Chikara Investments LLP ("Chikara")

Stewardship Code 2020

Annual Report for the period

01 January 2022 to 31 December 2022

Conduct of Business Sourcebook rule 2.2.3R, requires Chikara Investments LLP ("the Firm" and/or "the "Partnership") to include a disclosure on its website stating the nature of its commitment to the UK Stewardship Code ("the Code") issued by the Financial Reporting Council. If a firm does not commit to the Code, it must state in general terms its alternative investment strategy.

The structure of the following report is aligned with the 2020 UK Stewardship Code to which we are a signatory.

This report has been developed and approved by its senior management and the partnership, who maintain oversight and accountability of Chikara's approach to stewardship. The following senior individuals, representing a range of business areas, had input into this report:

- Asian Investment team
- Japan Investment team
- Chief Executive Officer
- Chief Operating Officer
- Chief Compliance Officer
- Internal legal counsel

The Partnership meets monthly and has formal responsibility for Chikara's stewardship and environmental, social, and corporate governance ("ESG") strategy, and for implementing these initiatives at a firm and fund level. During the period, we also established a separate ESG Committee which meets quarterly to discuss ESG related issues. Members of the investment team and other Chikara staff are invited to participate at ESG Committee meetings on an ad hoc basis, for example to discuss ESG issues that arise in the investment process. More information on this committee can be found later in the report.

The Partnership recognises that the stewardship landscape is constantly evolving and is keen to ensure that all staff are educated and aware of developments across the investment universe. To that end, employees receive regular training and regularly collaboratively engage on a wide range of issues, including stewardship, ESG, sustainability, climate change and the importance of these issues and their integration into the investment decision-making process.

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

Chikara is an independently owned asset manager offering capacity constrained, index agnostic, long only equity strategies across India, Japan and Asia ex Japan. In March 2023, Chikara appointed a new Global Emerging Markets Equity team and a Global Emerging Markets (Developing World) strategy will be added to the existing range of products and aims to launch in 2023.

Chikara was founded in 2005 and focuses on delivering strong performance within a risk-controlled framework.

The primary aim of Chikara is to protect and grow the real value of its clients' capital over the long term. Chikara's investment philosophy emphasises fundamental, proprietary research, to identify potential companies, supported, where possible, by direct company meetings conducted by the dedicated and experienced investment teams at Chikara. We believe that over time this will achieve superior results. Chikara believes that it has built a very strong fund management team of experienced portfolio managers, together with a first-class operational infrastructure to meet the increasingly complex international regulatory environment. In order to best safeguard and grow our clients' assets we believe that we must achieve excellence in all areas of the business: investment performance, operations, legal, compliance and client service, always remembering that we have, above all else, fiduciary responsibility for those assets.

With this in mind we see the below as critical to our success:

1) Having a strong corporate culture to which both our staff and clients can align and which is evidenced by our high staff retention rates and long standing client relationships;
2) Looking to only accept clients who share the same investment time horizon as our strategies and who understand exactly what our strategies seek to achieve;
3) Working to ensure stability of AUM by actively avoiding investors who we believe are momentum trading (this is evidenced by Chikara declining new business);
4) By offering only strict capacity constrained products to maximise alpha generation and to avoid dilution at the expense of quick AUM growth. We have demonstrable history in closing funds to new investors when we believe we are approaching capacity thresholds;
5) Meeting with clients regularly to ensure that all parties remain aligned and informed;
6) Seeking feedback from our clients to understand both their current and future requirements and acting as needed. Examples of this in practice are a) the evolution and adoption of ESG within the firm b) in 2008/9, while many managers sought to gate their funds and limit clients access to their monies, at Chikara we quickly organised shareholder votes to restructure gate provisions to offer not only greater liquidity to those that needed it, in a method that ensured protection for remaining investors, but also to act on our responsibility to aid and assist with the smooth functioning of financial markets.

Our investment personnel have over 150 years combined industry experience. This experience is invaluable in identifying the abundant opportunities available, as well as avoiding some of the many pitfalls.

Assets under management were approximately US$2.15bn, as at 31 December 2022.

During the period, in recognition of the growing importance of stewardship and ESG issues to both our business and to our clients, we have established an ESG Committee whose members consist of senior individuals representing a range of business areas:

Chief Executive Officer;

General Counsel / Chief Compliance Officer

Chief Operating Officer.

In addition, members of the investment team and other Chikara staff are invited to participate at ESG Committee meetings on an ad hoc basis, for example to discuss ESG issues that arise in the investment process. The ESG Committee reports to Chikara's Partners (who also meet monthly). The creation of this committee embodies the evolution of Chikara's culture, values and strategy; with the new committee overseeing the integration of ESG into the investment process, this enables:

- a better evaluation of ESG factors in the research process by the investment team;
- better oversight of engagement activities within portfolio companies;
- enhanced oversight of proxy voting and the exclusion list;
- a clear point of escalation for ESG and stewardship related investment decisions; and
- an increased focus on and review of climate-related risks and opportunities to determine whether targets are required and, if so, be able to monitor progress towards those targets.

The committee is able to set ESG/stewardship goals and objectives and ensure they are met as well as dedicate time to ensuring, where opportunities present themselves, Chikara can represent itself on ESG industry bodies and working groups and ensure its ongoing alignment with those is has made a commitment to (more details can be found under Principle 4). Although the committee has only been established for a short time, we are already seeing the benefits with increased timeliness of engagement reporting by the investment managers.

The team of 6 portfolio managers and analysts carried out over 248 scheduled company meetings and management calls in 2022 in the region (where possible), in London and by phone. Meeting notes are shared and distributed across the team, ensuring that we bring out the best thinking and experience across the various sectors and countries in a collegial fashion. All managers are incentivised to work as a team.

Non-investment personnel have a wealth of experience in managing all aspects of the back and middle office infrastructure. This allows the fund managers and analysts to spend as close to 100% of their time as possible, researching stocks and managing portfolios. Each member of the team brings different skills and areas of expertise to the process.

The product range offers Long Only strategies to investors around the world, with strategies focused on large, mid and small caps, in Global Emerging Markets, India, Asia ex Japan and Japan. We also offer a specialist Japanese equity closed ended income product and an Asian consumer focussed fund. At the time of writing, approximately 96% of our portfolio holdings are in Japan (this is the same as in 2021), and any disclosable positions we have are in that market.

At Chikara we endeavour to harness the experience we have to produce high quality returns and best-of-class infrastructure, for all our clients and investors. Chikara is a fundamentally research-driven investment house with a focus on investing in stocks for an average holding period of 3-5 years.

We believe that ESG issues and sustainability risk can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time) and ESG factors may be potential indicators of management quality and operational performance. With this in mind, investee company sustainability and good governance are key inputs to the investment decision process.

We implemented our first ESG policy back in 2016 and this has constantly evolved with the business to meet the expectations of the industry and particularly our clients. During 2022 we continued to work with an independent ESG specialist to develop/resource our ESG policy in line with our evolving corporate culture as well as meet industry standards and client expectations. Our existing ESG policy was most recently reviewed in July 2022, and was updated to reflect the establishment of our ESG Committee mentioned above (whose members consist of senior individuals representing a range of business areas) which meets quarterly to formally discuss ESG issues, as well as our new and continued use of ESG related metrics and analysis. The ESG policy is available on our website (https://www.chikarainvestments.com/esg-policy).

Chikara has a structured yet flexible approach to incorporating ESG into the bottom-up investment process. This allows us to effectively integrate the firm's ESG efforts alongside the investment strategies and these issues are considered alongside financial and strategic issues during assessment and engagement with companies, which we believe will achieve the best long term asset growth for our investors. Aside from companies that manufacture controversial weapons such as biological and chemical weapons, cluster bombs, anti-personnel mines or nuclear weapons, as general rule we will not exclude any particular investment or industry based on standardised ESG factors and a "one size fits all" approach. We invest in multiple countries (many developing), and our assessment will take into account ESG best practice whilst acknowledging sector and individual company differences due to local laws and regulations, cultural differences and stage of national integration of ESG when making investment decisions. The ESG policy is kept under review. By voting on all resolutions in line with our policy, we believe that we have been effective in acting in our clients' best interests to achieve the investment objectives as agreed with the clients.

Remuneration of staff is performance-related but, in addition to the performance of the individual, Chikara will also take into account the performance of the business unit concerned and the overall results of the firm. Performance assessment will not relate solely to financial criteria but will also include compliance with regulatory obligations and adherence to effective risk management.

The Partnership meets monthly to review and discuss issues, including stewardship and any ESG related items and its integration into Chikara's investment decision-making process. During the period, we have worked on increasing our transparency and reporting to clients, including the publication of a proxy voting summary which is available on our website for all current and prospective clients, along with our Engagement and Shareholder Rights statement (see https://www.chikarainvestments.com/legal-disclosures). Chikara meets regularly with its clients to discuss various issues, including providing updates on performance, to ensure we are aligned with their needs, expectations and best interests.

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

One of the material benefits of being a smaller boutique asset manager is that we have a relatively flat structure which allows for and promotes open dialogue between different functional areas of the business on all issues, including those of stewardship. This in turn ensures a cohesive approach to all matters, including stewardship, and the ability to adapt swiftly where necessary. Whilst the portfolio managers are responsible for engagement on ESG matters and the investment decision making process, the ESG Committee is responsible for oversight of stewardship activities. It meets quarterly to review and discuss issues, including stewardship and ESG and its integration into Chikara's investment decision-making process.

Our senior management team combined with our investment team have a substantial number of years of combined industry experience, as shown below:

	Jonathan Dobson (PM Japan)	**Richard Aston (PM Japan)**	**Andrew Draycott (PM Asia/Indian Subcontinent)**	**Abhinav Mehra (PM Indian Subcontinent)**	**Rory Dickson (Analyst - Asia)**
Years of industry experience/ Years at Chikara	33/17	23/12	22/15	12/7	26/13
Other relevant experience	Japanese/ English speaking MA French & Italian degree from the University of Oxford	MA Engineering degree from the University of Cambridge	BA Hons Politics from Exeter University	Hindi/ English MBA (Finance) NMIMS University, Mumbai B Tech (Electronics & Telecommunication) MPSTME, NMIMS University, Mumbai	Member of Institute of Chartered Accountants of Scotland Bachelor of Commerce honours degree attained at the University of Edinburgh

	Megumi Takayama (Analyst– Japan)	Victoria Wilson (COO)	Tanya Farrell (General Counsel and CCO)	James Tollemache (CEO)
Years of industry experience/ Years at Chikara	12/5	23/15	30/9	18/0.5
Other relevant experience	Japanese/ English speaking MA Japanese studies degree attained at SOAS, the University of London MPhil European studies degree attained at the University of Cambridge BA Economics degree attained at the Nihon University CPD certified course at the Institute for Sustainability Leadership at University of Cambridge	MA Diplomatic Studies, Keele University BA (Dual Hons) History and International Politics, 2:1, Keele University	BCom (Accounting)/LLB attained at University of Auckland Admitted as a solicitor: England and Wales (1996) and New Zealand (1990) Fellow of the Chartered Institute for Securities and Investment Fellow of the Institute of Chartered Secretaries and Administrators	BA Hons Geography obtained at the University of Newcastle IMC JP Morgan Advanced Sales Programme

Employees receive frequent training and regularly collaboratively engage on a wide range of issues, including ESG, sustainability, climate change and the importance of stewardship and their integration into the investment decision-making process. There is also engagement with professional bodies and industry groups.

