UK STEWARDSHIP REPORT

1st January – 31st December 2022

The UK Stewardship Code (The 'Code') was first published in July 2010 by the Financial Reporting Council ('FRC') with an aim to enhance the long-term returns to shareholders via improvements in the quality and quantity of engagement between investors and companies. The updated 2020 code has gone further, to also target the integration of Environmental, Social and Governance matters into the investment approach and decision-making process.

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FOREWORD

This document outlines our **stewardship and responsible investment activities in 2022**, with focus on active engagement with investee companies, integration of Environmental, Social and Governance factors into our investment process and our approach to stewardship.

We were **delighted to be included amongst the first of the Financial Reporting Council's list of successful signatories to the updated UK Stewardship Code**, with our 2020 report. The Code establishes a high standard of stewardship for asset managers, asset owners and service providers when investing money on behalf of UK savers and pensioners.

We are pleased to **increase transparency in our commitment to stewardship and sustainability** through our report, in which we have demonstrated (and look to continue to demonstrate) our **commitment to responsible investment** in the allocation and management of capital.

Church House is an investment management business focused on the management of discretionary investment portfolios, principally via our range of authorised funds. We act in the **best long-term interests of our clients** when managing assets and making investment decisions.

Our primary responsibility is, and has always been, to our clients, managing their affairs to the best of our abilities in accordance with their wishes.

Active management of the securities in which we invest, on behalf of our clients, is central to our approach, with the purpose of safeguarding and increasing value for our clients. As active investors in both the UK and global markets, we place great importance on closely monitoring the companies in which we invest, assessing their fundamental drivers and whether they remain a suitable investment for each respective fund.

While we have always considered that investing in companies with properly **sustainable practices and business models**, run by people with integrity, as an integral part of what we do, we are pleased to be formally embedding these practices into our investment process in our equity, fixed income and multi-asset class funds, as well as the approach that we take to investing clients' funds. We believe that the importance of ESG has never been more prominent, this manner of thought is shared across the firm as a whole.

THE STEWARDSHIP CODE 2020

From 1st January 2020, the updated Stewardship Code took effect. This sets high expectations on asset managers, such as Church House, on how it invests on behalf of its clients. This 2022 report will provide an update on how Church House has met the standards of stewardship set by the Code, detailed in Church House's own UK Stewardship Policy, since our last report in 2021.

The Twelve Principles

Purpose & Governance

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

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

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

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

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

Investment Approach

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

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

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

Engagement

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

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

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

Exercising Rights and Responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

1. BELIEFS, STRATEGY AND CULTURE

Church House is an investment management business focused on the management of discretionary investment portfolios, principally via our range of authorised funds, an absolutely key component of which is the **management of risk**. Our priority is to generate returns in accordance with client expectations, with a primary goal of avoiding the risk of permanent loss of capital.

We have always considered that investing in companies with properly **sustainable practices and business models, run by people with integrity, as an integral part of what we do**. As long-term investors, selecting companies that have demonstrated sound corporate governance has always been inherent to our diligence and risk management policies.

The Church House investment philosophy is to consider the **needs of our clients and their best interests**. Since the early 2000s, we have advocated the use of our own authorised funds as 'building blocks' to construct our clients' portfolios. The use of our funds allows us to carefully manage risk via our investment expertise and experience, pooling our clients' resources to generate cost-effective investment returns through scale.

Our **investment philosophy is closely aligned to our stewardship beliefs** in that we take a **long-term view**, managing assets for our clients as if they were our own. As active investors in both UK and Global markets, we place great importance on closely monitoring the companies in which we invest. We attend company presentations, engage in one-to-one meetings with company management teams and maintain continuous research and analysis to sustain a solid financial picture of the current and future assets we hold, including their development of ESG matters.

Background

Church House's first **client risk questionnaire and scale of risk** was established in 2002/3, aiming to match clients' expectations and understanding with a suitable long-term approach of risk for their investments. From the outset, the concept that we were selling risk and risk management rather than performance promises came as a surprise to many. Our intention has always been to match clients' (realistic) expectations and understanding with outcomes in terms of results provided. As we developed our range of authorised funds this became more nuanced, but the essential principal of two layers of risk management for clients' portfolios has remained constant throughout.

The broad mix of assets that we consider to be **appropriate for each of our risk levels** is established first and changes are infrequent. Client portfolios, once established, have very low turnover at this level, keeping costs to a minimum. The stock, sector, duration and other specific risks are then managed at the underlying fund level according to market conditions. As these funds are pools of client assets, they are significantly larger than any one portfolio, bringing the advantages of diversification, low transaction costs and tax benefits for our clients.

Each of our six authorised funds has **specific investment objectives**, but all are designed to form a suitable 'building block' for private client portfolios. The Church House Tenax Absolute Return Strategies Fund ("Tenax Fund"), with its absolute return objective and broad diversification across asset classes, is capable of forming a risk level in its own right or as a building block. Within the funds we have always sought to invest in businesses of quality, established in jurisdictions that we can trust and run by management bodies with integrity. We have avoided a number of areas where we felt that the investment might be morally dubious, also considering that these businesses were likely to prove to be poor long-term investments, e.g. pay-day and sub-prime lenders, gambling. We consider that the focus on the funds' objectives, within the overall framework of a private client portfolio, and each investment's suitability for such a purpose, combined with an aim to invest in 'quality' businesses (naturally, governance along with social and environmental behaviour form a part of this judgement) is most likely to provide long-term returns at an appropriate level of risk for our clients.

INVESTMENT BELIEFS

The investment policy we pursue, which we consider to be the approach best suited to provide consistent returns for our clients (in accordance with acceptable and understandable levels of risk), is based on long-term investment in diversified portfolios of high quality listed companies and fixed interest investments. Within a disciplined risk scale structure (see below under *Strategy*), each risk level has defined proportions invested in specific funds/asset classes, this section refers to our beliefs regarding underlying investment policy.

We strongly favour quality, low debt, high margin businesses with pricing power, these are the companies that we expect to thrive and prosper over the long-term (26% of the companies in our UK Equity Growth Fund were first invested in more than twenty years ago). We dislike more cyclical and capital-intensive businesses, which tend to have low(er) margins and little pricing power. We find that the approach of companies (and the nature of the business that they undertake) to good governance and other ESG matters, bears a high correlation to those that score well on our quality metrics.

Each of the funds that we manage for our clients, which make up the greatest proportion of their individual investment portfolios, is run to a specific brief to ensure, as far as possible, that their overall portfolios perform within expected parameters. For example, our international equity fund, CH Esk Global Equity Fund, is designed to provide international equity exposure for UK client portfolios, focused on major companies in developed markets. This is the broad analysis as at 31st December 2022:

Esk Global Equity

Portfolio Analysis:

Esk Fund Value	£60,445,891	
Fund Value USD	$72,776,852	
Number of holdings	45	
Per cent > $1bn Mkt Cap.	100%	
Average Market Cap.	$233,495 $bn	
Portfolio Beta	1.00	
Weighted average Q Score*	7.0 (ex financials)	
Current portfolio Yield (ex cash)	2.2%	2.6 Cover
Prospective Earnings Yield	5.7%	

The quantity of holdings accords to our diversification guidelines (as below), all holdings are listed, with a market capitalisation in excess of $1bn (as below re liquidity) with the average market capitalisation of the portfolio as a whole being much larger. The portfolio beta is below 1.0, which we expect to see as a result of our quality bias.

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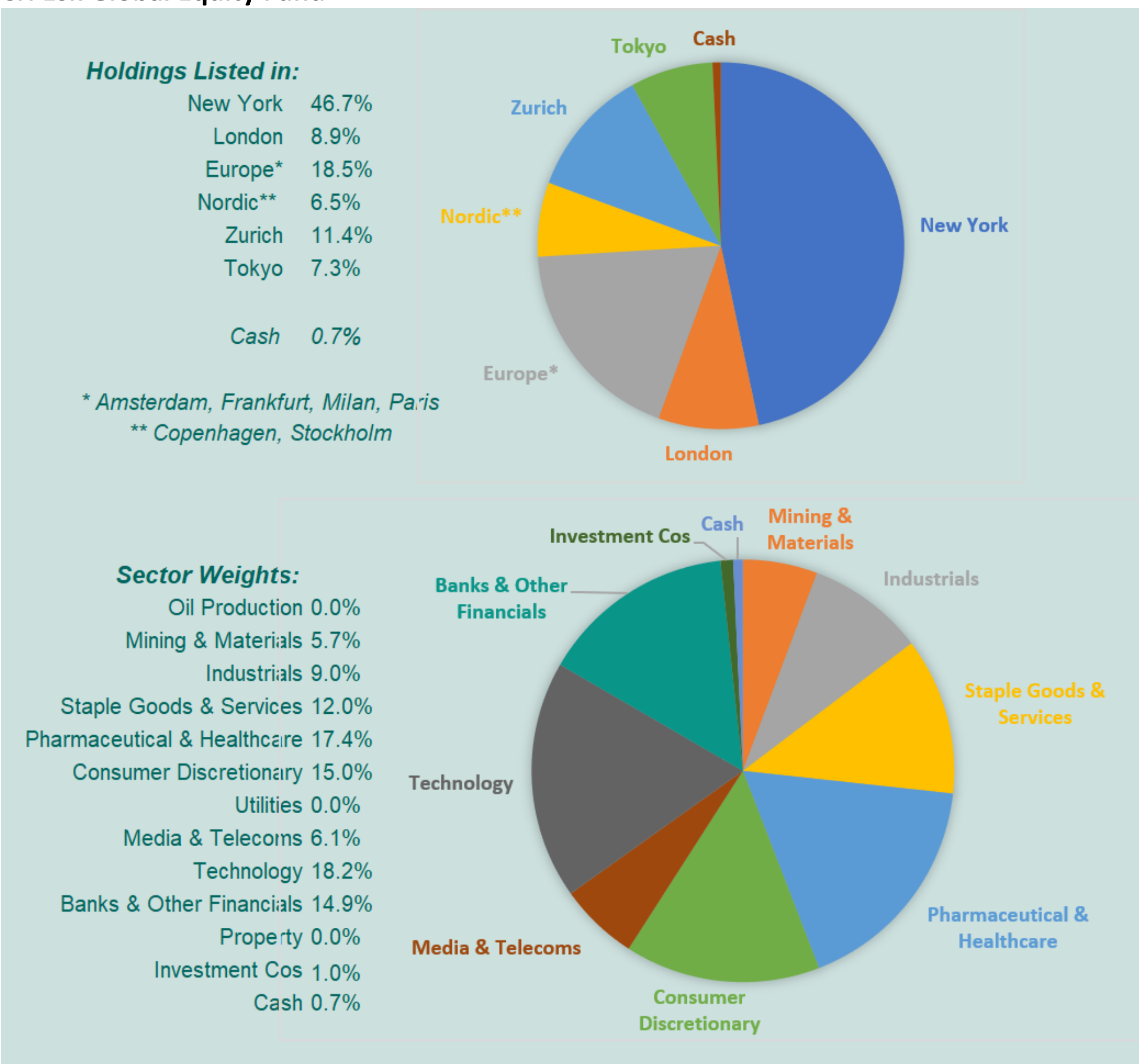
The '*Weighted average Q Score'* is a measure that we use as an *independent* check on our quality assessments. QUEST is a division of Canaccord Genuity Limited, providing highly detailed analysis of company financial statements over the past fifteen years along with expectations for the next two years. The Q-score is their measure of a company's financial strength (scored out of ten), combining cash-flow returns, stability of cash-flow returns over time, current ratio and fixed charge cover. Of course, these measures also provide us with a guide to the strength of management. We also utilise their '*Quest Risk Rater'* (not shown), which combines the Q score with possible (maybe persistent) accounting '*blobs'* – possible warning signs of irregularities.

The Fund's portfolio is international and invested in developed markets as shown below:

CH Esk Global Equity Fund

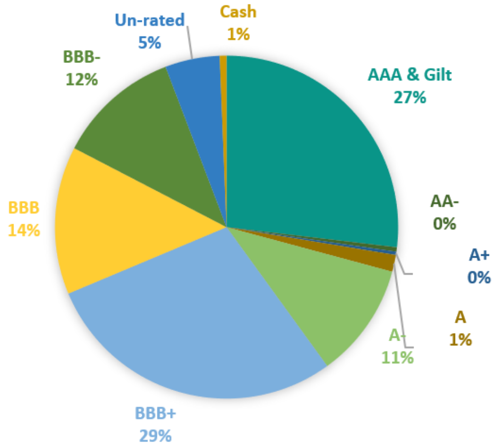


Source: Church House 31st Dec 2022

The second of the two pie charts above show the diversification across industrial sectors. Note that the Fund has no investments in oil and gas production companies, reflecting ESG concerns, or in utilities or real estate.

Our approach to fixed interest investments is similarly based on quality and lower volatility of returns. This pie charts shows the split of investments within our fixed interest fund, the CH Investment Grade Fixed Interest Fund, which, as the name implies, only utilises investment grade issues. The slice referring to 'Un-rated' does not imply sub investment grade holdings, simply that the issue does not have a rating from one of the agencies. The proportion held in AAA-rated investments is never less than 25%, it is currently higher with uncertain market conditions.

CH Investment Grade Fixed Interest Fund – by Credit Rating



Source: Church House. Data as at 31st Dec 2022

Liquidity and marketability

Investments are limited to liquid securities, considering that illiquidity risk is real and not a risk that we wish to expose client portfolios to. Essentially, we limit investments to listed instruments on recognised exchanges in developed markets, with a preference for larger capitalisation companies.

Our, informal, internal description of unlisted and many open-ended entities is 'lobster pot investments', easy to get into, practically impossible to get out of. While not a technical description, we consider it to be descriptive of a valid risk.

Within listed equity investments, we avoid those with a market capitalisation of less than £250mn as these can also become illiquid. The bulk of our investments are in significantly larger, major companies.

Diversification

Diversification is an important tool in the management of risk, though this should not be taken to extremes. The summing of individual equity risks reduces their overall risk (and subsequent volatility) but spreading too far involves investing in many lower quality companies, which we do not wish to do. The quality of the investments always outweighs the consideration of weightings in any index, we are happy to exclude companies/sectors which we consider to be inferior long-term investments. For our equity funds, we consider that holding 40 to 50 individual investments is most likely to achieve the right balance of diversification for our clients. Of course, at their individual portfolio level this multiplies to a much higher figure.

Risk of Permanent Loss of Capital

The element of risk that is not addressed by the measurement of volatility is permanent risk to capital and we consider this to be extremely important to individuals. Most investors understand that investment markets can be volatile in the short-term, but for many the risk that concerns them most is the possibility of permanent loss of capital (and its ability to provide future income streams). This under-scores our policy to invest in quality and investment grade companies listed on recognised stock exchanges.

Rule of Law

Beside the quality metrics and diversification described above, we also restrict investment to developed markets, considering that the additional risks from investing in emerging and other markets to be too high and inconsistent with this principle. We have always maintained that we only we wish to invest in countries/jurisdictions where the rule of law persists, without this we bring in an unquantifiable political/legal risk.

CULTURE & STRATEGY

Culture

The culture of the Firm was first set out in the early days of the business. Below is an extract from a June 2001 Policy Document:

Straightforward and Clear: In all our dealings with our clients we must aim to be as straightforward and clear as is possible. This has implications in a number of areas:

- We should aim to give our clients the level of information about their affairs that we would hope to receive if our positions were reversed (over and above the regulatory requirements).
- We should aim to interest our clients in what we are doing and not simply provide necessary information or "marketing" material (some, of course, may also prefer blissful ignorance).
- In providing information on portfolios or investments we should be thoroughly open, explaining our ideas, or lack of them, our successes and our failures.
- Our funds must have clear policies that we adhere to and those polices should be straightforward. Creating over complex products or fashion following funds is a route to future problems.
- Above all, we must do what we say we are going to do. Without this the whole structure of agreements, agreed risk policy, welcome letters etc. is worthless.

Summary

So, when we thoroughly know our clients and they thoroughly understand the risks they are taking we invest their portfolios in investments that we would be happy to hold ourselves. Portfolios that have common characteristics:

- Straightforward and clear investment objectives,
- Objectives that are based on genuine long-term opportunities and not marketing,
- That utilise sensible risk management policies,
- That have a realistic chance of long-term outperformance of their benchmarks.

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The essential principles of transparency and openness remain unchanged today, along with the core principle of treating our clients as we would wish to be treated if our roles were reversed – *'Put yourself in their shoes, is this the service you would expect if our roles were reversed?'*.

A simplistic view of the culture at Church House can be represented as a Venn diagram in which **Clients** are central but inter-linked with the other key pillars of **Investment Management**, **Risk Management**, **Responsibility** and our **Employees**:

The CH Culture:

Clients First

At the centre of our diagram, clients come first, we must:

- Be straightforward and clear in all our dealings with them,
- Foster their understanding of risk and investment,
- Keep them well informed, educate where possible.

Are we giving them the level of service and information that we would like to receive if our roles were reversed?

Investment Management

Expert investment management is at the heart of what we do, we:

- Focus on the quality and suitability of investments for our clients,
- Take a long-term view,
- Seek consistent risk-aware returns aiming to exceed our clients' expectations from,
- Diversified portfolios with specific aims and objectives.

Always consider investments from the client's perspective, is this how you would wish to see your family's investments managed?

Risk Management

A proper understanding of risk in all its guises has been integral to CH policy from inception, including:

- Clients' understanding of risk - all investment involves risk, we are risk managers as much as investment managers,
- A rational and explainable presentation of risk while recognising that,
- For many/most clients the real risk that concerns them is the risk of permanent loss of capital (and its ability to provide income)

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We maintain a multi-layered approach to risk in portfolios, at:

- The top level of asset allocation within portfolios, including,
- Diversification (by asset class, type, scale, geography etc.) and,
- Risk at the individual investment fund level and,
- At the level of the underlying investments within the funds.

Responsibility

In a complex economic, business and market landscape we are responsible for our clients' investments and owe them more than a duty of care. We prioritise the suitability and 'appropriateness' of investments for our clients.

We also recognise a wider responsibility in the stewardship of our investments:

- Aiming to invest for the long-term,
- In companies with sustainable practices and business models, run by people of integrity, which has always been part of our process, and
- Avoiding areas of questionable morality (e.g. gaming, tobacco, door-step lending)
- We monitor all our investments closely, aiming to meet managements wherever possible including a discussion of their own ESG approach,
- We vote at all general and extraordinary meetings.

Employees

Our employees are the life blood of the business and its 'face' to our clients. We recognise the important role that they play and their 'stake' in the business. We encourage,

- Their continuing development through regular training and courses
- Their inclusion with regular exchange of views and ideas and,
- Aim for high standards of HR along with employees' terms and working conditions.
- We also seek to attract like-minded individuals in the industry to Church House, notably experienced private client managers, possibly disillusioned by some industry trends, and,
- Aim to attract new young and talented people starting out in the business.

Strategy:

Risk Levels

As outlined under *Background* above, the first and key element of our strategy is to **establish with our clients what level of risk is appropriate to them**, **their circumstances and understanding.** The latter being particularly important when talking to vulnerable clients for whom special arrangements may be necessary. Once established, an investment brief with an appropriate risk level is passed to the investment team for action. At its simplest, we envisage a 1-10 scale of risk, from UK Treasury Bills to high risk investments (close to gambling) and expect that the majority of clients will fall in the 3-8 range. We can, and do, operate at lower levels of risk in the 1-2 area but this is more unusual, we do not operate at higher levels than 8 on our scale.

Church House's strategy is to **offer an independent discretionary portfolio management service** to UK (principally) private individuals along with their associated, SIPPS, ISAs, Trusts etc. A service that is based on long-term relationships of trust with our clients and consistent long-term returns from investments with agreed levels of risk. In pursuit of this we established a range of UK authorised UCITS funds to cater for the core requirements of UK private clients. These six core 'building block' funds are:

CH Investment Grade Fixed Interest Fund	To provide fixed interest exposure and regular income at a risk profile broadly equivalent to UK Gilts with a higher income (net of fees)
CH UK Equity Growth Fund	Aiming for long-term capital growth from a portfolio of major UK equities. Some exposure (< 20%) to major international equities where UK is limited (e.g. technology, pharmaceutical)
CH Balanced Equity Income Fund	Aiming for capital growth with income, principally major UK equities, balanced with some fixed interest and infrastructure investments
CH UK Smaller Companies Fund	Aiming for long-term capital growth from investments in smaller capitalisation UK companies
CH Esk Global Equity Fund	Aiming for long-term capital growth from a portfolio of major international companies, developed markets only
CH Tenax Absolute Return Strategies Fund	A multi-asset class fund seeking broad diversification across asset classes aiming for low volatility and consistent returns

The **strategy** means that we can manage the balance within clients' portfolios (see below) and **directly manage the risk in the underlying portfolio of each of the Funds.** Each fund is diversified within its asset class(es), ensuring a broad diversification at the client portfolio level.

The strategy involves layers of risk management that commence with the explanation of and establishment of suitable levels of risk for each client. Once an appropriate level of risk is established, a broad asset allocation strategy at a high level is set out, the current broad asset split is shown below. This broad split is subject to regular review by the Investment Committee.

The spread of investments in our core funds (above) is such that a mix of them can accommodate each level of risk, as below. The strategy allows for further diversification of individual client portfolios by the use of other investment assets such as Treasury Bills, Gilts and investment trusts to accommodate individual requirements or take account of existing investments held by clients for other reasons (family connections, sale restrictions Capital Gains Tax considerations etc.)

Current Broad Asset Split at Rising Levels of Risk*

CH Risk Level:	2	3	4	5	6	7	8
Cash / Fixed Interest	30%	37%	30%	20%	10%	0%	0%
Cautious Multi-Asset	50%	10%	10%	11%	13%	15%	10%
Infrastructure	0%	5%	5%	3%	0%	0%	0%
UK Equities (incl. Prop.)	20%	40%	44%	47%	45%	41%	39%
International Equities	0%	8%	11%	19%	32%	44%	51%

** On a nominal 1-10 scale, where 1 represents UK T-Bills and 10 represents geared investment*

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It is possible to achieve this asset split solely using the CH core funds. For example, at risk level 4, a current split of CH funds as below, achieves the aim:

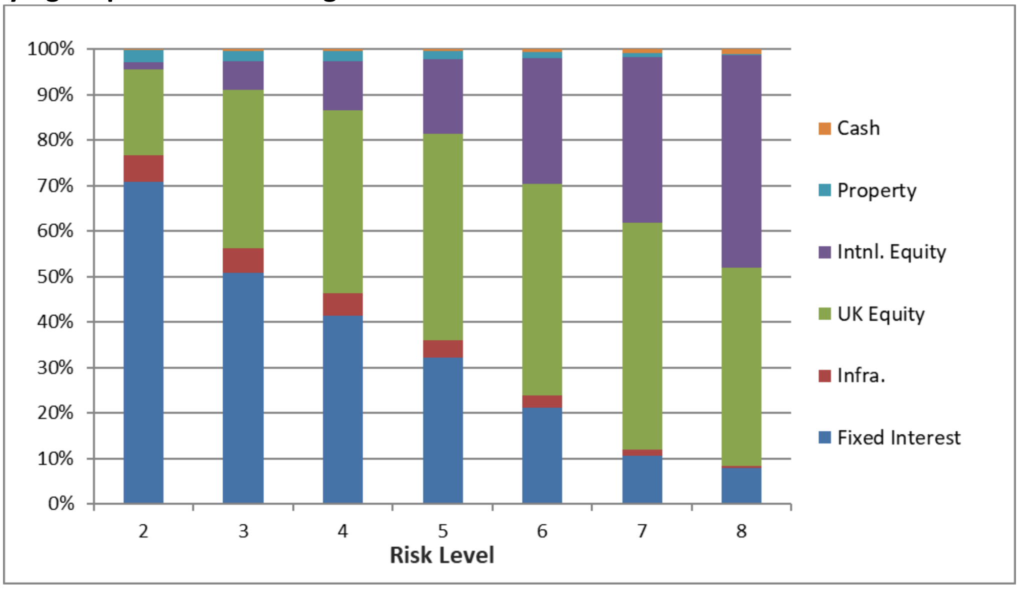
CH Investment Grade Fixed Interest	**29%**
Tenax Absolute Return Strategies	**12.0%**
CH UK Equity Growth	**15.0%**
CH Balanced Equity Income	**35%**
CH UK Smaller Cos	**0%**
Esk Global Equity	**9%**

We test this each month with a 'look through' to the underlying assets held withing the funds to ensure that the appropriate mix of investment is being achieved, currently this shows:

Current **Underlying Portfolio Disposition**		**Fixed Interest**	**Infra.**	**UK Equity**	**Intnl. Equity**	**Property**	**Cash**
Defensive	**Risk Level 2**	71%	6%	19%	2%	3%	0%
Cautious Income	**3**	51%	5%	35%	6%	2%	0%
Income	**4**	41%	5%	40%	11%	2%	0%
Income & Growth	**5**	32%	4%	45%	17%	2%	0%
Equity Growth with Income	**6**	21%	3%	46%	28%	1%	1%
Equity Growth	**7**	11%	1%	50%	36%	1%	1%
Higher-Risk Equity Growth	**8**	8%	1%	44%	47%	0%	1%

Possibly, this is best illustrated graphically:

Underlying Dispositions at Rising Risk Levels



Source: Church House - Month-end Fund dispositions

Availability to outside investors

The Church House funds are UCITS and, as such, are available to outside investors. Several financial intermediaries have identified CH funds as being suitable for their own clients, particularly our fixed interest and multi-asset funds, which have attracted a significant following. We meet many of these intermediaries to discuss our funds and our approach to their management, stressing their status as 'building block' portfolios for (our) private clients. The 'wholesale' money that this brings to the funds serves to lower the overall costs, furthermore, the ongoing dialogue with financial intermediaries gives us an insight into the broader private client marketplace.

