EVENLODE

INVESTMENTS FOR LIFE

Evenlode Investment
Annual Responsible Investment Report 2022

www.evenlodeinvestment.com

TABLE OF CONTENTS

Our purpose is to preserve and enhance the value of our client's assets through long-term engagement and analysis.

With a focus on long-term investment, we hold companies that we deem to be high quality. We define 'quality' in this context for companies that are not capital intensive, have a strong economic moat or competitive advantage, recurring cash flows and a healthy balance sheet. However, we are not just investors, we also understand the influence we can have on the companies we invest in on behalf of our clients. This is why we feel integrating environmental, social and governance (ESG) factors into our investment process, and actively engaging with our investee companies can help to sustain and improve returns for our clients.

EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Fund Manager

Ben Peters, Fund Manager and Director

We seek real, durable returns for our clients over the long term, investing in a sustainable way that contributes to a positive future.

2022 was a year of significant progress in Evenlode Investment's stewardship journey. Building on many years of iterative analysis and development, in this report we detail our activities and their outcomes as well as new initiatives in responsible investment. The year was marked by downward pressure on global equity markets, and we do not forget that achieving attractive risk-adjusted financial returns through time is our prime purpose as an organisation, the first part of our purpose statement on the left. It is our belief that whatever the market conditions, companies that manage the full range of risks and opportunities that they face are more likely to be successful in the long run. Therefore, whether the year is positive or negative for market returns, we judge that our clients are best served by us continuing to manage ESG risks through our analysis and risk management framework. We further encourage the evolution of businesses toward more sustainable practices through our engagement efforts. It follows that we believe that the second half of our purpose statement, contributing to a positive future, is entirely compatible with the first.

We have built on the platform of work from previous years to target our shareholder voting and corporate engagements more efficiently and effectively. There has also been an awakening to the responsibilities and possibilities of investor stewardship in the broader investment community. We are aware that companies are now receiving a much-increased volume of requests for information and dialogue from their owners and their representatives. Whilst broadly welcome, this industry development means we must be doubly focused on engaging with clarity and where we think it is impactful. To that end we continue to review the outcomes from our engagements and will adjust our practices on the back of that analysis.

Our previous work has also meant that in 2022, we were in a position to set out our first set of metrics and targets surrounding sustainability, aiming towards the global ambition of net zero carbon emissions by 2050. We are in no doubt as to the scale of the challenge, and as you'll read below have started with engagement encouraging portfolio companies to set out their decarbonisation strategies before moving on to more material emissions reduction targets later in this decade.

EVENLODE'S YEAR IN STEWARDSHIP

By Ben Peters, Fund Manager

In setting our targets we have leaned on the Net Zero Investment Framework (NZIF) set out by the Net Zero Asset Managers Initiative (NZAMI), one of several industry organisations of which we are a member. Constructively collaborating with the financial sector is core to our approach. Through collaboration we inform our own strategy, share best practice, and develop innovative thinking that will help us to reduce ESG-related risks and therefore financial risks to our clients over the medium to long-term. We have found this industry participation vital in helping us to formulate the next steps in our sustainability strategy, and a clear emergent theme is the risks and opportunities surrounding biodiversity and natural capital. We will be developing this element of our work in 2023 with an eye on the forthcoming requirements of the Taskforce on Nature-related Financial Disclosures. We will draw on our work on its older cousin, the Taskforce for Climate-related Financial Disclosures, under which we will be reporting next year.

From a governance perspective I continue to be the director responsible for stewardship and ESG. I have reported to the board on our activities, gained its approval for our target setting, and along with the broader Evenlode Investment team have translated our desire to manage the risks and opportunities associated with sustainability-related issues into our business plans for the coming years. The development of our biodiversity engagement framework is one example of a tangible action to come out of our business planning process.

The regulatory environment continues to evolve. In 2022 we moved the EU-domiciled vehicles that we manage to SFDR Article 8 reporting, which we hope will give our investors further clarity on the sustainability ambitions that are applied to their portfolios. We have participated in the Financial Conduct Authority's consultation on the proposed Sustainable Disclosure Requirement regulation in the UK and will of course apply the final rules only as appropriate to our stated strategy.

As we report through these various frameworks, what is most vital to us is that we collaborate internally to deliver on what we have set out to our clients. Our ESG framework described below is not just integrated into the investment process, it is the investment process for that part of our holistic approach to equity analysis and portfolio management. It is designed to enable us to collaborate, to challenge ourselves, but importantly come to constructive conclusions and move forward with decision making and engagement. I hope this report helps you to understand how we at Evenlode Investment approach responsible investment now, and how we set ourselves up to develop in the future.

Ben Peters, Fund Manager and Director

THE TEAM

By Sawan Kumar, Head of Stewardship

We are looking for strength in depth within our team and have hired individuals with experience from a range of backgrounds to ensure we address all of Evenlode's values as a business and our investment process.

As an employee-owned business the aim is to build a multi-generational team within which, in due course, the business can be handed from one set of employee-owners to another whilst continuing to consistently apply our process to the portfolios we manage. The concept of delivering in the long run for all stakeholders means that the team is structured to take collective ownership for the decisions made on the portfolios we manage, whilst containing lines of individual responsibility to ensure that accountability is not dissolved.

Sawan Kumar, Head of Stewardship

Over the course of the year, we have added two new members, Rebekah Nash and Zikri Jaafar, to the stewardship team. Rebekah has joined us as a Governance Analyst whose primary focus is to carry out our voting and engagement activities. She will participate in the Graduate rotation scheme, sitting with the other fund teams, while expanding her knowledge on specific ESG-related areas through internal training and external qualifications. Zikri Jaafar has joined us as a Stewardship Analyst. He previously worked for a sustainability consultancy, working closely with companies to develop their Net Zero transition plans and reporting on their Taskforce on Climate-Related Financial Disclosure (TCFD) obligations. He brings with him carbon emission accounting skills as well as understanding natural capital frameworks. Both have been excellent additions to the team as we further develop our stewardship strategy.

THE TEAM

By Sawan Kumar, Head of Stewardship

Evenlode Income


Hugh Yarrow
Lead Manager


Ben Peters
Co-Manager


Chris Moore
Co-Manager

Evenlode Global Income / Evenlode Global Dividend


Ben Peters
Lead Manager


Chris Elliott
Co-Manager

Evenlode Global Equity / Evenlode Global Opportunities


Chris Elliott
Co-Manager


James Knoedler
Co-Manager

Stewardship


Sawan Kumar
Head of Stewardship


Bethan Rose
Sustainable Inv. Analyst


Rebekah Nash
Governance Analyst


Zikri Jafaar
Stewardship Analyst

Research


Chris Moore
Head of Research


Charlotte Lamb
Investment Analyst


Robert Strachan
Investment Analyst


Cristina Dumitru
Investment Analyst


Leon Cyril
Investment Analyst


Ben Armitage
Trainee Inv. Analyst


Gurinder Samra
Trainee Inv. Analyst


Sam Ratcliffe
Junior Inv. Analyst

Innovation


Tom Weller
Innovation Analyst


Phoebe Greenwold
Impact and Innovation Analyst

EVENLODE'S STEWARDSHIP STORY

By Sawan Kumar, Head of Stewardship

Evenlode is a signatory of the UK Stewardship Code which was first published by the Financial Reporting Council (FRC) in 2010. After being updated in January 2020, the code sets high stewardship standards for asset owners, managers and service providers that support them. Consisting of twelve guiding principles for asset managers and owners and a separate set of six principles for service providers, the new Code aims to encourage engagement between institutional investors and company management and promote a greater level of transparency. It is applicable to those firms who manage assets on behalf of institutional shareholders, including pension funds, insurance companies, investment trusts and other collective investment vehicles.

The Code increasingly helps us navigate around these complex risk mitigating themes and is increasingly recognising that environmental, social and governance (ESG) factors are becoming even more material to the long-term success of a company. We have welcomed the emphasis on investor engagement outcomes and the requirement for more evidence on how ESG is adding value to businesses over the last couple of years.

To better help us identify key long-term risks and discuss megatrends we attended various webinars and training sessions in the year held by industry groups and organisations such as the Net Zero Asset Manager's Initiative (NZAMI), Investor Forum, Investment Association (IA), United Nations Principles for Responsible Investment (UNPRI) and the Carbon Disclosure Project (CDP). We have been a member of the International Corporate Governance Network (ICGN) for many years and in 2021 also became members of the Natural Capital Committee (NCC) whose focus is on governance relating to the natural environment, ecology and biodiversity including climate change and the United Nation's Sustainable Development Goals (UNSDGs). These discussions help bring emerging risks to our attention and help us curate the themes for our bespoke analysis carried out in the year. For example, our work on carbon pricing mechanisms (which we provide detail on later in this report), is the first step to a longer piece of thematic analysis which addresses transition and regulatory risks our investee companies face as we look forward to a low carbon economy. These memberships also provide us with useful context as we look to assess our investee companies on their climate transition plans and net zero targets. We signed up to NZAMI in September 2021 and had our interim climate targets accepted in July 2022. These can be found under the Net Zero assessment section in this report.

Evenlode also continues to be signatory to the UNPRI. The principles were developed in 2005 by an international group of investors who wanted to promote the increasing relevance of responsible investment. By becoming signatories, we have committed to implementing these principles and incorporating ESG factors into our investment process to better manage risks for our clients. After signing up to the UNPRI in 2018 our most recent assessment report scored our policies on Investment, Stewardship, Voting & Engagement, 4 stars out of 5, further highlighting our commitment to active ownership.

TO ACCESS THE ASSESSMENT AND TRANSPARENCY REPORTS, PLEASE CLICK HERE

ESG INTEGRATION

By Sawan Kumar, Head of Stewardship

We assess companies in our investable universe on a range of financial and non-financial factors, divided into three different categories:

- Business: Economic moat, pricing power, long-term industry outlook, economic sensitivity, diversification, management and cultural quality and ESG.
- Financial: Balance sheet strength and cash generation.
- Investment: Liquidity risk and valuation risk.

We assign a score of between A to E for each risk factor for each company we follow and analyse. This kind of scoring methodology induces conversation within the investment team at our regular risk scoring meetings and when an investment case is reviewed, ensuring a collegiate decision is made considering a range of viewpoints. Companies that score badly on certain issues, or certain combinations of issues, are less likely to be included in our investable universe. For instance, an E for both Balance Sheet and/or Economic Sensitivity, a Moat score less than a C. If a company scores an E on ESG risk because there are severe ESG concerns that the company is not managing adequately, it will be excluded from the portfolio/universe. Where a company does not meet minimum ESG standards and consequently scores a D, this leads to active engagement on the identified issues that, if necessary, is escalated from direct engagement with the company to collective engagement through one of the investor initiatives we are members of.

We use several checklists which help us to focus our attention on the most significant and/or value-adding matters on behalf of our clients. Over the course of the year, in order to create more structure around how we score companies on ESG risks, we highlighted market-wide ESG issues that present long-term risks if not addressed:

- **Environmental risks:** Climate-related risks, high emission intensity, weak climate transition plans.
- **Social risks:** Material controversies including labour violations, UNSDG alignment, CEO and gender pay gap.
- **Governance risks:** Misalignment between pay and performance, inadequate independence of board members and disproportionate voting rights.

We wanted to ensure we had clear systems in place in order to eliminate any preconceived notions and biases and have created a checklist which asks 36 ESG-related questions of each company. Environmental and governance-related themes are given the most importance and are weighted equally due to the value we have attributed to emissions intensity, Net Zero targets and consequently the governance needed from investee companies to achieve those targets over time. Example questions include:

- Does the company publish its total greenhouse gas emissions (all scopes)?
- Is there board-level oversight of climate-related risks? Who is responsible for implementing the company's climate strategy? This question becomes critical for a high impact, emission intensive holding.
- Has the company been involved in material controversies in its supply chain and as a result, are any of those surrounding risks still unmanaged?
- Does the company align its remuneration with sustainability-related metrics and are the performance metrics targets disclosed in the policy?

Once the score is calculated, an independent judgement and discretion is applied by the stewardship department as a common-sense overlay.

The resulting score is presented and discussed at our weekly investment meeting, and this ultimately acts as one of the key inputs into the maximum position size of the company. Independent discussion, discretion and calibration is useful as it brings in a consideration of the nuances of each potential issue and eliminates a mechanical approach to decision-making. The process is collegiate and seeks to bring in the views of the whole investment team, having rigorously sought out the most material matters through the initial use of a thorough checklist. It also helps us to highlight which E, S or G factors are most material to the company's industry and/or business model. The idea is for this framework to evolve and improve over time, including thematic analysis carried out as a result of our company-specific work. The number of questions has increased to 36 this year as we wanted to spend more time looking at pay gaps and historical tax controversies.

ENGAGEMENT AND EXCLUSIONS

By Sawan Kumar, Head of Stewardship

Why would we exclude companies?

We judge each business on its own merits when deciding on its ESG risk score, and do not exclude any sector from the outset. It is our belief that all companies face both ESG risks and opportunities, and we should critically assess those as part of our analysis before drawing conclusions. We do, however, formally exclude companies that directly manufacture controversial weapons, and our controversial weapons policy is available on our website.

As noted above, we will give a company an ESG risk grade of 'E' if it has significant ESG-related risks that are not being adequately managed. If a company scores an E, it will not be eligible for investment. This is fundamentally a risk control mechanism; it is our belief that companies that do not adequately manage their own business risks face potential liabilities through fines and regulatory censure, reputational damage, and subsequent lost revenues, profitability and cash flow. Such companies present heightened risks for owners of that business's equity. We therefore look elsewhere to achieve good risk-adjusted returns for our clients.

The investment case for engagement

We will engage with those companies that we grade higher than 'E'.

We consider engagement with companies as an opportunity. Discussing challenges with companies enables us to understand their business context and obtain more information about their mitigation of and resilience to the risks that we perceive.

Ultimately, we are seeking to create long-term value for our clients through improving the sustainability characteristics of a company. However, we understand that all this takes time and requires a measured approach. This type of approach requires appropriate engagement objectives and is why we set objectives for each engagement, which allows us to stay focused and monitor our ongoing engagements.

Risk management is still a focus for those companies that we do not exclude on ESG grounds. The company's ESG risk score is considered when setting its maximum position size as a routine part of our investment process. Companies that have lower scores will, all other things being equal, have lower maximum position sizes.

THE ENGAGEMENT TRACKER

By Sawan Kumar, Head of Stewardship

To gain a deeper understanding of the businesses we invest in, we measure the level of accessibility and transparency companies offer to their stakeholders. We have observed over the years that there is a good correlation between companies that are willing to engage with investors proactively and those that have a strong and open culture throughout the organisation. On the flipside, when we have noticed the company has not acknowledged our feedback with a response, positively or otherwise, we will not hesitate to downgrade their ESG risk score and consequently their maximum position size. For example, we have been writing to the company management team of a holding in the Evenlode Global Income fund for three to four years. The engagements have spanned various themes ranging from a weak remuneration policy to an inadequate Net Zero plan. After discussing with the respective fund managers, we decided to downgrade their ESG score and consequently their maximum position size of the stock in the portfolio. We felt that the lack of engagement on ESG-related matters warranted a downgrade especially as we had identified weak practices which hadn't improved.

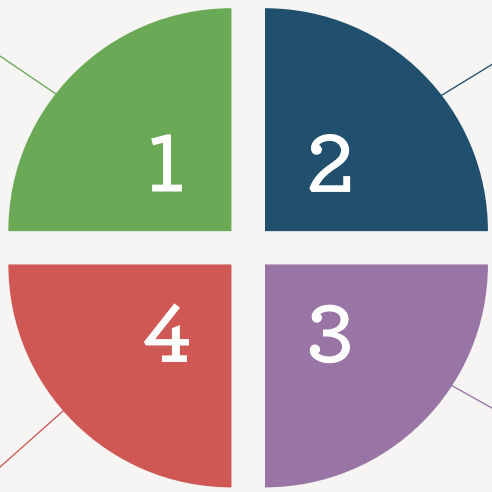
We consider stewardship to be an important part of our investment philosophy, and have over the past few years been developing a framework for engagement with the companies we invest in. We believe it is our fiduciary duty to protect and enhance the value of our clients' assets, whilst responsibly minimizing broad non-financial risks. Monitoring of investee companies is good investment practice and we would never invest on behalf of our investors without undertaking sufficient due diligence.