Chikara has an Equal Opportunities and Diversity policy in place which all employees are expected to familiarise themselves with and attest to. Chikara is committed to promoting diversity and equality of opportunity for all staff and job applicants. We aim to create a working environment in which all individuals are able to make best use of their skills, free from discrimination or harassment and in which all decisions are based on merit. We do not discriminate against staff on the basis of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

In addition to our commitment not to discriminate against individuals based on protected characteristics, we recognise there are a broader range of diverse characteristics which make people individual for example their experiences, skills, talents, opinions and personalities. We aim to value, understand, appreciate, and respect these differences for the benefit of the company and individual.

The principles of non-discrimination, recognition of diversity and equality of opportunity also apply to the way in which staff treat visitors, clients, customers, suppliers and former staff members.

Employees receive training on equality and diversity in the workplace and this is carried out every 2 years for existing staff and for all new starters. During the period we collected diversity metrics on staff (where they were comfortable providing these) by virtue of a Diversity Questionnaire. This included, *inter alia*, questions on what ethnic group they belong to, gender, religion, disabilities and whether they spend time as a carer. We use these metrics to aggregate data to not only respond to Due Diligence Questionnaires' we receive from clients/prospective clients but also to be able to monitor diversity and inclusion in the workplace in accordance with our Equal Opportunities and Diversity Policy.

During 2021, we had engaged an independent ESG specialist to assess and audit and help us specifically develop and identify resource requirements to both meaningfully implement our ESG policy and to further emphasise to all our staff (front and back office) the scope of strong stewardship, including ESG issues. In 2022, we engaged the ESG specialist on a long term basis to continue to assist us with ESG matters.

During the period, we have focussed on the following areas:

1. **Transparency**

    a. We recognise the growing importance of providing granular detail to clients and employees of our stewardship activities; as a result of this we have provide more detailed reporting, which is publicly available on our website, using the PLSA template for our proxy voting records for the most recent period and offering clients custom reports, as requested:

       Chikara (2022) - https://www.chikarainvestments.com/voting-summary/2022

       Funds (2022) - https://www.chikarainvestments.com/funds-voting-summary/2022

    b. we already provide detailed engagement examples to clients on request. These reports include not just the details of the date and topic of engagement, but also the duration of the engagement (new, 1-2 years, 2-5 years etc) along with outcomes and follow ups.

2. Training

a. One of the things we have improved upon during 2021 and further in 2022 was ensuring everyone in the business (from senior partners to junior operations staff) implicitly understands the importance of stewardship and ESG/climate change in their roles as well as the growing importance of stewardship and ESG issues to our business. Together with the assistance of an external ESG specialist, we hold regular training sessions to ensure cohesive understanding. We review and update our ESG policy, where necessary, (which all staff are required to read and attest to) and emphasise the importance of collaboration on these issues across the firm.

b. A a series of one-to-one and small group ESG training workshops were held in June 2022 which covered a range of ESG topics, regulatory updates, trends and themes, as well as ensuring all staff were familiar with Chikara's ESG Policy.

c. Our ESG Policy was last updated in July 2022 and is publicly available on our website (https://chikarainvestments.com/esg-policy).

3. Resourcing – people and systems

a. We continued to work with our independent ESG specialist during 2022, as mentioned above. During assessment of our investment process in 2021, we identified a need for a recognised 3rd party data provider to assist us in our ongoing engagement efforts and engaged ISS Europe Ltd ("ISS"). Through ISS, Chikara has access to climate impact reporting which can be used where there is coverage of our portfolios to assess Carbon Metrics (Carbon Intensity, WACI, Carbon Footprint, Carbon Risk Rating, Emission Attribution Analysis, GHG Emissions Intensity), Climate Scenario Analysis (Alignment), Transition Climate Risk Analysis and Physical Climate Risk Analysis).

   By way of oversight of climate-related risks and opportunities across our investments, on a quarterly basis, the ESG Committee accesses ISS climate impact reports for each fund to monitor the metrics, and to identify any material contributors to portfolio emissions exposure and exposure intensity, carbon risk ratings, climate scenario analysis, fossil fuel exposure and physical climate risks. Any material findings are highlighted to the investment team.

   This data set also enables us to provide metrics required under TCFD reporting if requested.

b. During 2022 we set up an ESG committee. This consists of senior individuals representing a range of business areas and meets quarterly. This is a reflection of the growing importance of stewardship and ESG related issues both to us as a business and also to our clients.

4. Industry initiatives

In addition to being a signatory of the UNPRI, we are also the public supporters of the Paris Agreement and the Task Force on Climate Related Disclosers ("TCFD"), reflecting our commitment to greater transparency, in line with our corporate culture (please see: https://www.chikarainvestments.com/climate-support). All Chikara's policies and procedures, including those on Stewardship, Environmental, Social and Governance (ESG) and Engagement and Shareholder Rights are reviewed at least annually and updates made as and when necessary. These are also publicly available on our website: https://www.chikarainvestments.com/legal-disclosures. Chikara uses a 3rd party proxy voting service which provides us with holdings information, the ability to view company management recommendations and provides reports detailing the required elections and cast votes. The system also allows us to record historical decisions and voting statistics, many of which we share with our clients. We provide a proxy voting summary on our website (see links above).

As we are a fundamental bottom-up investment house where we intimately know the stocks in our portfolios with all research undertaken in house, we do not take voting recommendations. Our proprietary research incorporates company-specific data and analysis as well as information from third party research providers. We also have a proprietary system which allows us to record and track engagements and assists us in reporting this activity to our clients.

Chikara's investment philosophy emphasises this fundamental, proprietary research, to identify potential companies, supported, where possible, by direct company meetings conducted by the dedicated and experienced investment teams at Chikara. As well as review and assessment of third-party research and engagement with country and industry experts, members of the investment team engage in one-on-one meetings and telephone calls with senior management or Investor Relations representatives of companies. The purpose of such engagement includes:

- understanding key drivers of growth;
- understanding competitive positioning;
- assessing the alignment of management goals and strategy with those of shareholders;
- assessing corporate governance; and
- assessing the environmental, social, governance and sustainability risk profile.

Remuneration of staff is performance-related but in addition to the performance of the individual, Chikara will also take into account the performance of the business unit concerned and the overall results of the firm. Performance assessment will not relate solely to financial criteria but will also include compliance with regulatory obligations and adherence to effective risk management. Part of the formal year end evaluation process considers adherence to policies and procedures, including our ESG policy. Chikara personnel are also asked to read and attest to the firm's policies and procedures on a semi-annual basis and any queries or clarification over their content and implementation can be sought from the Legal & Compliance team.

Chikara's relatively flat structure and small size has been effective in encouraging open dialogue between teams with input from different functional areas given equal weighting. This collaborative approach results in policies which have a firm-wide buy-in alongside practical and feasible implementation.

The establishment of the ESG Committee during 2022 has been a very effective tool so far in ensuring issues around stewardship and other ESG items, including reporting, are monitored and discussed across the firm; this reflects the greater emphasis we as a firm are placing on ESG, and aligns with the views and expectations we are seeing from our clients. We will continue to develop the ESG committee and its remit, monitor the effectiveness of our reporting, and provide further training to staff where necessary.

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

The objective of Chikara's Conflicts of Interest policy is to ensure that Chikara works in the best interests of its clients and appropriately manages any conflicts of interest that may arise in connection with its business. A copy of Chikara's current Conflicts of Interest Policy can be found here under "Legal Disclosures - https://www.chikarainvestments.com/legal-disclosures. The policy is reviewed annually (both internally, and externally by our Compliance Consultants) and all staff are required to read and attest to the policy. The policy was last reviewed and updated in December 2022.

Treating customers fairly is central to the core values of Chikara. There is an embedded culture that understands what constitutes acceptable and unacceptable behaviour. As such, conflicts of interest and the identification / management / mitigation thereof are central to this philosophy and culture.

Chikara takes all reasonable steps to identify conflicts of interest that arise in the course of managing their funds between:

- Chikara, including its managers, employees or any person directly or indirectly linked to it by control, and the clients managed by Chikara or the investors in those clients; and
- the clients managed by Chikara or the investors in those clients, and another client or the investors in that client.

All employees are asked to disclose any actual or potential conflicts of interest by completing a form on our online Compliance system. This is then reviewed and assessed by the Compliance team (and other senior management if necessary) and a record is maintained. Similarly, conflicts are reviewed upon the start of any new business relationship. If any further action is required on the basis of the identification of a conflict (e.g. from a staff disclosure or from due diligence), then we have various mitigations in place depending on the scale and nature of the conflict. The following examples illustrate where we have identified conflict of interest may arise and what mitigations Chikara would take:

1. Where the interests of two of Chikara's clients' conflict. In this case, any potential conflicts between clients will be considered at the outset of any potential client relationship and during the course of the relationship. Any potential conflicts identified will be discussed at a meeting of the Partners of Chikara and an appropriate course of action agreed to ensure that Chikara acts in the clients' best interests at all times. This may involve declining business or terminating an existing relationship.

2. Where an employee of Chikara is a director of an investee company. This is mitigated by the fact that no employee may engage in any additional occupation without the consent of the Partnership of Chikara. Employees must not accept personal fiduciary appointments (such as trusteeships or executorships other than those resulting from family relationships) without first obtaining written approval from senior management and the Compliance Officer.

3. All staff must also disclose any outside business interests to the Compliance Officer upon joining the firm, and seek written consent from the Compliance Officer prior to taking on any further outside business interests so that any potential conflicts of interest can be considered (this would include any positions as trustee/partner/director/significant shareholder, i.e. 5% holding or greater). Further, all staff are required to disclose whether they or their connected persons have or have had any material connection to a present service provider of the firm for the past six months. Employees are not permitted to act as a director or retain a shareholding in an investee company.

All approved outside interests and conflicts of interests are recorded in the Conflicts Register.