Total returns achieved at different levels of risk

We **track and monitor our risk returns at each level of risk** to see that the outcomes provided for our clients met their (and our) reasonable expectations. This table shows the total returns achieved at different levels of risk along with the volatility of those returns:

Annual Returns and Volatility – Total Return

	Tenax 'B'		Risk 3		Risk 4		Risk 5		Risk 6		Risk 7		Risk 8	
	Return	*Volatility*	Return	*Volatility*	Return	*Vol.*	Return	*Vol.*	Return	*Vol.*	Return	*Vol.*	Return	*Vol.*
2008	-5.7%	*5.1%*	-12.2%	*9.7%*	-16.6%	*13.9%*	-18.4%	*16.4%*	-20.2%	*18.2%*	-21.9%	*20.7%*	-22.3%	*23.2%*
2009	14.6%	*4.4%*	16.0%	*8.8%*	18.5%	*11.9%*	20.1%	*13.5%*	22.2%	*15.2%*	24.4%	*17.4%*	23.8%	*19.8%*
2010	10.1%	*3.1%*	9.5%	*5.4%*	10.7%	*8.2%*	11.9%	*9.9%*	12.5%	*11.4%*	13.6%	*13.4%*	15.2%	*15.3%*
2011	-1.3%	*4.0%*	2.4%	*6.0%*	0.6%	*8.1%*	-1.7%	*9.4%*	-3.6%	*10.4%*	-6.3%	*11.5%*	-8.6%	*12.3%*
2012	7.0%	*3.0%*	10.5%	*3.7%*	11.6%	*4.9%*	12.3%	*5.9%*	13.1%	*6.8%*	14.6%	*8.0%*	17.2%	*9.1%*
2013	5.6%	*3.5%*	7.7%	*5.5%*	11.5%	*6.7%*	13.9%	*7.4%*	16.0%	*8.0%*	18.7%	*8.9%*	20.8%	*10.0%*
2014	6.3%	*2.2%*	5.8%	*3.6%*	5.7%	*4.7%*	6.0%	*5.2%*	5.7%	*5.7%*	5.4%	*6.4%*	6.4%	*6.9%*
2015	1.6%	*2.7%*	1.5%	*4.3%*	1.9%	*5.8%*	2.2%	*6.7%*	2.1%	*7.5%*	1.8%	*8.5%*	1.7%	*9.8%*
2016	7.9%	*3.0%*	7.5%	*4.0%*	10.2%	*4.9%*	12.6%	*5.6%*	14.6%	*6.1%*	17.8%	*7.0%*	21.3%	*8.1%*
2017	2.7%	*1.2%*	5.0%	*3.0%*	6.7%	*3.8%*	7.6%	*4.1%*	8.6%	*4.3%*	10.1%	*4.5%*	12.3%	*5.0%*
2018	-1.4%	*1.5%*	-2.3%	*4.5%*	-2.7%	*5.8%*	-3.1%	*6.9%*	-3.5%	*8.1%*	-4.2%	*9.7%*	-4.6%	*10.3%*
2019	3.8%	*1.5%*	9.7%	*3.6%*	11.3%	*4.6%*	12.3%	*5.6%*	13.4%	*6.4%*	14.8%	*7.6%*	15.5%	*8.0%*
2020	4.0%	*6.2%*	1.9%	*11.6%*	1.9%	*13.4%*	3.2%	*15.0%*	4.7%	*16.5%*	6.4%	*18.6%*	9.8%	*18.5%*
2021	1.7%	*1.6%*	7.0%	*3.8%*	9.7%	*4.4%*	12.0%	*5.1%*	14.6%	*5.8%*	17.6%	*6.7%*	18.7%	*6.9%*
2022	-7.1%	*6.8%*	-9.3%	*10.8%*	-10.2%	*12.2%*	-11.7%	*13.7%*	-12.7%	*15.1%*	-14.2%	*17.1%*	-14.3%	*17.2%*
Averages	3.3%	*3.3%*	4.0%	*5.9%*	4.7%	*7.6%*	5.3%	*8.7%*	5.8%	*9.7%*	6.6%	*11.1%*	7.5%	*12.0%*

N.B. The table shows risk levels 3-8, we expect that clients will seek levels of risk that, effectively, form a bell-curve with the greatest number around risk level 5, which has been the case.

As above, for simplicity, each risk level in this table is constructed exclusively from a combination of our funds. Lower risk levels have exhibited lower volatility, progressing as the risk level increases. All levels have exhibited lower volatility of returns than the FTSE 100 Total Return Index over this fifteen-year period, while the return has been matched at significantly lower levels of volatility.

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Assessing the Effectiveness of our Policies and Strategy in Serving our Clients' Best Interests

We assess the effectiveness of our policies in serving our clients' best interests at multiple levels starting with **individual clients** and progressing through to the **overall risk level strategy.**

We **report to all our clients on a quarterly basis** with each report being accompanied by our **Quarterly Review**. This Quarterly Review sets out what we have been doing and shows the underlying holdings in our funds. This report has been published since 2001. These are distributed to our existing clients: Quarterly Reviews. At the outset of the business, we separated the roles between those who speak to clients and those who manage the investment portfolios. We remain of the belief that these are separate roles and that this division allows for the best outcomes for our clients.

We **encourage regular contact with each client's known contact at Church House**, particularly regarding any change in circumstances, and hold face-to-face meetings at least once each year. This provides a means to ensure that we are still acting in accordance with their wishes and meeting their requirements.

Each one of the **Church House funds has an objective and role to play** in the construction of clients' portfolios. At the individual fund level, each is tested against its own objectives each month with results being reported to the Board and senior management. The Investment Committee reviews the monthly performance each month and receives reports from the fund managers.

The **Investment Committee** considers the monthly and trailing annual performance of the portfolios at the different levels of risk along with their volatility and relative volatility to benchmarks and each other.

The joint CIOs, in consultation with the other fund managers, work closely to formulate **day-to-day strategy** in response to the unfolding economic and market background and to identify potential risks and opportunities. This allows for a swift response to events. This is then discussed at depth in the monthly Investment Committee. Examples of this would include the identification of high risk in medium and, particularly, longer-dated fixed interest markets in late 2021. Accordingly, we reduced the duration in the Investment Grade Fixed Interest fund to 3.7 in January 2022, steadily lower to 3.0 in the summer and 2.6 by the autumn. Similarly, we increased the cash and near-cash assets in our Tenax multi-asset fund to 40% in January 2022 and the duration to 2.2.

We are confident that with the above measures in place, we are effectively serving our clients best interests.

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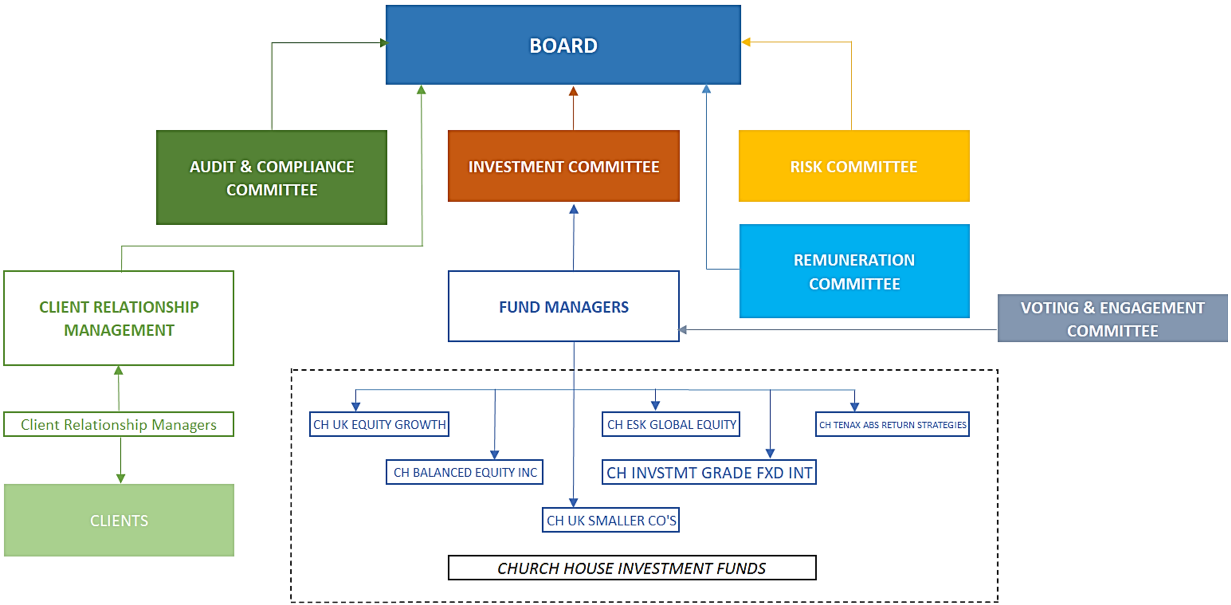
2. Governance, Resources and Incentives

GOVERNANCE STRUCTURES

Church House Investment Management is a privately owned business established to manage investments on behalf of private individuals, financial advisers and wealth managers. Church House (the Business) has a clear governance structure (see table below) that encourages individual accountability for investment and stewardship decisions at the **fund manager level**, whilst at the same time maintaining clear oversight at the **Investment Committee** and **Board level**.

Church House Board & Committees:



There are eight members of the investment team at Church house: four fund managers, two analysts and two portfolio managers.

Fund Managers – Individual Accountability

Fund managers are responsible for the day-to-day running of their given funds and all investment decisions made. This involves maintaining up to date coverage of businesses invested in, including stewardship and responsible investment considerations. Fund managers are supported by the two analysts, with one of these analysts having an ESG focus.

Voting and Engagement Committee – Improved Governance Structure

Within the investment team, there is also a *Voting and Engagement Committee* that was created at the beginning of 2021 with the specific aim to provide more structure to our activities here. This committee is led by our ESG analyst, who monitors upcoming AGMs, EGMs and other events where we have the opportunity to vote on resolutions published by investee companies. During peak AGM season the Voting and Engagement Committee convenes weekly to discuss upcoming voting and to delegate responsibility for analysing newly published statements. The establishment of this committee has significantly improved our voting processes and has promoted greater engagement across the investment team. It has further promoted active engagement with investee companies within our governance structures and we will look to further entrench this in our company structure for 2023.

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Investment Committee – CIO and Peer Oversight

All investment staff report to the **Investment Committee** (IC), which meets monthly. The IC review activity of the fund managers and is made up of all investment staff. The IC acts as a forum to discuss current issues and views on the macro-economic outlook and investee companies, in addition to reviewing fund limits, performance and volatility. In the IC, investment activity within the funds over the month is discussed, reviewing any engagement with investee companies, particularly any governance issues discussed with management.

The Board and Church House Ownership – Encouraging Long-Term Stewardship

Above the Investment Committee is the Board, made up of four executive directors and three non-executives directors. The non-executive Chair of the Board is also the Chair of the Investment Committee, whilst the two executive CIOs also both sit on the IC and Board. This provides direct crossover between the two groups, helping to align Church House's investment activities and stewardship with the Company's leadership.

Church House is majority owned by directors, employees and the Cayzer Trust Company Limited. This is a long-term shareholder base that has seen little material change since the management buy-out over a decade ago. As both owners and directors, the Board looks to take a long-term view on business decisions and to promote Church House as a responsible and diligent investor of our clients' savings. It is the responsibility of the Board to highlight any concerns regarding stewardship and, in such an event, this view will be communicated to the investment team via the CIOs.

Resourcing – experience, seniority, service providers and analysis

The investment team are given extensive resources to support their investment responsibilities. We take a collegiate approach, meaning that all investment staff have oversight of all activity within our funds and are encouraged to take an active role in engaging with decisions made beyond their specific fund or mandate. For example, if an equity manager is voting on a business where we are both equity and debt holders, (e.g. Berkeley Group), they will also discuss the matter with the fixed interest manager. This means that there is a great deal of support within the team, from younger analysts, to fund managers, to the more experienced CIOs.

Individuals are supported in their due diligence of investee companies by the wider investment team internally, via external research purchased from brokers and from access to information platforms such as Bloomberg and Quest. Meetings with companies are facilitated both by brokers and via direct contact with companies. During the year, the UK investment team took part in meetings with companies for both businesses that we are shareholders in and ones that we are not. This took the form of one-to-one meetings, group calls and conferences. We believe that corporate engagement is a real strength of our investment process and have been shareholders of many of our portfolio companies for many years.

Reviewing of systems

We have a project to review our wealth management technology strategy, and the objectives are to achieve operating efficiencies, give our team the tools they need to do their best work, and add value to our clients. The scope includes selecting a new customer relationship management system (CRM) and investigating ways to extend our digital servicing. The latter may be through features of a new CRM or an additional solution. It also involves identifying opportunities for integration with other existing applications.

We have defined our requirements and are now in the evaluation phase. We hope to decide on a preferred supplier(s) by the end of Q2 23, with implementation taking place during the second half of this year.

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Training and qualifications

All members of the investment team are required to be professionally qualified, or to be in the process of obtaining relevant qualifications. Our team members come with a wide variety of previous experience in financial markets, led by James Mahon and Jeremy Wharton, CIOs, who have a combined 80+ years of market experience. We believe that we have a good blend of experience and youth in the investment team and continue to build on this, having made a further new hire, Lucy Abel-Smith in January 2022.

Church House's Training & Competence Policy requires all investment staff to be assessed as competent in accordance with Church House's standards, in accordance with our business model and the regulatory requirements. This includes the requirement to maintain ongoing training and development within their field of expertise, including covering ESG matters as part of their annual CPD requirements. Our Training and Competence Framework has been further enhanced in 2022, using a third-party firm of industry consultants to assist us in further developing our policies and procedures, with a focus on support to develop the talent and expertise of the team. We believe that by investing in the development of skills of our team, we make Church House an employer of choice.

For more information on the individuals mentioned and their qualifications, please visit our website.

Incentives

Individual remuneration is not focused upon investment performance or specific sustainability goals at Church House and has never been. The remuneration committee encourages the investment team to focus on long-term goals for the funds and wider business, of which governance is a key consideration. Fund managers and analysts are encouraged to take an active role in engaging with companies and sharing their conclusions with the wider investment team. The results of this can be seen in the increasing number of company meetings taken by the investment team over recent years and the fact that team members have been proactive in seeking opportunities to build upon our existing activity in challenging company's governance.

Outcome Reporting

We believe that we made positive progress in improving our governance structures during 2022 so as to resource and incentivise responsible and long-term stewardship on behalf of our clients. The main change made to our governance structure was to create the ***Voting and Engagement Committee in 2021***, which has so far been a positive move. This has added improved structure to our monitoring of investee companies and promoted much discussion around investee company governance and, generally, the quality of company management.

In 2022 we further built on the progress made in 2021, specifically by looking into certain business standards and practices that we were able to encourage across all investee companies. For example, the percentage of equity that a management team can issue without requiring pre-emption rights or minimum shareholding requirements for CEOs are two matters that we felt was worthy in pursuing. We were mindful that we did not want to be too broad-brush here and wanted to pay attention to individual company circumstances as much as possible, however also wished to be consistent in our approach and to avoid double-standards.

Voting on international companies (ex-UK) is also an area that we are looking to improve upon. The reporting standards of international businesses is not always as high as in the UK so we, as investors, have less transparency when it comes to voting. It may be that increased engagement with knowledgeable third parties on such matters would improve our processes.

3. Management of Conflicts of Interest

Church House Investments' Policy on Managing Conflicts of Interest is continually reviewed on an annual basis. It was last reviewed in February 2023 and formally adopted in March 2023: Conflicts of Interest Policy

The regulatory obligation to ensure no investor suffers from the impact of **conflicts of interest** extends throughout all activity that Church House performs, using careful management and full disclosure. Church House takes all reasonable steps to identify and manage conflicts and potential conflicts of interest between it and anyone associated with the Company and its clients, and between one client of the Company and another client. The Company maintains a policy of managing conflicts of interest which is reviewed at least annually and will take all reasonable steps to manage its affairs to minimise the likelihood of conflict.

Church House does not operate a trading book for itself nor invests in assets on its own account. Fund managers may conduct personal dealing, but this is within the confines of the FCA Conduct of Business rules and internal compliance approval. This ensures that no investment within our funds or client portfolios are ever conflicted with the personal holdings of Church House employees nor the Company itself. Any personal account dealing requires approval from both Senior Management and Compliance to ensure there are no conflicts.

Identifying Conflicts of Interest

In identifying conflicts Church House takes into account whether it or anyone associated with the Company either directly or indirectly is:

a) likely to make a financial gain or avoid a financial loss, at the expense of the Client;
b) has an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome;
c) has a financial or other incentive to favour the interest of another Client or group of Clients over the interest of the Client;
d) receives or will receive from a person other than the Client an inducement in relation to a service provided to the Client, in the form of monies, goods or services, other than the standard fee for that service.

Managing Conflicts of Interest

Escalation

If there is any doubt as to the identification of a conflict of interest, such doubt must be escalated to Senior Managers and Compliance. Church House Investments has a total staff of thirty-five, which includes three non-executive directors. Twenty are 'front line' staff, with very few personnel changes over the past few years, facilitating knowledge and oversight of any issues or potential issues. The Compliance Officer has an auditing function overseeing the efficient operation of the process and will report to the Board via the Compliance Report. A committee of the non-executive directors is the final arbiter of controversial matters that cannot otherwise be resolved.

Inside Information

Church House prefers not to be made an insider in relation to any potential transaction and will usually refuse such requests. Occasionally, we might agree to be brought inside if we consider that it is likely to assist in discussions with the activity of investee companies. In this case, the name of the company involved is disclosed to Compliance and a blanket ban is imposed on any dealings in securities of that company until such information is publicly available.

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More broadly, any confidential information obtained through discussions with investee companies, especially if market-sensitive, is stored securely and only reported internally to Compliance in accordance with inside information and conflict of interest policies. This ensures no investment activity, as outlined above.

Actual & Potential Conflicts of Interest

Example 1

As part of the client take-on process we are careful to identify and manage any potential conflicts of interest that clients may have as a result of the service we are proposing for them. In the past year we have had a few cases where clients have asked what property companies we hold, due to their work in M&A/Management Consultancy. Of course, they cannot tell us which deals/clients they are working on, without becoming an insider, and we do not ask. Crucially, the intention to open a portfolio at Church House has to be cleared with their respective compliance departments. It is usual to provide them with confirmation that their portfolio(s) will be managed 100% in collective investments (no direct holdings) and under a discretionary investment management agreement for them to pass on - this is usually sufficient. By confirming the client has no influence on the discretionary mandates and that no single stocks are held, no confirmation of trades (contract notes) have had to be provided to the clients' compliance departments.

Example 2

We have recently identified the potential for conflicts of interest with employees acting as a trustee or attorney for a client. Accordingly, the Conflicts of Interest Policy is being amended to ban acting as a trustee for a client. Acting as an attorney may be permissible in a few limited circumstances, in which case specific permission will be required from the Managing Director and Compliance.

Example 3

In the past year we have onboarded clients who work in audit, as well as management consultancy. Once again, we have had the opening of the portfolios cleared with their respective compliance departments. Much like Example 1 they were satisfied by the 100% collective portfolios and discretionary mandate. In one case, we provided contact notes to their compliance department.

Example 4

We have had an instance in the past year where the life tenant of a Trust wanted more income. The Trust deed states that the life tenant was only entitled to the income, not the capital. Whilst we can always tweak the yield on a portfolio to increase income, we had to provide the Trustees with sustainable long term portfolio options to help inform their decision. Their goal was to ensure neither the income nor the ultimate capital beneficiaries of the Trust were being materially disadvantaged by a change of decision. Through the information provided, a decision was made by the Trustees and both the income and capital beneficiaries were happy with the outcome.

4. Market-wide and Systematic Risks

Market-wide and systemic risks should be appreciated in the most relevant ways to a practitioner, such as Church House, but also in the wider context of globally interconnected entities. All the Stewardship Principles we are addressing in this document are vitally important and an understanding of Principle number 4 is crucial as, without it, practitioners are exposing their investors to underappreciated risks.

To Church House as a private client focussed firm, the concept of **Stewardship of assets is key** as individuals entrust us directly with not only the investment of their assets but also their safe holding, i.e. custodianship, suitability of chosen investments, asset classes and ultimately a **thorough understanding of any underlying risks associated with those investments.** We communicate through regular communications, whether ad-hoc or via our Quarterly Review, to ensure that our private clients and fund investors are aware of our commitment to the suitability of these assets for investment.

Our joint CIO's have **lengthy experience** in the evolution of the financial system, one having been a Member on the trading floor of the London Stock Exchange and the other having started at Big Bang in 1986 and remaining in over-the-counter (OTC) markets ever since. Between the two of them, having seen this evolution, there is a deep understanding of the risks of both on and off-exchange dealing and market wide risk. They have and continue to strive to ensure that their knowledge and experience is passed on to the other employees of Church House through the Investment Committee and regular meetings with client facing teams. We also brief and engage with members of other firms through fund updates, webinars, seminars, trade bodies and all other channels of communication available. This experience has encompassed many instances and periods of intense market stress, whether systemic or not.

Market-wide & Systemic Risks- process for identification

Risk Committee

Church House separates its approach to market-wide and systemic risks into **economic and market risks**, which are the subject of day-to-day management by the Chief Investment Officers, and **broader risks facing the business**, including financial, regulatory, and personnel risks. Therefore, separate to the investment management side of the business, we have a **Risk Committee.**

We have a broad **Risk Management Policy** that is approved by the Board, setting out the purpose and scope of the Policy:

> *The purpose of the risk management policy is to provide guidance regarding the management of risk to support the achievement of corporate objectives, protect clients, staff and business assets and ensure financial sustainability. The policy applies to all Church House Investments Ltd activities. It forms part of CHI governance framework and applies to all employees.*

The Risk Management Policy sets out a hierarchy of Risk Governance, commencing with the Board of Directors, down to the individual staff level. It also establishes the **Risk Committee**, which oversees the regular review of risk management activities. The Risk Management Policy document itself is proprietary information.

The Risk Committee comprises the Chairman and two non-executive directors along with the Managing Director (Head of Operations), the Head of Compliance and the Company Secretary. Broadly, but not exclusively, they consider risks in the following areas:

Compliance Risk
Private Client Risk
Investment Management Risk
Third Party Risks
Fund Management Risk
Finance Risk
Operations Risk
Third Party & Project Risks
Risk's Risk (i.e. the risk of missing an area of risk)
Information Technology Risk
Management Risk

We maintain a **Risk Register**, which rates individual risks that have been identified at any one time and scores them. The highest rated of these is drawn to the attention of the Risk Committee for consideration and proposing/questioning, as well as testing of mitigation.

Day-to-day discussions & the Investment Committee

Identifying and being proactive in mitigating market-wide and systematic risks is at the heart of our risk management process. While our approach to **investment is bottom-up**, focusing primarily on the individual companies that we invest in, we realise that there are **wider macro issues** that need to be monitored, should they pose a risk to any of our positions or asset allocation. The co-CIOs, James Mahon and Jeremy Wharton, in consultation with the other fund managers, work closely to formulate day-to-day strategy in response to the unfolding economic and market background and to identify potential risks and opportunities. This allows for a swift response to events. This is then discussed in depth at the **monthly Investment Committee (IC)**. At our Investment Committee meetings, we begin by reviewing fund limits and best execution, before James Mahon and Jeremy Wharton, alongside the other fund managers, present their Macro & Micro-Economic Review (IC agenda from November 2022 shown below):

INVESTMENT COMMITTEE MEETING AGENDA

9th November 2022

50 Grosvenor Street

1. Review last meeting's minutes
2. Review monthly fund limits, monthly stats/volatility, risk level portfolios
3. Best Execution
4. Macro & Micro-economic review
5. CHSC
6. CHBE
7. CHIG
8. Quick review on remaining funds / inflows & outflows
9. ESG & Stewardship
10. Other Governance Matters
11. Any Other Business

In this *Macro & Micro-Economic Review* James Mahon and Jeremy Wharton lead discussion of current macro topics that are, in turn, debated by the wider Committee. In his capacity as an equity fund manager with over 50 years' experience in investment, James Mahon will present from an equity viewpoint, while Jeremy Wharton (who manages our fixed interest fund and wider bond exposure across the Firm) will focus on developments in credit markets.

