2023 Stewardship Report

CEO Introduction

Welcome to Ardevora's 2023 Stewardship Report

Our environmental, social and governance ('ESG') framework has continued to evolve since Ardevora became a signatory to the UK Stewardship Code in September 2022.

The COVID-19 pandemic created a range of permanent structural shifts and re-alignment of priorities around the world and across multiple industries. One of the most noticeable, and encouraging, being the urgency applied by governments and policymakers as it relates to climate change. Further, Russia's invasion of Ukraine in 2022 changed the geo-political order and forced a re-consideration of how many of us source and consume energy, and the role it plays in our lives.

At Ardevora, our view and approach on what it means to be a good steward – a steward of our clients' assets and responsible behaviour - has also evolved. We have spent considerable time reflecting on what this means for us, and as a result determined that stewardship and responsibility requires ownership, not exclusion.

Ardevora continues to manage assets for a range of clients around the world. All our portfolios are managed in the same way, with an investment philosophy that is rooted in the identification of bias and attitudes to risk within three groups: company management, sell-side analysts, and investors.

In our second Stewardship Report, we aim to demonstrate how we continue to evolve our thinking and approach to ESG risks, as well as how we seek to exercise strong stewardship in both our investment process and how we manage our business.

In this report, we set out how Ardevora supports, and complies with, the twelve principles of the UK Stewardship Code. This is a responsibility we take seriously. I hope you find this report informative.

William Pattisson
Chief Executive Officer
28th April 2023

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.

REPORTING EXPECTATIONS

Context

Signatories should explain:

- the purpose of the organisation and an outline of its culture, values, business model and strategy; and
- their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

Activity

Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.

Outcome

Signatories should disclose:

- how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and
- an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

PRINCIPLE 1:

Our Purpose

Ardevora is a privately owned, global equities asset management boutique, established in 2010. Ardevora currently has assets under management in excess of £7 billion.

We aim to provide a culture and working environment where enterprising people with shared values can work together for the long-term benefit of our clients, as well as supporting positive outcomes for wider society. We want to remain a stable business, growing in a way which is well-planned, minimises risk and is built on realism and patience.

Our core purpose is to steward our client's assets in a responsible manner; we want to protect and grow them over the long-term. We seek to do this by steadily, and consistently, applying our investment philosophy which is rooted in behavioural psychology. Our investment philosophy, developed by Jeremy Lang and William Pattisson, is the result of more than 30 years thinking about human behaviour and its role in financial markets, and has been subject to continuous testing and evolution.

Our core skill is being able to find stocks that can surprise. We do this by understanding the conditions which lead others to make mistakes and be susceptible to bias. Whilst we look at the same fundamental information as other investors, what makes us different is how we interpret it.

The three senior portfolio managers, Jeremy Lang, William Pattisson and Ben Fitchew have worked together and practiced this investment approach for over 20 years. They are supported by four assistant portfolio managers, as well as a specialist Quantitative Lead Analyst and specialist ESG Lead Analyst.

Our Values

The investment team is at the heart of the business, but the values inherent to the investment approach pervade the whole firm:

- We value intellectual honesty and the scientific method – this allows us to test our assumptions, be open to, and mitigate, our own susceptibility to bias, as well as allow continuous improvement.
- We also value, and are united by, quiet ambition – investing is challenging and to be successful requires patience and determination.

We believe these values are key to supporting effective stewardship and client outcomes, as well as building a business that can endure and thrive over the long term. These values play an important role in setting the overall tone for the business and ensures we execute our responsibilities to the best of our abilities. Having a shared vision supports trust within and between teams, a critical component to building a successful business.

PRINCIPLE 1:

Our Investment Beliefs

Our investment philosophy rests on the belief that analyst forecasts and investor expectations play a critical role in setting share prices. Empirical evidence shows that companies that surprise tend to outperform. There are certain situations where analysts and investors tend to be consistently, and predictably, wrong. Emotion and bias can cloud judgement. Our investment approach is based on identifying those stocks where analyst and investor expectations are most likely to be wrong due to bias. Our aim is to invest in those companies whose earnings are more likely to beat expectations and see their share price rewarded.

To outperform a client's benchmark, we believe it is critical to have a differentiated investment process and adopt an investment discipline which is rigorous and limits one's own tendency for bias and error. We have structured the investment process to support us in that aim:

- **We build our portfolios from many small holdings rather than concentrated, high-conviction bets.** We believe it is easy to get things wrong, and so investing in lots of small positions limits the damage from any one error and makes it easier to admit mistakes.
- **We break down the decision-making process into a series of steps with key evidence thresholds that need to be met.** This method ensures each decision is evidence-led, repeatable, and open to challenge.
- **We use a team-based approach, where different members of the investment team interrogate each step of the decision.** This structure helps us to mitigate error creeping in due to bias. Each idea is tested via the forum of debate – being rigorous about the quality of the evidence and the logic of any investment decision is critical. If we are not able to get comfortable that the argument is sound, we will not invest.

Integrating ESG has also been an important step in the ongoing evolution of our investment philosophy and process. We believe that ESG factors – and the external costs to society – have not been adequately captured by prevailing economic systems and thought. As such, ESG factors present both risks to society and investments. These risks are becoming increasingly visible as better measurement and assessment frameworks emerge. We believe our investment approach can support us in identifying and assessing these risks and supports our overarching aim to tilt the odds in our favour by avoiding stocks that are likely to disappoint. As with traditional investment risks, ESG risks are highly susceptible to being treated with bias by market participants. Integrating ESG, and doing so in a way that is consistent with our core investment approach, is therefore critical to enable effective stewardship.

We believe our investment philosophy and how we apply it, as well as our broader business culture built around fairness and diversity of thought, enables us to steward clients' capital in an effective and responsible way.

Serving the Best Interests of Clients

In order to be an effective steward of our clients' assets and generate good returns, we are focused on, and committed to, serving the best interests of our clients. Our investment philosophy and process is designed to mitigate our own errors, and exploit it in others. We think about risk before we consider reward. We think this approach to investing is critical to ensuring the client outcomes we seek.

We also recognise the importance of transparency with clients. We meet with clients frequently in order to explain our thinking and the decisions we have taken. We aim to meet quarterly with our key clients (either virtually or face-to-face, as appropriate) and we held 84 client and consultant meetings in 2022. We provide regular reporting on performance and we complete regular and comprehensive client questionnaires whenever requested by clients, and we actively request feedback whenever we share client updates. More recently we have sought to build our library of thought leadership material. For example, in January 2023, we hosted our first in-person event - 'Behavioural Anchors, Opportunities and Risks in 2023' - at the London Stock Exchange. This event was attended by a number of clients and consultants, and provided the forum for Jeremy Lang, our Chief Investment Officer, and members of the investment team to share their insights and perspectives on mega-cap tech and the unexpected impacts of the energy transition.

Another key example of our focus on serving the best interests of clients is our engagement last summer with more than a dozen clients and consultants regarding ESG integration. The purpose of this survey was to ensure the alignment of our internal approach with their expectations and priorities. This survey was useful in confirming that our thinking, and approach, to ESG was developing in a way which was aligned with our clients. There is more information on the output of this survey and our approach to client engagement in Principle 6.

PRINCIPLE 1:

Our Stewardship in Action:

We believe there are two significant ways in which we operate as a business that can support stewardship:

1. Internally: treating our people fairly, conducting our business relationships in an open and collaborative way, and managing and minimising our impact on the environment.
2. Externally: committing time, effort and resource to helping repair existing harm to society, irrespective of who caused it.

Our **internal actions** are centred on our people policies, suppliers, and on mitigating our environmental impact.

We have performance management, compensation and reward policies and processes in place to support fair and equal treatment of all our people. In the last 12 months, we have implemented a formal career structure to provide transparency on career progression and encourage learning and professional development.

We maintain a relationship of trust and integrity with all our suppliers, built upon mutually beneficial factors. In 2022, we published a Responsible Sourcing Code of Conduct (available on our website) which sets out our expectations of our suppliers in terms of corporate governance, health and safety, human rights and modern slavery, inclusion and diversity, and environmental management.

We have continued to operate a Green Group within the business looking for ways to minimise our environmental impact. As part of this effort, we moved to a certified green electricity supplier from April 2022. We have achieved recycling levels of 74% over 2022 (with no waste to landfill) according to our waste management company, First Mile. All our people are provided complimentary coffee sourced from a local small business, and the use of reusable cups eliminated over 3500 single-use coffee cups in 2022.

During 2022, we recalculated our carbon footprint using the methodology supported by the charity, Heart of the City. This replaced the assessment made in 2021 and covered a wider range of Scope 3 factors, including employee commuting, employee working from home, accommodation and meals and our external purchase of supplies and services. Over the next year, we will be looking in more detail at the carbon impact of our suppliers, sourcing more accurate data (where available), and looking for additional ways to reduce our carbon impact.

To support the continuing growth of the business we expanded into additional office space in 2022. Before occupying, we refurbished the space, ensuring the reuse of as much material as possible and sending minimal waste to landfill.

Our **external actions** to help mitigate external damage are delivered through two mechanisms: the Ardevora Charitable Trust and the Ardevora Timebank.

In 2022/23, the Ardevora Charitable Trust provided support to five charities and social enterprises, each of which works in different ways to address and mitigate environmental damage or increase fairness in society. More details of our support for these organisations is available on our website.

We are particularly pleased that two organisations – the University of Oxford HESTIA Project and Global Canopy – are developing open-source data on environmental issues that will make a societal contribution to the understanding of environmental impacts.

The Ardevora Timebank provides our people with up to five days of paid leave per year to volunteer to support charitable causes that are important to them. In 2022, we delivered 27 volunteering days (against a target of 10). In 2023, we are targeting a minimum of 20 volunteering days. These volunteering days consisted of support for environmental projects (see example), two small charities seeking business mentoring on succession issues and providing volunteers for a community sports day for children.

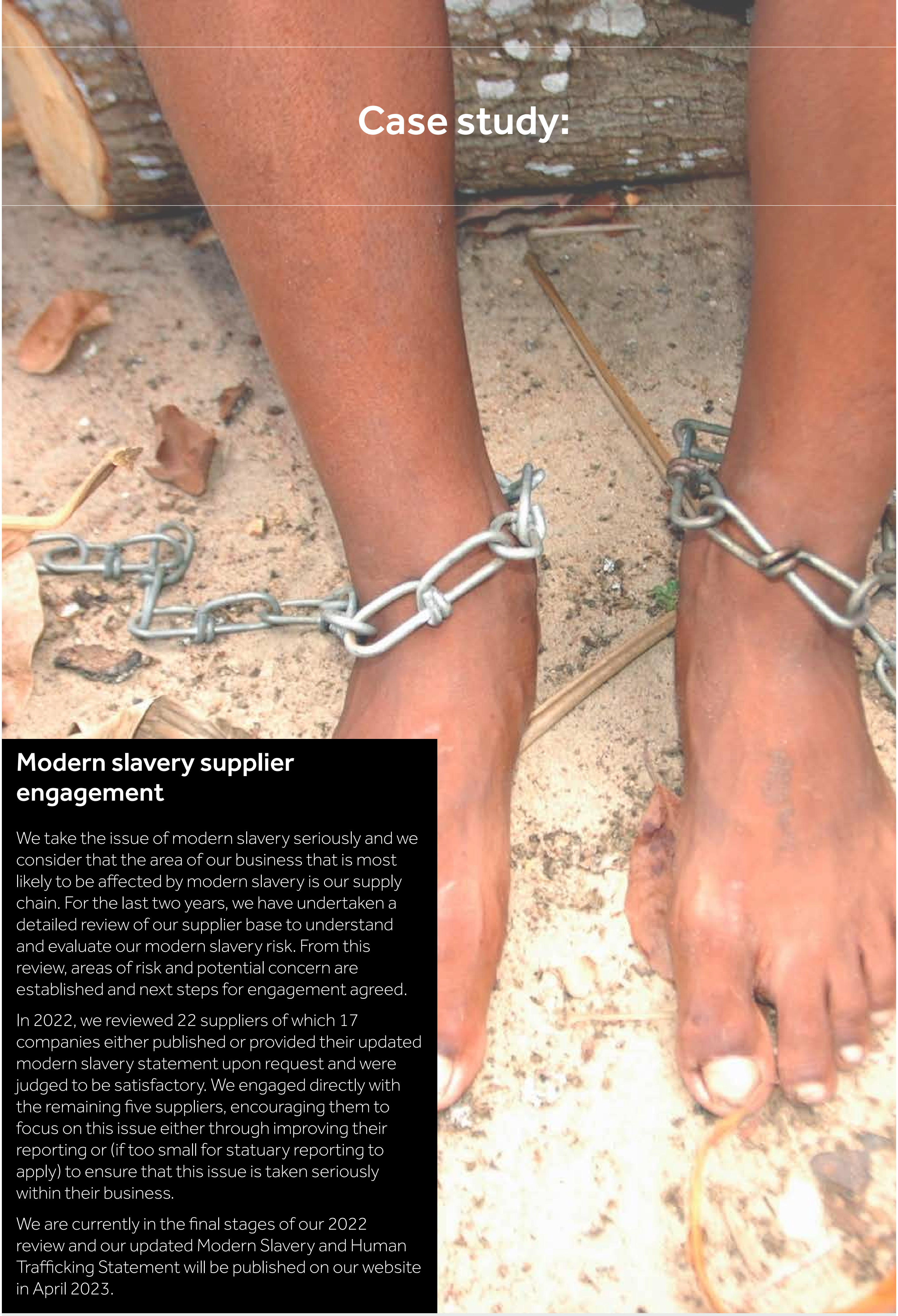
Case study:

Evolution of our understanding of effective Stewardship

In the last two years, the debate on ESG issues has evolved significantly. Climate change and the need to de-carbonise the economy has rapidly gained greater prominence, and the debate has moved on from a simplistic view of 'exclude fossil fuel businesses and assume governments will sort out the problem', to a more nuanced approach of collective engagement, to hold management to account and encourage the necessary improvements to their plans. Although portfolios applying exclusions look cleaner, there is little evidence to suggest that exclusion works in changing corporate behaviour.

By contrast, the threat of exclusion, following unsatisfactory engagement, can create pressure for companies to engage in dialogue. From our own experience, co-ordinating collective engagement (via collective shareholder groups, consultation with other large shareholder and bringing attention to issues through visible mediums such as events), combined with the threat of exclusion by a large body of investors, can drive a constructive dialogue with management.

Thus, we have come to believe that being a responsible investor requires ownership and engagement, not exclusion.



Case study:

Modern slavery supplier engagement

We take the issue of modern slavery seriously and we consider that the area of our business that is most likely to be affected by modern slavery is our supply chain. For the last two years, we have undertaken a detailed review of our supplier base to understand and evaluate our modern slavery risk. From this review, areas of risk and potential concern are established and next steps for engagement agreed.

In 2022, we reviewed 22 suppliers of which 17 companies either published or provided their updated modern slavery statement upon request and were judged to be satisfactory. We engaged directly with the remaining five suppliers, encouraging them to focus on this issue either through improving their reporting or (if too small for statuary reporting to apply) to ensure that this issue is taken seriously within their business.

We are currently in the final stages of our 2022 review and our updated Modern Slavery and Human Trafficking Statement will be published on our website in April 2023.

Case study:

Ardevora Timebank Environmental Volunteering

Ardevora volunteers spent two separate days working with the environmental charity, Groundworks.

For the first day, we worked to improve and enhance the forest copse areas of Wormwood Scrubs in West London, an area that is used by local schools for primary and outdoor education. We laid wood chipping on the interior paths, created new habitats for stag beetles, and cleared pathways to improve access.

Later in the year, we helped improve a mobile community garden in East London where we built and restored raised beds, painting the perimeter fence, and helped with general site improvements and clearance.

Principle 2:

Signatories' governance, resources and incentives support stewardship

REPORTING EXPECTATIONS

Activity

Signatories should explain how:

- their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach;
- they have appropriately resourced stewardship activities, including:
- their chosen organisational and workforce structures;
- their seniority, experience, qualifications, training and diversity;
- their investment in systems, processes, research and analysis;
- the extent to which service providers were used and the services they provided; and
- performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision making.

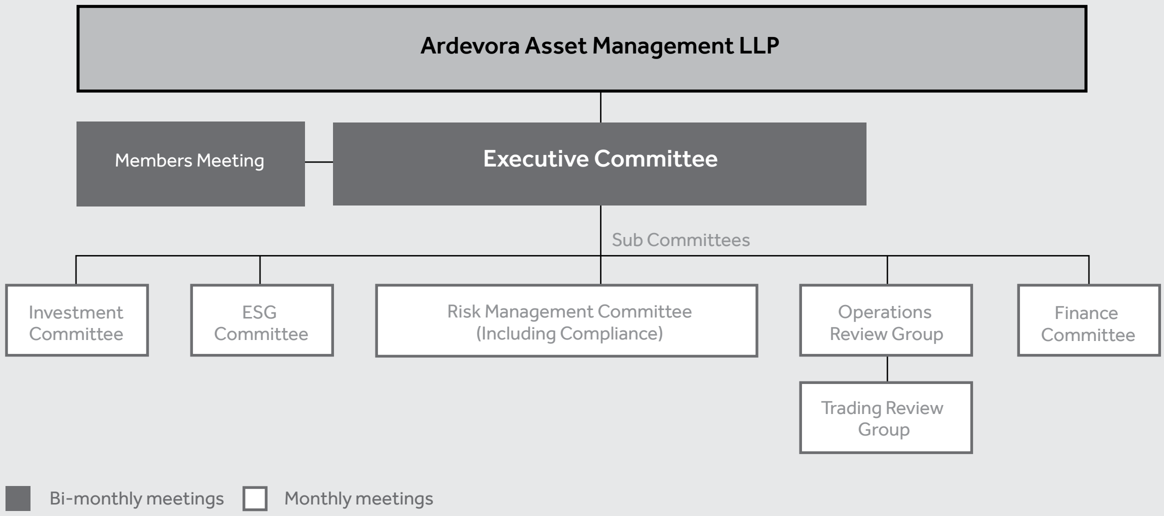
Outcome

Signatories should disclose:

- how effective their chosen governance structures and processes have been in supporting stewardship; and
- how they may be improved.

PRINCIPLE 2:

Figure 1. Ardevora's governance structure



Ardevora was founded in 2010 as a limited liability partnership by our co-Founders, Jeremy Lang and William Pattisson. All Partners work for the firm and there has been no external debt or equity holders since the firm's inception.

We focus on having a diversified client base derived from a combination of consultant support and direct relationships with institutions, wealth managers, and platforms. As a private partnership we can maintain realistic growth plans.

The overall effectiveness of the firm's governance structure is assessed by, and the ultimate responsibility of, the Executive Committee (see Figure 1).

The firm's Executive Committee sets the agenda for the firm's stewardship activities. Day-to-day responsibility for stewardship is held by the ESG Committee. The ESG Committee meets every month and has a defined agenda and terms of reference.

The objective of our governance structure is to deliver clear and effective corporate governance. Each of our Committees covers a key aspect of our business with its own set of terms of reference. These Committees provide regular written and verbal reports to the Executive Committee, thus enabling the Executive Committee to have clear oversight of business-critical areas and to have sufficient management information to carry out their roles in a responsible manner.

The ESG Committee (formally the Responsible Investment Committee) provides oversight and governance over our integration of ESG and stewardship activities. It has evolved this year to reflect our internal approach to EGS more effectively, address client considerations, and to monitor the constantly evolving ESG regulatory environment. The ESG Committee now meets monthly and includes a wider representation from the Investment, Legal, Compliance, Client Services, Distribution, and Communications teams. The scope and role of the ESG Committee enables us to take a more holistic view of ESG and acknowledges that ESG considerations need to be assessed and reviewed by a wider internal audience. A summary of key discussions is regularly reviewed by the Executive Committee and key stewardship issues and concerns are raised directly with the Executive Committee for debate and action.

Other governance changes in the last year include the formal establishment of an Investment Committee, with a wider membership including the Lead ESG analyst, senior analysts and Portfolio Managers. We have also reconstituted the Risk Management Committee, with a broader remit and a stronger focus on management information in support of broader risk management across all aspects of the firm.

PRINCIPLE 2:

Our Investment Team

Ardevora's investment team is led by our three experienced Portfolio Managers, Jeremy Lang, William Pattisson, and Ben Fitchew. In late 2022, this team was strengthened by the addition of Mia Beck-Friis as Assistant Portfolio Manager. They are supported by a team of experienced Analysts.

Jeremy, William and Ben collectively share responsibility for the performance of all our portfolios and make all stock decisions.

Jeremy Lang – Partner

Jeremy is Chief Investment Officer of Ardevora which he co-founded with William Pattisson in 2010. Prior to establishing Ardevora, Jeremy spent fourteen years with Liontrust Asset Management where he was (with William Pattisson) responsible for the management of UK equity portfolios and all investment management operations. Jeremy began his career in 1986 at James Capel Fund Managers where he managed North American and UK equities before leaving in 1991 to go long-distance sailing. Jeremy has a degree in Economics and Econometrics from the University of York and a Masters in Economics of Finance and Investment from the University of Exeter.

William Pattisson – Partner

William is Chief Executive Officer of Ardevora which he co-founded with Jeremy Lang in 2010. Prior to establishing Ardevora, William spent a decade with Liontrust Asset Management where he was (with Jeremy Lang) responsible for UK equity portfolios and all investment management operations. William joined Liontrust in 1999 from Fleming Investment Management where he became Head of the UK Equity Specialist team, before being appointed Head of UK Equities. William began his career in 1986 at James Capel Fund Managers where he managed North American and UK equities. William has a degree in Chemistry from the University of Oxford.

Ben Fitchew – Partner

Ben is a Portfolio Manager and Head of Research at Ardevora. Prior to joining Ardevora in 2010, Ben spent eight years with Liontrust Asset Management where he worked with Jeremy Lang and William Pattisson and helped develop the firm's investment processes and managed UK equity portfolios. Ben has a degree in Mathematics, and a Masters in Mathematics and the Foundations of Computer Science from the University of Oxford.

Mia Beck-Friis – Associate Partner

Mia is an Assistant Portfolio Manager at Ardevora. She joined Ardevora in April 2017 as a Global Equity Research Analyst. In September 2020, Mia was promoted to Lead Analyst, helping to manage a growing research team. Mia was promoted to Junior Portfolio Manager in October 2022. Mia has a degree in Molecular and Cellular Biochemistry and a Masters in Biochemistry from the University of Oxford.

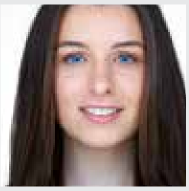
PRINCIPLE 2:

Our ESG team

Ardevora's ESG team sits within the Investment team and is currently comprised of two Analysts. The ESG team is responsible for the integration of ESG within the wider Investment team's processes and decision-making, as well as researching and monitoring key ESG topics. The ESG team is also responsible for managing the integration with other parts of the business, predominantly the Client Services, Distribution, and Legal teams. The ESG team is led by an Investment Analyst with several years practising Ardevora's investment process, supported by a specialist ESG Analyst to provide expert knowledge as well as diversity of thought.

William Ayres – Associate Partner

William joined Ardevora in February 2016 as a Global Equity Research Analyst. William has over seven years as an investment analyst at Ardevora, during which time he has covered a variety of sectors, looking at both the long- and short-side. Last year, he assumed responsibility for leading, updating and managing Ardevora's ESG integration process and ESG research. William has a degree in History from the University of Cambridge and a Masters in History from University College London.



Emily Rossi – ESG Analyst

Emily joined Ardevora as an ESG Analyst in October 2022. Prior to this, she worked as a Social Impact Associate at National Australia Bank ('NAB'), supporting emission data reporting and managing the social impact grant programme of the NAB Foundation. She has a Bachelor of Commerce from Monash University.

Performance management and reward

As outlined above, we have appointed William Ayres to lead Ardevora's ESG function, overseeing the integration of ESG and stewardship into the investment team workflow and investment decisions.

Our performance management framework for the Investment team reflects the relevant technical and leadership capabilities that our people will be required to demonstrate, including their assessment of ESG factors. Investment team members are held accountable to deliver these capabilities as part of our performance management framework. This performance management framework was introduced in 2021 to align reward, career progression, and the ability of our people to demonstrate capabilities across technical competence, leadership capability, client focus and wider contribution.