As we manage a number of strategies in a limited geographical area, we have identified the possibility that two or more funds we manage may hold the same stock and the subsequent potential conflict that may arise. We recognise the importance of ensuring clients are treated fairly and that any such conflicts are easily and quickly identified. To address this we have:

1. an Order Aggregation and Allocation policy and a Conflicts of Interest policy in place to ensure clients are treated fairly where a conflict may potentially arise;

2. a requirement that all staff must read, understand and attest to these policies bi-annually;

3. ensured that these policies contain procedures which require sign off from non-investment personnel (i.e. operations), to ensure independent real-time oversight and visibility. One example of this is where there is an IPO that multiple funds want to participate in. To ensure fair allocation between clients, the allocation would be calculated by non-investment staff based on AUM. Any non-standard allocations would require senior non-investment staff sign-off. These policies are reviewed and updated on at least an annual basis; and

4. to better aid transparency, monitoring and ownership, access to portfolio holdings is available to both investment and non-investment personnel.

In the year under review, we have two items on the Conflicts of Interest register, both relating to members of staff who are related to each other. These are unchanged from the previous reporting period. These cases have been assessed and it was determined that they did not pose a material conflict of interest and they remain recorded on the Conflicts of Interest register.

Due to the non-complex nature of our business, we expect conflicts to arise rarely across strategies. We have several portfolios which run similar (but not identical) strategies, and we have identified this as an area where a conflict could most likely arise. We therefore have in place pre-trade compliance rules which flag and remind staff of the need to ensure appropriate consideration is given to any allocations. In addition, a checklist must be completed and signed off for any proposed IPO/placing participation, and this includes a record (and sign-off) of any non-standard allocations and/or compliance with any client specific investment guidelines.

During the period, no actual conflicts (aside from those mentioned above on the register) were identified.

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

At Chikara, we believe we have a strong, experienced team and a first-class operational infrastructure to ensure we can meet both our fiduciary responsibilities to our clients and our obligations to promote a well-functioning financial system in what is an increasingly complex international regulatory environment.

From an investment perspective, in our bottom-up investment analysis, we consider all relevant risks and opportunities that may impact an investment over the investment term, including market-wide and systemic risks and also ESG factors. Chikara maintains a risk management function separate to the portfolio management functions and this function is mandated to implement and maintain adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to the firm and to each fund investment strategy and to which the firm and each fund is or may be exposed.

We monitor liquidity, concentration of holdings and investor concentration and we perform frequent stress tests based on a variety of market conditions, including historical events and hypothetical scenarios. This is recorded formally on a monthly basis and is reviewed frequently.

However, creating and sustaining a strong risk culture that can identity and respond to market-wide or systemic risk is critical to Chikara's success and safe-guarding our clients assets requires more than strong portfolio management. A robust risk culture is embedded in Chikara's business operations:

- We operate an effective governance structure;
- We have effective ownership and management of risk by all employees as part of their day-to-day activities through prompt identification, analysis and escalation of risks;
- We expect management to lead by example, acting with integrity and encouraging proactive debate and thorough challenge and promoting awareness of Chikara's strategy and risk appetite;
- We actively encourage identification and reporting of risk events to ensure that lessons learned are implemented and disseminated promptly;
- Each individual is accountable for behaving ethically, treating customers fairly and supporting the long-term interests of customers, employees and other stakeholders.

Our Risk Management Process represents the widely accepted four fundamental actions of risk management: identification, assessment, mitigation and reporting/monitoring.

Risk categories are arranged into two levels:

- Level 1: highest level categories. These do not stipulate specific risk items, but function as useful groupings of various risk items at Level 2.
- Level 2: specific risk items. At this level, specific risk items are defined.

Level 1 **Risk categories**	**Level 2** **Definitions and examples of specific risks**

Strategic	Adverse strategic decisions, improper implementation of strategic decisions, a lack of responsiveness to industry changes or exposure to economic, market or demographic considerations that affect our viability e.g. Business becomes uncompetitive; Failure to respond to macroeconomic/geopolitical uncertainty
Business and investment	Failure to meet expected returns for defined objectives and risk (i.e. under-performing the stated objectives and/or relevant benchmark) and not meeting general stakeholders' expectations. e.g. poor fee income; being criticised or penalised due to ESG (environmental, social and governance) issues
Significant external events	Failure to make coordinated response to sudden but significant external events e.g. market crashes, pandemic, geopolitical event
Financial	Poor financial management leading to inaccurate accounting, inappropriate exposures, weak cash flows and inadequate capital. e.g. Credit Risk, Market Risk, Liquidity, Capital adequacy, Accounting errors etc.
Fund administration	Funds are inappropriately administered by the clients' third party service providers leading to reputational risk e.g. incorrect fund administration, NAV errors; Transfer Agency issues
Third party	Outsourced service vendors failed to deliver services as expected under compliant agreements. e.g. Contracts not aligned to FCA rules. Vendors breaching SLAs.
IT and systems	Failure of the IT and other operational systems to function as planned. e.g. cyber attack, failed upgrade
Information security	Failure to comply with confidentiality, data protection and any other information security requirements e.g. confidentiality breach, Data loss or corruption
People	Exposure to changes in personnel, including an inability to attract and retain quality and appropriate people. Inadequate succession planning strategy. e.g. key man risk, incompetence, poor employment practice, Health and Safety issues
Legal	Legal and commercial rights and obligations are not clearly defined or understood. Commercial interests not adequately protected by legal agreements.
Regulatory and compliance	Violation of, non-conformance with, or inability to comply with rules, regulations, prescribed practices, internal policies and procedures or ethical standards and client mandates

	e.g. Breach of FCA rules
Business practices, clients and products	Conduct risk in connection to poor business practices / product design and harm to customers e.g. Inappropriate marketing techniques
Dealing, Operations and any others	Inadequate or failed internal processes, people and systems, or from external events. These are the remaining items which have not been covered by any previous categories. e.g. Fraud, failed change / project management

One of the roles of the risk management function is "horizon scanning"; keeping a close eye on ongoing and upcoming actual and potential systemic and market-wide risks to the business (and in turn, clients' interests). To assist with the identification of such risks, Chikara uses a combination of external legal firms and compliance consultants, as well as in-house proprietary research together with our collective experience and knowledge. This feeds into our Risk Register, which is updated monthly and covers both micro (internal) and macro (external) risk factors.

The management of the risks is overseen by the Partnership of Chikara which regularly reviews (not less than annually) the effectiveness of the controls and takes remedial action to address any deficiencies. The key risks are also reviewed, on a monthly basis, by the Partnership of Chikara.

A risk register is produced to each monthly Partners meeting. This contains a full range of considered risks to the business, including market-wide/systemic risks such as:

- Climate/ESG factors – using metrics and analysis from our ISS reports;
- Regulatory divergence issues;
- Geopolitical issues such as the war in Ukraine and related Russian sanctions; and
- Other external events, such as fuel reserves falling globally, cost of energy increases, BCP, high inflation and increased pricing from company and fund suppliers.

These risks are then placed into a Risk Gap (Risk Score versus Controls and Mitigants) and a Risk Assessment map where the events are mapped against the likelihood of occurrence versus the impact. This provides a good range of MI which the Partners can fully review to assess the market wide/systemic risks to the business, as well as any changes since the last monthly meeting.

In general, where Chikara might have concerns over any market-wide or system risks or where it deems it necessary to protect its clients' interests, it would not invest, and, if already invested it would consider escalation of the concerns to senior management or serious consider disposing of its position. This approach would not differ between clients, assets (as we only invest in equities) or geographies. However, we acknowledge sector and individual company differences due to local laws and regulations and cultural differences, which we take into account.

Over the course of the reporting period there have been various specific market-wide risks and issues which we have identified, such as:

1. **The Ukraine war/consequent Russian sanctions** – as a response to this risk, all funds were reviewed to confirm that there were no (direct) Russian investors. Sanctions questionnaires were sent out to all service providers and distributors/platform providers to ensure their adherence to and compliance with the relevant sanctions. The responses were monitored and no material issues were identified; all parties attested to their compliance with the relevant sanctions. Questions on sanctions compliance were then integrated into due diligence for all new key service providers/distributor relationships going forwards as well as into our ongoing due diligence questionnaires (typically done on an annual basis).

2. **Inflation and Rising Costs** – the impact on budgeting with the increasing costs on both the firm and the funds it manages. We keep third-party fees and costs under review. The reviews seek to assess whether the services and costs are still competitive and the fees and service levels from existing providers are compared to quotes from competitors. Where the fees are no longer competitive, this can result in fee reductions where a new provider is appointed. In other cases, it can also result in the incumbent provider agreeing to a reduced fee rate. To ensure cost-effective and good service from its third-party providers, the Firm periodically undertakes reviews of costs and service levels. Any recommendations to move to a new service provider are presented to the Partnership for a decision (or relevant fund board if appropriate).

3. **Increasing divergence of regulation** – regulatory divergence between the UK and the EU presents an ongoing challenge; for example reporting requirements under the EU Sustainable Finance Disclosure Regulation (SFDR) in relation to EU based funds and funds which are marketed in the EU differ from the requirements under the Sustainability Disclosure Requirements (SDR) in the UK. At the end of 2022 we were also required to produce UK PRIIPS KIDs for some of our Funds, in addition to the UCITS KIIDs we already produced.

We generally engage with companies on an individual basis but, subject to any regulatory considerations/constraints, once an investment is made Chikara may participate in collective engagement with other institutional investors/stakeholders over material matters which could have a material impact on shareholder value, when required. In 2022 we undertook a form of collaborative engagement in relation to a Japanese holding whereby we hosted a conference call with another institutional investor to address our concerns collectively to the CEO around the absence of female board members. Please see Case Study 2 under our response to Principle 9 for further information.

There were also a couple of instances during 2021-2022 involving our Japanese holdings where we were contacted by other institutional investors:

(1) We were approached by a large activist shareholder about the possibility of collaboration with other shareholders. Whilst we value the positive influence activist shareholders can have, based on the information we had, the shareholder in question was aggressively increasing their stake in the company at the time of contact (whilst the share held by management was decreasing following a block sale); we were therefore more concerned about a possible hostile takeover. We informed the activist shareholder that we did not wish to collaborate and we noted our concern on the increased presence of activist shareholders with the Company. When the Chairman of the Company passed away unexpectedly, we spoke to the CFO and were not happy with the succession plan in place, especially in the absence of demonstrable anti-take-over measures in place. As a result of this engagement, we decided to exit the position accordingly.

(2) Following criticism of management by a large activist shareholder, we conducted a direct conference call with top executives as well as the lead external Director to seek clarification on the issues raised. Allegations included the acquisition of properties for the benefit of the founding family and the use of company resources for personal benefit. Whilst a detailed explanation was provided to justify these transactions, which may have been acceptable based on corporate governance standards at the time, we were disappointed in the subsequent responses we received and also the attempts by the company to avoid some of the shareholder proposals at the AGM. We believed that it was crucial that the board upheld the highest standards of corporate governance and was responsive to the requirements of shareholders. Anything less can be considered as an investment risk. As a result of this engagement, we implemented a strategy to exit our shareholding.

