Close Brothers
Asset Management

Stewardship and Responsible Investment Report

2021

Contents

Foreword

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

We have created this report in an effort to be transparent about our approach to being a responsible organisation and diligent stewards of our clients' capital. The report is aligned to and guided by the twelve 'apply and explain' principles set out by the Financial Reporting Council ("FRC") in the UK Stewardship Code 2020 ("the Code"). The report covers the period 01/08/2020 to 31/07/2021, our last financial year.

At Close Brothers Asset Management (CBAM) we are led by our Group's sustainable objectives (Sustainability Report 2021) and behaving responsibly is integral to our actions and decision-making. The global transition to a sustainable world is likely to be the biggest theme we are faced with this century, and we are committed to doing our part to support our clients and partners in transitioning towards more sustainable practices. We aim to be active and effective stewards of our clients' capital by engaging with our investees and wider industries. Our objective is to protect our clients' investments against risks and to capitalise on opportunities to increase their wealth.

These risks and opportunities include Environmental, Social, and Governance (ESG) related issues, essentially those risks and opportunities that may arise from how entities in our investment universe interact with their stakeholders and the societies and environments in which they operate. We consistently strive to act responsibly, ethically and with integrity, and this commitment to sustainable behaviours is embedded within our corporate culture and supported by a wide range of policies and procedures.

Robert Alster
CIO of Close Brothers Asset Management on behalf
of Close Asset Management Limited

(Close Brothers Asset Management is the trading name
for Close Asset Management Limited)

Purpose and Governance

Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Close Brothers Asset Management (CBAM) is part of the Close Brothers Group (CBG) plc, a FTSE 250 leading UK modern merchant banking group, providing lending, deposit taking, wealth management services, and stocks and shares trading. We are one of the UK's largest and longest-established providers of financial advice, investment management and self-directed services to private clients and small institutions.

Our Investment Management business is constituted of two core units: one offering fund solutions, and the other offering segregated investment accounts ("portfolios") where clients may request that we reflect their specific values and preferences.

Across CBG, we have a common purpose, strategy, culture and responsibility:

OUR BELIEFS AND STEWARDSHIP

At CBAM we have four business principles (outlined below) which support our group level purpose, strategy, culture and responsibility. We believe they reflect who we are as well as underpin our stewardship approach. The principles ensure we put our clients first, we remain responsive to their needs and manage their capital responsibly. In particular, the principles are the foundations of our responsible investment approach and our investment philosophy which is long-term and focuses on a diversified, prudent allocation of capital.

OUR BUSINESS PRINCIPLES ENSURE WE PUT OUR CLIENTS FIRST, WE REMAIN RESPONSIVE TO THEIR NEEDS AND TO MANAGE THEIR CAPITAL RESPONSIBLY.

Our Four Business Principles:

CLIENT

Client-centred: We pay attention and listen to our clients. Their needs shape our actions and that is why they feel valued and supported.

Stewardship Example:
We strive to help clients to achieve their financial goals in a way that reflects their values by offering a range of actively managed investment products and services, including bespoke portfolios tailored to individual clients' values and sustainable investment funds. See product suite graphic on page 8.

EXCELLENCE

We keep upping our game. We go the extra mile. And we take pride in deepening our expertise.

Stewardship Example:
We take our duty of care very seriously, and that is why we are continuously striving to improve the way we integrate ESG analysis in our investment research. We have explored this further under Principle 7 of the Stewardship Code.

PEOPLE

It's always "we" not me. We're open, inclusive and kind. And we know that valuing different voices makes us stronger.

Stewardship Example:
We promote the wellness of our people, and create a diverse and inclusive workforce of the highest calibre. See Principle 2.

INTEGRITY

We do the right thing, always. We strive to be socially and environmentally responsible. And we're wholly reliable.

Stewardship Example:
We hold ourselves to the highest standard of integrity. We provide transparency of our stewardship activities through the public disclosure of our Responsible Investment and Stewardship and Engagement policies and reporting on our website. We aim to improve this by updating our responsible investment and stewardship reporting to be guided by the 2020 UK Stewardship Code (See Principles 1-12).

RESPONSIBLE INVESTMENT

Central to providing a high quality service to our clients and delivering effective stewardship is our Responsible Investment Policy. We integrate responsible investment practices in our investment process to aid us in creating long-term value for clients and beneficiaries, in turn, leading to sustainable benefits for the economy, the environment and society.

We define responsible investment as an approach to managing assets which explicitly considers and integrates the impact of material ESG factors on the long-term financial risk and return of our investments. We recognise that there is a potential impact on an investment's value from a company's interaction with its stakeholders; including employees, customers, suppliers and environment in which it operates. We will also use these considerations to inform our active ownership and stewardship approach, including engaging and voting on our investments to protect our clients' capital against risks and enhance returns.

ESG issues are material risks and opportunities for our investments so we have built an assessment of these factors into our investment process. We see this as a critical part of our duty of care and stewardship responsibilities for our clients.

OUR INVESTMENT PHILOSOPHY

To be good stewards of our clients' assets, we aim to protect and deliver long-term value whilst considering wider ESG issues. Our investment process is centred on prudence, diversification, active management, and discipline.

A focus on **prudent** investment management: Many people who come to us for our investment management expertise have capital that's been generated over many generations. We understand that our remit is to invest with capital preservation in mind via prudent management of these assets. As part of this process, we help investors understand the power of compounding and consistent performance. We explain how the long-term volatility of returns falls over time and why, therefore, it is important to take a long-term view and integrate ESG factors into our analysis.

A **diversified** approach: We recognise that a single asset class rarely outperforms in all market conditions. Therefore, we believe the best way to deliver real returns and reduce risk is through diversification – investing across asset classes, geographies and sectors. We invest predominantly in liquid, direct securities (see Principle 6) as it allows us to respond to changing market conditions quickly and enables us to meet the income and drawdown needs of our investors.

Active investment management: We are also active investors and seek to add value through both tactical asset allocation decisions and individual security selection. This process involves tilting the mix of asset classes in different market conditions to express our prevailing views. The purpose of tactical asset allocation is not to fundamentally alter a portfolio's long-term risk profile, but to enhance returns and reduce losses by making adjustments to the strategic framework.

Institutional **discipline** within a collegial culture: We are a team of more than 80 investment professionals. More than two-thirds have more than 15 years of investment experience. We encourage open debate within a structured framework of daily, weekly, monthly and quarterly meetings to leverage off this experience and to ensure we rigorously review and evaluate investment opportunities.

ESG ISSUES ARE MATERIAL RISKS AND OPPORTUNITIES FOR OUR INVESTMENTS SO WE HAVE BUILT AN ASSESSMENT OF THESE FACTORS INTO OUR INVESTMENT PROCESS.

HOW OUR PRODUCTS SERVE OUR CLIENTS

Investors can access our expertise through discretionary managed portfolios and a broad range of funds. As discussed in Principle 6, the vast majority of our client base are retail investors. Tailoring is especially important with retail investors to reflect their unique goals and values. We work with our clients to identify their goals, their investment horizons and the level of risk they are comfortable taking prior to making any investments.

We offer ethical screening, Sustainable Funds, and our Socially Responsible Investment Service for clients who wish to further align their investments to their values. We do not believe in a one-size-fits-all approach, which is why we have created a variety of investment solutions.

They share CBAM's intellectual capital and we believe we can carry out our stewardship responsibilities by tailoring portfolios to meet clients' needs.

Our investment managers select the most appropriate blend of equity, fixed interest, cash and diversifiers. This is called 'multi-asset class' investing. We build multi-asset portfolios because we believe the best way to achieve strong risk adjusted returns is by diversifying investments.

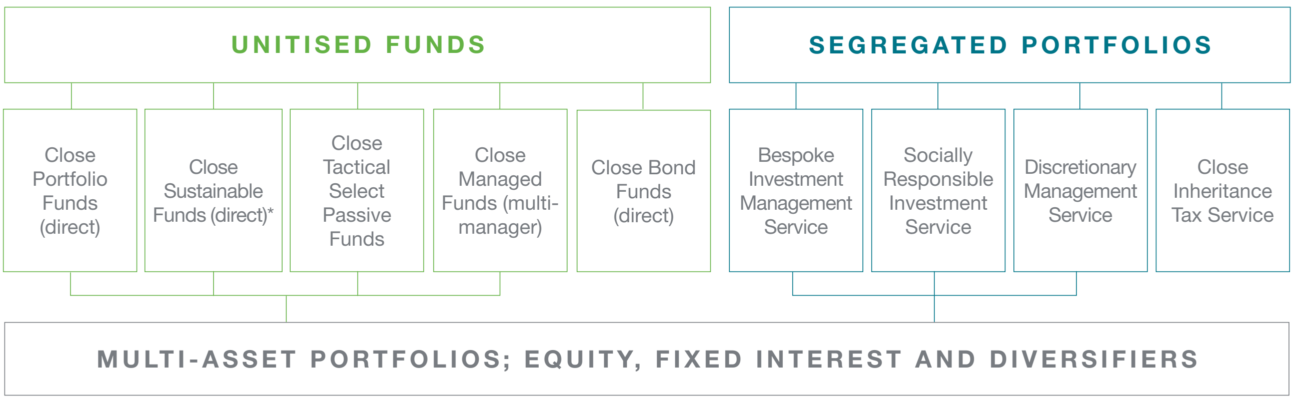
All of our solutions are managed on a discretionary basis, which means that our investment managers take care of day-to-day decision making, such as what to invest in or when to buy and sell. Each investment manager has individual discretion over:

- **Selecting the weighting of investments:** they diversify risk by spreading investments across the right combination of cash, equity, fixed interest and diversifiers
- **Selecting each underlying investment:** mostly shares in companies, corporate and government bonds, and a small selection of commodities, infrastructure and property

They have the support of our extensive team of analysts and researchers who explore and investigate each investment that we believe will drive performance.

The graphic below illustrates our full product suite available in the financial year 2020-2021.

We never stop asking ourselves how we can improve on what we do. We are continuously striving to refine and develop our services. We benefit from access to leading external research, global insight and innovative analytical tools, and the use of ESG metrics as part of our research process. We also engage external consultants for guidance on where we can improve our business to better serve our clients.



* Close Sustainable Bond Portfolio Fund is single-asset class
Source CBAM

EXAMPLE: ADDRESSING CLIENT DEMAND FOR SUSTAINABILITY

In the financial year 2020-2021 we worked with expert external consultants to help us develop our Sustainable Finance Strategy to better meet the needs of our clients and stakeholders with regards to sustainability. They worked with senior management and representatives from all areas of the business to create a new Sustainable Finance Strategy which sets out sustainability targets for our organisation's investments and operations. It includes 10 key areas:

Diversity & Inclusion	External ESG Initiatives
Shareholder Engagement	Incorporation of ESG factors in Investment Management and Advice
ESG Risk Management	Sustainability, Purpose & Culture
Sustainability Oversight & Accountability	Client Sustainability Preferences and Needs
Monitoring of Service Providers and Third Parties	ESG Commitments and/or Targets

Source: CBAM

This strategy has amounted to sustainability targets and a book of work which we will begin working on in the financial year 2021-2022.

EXAMPLE: HOW EFFECTIVE HAVE WE BEEN AT SERVING THE BEST INTERESTS OF OUR CLIENTS?

Our client centred business principle puts our clients' interests at the heart of everything we do. Our purpose, values, and investment approach are centred on driving long-term value for our clients. With our practice of responsible investment, we use ESG integration, the systematic and explicit inclusion of material environmental, social and governance (ESG) factors in the investment process and active stewardship to help us deliver long-term investment returns for our clients. We focus on stakeholder value through our offering of actively managed investment solutions. We exemplify this in our examples of Principles 7, 9, 11 and 12.

OUR CLIENT CENTRED BUSINESS PRINCIPLE PUTS OUR CLIENTS' INTERESTS AT THE HEART OF EVERYTHING WE DO.

Principle 2: Signatories' governance, resources and incentives support stewardship.

The objective of our governance structure is to create a sound and consistent governance framework which aligns responsibilities and accountabilities of individuals with the requirements of CBG, our regulators and, importantly for our stewardship approach, our clients.

STEWARDSHIP IN OUR GOVERNANCE STRUCTURES

Source: CBAM

The Management Committee (ManCo) is the primary body for executive management oversight of CBAM. It has responsibility for the execution of strategy and for the monitoring, effectiveness and compliance of the CBAM control environment. ManCo has formally delegated certain aspects of its responsibilities to, and conferred powers upon, various functional governance committees to assist it, and the board, in dealing with and making decisions on complex technical or specialised matters. This approach to governance ensures a clear and appropriate apportionment of significant responsibilities, and ensures that the division's strategic aims are implemented within a prudent and effective governance, control and decision making framework.

The graphic on the left is an abbreviated version of our governance structure showing the committees most pertinent to our stewardship efforts (in the green graphic text).

