EVENLODE
INVESTMENTS FOR LIFE

Evenlode Investment
Quarterly Stewardship Report
Q3 2022

evenlodeinvestment.com

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

AS OF 30 SEPTEMBER 2022

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 **107** resolutions	Voted on **10** meetings	In **90%** of meetings, we voted with management on all proposals	In **10%** of meetings, we voted against management on at least one proposal

Evenlode's approach to voting is investment-led. It serves as the first step to our engagement strategy and also forms part of our escalation strategy. Our voting policy has historically centred on four main corporate themes: board composition, increasing shareholder rights, increasing transparency and alignment of (sustainability-related) incentives with long- term strategy. This last point is crucial as the ultimate aim of executive pay policies should be to align the interests of management with those of the owners. This would usually involve creating a remuneration policy which includes a high proportion of the pay on performance-related metrics measured over a long-period of time. In terms of the board, we believe it should be made up of members with the necessary set of skills, experience and psychological attributes, as well as sufficient independence to challenge management teams. Diversity of thought is important so that discussions and debates are appropriately formed from a range of perspectives and the risk of groupthink is avoided.

Over the last quarter, we voted against the remuneration policy of a holding in our UK Income fund. The overall policy was poor, especially when comparing to the UK Corporate Governance Code guidelines. There was an Exceptional Bonus Award as part of their short-term incentive plan (STIP), however there was a distinct lack of disclosure with the outcome of the award at the discretion of the committee. Their policy also lacked a long-term incentive plan (LTIP). The company believed that LTIPs could have the potential to unbalance the organisation with individuals being incentivised to achieve personal goals at the expense of the wider organisation. We disagree with that sentiment; LTIPs have the ability to align long-term interests within the organisation, act as a key retention tool and place an emphasis away from poor short-term decision making. It is also worth noting that LTIPs are only effective when the performance metrics chosen to incentivise executives are appropriately challenging and are not solely dependent on share price appreciation. Last year, 17% of shareholders voted against management in relation to the policy.

Soon after the decision, we wrote a letter to Investor Relations to explain the reasons behind our decision. We highlighted that we appreciate and support the unique and long-term culture at the organisation but that we would like to see increased disclosure on the STIP as well as the introduction of a LTIP. Additionally, we highlighted the importance of shareholding requirements. We will be discussing the concerns with the Chair of the Remuneration Committee in the coming weeks and will update you on the outcome of our engagement in our next quarterly report.

ENGAGEMENT

Engaged with **66** companies	Engaged on **15** themes	Engaged the most on Net Zero, Remuneration and Board Structure

In the last quarter, we received some positive news that our interim climate targets have been accepted by the Net Zero Asset Managers (NZAM) initiative. We committed to setting such targets within 12 months when we signed up to NZAMI last June. Our targets cover 100% of our AUM and aim for:

- 100% of financed greenhouse gas emissions (i.e. emissions from companies in our portfolios) in material sectors[1] to be achieving net zero, aligned[2], or under direct or collective engagement by the end of 2022.
- 50% of our assets under management (AUM) in material sectors to be achieving net zero, aligned or aligning[3] by 2025, and 100% by 2030.
- 100% of AUM in material sectors to be achieving net zero or aligned by 2040.
- 51.6% reduction in emissions per £10k invested across scopes 1, 2 and 3[4] by 2030.

These targets are in line with our goal of achieving net zero by 2050 or earlier for 100% of our AUM and importantly cover 100% of our scope 1, 2 and 3 portfolio emissions. In support of these targets, Evenlode recently published a Net Zero Engagement and Voting Policy which outlines the stewardship actions we will take to achieve our engagement and decarbonisation targets, including direct and collective engagement with portfolio companies, policy engagement, and active voting. The policy clearly sets out our engagement objectives for portfolio companies depending on where they are on their net zero alignment journey and the escalation steps we will take should these objectives not be met within the set timeframe.

1 Material sectors as defined by the Net Zero Investment Framework. Material sectors are defined as those in NACE code categories A-H and J-L. Examples include agriculture, mining, manufacturing, energy, water and construction.
2 Aligned means emissions performance is meeting science-based targets which have been set to achieve net zero by 2050 in line with the Paris Agreement (i.e. limiting global warming to a 1.5% increase in global temperatures compared to pre-industrial levels).
3 Aligning means science-based targets have been set to achieve net zero by 2050, in line with the Paris Agreement.
4 Scope 1 emissions are directly produced (e.g. boilers, vehicle emissions). Scope 2 emissions are indirect (e.g. purchased electricity to heat or cool buildings). Scope 3 emissions include all other emissions up and down the value chain (e.g. from suppliers and also from customers using products).

CHALLENGING ROAD AHEAD

To start Evenlode's net zero journey, we prioritised a set of portfolio companies for engagement in 2022 and beyond. In keeping with our engagement goal of 100% of our financed emissions in material sectors to be aligned, achieving net zero or under direct or collective engagement, we executed our engagement plan this quarter. We are pleased to say that we have reached our 2022 target. We have engaged with 63 companies who are each currently either not aligned, are committed to align or are aligning to achieving net zero by 2050.