In both examples, whilst the possibility of collaborative engagement with other shareholders was an option, after careful consideration we preferred to conduct our own direct engagement with the investee Company in order to make a decision about whether to retain our holding(s). Whilst we can appreciate the benefits of collaborative engagement in certain circumstances, we believe it is always prudent to assess the risks and benefits of such engagement before proceeding, rather than making the assumption that engaging with other activist shareholders is always in the best interests of both the investee Company, our holdings and, consequently, the portfolios we manage on behalf of our clients.

As discussed in this report, Chikara has integrated stewardship and consideration of governance and ESG issues into our investment process, however as a smaller firm we have limited resources to actively engage with industry initiatives. We do however believe that participation in industry bodies demonstrates our commitment to responsible investing, helps us to be more active and responsible shareholders, promotes appropriate ESG disclosures and helps us to learn and enhance our effectiveness in relation to ESG issues. To this end, Chikara is affiliated with the following organisations and initiatives:

- **PRI**

Chikara became signatories of the UN-supported Principles for Responsible Investment (PRI) on 6 December 2018. The PRI is fast becoming a global standard for investment managers' ESG alignment. As a signatory to the Principles, we publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities:

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

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

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

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

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

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

We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. Chikara reports annually to the PRI on the firm's responsible investment initiatives, activities and achievements and seeks to meet the standards expected by the PRI in doing so.

- **Association of Investment Companies (AIC)**

Chikara is a member of the AIC. The AIC was founded in 1932 to represent the interests of the investment trust industry – the oldest form of collective investment. Today, the AIC represents a broad range of investment companies, incorporating investment trusts, VCTs and other closed-end funds.

- **Alternative Investment Management Association (AIMA)**

Chikara is a member of AIMA, the global representative of the alternative investment industry. AIMA promotes best practices in the industry, providing education through white papers, conferences, seminars and webinars.

- **Japan Stewardship Code**

The firm is also a signatory to the Japan Stewardship Code, and this is published on our website (https://www.chikarainvestments.com/japan-stewardship-code). Recently we were asked to participate in a Survey on the "State of Stewardship Activities by Institutional Investors and Others" by the Japanese Financial Services Agency (JFSA); this report collects data and metrics on our engagement with Japanese companies during the last financial year and the information provided will be analysed by the JFSA to assess the status of stewardship activities in order to clarify the issues involved in making engagement between investors and investee companies more effective. We are happy to contribute to surveys such as this and assist the regulator in their initiatives in this area.

- **TCFD Support**

We believe in taking action to build a more resilient financial system through climate-related disclosures. We support the recommendations of the Task Force on Climate-Related Climate Disclosures in this regard. (**https://www.fsb-tcfd.org/**)

- **Paris Agreement Support**

We support the primary goal of the Paris Agreement – to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

During 2021 we became part of the AIMA Responsible Investment Working Group and provided feedback for the FCA DP 21/2 Diversity and Inclusion consultation. We continued to be members of the AIMA Responsible Investment Working Group during 2022 and endeavour to remain so into the next period.

We also discuss wider market issues in industry media. For example, amongst others, we published a piece in May 2022 in WhatInvestment magazine discussing Japan's corporate governance reforms and the impending reform of the Tokyo Stock Exchange. These build on articles we have published in prior years discussing similar issues.

Portfolios are concentrated with typically between 25-40 stocks, which are normally held on a medium to long term basis. Understanding and appreciating the longevity and sustainability of an investee stock is therefore paramount to the investment process. Companies that do not adhere to strong governance codes or who have no awareness of global developments would not align with our investment criteria.

We believe that our role is not only to grow their assets, but to protect them. With that in mind, market-wide and systemic risk are key considerations when making any investment decisions and we believe it is important that our clients can access their money at all times should they need it returned and the liquidity of the portfolios is managed in line with the redemption policy to ensure this is the case.

In addition to looking at direct stock risk, we also monitor counterparty risk and diversification and have historically ceased trading with counterparties who have provided poor operational services or where we have had concerns about their creditworthiness.

Over the last couple of years we have identified the need to greater resource our non-core financial horizon scanning of investee companies. We recognised that our existing investment teams could significantly benefit from a 3rd party data provider that could offer climate impact and PAI reporting, "norms" based research and ESG ratings. We evaluated several different systems, with full engagement from both front and back office, and engaged ISS as our preferred provider during 2021. This appointment has enabled us to improve our monitoring of investee companies, which can in turn lead to greater engagement on key issues and encourage greater transparency by these companies. The ISS reports are regularly reviewed by our ESG Committee, who highlight any material issues to the relevant portfolio manager(s). The ESG Committee also discusses the effectiveness of the reports and any issues it identifies –for example it has been noted that that our Japanese funds had a number of holdings in recently listed companies which are not covered by ISS data as these companies are not covered until they have produced at least two sets of annual financial statements. Other companies which are coming out with a low score in the reports are mainly doing so because there is insufficient data upon which to make an assessment or they are not covered by the ISS analysts. However on the whole the data and reports generated have been an extremely useful resource and we will continue to work with ISS on increasing their coverage of companies and honing our use of the data that is available. The data will also improve as companies increase their reporting of key metrics.

A key component to our stewardship/ESG process is this engagement. Engagement serves three distinct purposes for us:

1. Due Diligence – conducting due diligence and understand potential risks and opportunities relating to the investment.

2. **Education** – though our engagement with companies, we are able to share best practices, expectations and provide insights into stewardship/ESG practices of peers (e.g. disclosures, targets, and benchmarking).

3. **Action** – we engage with companies to encourage transparency, accountability and target setting.

We have improved and provided more detailed reporting to clients on engagement during 2021 and 2022, and continue to improve this, as we recognise the systemic impact that increased transparency in this area can have. For example, we now have access to climate impact reporting from our data provider, ISS, which can be used where there is coverage of our portfolios to assess Carbon Metrics (Carbon Intensity, WACI, Carbon Footprint, Carbon Risk Rating, Emission Attribution Analysis, GHG Emissions Intensity), Climate Scenario Analysis (Alignment), Transition Climate Risk Analysis and Physical Climate Risk Analysis). This data set enables us to provide metrics required under TCFD reporting if requested, even if not legally required as we are currently not in scope.

With the establishment of the ESG Committee, which highlights and discusses new and existing ESG related market-wide and systemic risks to the business, which feeds into the risk management MI provided to the monthly Partners meeting, as well as the increased use of the data metrics and reporting from our data provider ISS, we believe that 2022 has increased the effectiveness of our identification and response to the market-wide and systemic risks that impact our business and financial markets as a whole. We will continue to monitor the effectiveness of the ways in which we identify and respond to these risks.

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

All policies and procedures are reviewed and updated at least annually, including on Stewardship, Environmental, Social and Governance (ESG) and Engagement and Shareholder Rights. They are initially reviewed by our internal legal and compliance team, with relevant input and sign-off obtained from other internal (cross functional) teams and are also reviewed at least annually by our external compliance consultants. This review includes consideration of any legal and/or regulatory developments and any issues arising out of the Compliance Monitoring programme (see below). They are then reviewed and approved by the Partnership of Chikara. All staff are required to read and attest to policies and procedures annually and/or as and when there are material updates.

In addition, we share many of our policies with clients/prospective clients as part of the due diligence process and we seek feedback and welcome discussion on these policies.

A Compliance Monitoring Programme is undertaken on a quarterly basis which monitors the effectiveness of the policies and procedures in place and ensures any issues can be picked up and dealt with on a timely basis.

The monthly Partners meeting is also a forum where stewardship and ESG issues are standing agenda items. This ensures a senior level recognition of importance of these issues as well as maintaining an open dialogue on how policies and processes can be improved or updated where necessary. As noted above in the report, we have also established also a separate ESG Committee during the period which meets quarterly to discuss ESG related issues. Members of the investment team and other Chikara staff are invited to participate at ESG Committee meetings on an ad hoc basis, for example to discuss ESG issues that arise in the investment process and to discuss any companies which are outliers or have adverse scoring.

In terms of reporting, we report annually on our activities and progress on implementing the PRI according to the PRI reporting framework.

In relation to voting, Chikara aims to vote all shares where it has its clients' authority to do so, assuming there are no conflicts of interest. All voting decisions are made in consultation with, and approval by, the portfolio managers. Once the proxy votes are submitted, they are recorded by Chikara. Proxy voting records for both the funds we manage and also on a Firm-wide basis are available at www.chikarainvestments.com.

This Stewardship Code Report is a collaborative document and has input from and is reviewed by key personnel from across the business including the COO, CIO, CCO, the CEO, portfolio managers, analysts, internal legal counsel and the Partnership. This is a proprietary document and we consider that those who provide input are best placed to review, however the Report is also reviewed by Danesmead, our external ESG specialist and we do welcome feedback from client meetings on the reporting and would consider any suggested improvements for the next reporting period. The final version of the Report is reviewed, discussed and approved by the Partnership before being submitted to the FRC. This review process is in place to ensure that our reporting on Stewardship is fair, balanced and understandable, both internally and externally.

The review process set out above also ensures that Chikara's policies and processes relating to stewardship are regularly monitored, reviewed and updated.

During 2021, the proxy voting process was reviewed by senior non-investment personnel a) to establish if we could better record relevant information, and b) to identify where we could make efficiencies in this process, including checks and oversight.

We were pleased to discover three fields in our proxy voting system that allowed us to record our reasons for voting (historically we had just recorded how we voted). Since 2021, it has been our policy that completion of this field is compulsory for all votes against or where we abstain and any significant votes. This increase in granularity was embraced by our front office, who are now actively utilising this data in meetings with investors as well as enabling more efficient transparency across our stewardship activities.

The operations team review the voting statistics on a quarterly basis, alongside other engagement data, and any questions are referred to the COO and CIO for follow up. This scrutiny and oversight aims to ensure that every single vote is voted on or there is a recorded explanation for why we don't vote.

We implemented our first ESG policy back in 2016 and this has constantly evolved with the business to meet the expectations of the industry and particularly our clients. During 2021 we engaged Danesmead, an independent ESG specialist, to assess and audit and help us develop/resource our ESG policy in line with our evolving corporate culture as well as meet industry standards and client expectations. This led to a revised ESG policy being implemented in December 2021, which not only better recorded what we already had in place but also provided greater transparency around our operations and our corporate culture to our employees, clients and those interested in our company, e.g. investee companies, regulators, UNPRI etc. Since 2021 we have built on this ESG policy, including the establishment of an ESG Committee, and the latest version dated July 2022 is available on our website (https://www.chikarainvestments.com/esg-policy).

We are committed to providing transparency of our stewardship activities and as such voluntarily produce the PLSA template for all of our funds, for any managed accounts that request them, and also for the firm as a whole. We publish these publicly on our website (both at firm level (https://www.chikarainvestments.com/voting-summary and fund level (https://www.chikarainvestments.com/funds-voting-summary).

