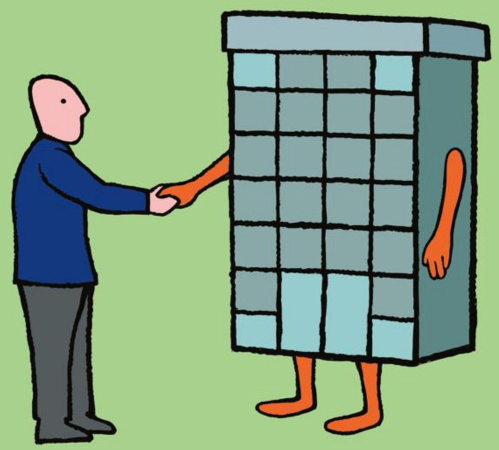
Report to: UK Stewardship Code

For the year ending
31 December 2022



MONTANARO

Certified B Corporation

Introduction

The UK Stewardship Code 2020 ("the Code") set higher standards for those investing on behalf of UK savers and pensioners. The greater level of transparency required by the Code and its focus on reported outcomes is, we believe, of great support to the development of a sustainable financial system that works for the benefit of all stakeholders.

Montanaro Asset Management ("MAM" or "Montanaro") has been a signatory to the UK Stewardship Code since its inception in 2010. Our 2016 statement was ranked a Tier 1 submission. We were pleased to have been listed as a first wave signatory to the revised 2020 iteration of the Code when it was published.

In this report, we aim to explain how we have complied with and supported the 12 principles of the Code in our role as an asset manager serving UK clients and those who invested through us in UK assets during 2022.

At MAM, we define "Stewardship" as the responsible allocation, management and oversight of capital to create long-term value for our clients, leading to sustainable benefits for the economy, the environment and society. It is a responsibility that we take very seriously and underpins everything that we do.

In June 2019, Montanaro became a certified B Corporation, meeting verified standards of social and environmental performance, transparency and accountability. We have amended our Articles of Association to ensure that our Board of Directors takes into consideration the impact of our business on all stakeholders.

In 2022, we began the process of recertification, a requirement every three-years. I am pleased to report that we recently passed the assessment, achieving a much higher score, a result of improvements made across our business over the last few years.

We are proud to be a signatory to the UK Stewardship Code and hope that you find our report useful and informative.

Cedric Durant des Aulnois – Chief Executive Officer
April 2023

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Principle 1: Purpose, strategy and culture

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

Montanaro Asset Management ("MAM" or "Montanaro") is an asset management company that specialises exclusively in the management of long-only Global, European and UK Small & MidCap equity portfolios. As of 31 December 2022, we managed assets of £3.5 billion.

History & ownership

MAM was founded in 1991 by Charles Montanaro to provide an institutional approach to investing in Small & MidCap quoted equities. Based on experience from earlier in his career, Charles believed that the Small & MidCap equity market was largely overlooked by investors. He therefore founded Montanaro: *"a company of independent analysts to do the research needed on quoted SmallCap in-house on behalf of leading institutions who were never likely to have the resources to do the necessary work themselves"*[1].

MAM remains true to this Smaller Companies heritage, although we have expanded our geographic remit over the last 30 years. During the 1990s, MAM invested exclusively in UK equities; in the 2000s we began investing in companies listed in Continental Europe; and in 2018 we launched our first Global fund.

Today, we continue as a privately owned boutique. Our founder retains majority ownership, while key members of staff have been awarded long-term equity options, ensuring that the integrity of the business is maintained and that we remain true to our purpose: to deliver strong and sustainable investment returns to our client by investing responsibly in quoted Small & MidCap equities.

We believe our structure significantly aids us with the delivery of our stewardship responsibilities. As an independent boutique we avoid excessive bureaucracy, internal politics and the conflicts of interest that can arise at larger firms or those owned by a parent company. We are a conservatively managed business with a strong balance sheet and there are no plans to sell the business. This means that in times of economic stress, we can not only retain our staff but also recruit talent.

We view our clients as our partners and seek to work with those who understand the long-term and at times patient approach that is needed when investing in Quality Growth Smaller Companies. We support clients in their due diligence efforts when they are considering investing with us, and we spend time getting to know them too. We are not asset gatherers. This means that when clients invest with us, they understand how we invest; we know their expectations; and we are in a position to learn from one another. Some of our best collaborations have come from working together with our clients, such as on engagement projects. Our client base comprises pension funds, local authorities, wealth managers, endowments, charities and family offices, many of whom have been with us for years – some for more

[1] *Montanaro Investment Newsletter, 2015*

than 25 years.

B Corporation

In 2019, MAM placed sustainability at its core by becoming a certified B Corporation. This was achieved by meeting verified standards of social and environmental performance, transparency and accountability. In 2020, we amended our Articles of Association to place a legal obligation on the Board to consider the impact of Montanaro's business on its stakeholders. This formalised our business approach as one of "Stakeholder Capitalism" - moving beyond a "shareholder primacy" model to consider the impact of our organisation on all stakeholders, including people and planet. We recertified our "B Corp" status in June 2022[2], a requirement of the three-year re-certification cycle, receiving a much-improved score

Certified B Corporation

This company meets the highest standards of social and environmental impact

Our role as an asset manager can be understood with reference to our **Purpose**; our **Vision**; our **Principles**; our **Values**. These are explained below:

Purpose – what are we here for?

Our purpose is to deliver strong and sustainable investment returns to our investors by investing responsibly in quoted Smaller Companies.

Vision – where do we want to be in the future?

As a private, independent company with no outside shareholders, we spend all our time trying to create value for our clients rather than gathering assets. We do not want to become too big. We passionately believe in remaining a small, specialist boutique to retain our culture and ability to generate attractive returns. Upon reaching capacity we will close the business to new investors and continue to work only with our existing partners. Montanaro will never be sold.

Principles – how will we get there?

We believe in common sense investing. We are "Quality Growth" investors seeking to identify the best management teams and the large companies of the future. We keep turnover and transaction costs low and follow our companies closely over many years and invest for the long term. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty.

We work closely with our companies to encourage sustainable business practices, which we believe plays an integral part in the creation of long-term shareholder value. ESG considerations have always formed an integral part of our investment process. Montanaro was one of the first UK asset managers to become a B Corporation in June 2019.

Values – what is important to us?

- **Always act with integrity and do the right thing**. Our reputation is all important to us.
- **Look after your clients and they will look after you.** We always put clients first, treating them as partners. Transparency is important and our door is always open. We are open about our investments and admit when we make a mistake. We never forget that it is only thanks to our clients that we are here.
- **Share the same investment risks that your clients do.** Our team are all invested in the Montanaro

[2] A summary of our B Corporation score is available here: https://www.bcorporation.net/en-us/find-a-b-corp/company/montanaro-asset-management/

Funds. When we launch a new Fund, we seed it with our own money. Our interests and those of our clients will always be aligned.

- **You cannot be good at everything - stick to what you know.** We focus exclusively on high quality, growth companies and hold them for the long-term. Small and MidCap is an attractive place to invest because it is less researched. If you have the in-house resources to complete the due diligence yourselves, it is possible to find attractive investment opportunities and to produce superior returns.
- **Stay humble.** You learn more from your mistakes than from the investments that succeed. Humility goes a long way in the world of investing. We never forget that it is a privilege to meet the executives of companies in which we invest. We appreciate the time that they give to us; will always be well-prepared and treat them with both courtesy and respect. That clients trust us with their capital is a responsibility we do not take lightly.
- **Treat your team as you would your family.** We place great emphasis on getting the work - life balance right. Three things matter in life: family, health and work in that order. When coming to work, we want each heart to beat a little faster with excitement. To succeed in investing in SMidCap requires a dedicated and highly motivated team working together in harmony and mutual respect. We try to create a happy and stimulating working environment in which each member of the team feels cared for and is valued – an "Oasis in the City".

Our investment approach

At MAM, all portfolios are managed according to the same "Quality Growth" investment philosophy.

We are stock pickers at heart: we construct portfolios purely on a bottom-up basis. We aim to identify the highest quality companies with the best management teams that we can hold for the long term. We believe that you "get what you pay for in life": it is worth paying more for a well-managed, financially sound business that operates in a growth industry and enjoys a sustainable competitive advantage. Businesses with such quality characteristics are able to "beat the fade" and maintain a high Return on Capital over the long term.

"Montanaro" companies share the following characteristics:

- Comprehensible business models;
- Profitable;
- Niche businesses in growth markets;
- Market leaders;
- High Operating Margins and high Returns on Capital;
- Outstanding management;
- Exemplary standards of ESG.

We take a conservative approach. We never lose sight of our primary goal which is to make money for our clients through sound investment decisions based on our own rigorous, fundamental analysis. We also believe that it is right and proper to align our interests with those of our investors – we all invest in our investment trusts and funds alongside our clients.

Sustainable investing

A sustainable focus is central to how we invest. We believe that the best and most sustainable investment returns come from the highest quality businesses, run by the very best management teams. ESG forms part of our definition of a company's Quality and ESG is fully integrated into our investment process. For a company to be deemed "Quality", it must meet the standards set out in our Ethical and

ESG Policies, which are explained in detail in our ESG Handbook (available on our website[3]). We do not invest in companies that fail to meet our ESG standards or those that are unwilling to engage with us on areas of weakness. We believe this approach is well understood by our investee companies, providing us with good access to management when we need to engage, an approach endorsed by our clients.

We continue to evolve and improve our approach to sustainable investing and ESG. Developments in 2022 included:

- The introduction of a new "Impact Scoring System" for our "Better World" global positive impact strategy.
- We expanded our sustainability team by hiring an additional ESG & Impact Analyst[4].
- We published a new Climate Policy explaining our portfolio carbon emissions strategy and goals.
- We undertook a Deep Dive engagement project on Biodiversity to develop our approach to appraising ecological risks. As part of this project, we also participated in the Taskforce for Nature-Related Financial Disclosures (TNFD) consultation process. The purpose of this consultation was the development of corporate reporting guidelines on nature and biodiversity whilst contributing to emerging best practice on an important environmental issue.
- We became signatories of the Tobacco Free Portfolio pledge to confirm our commitment to banning investment in tobacco production on ethical grounds.
- We were accredited by the Living Wage foundation as an employer who ensures all staff can meet everyday needs. Championing this cause has become even more important during the course of 2022 as the cost of living has soared.

Our industry commitments:

[3] https://montanaro.co.uk/sustainable-investing/
[4] Joining us in April 2023

	UN Principles for Responsible Investment (PRI)	2009
	FRC Stewardship Code	2010
	Carbon Disclosure Project (CDP)	2015
	LGPS Code of Transparency	2017
	B Corporation	2019
	Farm Animal Investment Risk and Return (FAIRR)	2019
	Net Zero Asset Managers Initiative	2020
	Tobacco Free Portfolios Finance Pledge	2022
	Living Wage Accreditation	2022

Training & improvements
MAM continues to sponsor employees through qualifications relating to ESG, impact and stewardship, including the CFA ESG and Climate Change qualifications as well as the Sustainable Finance Course run by the Cambridge Institute for Sustainability Leadership (CISL). Beyond this the company has also supported the attendance of conferences and events for learning and development in this area.

During the course of 2022, we introduced a new impact analysis process that incorporated a scoring system for the first time. For a company to pass this process and be eligible for investment in the Better World Fund, we assess the positive impact of the products and services against the following criteria:

- Impact on People
- Impact on Planet
- Intentionality (of management)
- Additionality (of product/service)
- Impact risk
- Thematic revenue

Each element is scored out of 10. A company must have an impact score of at least 25 in order to pass. We also assess the percentage of revenue aligned to our impact themes and will only invest in companies with at least 50% of revenue alignment. After the scoring and analysis has been completed the company must still be approved for impact by the Sustainability Committee as a final sense check of the impact case.

