EVENLODE

INVESTMENTS FOR LIFE

Evenlode Investment

Annual Responsible Investment Report 2019

www.evenlodeinvestment.com

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Our purpose is to protect and enhance the value of our clients' assets whilst creating a positive social impact.

With a focus on long-term investments, we hold only the highest quality stocks that have a strong economic moat, reliable cash flow and a healthy balance sheet. However, we are not just investors, we also understand the influence we can have on the companies we invest in, on behalf of our clients. This is why we feel integrating environmental, social and governance factors in our investment process can help to sustain and improve returns for our clients, whilst creating a positive social impact.

EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Fund Manager

We continued to develop our stewardship work during 2019, work that has given us a good base to broaden and deepen our analysis of and engagements with companies in 2020 and beyond. Later in this document we describe how the continuation of our governance practices panned out in 2019, and how we have formalised our engagements with firms.

Ben Peters, Fund Manager

The new thematic addition to our analysis during the year was an assessment of the environmental credentials of the portfolios that we manage and the companies held within them, particularly around carbon emissions and climate change.

In the below we'll describe some initial findings, including a first estimate of the carbon impact of the portfolios, and how we intend to take that work on in the coming months. In reporting a figure for carbon emissions, we hope to provide our clients with useful information about one of the biggest topics of the day, use it as a basis for engagement with companies, and spur debate about how we might use that data in the future.

Something that has become apparent from our work is that there are no perfect data sources, and there is much to do in developing a consistent reporting environment between companies. Nonetheless, thanks to the work of the Task Force for Climate-Related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP) we are in a position to perform an analysis as a good starting point.

We are very much on a journey to building out our environmental, social and governance capabilities, and have been considering how to bring together all of the strands of our current and future work in a coherent manner. The 17 themes of the UN's Sustainable Development Goals (SDGs) seem like a sensible place to start, and we have begun a project to map the Evenlode portfolios' alignment to and risks from exposure to those goals. By performing a gap analysis, we hope to see where we might engage in more thematic work, such as the climate/carbon project described above, and where we could contribute to the SDGs in other ways via our charitable and philanthropic endeavours.

All of our work needs to have real-world consequences. By bringing stewardship and ESG analysis into our risk management framework, and by engaging constructively with companies where we have questions or have come to a considered opinion on a particular matter, we are looking to both preserve and enhance the value of the assets that our clients have entrusted with us. We hope you find this document helpful in understanding our current thinking and activities.

"We are looking to both preserve and enhance the value of the assets that our clients have entrusted with us."

EVENLODE'S STEWARDSHIP STORY

By Sawan Kumar, Stewardship Analyst

Evenlode is a signatory of the UK Stewardship Code which was first published by the Financial Reporting Council (FRC) in 2010. The code consists of seven guiding principles which aim to encourage engagement between institutional investors and company management and promote a greater level of transparency. It is applicable to those firms who manage assets on behalf of institutional shareholders, including pension funds, insurance companies, investment trusts and other collective investment vehicles and should be applied on a "comply or explain basis".

Sawan Kumar, Stewardship Analyst

In 2016, the FRC assessed signatories to the UK Stewardship Code with an aim to improve quality of reporting and encourage greater transparency in the market. The scoring was based on how well the signatories were able to articulate their application of the principles or explain the reason(s) behind non-compliance. There are approximately 300 signatories to the code, 120 of them being asset managers ranked as Tier 1, which is defined as signatories that provide a good and transparent description of their approach to stewardship. Since then, the FRC has updated the code taking effect from 1 January 2020 with a view to set higher expectations of investors and a stronger focus on activities and outcomes of stewardship, across all asset classes.

The new code contains 12 principles for asset managers/owners and six separate principles for service providers further emphasising the important role service providers play in effective stewardship. An addition which was welcomed by Evenlode was the inclusion of environmental, social and governmental issues with an increased emphasis on climate change. Evenlode Investment in 2018 when signing up to the code, was assessed as a Tier 1 signatory.

Evenlode is also a signatory to the United Nations Principles for Responsible Investment (UNPRI). The principles were developed in 2005 by an international group of investors who wanted to promote the increasing relevance of responsible investment. By becoming signatories, we have committed to implementing these principles and incorporating environmental, social and governance factors into our investment process to better manage risks for our clients.

After signing up to the United Nations Principles for Responsible Investment (UNPRI) last year, we are pleased to announce that we achieved the highest rating for our overall strategy and governance around incorporating ESG considerations into our investment process. Out of all the respondents in our peer group (grouped by AUM) that completed the survey, 16% received an A+ rating.

THE ENGAGEMENT TRACKER

By Sawan Kumar, Stewardship Analyst

On behalf of our investors, we look to invest in high-quality businesses over the long-term. Constructive engagement is one of the most important tools we can use in affecting positive outcomes for our clients. This is why, to gain a deeper understanding of the businesses we invest in, we measure the level of accessibility and transparency companies have, towards their stakeholders. We've observed over the years that there is a good relationship between a company who is willing to engage with investors proactively and a strong and open culture throughout the organisation.