To clarify, we define being aligned with 1.5°C in line with the Net Zero Investment Framework as having a net zero target for 2050 that covers at least 95% of scope 1 and 2 and at least 90% of scope 3 emissions, with a clear focus on emission reduction, having short and medium-term emission reduction targets, and disclosing at least 90% of total scope 1, 2 and scope 3 greenhouse gas emissions (that are at least verified by a third party). For high impact companies, we asked for a decarbonisation strategy or climate transition plan that lays out how the company will achieve these targets and how it will allocate capital in alignment with their long-term climate target.

It is going to be a challenging road ahead for investors and companies. The reason behind the urgency of our 2022 engagement plan was because we wanted to start the conversation early. Generally, we are expecting companies in material sectors to move up one alignment category within 12 months of engagement (see figure 1). If they do not achieve the engagement objectives set within this time frame, we will escalate via voting and collective action on a case-by-case basis.

Engagement Pyramid

ENGAGEMENT PRIORITY	ENGAGEMENT OBJECTIVES
TIER 4	**Achieving Net Zero target** and sustaining it.
TIER 3	**Becoming aligned:** emission performance in line with targets, audit of emission disclosure.
	For high impact companies also: full decarbonisation strategy, capital alignment, green revenue disclosure, details of offsets if applicable.
TIER 2	**Becoming aligning:** setting science-based short and medium-term targets in line with 1.5°C, covering at least 67% of scope 3 and disclosure of at least 90% of relevant emissions.
	For high impact companies also: action plan for how to achieve these targets.
TIER 1	**Becoming committed:** setting a long-term net zero by 2050 commitment covering at least 95% of scope 1 and 2 and 90% of scope 3.

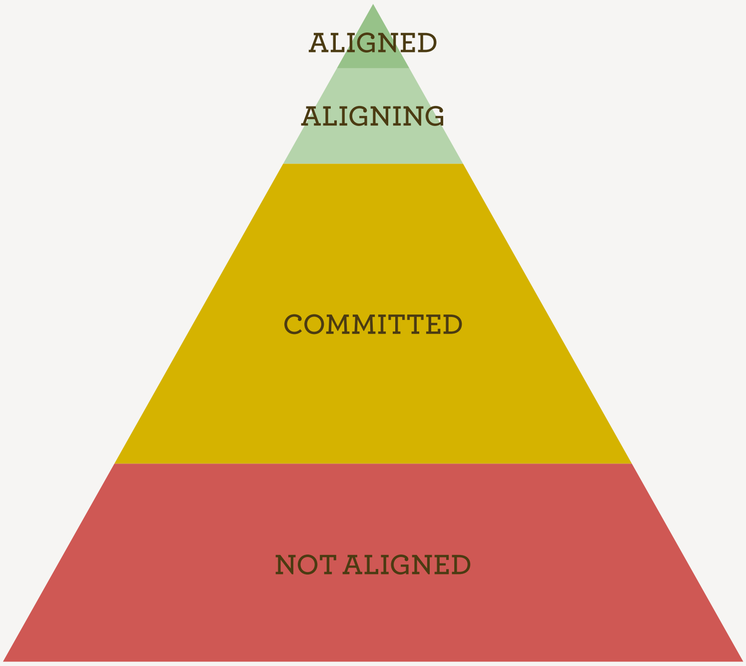

Figure 1. Engagement pyramid.

Net zero alignment of companies in material sectors as of 31 December 2021 (% of AUM in material sectors)

- Achieving net zero (0%)
- Aligned (9.8%)
- Aligning (14.5%)
- Committed to aligning (45.6%)
- Not aligned (30.1%)

STEWARDSHIP TEAM AND ESG RATINGS

Sawan Kumar
Head of Stewardship

Bethan Rose
Sustainable Inv. Analyst

Rebekah Nash
Governance 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

Investment & Stewardship Policy
★★★★☆

Direct – Listed Equity Active fundamental – Incorporation
★★★★☆

Direct – Listed Equity Active fundamental – Voting
★★★★☆

	MORNINGSTAR®		MSCI
TB Evenlode Income, TB Evenlode Global Income, TB Evenlode Global Equity, Evenlode Global Dividend and Evenlode Global Opportunities	Morningstar® Sustainability Rating™	Low Carbon	MSCI ESG RATINGS AAA 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. The data for all the funds is based on 100% of AUM as at 31 July 2022.

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 is based on 98.1% of AUM, TB Evenlode Global Income is based on 98.1% of AUM, TB Evenlode Global Equity is based on 99.1% of AUM, Evenlode Global Dividend is based on 98.2% of AUM and Evenlode Global Opportunities is based on 98.9% of AUM. Data as at 30 June 2022 (updated quarterly).

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 is based on 97.6% of AUM, TB Evenlode Global Income is based on 98.4% of AUM and Evenlode Global Opportunities is based on 99.9% of AUM (Ratings as at 31 August 2022). TB Evenlode Global Equity is based on 98.8% of AUM and Evenlode Global Dividend is based on 99.9% of AUM (Ratings as at 31 July 2022).

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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.

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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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