FINANCIAL REPORTING COUNCIL STEWARDSHIP CODE

Compliance report for the year 2020
on behalf of Liontrust Investment Partners LLP

LIONTRUST
COURAGE · POWER · PRIDE

Contents

Liontrust welcomes the 12 Principles set out in the FRC's UK Stewardship Code 2020 ("the Code"). We take seriously our role as custodians of client assets and Liontrust's stewardship responsibilities.

Liontrust's purpose is to have a positive impact on our clients, stakeholders and society and so we are committed to environmental, social and governance (ESG) initiatives, responsible investment, and having a risk framework that captures and evaluates environmental and social controversies.

We strive to treat all clients fairly, meet investors' expectations and ensure Liontrust's objectives are aligned with those of our stakeholders. Liontrust aims to achieve this by each investment team applying distinct and rigorous investment processes in managing their portfolios. Each team is truly active and takes a long-term approach to investment. This creates a deep understanding of the companies they invest in and promotes good governance and stewardship. Liontrust does not impose a one size fits all approach to integrating stewardship and ESG risk into investment processes but works with all our investment teams to help ensure the best outcome for all.

Liontrust believes that working with innovative companies to allocate capital towards a positive outcome will deliver products and services that benefit the economy and society.

As defined by the FRC, stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

This report sets out how Liontrust has complied with the Principles of the Stewardship Code in 2020 as well as giving an overview of the policies we have in place to guide our activities. This report also covers our stewardship responsibilities under the EU Shareholder Rights Directive II ('SRD II').

In applying our stewardship policies and procedures, we work according to various industry standards and with organisations and initiatives and actively participate in debates within the industry, promoting the principles of active ownership and responsible investment. Where overseas corporate governance codes are consistent with our overall principles, we will adopt these. At a minimum, we expect companies to comply with the UN Global Compact guidelines and the accepted corporate governance standard in their domestic market or to explain why doing so is not in the interest of shareholders.

Liontrust currently participates in the following external governance-related organisations: the Investment Association, the Pensions and Lifetime Savings Association, UK Sustainable Investment & Finance Association (UKSIF) and the 30% Club Investor Group. Liontrust is a signatory to the United Nations Principles for Responsible Investment ('UN PRI'), the CDP (formerly the Carbon Disclosure Project) and the FRC UK Stewardship Code. We support the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') and the Workforce Disclosure Initiative ('WDI').

Liontrust endeavours to be transparent in our stewardship activities and to give a true and fair account as to how we are fulfilling our duty as good stewards for all stakeholders. We are reporting on how we discharged our stewardship activities and outcomes for 2020 on a principle-by-principle approach as outlined by the Code.

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

Asset managers have a key role to play in providing capital to enable businesses to grow and in helping investors to achieve their financial objectives. Working with innovative companies to allocate capital towards positive outcomes can deliver products and services that benefit the economy and society. Liontrust aims to achieve this through the use of active management and proprietary investment processes to identify companies that can generate sustainable growth and by investing in businesses for the long term. Investing in companies over the long term emphasises the need for good governance and stewardship. Our primary objective is to deliver strong investment performance by taking the appropriate level of risk, and key to this are robust investment processes and a long-term understanding of the companies in which we invest.

Our Purpose

Our purpose is to have a positive impact on our clients, stakeholders and society. We aim to achieve this by providing the environment which enables our fund managers and staff to flourish, helping our clients achieve their financial goals, supporting companies in generating sustainable growth, and empowering and inspiring the wider community.

Our Culture

Liontrust's assets are our people. We are proud of the people who work at Liontrust and we invest in their training, qualifications and development as part of our strategy to retain talented fund managers and employees. How a fund manager performs is not just down to the talent of the individual or team but also to the culture and environment in which they work.

We empower staff to take on responsibility and to be accountable for their decisions, actions and behaviour. We are seeking greater diversity across the company as we believe this enhances the performance of businesses and leads to better decision making.

Creating the right culture for fund managers to perform has been a central tenet of Liontrust since the company was launched in 1995. At the heart of the Liontrust culture is that our fund managers are truly active, have the courage of their convictions when investing and manage funds and portfolios according to distinct investment processes. There is no 'house view' at Liontrust, our fund managers have the freedom to manage their portfolios according to their own investment processes and market views.

Another aspect of the Liontrust culture is that fund managers invest in funds they run, which shows a belief in and a commitment to their investment processes and fellow investors.

We have created an environment in which investment teams can focus on managing funds and portfolios and not get distracted by other day-to-day aspects of running a fund management business, particularly administration.

We have a collaborative culture, empowering employees to take on responsibility and be accountable for their decisions, actions and behaviours. We strive for excellence in everything we do for the benefit of our investors, stakeholders and colleagues, and pride ourselves on providing first-class service.

Everyone is encouraged to make decisions. Not every decision will be right, and we have to be confident enough to recognise when they are wrong and change them. Many businesses fail because people don't make decisions.

The company has created a distinct and high-profile brand. We seek to do things differently from other asset managers rather than following the herd. We treat all our employees with respect. We are committed to the development of our people and encourage all our employees to fulfil their talent and potential. Liontrust recognises the importance of an appropriate work-life balance, both for the health and welfare of employees and for the business.