The changes we have implemented over the last period have also meant we can produce custom reports on request for clients more easily. We have received increasing numbers of requests for custom reporting over 2022 and continue to work with our clients and with the resources we have available to respond to these requests. We are committed to engaging collaboratively with our clients and increasing transparency of reporting wherever possible.

At Chikara, we are a fundamental bottom-up investment management company, investing in concentrated portfolios of typically 25-40 stocks, typically held 3-5 years (or more), over a medium to long term investment horizon. Therefore the dialogue with our investee companies develops over a number of years and we seek open and constructive engagement with management and board members, in order to broaden our knowledge of the company's strategy, operations and corporate culture. Risk identification and risk management (not only of financial but also systemic risks and wider market impact) are key to effective stewardship and as such regular interaction with investee companies is essential to ensure that any concerns Chikara might have are addressed. Where we identify specific concerns with management's strategy, company performance (financial and non-financial), and risk profile, or where we deem it necessary, we will attempt to escalate to senior management for clarification/resolution, and finally, if necessary, dispose of our position. The concentrated nature of our strategies combined with our medium-long term investment horizon demonstrates, in the vast majority of cases, high conviction in management. As such we would expect in most situations to vote with management, however this is not a firm policy, and we do and have on occasion voted against or abstained. Please see our response to Principle 12 where we set out some examples from 2022 where we have voted against management.

The PLSA template we use requires us to report on the 10 most "significant votes". Chikara defines a "significant vote" as one where we vote against management or abstain or where there is collaboration with other shareholders. When we have no votes meeting our internal criteria for a "significant vote", we rank votes based on a matrix using the size of holding as a % of NAV and resolution types identified by the investment team as key for strong Corporate Governance. We then look to also provide transparency on these material votes. This hierarchy is reviewed at least on an annual basis. The PLSA template, once completed, is then reviewed by senior management (both investment and non-investment personnel) and the relevant portfolio manager, before publication, to ensure the reporting is fair, balanced and understandable. We have also sought feedback from clients on our reporting.

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

As stewardship forms an integral part of the investment process, our approach to corporate governance and broader ESG factors in relation to our investee companies is incorporated into our client reporting as well as discussed with clients at investment review meetings. We provide all our clients with annual reports detailing our engagement and voting activities. While there is an element of anonymisation on our public website, full transparency is available to all investors on request. Where clients request us to adhere to their own stewardship policies these are reviewed and discussed with the client, noting deviations from our investment and stewardship policies and we implemented where appropriate and as agreed with the client.

We provide a high level of transparency to our clients and produce a monthly factsheet containing information covering our top positions, an extensive exposure summary, and commentary on what has worked and what has not, as well as future strategy. Full disclosure of the portfolio is available on a monthly basis to investors. We also publish our voting records on our website using the PLSA (Pension and Lifetime Savings Association) Vote Reporting Template, together with information on our policies and procedures. We have often discussed these policies and procedures with clients, and this has led to their evolution over the years.

Whilst clients come to us for a strategy and would therefore rely on our expertise in stock selection, voting decisions and general areas of governance and stewardship (as we have an intimate knowledge of our portfolio holdings), we have seen a greater interest from our clients in gaining an understanding of our general approach and requests from clients for greater transparency. We have regular engagement and review meetings with our clients where we actively seek their views and feedback to ensure that we are not only meeting their current needs but also working towards their future expectations. A good example of this is the PLSA template reporting, which was originally requested by a single client, but which we now make available to all our clients.

To assist us with effectively responding to client's needs, we engaged an external ESG specialist during 2021, which resulted in an updated ESG policy, with the latest version from July 2022 publicly available on our website (https://www.chikarainvestments.com/esg-policy. We also appointed ISS as a 3rd party data provider to assist the managers, and provided ongoing ESG training to our staff during 2022. We continue to develop in this area and solicit feedback from our clients and investor base to assist us in doing so.

Through our ESG data provider, ISS, Chikara has access to climate impact reporting which can be used where there is coverage of stocks in our portfolios to assess Carbon Metrics (Carbon Intensity, WACI, Carbon Footprint, Carbon Risk Rating, Emission Attribution Analysis, GHG Emissions Intensity), Climate Scenario Analysis (Alignment), Transition Climate Risk Analysis and Physical Climate Risk Analysis).

By way of oversight of climate-related risks and opportunities across our investments, on a quarterly basis, the ESG Committee accesses ISS climate impact reports for each fund to monitor the metrics, and to identify any material contributors to portfolio emissions exposure and exposure intensity, carbon risk ratings, climate scenario analysis, fossil fuel exposure and physical climate risks. Any material adverse findings are highlighted to the investment team. This data set also enables us to provide metrics required under TCFD reporting if requested, which even though not legally required as we are not in scope, enables us to anticipate and meet our client's needs for greater transparency.

Another result of active dialogue with our clients over the last few years has been the increasing desire to understand how we integrate quantitative and qualitative ESG risk into our investment process (even though we solely manage Article 6 funds).

We are also increasingly seeing clients undertake their own ESG screening of stocks held within our portfolios. Occasionally such standardised screening highlights "potential" anomalies. In these instances, we actively work with our clients to assist them with a greater understanding of the investee companies and provide further information/clarification where necessary. Common requests for further information are on carbon emissions on portfolio stocks.

We regularly complete detailed Due Diligence Questionnaire's covering, *inter alia*, such topics as ESG, stewardship and climate change and actively seek feedback from our clients to benchmark ourselves against our peer group to ensure we are continually building out our offering and aligning ourselves with our clients' interests.

Chikara has a demonstrable history of long-term relationships with our clients, built on the alignment of their corporate culture and values with our own, including strong governance, transparency and two-way communication. We have declined business in the past where we did not feel the potential client held the same principles as ourselves. Chikara remains committed to maintaining this approach and views business stability as more important than quick asset gathering.

We manage regulated funds domiciled in the following geographical areas (approximate % of total AUM as at year end 2022):

- Ireland (UCITS) (29.2%)
- UK (listed Investment trust) (12.4%)

Investment Advisory/delegated investment management services:

- EEA (variable capital limited liability investment company) – 11%
- United Arab Emirates (LLC) - 23.7%
- US (LLC) – 11%
- Cayman Islands (Cayman Islands Exempted Companies) - 8%
- UK - (Private Ltd Companies) - 5%

Our direct clients are all institutional investors.

We consider an investment horizon of 3-5 years appropriate to delivery of our clients' needs, in accordance with our primary aim which is to protect and grow the real value of our clients' capital over the long term. We are a fundamental bottom-up investment management company, investing in concentrated portfolios of typically 25-40 stocks. We do not seek to replicate indices, rather we seek investment opportunity through a variety of routes, e.g. via (i) under-valued growth stocks that offer compelling risk-reward opportunities, (ii) large caps which we believe have good growth prospects, (iii) opportunities in the small and mid-cap sector, taking advantage of the lack of coverage in that space; and (iv) where we identify potential for change in management attitudes towards shareholders. We believe that the implicit commitment to shareholder return identified through our in-depth analysis of individual companies should allow investors to benefit from a combination of capital appreciation and rising income, where appropriate.

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

Chikara is an asset management company that specialises in the management of Global Emerging Markets, India, Asia ex Japan and Japan equity portfolios and we do not manage any other asset classes. The primary aim of Chikara is to protect and grow the real value of its clients' capital over the long term. Chikara's investment philosophy emphasises fundamental, proprietary research, to identify potential companies, supported, where possible, by direct company meetings conducted by the dedicated and experienced investment teams at Chikara. We believe in treated all clients equally and fairly, therefore our engagement approach and voting policies is consistent across all clients, assets (equities) and geographies.

Chikara will always endeavour to act in the best interests of its clients as stewards of their capital. Although it does not aspire to be an activist investor, it recognises the importance of regular and responsible engagement with companies in which it invests.

As well as review and assessment of third-party research and engagement with country and industry experts, members of the investment team engage in one-on-one meetings and telephone calls with senior management or Investor Relations representatives of companies. The purpose of such engagement includes:

- understanding key drivers of growth;
- understanding competitive positioning;
- assessing the alignment of management goals and strategy with those of shareholders;
- assessing corporate governance; and
- assessing the environmental, social, governance and sustainability risk profile

In relation to ESG factors, we invest in multiple countries (many developing), and our assessment will take into account ESG best practice whilst acknowledging sector and individual company differences due to local laws and regulations, cultural differences and stage of national integration of ESG when making investment decisions.

The ESG factors considered vary by the country, industry and company under review though in all cases we consider where the following factors are relevant and can have material impact on stock performance:

Environmental: Pollution, site management/consideration, greenhouse gas emissions, climate change, habitat protection, recycling, water

Social: Human/employee rights, working conditions, health and safety, firm-employee relations, child/forced labour, conflict zones

Governance: Board composition, independence, transparency, compensation and accountability, shareholder rights and relations, cyber security, protection of personal data, corruption.

We believe that ESG related issues can affect both the performance and sustainability of an investment portfolio and that ESG factors can be potential indicators of management quality and operational performance; companies with strong, sustainable profiles will, we believe, have greater potential to grow and survive in all market conditions. The primary objective of incorporating ESG factors into investment analysis and decisions is to manage potential risks and opportunities which may have a financial impact and maximise returns. Chikara has a structured yet flexible approach to incorporating ESG into the investment process. Our fundamental, hands-on research approach allows us to seamlessly integrate our responsible investing efforts alongside with our investment strategies in an effective manner, which we believe will achieve the best long-term outcomes for our clients.

Chikara's dialogue with companies has developed over a number of years and it seeks open and constructive dialogue with management and board members, in order to broaden its knowledge of the company's strategy, operations and risk identification and management, and to ensure any concerns Chikara might have are addressed. The ESG factors are integrated into the firm's bottom-up investment process and these issues are considered alongside financial and strategic issues during assessment and engagement with companies. The Portfolio Manager is responsible for engagement on ESG matters and monitoring is carried out via investment reviews. Whilst we do not use proxy advisors or other external service providers, we do aim to ensure our custodians provide us with comprehensive and timely voting information, together with efficient systems in place to support the service. Regular review meetings are held with custodians so any issues with the service would be raised in this forum. We engaged ISS as an ESG data provider during 2021 and work with them to ensure the service and reporting meets our needs and is appropriately integrated into our stewardship and investment process.