Learning and development

To ensure we continue to enhance our ability to serve the best interests of our clients, we invest in building and developing the skills of our people. In the last 12 months, we have continued to build the experience base of our Analyst team and we have added additional specialist skills in healthcare, risk management, software development, and systems infrastructure to the wider business.

Service Providers

We believe asset managers who invest in publicly traded stocks have a responsibility to vote proxies for those companies. Our approach to proxy voting, and how we work with our proxy voting provider, Glass Lewis & Co ("Glass Lewis"), is outlined in Principles 8 and 12.

Alongside Glass Lewis, we have invested in ESG data from MSCI in order to help us assess ESG risks at a stock and portfolio level, as well as to support client reporting requirements. Third party research from sell-side analysts also informs our ESG risk assessment process – we seek to assess whether other analysts are treating these ESG risks rationally or with bias. Sell-side research is also used to build knowledge around key ESG investment themes and to help us to monitor regulatory developments in the market.

This year we also worked with an external ESG consultant to review and benchmark our updated ESG framework, as well as to make recommendations to strengthen our research and data requirements.

Further detail on how we work with our service providers can be found under Principle 8.

Principle 3:

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

REPORTING EXPECTATIONS

Context

Signatories should disclose their conflicts policy and how this has been applied to stewardship activity.

Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

Conflicts may arise as a result of:

- ownership structure;
- business relationships between asset owners and asset managers, and/or the assets they manage;
- differences between the stewardship policies of managers and their clients;
- cross-directorships;
- bond and equity managers' objectives; and
- client or beneficiary interests diverging from each other.

PRINCIPLE 3:

Ardevora recognises that, as part of its stewardship responsibilities, we have both a fundamental and a regulatory responsibility to identify, manage and, where appropriate, mitigate the impacts of any potential conflicts of interest. We have a clear obligation to our clients to manage their money in a responsible way, which requires us to be aware of, and be responsive to the realities of the potential conflicts that we may face whilst being stewards for our clients' assets. We have recently taken steps to disclose our Conflicts Management Policy, and this can be found on the Regulatory Information section on our website.

As an independent asset manager with a simple ownership structure, we hold the view that there will be a limited range of circumstances where an actual conflict may occur due to the following reasons:

- All key employees are Partners of the business;
- We have no broker or dealer affiliates;
- We do not trade securities for our own account;
- We are not under the control of another financial services entity; and
- We only manage single asset classes and therefore do not have any conflicting objectives between strategies.

In addition, a key tenet of our investment philosophy is that we do not generally meet company management or analysts, unless in support of our ESG engagement activities. As such, we are typically less exposed to many potential conflicts, including exposure to material non-public information.

Accordingly, due to the nature of our business, the investment process, and the robust controls we have implemented around conflict management, we consider there to be an limited range of circumstances where a conflict of interest may arise. Broadly, we expect that conflicts of interest have the potential to arise where there is a mismatch of interests between:

1. Our own interests and those of a client;
2. One client and another;
3. A Partner or employee's personal interests and those of the firm or a client; and
4. Our interests and those of third-party providers.

Ardevora has procedures in place to ensure actual or potential conflicts of interest are routinely identified, mitigated, and managed fairly. We achieve this through a conflict management framework set out in our Conflicts Management Policy. This policy is reviewed periodically by the Head of Compliance, with input from the firm's senior management.

The FCA's Principles for Businesses require that a firm "must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client". Rules and guidance on compliance with this principle are set out in SYSC 10, requiring we take all reasonable steps to prevent conflicts of interest from giving rise to material risks of damage to the interests of clients. Where arrangements are not adequate to prevent material risks of damage to a client, that conflict must be disclosed to the client.

All our people receive ongoing training, reminders of their responsibilities, and training on conflicts of interest has been included within the 2023 regulatory training programme. All our people are also required to attest annually to their understanding of our regulatory policies, which includes our Conflicts Management Policy. Firm-wide training is supplemented with targeted sessions, both in-house and delivered by external experts. As reported in our 2022 Stewardship Report, in 2021 external experts were engaged to provide training which included practice examples of risks involved in stewardship activities, including those arising in engagements with portfolio companies, sell-side analysts, and research services. In 2022, we further developed our internal understanding of these key themes, for example providing focus sessions on topics such as inducements and gifts and entertainment, to those people most exposed to clients or potential clients.

PRINCIPLE 3:

A detailed risk register is maintained and continually reviewed by our Heads of Risk and Compliance, respectively, as well as receiving regular scrutiny by the Risk Management Committee. We recognise that the overriding principle governing all our processes is to act in the best interests of our clients. Situations where a client's interests may diverge, or where a client relationship raises potential conflicts, are discussed with the Head of Compliance and subjected to additional checks and control processes.

Some potential sources of conflicts of interest and the associated control environments are further elaborated below.

Ownership Structure

All Partners work for the firm, and there has been no external debt or equity holders since the firm's inception, thereby reducing the likelihood of any potential conflicts of interest arising from our ownership structure. All our people are required to disclose any external directorships as part of their onboarding and any potential conflicts of interest are scrutinised by our Head of Compliance and recorded on our External Directorships Register, with updates captured on the Conflicts of Interest Register as appropriate. We do not currently have any external directorships recorded which we believe gives rise to any conflicts of interest.

Gifts and Entertainment

We recognise that the nature of our business can give rise to the giving and receiving of hospitality and (occasionally) the giving and receiving of gifts in the normal course of business development and relationship management.

Gifts and entertainment may include meals, tickets to sporting events, concerts and shows, trips not in the normal course of business, gifts of any description, travel or accommodation costs and free attendance at conferences and industry events, and include those offered to family members. These may only be offered or accepted where they are clearly reasonable in the circumstances, that is, not excessive in terms of monetary value and/or frequency. Thresholds have been set to capture most gifts and hospitality given or received, subject to a de-minimis amount where declaration is not required but is still encouraged for transparency. These thresholds are kept under constant review and adherence is monitored regularly by the Compliance team.

Personal Account Dealing

As part of our conflict management framework, we largely discourage personal account dealing by our people and have implemented a robust policy which includes lengthy holding periods and restricted trading activity to tightly control any instances of personal account dealing. Ardevora's overarching policy objective in this respect is to protect the interests of our clients, and any personal account trading activity which may give rise to a conflict with this policy objective will be rejected by senior management.

We have controls in place to restrict personal account trading in certain stocks where we may be in possession of insider information, and/or there is a material conflict of interest that we are not able to mitigate in any other way, and/or Ardevora has significant influence.

Remuneration

UK regulations require we establish, implement, and maintain remuneration policies, procedures and practices consistent with sound and effective risk management. The UCITS Directive requires third parties such as Ardevora, who take investment decisions affecting the risk profile of a UCITS, to apply the UCITS Directive requirements "in a proportionate manner".

Ardevora maintains a detailed Remuneration Policy following the implementation of the Investment Firms Prudential Regime (IFPR). The Policy codifies our values of fairness in how we do business and ensures all remuneration decisions are made fairly, do not incentivise excessive risk taking, and do not give rise to conflicts of interest, particularly as it relates to the actions of our people and the interests of clients.

Principle 4:

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

REPORTING EXPECTATIONS

Activity

Signatories should explain:

1. how they have identified and responded to market-wide and systemic risk(s), as appropriate.
2. how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets;
3. the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples; and
4. how they have aligned their investments accordingly.

Outcome

Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- changes in interest rates;
- geopolitical issues; and
- currency rates.

Systemic risks are those that may lead to the collapse of an industry, financial market or economy and include but are not limited to:

- climate change; and
- the failure of a business or group of businesses.

Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics.

PRINCIPLE 4:

Identifying and responding to market-wide and systemic risks

We aim to invest in well-managed, low risk businesses. We think the best way to do this is to take the results of academic research from cognitive psychology, on errors and biases, and apply them to financial markets. Our investment philosophy focuses on the biases and errors of three groups of people: company management, sell-side analysts, and investors.

We believe company management are prone to taking too much risk due to their susceptibility to over-confidence bias, and that poor decision-making from company management is the most significant source of downside risk for shareholders. As such, our investment process starts by assessing management's attitude to risk. If we think a company is straining too hard for growth or in denial about how difficult conditions are becoming we will not buy the stock. Our investment process therefore is structured from the outset in a way that minimizes exposure to the risks that stem from poor management behaviour.

When we have identified a group of companies which we believe are being well managed, and there is evidence of persistent bias from analysts and investors in the way they view these businesses, we aim to construct a well-balanced portfolio comprised of a large number of small positions. In this way we avoid the risks from taking high conviction, concentrated investment views – instead, the downside risk from any position will be limited and we are better placed to respond to our own errors.

We remain mindful of the threat posed by market-wide and systemic risks and how they may lead to the collapse of an industry, financial market or economy. We monitor for these risks through our bottom-up stock analysis. Examples of our approach to assessing these systemic and market-wide risks are presented below.

In addition, Ardevora has both Risk and Compliance functions that oversee the monitoring and response to market-wide and systemic risks. In 2022 we recruited a dedicated Head of Risk. Alongside the core risk identification and management practices embedded in the investment process, the Risk and Compliance functions ensure the identification and management of enterprise risks which are discussed in the Risk Management Committee, and ultimately reports to the Executive Committee (see Figure 1). We are in the process of developing a more detailed Enterprise Risk Management Framework, enhancing our understanding of key risks and the relevant risk indicators.

Stakeholder Engagement

We have worked with numerous stakeholders to promote the continued improvement of the functioning of financial markets. We have been signatories of the UN's Principles for Responsible Investment ("PRI") since 2017 and complete the PRI questionnaire annually. We have also been members of the Investment Association since 2017.

Further information on our participation in collaborative engagement and other industry initiatives and groups can be found in Principles 9, 10 and 11.

Aligning our investments

How we align our investments with our view on market-wide systemic risks is demonstrated in the following three examples:

Case study:

Systemic Risk – Climate Change

Our investment philosophy is rooted in behavioural psychology. We focus on the capital allocation decisions made by company management and how they translate into risk for shareholders – whether that is traditional investment risks or investment risks captured through analysis of ESG issues.

A key investment and societal risk is that posed by climate change. We have responded to this risk by integrating climate considerations into our ESG integration framework and implementing relevant engagement initiatives (see Principles 7, 9 and 10). We seek to understand how material this risk is on a stock-by-stock basis – we look at and assess the key metrics (via MSCI and Bloomberg), we assess the credibility of management plans to mitigate these risks, and we observe how sell-side analysts and investors are behaving towards these risks (are these risks being treated rationally or with bias?). We also read specialist climate change/energy transition research in order to build up our knowledge around the risks related to climate change. We want to improve our understanding of these risks - assessing the evidence as it comes in, testing our assumptions, and updating our thinking as appropriate.

Continually testing and updating our views is a key tenet of our investment philosophy. Climate change is a good example of why this approach is crucial. In light of Russia's invasion of Ukraine and the associated energy crisis, managing climate change whilst meeting current social needs (energy affordability and security) has complicated the transition path. The outcome of these events is to promote the need for a more nuanced analysis of the problem as well as more pragmatic solutions. Solving one systemic risk (climate change) but causing another (mass starvation and death) is at odds with effective stewardship. We believe investors need to engage with management along this transition path, holding management to account where plans are not credible. Climate change is a key focus for our engagement activities for the coming year.

Case study:

Systemic Risk – Biodiversity Loss

Whilst attention in recent years has centred on climate change, there is a growing recognition of the urgent need to address biodiversity loss given the systemic risk it poses, as well as the critical role nature-based solutions have to play in tackling climate change.

We assess the biodiversity risk of companies and the portfolio using our ESG risk assessment framework. We seek to understand how material this risk is on a stock-by-stock basis, assessing the key metrics (via MSCI and Bloomberg), as well as building up our knowledge of the topic through reading sell-side research reports, attending industry conferences (such as the Natural Capital conference hosted by Rebalance Earth), and engaging with other investors and working groups via our collective shareholder initiatives. Biodiversity loss will be a key focus area for our engagement activities for the coming year. Through these efforts we seek to encourage greater disclosure from management around these biodiversity risks, as well as to push management to adopt plans that better mitigate this systemic risk.