In 2019, we updated our proprietary investment research software system (EDDIE) which now includes the 'Engagement Tracker' functionality. The 4-step process for documenting engagement activity in EDDIE is shown below:

Engagement Tracker

INITIATION
The engagement is created as a result of either a vote against management at an annual general meeting (AGM), a specific issue which has been identified by Evenlode and raised with the company, or alternatively a contact from the company itself.

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



ACTION
The outcome of the engagement is documented. Has the company implemented a new policy as a result of our engagement or made a strong enough argument to defend its current strategy?

DISCUSSION
The conversation around the engagement topic is documented.

	AGM engagements	Interactions
Initiate Dialogue	30	97
Acknowledgement	14	9
Discussion	16	89
Action	13	24
Total:	**73**	**219**

Data from 2022

Examples of cases that led us to prioritise an engagement are:

EXAMPLE 1

We wrote to a holding in the Evenlode Income fund regarding our assessment of their net zero strategy. According to our analysis at the time, the company was only committed to aligning to net zero, thus we wrote to request the company set science-based short and medium-term targets in line with 1.5°C, covering at least 95% of scope 1 and 2 and 67% of scope 3, and disclose at least 90% of scope 1, 2 and 3 emissions annually within the next 12 months, in order to work towards full alignment with 1.5°C. We received a positive response from investor relations; they felt a science-based climate strategy is necessary to drive sustained emission reductions and recognised the need to help mitigate the impact of the climate crisis, acknowledging the growing scientific consensus that the window to tackle climate change is diminishing. To demonstrate the commitment to a science-based climate strategy, the company signed a commitment letter to the Science Based Targets initiative (SBTi) in November 2021, committing to set science-based emissions reduction targets across all scopes, in line with 1.5°C emissions scenarios and the criteria and recommendations of the SBTi. They are in the process of developing science-based short and medium-term targets in line with 1.5°C and are on schedule to have these approved by SBTi before Evenlode's deadline of November 2023. Once approved, they will communicate their targets to us. They are making good progress on their year-on-year carbon emissions reductions, and for the emissions that they haven't yet been able to eliminate, they will look to partner with a third party to offset 150% of their emissions. They also choose to report their environmental impacts via the Carbon Disclosure Project (CDP).

EXAMPLE 2

We wrote to a company held by Evenlode Global Equity with our feedback from their AGM as we voted against the CEO's remuneration policy and report. Although we liked the metrics in their short-term incentive plan (STIP), there was limited disclosure on the targets and duplication of these targets across the STIP and long-term incentive plan (LTIP). There was also a disproportionate weighting of relative Total Shareholder Return (rTSR) in the LTIP. We highlighted the importance of an independent chair and recommended the importance of a Lead Independent Director (LID) on the board. We received a response which agreed with our notes on the CEO compensation and that other investors had commented on the duplication of metrics. However, they felt it was important to choose criteria in line with their strategy. The disclosure on the STIP was enhanced last year (2021) but the publication of targets is a further step that the Compensation Committee are considering. Regarding the chair, he became non-independent at the end of last year and left his position as chairman of the appointment, governance and CSR committee. His directorship will end in 2023 and will not be renewed therefore a new chair will be appointed. This was a positive engagement with clear communication and Evenlode felt that their concerns were considered.

THE ENGAGEMENT TRACKER

By Sawan Kumar, Head of Stewardship

EXAMPLE 3

We wrote to a company in the Evenlode Global Equity portfolio ahead of their AGM to engage on several issues. As a result, our ESG matrix had calculated their score to be a D. These included increasing independent oversight and adding employee representation on the board due to poor workers' rights and conditions. Their climate disclosure was weak which conflicted with some of their ambitious targets. Finally, we highlighted our concerns over the remuneration policy due to a lack of STIP. The remuneration was only formed of base salary and periodic grants of time-based restricted stock units. We received a response from their corporate legal team. The board had direct oversight of employee wellbeing and workplace safety, regularly reviewing the matters. Their Leadership Development and Compensation Committee (LDCC) oversees the policies related to human capital management and they had met several times over the past year. They make significant investments to address workplace safety and satisfaction which can be seen through their competitive compensation and disclosure of safety statistics, as well as training and increasing employee benefits. On climate, they publicly disclose their carbon footprint in their sustainability report and through the CDP survey. They believe the footprint meets the international standard but more importantly has been independently verified. Regarding their lobbying practices, they did their own review and identified potential misalignment between positions they support and positions that organisations advocate. They will carefully weigh the risks and benefits of their continued membership of these organisations in the future. And finally on governance they recognised that their remuneration differs from other companies, but their compensation committee continuously reviews this and believe this is currently the best set up for the long-term success of the business. We still firmly believe the structure of a good remuneration policy should consider the short and the long-term to ensure executives are rewarded consistently whilst also aligning with the long-term strategy of the business.

In adherence to our voting policy, we initiate dialogue with company management before we action a vote (if we need additional information) and also after actioning a vote (if we vote against management) via a letter. In 2022, we wrote 57 letters to companies about their AGM vote, emissions disclosures and net zero targets.

Due to the differing nature of governance frameworks globally, and the complexity of surrounding policies, it can be useful to speak with management before inputting the vote. If voting against management, our policy states that we must write to the company stating the reasons why. This induces a healthy conversation post the AGM about the changes we want to see in the company and allows us (as investors) to better understand the company's point of view. Although the topics may differ between various geographies, the engagement strategy remains the same for all the funds. Recording each step of the engagement process allows us to record, analyse, monitor and measure the success of our engagements. As the information is now kept in a centralised database, it further enhances transparency and spreads the knowledge in the team, whilst eliminating the risk of sending conflicting messages. Ongoing maintenance of the tracker also has the ability to provide useful data which we can then use to create a more robust engagement framework.

THE ENGAGEMENT TRACKER

By Sawan Kumar, Head of Stewardship

ESCALATION

Evenlode historically has not had a formal escalation policy. We consider each case for engagement on its merits. We have in the past collaborated with the UNPRI and the Investor Forum to collaboratively engage with other investors. In 2022 however, when curating our initial Net Zero targets, we felt it would be beneficial for us to have more structure around voting, engagement and escalation as it pertains to our Net Zero strategy.

For our engagements, we set time-bound company level objectives that lead to escalation if not achieved in the set timeframe. Along with having relevant targets, emissions data and performance disclosed, portfolio companies are also asked to ensure emission performance is on track with their targets and have their emissions verified by third parties. High impact companies are asked to disclose a climate transition plan, report the type of offset they are using, commit to align future capital expenditures with their long-term greenhouse gas (GHG) emission targets and disclose the percentage of their current and aspired share of overall sales from green revenue. These additional criteria form our minimum engagement objectives and milestones. Generally, we are expecting companies in material sectors to move up one alignment category within 12 months of engagement. If they do not achieve the engagement objectives set within this time frame, we will escalate via voting and collective action on a case-by-case basis.

For example, we expect our companies in material sectors to provide an adequate amount of transparency on their climate transition plan. The plan should include for example, disclosure of emissions performance covering at least 90% of scope 1, 2 and 3 emissions. As supporters of the Task Force on Climate-related Financial Disclosures (TCFD), we encourage all companies in our portfolio to highlight their exposure to physical and transition risks to climate change in line with the well-defined framework, as well as undertake a quantitative scenario and transition analysis, over time. If we see an absence of disclosure necessary for shareholders to make an informed decision, we will vote against the Reports and Accounts. After 12 months from the start of the initial engagement, an escalation approach will be taken to voting if we haven't seen any incremental improvements in disclosure or there has been a lack of meaningful acknowledgement from our engagement efforts, by also voting against the chair of the company.

To help us achieve positive outcomes in the future and improve on our engagement method, Rebekah Nash looked back at all our historic engagements over the years. We wanted to understand what channel is the best to use (letter, face to face meeting, engagements with the ESG team or combined with a fund manager) and who is the best person to contact at the company (Head of Sustainability, IR, Executive etc.) to increase the chances of a more effective engagement outcome. The analysis suggested that contacting the IR team, combining ESG-related themes via a letter, having some sort of input from a fund manager (if a multi-year engagement), and focusing on governance issues in the initial letter led to more positive outcomes.

As our engagement strategy develops and we have given adequate time to our investee companies to come up with more credible transition plans, we will endeavour to report the outcomes of our escalation activities and conduct internal thematic analysis to improve our internal processes in the coming years. Our net zero targets are a work in progress for us as active owners as well as for our investee companies.

FOR OUR FULL ESCALATION POLICY PLEASE CLICK HERE

ENGAGEMENT THEMES

By Sawan Kumar, Head of Stewardship

Over the past few years, the rationale for voting against management and consequently engaging with management, was centred around misalignment of incentives and performance. The post-covid era further exacerbated this problem as companies looked to re-calibrate the quantum of pay after a period of uncertainty. In the last 12 months, we have engaged extensively with investee companies on their Net Zero targets. In particular, a large proportion of the companies in our invested universe had 'committed to aligning' to Net Zero which meant that they had set a 1.5°C-aligned net zero target however, this was not classified as science-based. The companies also did not disclose at least 90% of scope 1, 2 and 3 emissions. We believe that a science-based climate strategy is necessary to drive sustained emission reductions and therefore asked companies to set science-based short and medium-term targets in line with 1.5°C, covering at least 95% of scope 1 and 2 and 67% of scope 3, and disclose at least 90% of scope 1, 2 and 3 emissions annually within the next 12 months, and work towards full alignment with 1.5°C over the coming years.

COLLABORATION

We are active participants of groups such as Corporate Reporting Users Forum (CRUF), International Corporate Governance Network (ICGN), Financial Reporting Lab's (FRC) Climate Change and Steering Committees and the Farm Animal Investment Risk and Return (FAIRR) Initiative which was established by the Jeremy Coller Foundation. The FAIRR Initiative was founded in 2016 with the intention of providing insightful and impactful data on the risks associated with intensive animal agriculture. Their aim is to work with investors and provide them with the tools necessary to address the most material issues, including climate change, deforestation and water scarcity. The initiative tries to bridge the gap in investor knowledge of an important sector – food. A sector important not just for the global market but for Evenlode too.

In February, we participated in a collaborative engagement facilitated by FAIRR. The organisation had undertaken extensive engagement with global food companies to systematically transition product portfolios to facilitate healthier, more sustainable diets and ensure long-term food security. They recruited 84 investors with almost $23 trillion of AUM who were interested in actively engaging with 23 target companies, 3 of which were Evenlode holdings. The engagement objective was to:

1. Encourage the companies to set time-bound commitments to grow the share of nutritious plant-based and alternative proteins and ingredients in product portfolios, enabling consumers to transition to sustainable and healthy diets which do not involve the excess consumption of animal-based products.
2. Support and enable a dietary transition towards less and higher-quality animal-based products whilst building food security and sustainable food systems.
3. Ensure this forms part of a comprehensive, global, evidence-based approach to protein diversification and report metrics on progress publicly every year.

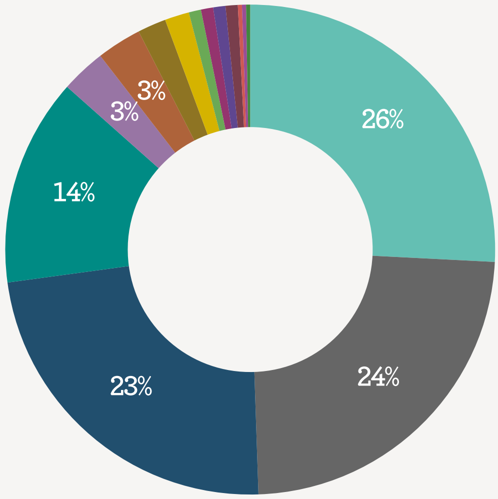
Nestlé did not disclose the percentage of total R&D spent on plant-based innovation nor metrics to track its plant-based sales. Unilever had no commitments related to portfolio diversification and did not seek to reformulate existing product ranges to reduce animal protein content. Positively, as a result of the six-year collaborative engagement, Nestlé's plant-based sales increased to 0.92% in 2021, with the company dedicating 10% of its R&D resources towards plant-based product innovation and significant capex investments to scale production. Unilever announced a target to generate $1.2 billion from plant-based foods by 2027 and report strong double-figure growth. It reformulates products to reduce animal-derived ingredients, such as switching milk powder with alternative milk.

Our overall approach around direct vs collaborative engagements is simple. We believe collaboration is important to strengthen our collective influence in addressing ESG issues and learn from like-minded investors. And clearly, as highlighted from the example above, collaboration can increase the chances of a positive outcome. However as long-term investors we have developed long-term relationships with our investee companies through direct engagements. And we believe that is a key ingredient in effecting change that will benefit both our companies and clients.

ENGAGEMENT THEMES

By Sawan Kumar, Head of Stewardship

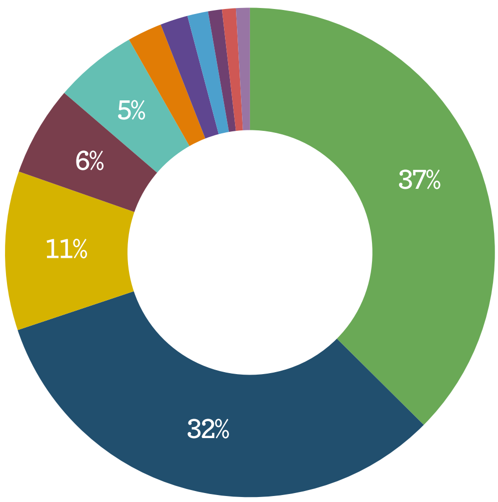
Engagement Themes



- Company Strategy
- Human Rights
- Supply Chain
- Remuneration
- Carbon Emissions
- Climate Change
- Succession Planning
- Audit Issues
- Board Structure
- Company Culture
- Product Quality & Safety
- Balance Sheet
- Deforestation
- Labour Conditions
- Human Health

Companies	**88**
Engagements	**219**

Engagements by Region

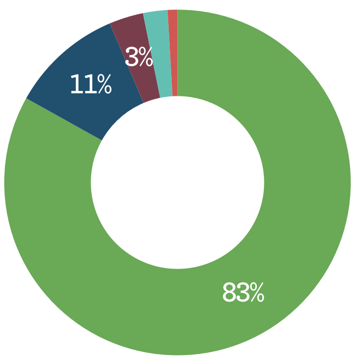


Engagement by Region

- United Kingdom
- United States
- France
- Germany
- Switzerland
- Netherlands
- Sweden
- Japan
- Australia
- Belgium
- Spain

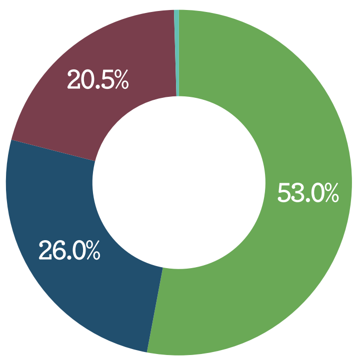
Engagements	**219**

Who we Engaged



- Investor Relations
- Board Level
- Other
- Sustainability Team
- Executive

How we Engaged



- Email
- Letter
- Video Call
- Other Exchange

STEWARDSHIP IN PRACTICE

By Sawan Kumar, Head of Stewardship

By carrying out sufficient due diligence we invest in companies that are being managed according to a strategy and principles with which we fundamentally agree. With this in mind, Evenlode's policy is to usually vote with management on resolutions put forward unless we have initiated an engagement in the previous year showing our discontent and asking for change which has not yet materialised. As a firm, we do not engage in stock lending and vote all our shares using the proxy voting service provider, Proxyedge. We have a close relationship with their representatives where we can use their platform to check for upcoming meetings (helping us to plan for AGM seasons), monitor voting rights and, finally, action our votes. Voting with the board is not automatic and in cases where we disagree with a specific issue we will vote against. Where possible this will happen after dialogue with the officers of the company has taken place.

We do not use external proxy research providers as we believe it to be our fiduciary duty to vote shares in accordance with the investment philosophy that we set out to our clients. All our research is carried out in-house by our stewardship analysts, using both publicly available information and internal research carried out by our fund managers and investment analysts. Due to the size and nature of our business, we do not seek independent assurance of our proxy voting and stewardship activities. Instead, we undertake an annual review of all our stewardship activities (voting and engagement) at the end of the proxy voting season to better understand the market and how we can structure our engagement style going forward. For example, at the end of our review for 2021, we created a more targeted engagement strategy for our AGM voting season. We will look to proactively engage with companies where we have significant ownership at a portfolio and company level. The aim is to initiate dialogue early for with our most material holdings and highlight any areas of concern we have with the company before we input the vote.