ISS reporting currently includes the following:

- Corporate ESG assessments
    - ESG Corporate Ratings and research
    - The investment team pays particular focus to the analyst opinion, key issue performance, ranking and norm-based research severity indicator as well as any particularly poor scoring areas.
- Climate Impact Reporting
    - Including Carbon Metrics (Carbon Intensity, WACI, Carbon Footprint, Carbon Risk Rating, Emission Attribution Analysis, GHG Emissions Intensity), Climate Scenario Analysis (Alignment), Transition Climate Risk Analysis and Physical Climate Risk Analysis)
    - The investment team pays particular focus to the weighted average carbon intensity, material contributors to portfolio emissions exposure and exposure intensity, carbon risk ratings, climate scenario analysis, fossil fuel exposure and physical climate risks.
- Norms Based Research
    - Violations of principles of UN Global Compact, ILO Conventions, OECD Guidelines, ICCPR and ICESCR, Paris Agreement, UN Guiding Principles, UN Sustainable Development Goals, Convention on Biological Diversity
    - The investment team will investigate further any companies in the portfolio that are flagged as "red" in the Norms Based Research report.
- EU Regulatory Reporting
    - Including Principle Adverse Indicator ("PAI") metrics.

The data and reports from ISS are reviewed by the ESG Committee and the investment team and these metrics assist them in identifying potential areas for engagement with companies as it relates to ESG factors.

We maintain an audit trail of our dialogue with companies by recording engagements and voting activity in our in-house system, including the specific topic(s) (E, S or G, or other) covered in the engagement, the rationale for the engagement and outcome. Where Chikara might have specific concerns with management's strategy, company performance (financial and non-financial), and risk profile, or where it deems it necessary to protect it clients' interests, it will consider escalating this to senior management or seriously consider disposing of its position.

Please see our case studies in our response to Principle 9 for examples of the stewardship/ESG-related topics covered in our engagements during 2022, which demonstrate that these issues are integrated into, and reflected in, our investment decision- making process.

In addition, once an investment is made, Chikara will engage with other institutional investors over material matters impacting all shareholders, when required and appropriate.

Chikara Firm ESG Procedures

In addition to the ESG approach deployed within the investment process, Chikara believes it is important to operate its own business in line with good ESG practices. As such, Chikara has implemented the following business initiatives across the three pillars of Environmental, Social and Governance. The Partnership is responsible for ESG initiatives at the management company level and is constantly seeking to improve and enhance Chikara's own ESG culture.

- Commitment to Carbon Neutrality

  Chikara is currently assessing third-party companies to calculate and assess our own global carbon footprint. These companies make recommendations of ways we can reduce carbon emissions over time, and in the shorter term, identify carbon offset projects that we can support to neutralise our carbon footprint. We are proud to be working towards becoming a carbon neutral organisation.

- Waste Management

  Chikara has taken steps to reduce paper usage to a bare minimum through the following initiatives:

    - Electronic signing tools are used (where permitted) to avoid the need to print and sign in hard copies.
    - In-person meeting attendees are offered soft copies of presentations rather than printing presentation decks on paper.
    - No plastic cups, crockery or cutlery are available in the office. Staff use reusable crockery, cutlery, and glasses, removing the use of single-use plastics from the office.
    - Recycling bins are provided throughout the office to encourage recycling. Shredded wastepaper is recycled by a third-party provider.
    - Filtered tap water is provided to reduce plastic water bottle waste.

- Energy Efficiency
    - Energy efficient heating has been installed into the office and secondary glazing is on most windows to reduce heat loss.
    - Office lighting has been replaced with more energy efficient LED lighting.
    - Lights in certain rooms turn off automatically when there is no activity. All other lights are switched off at the end of each day.
    - Staff computers are set to enter standby state when unattended or locked.

- Travel Practices

    - Whilst some business travel is required to perform certain functions, it is kept to a minimum, with trips requiring a business reason prior to booking. Trips are organised efficiently, grouping together meetings in nearby locations where possible.
    - Trains are used where practical as an alternative to flying (e.g. UK travel or use of the Eurostar).
    - Chikara has installed video conferencing facilities into its offices during 2022 to support more virtual meetings where possible.

- Staff are encouraged to walk or cycle to work where possible. Shower facilities are provided onsite to support cycling/running/walking to work. Chikara supports hybrid working where staff are encouraged to work from home part of the week, reducing the carbon footprint from commuting.

ESG Training

The ESG landscape is constantly evolving, and Chikara is keen to ensure that all staff are educated and aware of ESG developments across the investment universe. To that end, employees receive regular training and regularly collaboratively engage on a wide range of issues, including ESG, sustainability, climate change and the importance of stewardship and their integration into the investment decision making process. Additionally, at each quarterly meeting, the ESG Committee assesses whether the investment team has the required responsible investment capabilities to conduct necessary ESG research and determines whether additional training and/or resources are required.

In June 2022, a series of one-to-one and small group ESG training workshops were held internally covering a range of ESG topics, regulatory updates, trends and themes, as well as ensuring all staff were familiar with Chikara's ESG Policy.

Service Providers

Chikara doesn't outsource any of its material business functions e.g. investment services; however, as we discuss in more detail in Principle 8 below, we do conduct service reviews with our service providers (and those of the funds we manage, where appropriate, such as the administrator(s)) annually or more frequently depending on the nature of the service/relationship and the quality of the service received.

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

We conduct service reviews with our key service providers annually or more frequently depending on the nature of the service/relationship and the quality of the service received. This helps to ensure we receive a high quality service from all our service providers. For our most significant relationships, we carry out an initial due diligence which is refreshed periodically. Research providers are reviewed throughout the period and formally reviewed at least once a year when contracts are renewed. We have service level agreements in place with our key service providers who regularly report their performance as against agreed Key Performance Indicators.

Some examples of our regular interaction with service providers are as follows:

- We have a monthly call with the administrators of each of the UCITS fund and the UK listed Investment Trust that we manage to discuss service levels and ongoing issues;
- We have a monthly call with our IT Administrator where we discuss not only service levels but are updated on current and ongoing cyber security threats and the outcomes of any IT monitoring;
- We have a quarterly review meeting with the UCITS Management Company;
- We have an annual review with our ESG data provider, ISS.

Market reviews are carried out periodically to ensure that service providers are still in-line with market best practice. The outcome of the performance reviews may result in more frequent interactions with our service providers or a discontinuance of the relationship where performance continues to fail to meet expectations. For example, we made the decision to change our IT Administrator during 2021, following dissatisfaction with the quality of the engineers, responsiveness and limited functionality. Since the transition we have been impressed with the quality of the oversight of the new provider, the responsiveness of their engineers and their cyber reviews which, whilst slightly more expensive than the previous provider, were are providing a better, more comprehensive service. This is especially important to us in the current environment of every increasing and complex cyber security threats to our business.

During 2022, we also changed our external Compliance consultant; we were looking for a provider with a high level of expertise who could assist us with our ongoing regulatory obligations and compliance monitoring, as well as help us plan and implement upcoming regulatory initiatives and challenges. Having performed a market review of a number of competitors in the market, including holding one-to-one meetings, we made a decision to move providers in Q3 2022 and we continue to work with them on our Compliance Monitoring Programme and ongoing projects.

Historically we have also changed custodians as a result of poor service and we have also ceased trading with brokers due to poor service levels e.g. late confirmations/reconciliation reports.

During assessment of our investment process in 2021, we had identified a need for a recognised 3rd party data provider to assist us in our ongoing ESG engagement efforts. We engaged ISS during 2021, a third party ESG and climate data provider, who provides ESG related metrics and analysis. These reports are reviewed by the ESG Committee and the investment team and assist them in identifying potential areas for engagement with companies as it relates to ESG factors.

ISS reporting includes the following:

- Corporate ESG assessments
    - ESG Corporate Ratings and research
    - The investment team pays particular focus to the analyst opinion, key issue performance, ranking and norm-based research severity indicator as well as any particularly poor scoring areas.
- Climate Impact Reporting
    - Including Carbon Metrics (Carbon Intensity, WACI, Carbon Footprint, Carbon Risk Rating, Emission Attribution Analysis, GHG Emissions Intensity), Climate Scenario Analysis (Alignment), Transition Climate Risk Analysis and Physical Climate Risk Analysis)
    - The investment team pays particular focus to the weighted average carbon intensity, material contributors to portfolio emissions exposure and exposure intensity, carbon risk ratings, climate scenario analysis, fossil fuel exposure and physical climate risks.
- Norms Based Research
    - Violations of principles of UN Global Compact, ILO Conventions, OECD Guidelines, ICCPR and ICESCR, Paris Agreement, UN Guiding Principles, UN Sustainable Development Goals, Convention on Biological Diversity
    - The investment team will investigate further any companies in the portfolio that are flagged as “red” in the Norms Based Research report.
- EU Regulatory Reporting
    - Including Principle Adverse Indicator metrics.

The proxy voting system is subject to the custodian's Third Party Risk Management Reviews and their Outsourcing Risk Management Program. A formal third party due diligence assessment is carried out every 2 years and monitored by the custodian's Outsourcing Risk Management team as well as Procurement. Any issues would also be raised in the regular review meetings with custodians, to ensure we are provided with comprehensive and timely voting information in order to effectively discharge our voting obligations

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

Chikara is an independently owned asset manager offering capacity constrained, index agnostic, long only equity strategies across Global Emerging Markets, India, Japan and Asia ex Japan. The partnership focuses on delivering strong performance within a risk-controlled framework. The primary aim of Chikara is to protect and grow the real value of its clients' capital over the long term. Chikara's investment philosophy emphasises fundamental, proprietary research, to identify potential companies, supported, where possible, by direct company meetings conducted by the dedicated and experienced investment teams at Chikara. We believe that over time this will achieve superior results. Chikara believes that it has built a very strong fund management team of experienced portfolio managers, together with a first-class operational infrastructure to meet the increasingly complex international regulatory environment. In order to best safeguard and grow our clients' assets we believe that we must achieve excellence in all areas of the business: investment performance, operations, legal, compliance and client service, always remembering that we have, above all else, fiduciary responsibility for those assets.

With this in mind we see the below as critical to our success:

1) Having a strong corporate culture to which both our staff and clients can align and which is evidenced by our high staff retention rates and long standing client relationships;
2) Looking to only accept clients who share the same investment time horizon as our strategies and who understand exactly what our strategies seek to achieve;
3) Working to ensure stability of AUM by actively avoiding investors who we believe are momentum trading (this is evidenced by Chikara declining new business);
4) By only offering capacity constrained products to maximise alpha generation and to avoid dilution at the expense of quick AUM growth. We have demonstrable history in closing funds to new investors when we believe we are approaching capacity thresholds;
5) Meeting with clients regularly to ensure that all parties remain aligned and informed;
6) Seeking feedback from our clients to understand both their current and future requirements and acting as needed. Examples of this in practice are a) the evolution and adoption of the ESG practices and processes within the firm b) in 2008/9, while many managers sought to gate their funds and limit clients access to their monies, at Chikara we quickly organised shareholder votes to restructure gate provisions to offer not only greater liquidity to those that needed it, in a method that ensured protections for remaining investors, but also to act on our responsibility to aid and assist with the smooth functioning of financial markets.

