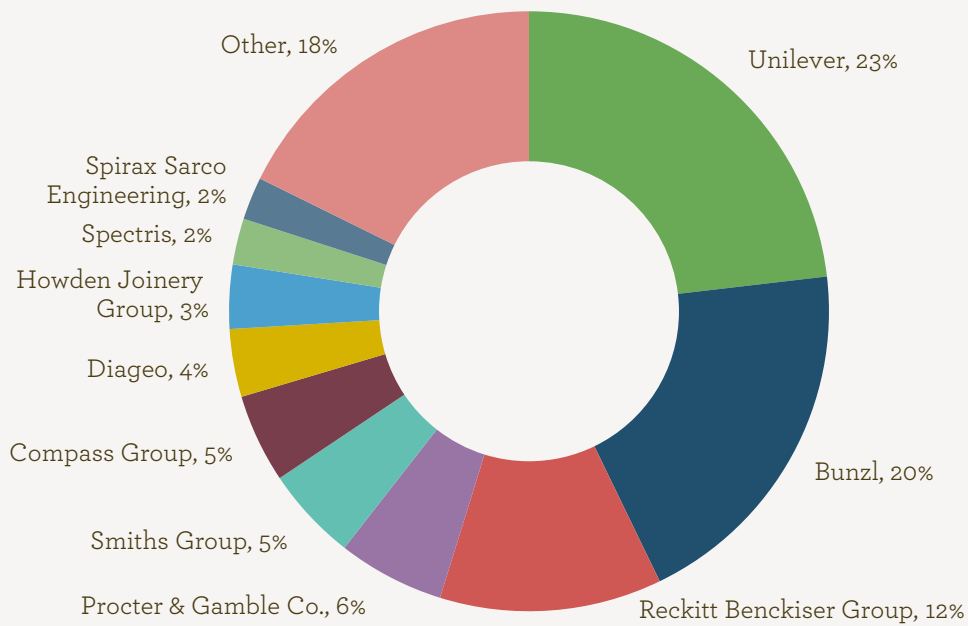
By Lily Postlethwaite, Stewardship Analyst

Results – Our top emitters

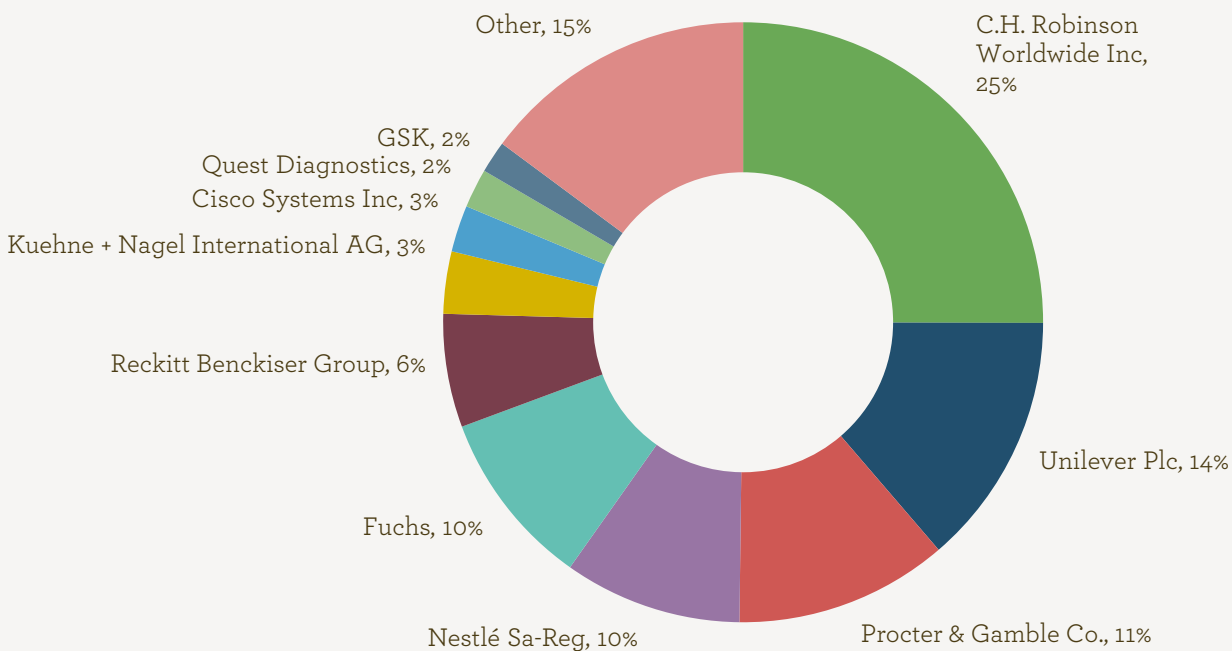
In each of our portfolios there are a number of companies which impact a fund's financed emissions disproportionately; this is a result of their emission intensity and their position size within the portfolio. The top 10 contributors by

percentage in each strategy are named in the below pie charts which show total fund emissions across scopes 1, 2 and 3 broken down by each company's contribution.

Top contributors to EI financed emissions



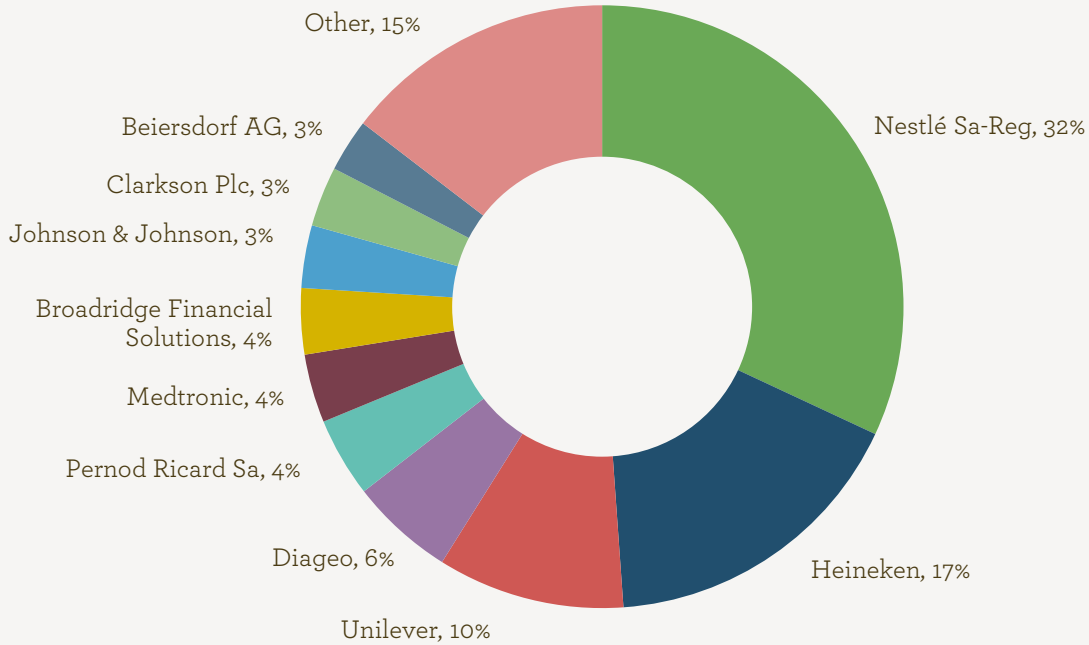
Top contributors to EGI/EGD financed emissions



CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Top contributors to EGE/EGO financed emissions



Total fund emissions across scopes 1,2 and 3 broken down by each company's contribution. Source: CDP 2023 Full GHG Emissions Dataset, Evenlode. Evenlode portfolios as at 29 December 2023.



CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

We focus our engagement efforts on the most-emissions intensive companies, measured by emissions per £m of revenue. This indicator highlights how emission intensive and/or operationally efficient companies are, independent of their overall market capitalisation or portfolio position size. The top ten most emissions intensive companies for each fund are listed below.

Due to data licensing restrictions, we are not able to disclose individual companies' emission intensities in this report.

Rank	Evenlode Income	Evenlode Global Income/Dividend	Evenlode Global Equity/ Opportunities
1	Procter & Gamble	Procter & Gamble	Nestlé
2	Spirax-Sarco Engineering	Nestlé	Unilever
3	Unilever	Unilever	Heineken
4	Reckitt Benckiser Group	Fuchs	Pernod Ricard
5	PepsiCo	Reckitt Benckiser Group	Diageo
6	Bunzl	Snap-on	L'Oréal
7	Halma	Cisco Systems	Nintendo
8	Rotork	Kuehne + Nagel	Broadridge
9	Smiths Group	Diageo	Johnson & Johnson
10	Howden Joinery Group	L'Oréal	Clarkson

The ten companies with the highest tonnes of CO₂e/£m revenue across scopes 1, 2 and 3 per portfolio. Source: CDP 2023 Full GHG Emissions Dataset, Evenlode. Evenlode portfolios as at 29 December 2023.

Procter and Gamble has retained its position this year as the most emissions intensive company in the Evenlode cohort of 79 companies. They have, however, managed to reduce their scopes 1, 2 and 3 emissions by 20%, 17% and 19% respectively. In a similar vein, we have seen Nestlé's emissions intensity

come down by 21% since last year as a result of improved supplier engagement. We welcome these reductions from our large consumer goods companies but note that there is still a long way to go if the companies' net zero targets are to be met.

CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Results – How our funds compare to the benchmarks

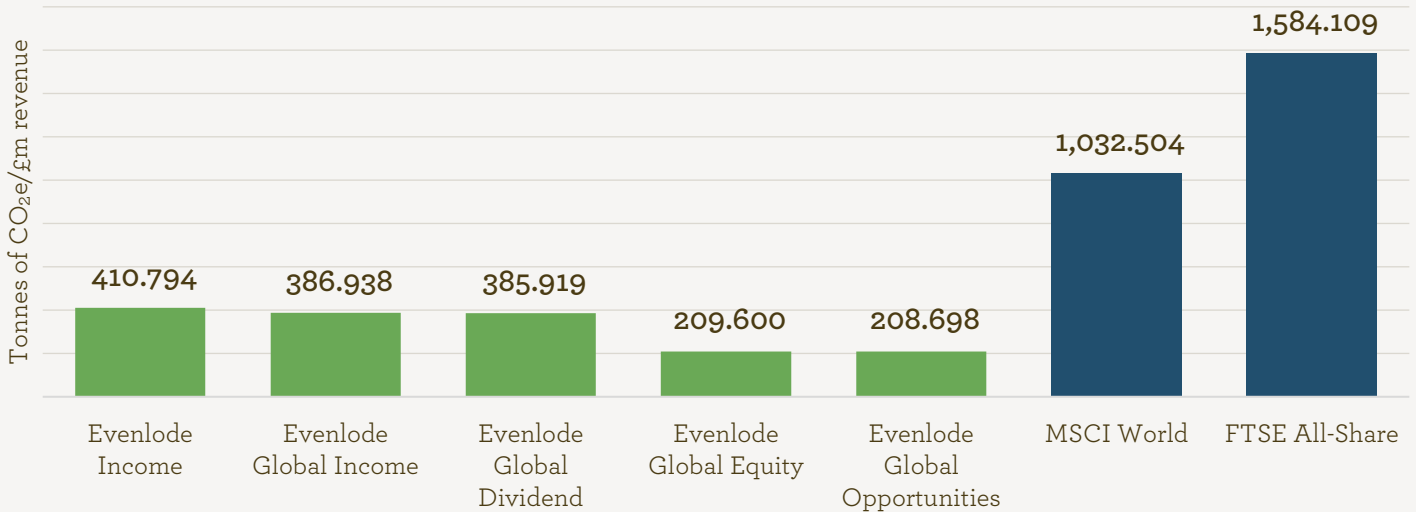
Evenlode’s significantly lower emissions intensity across all three scopes when compared with the MSCI World and FTSE All-Share indices can by and large be explained by our investment approach, which has a bias towards asset light businesses. As a result of favouring cash generative, capital light business models, our sector exposure is skewed away from emissions intensive, heavy industrial sectors such as energy, materials, and utilities. In previous years’ analysis, scope 3 data for the benchmarks has not been available, as such, this year represents the first year we have been able to compare Evenlode’s total financed emissions with the MSCI World and FTSE All-Share indices across all three scopes.

The FTSE All-Share Index is significantly more carbon intensive than the MSCI World Index for two main reasons; the FTSE All-Share Index has a higher weighting to the Energy, Materials and Consumer Staples sectors, where the

MSCI World Index heavily favours Information Technology; in addition, the FTSE comprises fewer, smaller businesses than the MSCI.

The Energy, Materials, Real Estate, and Utilities sectors collectively accounted for 14% and 26% of the MSCI World Index and the FTSE All-Share Index respectively. None of our funds have any direct exposure to the Energy or Utilities sectors and Materials and Real Estate comprise just 4% of EI and 2% of EGI and EGD. Instead, the majority of holdings in our investment portfolios were from the Consumer Staples, Information Technology, Health Care and Industrials sectors, which have lower scope 1, 2 and 3 emissions intensity.⁶ Because of this, Evenlode’s funds also had lower scope 1, 2 and scope 3 emissions per £10k invested compared to the MSCI World and FTSE All-Share indices.

Weighted average emission intensity across scope 1, 2 and 3



Weighted average emission intensity across scopes 1, 2 and 3 as at 29 December 2023. Source: CDP 2023 Full GHG Emissions Dataset, Evenlode, MSCI, and FTSE Russell. MSCI World Index and FTSE All-Share Index portfolios as at 29 December 2023 and converted to GBP using that day’s exchange rate.

⁶ Based on GICS sector classification for MSCI World and Evenlode portfolios as at 29 December 2023.

CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Results – How we are progressing against our net zero targets

In June 2021, Evenlode joined the Net Zero Asset Managers (NZAM) Initiative, and we have committed to reaching net zero by 2050 or sooner across 100% of our investment portfolios. As part of our net zero commitment, we have chosen an emissions per £10k invested reduction target of 7% per annum in line with the SBTi Net Zero Standard, leading to a 51.6% reduction from 2020 to 2030. This aligns with the standard's requirement to halve emissions before 2030 and achieve 90% reduction by 2050.⁷

In 2023, we achieved an overall reduction of 32.2% in our emissions per £10k invested across our investment portfolios – a decrease from 2.16 to 1.47 tCO₂e. This significant reduction in our funds' financed emissions has been driven by several different factors. The International Energy Agency (IEA) reported that in 2023 the global supply of renewable energy grew by almost 50%, the 22nd consecutive year to set new clean energy capacity records⁸. This structural improvement in the energy mix, alongside growth in global prosperity has enabled companies to record lower emissions figures for their energy usage. It is also true that the quality of reported data has improved

as measuring methodologies get better and engagement with suppliers along companies' value chains increases. Companies are best placed to report their emissions as they are most familiar with the nuances of the business model.

For the EI fund, the decrease can be attributed to strong reductions and improved reporting by the likes of RELX, Diploma and GlaxoSmithKline (GSK). Notably, GSK, a pharmaceutical company held by both EI and EGI, engaged extensively with its suppliers for the first time, leading to the collection of more accurate information on their scope 3 emissions. Thanks to this improved data gathering, they were able to lower their overall CO₂e emissions intensity by 24%, which equates to a reduction of nearly 5 million tonnes. The EGI emission intensity has reduced due to the fund rotating out one of the most emission intensive holdings, Henkel. Quest Diagnostics, a portfolio company of EGI, mistakenly reported an inflated figure for 'Purchased Goods and Services' last year. This year, the company was unable to calculate a more accurate figure, as a result, an estimate calculated by the CDP has been used. The Stewardship team are continuing the dialogue with Quest. EGE's AUM

has increased five-fold since last year's analysis was undertaken, and while the total emissions have increased, the fund's emissions intensity has come down by almost half. This is a result of large emissions reductions made by RELX, Verisk, Experian and Broadridge, in conjunction with the sale of C. H. Robinson, EGE's top contributor in 2022. Experian, a company held in all of our funds, changed their calculation methodology for their 'Purchased Goods and Services' category last year to include more data from their suppliers. This resulted in a 68% decrease in their emissions for this category.

Our emissions footprints were significantly lower than the emissions associated with an equivalent £10k investment in a fund tracking the MSCI World and FTSE All-Share indices. The difference mostly came from the Evenlode funds' low exposure to energy-intensive industries, such as Oil & Gas, Materials, Real Estate, and Utilities. Evenlode favours investments in asset light businesses and our approach has a bias towards quality, these factors also play a role in the difference in intensity between our funds and the indices.

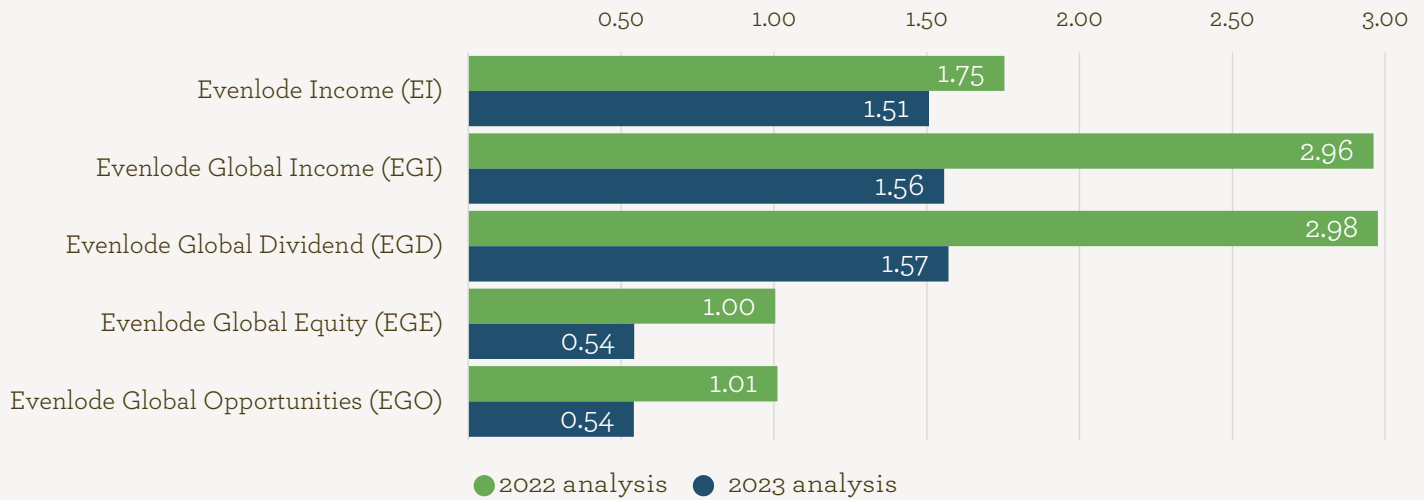
⁷ Science Based Targets Initiative, August 2022. Financial Sector Science-Based Targets Guidance. [View here.](#)

⁸ IEA (2024), CO₂ Emissions in 2023, IEA, Paris. [View Here.](#)

CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Tonnes of CO₂e per £10k invested in 2022 and 2023