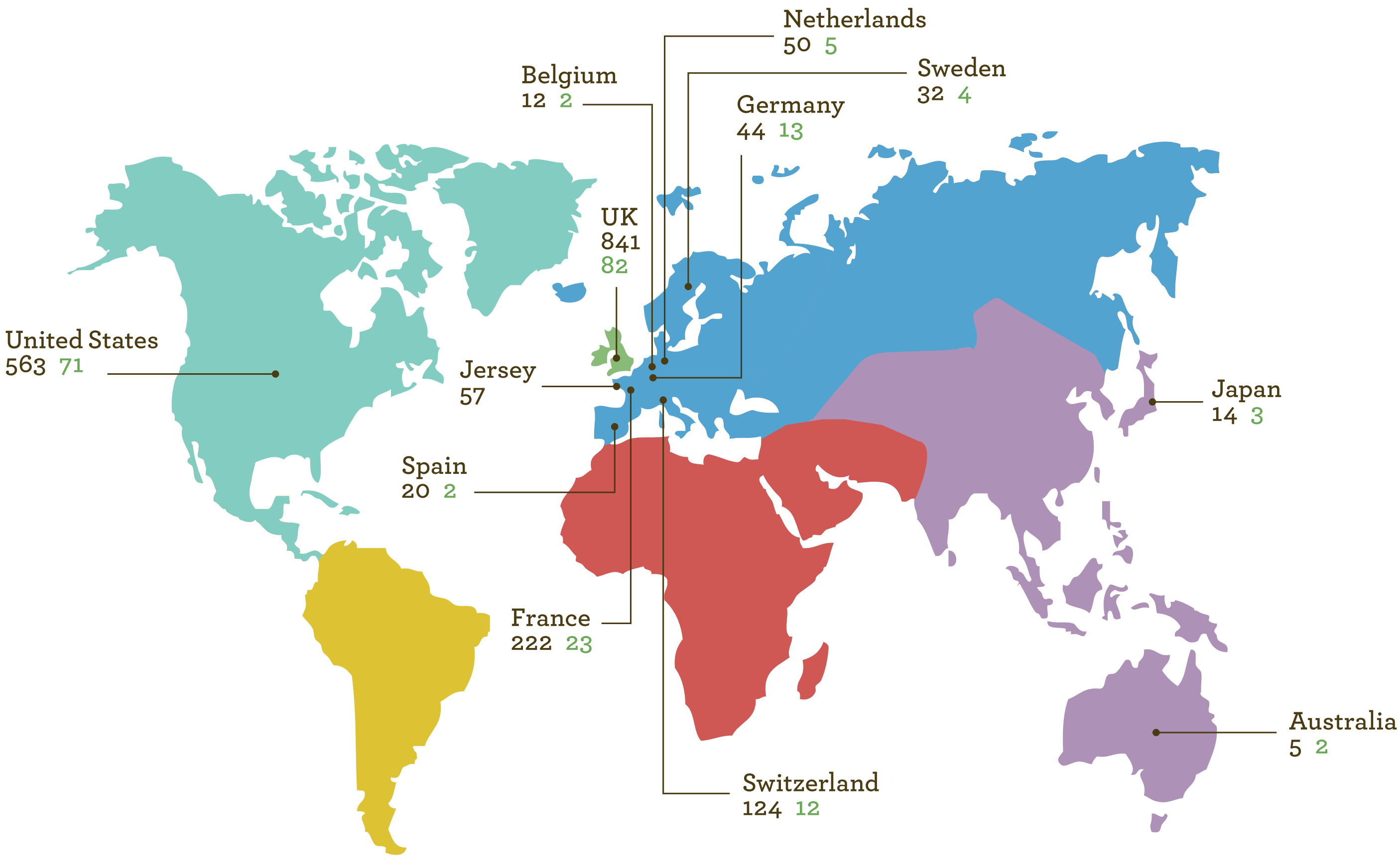
We consider the UK corporate governance model as best-in-class. However, we do understand that other jurisdictions and geographies have different requirements and take these into consideration when making our voting decisions.

We disclose all our voting activity in the stewardship section of our company website, on a quarterly basis. In the interests of best practice, transparency and investor information, we also provide details of when we have voted against management and the reasons for this.

To access our voting records please visit the following link

VOTING RECORDS

Voted Resolutions by Region



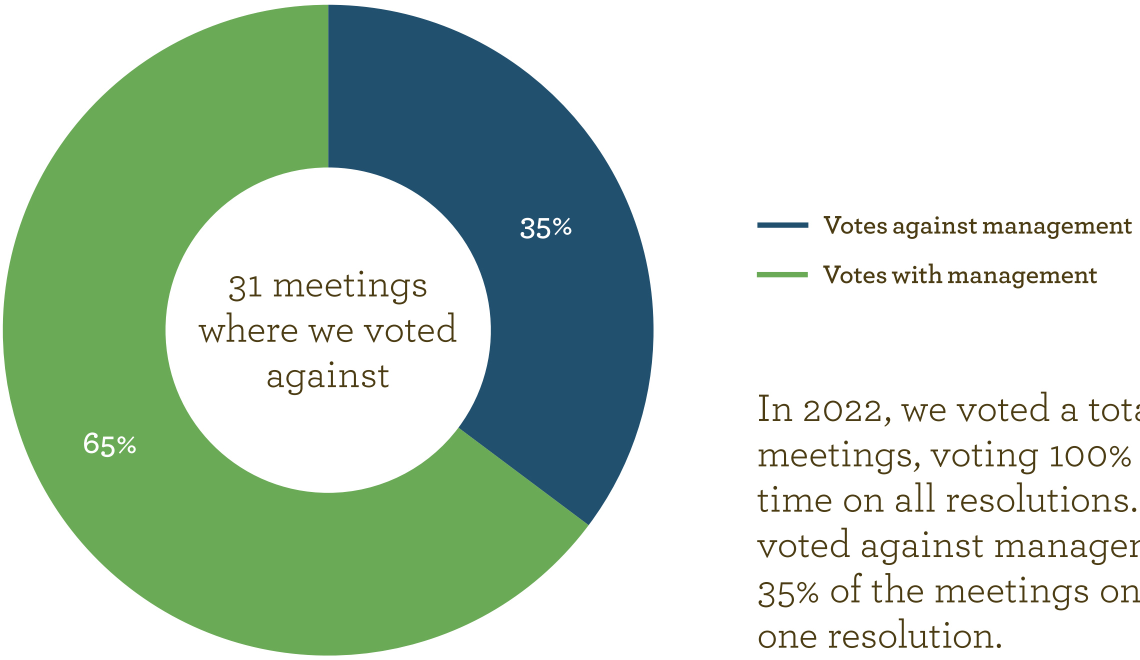
Number of voted resolutions shown in **grey** and engagements in **green**

VOTING STATISTICS FOR 2022

Meetings	88
Resolutions	1984
With Management	1870
Against Management	92
Abstain	22

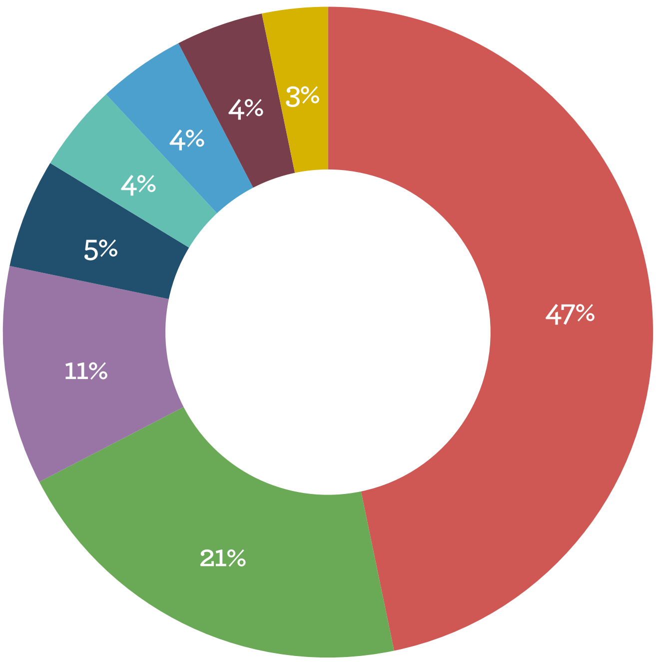
4.6% of the total votes cast were against management

Votes Against Management (per meeting)



In 2022, we voted a total of 88 meetings, voting 100% of the time on all resolutions. We voted against management at 35% of the meetings on at least one resolution.

Votes Against Management Themes



Themes	Total	%
Remuneration	43	47%
Director related	19	21%
Social	10	11%
Tax	5	5%
Environment	4	4%
Capital Stock	4	4%
Audit-related	4	4%
Other	3	3%
Votes against management	**92**	**100%**

STEWARDSHIP IN PRACTICE

By Sawan Kumar, Head of Stewardship

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

COMPANY A

A holding in Evenlode Income, Evenlode Global Income and Evenlode Global Equity received our vote against the re-election of one of their directors. We feel it's crucial to have adequate and a sufficient level of independence on the board and more importantly on the remuneration committee. The director sat on the board, remuneration committee and also happened to be a controlling shareholder of the organisation. There were also concerns regarding their positions outside the organisation and if they were able to allocate sufficient time to the business. He sat on 9 outside boards and advisory groups. The re-election of the director was approved with a 79.22% vote with management but a significant 20.72% of shareholders voted against management. Further cementing our views of a poor board structure of the company.

COMPANY B

We voted against the re-election of a director which is held in Evenlode Global Income and Evenlode Global Equity. The concern was regarding the independence of the auditor and thus the vote against the audit committee chair was submitted. We previously engaged with them on this matter and received no response therefore, as part of our escalation process, we voted against the director responsible for the statutory auditor. The outcome of the AGM vote showed 9.4% of shareholders voted against and 90.6% voted for the re-election.

COMPANY C

We voted against management on the approval of the executive compensation policy due to the lack of disclosure used for the short-term incentive plan (STIP) and long-term incentive plan (LTIP). In addition, there was a duplication of relative shareholder return (rTSR) in their LTIP. We also felt the plan would benefit from more transparency on the metrics and targets being used to assess performance. Disclosure of specific, quantifiable performance metrics provide shareholders with the means to evaluate the appropriateness of such incentive programmes. We understand share price appreciation is a good barometer for shareholder value creation, however, there was a disproportionate reliance on the metric in the overall makeup of the policy. The overall result of the meeting was 91.88% of shareholders voting with management and 8.02% against.

CARBON EMISSIONS ANALYSIS

By Zikri Jaafar, Stewardship Analyst

The synthesis report of the sixth assessment cycle by the Intergovernmental Panel on Climate Change emphasises that human activities have unequivocally caused global warming – global surface temperature has increased by 1.1°C since the pre-industrial era. Global warming has resulted in extreme weather and climate events across the globe, leading to adverse impacts and losses to nature and people. Limiting global warming to 1.5°C – as called for in the Paris agreement – requires deep, rapid, and sustained reduction in greenhouse gas (GHG) emissions across all sectors.

Zikri Jaafar, Stewardship Analyst

We have been measuring and disclosing our financed emissions since 2019. In 2020, we became the first UK asset manager to disclose our financed emissions in alignment with the Global GHG Accounting and Reporting Standard for the Financial Industry launched by the Partnership for Carbon Accounting Financials (PCAF).[1] We are committed to measuring, disclosing, and reducing our financed emissions to achieve our net zero targets.

By measuring and disclosing our financed emissions, we are able to:

- Assess companies on their net zero targets, climate transition plans, emissions disclosure, and progress on emissions reductions.
- Identify and prioritise the top emitters and companies with poor emissions disclosure for engagement.
- Assess companies on their climate risks.

To support global decarbonisation efforts, Evenlode has committed to reaching net zero by 2050 or sooner across 100% of our investment portfolios. As an asset manager, our financed emissions constitute the majority of our emissions. By measuring our financed emissions annually, we are able to better understand the climate impacts of our portfolio companies as well as the climate-related physical and transition risks they face. This, in turn, allows us to proactively engage with the top emitters in our investment portfolios and better manage climate risks in our investment processes.

Evenlode's 2022 emissions profile across our investment portfolios:

Total financed emissions:
1,156,640 tCO_2e (5.0% decrease from 2021).

Weighted average emissions per investment:
2.2 tCO_2e/£10k invested (7.2% decrease from 2021).

Weighted average emissions intensity:
672.1 tCO_2e/£1m revenue (18.3% decrease from 2021).

Total emissions reported by portfolio companies:
91.6% (10.3% increase from 2021).

1 PCAF, December 2022. The Global GHG Accounting and Reporting Standard Part A: Financed Emissions.Second Edition. View here.

CARBON EMISSIONS ANALYSIS

By Zikri Jaafar, Stewardship Analyst

How we are progressing against our net zero targets

Evenlode joined the Net Zero Asset Managers (NZAM) Initiative in June 2021 and we have committed to reaching net zero by 2050 or sooner, across 100% of our investment portfolios. As part of our net zero commitment, we have chosen an emissions per £10,000 invested reduction target of 7% per annum in line with the SBTi Net Zero Standard, leading to a 51.6% reduction from 2020 to 2030. This is in line with the standard's requirement to halve emissions before 2030 and achieve 90% reduction by 2050.[2]

In 2022, we achieved an overall reduction of 7.2% in our emissions per £10,000 invested across our investment portfolios – a decrease from 2.33 to 2.16 tCO_2e. This reduction was solely driven by a 25.2% decrease in emissions per £10,000 invested for Evenlode Income (EI), our largest fund, which accounted for 64.6% of total asset under management. This can be explained by a significant emissions reduction reported by the fund's top three emitters from 2021, namely Smiths Group, Procter & Gamble, and Reckitt Benckiser.

Other Evenlode funds, which include Evenlode Global Income (EGI), Evenlode Global Dividend (EGD), Evenlode Global Equity (EGE), and Evenlode Global Opportunities (EGO) experienced an increase in emissions per £10,000 invested. EGE and EGO, in particular, experienced a sizeable increase in emissions per £10,000 invested due to the funds' higher exposure to the consumer staples sector, which expanded from 15.1% to 25.1% during the year.

Similarly, the increase in emissions per £10,000 invested for EGI and EGE can be partly explained by the funds' higher exposure to the industrials and consumer staples sectors compared to last year as well as a higher emissions footprint per investment for the funds' top three emitters, namely Henkel, CH Robinson, and Quest Diagnostics.

Fund	2021	2022	% change
Evenlode Income (EI)	2.35	1.75	-25.2%
Evenlode Global Income (EGI)	2.33	2.96	27.0%
Evenlode Global Dividend (EGD)	2.34	2.98	27.2%
Evenlode Global Equity (EGE)	0.58	1.00	71.7%
Evenlode Global Opportunities (EGO)	0.60	1.01	67.6%
Evenlode Total	**2.33**	**2.16**	**-7.2%**

Tonnes of CO_2e/£10k invested across scopes 1, 2 and 3 as at 31 December 2021 and 31 December 2022. Source: CDP and Evenlode Investment. Evenlode portfolios as at 31 December 2021 and 30 December 2022, using data from the CDP 2021 Full GHG Emissions Dataset and the CDP 2022 Full GHG Emissions Dataset.

For completeness and transparency, starting from this year, we will begin reporting the progress against our net zero target in both sterling and dollar terms. In 2022, our emissions per $10,000 invested across our investment portfolios increased by 4.4% from 1.72 to 1.80 tCO_2e. The difference in the trends of emissions per investment in dollar and sterling terms can be explained by the strengthening of the dollar against sterling by 12.6% during the year.

