



EVENLODE

INVESTMENTS FOR LIFE



Evenlode Investment
Quarterly Stewardship Report
Q2 2024

evenlodeinvestment.com

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

AS AT 30 JUNE 2024

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

Evenlode has developed a glossary to assist investors to better understand commonly used terms – please see: [Evenlode Glossary](#)

VOTING

Voted on
53 meetings

In 53% of meetings, we voted with management on all proposals

In 47% of meetings, we voted against management on at least one proposal

As an example, in April, we voted against management on Johnson & Johnson's compensation policy at their annual general meeting. This is a holding we have maintained in the Evenlode Global Equity fund for just over 12 months. The total take-home pay for Joaquin Duato (CEO) was approximately \$28 million, a \$15 million increase from the previous year due to large increases in the long-term incentive plan (LTIP) and pension payment. As a result, Joaquin was the highest-paid CEO in the portfolio within the pharmaceutical sector. This is not a problem in itself, however, there were some red flags in this policy.

Within the annual bonus, 30% of the metrics (8 in total) were non-financial in nature. We encourage non-financials within the annual bonus; however, there was a lack of disclosure on the thresholds and targets being used to assess performance. Full discretion was given to the compensation committee. While the committee should have responsibility, in times of underperformance (and excessive remuneration), shareholders need more transparency to better understand the rationale behind the decisions being made.

Additionally, the LTIP awarded was broken down into performance share units weighted at 60%, stock options weighted at 30%, and restricted stock units weighted at 10%. The makeup of the policy is satisfactory; however, the metrics used to assess performance were earnings per share and relative total shareholder return. We wanted to see additional metrics aligned with the overall longer-term strategy of the business, along with an ESG-related metric weighted at least 10%.

To conclude, we do not have a problem with paying executives for outperformance. However, at times of underperformance or at the early stages of a CEO's tenure, we want full transparency on the targets used to assess performance, especially during times of excessive remuneration.

ENGAGEMENT

Engaged with
4 companies

Engaged on
6 themes

Engaged the most
on company strategy

CORTEVA – NEW IDEA

The environmental, social and governance (ESG) risk score matrix is an important part of our investment process. When a member of the Evenlode investment team starts looking at a potential new idea for inclusion in the investable universe, the aim for the Stewardship team is to highlight any ESG-related risks by completing an ESG matrix in tandem. The matrix is an internal document which has been curated by the Stewardship team. It consists of 36 ESG-related questions broken down into different categories, with the environmental-related questions having the highest weighting. This is mainly due to the increased importance we have given to climate and nature in our stewardship strategy.

A recent new idea for the Evenlode Global Equity team was Corteva, a global agriscience company that sells seeds and crop protection chemicals to farmers. The initial ESG matrix score for the company was D. This was mainly due to several environmental and social issues which required further analysis. After much discussion it was decided that given the company was closer to the D/E borderline rather than a solid D or above, the Stewardship team would undertake a deeper dive into the company.

The main concerns the team had for Corteva were:

- A distinct lack of scope 3 emissions disclosure as well as associated emissions reduction targets. This is extremely important given the company would be defined as high impact as per Evenlode's net zero assessment, as the company operates within the pesticide industry.
- The lack of net zero target or commitment in totality.
- Corteva manufacture crop protection products that involve the use of substances that can be highly hazardous and are often linked to negative impacts on biodiversity and human health. This presents risk around regulation and potential future litigation.
- Corteva are involved in the well-publicised per-and poly-fluoroalkyl substances water contamination issue. This is something that occurred when Corteva was part of Dupont and although there is a nationwide class action settlement to resolve the claims, the company still has the potential to be open to litigation from other stakeholders in the future.

There is also an ongoing Federal Trade Commission case whereby Corteva are accused of anticompetitive practices through loyalty programs. This links in with potential concerns the team had around Corteva's relationships with the farmers. Corteva has been accused of keeping pesticide prices high causing farmers to excessively overpay every year. This raises serious questions over the power the company wields over the farmers, with the farmers - who are an essential part of the food system and Corteva's business model - probably ending up being worse off. We conducted calls with the company itself, industry experts and investor groups which promote responsible investment. Ultimately it was decided that the ESG-related risks were too high and weren't currently being managed effectively. As a result, the team downgraded the ESG risk score from a D to an E, therefore deeming the company ineligible for inclusion in the Evenlode investable universe. During these discussions the Stewardship team remained in communication with the Evenlode Global Equity team to keep them updated on the process and share any insights.

This process highlights not only the importance of running every company through the ESG matrix but also of conducting deep dives and the human overlay required for appropriate adjustments to the ESG risk score. This overlay to the standard ESG risk matrix is important as it allows the team to integrate the nuances we see on a company-by-company basis.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

We recognise that climate change poses significant financial challenges and opportunities in the short and long term. We continually assess the climate-related risks and opportunities faced by our investee companies and understand their readiness for a low-carbon economy. We have prepared Evenlode's entity-level Task Force on Climate-Related Financial Disclosures (TCFD) report as well as individual product-level reports which are now available on our website. They detail how we have developed clear systems and processes to identify, assess and manage the climate-related risks we face, applying the same process to each investment portfolio.

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:



Policy Governance and Strategy
★★★★★

Direct - Listed Equity Active
fundamental
★★★★★

Confidence Building Measures
★★★★★

IFSL Evenlode Income
 IFSL Evenlode Global Income
 IFSL Evenlode Global Equity
 Evenlode Global Dividend
 Evenlode Global Opportunities



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 as at 31 May 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 99.3% of AUM; IFSL Evenlode Global Income based on 98.6% of AUM; IFSL Evenlode Global Equity based on 98.6% of AUM; Evenlode Global Dividend based on 98.0% of AUM; Evenlode Global Opportunities based on 99.0% of AUM. Data as at 31 May 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 100.0% of AUM; IFSL Evenlode Global Income based on 100.0% of AUM; IFSL Evenlode Global Equity based on 100.0% of AUM; Evenlode Global Dividend based on 100.0% of AUM; Evenlode Global Opportunities based on 98.5% of AUM. Data as at 31 May 2024.

Important Information

We believe that delivering real, durable returns over the long term can be best achieved by integrating environmental, social and governance (ESG) factors into our risk management framework as this ensures that all long-term risks are monitored and managed on an ongoing basis. In addition to reviewing ESG factors when making investment decisions, we engage with portfolio companies on a range of ESG issues (for example greenhouse gas emission reduction). However, please note that the Evenlode funds do not have a sustainability objective.

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

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