Workforce engagement survey 2020

69%

Overall response rate was 69%, compared to an industry average of around 60%

81%

Our engagement index was 81%, sitting 5% above the norm

We engage with our staff at regular intervals, encourage active Liontrust equity participation and promote ownership, accountability and responsibility for their contribution to Liontrust's success. In February 2020, we undertook our inaugural workforce engagement survey. The overall response rate was 69%, compared to an industry average of around 60%. Our engagement index was 81%, sitting 5% above the norm (Liontrust has been compared against a general normative database of survey responses from over 150 organisations, across a variety of sectors. All surveys have been conducted within the last three years). The survey was benchmarked against five pillars of engagement: Engaging Managers; Employee Voice; Realising Potential; Organisational Integrity and Compelling Leadership – we scored above the norm for every pillar.

During the year, Liontrust established a Workforce Advisory Committee with representatives from across the business, including two members of the Management Committee. The purpose of this Committee is to advise the Management Committee and the Board on issues relating to the workforce, ensuring all colleagues have the skills, motivation and opportunity to develop and grow.

Our people successfully transitioned to working remotely during Covid-19, equipped with the required technology to perform their duties productively and safely. Staff were actively engaged through regular company updates from the executive committee, and were encouraged to take time off work through a holiday allowance bonus scheme. Staff with additional demands, such as dealing with the challenges of home-schooling, were given due consideration and flexibility.

In 2020, Liontrust completed the acquisition of the Architas UK Investment Business which accounts for around 20% of the workforce. While we faced the challenge of integrating our new employees during lockdown, we believe our strong culture and values aided the process.

Diversity

Liontrust is committed to diversity across the company. Liontrust's current gender balance is broadly 70:30/male:female with predominantly more men in senior positions. The Board and senior management are actively seeking to address this. There are explicit gender diversity targets in the remuneration and performance targets of the executive directors to help ensure this change happens.

We are striving to achieve this through ensuring an appropriate culture, training, recruitment, the creation of the Diversity and Inclusion Working Group and reporting.

We ensure our recruitment process has a good gender mix of candidates, removing all male recruitment processes, providing training to staff on diversity, reviewing our policies to remove unconscious bias and encourage diversity and offering flexible maternity, paternity and shared parental leave and flexible working policies to help support staff with children and encouraging a return to work.

The development of talented and diverse employees through internship programmes as well as coaching and mentoring will be fundamental to increasing diversity.

The business requires staff to complete annual equality and diversity training, which includes unconscious bias training, and is developing succession plans that include diversity action plans to ensure that all staff are treated fairly and given the same opportunities for progression.

During 2021, we will establish the Diversity and Inclusion Working Group. This Group will look at issues such as how we prevent and eliminate discrimination, including unconscious bias, raise awareness of the importance and benefits of diversity, enhance our culture, ensure policies and procedures promote diversity across the company, and increase awareness through training, mentoring and coaching.

We publish diversity statistics of our workforce and details of our diversity drive in our Sustainability Report as well as our Liontrust Asset Management Plc's Report and Accounts.

Sustainability strategy

Our business strategy has six pillars, two of which are to be a responsible company and investor and to acquire and develop talent. These pillars form part of our sustainable strategy.

Be a Responsible Investor

We take seriously our role as custodians of client assets and Liontrust is committed to:

- environmental, social and governance (ESG) initiatives;
- providing the tools, training and resources to empower all our investment managers to consider ESG in their decision-making processes;
- including material ESG factors in our risk framework;
- exercising responsible stewardship of investee companies;
- engaging where we have concerns and to push for positive change;
- developing enhanced reporting of ESG-related information; and
- showing the positive impact our investment management activities have on our clients and wider society.

We shall expand on how we are a responsible investor in Principle 7.

Do Our Part on the Climate Crisis

All businesses need to make a concerted and meaningful change to understand where their greenhouse gas emissions come from and how to reduce their emissions to ensure that the average global temperature rise stays within a manageable level. Liontrust is committed to:

- disclosing our scope 1 and 2 emissions;
- disclosing scope 3 emissions, including those of our key outsourced providers, travel and the emissions of our investments; and
- developing an absolute reduction target by the end of this year for 2025.

Develop a Diverse and Talented Staff

Liontrust is proud of the people who work at the company and we are investing in their training, qualifications and development as part of our strategy to retain talented fund managers, partners and employees. We are an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation. Liontrust is committed to:

- diversity across the company as we believe this enhances the performance of businesses and leads to better decision making;
- providing staff with opportunities to develop their capabilities and career;
- increasing the engagement of staff; and
- ensuring the desired work-life balance, health and well-being of our staff.

We shall expand on our commitment to developing a diverse and talented staff in Principle 2.

Be a Good Corporate Citizen

Liontrust is focused on treating all clients fairly, meeting investors' expectations and ensuring our objectives are aligned with those of our stakeholders. We are continuing to develop our community engagement programme that is focused on financial education, helping the homeless and wildlife conservation.