Given the well-known data gaps/data quality issues which hinder the assessment of biodiversity risk, we seek to support the broader efforts in the market to better account for risks to natural capital via our philanthropic efforts. We do this, for example, by supporting Global Canopy, a data-driven not-for-profit, which is focused on building data-sets and sustainability assessment tools around deforestation.

Case study:

Market-wide Risk – Macro-economic shocks

Our investment process is focused on finding stocks that can beat analyst and investor expectations. In our view, the best way to find them is to look for the unusual combination of low–risk company management behaviour and biased sell-side analyst and investor behaviour.

As we have seen in recent years, the emergence of market wide risks (such as the pandemic, geo-political conflict, and unexpected changes to interest rates) can derail management plans and drive significant analyst and investor disappointment.

We respond to these market-wide risks by seeking to control our exposure to any factor through position sizing. Having the ability to alter our stock weightings, when needed, allows us to keep a tighter rein on any unintended macro bets during these macro-driven periods. Adapting our stock weightings supports us in the delivery of a lower risk, more consistent portfolio. This allows us to do what we do best: to find unusual stocks that are more likely to surprise than disappoint, as well as to manage the downside impact to the portfolio during periods of unpredictable risk, thereby supporting our overall aim to deliver the long-term capital appreciation goals of our clients.

Principle 5:

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

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have reviewed their policies to ensure they enable effective stewardship;
- what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

Internal assurance may be by given by senior staff, a designated body, board, committee, or internal audit and external assurance by an independent third party.

PRINCIPLE 5:

Our Policies

In 2022, we undertook a review to establish how we could enhance our ESG integration and engagement activities. This review involved speaking with clients and consultants to understand their priorities and expectations, engaging directly with peers from within the investment management industry, and conducting an internal assessment of how our ESG integration approach and processes might be improved. This work resulted in an updated approach to assessing ESG risks which was more directly aligned with our underlying investment philosophy, as well as a shift in our engagement framework with a more focused strategy on key sustainability issues via collective shareholder action. The updated approach to ESG integration and engagement is reflected in the most recent ESG Policy published on our website as well as in Principle 7 below.

More broadly, our set of policies across the firm is reviewed on an annual basis and, where appropriate, updated and refined. This review process is part of the work of the Operational Review Group. Recent substantive policy updates include our Remuneration Policy to reflect new regulatory requirements, our Grievance and Disciplinary Policies to ensure best practice, and our Business Continuity Plan (BCP) to ensure that it is consistent with the current systems we use. We published our second Modern Slavery and Human Trafficking Statement in April 2022 and have since taken advice from an external expert on modern slavery to ensure that our statement follows best practice. This advice is being incorporated into our 2023 Modern Slavery and Human Trafficking Statement which will be published in April 2023.

Assurance

Ardevora is a relatively small business and does not have an Internal Audit team. Internal assurance for the effectiveness of our stewardship activities is provided by the ESG Committee and the Executive Committee. The ESG Committee, with broad representation from across the firm (Investment, Legal, Compliance, Client Services, Distribution and Communications), maintains oversight to ensure that all relevant stewardship reporting is fair, balanced and understandable. The ESG Committee reports formally on a quarterly basis to the Executive Committee, and more often as required.

Following the internal review of our ESG Policy and processes, we sought external assurance from an ESG consultant to ensure that these processes follow current good market practice. Feedback from the ESG consultant confirmed that our ESG integration framework was robust and provided a solid foundation to develop over the coming years. Overall, our level of thoughtfulness regarding ESG was considered very high.

Our external auditors perform an annual audit on our internal controls relating to investment management activities, with their findings presented in an internal controls report. The most recent report concluded that Ardevora had established a strong control environment, stating that Ardevora recognises the importance of ongoing development and enhancement of risk management practices to reflect the changing shape of the business.

Principle 6:

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

REPORTING EXPECTATIONS

Context

Signatories should disclose:

- the approximate breakdown of:
  - the scheme(s) structure, for example, whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution, etc;
  - the size and profile of their membership, including number of members in the scheme and the average age of members;

OR

  - their client base, for example, institutional versus retail, and geographic distribution;
  - assets under management across asset classes and geographies;
- the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why

Activity

Signatories should explain:

- how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach;

OR

- how they have sought and received clients' views and the reason for their chosen approach;
- how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon;

OR

- how assets have been managed in alignment with clients' stewardship and investment policies;
- what they have communicated to beneficiaries about their stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication;

OR

- what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.

Outcome

Signatories should explain:

- how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries;
- how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result;

OR

- how they have taken account of the views of clients and what actions they have taken as a result;
- where their managers have not followed their stewardship and investment policies, and the reason for this;

OR

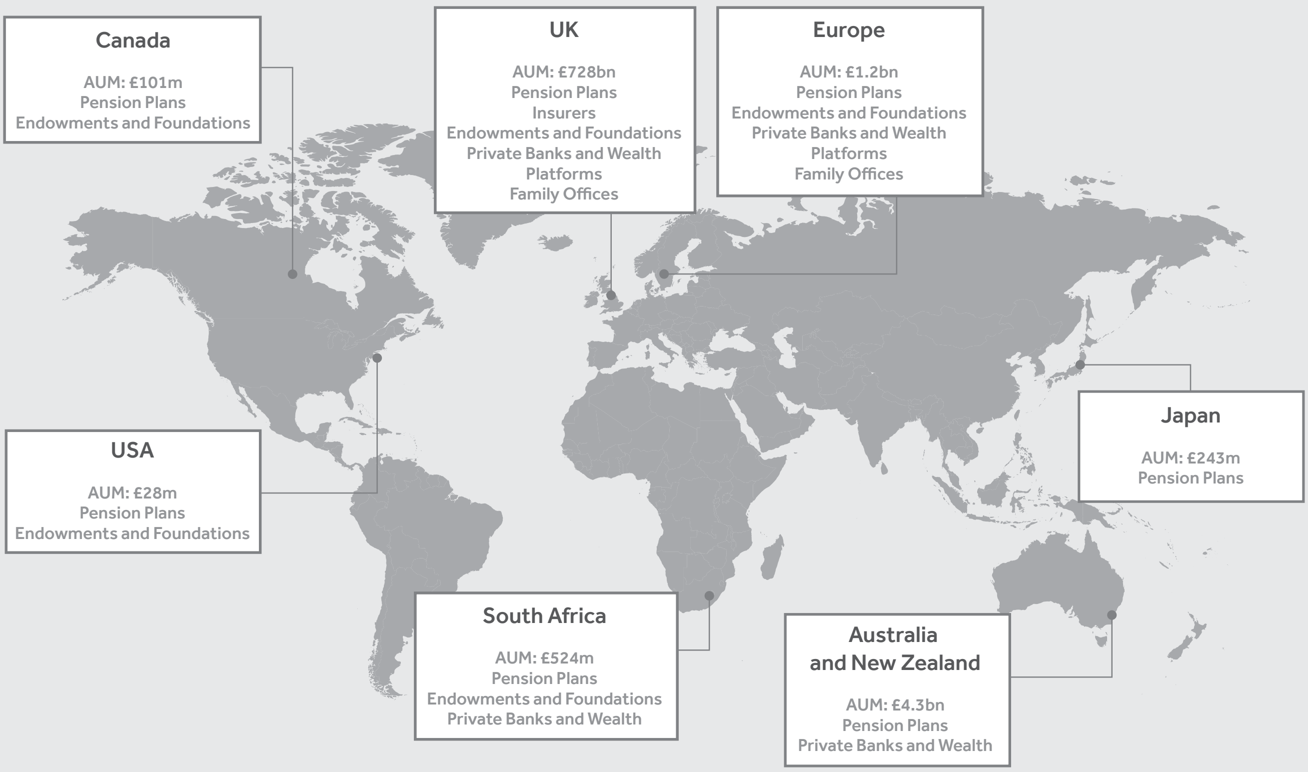
- where they have not managed assets in alignment with their clients' stewardship and investment policies, and the reason for this.

PRINCIPLE 6:

Our Clients

We currently manage assets in excess of £7 billion on behalf of our clients.
The composition of our client base is 95% institutional investors and 5% wholesale investors from multiple global jurisdictions. A breakdown of our assets under management across geographies is detailed in the chart below. We invest only in global equities. Our specialist focus on investing in global equities helps support our clients in meeting their long-term investment horizon and liabilities.

Figure 2. Client base by geography as at 28 February 2023



This is an approximate representation of our AUM as at 28 February 2023. Source: Ardevora

PRINCIPLE 6:

Taking Account of Client Views

We have a global client base (see Figure 2) and we maintain an active dialogue with our clients to understand their various investment priorities and challenges, which differ between client type and location. This dialogue also allows for an opportunity to exchange best practice in stewardship.

In our last Stewardship Report, we committed to undertake a client survey to capture ESG-related issues and priorities. The purpose was to ensure that our internal processes and approach are aligned with client expectations. During these meetings we discussed with both clients and consultants a range of topics. The main areas of focus were: client ESG priorities, the merits of exclusion, and expectations of portfolio managers around integration, engagement, and voting.

The feedback from these meetings confirmed that the evolution of our thinking as it relates to ESG was received positively and aligned with their expectations. **The key output was that the clients and consultants we met viewed ESG issues as part of investment risk, not separate**. It was framed as a tool to mitigate risks and identify investment opportunities. This feedback was encouraging given we had started to re-position our ESG integration framework in order to align more closely with our core investment process.

The other key output related to engagement. Given the size of our portfolio, **clients generally considered it reasonable for us to engage with a narrow set of companies and on a narrow set of issues**. Engagement was also expected to tie back to the investment case. This feedback was similarly encouraging as we had started to re-position our engagement strategy around focused, collective shareholder initiatives on a few key strategic areas in order to be more effective in our stewardship efforts.

As detailed in Principle 1, we maintain an ongoing dialogue with clients and consultants through regular meetings and correspondence in order to ensure that our understanding of client expectations and priorities remains up to date.

Alignment with our Clients' Stewardship and Investment Policies

For segregated accounts, we manage assets in alignment with our clients' stewardship and investment policies by factoring each individual client's ESG-related exclusions and voting preferences. We also have regard for, and abide by, a client's Statement of Investment Principles where relevant. For these clients, on request, we implement additional exclusionary screens for controversial industries such as thermal coal, controversial weapons, and oil sands. We continuously review data and service providers to ensure they can support us in implementing client preferences (see Principle 8). We also engage with our segregated account clients about their stewardship and investment policies.

Client Communications

As part of our stewardship activity, we have published quarterly newsletters summarising our key engagement activities which are publicly available on our website and as outlined in our 2022 Stewardship Report. We plan to publish a more detailed engagement update on a bi-annual basis going forward. As we continue to enhance our ESG integration framework, we will steadily build a library of material, such as thought leadership pieces on key ESG topics and stock assessment examples, in order to give clients greater insight into our approach.

In addition to our engagement newsletters, we provide individual clients with detailed information regarding our investment and stewardship activities, including:

- Proxy voting reports from Glass Lewis;
- Company research: details of specific investment cases are shared with clients in meetings or on request;
- Summary of specific engagements: details of specific engagements are shared with clients in meetings or on request; and
- Reporting: on request, we provide clients with monthly and quarterly reports detailing the performance of our portfolios as well as our stewardship activities.

We held our first in-person event in January 2023 titled 'Behavioural Anchors, Opportunities and Risks 2023'. This was attended by 19 of our key clients and consultants. Recordings of, and published material from, the event was made available to clients and the broader public on our website.

Public Communications

We publish our quarterly portfolio video updates with our Chief Investment Officer on our website. Through this format, our updates can reach, and are proactively circulated to, a wider client audience. Over the last twelve months, we have also released research papers, videos, and podcasts by our Analysts and portfolio managers which are available on our website.

Examples of our public communications include:

- Engagement Reports;
- ESG Research: white papers on various ESG topics;
- Stewardship Report;
- Our approach to Responsible Business and the charities supported by the Ardevora Charitable Trust;
- List of Memberships and Associations;
- ESG Policy which outlines our approach to ESG integration and engagement;
- Modern Slavery and Human Trafficking Statement.

All of these are available on our website.

Our PRI submission is available on the PRI website.