Sustainability at MAM
One of our core values is to "Practice what we preach". As a certified B Corporation, we apply the same

sustainability standards to our business as we expect from our investee companies. We have continued our work to lower our operational emissions as we work towards the achievement of our climate related targets.

MAM has continued to support its charity partners during the year. MAM is a major donor to City Harvest. The charity collects high quality surplus food from the UK's leading retailers, wholesalers, restaurants and manufacturers to distribute to more than 350 community programmes that serve meals to vulnerable people in London. Montanaro also founded and supports Tribal Survival, a UK registered charity, which aims to promote the well-being of indigenous people across the world. Charles and a team of doctors takes medical aid to remote tribes, including the Korowai in West Papua, a trip that was supported by the World Health Organisation.

Beyond our existing charities, we have also selected a new charity to support. Rewilding Britain, alongside other stakeholders, is calling for 30% of land and sea across the UK to be restored for nature by 2030. Their vision is as follows:

- Create core rewilding areas across at least 5% of Britain: these will focus on restoring and reinstating as wide a range of natural processes, habitats and missing species as possible.

- Establish nature-enhancing land and marine uses across at least 25% of Britain: these will embed and connect core rewilding areas within a broader mosaic of land and marine uses, such as low-impact mixed forestry, harvesting of natural products, nature-based tourism and high-nature value grazing.

Our funding to Rewilding Britain will support its "Rewilding Network", a network of rewilding projects across Britain that provides support, education and guidance to those undertaking rewilding projects[1].

The support we provide to the Dorset Wildlife Trust will help to restore the River Sherford in Wild Woodbury. This is a flagship rewilding project, not only for the Trust (it is their biggest ever large-scale rewilding project), but for the country too. Covering an area of 170 hectares of farmland, acquired by the Trust last year, the project aims to restore woodland and wetland habitats across the site, reducing high nitrate levels in the local waterways and preventing them from entering Poole Harbour, located at the river's mouth.

From a national perspective, the Wild Woodbury project is unique: it is the country's first community rewilding project and will provide opportunities for people of all backgrounds and abilities to play a key role in helping to create a new space for nature, including the Montanaro team. It aims to provide inspiration and guidance for further rewilding projects around the country.

Principle 2: Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

Ownership & board:
The monitoring and application of Montanaro's stewardship responsibilities begins with our Board, which is led by our Executive Chairman and Founder Charles Montanaro. As part of our B Corporation certification, the Board has a legal requirement – enshrined in Montanaro's Articles of Association – to consider the impact of our business on all stakeholders.

The Board monitors Montanaro's approach to stewardship, including company-level targets and responsibilities (e.g. Montanaro's Climate Change targets and charitable commitments) and those embedded within the services we provide to our clients (e.g. ESG and impact in the investment process). The Board also sets targets for the company to achieve, such as the attainment of B Corporation certification. Such initiatives have the full support of Montanaro's shareholders. Montanaro is a private, family-owned boutique.

Senior leadership:
Senior members of Montanaro's team have day-to-day responsibility for ensuring the fulfilment of our stewardship responsibilities. These responsibilities are described in respective job descriptions; embedded within annual appraisals; and influence remuneration decisions. Key roles include:

- **Chief Executive Officer** - ensures that MAM delivers on its purpose and the senior leadership team fulfils our stewardship and sustainability responsibilities and commitments.
- **Head of Investments** – oversees the integration of MAM's stewardship commitments in our investment process.
- **Head of Sustainable Investment** - leads MAM's sustainable investment responsibilities, encompassing stewardship, impact investing, engagement, voting and reporting to clients.
- **Chairman of the Sustainability Committee** - chairs quarterly meetings of the Sustainability Committee.

Committee oversight:
Oversight of Montanaro's stewardship activities is provided by two Montanaro Committees: the Sustainability Committee and the Executive Committee.

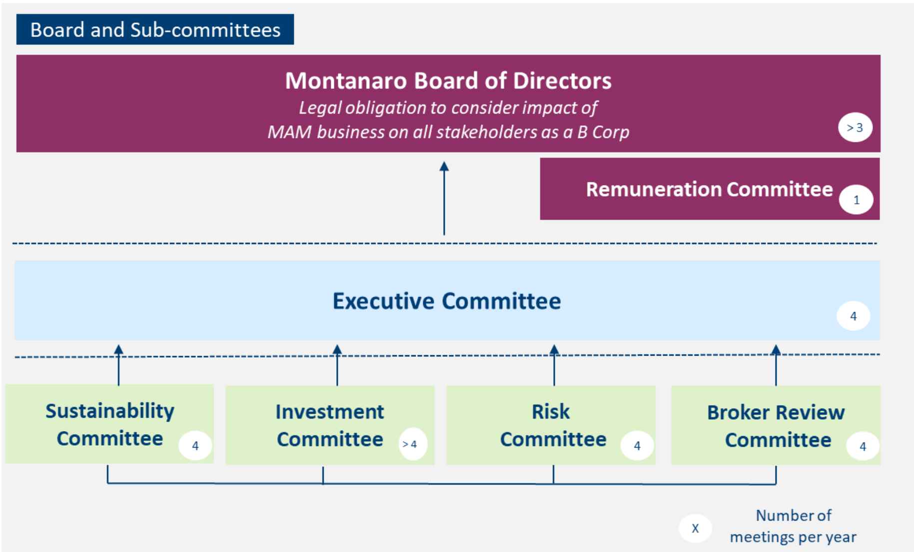
Sustainability committee:
The Sustainability Committee has three main functions:

1. Ensure that Montanaro's ESG and sustainable investment approach remains fully integrated into our investment process and continues to develop and improve;
2. Review the ESG and impact analysis conducted by MAM's Investment Team, and review engagement and voting activity.
3. Oversee MAM's corporate stewardship responsibilities, such as our responsibilities as a B Corporation.

The Committee meets on a quarterly basis and is comprised of members who collectively have many years of sustainable investment experience. Meetings have a formal agenda and minutes are taken, which are available to clients upon request. To ensure that there is buy-in across the organisation, the Committee is formed of members from the Investment, Client Relations and Compliance teams. Agenda items include:

1. Review of previous minutes and action points;
2. Review of voting activity;
3. Review of engagement activity;
4. Review of impact voting log;
5. Sustainability topics highlighted for discussion;
6. ESG & Research;
7. Seminars, events and press contributions during the quarter;
8. Sustainability at Montanaro;
9. Any other business;
10. Ethics (annual item).

Executive committee:
Montanaro's Executive Committee – comprised of the Chairman, Chief Executive Officer, Head of Investments, Head of Compliance and Risk, Head of Fund Management and Head of Business Development – meets on a quarterly basis to review the operations of Montanaro's business. This includes a review of the activities and recommendations of the Sustainability Committee, including the minutes of the meeting. In turn, the Executive Committee reports to the Board, as illustrated below:

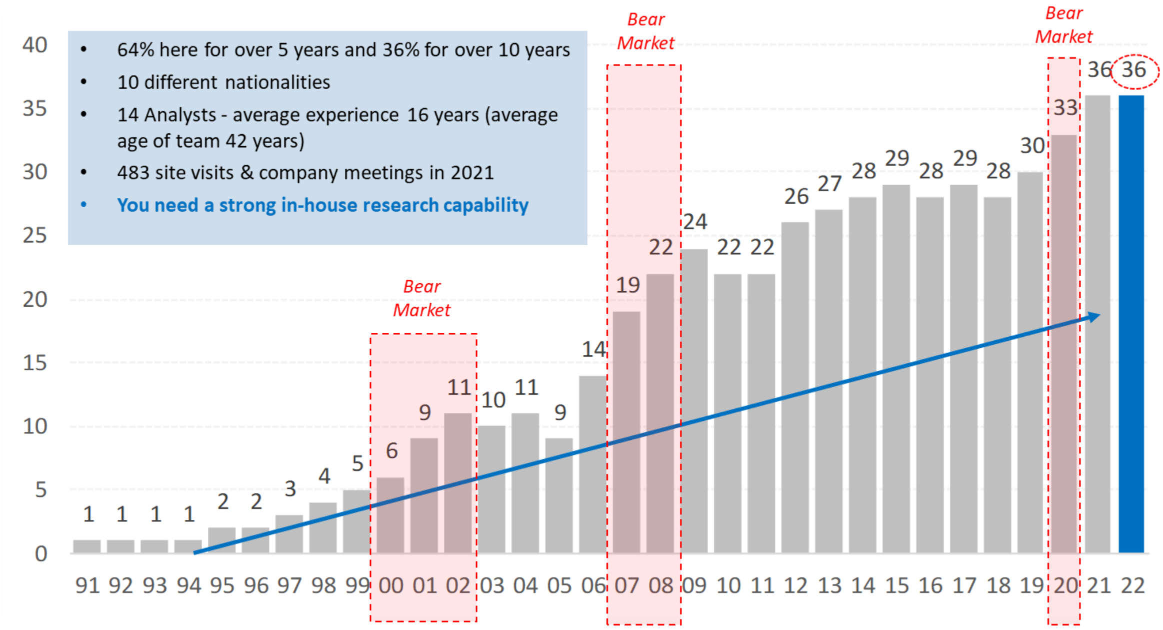


A well-resourced team:
We have a large team that is trained and incentivised to deliver on our stewardship responsibilities. We are a well-resourced boutique with one of Europe's largest investment teams dedicated to Small & MidCap quoted equities. Our Investment Team is responsible for conducting ESG and impact analysis on the companies that fall under their sector coverage, both before we invest and during the holding period. This is time-consuming and labour intensive, but invaluable when investing in quoted, smaller companies. Our market tends to be less well covered by the sell-side. In our experience, third-party ESG analysis and company ratings are sporadic and inconsistent.

To supplement our own research, we receive ESG data from MSCI and Bloomberg for the companies in the global Small & MidCap investment universe. ESG data received from MSCI and Bloomberg is incorporated into our bespoke ESG Checklists, which we use to assess and rate the ESG profile of companies. These have been developed over time with input from our Sustainability Committee and Analysts.

Voting recommendations are provided to us by our proxy voting provider, ISS. Analysts are responsible for reviewing voting recommendations with support from the Head of Sustainable Investment and our ESG & Impact Analysts.

Maintaining a well-resourced team is a key priority for Montanaro. We have consistently grown our team, even during Bear Markets such as in 2000, 2008 and 2020.



We have a diverse team, comprising 10 different nationalities. Over 30% of staff are women. We have decided not to introduce strict diversity targets into the business as, with a relatively small team, a single hire or departure can have an undue influence on a numerical metric. However, in response to the "Black Lives Matter" movement, we have asked the recruitment firms that we use to remove names from any CVs they send us. There is some research that indicates employers are more likely to hire candidates with European names over ethnic minority candidates, even if the rest of their profile is identical. We want to eliminate the potential for this bias to exist in our recruitment approach. Our Sustainability Committee is continuing to think carefully about our approach to workforce diversity.

Our team:

A commitment to training and progression:

We have a training budget and sponsor staff through industry qualifications, such as the CFA ESG Certificate and the CFA Certificate in Climate and Investing. We run regular training sessions for members of our team that are led internally or with the assistance of outside experts. Training is designed to develop technical investment skills and promote team bonding via constructive debate. These sessions encourage collective ownership of the investment process. In addition, we seek to learn collectively from our mistakes and believe in humility.

In 2022, we developed training on the newly introduced impact scoring system and how this could be used to select companies that that contribute to a better world.

Stewardship influences remuneration:

Our commitment to sustainable investing is embedded in our organisation, job descriptions and staff remuneration. Analysts are appraised on the quality of their research and stock recommendations. This includes the quality of their ESG analysis and contribution to MAM's engagement and voting efforts. There is a specific section dedicated to ESG in Analyst appraisals. Annual appraisals directly influence variable remuneration.

In addition to our Analyst team, the Head of Sustainable Investment is appraised based on the quality of his leadership on ESG and sustainability matters. Our Impact & ESG Analysts have variable pay linked directly to work on ESG issues.