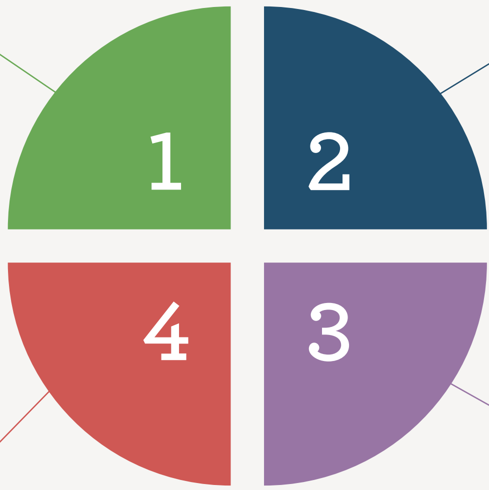
Over the year, we have developed our proprietary software system, EDDIE. A new addition to the system has been 'The Engagement Tracker' which has a 4-step process as shown below.

Recording each step of the engagement allows us to record, analyse, monitor and measure the success of our engagements. As the information is kept in a centralised database, it enhances transparency and spreads the knowledge in the team, whilst eliminating the risk of sending conflicting messages. Ongoing maintenance of the tracker has the ability to provide useful data which then we can use to create a more robust engagement framework

Engagement Tracker

INITIATION

The engagement is created as a result of a vote against management at an AGM, a specific issue which has been identified by Evenlode, or we have been contacted by the company itself.



ACKNOWLEDGEMENT

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

DISCUSSION

The conversation had around the engagement topic.

ACTION

What was the outcome of the engagement? Has the company implemented a new policy or made a strong enough argument to warrant its current strategy?

	BY EVENLODE	BY COMPANY
Initiation	28	17
Acknowledgement	17	18
Discussion	28	17
Action	23	17

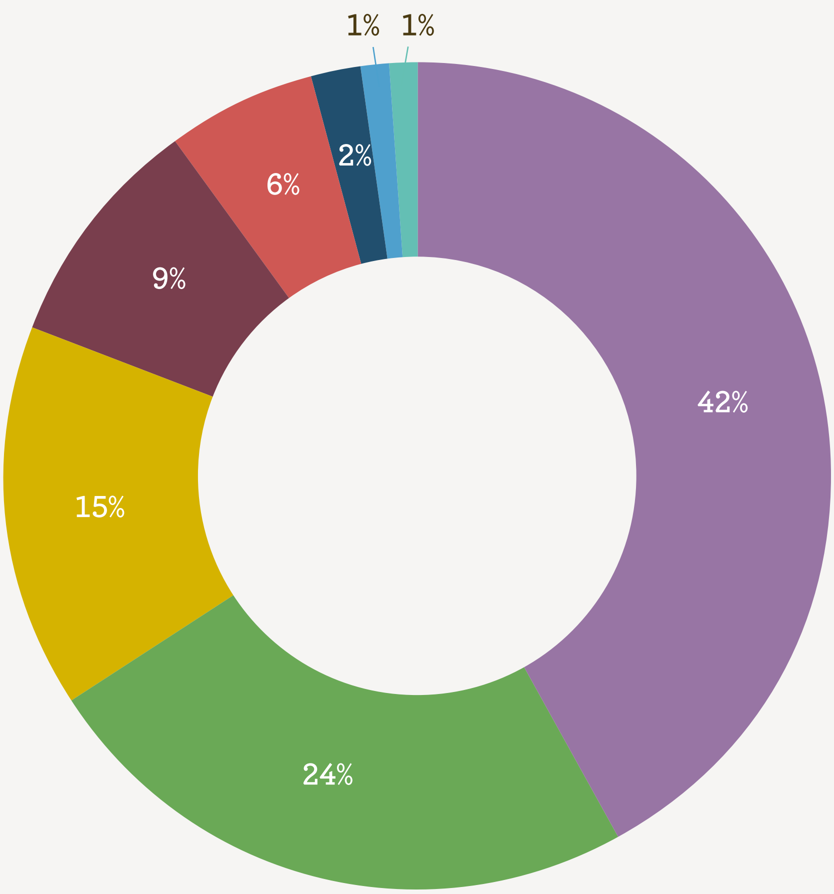
ENGAGEMENT THEMES

By Sawan Kumar, Stewardship Analyst

Often our engagements have focused on management remuneration schemes, particularly where we believe they utilise metrics that can be too easily met by either cutting back on investment, deploying debt, or both. In particular, the use of Earnings Per Share (EPS) and/or Total Shareholder Return (TSR) when used in isolation has this shortcoming.

We generally prefer to see a broader range of targets used in combination of EPS & TSR perhaps including return on invested capital, organic revenue growth, or non-financial measures such as customer satisfaction and employee engagement which better complement the company's long-term strategy and take into consideration the wider community of stakeholders.