Principle 7:

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

REPORTING EXPECTATIONS

Context

Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

Activity

Signatories should explain:

- how integration of stewardship and investment has differed for funds, asset classes and geographies
- how they have ensured:
  - tenders have included a requirement to integrate stewardship and investment, including material ESG issues; and
  - the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of clients and beneficiaries;

OR

- the processes they have used to:
  - integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries; and
  - ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Outcome

Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

PRINCIPLE 7:

Our Approach to integrating ESG Issues

We assess ESG issues through the lens of investment risk. This process involves assessing the behaviour of three key market participants – company management, sell-side analysts, and investors. This approach to assessing ESG issues is consistent with our core investment philosophy and process which is rooted in behavioural psychology.

First, we evaluate how material each ESG issue is to the company's financials and business model, and whether management have effective plans in place to mitigate the risks. We assess management behaviour by reading earnings call transcripts and looking at their capital allocation choices – we want to understand whether they are in denial or not about the ESG risks they face, as well as the credibility of their risk mitigation plans.

Next, we evaluate how analysts and investors perceive the ESG risks facing the company and whether there is any evidence for persistent bias (i.e. over- or underreaction to an ESG risk). We assess analyst and investment behaviour by reading sell-side analyst research reports as well as broader market commentary – we want to understand whether these risks are being acknowledged or not, how these risks are being quantified, and whether these risks are being treated rationally or with bias.

As outlined in other sections of this report, we do not exclude companies due to what they do. Instead, we assess the investment risks that stem from the key ESG issues they face and reach a conclusion as to whether the level of risk is acceptable or not. Importantly, we use engagement initiatives to both support our understanding of these ESG risks. Engagement helps us in this regard as ESG risks lack well-defined, standardised disclosure, and there are pervasive issues tied to data gaps and data quality. Engagement can pressure management to disclose more about how their business is linked to these risks, as well as how they seek to mitigate them. As such, engagement provides an additional way for us to assess management behaviour. Moreover, by being part of the broader pressure on management to develop more credible plans to address these risks we can encourage better societal outcomes.

A consequence of our approach to integrating ESG factors is that we may own businesses with perceived high ESG risk if there are credible plans from management to mitigate these risks but excessive anxiety towards these risks from analysts and/or investors. Similarly, we may avoid businesses with apparently strong ESG credentials/ESG opportunity if we view management plans as not being credible and there is excessive optimism towards the company from analysts and/or investors.

We continually assess these ESG risks – alongside the various other investment risks - as part of ensuring the key assertions for each investment case hold. Any ESG risk which is deemed to be material enough to undermine the investment case will be flagged to the Portfolio Managers, either in a written review or verbally via investment review meetings. Any opinion formed will consider the nature of the investee company's operations, the circumstances in which it operates, and the issues it faces. In this way, integrating ESG risk supports our overarching aim to find stocks that are more likely to positively surprise and to avoid stocks more likely to disappoint, thereby allowing us to best serve the interests of clients.

Analysis of these ESG risks uses a combination of qualitative and quantitative information. We look at a number of data points/sustainability indicators via MSCI, as well as the materiality framework of the Sustainability Accounting Standards Board (SASB) to help inform our decision on whether a particular ESG factor is likely to be impactful or not. This is complemented by the analysis of historical controversy data enabled by Bloomberg and Glass Lewis, as well as third-party reports, discussions with stakeholder groups, sustainability investment professionals, and attending conferences on key ESG issues.

As we invest only in listed equities, our overarching stewardship and ESG integration principles apply across all geographies and our funds and managed portfolios, including the Article 8 funds we manage pursuant to the Sustainable Finance Disclosure Regulation.

ESG Integration into Idea Generation

The following stock-specific examples seek to demonstrate our ESG integration framework in practice – showing how we assessed the ESG risks facing the company and how this assessment fed into to the final investment decision of whether to buy a stock or not.

Portfolio Monitoring

As part of portfolio monitoring we seek to track the development of the key ESG risks facing each stock, as well as watch out for any new emerging risks. Any ESG investment concerns are captured in stock review notes and, if deemed sufficiently material, are debated with the Portfolio Managers at investment review meetings. An example of this working in practice can be seen in our decision to sell Activision Blizzard last year. ESG risks relating to human capital controversies were flagged via an analyst research note and this risk was debated with the Portfolio Managers. Our assessment concluded that these controversies presented a risk to management's ability to attract and retain talent, resulting in a challenge to their ability to develop and successfully deliver new game titles. As a result of this assessment we sold Activision Blizzard (as highlighted in our 2022 Stewardship Report).

As ESG risks can often be long-dated in nature, and adequate data and standardised frameworks are still lacking, we remain acutely aware of the need to continue to monitor and constantly review our assumptions towards these risks. Part of this work involves building out thematic notes on key ESG risks and understanding how these risks impact the portfolio. The example below, providing an assessment of water risks to semiconductor manufacturers, highlights this work in practice.

Case study:

The Coca-Cola Company

The Coca-Cola Company is a controversial stock given it sells a product (sugary drinks) widely known to be linked to significant public health risks and is cited as one of the main contributors to plastic pollution. The Coca-Cola Company, however, is a good example of a stock where we felt this perception of high ESG risk was misplaced.

Our assessment concluded that management were not in denial about the risks they faced from selling high sugar content products. We saw clear evidence that management had established a credible strategy to mitigate any investment risks from this ESG issue by transitioning their portfolio to low/no sugar products. The evidence demonstrated that these higher margin 'better-for-you' products were successfully ramping up, managing to offset the volume pressure in Coca-Cola's core full sugar product due to the background consumer preference shift towards healthier products. In turn, this move would help lower the overall negative health impacts of their product portfolio. Equally, there was no evidence of any regulation which might undermine Coca-Cola's ability to steadily transition their portfolio, nor any looming litigation costs.

When it came to assessing risks from packaging, our assessment showed that Coca-Cola was one of the few companies to set time-bound and specific reduction targets for both packaging content and product recovery. Whilst management had a mixed track record of meeting their targets and there was scope for more aggressive plans to be set (for example, pushing harder on the switch to alternative materials such as bioplastics and aluminium), our assessment concluded that this issue was unlikely to present a material investment risk. We would, however, continue to monitor for any building reputation risk tied to this issue going forward, as well as any regulatory changes.

When assessing analyst and investors, our view was that there was excessive anxiety towards the risks Coca-Cola faced, and there was an overly negative narrative attached to the company. Our view was that over time this anxiety would prove to be misplaced and would start to diminish as supportive evidence for management plans come through.

Accordingly, we reached the conclusion that currently Coca-Cola had low ESG investment risk given adequate risk mitigation plans from management and the excessive analyst and investor anxiety towards these ESG risks. As such, Coca-Cola was passed through to the final list of new buys for consideration by the Portfolio Managers.

Case study:

McKesson Corp.

Since the 1990s, when opioids started to be widely over-prescribed, almost 450,000 people have died as a direct result of opioid abuse in the US. This is believed to have significantly contributed to the decline in life expectancy from 2014 to 2016. According to the Centers for Disease Control and Prevention (CDC), the financial cost of the opioid epidemic in the US in 2017 alone was over $1 trillion (5% of GDP). Drug distributors were accused of failing to report the suspicious number of opioid drug orders to the Drug Enforcement Agency (DEA). For a long time, management were in denial over their involvement in the crisis.

In February 2022, McKesson, along with AmerisourceBergen and Cardinal Health, agreed to settle the vast majority of opioid lawsuits totalling $21bn over 18 years. In our view, management had finally moved out of denial, acknowledging the role they played in the opioid epidemic through irresponsible business practices. Similar to when the tobacco industry reached a settlement with regulators, this action has served to de-risk the issue for McKesson and peers by crystallising the financial impact.

Furthermore, the size and time frame for this payment reduces the overall materiality of this investment risk ($7.4bn over 18 years). Our assessment also showed that a tighter regulatory environment had developed which limited the risk of future risky management behaviour; for example, the DEA now sets yearly quotas for the volume of opioids that can be manufactured, and tracks of all shipments of certain controlled substances.

Accordingly, we reached the conclusion that currently McKesson had low ESG investment risk as management had moved out of denial, accepted responsibility for their role, and established more appropriate measures to prevent similar issues recurring. The tighter regulatory environment was also expected to constrain management tendency to take excessive risk. A key item to monitor will be any other litigation risks emerging, or tighter regulation coming into force.

Case study:

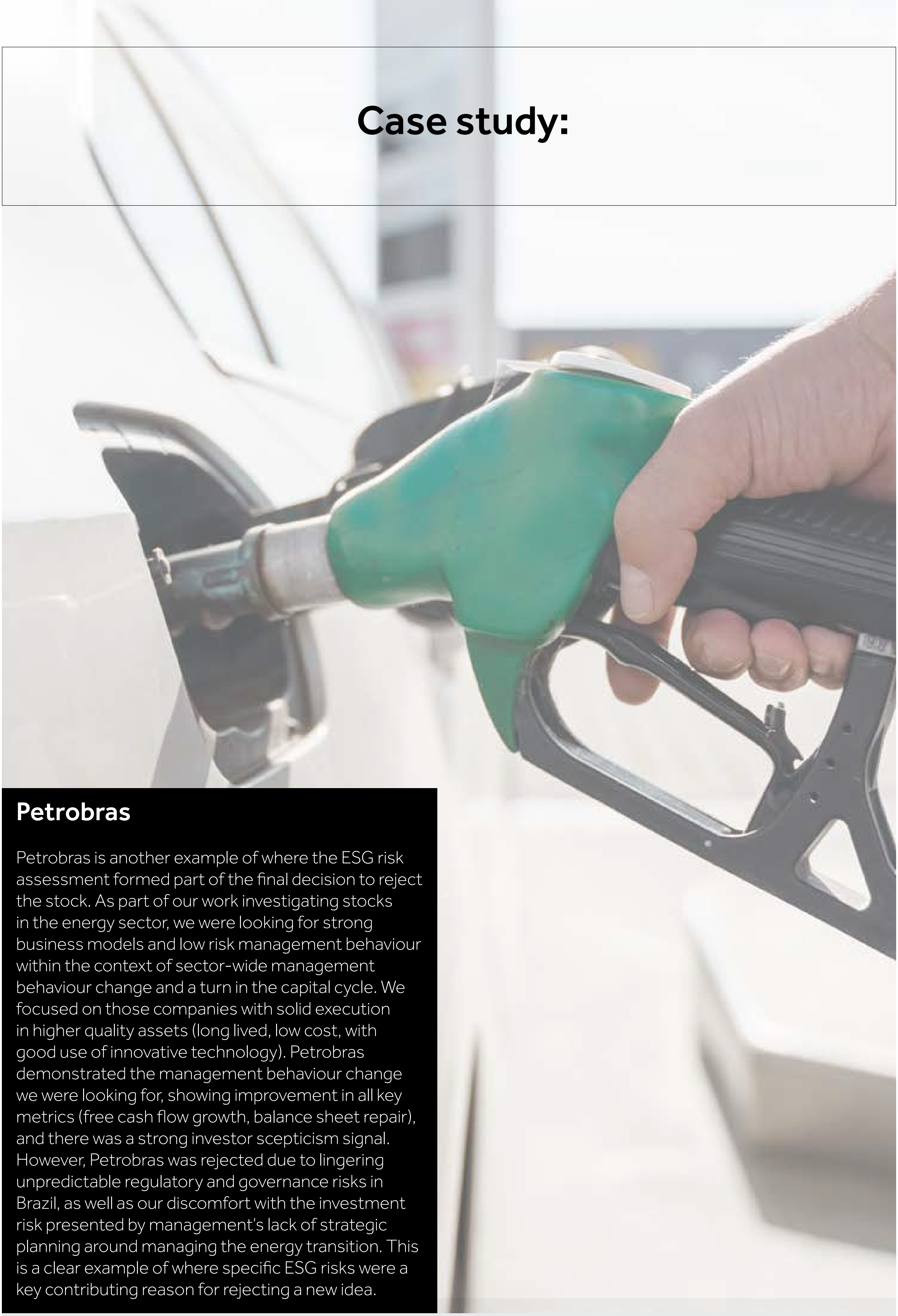
Constellation Brands

Constellation Brands is an example of how the assessment of ESG risks formed part of the final decision to reject the stock. As part of its ESG risk assessment, Constellation Brands was found to be particularly exposed to risks relating to water management due to the water-intensive nature of beer production. In addition, Constellation Brands factories are located in areas exposed to disruption from drought in North Mexico. Despite plans being in place to address this risk (sector leading water efficiency, clear initiatives in place around water management), this ESG risk had been a challenge for the company in the past, and our assessment suggested there was a risk of issues recurring for the company.