MAM's CEO announced that corporate sustainability targets set in 2022 will influence a portion of all employees' variable pay.

Improvements in 2022:
Impact Scoring: During the course of 2022, we introduced a new impact analysis process that incorporated a scoring system for the first time. For a company to pass this process and be eligible for investment in the Better World Fund, we assess the positive impact of the products and services against the following criteria:

- Impact on People
- Impact on Planet
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- Impact risk
- Thematic revenue

Each element is scored out of 10. A company must have an impact score of at least 25 in order to pass. We also assess the percentage of revenue aligned to our impact themes and will only invest in companies with at least 50% of revenue alignment. After the scoring and analysis has been completed the company must still be approved for impact by the Sustainability Committee as a final sense check of the impact case.

Regulatory Developments: All Montanaro Funds domiciled in Dublin fall under the scope of the Sustainable Finance Disclosure Regulation (SFDR), part of the EU's Sustainable Finance Strategy (the other pillar being the EU Taxonomy Regulation). SFDR requires financial market participants such as asset managers to: 1) describe how Sustainability Risks are integrated into their investment decisions; and 2) describe the likely impacts of Sustainability Risks on the returns of the financial products they make available. As the Montanaro Better World Fund is an Impact Fund with sustainability as a component of its objective it qualifies as a financial product subject to Article 9 of SFDR. All other MAM Funds domiciled in Dublin have ESG analysis fully integrated into the investment process and are therefore classified as Article 8. In order to help us comply with these regulatory requirements we have enlisted the help of an existing research provider, Impact Cubed. We have been able to use their platform to review our portfolios and meet our reporting obligations.

Principle 3: Conflicts of interest

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

MAM seeks to act in the interests of all its clients when deploying capital, engaging with companies and policymakers and voting (see Principle 6).

While undertaking our investment management services – encompassing investing in companies and servicing our clients – conflicts of interest may arise. Our core value of integrity supports our regulatory obligations and stewardship responsibilities to identify and manage such potential conflicts.

MAM considers that its simple and conservative business model minimises the risk of conflicts. MAM does not have any subsidiaries or connected parties and is a privately owned boutique.

In order to identify potential risks and procedures for remediation, we maintain a Conflicts of Interest Policy. This Policy demonstrates that MAM is committed to identifying, monitoring and managing all actual and potential conflicts of interest that can arise between MAM (by which we mean employees and connected persons), its clients and other stakeholders. This policy is designed to fulfil MAM's obligations under SYSC 4 and SYSC 10, COBS and Principles for Business number 8 in the FCA Handbook; and support our stewardship efforts as defined by the UK Stewardship Code 2020.

Senior management are committed to ensuring that the Conflicts of Interest Policy is embedded in our culture. Potential conflicts of interest and actual conflicts of interest identified are discussed at regular Executive Committee and Board meetings to ensure the correct action to mitigate the conflict was or will be taken. All staff are made aware of this Policy and also what they should do if they identify a potential conflict of interest. An annual review of our Conflicts of Interest Policy is conducted by the Compliance Officer.

Our policy, register and approach to monitoring

Our policy:
Our Conflicts of Interest Policy covers the following topics: identification, prevention, management, disclosure, monitoring, reporting, external interest of individuals, education and awareness. We aim to limit the scope for conflicts – for instance by implementing a Personal Account Dealing Policy which prohibits investments by staff in any quoted security within MAM's investable universe, irrespective of whether it features on MAM's Approved List or not. Our Conflicts of Interest Policy is reviewed on an annual basis by the Compliance Team.

Conflict of interest register:
Conflicts of interest situations and potential conflicts of interest situations are reported immediately to the Compliance Officer. Under SYSC 10.1.6, MAM keeps and regularly updates a record of any conflict of interest that arises (or may arise, in the case of an ongoing service or activity) that entails a risk or damage to the interests of one or more clients. This information is included in the Compliance Report to the Board, which is reviewed at each Board Meeting.

Monitoring and assessing new risks:
Given the potential for new conflicts of interest to arise, periodic operational risk reviews are conducted by senior management. Potential new risks are discussed at MAM Board Meetings. However, because of MAM's simple structure and focus on a single asset class actual and potential conflicts of interest are rare.

Senior management monitors expenditure and the Gifts and Benefits and Corporate Hospitality Registers to ensure that there is not a pattern of receiving or making gifts and providing benefits to any one particular client or supplier. The Complaints Register is reviewed to ensure that any complaints were dealt with fairly and promptly; the Dealing Errors log is also reviewed to ensure that no client has been disadvantaged.

Examples of where conflicts may arise

New clients:
When taking on a new client, any potential conflicts of interest are considered. The following points are checked and documented as part of the New Client Process:

- are any potential conflicts of interest between a member of staff, a connected person of theirs and the client identified following a check against the business interest declarations of MAM's staff?
- is there a conflict between any of MAM's other clients?
- is there a conflict between MAM and the client?

Where a conflict is identified with the new client and a member of staff, MAM will exclude that person from dealing with the new client. If there is a conflict between an existing client and the new client, it may be that MAM decides not to take on the new client or if it does, will disclose the conflict to both. The same may apply if a conflict is identified between MAM and the new client. In each instance, the details of any conflict are recorded in the Conflicts Register along with details of how the conflict was mitigated. In addition, it is notified to MAM's Compliance Officer.

New products or providers of services:
When MAM considers a new product, it will undertake a conflict of interest check at the product development stage. If a conflict is identified, the product may need to be changed to eliminate the potential conflict. Any conflicts of interest identified are recorded in the Conflicts of Interest Register.

Remuneration:
MAM's Remuneration Policy, which includes the reward of discretionary bonuses, ensures that staff are not encouraged to put their own interests above those of clients in order to receive bonuses. MAM strives to ensure that all employees remain motivated whilst at the same time ensuring their remuneration and discretionary bonus do not encourage inappropriate behaviour for their own gain at the expense of clients. MAM acknowledges this potential conflict of interest and through its monitoring mechanisms remains alert to potential abuse.

Chinese walls:
A Chinese Wall is the creation of an information barrier. Essentially, this requires information held by a manager or employee of one Fund to be withheld from, or not used by, persons from another Fund. The use of a Chinese Wall can be established and enforced by the Compliance Department and includes the physical segregation of staff, data and computer systems. However, because of its modest size MAM

takes the view that it is better not to have Chinese Walls but rather to ensure that all Fund Managers have access to essentially the same material information at broadly the same time. Our "Treating Customers Fairly" Policy includes procedures to ensure this is the case. This cautious approach ensures that there is no risk of information leakage between teams.

Treating customers fairly:
MAM has a Treating Customers Fairly Policy in place in order to mitigate any potential conflicts of interests between clients. This is monitored by the Compliance Team, which reviews trading reports weekly and provides feedback to the Investment Team on any issues identified.

Inside information:
This relates to confidential, non-public information of a precise nature that is related to one or more issuers which is likely to have a significant impact on the price of a financial instrument, commodity or a related derivative of a financial instrument or commodity. The use of such information to make a financial gain or to avoid a financial loss is a criminal offence under the Insider Dealing Laws. The FCA and the London Stock Exchange monitor dealings ahead of announcements to identify such behaviour. MAM has an Insider Dealing Policy in place and has made it known to all staff that Insider Dealing is a criminal offence punishable by immediate dismissal and likely criminal action.

Gifts and inducements:
On occasion, employees may personally benefit from dealings with potential or existing clients, suppliers, service providers etc. A Gifts and Benefits Policy and Register are in place and monitored by the Compliance Officer to ensure that any such gifts or benefits are not excessive and do not create any obligation, debt or a conflict of interest. Staff are required to seek permission before making or accepting any gift or benefit with a value of £100 or above (£150 for Senior Managers). Additionally, any corporate events held with existing clients are pre-approved by the Compliance Officer and are documented in the Corporate Hospitality and Sponsorship Register before permitted to go ahead.

Personal account dealing:
It is not unusual for employees of a financial institution such as MAM to make personal investments. MAM recognises that this can create a conflict with its clients. All MAM's employees and connected persons are required to comply with the company's strict Personal Account Dealing Policy. MAM does not permit personal dealing in any company that falls into its investable universe, which greatly reduces the risk of any conflict of interest arising between an employee and MAM's clients.

Business interests and suitability:
MAM is required to ensure that any activities undertaken are suitable for its clients. A conflict may arise if MAM or a person connected with MAM has an interest, relationship or arrangement that is material to the service, transaction or investment that is being provided.

For example, MAM's employees may have an interest, relationship or arrangement whereby they act as a Trustee, hold Power of Attorney on behalf of a client, or act as a Director for a corporate client or Partner for an LLP. Employees complete a Declaration of Business Interests Form when they join MAM and are required to notify MAM of any changes of outside interests or any new interests.

Case studies

During 2022, we continued to maintain our internal Conflicts Log used to document instances where we have identified the potential for a conflict of interest to occur.

The most common example that emerged during the year was that of a financial company being voted on that was also a client of MAM. Such cases are reviewed by our Sustainability Committee and Compliance Officer in accordance with our voting policy. They were then added to our log as part of the voting process to ensure fairness and transparency.

There were no other notable conflicts of interest in 2022.

Principle 4: Promoting well-functioning markets

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

As a certified B Corporation, our Board has a legal obligation – enshrined in our Articles of Association – to consider the impact of our business on all stakeholders. We view this as a key stewardship responsibility. Interest in responsible investing is growing in importance across the industry. Indeed, 68% of UK savers want their investments to consider people and the planet alongside profit[8], according to recent research.

Identification of market-wide and systemic risks:
MAM identified the following market-wide and systemic risks during the reporting period:

- **Macroeconomic risks:** including market risks and any political, legal, regulatory and fiscal developments. An emerging area of risk that was identified was tightening regulatory standards in relation to ESG and sustainability, notably from the EU via SFDR and the EU Taxonomy. This impacts MAM given we have a fund range that is domiciled in Dublin and therefore in scope of European regulation. Certain UK investors invest in these funds rather than our UK-domiciled range of funds.
- **Environmental risks:** this included climate change, notably the likely increase in the number of extreme weather events[5]. Also considered were the impacts caused by increased pollution as greenhouse gas emissions continue to rise, the impact on land systems and natural resources, rising sea levels and higher temperatures that warm the planet. We view all of our companies as being potentially impacted by climate change.
- **Social risks:** this included growing levels of inequality, for which the financial system may be partly responsible; human rights risks, which can span outside the markets in which we invest directly (for example via company supply chains); and political risk – namely a rise in populism that is evident in certain developed markets and affecting the regulatory backdrop.
- **Governance risks:** including corruption at a company/country level; and the risk to our investments of poor capital allocation decisions by management.
- **Policy risks:** a change in government policy or market regulation that shakes the fundamentals of the market. This includes regulatory changes to ESG type issues, such as climate change (e.g. the implementation of a market wide carbon tax which raises the cost of doing business for various companies), or the introduction of a tax on unhealthy foods; or policy changes such as a significant shift in interest rates.
- **Pandemics/global health risk:** we determined that this risk, caused by the Covid-19 virus, fluctuated during the year as vaccination rollouts allowed economies to reopen, but new strains of the virus threatened a return to normality. By the end of the 2021, we determined that the systemic risk of Covid-19 had materially reduced across the developed markets in which we invest, given high vaccination rates. The risk of a future pandemic occurring is one that we continue to monitor via the horizon-scanning conducted by our Risk Committee.
- **Cybercrime**: a system-wide risk that increasingly impacts businesses, governments and households. A risk is that, despite increases in cybersecurity infrastructure, these are

[5] State of Climate in 2021: Extreme Events and Major Impacts | UNFCCC

outstripped or rendered obsolete by increasingly sophisticated and frequent cybercrimes, resulting in economic disruption, financial loss, geopolitical tensions and/or social instability[6].

