



EVENLODE

INVESTMENTS FOR LIFE



Evenlode Investment
Quarterly Stewardship Report
Q1 2023

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

AS AT 31 MARCH 2023

Our quarterly Stewardship Report aims to provide investors with information on our voting and engagement activity, as well as highlighting some key focus areas for the stewardship team for the year.

VOTING

Voted on
10 meetings

In **60%** of meetings,
we voted with
management on all
proposals

In **40%** of meetings,
we voted against
management on at
least one proposal

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. 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.

ENGAGEMENT

Engaged with
9 companies

Engaged on
6 themes

Engaged the most
on Remuneration,
Company Strategy
and Net Zero

ENGAGEMENT CASE STUDY

We engaged with the new Chair elect of a holding in the Evenlode Income fund which is a market leader in its respective industry and is known for its quality service and products. The objective of the engagement was to meet the new Chair elect and better understand the transition risks the company is likely to face in the medium to long-term. The company provides mission-critical flow control solutions to the Oil & Gas (O&G) end markets which accounts for approximately 40% of their earnings. It predominantly sells electric actuators (55% of sales and higher margin) which convert an electrical current into movement to open and close valves. The company has experienced a tough few years with 5 and 10-year organic growth below 1%. However, the company is well set up for the next decade, with an upswing in hydrocarbon investment expected and incremental growth drivers coming in. Management highlighted that there is a huge need for O&G in the next 10 years, but the hydrocarbon

total addressable market (TAM) will reduce materially in that period. Strategic investments will be needed to make the necessary transition to renewable energy sources. The company emphasised the importance of the electrification trend. From the company's perspective, they will be tilting their portfolio towards electrification rather than hydraulic or pneumatic actuators which is better from an emission intensity standpoint.



THE SHAPE OF WATER SCARCITY

Water scarcity is an increasingly pressing issue worldwide, and investors should pay more attention to companies' water stewardship practices when making investment decisions. According to the World Resources Institute (WRI), 25% of the world's population live in countries that are experiencing extremely high-water stress, and demand is expected to exceed current supply by 40% in less than a decade. The effects of agriculture and industry are responsible for approximately 90% of direct water withdrawals however, the problem is fixable, and many companies are recognising the issue and taking action¹.

From Evenlode's perspective, we recognise the importance of water stewardship and incorporate it into the fundamental analysis of a company to better inform our investment decisions. According to Thomas Insights² the top five industries for water usage are fruit and vegetable farming, textiles, meat production, the beverage industry, and automotive manufacturing. While Evenlode avoids direct exposure to many of the relatively asset-heavy industries on that list, it does have direct exposure to some of the world's largest beverage producers. It is essential to focus on what the beverage industry are trying to do to mitigate the problem. Based on revenue, of the top 10 Statista-stated leading beverage companies worldwide in 2021, five are either in or have recently been in our combined portfolios. These include Anheuser-Busch Inbev (1st place on the Statista list), Nestle (2nd), PepsiCo (4th), Heineken (6th) and Diageo (7th).³ Evenlode has excluded Anheuser-Busch InBev from all but the bench of the Evenlode Global Income fund due to concerns over its water stewardship practices. In 2021, the stewardship team downgraded their ESG score for various reasons, one of which was based on their reporting around water stewardship. Whilst we were generally happy with their water stewardship performance to date, their lack of long-term planning for the future informed part of our decision-making

process. A downgrade of this nature raised a flag and presented our stewardship team with an opportunity to engage with companies, which we did with AB Inbev in both 2021 and 2022. Ultimately, the downgrade and engagement outcomes fed into a wider investment decision leading to a full exit of our combined holding in AB Inbev across 2021/22. Inaction at this point has potential financial impacts for companies that are five times the cost of addressing the issue, according to the Carbon Disclosure Project. The total potential financial impact of reported water risks in 2020 was more than \$300 billion, but the money required to mitigate those risks was \$55 billion. Failure to implement change could result in a loss of regional GDP of 2% - 10% by 2050⁴.