During the Covid-19 lockdown, Liontrust gave extra support to our existing partners. We are also committed to launching the Liontrust Foundation. The Foundation will be funded by Liontrust to promote positive change in the wider community and provide educational and employment opportunities to people from disadvantaged backgrounds and ethnic minorities.

Liontrust published its inaugural Sustainability report covering the financial year 2019/2020 that expands on the above strategy and is available on our website. The 2020/2021 Sustainability report will be published alongside Liontrust Asset Management Plc's Report and Accounts and Financial Statements following our March year end and this will expand further on the above commitments.

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

Governance Framework

The Chief Executive is formally responsible for ESG and Sustainability throughout the company. The Board regularly discusses ESG matters including the climate crisis and diversity at Board meetings and addresses specific issues if they arise. The Board is responsible for Liontrust's corporate obligations, including as a United Nations Principles for Responsible Investment ('PRI') signatory and the various other commitments we have made on ESG issues such as the Taskforce on Climate-related Financial Disclosures ('TCFD'). Sophia Tickell, Non-Executive Director, has vast knowledge and expertise in ESG issues within asset management. Sophia's insights in this area helps align the firm's sustainability strategy with best practices.

Day-to-day accountability for sustainability lies with the Management Committee. In 2020, Liontrust established a Sustainability and Stewardship Committee ('SSC'), a subcommittee of the Management Committee, and a Sustainability and Stewardship Working Group to drive the adoption of sustainability throughout the business, support the company in overseeing and monitoring policies and procedures and address any issues as they arise. The ESG Regulation Working Group was also established during the year to ensure our applicable funds were best placed to comply with the Sustainable Finance Disclosure Regulation ('SFDR'), AMF Disclosures and other regulatory requirements. The Portfolio Risk Committee is driving the integration of ESG investment risk into the day-to-day monitoring processes of Liontrust's funds. The Risk team are integrating climate models into the capital stress testing processes used by the Board.

Board of Directors Ownership and oversight of sustainability approach and policies	
Audit and Risk Committee Meet 4/5 times per year	- Financial reporting, risk and internal controls - Oversees the assessment and management of ESG issues and risks, including those related to environmental legislation and regulation, climate change, governance and compliance and reputation - Oversees the group risk frameworks, including the integration of ESG factors - Oversees the approach to tax policy and strategy
Remuneration Committee Meet 3+ times per year	- Director and senior management remuneration and Group remuneration structure - Employee incentives and remuneration - Oversees the implementation of fair remuneration for employees
Nominations Committee Meet 3+ times per year	- Diversity and composition of the Board - Diversity and recruitment policies of the Group - HR policies

Chief Executive Day-to-day accountability for sustainability	
Management Committee Meets 12~ times per year	Sustainability responsibilities include: - Assisting the Chief Executive in setting the Group's strategy, including its sustainability aspects - Human rights and employment legislation - Assessment of regulatory and compliance risks, including financial crime and bribery - Assessment of operational risks, including cyber security and people risks - Review of incident management, business continuity and disaster recovery plans
Sustainability and Stewardship Committee "SSC"	- Implementation and management of the Responsible Investment Policy and the Group's other Sustainability related policies such as the Environmental Policy and the Corporate Social Responsibility Policy - Approval of the Group's voting and engagement policies - Compliance of the Group with applicable ESG regulation (e.g. Modern Slavery Act) - Approving new collective ESG initiatives
SSC Working Group Meet 6-8 times per year	Sustainability responsibilities to include supporting the SSC in the: - Assessment and management of tools used to assess ESG risks and opportunities - Development of voting and engagement plans - Drafting the UN PRI report and the Sustainability report
Portfolio Risk Committee Meet 12+ times per year	Oversees the Group's investment risk management framework - Due diligence of integration of ESG factors in the Group's investment processes - Assessment and management of ESG investment risks and opportunities in the portfolio - Compliance and oversight with applicable ESG regulation in the portfolio
ESG Regulation Working Group Meet 12+ times per year	Oversees compliance of ESG regulatory requirements, such as Sustainable Finance Disclosure Regulation (SFDR), Shareholders Rights Directive II (SRDII) and EU Taxonomy regulation

To ensure we are sufficiently resourced to discharge these responsibilities and a positive message is embedded across the company it is imperative that the correct people are involved in decision making and co-ordination of the requirements. The composition of the main ESG committees are as follows:

Sustainability & Stewardship Committee is represented by the following members:

John Ions Chair	Chief Executive Officer
Vinay Abrol	Chief Financial Officer/Chief Operating Officer
Edward Catton	Chief Risk Officer
Simon Hildrey	Chief Marketing Officer
Peter Michaelis	Head of Sustainable Investment team
Sinead Lennon	Governance & Stewardship Manager

Sustainability & Stewardship Working group is represented by the following members:

Edward Catton Chair	Chief Risk Officer
Sinead Lennon Co-Chair	Governance & Stewardship Manager
Simon Hildrey	Chief Marketing Officer
Mike Appleby	Investment Manager – Sustainable Investment team
Harriet Parker	Investment Manager – Sustainable Investment team
Natalie Bell	Stewardship Manager
Jenny Young	Regulatory Change Lead
Louis Stevens	Head of Sales – Sustainable Investment funds
Katie O'Brien	Deputy Company Secretary

ESG Regulation Working Group is represented by the following members:

Jenny Young	Regulatory Change Lead
Martin Kearney	Chief Compliance Officer
Edward Catton	Chief Risk Officer
Clare Prince	Head of Product Development
Alex Faye	Product Development Manager
Sinead Lennon	Governance & Stewardship Manager

Liontrust has a centralised Governance and Stewardship team which has recently expanded with the hire of a Stewardship Manager. The team supports the investment teams by producing ESG reports, climate and controversy reports and has oversight and co-ordination of the implementation of Liontrust's Corporate Governance and Voting Framework.

Liontrust's clients benefit from the experience of our Sustainable Investment team who have been managing fully integrated sustainable investment funds since 2001. We can leverage and apply the lessons learnt by the team of more than 20 years of investing sustainably in an appropriate manner to augment the existing clearly defined investment processes for the other five Liontrust investment teams.

The Sustainable Investment team have a five-strong external Advisory Committee to provide an extra layer of expertise in key areas of social and environmental impact. The Committee's members are Jonathon Porritt, Sophia Tickell, Tony Greenham, Tim Jackson and Valborg Lie. The Sustainable Investment team meet with the Advisory Committee three times a year.

Liontrust encourages staff to develop their understanding and knowledge in all areas of sustainability, with recent examples including supporting staff in gaining CFA ESG certificates, post-graduate qualifications in corporate governance and international ethics and post-graduate qualifications in Sustainability. Liontrust also encourages staff to attend relevant conferences (in 2020 these were mostly virtual) such as those arranged by the PRI, Responsible Investor and UKSIF.

Throughout the year, Liontrust arranged training sessions with our investment teams on the services acquired from MSCI ESG Manager, which provides ESG ratings for all investment teams, ESG controversy monitoring and carbon analytics of all portfolios.

The Governance & Stewardship team present to the Sales team on recent responsible investment trends and issues to further enhance the understanding of responsible investing across the business.

Liontrust is committed to ESG initiatives and providing the tools and training to empower our investment managers to consider ESG risks and opportunities in their decision-making processes.

Liontrust utilises the following ESG providers, tools and technology to enable us to carry out our stewardship activities:

- All investment teams have access to MSCI ESG Manager for individual ESG company ratings, portfolio ESG ratings versus the relevant benchmark, portfolio Carbon Analytics reports versus the relevant benchmark and controversy data for underlying holdings, where the data is covered.
- ISS Proxy Advisors to implement our voting activities, receive best market practice guidance research and adopt additional research that incorporates Liontrust custom voting policies.
- The Sustainable Investment team utilises the services of Ethical Screening and Impact Cubed as additional resources to enable the team to comply with their robust investment process and screening.
- Liontrust investment teams have access to third party research and publications from a variety of sources, some of which covers ESG research.
- Liontrust uses a number of well regarded systems including Eze, Bloomberg, Factset and Style Research as technology enablers, integrating ESG data where possible and appropriate. The investment teams take an individual approach as to what systems best suit their processes.

Liontrust is committed to developing a customised engagement system to enable investment teams and the Governance and Stewardship team to capture engagement activities more effectively and create better stewardship reporting for our clients.

The Remuneration Committee has set a number of explicit sustainability and diversity goals as part of the remuneration and performance targets for the Executive Directors. Further details of these are provided in Liontrust Asset Management PLC's Annual Report and Financial Statements 2020 as well as a review of last year's targets.

Investment management teams are remunerated based on the revenues from the assets they manage. Individuals within each team are allocated a proportion of revenue based upon their objectives and responsibilities, which in some cases include specific ESG roles.

For other members of staff, there may be sustainable objectives and responsibilities included in their day-to-day roles that are linked to the official performance review and which are part of the remuneration process.

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

Liontrust manages assets on behalf of a broad range of clients including pension plans, endowments, foundations, charities, wealth managers, insurers, and other financial institutions around the world, as well as individual investors in the UK. As an important part of our fiduciary duty to our clients, we provide the investment solutions to help protect and enhance the long-term value of our clients' assets.

Liontrust is focused on assessing the quality of management, board leadership, and standards of operational excellence – in aggregate, corporate governance – at the public companies in which we invest on behalf of our clients. We see this responsibility as part of our fiduciary duty, through which we contribute to creating a better financial future for our clients. For those clients who have given us authority, we vote in accordance with the relevant Liontrust custom voting guidelines, taking into consideration a company's specific circumstances. Votes are cast to achieve an outcome that, in the professional judgment of Liontrust, is most consistent with our clients' long-term economic interests.