This ESG risk had materialised in the past when Constellation Brands was forced to write off the construction of a brewery in Mexicali ($670m) as the government refused to grant final water permits following local protests. As a result of this, Constellation Brands had to move their site to a region facing less water stress (Veracruz, South Mexico), resulting in higher freight costs given its distance from the US border. At the time of the ESG risk assessment, this new site was also seeing protests due to fears it would exacerbate the water crisis in the area, challenging Constellation Brands' social license to operate. Given Constellation Brands' specific dependence on breweries in water-stressed areas of Mexico, it was found to have a higher exposure to this risk factor than many other peers.

Ultimately, Constellation Brands was rejected as a new holding because the analysis revealed that management's overall plans looked risky, with signs of growth strain in its core Mexican beer business starting to show. Our assessment of Constellation Brands' exposure to water risk was another signal of heightened risk to management plans which were already looking flawed.

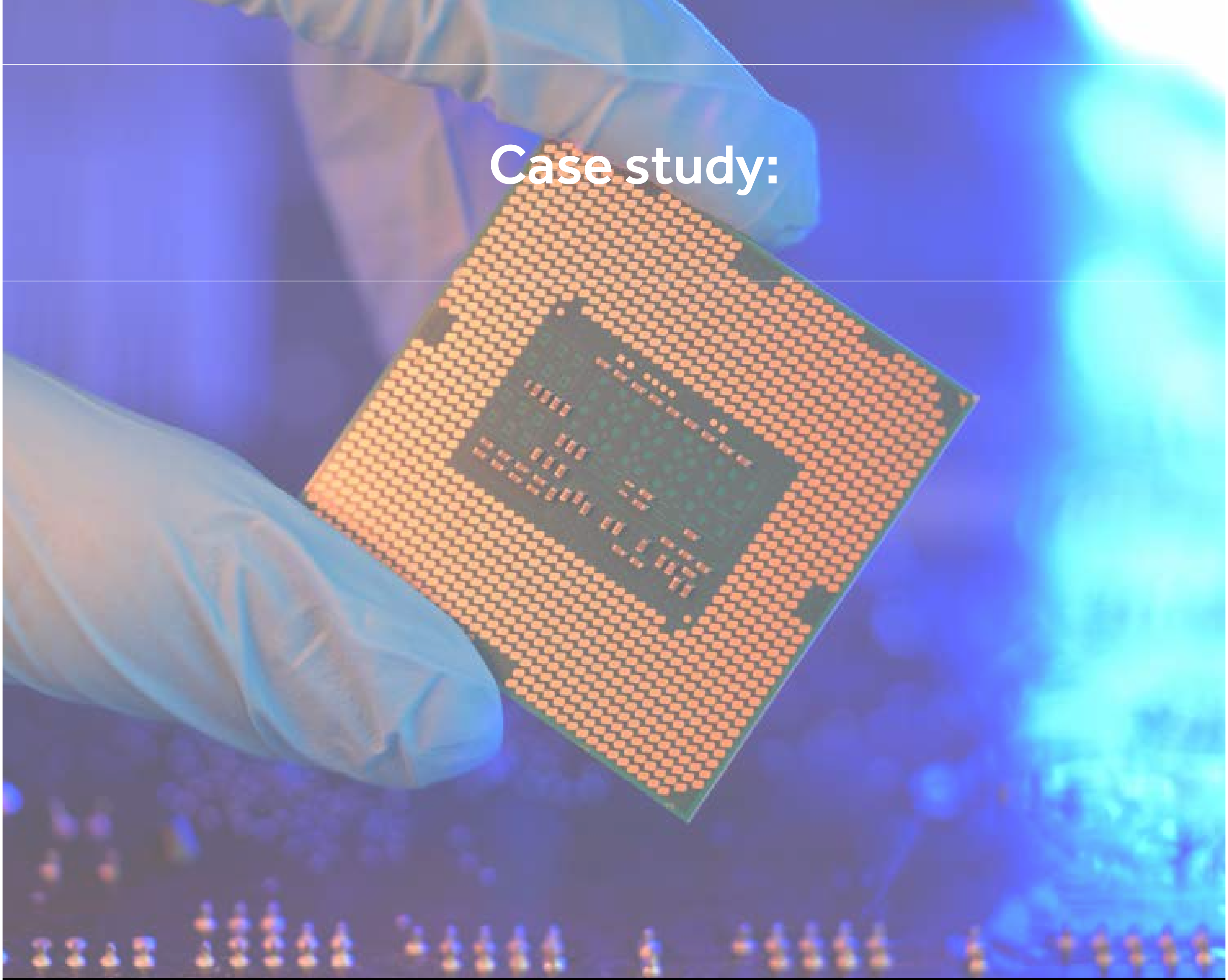
Case study:



Petrobras

Petrobras is another example of where the ESG risk assessment formed part of the final decision to reject the stock. As part of our work investigating stocks in the energy sector, we were looking for strong business models and low risk management behaviour within the context of sector-wide management behaviour change and a turn in the capital cycle. We focused on those companies with solid execution in higher quality assets (long lived, low cost, with good use of innovative technology). Petrobras demonstrated the management behaviour change we were looking for, showing improvement in all key metrics (free cash flow growth, balance sheet repair), and there was a strong investor scepticism signal. However, Petrobras was rejected due to lingering unpredictable regulatory and governance risks in Brazil, as well as our discomfort with the investment risk presented by management's lack of strategic planning around managing the energy transition. This is a clear example of where specific ESG risks were a key contributing reason for rejecting a new idea.

Case study:



Water Risks to Semiconductors

The process of producing semiconductors is extremely complex; any impurity can render the chip defective which may have significant adverse consequences to production yields, costs, customer relationships as well as the health and safety of the end-users. Each step of the manufacturing chain requires unusual levels of purity, raising the overall level of water intensity: to manufacture a standard 300mm semiconductor wafer requires approximately 2,200 gallons of Ultra-Pure Water which itself requires 3,520 gallons of water to produce, equating to roughly 6-7 times people's daily water consumption in water-stressed areas.

The US EPA identifies semiconductor manufacturing as among the most water-intensive industries. Yet the bulk of semiconductor production occurs in already water-stressed regions such as Taiwan, and the problem of water scarcity is projected to worsen with climate change. According to a UN report, every 1°C increase in global average temperatures is estimated to lead to a 20 percent drop in renewable water sources. Additionally, as geopolitical tensions have risen over the strategic importance of semiconductors, governments around the world are increasingly prioritising reshoring semiconductor manufacturing.

As such, access to water is a critical ESG investment risk that may have a direct impact on semiconductor companies' profitability as production may face disruption during times of extreme water scarcity, as well as higher costs to secure supply. Water usage in semiconductor manufacturing is a notable example of an ESG risk that is material to our portfolio due to our investments in the semiconductor industry.

A specific example of how this themeatic work informed our understanding of ESG risks can be demonstrated by our assessment of Microchip Technology, a leading provider of microcontrollers (MCUs), programmable memory and other integrated circuits. With the initial framework around water risks to semiconductors established, we sought to gain confidence that Microchip's plans to mitigate these risks were credible. Our assessment revealed that management had established effective plans to reduce water intensity in their operations, investing in water purification, recycling and reuse projects. Indeed, Microchip was found to be ahead of its peers as it relates to managing this risk. As such, we were able to confirm that this presented a low risk to the investment case.

Principle 8:

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

Activity

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Outcome

Signatories should explain:

- how the services have been delivered to meet their needs;

OR

- the action they have taken where signatories' expectations of their managers and/or service providers have not been met.

For example:

- asset owners monitoring asset managers and investment consultants to ensure that assets have been managed in alignment with their investment and stewardship strategy and policies; or
- asset managers monitoring proxy advisors to ensure, as far as can reasonably be achieved, that voting has been executed according with the manager's policies; and
- asset managers monitoring data and research providers to ensure the quality and accuracy of their products and services.

PRINCIPLE 8:

We want to ensure that our suppliers share our values as well as provide an excellent level of service to the business. Our Responsible Sourcing Code of Conduct, which is available on our website, sets out the expectations of our suppliers in terms of corporate governance, health and safety, human rights and modern slavery, inclusion and diversity, and environmental management.

Before we appoint a new supplier, there is a detailed new supplier process that must be completed and signed off, which sets out appropriate steps for supplier selection, due diligence, contracting, expectations management and review. Each of our key suppliers (currently 19) has an Ardevora relationship manager and we review the performance of each of these suppliers annually at the Operational Review Group.

In advance of appointing any supplier, we conduct financial viability, data security, and legal contract reviews.

We have one outsourced service in place, and this relationship is subject to a more stringent due diligence and review processes.

Our current ESG data providers include MSCI (climate and ESG metrics), RepRisk (controversy monitoring data), Sustainalytics and Bloomberg. We do not rely on ESG ratings, or scores provided by these vendors, but draw on the raw data and detailed analysis they provide to inform our views and risk analysis. We augment their metrics with data sourced by industry initiatives, the CDP and ShareAction's Workforce Disclosure Initiative, as well as discussions with experts and relevant stakeholders. Our proxy voting advisory data services, including proxy voting policies, are provided by Glass Lewis.

In order to align with the continuing evolution of our approach to integrating ESG, we reassessed our ESG data needs. This led to several rounds of new and existing vendor reviews and changes in our data sources, including a review of ESG controversy data providers and carbon footprinting services. Some of the data providers listed will no longer be used in 2023, due to concerns regarding replicated data, non-compliant data systems, and additional data requirements.

We monitor our ESG vendors in line with our firm-wide supplier management processes with regular review meetings, typically on an annual basis. We maintain an interactive relationship with our data service providers and regularly query their coverage, policies and content. This includes ensuring we receive any updates to carbon accounting methodologies and have open discussions with Glass Lewis on the treatment of shareholder resolutions, including those relating to climate change. Any variations between reported corporate metrics or disclosures and our own research is discussed with MSCI. Proxy voting recommendations are also individually reviewed, along with annual Glass Lewis policy reviews. This ensures proxy voting activity align with our values.

Case study:

Review of controversy data providers

In late 2022, we conducted a full ESG data source review to confirm our information was relevant and streamlined, specifically looking at controversy data. This was prompted by our ESG approach evolving to become more closely aligned with our core investment process.

The ESG team assessed the information from all data providers and found that controversy data was available in many existing data sources. As such, the necessity of RepRisk was questioned as Bloomberg, MSCI and Glass Lewis all have controversy information available that could be easily integrated into our systems data flow.

Over several weeks, the data from these three data sources was reviewed and compared with RepRisk data to ensure sufficient overlap of information. Once we were satisfied that we had adequate data from the other providers to support our monitoring of ESG controversies we made the decision to terminate our RepRisk contract.

Principle 9:

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

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- the expectations they have set for others that engage on their behalf and how;

OR

- how they have selected and prioritised engagement (for example, key issues and/or size of holding);
- how they have developed well-informed and precise objectives for engagement with examples;
- what methods of engagement and the extent to which they have been used;
- the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6; and
- how engagement has differed for funds, assets or geographies

Outcome

Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.

Examples of engagement methods include but are not limited to:

- meeting the chair or other board members;
- holding meetings with management;
- writing letters to a company to raise concerns; and
- raising key issues through a company's advisers.

Examples of outcomes:

- how engagement has been used to monitor the company;
- any action or change(s) made by the issuer(s);
- how outcomes of engagement have informed investment decisions (buy, sell, hold); and
- how outcomes of engagement have informed escalation.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

PRINCIPLE 9:

Our engagement approach is designed to support our overall understanding of ESG risk facing the company, as well as to encourage good governance and sustainable practices in order to help mitigate the negative impacts on society as a result of company activities. These efforts are aligned with our core purpose of delivering the long-term capital appreciation goals for our clients, as well as to contribute to positive outcomes for society. As outlined in Principle 6, given the size of our portfolio, clients generally considered it reasonable for us to engage with a narrow set of companies and on a narrow set of issues. Clients also expected engagement to tie back to the investment case. Engagement, as stated in Principle 1, is also a key part of enabling us to deliver effective stewardship.