As an illustration of this, here are the minutes from the *Macro & Micro-Economic Review* at the November 2022 IC meeting:

4. Macro & Micro-economic review

- **Inflation** – three major central bank moves since the last Investment Committee meeting. The pivot some expected from the Fed was not seen. The BoE hiked by 75bps, moving towards their projected terminal rate (which many have been re-adjusting all year). Projected terminal rate for the Fed is 5%, and 4% for the BoE. While **interest rates continue to rise**, we are closer to the peak and more confident in the future range. Although, in the US, Jay Powell is reluctant to convey dovish language, stating they 'still have some ways to go'. Self-correcting mechanism if economic activity slows, thereby having an effect on inflation. Important to remember that inflation is a lagging indicator.
- The **BoE have begun quantitative tightening** (QT) without causing too much trouble in the Gilt market, selling £10bn so far, including some corporates. Next year sales will be split between maturing bonds and active sales. Should be able to achieve this without flattening the Gilt market. Over the last few years, the Treasury was used to being given a payment from the Bank, the situation has since reversed. Essentially, moving from one balance sheet to another. The issue is the ability to sell Gilts into the market.
- There is a **liquidity problem in the Gilt market**, connected to the Liability Driven Investment (LDI) fiasco, which brought many Gilts out of the market, decreasing the free-float of Gilts. Repo rates soared and the Bank is programming sales (QT) to address this. Money-market funds had a difficult time, and Gilt-edged Market Makers have exposure they can't cover.
- The **housing market** is looking likely to collapse 20-30%. A third of people needing to re-mortgage over the next year, means two-thirds will re-mortgage in 2-3 years time. Hopefully by next year, the latter group will not be hit by rates as high as today.
- Attractive **pricing** from **fixed interest markets**. Most is priced into **equity markets**, although these could still be volatile. The primary market in sterling, euro and dollars are offering decent spreads over their benchmarks. Great value to be found at the shorter-end of the credit market (e.g. Santander 7% 2027). Further out has the risk of inflation uncertainty. Gilt market yielding 4%, with 6 month Gilts yielding 3.25% at the last tender.
- **China** will eventually pick up again, likely a good time to invest. China have opened their arms to the West over the past 30 years, taking the West's 'know how'. Perhaps now going it alone?
- The **Hang Seng** has underperformed, more likely a political margin than economic.
- The **dollar** has been strong against the Yen and the Chinese Yuan.

As can be seen from these minutes, specific macro issues relevant to the time are raised and discussed from a risk perspective. November 2022 saw peak uncertainty on inflation, interest rates and quantitative tightening, which were debated at length here. Where it is deemed that a macro theme poses material risk to our investment process and exposures within our funds, these will be flagged to the fund managers who sit on the Committee and are responsible for acting upon this. The co-CIOs will also be responsible for reporting any material issues flagged to the Board as well as what action is being taken.

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Examples of Risks identified

Here are some examples of market-wide and systemic risks identified during 2022, our action taken to mitigate this risk and a brief review of how effective our processes were:

Fixed Interest

An earlier example of identifying and responding to market-wide risks can be seen in late 2021, where we **identified high risk in both medium and, particularly, longer-dated fixed interest markets**. Accordingly, we reduced the duration in our Investment Grade Fixed Interest fund (CHIG) to 3.7 in January 2022, steadily lower to 3.0 in the summer and 2.6 by the autumn. Similarly, we increased the cash and near-cash assets in our Tenax multi-asset fund (Tenax) to 40% in January 2022 and the duration to 2.2.

In the autumn of 2022, as **the Gilt market collapsed** in the wake of the disastrous Truss Administration's mini-budget, we judged the actions of the Bank of England, designed to stabilise the market, to be correct and moved quickly to take advantage of the greatly improved returns on offer. Put another way, **we identified a market-wide risk as the Gilt market struggled**, **yields leapt, and liquidity evaporated**, while activities such as '**LDI investing' emerged as a new risk**. With live knowledge of our exposures, low duration and ample available liquidity, we could assess these risks dispassionately. We concluded that the action by the Bank of England, alongside the price adjustments that had already taken place, presented us with an opportunity. We therefore began a move to take advantage of the greatly enhanced returns on offer.

Geopolitical Risk and Rule of Law

It became evident early in 2022 that this was to be a year of increased political tension. Putin's invasion of Ukraine on 24th February was a defining moment that set the backdrop for a year of Russian isolation and an increasingly tense relationship between NATO members and China. Given that the base case economic forecast for 2022 had been one of post-lockdown reopening and renewed consumer confidence, this had to be quickly reassessed. This was also arguably the end of an extended period of globalisation and economic growth fuelled by a liberalisation of international trade and cheap Chinese labour – the investment landscape had changed for the foreseeable future to a more isolationist and inflationary world.

At Church House we have always invested in regions where the '**Rule of Law'** applied. This means that all our direct investments are in businesses that are domiciled, incorporated and listed in developed markets, predominantly the UK, EU, North America, Switzerland and Scandinavia. We believe that this protects our clients' assets against the risk of nationalisation and the worst of government interference. As such, we did not have any direct investments in Russia or China at the time of Putin's invasion and were happy not to have had. The underlying companies that we are invested in also had relatively little Russian exposure. For those businesses that did have operations in Russia, we were active in engaging with management teams regarding their intentions here. Examples include writing letters to the management team or Chair of Bloomberg, Unilever and Genus.

What did come out of our discussions at the Investment Committee, and at the fund manager level, was the need to take a keener interest in the Chinese exposure that our investments had, both in terms of earnings and manufacturing operations. Short-term, businesses with China exposure were already hurting due to ongoing harsh lockdowns and 'Zero COVID' policies, but longer-term our worry was that doing business in China would be getting more difficult and the risk of government intervention was higher.

Case studies

IHG HOTELS & RESORTS

Discussion

InterContinental Hotels Group (IHG) is one such investment held within our UK Equity Growth Fund that was flagged to the Committee for increased geo-political risk. IHG is the owner of brands such as Holiday Inn, Regent and Crowne Plaza. Despite being listed in London, it is a truly global business, making most of its profit in America. In recent years, IHG have been investing heavily to expand into China. Their FY22 results show that while China is still a relatively small part of their current footprint, it makes up a third of their new openings pipeline, with 97K new rooms (471 hotels) planned for China in coming years:

System and pipeline summary of movements in 2022 and total closing position (rooms):

	System						Pipeline	
	Openings	Removals	Net	Total	YOY%	Adjusted YOY%[b]	Signings	Total
Group	**49,443**	**(18,143)**	**31,300**	**911,627**	**+3.6%**	**+4.3%**	**80,338**	**281,468**
Americas	20,568	(4,161)	16,407	515,496	+3.3%	+3.3%	32,464	100,319
EMEAA	16,211	(10,747)	5,464	229,664	+2.4%	+5.5%	25,847	83,410
G. China	12,664	(3,235)	9,429	166,467	+6.0%	+6.0%	22,027	97,739

Outcome

For us, this is an openings plan for China that we are uncomfortable with, particularly given how poorly IHG's Chinese operations have performed since 2020. We took the decision to reduce our position in IHG by c.25% as shares rallied during 2022, lowering our exposure to this Chinese risk and will continue to monitor the situation as it develops.

Halma

Discussion

Halma is an industrial business held across three of our funds and is one of our largest direct equity exposures. The business has had great success in China, growing revenue here fivefold since 2010, now making up 7% of Group revenue. In the many meetings we have had with management over the years, we have discussed their push into China and, specifically, how they now have two facilities in the country (Shanghai and Shenzhen), with 500+ employees. As with IHG, we identified this China exposure as a risk that we wanted to review and monitor more closely in 2022.

In March 2022, we arranged to meet with the management team for a general update, but particularly to question them on how they were managing China risk and if the situation in the country had changed. We were reassured by the answers that we were given and are confident that Halma are being sensible with managing their activities in China, operating with due caution, while still looking to grow.

At the corporate level, Halma explained that they have a risk committee that assesses external threats to the business and scenario plans for potential macro shows. They gave the example of escalating tensions between China and Taiwan having been discussed at their most recent meeting of this committee – we were not told the conclusions of the discussion but were confident that management were being diligent and proactive in assessing the evolving situation.

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At the individual company level (Halma is a holding company made up of 50+ autonomously run smaller companies), management stressed that their businesses operate on a very localised basis (in terms of suppliers, employees, customers, etc). This is an advantage in trickier times for global supply chains and even geopolitical tension as there is less reliance on amicable international politics and managers *on-the-ground* are best placed to act quickly to mitigate any such issues that do materialise.

Outcome

On the back of this meeting, we concluded that Halma was managing its Chinese exposure well and we were happy to maintain Halma as a larger position within our funds.

Wider conclusions on China exposure

We have highlighted **IHG** and **Halma** above as two examples of businesses that we assessed for China risk, however, as the second largest economy in the world and the most populated nation, avoiding Chinese exposure (direct or indirect) is not possible for global investors. For example, here are the top ten holdings in **Esk**, our global equity fund:

Top Ten Holdings (%)

LVMH	4.2%	Stryker Corp	3.0%
Microsoft Corp	3.9%	Apple Inc	2.9%
Alphabet Inc	3.5%	L'Oreal	2.9%
Mastercard Inc	3.5%	Morgan Stanley	2.9%
Johnson & Johnson	3.2%	Rio Tinto Plc	2.8%

All these ten businesses have customers in China and, to a greater or lesser extent, have manufacturing facilities, distribution hubs, and suppliers in the country. Taking the example of **LVMH**, 30% of their revenue in 2022 came from Asia (ex-Japan), the large majority of which was China. Furthermore, this does not consider the large portion of sales in Europe and the US to Chinese tourists, so LVMH's *real* exposure to China is well over 30% of sales.

Apple generated 19% of its revenue from Greater China last year and the business will have deep ties to China via the supply of microchips and the assembly of their hardware. Similar is true of **Microsoft** and **Alphabet** who have been massive beneficiaries of the cheap computing that China has enabled over recent decades. Yes, the US Government has made it a priority to onshore much of their computing supply chains for national security reasons, but they are currently a long way from achieving this and China remains a key player.

While we accept that global businesses will have China exposure, what we are looking for from company executives is acknowledgement of the potential risks they carry, with prudent management of this. Our focus on high quality businesses, with unique products and services, naturally leads us to companies that rely less on cheap overseas labour and have more flexibility in their operations. We have noted the trend of on or near-shoring of operations to lower risk regions as businesses have prioritised the integrity of their supply chains over price and *just-in-time* delivery. It is far easier for quality companies that generate high gross margins and ROCE to absorb these onshoring costs than it is for low margin, commoditised players. The tensions and increased geopolitical risks in 2022 re-affirmed the importance of approaching investment from this quality standpoint, and this we will continue to do.

Collaborating with Other Stakeholders to Promote Continued Improvement in the Functioning of Financial Markets

Example – Fund & Market Outlook Presentations

Our Fund Managers regularly participate in industry events and fund presentations, where prevalent market risks across many asset classes are discussed directly with market participants and clients. During these events, we convey our investment beliefs, strategy and potential change in fund stance, as a result of market conditions.

During fund and market outlook presentations, the **fund managers communicate to participants recent portfolio activity, as well as** their views on the market, multiple asset classes, changes in policy and resulting implications. During these meetings, we **encourage participation and questions**, which allow the fund managers and attendants to share their insights and challenge each other. We believe this collaboration **promotes the healthy functioning of financial markets**, via the sharing of expertise and experience of our fund managers.

Example –Market Commentary publications

Further to this, extracts for our multi-asset market commentary can be seen below. We publish monthly to inform clients and market participants of unfolding events in the current market environment and consequent changes in stance in the fund. Market commentary, changes in fund positioning and portfolio activity are also published for the majority of all our funds.

Fixed income market commentary, September 2022:

Risk assets continue to struggle under relentless poor economic news, hawkish central banks and rampant inflation.

The small July/August rally fizzled out when a particularly hefty US CPI print extinguished any hopes of a FED pivot and the dollar continues to be all powerful. Recent PMI numbers from most developed economies make dismal reading and coupled with still elevated inflation expectations and collapsing consumer confidence it is hard to see these reversing any time soon.

The Federal Reserve delivered another 75bp hike accompanying it with increased hawkish language and it is clear that they have every intention of keeping going, forward guidance is not as dead as some anticipated. The US Treasury curve has inverted and we haven't seen a 4% handle to short end yields in quite some time.

The ECB delivered their second 75bp hike amidst the backdrop of surging energy prices and there is a chance that the Eurozone is already in recessionary territory in Q3. Germany now appears to be slowing the most and it looks to be a long winter. Eurozone employment numbers however continue to be strong which is some consolation and France is better insulated from Putin's pain.

We have just had a further 50bp from the Bank of England when the market expected 75bp (3 MPC members did vote for that magnitude), and beleaguered Cable suffered another leg down. To be fair, they were waiting for the next day's 'fiscal review'. The chancellors tax cuts, energy price caps and dramatic fiscal loosening are all supposed to stimulate growth back to a 2.5% target. This puts fiscal policy in direct opposition to the monetary tightening QT path of the BoE and involves raising huge funds from the sale of Gilts just at the time that the Bank itself begins active sales of Gilts from its balance sheet. They are also about to start selling nearly £13 billion of corporate bonds from their £20 billion APF pot but at a projected run rate of £200MM a week this should be digestible by the market.

Credit spreads have been relatively stable throughout this period with orderly widening in EUR spreads and Sterling spreads having had a look at wides for the year rallied back and remain supported. There still is some *complacency regarding potential default rates rising in lower grade credit but with precious few being able to access the primary market to refinance it looks inevitable. In High-Grade credit the primary market has managed to price a number of issues but pricing power is in the hands of lenders rather than borrowers.*

Further examples of market and fund commentary can be found here.

Engagement with Market Participants and Stakeholders & Supporting Industry Initiatives

We are members of industry bodies, such as **PIMFA** (since May 2019) and support the work by the **FRC,** via our signatory status to the UK Stewardship Code. Further, we are a contributing member to **Managed Portfolio Indices (MPI)**, a platform available to **STEP** members to assist them with their investment related activities, where we provide our fund data each month for comparison versus industry peers.

Participating In Collaborative Initiatives:

Synthetic OCFs

Continuing on from our work on the synthetic OCF's last year, throughout 2022, we have been participating in a **collaborative initiative** with the aim to persuade the Government and FCA to **review the workings of the PRIIPs regulations.** For context, this relates to recent industry changes in the calculations of Synthetic OCFs for close-ended vehicles under the recent changes to PRIIPs regulation. In the interest of transparency and fairness, the FCA is looking to ensure that all funds fully disclose all their costs, to allow underlying investors to know exactly what costs they are incurring, prior to investment. As far as we can tell we (and our peers across buy-side, sell-side and representative bodies) were not consulted on the matter before it took effect. The unintended consequence of this new regulation is that we all must disclose the internal fees of investment trusts, which give our clients exposure to renewable energy, private equity or general infrastructure. This highlights them as more expensive in our fee disclosures and, in turn, make them uninvestable on a cost basis.

We felt that these were having a detrimental impact on the industry and damaging the UK new issue market, while failing in their objective to bring more clarity for retail investors. Some aspects of the regulations, notably the performance scenarios and risk level indicators were positively misleading to retail investors.

This collaborative group comprises 40-50 fund and portfolio managers and has been in discussion with industry bodies such as the **Association of Investment Companies** and the **Investment Association**. We have around twenty emails in this correspondence chain and have submitted work and letters to the group for use in the campaign.

The announcement by the Chancellor of the Exchequer in early December of potential reforms and a review by HM Treasury was most welcome. Subsequently, we have responded to HM Treasury with a detailed response to their consultation paper, this being a detailed response from Church House, not the group described above.

Evaluation of our effectiveness at responding to these market-wide and systemic risks:

In conclusion, we feel that to provide and fulfil Stewardship principles towards those clients entrusting us with their assets, a deep and thorough knowledge of the risks involved both market-wide and systemically is essential. We strive to communicate our experience widely through our regular publications and meetings, but also to listen and add to it with the knowledge and experience of others, as well as taking part in collaborative initiatives where appropriate.

5. Review of Policies, Procedures and their Effectiveness

Although the principles of stewardship are strongly embedded in the CH culture and, consequently, all aspects of our investment and fund management activities, we review them in several different ways to ensure their consistent application, effectiveness and communication. **The over-riding principle is to ensure the responsible allocation, management and oversight of capital to create long-term value for clients and investors leading to sustainable benefits for the economy, the environment and society.**

Our approach to stewardship is not something newly adopted but has been embedded throughout all our investment activity since inception in 1999. We view this as fundamental to the management of the risks to which we expose our clients' money. We highlight the FRC's updated 2020 Stewardship Code Policy on our website where we explain our approach to each of the twelve principles.

With increasing focus on ESG factors, we have formalised our approach to incorporate environmental, social and governance issues in a separate ESG Policy.

Reviewing Policies

We review our internal processes regularly to ensure effective stewardship and acting in the best long-term interests of our clients. All policies are subject to review and approval. We have two CIOs, both of whom have over thirty years of investment experience, and who are responsible for monitoring all investment decisions. All fund managers are required to report on their portfolio activity to the Investment Committee, which has an independent Chair with long experience and high standing.

Church House strives to maximise value for its clients via the careful management of its funds and underlying investments. There are a multitude of factors our fund managers consider when considering an investment. Our active management approach promotes on-going research with investee companies. We attend company presentations, engage in one-to-one meetings with company management teams and carry out continuous research, analysis and dialogue in order not just to maintain a solid financial picture of the current and future value of stocks we hold, but also to gain insight into the values and priorities that a company attaches to ESG matters. We engage in active and constructive dialogue with many of our investee companies and vote at AGMs, EGMs and corporate actions. This is especially so if direct communication with an investee company fails to satisfy our concerns.

Review and Assurance Processes

The first level of assurance is the **Investment Committee**, which meets monthly and has a formal agenda for checking each fund's activity against its relevant risk tolerances, including any (potential) stewardship issues. Before each Investment Committee meeting, Compliance circulates a report of their checks on each fund and its compliance with regulatory and internal limits and objectives. Church House employs an **Operational Assurance Manager**, whose primary role is to monitor this process, which includes monthly sample checks on market transactions to ensure best execution. The Committee also reviews the makeup of the risk scales for client portfolios and their ongoing results in terms of performance and volatility against expectations (see Principle 1 for outcome of this data).

The next level is the **Risk Committee** and **Audit Committee.** The Risk Committee is chaired by the non-executive Chair, whose terms of reference specifically include a detailed audit of all the main business risks, including the consistent application of stewardship principles. The Audit Committee is made up of the Managing Director, Head of Compliance, Head of Finance and three Non-Executive Directors. One of the primary roles of the Audit Committee is to monitor the adequacy and effectiveness of the firm's internal controls, including those relating to stewardship. The Managing Director is responsible for the implementation of internal controls. The operational and control processes are reviewed annually by our external auditors.

The top level in assuring our processes is **the Board**, to which the Risk Committee report, which includes representatives of significant external shareholders who naturally expect to see the highest levels of observance to all our published policies such as stewardship and ESG.

Church House maintain a Risk Register to highlight, manage, monitor and control its business risks. Through 2022, Church House utilised the support of an external consultant to review the process of recording and communicating its key Risks. This review has seen a change in the Risk Review process, with the heads of each business unit taking ownership, under the leadership of the Managing Director, of the risks in their area. The top risks of each unit are presented to and reviewed by the Risk Committee and the Board regularly.

Reviewing and improving stewardship policies and processes

An example of where we have altered or amended our process, to enable effective stewardship, is with our **Voting and Engagement Committee** (see Principle 12 for further detail). This was created at the beginning of 2021 with the specific aim to provide more structure to our voting activities. Regular meetings, usually weekly, take place to co-ordinate and confirm votes at AGMs, EGMs and other corporate actions in investee companies.

Ensuring Reporting is Fair, Balanced and Understandable

All reporting and marketing literature is subject to scrutiny by Compliance. While the particular focus is regulatory, to ensure that all our external communications are '*fair, clear and not misleading*', this neatly overlaps the FRC's requirement that all stewardship reporting should be '*fair, balanced and understandable'.*

Our **Quarterly Review** publications ensure that our clients are kept up to date with the current economic and market background, including credit and equity market commentary, sustainability pieces and a high level of visibility and transparency into each fund's activity during the quarter. This are distributed to our existing clients.

Further to this, we **publish regular updates and insights for both professional and private client audiences.** These articles include portfolio and market commentary written by the fund managers, ESG and sustainability, personal finance commentary and news relating to the firm. The complete library can be found here.

We hope that our publications reinforce the message that successful investment management centres around the effective management of risk and that avoiding investment in companies demonstrating unsustainable business practices such as poor governance, damaging environmental practices or weak social impact credentials is an important element of that risk.

Our funds are independently assessed by **MSCI as part of their ESG Ratings service**. We do not pay for this service nor have any input into their process. However, we are pleased to see that they rate three of our funds as AAA on their scale and two as AA. The sixth fund, CH UK Smaller Companies Fund, had not been in its new guise for long enough for a fair rating.

50 Grosvenor Street, Mayfair, London W1K 3HW. Telephone 020 7534 9870
York House, 6 Coldharbour, Sherborne, Dorset DT9 4JW. Telephone 01935 382620

MSCI ESG ratings:

IFSL Church House Tenax Abs Rtn Strategies A Acc

Peer Group: Absolute Return GBP Low
Domicile: UK
Holdings as of: June 30, 2022

MSCI ESG RATINGS: AAA

CCC | B | BB | BBB | A | AA | **AAA**

IFSL Church House Inv Grade Fixed Interest Acc

Peer Group: Bond GBP Corporates
Domicile: UK
Holdings as of: June 30, 2022

MSCI ESG RATINGS: AAA

CCC | B | BB | BBB | A | AA | **AAA**

IFSL Church House UK Equity Growth A Acc

Peer Group: Equity UK
Domicile: UK
Holdings as of: June 30, 2022

MSCI ESG RATINGS: AAA

CCC | B | BB | BBB | A | AA | **AAA**

IFSL Church House Esk Global Equity A Acc

Peer Group: Equity Global
Domicile: UK
Holdings as of: June 30, 2022

MSCI ESG RATINGS: AA

CCC | B | BB | BBB | A | **AA** | AAA

IFSL Church House UK Smaller Companies Fund A Acc

Peer Group: Equity UK Sm&Mid Cap
Domicile: UK
Holdings as of: June 30, 2022

MSCI ESG RATINGS: A

CCC | B | BB | BBB | **A** | AA | AAA

We were unable to find a MSCI ESG Rating for our IFSL Church House Balanced Equity Fund.

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INVESTMENT APPROACH

6. Communication of Activities and Outcomes of Stewardship

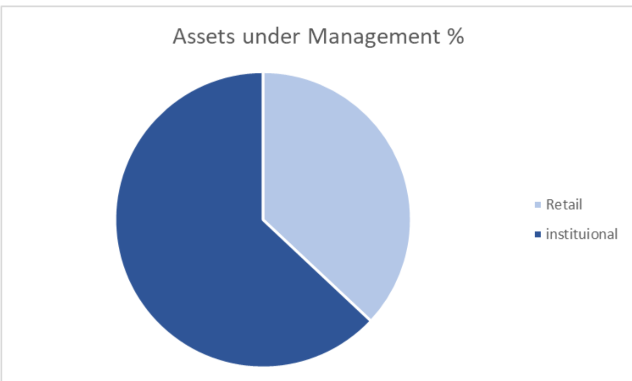
ASSETS UNDER MANAGEMENT (AUM)

As at 31st December 2022, Church House Investment Management had AUM of c.£1.32bn with the retail/institutional split being 37% versus 63%.

We define '**retail**' as our direct private clients that have signed a Discretionary Management Agreement (DMA) with us. These can include private individuals, family groups, charities and trusts. Their assets are held in General Investment Accounts (GIAs), SIPPs and ISAs.

We define '**institutional**' as third-party investors (Wealth Managers, Financial Adviser groups and Independent Financial Advisors), who purchase our funds via intermediary platforms.

Over the course of 2022, we have seen a slight decrease in retail in-flows, with the retail side of the business now accounting for 37% (down from 43% in 2021). Institutional money was generally held in less riskier assets classes, and therefore, fell in value less relative to the equity tilted retail exposure.

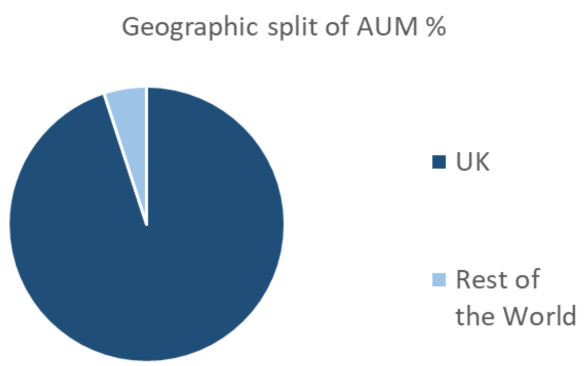


	Assets Under Management %
Retail	37%
Institutional	63%

Source: Church House Investment Management
Data as at 31st Dec 2022

GEOGRAPHIC SPLIT OF CLIENT BASE AUM

The Church House client base is overwhelmingly domiciled and resident in the UK. We have a small minority of clients abroad, having moved from the UK for both business and personal reasons. We have seen little change in the split from last year. We have no US clients for FATCA reasons.



	Geography of AUM (clients) %
UK	95%
Rest of the World	5%

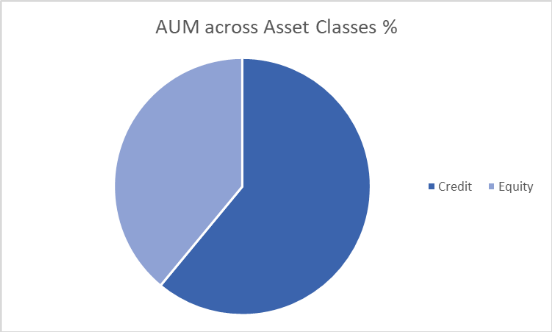
Source: Church House Investment Management
Data as at 31st Dec 2022

ASSET CLASS SPLIT OF AUM

The asset class split of AUM is 61% credit assets versus 39% equity assets.

Credit assets include: Treasuries, Corporate bonds, Floating Rate Notes, Convertibles and other Fixed Interest Investments.