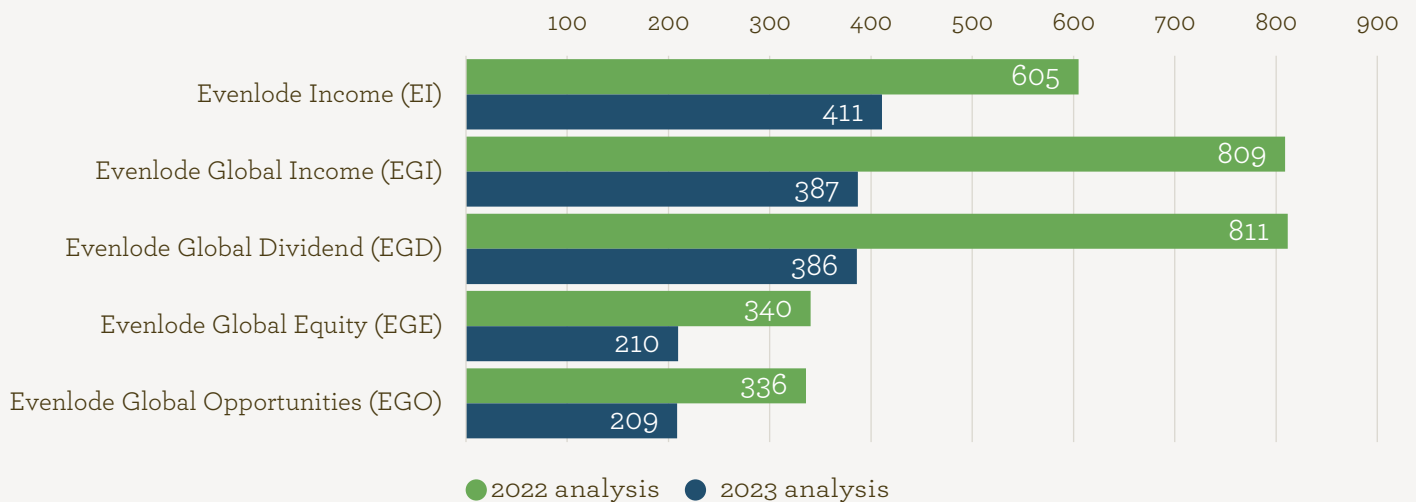


Tonnes of CO₂e/£10k invested across scopes 1, 2 and 3 as at 30 December 2022 and 29 December 2023. Source: CDP and Evenlode. Evenlode portfolios as at 30 December 2022 and 29 December, using data from the CDP 2022 and 2023 Full GHG Emissions Dataset.

Since 2022, for completeness and transparency, we have elected to report the progress against our net zero targets in both sterling and dollar terms. In 2022, our emissions per \$10k invested across our investment portfolios increased by 4.4% from 1.72 to 1.80 tCO₂e but in 2023, our emissions per \$10k

invested across our funds decreased by 36% from 1.80 to 1.15 tCO₂e. In 2022 the dollar strengthened against the pound by 12.6% however, last year this trend reversed somewhat, and we saw the sterling rally 6% against the US dollar.

Tonnes of CO₂e per £m revenue in 2022 and 2023



Tonnes of CO₂e/£m revenue across scopes 1, 2 and 3 as at 30 December 2022 and 29 December 2023. Source: CDP and Evenlode. Evenlode portfolios as at 30 December 2022 and 29 December, using data from the CDP 2022 and 2023 Full GHG Emissions Dataset.

CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Our data sources

To measure our financed emissions, we rely on the Full GHG Emissions Dataset provided by the Carbon Disclosure Project (CDP) as well as publicly reported emissions data by our portfolio companies.

We prefer the CDP dataset for several reasons. First, it requires companies to report emissions segregated into scope 1, scope 2, and the 15 scope 3 categories, rather than in aggregated form. This gives us a better understanding of the sources of emissions. Second, it provides data quality assurance. The CDP data teams check reported emissions, flagging those that deviate from their own estimates of the company's likely emissions, and comparing reported emissions against emissions disclosed in company reports. Third, it provides emissions estimates for all the categories that companies have failed to report on.



Nevertheless, our analysis suggests that the estimates provided by the CDP tend to be higher more often than lower compared to emissions disclosed by the company. It is critical for companies to measure and report their emissions as they have a better understanding of their operations and supply chains.

Conclusion

If we at Evenlode are to continue to achieve attractive risk-adjusted financial returns through time for our clients, then it is imperative for us to actively engage with our portfolio companies on their emissions intensity and their progress towards net zero targets.

Through measuring and publicly reporting our financed emissions, it is our view that we will be able to make more informed investment decisions. Our 'best efforts' estimate of the emissions footprint for the Evenlode funds in 2023 is 1.47 tCO₂e per £10k invested for scope 1, scope 2, and scope 3, which represents a decrease of 32% from 2.16 tCO₂e per £10k invested in 2022.

Due to some portfolio name changes, increased disclosure by certain companies and good progress from our holdings we have seen a larger than expected decrease in our emissions per £10k invested this year. It is important to note that while we are pleased to see the analysis going in this direction, we don't expect progress towards our net zero targets to be linear or indeed easy. We still have work to do if we are to meet these targets, but Evenlode remains committed to actively engaging with our portfolio companies to enhance reporting practices and improve sustainability measures.



COP28 OBSERVATIONS

By Sawan Wadhwa, Head of Stewardship and Tom Weller, Head of Innovation

Tom and I received an invitation to attend the Climate Action Innovation Zone at COP28 in Dubai. This zone, recently established as the official third zone alongside the Blue Zone (designated for officials and diplomats) and the Green Zone (open to the public), has recently gained prominence.



Sawan Wadhwa, Head of Stewardship



Tom Weller, Head of Innovation

Spanning five days, the Innovation Zone showcased flagship forums on a variety of topics, including Sustainable Innovation, Sustainable Finance, Hydrogen, and Agri-Food. Among the key highlights were two notable stages: the Island of Hope and Climate Action. The Island of Hope stage emphasised the challenges faced by island nations, which are disproportionately affected by climate change, while the Climate Action stage facilitated more intimate discussions with climate experts.

Supply Chain Opportunity

One session that stood out for its practicality, was on Supply Chain Opportunities. It delved into enhancing risk management within supply chains through strategic engagement with suppliers. In the ever-changing global supply chain landscape, effectively managing risks is vital for companies across all industries. This session offered valuable insights, drawing on experiences from company representatives across diverse sectors, including management consultancy, pharmaceuticals, global agribusiness and food, software, and transportation.

The session went into detail about prioritising high-impact emission categories and focusing on reagggregating disaggregated supply chains when decarbonising supply chains. A representative from Brambles, a company operating in the global agribusiness and food industry

advocated for setting regenerative supply chain targets that consume existing waste and build natural resources. This approach underscores the importance of circular economies beyond recycling.

Take the example of a company that we met at COP28, The Supplant Company. Waste in agriculture is not just the well reported 40% that we throw away at the supermarket and in our homes, less well known is the 15% wasted before it leaves the farm, and more importantly the crop residues that may be usefully tilled back into the soil but are often burnt. The Supplant Company has found the right chemistry to take certain crop residues and provide economic incentives to avoid burning by turning them into useful sugar replacements that can be integrated into cake. There are already plenty of sugar replacements that can go into liquids – like your Pepsi Max.

COP28 OBSERVATIONS

By Sawan Wadhwa, Head of Stewardship and Tom Weller, Head of Innovation

Regenerative agriculture

Regenerative agriculture is an approach to farming that aims to conserve and restore farmland and its ecosystem. It is centred around universal agronomical principles that help protect and restore natural resources - primarily soil, as well as water and biodiversity. If done well, it can improve soil health and soil fertility, at the same time capturing carbon in soils and plant biomass. However, there is no predetermined definition of 'regenerative agriculture'. This can create confusion in trying to assess net zero transition plans for many companies.

Good baseline data, or any baseline data at all, is crucial to be able to measure the impact of regenerative practices. We understand this general point about baseline data from our experience as scientists and as equity analysts. Estimation from satellite remote sensing has been the only at scale possibility for soil measurement and historical practice has centred on individual agronomists measuring single farms or fields. We first learnt how absent ground truth is in agriculture from conversations with the Forest People's Programme. Ground-truthing (validating estimated data) can offer major potential to improve risk assessments and audit, preventing harmful supply chain impacts on human rights. This can have a magnifying effect when coupled with a strong due diligence process which if done well, can address environmental and social risks in opaque supply chains.

In March 2023, Planet Tracker published a report offering useful guidance for the financial sector. The report highlights the critical need for a sustainable global food system, emphasising that without transformation, financial institutions will struggle to achieve their Net Zero ambitions and restore nature by 2030. It outlines four key themes for financial institutions to align their capital and investment strategies accordingly. These themes are:

1. Establishing responsible supply chains,
2. Enhancing food system efficiency,
3. Reducing pollution, and
4. Developing sustainable product offerings.

For institutions wanting to take action, the report outlines six priority actions, notably emphasising the goal of transitioning agriculture to regenerative practices by 2030. This focus highlights the critical need for proactive, environmentally conscious investment decisions in this area, a movement potentially inspired by COP26 in Glasgow. There, leaders from 45 countries, representing 70% of the global GDP, committed to making climate-resilient, sustainable agriculture the most attractive and widely adopted choice for farmers globally by 2030. This consensus highlights a significant shift towards sustainable practices in agriculture, reflecting a growing global commitment to environmental stewardship and climate resilience.

A company leading by example is Nestlé, a holding in our Evenlode Global Income and Equity strategies. They have committed to regenerative agriculture to future-proof their supply chains. Their plan has a strong emphasis on soil conservation, achieved through maintaining permanent and diversified soil cover and minimising soil disturbance. There is a shift towards organic fertilisers over synthetic and enhancing natural habitats within farmland, particularly through agroforestry. And a continuous effort to reduce the use of synthetic herbicides and pesticides, alongside measures to protect watersheds and regenerate water cycles in water-stressed areas.

COP28 OBSERVATIONS

By Sawan Wadhwa, Head of Stewardship and Tom Weller, Head of Innovation

Regenerative solutions in the supply chain in our Evenlode Foundation¹ investment portfolio

Agricarbon entered our pipeline of opportunities in our Impact fund in 2021. They offer at-scale ground-truth measurements of soil carbon, and the potential to measure other parameters like soil microbiome in future. Agricarbon now sell an end-to-end service that rigorously quantifies the customers' soil carbon. We saw the value in their development of an at scale solution that combined unique vehicles using robotics, human talent, and statistically robust sampling strategies, with a lab-based sample measurement automation. Importantly, that automated process was developed in a trusting relationship with soil scientists, who understand what is necessary to create a rigorous baseline.