CBAM MANAGEMENT COMMITTEE (MANCO)	Provides day to day management of and responsibility for all CBAM business: • Matters of Treating Customers Fairly ("TCF") and conduct risk • Resolution and escalation of key business issues • Review of sales, investment and operational performance, errors, breaches and complaints • Key financial metrics and the development, embedding and monitoring of CBAM's culture and Business Principles • Aspiring to be diligent stewards of client's capital is at the heart of everything we do and the ManCo has ultimate responsibility for stewardship across the organisation.
RISK AND COMPLIANCE COMMITTEE (RCC)	Provides oversight, management and monitoring of risks that could affect our client's capital and the business. The RCC ensures CBAM adheres to its risk management policies and framework and risk-related regulatory requirements.
INVESTMENT REVIEW COMMITTEE ("IRC")	Provides oversight and control of investment process, performance and risk in accordance with the company's agreed investment strategy. The IRC is the governing body of stewardship from an investment perspective as it addresses how our investment approach can best serve our clients' and wider stakeholder interests. This is chaired by the CIO, who is the member of the senior management team responsible for stewardship.
SUSTAINABILITY COMMITTEE	Provides oversight and guidance of CBAM's sustainability strategy, promoting continuous improvement of sustainability management and performance, defining the overall sustainability strategic direction, and ensuring compliance with legal and regulatory obligations. The Sustainability Committee is also key to delivering on our stewardship ambitions, monitoring the investment team's progress on the strategic development of ESG integration and engagement. The Sustainability Committee also monitors the progress of our ESG reporting and collaborative engagement activities such as Principles for Responsible Investment (PRI).
ESG INVESTMENT COMMITTEE	The ESG Investment Committee oversees the firm's Responsible Investment Policy and guides our Responsible Investment approach. It consists of the Head of Responsible Investment, investment managers representing all products and services, and research analysts, and is chaired by the CIO. The ESG Investment Committee is consulted on for our stewardship approach and activities, and the forum is used for gathering input from the wider business on our approach to responsible investment.

EXAMPLE: HOW EFFECTIVE HAVE ARE OUR GOVERNANCE STRUCTURES BEEN IN SUPPORTING STEWARDSHIP?

Our Management Committee demonstrated that responsible investment and sustainability are a priority for our business by launching the Sustainable Finance Initiative to advance our presence in these areas. Last year, we began our engagement with external consultants on our sustainability strategy for the firm, including operations and investments. We created the Sustainability Committee, which includes management members across business units, including the CEO, CFO, CIO, and COO, and stands to set the sustainability strategy for the firm and unify our sustainability efforts. This year we promoted Lorraine Grace from Head of Socially Responsible Investment (SRI) Research, to Head of Responsible Investment, and set out to hire an additional ESG Analyst to strengthen our ESG research and engagement efforts, a hire which we have subsequently completed.

In addition to these defined committees, we have a 'Voting Panel' that consists of investment managers and research analysts. The Voting Panel has expertise across sectors and asset classes and is responsible for proposing and approving each voting decision. We have covered its role in more detail under Principle 12.

Proxy voting is a core part of our stewardship responsibility therefore the Voting Panel provides the essential governance to ensure our clients' interests are best served in each voting decision.

There are two areas of our governance structure that we would like to improve going forward:

Sustainable Investment Oversight Committee

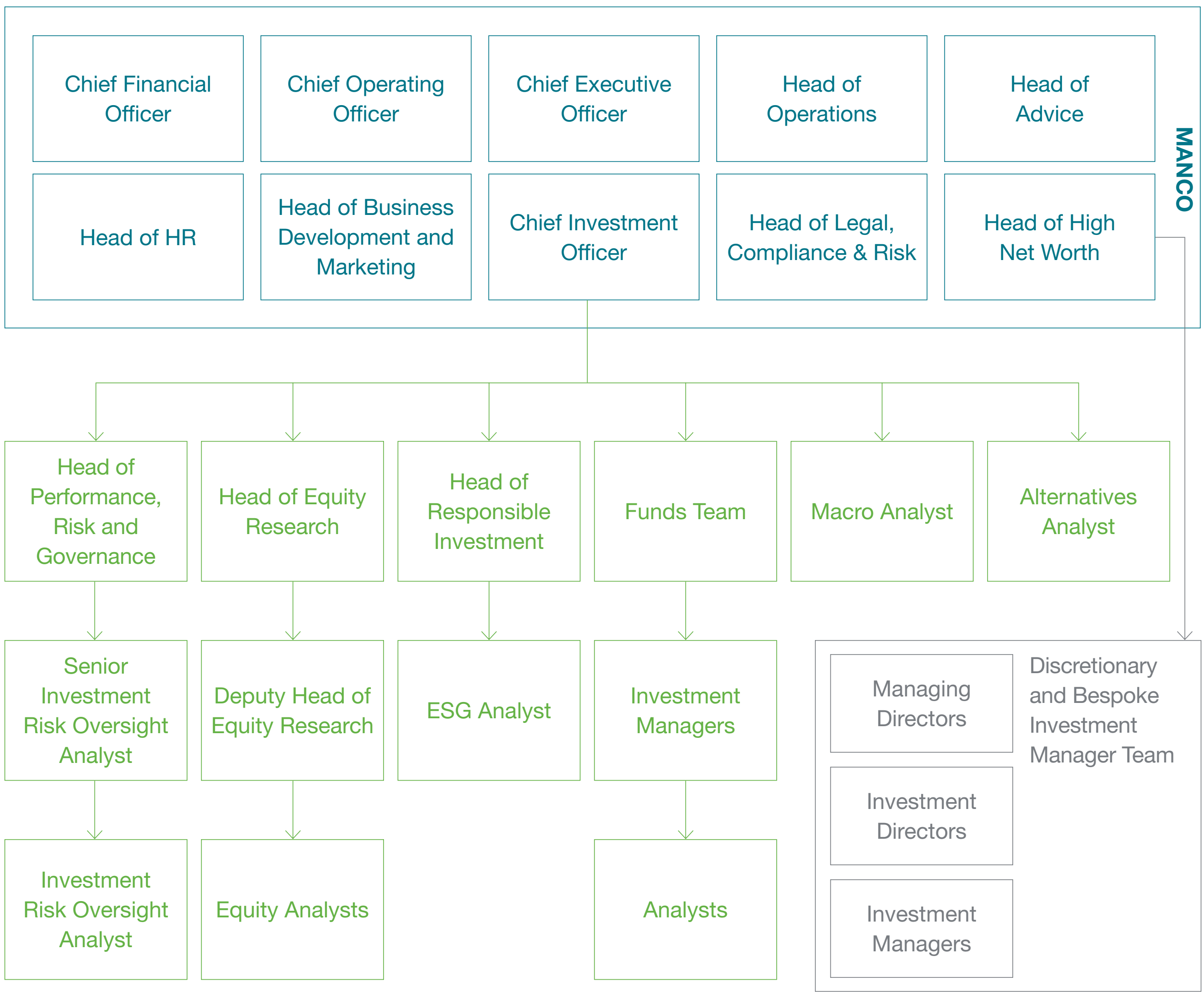
The creation of a Sustainable Investment Oversight Committee will support CBAM's ongoing commitment to sustainable finance by ensuring an aligned approach to sustainable investment across CBAM investment services. This Committee will be distinct from the ESG Investment Committee as it will focus on sustainable themes and our specific sustainable investment products rather than the firm-wide responsible investment approach. The principal functions will include:

- Overseeing the Sustainable Investing methodologies
- Integration of business sustainability goals in our Sustainable Investment propositions.

Voting Practice

We will also be formalising Voting Guidelines to provide further clarity on our approach to ESG issues for our Voting Panel in addition to our Stewardship and Shareholder Engagement Policy. The guidelines will focus on key ESG issues that come up in our proxy voting such as board composition, remuneration, diversity, auditor tenure and climate change. The guidelines are designed to be principle based rather prescriptive and will allow the Voting Panel sufficient latitude in applying the guidelines depending on specific company or regional circumstances.

PEOPLE SUPPORTING OUR STEWARDSHIP



Source: CBAM

QUALIFICATIONS

We believe that by equipping our staff with the tools, expertise and freedoms they need to fulfil their role to a high level we will be better stewards of our client's capital.

All members of the investment team including bespoke investment managers have been actively encouraged to undertake the CFA Program or CISI Diploma in Wealth Management exams. More recently the CFA Institute Certificate in ESG Investing has been successfully taken by members of the funds team and other investment professionals across the business.

Our financial planners are encouraged to take the Investment Advice Diploma to be able to better deliver an informed service to our clients.

TRAINING

Opposite are our training initiatives delivered during the financial year 2020-2021 that are pertinent to our stewardship efforts:

The Close Brothers Way	The culture at Close Brothers is very important. We are committed to creating an inclusive and fair environment that makes people proud to work here, and feel respected, valued and appreciated. The Close Brothers Way was developed to set out the behaviours and cultural attributes that are expected of all our colleagues. The module covered key things to remember when interacting with colleagues and the impact our actions have on others. We want to be open to discussion and it is important that staff members are able to speak up and raise a concern.
Compliance Policies	A compliance training module was launched during the year which included; Conflicts of Interest, Personal Account Dealing, Outside Business Interests, Whistleblowing, Gifts and Hospitality and Market Abuse.
ESG Education Sessions	The Head of Responsible Investment organises teach-ins for our investment team on key ESG issues and ESG integration. This includes presentations on ESG topics by the Head of Responsible Investment and external ESG experts, as well as individual consultations on an ongoing basis for investment managers on request. Our "ESG Education" sessions are organised to train and update our investment team on ESG issues. This past year we have held six of these sessions with industry experts, and topics covered have included "ESG Integration & Equity Valuation", "Impact Investing", "ESG Regulation", "ESG & the Oil Sector", "The 2021 ESG Outlook", and "Emissions Offsetting & the Paris Agreement".

DIVERSITY AND INCLUSION

We strive to make every member of the firm feel valued and included as we believe an inclusive environment creates the opportunity for everyone to perform at their best.

Created in the financial year 2020-2021, the Inclusion Committee, chaired by rotating members of the Management Committee, helps to challenge current processes and practices, encourage new ways of thinking, and to create and support new initiatives related to inclusion. The Committee assists ManCo in continuously improving the culture of the firm to be inclusive and promote diversity of thought. It acts as advocates on behalf of all employees of CBAM and provides a forum to discuss any idea or initiative put forward by any individual or group of employees to enhance our inclusion practices. The committee is in close contact with the wider Close Brothers Group Inclusion Networks to share best practice and enhance the employment experience for all Group employees. CBAM representatives from each of the Networks attend the inclusion committee regularly to ensure continuity across the Group and that all initiatives are well considered. The role of the Committee extends beyond the internal promotion of inclusion, demonstrating to prospective new members of CBAM and the wider community the equal importance we place on all members of our firm.

Strategically, we have a focus on **seven particular areas of D&I:**

Ethnic diversity
We support #10,000 Black interns and mentored 6 interns in 2021; we are also signatories to the Race at Work Charter

Working parents and carers
We support emergency backup care for those in caring roles

Mental wellbeing
We support the Time to Change pledge and recognise both Mental Health Awareness week and World Mental Health Day

Social mobility
We support the Social Mobility Pledge and the upReach internship programmes

Disability
We support the business disability forum

LGBTQ+
We support Stonewall

Gender balance
We support the Women in Finance Charter and 30% Club (see Principle 10)

Our senior managers were also involved in Inclusive Leadership training run by an external team from Byrne Dean. In addition, our management committee members had external diversity and inclusion training facilitated by INvolve. Six members of our management committee were involved in a reverse mentoring scheme that paired senior employees with more junior colleagues from across the business. This scheme was designed to ensure management's views continued to be challenged by colleagues with different backgrounds and perspectives.

PERFORMANCE MANAGEMENT AND REWARD PROGRAMMES SUPPORTING OUR STEWARDSHIP

The quality of research, fund management services and client care are explicitly incorporated in the relevant objectives of our investment employees. Senior employees have additional objectives that are focused on our responsible investment approach which supports the stewardship of our client's capital.

The Chief Investment Officer (CIO) has explicit objectives to embed ESG issues throughout the investment process as well as to promote Sustainable funds.

The Head of Responsible Investment shares these objectives whilst also having goals that include third party data sourcing, voting and engagement policy, and consulting with the research analysts on ESG content within research reports.

ManCo also have diversity and inclusion objectives which form part of their appraisal and reward package.

SYSTEMS AND RESEARCH PROVIDERS SUPPORTING OUR STEWARDSHIP

To be effective stewards of our clients' capital the quality of our internal research is paramount. Our analysts will use Bloomberg, AssetQ, Factset and Credit Suisse's HOLT alongside other sell-side research to aid their coverage of securities across all asset classes (equity, fixed interest, and diversifiers).

For the voting aspect of our stewardship we use the third-party partner, ISS, for best practice corporate governance voting research and their proxy voting platform. Our Voting Panel of analysts and investment managers determine how we should vote in the best interests of clients. Our engagement and voting approach is addressed further under Principles 9 and 12.

To facilitate and inform the integration of ESG issues as part our stewardship approach we utilise third party ESG data and sell-side research. Our centralised in-house equity and fixed interest research incorporates ESG analysis as an integral part of the security selection process. We address how ESG issues are integrated into our investment approach to fulfil our stewardship responsibilities under Principle 7.

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

CONFLICTS OF INTEREST POLICY

As a regulated business, CBAM is required to take appropriate steps to identify and prevent or manage conflicts of interest. These can arise in the course of providing services to clients or where CBAM have any (financial or non-financial) interest in a particular outcome which could disadvantage the client or at the very least not put their best interests first. Our Conflicts of Interest Policy can be found on our website.

CBAM's Legal, Compliance and Risk department maintains a conflicts of interest register which is reviewed by senior management at the RCC. The RCC reviews the register at least every six months, or upon any material change. Periodic monitoring of the disclosed conflicts is also undertaken. Where a conflict of interest is identified, we will always aim to act in the best interests of clients in accordance with our obligation to treat customers fairly.

We could fall short of being diligent stewards of our clients' capital if at any time our clients are disadvantaged by our organisation or employees. We are therefore particularly conscious of the broad types of conflict that can arise:

- Where CBAM (or an employee) is likely to make a financial gain, or avoid a financial loss, at the expense of the client
- Where CBAM (or an employee) has an interest in the outcome of a service provided to the client or a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome
- Where CBAM (or an employee) has a financial or other incentive to favour the interest of one client or group of clients over the interests of another client
- Where CBAM carries on the same business as the client
- Where CBAM receives, or will receive, from a person other than the client, an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service; and
- Conflicts arising from CBAM's own remuneration or other incentive structures.