2 Science Based Targets initiative, August 2022. Financial Sector Science-Based Targets Guidance. View here.

CARBON EMISSIONS ANALYSIS

By Zikri Jaafar, Stewardship Analyst

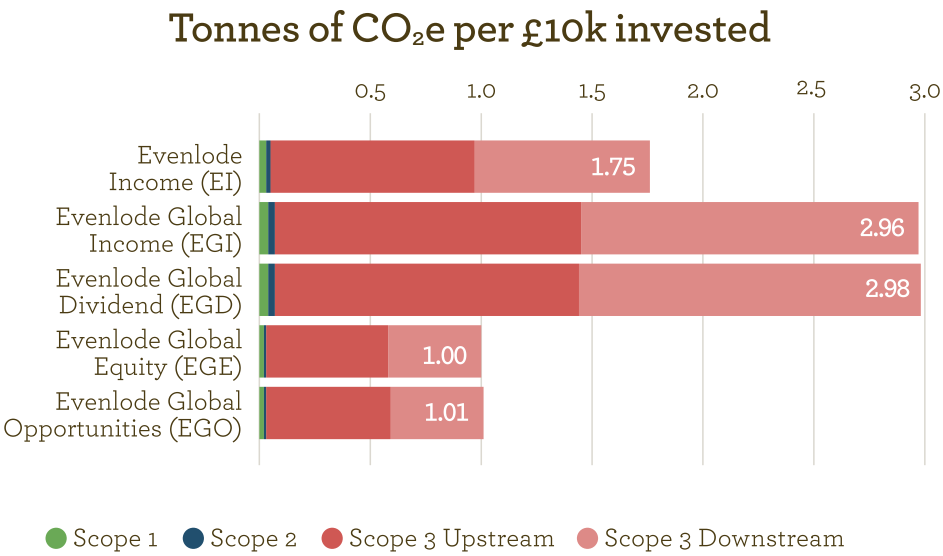
Our emissions per £10,000 invested

The chart and table summarise the emissions associated with a £10,000 investment in each of the Evenlode funds for 2022. For context, the average UK resident was responsible for 5.15 tonnes of tCO_2e in 2021.[3]

EGI and EGD had the highest emissions per £10,000 invested compared to the other Evenlode funds. This can be partly explained by company exposure. EGI and EGD had a higher exposure to companies with a high emissions footprint per investment – the top three emitters were Henkel, CH Robinson, and Quest Diagnostics at 18.5, 16.0, and 13.4 tCO_2e per £10,000 invested respectively. For comparison, the average emissions footprint per investment across all of our portfolio companies was 1.7 tCO_2e per £10,000 invested.

Similar to EGI and EGD, EI had a high exposure to emissions intensive sectors such as consumer staples and industrials. However, compared to EGI and EGD, EI had a lower exposure to companies with a high emissions footprint per investment – the fund's top 3 emitters were Procter & Gamble, Bunzl, and Halma at 6.1, 5.8, 5.4 tCO_2e per £10,000 invested respectively.

EGE and EGO had the lowest emissions per £10,000 invested compared to the income funds. This can be largely explained by sector exposure. EGE and EGO had a higher exposure to the information technology and financial sectors, which are generally emissions light. The two funds also had a lower exposure to the consumer staples and healthcare sectors, which have larger emissions footprints.



Fund	Scope 1	Scope 2	Scope 3 Upstream	Scope 3 Downstream	Total
Evenlode Income (EI)	0.03	0.02	0.92	0.79	1.75
Evenlode Global Income (EGI)	0.04	0.03	1.38	1.52	2.96
Evenlode Global Dividend (EGD)	0.04	0.03	1.37	1.54	2.98
Evenlode Global Equity (EGE)	0.02	0.01	0.55	0.42	1.00
Evenlode Global Opportunities (EGO)	0.02	0.01	0.56	0.42	1.01

Tonnes of CO_2e/£10k invested across scopes 1, 2 and 3 as at 30 December 2022. Source: CDP and Evenlode Investment. Evenlode portfolios as at 30 December 2022, using data from the CDP 2022 Full GHG Emissions Dataset, which collates annual corporate emission data for emission accounting years ending between June 2021 and June 2022.

3 Our World In Data based on the Global Carbon Project, November 2022. View here.

CARBON EMISSIONS ANALYSIS

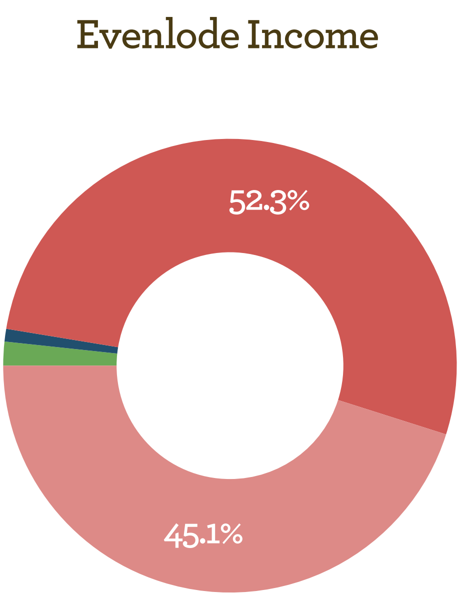
By Zikri Jaafar, Stewardship Analyst

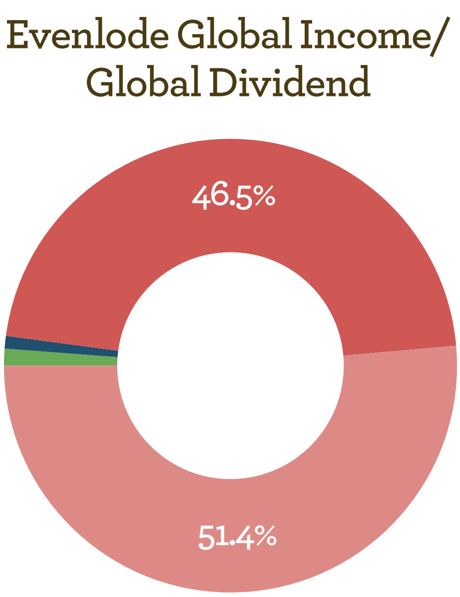
Our emissions by scope

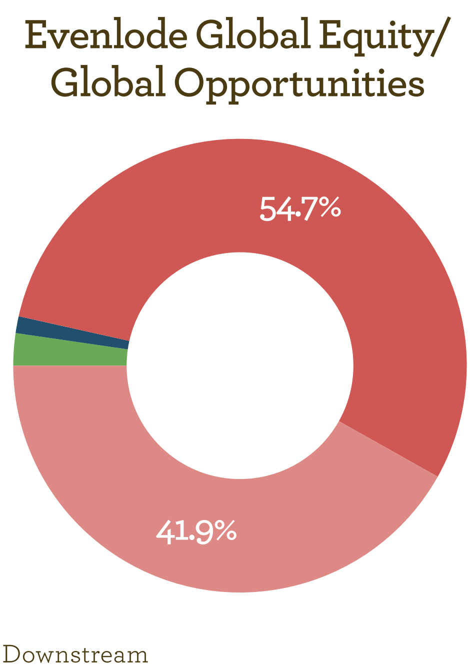
SCOPE 1	SCOPE 2	SCOPE 3	
Emissions generated directly in a company's operations from sources owned or controlled by the company. For example, burning gas or coal in a power plant or diesel or petrol in a company car.	Indirect emissions from electricity, steam, heat or cooling purchased by the company. For example, the emissions associated with the electricity that is running your computer.	Basically everything else, up and down the company's value chain, including:	
		Upstream	**Downstream**
		Emissions in the supply chain associated with purchased goods and services; transportation of these goods to the company; capital goods; waste; use of leased assets such as offices or data centres; the supply chain of energy used by the company; business travel; and employee commuting.	Emissions that occur as a consequence of using the company's products and services, which include the emissions from transportation of products to the consumers; processing, use and end of life treatment of sold products; investments, franchises; and leased assets.
Our estimates include all greenhouse gases covered by the Kyoto Protocol – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3).			

Source: Greenhouse Gas Protocol

Across all Evenlode's funds, scope 3 emissions vastly outstripped scope 1 and scope 2 emissions. This highlights the importance of value chain emissions across the life cycle of a product or service.







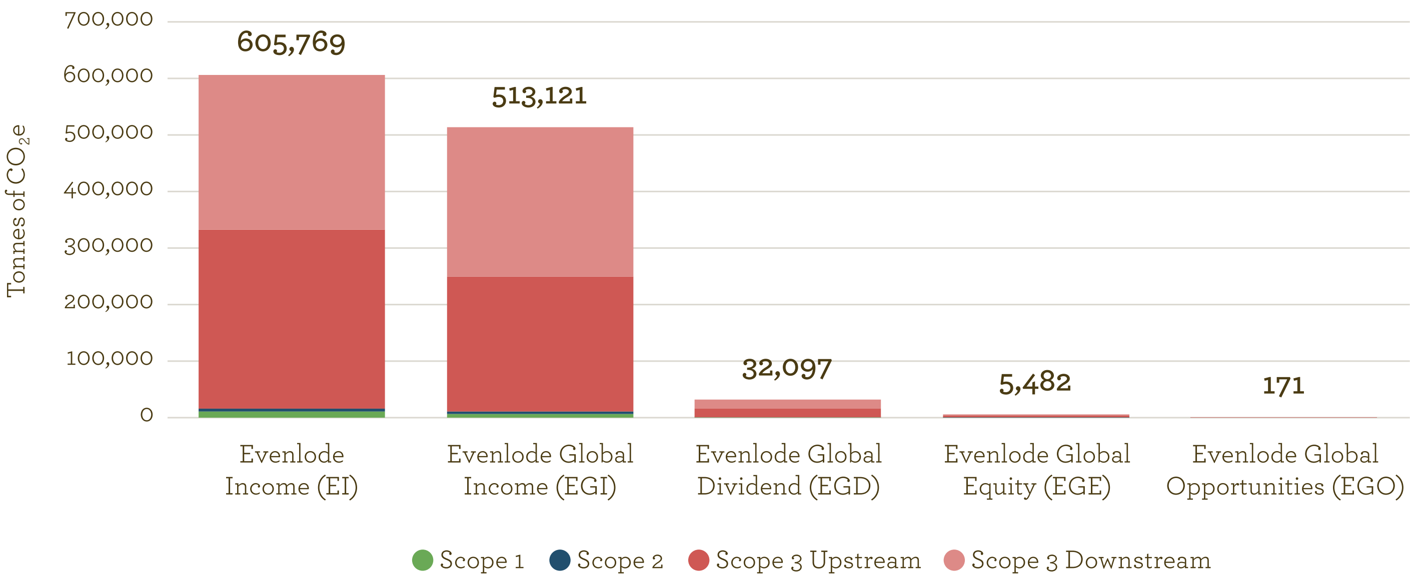
Breakdown of fund emissions by scope. Source: CDP 2022 Full GHG Emissions Dataset, Evenlode Investment. Evenlode portfolios as at 30 December 2022.

By Zikri Jaafar, Stewardship Analyst

Our financed emissions

We now turn to the total financed emissions of the Evenlode funds, summarised in the chart and table below. EI and EGI contributed 52.4% and 44.4% of Evenlode's financed emissions because of their size, accounting for 64.6% and 32.4% of total assets under management respectively. EGD, EGE, and EGO collectively contributed 3.3% of total financed emissions. Again, scope 3 emissions constituted the largest share of Evenlode's financed emissions by a significant margin.

Total financed emissions per fund



Fund	Scope 1	Scope 2	Scope 3 Upstream	Scope 3 Downstream	Total	Percentage (%)
Evenlode Income (EI)	10,564	5,256	316,627	273,322	**605,769**	**66.40**
Evenlode Global Income (EGI)	6,256	4,569	238,510	263,785	**513,121**	**31.60**
Evenlode Global Dividend (EGD)	391	285	14,935	16,486	**32,097**	**1.81**
Evenlode Global Equity (EGE)	124	65	2,999	2,294	**5,483**	**0.15**
Evenlode Global Opportunities (EGO)	4	2	94	71	**171**	**0.01**
Evenlode Total	**17,340**	**10,177**	**573,165**	**555,959**	**1,156,640**	**100.00**

Total financed emissions by scope in tCO_2e. Source: CDP 2022 Full GHG Emissions Dataset, Evenlode Investment.
Evenlode portfolios as at 30 December 2022.

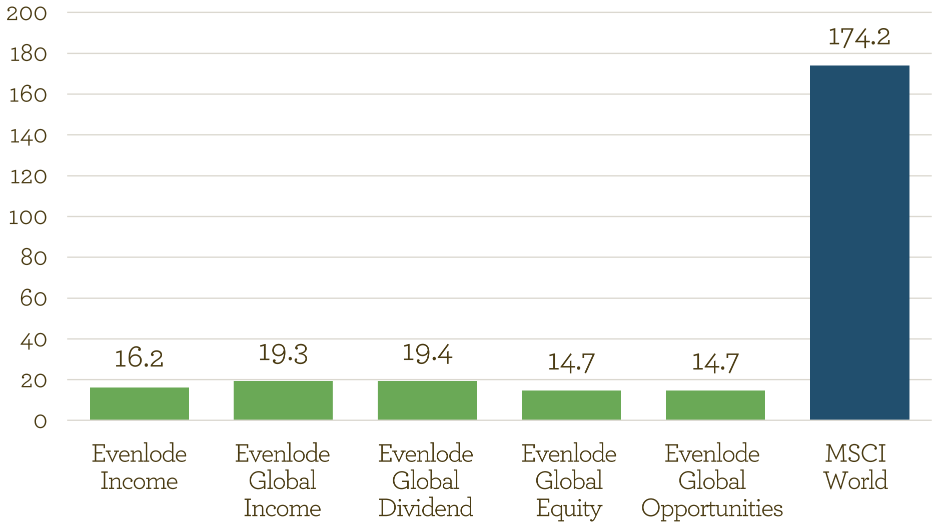
Our financed emissions relative to the benchmark indices

Evenlode's investment approach prioritises businesses with few physical assets. Due to the nature of our investment processes, all our funds have low exposure to the energy, materials, real estate, and utilities sectors, which are emissions intensive. This largely explains why the funds had a substantially lower emissions intensity across scope 1 and scope 2 compared to the MSCI World Index.

The energy, materials, real estate, and utilities sectors collectively accounted for 15.6% of the MSCI World Index. In contrast, EI had only a 2.2% exposure to the materials and real estate sectors. All other Evenlode funds did not have any exposure to any of these sectors. Instead, the majority of holdings in our investment portfolios were from the consumer staples and industrials sectors, which have a lower scope 1 and scope 2 emissions intensity.[4]

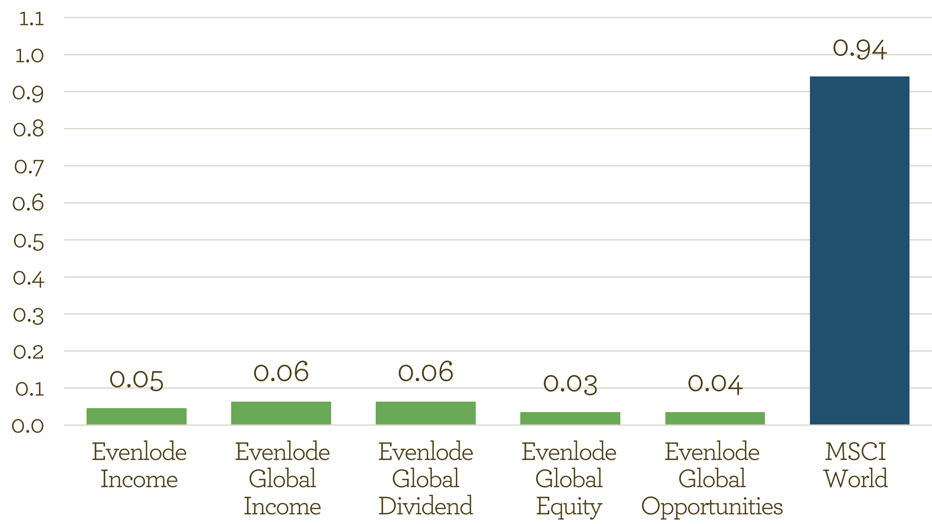
Because of these reasons, Evenlode's funds also had lower scope 1 and scope 2 emissions per £10,000 invested compared to the MSCI World Index.

Scope 1 & 2 emissions per £1m revenue



Weighted average emission intensity across scopes 1 and 2 as at 30 December 2022. Source: CDP 2022 Full GHG Emissions Dataset, Evenlode Investment, and MSCI. Evenlode as at 30 December 2021. MSCI World Index portfolio as at 30 December 2022 and converted to GBP using that day's exchange rate.