Our governance processes for risk:
MAM keeps abreast of all macroeconomic and regulatory developments that may affect its business and / or its portfolios. Horizon scanning is enabled by MAM's service providers which provide regular written reports and invite MAM team members to partake in conferences and webinars.

On a quarterly basis, A&L Goodbody provide a full review of regulatory developments affecting the UK and European funds industry, while KB Associates – which acts as ManCo to MAM's Irish fund range - keep us abreast of any upcoming regulatory changes. Link Group – who act as ACD to MAM's UK-domiciled fund range - also provide a similar report focused on the UK, as well as quarterly reports focused on the outlook for dividends in the UK. Similarly, our Cyber Security and HR consultants notify MAM of any relevant developments in these fields.

These inputs feed into our internal Committees which consider which risks are most relevant to our business. Our various Committees also conduct Horizon Scanning of their own:

- **MAM's Risk Committee** conducts "Horizon Scanning" to consider what risks might exist, or could emerge, that might threaten the stability of MAM's business and the stability of the wider financial system. These risks are discussed at quarterly meetings of the Committee.
- **MAM's Sustainability Committee** considers Sustainability / ESG risks at quarterly meetings, particularly in relation to our investment portfolios and the impact these may have on financial market conditions. The Committee also considers ESG risk from the perspective of MAM's business and was instrumental, for example, in suggesting that MAM sets an operational Net Zero Carbon target for 2030.
- **MAM's Executive Committee** considers the risk comments and observations detailed in the minutes of the aforementioned Committees at quarterly meetings. Under the Risk section of the Committee agenda it will also discuss all types of risk that may affect the business in the short or medium-term.
- **MAM's Board** considers all forms of risk that may affect the business in the short, medium and long-term. Inter allia, it reviews a live document which is updated annually, entitled: "Risk Assessment for Montanaro Asset Management Ltd". This document covers the following risk areas:
    - **Investment:** e.g. ESG risks / an investee company running into financial difficulty
    - **Financial:** e.g. a significant fall in markets, caused by a macroeconomic event
    - **Market conditions:** e.g. reduced liquidity in equity markets
    - **Staff:** e.g. loss of key staff
    - **Information systems:** e.g. cybersecurity risks

Each risk issue is scored by the Board for: impact; likelihood; and mitigation (the steps we have taken to protect ourselves from this risk). A total risk score is then applied out of 10. **This report is reviewed and signed off by MAM's Board on an annual basis.**

[6] WEF_The_Global_Risks_Report_2021.pdf (weforum.org)

Industry initiatives:
In 2022, we continued our participation in the following initiatives:

- **PRI:** We have been signatories of the Principles for Responsible Investment (PRI) since 2009 and complete the annual PRI questionnaire. In 2022, we received our score for the submission completed in Q1 2021. Our module score for the Investment and Stewardship portion of the assessment was 88% and this equates to 4 stars. We hope to continue improving our score and will maintain our membership.
- **CDP Disclosures**: We disclosed our carbon emissions and transition plans via the CDP platform. As a partner to the Net Zero Asset Managers initiative, this was a way to fulfil our commitments and report on progress toward our targets in 2022. We also remained part of the group of investors coordinated by CDP to request that big corporate emitters align their transition plans with the 1.5°C degree goal of the Paris Agreement using Science Based Targets.
- **NZC20:** In collaboration with P1 Investment Management, other asset managers and the UK Climate Impacts Programme at the University of Oxford, we have set a target that by 2030 at least 20% of the Better World Fund by value will be invested in companies that have achieved Net Zero Carbon. This initiative led to the launch of our "**Project: Net Zero Carbon**", a long-term engagement project to encourage investee companies to set and meet ambitious carbon related targets. The latest report can be found on our website.

We invest based on the risks we have identified:
We believe that our investments are well aligned to the risks that we have identified. This is achieved via the implementation of a single investment process which is applied to all portfolios that MAM manages.

Our **Ethical Framework** (*see response to Principle 7*) means our Funds have low exposure to areas of equity markets that are most directly exposed to certain risks. For example, we exclude investments in companies involved in the exploration and production of coal, oil and gas. This ban encompasses both onshore and offshore extraction and includes fossil fuel refinement companies. This means we have low exposure to companies which may suffer from climate-related stranded asset risk.

Our **integrated approach to ESG** analysis means that the above risks are considered as part of investment analysis before we invest and during the investment period. Analysts must complete an ESG Checklist *(explained in response to Principle 7)* which ensures that we only invest in companies that pass our ESG thresholds.

Our focus on **Quality** companies also minimises risk exposures. When assessing the fundamentals of companies, our Analysts complete a Quality Checklist, which among other things appraises the quality of a company's management team, the sustainability of a company's financials, and its competitive Strengths, Weaknesses, Opportunities and Threats/Risk ("SWOT"). Management's capital allocation track record is also assessed.

Risks that are identified in our ESG analysis are discussed by the Investment Team and Sustainability Committee and we consider how they should be approached. For example, when supply chain management was identified as an area of common risk in 2018, the Sustainability Committee commissioned a Deep Dive engagement project, undertaken by our Investment Team, in order to better understand how our companies were managing supply chains. Similarly, the systemic risk of climate change has led to a desire to better understand the steps our companies are taking to support the transition to a low carbon economy. In 2020, we launched "Project: Net Zero Carbon", a long-term engagement project designed to encourage companies to set and meet Net Zero Carbon targets. This work continued in 2022 and at the end of the year, we published an updated report on our companies' progress. We aim to continue publishing annual progress reports in future.

We also use our engagement with companies to understand the risks they are confronting that may be considered systemic. Following a number of site visits in recent years to factories and other industrial facilities, we noticed that companies were exposed to the negative externalities generated by single-use plastic. This has led to engagements with businesses as we sought to understand how companies could reduce or limit their exposure to single-use plastic.

In addition, **using certain external frameworks helps us identify market-wide and systemic risks**. These set engagement priorities with companies. An example is the UN Sustainable Development Goals (SDGs). The SDGs have aided the identification of sustainability risks associated with investment opportunities for the Montanaro Better World Fund.

Effectiveness of our approach:
We believe that our approach to identifying and responding to market-wide and systemic risks to promote a well-functioning financial system is effective. Together with external service providers and internal Committees, horizon scanning allows us to consider risks that are material to our business and approach to investing.

Our approach to collaborative engagement is discussed further under Principles 9 and 10.

Principle 5: Review and assurance

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

The Board of Directors has overall responsibility for assuring processes and policies and assessing the overall effectiveness of our activities, including those relating to stewardship. To that end, the Directors contributed to this Stewardship Report, including founder Charles Montanaro (Chairman), Cedric Durant des Aulnois (CEO) and Mark Rogers (Head of Investments). The report was formally approved by our CEO in April 2023, signifying MAM's view that the report provides a fair and balanced view of our approach to stewardship and responsible investment.

In addition to the Board's oversight, MAM has a number of internal Committees (see Principle 2) that are responsible for overseeing all elements of our business, including investment, marketing and distribution, and compliance and operations.

Specifically, MAM's internal Sustainability Committee is responsible for reviewing our ESG policies; assuring procedures; and ensuring that stewardship reporting is fair, balanced and understandable.

A review of Montanaro's sustainability policies occurs at quarterly meetings of our Sustainability Committee and is covered under a standing agenda item. The Committee discusses Montanaro's Ethical and ESG Policies and considers whether changes or amendments are needed. Such reviews are important as changes have a direct impact on our investment process. A change to our Ethical and ESG Policies requires a corresponding change in our Ethical and ESG Checklists, which are completed by our Analysts for every company that we invest in. Given this, changes need to be well thought through and beneficial to company level ESG analysis.

As previously set out in the answer to Principle 2, Montanaro's Executive Committee reviews the work of the Sustainability Committee to ensure that it is functioning in a way that meets our stewardship responsibilities. This includes oversight of any changes made to Montanaro's ESG approach. We believe that this internal review structure is appropriate given the single focus of Montanaro and the specialist nature of the Small & MidCap asset class. We want our structure and processes to be clear and comprehensible to clients.

We disclose how MAM discharges its stewardship responsibilities in our "ESG Handbook", a detailed document which sets out our approach to corporate governance and company engagement. Changes to our Ethical and ESG Policies require an amendment to Montanaro's ESG Handbook, which is updated and published accordingly on our website. This document is designed to be user friendly and understandable even by those who are not "experts" in the field of responsible investing. It is available via our website: https://montanaro.co.uk/wp-content/uploads/MONTANARO-ESG-HANDBOOK-2023.pdf

Principle 6: Client and beneficiary needs

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

Montanaro is a specialist boutique asset manager. We manage long-only, quoted global Small & MidCap equity portfolios – these account for 100% of our invested assets. We do not manage any other strategies or make investments in any other asset classes. We do not use any derivative instruments and do not hedge our funds against market or currency risk. As a result, we believe that our business model is as simple and transparent as is possible for an asset manager.

At the end of December 2022, we managed £3.5 billion. 100% of this was invested in global Small & MidCap equities across UK portfolios, Europe ex-UK portfolios, and Global portfolios.

MAM's investor base is institutional in nature and comprises regulated financial institutions such as pensions schemes, wealth managers, and foundations. The breakdown of our AUM by geography and client type is shown below. Pension Funds account for our largest client type. While retail investors can access our Funds via various platforms, we do not market directly to retail investors.

All Montanaro Funds and segregated mandates are managed with a long-term time horizon, by which we mean a minimum of 5 years. The long-term nature of our investment strategies reflects the long-term investment horizon of our clients, many of whom are investing their assets to meet multi-year investment objectives (such as providing for the retirement of pension scheme members). Our investment time horizon also reflects our belief that, to experience sustainable investment returns, an equity investor should invest for a reasonably long period of time (five years or more).

We view our clients as our partners:
We spend a huge amount of time getting to know our clients before they invest with us so that we understand their needs and views on important topics. We seek to understand exactly what their requirements and expectations are from both an investment and stewardship perspective. We ensure that that they understand exactly how we invest – via our "Quality Growth" investment process – and that we will not deviate from our investment approach, regardless of market conditions (e.g. we will never seek to rotate our Portfolios into "Value" stocks to take advantage of short-term market conditions).

Similarly, we want to understand clients' stewardship priorities so that we can understand the extent of the overlap with our own as well as any areas of difference. Typically, we are well aligned to high level priorities, but there may be difference at the application level. For example, clients may specify that climate change is a priority for them – as it is for us – but we may have to point out that we cannot participate in initiatives such as ClimateAction 100+ as such campaigns do not cover smaller companies.

Due to the nature of our largely institutional client base, it is rare for clients to directly invest with Montanaro without conducting significant due diligence, which typically includes lengthy RFP documents, multiple meetings with our sales team, meetings with Fund Managers and other members of the Investment Team, and in many cases, conducting site visits to see our investment process and operations in action. This allows us to understand client and beneficiary needs and communicate the expected outcomes of stewardship and investment activities to them.

As a boutique with limited internal resources, we try our utmost to provide reporting on investment and stewardship matters that is of direct benefit to our clients. We recognise that transparency is an important feature of effective stewardship and unless a disclosure may involve confidential or price sensitive information, we share the details of our stewardship activity.

We have an "**ESG Library**" available on our website that houses the following documents which are relevant to the Stewardship activities for all MAM Portfolios[7]:

- **Montanaro's ESG Handbook:** The Handbook explains our Ethical & ESG Philosophy & Process and our related policies.
- **CSR Policy:** our CSR statement explains how we manage our business to be socially accountable to our various stakeholders.
- **Deep Dives**: thematic engagement reports.
- **PRI Reports:** annual assessments reports.
- **Stewardship Code:** annual report.
- **Shareholder engagement policy:** detailing how we engage.
- **Voting policy:** explaining our approach to voting.
- **Voting record:** Each year, we publish a summary of our voting statistics on our website. This includes the number of resolutions which we voted either in favour of, against or abstained. Proxy Voting Activity Summaries are produced each quarter and are available on Montanaro's website[8].