Equity assets include: UK and International Listed Equities, Investment Companies and Real Estate Investment Trusts (REITs).



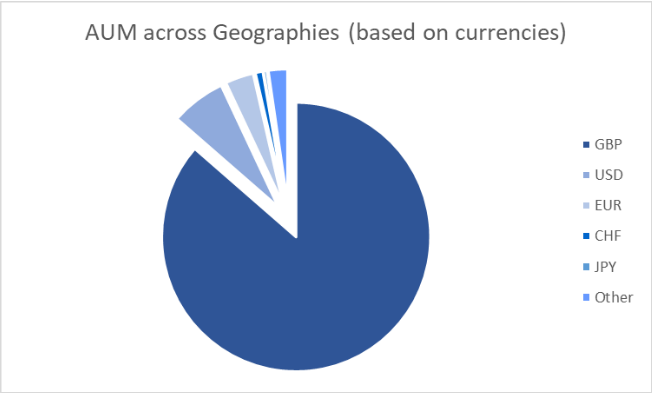
	Asset Class Split of AUM %
Credit	61%
Equity	39%

Source: Church House Investment Management
Data as at 31st Dec 2022

In terms of asset class split, we have seen a slight increase in the credit weighting on the back of its relative strength vs global equity markets. The overall proportion broadly remains similar, caveating the strength of Church House's absolute return and fixed income offerings.

GEOGRAPHIC SPLIT OF AUM

Church House's AUM is principally invested in the **UK** (c.86.4%). The remainder is made up of the **USA** (c.6.6%), **European Union** (c.3.4%), **Switzerland** (c.0.9%), **Japan** (c.0.4%) and **Other** (including Sweden & Denmark) at c.2.3%.



Source: Church House Investment Management
Data as at 31st Dec 2022

	AUM across Geographies (based on currencies)
United Kingdom (GBP)	86.4%
USA (USD)	6.6%
Europe (EUR)	3.4%
Switzerland (CHF)	0.9%
Japan (JPY)	0.4%
Other (incl. Sweden & Denmark)	2.3%

Source: Church House Investment Management
Data as at 31st Dec 2022

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TIME HORIZONS

Church House is a long-term investor and we encourage all our clients to invest in the same manner. To be at its most effective, and to manage risk versus reward diligently, clients are signed up on the knowledge and understanding that their **investment time horizon should be five years as a minimum,** preferably much longer. This timing works hand-in-hand with stewardship.

A **shorter period** limits the ability for clients to achieve their objectives whilst also minimising the opportunity and impact of stewardship across their portfolio. As with our clients, we aim to foster long-term and proactive relationships and engagement with company management teams to extract the highest levels of stewardship across all environmental, social and governance issues.

Activity

Church House's ethos and attitude to stewardship is embedded into our investment philosophy. From the outset of client engagement, our ESG policy is prominent in preliminary client discussions. This ensures clients are safe in the knowledge that their potential investments will be managed with proper attention to social and governance issues, in accordance with a clear ESG policy.

Client reporting

Communication to clients on stewardship matters is key and an important part of our informational and marketing material to clients. We send out regular emails to clients and publish 'big picture' pieces on topics which are firmly based on matters regarding Stewardship, Environmental, Social or Governance. These can be found on our website.

In 2022, articles included:

What might the FCA's Sustainable Disclosure Requirements (SDR) look like?

This thought-leadership is a key pillar in our marketing and effective communication with clients. Not only is it useful marketing material, but this collateral emphasises that we are ready and willing to challenge what constitutes proper, fair and balanced stewardship in 2022.

As well as the bigger picture pieces, each portfolio activity or market commentary will have an element of stewardship embedded into its fabric as a way of reporting on our process and our activity. For example, the rationale behind buying a green bond in our fixed interest fund.

Other reports available to our clients include annual voting reports, our submission to the Stewardship Code, monthly ESG reports on our underlying holders. These can be found either on our website or by request.

Consideration of client views

As part of our client onboarding process, Relationship Managers undertake a **Fact Find** to obtain all the necessary **Know Your Client (KYC)** information. This consists of fixed client data, required for onboarding, as well as the client's broader holistic financial situation. Further to this, open-ended questions in the Fact Find are used to establish and gauge a client's potential ethical and stewardship requirements and wishes. This is **more pertinent with many charity and trust clients** who will have more defined investment policies regarding their ESG requirements.

Annual Reviews

We discuss all such matters in a client's Annual Review, either in relation to specific stocks held in our funds/their portfolios, topical events impacting their portfolios, or the general investment context. This is evidenced in the **review notes** for each client, which are circulated to the fund and portfolio management teams for actioning where relevant.

Because we manage clients on a direct and individual basis, client views are always considered in designing and managing a mandate that is most suitable for them. **Suitability** is regularly reviewed and documented on client files. Our relationship with clients is personal, direct and discrete i.e. we are not selling packaged product in volume to clients we don't know.

New Fact Find to directly address a client's attitude to ESG

To further improve our approach, we now include a section in our **new Fact Find** which **directly addresses a client's attitude ESG issues**. This usually leads to a discussion about our approach and the client's own views on how important ESG is to them. This is evidenced on client files, where we keep records of client responses, questions and conversations around ESG issues. We believe this is an important issue to discuss with potential clients to ensure our views and approaches align.

We continue to discuss ESG issues with clients on a one-to-one basis as it can be an area where individuals have strong views. We believe that by engaging on an individual basis, we can understand our clients' opinions and requirements with regard to ESG, and how this may influence their investment preferences.

Church House run many investment portfolios across these stewardship parameters, as defined by charity stakeholders and trustees' policies. For **individual private clients**, we offer a purely **Ethical Portfolio solution** via our Managed Portfolio Service (MPS) and for our **larger clients** we can allocate our stock selection to a portfolio totally tilted to ESG. We have clients with tailored portfolios which have been built using funds with ESG focus and engage with clients to gain their ongoing views.

Example – client ESG preference

An example of this during 2022, occurred when we were asked by a client to build a bespoke portfolio with focus on ESG. We did this following the high-level asset allocation from our risk models, with specific assets which met the client's ESG needs. We also have made a model portfolio solution available via Parmenion for clients who require an ESG driven model portfolio.

Outcome

In line with what we have experienced with our own client base, the younger the client, the higher the importance in considering social impact and environmental concerns in portfolio management.

We believe that we have an **efficient and effective method of communicating with our clients on ESG and Stewardship matters**. We have **improved** the way we consider client views and how we act upon them. During 2022, we set up a **new Fact Find that incorporated a client's views on ESG** as well as continuing to write in annual reviews when and where ESG considerations are noted, considered, and acted on.

Our **reporting and commentaries** are thorough and regular, sometimes with pieces relating to contemporary ESG and sustainability matters. Diving down into the majority of our marketing and communications output, there is emphasis on stewardship within the monthly commentaries and portfolio activities, which report on our processes and activities at a fund level.

Following the record performance of some of the major oil companies over the past year, we have, in some instances, lagged behind our peers who have remained invested in these companies. However, we have continued to defend this position due to our quality bias, which is broadly accepted by our clients who support our rationale for not holding these companies in our portfolios.

7. Integration of Stewardship and Investment, including ESG

At Church House, we have incorporated ESG and stewardship firm-wide into our equity, fixed income and multi-asset class funds, with our primary responsibility always being to our clients and putting their needs and wishes at the forefront of our decisions.

As active, long-term managers, we can integrate ESG practices into our investment processes holistically. We look to invest in high quality companies with strong fundamentals and corporate governance, alongside sound ESG practices. While we have an analyst who has a focus on ESG, we believe it important not to segregate ESG discussion from the investment team. In this way, each fund manager embeds ESG into their investment decisions, where it is considered from a risk management perspective. This approach is used for our *UK Equity Growth Fund, UK Smaller Companies Fund, Esk Global Equity Fund, Balanced Equity Income Fund, Investment Grade Fixed Interest Fund* and our *Tenax Absolute Return Strategies Fund.*

INTEGRATION OF ESG AND STEWARDSHIP ACROSS MULTIPLE ASSET CLASSES & GEOGRAPHIES

There are areas where ESG integration spans many asset classes. It is common for our equity fund managers and analysts to discuss mutual holdings with our fixed-income and multi-asset fund managers. This is a mutually beneficial relationship, which allows teams to approach financial, ESG and stewardship considerations from a potentially new angle. While ESG and stewardship are integrated holistically into our investment approach and decision-making process, discussions across teams on the investment desk allows us the opportunity for new insights, as well as scope for further development of our broader understanding of these companies. This open-dialogue approach allows us to convey a unified view of ESG and stewardship matters when in discussion with investee companies.

UK equity

As a UK investment firm, aside from fixed interest, we primarily invest in UK equities, where we endeavour to form strong long-standing relationships with the senior management and non-executive directors of the companies in which we are shareholders. We believe this makes for more conducive and effective discussion.

Global equity

Where possible, we engage with the senior management and non-executive directors of our global equity holdings. Outside of the UK, our investments are primarily in the US, Europe and Japan. Engagement with these global companies is lower than with our UK listed holdings, although we aim to engage further with our globally listed companies each year.

In both of the above, **voting** is also an important aspect of engagement with our investee companies. We recognise that as a small investment firm, our influence in this manner is not huge; however, we are happy to vote in the best interests of our shareholders and believe it is our duty to do so. More information on voting can be found in Principle 12.

Where appropriate, and where we believe it would be in the best interests of our shareholders, we may opt for **collaborative engagement**. This may arise because of an unsuccessful private engagement, or, where collaboration with a larger shareholder grants us further reach to influence the decisions of senior management and the Board.

Corporate bonds

We consider the stewardship credentials and governance of the company issuing a bond. With many of our equity and bond holdings overlapping, this lends itself to a holistic evaluation of our holdings. Further, we encourage improvement in ESG practices and look for openness in issuer engagement, alongside increased transparency with bondholders.

Sovereign credit

With sovereign credit, paramount importance is placed on the rule of law in countries issuing government bonds. Consequently, we only invest in developed markets (primarily the UK), where we trust the rule of law and running of institutions. Please see more detail in the section below entitled '*Rule Of Law – Geography / Market Listing'.*

Holdings in Closed-Ended Investment Vehicles

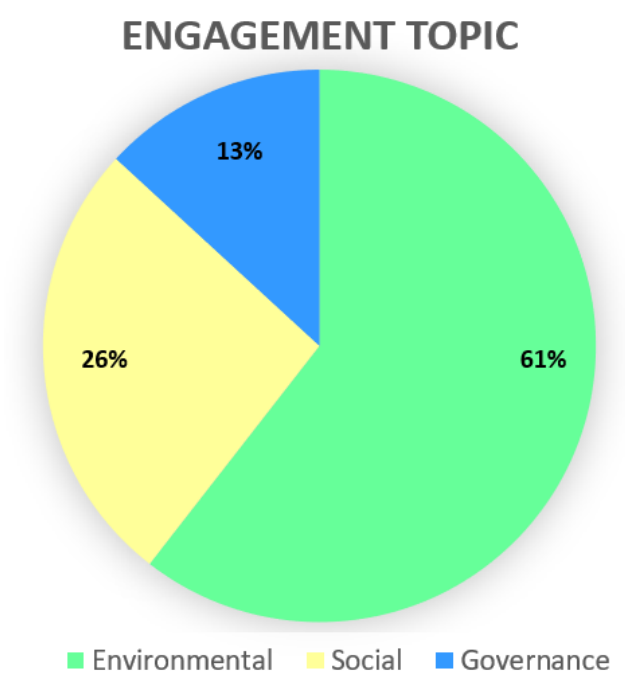
In order to further diversify our funds and where we believe specialist expertise would be beneficial for our clients, we use investment trusts to gain exposure to certain areas, such as energy efficiency trusts, private equity and emerging markets. We have regular meetings with the fund managers of these investment trusts, where we are able to discuss the management, engagement and governance of the underlying holdings. Emphasis is also on the environmental and social credentials, if material, and we expect management to incorporate ESG into their investment approach.

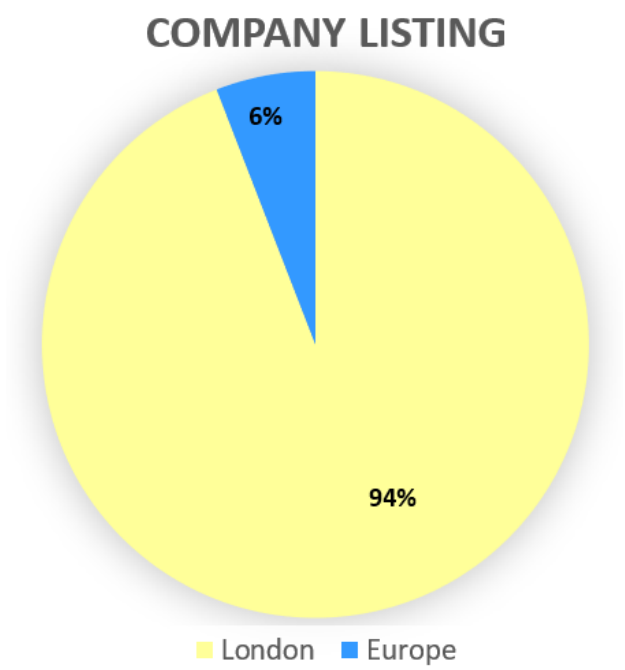
ACTIVE MANAGEMENT & ENGAGEMENT

As active investors in both the UK and global markets, we place great importance on closely monitoring the companies in which we invest, assessing whether they remain a suitable investment for each respective fund. Our active-management approach promotes ongoing research with investee companies. We attend company presentations, engage in one-to-one meetings with company management teams, and carry out continuous research and analysis to maintain a solid financial picture of the current and future value of stocks we hold, along with their development in ESG matters. When appropriate, we engage in active constructive dialogue with investee companies (via verbal or written communication) and vote at AGMs, EGMs and corporate actions, should this be in the interest of our clients; especially, if direct communication with an investee company fails to satisfy our concerns. Church House may seek to engage with other shareholders via both formal and informal avenues, should this lead to more effective discussions in addressing material concerns with an investee company. We question management on financial and non-financial matters and while opportunities for voting with fixed income instruments are limited, we endeavour to apply the above course of action.

EQUITY

Throughout 2022, we engaged with many of our investee companies. While we participated in many meetings during the year, we have recorded a subset of prominent engagements below, 38 meetings, with the topic discussed upon engagement, the country of the company listing and the fund type by asset class engaged in these discussions, visually represented in the pie charts below.





Engagement by Geography

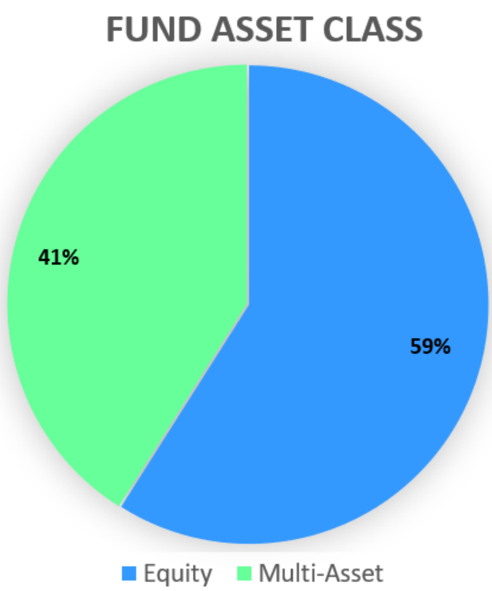
We acknowledge that the **majority of our ESG engagements in 2022 were with London listed companies**, as access to UK senior management and non-executives of potential and existing investee companies is more easily available to us than with other listed global companies (in our case, the USA, Europe and Japan). As a result, we have been able to build strong relationships with many of these investee companies, predominantly in the UK.

As investors primarily in the UK markets (86% of AUM, based on currencies), for both equity and bonds, we feel this priority of engaging with UK listed companies to be reasonable. Nonetheless, we are **always willing and aiming to engage more across all of our global holdings. Engagement across our global holdings via voting**, particularly in North America, has increased nominally and as a proportion of overall votes, compared to last year. A breakdown and more discussion on this can be seen in Principle 12.

Environmental, Social and Governance engagements

During 2022, **environmental** matters accounted for the lion's share of prominent engagements (61%), followed by **social** (26%) and **governance** (13%). While it appears that we have directly engaged less on governance matters, our investment philosophy is to invest in good quality companies with strong management teams. As a result, engagement to enact change in this regard is more rarely necessary. This is not to say that we do not keep a close eye and monitor the governance of a company. We are always willing to intervene and engage with management should we deem this necessary and should this be in the best interests of shareholders.

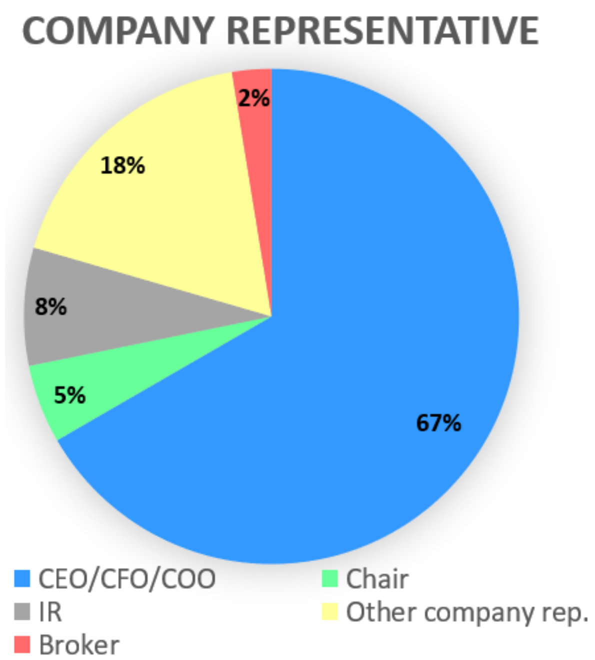
We have included several examples in our discussion with management teams on ESG matters in the activities and outcomes section below.

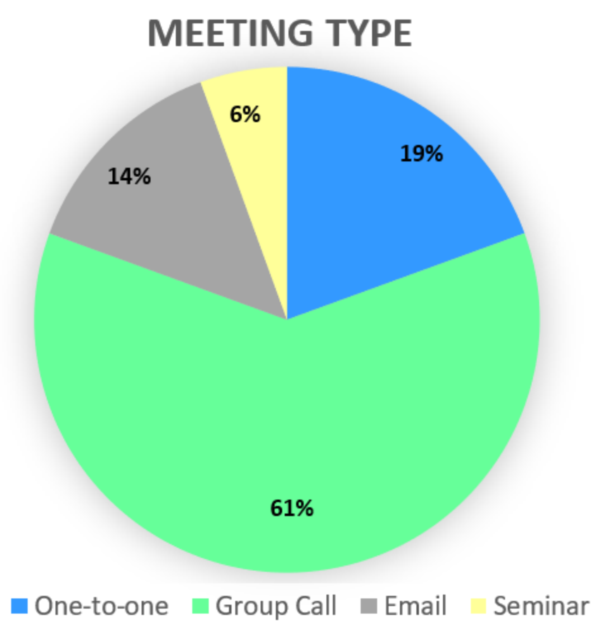


Engagement by Fund asset class

We aim to **apply strong stewardship across all of our holdings**, regardless of asset class, although it is notably **easier to do so across our equity holdings**, where we are also able to influence our investee companies via the shareholder vote, something we are unable to do with our debt-related holdings.

Factors which influence our decision to engage with companies include the **size of our holding across funds, seeking further understanding or action on governance**, **environmental or social matters**, **new initiation of a holding**, and/or **escalation of a recent or ongoing issue**.





Source: Church House Investment Management.
Data as at 31st Dec 2022

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Meeting type

We are pleased that the majority (67%) of our prominent engagements are with the **CEO, CFO and/or COO** of the relevant companies, and on occasion with the **Chair**. In terms of meeting dynamic, **19% are one-to-one meetings**, with the largest portion (61%) being **group calls**. We are pleased with the access we have to management teams and the meeting dynamic, which allows us to listen and engage directly to further our understanding of a subject or raise matters of concern.

We have comprised in-house proprietary ESG checks, split into the headings 'Environmental', 'Social' and 'Governance' matters.

ENVIRONMENTAL

We look to invest in companies which demonstrate a strong willingness and determination to carry out positive ESG practices, and ultimately guide companies along the path to create a more sustainable and environmentally friendly society. We understand that environmental concerns vary by company and, where concern is high (i.e. energy), we assess the company's long-term growth strategy and trajectory of change towards sustainability. Factors which we may take into consideration include, but are not limited to, energy efficiency, renewable energy, GHG emission reduction, plan for net-zero, waste reduction, recycling, water usage, plastic use, palm oil and climate change policies.

SOCIAL

We aim to invest in companies with employee diversity and equality, with an effective upholding of human rights. Non-discriminatory, progressive policies with well-placed controls in employee health and safety, tend to be reliable measures of company culture and social practices. Cyber security and data privacy also remain key concerns and close attention is paid to controls in place to mitigate cyber-threats.

'Red line' companies are those in which we will not invest. These include businesses whose profit is made from pay-day lending, pornography and civilian firearms/land mines. Other areas such as gambling are viewed as morally questionable.

GOVERNANCE

Engagement with investee companies, often via regular meetings and direct dialogue with management, is core to our due diligence investment process, and helps us gain a holistic and sound understanding of a company's corporate governance, including their long-term strategy. We aim to promote sound corporate governance in our investee companies, towards robust ESG and sustainability practices.

Assessing the corporate governance of a firm is important in determining the long-term sustainability, incentives and culture of a company and facilitates us in evaluating which (potential) investments to enter, hold or exit.

Under governance, factors considered include scrutiny of the Board, with close attention paid to the number of directors, non-executive members, independence of the Chair, and the number of women on the Board. For the audit committee we look at the independence of directors and relevant financial experience.

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ESG MATERIALITY

We recognize that the materiality of ESG issues and opportunities vary by company and sector and these issues are thus discussed accordingly. Ultimately, we view ESG as a positive risk mitigator, which promotes investment in high quality businesses and has a positive effect on company fundamentals and the long-term interests of shareholders. Our deep knowledge of each of our investee companies allows us to identify relevant and material (potential) issues to put forward and discuss with management teams.

We do not necessarily view divestment as the most beneficial course of action. As responsible investors and where possible, we aim to help drive a change to positive ESG integration via active engagement, assuming the business fundamentals and pricing are still attractive. However, where there is a significant and material ESG risk in an investee company, should we feel dissatisfied with the willingness of the company to change tack and ameliorate the matter, we may divest.

ESG INTEGRATION

The integration of ESG into our investment team allows for in-depth discussions of material ESG risks in our UK and global investee companies, or potential companies in which we may invest. Should material risks come to light, these are brought forward in our daily investment team discussions, and further reviewed at our monthly Investment Committee meetings. Often, we will engage with investee companies to better understand their views on ESG, the material risks and concerns, and how they plan to address these. Discussions may be via one-to-one meetings with management teams or Investor Relations directors, and/or group meetings and conferences.

Key for us is the engagement on these matters – as long-term shareholders, regular company meetings with management teams and independent non-executive directors allow us to form strong relationships and an open forum for discussion. We hope in this way, both our understanding of the company and its trajectory is improved, and our support, concerns and guidance openly received. We hope to positively influence our investee companies in terms of their internal policies and practices, corporate governance, culture and environmental and societal impact.

RULE OF LAW – GEOGRAPHY / MARKET LISTING

We only wish to invest in countries/jurisdictions where the rule of law persists, there is a free and liquid marketplace and unrestricted currency convertibility. Companies being considered for investment must be incorporated in one of these countries and their shares/stock must be listed on the exchange(s) of one of them. Essentially these are the recognised Developed Markets (which should exclude any countries on the UN Sanctions List).

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Activities & Outcomes

Below are examples of discussions with senior management teams on material ESG concerns for each company, via one-to-one or group meetings.

Governance of risks and patient safety:

Ergomed *engagement on the governance of clinical trial risks and patient safety*

One-to-one meeting with CEO Richard Barfield and CFO Keith Byrne
Held in our CH UK Smaller Companies Fund

Ergomed provide clinical development, management of clinical trials and pharmacovigilance services to big pharmaceutical companies down to small & mid-sized drug development companies.

Objective: During this meeting, we were keen to understand what the main risks when conducting these clinical trials are and how these risks are managed. Whether the risks varied by country (developed/developing countries) and how they ensure patient safety. We were seeking more understanding on how much these risks fall on ERGO, as a company, or on the pharmaceutical companies themselves. Recruitment of patients and whether there was any focus on getting a diverse pool of patients for these trials in terms of patient backgrounds and ethnicities was also discussed.

Discussion: In terms of risks when conducting these clinical trials, the CEO emphasised that they are operating in a heavily regulated industry, having to abide by international clinical trial standards. All contracts and protocols must be done in accordance to these standards during the course of the clinical trails. ERGO are among the most heavily audited companies in the world; there are always 5-10 audits going on (internal, client team, regulatory authorities). In terms of patient safety, findings are taken seriously with trials immediately stopped until an issue is addressed and safety concerns abated. Regulation is effective in mitigating risk – they are rigorous in ensuring that the risk of patients being given the wrong dose, or to the wrong patient is abated. Each trial has their own review board of independent experts who look at the data on a daily, weekly and monthly basis. ERGO's own internal processes are monitored constantly, with any safety concerns able to stop the trials. ERGO also have insurance policies but ideally these are never invoked, as they are never needed.