Scope 1 & 2 emissions per £10k invested



Scope 1 and 2 emissions per £10,000 invested as at 30 December 2022. Source: CDP 2022 Full GHG Emissions Dataset, Evenlode Investment, and MSCI. Evenlode as at 30 December 2022. MSCI World Index portfolio as at 30 December 2022. Index data converted from weighted average emission intensity into emissions per £10,000 invested based on portfolio revenue and asset value as at 30 December 2022.

4 Based on GICS sector classification for the MSCI World Index and Evenlode portfolios as at 30 December 2022.

CARBON EMISSIONS ANALYSIS

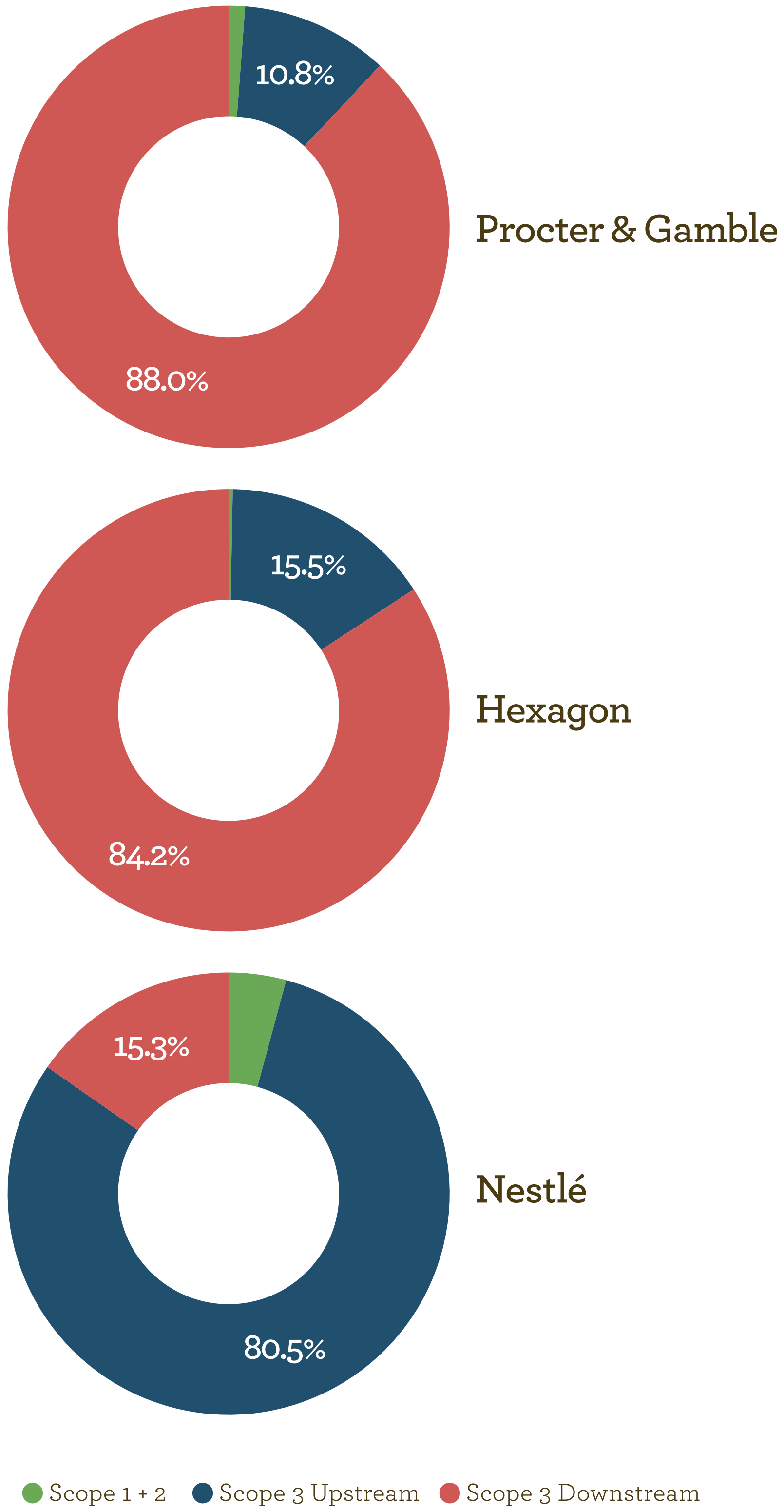
By Zikri Jaafar, Stewardship Analyst

The sources of our emissions and a note on our methodology

Despite the lower scope 1 and scope 2 emissions intensity and emissions per investment relative to the benchmark indices, scope 3 emissions account for the vast majority of our portfolio companies' emissions. Seven out of the ten most emissions intensive companies in our investment portfolios, as measured by emissions per £1 million in revenue, were from the consumer staples and information technology sectors, with substantial emissions from the inputs from their supply chains and from the energy consumption during the use phase of their products.

For some of our portfolio companies in the financial sector, financed emissions makes up the significant majority of their emissions. This is particularly true for asset management companies. For example, Schroders' financed emissions accounts for virtually all of its emissions. Without its financed emissions, Schroders' emissions per £10,000 invested would be 0.3 tCO_2e; with its financed emissions, it would be 686.4 tCO_2e – a whopping increase of more than 2,450%.

Whilst we wait for further guidance and to avoid double counting between our own financed emissions and those of our portfolio companies, we have decided to exclude the financed emissions of the asset management companies in our investment portfolios from our analysis. This decision affected three companies: Ashmore, Hargreaves Lansdown, and Schroders. We provide more detailed findings and a summary of our methodology in our longer portfolio emissions report.



Breakdown of company emissions by scope. Source: CDP 2022 Full GHG Emissions Dataset.

CARBON EMISSIONS ANALYSIS

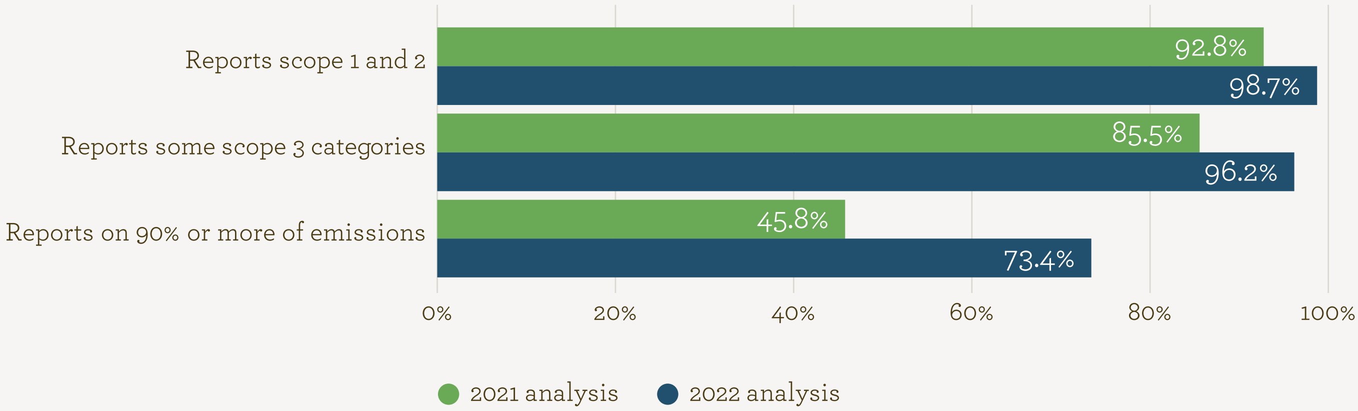
By Zikri Jaafar, Stewardship Analyst

The progress on emissions disclosure of our portfolio companies

We are seeing a steady increase in emissions disclosure by our portfolio companies across scope 1, scope 2, and scope 3. This is particularly true for scope 3 reporting – an additional five companies now report some scope 3 emissions, a 12.5% increase relative to last year. In addition, an additional 20 companies now report 90% or more of their total emissions, a 60.4% increase from last year. Even better, 25 more companies are now reporting all their emissions, a 136.4% increase from last year.

Overall, 91.6% of Evenlode's financed emissions are now reported by our portfolio companies, up from 83.0% last year. This helps improve the accuracy and robustness of our own analysis, as we rely primarily on the emissions reported by our portfolio companies to measure our financed emissions. We welcome this improvement in emissions disclosure.

Portfolio companies' emission reporting by scope



Percentage of companies in Evenlode portfolios reporting across the different scopes. Source: CDP and Evenlode Investment. 2022 analysis based on Evenlode portfolios as at 30 December 2022, using data from the CDP 2022 Full GHG Emissions Dataset. 2021 analysis based on Evenlode portfolios as at 31 December 2021, using data from the CDP 2021 Full GHG Emissions Dataset.

CONCLUSION

In measuring and reporting our financed emissions, we are committed to the principles of relevance, completeness, consistency, transparency, and accuracy, as recommended by PCAF's Global GHG Accounting and Reporting Standard. We acknowledge that our financed emissions are only estimates which attempt to approximate the 'true' emissions. With continuous improvement in the availability and quality of emissions data from our portfolio companies, our analysis will continue to improve and provide a more representative view of our financed emissions. Though it is not perfect, our analysis provides valuable insights to steer our investment processes and stewardship efforts toward our net zero targets. Evenlode will continue to engage proactively with our portfolio companies to improve reporting and drive action to cut emissions.

UNIFORM GLOBAL CARBON TAX?

By Bethan Rose, Sustainable Investment Analyst

Last year we started to look at the importance of carbon pricing and the effect that mechanisms already in use have on the companies we invest in. Fast forward one year and so much has changed. Russia has invaded Ukraine, the UK has seen a few more prime ministers, and many parts of the world continue to grapple with inflation and cost of living.

Bethan Rose,
Sustainable Investment Analyst

Energy supply issues, with shortages of oil and gas, were at the heart of the recent cost-of-living crisis, driving up gas and electricity prices and inflation. As an example, the price of natural gas reached record highs and oil reached its highest level since 2008. Another negative consequence was that this also led to an increase in the use of coal,[1] which when burnt leads to significantly higher amounts of carbon dioxide emitted versus other fuels like natural gas. This continues to link to one overarching global issue; the world continues to warm and the transition to greener more sustainable energy sources is more important than ever.

This problem continues to highlight the importance of using climate mitigation policies and carbon pricing mechanisms to help reduce emitted CO_2. As a result, throughout the year we began to look at the carbon pricing mechanisms our investee companies are exposed to and what they are doing to manage this regulatory risk and combat change.

So, has anything changed?

Aside from the climate emergency becoming even more urgent there have been a few regulatory developments that have emerged over the past year. One of these is the Carbon Border Adjustment Mechanism (CBAM), a first of its kind mechanism that requires firms in the European Union (EU) to pay tariffs on some of their carbon-intensive imports linked to the carbon price under the EU Emissions Trading Systems (ETS). It aims to prevent carbon leakage, which is where industries shift their production to areas where it is taxed less heavily. This is a positive step in trying to mitigate the risk of carbon leakage however we would need consensus on the price and model from all participating countries.

As far as the Evenlode portfolios are concerned, although only a handful of investee companies are currently exposed to carbon pricing mechanisms (such as the EU ETS), as part of our Net Zero analysis we continue to take note of the impact of some of the other pricing mechanisms that our investee companies are using or plan to use in the future. As part of this assessment, we continue to witness that an increasing number of companies, whether they are high emitters or not, are modelling a carbon price when conducting scenario analysis or making capital allocation decisions. Take Unilever as an example, although they are exposed to direct carbon pricing mechanisms already, like the UK and EU ETS, they also use a mandatory internal carbon price of €70/tCO_2 for all capital investment projects where the investment is over €1 million. Additionally, alongside this company-wide approach they also have several brands that use internal carbon pricing to create their own sustainable funds to invest. The ice cream brand Ben & Jerry's is a good example of this.

1 The world's coal consumption is set to reach a new high in 2022 as the energy crisis shakes markets. View here.

UNIFORM GLOBAL CARBON TAX?

By Bethan Rose, Sustainable Investment Analyst

What work are we doing as a result?

We completed our annual carbon emissions analysis and the first baseline assessment of investee companies on their net zero targets in July last year. We used this data to analyse the effect of a uniform global carbon tax at differing price levels (£50, £75, and £100) on scope 1, 2 and 3 emissions for each investee company within the Evenlode portfolios. We understand that in the real world it would a) be hard to get all countries to agree to a global uniform carbon tax and b) hard to create a mechanism where you could tax a company's scope 3 emissions. This is largely due to the lack of reporting and as a result, the use of estimates. There is also the complex issue of double counting. However, we have continued with this analysis as somewhat of a thought experiment and as an indication of the future potential for a more blanket carbon tax mechanism.

The outcome of the initial analysis which scoped out the impact of a carbon tax showed that due to the Evenlode portfolios' sector exposures, there is a large portion of investee companies where this potential tax and therefore the analysis is less meaningful. This is the case for business-to-business (B2B) companies and other digital or tech services companies where the risk is much lower. Take Intuit as an example, Intuit are a US-based accounting software provider, whose carbon emissions are relatively low, and as a result our analysis is less meaningful. However, looking at the other end of the spectrum, within the consumer goods sector it's a slightly different story.

If we use Procter & Gamble (P&G), one of the most carbon intensive holdings across the Evenlode portfolios as an example, if you were to tax P&G's Scope 1 emissions (from 2021) at £50 per tonne this would equal a liability of approximately £111m, taxing Scope 2 would equal a liability of approximately £20m and taxing scope 3 would equal a liability of approximately £12.3bn. If factoring in all scopes this would equate to approximately £12.5bn, for context that's about 21.47% as a portion of revenue (in 2021). This would be a considerable extra liability for any company, which then begs the question, who is going to bear the cost of this extra liability? Part of our analysis also assumes some sort of pass-through cost to consumers at differing levels. This adds another dimension to our analysis and highlights how easily this cost may be passed through to consumers.

Looking forward to 2023.

As a result of this initial scoping activity, this year we have decided to focus on the top 12 emitters in terms of carbon intensity (CO_2e/£m revenue) across the Evenlode portfolios. These are also the investee companies that are classified as 'High Impact' under the Net Zero Asset Managers Initiative (NZAMI). These companies include the likes of Unilever, Procter & Gamble, Nestlé, Smiths Group, Victrex, Reckitt, Hexagon, Henkel, Nintendo, Fuchs, PepsiCo, and Heineken. The analysis will look at both the financial effect of a carbon price on the company as well as the potential effect on the consumer, as companies could look to pass through carbon related costs. We'll then use this as engagement tool alongside our engagement on Net Zero to understand and encourage companies to take both the issue of carbon emissions and the resulting carbon pricing mechanisms even more seriously.

THE SHAPE OF WATER SCARCITY

By Ben Armitage, Trainee Investment Analyst

If you live in the UK, you could be forgiven for thinking of water as an infinite and cheap resource. It falls on our heads in plentiful volume rather more regularly than most of us would like and comes out of the tap, clean and clear, on demand.

Ben Armitage, Trainee Investment Analyst

Shamefully, most of us in the UK flush our toilets with perfectly potable water. However, of all the things that water is, infinitely available it is not, particularly the clean and fresh variety. Inconveniently, only 0.3% of the stuff that makes 'the blue planet' blue is available to us in its fresh, liquid form. As the climate changes, so does the availability of water, and we waste a staggering amount. In the UK alone, we waste 3 billion litres of water every day[1]. Since a human adult can survive on c.2L of water per day, and the entire population of Africa is c.1.3 billion, every day the UK wastes enough drinking water to hydrate the population of Africa. As investors, increasing populations and increasing consumption of things have generally been viewed in favourable terms. From the perspective of water scarcity, these factors are anything but positive.

According to the World Resources Institute (WRI)[2], 25% of the world's population currently live in countries facing extremely high water stress. Demand is projected to grow by 30% by 2050, and demand is expected to exceed current supply by 40% in less than a decade. From the WHO[3], 55 million people experience drought every year and 700 million people are at risk of being displaced by drought by 2030. And from the CDP 2020 Global Water Report[4], almost 300,000 children under age 5 die of diarrhoea linked to dirty water and poor sanitation annually. In 2017, Rome was forced to reduce water pressure and the Vatican turned off its c.100 fountains, because rainfall was down 70% on previous years. Closer to home, London and the South-East of the UK are ranked as 'high' in terms of baseline water stress. For context, 'high' means we are one prolonged dry spell away from our taps running dry. It is goal number 3 in the UK government Environmental Improvement Plan 2023 to improve supply of 'clean and plentiful water'.