As part of our investment process, we aim, on a regular basis, to ideally engage in one-on-one meetings and telephone calls with senior management or Investor Relations representatives of all companies that we are invested in. Whilst our engagement and voting approach does not differ between clients, assets (we only manage equity portfolios) or geographies, for smaller funds it is sometimes difficult to gain direct access and in these instances we participate in broker or investee company organised multi-investor group meetings. For example in India, over the course of the last year we have noted that the local regulator is increasingly encouraging this method of group engagement to further aid transparency of discussions. Whilst this form of engagement can have additional benefits of investor collaboration and therefore could have more impact for smaller shareholders, there are limitations with respect to restricted time with investee companies to fully discuss all issues. We therefore encourage our portfolio managers and research analysts to utilise a mixture of one-to-one meetings (where possible) alongside group engagements.

The purpose of such engagement includes:

- understanding key drivers of growth;
- understanding competitive positioning;
- assessing the alignment of management goals and strategy with those of shareholders;
- assessing corporate governance; and
- assessing the environmental, social, governance and sustainability risk profile

We aim to speak with every company we own in our portfolios at least 1-3 times a year, where we discuss, *inter alia*, corporate stewardship and governance. Where specific key issues arise we will more formally engage (especially where a vote is involved) to ensure a) we fully understand the company's strategy and aims, and b) that the company has effectively considered shareholder's views. These engagements are tracked and recorded to ensure continued oversight to either resolution or potential disposal of the position. Some of the issues identified are resolved quickly and others may take several years of discussions. In these latter cases we look for positive progress in order to maintain the position.

We identify key issues in several ways:

- Investee company engagement (with e.g. senior management, specialists or the IR department)
- Our in-house research;
- Broker research;
- Publicly available information;
- Client engagement; and
- ESG data provider reports (including "norms", PAI reporting and ESG ratings via our data provider, ISS).

We maintain an audit trail of our dialogue with companies by recording engagements and voting activity in our in-house system.

Sadly, not all data providers are in agreement with ratings, and company coverage is still mainly limited to larger/medium cap stocks, with many estimates filling in the gaps. Being a small, boutique investment manager and not running any ESG specific products, we have to be both pragmatic and practical in terms of which issues to select and prioritise for investee company engagement. As stated above, corporate stewardship and governance has been and will always be our primary focus for engagement, though over the last few years we have started to identify additional themes outside these.

During 2021 and 2022, in conjunction with our clients, we identified the following themes as important for follow up and engagement (where appropriate) in our investee companies:

- **Governance: Board Independence**
  Ensuring that management decisions are aligned with shareholders' views, that there is board independence with strong governance and control functions has become particularly important.
- **Social: Diversity & Inclusion - Gender Equality**
  Policies on board gender diversity, e.g. in Japan this was previously applied only to companies listed on the first and second sections of the Tokyo Stock Exchange (TSE), and we are pleased to see this has now been extended to all listed companies on Japanese stock exchanges as of February 2022.
- **Governance: Sustainability Reporting & Disclosure**
  We have noted that there is still a room for improvement in terms of disclosure practices across

all markets. Encouragingly, new initiatives have been introduced under the 2021 CG Code for Japanese corporates.

- **Governance: compensation plans**
  Remuneration schemes must be appropriate and effective to ensure alignment with shareholder interests. For example, in an India stock last year we voted against a resolution to increase board remuneration, as we believed it was higher than industry standard and, despite efforts, there was a lack of information available.
- **Environmental: GHG emissions**
  This theme has been specifically promoted by some of our clients, and consequently we have shown our public support for both the Paris Agreement and the TCFD. Specifically, whilst Japan's 'Green Growth Strategy' was announced in December 2020, the environmental aspect of the ESG initiative is the area Japan has lagged most in compared to other developed countries and as such is an area we encourage transparency and continue to monitor.

In relation to our Japanese focussed funds, most leading investee companies in Japan now also produce in-depth Sustainability Reports detailing their policies for ESG initiatives along with, in some cases, practical examples and numerical data. These are consistent with global procedures such as the GRI Sustainability Reporting Guidelines and the TCFD. We would seek further clarification if a company did not produce the relevant report or chose not to support the international standards. The Japanese portfolio management team also maintain a regular dialogue with the Japan Stock Exchange, which joined the Sustainable Stock Exchanges initiative in 2017, to maintain a knowledge of the current initiatives it promotes.

Whilst we have always sought to engage with investee companies, our approach to proxy voting has evolved over the years from just voting on what we considered to be key issues, to where we are today, which is actively voting on every resolution and recording this together with our reasons for the decision. Summary data is available to our clients on our website (please see previous links).

In 2022, we held 248 meetings with company managements. Our methods of engagement are typically:

- one-to-one meetings with management or specialists from key areas of interest (either face to face or remotely);
- email correspondence;
- phone calls with IR teams;
- engagement of specialist independent research teams; and
- company seminars/conferences.

One to one meetings remain our preferred method of engagement.

As noted previously, 96% of our assets are invested in Japanese equities, therefore we are often able to have more impactful engagement with senior management often resulting in positive outcomes.

Below are some case studies from the last 12 months of where we have engaged with our Japanese holdings and how this has informed our investment decisions and the outcomes.

Case study 1

Topic	**Social - Diversity and Inclusion**
Sub-topic	**Leadership and Governance: Diversity Policy Disclosure**
Rationale for engagement	To address the absence of the diversity policy disclosure. To encourage the Company to establish and present their policies and measurable goals for ensuring diversity and further disclosing their status

Engagement activity	Engagement on this issue has been ongoing for approximately 3-5 years. We had a 1-to-1 conference call with the CEO and CFO. Since the initial discussion we had in June 2021, the management made a step forward to work on gender diversity on the board, with one female director being appointed (the board currently has 5 directors of which 3 are registered as independent, outside directors) but the Company has not yet published a diversity policy.
Outcomes and next steps	The appointment of a female director in 2022 was a positive outcome of our engagement. However, we will continue engagement with the company with the aim of ensuring the diversity policy is officially published, which will be followed up at the annual meeting with the company CEO that is due to take place in June 2023. If the implementation and disclosure of the diversity policy continues to be a challenge for the company, we will consider further steps we might take. We continue to hold the position.

Case Study 2

Topic	**Social: Diversity & Inclusion – Gender Equality**
Sub-topic	**Leadership and Governance: Board related**
Rationale for engagement	To improve the company's ESG practice, namely the policy on board gender diversity, which was previously applied to companies listed on the first and second sections of the Tokyo Stock Exchange (TSE), has been now extended to all listed companies on Japanese stock exchanges as of February 2022.
Engagement activity	Engagement on this issue has been ongoing for approximately 2-3 years. Collective engagement: We hosted a conference call with another institutional investor in February 2022 to address our concerns collectively to the CEO that the absence of female board members had been flagged as an issue. We had a 1-to-1 conference call with the CEO as a follow-up in July 2022, to request that the CEO takes steps to improve gender diversity on the board.
Outcomes and next steps	Since the initial discussion we had with the company in February 2021, no improvements were made in 2022. However the CEO reassured us that he continues to search for relevant female personnel to join the board and he aims to resolve the issue within FY11/23.

	We continue to have open dialogue and further engagement and we will monitor progress of the above and have agreed to a follow-up call in early February 2023 ahead of the AGM. We continue to hold the position.

Case Study 3

Topic	**Governance - ESG Disclosure**
Sub-Topic	**Leadership and Governance: Sustainability Reporting & Disclosure**
Rationale for engagement	To improve the Company's information disclosure practice, namely the provision of disclosures in English and sustainability/ESG related disclosure.
Engagement activity	We had a 1-to-1 conference call with a Senior Executive Director where we learnt that the management has changed the way data is presented to further improve transparency. The quarterly results presentation materials were upgraded but the English version was not made available at the time of the result announcement. In response to our request, the Company subsequently released the English materials.
Outcomes and next steps	We were happy with the outcome and didn't need to escalate. We continue to hold the position.

Case Study 4

Topic	**Environmental: Renewable Energy**
Rationale for engagement	To discuss the Company's approach to renewable energy or energy efficiency. Whilst Japan's 'Green Growth Strategy' was announced in December 2020, the environmental aspect of ESG initiative is an area where Japan has lagged in comparison to other developed countries.
Engagement activity	We had a 1-to-1 meeting with CEO in December 2022 to request that the Company makes use of renewable energy to diversify the energy source. We discussed the use of renewable energy such as solar power for its hotel business, but there is a technical challenge (battery storage) to overcome.
Outcomes and next steps	Ongoing discussions are being held with the Company on the topic but we will be cross checking the technological aspect of the issues separately. We continue to hold the position.

Case Study 5

Topic	Environmental – GHG Emissions/CO2 emission reduction target
Rationale for engagement	To enhance the Company's environmental policy which incorporates specific CO2 emission reduction target, and to improve ESG disclosure.
Engagement activity	Back in October 2021, as we discussed in our previous report, we contacted the Company to discuss its climate change policy as it had been highlighted by our third-party research provider that the company's carbon footprint was worse than the industry median. The Company confirmed at the time that management was addressing climate change as a key sustainability issue and it was actively promoting its countermeasures across the group to reduce energy consumption and CO2 emissions. The company (including domestic and foreign entities) emitted a slight increase in tonnes of CO2 in FY6/21, from FY6/20. This was mainly due to capacity expansion in production facilities abroad – hence higher energy consumption and CO2 emissions - but the company maintained a stable emission level per unit of revenue basis at 0.69 tonnes of CO2 versus 0.68 tonnes a year ago. These figures did not look particularly alarming in our view (it didn't look worse compared to its peers), and the Company continues to focus on per-unit figures as its reference point for energy conservation and CO2 reduction. Since this initial discussion, we had a 1-to-1 conference call with a Senior Director in IR to obtain an update. There has been a significant improvement with the publication of the first edition of an integrated report covering CO2 emissions, and the announcement of an enhanced environmental policy which incorporates a specific CO2 emission reduction target.
Outcomes and next steps	Whilst we are content with the progress made since our initial engagement, we see room for further improvement in the scenario analysis that the Company filed for TCFD, where specific numerical target figures can be incorporated. We will follow up on this in summer 2023. We continue to monitor progress and hold the position.

Case Study 6

Topic	Social: Pay inequity and Employees Welfare
Sub-Topic	**Social: Gender/Racial Pay Equity**
Rationale for engagement	To confirm that the Company has sufficient measures and policies in place to prevent exploitative/unfair labour conditions. This was triggered by a media report speculating that an UK online fashion retailer - which is similar to the Company – was under investigation for the allegation of low wages and modern slavery at its warehouse.