Engagement Themes



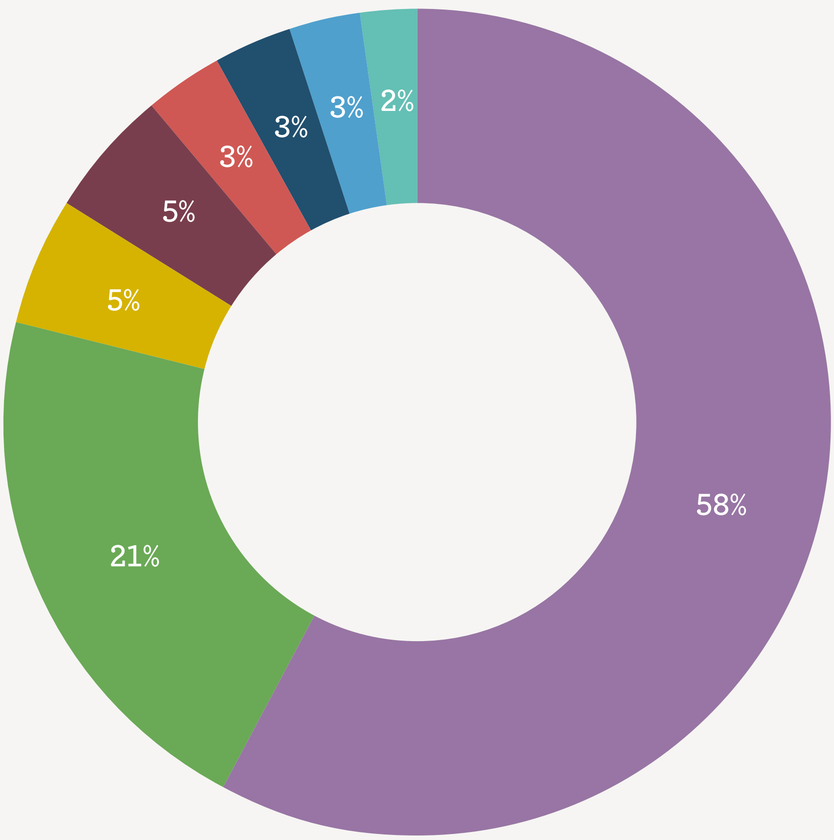
	2019
Remuneration	39
Company Strategy	23
Board Structure	14
Climate Change	8
Company Culture	6
Succession Planning	2
Audit Issues	1
Balance Sheet	1
TOTAL	**94 THEMES 45 COMPANIES**

ENGAGEMENT THEMES

By Sawan Kumar, Stewardship Analyst

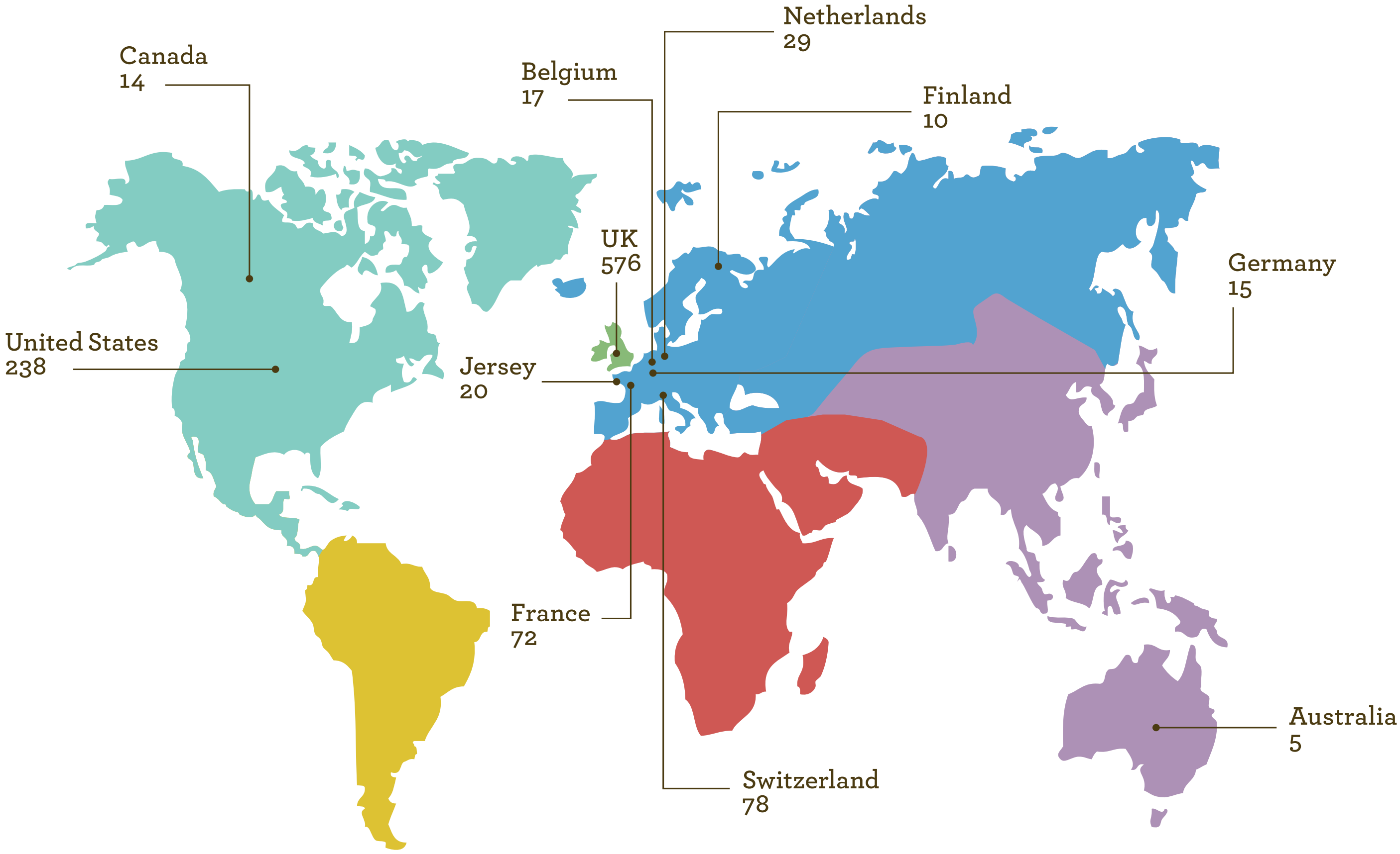
In the coming years we are increasing our focus on engaging on sustainability related matters and in particular asking remuneration committees to integrate sustainability themed metrics into the strategic objectives of their annual bonus plans. As pressure builds from society and sentiment around climate change, remuneration policies that combine financial and environmental targets in annual bonus plans will give remuneration committees the flexibility to re-visit and update the targets and metrics as they see fit. This has the potential to create a more sustainable culture throughout the whole organisation, especially if the plans cascade down the workforce. Incentivisation is a prime example of an external reward that motivates behaviour after all.