Areas for potential engagement are first identified through the ESG Risk Assessment which each stock goes through. The ESG team, working in conjunction with others in the investment team, selects which engagements to focus on. Ardevora prioritises engagement activities based on the materiality of ESG factors to the investment case, as well as alignment with our business values around the environment and a fair society. The ESG factors that guide engagement prioritisation may include GHG emissions, exposure to non-renewable energy, water management and diversity. Our holdings in a specific industry or sector may also contribute to what engagements we focus on.

Ardevora will generally engage with an investee company for one or more of the following reasons:

- to encourage good corporate practice on ESG issues;
- to enhance the analysis of an entity's ESG risks and opportunities;
- to encourage improved ESG disclosure;
- to seek improvement in ESG performance and processes.

These efforts aim to enhance and protect the value of investments and help us to monitor developments in ESG practices, business strategy, and financial performance within an investee company.

The form of engagement will be decided on a case-by-case basis, and may involve one or more of the following:

- Letter;
- Email;
- Telephone call;
- Company meetings (face to face or conference);
- Proxy voting;
- Collaborative working group participation.

While Ardevora may pursue direct engagement, our engagement strategy concentrates on collaborative initiatives in areas that we consider as presenting significant ESG risks to investee companies as well as the environment and/or broader society. We believe collective shareholder work can be more impactful than acting alone as it facilitates the pooling of knowledge, information, and ownership, and is therefore more effective in gaining influence and management attention (see Principles 10 and 11).

All engagement activity is recorded in Ardevora's engagement tracker. The tracker logs all contact with companies and collaborative working groups, as well as any company responses which helps track and determine the success of any engagement over time. Progress with engagement initiatives is fed back into the wider investment team to support understanding of the material ESG risks which may impact investee companies. Where relevant, engagement outcomes may be a factor considered in any decision to divest. Ardevora's engagements are not impacted by funds, assets or geographies. Engagement support and guidance is provided through regular ESG Committee meetings.

Ongoing engagement

Over the past 12 months, 31st March 2022 to 31st March 2023, we have engaged with investee companies on a range of social, environmental and governance issues (see Table 4 and Figure 3).

PRINCIPLE 9:

Figure 3. Total engagement activity by type

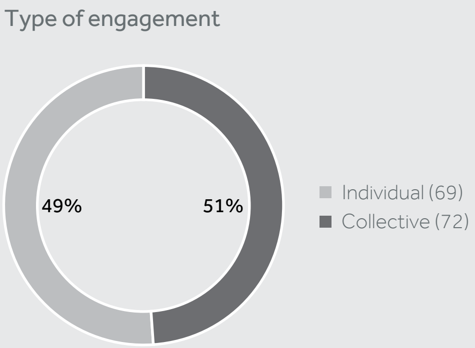


Table 4. Engagement summary

Number of companies engaged (multiple engagements with a single entity count as one)	98
Number of engagements (including collective engagements)	141
Total engagement activity by theme:	
Engagement Themes:	
Environment – climate change & natural resources	42
Social – human and labour rights & public health	5
Social – inclusion & diversity	22
Governance – board diversity & effectiveness	60
Governance – shareholder rights	1
Strategy, Financial and Reporting - risk management	10
Other	1
Engagement activity by outcome:	
The entity acknowledged the concern as a serious matter worthy of a response	37
The entity developed a credible strategy to achieve the engagement objective or stretching targets were set to address the concern	18
The entity implemented a strategy or measures to address the concern	5

Case study:

Caterpillar GHG Targets

A resolution was filed at Caterpillar's (CAT) AGM by As you Sow, Amalgamated Bank, Canada Post and SHARE. The proposal asked management to release a report disclosing interim and long-term greenhouse gas (GHG) targets aligned with the goal of the Paris Agreement (limiting the global temperature increase to 1.5 degrees), as well as disclosing the progress they make in achieving the goals. By disclosing GHG targets and ESG data the company and its investors have more accurate information for financial planning and ESG risk assessment. The resolution, which we also supported, received 96% shareholder support. Further progress regarding the resolution with CAT has included meetings between the CAT board of directors and our working group to better understand shareholder positions and expectations. Whilst progress towards our goal has been limited so far, we recognise the need for patience and long-term thinking. As such, this is an ongoing engagement we will continue to participate in.

Case study:

Indigenous Communities in Mining

For investors, robust Aboriginal heritage laws in Western Australia (WA) were needed to manage the reputational risks of owning Australian mining companies. We believed effective legislation would contribute to the long-term resilience of the Australian mining industry.

We launched an investor statement on the UN PRI Collaboration Platform in support of local Aboriginal groups. It called upon the Western Australian Government to form partnerships with Indigenous peoples to co-design a new draft bill as the WA Aboriginal Cultural Heritage Bill 2020 was inadequate for multiple reasons:

- Local Indigenous groups were not adequately consulted in the short five-week consultation period. Furthermore, the WA government did not disclose what input from the consultation had been incorporated into the Draft Bill;
- The Western state Minister for Planning, Lands and Heritage still holds general discretion to change the law;
- Traditional landowners can appeal the decision but discretion over destruction remains with the Minister.

Despite numerous calls from stakeholders to pause the process, and signatures from 14 other investors, managing over £258 billion in assets, the Bill was passed in December 2021. Various articles have been published regarding the Bill, including in the Australian Financial Review, which explicitly mentioned the joint engagement led by Ardevora and Perpetual. Some publications are in support of our engagement rationale, but others supported the Bill. An article from the University of Western Australia supported our reasoning, observing the key objection to the legislation was that a single elected official has final say on whether a heritage site can be destroyed for development.

The Western Australia's Aboriginal Cultural Heritage Act (WA) 2021 is expected to be fully implemented in July 2023. However, there is some uncertainty for industry and Aboriginal corporations alike, regarding the regulations and processes involved. It was noted that since the Bill was passed, an extended period of government engagement with communities and stakeholders has taken place, to better inform the Act implementation. Although our initial engagement was seemingly unsuccessful, our concern regarding collaboration with indigenous groups may have been considered.

We are continuing to monitor the legislative situation and engage with mining companies on Indigenous rights issues.

Case study:

CDP Non-Disclosure Campaign – Climate Change

In 2022, we joined the CDP's Non-Disclosure campaign for a second consecutive year. The campaign aims to drive further corporate transparency around climate change. We led engagement strategies with five companies and supported the broader engagement effort with 26 other companies. Of the 31 companies engaged with in the 2022 campaign, 15 have submitted or are considering responding to CPD disclosure requests.

Principle 10:

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

REPORTING EXPECTATIONS

Activity

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

Outcome

Signatories should describe the outcomes of collaborative engagement.

Activity Examples

- collaborating with other investors to engage an issuer to achieve a specific change; or
- working as part of a coalition of wider stakeholders to engage on a thematic issue. Signatories should provide examples, including
  - the issue(s) covered;
  - the method or forum;
  - their role and contribution.

Outcome Examples

- any action or change(s) made by the issuer(s);
- how outcomes of engagement have informed investment decisions (buy, sell, hold); and

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

PRINCIPLE 10:

We participate in collaborative engagements where these support the achievement of our stewardship objectives. The ESG team is responsible for identifying and managing engagement opportunities. These engagement plans are communicated with the investment team in order to support the assessment and monitoring of the key ESG risks. The outcomes from collaborative engagements feed back into the ESG Risk Assessment for each stock, and where appropriate material updates to our view on the level of ESG risk are raised with the Portfolio Managers.

Our different types of collaborative engagements are described as:

- Disclosures and target-setting: these typically take the form of investor campaigns to encourage better environmental and social disclosures, usually drawing on well-established best practice frameworks (e.g. CDP and Workforce Disclosure Initiative ("WDI")).
- Conduct-related collective engagements: these are typically reactive engagements, often used as a form of escalation to address a particular concern or controversy (see Principle 11).
- Policy engagements: we support letters addressed to policymakers when we see policy change as conducive to improving corporate behaviour or disclosures beyond direct and collaborative company engagement.

All engagements are captured in Ardevora's engagement tracker. This ensures any interactions with investee companies and/or working groups are recorded and supports our ability to evaluate and track the impact of our stewardship activities.

Case study:

Collaborative engagement with ShareAction's Workforce Disclosure Initiative

Following our engagement objective of improving companies' human capital management disclosures, we joined the 2022 WDI campaign. This collective engagement initiative, organised by ShareAction, seeks to mainstream workforce reporting to help raise standards and increase the quality of jobs globally. This is our second year taking part in the engagement which aims to drive further corporate transparency around human capital management. We are actively leading engagements with 20 companies and have received responses from 14 of those companies. To date, five companies have confirmed participation with WDI while six are currently engaging with the WDI. We also received three responses from companies who have declined to participate in the Workforce Disclosure Initiative. We will continue to engage with the companies, specifically those companies that have not yet responded.

PRINCIPLE 10:

In 2022-2023, we have joined, and actively participated in, a range of collaborative groups and investor-led initiatives (see Table 7).

Table 7. Organisational memberships and associated activities

Organisation	Status	Key initiatives, activities and outcomes
Principles for Responsible Investment (PRI)	Member since 2017: A/C/C (2017), B/B/B (2018, A/B/B (2019)	Plastic Investor Working Group: We joined the group in September 2021 to guide our engagements with companies which might contribute to plastic pollution. We have also used the PRI Collaboration platform to organise collective engagements around the Western Australia Aboriginal Cultural Heritage Bill 2020 Investor Statement (see Principle 9 for outcome). In September 2022, as part of the Plastics Working Group, we attended an investor briefing on waste management and recycling. This briefing helped improve our understanding of what actions companies can take to minimise plastic pollution, and how investors can encourage that change.
Task Force on Climate-related Financial Disclosures (TCFD)	Supporters since 2020	In December 2020, we became a public supporter of the TCFD principles. Being a supporter of the TCFD enables us to stay informed of how climate-risk disclosures are developing.
CDP - Non-Disclosure Campaign	Member since December 2020	The 2022 CDP Non-Disclosure Campaign aims to encourage companies to disclose their climate-related metrics with the CDP. We led engagement strategies with five companies and supported the broader engagement effort with 26 other companies. Of the 31 companies engaged with in the 2022 campaign, 15 have submitted or are considering responding to CPD disclosure requests. Science Based Targets (SBT) campaign is a collaborative engagement that encourages companies to set Science Based Targets. 1,610 companies were targeted in the 2021–22 CDP SBT Campaign. Of these, 213 companies joined the SBT initiative, and 96 companies committed to net-zero. These results aligned with the positive outcomes set out in the campaigns.
Workforce Disclosure Initiative (WDI)	Member of the Workforce Disclosure Initiative, Good Work Coalition and Healthy Markets Initiative since January 2021	We participated in the 2022 Workforce Disclosure Initiative (WDI) campaign. See Case Study for more information (pg. 49).
World Benchmarking Alliance (WBA)	Investor Ally since December 2020	WBA represents multi-level organisations working to shape the private sector's contributions to achieving the United Nations Sustainable Development Goals (SDGs). Creating benchmarks provides an essential tool for measuring and comparing corporate performance on the SDGs. There are several areas where the WBA are working on benchmarks. We are involved in areas that most align with our engagement focus; these include nature, human rights, climate & energy, food & agriculture. In May 2022, we attended the quarterly investor allies coordination call where we heard about updates to the Nature benchmark methodology and further information on WBA's policy work. In November 2022, we attended a meeting that covered the aims of attendees at the UN Biodiversity Conference (COP15) as well as intentions for company biodiversity commitments. We also attended the quarterly call with the Corporate Human Rights Benchmark (CHRB), to discuss progress and outcomes of the ongoing corporate human rights campaign. This Alliance is an important source of information regarding prominent ESG issues and changing expectations and recommendations from companies.