In addition, we publish an annual Impact Report for our positive impact strategy, the Montanaro Better World Fund, explaining our approach to impact investing and reviewing the performance of the strategy over the year[9]. In this report we also explain how the companies we invest in really make a difference on the ground. Clients have provided positive feedback on the report and in 2019, our Impact Report received the "Best Impact Report" award from Pensions for Purpose.

The following information is provided on request:

- **Company Research:** Our Analysts are responsible for writing and maintaining up-to-date investment case presentations, Company research notes (including summaries of company meetings and site visits) and Checklists on all of the companies in which we invest. Details of these are shared with clients at meetings and on request. This helps our clients to understand why we have invested in a company on their behalf and how we monitor companies during the holding period.
- **Engagement:** We record all engagement activity in an Engagement Log. Summary details of engagement cases are provided to clients as requested and in certain circumstances we have provided clients with detailed "ESG Case Studies".
- **Reporting:** Certain clients receive bespoke monthly and quarterly reports detailing the performance of their strategies. These reports often include a summary of engagement activity on companies in which their assets are invested. We also provide details of our Sustainability Committee minutes to clients upon request.

[7] ESG Library. We have also provided individual links to reports in the library at the end of this report: https://montanaro.co.uk/sustainable-investing/.
[8] https://montanaro.co.uk/sustainable-investing/ (in ESG Library) and the 2021 proxy summary is available here: https://montanaro.co.uk/wp-content/uploads/Proxy-Voting-Summary-2021.pdf
[9] Available here: https://montanaro.co.uk/fund/montanaro-better-world-fund/

- **Performance:** Performance data is reported to our clients on a monthly, quarterly and annual basis for all of our Funds, Investment Trusts and segregated mandates. This includes monthly factsheets which detail performance numbers relative to respective benchmark indices, attribution analyses, stock specific comments and an economic outlook. For certain clients, we also include summaries of recent "buys" and "sells" as well as an overview of engagement activity.

Events & presentations:
We hold quarterly webinars on all MAM funds to update clients and prospective clients on events during the past three months. Clients may also request that we deliver ad hoc ESG training presentations. We have conducted such sessions when requested to share our understanding of ESG, impact and stewardship practices with clients.

We also organise events for our companies to attend. During the course of our net zero engagement project, a common piece of feedback we have received from companies is that it is difficult to know where to start with climate action. There are many third-party frameworks and initiatives, while best practice seems to evolve rapidly. Even measuring current emissions can prove challenging. Nevertheless, action is needed. In response to these challenges, we hosted an event in 2022 that brought together over thirty CEOs from a range of industries across the companies in which we invest. The aims were:

1. To encourage CEOs to set a tone from the top about the importance of climate change.

2. Create a network of CEOs to help provide support, guidance and share ideas amongst companies.

3. Highlight one company's journey to Net Zero to discuss the pitfalls and the triumphs that have come with making a net zero pledge.

The company we asked to co-chair the event was Severn Trent, a UK water company that provides clean water and wastewater services. Their CEO, Liv Garfield, has been instrumental in leading the company in their ambitious environmental plans.

Severn Trent has made a "Triple Carbon Pledge" to achieve net zero operational emissions by 2030 and has also committed to meet science-based targets which include working with suppliers to measure and reduce emissions all along the value chain.

Liv was able to share her experience of the challenges she has faced and the innovative solutions that have been introduced across the business to tackle emissions reduction. She spoke about the need to look to other businesses for ideas and be bold in setting targets, even when the task to achieve them may seem daunting.

We also heard from Ronan Hodge from the Glasgow Financial Alliance for Net Zero (GFANZ) taskforce, a network of which we are a part. GFANZ is a group that advocates for responsible stakeholder capitalism via a global coalition of financial institutions with a joint aim of accelerating decarbonisation.

There followed a question-and-answer session conducted under Chatham House Rules. This facilitated a frank, open and free-flowing discussion between the CEOs in attendance. Liv was able to give valuable advice and set up connections that will help participants develop their own ambitious plans. Ronan was able to point to resources that will be useful for the implementation of net zero strategies and future measurement of emissions. CEOs representing sectors as different as IT to agriculture dialled in to learn from each other about emissions reduction and creating a net zero plan.

The discussions that followed the presentation served as evidence of active participation and the enthusiasm and willingness of business leaders to embark on meaningful action. The success of this event has inspired us to organise more and facilitate further networking between like-minded, responsible business leaders in the future.

Taking account of client views:
Client views shape our research priorities. For example, we had noticed an increasing number of clients asking us about biodiversity and as a consequence we opted to conduct a research deep dive into the topic so we could develop our views and incorporate our findings into our investment process. The full report is available here: https://montanaro.co.uk/wp-content/uploads/Biodiversity-Report-Final.pdf

Principle 7: Stewardship, investment and ESG integration

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

The integration of stewardship and investment is consistently applied across all Montanaro portfolios. This is a result of our focus on a single asset class (quoted Small & MidCap equities) and our single investment process (Quality Growth).

Our primary ESG service provider is MSCI. Our Head of Sustainable Investment is responsible for this relationship and ensuring that MSCI delivers on our two requirements:

1. The provision of quarterly environmental data for companies within the MSCI World SMidCap Index;
2. The provision of quarterly ESG ratings from companies within the above index.

This information is then integrated into our investment process by our Risk Analyst and our Investment Team, as explained below.

We are **"Quality Growth"** investors. We take a common-sense approach to investing, identifying the highest quality companies with the best management teams that we can hold for the long term.

We believe that you "get what you pay for in life": it is worth paying more for a well-managed, financially sound business that operates in a growth industry and enjoys a sustainable competitive advantage. Businesses with such Quality characteristics can "beat the fade" and maintain a high Return on Capital over the long term. As such, our analysis of companies focuses on identifying businesses with Quality characteristics. Both financial factors and ESG considerations form part of our definition of a company's Quality.

ESG is fully integrated into the Montanaro Investment Process. ESG analysis is conducted by our Analysts alongside fundamental analysis. The result is that our investment decision-makers "do" ESG. Companies that we consider for investment must pass criteria set out in our Ethical and ESG policies as outlined below. Each policy has a corresponding checklist which Analysts complete before we invest in a company and update during the holding period.

With little consistency between the main ESG ratings agencies, we believe it is paramount that investors conduct ESG analysis themselves. This is particularly important when it comes to smaller companies where coverage and availability of data tends to be worse than it is for larger companies. The size of our Investment Team allows us to fully embed ESG analysis into our investment process. The ESG criteria that we highlight below forms an intrinsic part of Montanaro's assessment of a company's "Quality".

Ethical Policy – MAM's "Banned List" was reviewed and updated in 2022.

On ethical grounds, we do not invest in companies that are involved in any of the controversial activities listed below (MAM's "Banned List"). In practical terms, this means that we aim to invest in companies which have nil revenue exposure to these areas.

During the year, we offered clarifying detail around what it is that we consider when discuss the ethical implications of a company's activity. The latest version of our ethical exclusions can be found here: https://montanaro.co.uk/wp-content/uploads/MONTANARO-ESG-HANDBOOK-2023.pdf

MAM's ETHICAL "BANNED LIST"

We do not invest in companies directly involved in:

Fossil Fuels	Tobacco	Alcohol	Gambling
Pornography	High Interest Rate Lending	Weapons	Animal Testing

The Sustainability Committee also reviews the eligibility of any company that derives a significant portion (c.10%) of its revenue from activities related to the above activities.

Source: Internal.

Environmental policy:

Our Environmental Policy helps us to assess which companies are managing their environmental footprints well and those with material environmental risks or weaknesses. The areas that we focus on are influenced by and support the UN Global Compact.

Via an internally designed Environmental Checklist, we assess and score companies out of 10 on their environmental profile. Our approach helps to drive more accurate risk analysis, helping us to invest in those businesses capable and willing to manage their environmental footprint in a changing world. We engage with companies on environmental issues to better understand their approach to environmental issues; improve areas of weakness; and encourage improved levels of data disclosure and reporting.

We consider specific areas of environmental exposure in our analysis:

- Environmental intensity: how much carbon, water and waste is produced/consumed by our companies?
- Stranded asset risk: how exposed are our companies to unanticipated or premature write-downs of assets due to climate change?

- Reporting: which companies are failing to report quality environmental data?
- Climate change: which of our companies have taken steps to materially reduce their carbon footprint?

We use MSCI and company sourced data to measure the environmental intensity of our companies across carbon, water and waste. Where available, we record the carbon intensity of companies across Scopes 1, 2 and 3 based on tonnes of carbon used per million US Dollars of sales generated. We do the same for water and waste. This allows us to compare the carbon intensity of companies across our Approved List as well as within a given sector or Portfolio.

In addition to the above, we also record two MSCI scores related to how well companies are managing the transition to a low carbon economy:

Low Carbon Transition Management: this indicator measures how well a company manages risk and opportunities related to the Low Carbon Transition. It combines Management assessments for the following key issues: Carbon Emission for all companies; Product Carbon Footprint; Financing Environmental Impact; Opportunities in Clean Tech; and Opportunities in Renewable Energy where available. Higher scores (on a scale of 0-10) indicate a greater capacity to manage risk.

Low Carbon Transition Score: this is a company level score that measures a company's level of alignment to the Low Carbon Transition. Companies with higher Low Carbon Transition scores (on a scale of 0 - 10) are more aligned with the Low Carbon Transition compared to the companies with lower scores.

We assess environmental management culture (in accordance with UN Global Compact Principles 7-9); supply chain management; and the extent to which a company's products/services are a positive influence on the environment. We also record whether a company's operations are certified by a national or global standard (e.g. ISO 14001).

Finally, we consider the quality of a company's environmental reporting and if they have a Net Zero Carbon target or other environmental targets in place.

Social policy:

Our Social Policy allows us to analyse specific social factors, leading to more accurate risk analysis of investment opportunities. The areas that we focus on are influenced by and support the UN Global Compact.

Via an internally designed Social Checklist, we assess and score companies out of 10 on the risks and opportunities that they face from a social perspective. Analysts score companies on the following areas: Labour Practices; HR Management & Training; Health & Safety; Supply Chain Management; Social value add of product / service; Anti-bribery controls; and Quality of reporting.

We use MSCI and company sourced data to measure and record the following:

- % Employee Turnover;
- % Women in Workforce;
- % Women in Management;
- Gender Pay Gap Breakout;
- Company 5-year tax rate;

- Underlying tax rate;
- Estimated Tax Gap;
- Social tax rating.

We engage with companies on social issues. By doing so, we believe that we can help to encourage management teams to consider the impact of their business on all of their stakeholders and manage social risks accordingly. Such an approach can ultimately lead to better investment returns.

Corporate governance policy:
We want to align the interests of company management teams with the interests of long-term shareholders. Our Corporate Governance Policy helps us to identify companies with high standards of governance, while highlighting companies with areas of risk or weakness. Our logic here is simple: good corporate governance increases the quality of a business – and the higher the quality of a business, the greater the sustainability of investment returns.

Via an internally designed Corporate Governance Checklist, we assess and score companies out of 10 on their governance profile.

The Corporate Governance Checklist considers:

- Remuneration of the Executive;
- Capital Allocation Record;
- Board Independence;
- Board Ownership;
- Board Diversity.

We engage with companies on governance issues and work with management teams to foster a responsible and long-term approach to the running of their companies.