Engagements by Region



TOTAL	
United Kingdom	22
United States	8
Switzerland	2
France	2
Belgium	1
Denmark	1
Finland	1
Netherlands	1
	38

Voting Stats (resolutions)

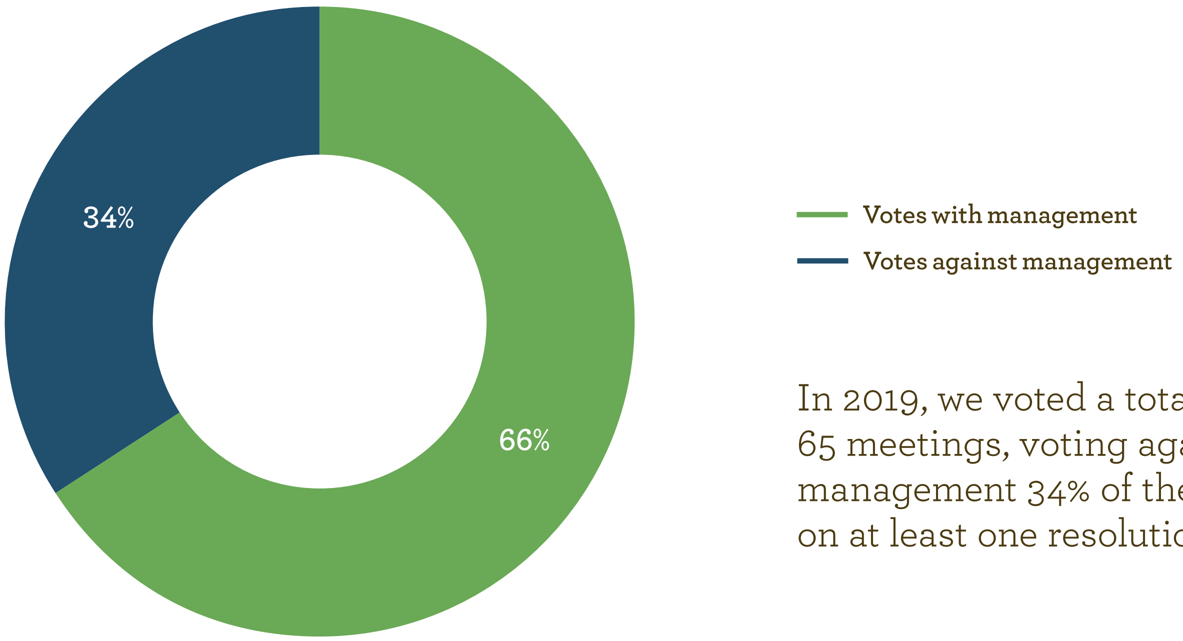


VOTING TABLE SUMMARY (2019)

Meetings	65
Resolutions	1074
For	1027
Against	47
Against Management	39
Unvoted	0
Abstain	0

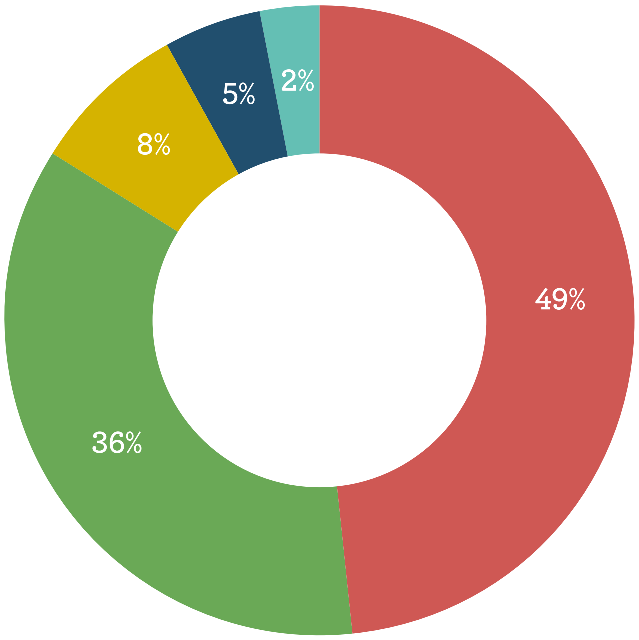
4% of the total votes cast were against management

Votes Against Management (per meeting)



In 2019, we voted a total of 65 meetings, voting against management 34% of the time on at least one resolution.