PRINCIPLE 10:

Organisation	Status	Key initiatives, activities and outcomes
Interfaith Center on Corporate Responsibility (ICCR)	Member since September 2021	In April 2022, we attended an investor briefing on Amazon's AGM. The call, coordinated by ICCR, provided more context for the shareholder resolutions focusing on worker's rights. In May 2022, we attended the monthly call organised by ICCR with the ICT and Human Rights Working Group. The discussion covered developments within the information and communication technology sector, in relation to human rights as well as new potential collective engagements that might be launched. In May 2022, we attended the 2022 Proxy Season in Review call organised by ICCR. The aim of the meeting was to present the analysis of the filings over time as well as across industries and issues.
Ceres	Members since September 2021	In 2022 & 2023, we continued participating in the following working groups coordinated by Ceres: • Land Use and Climate Working Group • Investor Policy (Climate and Sustainability) Working Group • Shareholder Engagement Working Work • Uyghur Region Engagement • Carbon Asset Risk Working Group • The Shareholder Initiative on Climate and Sustainability (SICS) • Food Emissions 50 – a collaborative group engaging 50 of the highest-emitting public food companies in North America These collaborative group provide coverage and influence over a variety of issues and allow us to engage with multiple companies we hold through the Ceres organisation.
Investor Alliance on Human Rights (IAHR)	Member since August 2021	Corporate Human Rights Benchmark (CHRB): In Q3 2021, we joined the IAHR campaign aimed at improving the human rights conduct and disclosures of companies who scored poorly on the World Benchmarking Alliance's Corporate Human Rights Benchmark. In May 2022, through the Corporate Human Rights Benchmark, we organised a call with Kohl's on their plans to improve their Human Rights Due Diligence process. In September 2022, we attended the quarterly call with IAHR to discuss updates on the ongoing 2022 campaign.
ClimateAction 100+	Participant since November 2021	ClimateAction 100+, is a global investor engagement initiative on climate change. The initiative focuses its efforts on the 167 biggest corporate greenhouse gas emitters. It encourages them to take the necessary actions to align their business strategies with the goals of the Paris Agreement. Together with the other investors in the coalition groups, we engaged with two companies, one in the electric utilities sector and the other in the industrials sector. Both meetings were held with the management of the companies. In December 2022, as part of an investor group, we discussed updates and progress with board of directors from the targeted company, regarding their future ESG strategy.
The Investor Association		As part of the IA Net Zero Forum in July 2022, we attended a call discussing the Glasgow Financial Alliance's draft framework for credible net zero transition plans for financial institutions and other publications on transition planning. The TCFD Implementation Form was held in September 2022, where we attended an investor briefing addressing how to best report in accordance with the TCFD.
The Investor Agenda		In September 2022, The Investor Agenda published the 2022 Global Investor Statement to governments on the climate crisis. For the second consecutive year, we have co-signed the letter that calls for clear policy frameworks to encourage capital flows towards urgent climate action, specifically calling on governments to raise their climate ambition of limiting global temperature rise to 1.5°C. This global statement supports the action of our other engagements requiring both companies and governments to address ESG issues.
Business & Human Rights Resource Centre		During 2022, we co-signed the investor letter for UK Human Rights Due Diligence. 39 investors added their support for UK primary legislation to mandate companies to carry out human rights and environmental due diligence across their own operations and value chains.

Principle 11:

Signatories, where necessary, escalate stewardship activities to influence issuers.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- the expectations they have set for asset managers that escalate stewardship activities on their behalf;

  OR
- how they have selected and prioritised issues, and developed well informed objectives for escalation;
- when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples; and
- how escalation has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

Outcome examples:

1. any action or change(s) made by the issuer(s);
2. how outcomes of escalation have informed investment decisions (buy, sell, hold);
3. whether their stated objectives have been met; and
4. any changes in engagement approach.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved

PRINCIPLE 11:

We recognise that engagement is a long-term process, and positive change often requires a combination of strategies. As such, we endeavour to be as constructive as possible when engaging with companies, seeking to maintain an ongoing dialogue with management. On some occasions, it is it necessary for us to escalate issues with investee companies. This is typically driven by the investment materiality of the ESG issue and prompted by a lack of information or a failure to adequately communicate progress. In some instances, escalation may also be warranted by emerging controversies or additional evidence of risky management behaviour, which might amplify the original ESG issue.

Escalation decisions are discussed with the investment team and raised at ESG Committee meetings. Once escalation is deemed necessary, we use a variety of tools, adapted to the circumstances, and aligned with the PRI recommendations, to reinforce our efforts. These include:

- **Collective engagement** (see Principle 10): collective engagement serves as a vehicle to amplify our voice and, where relevant, raise awareness of significant concerns amongst other investors;
- **Proxy Voting and filing or co-filing resolutions** (see Principle 12): where direct engagement efforts are unsuccessful, we can exercise our voting rights to signal concerns;
- **Policy engagement** (see Principle 10): efforts to change policy are typically collective and combined with other engagement tools to deliver systemic change. For example, by signing the Investor Letter on Permanent Federal Paid Family and Medical Leave, we hope to encourage change in the policy environment for multiple US-listed companies;
- **Divestment:** although continued engagement is our preferred strategy, on rare occasions we may use divestment if our concerns are not addressed. These cases would include an ESG issue that remains unaddressed by management and which poses a significant risk to the investment case and the environment/broader society. Any opinion formed will consider the nature of the investee company's operations, the circumstances in which it operates, and the issues it faces.

We recognise that each engagement is specific, stemming from differences across sectors, industries, and geographies. As a result, we pursue a flexible and pragmatic approach to escalation.

Case study:

Women on boards

Our focus on a fair society has continued since Q4 2021, through direct engagements concerning women on boards. The initial attention was toward gender diversity where boards with less than 30% female board representation were directly engaged with. In line with updated standards, we have now increased that benchmark percentage to 33% female board representation.

Our 2023 focus also incorporates racial diversity of boards, where we expect at least one member of a board be from a racially diverse background. Alternately if no data is available, we encourage companies to disclose their racial board diversity percentage. In cases where diversity is below expectation or data is not disclosed, we engage with the company to encourage dialogue and offer an opportunity to further discuss improvement plans. We may also notify the company of our intention to vote against the chair of their Nominations Committee at their upcoming annual meeting.

Principle 12:

Signatories actively exercise their rights and responsibilities.

REPORTING EXPECTATIONS

Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6.

Context

Signatories should:

- state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf

OR

- explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies. In addition, for listed equity assets, signatories should:
  - disclose their voting policy, including any house policies and the extent to which funds set their own policies;
  - state the extent to which they use default recommendations of proxy advisors;
  - report the extent to which clients may override a house policy;
  - disclose their policy on allowing clients to direct voting in segregated and pooled accounts; and
  - state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'.

Activity

For listed equity assets, signatories should:

- disclose the proportion of shares that were voted in the past year and why;
- provide a link to their voting records, including votes withheld if applicable;
- explain their rationale for some or all voting decisions, particularly where:
  - there was a vote against the board;
  - there were votes against shareholder resolutions;
  - a vote was withheld;
  - the vote was not in line with voting policy.
- explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf; and
- explain how they have monitored what shares and voting rights they have.

Outcome

For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months.

PRINCIPLE 12:

Glass Lewis has been retained as proxy administrator. Glass Lewis is an independent research and proxy-related service that recommends votes in line with their proxy voting policy guidelines (www.glasslewis.com/guidelines).

Our proxy voting policy is guided by Glass Lewis's proxy voting guidelines. We exercise our voting rights across all our funds and managed account clients, regardless of geographies. Our votes are guided by Glass Lewis recommendations on any given issue in the same way for all our clients, funds and strategies. We use proxy voting to monitor the effectiveness of company management and corporate governance, and to exert influence on ESG issues through specific resolutions or election votes.

The ESG Committee will periodically review Glass Lewis's proxy voting guidelines to ensure they remain consistent with our expectations for good corporate governance and ESG practices in the companies we invest. We review Glass Lewis's recommended votes and may engage in a dialogue with them or a specific company regarding concerns with certain proxy votes. On occasion, where our proxy voting focus does not align with Glass Lewis, we may vote contrary to their recommendations. During 2022 an overwhelming majority of our votes were in line with Glass Lewis recommendations. In the event a voting matter is not specifically addressed in the guidelines the ESG Committee may liaise with Glass Lewis. Glass Lewis maintains a system providing us with access to all solicitations for votes received by Glass Lewis.

Voting Oversight

Additional scrutiny is applied to ballots concerning election of directors, 'say on climate' and shareholder resolutions. We vote in line with our ESG priorities, particularly fairness and environmental considerations. The ESG team reviews the recommendation and changes the vote if the recommendation does not align with our views on fairness in society or the environment. All voting activity is recorded on our systems or on the Glass Lewis platform, including rationale where our votes are contrary to Glass Lewis recommendations.

Board representation is a current thematic focus for proxy voting at Ardevora. We believe that diverse boards bring a valuable range of perspectives and opinions to decision making. If a board has less than 30% female representation, we will first engage to offer the company a chance to explain this shortcoming. If we receive an unsatisfactory reason, we will vote against the chair of the Nomination Committee.

Clients' Voting Preferences

On request, we arrange proxy voting on behalf of our funds and managed account clients through Glass Lewis. We only vote on behalf of portfolios where we have been granted voting authority. We do not vote proxies for clients who choose to submit their vote through a custodian. Managed account clients can direct us to change any voting decision for positions in their portfolio. Investors in our funds, however, do not have the ability to direct our voting decisions. Company and shares voting rights are monitored and governed by Glass Lewis and updated on a daily basis via a stock data-set provided by Ardevora.

Stock Lending and 'Empty Voting'

We do not lend out our long positions – we believe it is better to have control over trading and, importantly, voting. This approach also allows us to mitigate 'empty voting'.

Summary of Ardevora's voting activity from 31 March 2022 to 31 March 2023.

Votes Lodged	% of Shares voted on	Votes against management	% Votes against management	Votes with Glass Lewis (default votes)	Votes against Glass Lewis	% Votes with Glass Lewis
3800	**94.8%***	265	7%	3536	57	93.1%**

*5.2% of shares were not voted on as there were no relevant resolutions or we were unable to vote due to impediments (e.g. ballots received post cut-off date or post meeting date, or power of attorney being required in order to vote).
**5.4% of Glass Lewis votes were unvoted, mixed or no action was required, as there were no relevant resolutions or we were unable to vote due to impediments (e.g. ballots received post cut-off date or post meeting date, or power of attorney being required in order to vote).

PRINCIPLE 12:

Summary of issues voted on

Proposal Category Type	Total
Audit/Financials	474
Board Related	2251
Capital Management	255
Changes to Company Statutes	89
Compensation	491
M&A	14
Meeting Administration	39
Other	27
Shareholder Proposals	160

Summary of issues voted against management

Proposal Category Type	Total
Audit/Financials	3
Board Related	98
Capital Management	5
Changes to Company Statutes	4
Compensation	60
M&A	1
Meeting Administration	2
Other	1
Shareholder Proposals	91

Examples:

(1) Vote against management (board)

Apple Inc - 2022 AGM

Item: Shareholder proposal regarding concealment clauses

How we voted: FOR

Outcome: We believe disclosure will help shareholders assess the risks involved in the company's use of concealment clauses, including mandatory arbitration, non-disclosure, and non-disparagement agreements in the context of sexual harassment and discrimination. We voted against management in order to help ensure that these issues were being thoroughly addressed and considered. The report requested by the shareholder proposal would bring an additional benefit of providing reassurance to current and potential employees who may have concerns regarding how the company's policies may affect their employment-related claims.

(2) Vote against a shareholder resolution

KLA Corp. - 2022 AGM

Item: Shareholder proposal regarding report on aligning GHG reductions with Paris Agreement

How we voted: AGAINST

Outcome: Our view aligned with Glass Lewis's recommendation to vote against the shareholder proposal given KLA had already sufficiently met the request of the proposal, having set Scope 1 and 2 emissions reduction targets and a net zero target. In addition, management also stated that they would evaluate and disclose progress towards the development of Scope 3 emissions reduction goals by the end of 2023.

(3) Vote withheld

McDonald`s Corp. - 2022 AGM

Item: Elect board member Sheila A. Penrose

How we voted: WITHHELD

Outcome: Withheld vote to signal our disappointment in McDonald's failure to meet company targets set around improving animal welfare. As the Chair of the Sustainability & Corporate Responsibility Committee, we held Ms. Penrose responsible for this failure. However, as this was not a focus theme, we did not feel it was appropriate to vote in favour of the dissident nominees.

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