TRAINING ON CONFLICTS OF INTEREST

Every new employee completes a conflicts of interest training session. Furthermore, as part of our annual key compliance policy training, every employee must complete a refresher online training module including a set of questions that must be answered and passed.

STEWARDSHIP CONFLICTS OF INTEREST

Specific stewardship and shareholder engagement conflicts can arise if we are not aligned with shareholders' interests in shareholder resolutions e.g. our commercial interest may have an interest in voting against a resolution.

EXAMPLES OF POTENTIAL CONFLICTS

1. **Potential Conflict:** One of our employees may have a financial or non-financial interest or relationship with a company which we intend to engage with or vote upon. This could create a conflict of interest because this relationship, be it financial or non-financial, could cause the voting decision or engagement approach to be skewed away from our clients' best interests.

2. **Management of Conflict:** From a financial relationship perspective, all employees and connected parties are required to adhere to CBAM's personal account dealing policy. This is in place to ensure that any such dealing does not involve conflicts of interest and that clients are not disadvantaged as a result of these dealings.

   From a non-financial relationship perspective, no employee may engage in any additional outside employment without prior Compliance approval. In certain circumstances, consent may be withheld or conditions may be imposed.

3. **Potential Conflict:** Our client is a director of a public company we are invested in, and we intend to vote against management or the re-election of their directorship. This could create a conflict of interest between the incentives of our client as the director and our duty of stewardship to the client's best interests.

4. **Management of Conflict:** Where our client is a director of a public company which is held in their portfolio, the shareholding is separated into a separate account that has an execution only mandate. This is marked on our systems and those shares are not voted on by us. If the client wants to vote on their shares they can do so by direct instruction.

On occasions, arrangements made to prevent or manage a conflict may not be sufficient to ensure, with reasonable confidence, that the risk of damage to client interests will be prevented. In this situation the nature of the conflict must be fully disclosed to the client prior to undertaking any business for the client.

This disclosure must:

- Be made in a durable medium
- Include a specific description of the conflicts or a description which shall explain the general nature and sources of conflicts of interest, as well as the risks to the client that arise as a result of the conflicts of interest and the steps undertaken to mitigate these risks, in sufficient detail
- Clearly state that the organisational and administrative arrangements established to prevent or manage the conflict are not sufficient to ensure, with reasonable confidence, that the risk of damage to the interests of the client will be prevented; and
- Enable the client to take an informed decision with respect to the service in the context of which the conflict arises.

We do not deem disclosure alone as sufficient to manage a conflict. The conflicts of interest policy will be considered deficient if there is an overreliance on disclosure.

In all scenarios, if the level of risk from a potential conflict of interest continues to be too severe, CBAM will decline to provide the service requested.

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

IDENTIFYING MARKET-WIDE AND SYSTEMIC RISKS

Identifying and managing market-wide and systemic risks is one of our key objectives as an asset manager. As discussed in Principle 1, our investment philosophy is centred on prudent investment management. We apply a diversified approach to help us manage risks and deliver returns over a long-term time horizon.

Our risk management framework starts with our long-term Strategic Asset Allocation (SAA). The SAA determines the optimal mix of asset classes in a portfolio for a variety of risk profiles. In order to determine the SAA we have partnered with Moody's Analytics. Moody's Analytics provide us with long-term return and risk forecasts which we apply to our own asset class assumptions in order to create the optimal mix of asset classes for long-term investment returns at a given level of risk (the efficient frontier).

To be prudent, all our clients have a risk profile which has a corresponding SAA, an optimal mix of asset classes based on long-term risk and return forecasts. We recognise that there can be prolonged periods of time when asset class returns deviate from the long-term expectations. Therefore, as active investors, we aim to add further value to our clients' portfolios through tactical asset allocation.

Tactical asset allocation (TAA) involves adjusting the weightings of the portfolio relative to the strategic position in order to actively take advantage of changing economic and market conditions.

By doing this we manage market volatility. We use a framework that focuses on key high conviction investment ideas taking into consideration macroeconomic and valuation issues. Our TAA is determined by our investment team on a quarterly basis. The investment team discusses the key drivers of markets, and asset class implications using prevailing data points and seasoned judgement before arriving at a high-conviction view. We take a six to twelve month view when making tactical adjustments, which are intended to improve returns and reduce the risk of our clients' portfolios. Nevertheless, such tactical adjustments are not intended to fundamentally alter the portfolio's risk profile.

Supporting our asset allocation, we aim to add value through security selection, for which we conduct our own research. Our dedicated in-house research team of analysts carries out robust and in-depth analysis on potential new investment ideas across all asset classes on a global basis.

Our research helps us to limit our investment risk by identifying assets that are high quality and liquid. Our research team provides a core investment universe for our investment managers in the form of well-researched and rated securities, from which each manager may find investment ideas to build their clients' portfolios.

To further manage our clients' assets' risks relative to the market, we vet turnover and exposures at monthly Product Governance Review (PGR) meetings for our funds, and quarterly Bespoke Governance Review (BGR) meetings for our bespoke portfolios. At these meetings clients' needs and requests are reviewed, and their investments are tested against a range of criteria including; asset allocation, performance, volatility, concentration, turnover, yield and income objectives, profiling, sensitivity, commonality and suitability.

Our first line to identify market and systemic risks is our investment team. The investment team discusses macroeconomic, political, and company risks on a daily basis at our morning meeting as and when they emerge. Our CIO and research analysts host meetings for our investment managers with external industry experts to identify impending market and systemic risks on a regular basis.

Our macroeconomic views evolve over the quarter and are informed by an ongoing series of meetings addressing the key issues identified by the 'core view' voting process, as well as any ad hoc issues that emerge. The quarterly Macro Forum provides a dedicated opportunity for the investment team to discuss macroeconomic issues and review the information gathered over the quarter.

The Responsible Investment team host meetings for our investment team with external experts on sustainability themes, such as the risk climate change poses to our investments. They also guide the research analysts in carrying out ESG analysis of our investments, and identifying material ESG risks. See Principle 7 for more about how we analyse ESG risks for different asset classes.

Independent review and challenge is provided by the Performance & Risk Team in conjunction with our compliance and risk teams. Performance & Risk monitor our portfolios on a continual basis, ensuring that client portfolios are being run in line with their mandates. They conduct post-trade monitoring, looking at the specific trade history and also market movements and how the portfolios performed during those times, and monitor the risk/return corridors of each portfolio and their liquidity constraints.

TO FURTHER MANAGE OUR CLIENTS' ASSETS' RISKS RELATIVE TO THE MARKET, WE VET TURNOVER AND EXPOSURES AT MONTHLY PRODUCT GOVERNANCE REVIEW (PGR) MEETINGS FOR OUR FUNDS, AND QUARTERLY BESPOKE GOVERNANCE REVIEW (BGR) MEETINGS FOR OUR BESPOKE PORTFOLIOS.

EXAMPLE: HOW WE IDENTIFIED AND ADDRESSED LIQUIDITY RISK

When the regulator strengthened the focus on liquidity risk as a systemic risk, we responded by carrying out an assessment of our investments' liquidity.

In December 2020 a major stress testing exercise was undertaken on all our funds. Building on that stress testing work carried out by the Performance and Risk team, we have subsequently re-analysed the liquidity profiles of our Funds to determine the approximate thresholds ("Trigger Points") above which fund portfolios would become "skewed" through redemptions to the point where fund suspension might be the only option (as there would be a potential client detriment issue). (Further detailed modelling is being undertaken on this as this is not a one-off exercise). (Note: this exercise has identified that, in normal market conditions, almost all our funds could sustain single day redemptions of well in excess of 50% without any adverse impact on remaining investors). Liquidity analysis is now included in every monthly IRC review.

HOW OUR INVESTMENTS ARE ALIGNED TO SUSTAINABILITY RISKS

We see a transition to a sustainable world as an important trend that presents both positive and negative systemic risks. To respond to these risks, and to begin to adapt to a changing world, we launched two Sustainable Funds in November 2020. These funds focus on investing in entities that are less exposed to sustainability risk, through an ESG screening approach.

Considering that the asset management industry still lacks clarity around sustainable investment labels and criteria, we seek opportunities to engage with the broader industry and provide feedback on initiatives that will aim to create more clarity for clients and help eliminate greenwashing. (See GFI example on pg. 24). We do not market our funds in Europe, and therefore do not fall under Sustainable Finance Disclosure Regulation (SFDR). While we wait for the FCA consultation paper on the UK's Sustainable Disclosure Requirements, we use the resources provided by our associations, including the PRI definitions, to guide us in the development of our responsible and sustainable investment approaches.

EXAMPLE: HOW WE CAN IMPROVE OUR CLIMATE RISK MANAGEMENT

Nature loss, land-use change and physical effects from climate change continue to pose a systemic risk to the market. When relevant and material, we consider the risks from these thematic issues in our investment research, engagement and voting. Of specific note is our Socially Responsible Investment (SRI) Service which uses the UN Sustainable Development Goals framework to align investments with companies that are working to mitigate these risks. However, the addressing and embedding of climate change risks more systematically throughout our investment process at a firm-wide level is work in progress. Going forward, we expect to implement firm-wide climate change training and to obtain access to more detailed climate data sets. We hope these will advance how we think about climate change risks whilst also providing stronger foundations upon which we can engage companies where we think the risks pose an unmanaged threat to our clients' capital.

WORKING WITH WIDER STAKEHOLDERS AND INDUSTRY INITIATIVES TO PROMOTE A WELL-FUNCTIONING MARKET

We believe working collaboratively with wider stakeholders and industry initiatives is vital in facilitating and adding greater influence to our engagements with investees and regulatory bodies. By engaging we can hold both companies and regulators to account and help reduce risks to our shareholders where the risks are localised and to the wider market where the risks are systemic. We often engage to seek greater disclosure from companies and the result of greater disclosure is a more informed market that functions more efficiently.

We engage with industry bodies Personal Investment Management & Financial Advice Association (PIMFA) and the Investment Association (IA) by participating in working groups and forums to provide feedback on industry developments, such as proposed legislation.

Under Principle 10 we mention the associations and collaborative initiatives that we are involved with. In particular, CDP (formerly the Carbon Disclosure Project) and the PRI are both networks that provide us and our clients a voice in creating well-functioning markets.

However, we are conscious of the fact that we need to and can do more with our voice to influence the market and since the end of the reporting period (July 2021), we have been developing our thematic engagement approach and researching initiatives or networks that may help support and guide us on our journey.

WE BELIEVE WORKING COLLABORATIVELY WITH WIDER STAKEHOLDERS AND INDUSTRY INITIATIVES IS VITAL IN FACILITATING AND ADDING GREATER INFLUENCE TO OUR ENGAGEMENTS WITH INVESTEES AND REGULATORY BODIES.

EXAMPLE

Issue: PIMFA notified us of the opportunity to engage with the Green Finance Institute (GFI) on the development of their Green ISA Principles. We see the lack of clear investment labels for sustainable investments as a major issue in the asset management industry. We were eager to provide feedback to GFI to help them create a classification that will be effective and help end greenwashing.

Process: We carried out an initial call with GFI and later provided feedback on three draft Green ISA Principle documents, namely; The Green ISA Principles, Green ISA Principles FAQs and Green ISA Principles Application Form. Given our business function, we focused on Stocks & Shares ISAs.

Our primary feedback was on the inconsistencies between the frameworks being suggested and the need for improved clarity on the difference between types of sustainable investment strategies. In addition, we commented on the need for greater clarity on the vetting process for applications to use the Green ISA Principles label.

Outcome: Our feedback was gratefully accepted by the GFI team. In response, to ours and other's feedback, the organisation said it would work on re-shaping the principles and accompanying documents. We plan to maintain communications with GFI as the principles develop.

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

STEWARDSHIP AND SHAREHOLDER ENGAGEMENT POLICY AND APPROACH

Our Stewardship and Shareholder Engagement Policy and associated activities are reviewed and signed-off by the IRC which is chaired by the CIO. We think this governance structure for review is most appropriate because it allows management to have the greatest visibility of our stewardship approach and therefore how we are managing clients' capital and interests. The Policy is reviewed on an annual basis and will be updated as necessary based on the review.

As described under Principle 2, responsibility for our investment stewardship approach rests with the IRC. From an investment perspective, this is the highest level of committee assurance our stewardship approach can receive. The CIO feeds into ManCo relevant changes and updates to our Stewardship and Shareholder Policy and approach where necessary. We currently do not obtain third-party assurance over our stewardship policy or approach and this is a potential area for improvement as both the policy and approach develop.

RESPONSIBLE INVESTMENT POLICY

We view the integration of ESG factors within the investment process to be an evolving, iterative, process that we, alongside the wider industry, intend to refine and evolve as our understanding of ESG considerations and their impacts on the value of investments grows. When any such material evolution in our understanding occurs, we intend to evolve our Responsible Investment policy accordingly. Any new or updated policy has to be reviewed by our legal and compliance teams before it is made public, this includes both our Responsible Investment and Stewardship and Shareholder Engagement policies.

STEWARDSHIP REPORTING

We report on our stewardship activities on an annual basis and this is published externally on our website. Since 2020, this report has included our proxy voting statistics and how we have voted (i.e. for/against management, for/against shareholder resolutions and with/against ISS). The report also gives examples of engagements we have had with management and the topics on which we voted against them. We believe quantifying our voting and engagement activity makes our reporting as transparent as possible. This reduces the risk that our activity is misunderstood or manipulated.

The Responsible Investment team is responsible for the authorship of the report which involves collating the required information from different parts of CBAM and distilling it into a readable format. To ensure the report is a fair, balanced and understandable reflection of CBAM's stewardship activities from across the year it is reviewed by different parties internally.