It is clear then that we as responsible investors should ask ourselves what we can do. The combined effects of agriculture and industry are responsible for approximately 90% of direct water withdrawals. The CDP estimate that inaction at this point has potential financial impacts for companies which are five times the cost of addressing the issue. In 2020 the total potential financial impact of reported water risks was more than $300bn, or the entire GDP of Pakistan. However, the money required to mitigate those risks was $55bn. Put another way, 1% of global GDP could provide safe and secure water for all by 2030. Failure to implement change could result in a loss of regional GDP of 2% - 10%, depending on location, by 2050[4]. However, the problem is fixable, and many companies are both recognising the issue and taking action. Around 2/3 of CDP responding companies have committed to maintaining or reducing their water withdrawals, and in 2020 there was a 20% increase in corporate disclosure.

From an Evenlode perspective, it is important for us to understand and incorporate water stewardship into our ESG framework to help inform our investment decisions. Not all companies and sectors are created equal in terms of water usage, and we must identify which of our investment candidates are water intensive and could have a material impact on the situation, and which are taking appropriate action. Utilising this knowledge and awareness helps us identify and invest in high quality, socially responsible companies who have future vision and thus the potential for long term growth and sustainable returns for our clients. Understanding the way in which both existing Evenlode universe companies and potential new entrants manage water usage is the first step. Then, engagement, discussion and voting help us to ensure transparency, accountability, and ultimately positive outcomes from our investments.

According to Thomas Insights[5], the top 5 industries for water usage are, in order from highest to lowest: Fruit and Vegetable Farming, Textiles, Meat Production, the Beverage Industry and Automotive Manufacturing. At Evenlode, our core investing philosophy is built on quality, asset-light, cash generative businesses. This inherently

1 Calderwood, I. Leaky Pipes Waste 3 Billion Litres of Water Every Day in England. Global Citizen (2019). View here.

2 WRI. Ensuring Prosperity in a Water-stressed World. View here.

3 WHO. Drought. WHO (2021). View here.

4 CDP. A Wave of Change: The role of companies building a water-secure world. (2020). View here.

5 Manganello, K. Which Industries Use The Most Water. Thomas Insights (2019). View here.

excludes direct exposure to many of the relatively asset-heavy industries on that list. We do, however, have direct exposure to some of the world's largest beverage producers, and so it is here where we can focus on what we and the industry are trying to do to mitigate the problem. For context, from a recent BBC article[6], including associated agriculture it takes 75 litres of water to make a glass of beer, 120 litres of water to make a glass of wine, 140 litres of water to make a cup of coffee and 170 litres of water to make a glass of orange juice.

Based on revenue, of the top 10 Statista-listed leading beverage companies worldwide in 2021, five are either in or have recently been in our combined portfolios. These include Anheuser-Busch Inbev (1st place on the Statista list), Nestlé (2nd), PepsiCo (4th), Heineken (6th) and Diageo (7th)[7]. Focussing on the top two by revenue, until recently AB Inbev resided in our Evenlode Income and Global Income portfolios, and is now excluded from all but the reserve list (we call it the bench) for the Global Income fund. On the other hand, Nestlé forms part of both our Global Income and Global Equity portfolios. From their latest annual reports, AB Inbev have achieved a c.14% improvement in water efficiency since 2017 and are targeting 100% of their communities in high stress areas to have measurably improved water availability and quality by 2025. Nestlé have achieved c.32% reduction in direct water withdrawal per tonne of product since 2010 in manufacturing operations, monitor 100% of discharged water for quality, and aim to have zero environmental impact by 2030, including water sustainability and efficiency across all operations. Of course, it is useful that companies publish their ESG facts, figures and targets in their reports, but for us this is the first step. We must then analyse and assess them as part of an all-inclusive approach to see if we feel that the companies in our universe are doing enough to justify their place.

In the case of AB Inbev, in 2021 we downgraded their ESG score for various reasons, one of which was based on their reporting around water stewardship. Whilst we were generally happy with their water stewardship performance to date, their lack of long-term planning for the future informed part of our decision-making process. A downgrade of this nature raises a flag and presents our ESG team with an opportunity to engage with companies, which we did with AB Inbev in both 2021 and 2022. Ultimately, the downgrade and engagement outcomes fed into a wider investment decision leading to a full exit of our combined holding in AB Inbev across 2021/22. For Nestlé, we engaged with them twice in 2021, and three times in 2022. All occasions gave us the opportunity to drill down into their plans around climate change and water stewardship, helping inform our investment decisions. At the other end of the scale, considering new ideas, the investment team recently analysed and swiftly excluded a large US beer producer from our investable universe. One of the major reasons was because their ESG reporting was practically non-existent and so presented a huge weakness as we built an investment case when comparing them to their peers in the industry.

At Evenlode, we will continue to deepen our ESG analysis and escalate our engagement efforts on behalf of our clients to ensure that our investee companies are responsible. Company decisions and action around disclosure, engagement and measurable action on their water stewardship policies will contribute to our holistic ESG decision making. In turn, that forms a large part of our broader investment view and ultimately helps evaluate our decisions on whether we introduce, increase, decrease, or eliminate positions within our portfolios and wider investment universe.

To summarise, Nigel Topping, a UK High Level Climate Action Champion put things perfectly:

"In the Race to Zero, we cannot afford to neglect water security. Water must be at the front and centre of corporate climate strategies. Decarbonising water use and treatment will significantly contribute to reducing emissions, and wastewater is a huge untapped source of renewable energy. Meanwhile wetlands are a huge carbon sink, storing more carbon than most terrestrial ecosystems. The private sector has a vital role to play in the transition to a water-secure, net-zero world."[8]

6 Anderson, R. Companies get serious about water use. BBC (2016). View here.

7 Statista. Leading beverage companies worldwide in 2020, based on sales (in million U.S. dollars). (2020). View here.

8 CDP. A Wave of Change: The role of companies building a water-secure world. (2020). View here.

HYDROGEN'S PART IN THE ENERGY TRANSITION

By Charlotte Lamb, Investment Analyst

Charlotte Lamb, Investment Analyst

The need to decarbonise is a systemic issue as we still rely heavily on the hydrocarbon industry to provide us with the energy we need to drive, fly and heat our homes.

In fact, only 13%[1] of global energy consumption is currently generated by renewable sources such as solar, wind, or hydropower and this needs to be closer to 80%[2] if we are going to reach the Net Zero Emissions plan as set out by the International Energy Association (IEA). One of the key sticking points still to be ironed out in the energy transition is what we do with the sectors that are difficult to electrify, the so-called 'hard-to-abate' sectors. It's estimated that 30%[3] of global emissions lie in this category which receives the hard-to-abate tag due to complex industrial processes. For example, temperatures above 1,500°C are required in manufacturing iron and steel which is hard to achieve in an efficient manner using electricity. Likewise, long-haul transportation and aviation are considered hard-to-abate due to the weight disadvantage of large batteries, and in some industries such as chemical manufacturing, fossil fuels are used as the feedstocks as is the case for natural gas and ammonia.

A not-so-new technology that is likely to aid in the transition is hydrogen, which the IEA expects to provide around 10% of energy consumption in 2050 to achieve net zero[4]. The advantage of hydrogen is that it has 3x the energy per unit of mass when compared to gasoline, which is helpful for industries requiring a large amount of energy at one time. It is the most abundant element in the universe but on earth it's readily found in a bonded form in water. Much like electricity, hydrogen is an energy carrier rather than an energy source, meaning it is used as a vector to transfer the energy from point A, for example where there is ample sunlight, to point B, where there is less. However, the crucial difference is that it is a chemical energy carrier that is more easily stored and transported over long distances in a stable way. This highlights an additional advantage of hydrogen in that it can add a stock element to the energy grid to help relieve differences in supply and demand throughout the day.

The use of hydrogen has been around for centuries with the first demonstration of water electrolysis in the 1800s to fuel the first internal combustion engine. Nowadays, we use a small amount of hydrogen mostly for oil refining and fertilizer production, but it is created by releasing fossil fuels into the atmosphere. Hydrogen has quite an extensive colour scheme attached to it which relates to how it is produced. We would call it grey or brown/black hydrogen when it is created using steam methane reforming (using natural gas) or the gasification of coal, but for the purpose of net zero the aim is to create green or at the very least blue hydrogen. The former uses renewable electricity to split water molecules into H_2 and Oxygen (electrolysis) and the latter incorporates carbon capture utilisation and storage (CCUS) facilities to the traditional plants in order to limit the CO_2 released. Today, less than 1% of the hydrogen produced is green or blue.

Unfortunately, hydrogen is not without its faults, and it doesn't appear to be a straight substitute for the current oil and gas infrastructure. For starters it is very light and diffusible, making its volumetric energy density low, and hence higher volumes of hydrogen would be needed to be transported to meet the equivalent energy demand from say, natural gas. It contains small molecules which can permeate metals, causing embrittlement and the potential for hazardous leaks, and if it were to leak it is highly flammable, odourless, colourless, and has a flame that is not visible to the naked eye, meaning leak detection is that much harder. Another consideration is the current cost of renewable hydrogen. We still have a way to go in making hydrogen cost-efficient against current fossil fuels although there is unprecedented political support. For example, the 2022 Inflation Reduction Act announced in the US, included up to $3 in tax credits per kilogram of hydrogen produced in a low-carbon way. Bernstein estimate that currently on average green hydrogen costs around $6/kg (varying from region to region due to renewable energy costs) which would need to fall to between $1 - $2/kg to be competitive with crude oil on an energy equivalent basis[5]. However, with political support, the economies of scale should aid technical developments in renewable power and electrolysers with the IEA

1 Our World in Data. View here.

2 Deloitte Hydrogen Report. View here.

3 ETC Mission Possible. View here.

4 Unlocking the Hydrogen Age. View here.

5 20220909 - Bernstein Research - Hydrogen Highway

expecting the cost of clean hydrogen to fall 30% by 2030[6].

Despite 2050 being just a few decades away, green and low-carbon hydrogen is still a nascent industry with various barriers to overcome before widespread adoption. The risk that investors face is determining how exactly the energy transition is going to play out. At Evenlode, our investment process is focused on finding high-quality companies with an enduring competitive advantage. We consider ten key risks to evaluate a company's quality, assessed using both qualitative and quantitative measures. These risks, often referred to as the risk factors by the Evenlode team, are graded on an A-E basis where A is the top score, E is the inverse, and C is what we would expect an average listed company to achieve.

Our exposure to the energy transition and the hydrogen market is confined to suppliers to Oil and Gas (O&G) industry rather than O&G companies themselves – which we don't hold largely due to the capital-intensive nature of the industry; the cyclicality of cashflows and inherent link to commodity prices; and environmental considerations. The risk of a company's end markets seeing medium to long-term impairment is captured in our Long-Term Industry Outlook (LTIO) risk factor, which assesses the threat of disruption and the growth rate of the industries in which that company operates. Our largest exposure at an individual company level is Rotork, a long-term holding in the Evenlode Income fund, which derives 40% of its operating profit from actuators sold to the O&G end markets. An actuator is responsible for creating movement in a system by converting different types of energy into motion, for example, Rotork's products will be controlling the opening and closing of valves in a downstream pipeline to regulate the pressure and modulation of the liquids and gases. We grade Rotork a C on LTIO, as we balance the risks of lower O&G demand in the future with the opportunities of renewable infrastructure being even more actuator intensive. To illustrate this point, here is a quote from the LTIO section of our proprietary research on Rotork:

"The industry is set to benefit from a period of 'double' spend over the next 5-10 years as the existing O&G infrastructure undergoes investment to reduce reliance on Russian gas, reduce methane leaks, invest in Asia infrastructure growth and Liquid Natural Gas opportunities which act as a bridge to the renewable future. This will be alongside further investment into the hydrogen economy and new technologies where the actuator intensity of the infrastructure is higher due to there being more steps in the value chain (liquification and regasification, carbon capture and storage, and conversion to and from ammonia). The long-term threat is around Rotork's exposure to the current O&G infrastructure which may experience low growth over time as the assets aren't used in the energy transition."

We consider the LTIO risk in combination with the nine other risk factors, to produce our maximum position, which is a self-imposed limit on how much of the portfolio we will hold in that company, regardless of the valuation attraction. It, therefore, is an amalgamation of the risks we see for a company and is a key tool used to ensure we don't overexpose the portfolio to the risks we have identified.

As the need for rapid decarbonisation evolves, there is also a role for significant innovation to aid the bridge from the old energy world to the new. Some of the difficulties discussed earlier are already starting to be solved with innovations in development. For example, Victrex, a holding in our Evenlode Income fund, is a world-leading manufacturer of high-performance PEEK (polyetheretherketone) polymer, which is known for its high resistance to thermal, chemical, and mechanical erosion. PEEK's molecular structure is tightly packed, creating low permeability (even for hydrogen) meaning it could be used to seal, or as a lining in transporting and storing the extremely buoyant H2 particles. Another example is Halma, a recent addition to the Evenlode Income fund which is a group of global companies that specialise in targeting niche markets across safety, environmental, and medical end markets. They are engaged in the production of sensing and detection equipment specifically for identifying a hydrogen gas leak and addressing the pitfalls of traditional sensor technologies for flammable gas detection.

To conclude, hydrogen-based technology is still in its early innings, but research shows that there certainly are applications for it where it appears to be the optimal energy solution in a decarbonised world. On balance, we view hydrogen as potentially disruptive but largely limited in our portfolio to companies with O&G end market exposure, though it also presents certain opportunities for these same companies, and others, given the new infrastructure build-out and operational challenges faced for dealing with such a difficult molecule. We continue to monitor longer-term trends such as the energy transition and hydrogen development as part of our risk factor framework and analyse the potential disruptive impacts on our portfolio companies on an ongoing basis.

6 The Future of Hydrogen (windows.net). View here.

NET ZERO ASSESSMENT

By Sawan Kumar, Head of Stewardship

For all our investment funds, which are invested solely in listed equity, we target:

100%

of financed emissions in material* sectors to be aligned, achieving net zero or under direct or collective engagement by the end of 2022 – **Complete****

50%

of our assets under management (AUM) in material sectors to be aligning, aligned or achieving net zero by 2025, and 100% by 2030.

100%

100% of AUM in material sectors to be net zero or aligned by 2040.

51.6%

reduction in emissions per £10k invested across scopes 1,2 and 3 by 2030.

*Defined by the Investment Manager as equity securities in NACE categories A-H & J-L, as outlined in the Net Zero Investment Framework (NZIF), that are listed on exchanges in Recognised Markets.

**Due to an admin error, we were unable to engage with Rotork, a holding in the Evenlode Income fund, on their net zero targets. We did however engage with the company on multiple occasions in the year on other ESG-related matters.

We consider climate change and the transition to a low carbon economy to be one of the biggest systemic risks and challenges facing society, the global economy and our investee companies today. It is clear that rapid global decarbonisation in line with 1.5°C is needed to avoid the worst effect of climate change. To manage climate-related risk in our portfolios and contribute to this global imperative, Evenlode joined the Net Zero Asset Managers (NZAM) Initiative[1] in June 2021 and committed to reaching net zero across our investment portfolios by 2050 or sooner, across 100% of our investments.

We decided to follow the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF)[2], one of the three methodologies endorsed by NZAM, and therefore have set net zero-aligned engagement, portfolio alignment and decarbonisation targets. To achieve these targets, we will need all the tools available to us as asset managers. This includes using direct and collective engagement with investee companies, regulators and policy makers, and using our voting rights to vote on resolutions at company meetings to encourage more action on climate change mitigation and adaptation.

The first step in the net zero assessment is to split the companies into either immaterial (unassessed) sector, material sector (low impact) or high impact. We did this through mapping each company's GICS subindustry sector with the appropriate NACE code. The Net Zero Framework defines material sectors as those with NACE code categories A-H and J-L. These sectors include Agriculture Forestry and Fishing; Mining and Quarrying; Manufacturing; Electricity, Gas, Steam and Air Conditioning Supply; Water supply; sewerage; waste management and remediation activities; Construction; Wholesale and retail trade; repair of motor vehicles and motorcycles; Transporting and Storage; Information and Communication; Financial and insurance activities and Real Estate. From there we have to define which of the companies in the material sectors are high impact.

High impact is defined as

- companies on the Climate Action 100+ focus list;
- companies in high impact sectors consistent with Transition Pathway Initiative sectors
- banks; and real estate is considered high impact for the purposes of this assessment.