How we use our Checklist Scores:
Scores for each ESG area are weighted and then aggregated to produce a final ESG score out of 10. We weight the Corporate Governance section of our checklist higher than Environmental and Social as we believe management are ultimately responsible for a company's approach to ESG. The summary section of our ESG Checklist is shown below:

MONTANARO ETHICS & ESG CHECKLISTS

SUMMARY

	Score	% Weight	General Comment / Key Issues
ETHICS	Pass	/	The company has a very poor score on its Environmental Checklist. The company publishes very little data on its environmental footprint and does not publicly disclose its approach to environmental matters. We need to arrange an engagement with management to understand why disclosure in this area is so poor.
ENVIRONMENTAL (1 to 10)	2.0	30%	
SOCIAL (1 to 10)	6.0	30%	
CORPORATE GOVERNANCE (1 to 10)	6.0	40%	
ESG Score (1 to 10)	**4.8**	**100%**	
ESG Rating	**REVIEW**		
Engagement Required?	**YES**		

Conclusions from our ESG analysis are presented to the Investment Committee who discuss any issues with the Analyst. The Committee will decide to continue with, or discard, a new idea based on the Analyst's findings. Companies with a total ESG score of below 5 are flagged on the Checklist under

“Review” (as shown above) meaning that engagement is required if we wish to invest in the company.

Analysts continue to update the ESG Checklists throughout the holding period as new information comes to light, for example after a set of results; the AGM; or an engagement. The Sustainability Committee monitors the ESG scores of companies on our Approved List at quarterly meetings to understand how Analysts are scoring companies.

We aggregate company ESG scores across each of our investment portfolios to produce a total ESG Fund Score, which is visible on monthly factsheets for each of our Funds.

Our clients typically have long-term investment horizons (five years plus) and our approach to ESG reflects this long-term commitment. As a result, we are prepared to invest in a company with a weakness in its ESG profile so long as management express a willingness to engage with us and a desire to improve any areas of weakness. These checklists have led to engagements that have resulted in higher conviction in the investment case and also decisions to sell stocks, for example:

- **Increased conviction:** We added to our holding in a building materials manufacturer as we consider them to be ESG leaders. This influences our view on the quality of the business. The products help to improve the resiliency and sustainability of the urban environment and the company try to differentiate themselves from their competitors through the sustainability of their products. In addition, we have spoken to the sustainability team on numerous occasions to determine the trajectory of their ambitious climate plans. This positive view of the ESG credentials of the business contributed to our decision to increase our position.

- **Reduced conviction:** We spoke to a company engaged in the development and manufacture of polymer product systems. MAM had several engagements with the company about its products, in particular focusing on the exposure to e-cigarette end markets. Although the business wasn’t technically in breach of our Tobacco ban (it is not a tobacco producer or distributor), our engagement – led by our Analyst and overseen by MAM’s Sustainability Committee – led us to conclude that the company should be sold from Portfolios as its product line is too closely linked to a sector of the economy that we do not wish to direct capital towards. The Sustainability Committee has the authority to determine such sales – and inform the Investment Team – of stocks that may have products/services that are too closely linked to the areas on MAM’s “Banned List”.

Our ESG Checklists also help us to set ESG priorities. In particular, they allow us to identify risks common to many of our companies. When we identify such risks, our Head of Investments and Head of Sustainable Investment work with the team to explore the issue in greater detail via an engagement “Deep Dive”. The purpose of these Deep Dives is to engage with companies from across our Approved List and improve our understanding of a particular risk and the quality of our analysis. In recent years we have conducted engagement Deep Dives on:

- Hydroelectric Power
- Biodiversity
- Data centres

Our Deep Dive reports are available on Montanaro’s website. A detailed explanation of our ESG Policies and Checklists is contained within our ESG Handbook, which is also available on our website.

Impact investing:
In 2018, we launched the Montanaro Better World Fund to invest globally in Small & MidCap companies whose products or services make a positive impact by helping to solve some of the world's greatest challenges in support of the UN Sustainable Development Goals.

The investment process for the Better World Fund is largely the same as for our other Funds in terms of the financial fundamentals and our analysis of ESG factors. However, there is an additional step that considers the impact of a company's products and services and whether they are positively aligned to six impact themes:

Analysts complete an "Impact Profile" for every company that we consider for investment. These reports allow us to assess how a company's products/services are helping to solve a major world problem, such as climate change or a healthcare challenge. Analysts attribute company revenue against the Fund's 6 themes and we will only invest in companies with revenue alignment of at least 50% and that score at least 25 out of 50 on our impact scoring system. Members of our Sustainability Committee vote on whether a stock passes or fails for impact. Since launch the Sustainability Committee has failed 20% of the ideas it has been asked to consider.

Principle 8: Monitoring managers and service providers

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

The following companies provide services to Montanaro. Each is reviewed as explained below:

ISS

We receive independent corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of votable meetings. We use these for advice only and review every ISS voting recommendation before we submit our vote.

Review: Annual review is led by the Sustainability Committee. We review voting records to ensure that votes have been cast according to our policies and stated preferences (in instances where we have decided to vote against the ISS recommendation). We also arrange annual meetings with ISS to discuss their service offering to ensure that it remains cost-effective and we are utilising the full range of their services. We continue to be happy with the level of service we receive. The research notes and analytical capabilities offered on the ISS voting platform are useful and help us to make decisions and then review voting patterns.

MSCI

We continued to receive carbon related data on the companies in the MSCI World SMidCap Index from MSCI, which is provided to us on a quarterly basis. This data is incorporated into our ESG Checklists, allowing us to better understand the ESG profile of the businesses in which we invest. We also use MSCI's ESG ratings to compare and contrast with the conclusions of our ESG Checklists.

Review: Annual review is led by the Sustainability Committee. We use the MSCI database to help monitor a number of key ESG metrics for companies across our approved list. Over 2022, the data provided has allowed us to identify laggards within portfolios and target our engagement efforts accordingly. As a consequence, we have decided to retain MSCI as a service provider in 2023.

Bloomberg

We source company level ESG data from Bloomberg which is incorporated into our ESG Checklists (although some of this data is being phased out in favour of MSCI data as we wish to use a single data source where possible).

Review: Annual review is led by the Head of Fund Management covering the entire scope of the Bloomberg offering, including the data and content used for performance and company analysis. Bloomberg data helps us to monitor the level of disclosure and transparency offered by our investee companies. This in turn influences company engagement as appropriately detailed company reporting is an important issue for investors.

Factiva

Global news monitoring and search engine Factiva allows us to monitor company newsflow and identify news stories related to our companies that we may otherwise not see by simply focusing on mainstream news sources. We use this primarily as a tool to help us identify issues on which engagement may be required.

Review: Annual review is led by the Sustainability Committee. We are satisfied with Factiva as a news monitoring system. The service offering has been used to identify any potential controversies that could be detrimental to the ESG profile of a business.

Impact Cubed

Impact Cubed help us to externally verify and assess the impact credentials of the Fund

Review: Annual review is led by the Sustainability Committee. Impact Cubed offer an independent factor assessment of the Fund versus 14 sustainability measures and quantify the active sustainability exposures versus the Fund's benchmark. Impact Cubed also review the contribution of fund holdings to the UN SDGs.

Scope Review: As well as a review of individual providers, the Sustainability Committee also reviews the full scope of our providers and considers whether there is a "gap" in their offering. During the year we wanted to find a research provider that would be able to help us meet our regulatory requirements under SFDR. As a consequence, we met with a number of companies before eventually deciding to expand our use of Impact Cubed to encompass their new SFDR and PAI features to help us comply with our responsibilities.

Principle 9: Engagement

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

As responsible shareholders we believe that it is our duty to engage with our investee companies where necessary. In our experience, active engagement can help to foster positive long-term change in the way businesses are run and potentially lead to better investment returns and improved societal and environmental outcomes.

Engagement forms a key part of our long-term approach, allowing us to identify and manage risks within our portfolios, fulfil our stewardship responsibilities and consider other stakeholders (a duty of all B Corps). Engagement is used as a tool to better understand a company's impact, leading to better investment decisions.

Engagement is important to our investment approach. It allows us to deliver on client needs (as identified in our response to Principle 6) and our purpose and investment beliefs (as identified in our Response to Principle 1[10]).

Engagement is typically initiated and conducted by our Analysts as they hold the closest relationships with company management. Support is provided by the Head of Sustainable Investment and our ESG & Impact Specialist, who may lead certain cases, such as those involving multiple stakeholders, collaborative engagements, or those that affect a number of companies within a portfolio. Our internal Sustainability Committee review engagement activity at quarterly meetings. The Committee will commission "Deep Dive" projects should they feel there is a necessity for a thorough review of a particular topic and how it effects a number of our holdings.

Our stewardship and engagement activity typically falls into one of the following categories:

1) **Direct Company Engagements:** a company-specific risk or issue has been identified on which we wish to engage. This may include an area of weakness identified in our ESG analysis or where we become aware of an incident or breach of our ESG policies or international norms (e.g. the UN Global Compact). In the main, we consider this type of engagement to be "reactive" as we are responding to a particular event although we may also conduct fact finds on a company-specific basis.
2) **Proxy Voting:** Voting is a vital part of our engagement with companies. This is why we attempt to vote at all Annual General Meetings for holdings within our Funds. We receive independent third-party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. Our decisions are guided by our proprietary voting guidelines which can be found here.

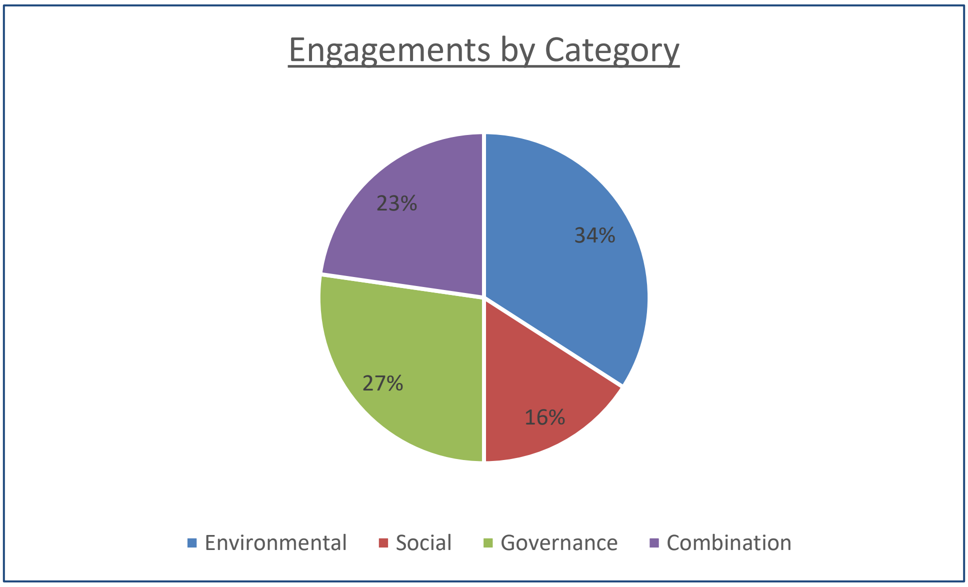
[10] Our mission is to "encourage, through active ownership and engagement, smaller companies around the world to support and embrace the Sustainability Revolution".