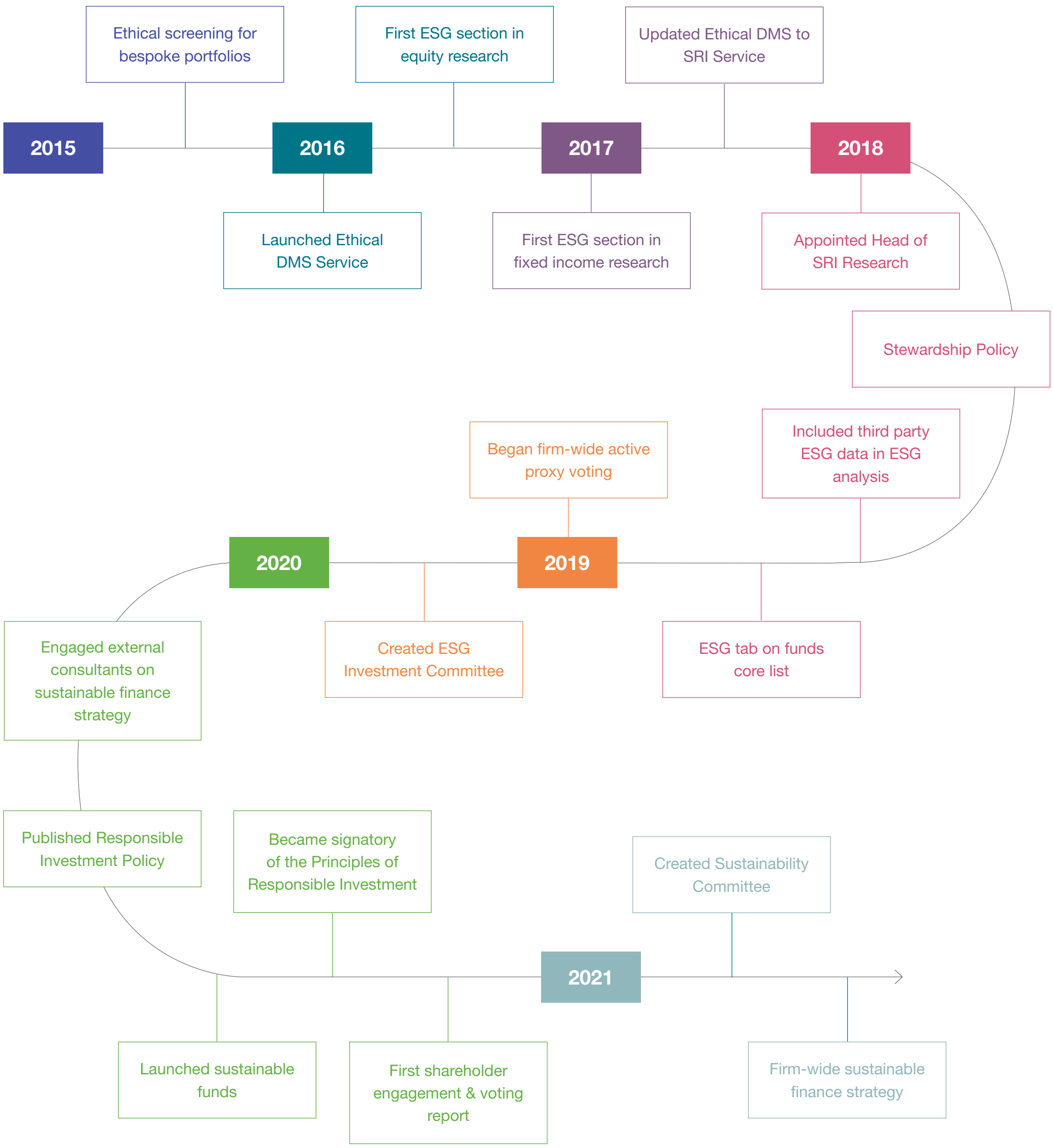
Firstly, the contributors to the report are given a chance to verify that their information has been reflected appropriately by the authors. The report is then sent to the ESG Investment Committee for input. It is reviewed and signed off by Compliance, the IRC and the ManCo.

The Shareholder Rights Directive II (SRD II) rules came into effect 10 June 2019 and aim to promote effective stewardship and long-term investment decision making. In our annual stewardship reporting, we make the required disclosures for SRDII. In addition, from this year onwards, our annual stewardship report will aim to be aligned to the 12 principles of the UK Stewardship Code 2020.

WE THINK QUANTIFYING OUR VOTING AND ENGAGEMENT ACTIVITY MAKES OUR REPORTING AS TRANSPARENT AS POSSIBLE. THIS REDUCES THE RISK THAT OUR ACTIVITY IS MISUNDERSTOOD OR MANIPULATED.

Since 2015, we have been on a continuous journey to improve our stewardship approach, governance structures and policies. Each step highlighted in the infographic below was a result of a review of our stewardship and responsible investment approach as well as our client's best interests. Under Principle 2 we outlined improvements to our governance structures as they pertained to stewardship. This includes creating a Head of Responsible Investment, forming the ESG Committee and the new Sustainability Committee - which is now vital to our stewardship approach and how our investments interact with environmental and societal stakeholders. The infographic also depicts how we have evolved the integration of ESG factors and the use of ESG data into our investment decision making and active voting practice.

EXAMPLE: OUR STEWARDSHIP APPROACH THROUGH TIME



Source: CBAM

Investment Approach

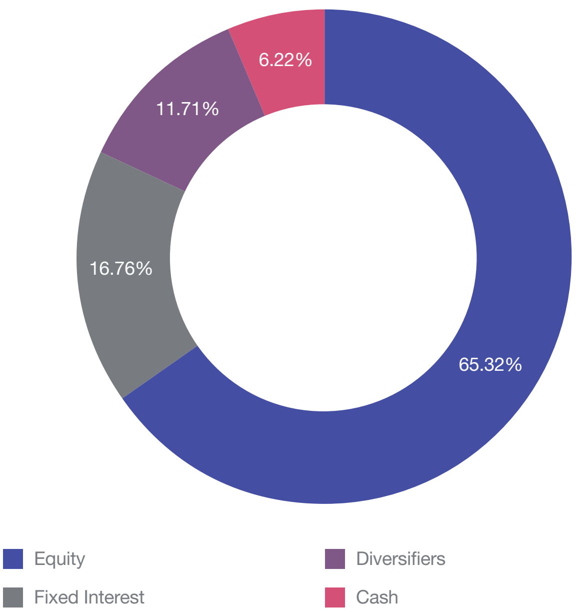
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

OUR CLIENTS AND ASSETS UNDER MANAGEMENT

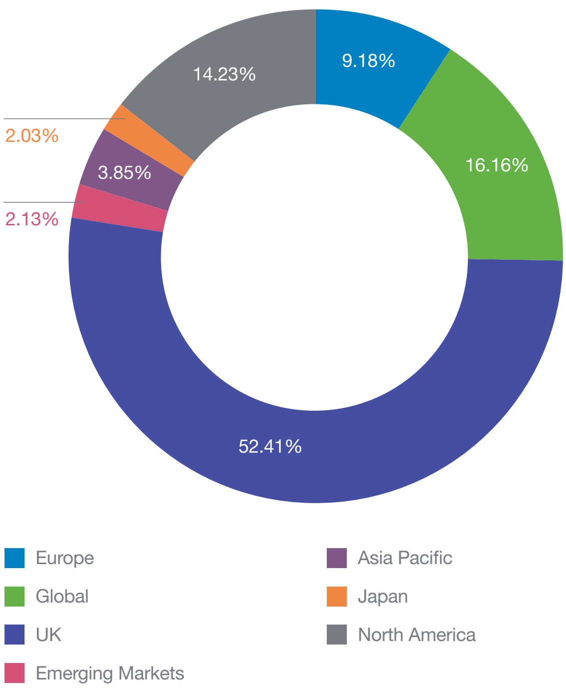
CBAM's Assets Under Management (AUM) were £15.6bn as at 31 July 2021. This is the combined AUM of our unitised funds and segregated portfolios, as described in Principle 1, which total our complete investment management service. The pie charts below display the AUM split by asset class and region. Notably we are predominately invested in equities and the UK.

We work with a primarily retail client base of professionals, business owners, families and their advisers, who are looking to preserve and grow their long-term savings and investments, as well as charities and trusts. The majority of our clients are based in the United Kingdom. Across the client base we seek to provide an institutional quality investment management service.

AUM SPLIT BY ASSET CLASS, 31 JULY 2021



AUM SPLIT BY REGION, 31 JULY 2021



*Global = a fund that is invested in more than one region.

Source: CBAM

OUR INVESTMENT TIME HORIZON AND ALIGNMENT WITH CLIENT NEEDS

We are typically long-term investors across all asset classes with the aim of maximising value for money for our clients over this period. As a fund manager, this is incorporated into the investment objectives and policies of each of our funds. As a private client investment manager and financial adviser, we engage directly with our clients and ensure that their personal and financial aims and objectives are linked closely to the investment strategy put in place.

For the vast majority of our clients, we expect their investment time horizon to be at least five years and mostly beyond. In many cases, we have relationships and investment strategies that straddle multiple generations within a family and will take that into account when positioning their investment strategy.

LISTENING TO OUR CLIENTS

For most of our clients, we have a direct relationship either through one of our financial planners, a bespoke investment manager or both. Via this direct relationship, we are able to build a strong and thorough picture of our clients' views, needs, requirements and beliefs.

Investment managers will then use their knowledge and experience to determine the appropriate risk level, asset allocation and stock selection to meet the client's objectives while taking account of their expressed preferences and beliefs. We will confirm with our clients who are engaged with a CBAM financial advisor or bespoke investment manager that their investment portfolios are suitable for them on an annual or every two year basis respectively. We will also engage with them on a regular basis to ensure that any changes in their circumstances or views are captured and reflected.

For other clients, where the relationship is intermediated through external financial advisers we rely on that external relationship to ensure that the investments are suitable and clients' views are reflected. Our clients who invest directly through our self-directed platform are provided with the information they need to make an objective assessment of the most appropriate investment, including our own funds.

For clients investing in our Sustainable funds, our Socially Responsible Investment (SRI) Service, or who have opted to apply an ethical screen or exclusions to their discretionary portfolio, we ensure that they have a full understanding of the security selection process, through the fund or service documentation or regular meetings, and what may, or may not, be included in their portfolios.

As part of the bespoke portfolio service that we offer, clients can opt to screen out companies that are unaligned to their ethical values. We use Ethical Screening as our service provider for this functionality and our investment managers use a questionnaire to help identify industries or activities clients want to avoid on ethical grounds. The questionnaire indicates the level of activity involvement that would be screened for as well as the number of companies that would be excluded should the client select to avoid a particular industry or theme.

GATHERING CLIENT FEEDBACK

For the majority of our clients where we have a direct relationship, feedback is mostly gathered on a 1:1 basis through regular review meetings and ad-hoc conversations and interaction. We view the strength of our relationships with our clients as key to how we manage their assets and we can incorporate their objectives into the heart of our investment process.

For the majority of our clients whose assets are held in custody by our Nominees, we issue quarterly valuation packs either by post or through the online portal – depending on client preference. This allows clients to clearly see their investment portfolio, performance and transactions along with our commentary on markets. We seek feedback on this reporting on a regular basis.

ASSESSING OUR EFFECTIVENESS AT OBTAINING CLIENTS' VIEWS

Our clients' tenures are high, reflecting the quality of the investment manager and financial planner relationships and our client's satisfaction with our service.

We undertake regular client engagement surveys across both our discretionary investment management and financial planning clients where we seek feedback on the quality of our engagement.

MANAGING ASSETS IN ALIGNMENT WITH OUR CLIENTS' VIEWS

Under Principle 7 we outline our bespoke portfolio service. Our bespoke investment managers can incorporate specific client views and values through specific screening of investments. As part of the relationship development between our investment managers and clients, a discussion can be had on what ethical values are important to the client and these points will guide the selection of industry activities to exclude for that client's investments.

Our clients delegate voting and engagement with their holdings to us as their investment manager and, whilst we do not offer the option for clients to direct the way we vote as a firm, we take clear account of our Stewardship and Shareholder Engagement Policy, which has been developed over recent years and is published on our website. We do allow clients to direct the voting of their own holdings if they wish to.

EXAMPLE

Our client wished to vote their shares in favour of the motions at the AGM of a company they were on the board of. As per our conflicts of interest policy, described under Principle 3, CBAM would have an execution-only mandate on these shares and therefore the client had to instruct us directly on the way they wished to vote.

COMMUNICATION OF OUR STEWARDSHIP AND INVESTMENT ACTIVITIES

On an annual basis we publish our Shareholder Engagement & Voting Report (this is to be superseded by this report) which gives a clear explanation of how we have engaged with companies on our client's behalf. The report also fulfils our SRDII reporting requirements.

WE VIEW THE STRENGTH OF OUR RELATIONSHIPS WITH OUR CLIENTS AS KEY TO HOW WE MANAGE THEIR ASSETS AND WE CAN INCORPORATE THEIR OBJECTIVES INTO THE HEART OF OUR INVESTMENT PROCESS.

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfill their responsibilities.

INTEGRATION OF ESG ISSUES

As mentioned under Principle 1 and 4, we are active investors. We seek to add value through tactical asset allocation and security selection by investing directly in public equity and fixed interest, as well as investing in diversifiers in the form of collectives. Where we invest directly we are predominately developed market investors (i.e. North America, Europe and Japan). Our investment managers will also use managed funds and listed trusts where they are available to get exposure to other geographic markets or diversifying asset classes. We are mindful of geographic standards when considering the ESG profile of an investment. How we approach ESG issues across the different asset classes is outlined in more detail below. These geographic and asset class scopes apply to our engagement, escalation, and voting approaches.

