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Mr David Styles,
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UK Corporate Governance Code Consultation Response

Dear Mr Styles,

We are writing to offer our thoughts on the proposed revisions to the UK Corporate Governance Code.

By way of an introduction, Montanaro Asset Management is an independent investment boutique. Our investment process includes an evaluation of Environmental, Social and Governance (ESG) risks and we exclude areas of the market that contradict our ethical investment policy. We take a very hands-on approach to engaging with our investee companies to encourage the robust and credible management of ESG risks and opportunities. As a consequence, we have chosen to focus on the consultation questions where we feel we are able to offer the most helpful insights as specialists in responsible investment.

Section 1

Q1: Do you agree that the changes to Principle D in Section 1 of the Code will deliver more outcomes-based reporting?

Measuring and communicating the actual results or impacts achieved by an organisation's governance practices ensures transparency and demonstrates effectiveness in achieving intended outcomes. Another advantage lies in the fact that the data collected while assessing the effects of governance changes can inform future decision-making processes. By tracking outcomes, companies can identify areas for improvement and refine their strategies over time to maximise positive outcomes. In turn this means that resources can be allocated more efficiently by prioritising initiatives that have a proven track record of delivering desired outcomes.

We agree that this proposed change offers good guidance for companies to focus on the subsequent result of any action taken rather than corporate policy output being considered as an outcome in and of itself. This is far more useful to stakeholders than a description of policies and practices without an explanation of how they have had a tangible effect on the company. Outcomes-based reporting helps companies to focus on the impact of their policies, improve decision-making, engage stakeholders, and drive accountability, ultimately leading to more effective and efficient operations.

Q2: Do you think the board should report on the company's climate ambitions and transition planning, in the context of its strategy, as well as the surrounding governance?

Yes, this is an important part of reporting against the Task Force on Climate-Related Financial Disclosures (TCFD) framework which is mandatory for many businesses and should be considered best practice for those who are not yet required to report. The inclusion of this within the Code will align expectations with other reporting frameworks to help solidify a cohesive approach to sustainability reporting.

Section 3

Q7: Do you support the changes to Principle I moving away from a list of diversity characteristics to the proposed approach which aims to capture wider characteristics of diversity?

A broader definition of diversity will help to capture the nuances of ensuring truly equal representation. However, the focus on "cognitive diversity and personal strengths" should be caveated to explain that this is not to be used to justify the creation of boards that prioritise comfortable groupthink on the basis of complementary "personal strengths".

Diversity is often used as a proxy for ensuring that there is appropriate challenge and debate on company boards and the presence of those with protected characteristics has served as a way to demonstrate this. While it is evident that this assessment is not fool-proof, adhering to recommendations provided in reports like the FTSE Women Leaders Review and The McGregor-Smith Review on racial representation evidences a dedication to fostering respectful dialogue that embraces different perspectives and tackles long-standing underrepresentation issues. As a consequence, it is important to stress that non-protected characteristics should be considered as well as protected characteristics, not instead of.

Section 4

Q12: Do you agree that the remit of audit committees should be expanded to include narrative reporting, including sustainability reporting, and where appropriate ESG metrics, where such matters are not reserved for the board?

This proposal will ensure that the increasing regulatory scrutiny surrounding ESG disclosures is dealt with at the highest level of the business. In introducing this new responsibility to the audit committee, companies will be well placed to comply with new and upcoming reporting requirements (such as the ISSB standards).

In addition, the proposal should serve to improve uniformity and comparability in sustainability reporting. This will be incredibly useful for investors, not only as the content will meet consistent requirements but the reporting schedule for sustainability will likely benefit from increased regularity and predictability if under the oversight of the audit committee. Currently sustainability information is reported in a somewhat haphazard way without a consistent timeline for when the latest ESG figures will be available. This could be a potential solution to the issue.

Section 5

Q25: Should the reference to pay gaps and pay ratios be removed, or strengthened?

The reference to pay gaps is an important measure to see how well Diversity, Equity and Inclusion policies work in practice (please see response to question one above concerning outcomes-based reporting). Without the evidence to show how compensation is distributed amongst different demographics within the workforce it is difficult to evaluate the efficacy of equality measures. It is for this reason that references to pay gaps should be strengthened to include a broader spectrum of

diverse characteristics rather than removed (please see response to question seven above for further details regarding our thoughts on diversity characteristics).

Additional Thoughts

Overall, the proposals look to be sensible and aligned with heightened expectations for sustainability and ESG reporting. The Code continues to strike the right balance between setting best practice standards for corporate governance without being overly prescriptive. ESG reporting standards are less mature than those for financial reporting. This means that companies (particularly resource constrained smaller companies) benefit from the less prescriptive parameters than the "comply or explain" model offers.

We hope our views on the selected questions will prove valuable as the Code continues to evolve.

Kind regards,