Identifying material and specific cases for regenerative practices is a key part of bringing it into our agricultural system. For instance, if you rewet 3% of European peatland, data suggests you mitigate 25% of European agricultural emissions, but how do you motivate and pay for such rewetting, when the land is marginal, or already in use for crop growing? Enter the whole value chain business model of Ponda (formerly known as Saltyco). Ponda's working hypothesis was that rushes grown as part of rewetting could be processed into a high value insulation material

that could be sold into the fashion industry that needs to replace polyester and goose down. As such they create and develop an entire value chain around a product that can be paid for from deep pockets to benefit farmers and achieve a material and specific goal in regenerative farming. We invested in Ponda in 2022. This investment was an important step but was not our initial venture into the field of regenerative agriculture.

Our first regenerative agriculture investment was a company aiming to gain trust in and help develop the Indian cotton industry. Materra sell scalable solutions to grow and source climate-resilient, transparent and equitable cotton. They continue to be our star performer growing in value 7x since our investment in 2020, and recently announcing that Mango have produced a collection using Materra branded cotton. They have expanded from a few lines of cotton in a greenhouse in the Leigh Valley when the innovation team met them, to vast healthy crops at multiple sites in India, and they recently hosted their fifth birthday party in London. Their impact will be to raise the quality of Indian cotton, to improve the well-being of Indian cotton farmers, and regenerate agricultural land.

To conclude, regenerative agriculture and effective supply chain risk management are crucial for the health of the global economy. Large multinationals and startups are increasingly adopting regenerative practices to future-proof their operations, as seen with companies like Nestlé focusing on soil conservation and reducing synthetic inputs. Simultaneously, innovative startups like Ponda and Agricarbon are at the forefront, developing scalable solutions that directly address the needs of regenerative farming through technologies such as ground-truth measurements and creating value chains that support environmental and economic sustainability. These efforts are critical for enhancing the resilience and sustainability of supply chains globally. Investment in these practices is essential, as demonstrated by success stories like Materra, which will significantly improve the quality of Indian cotton while enhancing farmer well-being and regenerating agricultural land. This integrated approach to regenerative agriculture and supply chain management not only mitigates environmental risks but also offers a pathway for economic growth and sustainability in the face of global climate challenges.



¹ The aim of the Evenlode Foundation is to develop long-term relationships with organisations who are driving innovation and systems change and aim to have a positive impact on society. The Foundation's philanthropic and investment activities are fully funded by Evenlode Investment Management Limited and do not utilise any client funds. The Evenlode Foundation's investment portfolios are unavailable to external investors.

INVESTMENT CASE FOR INDIA

By Rob Strachan, Investment Analyst and Gurinder Samra, Investment Analyst



Rob Strachan, Investment Analyst



Gurinder Samra, Investment Analyst

To further diversify our global funds geographically, we decided to analyse the investment case for India. India is not only a huge market but also one that is growing rapidly. While we recognised that, like the West, India's economic growth has faced challenges due to higher global interest rates, it has not been as negatively impacted in relative terms as other major economies.

For the Global Income and Global Equity strategies, our opportunity set is regionally unrestricted. Developing markets offer the promise of higher long-term growth, business model innovation and portfolio diversification. We have substantial exposure to markets like India through developed market listed companies, such as Unilever. However, we hadn't, until this project, taken an in-depth look at Indian-listed businesses.

We assembled a small group to assess the opportunities and challenges of investing in domestically listed Indian companies and split the streams of investigation between the group.

Our project focused on the following areas:

- Governance and ownership: Bethan Rose.
- Macroeconomics: Rob Strachan.
- Indian companies: Gurinder Samra and Rob Strachan.

Governance concerns are material when assessing a new market, as standards and practices can vary widely and have big impacts on company ownership and incentives, particularly from the perspective of the role of international investors. We reflect these risks in a company's ESG risk scores and consequently it's maximum position size. For this project, Bethan analysed structures from a high-level perspective.



INVESTMENT CASE FOR INDIA

By Rob Strachan, Investment Analyst and Gurinder Samra, Investment Analyst

Key governance risks highlighted from Bethan's research were:

- The structure of the 'promoter' and family ownership means other shareholders are often in a significant minority. A promoter is a distinctly identified shareholder who may have a controlling interest and is expected to have a disproportionate influence (via voting rights) on board and company decisions, normally with direct board representation. In such scenarios we may experience a dissatisfactory level of engagement. This is not unique. European family-owned companies like LVMH and Hermès have similar structures.
- India boasts the third-largest number of family-owned businesses globally. Among the Nifty50 companies (the main equity market index), 31 are family-run enterprises, contributing a substantial 52% to the overall market capitalization. However, the involvement of families in business operations has been associated with risks such as controversy and corruption. While a significant shift in family ownership is unlikely in the foreseeable future, ongoing discussions are focused on regulations targeting the dynamics of promoter relationships. We acknowledge that scandals are not exclusive to emerging markets, with Hexagon, a Swedish company we own in the Global Income strategy, serving as an illustration of a company having recently faced some controversy around governance and disclosure.

- Challenges have arisen due to inadequate auditing practices, increasing the risk of harming a company's brand or reputation and consequently shareholder value. As part of our analysis during annual general meetings, we monitor audit tenure and rotation. We uphold all companies to the standards outlined in the UK corporate governance code (where appropriate), which we consider to be best practice.

Any risks should be considered in a wider context, tested from multiple angles, and normally can be managed. For example, on an individual company basis, we do own companies that have an ESG score of a D, but we manage this through active engagement, monitoring maximum position sizes and thinking about other aspects to the investment case. More often than not, a low ESG risk score triggers a ripple effect on other risk scores within our framework. We did the same with this project assessing the Indian market. The key takeaways were:

Macroeconomics

Real Gross Domestic Product (GDP) and GDP per capita have experienced significant growth, with substantial potential for further increase compared to other economies. This is partly driven by India's large, young and growing population that is urbanising. However, investment returns measured in pounds or dollars are considerably affected by currency depreciation. Additionally, inflation has consistently remained at relatively high levels, amidst the presence of geopolitical risks and significant income inequality.

Indian companies

Our requirements of high return, asset light, cash generative companies with strong competitive advantages resulted in a small opportunity set from our initial quantitative and qualitative screening. We concluded the most attractive names are often subsidiaries of global companies (many of which we already own) with smaller scale domestic competitors. We think strength in nascent categories will likely come under pressure as the markets reach a meaningful size. Rob has analysed Tata Consultancy Services and Hindustan Unilever as new ideas which we will continue to monitor.

Overall, we decided to pause further work on the investment case for Indian-listed companies. Governance considerations formed an important part of this analysis. When taken together with the smaller opportunity set and macroeconomic risks, we were able to form a holistic judgement of the investment case for India. However, given the massive role India is set to play for many of our global holdings, we will be keeping on top of market developments.

UNIFORM GLOBAL CARBON TAX

By Bethan Rose, Sustainable Investment Analyst



Bethan Rose,
Sustainable Investment Analyst

Since my last piece on carbon pricing, significant changes have occurred, highlighting the growing importance of carbon pricing mechanisms and policies globally.

To update on recent shifts in the market, as of 31 March, 2023, Uruguay has held the highest carbon tax rate worldwide, with a charge of \$155.87 US dollars per metric ton of CO₂¹. The carbon tax in the country was first established in January 2022 however, while Uruguay currently has the highest carbon tax, it's important to consider the variations in tax coverage from one country to another. In the case of Uruguay, their carbon tax only applies to gasoline. In contrast, a country like Singapore utilises a carbon tax of SGD5/\$4 but this covers 80% of their national greenhouse house (GHG) emissions, vastly different to that of Uruguay.

Further, Singapore is set to raise its carbon tax to SGD25/\$20 starting in 2023, with the goal of reaching SGD50/\$40 to SGD80/\$60 by 2030. Liechtenstein is also a good example of a country which maintains a robust carbon tax rate of \$130, covering a significant 81% of their GHG emissions. This indicates that while a higher carbon price is beneficial, it is equally important to consider the proportion of a country's emissions covered by the carbon price.

It is generally accepted that carbon prices need to grow over the long-term, to drive investments at the necessary scale and pace. To keep global warming below 2C degrees the consensus suggests that prices must reach \$50/tCO₂ to \$100/tCO₂ by 2030².

As of April 2023, less than 5% of global GHG emissions were covered by a direct carbon price equal to or higher than the suggested range for 2023 (USD value). Although globally there are currently 73 carbon taxes or Emission Trading Systems (ETS) currently in operation.

Total carbon revenues from ETS and taxes saw a 10% increase in 2022, reaching €95bn, with ETS revenues in the EU alone amounting to \$42bn in 2022. This increase can be attributed, in part, to higher prices.

In terms of how governments spend carbon revenues, it is estimated that on average 46% of revenues are allocated to specific policies, 29% to the general budget, 10% to direct transfers and 9% to tax reductions³.



¹ <https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f>

² <https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f>

³ <https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f>

UNIFORM GLOBAL CARBON TAX

By Bethan Rose, Sustainable Investment Analyst

Revenue allocation

National and sub-national governments continue to implement direct carbon pricing instruments with several policy design specifications, reflecting different political and institutional standpoints. Governments also continue to apply indirect carbon pricing through excise taxes on fossil fuels and subsidies worth more than \$1 trillion annually. These measures impact the underlying incentive, even though they are not primarily adopted as climate change mitigation policies. Additionally, fossil fuel subsidies still exist in many countries, impeding efforts to tax carbon emissions.

This complexity of tracking carbon pricing trends highlights the importance of understanding the interaction between direct and indirect pricing mechanisms to achieve wider climate and policy objectives.