In terms of the recruitment of patients, ERGO work extremely closely with their clients; the protocol for the trial will dictate who they are looking for. Importance lies on the right patients for the trial and therapy – age, ethnicity, abilities – with a good spread of patients on a global basis necessary. The extent to which the patient pool is diverse or not is dictated by the clinical trial. Patient recruitment is taken seriously by the industry. The patient needs to be supported and advised by a doctor, with serious protocols followed.

Outcome: We were content with the seriousness and tenacity the management team had in ensuring that risks were identified and managed. The actions they have put in place to ensure regulatory compliance and mitigate risks was sensible and reassuring.

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GHG emissions reduction:

Fullers *engagement on GHG emissions*

Email to CFO Neil Smith after attendance of a group meeting with CEO Simon Emeny & Neil Smith
Held in our CH UK Smaller Companies Fund

Fullers are the oldest family brewer in London with a high quality, premium estate, owning managed pubs and hotels, and tenanted inns across the UK.

Objective: Looking at published reports, we were unable to identify how Fullers were dealing with what we understood to be the most material aspect of their GHG emissions. We sought to understand the source of these emissions, and encourage any actions taken to manage and ultimately reduce these emissions over a specified time period.

Discussion: According to the Net Zero Carbon Forum, 83% of GHG emissions for pub groups relate to their supply chain (Scope 3). After attending an update on trading via a group call with Simon Emeny (CEO) and Neil Smith (CFO), we later followed up with the Neil on how they sought to lower their most significant emissions. We were keen to decipher how Fullers found the willingness of their suppliers to co-operate and what their main challenges have been. The CFO swiftly responded that as part of the development of their Net Zero roadmap, 75% of Fullers emissions relate to Scope 3. Tenants account for 10% of these emissions, while food and drink account for 50%, with non-food purchased goods and services associated with the remaining emissions. Some of their **suppliers have set their own net zero and Science Based Targets**, which are in alignment with Fullers goals. For suppliers who have not yet publicly announced a climate goal, Fullers are encouraging improvement in the flow of data, identifying the exposure these suppliers have to Fuller's carbon footprint and the material actions the suppliers can adopt to help Fullers reach their 2030 Scope 1&2, and 2040 Scope 3 targets. Whilst Fullers suppliers are progressing at varying speeds and are at different stages on their carbon reduction journey, they are typically willing to support Fullers in their path to Net Zero.

Outcome: We communicated that we were happy with this response and the steps being taken to lower emissions across their supply chain. It was good to get a breakdown of their scope 3 emissions, to hear the alignment in targets with key suppliers and the work in progress with others. We were also pleased to see set targets and timelines across their Scope 1, 2 & 3 emissions. We will continue to monitor progression in this area.

Carbon footprint:

Big Yellow Storage *engagement on green credentials*

Site visit with CEO Jimmy Gibson and CFO John Trotman
Held in our CH UK Smaller Companies Fund

Big Yellow Storage are the largest self-storage company in the UK.

Objective: At Church House, we view site visits as an excellent setting to engage with management and view the product/service offered first-hand. On this BYG's storage unit in Fulham, London, a particular interest was to understand more about their green credentials and how they have sought to improve the carbon footprint of their storage units, as well as any impact this has had on their lending facilities.

Discussion: During the site visit, we were pleased to hear about the company's green credentials. BYG are targeting net renewable energy positive by 2030. In order to achieve this, 36 assets will need to be retrofitted. In terms of the construction of the storage units, after the company conducted an embedded carbon analysis on new builds, BYG switched to using embedded carbon and steel. This replaces the significantly more carbon intensive use of concrete with a more environmentally friendly alternative: recycled steel. Another part of this is the installation of solar panels, the company have been investing in solar panels for many years, notably so since 2018. While the solar panels were initially being made in China, after the publication of a slave labour report, these are now purchased from Norway, further increasing transparency of the supply chain. All stores are LED fitted, although energy usage is minimal. With regard to debt, we asked whether their green credentials have impacted the interest payable on their debt. It was interesting to learn that in fact it has led to the negotiation of lower margins, albeit a relatively minor adjustment.

Outcome: We were pleased with the strides BYG have been making in their conscious decisions to construct the storage units in a less carbon intensive manner, as well as lower energy usage at the point of use via LED lights.

Environmental considerations and employee engagement:

Porvair *engagement on environment and social engagement*

One-to-one meeting with CEO Ben Stocks and CFD James Mills
Held in our CH UK Smaller Companies Fund

Porvair are a London listed specialist filtration company.

Objective: One of the aims of the meeting was to discuss their newly released second formal ESG report and hear about the challenges/any revelations brought about as a result.

Discussion: On environmental matters, we discussed how the company are working towards full adoption of TCFD guidelines by 2022. Consequently, the Group has set out various targets in order to achieve this. These included:
- Aims to reduce its **total carbon intensity ratio** over time, setting a goal to reduce carbon intensity by 10% between 2020 and 2025.
- The group's **water analysis equipment** ensures drinking water is fit for consumption and waste water is not contaminated.

- **Metal melt quality products** remove contamination, cut waste and help to improve the strength to weight ratio of metal components.
- Further, the Group's **industrial filters** contain and reduce emissions.

However, the CEO also stated that the real revelation for them has been in the 'S' (social), particularly with **employee engagement**. The CEO further explained that it was not until this was formalised that the amount of potential for progress was realised. As a result, regional managers now have **an employee engagement element of their remuneration package**. Examples mentioned include the incentive to improve products that teams have been highlighted, and a focus on the 'quit rate'. The US Federal Reserve measures the percentage of people who quit voluntarily in the average year (~2.5%). This sort of thinking **led them to dramatically improve wage rates for the lower paid beyond the statutory increases** – with the lower paid also having a bonus scheme.

Outcome: We were pleased with the implementation of their ESG report, the increased formality of their approach and the setting of environmental targets. As investors, we value candid discussions with our investee companies. We appreciate a company's willingness to engage, improve on targets and incorporate meaningful realisations to enhance their sustainability and ESG credentials.

Access to medicine, IP, vaccine efforts and diversity:

AstraZeneca *engagement on access to medicine, IP, vaccine efforts and diversity*

ESG Seminar with Chairman Leif Johansson & CEO Pascal Soriot

Held in our Tenax Absolute Return Strategies Fund, UK Balanced Equity Income Fund and UK Equity Growth Fund

AstraZeneca are a **multinational pharmaceutical and biotechnology company.**

Objective: The aim of the meeting was to better understand the material ESG factors affecting the pharmaceutical industry, and AstraZeneca in particular.

Discussion: During this seminar we developed a better understanding of how the perception of ESG in the pharmaceutical industry has changed significantly, **with key issues being access to medicine, debate on intellectual property (IP), vaccine efforts** and **the diversity debate.** Compliance has gone from being rules-based to **principles-based** – with importance on culture and values, and reaching targets ethically. As a global company, AZN have presence in 100+ companies, where they **set their own minimum standards** on promotional activities of drugs, which are **higher than the laws in individual countries and industry codes**. **Sustainability** has become a large part of the Board agenda, and they have launched a Sustainability Committee. AZN are tracking **employee engagement** via employee opinion and a 'speak up culture', leading to a **real discussion of points made** and company improvements. With regard to **animal testing**, the company are actively exploring other options to minimise their use in research. This is heavily regulated & AZN conduct audits with suppliers. The Board follow this closely, looking to technological opportunities/development over time. Reasons for animal testing are regulatory – this is the only way known to bring safe medicine to humans. **Inclusion & Diversity council** – chaired by the CEO. KPIs in place to **encourage women in senior roles,** with five females on the Board with diverse background experiences. 90% of employees answered positively about diversity and inclusion in the workplace. **Net Zero** - **AZN's SBTis (Science Based Targets) have been approved** and they are working with suppliers to make sure they also have SBTis by 2025. AZN aim to be carbon neutral by 2025 for their own operations, and carbon negative by 2030. Giving sites carbon reduction targets and comparing different sites to encourage those

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lagging to do better (i.e. US sites). In the short term, AZN have transitioned to 100% renewable power.

Outcome: This seminar was beneficial for us in learning both the key risks, and how AZN are managing this. We were satisfied with the actions the firm were taking in order to tackle ongoing ESG issues, and their commitment to SBTis.

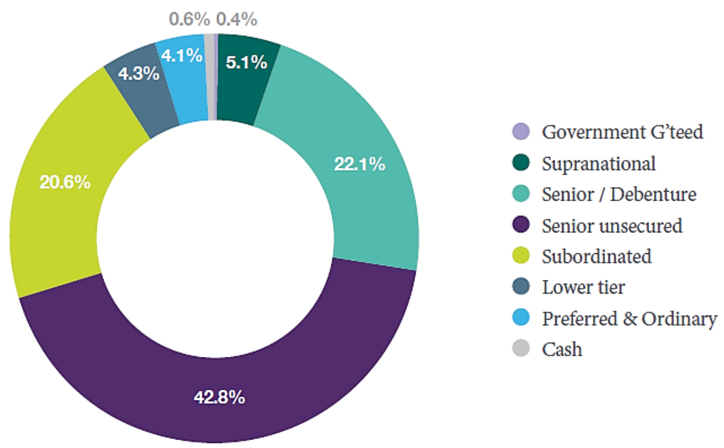
CREDIT

In relation to applying ESG to credit, we have always acted in the long-term and best interest of our clients, placing particular emphasis on corporate governance. In advance of taking-up an issue in a bond, the company as a whole is evaluated, with careful consideration paid to the sustainability of the business model.

When evaluating a bond, close attention is paid to the risks of various lending structures (senior secured/unsecured subordinated/lower tier) – we primarily invest in investment grade bonds. The bond's duration and maturity, and the length of time it is intended to be held, is closely deliberated. Potential changes to the strength of a company's balance sheet resulting from ESG or financial related issues are assessed, with particular attention paid to any effect on price and volatility. Further to this, our portfolios are highly diversified to mitigate specific risk.

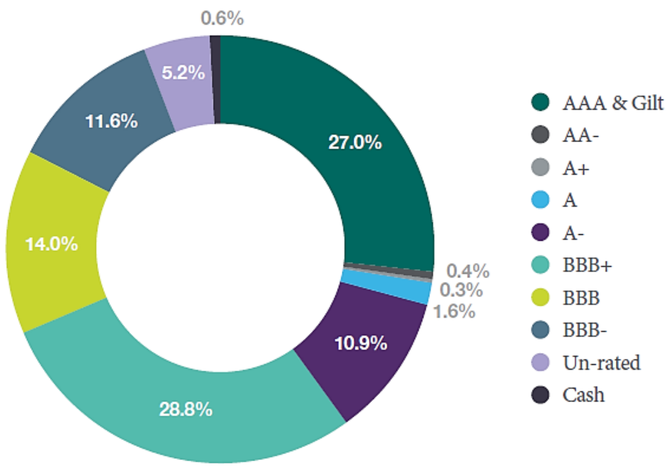
The disposition and rating split of our Investment Grade Fixed Interest Fund as at 31 December 2022 can be seen below – all holdings are investment grade:

Disposition



Source: Church House

Rating Split (S&P/Equivalent)



Source: Church House

We keep up to date with movements in credit markets, paying close attention to sector themes, alongside maintaining close and regular contact with credit analysts who alert us to any areas of concern. Regular attendance of roadshows and engagement with issuers is an important feature in our investment process. With new issues, the fixed income team participate in the accompanying presentation, usually with the CFO/Treasurer. This is either in person or online via the netroadshow meeting, usually as a one-to-one or group meeting.

Unlike equities, the nature of fixed income and green/social/sustainable bonds differ in that there is a defined structure and framework accompanying these issues, with a detailed policy and documented programme. For this reason, engagement with management teams tends to be lower than for equities.

Green bonds:

Funds we manage, which hold fixed income, include our **Investment Grade Fixed Interest Fund (CHIG), Tenax Absolute Return Strategies Fund (Tenax)** and **Balanced Equity Income Fund (CHBE).** We regularly engage with issuers via netroadshows and closely look at the Sustainable/Green Bond Framework before taking allocations in issues.

We view these bonds as a good way to drive positive ESG practices and hold companies accountable in the use of the proceeds raised. If an issuer fails to deliver on their goals set, these companies will be held to account by bond holders, which will also deter investors from taking part in any further issuance. **Coupon step-ups**, should companies fail to keep to their ESG targets, are also a valued deterrent against any negligence in adhering to these promises.

Before taking part in an ESG bond issuance, we continue our investment process of bottom-up research to closely examine an issuer's financials, as well as, specifically for green bonds, their Green Bond Framework, which includes the proposed use of proceeds, projects and second party verification. Before purchasing a bond, we are strict in our pricing criteria and aim to not overpay for a bond.

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2022 activity

During 2022, green financing for environmentally friendly projects far out-paced money raised in debt markets by fossil fuel companies. This amounts to $580bn versus $530bn respectively, according to Bloomberg. However, since the Paris Agreement came into play in 2015, banks have issued almost $4.6trn in fossil fuel financing, double the $2.3trn raised from green bonds and loans. Having said this, market conditions of rising interest rates, widening credit spreads and market volatility significantly reduced primary market activity, leading to markedly lower sterling issuance in 2022 compared to the year prior. As a result, opportunities to invest in green bond issuance, which also fit our other criteria of good quality, investment grade, sterling issues were few and far between.

We are always looking to increase our allocation of green bonds. As at 31st December 2022, bonds in the green/social/sustainable space accounted for **15% of the fixed interest element of Tenax**, and **6% for CHIG.**

We added **Whitbread Green Bond 2.375%** in May and October this year, for our Tenax Absolute Return Fund (Tenax). This was a new holding for Tenax, although, an existing holding in our CH Investment Grade Fixed Interest Fund (CHIG). We also added to our **Berkeley Group Green Bond** holding in February for Tenax, and in May for CHIG. A new holding for the firm was **Deutsche Pfandbriefbank**, in which CHIG initiated in December.

While we looked to add to more new green bond holdings, unfortunately this was not possible given the market and the lack of green bond issuance, which fit our aforementioned criteria.

Below we have set out examples of green bonds held in our funds, use of proceeds in accordance to their Frameworks & net road shows, and a reporting update on use of funds raised:

The light green format signals the bond was bought prior to the 2022 calendar year, while the darker green format signals the bond has been newly bought, or the holding was added to, during 2022.

Year	Date purchased/ added to	CH Fund	Company	Coupon	Currency	Amount	Maturity
2021	24/06/2021	Tenax	**Anglian Sustainable Linked Bond**	2.000%	GBP	2.3MM	07/2028

Use of proceeds:

• Anglian Water (Osprey) – GBP 7yr Sustainability-Linked Bond
• Step-Up Event - rate of interest will be increased by step up margin 12.5bps per KPI, if either KPI target not met:
o KPI 1 & SPT 1a (Sustainability Performance Target): Reduce Net Operational Carbon Emissions by 30 per cent by 31 March 2025 from the 2018/2019 baseline (expressed in tonnes of C02 equivalent)
• SPT 1b – Net zero on Net Operational Carbon emissions by 2030 from 2018/19 baseline.
• Action plan involves reducing/avoiding GHG emissions, use of renewable energy and green electricity.
• In calculating annual GHG emissions, raw data for fossil fuels, treated sludge, etc. is collected from around the business and entered into the UKWIR (UK Water Industry Research) Carbon Accounting Workbook. Data is then compiled within the Carbon Accounting Workbook to provide scope 1, 2 and 3 emissions.
o KPI 2 & SPT 2a: Reduce Capital Carbon Emissions by 65 per cent by 31 March 2025 from the 2010 baseline (expressed in % of emissions avoided in tonnes of C02 equivalent). This is carbon footprint as a result of

the construction projects Anglian Water undertake (extractions, transportation and processing of raw materials).
• SPT 2b – 70% of carbon emissions avoided by 2030 from 2010 baseline.
• Action plan: verified process in place to manage carbon in infrastructure
• Annual communication on KPI & SPT (info & reporting) & performance against target externally verified by independent third party

Update from Sustainable Finance Impact Report (2022):

- **KPI Net operational carbon** (target by 2025 to reduce 106,905 tonnes of CO_2 equivalent compared to a 2010 baseline). Carbon emissions for 2021/22 were reduced by 35,494 tCO2e, a 9.9% decrease in emissions against the baseline. This carbon emission reduction has been achieved as a consequence of consuming less energy, as well as an increase in the proportion of renewable electricity.
- **KPI Capital carbon** (target by 2025 to reduce carbon emissions from construction activity by 65%, measured in tonnes of CO2 equivalent compared to 2010 baseline). In 2022 Anglian Water had achieved a 63.1% reduction, via their programme to increase storm retention capacity. The company have delivered capacity increases, while lowering the quantity of new, carbon heavy construction required, by using existing, redundant assets (extended and reconfigured) with lower carbon materials.
- **Plans by 2025 include:**
  - Maximising energy efficiency and renewable energy generation and storage
  - Procuring green electricity
  - Decarbonising vehicle fleet
  - Maximising the value of their biogas
  - Opting for alternative fuels
  - Developing an offsetting strategy

2021	04/08/2021 15/02/2022	Tenax	**Berkeley Group Green Bond**	2.500%	GBP	4MM	08/2031

Use of proceeds:
• As a home builder, Eligible Green Assets will be Green Buildings, covering all of the development costs associated with delivering private and affordable homes which are EPC A or B rated and delivered on brownfield land (transforming neglected brownfield land into flourishing, well-connected, nature rich, low carbon neighbourhoods and communities).

• The environmental objective is climate change mitigation and biodiversity conservation.
• The Green Finance Committee will be chaired by the CFO and meet semi-annually to review and approve Eligible Green Assets.

Berkeley was the first homebuilder to launch a climate change policy back in 2007, and reduced the carbon impacts of its direct operations by more than 70% between 2016 and 2019, through investing in more efficient operations and procuring 100% renewable electricity.

Berkeley has now adopted 1.5°C aligned science-based targets for reducing the full scope of greenhouse gas emissions connected to our company. This puts Berkeley on course to be a net zero business by 2040.

Update from Impact Report (2022):

Case studies on reviving under-used spaces, including redundant gasworks and industrial estates.

- **Grand Union, Brent** – transformation of derelict industrial estate into a new homes with landscaped open spaces, canal-side piazza and walking and cycling routes. This would have 50% public open space, +240% biodiversity gain (riverside meadow and grassland habitat) with rooftop photovoltaic panels and 100% EPC A or B.
- **London Dock, Wapping** – previously the print works for the News International media group, the space is being transformed into 1,800 homes with 6 acres of landscaped public spaces, +436% biodiversity gain and 99% EPC A or B.

2021	04/08/2021 27/05/2022	CHIG	**Berkeley Group Green Bond**	2.500%	GBP	3.5MM	08/2031

Use of proceeds:

• As a home builder, Eligible Green Assets will be Green Buildings, covering all of the development costs associated with delivering private and affordable homes which are EPC A or B rated and delivered on brownfield land (transforming neglected brownfield land into flourishing, well-connected, nature rich, low carbon neighbourhoods and communities).

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2021	10/11/2021	Tenax	**Derwent Green Bond**	1.875%	GBP	4.75MM	11/2031

Use of proceeds:

Attended Net Road Show with Damian Wisniewski (CFO), Nigel George (Director) and John Davies (Head of Sustainability). Leading London-focused office REIT with £5.4bn portfolio (91% offices, 9% retail and hospitality), predominantly in the West End.

First of peers to set out net-zero pathway in July 2020. Existing and future major development projects to be net zero carbon, using lower carbon materials and construction methods, recycling of materials and use of verified carbon offsetting schemes. In operations, all electricity supplies are on renewable tariffs, retrofitting all electric boilers across the portfolio, and building specific energy targets in line with a 1.5 degree climate scenario (2030).

Use of proceeds from this Green Bond will be towards Eligible Green Projects as set out in their Green Finance Framework: £5-10m p.a. to spend on retro-fitting greenness on older buildings, on top of £400m of committed future capex on projects such as Soho Place, The Featherstone Building and 19-35 Baker Street.

Eligible projects include:

• Green buildings – new developments or major refurbishments subject to BREAAM Excellent/LEED Gold rating. Refurbishment of commercial and residential buildings and spaces, which may result in a measurable improvement in the EPC rating of the existing building.

• Renewable energy – projects such as investment, installation and deployment of on-site renewable energy generation sources e.g. solar and wind. As well as offsite renewable energy generation e.g. wind, biogas and geothermal.

• Energy Efficiency – improvements of at least 20% in the energy efficiency of the building or space.

• Pollution prevention and control – installation of waste facilities to allow for higher levels of recycling and recovery.

• Clean transportation – improve accessibility to clean transport (bicycle racks).

• Sustainable water & wastewater management, such as leak detection systems and low flow taps.

Update on Reporting:

Reporting for this bond will be annually in their Report and Accounts. Given this was a new issue in November 2021, no updated report has yet been issued to update us on progress. However, given the element of 'look back' capital expenditure on projects, which had already begun, prior to the original refinancing date, the cumulative qualifying expenditure on Eligible Green Projects as at 30 June 2022 was £597.6m, with £34.8m spent in H1 2022. Projects that qualify and where spend has been/will be going towards include 80 Charlotte Street, Soho Place, The Featherstone Building, and 25 Baker Street.

2022	01/12/2022 21/12/2022	CHIG	**Deutsche Pfandbriefbank**	7.625%	GBP	7.1MM	12/2025

Use of proceeds:

Deutsche Pfandbriefbank AG is a German bank that specialises in real estate and public sector financing. pbb have decided to issue green bonds to enhance its contribution to society and the tackling of the climate crisis by helping property owners transition to a lower carbon economy. By issuing Green Bonds, pbb are able to promote the reallocation of capital to loans for the construction of 'Green Buildings', or retrofitting/modernising existing buildings.

An amount equivalent to the net proceeds of the Green Bonds issued will be allocated to Eligible Green Loans, which are to finance the modernisation, refurbishment or acquisition of existing Eligible Green Real Estate Assets, or to finance developments or construction of new Eligible Green Real Estate Assets.

These must meet at least one of the following two criteria:

- Green Building Certification, where Eligible Green Real Estate must be certified with a minimum of:
  - BREAM: Very Good or above
  - LEED: Gold or above
  - DGNB: Gold or above
  - HQE: Very High of above
- Energy Efficiency Performance
  - Where Eligible Green Real Estate have to demonstrate a Final Energy Consumption lower than certain thresholds depending on the use of the building (Office, Hotel & Retail, Residential, Logistics) – details in Framework.

Update from latest impact report (2022):

The decrease in CO2 as a result of green properties financed by pbb is calculated by comparing these property emissions against the emissions from a benchmark of standard properties in the market. As of 30th November 2022, pbb calculated a reduction of 40,464 tonnes of CO2 per year. As a result, per EURO 1 million bonds issued, 16.52 tonnes of CO2 is saved, or 13.54 tonnes of CO2 saved for every EUR 1 million financed. This is based on a total financed volume of EURO 3 bn.

2022	03/11/2021	Tenax	**NatWest Green Bond**	2.057%	GBP	2MM	11/2028

Use of proceeds:

NatWest Group is supporting its residential mortgage customers to increase their residential energy efficiency with an ambition that 50% of their mortgage portfolio is at, or above an Energy Performance Certificate (EPC) rating of C or equivalent by 2030. Since October 2020 Natwest have introduced new Green Mortgage products offering lower interest rates for customers purchasing and re mortgaging more energy efficient homes with an EPC rating of A or B, rewarding them for playing their part in helping to drive the UK transition to a net zero economy.

The Eligible portfolio focuses on energy efficiency, via Green Mortgages (or if unavailable, high EPC A or B) for new and existing domestic properties.

Update from Green, Social and Sustainability bonds allocation and Impact Report (2021):
The net proceeds from the Green Bond have financed and/or refinanced Green Mortgages. Since the issue in November 2021, a pool of Green Mortgages was selected, accounting for 50% of the net proceeds from the issue. Further eligible Green Mortgages, amounting to £570m (as at 31 Dec 2021) have been selected. This represents 95% of the £600m target for their Green Mortgage Portfolio, which should be fully allocated by November 2022.

2021	10/02/2021	Tenax	**Orsted**	2.5%	GBP	2.8MM	08/2032

Use of proceeds:
In their latest Green Bond Framework, Orsted have committed to limiting the use of proceeds to offshore wind projects only, which are evaluated to deliver a long-term positive net environmental effect. The net proceeds can be allocated to the financing, or re-financing, of a pool of eligible projects (offshore wind farms), including the acquisition, development and construction. Orsted have been successful in leveraging their capabilities to become the leading global player in the offshore wind market, representing a 30% share of the total capacity in operation or under construction.

Update from latest impact report (2021):
• The green bond framework was reviewed by CICERO Shades of Green, to increase accountability with a second option. The framework was awarded a dark green shading, which is the highest grading a framework can receive.
• Orsted measure the impact of allocated green bond proceeds by calculating the avoided emissions and the number of people that could be powered by green energy. Each year, 12.1 million people can be powered by the six green bond projects in operation and under construction. Moreover, there is a further 3.2 million tonnes of avoided CO_2 emissions potential from allocated green bond proceeds annually.

2021	27/10/2021	CHIG	**Tesco Sustainability Linked Bond**	1.875%	GBP	2MM	11/2028

Use of proceeds:
The 400m GBP bond, which was heavily over-subscribed, will be used as set out in their Sustainability Linked Bond (SLB) Framework. Under its Sustainability-Linked Bond Framework, the financial structure of the SLB is tied to the achievement of their Sustainability Performance Target 1 (SPT): Reduce the Group GHG Emissions by 60% by 2025 with respect to 2015 baseline.