As long-term prudent investors we are committed to helping our clients achieve their financial goals through active and effective stewardship of their capital. We believe it is vital to integrate ESG risks and opportunities across our investment process given the longer time period over which they tend to materialise. We systematically consider material ESG issues because they provide an additional information set and more holistic perspective from which the credibility of an investment can be judged.

These considerations are made through our fundamental, bottom-up, research and are illustrated in the format of a written initiation report and/or presentation. Broad examples of factors in each of the E, S and G categories include, but are not limited to the following:

- **Environmental factors:** climate change, biodiversity, resource depletion, waste, pollution, deforestation
- **Social factors:** human rights, modern slavery, child labour, working conditions, employee relations
- **Governance factors:** bribery and corruption, executive pay, board diversity and structure, political lobbying and donations, tax strategy

We believe it is important to have a holistic approach to ESG integration, and that is why our research analysts conduct their own ESG analysis. They are the ultimate experts on the investments they cover, and their analysis includes ESG factors. As ESG analysis is a relatively new and developing aspect of investment management, the Responsible Investment team – our ESG experts – guide our analysts in the integration of ESG in their research process and provide our investment team with on-going education about key ESG issues which are pertinent to relevant sectors. Material ESG factors, such as risks due to climate change, are discussed in detail within our analysts' research reports and considered in each investment case.

DIRECT LISTED EQUITIES

Our equity investment research approach focuses on identifying good quality companies, with strong balance sheets, robust governance and competent management, that are priced attractively. An integral part of our understanding of the quality profile of an investment is to consider the risks and opportunities non-financial issues may pose. We believe that investments that have strong ESG qualities are less likely to be impacted by negative events that could ultimately lead to substantial falls in their valuations.

Our equity research analysts, on our central Research Team incorporate ESG analysis into their equity research reports in a defined section. Within this section, material ESG factors for the relevant sector are considered based on the analyst's judgement. Our analysts will use third party ESG data, industry research, and company reports to identify ESG risks applicable to the company under research. Where ESG factors are deemed material, our analysts will discuss the ESG analysis, and how they have considered them as part of the investment case, resulting in their ultimate investment recommendation (Buy, Neutral, and Source of Funds).

CBAM EXAMPLE

We initiated on a global tech stock in December 2020 with an 87 page report. Our ESG considerations totalled 25% of the report which reviewed the ESG factors relevant to the company, considering the potential financial implications for the firm. The two factors where the greatest financial risk lay were Social and Governance.

From a social perspective, 'costs to comply' were factored into the valuation forecasts to reflect concerns around content moderation and the implementation of necessary controls. However, these extra risks and costs alone were not deemed material enough to prevent a buy recommendation being assigned to the company.

From a governance perspective, the dual share class and board structure were of concern given the potential, significant risks that an overly influential and unchallenged CEO could pose. However, the probability of the CEO causing a severe downturn in the company's prospects was deemed very difficult to assess. Overall, whilst the company was deemed not be to "best-in-class" on a number of ESG issues, the assumed upside in the valuation of the stock outweighed the perceived financial risks.

SMALL CAP DIRECT LISTED EQUITIES

The ESG data available for small cap equities by third party ESG research providers is much less prevalent than for larger caps. This creates an opportunity for our small cap investors to pursue their own ESG analysis and engagement practice. As we build out our capabilities in this space, the main focus is currently on governance. If our analysis uncovers poor governance practice, with respect to the wider market peer groups and analyst knowledge, it can be a catalyst for written or in-person engagement, voting against management, and a driver for not investing initially or divesting.

Our small cap investors benefit from close relationships and direct communication with small cap investee's executive level management teams, which allows for a deeper understanding of their governance and business strategy as well as a better opportunity to influence. Information obtained from these meetings and analysis of governance structures feeds into investment decision making.

CBAM EXAMPLE

We undertook due diligence on an AIM listed software company headquartered in the UK. As part of the corporate governance research we analysed the remuneration of the board members, CEO and CFO. We engaged with the Chairman and the head of the Remuneration committee but a red flag was raised as they leant heavily on their advisor who attended the meeting. The remuneration of the CEO and CFO was assessed as an overly generous, uncapped, options package and we were not provided with any clarity on what stretched targets the management needed to hit to realise their options.

In addition, the Chairman's desire was for himself to be paid in options which was not in line with best practice corporate governance. Furthermore, the rest of the non-executive directors, with the exception of one, were holders of share options, including the Chairs of the Audit and Remuneration Committees, with only length of service as a hurdle. Overall, our research and engagement uncovered too many corporate governance red flags and we decided not to invest on these grounds.

DIRECT FIXED INTEREST

Our aim is always to grow wealth prudently over the long-term, so our fixed interest research process focuses on finding safe, high-quality, liquid bonds. Typically these will be high quality sovereign and corporate bonds in developed markets. Corporate bonds can be investment grade, high yield or unrated. We also invest in index-linked securities to reduce inflation and interest rate risk.

Our fixed interest investment and credit research process factors in ESG risks in exactly the same way as we consider all credit risks. Proprietary knowledge, primary research, rating reports, sell-side analyst notes and third party ESG data and research reports are all used to consider the ESG factors associated with an issuer. If our fixed interest team deems any of these factors to be risks then they are included in the research report under the 'negatives' section.

For example, sub-optimal board representation or exposure to fossil fuels could be treated as a credit risk, for which the team would then consider the likely impact over the short and medium term. This may mean we demand extra compensation to hold a bond (i.e. a greater yield) or opt to not invest in the bond at all.

Our direct bond funds are concentrated - which allows us to be particularly selective about the companies we invest in.

It is likely that if a company has persistently poor governance frameworks or a poor track-record of environmental mismanagement or exposure to industries such as coal, then we would be unlikely to invest in the company's bonds. These types of risk can be sufficiently material that they fundamentally change the to the investment case for a company – rendering the company uninvestable until improvements are made.

If a company issues a vanilla corporate bond and a green bond with the same risk/return characteristics then we will invest in the green bond. Whilst we appreciate that the standardisation of green bond criteria needs development, we believe green bonds could enjoy greater market demand in the future making their price more attractive. However, we tend not to invest in the green bonds of 'bad actors' in the sectors outlined above (coal, tobacco etc.).

Unlike equity holders, our fixed interest investors have no mechanism for active legal engagement with companies (no voting; no board representation) and this is covered to a greater extent under Principle 9. However, we endeavour to use our 'soft' powers effectively. We are robust with management and are clear that we will not invest in those companies with poor ESG track-records. Given we are essentially lending companies money, the economic power we can wield is strong and immediate.

CBAM EXAMPLE

We undertook due diligence on an unrated commodity issuer based in Singapore. As the company was unrated it was not covered by our third party ESG data providers. Our fundamental analysis led us to the conclusion that the corporate governance framework at the company was strong, however, there were persistent ESG risks that were inherent to the business, outlined below. We still rated the issuer as a buy but we (as investors) needed to demand extra compensation for bearing the following inherent ESG risks:

- Core operations involve trading fossil fuels and mining products
- Extensive operations in emerging and frontier markets
- Company can be perceived as 'secretive' by layperson (given unrated, private status)
- Negative headlines surrounding the company consistently emerged in UK and US media

THIRD PARTY FUNDS AND LISTED TRUSTS (ACTIVE AND PASSIVE)

We also invest in third-party funds to utilise external expertise to support diversification, or the investment remit requires them. Our fund manager research team identifies those managers that are the best in their sector or region, across all asset classes. We assess each third-party manager on People, Philosophy, Process, Performance; collectively known as the four Ps. Our assessment of each of these factors together aids the identification of fund managers or strategies that have a competitive edge to exploit market inefficiencies better than their peers. Performance alone, however, will never be a reason for investing into a third party fund. Instead performance that is inconsistent with the philosophy or process will likely be a red flag and point for engagement.

How a manager or strategy integrates social and environmental factors currently does not constitute an explicit factor upon which we will base our fund investment decisions. However, the assessment of governance at the manager level along with how the strategy considers governance factors in the investment process is a critical part of our manager research process. Key items that we consider are alignment of interests (i.e. does the fund manager have appropriate ownership arrangement), how the performance fee if any is calculated and how decisions are made with effective challenge across the team.

Whilst we do not explicitly consider social and environmental factors in our fund manager investment process, we may include comments on the fund manager's ESG approach and we are not precluded from investing in sustainability themed or ESG titled funds. Subsequently, our in-house manager research team will identify and distinguish where external fund managers are running Sustainable, ESG, or Impact strategies and list them under these categories in a separate ESG section of our Funds Core List. We are aware that there are areas for improvement with regards to understanding how a manager considers environmental and social stakeholders in their stewardship approach. We have addressed this in more detail under Principle 8.

For our passive fund range we seek to add value by actively investing in index-tracking securities, including Exchange Traded Products ("ETF") and passive unit trusts. Among other factors, we analyse the engagement strategies of the ETF providers. We actively engage with ETF providers to deepen our understanding of their Stewardship Policies as we firmly believe that ETFs that actively engage in an attempt to improve the ESG performance of the companies in which they invest are more likely to outperform ETFs that do not engage with their investee companies. However, we currently do not analyse the ESG issues of the investee companies of the ETFs in which we invest nor do we engage directly with them.

CBAM EXAMPLE

We first met the manager of a pan-European equity strategy in 2017. Their process had ESG factors integrated into the stock selection as well as some exclusions. They launched a Europe ex UK fund in 2019 and we re-engaged in February 2021 to take a deeper look. Their process has a financial screen as well as an ESG filter and exclusion list. They also assess sustainability against the UN Sustainable Development Goals and the combination of all these factors will drive the allocation decision – i.e. the highest weight will be in those with a positive sustainability assessment. The fund has a well-defined quality growth style and the manager has a strong track record from their previous firm of delivering alpha from a concentrated portfolio. In this case we believed the manager's focus on ESG integration gives them an attractive competitive edge versus peers and so we added the fund to our Core List, also noting that we felt the strength of the ESG process allowed the fund to be selected by investment managers who judged ESG to be significant for asset selection.

HOW OUR APPROACH TO STEWARDSHIP INTEGRATION DIFFERS FOR OUR INVESTMENT PRODUCTS

We take a centralised approach to responsible investment, integrating ESG analysis into our fundamental analysis conducted by our research analysts and investment managers as part of our investment research. This feeds into all our investments. However, we also offer investment products that prioritise sustainability factors and allow clients to further align their investments to specific values and impact themes. To do this we utilise screening using third party ethical, ESG, and impact data.

SOCIALLY RESPONSIBLE INVESTMENT (SRI) SERVICE

The SRI Service is a multi-asset discretionary portfolio service. Our SRI portfolios are designed to reflect our clients' values with respect to building a more sustainable future. They mirror the UN Sustainable Development Goals and their commitment to the promotion of prosperity and sustainability, allowing our clients to invest in global businesses with concern and respect for wider social, environmental and economic issues. When considering companies for inclusion in a SRI portfolio, we identify which of the following impact and investment themes they best reflect; social empowerment, environmental protection, health and economic advancement.

WE TAKE A CENTRALISED APPROACH TO RESPONSIBLE INVESTMENT, INTEGRATING ESG ANALYSIS INTO OUR FUNDAMENTAL ANALYSIS CONDUCTED BY OUR RESEARCH ANALYSTS AND INVESTMENT MANAGERS AS PART OF OUR INVESTMENT RESEARCH.

SRI SERVICE

Companies in our SRI portfolios are analysed through three lenses, namely; ethical, ESG and impact which produce indications as to its growth potential, material risks and sustainability profile. We apply screening using third party ESG data to identify the SRI investment universe, as expressed in our SRI Service investment process infographic below:

SRI SERVICE INVESTMENT PROCESS

Applying an ethical screen using MSCI Business Involvement Screening data, removing companies that do not align with the UN's Sustainable Development Goals from our investable universe. Such companies include (but are not limited to) tobacco, armaments and alcohol.

→

Reference ISS Ethix reports which use controversy analysis to identify severe human rights and environmental protection risks. This review is more subjective compared to a traditional, revenue-based 'negative screen'. Companies flagged through ISS Ethix require additional research.

→

Identify companies with the best Environmental, Social and Governance scores using ESG data from MSCI. Each company receives an ESG score from AAA to CCC (best to worst) relative to their global sector peers.

→

Score companies based on the percentage of revenue aligned with our impact themes:

- Social Empowerment
- Environmental Protection
- Health
- Economic Advancement

→

Meticulous company selection based on a combination of ESG and impact scores, combined with rigorous fundamental and valuation analysis.

Regular reviews to monitor SRI credentials and operational excellence.

Source: CBAM

BESPOKE PORTFOLIOS

Our bespoke portfolios are designed to the specific needs of our clients, including both financial goals and their non-financial values. The dedicated investment managers can utilise the research from our analysts that integrates ESG factors whilst also using the ethical screening to aid in their portfolio construction. Ethical screening is the application of filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics. This screening ability allows the bespoke portfolios to more closely match our clients' interests and preferences. Often, exclusion criteria (based on global norms, ethics and values) can refer, for example, to product categories (e.g. weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

SUSTAINABLE FUNDS

Our sustainable funds aim to generate consistent, long-term returns by screening out unethical practices, and focusing on investment opportunities with positive track records of sustainability. Our sustainable multi-asset fund and sustainable bond fund both utilise a three stage process to achieve the stated aim; unethical companies are excluded, only companies with an MSCI ESG rating above BBB and A are included in the bond and multi-asset investable universes respectively and the remaining companies are analysed on a fundamental and valuation basis.