Engagement activity	We confirmed via email with the sustainability team that the Company has actively worked on equality measures to ensure working conditions meet the health and safety guidelines. In terms of wages, it complies with the Japanese labour standard. In fact, the wages are set higher than the standard in each region.
Outcomes and next steps	We keep our dialogue open for further engagement and continue to hold the position.

Case Study 7

Topic	**Governance: Executive Compensation and Board Independence**
Sub-Topic	**Social: Diversity and Inclusion**
Rationale for engagement	To improve the company's ESG practice, namely on the appointment of a female director on the board, improvement in board independence, and disclosure of executive compensation policy.
Engagement activity	We raised our concerns during May 2021 that the audit committee chair was not independent given his insider status (a current employee of the company), and subsequently reflected our view that the board most effectively performs the oversight role if it has a sufficient level of independence that serves as a minimal safeguard of shareholder rights. In response, the Chairman shared his view that the Company's system of corporate governance is sufficient, with an audit committee composed of three directors (two of whom are independent and outside directors), with each director exercising their equal share (1/3 of the total) of the authority of the board. Whilst there was some acknowledgement that there is always a downside risk to allowing insiders (or affiliates) to discharge the duties of audit oversight, and that this could present a potential conflict of interest, he believed the audit committee chair's industry knowledge and experience can add great value to the company to guide them in the right direction. Since this initial discussion we followed up with the Company in June 2022 via a 1-to-1 conference call with the Chairman. The management has taken a step forward in its work on gender diversity on the board, with one female director being newly appointed as of June 2022. No improvement has been made on improving the independence of the board, as the audit committee chair referred to above was re-appointed as a director in June 2022 (and he still fulfils his duty as a full-time member of the 'internal' Audit and Supervisory Committee). In respect of retirement bonuses system for directors and statutory auditors, our dialogue remains open and we look forward to seeing and improvement ahead of the AGM next year.
Outcomes and next steps	The appointment of one female director in June 2022 is a positive outcome of our engagement. However, we keep our dialogue open in relation to board independence and disclosure on the retirement

	bonus system. These issues will be followed up in June 2023. We continue to hold the position.

In respect of the remaining 4% of our portfolio holdings across Asia and the Indian subcontinent, we still actively engage with investee companies where possible and where companies are willing to interact with smaller investors. Some examples of engagement over the period are as follows:

- In May 2022, after following up in meetings over the last three years with the Company we held a call with the CFO and CEO to better understand the exact transfer pricing and related party transactions; we got a complete understanding on this call in relation to the licensed brands and were happy that these were accretive to our minority interests as holders. We continue to engage with the Company and hold the position.

- In September 2022, we held a group call with a company to discuss a Senior Management change and ESG rating updates. We gleaned that an MD was moving on for an entrepreneurial opportunity and was being replaced with an internal regional head. We were satisfied that this would be a smooth and planned internal transition. On ESG they had the improved disclosures on quarterly presentations and were now rated as the number 1 residential developer globally by GRESB (Global Real Estate Sustainability Benchmark). We were therefore happy with the outcome of the engagement and continue to hold the position.

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers directly or by others on their behalf.

We generally engage with companies on an individual basis but subject to any regulatory considerations/constraints, once an investment is made, Chikara may participate (and have historically done so) in collective engagement with other institutional investors over material matters which could have a material impact on shareholder value, when required. Strong corporate governance is one of our main investment criteria, both in the initial decision-making process and an ongoing consideration, and with that in mind we typically wouldn't expect to participate in collaborative engagement on a regular basis due in part to our investment strategy and investment into high conviction stocks and intimate knowledge of investee companies and management.

In 2022 we undertook a form of collaborative engagement in relation to a Japanese holding whereby we hosted a conference call with another institutional investor to address our concerns collectively to the CEO around the absence of female board members. Please see Case Study 2 under our response to Principle 9 for further information.

There were also a couple of instances during 2021-2022 involving our Japanese holdings where we were contacted by other institutional shareholders:

(1) We were approached by a large activist shareholder about the possibility of collaboration with other shareholders. Whilst we value the positive influence activist shareholders can have, based on the information we had, the shareholder in question was aggressively increasing their stake in the company at the time of contact (whilst the share held by management was decreasing following a block sale); we were therefore more concerned about a possible hostile takeover. We informed the activist shareholder we did not wish to collaborate and we raised our concerns with the Company about the increased presence of activist shareholders. When the Chairman of the Company passed away unexpectedly, we spoke to the CFO and were not happy with the succession

plan in place, especially in the absence of demonstrable anti-take-over measures being in place. As a result of this engagement, we decided to exit the position accordingly.

(2) Following criticism of management by a large activist shareholder, we conducted a direct conference call with top executives as well as the lead external Director to seek clarification on the issues raised. Allegations included the acquisition of properties for the benefit of the founding family and the use of company resources for personal benefit. Whilst a detailed explanation was provided to justify these transactions, which may have been acceptable based on corporate governance standards at the time, we were disappointed in the subsequent responses we received and also the attempts by the company to avoid some of the shareholder proposals at the AGM. We believed that it was crucial that the board uphold the highest standards of corporate governance and are responsive to the requirements of shareholders. Anything less can be considered as an investment risk. As a result of this engagement, we implemented a strategy to exit our shareholding.

In both of the above examples, whilst the possibility of collaborative engagement with other shareholders was an option, after careful consideration we preferred to conduct our own direct engagement with the investee Company in order to make a decision about whether to retain our holding(s). Whilst we can appreciate the benefits of collaborative engagement in certain circumstances, we believe it is always prudent to assess the risks and benefits of such engagement before proceeding, rather than making the assumption that engaging with other activist shareholders is always in the best interests of both the investee Company, our holdings and, consequently, the portfolios we manage on behalf of our clients.

Whilst our engagement and voting approach does not differ for clients, assets (as we only invest in equities) or geographies, it should be noted that for smaller funds it is sometimes difficult to gain direct access and in these instances we would participate in broker or investee company organised multi-investor group meetings. For example in India, we have noted that the local regulator is increasingly encouraging this method of group engagement to further aid transparency of discussions. Whilst this form of engagement can have additional benefits of investor collaboration and therefore could have more impact for smaller shareholders, there are limitations with respect to restricted time with investee companies to fully discuss all issues. We therefore encourage our portfolio managers and research analysts to utilise a mixture of one-to-one meetings (where possible) alongside group/more collaborative engagement.

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

Chikara actively engages with its investee companies where possible. How we engage depends on the circumstances and the issues being discussed. Where Chikara might have specific concerns with management's strategy, company performance (financial and non-financial), and risk profile, or where it deems it necessary to protect it clients' interests, it will consider escalating this to senior management and, depending on the outcome, vote against any proposals or seriously consider disposing of its position. However, in our experience, constructive dialogue with management is most likely to result in satisfactory outcomes. Our approach to escalation does not differ between clients, assets (as we only invest in equities) or geographies. However, we acknowledge sector and individual company differences due to local laws and regulations and cultural differences which we take into account. Our practical ability to meaningfully escalate and impact outcomes varies dependant on our holding size of shares outstanding of the relevant investee company.

One example of escalation that we undertook during the period was the example also referred to in the response to Principle 10 and was in relation to one of our Japanese holdings. Following criticism of management by a large activist shareholder we requested and conducted a direct conference call with top executives as well as the lead external Director to seek clarification on the issues raised. Allegations included the acquisition of properties for the benefit of the founding family and the use of company resources for personal benefit. Whilst a detailed explanation was provided to justify these transactions, which may have been acceptable based on corporate governance standards at the time, we were disappointed in the subsequent responses we received and also the attempts by the company to avoid some of the shareholder proposals at the AGM. We believed that it was crucial that the board upheld the highest standards of corporate governance and are responsive to the requirements of shareholders. Anything less can be considered as an investment risk. As a result of this engagement and our escalation of the issue, we implemented a strategy to exit our shareholding.

Please also see the case studies in our response to Principle 9 which give examples where we have escalated stewardship activities to issuers, and their outcomes.

Principle 12: Signatories actively exercise their rights and responsibilities.

We do not use proxy advisers and do not delegate or outsource our stewardship activities. Where we have been delegated the authority to do so, our approach is to exercise voting rights on behalf of clients in line with our policy. Chikara does not offer clients the ability to override or direct voting decisions. However, where we have segregated mandates, we can discuss the application of a bespoke voting policy. Where clients have their own policies, they may also decide not to give Chikara voting authority and exercise their own proxies.

Chikara and its clients do not engage in stock lending.

The primary voting policy of Chikara is to protect or enhance the economic value of its investments on behalf of its clients. Chikara will vote against any agenda that threatens this position, in particular concerns over inappropriate incentives, changes in capital structure and mergers or acquisitions which are seen as detrimental to the creation of business value. Chikara aims to vote all our clients' shares where it has its clients' authority to do so, assuming there are no conflicts of interest. However, there are occasions where we do not vote, principally where we have sold the shares prior the date of the meeting. All voting decisions are made in consultation with, and approval by, the portfolio managers. Once the proxy votes are submitted, they are recorded by Chikara.

In 2022, we were eligible to vote at 368 meetings in respect of 2224 resolutions. We voted on 100% of the resolutions, of which we voted 96% in line with the recommendations of management. Our policy is to formally abstain on stocks which we don't hold as at the meeting date; this accounted for 2% of all resolutions voted on. We also voted against 2% of the resolutions during 2022. For example:

- We voted against an approval of a debt issuance as we believe that the increase in limits for debt issuances on private placement basis and loans to subsidiaries or associates is very significant especially without any reason or use of funds cited. We vote against such blanket approvals for increasing these limits so significantly.
- We voted against a Share Option Plan adoption as the weak share price performance post IPO warranted a relook at the ESOP plans and the quantum of issuance/price levels.
- We voted against an approval of borrowing powers, as blanket approvals for raising the borrowing capacity by very significant amounts in this instance we believed were against shareholder best interests.

The results of our proxy voting for the firm for 2022 are available at https://www.chikarainvestments.com/voting-summary/2022. Whilst we have always sought to engage with investee companies, our approach to proxy voting has evolved over the years from just voting on what we considered to be key issues, to where we are today, which is the intention to actively vote on every resolution and record this together with our reasons for the decision. For more information on our Proxy Voting policy please see the Proxy Voting section of our Engagement and Shareholder Rights statement on our website: https://chikarainvestments.com/engagement-and-shareholder-rights-statement.

To aid our proxy voting process, we use the custodians proxy voting systems to provide us with holdings information, voting rights, view company management recommendations, provide reports detailing the required elections and cast votes. As part of our daily ongoing monitoring, our operations team review all outstanding/unvoted resolutions via this system and their associated deadlines. The investment team are actively chased for decisions to ensure voting policies are adhered to. Once a decision is made, a record is taken of the decision, together with the rationale if voting against management, as well as the outcome of the vote. A summary of this information, along with our significant/material votes is made available to investors on our website (as discussed previously in this report).