Tesco will focus on Scope 1 and 2 emissions for the purposes of this Framework as it represents the majority of their GHG emissions and is in Tesco's direct control. Tesco's Scope 1 and 2 emissions account for approximately two thirds of total emissions from the Group's own operations.

To achieve the set carbon reduction targets in its sustainability strategy:
- Tesco has committed to sourcing 100% of the Group's electricity needs from renewable sources by 2030 and reducing its transport emissions through the use of alternate fuels, route optimization, the installation of electric vehicle charging points, and engagement with major suppliers to encourage them to reduce their emissions.

Strategy to achieve the SPTs:
- Prioritising the sources which contribute the largest share: grid electricity made up the majority of such emissions, followed by refrigerant gases, heating, and distribution. As a result, Tesco's efforts to procure renewable energy via power purchasing agreements (PPAs) will play an important part in its overall strategy to achieve its SPTs. This is alongside Tesco's reduction in electricity demand through efficiency at its facilities and engaging with partners to achieve savings. Tesco accounts for 1% of electricity demand in the UK and online delivery capacity has reached 1.5m slots per week in the UK.

There is a step-up margin of 37.5bps p.a. if GHG Scope 1 Emissions and GHG Scope 2 Emissions as of FY2025/26 are reduced by less than 60% in comparison to FY2015/16 baseline.

Approved by Sustainalytics, Second Party Opinion, where Sustainalytics considers the 'SPTs to be ambitious and impactful'.

Update from Sustainability Linked Financing section of website:
For 2021/22, Tesco have lowered Scope 1 and 2 GHG Emissions (tCO2e) from the 2015/16 baseline, from 2,292,227 to 1,126,205 tCO2e. This equates to a 51% reduction from the baseline.

2021	27/10/2021	Tenax	**Tesco Sustainability Linked Bond**	1.875%	GBP	3MM	11/2028

Use of proceeds:
The 400m GBP bond, which was heavily over-subscribed, will be used as set out in their Sustainability Linked Bond (SLB) Framework. Under its Sustainability-Linked Bond Framework, the financial structure of the SLB is tied to the achievement of their Sustainability Performance Target 1 (SPT): **Reduce the Group GHG Emissions by 60% by 2025 with respect to 2015 baseline.**

Tesco will focus on Scope 1 and 2 emissions for the purposes of this Framework as it represents the majority of their GHG emissions and is in Tesco's direct control. Tesco's Scope 1 and 2 emissions account for approximately two thirds of total emissions from the Group's own operations.

To achieve the set carbon reduction targets in its sustainability strategy:
- Tesco has committed to sourcing 100% of the Group's electricity needs from renewable sources by 2030 and reducing its transport emissions through the use of alternate fuels, route optimization, the installation of electric vehicle charging points, and engagement with major suppliers to encourage them to reduce their emissions.

Strategy to achieve the SPTs:
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For 2021/22, Tesco have lowered Scope 1 and 2 GHG Emissions (tCO2e) from the 2015/16 baseline, from 2,292,227 to 1,126,205 tCO2e. This equates to a 51% reduction from the baseline.

2021	21/01/2021	Tenax	**United Utilities Sustainable Bond**	0.875%	GBP	1.8MM	10/2029

Use of proceeds:
• The company's first sustainable bond issue, with proceeds used to finance or refinance, in whole or in part, new or existing Eligible projects. Eligibility criteria include projects which reduce pollution and impacts of water abstraction, improve water quality, reduce water losses from the system and flooding mitigation projects.

Update from latest Sustainable Finance Framework Allocation and Impact Report (2022):
Sustainable bond proceeds in action:

- **The Water Industry National Environment Programme** (WINEP) - a five-yearly programme to establish the environmental improvements that need to be delivered by water companies. Wide range of investments identified for the 2020-2025 period to address spills from combined sewer overflows, reduce phosphorus pollution to water courses in line with the requirements of the water framework directive, restore peatland and create biodiversity, improve the condition of catchment land, protect bathing and shellfish waters and conduct investigations to better understand their impact on the North West environment.

  Catchment Systems Thinking approach (CaST) – aim to create value by finding opportunities to work with partners, and generate solutions, by evaluating the needs of multiple stakeholders across catchments. The idea is to collaborate over challenges around biodiversity, flooding, water quality and resilience. UU completed a regional natural capital baseline, which was openly shared with shareholders through their collaboration portal, with the aim to work together to maintain and enhance the natural capital of the North West. The regions natural capital will be monitored periodically. UU have set a natural capital outcome delivery incentive in their 2020-25 business plan, which has led to solutions such as an integrated constructed wetland being delivered at Southwaite wastewater treatment works in Cumbria. This will enhance biodiversity and treat storm spills, while delivering the same water quality benefit as the alternative traditional concrete storm tank.

- UU have committed to deliver £230 million in environmental improvements. This will support a **sustainable decrease, of at least 33%, in the amount of spills recorded** from storm overflows by 2025, compared to the 2020 baseline. Investment at these sites will result in 184 km of improved waterways, with all storm overflows monitored by 2023.

2021	03/02/2021	CHIG	**Whitbread Green Bond**	2.375%	GBP	3MM	05/2027

Use of proceeds:
• Proceeds used to finance or re-finance Eligible Green Projects: **Green Buildings** (to BREEAM 'very good'+, LEED 'Platinum'+ or EPB B or above standards), **Energy Efficiency** (including installation of heat pumps), **Clean Transportation** (installation and running of EV charge points & investment in electric only vehicles, reducing waste to landfill through recycling, renewable energy across the estate in the UK & Germany) and **Sustainable Procurement** (Environmentally sustainable management of living natural resources and land use, such as sustainable timber, cotton and fish to protect aquatic biodiversity).
• Monitor use of proceeds and report on impact annually.

Update from Green Bond Presentation (2022):
£404m of the total £550m Green Bonds has been allocated against the Eligible projects in their Green Bond Framework (£146m remaining to allocate). This has been split into £199m in green construction, £174m in green operation and £31m in sustainable procurement. This has led to 45 sites being built to high environmental standards, 311,000 tonnes of CO2 emissions avoided and 100% of consumables and fish allocated against were procured to certified sustainable standards.

2022	04/05/2022 06/10/2022	Tenax	**Whitbread Green Bond**	2.375%	GBP	3.5MM	05/2027

Use of proceeds:
• Proceeds used to finance or re-finance Eligible Green Projects: **Green Buildings** (to BREEAM 'very good'+, LEED 'Platinum'+ or EPB B or above standards), **Energy Efficiency** (including installation of heat pumps), **Clean Transportation** (installation and running of EV charge points & investment in electric only vehicles, reducing waste to landfill through recycling, renewable energy across the estate in the UK & Germany) and **Sustainable Procurement** (Environmentally sustainable management of living natural resources and land use, such as sustainable timber, cotton and fish to protect aquatic biodiversity).
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2021	03/02/2021	CHIG	**Whitbread Green Bond**	3.000%	GBP	2.2MM	05/2031

Use of proceeds:
• Proceeds used to finance or re-finance Eligible Green Projects: **Green Buildings** (to BREEAM 'very good'+, LEED 'Platinum'+ or EPB B or above standards), **Energy Efficiency** (including installation of heat pumps), **Clean Transportation** (installation and running of EV charge points & investment in electric only vehicles, reducing waste to landfill through recycling, renewable energy across the estate in the UK & Germany) and **Sustainable Procurement** (Environmentally sustainable management of living natural resources and land

use, such as sustainable timber, cotton and fish to protect aquatic biodiversity).
• Monitor use of proceeds and report on impact annually.

Update from Green Bond Presentation (2022):

£404m of the total £550m Green Bonds has been allocated against the Eligible projects in their Green Bond Framework (£146m remaining to allocate). This has been split into £199m in green construction, £174m in green operation and £31m in sustainable procurement. This has led to 45 sites being built to high environmental standards, 311,000 tonnes of CO2 emissions avoided and 100% of consumables and fish allocated against were procured to certified sustainable standards.

2021	04/03/2021	Tenax	**Workspace Green Bond**	2.250%	GBP	3.5MM	03/2028

Use of proceeds:

• New green issue with proceeds towards eligible green projects, as outlined in their Green Finance Framework, including green buildings, eco-efficient/circular economy adapted products, production technologies and processes, renewable energy, energy efficiency, clean transportation, pollution prevention and control and sustainable water management. The most significant is financing or re-financing 'Green Projects', with the BREEAM excellent target. Example case study 'Brickfields' – re-built for requirements of modern businesses today.
• Green Finance committee responsible for upholding framework and selecting eligible projects with annual progress reported.

Update from their Workspace Green Bond Allocation Report:

This report set out the £284.8m of expenditure to date against relevant eligible green project categories. Workspace have purchased certified renewable electricity for 3 years (96% of all purchased electricity was on a green tariff from April 2019 to March 2021), and 11 buildings refinanced, including 8 BREEAM Excellent ratings and 3 BREEAM Very Good ratings. An example of an Eligible Green Project includes Mare Street, with the redevelopment designed to achieve energy efficiency with its smart metering system and solar panels, as well as incorporating customer health and wellbeing features with numerous breakout areas and terraces.

INVESTMENT TRUSTS

Investment trusts allow us to gain exposure to specific areas, in which we feel external management teams with specialist expertise would best serve our clients. Below are examples of investment trusts in which we are shareholders, one of which is notably supporting the UK's transition to net zero by 2050, with actionable projects assisting in this pathway to a more sustainable future.

Keystone Positive Change Investment Trust

Added to ethically minded client portfolio in May 2022.

Context

At the behest of an ethically minded client, who wanted their capital allocation to provide a positive ESG impact, we screened the Investment Trust universe for suitable investments.

Activity

We keep abreast of as many Investment Trusts as possible, paying attention to the universe as a whole, and not just the Investment Trusts of which we are currently shareholders. To do this, we regularly: listen to management teams present, read report and accounts, monitor research notes from reputable sources and track Investment Trust performance and activity at a stock specific level. Having been long term holders of Scottish Mortgage Investment Trust and Monks Investment Trust, we are extremely au fait with the overarching Baillie Gifford investment strategy. As a consequence of this long-standing relationship and deep understanding of the manager, we decided to take a position in **Keystone Positive Change Investment Trust**, for whom Baillie Gifford have been the manager since February 2021.

Keystone Positive Change Investment Trust aims to grow capital and **contribute towards a more sustainable and inclusive world** by investing in the equities of companies whose **products or services make a positive social or environmental impact**. Key to achieving this aim is a discernible strategy - **delivering a positive impact**. The trust only invests in companies for whom delivering a positive impact is **core** to their business; whose products and services represent a significant improvement on the status quo; and who conduct business with honesty and integrity. To that end, the trust has identified four impact themes: **social inclusion and education, environmental and resource needs, healthcare and quality of life, and base of the pyramid.** The trust has a six-stage investment process which allows both the impact and investment objectives to be considered equally. Critical steps in this process include: **idea generation, company research, monitoring and engagement and impact analysis.**

Outcome

Given the above research and trust in our long-standing relationship, we decided to take a position in the trust, satisfied that it more than met our clients' objective. As well as tracking performance, portfolio activity and management engagement – ongoing stewardship is best monitored through the **Keystone Positive Change Impact Report**. This thorough report is published by the trust on an annual basis and provides a detailed analysis of the impact each its portfolio companies has had on the above four impact themes. In the latest annual report, aggregated impact analysis from portfolio companies yielded the following highlights: **Provided access to online marketplaces for over 94 million people, helped farmers engage in better farming practices on 132 million hectares of land, enabled 5 million people to engage in healthcare services, provided financial services to 1.4 billion people and contributed to the delivery of 807 million vaccines.**

THIRD PARTY SERVICE PROVIDERS AND BROKER RESEARCH

We use various third-party service providers and sell-side brokers for research on company stocks, industry analysis, macro events and ESG analysis. We monitor the quality of this research and brokers throughout the year, and if there are any issues with our current providers, or we believe it necessary to increase our research provision/on-board another broker, this will be discussed and addressed in our Investment Committee. This may involve increasing the breath and scope of an existing contract, cancelling the contract or on-boarding a new provider/broker to supplement our existing research capabilities. Evidence of this came about in 2020, where we on-boarded Berenberg research for further coverage on UK equity stocks and macro research.

As a firm, we follow a bottom-up investment approach, focusing on high quality holdings in both our equity and credit funds. Where third-party ESG and broker research is lacking sufficient detail/understanding, we aim to engage with specialist analysts or senior management teams to improve our understanding, discuss, and if possible, guide the company in their development of ESG practices. We do not solely rely on third-party investment research, and, as a small team we have ongoing daily discussions of our holdings with our experienced fund managers. In our Investment Committee meetings, we have in-depth discussions with our Chair, the CEO & Joint-CIO, Joint-CIO, Fund Managers and broader investment team on changes within the funds, positioning as a result of market events and ESG considerations.

To date, we have **not** had an occasion where we have needed to provide our service providers with actionable criteria to support ESG and integration of stewardship, as we believe this is being actioned and progressing well among the many research brokers we use.

Verification of our satisfaction with the ESG research providers of one of our broker/research firms:

During 2022, we further verified our satisfaction with our ESG research brokers. We attended various ESG webinars hosted by Jefferies, and can confirm we are happy with the breadth and depth of ESG coverage we are being offered. Of particular interest this year, was their ESG materiality series. In this we understood that ESG 'material' events vary - emissions reduction targets may or may not be material for certain companies. The panel discussed the meaning of different forms of ESG materiality - financial materiality, double materiality and dynamic materiality – and their implications on the environment, society, stakeholders and a business financial performance. Importance on robust governance structures in place and high levels of organisations being responsible for ESG was emphasised, something which we have looked out for when assessing ESG for our investee companies.

We are happy with the level of ESG research we receive, as mentioned with our broker Jefferies, as well as through various other webinars, conferences, and research brokers.

8. Monitoring of Account Managers and/or Service Providers

MONITORING OF ACCOUNT MANAGERS

Activity

The **monitoring of the account managers (fund managers at Church House) is a layered process**. Initially, it is a responsibility of the two joint CIOs to monitor the actions of the fund managers, which they do daily. We have enhanced this by ensuring that the investment team sit together on the same bank of desks, both equity and credit teams, where a collegiate approach can help and ameliorate trading processes and idea generation.

Additionally, the CIOs and fund managers report to the Investment Committee each month, detailed reports are drawn-up prior to these meetings for each of the funds with a separate review as to limits and compliance by the Compliance Officer. Performance data as to returns and volatility of those returns for each fund and level of risk is also provided and escalated to the Board.

In 2021 we hired an Operational Assurance Manager to give the business greater oversight in this function as the firm increased in size. The Operational Assurance Manager covers three essential areas critical to the efficient and compliant functioning of the funds: Legal & Technical, Monitoring & Risk Reporting, and Oversight & Due Diligence. This ensures the funds are fully compliant, e.g. meeting prospectus restrictions such as Investment Objectives & Policy, monitoring liquidity, charges, turnover and confirming that best execution has been demonstrated.

Our funds have remained compliant throughout the year, with one exception. Where we may have edged closer to some of the limits, the Operational Assurance Manager has highlighted these to the Investment Committee and then monitored to make sure that they have been addressed.

The one exception related to an issue that we, as well as the Authorised Corporate Director (ACD) at the time, and the fund's Depositary should have identified. One of our funds had a holding in another fund, and that holding had very slightly exceeded 25% of the units in issue. This was identified by our new ACD, we addressed the issue immediately and implemented new procedures to prevent a reoccurrence of the issue.

Outcome

2022 was a grim year for investors, with weakness across a broad spread of financial assets, although thankfully with a slight recovery in the fourth quarter. As a result, the performance of our individual funds was challenging over the course of 2022. The risk level performance of our client portfolios and volatility of each of the levels was however satisfactory given these market conditions. We have made no changes to the managers and mix of managers of our funds over the course of 2022, however we did hire a new fund analyst on the credit side of the business who joined the team on the 1st January 2022.

MONITORING OF SERVICE PROVIDERS

Activity

As a firm, we do have service providers which provide us with research, specifically regarding ESG matters. An example of this can be seen in Principle 7 with Jefferies ESG webinars and the research we benefited from during the year. We gather information from a variety of sources, notably Bloomberg and audited company reports and the companies themselves. We do not utilise service providers in the management of our funds. While we perform ESG and fund management functions in-house, we take extensive economic, sector and stock specific and ESG research from a wide range of banks and brokers, e.g., Barclays, Lloyds, Jefferies, JPMorgan, Berenberg. All such bank and broking connections are subject to regular review by the Investment Committee.

As a discretionary investment management company, we believe it is important that the fund managers arrive at their own decision in terms of voting, so unlike most of our peer group, we do not outsource to voting advisers. The creation of the Voting and Engagement Committee (please see Principle 12) carries out our voting and engagement function.

Likewise for engagement with companies, we believe that the best form of engagement is direct with management of companies, rather than outsourcing. We recognise that sector specialist research analysts at the major houses are an important source of additional information to inform our processes. We aim for our meetings with management to discuss ESG and stewardship matters, and in some cases, we will have meetings with management that are solely ESG based.

Reviewing and monitoring is an integral part of the businesses counterparty on-boarding process. Church House has a specific Risk Committee which reviews, monitors and escalates third party relationships and transactions with the firm. It is chaired by the Non-exec Chair and comprises of five members as stated below:

Risk Committee

Non-Exec
Chair

Managing Director Finance Compliance Non-Exec Director

Since 2020, we have added a Finance function to the Risk Committee to give us further insights (from a financial perspective) into these relationships with service partners.

As mentioned in the previous Stewardship Report, we commenced a thorough review of Authorised Corporate Directors (ACD) for our funds after identifying several concerns with the ACD that we had been using for the preceding ten years.

To guide us through this process we engaged the services of the only consultancy firm that currently specialises in ACD selection and review. From the initial list of 15 ACDs, we excluded those that were clearly not a good fit for us, i.e.;

- They failed to offer the level of client service that was our priority.
- They lacked the scale to support a business-like Church House.
- There were concerns about high turnover of senior staff.
- There was a general negative feeling about how an ACD may have handled themselves in recent times.

Each of the ACDs that successfully progressed to the next phase of the review were then invited to present their services to us, in addition the consultancy firm arranged for references to be provided from three of their existing clients/sponsors. We subsequently visited the offices of each of the final choice of ACDs to conduct due diligence on them, which then provided us with the comfort and knowledge to select our new ACD, that being IFSL.

To enhance the external assurance of the business, we regularly use an external consultant to advise on all fund assurance related matters. We initially engaged the services of the consultant to guide us through the ACD review process but have been so impressed with the knowledge that they have, that we have also used them for other projects such as the Risk Register.

Outcome

Voting

We decided to make our process for voting at company meetings more formal in 2021 as we felt that there was a risk of missing some voting deadlines. We now have a voting group (the Voting and Engagement Committee) consisting of six members: at least two fund managers, an analyst and one of our joint CIOs. This Committee usually meets/has email correspondence once each week to review all forthcoming meetings/votes. We consider that this will lead to a more consistent and sustainable process in voting. Please see Principle 12 for more in-depth analysis on our new voting and engagement committee.

Research provider

In 2020, we appointed Berenberg as a new research provider (paid for research), they provide excellent coverage on a broad range of UK companies along with UK and European economic research. We have kept the same research providers as since 2020, as we are happy with the quality and breadth of research we are receiving. This is something we constantly monitor, but on a formal basis this is reviewed once a year at our Investment Committee meeting.

New ACD

We have been impressed with the service that IFSL have provided since they became our ACD in October 2022. In order to monitor their service, we have monthly review meetings with them, where a full and frank discussion on any issues identified by both parties is carried out, IFSL will also provide us with Key Performance Indicators on a number of crucial areas such as compliance, dealing and fund accounting. Our Operational Assurance Manager is in daily contact with IFSL, monitoring any open issues that we have with them and ensuring that these are prioritised and resolved to our satisfaction.

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York House, 6 Coldharbour, Sherborne, Dorset DT9 4JW. Telephone 01935 382620

ENGAGEMENT

9. Engagement with Issuers to Maintain/Enhance the Value of Assets

Church House is an investment manager focused on the management of discretionary investment portfolios for private individuals, principally via our range of authorised funds, which are all UCITS funds. Within these funds, the split of investments is approximately two-thirds in fixed interest investments and one-third in equity investments. Over the totality of our clients' investment portfolios the split is closer to 60% fixed interest to 40% equity. Further details of this, and the **split in AUM** (37% Retail, 63% Institutional), the **Geographic split of clients by AUM** (95% UK clients, 5% Rest of World) and the **Geographic split of Investments**, by currency (86.4% UK, c. 6.6% USA, 3.4% Europe, 0.9% Switzerland, 2.3% Other including Sweden & Denmark, and 0.4% Japan) can be found in **Principle 6.**

Differing asset classes

Across the fixed interest investments, greater than 95% are investment grade issues. Equity Investments are principally UK listed, with a bias towards FTSE 350 companies. When investing overseas, direct equity investments are limited to developed markets, we also utilise some specialist international investment trusts in client portfolios. We do not invest in unlisted securities.

CREDIT

Most new fixed interest investments are undertaken at issue, we only consider those that are rated as investment grade by one of the rating agencies. Each issue is accompanied by detailed research and is discussed with the issuing bank(s) where we seek to influence the pricing and terms. As the issuance of 'green bonds' has gathered pace we have gradually increased the proportion of our holdings in these instruments; however, this has been difficult during 2022 given the limited green bond issuance during the year that also fit our other quality criteria.

Fixed Interest – Methods of Engagement

Across our fixed interest funds, voting and engagement is more limited, given the nature of the asset class. However, we regularly engage with issuers via netroadshows and closely look at the Sustainable/Green Bond Frameworks before taking allocations in green issues. We keep up to date with movements in credit markets, paying close attention to sector themes, alongside maintaining close and regular contact with credit analysts who alert us to any areas of concern.

While all fixed income issues in which we invest are predominantly investment grade and sterling, the issues themselves are either from UK companies, or foreign companies. However, we only invest in developed countries who abide by the 'Rule of Law' mentioned previously.

Fixed Interest Funds - commentary

2022 was a quieter year than 2021 for issuance with rising rates and widening credit spreads acting as a deterrent to borrowers. We did however participate in seventeen new issues including an inaugural 2028 bond for Haleon, a spin-off from GSK's healthcare arm. In November we added to our convertible bondholding for Derwent London in the Tenax Absolute Return Strategies Fund. As holders of the equity and the green 2031 straight bond, it was a company with which we were already familiar. Mutual holdings across our equity and fixed interest desks promote insightful discussions amongst our fund managers, an example of our holistic approach to investment. An example where we did not invest includes a green bond for Bazalgette, the company behind London's super sewer. Whilst the environmental credentials and credit ratings met our investment criteria, we felt that the 2.75% coupon wasn't generous enough to compensate for the risk of investing for twelve years. Further examples of engagements via netroadshows, and details of eligible projects under frameworks for green and sustainably-linked bonds can be found in Principle 7.

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EQUITY

Each of the equity funds have their own investment policy but there are overall sector preferences that we apply across the board. For example, we have run an under-weight exposure to oil & gas producers and tobacco companies for a number of years, increasingly finding that their engagement with ESG matters (and consequently too, the investment case) was poor. We now have zero exposure in these industries across our equity funds.

Equity – Methods of Engagement

Where we find companies that meet our quality criteria we seek to engage directly. We do not invest in companies that engage in peer-to-peer lending, pornography, gambling and contentious firearms manufacturers such as cluster bombs, land mines or weapons for personal use. Similarly, companies in the mining sector, which met our tolerances for governance, jurisdiction and behaviour has vastly reduced.

During 2022, the investment team have held many meetings with senior management, IR or non-executive directors of existing or potential investee companies, including ESG specific meetings and meetings with fund managers of Investment Trusts. This took the form of either one-to-one meetings, group meetings, webinars, conferences or site visits. On each occasion, we hope to raise material ESG matters and enhance our understanding of the company's business strategy.

In Principle 7, we have explained further how engagement has differed between our funds, asset classes and geographies.

Engagement priorities

Factors which influence our decision to engage with companies include the **size of our holding across funds, seeking further understanding or action on governance**, **environmental or social matters**, **new initiation of a holding**, or **escalation of a recent or ongoing issue**.

UK investments

As a UK investment firm, where we primarily invest in UK equity and credit, we endeavour to form strong long-standing relationships with the senior management and non-executive directors of these companies. We believe this makes for a more conducive and effective discussion. As can be seen in Principle 7, most of our engagements in 2022 have been with London listed companies. This is where we have more ready access to management, and where we prioritise our engagement, given that 86.4% of our investments are UK based (by currency). We often find management to be open and receptive to meetings with us, given our strong long-standing relationships. **This therefore limits the occasions in which escalation is necessary; however, there are rare occasions where, if in the best interests of shareholders, we will take this route**.

Large cap vs Small cap

With **larger, more established UK and global companies**, broker research and access to company management is accessible to us. However, there are occasions, with **small market capitalisation companies** either in the UK or abroad, where our sole route to engagement is not available via a broker, but instead by reaching out directly to the company.

Global equities

In certain geographic listings, in particular **Japan**, as well as with **major global companies**, engagement is limited due to our reduced ability to access these management teams. **Recognising our scale**, we listen to **company presentations and utilise sector specialist analysts** from major broking houses (Jefferies, Berenberg, JPMorgan etc) to inform our view and question policies.

Further to equity specific research, we participated in **sector and country specific meetings**, as well as **macro-economic outlook** meetings**,** to better inform our investment decisions, and act in the best interests of clients.