Liontrust has taken appropriate steps to mitigate perceived or potential conflicts of interest that are recorded on the company's register. The fund managers or central Governance and Stewardship team will not be influenced by potential conflict scenarios and will act independently in the best interest of our clients. Sources of perceived or potential conflicts of interest include:

- Liontrust clients who may be issuers of securities or proponents of shareholder resolutions;
- Liontrust business partners or third parties who may be issuers of securities or proponents of shareholder resolutions;
- Liontrust employees who may sit on the boards of public companies held in funds and other fiduciary accounts managed by Liontrust;
- Significant Liontrust Asset Management Plc shareholders who may be issuers of securities held in funds and other fiduciary accounts managed by Liontrust;
- Securities of Liontrust Asset Management Plc or Liontrust funds held in funds and other fiduciary accounts managed by Liontrust;
- Liontrust Board members who serve as senior executives of public companies held in funds and
- Other fiduciary accounts managed by Liontrust.

All staff are required to undertake annual Conflict of Interest training. If there is a material change in the policy, staff have to attest that they understand and agree with the policy.

Liontrust's Conflict of Interest Policy is available on our website – www.liontrust.co.uk/investor-relations/governance/governance-policies

1. There are a number of client relationship conflicts, but all relevant individuals know of the relevant conflicts and are aware that either the fund managers or central Governance and Stewardship team will not be influenced in their stewardship activities and we endeavour to act independently in the best interests of our clients.
2. The Chair of Liontrust is a NED on one of our holding's board. This interest is registered on our compliance registrar, and this is also known by our Governance team. The Chair is aware of our conflicts of interest policy.
3. A number of companies we invest in also provide Liontrust with services. The choice of, and management of these relationships, is segregated from the investment team responsible for the holding.

Inside information

Liontrust has strict controls around the receipt and sharing of inside information. As a listed company, Liontrust Asset Management Plc operates an Insider List, maintained by Compliance, which is in accordance with our Insider List Policy. In relation to the Funds, where possible fund managers will not be made inside during the day-to-day management of the funds, but for some teams where smaller companies are held it is often necessary. The Compliance team operates as a gatekeeper for all market soundings following strict processes documented in the Market Conduct Policy and related procedures. When fund managers are made inside, pre-trade restrictions are added immediately to the Order/Trade Management and Personal Account Dealing systems. Compliance confirms with the fund managers once the information is made public before removing the restrictions.

There are occasions when Liontrust is made inside inadvertently during discussions with companies and in these instances the same restriction and documentation process is followed. Where it is unclear as to whether the information disclosed is considered inside information, we err on the side of caution and restrict the company until we can clarify further.

Front Office staff receive regular training and guidance on the market sounding and inside information process and regulations.

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

Investors have a responsibility to play a central role in addressing risks that affect financial markets and working with others to improve how markets function.

To ensure that Liontrust regularly reviews and monitors all the potential areas of market wide risk and systemic risks to the business, we have implemented a risk framework. This allows the Board to be kept fully informed of potential risks to the business and how these risks would impact Liontrust.

There are two main elements to capturing and reviewing risk within Liontrust: the Risk Register and the Internal Capital Adequacy Assessment Process ("ICAAP"). The Risk Register is a register of potential risks, their materiality and their likelihood of occurrence. The most material and likely risks from the complete Risk Register goes to the Board quarterly.

The ICAAP brings the Risk Register together with scenario analysis and stress testing to understand how the realisation of risks would impact on Liontrust's financial position. Risk is divided into four main categories in the Risk Register and the ICAAP: Credit Risk, Market Risk, Operational Risk and Other Risk.

Each element of risk is reviewed on a minimum annual basis, and Liontrust ensures appropriate controls are in place to manage these risks. These controls are monitored and reviewed within a comprehensive Compliance Monitoring program alongside a monthly Risk Scorecard.

The Board regularly discusses the potential impact of climate change on our business and our future strategy, in particular the impact on our ability to deliver long-term superior performance.

The key climate change factors that may impact Liontrust are increasing regulation and actual changes in climate and its impact on crops, water and extreme weather. Over the last year, we have been working to integrate climate risk into our group risk frameworks. We have introduced various scenarios into our internal capital adequacy assessment program to simulate the impact of climate change on our prudential modelling.

The investment risk team is working with MSCI to automate the analysis of climate risk on our portfolios and report these to the fund management teams and the governance committees in a consistent manner. We are also looking to improve our long-term risk planning for Liontrust, which will incorporate climate change into our risk framework as we improve our understanding of how climate change will impact us and our investments.

Liontrust will report on our progress on climate risks in our TCFD report in Q3 2021.

Brexit

Following the referendum on Brexit, Liontrust has operated a number of work streams to identify potential issues for the business including the possible impact on our ability to service clients and meet our regulatory obligations. The majority of these are complete, but we remain vigilant in case we need to act further, although at present it is not expected to have a significant impact on our business model. We continue to review and plan as we receive more information.

In the last year, we set up a MiFID licenced subsidiary in Luxembourg (Liontrust International Luxembourg SA) to replace our existing branch to ensure we can continue to market our funds and services into the EU. We also completed a number of changes to our Irish fund range to meet European clients' needs and to ensure we meet the regulations once the UK became a third country.

We reviewed our execution and trading arrangements and put in place a number of new, or precautionary, legal arrangements to ensure we could continue to trade and service our clients as necessary in case there was no agreement.