1 NZAM is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions (GHG) by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. This important initiative was launched in December 2020 with an initial group of 30 signatories. View here

2 Net Zero Investment Framework Implementation Guide, March 2021. View here

NET ZERO ASSESSMENT

By Sawan Kumar, Head of Stewardship

We followed the Paris Aligned Investment Initiative's Net Zero Investment Framework. The framework asks investors to assess alignment with net zero across five categories:

Alignment classification	Description
Not aligned	No target set
Preparing to align*	Has set a target that is not in line with 1.5°C.
Committed to aligning	Have set a net zero target for 2050 or earlier that covers at least 95% of scope 1 and 2 and at least 90% of scope 3 in line with 1.5C.
Aligning	Additionally: have set a short (up to 2025) and medium-term target (up to 2035), disclose at least 90% of scope 1, 2 and scope 3 emissions, and for high impact companies, have a plan relating to how the company will achieve these targets.
Aligned	Additionally: have adequate emission performance over time in line with the targets set, and for high impact companies, have a decarbonisation strategy that sets out how they will achieve their targets and allocate capital in alignment with their long-term climate target. Also have emissions audited, disclose % of green revenues and details of offsets used.
Achieving net zero	Additionally: have reached or are close to net zero and have an investment plan or business model expected to continue to achieve that goal over time.

*We added an additional category of "**Preparing to align**" which means the company has set a target, even though it's not in line with 1.5°C. This is not part of the Net Zero Investment Framework, but we felt that it would help us categorise companies' status in a way that would be more useful for our engagement efforts than putting them into the same bucket as companies that have not set any target.

Companies that are classed as in **non-material sectors** such as HR services, research and consulting services, advertising are not currently assessed.

Companies classed as **high impact** such as manufacturing of food, household products, chemicals (e.g., Henkel, Nestle, P&G, PepsiCo, Reckitt, Fuchs Petrolub, Victrex) and brewers (Heineken) are assessed against two additional criteria: decarbonisation strategy and capital allocation, and there is a higher bar for falling into the *aligned* or *achieving net zero* categories.

At the end of 2022, 66 companies or 84% of our portfolio companies across funds were considered material and 16 of those were considered high impact, compared to 67 companies or 81% of our portfolio companies defined as material at the end of 2021. The number of companies defined as high impact remained unchanged.

We believe that a science-based climate strategy is necessary to drive sustained emission reductions. We therefore intend to focus on engagement with portfolio companies over the next few years so that they have the necessary strategy in place to decarbonise.
We expect this engagement push to contribute to rapid alignment of portfolio companies with 1.5°C. We recognise that there will be a time lag between target setting and seeing the effects of our climate strategy on company emissions and therefore portfolio emissions. Hence, we expect the targeted emission reductions to be realised most strongly in the second half of this decade. For this reason and due to the uncertainty around the enabling environment for decarbonisation (such as decarbonisation of the electricity grid and government action on climate), we have not set a short-term target by 2025. We will continuously review this and strengthen our targets if possible.

We have chosen an emission intensity target rather than an absolute target for our financed emissions as we are expecting AUM to increase in the coming years. To balance this with the potential for absolute emission increases, we have chosen a more stringent reduction target of 7% per annum in line with the SBTi Net Zero Standard as opposed to a minimum 4.2% reduction per annum for scope 1 and 2 and 2.5% for scope 3 in the near-term for absolute emission reduction targets. This leads to a 51.6% reduction overall from 2020 to 2030. This is in line with the Standard's requirement to halve emissions before 2030 and 90% reduction by 2050.

NET ZERO ASSESSMENT

By Sawan Kumar, Head of Stewardship

Evenlode had prioritised a set of portfolio companies for engagement in 2022. In keeping with our engagement goal of 100% of financed emissions in material sectors to be aligned, achieving net zero or under direct or collect engagement, we achieved our target in September. We engaged with 63 companies on their net zero (or lack of) targets across our investable universe. We categorised companies on where they currently were on their net zero journey and explained what they were being classified as under the NZIF, i.e., committed, aligning, aligned or achieving net zero. We felt it would be more beneficial for our investee companies to receive bespoke feedback of where they currently were and what they needed to do to be promoted to a higher net zero category. The reason behind the urgency of our 2022 engagement plan was because we wanted to start the conversation early. Generally, we are expecting companies in material sectors to move up one alignment category within 12 months of engagement (see figure 1).

If they do not achieve the engagement objectives set within this time frame, we will escalate via voting and collective action on a case-by-case basis. For more information on our net zero engagement and voting policy, click here.

Engagement Pyramid

ENGAGEMENT PRIORITY	ENGAGEMENT OBJECTIVES
TIER 4	**Achieving Net Zero target** and sustaining it.
TIER 3	**Becoming aligned:** emission performance in line with targets, audit of emission disclosure.
	For high impact companies also: full decarbonisation strategy, capital alignment, green revenue disclosure, details of offsets if applicable.
TIER 2	**Becoming aligning:** setting science-based short and medium-term targets in line with 1.5°C, covering at least 67% of scope 3 and disclosure of at least 90% of relevant emissions.
	For high impact companies also: action plan for how to achieve these targets.
TIER 1	**Becoming committed:** setting a long-term net zero by 2050 commitment covering at least 95% of scope 1 and 2 and 90% of scope 3.

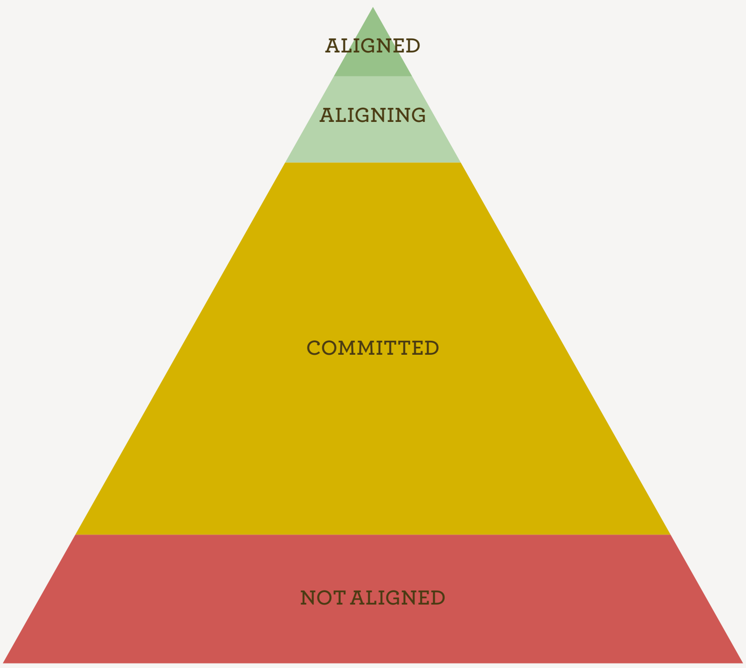


Figure 1. Engagement pyramid.

Net zero alignment of companies in material sectors as of 31 December 2022 (% of AUM)

- Achieving net zero (0%)
- Aligned (8%)
- Aligning (23.6%)
- Committed to aligning (52.6%)
- Not aligned (15.8%)

Engagement objectives represent changes required to move companies up one alignment category.

NET ZERO ASSESSMENT

By Sawan Kumar, Head of Stewardship

How have we progressed?

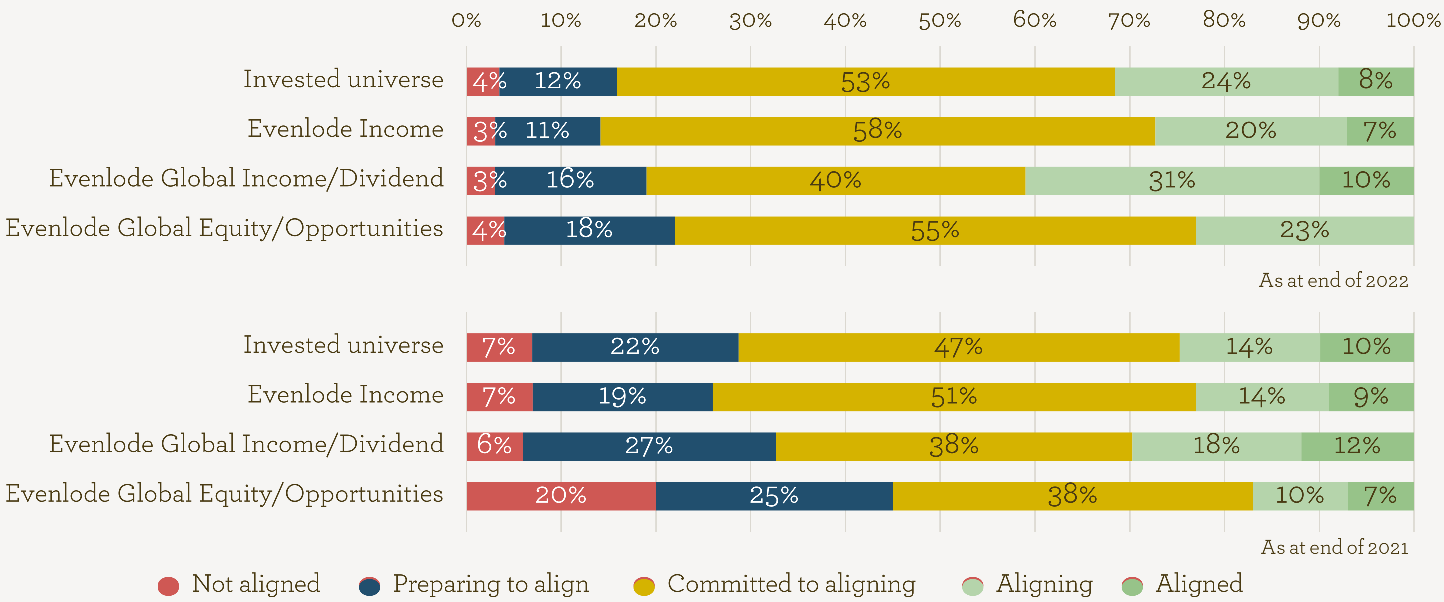
At the end of 2021, nearly 7% (of invested AUM in material sectors) of our invested universe were 'Not Aligned' to net zero. This meant that there was no ambition of a long-term 2050 goal which was consistent with global net zero emissions. Interactive Home Entertainment, Asset Management & Custody Banks and Semiconductor Equipment were some of the sectors that were lagging. After completing our second year of assessment, this number has halved to 3.5%. Mostly due to exits of companies that were lagging not just because of their non-compliance to net zero but on business fundamentals and valuation.

We saw a decrease in this category of companies from 12.4% of the invested universe to 22% which was positive. This was mainly due to companies such as Visa, Aon and LVMH who all committed to long-term net zero targets. There was a positive example of an existing holding in Evenlode Global Equity, Intercontinental Exchange, a Financial Exchanges and Data provider who have now set a target to commit to working toward reduction of scope 1 & 2 emissions by 50% by 2032 from a 2021 baseline. They have established a full emissions baseline using the GHG protocol and also include scope 3 emissions.

As you will note from the charts below, there was a big change in the 'Aligned' category for Evenlode Global Equity. This was mainly due to the fund's biggest holding, Microsoft. The holding's emissions reduction trajectory was not consistent with that needed to meet emissions targets (assuming linear reduction). Scope 3 targets had also been lagging. As a result, the company plans to achieve this target by expanding their internal carbon fee to cover all scope 3 categories providing an incentive for their business groups to work with their supply chains to reduce the carbon intensity of the goods and services that they supply. They will also look to achieve efficiency through reduction strategies in campuses and data centres, rethinking the design of their devices, and engaging with their supply chain. Microsoft announced in January 2020 that they will cut their scope 1, 2 & 3 emissions by more than half by 2030.

We have intentionally set bold targets based on scientific evidence. Our target for 50% of our AUM in material sectors to be aligning, aligned or achieving net zero by 2025 is ambitious. However, at the end of 2021, we were at 24%. As at the end of 2022, we are sitting at 32%. We have a long way to go but have been pleased with the progress so far. As outlined in our escalation policy, we will be using all the tools we have at our disposal to encourage credible climate transition plans which have short or medium-term targets and have adequate disclosure of all emissions. The worst offenders who don't acknowledge our engagements or are slow in adapting to more sustainable business practices will have their maximum position sizes nudged down.

Net Zero Alignment (% of invested AUM) - material sectors



PHILANTHROPIC ACTIVITIES

By Sasha Fisher, CEO & Founder of Spark Micro & Sawan Kumar, Head of Stewardship

Under our Evenlode Foundation Programme, we allocate a percentage of our profits each year towards charitable activities. The Foundation builds partnerships with charities that make a tangible impact to communities in the short term, with a view to help drive positive systemic change in the long term.

Sasha Fisher,
Executive Director & Co-Founder
of Spark Microgrants

Sawan Kumar,
Head of Stewardship

In 2020, we wanted to create a more structured approach towards our philanthropic endeavours and this is why we started working with Greenwood Place. Known as a 'Philanthropic Accelerator' they provide strategic advice and support to individuals, families, charitable organisations and businesses. They help clients connect with charities whose values and long-term ambitions align. After surveying the whole of the Evenlode team, they helped us create our philanthropic mission statement of *'Empowering communities to address global problems in a sustainable and a scalable way'*. We therefore look to focus on charities that focus on environmental challenges including climate change and biodiversity loss, and those working on reducing poverty and inequality.

Due to the overarching nature of the themes from our charitable endeavours and sectors in our investable universe, we can triangulate information and further increase our understanding of the positive impact companies are having on society, adding more colour to their ESG credentials.

PHILANTHROPIC ACTIVITIES

By Sasha Fisher, CEO & Founder of Spark Micro & Sawan Kumar, Head of Stewardship

An example of a project supported in 2022 – Village Enterprise: Entrepreneurship to End Extreme Poverty

Whilst global extreme poverty has been significantly reduced in previous decades, 648m people (9% of the world's population) were still living below the $2.15 per day poverty line in 2019. For the first time in over 20 years, global extreme poverty is now increasing as the COVID-19 pandemic compounded the problems of conflict and climate change and was followed by the soaring prices of food, fuel and fertilizer due to the war in Ukraine. Sub-Saharan Africa is particularly vulnerable. 2015 estimates suggest that about 413 million people in sub-Saharan Africa (41.1% of its population and more than half of the world's poor) live in extreme poverty.

Village Enterprise's community-based, locally led "Poverty Graduation Programme" equips people living in extreme poverty to launch and run sustainable businesses via a small cash grant, training, mentoring, and the creation of Business Savings Groups.

Since inception in 1987, Village Enterprise has helped start more than 70,000 businesses, trained more than 242,000 entrepreneurs, and positively impacted the lives of c.1.42 million people. In 2021 their five-year longitudinal study showed that participants saw an 83% increase in consumption and expenditure, a 931% increase in household savings and that 88% of those involved reported an increased ability to cope with economic shocks.

Village Enterprise is at a real step change in its development, leveraging learning from the past five years to supercharge its efforts as it partners with Governments and other NGOs to lift 20 million inhabitants of sub-Saharan Africa out of extreme poverty by 2030.

Selena Roron, Village Enterprise Entrepreneur, West Pokot, Kenya: "My life has greatly changed positively. I am well equipped with knowledge on climate-smart agricultural practices. Now my children never go on an empty stomach; their health has improved as I am now able to afford a balanced diet.". And her community has come to see her as a leader. "I guide other women to lead and motivate so that we can uplift others." Selena Roron, Village Enterprise Entrepreneur, West Pokot, Kenya.

Selena Roron, West Pokot, Kenya. With the help of Village Enterprise Selena has become a climate-smart farmer and entrepreneur, a church leader, and a leader at the local school.

WATCH SELENA'S STORY HERE

CONFLICTS OF INTEREST

By David Hopkins, Operations Manager & Richard Taylor, Compliance Manager

Investment firms operating under the EU 'Markets in Financial Instruments Directive' (MIFID) have long been required to consider and manage potential conflicts of interest that arise between the firm and its clients that results in 'material risk', to take steps to manage conflicts and where it is not possible to manage the conflicts, to disclose them to the clients.

David Hopkins, Operations Manager

Richard Taylor, Compliance Manager

With effect from 3 January 2018 MIFID II enhanced the requirements above with the directive stating that a firm must consider all risks rather than just material risks and that a firm should take steps to identify, manage and prevent conflicts of interest and only as a last resort disclose to the client if this is not possible.