Equity Funds

Across our UK Equity Funds (UK Equity Growth, UK Smaller Companies, Balanced Equity Income), engagement across our holdings is strong, where we have established strong relationships with management teams. With regards to our Esk Global Equity Fund, as mentioned above, engagement is often through our brokers due the global nature of the underlying holdings.

MULTI-ASSET CLASS

Multi-Asset Class Funds

By their nature, engagements across our multi-asset class funds consist of a mixture of the aforementioned approaches taken in our Fixed Interest and Equity funds.

Activities & Outcomes

Below please find Activities and Outcomes with issuers, always acting in the best long-term interests of our clients.

Biotechnology company *engagement on independence of the Board*

Email correspondence with the CEO
Held in our CH UK Smaller Companies Fund

Engagement with a biotechnology company.

Objective: the aim of our correspondence was establishing the independence of the Board.

Discussion: After several meetings with the CEO and CFO during 2022, and as part of our **governance reporting** when reviewing our votes for their upcoming AGM, we focused in particular **on the independence of the Non-Execs on the Board**, in line with the UK Corporate Governance Code. We asked whether the Board had any thoughts about appointments (or changes) that could enhance its independence. The CEO responded that the lengthy tenure of the Non-Executive Chair is an issue that has been discussed internally at length. The Chair is regarded by the Board to remain independent of management and the Board's view is that the Chair continues to provide highly valuable experience and leadership to what is a small Board. With a small Board considered to be commensurate with the size of the company's modest operational payroll, there are no immediate succession plans in place for the Chair and the focus of the Board concerning its composition is more towards **the recruitment of an additional independent non-executive director** that has experience in their niche area of business. They noted that combining this with the parallel desire for increased diversity would be their challenge for 2023.

Outcome: We noted the CEO's response and willingness to enhance the independence of the Board via an additional non-exec hire and look forward to seeing how this progresses in 2023. This will be something we will monitor, and will continue to engage with management if necessary.

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VNV Global *engagement integration of ESG in their holding companies*

One-to-one meeting with CEO, follow up email correspondence and further meeting with ESG specialists
Held in our Tenax Absolute Return Strategies Fund and CH UK Smaller Companies Fund

VNV are a holding company listed in Stockholm, that invests in global, innovative businesses.

Objective: one of the aims of our correspondence was to establish how VNV integrate ESG into their holding companies.

Discussion: During a one-to-one meeting with CEO Per Brilioth, we asked **how ESG was being integrated across their holdings**, how they are monitoring and encouraging this and their plans for alignment to a net zero scenario. Given the time constraints of the meeting, it was agreed that another meeting focusing solely on ESG at VNV would be useful. Between further email correspondence and this second meeting, we met with the Investment Manager & Head of Investor Relations, and the Senior Adviser, to discuss how ESG was incorporated at both a VNV level, and in their investment process/portfolio. Given the relatively small footprint of VNV's own operations, focus was placed on their investment portfolio.

While VNV are a minority investor in most cases, they are often on the Board and expect investee companies to adhere to the same principles VNV have internally. VNV's sustainability report discloses **material topics identified** in the **UN's Sustainable Development Goals** (SDG) in relation to both their operations and their portfolio companies.

We spoke about the shift in mentality around sustainability in entrepreneurs today versus 5-10 years ago, as well as the differences in ESG focus across geographies. Further discussion was on the effort to **reduce the GHG emissions** in the **overall investment portfolio,** to a degree in line with the 1.5º C goal of the Paris Agreement by 2030. **On short and long-term net zero goals** - two targets have been set to date: 1) VNV Global operationally; and 2) Expect portfolio companies to reduce emissions to be in line with 2030 goal. Not put absolute targets, but are monitoring relative change year on year, and will engage if they are not performing in line with expectations.

As of year-end 2020 VNV Global also conducted an **annual sustainability survey** of its largest portfolio companies, where **environmental impact** is included as one of the core topics to assess where they are in their **sustainability work relative to the 1.5º C goal of the Paris Agreement.** This started with the largest, mature companies. VNV are using Position Green (Swedish SaaS business) for this comprehensive survey. They have conducted this survey for two years now, with the aim to add more companies. Ideally 100% of the portfolio in long term. It is currently tailored to more operational/established companies so this doesn't work for all holdings, however, should improve over time.

From an ESG perspective, VNV's portfolio is strong, with their four largest companies by NAV aligned to the SDGs. Sustainability is deeply integrated into the business models of many of their portfolio companies. These include:

- **Voi**, whose scooters substitute cars as a means of inter-city travel, with 0.1% of direct CO2 g/passenger footprint compared to cars. Voi addresses SDG 11 on affordable and sustainable transport systems.
- **Babylon**'s AI technology could make healthcare accessible and affordable to every person on earth. 2.2 million people can access healthcare via Babylon in Rwanda. Addresses SDG 3 to achieve

universal health coverage.

- **BlaBlaCar** doubles the occupancy rate of cars, leading to less congestion and lower emissions, with 1.6m tons of total carbon savings through shared rides annually. Addresses SDG 13 and 11.
- Smaller portfolio companies to note, which support the circular economy (SDG 12 Substantially reduce waste generation), are **Olio, Opensooq, Cirplus** and **Inturn**. Olio helps create a world in which nothing of value goes to waste, and every person has enough to eat, with 27 million portions of food saved.
- Another holding, **Collectiv Food**, a next generation food supply business for restaurants, reinvents the whole supply chain from Food to Fork, with the goal of re-imagining how food is accessed and distributed within cities. A feature of VNV's due diligence included assessing the company on ESG grounds, where it was found to successfully help improve transparency and reliability, reduce food waste and transportation (CO_2, inner city pollution and congestion) and increase the quality of food.

Outcome: We were satisfied with the length and depth of discussion on how VNV consider ESG in their investment process, and the procedures in place to promote sustainability practices in their holding companies, to guide them in alignment to the Paris Agreement.

Engagement conclusion

Over the past 12 months, we are pleased to have continued our engagement with issuers. We believe that in this Principle, as in Principle 7 and 10-12 we are demonstrating our engagement with issuers. However, due to the nature of debt investing, it is evident that we are much stronger on the equity side and need to further develop our engagement with credit issuers.

10. Collaborative Engagement
&
11. Escalation of Stewardship Activities to Influence Issuers

Engagement at Church House

At Church House we are active managers and we have always looked to engage with companies that we invest in via regular meetings and calls with management teams. We are long-term shareholders and so, in some cases, have been in communication with companies over many years. For example, in our UK Equity Growth Fund, we have been shareholders in Unilever, RELX and Diageo since the early 2000s and have been having meetings with these companies for over twenty years now.

Approach

If we do have a concern with an investee company, we originally look to address this through meeting with the management team, or at least investor relations, of the given company. We would further investigate the matter through our own analysis in addition to potentially discussing the matter with an analyst at one of our research providers. If, after taking these steps, we feel that no further action is required and that we have sufficient information, then we will take no further steps and simply monitor the situation.

Escalation

However, if we are not content with what we have heard from management and/or still feel that a given issue requires more attention, our usual course of action would be to write to the Chair of this business and, on occasion, we will arrange a one-to-one with the Chair to express our concern and discuss in more detail. In such a discussion, we would look to prioritise the key issues and communicate these clearly to the Chair. There are also the options to express our concern to the broker(s) of the Company and voting against management.

Voting

As a relatively small investment business, it is unlikely that we would ever have the voting power to change the course of action, but we strongly believe in the power of communicating our concerns when required and believe that this is our responsibility as asset managers.

Collaboration with other shareholders

On a minority of occasions, and where the above course of action has failed to yield our intended outcome, we may **engage with other shareholders**. We will undertake this course of action should we believe it appropriate, and in the best interests of our shareholders. This may arise because of an unsuccessful private engagement, or, where collaboration with a larger shareholder grants us further reach to influence the decisions of senior management and the Board.

Process if the outcome is unsuccessful

If our concerns remain unaddressed after all of the above processes have taken place, our usual course of action would be to exit the position as soon as practicable.

Escalation Activity in 2022

London Real Estate Business *engagement on governance and merger*

One-to-one meetings with CEO and CFO
Feedback to house brokers
Abstaining from merger vote
Held in CH UK Equity Growth, CH UK Smaller Companies, CH Balance Equity,
CH Investment Grade Fixed Interest and Tenax Absolute Return Strategies Funds

This example relates to a London real estate business (Company A) that is held in five of the six funds that we have at Church House. We have been shareholders in the business since 2007 and also own debt in the Company A for our CH Investment Grade Fixed Interest and Tenax Absolute Return Strategies Funds. Up until 2022 it was considered a core holding at Church House and remains a company that we have a deep knowledge of.

Context

In June 2022 this Company A announced a recommended all-share merger with another London-focused real estate business (Company B). A coming together of these two companies in some form had been on the cards for a few years given three factors:

1. **Estates:** Companies A and B had neighbouring estates in Central London, with a predominantly retail and hospitality tenant base.
2. **Large mutual shareholder:** the same government pension fund was the largest shareholder in both Companies.
3. **Company B's shareholding in Company A:** after buying-out a large and hostile overseas shareholder in recent years, Company B owned 25% of the outstanding share capital in Company A.

Given this background, we were mindful of the possibility of the businesses joining, however we believed that the suitable method for this to happen would be Company B making a bid for Company A, paying a premium to market value in order to acquire the estate.

The Merger and Our Analysis

The merger terms proposed that shareholders in Company A (such as ourselves) be given shares in the enlarged Company B and that Company A shares are subsequently cancelled. This corporate action would value both businesses at net asset value (EPRA NTAs).

We were disappointed with these terms as we believed that it undervalued Company A and so was not getting the best value for shareholders. We were shareholders in Company A because we believed that their prime West End (of London) estate was unique and that this was worth more than the sum of its parts – i.e. the value of a large group of shops, bars and restaurants under one ownership was greater than the combined value of the individual buildings under different landlords. This is because being the sole landlord allowed Company A to create what they called a 'village' feel to their estate, that was the heart of what made people want to visit them and tenants to rent space.

Over the many years that we met with management, they had always argued that the market did not appreciate the extra value of these 'villages' and that shares were undervalued. They stressed that any potential buyer of the whole estate would have to pay a handsome premium to NAV. It therefore was disappointing to us that this same management team were now proposing that this estate be taken over at a zero premium to NAV. It struck us that Company B was getting a very good deal and that shareholders of Company A (ourselves and our clients) were not.

It is worth pointing out the economic context that the proposed merger was happening against. In summer 2022, central London was still recovering from the depths of COVID lockdowns, during which the estates of both companies suffered badly. With the economy reopening and tourists at last returning to London, this was time for both businesses to be focusing on recovery and organic growth. It seemed to us that this merger would be a distraction that would take management time away from the day-to-day running of the businesses at an acutely important time.

We were also wary of the cost of the merger and proposed management bonuses on the back of it. As stated above, summer 2022 was a time for recovery and neither business was in rude financial health. We did not see this as a suitable point to begin what has proven to be a remarkably costly merger. We would much rather that capital be put into maintaining, improving and growing the estate rather than be spent on the legal and advisory fees associated with a merger.

Considerations from an Equity and Debt Perspective

As outlined above, we were concerned that the merger was not in the best interests of shareholders in Company A. However, we had two further points to consider in how we should escalate the matter:

1. We held both equity and debt in Company A and needed to ensure that we voted in the best interests of both parties as far as was possible.
2. The two majority shareholders in Company A (the government pension fund mentioned above and Company B) held 51% of the voting shares and both were in favour of the merger. It was therefore unlikely that it would be possible to prevent the merger unless it was objected to by the Competition and Markets Authority (CMA).

On the first point, our expectation was that the 2027 bond that we owned in our CH Investment Grade Fixed Interest and Tenax Absolute Return Strategies Funds would be redeemed at par if the merger was to go through. As can be seen from the price chart of this bond (below), it traded significantly below par during 2022, troughing just below 85 in the late-summer. Therefore, it was in the best interest of bondholders that the merger be approved.

On the second point, while we were opposed to the merger in principle from an equity perspective, we also needed to consider the long-term prospects for the business given that the merger had already been announced and backed by both Company A’s management team and the majority shareholders. Going against these two parties had the potential to leave the Company somewhat directionless and without a strategy that was backed by those leading and owning it. While we did not like the treatment of minority equity holders, such as ourselves and our clients, opposing the deal at this stage was not without risk.

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Company A's 2027 Bond

Source: Bloomberg

Escalation of Activity and Conclusions

Before determining how to vote on the proposed merger we decided that we would:

1. Communicate our disappointment to the management team of Company A.
2. Attend presentations from the management of both Company A and B to hear their rationale for the merger.

We fed back to management of Company A via two of their brokers (Liberum Capital and RMS Partners). We stated that, as long-term equity holders, we felt the terms of the merger undervalued the assets of Company A and that this was not in-line with the messaging that we had been given through years of meeting with the company. We attended a number of presentations and it was clear that all management parties were keen for the deal to go through and that no alternatives were being discussed.

Having fed back to management and discussed all of the above points above, we decided that our best course of action was to **abstain** from voting on the merger. From a debtholder perspective the merger happening would be beneficial and the chart above shows how bonds subsequently rallied to par value as the deal was subsequently approved. From an equity perspective, we were disappointed with the merger but realised that opposing it would not move the dial. We therefore felt that abstaining was the best course of action.

We subsequently reviewed our analysis and escalation activities surrounding this merger. We concluded that in this event there was little that we could do to change the course of action. We exercised our right as equity holders to communicate our disappointment to management and further actioned this in abstaining from the vote. With the merger now set to complete in early-2023, we will analyse the merged businesses and decide on whether to continue to own the equity in due course.

Translation Services Business *engagement on governance*

Group meetings with CEO and CFO
Feedback to house brokers
Abstaining from remuneration vote
Held in CH UK Smaller Companies Fund

This example relates to a translation services company (The Company) that we have been shareholders in for our CH UK Smaller Companies Fund since 2020.

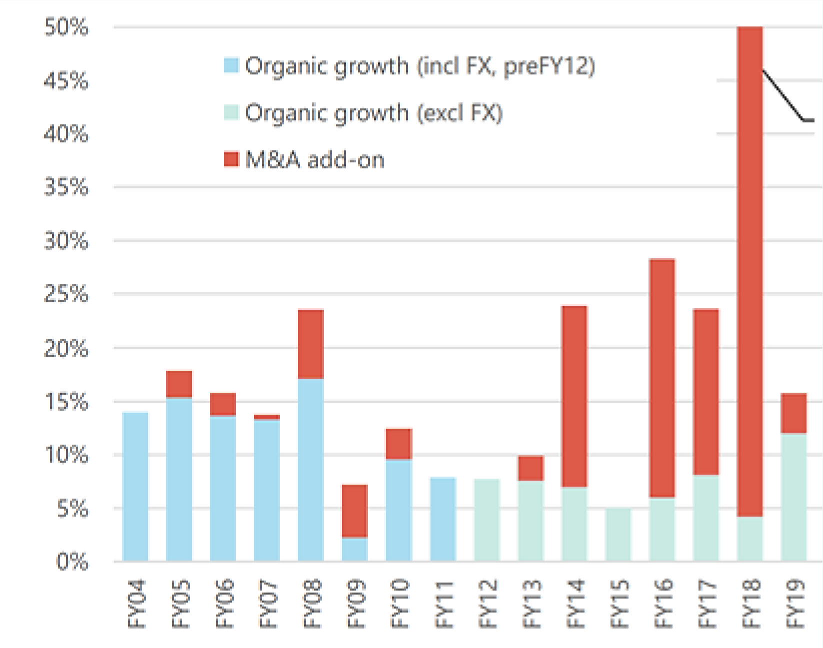
Context

Our initial investment case for the Company was based on their excellent long-term record of delivering organic growth at the same time as maintaining high ROCE and cash conversion ratios. The Executive Chair had effectively founded the business in the mid-1990s and remains the largest shareholder to today – we viewed this as a positive alignment of shareholder interests.

Shares in the Company had been weak during 2020 on the back of the announcement of a large acquisition and we saw this as an opportunity to initiate a position with shares trading on a discount to their historic multiples. We were aware of the operational risk that this acquisition posed, but felt that there was already a margin of safety built into the discounted share price and backed management, who had performed well up to this point, to integrate the acquired business successfully.

Disappointing Performance, Management Change and Our Analysis

Over subsequent reporting periods we noticed that organic growth consistently undershot our initial expectations for the business and that the quality of their earnings was deteriorating. As the chart below demonstrates, organic growth prior to our investment in 2020 was typically in the 5-10% range and had been supplemented by some sensible acquisitions:



Organic growth in the following years was 2020: -1%, 2021: +4%, 2022: -1%, a clear slowdown.

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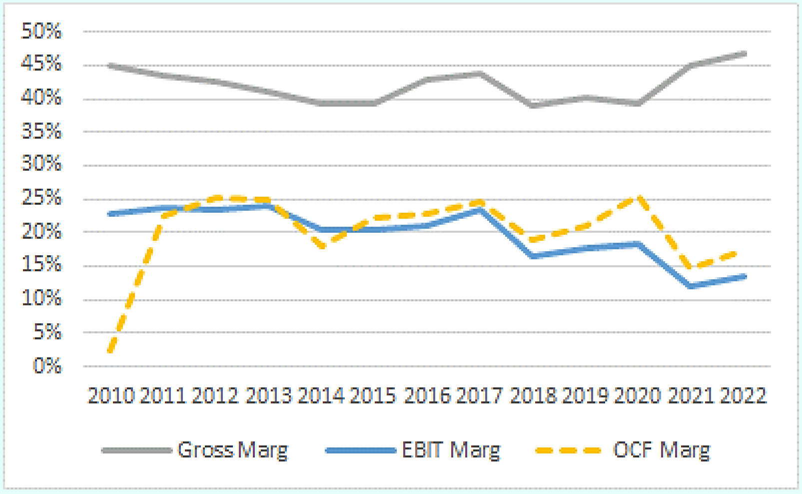
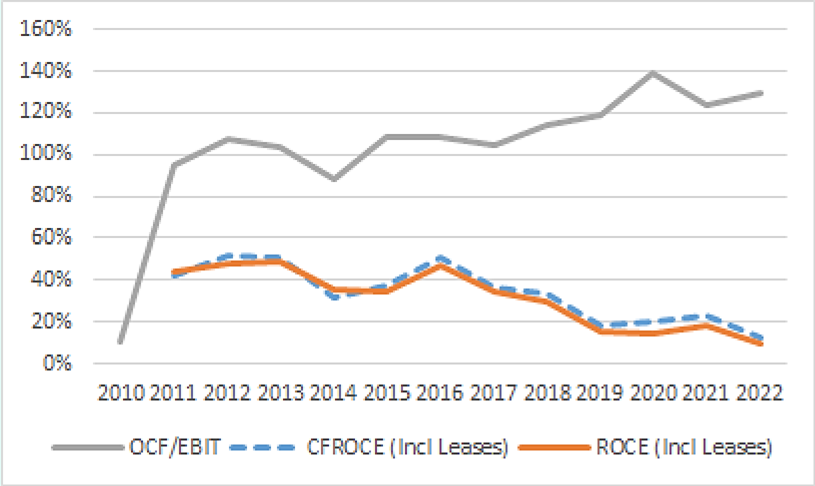
Furthermore, margins began to fall:



..as did ROCE:



In addition to these key financial metrics getting worse, we were also perturbed to see the CEO and CFO of the Company both leave the business in 2021, albeit the Executive Chair (and large shareholder) remained in place.

By 2022, we concluded that our investment was not performing as we had hoped and that we wanted explanations.

Escalation of Activity – Voting

In February 2022 we had the opportunity to vote at the Company's AGM. In our review of the proxy form the remuneration policy was flagged. We took issue with two elements of this:

1. That the outgoing CEO had met 100% of his personal objectives for the year, which included integrating the business acquired in late-2020. We felt that effectively 12 months of ownership of the acquired business was too short a period over which to judge the success or otherwise of

integrating the acquisition, particularly given the deteriorating financial metrics. Here are the details of the bonus (we have blocked out company and individual names for anonymity):

Personal Objectives (30% of bonus)	Objectives	Committee Assessment	% of max payable
CEO	Complete a detailed review of the Company and the acquisition's operations and agree the target operating structure, progress the Company's ESG agenda, review the Company's and the acquisition's employee experience including engagement levels, diversity and retention, progress the integration	Following a review of the CEO's performance post year end, and noting that he served c10 months out of the year, the Committee determined that all of the objectives were met in full.	100%
CFO	Integrate The acquisition's finance, tax and treasury functions, review and integrate transfer pricing and hedging policies, improve year on year cash conversion, manage new auditor appointment process, progress aqu. integration	The Committee assessed the personal objectives for the CFO as being partially achieved.	70%

Based on the above, the annual bonus awards earned for the year ended 30 September 2021 were as follows:

		Financial	Personal	Total
CEO	% of max	65%	100%	76%
(150% of salary maximum)	£	£342,301	£225,000	£567,301*
CFO	% of max	65%	70%	67%
(100% of salary maximum)	£	£171,151	£78,750	£249,901

2. That base salaries for the CEO and CFO be materially increased to reflect the increased size of the group post-acquisition (full terms outlined below). We believe that this motivates management to grow the business via acquisition and does not take into account long-term performance of these acquisitions.

> Base salary levels should be right sized for the size and complexity of the business. As such, the CEO's base salary was increased from £450,000 to £600,000 and the CFO's base salary was increased from £300,000 to £375,000. While the Committee is aware of the sensitivities of above workforce salary increases, and noting the CFO's salary was increased to £300,000 in 2019/2020 before the acquisition, the Committee concluded that the salary increases, which were aimed at broadly aligning salaries to FTSE 250 median levels, were appropriate given the size and nature of both the roles. Although the Committee notes that best practice would have been to phase the increases over two or three years, this was not considered appropriate for the company given the Committee's belief that:

> market level salaries should be paid to the executives now for the roles they are undertaking, particularly noting that before the salaries were adjusted, they were lower than those of the acquisition's CEO and CFO; and

> rather than increasing fixed pay over time, the performance targets attached to the annual bonus and new LTIP should measure how successful the acquisition has been (given that stretching annual and long-term targets have been set for the combined businesses going

Having discussed the remuneration policy and these two elements in particular, we decided to **abstain** from voting on this. We note that both the CEO and CFO subsequently left the business.

Escalation of Activity – Management Meetings and Feedback

During 2022 we had two group calls with the Executive Chair where we set out to understand the reason for the underperformance. The second of these meetings was supposed to be in-person, however this was moved online at the last minute due to train strikes – a shame given that we feel face-to-face meetings are more valuable in such a situation.

During our first meeting we sent a list of questions for the house broker (who was leading the meeting) to put to management. The aim was for these to be direct and detailed questions that would give us a sense of how the business was being run, and the 2020 acquisition integrated, from an operational perspective. For example, we asked:

- *'Please could we have more detail on your 'antiquated systems'? Why were they allowed to get this way and how are they managing the project to improve these systems (e.g. have they hired in new operations staff or are they using external providers?)'*

We were not satisfied with the answers given by management and felt that the detail given was scant. On the back of this first meeting we fed back to the broker, who in turn relayed this message to management:

- *'[the Company] really need to deliver on their stated improvements now. In our opinion they are still yet to deliver on the promises made when the acquired [anonymous] and the timing of their downgrade has put them on the IR backfoot at the wrong time.'*

The second meeting, as already mentioned, was let down from the start by the Executive Chair not being in attendance, but at least other members of the management team attended; this was reflected in our feedback to management.

- *'[We were a] smidge disappointed not to get the chance to meet [the Chair], but I realise trains got in the way and nice to meet [the CEO, the CFO and deputy CFO]. Please send my thanks to them for making the effort to come and present in person – it is genuinely appreciated.'*

Conclusion and Further Action

Having monitored the Company closely since investment in 2020, our dissatisfaction with developments led us to escalate matters in 2022. This was done via abstaining from voting on the remuneration policy at the AGM, seeking out meetings with management and expressing our concerns to the Company via their corporate brokers.

At this point, we remain shareholders and reserve the right to further escalate our concerns should the business continue to frustrate us as equity holders.

Two Learnings

From our time as shareholders in the Company discussed above, we have learnt two valuable lessons from both an investment and ESG point of view:

1. Executive Chairs and large insider ownership: can be good news as this helps to align management and equity holder interest. However, this can also limit the ability of minority shareholders (such as ourselves), to influence the business and to provide critical feedback of executive management. In the case of this business, the lack of a non-executive Chair meant that we did not have the opportunity to raise our concerns with such a person and that oversight of the executive leadership was blunted somewhat.

2. To be particularly wary of businesses that have recently made large acquisitions: in the case of this business, while we did note the execution risk associated with the acquisition, it would have been prudent to wait a few reporting periods before deciding on whether to invest or not. This would have given us *real world* evidence of how the integration was proceeding, rather than relying on the promises of management made at the time of making the acquisition.

12. Actively Exercising Rights and Responsibilities

Our Proxy Voting Process

In-house Voting

At Church House we take our own responsibility for proxy voting and do not outsource any part of the process to third parties. We do this because we see proxy voting as a responsibility that we would like autonomy over and, just as we would not outsource an investment decision, we prefer to keep voting decisions in-house.

Voting and Engagement Committee

As discussed in Principle 2, we looked to add resources and structure to our proxy voting process in 2021 by creating our new **Voting and Engagement Committee**. This committee is made up of six members from our investment team, including James Mahon (co-CIO and Board member) and convenes weekly to discuss upcoming voting and to delegate responsibility for analysing newly published statements. This committee is led by our ESG analyst, who monitors upcoming events where we have the opportunity to vote.