The collected revenues from carbon taxes and ETS systems are used in various ways. According to data collected by the Institute of Climate Economics, approximately 40% of revenues from carbon taxes and ETSs were earmarked for dedicated purposes in particular green spending and 10% for direct transfers to vulnerable households and firms. Most revenues from indirect carbon price systems (fuel excise taxes) are not set aside for specific purposes⁴. New research from the OECD indicates there is greater public support for climate policy, including ETSs and carbon taxes, only if the revenues are used to fund green infrastructure and low-carbon technologies or redistributed to low-income households or those most affected by the policy.

The carbon taxes that currently exist in the UK only contributed 5.3% (£47.4bn) of total tax revenue in 2022. Since 2002, there has been a 7.7% decline in revenue, mainly because of the lack of direct carbon taxes. Most carbon taxes are implemented implicitly, based on activities like fuel usage rather than being directly linked to emission levels. Approximately 75% of the revenue from environmental taxes comes from fuel duty and energy taxes, while the remainder is derived from other transport taxes (such as vehicle registration tax) and taxes on non-carbon related pollution (including landfill taxes or fishing licenses)⁵.

It is difficult to create a uniform carbon pricing model across industries due to their own unique characteristics and supply chains. The emissions levels are extremely varied for a company operating in the Consumer Staples industry versus a services-based industry. Creating a consensus will be challenging. Carbon pricing across sectors will be more effective if it is accompanied by complementary government policies that create some common ground. UK government allocated £5.5bn to its core net zero spending for 2022/23 which was less than the amount raised by the UK ETS in the same period. The current political sentiment towards carbon taxes could also further threaten the level of spending in the UK⁶.

Evenlode portfolios

We looked at the ten highest emitters across the Evenlode portfolios to test the financial impact of a uniform carbon price. We also looked at which carbon pricing mechanisms companies are currently exposed to. Procter & Gamble's (P&G) operations are regulated by three carbon pricing systems. The California Cap-and-Trade (CaT) ETS, the EU ETS and the UK ETS. The California model is a cap-and-trade system which applies to emissions that cover approximately 80% of the state's GHG emissions. The EU ETS is a well-established emissions trading system, and the UK ETS replaced the UK's participation in the EU ETS in 2021.

For P&G 14.6%, of scope 1 emissions (314,364 t/CO₂) are covered by the CaT ETS, 1.5% (13,922 t/CO₂) by the UK ETS and only 0.4% (8,922 t/CO₂) are covered by the EU ETS. Their strategy is to purchase enough allowances, to match their annual compliance obligations.

P&G has also set an internal carbon (shadow) price, which covers scope 1,2 and 3 emissions (including upstream emissions, i.e. purchased goods and services and capital goods). They have aligned this with the cost of allowances within the EU ETS. The price ranges from \$8 to \$110 a tonne.

4 <https://openknowledge.worldbank.org/entities/publication/58f2a409-9bb7-4ee6-899d-be47835c838f>

5 https://green-alliance.org.uk/wp-content/uploads/2023/06/Carbon_pricing_policy_insight_WEB.pdf

6 https://green-alliance.org.uk/wp-content/uploads/2023/06/Carbon_pricing_policy_insight_WEB.pdf

UNIFORM GLOBAL CARBON TAX

By Bethan Rose, Sustainable Investment Analyst

Rounding up the information

Eight out of the top ten companies are already exposed to some kind of carbon pricing mechanism, usually in the form of an ETS. However, it often only covers a small portion of scope 1 emissions with the occasional inclusion of scope 2 emissions. For pricing mechanisms to fulfil their intended purpose, they must cover a larger proportion of company emissions.

On a positive note, if you look at the generally accepted carbon price range needed of \$50 - \$100, six of the eleven of the highest emitting companies are using an internal shadow carbon price of at least \$50 or more. This highlights the readiness of a carbon pricing regulation being imposed on certain companies. The risks are higher for companies not currently utilising a shadow carbon price, necessitating closer monitoring and a more targeted engagement strategy. Such companies may find themselves financially unprepared for the implementation of a mandatory carbon tax.

Uniform Global Carbon Tax

Using our most recent carbon emissions analysis, we took the top ten emitters, on an absolute basis.

We used their emissions data for scope 1, 2 and scope 3 upstream to calculate what the financial impact of a carbon price at £50, £75, and £100. This is roughly in line with the general consensus in the scientific community of needing a carbon price of between \$50 - \$100 by 2030 (currency considered). We have used pounds given our funds' denomination and the report of our portfolios' emissions intensity. As a result, any calculations relating to revenue have been converted using the appropriate exchange rate.

We then calculated the proportion of revenue which would be taxed and how it would affect the operating income and margins (i.e. the bottom line) of the most emission intensive holdings in our portfolio(s). What would this mean for the consumer? Will the costs be merely transferred to the user of the product? Additionally, larger companies often incur other significant costs that demand greater attention, such as employee expenses.

What are the initial outcomes?

If P&G's scope 1 emissions were taxed at £50 per tonne of CO₂ this would amount to £112m, and for scope 2 this would cost £7.8m. Worth noting that scope 2 emissions are generally the lowest for companies, this is because the category is measuring just the electricity or energy they buy for heating or cooling and often organisations can purchase renewable sources of energy. Finally, if you were to calculate scope 3 upstream emissions, this would equal approximately £1bn. This sounds like a lot in practice, however, if you look at the carbon liability as a proportion of revenue, it's only 2.14%. For operating income, it is considerably higher at 7.89%. This is not insignificant. If a carbon tax was imposed tomorrow, this would mean a \$7bn hit to operating income, in total, up until 2030. **The cost of inaction in P&G's case is much higher than the cost of action.**

This is at a carbon price of £50 per tonne which is at the lower end of our assumptions. Currently P&G are using an internal shadow carbon price of between \$8 - \$110. Through their reporting, it is unclear how this works in practice. If we were to use a carbon price of £100, this would be a liability of just shy of £240 million for scope 1 and 2 emissions and just over £2.1bn for scope 3 upstream emissions. That's a total liability of 4.32% as a proportion of revenue, and 15.78% as a proportion of operating income.

The complexity of taxing scope 3 emissions makes the proposed P&G scenario unlikely, but it highlights the significant financial liability that could be imposed on the company.

Taking a deeper look

We also looked at the different ranges of internal prices that the companies set and what the difference in liability would be in practice.

So, as an example, P&G uses a carbon price of between \$8 (£6.57) and \$100 (£90). That would mean that for scope 1, 2 and upstream scope 3 emissions the liability could range from anywhere between circa £156.5m to £2.15bn. For context, that is a liability of anywhere between 0.28% of revenue (or 1% of operating profit) and 4% of revenue (14% of operating profit). It's an even bigger issue for Henkel, who use an internal carbon price range of between €1 - €118 which if applied across all scopes would create a liability of anywhere between £11.2m to £1.32bn. Again, that could create a revenue liability of 7.9% or 71% of operating profit. This scenario could negatively affect the company's investment case.

These carbon prices, presently serving as theoretical internal shadow prices, guide capital allocation decisions; however, if these prices were implemented, the financial liabilities on the company could be significant.

UNIFORM GLOBAL CARBON TAX

By Bethan Rose, Sustainable Investment Analyst

What are the experts saying?

Planet Tracker's Climate Transition Fast Moving Consumer Goods (FMCG) report studied the financial implications of a carbon tax being imposed on Unilever, Colgate and P&G's scope 1, 2 and 3 emissions. Planet Tracker estimated that by 2030 Unilever could face an annual cost increase of \$1bn, and P&G up to \$6.7bn based on future predictions. This was calculating only the upstream scope 3 emissions.

For Unilever, they used an implied cost of carbon at \$58 per tCO₂e by 2030. They will need to reduce 32.4m tons of CO₂e by 2030. This is only if you calculate scope 3 emissions. If using an absorption ratio of 80%, the financial impact would be £1.5bn or 14% of Unilever's annual operating income (averaged between 2020 - 2022). It is unclear exactly what the research means by absorption ratio, but we have assumed this means the cost the company would be able to take before incurring the extra financial impact. For P&G they used an implied cost of carbon at \$62. They will need to reduce 135.3m tons of CO₂e by 2030. This would result in a financial impact of \$6.7bn or 51% of annual operating income (averaged between 2017-2021). They appear to be forecasting future emissions, applying a price, and estimating the annual cost relative to today's (last 5 years) operating income. While this is an estimate, it provides an upper bound on the potential trajectory of carbon pricing liabilities.

This demonstrates the various methods available for conducting a carbon pricing scenario analysis. Nevertheless, the overarching message is clear: the potential future carbon cost or liability could be significant and should not be underestimated.

Revenue, margin, pass through.

In the absence of a co-ordinated approach, businesses subject to carbon prices could be at risk of being undercut by competitors which are operating in countries with fewer environmental regulations and could be tempted to move production abroad. This effect is known as 'carbon leakage'.

Firms can determine the extent to which they wish to pass the costs onto their customer base. Consequently, if the costs are absorbed upstream, incentives to change consumer behaviour are diminished. The costs passed on are difficult to determine as certain industries included in the EU ETS do not pass on significant costs with their final product. This can partly be explained by concerns around competitiveness and maximising market share. Passing on carbon prices and other related costs could also have an impact on labour costs as taxes often play a larger role in determining product price⁷.

Separately, if not carefully designed, a carbon price tax can hit lower income households disproportionately because spending on carbon intensive goods such as heating, and transport is a larger proportion of their expenses. They may be unable to afford the upfront investment in lower carbon alternatives, like home insulation or electric vehicles.

How are companies responding?

Carbon offsetting gets discussed a lot in conjunction with carbon pricing. There are lots of different versions including carbon compensation credits and carbon removal credits (neutralisation). Carbon offsetting does have a part to play in the transition especially for hard to abate sectors. Some companies have indicated that they will not use emissions offsets as part of their transition plan, while others will.