We will always use our own judgement to take account of information that may not be reflected in an ESG rating. For example, we may decide to rule out a company if its management are interested in acquiring a business that would not get through our ethical screening. We would do this even if its current ESG rating was high.

When we are investing in diversifying assets for the multi-asset fund – such as property, infrastructure and commodities – we have to use a different approach. This is because the data we need to apply our Ethical Screen is not sufficient, and ESG ratings are not available. So, we take a thematic approach. It is based on sustainable themes, rather than data. For example:

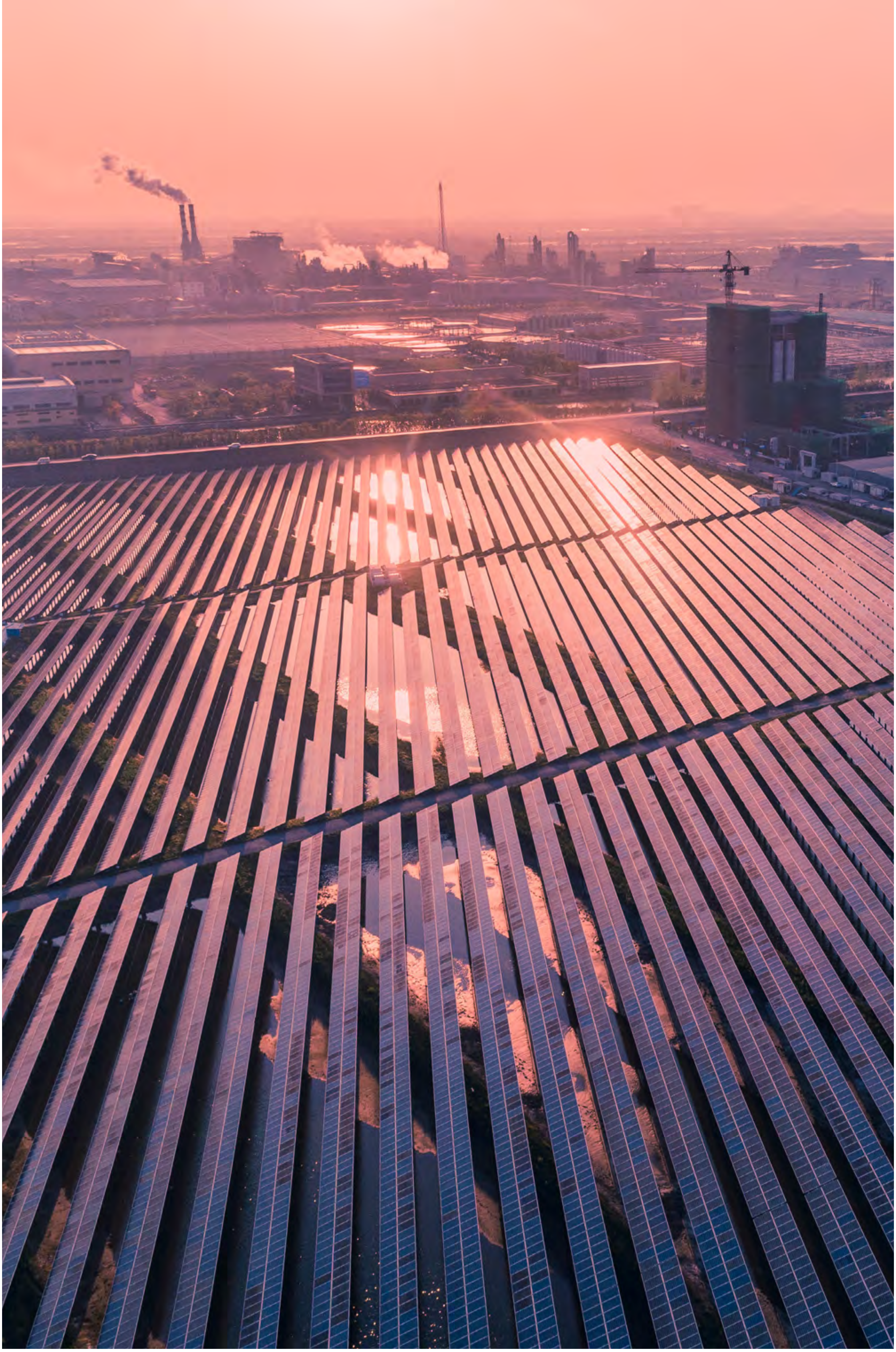
- In property, we look for opportunities in social housing and sustainable farming
- In infrastructure, we look for opportunities in solar and wind power, as well as in schools and hospitals
- In commodities, we look for precious metals that are certified as responsibly sourced by relevant trade bodies

SERVICE PROVIDERS SUPPORTING OUR ESG INTEGRATION

A description of the service providers we use to fulfil our ESG integration efforts can be found under Principle 2. We utilise these sell-side research brokers and third party ESG data providers to inform our assessment of the impact of ESG risks and opportunities on our investments.

Our research analysts will also utilise norms research to ascertain whether the company is involved in any unaddressed severe controversies relating to the UN Global Compact Principles. This assessment can drive both engagement and further research if required. Our research analysts also use ESG data from third party providers to inform their analysis. The third party data is not taken as read and instead our analysts will challenge the third party reports when necessary.

In addition, we use ISS as our proxy voting platform and as a provider of corporate governance best practice recommendations. More details can be found on ISS under Principle 9 and Principle 12.



Principle 8: Signatories monitor and hold to account managers and/ or service providers.

There are four categories of service providers that support our stewardship process: Third-party funds, Substantive Research, Data Providers, and External Services.

THIRD-PARTY FUNDS

Engagement with our third-party fund managers is the main way in which we hold the standard of their service to account. The key aspects of how we engage with the fund managers is covered under Principle 9, however this section covers additional points on our monitoring approach. We will reconfirm our investment recommendation on a fund annually. During the reconfirmation process we will question management specifically on material issues with regards to any of the 4 P's described under Principle 7; Philosophy, Process, People or Performance. Performance that deviates from what we expect based on the philosophy and process will lead to further questions and due diligence. If our investment case for the fund is based on the fund manager's competitive edge then we will monitor their motivations and incentives, and any change in key personnel on the strategy will raise a red flag and is a potential reason to change our recommendation.

We use the AssetQ platform to help track fund details. AssetQ is a public depository of fund due diligence information and collects information from fund managers in areas such as key persons, team members, risk & liquidity, process and responsible investment details. Within the responsible investment details we have access to the funds voting and engagement records. However, we are conscious that AssetQ's information set is reliant on the voluntary disclosures of asset managers therefore we engage with the fund managers to make sure the information we get from AssetQ is up to date and accurate.

ENGAGEMENT WITH OUR THIRD-PARTY FUND MANAGERS IS THE MAIN WAY IN WHICH WE HOLD THE STANDARD OF THEIR SERVICE TO ACCOUNT.

MONITORING SUBSTANTIVE RESEARCH PROVIDERS

We consider external research to play a vital role in the investment process, and therefore we place great importance on conducting regular reviews of our external research provider list to ensure we are utilising our budget in the best way possible in order for our Investment Team to service our end clients appropriately.

We run half yearly evaluations, whereby the whole investment team are able to provide feedback on our provider list, and specifically in areas they find valuable. We ensure the importance of these evaluations are communicated to each individual, and as a result of this we tend to get an 85% – 90% completion rate on average.

We use the results from the evaluation combined with consumption data analysis to help determine our service levels with each provider. All agreements are discussed and approved in our External Research Oversight Committee meeting which convene on a monthly basis, and comprises of members from all Investment Teams. This committee is also used to discuss/approve free trials, the on-boarding of new providers, corporate access, and anything MiFID II/Research related.

These processes have given us the capability to clearly gauge the firm's Research needs, including ESG research, and has resulted in on-boarding, off-boarding and changes in service levels with providers.

EXTERNAL SERVICES

For outsourced services, we retain responsibility for these vendors. The risk to the business is assessed and the vendor is categorised. Higher risk vendors are subject to a Third Party detailed review, the scope of which is to assess the suitability of the controls within their company in relation to the provision of services they are contracted for and within their wider corporate business. The key areas of review are People, Process, Third Party risk, Cyber Risk, Data Protection, Technology, Business Resilience, Conduct Risk and Sustainability. Findings are documented and reported to the Third Party Oversight Committee with actions noted and delivery dates agreed. Monitoring also includes consideration of alternate providers in the event the requirements are not met.

DATA PROVIDERS: ETHICAL SCREENING, ISS AND MSCI

We use third party data providers to help us meet our daily needs across the business, including obtaining data on ESG issues for investment research and screening, as well as research on voting.

We have strong relationships with our data providers and are continuously in contact with them. We have frequent calls with our third party account managers and product specialists to discuss product updates and obtain clarification on the data or research they provide.

We use third party data from Ethical Screening, ISS and MSCI as part of our investment process for either screening or research purposes. We do not carry out screening on ethical or ESG factors at a firm-wide level, but we do use these techniques for clients invested in our bespoke portfolios with ethical preferences, SRI Service, and Sustainable Funds. Our investment team also uses the ESG data from these providers to carry out ESG analysis as part of our fundamental analysis. See Principle 7 for more detail.

Our Performance and Risk team monitor the weekly data feeds from Ethical Screening for our Core List. The data file is uploaded into our portfolio modelling system via User Categories so any amendments/additions will be reflected in our thinkFolio monitoring rules. The Performance and Risk team identify where there are ethical flags for which we need more clarity. To do this they sense check the security in question using the ethical data we receive from MSCI Business Involvement Screening metrics, and/or query with our provider, Ethical Screening.

EXAMPLE: HOW WE MONITOR ETHICAL SCREENING DATA

Ethical Screening: While reviewing the weekly Ethical Screening data feed, the Risk & Performance team saw that a consumer staples company flagged for non-medical animal testing. The team cross-checked the flag with our secondary ethical screening data from MSCI. MSCI's Business Involvement Screening report provided more information on the company's use of animal testing, justifying that the ethical flag was correct.

Under Principle 12 we discuss in detail how we utilise our proxy voting platform and research provider, Institutional Shareholder Services ("ISS"). With respect to how we monitor ISS's execution of voting decisions, we have a direct line of contact with our ISS representatives, should any issues arise, and the voting data is transparent on their portal. Our Voting Panel do not always follow ISS's recommendation on how to vote as they will be guided by what is best for our clients, and sometimes ISS's interpretation of 'best practice corporate governance' does not meet ours. Creating more alignment between ISS research and our own views of 'best practice corporate governance' is an area we can improve as the example below highlights.

EXAMPLE: WHERE WE COULD IMPROVE THE MONITORING OF OUR VOTING DATA

Our current Stewardship and Shareholder Engagement Policy is focused on best practice corporate governance and shareholders best interests. The voting research we receive from ISS recommends voting aligned with local best practice corporate governance principles. However, after three seasons of active voting under this policy, we now have clarity where our views differ from the ISS research. For example, we believe that more frequent auditor rotation is critical to protect the integrity of accounts, no matter where a company is located. ISS does not apply this to their research for US companies because there is no law about auditor rotation in the United States. We are looking to take steps to clarify our Voting Guidelines and explore how ISS can customise their research to better align with our internal views.

Our Responsible Investment team carries out an annual review of our voting activities, and produces a Shareholder Engagement & Voting Report (which is to be superseded by this report). The latest version can be found on our website. As part of the annual review, we see if voting decisions were exercised as intended for a sample of holdings.

WE ARE LOOKING TO TAKE STEPS TO CLARIFY OUR VOTING GUIDELINES AND EXPLORE HOW ISS CAN CUSTOMISE THEIR RESEARCH TO BETTER ALIGN WITH OUR INTERNAL VIEWS.

Engagement

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

OUR ENGAGEMENT APPROACH ACROSS ASSET CLASSES

Engaging with the companies we invest in is integral to our investment process as active managers, for informing our investment research, mitigating against potential investment risks and driving long-term shareholder returns. Engagement not only increases the common understanding between us and our investee companies but also gives our clients a voice. We make efforts to engage across all asset classes where necessary, but given the resource intensive nature of engagement we focus our attention on public companies in which we hold shares with voting rights, and where there is opportunity for value creation. We find that having the ability to vote gives us the best leverage when engaging and therefore directly held equities and investment trusts are the most resource efficient asset class when engaging for change.

Our approach does not differ between the geographies we are invested in (i.e. predominately developed markets as described in Principle 7) but whilst we are global investors we are mindful of geographical and sectorial norms which can help orientate our analysis.

Our engagements are driven by specific objectives which to date have primarily been pushing for better governance practice, representing our clients' interests on performance and questioning management on material ESG issues. These objectives are set by the investment manager or analyst leading the engagement, and are typically identified as part of our bottom up analysis or on-going monitoring of our investments.

We are developing a tool to track the progress of engagements which will allow us to engage effectively on, and set objectives for, ESG topics and areas for investee improvement on those issues going forward. We are aware that tracking and monitoring is a crucial step for understanding the impact of our engagements. The engagements are led either by the research analysts responsible for coverage or investment managers where they have relevant interests, both of which can be supported by the Responsible Investment Team as required and appropriate.

LISTED EQUITIES

Our understanding of a company and its ESG factors informs our engagement and voting. We engage with companies to promote our clients' interests, such as best practice corporate governance, as poor governance can have a negative impact on shareholder returns. The engagement generally starts during the research process and once we are invested will tend to be prompted by issues that arise. Going forward, we would like our engagement activities to be more proactive and based on internal objectives we will set on corporate behaviour.

We engage with companies in multiple ways, including hundreds of face-to-face and virtual meetings each year. The meetings are an opportunity to question investor relations or management on material issues that have arisen and ascertain whether they have rectified the issue or have plans in place to do so. As described in Principle 7, engagement is an especially effective tool with our small cap listed equities because we tend to have a larger proportion of ownership in our AIM investees. With that larger ownership interest comes more influence, and more direct exposure with management teams.

