EVENLODE

INVESTMENTS FOR LIFE

Evenlode Investment

Quarterly Stewardship Report

Q1 2024

evenlodeinvestment.com

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

AS AT 31 MARCH 2024

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 70% of meetings, we voted with management on all proposals	In 30% of meetings, we voted against management on at least one proposal

As an example, for a holding in the Evenlode Global Income and Evenlode Global Equity fund, we voted against the management on the issue of executive compensation. The company acknowledged the positive aspects of the board, such as good independence, a healthy mix of experience and tenure, and satisfactory diversity with 45% female representation. The board's structure, under the dual leadership of the chairperson and CEO - a common practice in the US - was noted alongside the introduction of new directors with credible backgrounds.

However, concerns were raised regarding the transparency and rationale behind executive pay, particularly the CEO's total compensation of £31.5m, which, despite a slight decrease from the previous year due to a smaller bonus, remained substantial. The method of determining annual bonuses and long-term incentives lacked clear disclosure on targets, weightings, and the basis for performance assessments. This ambiguity, coupled with a high CEO-to-average worker pay ratio of 633:1 (or 1,526:1 without cost-of-living adjustments), prompted us to seek further engagement on these issues.

ENGAGEMENT

Engaged with 6 companies

Engaged on 7 themes

Engaged the most on Remuneration and Net Zero

Our team engaged in an interesting dialogue with the head of sustainability and an investor relations representative from a leading consumer goods company to address concerns regarding their net zero target's removal from the Science Based Targets initiative (SBTi) dashboard. The discussion revealed that the company, an early advocate for net zero emissions, initially aligned its 2039 target with the Intergovernmental Panel on Climate Change (IPCC) definitions, diverging from SBTi guidelines. This discrepancy highlighted a broader issue of differing methodologies and expectations in setting climate targets.

The sustainability head explained that their ambitious approach clashed with SBTi's framework, particularly around the feasibility of achieving a 90% reduction and the stringent requirements on direct emissions (scopes 1 and 2) versus the more complex indirect emissions (scope 3). There needs to be a balance between aspirational targets to drive industry change and the practicality of achieving these goals within the current policy and economic frameworks. There was an acknowledgment from both teams that scope 3 emissions present significant challenges due to external factors beyond direct control, necessitating a whole-system approach to drive meaningful action.

We covered the voluntary carbon market and its role in enabling companies to meet their targets through carbon credits, amidst scepticism about their effectiveness and concerns over potential fraud. The conversation also touched on specific operational aspects, such as the environmental impact of ice cream production, recognised as both a significant source of emissions and an area with potential for substantial reduction.

Additionally, the importance of regenerative agriculture and the complexities of carbon credit systems for farmers were briefly discussed, highlighting the nervousness surrounding the reliability and impact of such measures in achieving long-term sustainability goals. The engagement highlighted important issues around the intricate interplay between ambition, practicality, and systemic transformation in the journey towards net zero emissions.

EMISSIONS ANALYSIS UPDATE

We conduct an annual emissions analysis of our funds to better understand the climate impacts and transition risks associated with our investments. This analysis is crucial for directing engagement efforts towards achieving net zero emission intensity targets. As financed emissions constitute the majority of Evenlode's footprint, the firm focuses on engaging with or potentially divesting from companies that fail to reduce their emissions over time. Especially if the company is emission intensive and is classed as 'material' under the Net Zero Investment Framework.

Recent years have seen an improvement in emissions disclosure at the portfolio level. However, changes within the funds throughout 2023 led to a slight decrease in the number of companies reporting over 90% of their emissions, dropping from 58 to 54 out of 79 holdings. Despite this, Evenlode views the lower reporting rate as an engagement opportunity, particularly with companies disclosing less than 5% of their emissions.

Currently, 89.9% of Evenlode's financed emissions are reported by portfolio companies, a minor decline from the previous year's 91.6%. The firm utilizes these disclosures, along with CDP estimations, to assess its financed emissions. Notably, Evenlode's emissions intensity is significantly lower than benchmarks like the MSCI World Index and the FTSE All-Share Index, attributed to an investment strategy favouring cash-generative, asset-light businesses. This approach results in a portfolio less exposed to emissions-intensive sectors.

This year marks the first time Evenlode could compare its total financed emissions across all scopes with these benchmarks, thanks to newly available scope 3 data. Detailed performance comparisons and emissions analyses are accessible in Evenlode's annual Responsible Investment Report and a specific emissions analysis report, both of which will be available on the website in May.

STEWARDSHIP TEAM & ESG RATINGS

Sawan Wadhwa
Head of Stewardship

Bethan Rose
Sustainable Investment Analyst

Rebekah Nash
Governance Analyst

Lily Postlethwaite
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:

PRI Principles for Responsible Investment

Policy Governance and Strategy
★★★★☆

Direct – Listed Equity Active fundamental
★★★★☆

Confidence Building Measures
★★★★★

	MORNINGSTAR®		MSCI
IFSL Evenlode Income, IFSL Evenlode Global Income, IFSL Evenlode Global Equity, Evenlode Global Dividend and Evenlode Global Opportunities	Morningstar® Sustainability Rating™	Low Carbon	MSCI ESG RATINGS AA

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 31 January 2024.

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. IFSL Evenlode Income based on 99.1% of AUM; IFSL Evenlode Global Income based on 98.9% of AUM; IFSL Evenlode Global Equity based on 98.7% of AUM; Evenlode Global Dividend based on 97.9% of AUM; Evenlode Global Opportunities based on 98.7% of AUM. Data as at 31 January 2024.

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. IFSL Evenlode Income based on 99.5% of AUM; IFSL Evenlode Global Income based on 99.6% of AUM; IFSL Evenlode Global Equity based on 98.9% of AUM. Ratings as at 31 December 2023. Evenlode Global Dividend based on 100.0% of AUM as at 30 November 2023. Evenlode Global Opportunities based on 100% of AUM as at 29 February 2024.

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.

Every effort is taken to ensure the accuracy of the data in this document, but no warranties are given. Evenlode Investment Management Limited is authorised and regulated by the Financial Conduct Authority. No 767844.

ESG ratings

MSCI ESG Research LLC's ("MSCI ESG") Fund Metrics and Ratings (the "Information") provide environmental, social and governance data with respect to underlying securities within more than 31,000 multi-asset class Mutual Funds and ETFs globally. MSCI ESG is a Registered Investment Adviser under the Investment Advisers Act of 1940. MSCI ESG materials have not been submitted to, nor received approval from, the US SEC or any other regulatory body. None of the Information constitutes an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product or trading strategy, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the Information can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.