According to research by Trove Research and University College London, by 2030 carbon credits are projected to cost between \$20 - \$50 per tonne of carbon. They can currently cost anywhere between \$1 - \$100 per tonne. It may be tempting for companies to pay the lowest possible carbon price for an offset but in reality, companies need to be paying for the high-quality offsets so that they can continue to operate. It is worth noting as per my previous piece on carbon pricing that a higher price for offsetting also doesn't necessarily mean higher quality.

⁷ https://green-alliance.org.uk/wp-content/uploads/2023/06/Carbon_pricing_policy_insight_WEB.pdf

UNIFORM GLOBAL CARBON TAX

By Bethan Rose, Sustainable Investment Analyst

What investments in climate mitigation are being made?

Unilever have a €1bn Climate & Nature fund. They note in their annual report that natural climate solutions could provide up to 37% of emissions reductions the world needs by 2030. The fund invests in projects that positively address climate change and protect nature through protection and regeneration. Unilever has stated that some projects might generate carbon credits, supporting claims of carbon neutrality for consumers. However, this occurs in addition to, not as a means of, achieving emissions reduction—a crucial distinction.

Unilever make it very clear that credible net zero strategies must lead with science-based emissions reductions pathways, complemented with carbon removals when all feasible reductions have been implemented. This is a statement that all firms should be leading with. It's not an either/or question. Companies must be reducing emissions whilst also investing in carbon sink projects.

P&G have partnered with Conservation International and the World Wildlife Fund (WWF) to identify and fund a range of projects designed to protect and restore ecosystems. One example is their Philippines Palawan Protection Project with Conservation International which aims to protect and restore Palawan's mangroves. They are going beyond their targets of reducing scope 1 and 2 emissions by 50% by 2030, by also advancing a portfolio of climate solutions that will deliver a carbon benefit equal to any scope 1 and 2 emissions they have emitted between 2020 and 2030. This would amount to 30 million metric tons of carbon.

Engagement

An important outcome of the analysis will be a more targeted engagement strategy towards the most emission intensive holdings in the portfolio. As an example, P&G are currently using a carbon price of between \$8 - \$100 which could result in a carbon liability of billions of dollars over the next couple of years. The potential financial liability will be discussed with the management team to better understand the severity of the risk. Companies need to be adequately accounting for carbon when making financial planning decisions and consequently their long-term GHG emissions reduction targets. This aligns well with the Net Zero Investment Framework which we strongly advocate for in our long-term net zero transition strategy. This would mean companies can reach their carbon reduction targets and that the capital is being funnelled in the right direction.

Looking forward we will continue to monitor the portfolios' emission intensity as well as any carbon pricing mechanisms that they may be subject to. We will continue to assess whether companies are aligning their future capital expenditures with their long-term GHG emission reduction targets. Additionally, we will focus on companies that are openly committing to investments in climate solutions and demonstrating their potential to become part of the solution.



PAY PARITY

By Rebekah Nash, Governance Analyst

The unadjusted gender pay gap is defined as the difference between gross hourly earnings of men and women, expressed as a percentage of the average hourly earnings of men.¹ As of 2021, the gender pay gap of the EU economy was 12.7%. In 2023, the UK gender pay gap was 14.3%.² The gender pay gap is not to be confused with equal pay for equal work which is considered a fundamental human right and is covered in International Human Rights Law, under convention 100 of the International Labour Organisation.³



Rebekah Nash, Governance Analyst

The unadjusted gender pay gap is instead, looking at the overall difference in pay between men and women within a company or geographical region. According to the UK 2023 report, the gender pay gap among high earners is much larger compared with lower-paid employees, this shows that men are far more populous in senior roles. There also remains a large difference in the gender pay gap between employees aged 40 years and over and those under 40 years of age, with the gap getting larger the older employees become.⁴ As this piece highlights, both statistics stem from a combination of factors but are heavily influenced by the ‘Motherhood Pay Penalty’, i.e. the pay

gap between working mothers and similar women without dependent children. Taking time out of work to have a family can negatively impact women’s salaries and career progression.

The UK mandates that every company with over 250 employees must report their gender pay gap, this includes the mean and median difference in hourly pay as well as the mean and median bonus pay gap. The gender distribution within each of the company’s four percentiles of pay must also be disclosed. Alongside the UK, Austria, Belgium, Canada, Denmark, Finland, Iceland, Israel, Latvia, Lithuania, New Zealand, Spain, Sweden and the US all require some kind of disclosure – although the reporting requirements vary significantly.⁵

Rather than the gender pay gap showing the underpayment of either gender for the job that they are doing, the pay gap shows the systemic opportunities available to women and men within either a corporation, sector or region. These under or overpayments can be seen as *sectoral gender segregation* and *occupational gender segregation*. These phrases describe that the pay gap can be due to concentrations of gender in certain occupations or sectors.

Women tend to be concentrated in low-paying economic sectors like health and education, whereas men are more concentrated in finance and technology. According to the EU commission on the Gender Pay Gap in the EU, occupationally, men are more likely to be promoted to supervisory and management position than women due to a combination of factors such as discrimination or self-restraint.⁶ The concept of the “glass ceiling” originates from this lack of promotion for women.

A positive gender pay gap figure shows that women have less access to the higher remuneration in a company or region than men. A negative figure shows the opposite of this. It must be noted however, that the percentage of men and women working impacts the data. If there are significantly more men than women working in that company, the pay gap will be significantly higher; for example, if 80% of the workforce are male, there are four times the number of men being paid than women. This shows that the data needs to be interpreted with nuance and not always be taken at face value, unless the company has a 50:50 gender split in the workforce.⁷

1 ‘Gender Pay Gap Statistics’, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Gender_pay_gap_statistics

2 ‘Gender Pay Gap in the UK - Office for National Statistics’, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2023>

3 ‘Convention C100 - Equal Remuneration Convention, 1951 (No. 100)’, https://www.ilo.org/dyn/normlex/en/?p=NORMLEXPUB:12100:0::NO::P12100_Ilo_Code:C100

4 ‘Gender Pay Gap in the UK - Office for National Statistics’.

5 OECD, *Pay Transparency Tools to Close the Gender Wage Gap*, Gender Equality at Work (OECD, 2021).

6 European Commission. Statistical Office of the European Union., *Gender Pay Gaps in the European Union: A Statistical Analysis: 2022 Edition*. (LU: Publications Office, 2022).

7 ‘What Does Best-Practice Gender Pay Gap Reporting Look Like?’, *CMI* (blog), 23 June 2021, <https://www.managers.org.uk/knowledge-and-insights/interview/what-does-best-practice-gender-pay-gap-reporting-look-like/>

PAY PARITY

By Rebekah Nash, Governance Analyst

The gender pay gap highlights the proportion of women in the high-paying roles within a company, sector or geography. For example, GSK has a female CEO and the pay gap sits at -1.10% for the mean hourly pay gap. However, this is not just being skewed by the presence of a female CEO as they have strong female presence across workforce in all 4 quartiles of the company. Including having 46.5% of the workforce being female in the upper of the company. They are one of only 3 companies within the Evenlode portfolio where women hold over 45% of the positions in the upper quartile of the company but the gender pay gap is below 5%. This shows that in these companies women are being promoted and retained in the workforce and have equal access to remuneration as their male counterparts. On the other hand, there are multiple companies within the portfolio that have over 45% of women in the upper quartile of the company and over 50% of the overall workforce being female but the gender pay gap is over 10% or even up to 25-30% in multiple cases. This shows a significant disparity between the overall presence of women in the workforce and their remuneration.

The gender pay gap is a useful indicator of the gender diversity in decision-making roles within the company. The lack of women in these positions can be the result of long-standing discrimination against women within society or even within a company as well as dictation of gendered roles.⁸

The trends we see from the gender pay gap include:

- 1) The lack of women in senior positions which consequently suggests the lack of access to the higher pay policies.
- 2) The impact maternity leave has on promotion and retention and thus access to pay.
- 3) The impact of gender stereotypes within certain sectors, like science, technology, engineering and mathematics (STEM).

If the gender pay gap is a measure of gender diversity, why is diversity in the workplace material to company success? And how is Evenlode measuring the risks associated with large gender pay gaps within its investee companies?

As highlighted above, the gender pay gap reflects the lack of diversity in the middle and upper quartiles of a company, indicating fewer women in decision-making roles.

Diversity encompasses a wide range of areas, including gender, ethnicity, culture and lived experiences. Without it, companies are more susceptible to “groupthink” and internal biases. This can lead to poor decision-making. McKinsey’s 2020 diversity report showed a correlation between companies that prioritise diversity and those more likely to exhibit greater innovation, improved decision-making⁹ and higher employee satisfaction. They argue diversity is critical for business recovery, resilience and reimagination¹⁰ thus making them potentially better long-term investments. In addition,

groupthink, due to the lack of diversity, can lead to poor decisions and errors in leadership, sometimes resulting in unethical behavior or poor capital allocation.¹¹ This can lead to underperformance or in worse cases, scandals which can damage the reputation of the business.¹²

We originally started looking at gender pay gaps as a measure for diversity in 2023, however, following some internal debate, we have changed the parameters. Initially, we were just measuring if the gender pay gap was more than 1%. After analysing Evenlode’s portfolio companies, which have an average pay gap of 12%, and considering the broader context, we realised that this threshold is currently unrealistic. Therefore, moving into 2024, we have decided that a company having a gender pay gap below 10% will be considered as a positive indicator. If the gap is not below 10%, we will then evaluate the policies in place aimed at reducing the pay gap.