Covid-19

As well as serious implications for health, Covid-19 (coronavirus) is significantly impacting businesses and the economy and may result in once in a generation change to people's lives.

The pandemic has caused significant changes to our working practices and operations. Liontrust moved from the initial stage of setting up/testing working from home ("WFH") capabilities for all departments, to 50% or more of departments WFH, and then to full WFH for all members of staff, other than a small technology group located at our London office. We were soon in the position where it was business as usual other than having the physical presence in the office. Our operational resilience and continuity planning were based around the technology for working from outside of our main office and we continue to strengthen our systems and infrastructure to support this.

WFH does bring additional risks and challenges: a reliance on each individual's internet connectivity, more digital controls, changes in sales techniques, more digital marketing, video client meetings and webinars. There are also the medium-term challenges of working digitally, including reinforcing our culture remotely, developing and delivering online projects and improving productivity, recruiting talent and managing successful teams outside of the office.

Liontrust is also at risk from the potential medium to long-term impact on the economy, falls in the investment markets or possible mass unemployment reducing people's ability to save or invest.

We continue to consider the impact of these scenarios and any other emerging risks in our business decisions as well as in our capital planning, Liontrust is well capitalised and positioned to weather these changes and take advantage of the opportunities arising.

All investment teams consider the investment risks and opportunities that arise as a result of long-term trends in respect to their portfolios. The investment teams regularly write articles on these and they are available on our website: www.liontrust.co.uk/investment-views.

Industry-wide initiatives and working groups

Liontrust and its employees are actively involved in industry-wide initiatives and working groups to promote well-functioning markets.

Liontrust Investment Partners LLP is affiliated with the following initiatives:

- United Nations Principles for Responsible Investment ('PRI') – Signatory
- Financial Reporting Council ('FRC') Stewardship Code – Member
- Taskforce on Climate-Related Financial Disclosure ('TCFD') – Supporters
- 30% Club Investor Group – Member of the Investor Group
- Workforce Disclosure Initiative ('WDI') – Supporters
- CDP (formally known as Carbon Disclosure Project) – Signatories, data on carbon emissions, water and deforestation
- UK Sustainable Investment and Finance Association ('UKSIF') – Signatory

Liontrust Investment Partners LLP has endorsed the following statements:

- PRI Statement of Investor Commitment to Support a 'Just Transition' on Climate Change – Endorsed statement
- PRI Sustainable Palm Oil Expectation statement – Endorsed statement
- Global Investor Statement to Governments on Climate Change – Endorsed statement
- PRI Investor statement on deforestation and forest fires in the Amazon – Endorsed statement
- Access to Medicine – Global Investor Statement in support of an effective, fair and equitable global response to Covid-19

Liontrust's employees are active in industry-wide initiatives and working groups that include:

- Investment Association Buyside Trading Committee
- Investment Association MiFID II Distributor Oversight Working Group
- Investment Association Assessment of Value Working Group
- Investment Association International and European Policy Committee
- Investment Association Fixed Income Committee
- Investment Association Investment Risk Committee
- Investment Association Investment Funds Committee
- Investment Association Product Development and Regulation Committee
- Investment Association Investor Communications Working Group
- Investment Association Retail Marketing Committee
- PRI SDG and Active Ownership Committee
- PRI Investor Working Group on the Just Transition
- 30% Club Investor Group
- Access to Nutrition Index
- Diversity Project

Discussion forums include:

- Corporate Governance Forum
- Women's Product Forum run by the Wisdom Council

In Principle 6 (see pages 16–18), we outline how Liontrust continues to promote responsible investment.

An example of how Liontrust promote well-functioning markets

Liontrust's Head of Trading, Matt McLoughlin, is actively involved in promoting well-functioning markets. Matt is a member of the Investment Association's Buyside Trading Committee working on a wide-ranging set of topics within Global financial markets, with the aim of improving market transparency, efficiency and performance in order to benefit the end client. Matt is involved with numerous steering groups within this committee, including the MiFID II Working Group.

Recent topics include navigating Brexit, forming a European consolidated tape, MiFID II & CSDR regulation, algorithmic trading and market data, among many others. Regular engagement was had with members of the UK's Financial Conduct Authority (FCA) to explain our views and formulate responses to the European Securities and Markets Authority (ESMA) consultation papers.

Matt is also a Director and Board Member of The Plato Partnership, which is a non-for-profit company comprising asset managers and broker-dealers who collaborate to bring creative solutions and efficiencies to today's complex financial markets.

As part of this group. Matt is a member of the Turquoise Plato Expert Group, which partnered with the London Stock Exchange-owned, Turquoise Multi-Lateral Trading Facility (MTF) to create execution venues that provide efficiencies and performance enhancements that benefit end clients. Together they created the award winning "Turquoise Plato Block Discovery" and "Turquoise Plato Uncross" execution venue types that have delivered these enhancements for the benefits of all market participants. This includes the creation of an institutional block crossing venue, which helps us achieve best execution by minimising market impact and increasing spread-capture for large trade execution.