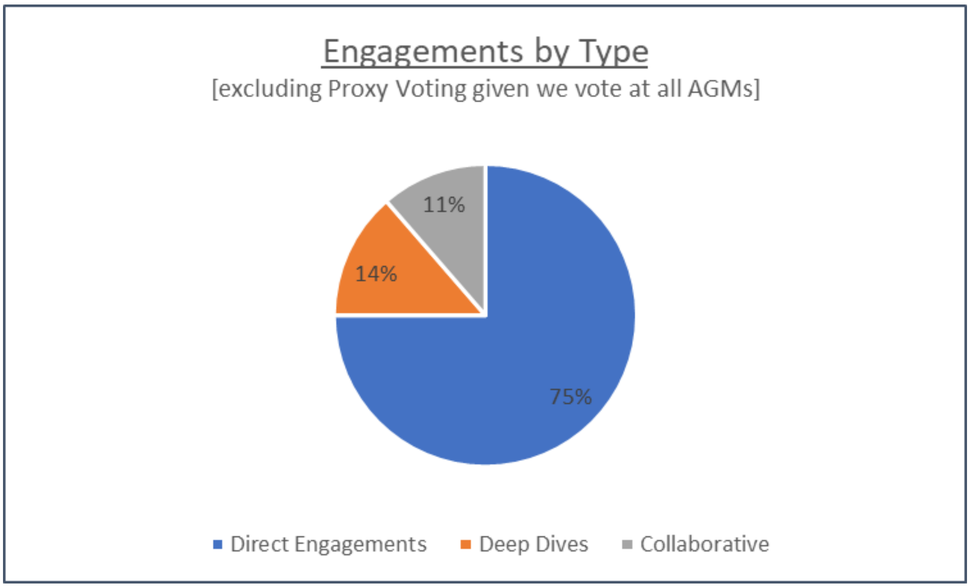
3) **Deep Dive Research:** we conduct thematic "Deep Dive" engagement projects on specific subjects to better understand how our companies are exposed to a particular issue or area of risk. We consider this type of engagement to be "proactive" as we are taking steps to understand more about a particular subject and the exposure of our investee companies to that risk before it can manifest.
4) **Collaborative Engagements:** We seek out collaborative engagement projects that offer a material benefit to the achievement of engagement aims. These projects can add additional support and aid in the promotion of sustainable investment practice.
5) **Public Policy Advocacy:** We are involved with groups that advocate for responsible stakeholder capitalism. These include the Glasgow Financial Alliance for Net Zero (GFANZ) and the B Corp Finance & Investment working group.

These approaches have been chosen because they are efficient; amplify our voice; and ensure that we stay abreast of changing market conditions. By carefully targeting our engagement efforts we are able to effect change, despite the modest size of our organisation.

Summary of engagements in 2022

During 2022 we conducted a total of 44 company engagements covering a range of issues. Some of these engagements were part of collaborative efforts and some formed part of our "Deep Dive" research projects. We also conducted 5 meetings with academics, charities, and research organisations to aid our stewardship efforts and help direct our ESG and sustainability work, particularly with regard to biodiversity and our **Deep Dive project** concerning ecological risks and opportunities. The majority of our engagements (34%) were regarding environmental issues and climate change in particular. This has decreased since 2021 when 47% of our engagements discussed environmental issues. The proportion of social engagements increased to 16% (compared to 9% in 2021). Corporate Governance engagements made up 27% of our company meetings (an increase on 25% in 2021) and 23% covered a combination of issues (an increase from 18% in 2021).





The majority of our engagements took place with companies headquartered in the US, with UK-based companies a close second. Overall, 61% of our engagements were with European companies including the UK, 27% were with American companies and the Rest of the World made up 11% of engagements.

Of the environmental issues covered during 2022, climate change engagements made up **73%.** The remainder focused on:

- Biodiversity,
- Waste management and the protection of waterways,
- Transparent environmental reporting.

Environmental:

Company:	Advanced Drainage Systems (ADS)
Topic:	**Climate Action**
Objectives:	Understand the approach to GHG reduction.
Process:	Video call with Investor Relations.

Outcomes: ADS is a leading manufacturer of innovative water management solutions. The company provides drainage products and services that deliver solutions for the most persistent and challenging water problems. However, ADS has amongst the highest carbon intensities among the companies in the Better World Fund . As a result, we arranged a call to discuss the ADS approach to GHG reduction and any changes to this approach over recent years. We were told that the company is pursuing Science Based Targets, our preferred approach, to reduce GHG emissions by 42% to 2032.

This goal is aligned with a global 1.5°C maximum temperature increase. ADS committed to set Science Based Targets in April 2022 and is currently in the process of seeking SBTi approval. It is anticipated that the proposed targets will be approved by summer 2023 in time for the publication of the next sustainability report.

Social:

Company:	Chr Hansen
Topic:	Animal Testing
Objectives:	To ensure that the company adhere to a 3R policy when undertaking animal testing.
Process:	We spoke to Investor Relations.

Outcomes: We first contacted the company regarding animal testing in 2018. We were told that Food Cultures & Enzymes and Natural Colours divisions never conduct any animal testing. However, where necessary Chr. Hansen does conduct animal testing within the Animal Health and Human Health areas. The purpose for the majority of the trials is to obtain product registrations to be able to commercialise the products. We wanted to check whether this is still the case and so contacted the company for an update on their approach.

We were told that Chr. Hansen only conducts animal testing when in vitro and in silico generated data are considered insufficient to serve as input in the risk assessment of our products and/or when such testing is explicitly required by the Food Safety Authorities responsible for the regulatory approval of our products. Chr. Hansen adheres to the provisions of applicable laws, regulations, and policies governing animal testing. In all cases where animal testing is used, Chr. Hansen advocates that testing is consistent with scientific integrity and regulatory acceptability. Consideration is given to the welfare of individual animals in terms of the number and extent of procedures to be carried out on each animal while maintaining the highest level of Consumer Protection.

This is relevant for the company's health and nutrition portfolio and, in some countries, also for the enzymes where specific requirements for safety documentation exist.

They also confirmed that they adhere to the 3R (Reduction, Refinement, Replacement) principles. This engagement is now closed as we achieved our aim of understanding the company policy, but we hope that there will be an ongoing reduction in the reliance in animal experimentation at the company.

Corporate governance:

Company:	**Diploma**
Topic:	Remuneration
Objectives:	Align executive pay arrangements with stakeholder interests.
Process:	Participated in a consultation with the Chairman of the Remuneration Committee and the HR Director at Diploma.

Outcomes: We were asked to share our views on a new remuneration policy. The Board was keen to gather shareholder views when developing the new policy. This is particularly important as the last policy that was proposed in 2020 received just 62% supporting votes. The company wished to increase executive salaries and the variable pay opportunity. We discussed how pay had been considered in the context of the wider workforce and the reason behind the change in the PSP metrics from a 50:50 split between TSR and EPS to 25% TSR and 75% EPS. We also spoke about the introduction of ESG metrics to determine variable pay. We were pleased with the increased focus on EPS over TSR as an indicator and expressed our preference for simple pay structures. We heard about some of the ESG work being undertaken as part of the company's Delivering Value Responsibly campaign and how they hope to tie this to between 10-15% of variable remuneration by 2024.

As a result of our consultation and the feedback that was integrated into the policy, we opted to support the shareholder resolution on the pay policy at the next AGM.

Principle 10: Collaboration

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

Montanaro participates in collaborative engagements where we see a material benefit to the achievement of engagement aims and additional support to our commitment to the promotion of sustainable investment practice.

The Sustainability Committee decides whether Montanaro will participate in a collaborative engagement. A member of the Committee, typically the Head of Sustainable Investment, will be responsible for liaising directly with the organisation leading the collaborative initiative. Analysts will be responsible for contacting the relevant companies that fall under their coverage, typically with the support of a member of the Sustainability Committee.

Collaborative engagement example: Call to action for the UN Food and Agriculture Organisation (FAO)

We became part of a $18 trillion investor coalition urging the FAO to set a roadmap to 1.5°C for the global food sector. The co-signed letter joined 33 investors, as well as the UN-convened Net-Zero Asset Owner Alliance (NZAOA), to ask that financially material risks presented by the global food system should be included alongside a decarbonisation plan. This includes risks such as deforestation and biodiversity loss, malnutrition, and antimicrobial resistance.

One element of the pathway that requires urgent action is the need to measure and reduce methane emissions arising from the food sector. Agriculture accounts for about 40% of human-generated methane emissions – a major contributor to climate change – yet only 18% of major meat and dairy firms track even partial methane emissions. The call echoes the net-zero roadmap for the energy sector published by the International Energy Agency (IEA) in May 2021. However, unlike in the energy sector, there is a lack of consensus on what a pathway to 1.5°C looks like for the agriculture and land-use sector.

The letter was presented to the FAO ahead of a council meeting in June 2022. In response, on Wednesday the 9th of November at COP27, FAO Deputy Director, Zitouni Ould-Dada, confirmed work is underway to produce a roadmap for the Agriculture, Forestry and Other Land Use (AFOLU) sector to align with 1.5°C by 2050 and they are aiming for publication by COP28.

In addition to the efforts detailed above. We also participated in the following collaborative initiatives during 2022. They are shown in the table below:

Initiative	Description	Involvement
CDP	CDP is an organisation that helps businesses and other organisations to appropriately disclose their environmental impacts.	We participate in the CDP's Non-Disclosure Campaign to engage with companies to disclose environmental data. In 2022, we joined 260 financial institutions representing nearly US$30 trillion in assets to request that companies continue to submit corporate environmental data. The results of this campaign can be found here.
FAIRR	Farm Animal Investment Risk and Return (FAIRR) is a research and engagement organisation specialising in the ESG risks associated with animal agriculture.	We are signatories to two of their collaborative engagement initiatives that concern our investee companies. The first concerns the environmental risks associated with aquaculture and the second involves labour risks in the meat production sector. We have been involved with both of these campaigns for a number of years. FAIRR also
Long-term Investors in People's Health	This ShareAction led initiative is dedicated to improving population health. This gives way to huge opportunity as the link between health and economic prosperity runs both ways. Better health boosts economic development through increased worker productivity and lower health-related costs which can create a drag on the economy.	We will help the coalition by working towards the pillars of Worker Health, Consumer health and the Environment. We have joined the working group and we will participate in collective engagements as well as sharing our experience of direct engagements with our investee companies to provide helpful case studies for other signatories. This builds on the work of the Healthy Markets Initiative, that we have been involved with for a number of years, to expand the scope of the collaboration and cover more health related engagement topics.
Net Zero Asset Management initiative	The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to	We have published our emissions reduction targets for our portfolios and used this to encourage investee companies to set ambitious and credible reduction goals that are aligned with the Paris Agreement. We publish our progress on an annual basis and in our net zero engagement project report.

	1.5°C.	
TNFD Consultation	The TNFD (Taskforce on Nature-related Financial Disclosures) is a framework currently in development. The intention is that the completed framework will allow organisations to report and act on evolving nature-related risks, with the ultimate aim to support companies, investors, and lenders to shift global financial flows away from nature negative outcomes and toward nature-positive outcomes.	Beta versions of the framework have already been released and feedback gathered from market participants on the proposed approach of the Taskforce. We have joined roundtables and workshops run by NatureAlpha a specialist biodiversity research provider that has been tasked with collating investor feedback to input into the consultation process. We have shared our thoughts on both the first and second beta releases and eagerly await the publication of the framework (due in 2023). We hope that our contributions to the process will help make this science-based approach to measuring, reporting on, and protecting nature globally accessible to businesses of all sizes and useful across many industries.

We intend to maintain our involvement in these collaborative efforts to amplify our voice as stakeholders by joining like-minded peers with a common goal.

Principle 11: Escalation

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

Escalation is applied consistently across all Montanaro Funds given our single asset class focus (100% Small & MidCap quoted equity).

We always attempt to engage constructively with the companies in which we invest. If we identify an issue that requires engagement, we will always speak to the company first. We recognise that engagement takes time and we are willing to speak to management teams a number of times in order to raise a concern and work with them to reach a solution. However, in instances where our concerns are not addressed or the company does not respond constructively to an engagement, we may decide to escalate the engagement to achieve our desired outcome.

Our escalation strategy falls into two parts:

- **Internal:** If an Analyst or another member of the team leading an engagement fails to get satisfactory answers to an engagement matter, then they will discuss the next steps with members of the Sustainability Committee. They will decide if further engagement is required and likely to be constructive. If we decide not to escalate the engagement further, then the Analyst will discuss the case with the Investment Committee and the Analyst may recommend that the stock be sold. If we decide further engagement is warranted, then we will proceed to step two.
- **External:** Escalation typically begins by escalating the engagement up the corporate hierarchy. For example, if our first point of contact has been the Head of Investor Relations, then we may ask to speak to a member of the Executive Team (typically the CEO or CFO). If they prove unresponsive, then we will seek to speak with members of the Board (such as the Chair or Chair of the Remuneration Committee). In the world of SmallCap, many companies remain majority-owned by the founder, or family members of the founder. We have experience of escalating matters with companies which have resulted in meetings with family shareholders who have not, or do not usually, meet with minority shareholders. In some instances, we will also escalate matters more widely, either by speaking to industry bodies or other shareholders. In serious instances, we may indicate that we are withholding our support by abstaining or voting against management. We may also consider calling an EGM. If the above steps do not allow us to realise the aims of the engagement, then we may choose to sell the shares.