Votes Against Management Themes



THEMES	TOTAL	%
Election of Directors	19	49%
Remuneration	14	36%
Pay Inequality	3	8%
Political Contributions	2	5%
Climate Change	1	2%
	39	100%

STEWARDSHIP IN PRACTICE

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

ONE

We chose to vote against the election of a new nominee onto the board as we felt they lacked the necessary industry experience to sit on a FTSE100 board.

We think a non-executive with relevant industry experience can have a significant impact on the board. As important as it is to increase board diversity in gender, skills and ethnicity, it is equally as important to ensure there is a sufficient level of industry expertise for effective implementation and monitoring of the company's long-term strategy, from all members on the board.

TWO

We chose to vote against management and with a shareholder's proposal to require the company to adopt a target to reduce greenhouse gas (GHG) emissions, directly and indirectly, from its supply chain. We understand that managing and monitoring emissions targets can be quite complex.

The industry in question is subject to increasingly stringent regulations around climate change. An increase in extreme weather events has the potential to disrupt the company's business model and in turn increase the cost of capital. Hence, we voted against the board's recommendation, asking them to oversee the adoption of time-bound, science-based targets for reducing total GHG emissions, taking into account the goals of the Paris Climate Agreement.

THREE

We chose to vote against a company's remuneration report for 2019. We have been long-term investors in the business and hence have been supportive of the company's long-term strategy. We were also encouraged to see the strong short-term incentive plan performance measures.

However, in regard to incentivising management for the year, a large proportion of the company's long-term incentive plan (LTIP) was based on share price appreciation which we feel is an insufficient metric to measure long-term company performance. We prefer to see additional measures such as organic revenue growth, return on capital, or strategic objectives, which would help to give a more rounded picture of the company's broader financial and strategic progress.

‘CARBON EMISSIONS ANALYSIS’

By Ben Peters, Fund Manager

Ben Peters, Fund Manager

In order to assess the risks associated with carbon emissions and the transition to a low carbon economy, we started 2019 wanting to answer a simple question: How much carbon is emitted by the companies in the portfolios we manage? We should have guessed that the answer would not be straight forward, but by using the CDP dataset we have constructed a first estimate of the carbon impact of the Evenlode funds.

tCO2e/£10K INVESTED

	Scope 1	Scope 2	Scope 3	Total
Evenlode Income	0.04	0.16	3.43	3.64
Evenlode Global Income	0.05	0.15	2.66	2.86

Source: CDP, Evenlode Investment. Evenlode portfolios as at 31st December 2019, calculations made using the CDP 2018 dataset.

The table above summarises our findings, in terms of greenhouse gas emissions[1] per ten thousand pounds invested in the funds. For context, according to ‘Our World in Data’, in 2017 the global average CO2 emissions per capita for the UK was 5.8 tonnes[2] which equates to approximately £20,000 invested in the global income fund. At this point a brief description of what the different sources or ‘scopes’ of emissions mean may be helpful.

SCOPE 1

Emissions generated directly in a company’s operations. For example, burning gas or coal in a power plant.

SCOPE 2

Emissions from electricity purchased by the company. For example, the emissions associated with the electricity that is running your computer.

SCOPE 3

Basically everything else, up and down the company’s supply chain. For example, transportation, emissions associated with purchased goods and services, emissions associated with the use of the company’s products or services, and so on.

[1] Tonnes of carbon dioxide equivalent, or tCO2e
[2] Our World in Data, May 2017: https://ourworldindata.org/co2-and-other-greenhouse-gas-emissions#per-capita-co2-emissions

‘CARBON EMISSIONS ANALYSIS’