In terms of influence and frequency, proxy voting is our main form of engagement. We use our third-party partner, ISS, for best practice corporate governance voting research, and our Voting Panel of analysts and investment managers determine how we vote in the best interests of clients. Further details on our use and relationship with ISS can be found under Principle 12.

EXAMPLE

Issue: The subsidiary of a catering company were contracted by the UK Government to supply Free School Meals during the Covid-19 pandemic. They came under media and investor pressure and criticism as their supplied food hampers appeared to fall short of the Department of Education specifications.

Process: As holders of the stock the issue was discussed broadly across our organisation and specifically with the SRI Service team, as the stock was held in their portfolios. The SRI Service team wanted to engage with the business to understand their processes, internal standards, reasons behind the issues, future mitigation plans and their view on their role in driving positive long-term change concerning child nutrition. The SRI Service team, Head of Responsible Investment and lead internal analyst engaged directly with the company's investor relations (IR) team, sell-side analysts, the MSCI ESG team and a neutral 3rd Party Expert (through our expert network) to provide further information and context; the expert was a former Managing Director of the company who led the development of their Food Nutrition programme. We worked together to develop our key points and questions for the calls. On the call, we asked the company to improve their efforts on nutrition.

Outcome: Collectively, we concluded that the company had taken a pro-active approach to resolve the issue, which was not systemic. The information from the 3rd Party Expert provided assurance that the company was taking appropriate action and our investigations did not expose any further areas of concern. In line with their process of investigating any negative incidents and assessing whether to exit an investment, engage with the business and/or remain an investor, the SRI Service team wrote a piece to share with their clients addressing the negative press and presenting their conclusions. Nutrition is an important theme in our SRI Service portfolios and, working alongside our Head of Responsible Investment, we decided to remain invested and monitor the company's progress on nutrition over time.

EXAMPLE

Issue: We had concerns over the independence of the board at a professional services company, particularly around two long standing Non-executive Directors (NEDs).

Process: After on-going, multi-year direct engagement with both the Legal Counsel and Group Company Secretary voicing our concerns on the issue, we had reassurance from the Board that they would be addressing the issues over the medium term (1-3 years). In particular, they said that they would add an additional independent NED.

Outcome: We were encouraged to see the proposed appointment of a new independent NED as an item at the next General Meeting. This was in line with the previous communication from the Company, giving us the comfort to continue to support the Board. To this end, on top of voting for the new appointment we also voted for the reelection of the two existing NEDs for another twelve months, against the ISS recommendation. We remain engaged with the Board to ensure the desired transition continues.

FIXED INTEREST

Whilst we do not possess any voting rights over our fixed interest investments, as financial stakeholders we still have the opportunity to hold management to account on material risks to our investments, including ESG issues. The channels for engagement with our fixed interest investments exist primarily pre-investment, especially for questioning management over material ESG risks. To improve corporate behaviour, particularly over ESG concerns, the most effective tool we have is to not invest in a specific company's fixed interest securities and informing the company about the identified ESG concerns that led to a decision not to invest.

We are aware that the influence we have by not investing in an issuance is limited by our size and resources. We understand that an increasing number of bond funds within the industry have ethical or ESG restrictions within their prospectus, like our Sustainable Bond fund, and therefore our hope is that where these restrictions have commonality, they will collectively have an influence on corporate behaviour.

THIRD PARTY FUNDS AND LISTED TRUSTS (ACTIVE AND PASSIVE)

Our manager research process involves engaging with the fund manager pre and during investment. We hold circa 400 manager meetings a year, meeting with the manager multiple times before an initial investment and typically thereafter on an annual basis once invested. We log all of our engagements and meetings with managers which allows us to track the frequency of engagement and the pertinent issues discussed at previous meetings.

We will prioritise engagements with existing managers where the issue relates to a material change or negative indication in the people, philosophy, process or performance of the fund. Depending on the manager's response to our engagement on these issues we may either continue to hold and monitor or divest. We can set alerts on our AssetQ platform, used for manager due diligence, to inform us of relevant issues at the manager or fund level (e.g. when the size falls by 10%).

EXAMPLE

Issue: Lead fund manager left a European equity in a fund which we were invested.

Process: The fund had been managed by the previous lead fund manager since inception, and we engaged with the two new co-managers in February 2021. Despite there being no change to the process we felt that with the loss of the original manager's experience, one of the key reasons for holding the strategy was no longer in place.

Outcome: We sold out of our position.

EXAMPLE

Issue: A closed-end value orientated trust performed poorly over the medium term causing shareholders to lose confidence in the fund managers and in particular their lack of use of a consistent benchmark. The shareholders voted in the majority for the discontinuation of the fund.

Process: The majority vote for discontinuation was blocked by the single largest shareholder and therefore the required 75% majority for liquidation was not reached. The largest shareholder was also an affiliated party of the fund manager creating a conflict of interest for the continuation of the fund.

On the basis that our vote was blocked and that we had increasing concerns over how the performance of the fund was being benchmarked, we sent emails on a number of occasions to the fund managers and to the chairman of the largest shareholder expressing our concerns. In addition, we expressed our concerns to the chairman of the fund.

Outcome: We did not receive a satisfactory response from the fund managers so we wrote an open, public letter to the Chairman of the fund which echoed the views of other shareholders. After extensive engagement the largest shareholder reversed on their position and stated they would no longer block a vote for discontinuation. The fund was liquidated.

Principle 10:
Signatories, where necessary, participate in collaborative engagement to influence issuers.

OUR COLLABORATIVE ENGAGEMENTS

In November 2020 we became signatories of the Principles for Responsible Investment (PRI). The PRI is the world's leading proponent of responsible investment. It promotes six principles as a voluntary and aspirational set of possible actions for incorporating ESG issues into investment practice. In implementing them, signatories to the PRI contribute to developing a more sustainable global financial system.

The Six Principles of the PRI

Principle 1:
We will incorporate ESG issues into investment analysis and decision-making processes

Principle 2:
We will be active owners and incorporate ESG issues into our ownership policies and practices

Principle 3:
We will seek appropriate disclosure on ESG issues by the entities in which we invest

Principle 4:
We will promote acceptance and implementation of the Principles within the investment industry

Principle 5:
We will work together to enhance our effectiveness in implementing the Principles

Principle 6:
We will each report on our activities and progress towards implementing the Principles

Importantly, as a signatory we are granted access to and use of the PRI's collaboration platform. Although we did not make use of the platform during this reporting period, having just become signatories, the collaboration forum gives us access to other investors allowing a sharing of knowledge and a tool to enhance our engagement influence. Through the platform we can seek support for ESG issues that are important to us via notification of shareholder resolutions or co-signed letters to management, for example. Alternatively, we can join initiatives led by other investors with shared values.

At times our engagement interests will indeed align with other shareholders and, when it is appropriate to do so, we would engage with other shareholders on a collaborative basis, via platforms such as the PRI, provided taking collaborative action is in the best interests of our clients. We will, however, not engage in any collusive or consort behaviour and will adhere to our Conflicts of Interest Policy and guidance on Competition Law at all times.

We are also members of both the PIMFA and IA and can consult with these industry bodies to ensure that we are in a position to engage collectively with investee companies on a broad range of topics, including environmental, social, and governance topics.

Having become signatories to the PRI, going forward it is our intention to utilise the benefits of collaborative engagement to a greater extent to better serve our clients and reflect their interests and values.

CLOSE BROTHERS GROUP EXAMPLES

Issue: Women have been and remain under represented on boards and in c-suite positions globally.

Process: The 30% Club is an organisation focused on improving gender balance at senior level by providing cross-business mentoring for our talented females. They co-ordinate the investment community's approach to diversity and inclusion and explain the investment case for more diverse boards and senior management team. We partner with the 30% Club and currently have 62 mentees who have participated in the scheme.

Outcome: Aided by the advice and mentoring from the scheme, some of the mentees have been promoted, and CBG now has more women in senior positions.

Issue: The lack of company disclosure on their carbon emissions hinders investment decision making.

Process: CDP runs the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation. We continue to participate in the CDP (formerly the "Carbon Disclosure Project"), which allows us to disclose our greenhouse gas emissions and our approach to managing climate related impact on a voluntary basis.

Outcome: Last year CBG set a target of reducing our group-wide Scope 1 and 2 emissions by 10% by 31 July 2021, benchmarked against the 2019 financial year. We are pleased that this year we comfortably exceeded this target. In recognition of our support for the Paris Agreement's net zero goals, this year CBG has committed to becoming operationally net zero through our Scope 1 and 2 emissions by 2030.

Principle 11:
Signatories, where necessary, escalate stewardship activities to influence issuers.

ESCALATION OF OUR ENGAGEMENT EFFORTS

As diligent stewards of clients' capital we are not afraid to escalate our engagements where an issue presents a material risk to our clients' investments and where initial meetings with the investee company have not yielded a satisfactory response. The issues for which our engagement can be escalated are not limited to those captured within ESG factors and also include, amongst others; performance, key person concerns and market or systematic risks.

In general, we will prioritise the issues based on the size and probability of the potential risk posed to our clients. We will also consider the time period over which the issue might materialise; whether we are escalating in reaction to a current event, to mitigate an impending issue or to protect our clients' interests over the longer-term. As stated in Principles 7 and 9, we are predominantly developed market investors so our engagement efforts and therefore escalation activities for direct equities and fixed interest are focused on those geographies. However, where we are invested in emerging markets (typically via managed funds or listed trusts) our escalation may be required as well. In these circumstances, we will be mindful of geographic norms when considering the ESG profile.

Our escalation approach is the same across all of our investments with the exception of the standard caveat for fixed interest where investors do not possess any voting rights. We have outlined below how our engagement approach can lead to various escalation methods:

Meeting with IR
Meeting with company or fund investor relations is often the first point of engagement when an issue needs clarifying or further details need to be obtained.

Meeting with company management or fund manager
We will meet with company management or directly with the fund manager in the normal course of due diligence and also in cases where the reason for our engagement goes past information gathering to requesting a change.

Meeting with the board/writing a letter/indicating our intention to vote accordingly
This level of engagement is typically used as a way of powerfully reflecting and protecting our clients' interests. The issues addressed through this method of engagement will often be either imminent, high risk or high impact to their interests.

Writing an open letter that is viewable by the public
We will write an open letter to reflect our client interests and also to give our engagement a greater chance of influence as it allows other shareholders to support our views.

Voting against management
As shown under Principle 12, we can vote against management when a resolution is not in the best interests of our clients and their capital.

Divesting
Divesting is the last resort of escalation as it ultimately limits our ability to engage. We will divest if the issue is persistent, material or showing no signs of improvement and therefore presenting a risk to our clients' capital.

CBAM EXAMPLE

Issue: A listed active property fund attempted to raise new capital based on an out of date Net Asset Value (NAV).

Process: On recognition of the out of date issues of the NAV, we contacted the broker and the fund manager alerting them to the issue. After having little success using this channel, our fund manager met with the Chairman of the Board and subsequently voted against the new issue of shares.

Outcome: The fund eventually issued an updated NAV that demonstrated that they did indeed issue shares at a discount and diluted existing shareholders. We deemed this weak practice and poor governance on the Board's part. Since then, we voted against all the Board members being re-appointed and the fund's ability to issue new shares.

CBAM EXAMPLE

Issue: We had issues with the levels of communication from the board of a company; particularly around the change of auditor, level of auditor remuneration and lack of time provided to analyse the annual reports.

Process: ISS had recommended we vote against the appointment of the new auditor because the company did not explain the reason and selection process. They were also concerned that the FRC had been critical of their audit practices. A further recommendation was also made to vote against the remuneration of the new auditor because no details on the auditor's remuneration were provided.

The rationale given by ISS for why the appointment of the new auditor should be voted down to our minds did not make sense, given the FRC criticism could be levied at any of the large audit firms on. That said, the fact that shareholders had not been notified of the change of auditor prior to the AGM being called, our intention was to vote against this proposal.

We believed that ISS correctly identified that there was no information provided about the level of remuneration the new audit firm were going to be paid. As a result it was hard to be supportive, especially given the fact that according to the Annual Report the outgoing audit firm were also contracted as an adviser, whose fees as adviser were 200% higher than the audit fee. Given this, we also decided to vote against this item.

Outcome: We were not content with the poor level of communication from the board with shareholders or the lack of time available to scrutinise the annual report ahead of the Annual General Meeting. We did not feel that the Board enabled shareholders to make a considered assessment of each point. As a result, we issued our intention to vote against the re-election of the CEO as a director. This item was later taken off the management proposal list and instead the CEO was asked to resign. A separate General Meeting then had to be called to approve the Annual Report.

Exercising Rights and Responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

As outlined under Principle 6, we are multi-asset investors across direct equities, fixed interest, and diversifiers. We seek to exercise our full rights and responsibilities across each of the asset classes on behalf of our clients and as stewards of their capital to produce outcomes that are in their best interests. We divide our resources between each asset class partly based on amount of invested capital and availability of required expertise and knowledge.

Our Stewardship and Shareholder Engagement Policy is also our voting policy.

LISTED EQUITIES AND TRUSTS RIGHTS AND RESPONSIBILITIES

Voting is the core part of exercising our listed equity rights and responsibilities and we take an active approach to give our clients a voice. We closely monitor forthcoming voting resolutions of the core companies we invest in, on a weekly basis, and vote via proxy or by attending an AGM. We focus our voting predominantly on core holdings within our managed portfolios and funds which are listed equity and listed investment trust securities with >£1m discretionary AUM. We do not have any lent stock.