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

In 2020, Liontrust established a Sustainability and Stewardship Committee ('SSC') chaired by the Chief Executive Officer. The SSC is supported by a Working Group with representatives from across Liontrust to facilitate the development and implementation of our sustainability strategy. Members are outlined in Principle 2.

The SSC responsibilities include the:

- Implementation and management of the Responsible Investment Policy and Liontrust's other Sustainability related policies, such as the Environmental Policy and the Corporate Social Responsibility Policy
- Approval of Liontrust's voting and engagement policies
- Compliance of Liontrust's applicable ESG regulation (such as Sustainable Finance Disclosure Regulation)
- Approving new collective ESG initiatives

The SSC Working Group responsibilities include supporting the SSC in the:

- Assessment and management of tools used to assess ESG risks and opportunities
- Development of voting and engagement plans
- Drafting the UN PRI Report and the Sustainability Report

Independent Assessment on our Stewardship activities

We are reviewed each year by the Principles for Responsible Investment (PRI). The information below summarises the 2019 and 2020 Assessment Report from the PRI.

	2020	2019	Change	Comments
Strategy & Governance	A+	A+	–	29 out of possible 30 scored
Listed Equity: Incorporation	A	A	–	13 out of possible 15 scored
Listed Equity: Screening	A	A	–	13 out of possible 15 scored
Listed Equity: Integration	A	A	–	17 out of possible 21 scored
Listed Equity: Active Ownership	A	A	–	
– Individual Engagement:	A	B	▲	25 out of possible 30 scored
– Collaborative Engagements:	A	B	▲	23 out of possible 30 scored
– Proxy Voting:	A	A	–	19 out of possible 21 scored
Fixed Income: SSA	A	A	–	32 out of possible 39 scored
Fixed Income: Corporate (Financial)	A	A	–	35 out of possible 42 scored
Fixed Income: Corporate (Non-financial)	A	A	–	35 out of possible 42 scored

We conduct a gap analysis each year to ascertain areas of improvement in our processes, the PRI assessment scores enable us to review areas in our policies and procedures we can improve.

There were a number of areas identified in 2020 which included:

- Company-wide ESG integration and team specific ESG approaches to be formalised.
- Company-wide engagement strategy with prioritised engagement activities to be formalised.

To receive assurance that our stewardship approach is being implemented correctly, Liontrust has undertaken the following steps:

Annual Review of voting policy

An annual review of Liontrust custom voting policies is undertaken by the Governance & Stewardship Team in consultation with the SSC Working Group and approved by the Management Committee.

Compliance on voting implementation

As part of Liontrust's internal audit, voting implementation is reviewed annually to ensure that all accounts, including segregated mandates, are being voted correctly.

Internal Auditor

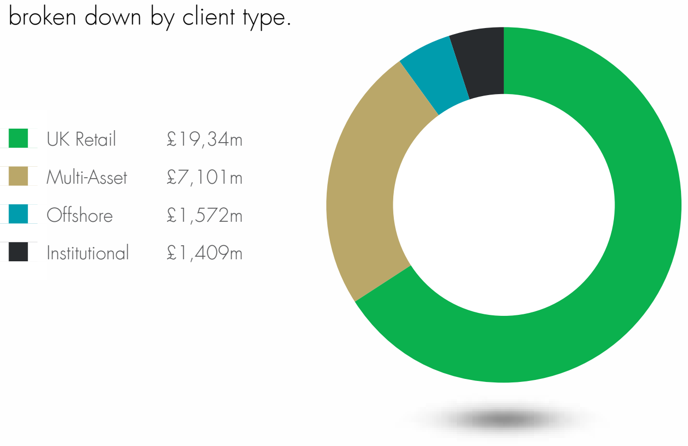
In 2021, internal audit is scheduled to review our Stewardship policies and procedures.

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

Our distribution and marketing teams promote our funds and portfolios in the UK and internationally. In the UK, we market to institutional investors, discretionary fund managers, wealth managers, financial advisers and private investors. Outside the UK, we are focused on the wholesale market, primarily family offices, private banks, wealth managers and multi-managers in a number of countries. We have developed a strong brand through our marketing activities over the past few years. These activities include client events, advertising, sponsorships, PR, social media and both print and digital communications. Digital is a key and ever-more important driver of our brand profile and engagement, including through our website, social media, email communications and online advertising and promotions. The regular research we conduct shows that Liontrust consistently scores well for brand awareness, understanding and positive opinion among financial intermediaries in the UK.

Client Allocation by Assets under Management and Advise (AuMA)

On 31 December 2020, Liontrust's AuMA was £29,428 million, broken down by client type.