⁸ ‘What Is the Gender Pay Gap and Is It Real?: The Complete Guide to How Women Are Paid Less than Men and Why It Can’t Be Explained Away’, Economic Policy Institute, <https://www.epi.org/publication/what-is-the-gender-pay-gap-and-is-it-real/>

⁹ *Improving the quality of decision making*. In the face of major dislocations, enhanced problem-solving skills and vision will be needed to reappraise business models, competitive dynamics, and the external environment. Our research has demonstrated that organizations investing in diversity and inclusion are strongly positioned in this regard, in part because diversity brings multiple perspectives to bear on problems, thereby boosting the odds of more creative solutions. Diverse companies are also more likely to have employees who feel they can be themselves at work and are empowered to participate and contribute. In addition, research shows that diverse teams focus more intently on facts and process them more carefully. – From Diversity Still Matters | McKinsey’, <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-still-matters>

¹⁰ ‘Diversity Still Matters | McKinsey’, <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-still-matters>

¹¹ ‘What Is Groupthink? Definition, Characteristics, and Causes’, Investopedia, <https://www.investopedia.com/terms/g/groupthink.asp>

¹² Caroline C. Hartmann and Jimmy Carmentate, ‘Does Board Diversity Influence Firms’ Corporate Social Responsibility Reputation?’, *Social Responsibility Journal* 17, no. 8 (1 January 2020): 1299–1319.

PAY PARITY

By Rebekah Nash, Governance Analyst

We are considering this more nuanced approach as companies often have high pay gaps if they sit within an industrial or traditionally STEM sector where women have been systemically not present until recent years. We therefore cannot expect these companies to have equal number of women and men in the senior positions.¹³ Therefore, we are more interested in the policies in place to ensure that women can access the more senior roles where currently, women are not present. It has been shown that it takes several years for a company to correct its gender pay gap, so we do not expect this metric to be changing year on year significantly.¹⁴

One of the major drivers of the gender pay gap is women falling out of or stalling within the workforce due to maternity. Therefore, maternity policies within companies are a key indicator of how a company is looking to correct their pay gap. By the age of 42, mothers who are working full time will be earning circa 11% less than their equivalent. The case study used by the Trades Union Congress (TUC) found that fulltime workers born in 1970 had a 42% pay gap primarily driven by the impact of parenthood on earnings, the women generally earned less after children and the men earned more after children.¹⁵ However, the pay gap was smaller, at 12%, between women without childbearing and/or caring responsibilities and their male counterparts. Therefore, there is on average a 30% greater pay gap for women taking a career break for maternity.

Women are systemically paid less when they take on the role of mother or caregiver. They are often not able to access bonuses when they are on

maternity leave and even when they return, women are more likely to remain the primary caregivers and therefore, must reduce their working hours. Of the cohort used by the TUC, 54% of women were working part-time in comparison to just 3% of fathers. Women working part-time can earn up to 32% less per hour than working full time according to the ONS. Part-time work can often lead to a lack of progression and promotion. In addition to these factors, fathers will sometimes receive a wage bonus compared to men who do not have children, again widening the inequality between women with children and men with children.¹⁶

So, the question is, how can the gap be re-balanced? The key is in the parental leave for the parent who has not given birth. If the typical male role in a heterosexual relationship is treated the same as the typical female role this could level out the inequality that women currently face in the choice to have a family. As it currently stands, it is more economically viable for women to take time off work to care for their child than for a father, after the mother has recovered from giving birth.¹⁷ This is due to women often being paid less due to the pre-existing gender pay gap and having greater access to a more economically viable maternity policy than paternity leave policies. However, a robust parental leave policy has the potential to redress the balance. The aim of these policies is to encourage the father to use equal share of the leave and increase gender-neutral entitlements and reduce the gender norms associated with having a family.¹⁸ This is known as a *default policy option* where half the total leave is allocated to each parent. Sweden is leading on this policy where a certain number of days are non-

transferable to the other partner and operated on a “use-it-or-lose-it” term. In Sweden this has dramatically increased the uptake of paternal leave from 43% to 75%.¹⁹

If the leave is taken by both in the relationship, it removes one of the significant disadvantages of being a woman over a man for both the employer and the employee, as a woman is no longer less economically effective in comparison to her male counterpart who would also have to take off significant time to raise a child.

As illustrated above there are a multitude of factors that are built into the development of the gender pay gap, from education to parental leave and care giving responsibilities. It is this multiplication of factors that makes the gender pay gap complex to equalize. However, policies in the workplace that promote women and parental leave will allow women to reach their potential via fair promotion and ensuring they are retained in the workforce. This in turn will increase diversity of thought in decision making roles within corporations thus mitigating risk and increasing performance.

At Evenlode, we aim to assess the risk associated with the lack of diversity within our investable universe and continue to explore solutions for narrowing the gender pay gap. This will enable us to engage productively with companies, facilitating discussions on equalising their pay disparities and enhancing diversity of thought in the middle and upper quartiles of employees in a company.

13 ‘Positive Action in the Workplace’, GOV.UK, accessed 31 January 2024, <https://www.gov.uk/government/publications/positive-action-in-the-workplace-guidance-for-employers/positive-action-in-the-workplace>

14 ‘It Will Take Another 136 Years to Close the Global Gender Gap’, World Economic Forum, 12 April 2021, <https://www.weforum.org/agenda/2021/04/136-years-is-the-estimated-journey-time-to-gender-equality/>

15 ‘The Motherhood Pay Penalty’, 8 March 2016, <https://www.tuc.org.uk/research-analysis/reports/motherhood-pay-penalty>

16 ‘The Motherhood Pay Penalty’.

17 WBG, ‘Spring Budget 2021’.

18 WBG.

19 WBG.

PHILANTHROPIC ACTIVITIES

By Sawan Kumar, Head of Stewardship and Madelene Ericsson, H&M



Sawan Wadhwa, 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. 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 focus on charities that are working towards 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 in our investable universe are having on society, adding more colour to their ESG credentials.

Canopy Planet

“Collaboration across supply chains, at scales beyond what has been considered before is needed in order to address the climate and biodiversity challenges we face.” Madelene Ericsson, Environmental Sustainability Business Expert at H&M, member of CanopyStyle.

Forests are pivotal in maintaining our planet’s livability and are essential allies in our quest to stabilize the climate. Alarmingly, each year, over 3.4 billion trees are logged to produce fabrics such as viscose and rayon, along with paper packaging. A significant portion of

these trees are sourced from the world’s most Ancient and Endangered Forests, which are vital for Earth’s biodiversity.

These forests, along with their soils, are responsible for storing 45% of terrestrial carbon. Ancient and Endangered Forests are up to 40 times more efficient at carbon sequestration than plantation forests. Once disrupted, these ecosystems’ water and nutrient cycles—and thus their carbon storage capacity—are compromised, leading to irreversible changes in tree and wildlife populations. Furthermore, they shelter 80% of our planet’s terrestrial biodiversity — meaning all plant and animal life on land.

Canopy actively partners with more than 850 companies in the fashion and packaging sectors, worth over \$1 trillion in combined annual revenue, to phase out the use of irreplaceable forest resources in their supply chains, steering them towards circular low-carbon Next Generation alternatives, such as agricultural and textile waste, that bolster conservation efforts.

Over the last six years, Canopy has significantly influenced the viscose supply chain, ensuring 54% of it is now classified as ‘green shirts’ or at a low risk of sourcing from Ancient and Endangered Forests. Remarkably, viscose producers accounting for 92% of global production have joined forces with Canopy, committing to a sourcing policy that excludes the use of Ancient and Endangered Forest fibers. Additionally, Canopy has facilitated the launch of three pioneering Next Generation pulp mills, including the first-ever textile-to-textile pulp mill in Sweden, and mills utilising agricultural residues for paper packaging in China and North America.

Canopy’s ambitious goal is to safeguard 50% of the world’s forests, including all Ancient and Endangered forests, by 2030.

CONFLICTS OF INTEREST

By Richard Taylor, Compliance Manager



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 result 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.

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 interest. 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.

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 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 Officer.
Receipt of non-public information	Has to be reported to the Compliance Officer. Trading ban put in place until information made public. Ongoing monitoring of trading activity to detect potential suspicious trades.
Personal account dealing	Personal Account Dealing requires pre-trade approval from Compliance Officer.
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 annual Responsible Investment Report are also made public.
Outside business interests	The conflicts of interest register contain details of any outside interests (e.g. other directorships). These are reviewed in quarterly board meetings.
Profits from Impact portfolio due to a merger/acquisition	Initially, there would be an embargo on dealing. Secondly, Evenlode would remove itself from any discussions relating to a takeover and finally, majority of any returns will be re-invested back into the Foundation.

Relationship with the Stewardship team

The Operations team started working with the Stewardship team in 2022 to consider the strategic approach the firm should adopt in response to the impending Sustainable Finance Disclosure Regulations (SFDR) for our Irish domiciled funds. The primary goal was not a transformation of our investment processes in response to the regulation, but rather an intention to leverage the SFDR framework to transparently communicate our integrated processes. Following intensive discussions with our legal partners, CMS and Equity Trustees, the decision was reached to classify the Evenlode Global Dividend and Opportunities Funds as Article 8 products.

While maintaining the funds' investment objective of providing long-term total returns with an emphasis on income and growth, a commitment was made earlier in the year, to achieve net-zero greenhouse gas emissions across 100% of its portfolio of Material Investee Companies by 2050 or sooner¹. We aligned this earlier commitment with our

sustainable investment objective for SFDR purposes. That objective is to contribute to climate change mitigation by focusing on a proportion of the fund's portfolio of Material Investee Companies that are aligning or already aligned with a net-zero greenhouse gas emissions status by 2050. The initial threshold was set at 10%, meaning that 10% of Material Investee Companies are designated as sustainable investments with an environmentally sustainable objective contributing to climate change mitigation through alignment with the net-zero target for greenhouse gas emissions by 2050. Over time, it is expected that the proportion of Material Investee Companies considered sustainable investments will increase as more companies align or are aligned with a net-zero status.

¹ Material Investee Companies are defined as equity securities falling within the Nomenclature of Economic Activities (NACE) categories A-H & J-L, as specified in the Net Zero Investment Framework (NZIF), and are listed on exchanges in Recognised Markets.