Each voting decision is taken by the Voting Panel, comprised of equity analysts and investment managers from across the investment team. The panel member covering the stock or trust will indicate their voting intention and rationale in an email form sent to the Voting Panel, which much be seconded by another panel member by filling out a form before the vote is submitted. These forms are logged for our records. When a vote is submitted by the Voting Panel on the front end of the ISS platform, it then goes to the back end of the platform managed by our Operations team. The Operations team confirms proper approval has taken place for vote submission, allocates the shares appropriately (e.g. excluding any execution only holdings), and then submits the vote to ISS for processing.

In some cases the Voting Panel may deem a vote to be a "major vote". This means that the vote is controversial and highly publicised. Where this is the case the Voting Panel member responsible for the vote will share an analysis and voting recommendation to the investment managers that hold the security to seek their approval before submitting the vote.

We have used ISS as our proxy service provider since 2019 (our first voting season) and we execute our voting decisions via their platform. Our Investment Research Manager monitors upcoming votes and keeps the Voting Panel informed of upcoming votes they are responsible for. We also subscribe to their insights on corporate governance best practice and voting recommendations. However, we will not always vote in accordance with ISS's voting recommendations as our research analysts and investment managers conduct their own analysis to ultimately determine the best way to vote, reflecting their knowledge of the company and our client's greatest interests.

For our bespoke offering, we do not vote on companies based in certain countries that require a signed power of attorney from the beneficiaries prior to participating in the vote. This is a small subset of countries and the full list of excluded countries can be provided upon request.

OUR VOTING RECORD (01/08/2020 – 31/07/2021)

During the financial year 1 August 2020 to 31 July 2021, we voted at 387 company meetings/voting events. We voted on a total of 8704 resolutions, this includes both management and shareholder proposals. We voted on 154 shareholder proposals. Of those, we voted 8432 resolutions (96.9% total votes) "FOR", and 252 resolutions "AGAINST" (2.9% total votes). Less than one percent of total resolutions were voted "ABSTAIN", "WITHOLD", "ONE YEAR" or "DO NOT VOTE". For our unitised funds, we voted at 91% of the meetings within scope of our voting policy. We currently do not have exact data on the number of meetings within scope we missed for our aggregated unitised funds and our bespoke portfolios, but we can estimate it to be between 5-10%. This is an area we will work with ISS on in the future so that we have more precise missed voting data across the business.

We voted 181 resolutions (2.1% total votes) against (contrary to) ISS's benchmark policy recommendation, and we voted 222 (2.6% total votes) resolutions against company management recommendations.

Category	Number	Percentage
Number of meetings voted	387	
Number of resolutions voted	8704	**100%**
Number of votes cast "for"	8432	96.9%
Number of votes cast "against"	252	2.9%
Number of votes cast "abstain"	8	0.1%
Number of votes cast "withhold"	7	0.1%
Number of votes cast "one year"	2	0.0%
Number of votes cast "do not vote"	3	0.0%
Number of votes cast against ISS policy	181	2.1%
Number of votes cast against Management	222	2.6%
Number of votes cast on Shareholder Proposals	154	1.8%

*ONE YEAR related to unique resolutions requiring us to vote for an advisory vote about "say on pay", and is not typically an option for how to vote. We are typically given the options of FOR, AGAINST, ABSTAIN, or WITHHOLD to vote for a resolution.
Source: CBAM

Usually management recommends shareholders to vote “for” resolutions, but in some cases, typically if there is a shareholder proposal, management may recommend shareholders vote “against” the proposal. We will vote against management’s recommendation if our internal research and analysis shows that management’s recommendation does not follow best practice corporate governance principles and cannot be justified as being in the best interests of shareholders. By voting against a management team’s recommendation we are signalling where we would like to see change in the company.

The table to the right shows a summary of where we voted against company management teams’ and it includes shareholder proposals. Categories consist of “directors related”, “compensation”, “routine/business”, “capitalisation”, “social/human rights”, “health/environment”, “antitakeover related”, and “other corporate governance”. The largest category was “directors related”, 32% of total votes against management. Most of these involved the election of directors. Reasons we may vote against the election of a director is if the director is not fulfilling his/her duties, is over-boarded, or has had their independence called into question.

The second largest category of votes against management was “compensation”. Most of these votes were to approve remuneration reports and policies. Reasons for votes against management in this category include that incentive plans diverged from best practice (i.e. lacking the disclosure of clear performance objectives) or compensation was determined to be excessive.

This year we saw an increase in shareholder proposals focused on environmental and social considerations. About 11% of our votes against management were in the “social/human rights” and “health/environment” categories. Most of these votes were around requiring a company to report on key social or environmental issues related to their business. Typically, if we believe that the environmental or social issue the company is being asked to report on could be material, or the information will help us make a better investment decision, then we will vote for the proposal. Some examples of environmental and social proposals we voted for, and against management on, this year, include requiring companies to report on diversity and inclusion, climate-related risks and opportunities, political contributions, and potential human rights impacts.

Total votes against management	Percentage
Directors related	32.0%
Compensation	29.7%
Routine/Business	13.1%
Capitalisation	10.8%
Social/Human Rights	7.7%
Health/Environment	3.2%
Other Corporate Governance	3.2%
Antitakeover Related	0.5%

Source: CBAM

CBAM VOTING OUTCOME EXAMPLES

Multinational E-Commerce Company: Report on the Impacts of Plastic Packaging

Issue: The shareholder resolution requested an annual report on plastic packaging, including any company strategies or goals to reduce the use of plastic packaging.

Details: While the company discussed the impact in terms of plastic waste reduction, it did not provide an overall baseline amount of plastic used throughout its supply chain. It had not joined the New Plastics Economy initiative that is a leading collaboration for reducing single-use plastic waste. Several of the company's peers had announced goals specifically around single-use plastic reduction.

Concern over the environmental damage caused by plastics is rising and regulations are likely to go into force in a number of jurisdictions that would limit the amount of single-use plastic packaging that can be used.

Voting Decision: Such additional disclosure as was being requested by the proponent, would help shareholders gauge whether the company was appropriately managing risks related to the creation of plastic waste. We therefore supported the shareholder resolution.

Multinational Energy Company: Report on Impacts of Net Zero 2050 Scenario

Issue: The proposal requested an audited report on the financial impacts of the International Energy Agency's Net Zero 2050 Scenario.

Details: At the time, the company lagged its peers in setting emissions targets and rather than decreasing its oil output it has plans to boost it. The company has suffered significant financial costs amidst the decline in demand for oil with a $5.5 billion net loss for 2020. Additionally, the company was involved in a number of controversies regarding its negative impact on the climate, and some of its peers have set emissions reductions targets for emissions associated with their sold products and have conducted audits and reported the results of the financial impacts that an energy transition would have.

Voting Decision: Shareholders would benefit from the increased transparency about this material and growing risk. In light of recent market and regulatory developments, we deemed that shareholders would benefit from an audited report on the financial impacts of IEA's Net Zero 2050 Scenario. We therefore supported the proposal.

VOTE WITHHELD EXAMPLE

Multinational Conglomerate: Election of Directors

Issue: Management proposed the election of 14 directors, four of whom were members of the compensation committee.

Details: Companies in the US are not mandated to put remuneration to a shareholder vote and without such transparency the compensation committee have an important role. The CEO's compensation continued to be minimal but two Non-Executive Officers continued to receive base salaries of $16m, (some of the largest base salaries paid to any executive at a US public company) and overall executive pay lacked a measurable link to company performance.

Voting Decision: Pay disclosure continues to be minimal, leaving shareholders with little information to assess decisions regarding, or committee oversight of, compensation determinations for executives. We therefore withheld our vote against the four members of the compensation committee.

VOTE NOT IN LINE WITH POLICY EXAMPLE

Multinational Luxury Goods Company: Re-election of Directors

Issue: Management proposed the re-election of directors including the CEO and another Managing Director.

Details: The CEO was also the chairman of the company which can typically be an adverse structure for shareholders given the level of influence one individual can have over the business. ISS also therefore proposed voting against the re-election of the CEO. ISS deemed the Managing Director to be over boarded, holding too many external mandates at other companies. Shareholder interests are potentially compromised when a board member has their time and resources too thinly spread to carry out their role effectively.

Voting Decision: Our voting policy is to promote best practice corporate governance, as we believe this is generally in the best interest of clients. The ISS voting research we receive is based on their benchmark policy that is aligned to regional best practice corporate governance codes.

However, there can be cases where what is considered best practice corporate governance may not align with what we believe to be in the best interests of shareholders. In such cases we vote in the best interests of shareholders, contrary to ISS's recommendation of best practice corporate governance.

Whilst there was a combined CEO/Chair role and the Managing Director held more than the recommended number of external mandates, in the example provided (both of which are not corporate governance best practice), we viewed the dual CEO/Chair role in the context of the broader investment case and what would be best for shareholder interests in our view.

Both individuals had generated significant shareholder value in their respective capacities, during their tenures at the organisation. We found the ISS vote against to be reflective of the inflexibility of ISS policy on such management structures. We voted in support of the dual CEO/Chair and this is an example of voting out of line with commonly accepted corporate governance best practice, and therefore our policy, which advocates for separate CEO and Chair positions.

SHAREHOLDER INTERESTS ARE POTENTIALLY COMPROMISED WHEN A BOARD MEMBER HAS THEIR TIME AND RESOURCES TOO THINLY SPREAD TO CARRY OUT THEIR ROLE EFFECTIVELY.

VOTE AGAINST MANAGEMENT EXAMPLE

Multinational Consumer Goods Company: Report on Efforts to Eliminate Deforestation

Issue: A shareholder resolution requesting the company to report on its efforts to eliminate deforestation from its supply chain.

Details: The proposing shareholder stated that the company did not adequately mitigate business risks related to both legal and illegal deforestation in its supply chain. It noted that the company uses both palm oil and forest pulp, commodities that are considered leading drivers of deforestation and forest degradation and which are responsible for generating approximately 12.5% of greenhouse gas (GHG) emissions.

In response, amongst other points, the board maintained that the company was already committed to responsible sourcing of materials in its supply chain and that the company reports annually on its progress toward its goals in its Annual Citizenship report.

Given the company's significant existing efforts and extensive voluntary reporting on its work toward responsible forestry and palm oil in its supply chain, the Board took the view that the proposal would not substantially add to the company's reporting or to its progress. Therefore the Board indicated its intention to vote against the proposal.

Further analysis indicated that there were faults with the deforestation and palm oil standards of some of the suppliers and that there had been several connected accusations made against the company. The analysis also indicated that the company was lagging peers in this regard. We concluded that shareholders would therefore benefit from greater disclosure, as the lack of information presented potential competitive and reputational risks.

Voting Decision: We voted against management and in support of the shareholder resolution. We felt that shareholders would benefit from additional information on the company's strategy to manage its supply chain's impact on deforestation.

VOTE AGAINST A SHAREHOLDER RESOLUTION EXAMPLE

American Tobacco and Nicotine Alternatives Company: Report on Lobbying Payments and Policy

Issue: A shareholder resolution proposing the company create a report on its lobbying payments and policy.

Details: The proponents stated that they encouraged transparency about the company's spending to influence laws and regulations, claiming that the company did not disclose its payments to trade associations and social welfare organizations, or the amounts used for lobbying at the federal and state level, including grassroots lobbying.

ISS maintained that whilst the company provided some disclosure regarding its lobbying-related activities, there were still some gaps. According to ISS, the company did not disclose a complete list of its memberships in trade association or other advocacy groups, nor the portion of dues and other payments used for lobbying purposes.

By contrast, the board highlighted that voluntary disclosures on the company's website included detailed policies and procedures that governed the company's lobbying activities; legislative and regulatory issues of key importance to the company; copies of federal lobbying reports and direct links to the government databases where these reports were housed; aggregate totals of state lobbying expenses by state; a list of significant memberships in trade associations and other public policy organizations; detailed information on the company's political contributions, updated biannually, as well as all Political Action Committee (PAC) and corporate political contributions.

Voting Decision: We voted in support of management and against the shareholder resolution as in our view the company already provided sufficient information on its lobbying payments and policies.

FIXED INTEREST RIGHTS AND RESPONSIBILITIES

For our listed bond investments we will review the prospectus as part of our due diligence and engage with management where we have questions. However, there are no covenants on any of the bonds that we invest in and because we only invest directly in listed bonds there is no legal phase to our investment process and no requests to amend issuance or bond documentation.

THIRD PARTY FUNDS (ACTIVE AND PASSIVE) RIGHTS AND RESPONSIBILITIES

The rights and responsibilities that we can exercise over our active and passive third party funds are a combination of the rights that we have for both equities and fixed interest. For our listed trusts, we can exercise our rights and responsibilities through voting, as demonstrated above, whilst for vehicles not yet listed we can exercise our rights and responsibilities through requests to adapt the fund documentation, as per example on the right.

CBAM EXAMPLE

Issue: An infrastructure investment trust was going to IPO without warrants attached that would improve the risk reward for 1st-time backers of the trust and, by extension, our clients.

Process: We engaged with both the broker and management of the trust requesting that the required warrants were attached to the IPO.

Outcome: Management accepted our request and warrants were added to the IPO documents. We were happy with the outcome as it enhanced our clients' interest and improved their risk-reward outlook.

CBAM EXAMPLE

Issue: A listed active property investment trust proposed a wind up of their vehicle. We were against the wind up because the trust had delivered on their return targets and had performed well during the Covid-19 pandemic.

Process: We sought various communication channels to voice our views. We spoke with the broker to understand their thoughts followed by a call with the manager, who said they would happily keep running the trust, and we spoke with the Board.

Outcome: We voted against the wind up but we were outvoted, including by the fund manager who voted in favour of the wind up despite their comments in our meeting.

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