By Ben Peters, Fund Manager

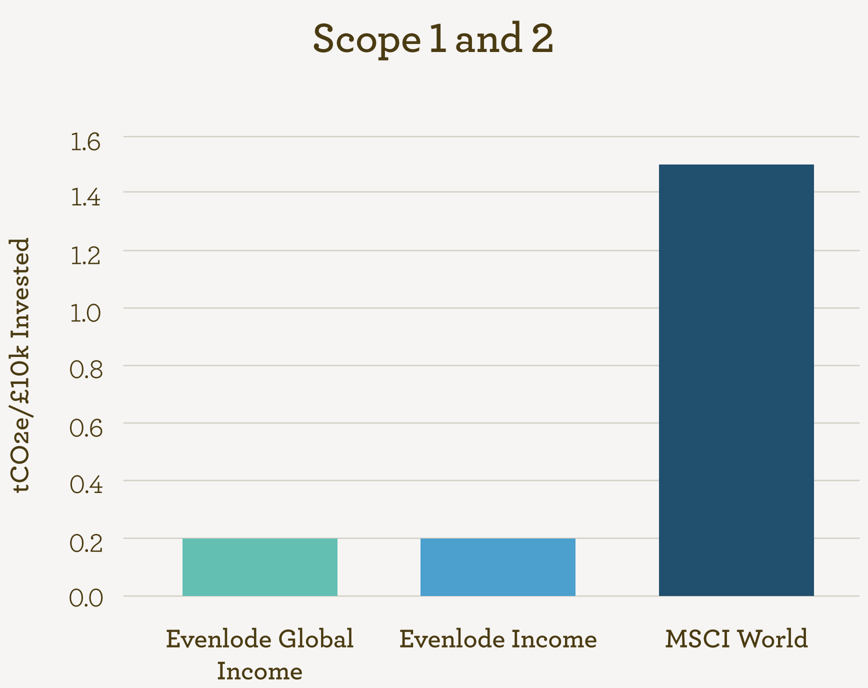
The funds naturally have low exposure to energy-intensive industries such as the energy industry itself, utilities, materials and real estate. This is not primarily for environmental reasons, rather these industries tend not to have the financial characteristics that we seek, but it does explain the relatively low scope 1 and 2 figures.

Scope 3 is a different matter, and accounts for a vast majority of portfolio emissions. The companies in the Evenlode portfolios need to grapple with their supply chains if total carbon emissions are to be reduced, a difficult task as action from a distance is going to be more challenging than changing the business’ own operations.

Armed with a figure for greenhouse gas emissions, a natural question to ask is how that compares to the broader corporate universe. MSCI publish carbon intensity estimates for their benchmark indices, including the MSCI World index which is Evenlode Global Income’s formal benchmark. These examine scope 1 and 2, as depicted in the chart below.

The funds can be seen to be much lower in scope 1 and 2 emissions, but as the index contains a much broader and more comprehensive coverage of global supply chains this is perhaps not surprising. Some 27% of the index is comprised of energy, materials, industrials, utilities and real estate.

Emissions from these sources undoubtedly make their way into the scope 3 emissions of the Evenlode portfolios, making a direct comparison difficult. It seems likely that the Evenlode funds are significantly less carbon intensive than the broader market, but the magnitude of the difference is the subject of some uncertainty.



Source: CDP, MSCI, Factset, Evenlode Investment. MSCI data as at June 2018, Evenlode data as above.

By Ben Peters, Fund Manager

Towards a comprehensive estimate

In performing the analysis, we had to fill in a lot of blanks in reported data with estimates provided by the CDP dataset, particularly in scope 3 supply chain emissions. We have included as many of these estimates as we felt it sensible to retain as part of our data validation exercise, and so the total portfolio figures might be considered an upper estimate of total emissions. If comparing our estimates with other funds or benchmarks, it should be noted that there may be marked differences in approach to the source and use of data.

When comparing to the index, we should also be mindful that there is limited overlap in the scope 3 emissions within the portfolios but the index will have complex supply chain interactions amongst its constituents, which would naturally double-count emissions. It would be desirable to compare all three scopes, but to get a true comparison we would need fewer estimated data points in scope 3, and a view on the extent of double counting in the index.

Now that we have an estimate for individual companies and the portfolios as a whole, we have a starting point for targeting our further research into carbon-related risk and in making further enquiries with the biggest emitters, which is where we assume the biggest risks could materialise. Such questions will be used as a basis for engaging with companies on this question as we move our analysis forward into action as part of our broader stewardship activities.

Should you be interested in using our estimate to assess the carbon impact of an investment in the Evenlode funds, we have produced a longer document that outlines the analytical process we have followed and explores some of the nuances and difficulties in the figures in more detail, available on the Evenlode Investment website.

PLASTICS: TOWARDS A CIRCULAR ECONOMY

By Tom Weller, Innovation Analyst & Rob Strachan, Investment Analyst

Tom Weller, Innovation Analyst

Rob Strachan, Investment Analyst

Plastic pollution is acting as a key catalyst for society to transition towards a circular economy. It is also, increasingly, becoming a focus for many of the companies we analyse and invest in the Evenlode funds as it exhibits a huge range of properties and uses, from the transparent 'screen' in envelopes to gears in aeroplanes.

Minimising waste and increasing resource efficiency doesn't just have a positive environmental and social impact, it can help build and improve staff and customer perceptions of a business, whilst also improving productivity and lowering cost of capital in the medium to long-term.

Feedstock for plastic production comes mostly from oil and gas. Only 4% of the total annual use of oil and gas is for plastic production, with 45% used for transportation, 42% for heating and energy, 4% for chemical feedstock and 5% for other uses [Plastics Europe 2017]. As a proportion 4% is small, but not negligible, and it will likely increase into the future as the world moves towards using sustainable transport and energy.

Two very common plastics, low density polyethylene (LDPE) and high-density polyethylene (HDPE), are both formed from the polymerisation of ethylene (a process that joins individual molecules of ethylene into long chains, creating the plastic), making ethylene the most common starting material for plastic production.