CONFLICTS OF INTEREST

By Richard Taylor, Compliance Manager

The strong relationship among the Evenlode Operations team, Stewardship team and CMS team played a pivotal role in understanding the complexities of the regulation and subsequently securing our Article 8 status. Moving forward, these teams will continue their collaborative efforts to gain a deeper understanding of potential regulatory changes including the FCA's Sustainability Disclosure Requirements (SDR) rules and ensure that our existing processes are communicated clearly to external stakeholders.

A practical example

Evenlode's Investment Process involves conducting both quantitative and qualitative research to identify companies which are high quality, cash generative and which can sustain high returns on invested capital over an extended period. As well as being focussed on publicly available information such as financial statements and market data, Evenlode pays for additional research from research providers and also speaks with industry experts to better understand the companies, their competitors and the markets in which they operate.

The Stewardship team also plays a key part in the investment process, with a particular focus on ESG risks. Evenlode believes that a company's ESG credentials are important risk factors to analyse over the long-term, and that engagement with companies on these issues can lead to positive outcomes for the Evenlode portfolios, the health of the company, and broader society.

In conducting our investment research and stewardship activities, there is a risk that we become aware of market sensitive information that is not yet in the public domain (e.g. upcoming merger or acquisition, award of a significant new contract). This is classified in the FCA rules as 'Material non-public information' and if we do become aware of such information, we are prohibited from trading in shares of the company involved until after the information becomes public.

All Evenlode staff receive annual compliance training on managing conflicts of interest and a material non-public information policy is also in place which requires those in receipt of the information to immediately notify the Compliance team.

Restricted Stock List

The relevant company is then added to our Restricted Stock List which prevents the stock from being traded in the Order Management System. The Compliance Officer also communicates a ban on trading within the firm and to the funds' administrators. Once the information is made public, the trading restriction is lifted. During the year Evenlode was approached by one of its brokers regarding a potential transaction involving one of its portfolio holdings. This was classified as material non-public information and Evenlode therefore put a ban on trading in the company until the information was made public a few days later.

Order Management System

In 2023 Evenlode also implemented a new Order Management System (Bloomberg) which has enhanced functionality for performing ongoing independent market surveillance monitoring. The system monitors all Evenlode dealing along with market price information, news flow, and has been calibrated to detect and highlight any Evenlode trades for further Compliance review which show certain characteristics (for example buying shares in a company prior to the price rising substantially following an announcement or selling shares in a company prior to the price falling substantially, which could suggest trading based on material non-public information). Any highlighted trades are reviewed by the Evenlode Compliance team to ensure they are not suspicious.

The enhanced market surveillance monitoring further enhances Evenlode's control environment in relation to managing conflicts of interest.

For our full conflicts of interest policy please visit: <https://evenlodeinvestment.com/regulatory>.

CLIENT BREAKDOWN

Evenlode Investment Management Ltd currently manages three open-ended UK OEIC funds and two Irish domiciled open ended ICAV funds. All these funds were launched with UCITS status and are adhering to equivalent rules post-Brexit, and 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 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.

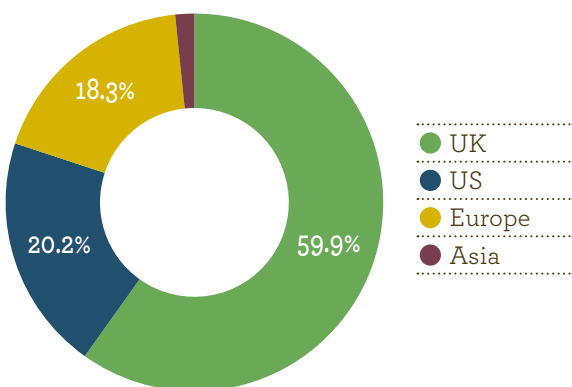
Evenlode currently manages £5,722m (as of 31 December 2023).

Growth in AUM over 5 years

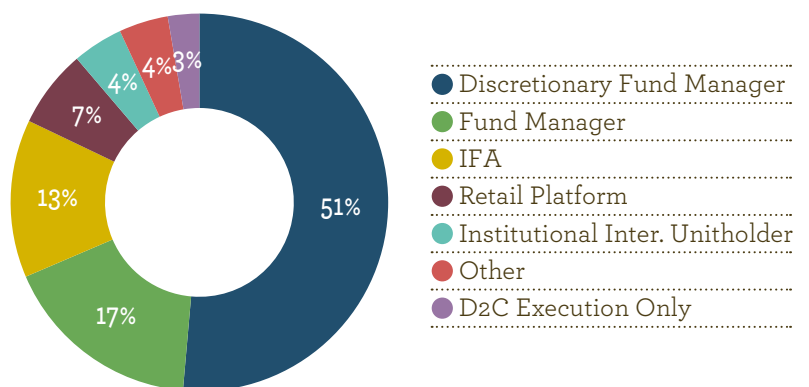
Year end	2019	2020	2021	2022	2023
Total assets in Evenlode Funds (£)	4,200m	4,761m	5,220m	5,348m	5,722m

Evenlode invests 100% in equities, mainly in large capitalisation firms. As at end of 2023, the geographical and client breakdown of assets under management (GBP) was as follows:

Geographical Breakdown of AUM



Client Breakdown



CLIENT BREAKDOWN

We take great pride in our engagement, not only with investee companies but also with our investors. For sales and marketing support, along with bespoke client communication, we collaborate with Spring Capital Partners Ltd. Both Spring and Evenlode are deeply committed to our clients, ensuring that investors' perspectives are actively sought through various channels such as face-to-face meetings, webinars, and investor days, adhering to the current restrictions. Our portfolio managers and stewardship team maintain an active presence, making themselves readily available to clients. We emphasise that all interactions are a two-way process, encouraging clients to actively engage, question, and provide feedback to our team. It's important to note that all current Evenlode mandates are part of collective investment schemes, encompassing thousands of underlying investors. Therefore, we are dedicated to clearly communicating our ESG policy to clients, ensuring they have ample opportunity to understand our policies and their intended benefits. We firmly believe in the importance of transparency in these matters.

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 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 range of materials to keep our stakeholders 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/quarterly investment views of the managers, looking at the investment landscape and discussing how the fund is positioned.
- Monthly monitoring of our Irish domiciled funds to ensure we are achieving our sustainability objective for our SFDR obligations. The report is shared internally with the Compliance team as well as available to clients, upon request.
- Regular interactive webinars with clients which are recorded and published on the Spring Capital website.
- 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 rationales 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).
- 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 collaboratively engage in analysing and addressing the information requests we receive from our clients. This past year, we have witnessed a notable surge in regulatory changes, along with an increase in the reporting required to comply with these new regulations.

Additionally, the number of stewardship/ESG questionnaires we've been requested to complete by clients has also seen an uptick. In partnership with Spring Capital, we have addressed each of these requests fully and comprehensively. Our objective is to incorporate much of this requested information into the materials we regularly distribute. This approach has led to a broader range of content being presented to clients across various media, as previously mentioned. The feedback from clients has been positive, with appreciation for the breadth and depth of the material produced. They are pleased with Evenlode's ongoing development, progress in ESG integration and the consistency at which we communicate to our external stakeholders.

To better align with our clients' needs, we routinely review the content on our website. This analysis helps us in assessing the effectiveness of our communication with clients. Based on these insights, we propose and agree upon updates during our 'Content Calendar' meetings with the investment team.

LOOKING AHEAD

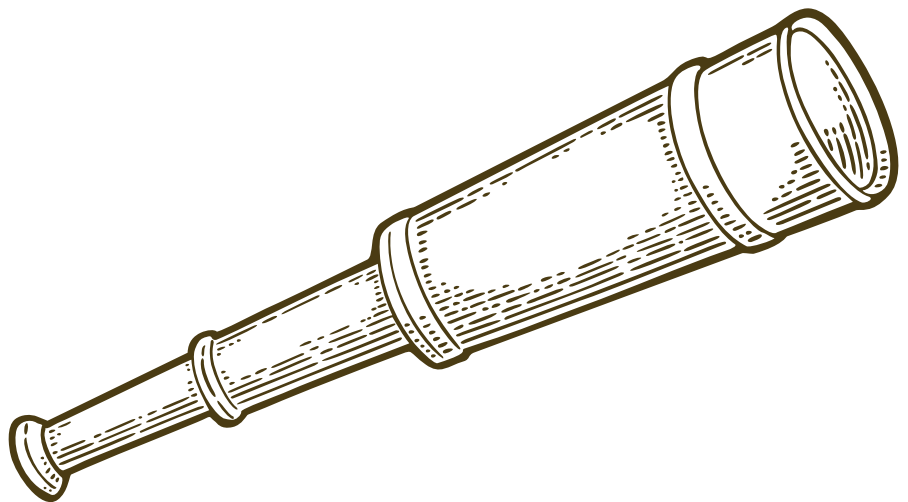
As stated at the beginning of this report, Evenlode's main goal in stewardship is to *'preserve and enhance the value of our clients' assets through long-term engagement and analysis'*. We believe it is our fiduciary duty to protect and increase the value of our clients' assets through robust ESG analysis 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.

The team's focus for the year will be to expand our expertise in four key areas: regenerative agriculture, water management, commodity risks, and deforestation. For many years, the lack of transparency in understanding global supply chains has resulted in a significant gap between the sustainability claims made by companies in their reports and the actual situation on the ground. Deepening our understanding of these critical themes is essential, as it will enhance our ability to identify and manage the most significant risks in the industries that are most relevant to the Evenlode funds. Furthermore, this knowledge will improve our ability to develop an ecological impact assessment framework for the business.

In the coming year, our developments will feature, among other initiatives, an integrated report detailing our adherence to the Taskforce for Climate-related Financial Disclosures (TCFD) obligations and our progress towards our Net Zero targets. Through our product and entity-level reporting, we aim to showcase the sustainability achievements of our funds and business.

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 2023. We look forward to updating you on our progress next year.

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



DISCLAIMER

Please note, these views represent the opinions of the Evenlode Team as of December 2023 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. Every effort is taken to ensure the accuracy of the data in this document, but no warranties are given.

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