The establishment of this committee has significantly improved our voting processes and promoted greater engagement across the investment team. It has further promoted active engagement with investee companies within our governance structures and we have further entrenched this into our processes during 2022.

Voting policy

We do not publish a formal voting policy on the basis that we invest in a wide variety of asset classes and businesses globally. We feel that the diversity of these businesses and their unique circumstances makes having one formalised policy problematic to apply and is not necessarily suitable. With a nine-person investment team, we also have finite resources, and do not feel like applying such a central policy would be suitable for Church House at present. However, **we have common standards and convictions that we apply for all of our investee companies.**

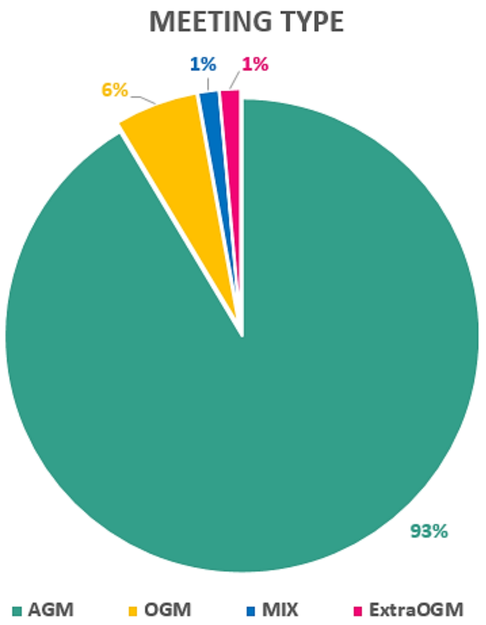
For example, we do not like for management teams to have the **right to issue material portions of equity** without the approval of shareholders. However, there are other items, such as **remuneration**, that we feel **varies too materially across sectors, geographies and market capitalisations** for one central policy to be applied. Despite not publishing a formal proxy voting process, we do aim to be consistent and uphold governance standards on behalf of our clients.

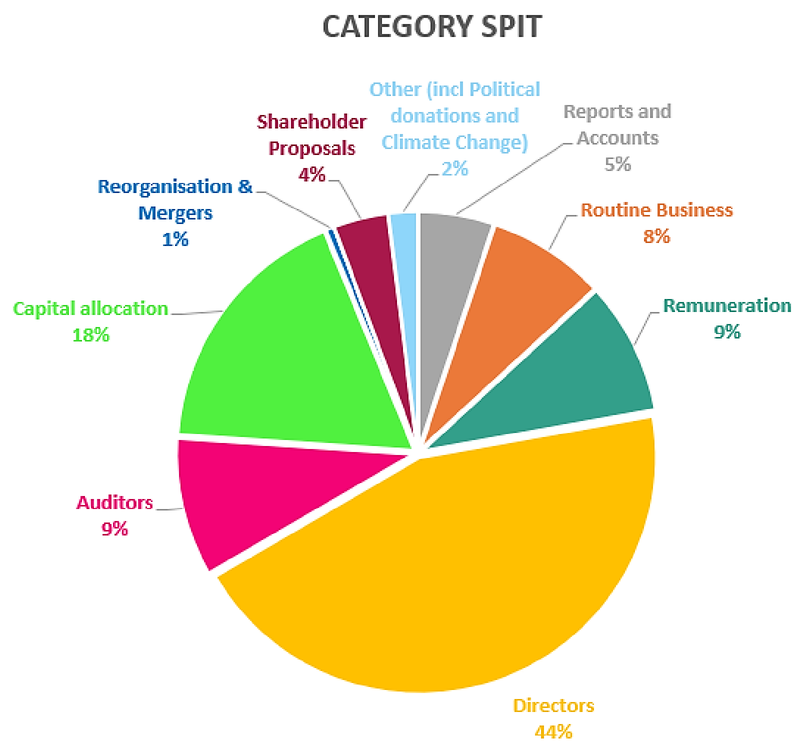
Voting – Equities versus Fixed Interest

As shareholders in equities, we can engage with management (in *support*, *against* or *abstaining*) via our **right to vote**. However, across our fixed interest holdings, we are unable to vote, given the nature of the asset class. Nevertheless, we regularly engage with issuers via netroadshows and other methods discussed in the previous principles.

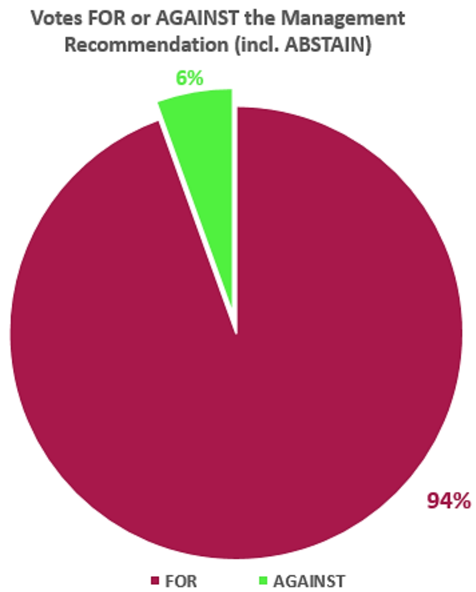
Proxy Voting Activity

During 2022 we voted on a total of 69 events, made up of a total 1,270 items. 93% of these events were AGMs, with the majority of the balance being OGMs, followed by MIX and ExtraOGMs. Here is the full split of meeting type that we voted on:



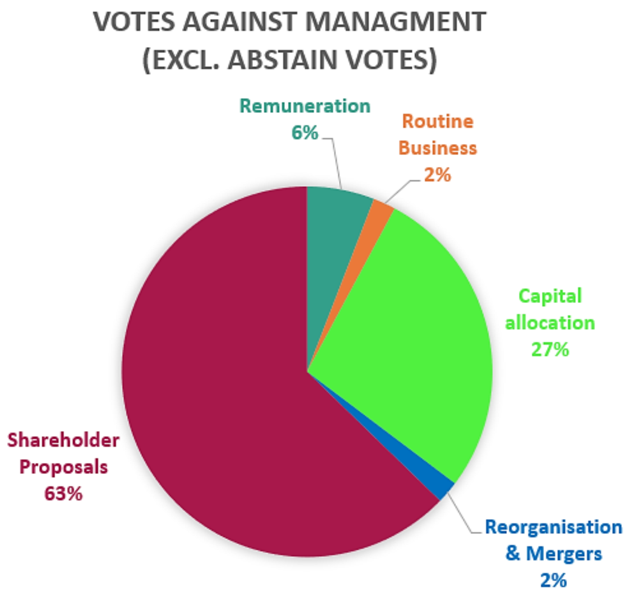


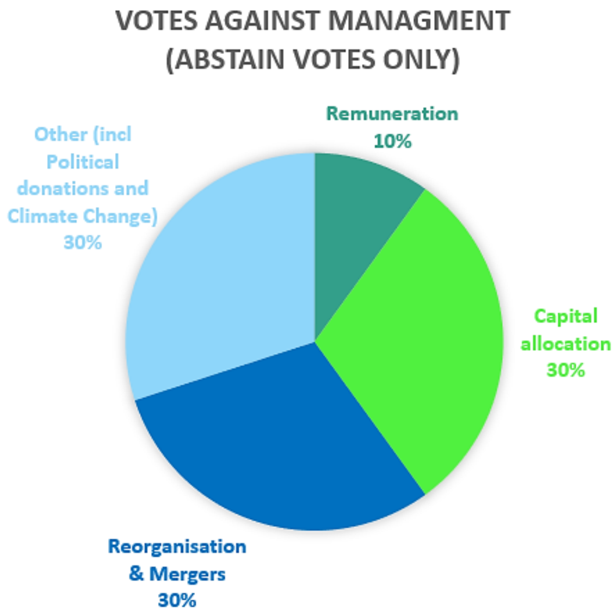
We **voted 'against' management** on 50 occasions and 'abstained' 20 times. Combined that makes it 6% of votes where we did not vote with management. In the below pie chart, we have defined voting against management as voting AGAINST, when the management recommendation was to vote FOR, or vice versa. Also included in voting against management is the ABSTAIN vote.

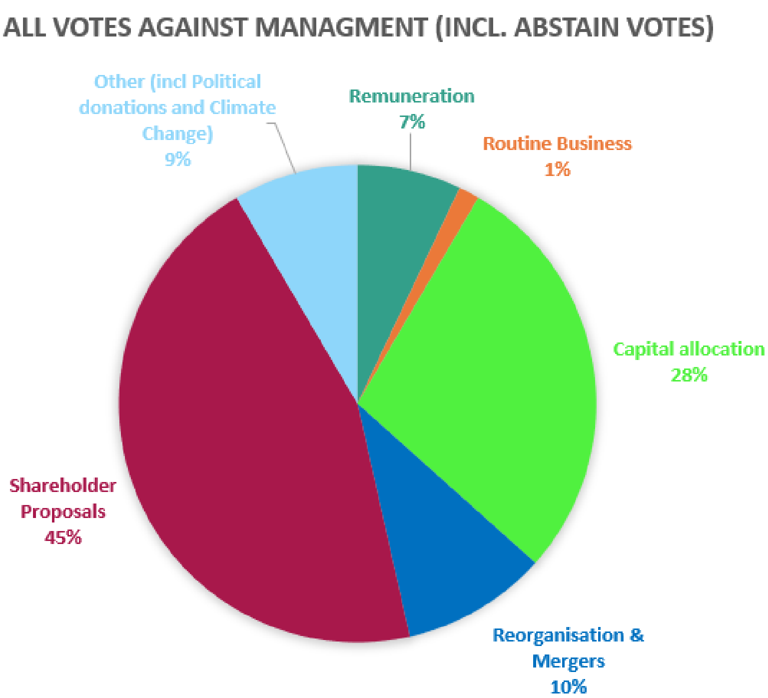


Looking at the 70 occasions when we did **vote against management**, the category split can be seen below.

Please note: for the first pie chart below entitled 'VOTES AGAINST MANAGEMENT (EXCL. ABSTAIN VOTES)', this is when the management recommendation was to vote FOR, where we voted AGAINST, or vice versa. This does not include ABSTAIN votes. The last pie chart entitled 'ALL VOTES AGAINST MANAGEMENT' does include ABSTAIN votes.







Summary of Resolutions - Against

As can be seen, 45% of the occasions when we voted against management were because of voting in favour of **Shareholder Proposals**. This was followed by votes on **Capital Allocation** (28%), **Re-organisation & Mergers** (10%), **Other** (9%) and **Remuneration** (7%).

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Shareholder Proposals

With the largest majority of our votes against management being on Shareholder Proposals, it is worth delving into some examples of the companies and reasons behind these votes.

Case study: Apple - voted **against** management recommendation

In the below examples, while the management recommendation was to vote AGAINST these shareholder proposals, after some discussion with the investment team, we concluded that it was appropriate to vote FOR, with the reasons highlighted below:

- **A shareholder proposal entitled "Reincorporate with Deeper Purpose"**
  - For Apple to reincorporate as a Social Purpose Corporation (SPC). This does not look like it will be overly burdensome for Apple and does not stop them from being a for-profit organisation. Becoming an SPC requires, for example, that Apple are more explicit in their articles of association with ESG aims.
- **A shareholder proposal entitled "Transparency Reports"**
  - For Apple's Transparency Report to give more detail, specifically relating to apps removed on the request of Chinese Government. Apple really don't give much detail here. Here is their Hong Kong report.
- **A shareholder proposal entitled "Report on Forced Labor".**
  - For Apple to provide a report on Forced Labour. Apple currently do not publish their internal findings on suppliers that they have 'taken corrective action' with. We believe the publication of this would be beneficial.
- **A shareholder proposal entitled "Pay Equity".**
  - For Apple to be more open in details they provide on pay equality by race and gender. For example, they currently provide mean and median numbers across the group, but little on pay in like-for-like roles. More transparency would be encouraged. For example, their UK pay gap report is thin on detail.
- **A shareholder proposal entitled "Civil Rights Audit".**
  - For a third-party to audit Apple's policies on civil rights, gender and racial equality. Currently this is all internal and there have been a number of employee surveys on equality shut down by Apple in recent years.
- **A shareholder proposal entitled "Report on Concealment Clauses".**
  - Employees sign concealment clauses for commercial reasons, however, this also prevents employees from speaking openly about issues such as workplace harassment. Last year Alphabet took steps to limit these concealment clauses when covering workforce issues.

Outcome – was the vote successful?

The "**Civil Rights Audit**" and "**Report on Concealment Clauses**" votes were approved, while the remaining shareholder resolutions were not passed. Therefore, two of our votes were successful, while four were not. While we were disappointed four of the votes did not pass, we are pleased to see these two votes go through and look forward to the positive changes that these will bring.

Case study: Amazon – voted **against** management recommendation (i.e. voted FOR)

We voted FOR the following Amazon shareholder proposal, requesting a report on packaging materials. We deemed a review into the usage, wastage, and future reduction of packaging of material ESG importance for Amazon.

Amazon themselves note that where they could have the largest impact in plastic packaging, is with products manufactured by other companies, which Amazon then sell on to their customers. Another area Amazon highlight is reducing their own use of plastics for products repackaged for delivery.

The resolution requested:

> *"That the Amazon Board issue a report, at reasonable expense and excluding proprietary information, describing how the company could reduce its plastics use in alignment with the 1/3 reduction findings of the Pew Report, or other authoritative sources, to reduce the majority of ocean pollution.*
>
> *The report should, at Board discretion:*
> - *Quantify the weight of total plastic packaging used by the company;*
> - *Evaluate the benefits of dramatically reducing the amount of plastics used in our packaging; Assess the reputational, financial, and operational risks associated with continuing to use substantial amounts of plastic packaging while plastic pollution grows unabated;*
> - *Describe any necessary reduction strategies or goals, materials redesign, transition to reusables, substitution, or reductions in use of virgin plastic"*

Amazon say they are '*making progress to significantly increase the recycled plastic content used in [their] packaging and reduce [their] use of material like plastic film and single-use plastic'.* We encourage programmes such as Amazon's Frustration-Free Packaging ('FFP'), which give companies a financial incentive to produce recyclable packaging (plastic included), as well as the decrease in weight of outbound packaging.

However, while we acknowledge the progress Amazon has made, as one of the largest corporations in the world we believe it crucial that the company address their use of unsustainable packaging in a transparent and accountable manner, to help mitigate environmental pollution and its far-reaching implications. We believe a report with the setting of short and long-term goals, as well as clear plan of how the company would address this, as beneficial to more effectively and accountably ensure all plastic used is recyclable, with the aim of moving away from plastic use, particularly virgin plastic.

Outcome – was the vote successful?

Unfortunately, although it was a close vote, this resolution was not approved at the AGM, with 48.9% voting FOR, and 51.1% AGAINST. We were disappointed to see this but will closely monitor how Amazon address their packaging and plastic use going forward.

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Remuneration

Case study: Compass - voted **with** management recommendation

Remuneration – as set out below, revenue, steady margins and cash conversion are all factors we monitor when assessing the quality of a company and their operations. Further to this, it is good to see remuneration (bonuses) adjusted to reflect material ESG factors during the year. Given the increased challenges in re-opening their sites, the company increased their weighting to the **Health & Safety measure**.

> *"For Dominic Blakemore and Karen Witts, the annual bonus plan for the financial year to September 2021 was based on the following Group level performance measures: operating margin, absolute revenue, cash conversion and **health, safety and environmental measures** (HSE) (based on the Lost Time Incident Frequency Rate and Food Safety Incident Rate)."*

Furthermore, we are pleased to see the company are actively looking **to incorporate emissions reduction targets in their bonus scheme in future.**

> *"The Committee is actively considering extending the measure set, **to include broader sustainability measures, consistent with our commitments to net zero carbon emissions** for inclusion **in bonus arrangements in future years"***

According to ISS ESG, only 24 businesses in the FTSE 100 have the CEO bonus and LTIPs linked to climate goals, this is only 20 in the S&P 500. We view the **incorporation of pay linked to climate metrics as a proactive and beneficial way to promote a shift in mindset about implementing positive environmental practices and adhering to goals set.**

In the setting of ESG target linked pay, we remain cognisant that many environmental goals are long-term, and in most cases will surpass the tenure of management. For this reason, the setting and achievement of shorter-term goals (rewarded with bonuses), and a clear pathway to longer-term goals as crucial. We look forward to seeing future details of this.

> *"For annual bonus periods commencing after the 2022 AGM, i.e. with effect from the 2022-2023 annual bonus year, executive directors will be required to **defer one third of any bonus earned into Compass shares for a period of three years.** This aligns with our current Remuneration Policy, with the exception that it applies to all annual bonus payments, irrespective of whether the share ownership guidelines have been met".*

Deferring one third of bonuses into Compass shares increases alignment of management and shareholder interests, something we support. We also note that the CEO and other executives are required to have a shareholding of 400% and 350% respectively of their salaries, with a holding period of two years post-employment.

Outcome – was the vote successful?

The Remuneration Policy and the Adoption of the Director's Remuneration Report was passed with 67.5% and 87.98% votes FOR, respectively.

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Climate Change

Barclays – voted **with** management recommendation

Resolution to approve '**The Barclays Climate Strategy Targets And Progress 2022'**. In Barclay's AGM papers, they state the 'extensive engagement with stakeholders' that they have taken over the last 12 months on climate related matters, and how they have taken into account the feedback given.

Looking at Barclay's 2022 Climate Strategy Targets and Progress Report, the company re-iterate their goal to become net-zero by 2050 across all of their direct and indirect emissions, with all of their financing emissions to be in line with the Paris Agreement. A notable update is the use of the International Energy Agency's (IEA) 1.5 degree scenarios as the baseline from which to make future climate targets.

Barclay's have **set 2025 targets for Power and Energy**, and are looking to the addition of 2030 targets. Further, during 2022, Barclays will set 2030 targets to reduce emissions linked to the financing of an additional two of four of the highest emitting sectors for the Bank: **Cement** and **Steel**.

- **Energy** -40% in absolute CO_2 e emissions (2020 emissions baseline of 78.5 MtCO2 e).
    - The **methodology for this target has been updated to include methane**, alongside CO2 emissions, to give a more accurate measure of energy emissions.
- **Power** -50% to -69% in CO_2 intensity (2020 baseline of 320 kgCO2 /MWh)
- **Cement** -20% to -26% in CO_2 e intensity (2021 baseline of 0.620 MtCO2 e/Mt). Methane included.
- **Steel** -20% to -40% in CO_2 e intensity (2021 baseline of 1.926 MtCO2 e/Mt). Methane included.

Targets for all of the highest emitting sectors for Barclays will be in place by 2024.

As noted previously, we believe the **setting of both short and long-term targets is key**, with short-term targets essential to ensure companies and executives are implementing necessary changes to achieve these longer-term goals. Leaders of companies today are mostly likely to have changed by 2050, and so accountability and transparency in the shorter-term is of paramount importance. **Therefore, we hope to see 2025 targets announced for the newly included financing of Cement and Steel industry.**

Barclays have placed focus on **increased green and sustainable financing**, away from the financing of fossil fuels and the phasing out thermal coal (currently a limit on the amount of revenue a business can generate from thermal coal mining/power, with the setting of exit dates), with **10% of Executive Director remuneration tied to progress made**.

As the IEA note, to successfully align to the Paris Agreement '*a total transformation of the energy systems that underpin our economies*' is needed. One issue is that while many banks have net zero goals in place, last year 25 European banks still financed $55bn to fossil fuel expansion (according to ShareAction).

Outcome – was the vote successful?

The resolution was passed with 90.81% of shareholders voting in favour of this Climate Strategy. We are happy to see this strategy being implemented. We will continue to monitor the future setting of targets for other material high emitting sectors in Barclay's portfolio (such as residential real estate) and look to see progress in all areas reported on.

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Political Donations

We voted abstain on political donations for defence company **BAE Systems** and Anglo-Australian miner **Rio Tinto.** These businesses have a chequered past when it comes to political donations and we saw no situation in which we, as shareholders, would like to see these businesses making donations. We realise that the legal definition of 'political donations' is relatively wide and that, in some instances, passing such resolutions gives flexibility to management teams to support groups that are not political parties or individuals, but that are still caught under the above definition as a political donation.

Having considered this, the Voting and Engagement Committee concluded that this was not sufficient mitigation and that, we did not wish to support these businesses making political donations.

Examples of where we approved this resolution includes **Grainger**, where total political donation expenditure must not exceed £50,000 in the period. The company has a policy to **not** make donations or incur expenditure; however, the company felt it to be prudent to include the resolution to avoid a technical or inadvertent breach of the 2006 Companies Act. We approved the political donation resolution for **Primary Health Properties** on similar grounds.

Capital Allocation

Capital allocation resolutions, specifically relating to **disapplication of pre-emption rights** have been another area of focus for the Voting and Engagement Committee. As long-term investors, we feel that equity is paramount, and we do not like to see management teams being liberal in issuing equity to fund acquisitions – we favour businesses and management teams that take a more conservative approach and that grow by reinvesting free cash flow. We are not completely against management issuing shares when there is a viable investment case for this, but beyond a certain level, we feel that a management team should require the approval of equity holders before going ahead.

Smith & Nephew – voted **against** management recommendation

One such group of resolutions that we voted against were **Smith & Nephew's** resolution 19-22, authorising directors to disapply pre-emption rights on up to 1/3rd of the Company's equity capital under certain conditions. As equity holders, we saw this as materially too high an amount of equity for management to be allowed to issue without putting the vote to shareholders, and so we voted against the resolution.

Voting Coverage of Fund Assets

Improved voting process

Over 2022 we are pleased to have continued our voting across our fund holdings with the creation of our Voting and Engagement Committee and efforts made within the investment team. Whist previously voting had been the responsibility of one individual, all investment professionals are now actively engaging in voting and our processes have been improved to reflect this and ensure wider coverage.

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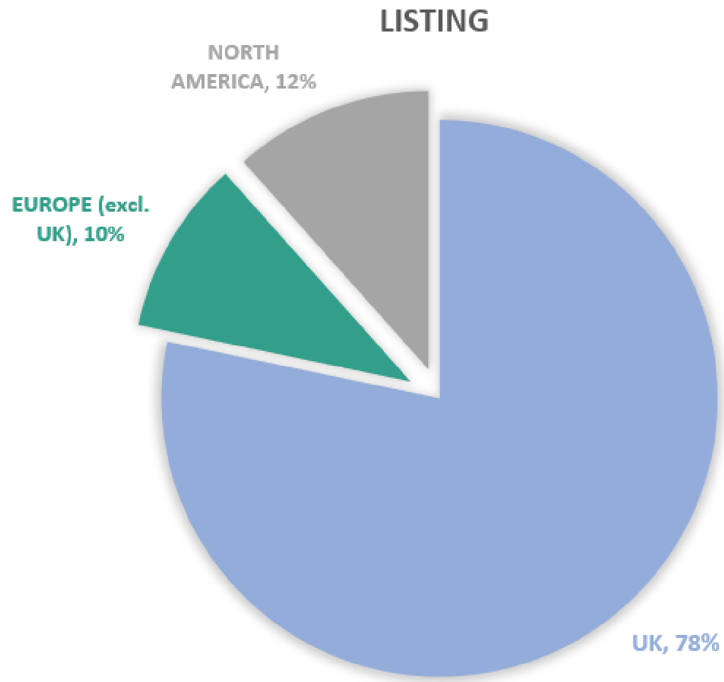
Voting approach by Geography



UK voting

In 2022, the main areas of voting were for our **UK-listed investments**. Where we have not voted has been due to a constraint on resources, as a small firm, or new holdings added during the year.

International voting

One challenge has been voting on international businesses. Given that we have six members of our Voting and Engagement Committee and the time that is takes to effectively analyse and vote on resolutions, we have found that **our resources can limit our ability to cover international equities**, particularly mega-cap US companies that require significantly more time to cover than, for example, a smaller cap UK business.

Furthermore, **investor relations and wider company access is harder for these large businesses** and we, as a smaller investment company, do not get the same level of access as our larger asset management peers. Nevertheless, while our voting on European holdings dropped slightly, we are pleased to have notably increased our **voting on our North American holdings** in 2022.

Individual Clients and Voting

In the event that an individual client has an investment in a segregated account that is not held in any other accounts at Church House and that client wishes to vote on this company, then we are happy to take instruction from this client. This would require specific instruction from the client. For more widely held positions we follow our core process, as outlined above.

However, given the nature of Church House's business model, we run all our clients via a discretionary fund mandate, and as fund managers, vote on behalf of our clients. Therefore, the likelihood a client may override a house view is minimal.

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Stock Lending

We do not engage in stock lending for any of our assets.

Voting Policy

Our voting record for 2022 can be found here.

Fixed Income

Due to the nature of our Investment Grade Fixed Interest Fund being **debt**, we are **unable to vote** on these holdings. We are also unable to vote on our fixed-income holdings within our Tenax Absolute Return Strategies Fund and our Balanced Equity Income Fund.

Conclusion and intentions for 2023

We intend to continue with our Voting and Engagement Committee though 2023 and into perpetuity. It has now become a core part of our process and we are proud to be one of the few firms in the industry who undertakes all Shareholder voting in-house. We look to become more involved with tracking **management remuneration** and **insider trading**, as we believe both to be important indicators of what is incentivising management in their decisions, with a high insider holding by executives a true alignment to shareholder interests, with additions and sells of this often telling of their conviction and long-term interests in the company.

Jeremy Wharton
Chief Executive

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