About 180 million tons of ethylene was produced in 2018, projected to increase to more than 260 million tons by 2023 [Global Data 2019], mainly supplied by the oil and gas industry. An alternative commercial source of ethylene is from the dehydration of bioethanol, commonly harvested from sugarcane, a renewable resource.

This production method reduces the dependence on oil and gas for the supply of starting material, but there is some debate over whether the environmental impact of this supply is decreased when the production is considered on a life-cycle basis [Liptow 2012, Nat Geo 2018]. And more must be done, so where do we look?

PLASTICS: TOWARDS A CIRCULAR ECONOMY

By Tom Weller, Innovation Analyst & Rob Strachan, Investment Analyst

The largest use of plastics is packaging, making up 35.9% of total usage in 2015 [Geyer 2017]. As such, packaging is an important consideration for almost all companies. The vast majority of packaging today uses at least one, if not many, of the most common plastics. As society continues to focus on increasing sustainability, companies will likely have to consider transitioning to other packaging materials, such as cardboard, or new biodegradable plastics (bioplastics) with new chemical structures, made from renewable resources.

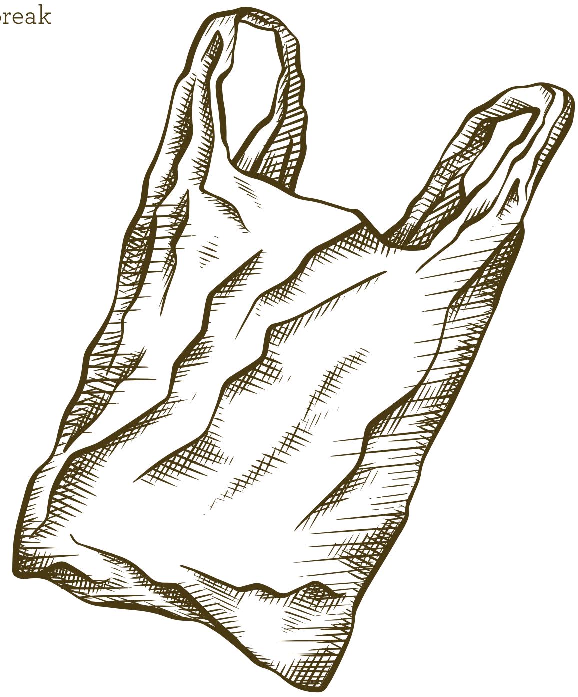
Geyer's team in their recent survey of "the use and fate of all plastics ever" point out that "the vast majority of monomers used to make plastics, such as ethylene and propylene, are derived from fossil hydrocarbons. None of the commonly used plastics are biodegradable. As a result, they accumulate, rather than decompose, in landfills or the natural environment" (the ultimate fate of 79% of the total to 2015 according to Geyer).

First came turtles wearing beer can holders, then plastic bags blowing in the wind, and now stories such as the plastic gyre in the Pacific make headlines around the world.

The only way to permanently remove these materials from the environment is to burn them (12% of the total to 2015). This would of course release the associated carbon into the environment as green-house gases, such as CO2. Even with the possibility of fuel extraction, this is not a sustainable option.

Recycling (9% of the total since 2015) isn't enough to deal with single-use plastic waste, according to Saabira Chaudhuri of the Wall Street Journal. Gerald Naber, Manager of the New Plastics Economy Global Commitment at the Ellen Macarthur Foundation, believes reusing plastic packaging is the most promising solution to single-use plastics. He points out that reusing plastic packaging requires companies to change not only packaging but also their business models and supply chains. Ocado have achieved this with bags relatively simply, having their customers return bags at each new delivery, and other delivery services arrive with boxes to empty.

Others go beyond reuse to develop new plastics; the London Marathon used 919,000 standard plastic bottles in 2018, and in 2019 reduced that by 200,000, replacing them with 200,000 Notpla pouches of drinks for runners. The Notpla material is synthesised from brown seaweed into an edible membrane and when left uneaten only take 4 to 6 weeks to break down naturally.



By Tom Weller, Innovation Analyst & Rob Strachan, Investment Analyst

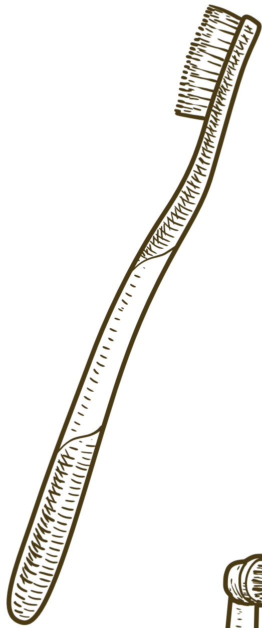
The fashion industry is also responding to the challenge with Tencel by Lenzing. Synthesised from cellulose, it has made it into shorts by recognised eco brand Komodo as well as blends by many others. There are even efforts to replace more difficult materials like silks with sustainable alternatives.