ESCALATION ENGAGEMENT CASE STUDY

We became aware of news coverage concerning weak governance practices at a Danish healthcare company.

Company: Chemometec.

Date: September 2022

Aim: A Danish article highlighted that confidential information related to upcoming guidance had been shared by the CEO of Chemometec. This followed a similar breach in March 2021 by the CEO's wife. We wanted to ask about these events and how the company were hoping to address them. We first spoke to the CEO, Steen Søndergaard, who attempted to explain the situation regarding the most recent sharing of confidential information. He admitted that they made a mistake – the company sent PowerPoint presentation detailing the full year results to one of their banks, and that bank then forwarded the presentation to attendees too early.

We then escalated the engagement up the corporate hierarchy to the Chairman of the board, Niels Thestrup, to establish a clearer picture of the culture at the company and also urge a move towards more transparency.

Outcome: Niels was very willing to engage with us and gave us considered responses. He also showed a willingness to listen to our suggestions as key long-term investors. However, it is clear that there is room for improvement in Chemometec's governance procedures and disclosures, and also that management responsibility in the company is very concentrated in just a couple of key individuals, with the COO and Founder Martin Glensbjerg particularly crucial.

Subsequently, Steen Søndergaard has resigned from the Board, a decision that we supported. We remain invested in the company and have been reassured that steps are being taken to improve governance procedures. The exit of the CEO who presided over previous failings also offers confidence that new executives will be able act on any lessons learned to prevent similar incidents in the future.

Principle 12: Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

Voting is a vital part of our how we exercise our stewardship responsibilities. It is a key shareholder responsibility which is why we vote at all AGMs. We receive independent third-party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings. These are used for advice only. Our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. As such, we consider ourselves as "active" shareholders rather than "activists".

Our voting policy is applied consistently across all our Funds and Investment Trusts. Our policy is applied to segregated portfolios where we have authority to vote on our clients' behalf. If we do not have authority to vote for segregated mandates, we still share our view with our clients. We do not engage in stock lending in any of our Funds (although our segregated clients may have their own policies on this).

Our Voting Policy can be summarised by the following points:

- We seek to exercise all of our voting rights.
- We make our own voting decisions.
- We do not choose to automatically support the Board or the Executive of an investee company.
- We have and will abstain or vote against resolutions.
- We publish Voting Activity Summary Reports on our website.

We make our own voting decisions

We receive independent third-party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only. Our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. Via dialogue with the Investment and Sustainability Committees, our Analysts aim to discuss any issues with management prior to voting against or abstaining.

We apply the same voting decisions across all portfolios, unless a segregated client has specified that a particular voting policy be applied in their client agreement. We keep a record of our voting rationale.

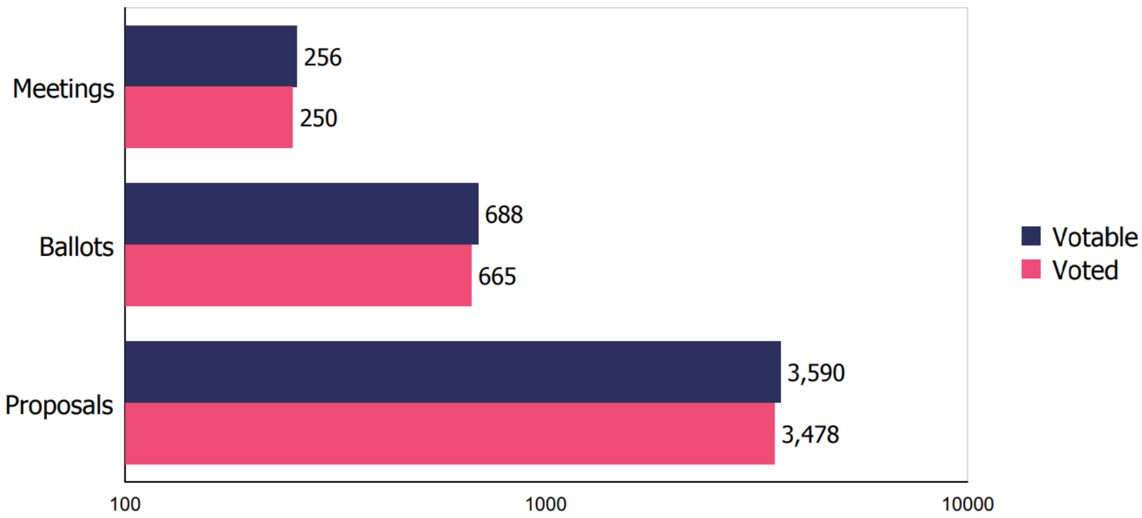
We publish voting activity summary reports on our website

We use ISS to process our proxy voting. All voting activity is recorded in our Proxy Voting Log. The Sustainability Committee reviews voting activity for the quarter at each meeting. Voting Activity Summaries are produced quarterly and published on our website. These include the total number of proposals we voted on and a breakdown of how we voted on different subjects such as approving Remuneration policies, electing Directors and approving capital increases.

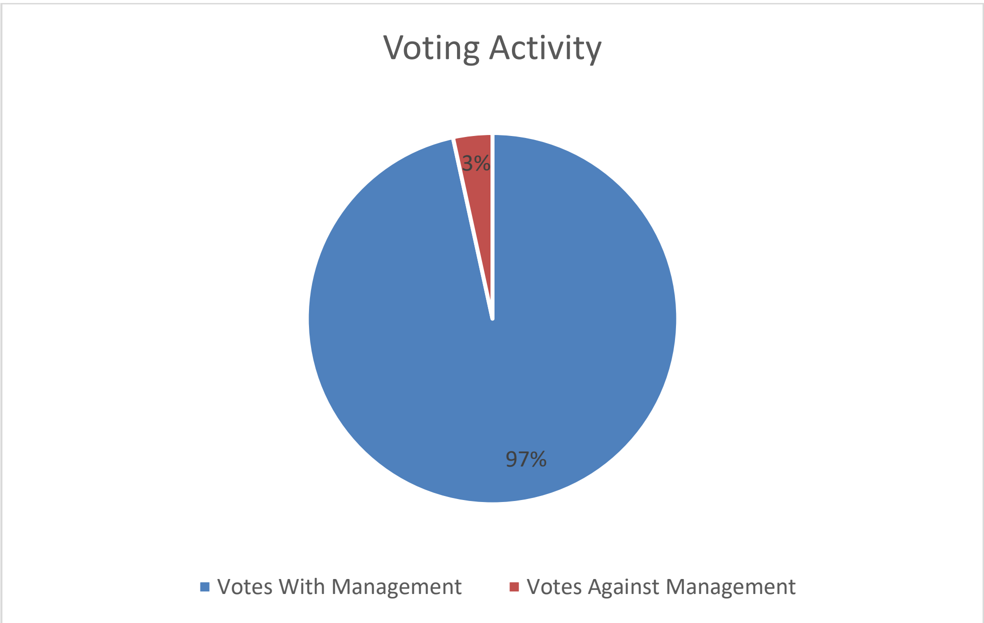
Our annual voting records can be found in our ESG Library.

Review of voting in 2022:

With 256 meetings available to vote during 2022, 250 were voted, equating to approximately 98% of the votable meetings. We continue to aim to vote at 100% of meetings and when issues arise that prevent us from doing so, we liaise with Institutional Investor Services (ISS) to understand why and how we can prevent the recurrence of such issues.



Of the 250 meetings where we voted, 71 included at least one vote against management recommendations. Of the 3,478 resolutions voted on during 2022, c.89.9% were in favour of the proposed resolution, with c.2.6% voted against and abstentions or withheld votes accounting for c.1% of the voted items. More detail on our voting activity during 2022 can be found here.



Board Independence and Diversity

Straumann Holding is a Switzerland-based company active in the field of implant and restorative dentistry. Ahead of the 2022 AGM, ISS recommended voting against the re-appointment of a number of directors due to a lack of independence on the board.

Company Name:	**Straumann**
Topic:	Board Composition
Objectives:	Increase independence and diversity of the board
Process:	Exchange with investor relations ahead of the AGM
Discussion:	The company confirmed plans to continue their improvement on independence and towards commonly accepted best practice for board composition.
Outcome:	We opted to vote with management as we have seen progress on board diversity and independence over recent years and wish to offer our support to this trajectory.

Diversity

CTS Eventim operates in Ticketing and Live Entertainment. The Ticketing segment produces, sells, brokers, distributes, and markets tickets for concerts, theatre, art, sports, and other events. The Live Entertainment segment plans, prepares, and performs tours, events, and festivals including music events and concerts, as well as markets music productions. Ahead of the 2022 AGM, ISS recommended voting against the re-appointment of the Board chairman, Bernd Kundrun.

Company Name:	**CTS Eventim**
Topic:	Board Composition
Objectives:	Increase the diversity of the Board
Process:	Internal review of the resolutions and AGM materials.
Discussion:	When evaluating Board composition and effectiveness, we consider gender diversity as an important indicator of how well a company incorporates fresh perspectives into boardroom discussions. This is essential for creating an environment where constructive debate and polite challenge are encouraged and developed for the betterment of business decision making. In this case we felt that there is insufficient consideration, reporting and action on improving diversity on the Board and have raised this issue with management during subsequent engagement opportunities.
Outcome:	We opted to vote against management to signal our concern to the Board that there is insufficient gender diversity.

Inclusivity

SimCorp provides investment management solutions for asset management, fund management, insurance, life/pension, central banks, asset servicing, treasury, sovereign wealth, and wealth management companies. At their AGM in March 2022, management proposed to change language in their articles of association to make them gender neutral.

Company Name:	**SimCorp**
Topic:	Inclusivity
Objectives:	Promote diversity, equity, and inclusion.
Process:	Internal review of the resolutions and AGM materials.
Discussion:	The proposed changes show that management are keen to use inclusive language across several articles.
Outcome:	We opted to support this resolution along with management's wishes.

Remuneration

Bio-Techne develops, manufactures, and sells life science reagents, instruments, and services for the research and clinical diagnostic markets worldwide. In response to a low say-on-pay vote result at the 2021 AGM, the company engaged with shareholders and disclosed the feedback received in the proxy statement. Unfortunately, the remuneration arrangements still lacked disclosure and important changes from the previous proposal. As a consequence, ISS recommended a vote against this resolution at the 2022 AGM.

Company Name:	**Bio-Techne**
Topic:	Remuneration
Objectives:	Ensure that pay arrangements are aligned with stakeholder interests.
Process:	Internal review of the resolutions and AGM materials.
Discussion:	The remuneration committee has improved the disclosure surrounding executive disclosure and has discussed the rationale for past pay decisions. Whilst this transparency is an improvement, no changes or firm commitments appear to have been made to address all of shareholders' concerns following the consultation. The proposed compensation plan uses the same metrics for both long and short-term awards. In addition, the company does not disclose the forward-looking performance goals.
Outcome:	We opted to vote against these remuneration arrangements.

MAM'S ESG LIBRARY

ESG Handbook:

- ESG Handbook available here

Deep Dive Engagement reports:

- Project Net Zero Carbon 2022
- Project Net Zero Carbon 2021
- Project Net Zero Carbon 2020

UN PRI reports:

- 2021
- 2020
- 2019
- 2018
- 2017

Voting records:

- Voting policy
- Proxy Voting Summary 2022
- Proxy Voting Summary 2021
- Proxy Voting Summary 2020
- Proxy Voting Summary 2019
- Proxy Voting Summary 2018

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