Determination of a conflict-of-interest situation

The following situations are governed by the MIFID rules on conflicts of interest. A conflict of interest may exist where Evenlode:

- Is likely to make a financial gain or avoid a financial loss at the expense of a client.
- Has an interest in the outcome of a service provided or a transaction carried out on behalf of a client, which is different from the client's interest.
- Has a financial or other incentive to favour the interests of one client or group of clients over the interests of another client or group of clients.
- Carries on the same business as a client.
- Receives an inducement from a third party in relation to a service provided to a client, in the form of monies, goods or services, that is different from the standard commission or fee for that service.

Regulated activities carried out by Evenlode that may give rise to conflicts of interest include:

- Reception and transmission of orders in relation to one or more financial instruments.
- Execution of orders on behalf of clients.
- Portfolio Management.

Included in the activity of Portfolio Management are both research activities and shareholder engagement activities.

Conflicts of Interest Policy

Evenlode Investment Managements' clients are the authorised funds it currently manages. However, we take our responsibilities to the investors in the funds very seriously and will always consider if our action adversely impacts the underlying investor as well as the funds. The MIFID rules around conflicts of interest apply regardless of the client type, be it Retail, Professional or Eligible counterparty.

In order to meet our obligations under MIFID II in relation to conflicts of interest, Evenlode will:

- Identify circumstances which may give rise to a conflict, material or otherwise to either the fund(s) or the underlying investors.
- Put in place appropriate and proportionate systems and controls to manage or prevent the conflict.
- Disclose to its clients when a conflict cannot be managed or prevented.
- Review this policy at least annually or before should the conflicts of interest change.
- Provide a report to the board annually on the management of conflicts of interest.

CONFLICTS OF INTEREST

By David Hopkins, Operations Manager & Richard Taylor, Compliance Manager

Potential Conflicts of Interest

Taking into consideration all of the above, Evenlode has identified the following areas that may give rise to a conflict of interest, and has also identified mitigating controls:

Conflicts	Controls
Inducements – Unsolicited research	We only accept research from agreed providers and pay for it from our P&L. Unsolicited research is rejected (unless from a company that doesn't provide execution services in which case it is logged on a minor non-monetary benefits register).
Inducements – Gifts and hospitality	Any gifts or hospitality above a certain threshold require approval by the Compliance Officer.
Receipt of non-public information	Has to be reported immediately to the Compliance Officer. Trading ban is put in place until information is made public.
Personal account dealing	Personal account dealing requires pre-trade approval from the Compliance Officer and employees are prohibited from trading in companies held within the portfolios.
Fee setting	Periodic reviews are performed.
Allocation of orders between funds	Funds receive proportionate allocation.
Shareholder engagement	Voting guidelines are in place which are designed to advance our clients' interests over the long term. Engagement policies, voting history and annual Responsible Investment Report are also made public.
Outside business interests	The conflicts of interest register contains details of any outside interests (e.g. other directorships). These are reviewed in quarterly board meetings.
Profits from Impact portfolio due to a merger/acquisition	Initially, there would be an embargo on dealing. Secondly, Evenlode would remove itself from any discussions relating to a takeover and finally, majority of any returns will be re-invested back into the Foundation.

CONFLICTS OF INTEREST

By David Hopkins, Operations Manager & Richard Taylor, Compliance Manager

Some practical examples

As outlined in the rest of this report, a key aspect of Evenlode's ongoing stewardship activity involves proxy voting and company engagement on key issues such as Net Zero alignment, carbon emissions and remuneration. Proxy voting decisions and engagement is led by Evenlode's dedicated Stewardship team, following consultation with portfolio managers.

As outlined above, all Evenlode staff must seek pre-approval from Compliance prior to trading in shares and are prohibited from trading in companies held within the portfolios. A potential for conflict also arises if an Evenlode employee or Director (or a close family member) has a relationship (either direct or indirect) with an investee company.

A specific example of this is where a Non-Executive Director of Evenlode also acts as a Director of an external investment trust board. Where the investment trust has holdings in companies that are also held in the Evenlode portfolios, or companies that operate in the same industry sectors, there is a potential conflict.

This conflict is recorded in our conflicts of interest register, is monitored by the Compliance team and is reported at the quarterly board meetings. The Stewardship Team is also made aware of any common holdings. As the Non-Executive Director is not actively involved in Evenlode's Investment decisions or Stewardship activities, it is highly unlikely that our proxy voting or engagement activities would be influenced. Additionally, voting activity can be monitored by the Compliance team and any votes inconsistent with the policy would be identified.

As part of its Foundation activities, Evenlode invests an element of its profits into early stage "impact" companies. A further conflict is the potential for Evenlode to "profit" from these investments should a company from one of its mainstream fund portfolios look to acquire a company from Evenlode's impact portfolio. In terms of mitigating any risk, there would be an embargo on dealing should we become aware of any material non-public information. To manage any potential conflict, Evenlode would also remove itself from any discussions relating to the takeover.

Furthermore, the companies we invest in in the Impact portfolio are at a very early stage of their development meaning that at the point Evenlode invests, they are unlikely to be of takeover interest for the companies invested in our mainstream funds. Therefore, it is highly unlikely that an investment decision could be influenced by takeover activity within the mainstream portfolios.

A proportion of any gain made on the sale of a company within Evenlode's Impact portfolio can be made available to Evenlode depending on achieving a gain hurdle. However, the majority of any return is not distributed back to Evenlode but is made available for investment in further companies thought suitable for impact investment (or other Foundation activity). Ultimately, the majority of any return on impact investment does not go back to the investment decision makers but is re-invested.

TO ACCESS OUR FULL CONFLICTS OF INTEREST POLICY, PLEASE CLICK HERE

CLIENT BREAKDOWN

Evenlode Investment Management Ltd currently manages three open-ended UK OEIC funds and two Irish domiciled open ended ICAV funds. All these funds were launched with UCITS status and are adhering to the same rules post-Brexit, so are broadly suitable for all client types as defined by MIFID. The register of investors is well-diversified, and the funds are marketed to and mainly held by intermediate investors such as wealth managers, private banks, fund of funds and platforms in the UK. It is important to note that as the Evenlode funds are collective investment schemes, Evenlode is responsible for all stewardship activities including voting and engagement, on behalf of the underlying unitholders in these funds. This is a duty which Evenlode takes extremely seriously.

Evenlode states that investors should be prepared to invest for the long term, as with any stock market investment. The investor profile stated in the UK OEIC prospectus is as follows:

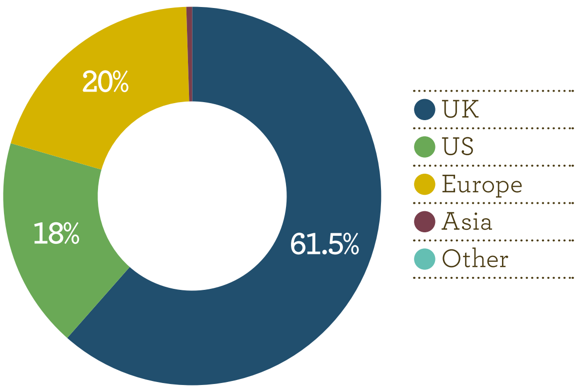
The Sub-funds are marketable to all eligible investors provided they can meet the minimum age and subscription levels. The Sub-funds may be suitable for investors who see collective investment schemes as a convenient way of participating in investment markets. They may be suitable for investors wishing to seek to achieve defined investment objectives. Such investors must have experience with or understand products where the capital is at risk. Investors must be able to accept some risk to their capital, thus the Sub-funds may be suitable for investors who are looking to set aside the capital for at least five years. If you are uncertain whether these products are suitable for you, please contact a financial adviser.

Evenlode currently manages £5,348m (as of 31 December 2022).

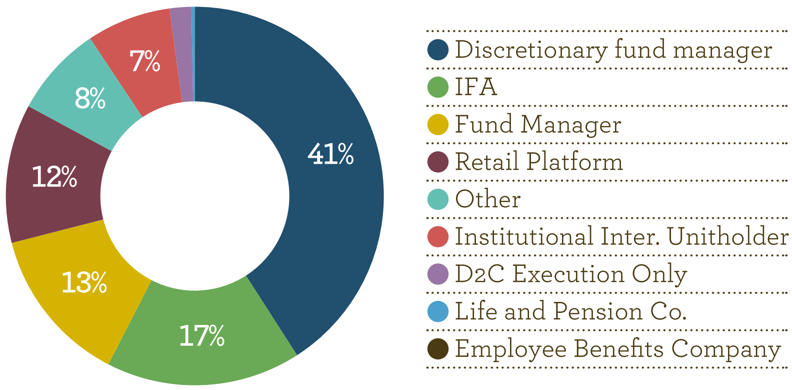
Growth in AUM over 5 years					
Year end	**2018**	**2019**	**2020**	**2021**	**2022**
Total assets in Evenlode Funds (£)	2,519m	4,200m	4,761m	5,220m	5,348m

Evenlode invests 100% in equities, mainly in large capitalisation firms.

Geographical Breakdown of AUM



Client Breakdown



as at 31 December 2022

CLIENT BREAKDOWN

We pride ourselves on our engagement, not just with investee companies, but also with investors. We use a third-party marketing company, Spring Capital Partners Ltd to provide sales and marketing support as well as tailored client communication. Both Spring and Evenlode take their commitment to clients very seriously and ensure that investors' views are sought through face-to-face meetings, webinars and investor days. The portfolio managers and stewardship team are active and available to clients, and all meetings are a two-way process, where clients are encouraged to question and provide feedback to the team. As mentioned, all Evenlode's current mandates are collective investment schemes with many thousands of underlying investors. For this reason, it is our approach to ensure that our ESG policy is clearly articulated to clients, giving them full opportunity to understand our policies and their intended benefits. We believe that transparency is key.

We believe in full disclosure and alignment of clients' stewardship and investment policies, with our own. As collective investment schemes the Evenlode funds aim to strike a balance between our long-term performance objectives and ESG criteria rather than to sacrifice one for the other. Regardless of the diversity of our client base, it is all of our investors' wish that Evenlode makes informed decisions about where to invest, and proactively oversees the assets once invested. ESG integration and engagement effort at Evenlode has been broadened further over the last 18 months, as a result the stewardship team has now grown to 4 specialists, out of 18 members of the total Investment Team. During 2023 we plan to conduct engagement success analysis to establish the factors that contribute most to the satisfactory progress and resolution of our engagement work with investee companies.

We communicate very actively with clients about stewardship and investment activities. In addition to the face-to-face contact mentioned above, we produce a wealth of materials to keep our clients informed. Some examples of these are:

- Monthly factsheets with fund manager commentary and in-depth portfolio detail. This includes the fund's ESG ratings from external rating agencies such as MSCI and Morningstar.
- Monthly investment views of the managers, looking at the investment landscape and discussing how the fund is positioned.
- Regular interactive webinars with clients, including one dedicated ESG webinar per year, which are recorded, transcribed and published on the Spring Capital website.
- Annual Responsible Investment Report which is distributed to clients published online and made available on the Spring Capital website.
- Annual Portfolio Emissions report – a relatively new initiative commenced in 2019, Evenlode now measures and reports on the greenhouse emissions embedded in our portfolios, using methodology aligned with the Partnership for Carbon Accounting Financials (PCAF).
- In a new initiative Evenlode now produces a Quarterly Stewardship Report which discloses all engagements, voting records key focus areas for the quarter.
- Publication of full voting records for every company within the portfolio on a quarterly basis. Also disclosing rationales for when we have voted against management.
- Full disclosure of investment and stewardship policies through Spring Capital and/or the Evenlode website.
- Ad-hoc videos by the portfolio managers or stewardship analysts, on a range of topics such as on our risk management framework, proxy voting season and how Evenlode engages with companies in its portfolio(s).
- Monthly reporting internally to the compliance team on our SFDR Art 8 classification for our Irish domiciled funds. Ensuring we are continually monitoring our sustainable investments against all the necessary principle adverse impact (PAI) indicators.

Evenlode and Spring Capital work together to analyse and respond to the requests for information we receive from clients. All RFPs are responded to quickly and Spring Capital has recently invested in specialist software to store and update all questions and answers. Our aim is to include much of this type of requested detail in the materials we regularly provide. This has led to an expanded range of collateral presented to clients over different media as described above. The feedback we have received is that the breadth and depth of material produced is welcomed and encouraged by clients, and they are happy with Evenlode's development and progress on ESG integration and engagement.

To better understand the needs of our clients we regularly review the content we post on our website and analyse this information to evaluate the usefulness of our communications with clients and propose and agree changes at our 'Content Calendar' meetings with the investment team.

LOOKING AHEAD

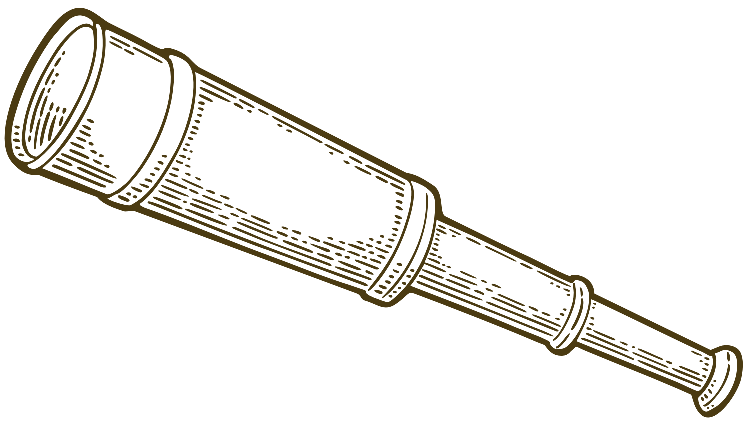
As stated at the beginning of this report, Evenlode's ultimate goal in stewardship is to 'preserve and enhance the value of our clients' assets through long-term engagement and analysis'. We believe it is our fiduciary duty to protect and increase the value of our clients' assets through robust ESG analysis and long-term dialogue. Our ESG analysis highlights the best-in-class companies, and The Engagement Tracker allows us to highlight the companies which we feel can improve on ESG-related matters, providing us with crucial data on how to constantly improve our engagement approach.

Our key area of focus for the year was to get our Net Zero targets approved. As highlighted above, we set bold targets based on scientific evidence and early engagement. We prioritised a set of portfolio companies for engagement in 2022 and in keeping with our engagement goal of 100% of financed emissions in material sectors to be aligned, achieving net zero or under direct or collect engagement, we achieved our target in September.

Next year will bring an additional set of challenges around reporting, communication and data. On the topic of reporting, we will be required to report against the TCFD reporting requirements in June 2024. However, we are not going to wait for those regulations to kick in. In the second half of 2023, we will be completing the first round of reporting against the 4 pillars of TCFD internally and attempt to conduct our first climate scenario analysis for the business. As the market struggles with unreliable and often unverified ESG data, our annual emissions analysis continues to prove to be an invaluable tool, helping to cut through the noise and bringing advantages to our net zero assessments and carbon pricing analysis. Accurate data is crucial in setting interim and long-term net zero targets and giving us leverage to target our engagements.

Our team is growing, and we have been extremely pleased with our new hires in the year. The diversity of experience, skills and thought are important to us, and we believe we have the right balance to continue to work towards our purpose of preserving and enhancing the value of our clients' assets. We hope this report has given you a sense of how we go about investing responsibly at Evenlode, and the actions we have taken on behalf of our clients during 2022. We look forward to updating you on our progress during 2023.

Should you wish to learn more in the meantime, please feel free to contact our Stewardship team.



FURTHER INFORMATION

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INVESTMENTS FOR LIFE

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

Tel +44(0)1608 695200

Email evenlode@evenlodeinvestment.com

Visit evenlodeinvestment.com/funds/how-to-invest

Disclaimer

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Past performance is not a guide to future returns. The funds are subject to normal stock market fluctuations and other risks inherent in such investments. The value of investments and any income derived can go down as well as up, and investors may not get back the full amount invested. You should therefore regard your investment as medium to long term. The Evenlode funds are concentrated with typically 30-50 investments, therefore the funds carry more risk than a fund that is spread over a larger number of stocks. The funds have the ability to invest in derivatives for the purposes of efficient portfolio management, which may restrict gains in a rising market. Investment in overseas equities may be affected by exchange rates, which could cause the value of your investment to increase or diminish. Issued by Evenlode Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No 767844.

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