We wanted to highlight the growing concern of water scarcity and the urgent need for responsible investors to incorporate water stewardship into their ESG framework. With increasing demand and changing of climate affecting water availability, companies that rely heavily on water usage are at risk of potential financial impacts. Evenlode's investment philosophy, which focuses on quality, asset-light, cash-generative businesses, inherently excludes direct exposure to many of the relatively asset-heavy industries with high water usage. However, Evenlode recognizes the importance of engaging with companies to ensure transparency, accountability, and consequently positive outcomes for our clients.

For a more detailed read on the issue, please read Ben Armitage's piece on water scarcity in our [Responsible Investment Report](#) for 2022 .

STEWARDSHIP TEAM AND ESG RATINGS



Sawan Kumar
Head of
Stewardship



Bethan Rose
Sustainable Investment
Analyst



Rebekah Nash
Governance Analyst



Zikri Jafaar
Stewardship Analyst

Our ongoing commitment

Evenlode Investment Management became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2018. By becoming signatories, we commit to implementing these principles and incorporating environmental, social and governance factors into our investment process to help enhance returns and better manage risk for our clients.

Signatory of:



Investment & Stewardship Policy



Direct - Listed Equity Active
fundamental - Incorporation



Direct - Listed Equity Active
fundamental - Voting





1 WRI. Ensuring Prosperity in a Water-stressed World. WRI Available at: <https://www.wri.org/water>. (Accessed: 5 February 2022)

2 Manganello, K. Which Industries Use The Most Water. Thomas Insights (2019). Available at: <https://www.thomasnet.com/insights/which-industries-use-the-most-water/>

3 Statista. Leading beverage companies worldwide in 2020, based on sales (in million U.S. dollars). (2020). Available at: <https://www.statista.com/statistics/307963/leading-beverage-companies-worldwide-based-on-net-sales/>

4 CDP. A Wave of Change: The role of companies building a water-secure world. (2020). Available at: <https://www.cdp.net/en/research/global-reports/global-water-report-2020>.

	MORNINGSTAR®	MSCI
TB Evenlode Income, TB Evenlode Global Income, TB Evenlode Global Equity, Evenlode Global Dividend and Evenlode Global Opportunities	 Morningstar® Sustainability Rating™	 MSCI ESG RATINGS CCC B BB BBB A AA AAA

The Morningstar® Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their environmental, social, and governance risks relative to the fund's Morningstar Global Category peers, with 5 globes being the highest rating. All five funds are based on 100% of AUM. Data as at 28 February 2023.

The Morningstar® Low Carbon Designation™ is intended to allow investors to easily identify low-carbon funds across the global universe. The designation is an indicator that the companies held in a portfolio are in general alignment with the transition to a low-carbon economy. TB Evenlode Income based on 98.8% of AUM; TB Evenlode Global Income based on 98.4% of AUM; TB Evenlode Global Equity based on 98.3% of AUM; Evenlode Global Dividend based on 98.5% of AUM; Evenlode Global Opportunities based on 99.3% of AUM. Data as at 31 December 2022 (updated quarterly as available).

MSCI ESG Fund Ratings aim to measure the resilience of funds to long-term risks and opportunities arising from environmental, social and governance (ESG) issues. Each fund scores a rating on a scale from CCC (laggard) to AAA (leader). The rating is based first on the weighted average score of the underlying holdings of the fund. ESG momentum is then assessed to gain insight into the fund's ESG track record, which is designed to indicate a fund's exposure to holdings with a positive rating trend or worsening trend year over year. For more information on the methodology please visit our website. TB Evenlode Income based on 99.9% of AUM as at 31 January 2023; TB Evenlode Global Income based on 99.9% of AUM as at 31 January 2023; TB Evenlode Global Equity based on 98.8% of AUM as at 30 November 2022; Evenlode Global Dividend based on 100.0% of AUM as at 31 December 2022; Evenlode Global Opportunities based on 99.9% of AUM as at 28 February 2023.

Important Information

This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for information purposes only and should not be relied upon as a recommendation to buy or sell securities.

For full information on the Evenlode funds, including risks and costs, please refer to the Key Investor Information Documents, Annual & Interim Reports and the Prospectuses, which are available on the Evenlode Investment Management website (www.evenlodeinvestment.com). Recent performance information is shown on monthly factsheets, also available on the website.

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ESG ratings

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