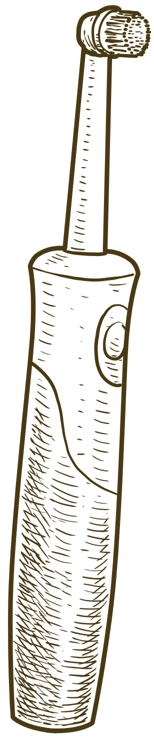
The strongest response is not surprisingly coming from the Fast Moving Consumer Good (FMCG) companies. For instance, Unilever has developed the Unilever Sustainable Living Plan and was pleased to share that sustainable living brands outgrew the rest of their product portfolio by 69% during 2019.

In 2010, they set the goal of halving the waste associated with their products by 2020; in 2017 they upped the ante, setting the goal to ensure all plastic packaging is reusable, recyclable or compostable by 2025; and again in 2019, aiming to halve their virgin plastic use while collecting and processing more than they sell by 2025. They approach these goals with their Less Plastic, Better Plastic, No Plastic strategies. Less plastic means "ecorefills" for brands Cif and Omo; 100% recycled bottles for Dove and Sunlight; and card and paper packaging for Knorr and Solero ice lollies.

Recycling will always leak plastic into the environment. Better plastics, or bioplastics, are a long-term solution. Global production capacity for bioplastics is 4 megatons, so low that it was left out of Geyer's analysis. According to European Bioplastics "bioplastics represent about one percent of the more than 359 million tonnes of plastic produced annually" [Bioplastics 2019].

On the World Economic Forum's top ten list of emerging technologies in 2019 is "strong, biodegradable plastics that can be fashioned from otherwise useless plant wastes". There is a huge opportunity here. Though 4% is a small proportion, it will grow, and become more significant





CARBON OFFSETTING

By Sarah Dudfield, Business Assistant

We are all becoming increasingly aware of the environmental impact our carbon footprint is having on the rest of the world and more importantly how we can all contribute in transitioning to a low carbon economy.

Sarah Dudfield, Business Assistant

In 2019, Evenlode explored ways in which we can play our part in the transition by investing in projects, predominantly in developing countries, which are designed to provide social benefit, reduce future emissions whilst offsetting our carbon in the process.

We decided to work with carbonfootprint.com who have numerous offsetting projects available from planting trees at local schools in the UK, providing efficient cooking stoves for women in North Darfur, India & Kenya, funding for clean drinking water programmes in Central America and investing in wind farms projects in Asia.

At the time of the calculation we had 14 staff. We decided to offset above the national average, setting the level at 20 tonnes of carbon emitted per person per year. This meant we would be able to offset 280 tCO_2e. As 2019 for us was all about carbon, we planted 280 trees locally at Kings School in Gloucester as it's a great way to sequester carbon emissions whilst supporting the local community. The trees were all native species and included wild cherry, crab apple, hazel, field maple, rowen, spindle bush and beech hedging.

We understand that carbon offsetting, and in particular planting trees is not the final solution in reducing global temperatures. What the project did however was create more awareness of the issue, start a practical conversation around climate change in the office and hopefully create more sustainable lifestyles. In the coming years, we will look to support clean energy-based and social projects in developing countries as the benefits are realised much earlier and provide increased social benefits.

LOOKING AHEAD

Evenlode's ultimate goal in stewardship is to 'preserve and enhance the value of our clients' assets whilst creating a positive social impact'. We believe preserving and enhancing value can be achieved by becoming active owners and engaging effectively with our investee companies. Our Annual General Meeting (AGM) analysis highlights the best-in-class companies and The Engagement Tracker allows us to highlight the companies which we feel can improve on governance matters. Providing us with crucial data on how to constantly improve our engagement approach.

Our key area of focus for the year was on climate change. To further deepen our understanding of the environmental risks, we created a 'Climate-Related At-Risk Assessment (CARA) analysis framework which highlighted companies that are most "at-risk" from the effects of climate change. And conversely, identifying companies that are not considering the big opportunities that are to be had if they are able to adapt and transition into a low carbon economy, with minimal disruption. We will look to engage with the companies that we think are not managing the physical, transitional and/or litigation risks, that climate change poses to their business model.

In the coming year, we will integrate the United Nation's Sustainable Development Goals (UNSDG) into our stewardship framework. It's an incredibly useful tool as investment aligned with the SDGs has the potential to create many opportunities for investors and companies as well as providing investors with information on where companies are having a positive social impact. This development will also add more weight to the CARA analysis, as climate change is correlated with many of the 17 goals such as Goal 7 (affordable and clean energy), Goal 13 (climate action), and has the capacity to affect Goal 11 (sustainable cities and communities), Goal 14 (life below water) and Goal 15 (life on land), amongst others.

We understand the need for all stakeholders to work together to address the imperfections in the global economy. It is not just up to companies but also us as individuals and investors to ensure that we are all working together to tackle the risks we face as shareholders and citizens of the world.

We hope this report has given you a sense of how we go about responsible investment at Evenlode, and the actions we have taken on behalf of our clients during 2019. We look forward to updating you on our progress during 2020.

Should you wish to learn more in the meantime, please feel free to contact our Stewardship Analyst, Sawan Kumar sawan.kumar@evenlodeinvestment.com

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FURTHER INFORMATION

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Interested in investing in the Evenlode funds? Get in touch:

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