Assets under Management and Advise ('AuMA')

On 31 December 2020, our AuMA stood at £29,428 million and were broken down by type and process as follows:

Process	Total (£m)	Institutional (£m)	UK Retail (£m)	Multi-Asset (£m)	Offshore (£m)
Sustainable Investment	**9,278**	130	8,425	–	723
Economic Advantage	**8,338**	278	7,750	–	310
Multi-Asset	**7,101**	–	–	7,101	–
Global Equity	**2,686**	195	2,491	–	–
Cashflow Solution	**1,201**	806	340	–	55
Global Fixed Income	**824**	–	340	–	484
Total	**29,428**	**1,409**	**19,346**	**7,101**	**1,572**

Investor Survey

Liontrust conducted a survey among our private investors and professional intermediaries as part of the Assessment of Value of the UK-domiciled funds. It is important that we ask our clients what they think of Liontrust, the services we provide and the usefulness of our communications. Our clients were asked to evaluate 21 different aspects of Liontrust's service and communications, and these produced three summary scores.

These scores were:

- 80% are satisfied or very satisfied with the client services team at Liontrust
- 76% are satisfied or very satisfied taking into account the information, materials and/or tools used from Liontrust
- 76% are satisfied or very satisfied taking into account the aspects of information, materials, communications and client servicing used or experienced from Liontrust.

Of the issues raised with client services, the percentages resolved were:

- 86.5% completely
- 7% partially

The survey was conducted for Liontrust by Research in Finance (RiF). They concluded that the views of Liontrust's clients and investors are positive based on RiF's research experience for the asset management industry.

Communications

We communicate clearly and frequently with our investors, regularly updating them on the performance of each of our funds and portfolios, the effectiveness of the investment processes applied to each of our funds and portfolios and the progress of the business as a whole. Liontrust is currently investing in developing our online services and digital communications to enhance client services.

We communicate with our clients and investors through many different forms:

- Face-to-face meetings and presentations, including educational seminars
- Our Annual Investment Conference with multiple investment teams and the Annual Sustainable Investment Conference
- Third-party events and conferences
- Written investment updates, commentaries and opinion articles
- Our investor magazines: The Pride and Liontrust Views
- Webinars, videos and podcasts
- Factsheets
- Infographics

80%

of private investors and professional intermediaries are satisfied or very satisfied with the client services team at Liontrust

76%

of private investors and professional intermediaries are satisfied or very satisfied taking into account the information, materials and/or tools used from Liontrust

76%

of private investors and professional intermediaries are satisfied or very satisfied taking into account the aspects of information, materials, communications and client servicing used or experienced from Liontrust

Our clear, relevant and engaging communications are distributed through various channels and media:

- liontrust.co.uk
- our content portal: liontrust.co.uk/insights
- emails to investors
- the press
- social media
- intermediaries
- partners' digital platforms
- content and data platforms

Clients and investors can choose which communications they receive from us by signing up to our email preference centre on the Liontrust website.

Liontrust produces quarterly fund specific MSCI ESG ratings and carbon analytics reports and voting records, available to clients upon request.

We also publish quarterly voting reports on the Liontrust website, outlining how we vote on each holding www.liontrust.co.uk/governance-policies.

The Sustainable Investment team publishes quarterly voting records along with the rationale for voting an 'against' or 'abstain' on management resolutions www.liontrust.co.uk/sustainable.

Liontrust started producing sustainability and impact reports in 2020 for each of the Sustainable Future funds to increase evidence of how they contribute to sustainable development. These are distributed to our intermediary clients and are available to all investors via our website. The reports include:

- How the funds are invested by both mega trend and underlying themes within those.
- How themes contribute to the UN's SDGs at the performance indicator level.
- Measuring the primary impacts of the products or services that companies provide, as well as how they are managing the main impacts from operations.
- Independent analysis of how the Sustainable Future funds compare to the markets in which they are invested in terms of carbon emitted, investment in climate change solution providers and exposure to fossil fuels (which is zero).

Liontrust holds regular educational seminars to explain sustainable/ESG investment to financial intermediaries and private investors. This includes highlighting the different approaches to sustainable investing, the benefits, why investors do not need to give up performance to invest sustainably, how to identify greenwashing and the UN's SDGs.

In September 2020, Liontrust held its dedicated annual sustainable investment conference for professional fund buyers. This conference included presentations by Tim Jackson, companies describing their adoption and integration of sustainability, and fund buyers outlining their experience of investing sustainably. For our online conference in September, we had more than 500 investment professionals attend.

Liontrust regularly sponsors responsible investment events held by third parties. These include UKSIF's Good Money Week and SRI Services and Partners Good Money Week. We are a founding shareholder in and partner of The Big Exchange and contribute educational content for consumers who use the platform.

Liontrust has sought to raise awareness of the importance to preserve biodiversity by hosting joint podcasts with ZSL and SPOTT (Sustainability Policy Transparency Toolkit).

We produce and distribute regular articles, videos and other content to promote and inform about sustainable investment. These are emailed to financial intermediaries, distributed via our partners and platforms, posted on social media and written up by journalists. We produce articles and guides that can be given to an intermediary's clients as part of our increasing focus on financial education.

Since March 2020, we have moved our conferences online and have increased the frequency of our fund manager webinars. We hold at least three webinars a month on sustainable investment/ESG.

Liontrust produces two magazines – Liontrust Views and The Pride – for investors.

To ensure our funds are marketed appropriately and our communications are clear and beneficial, we have a consumer panel comprising private investors who provide feedback.

The evidence of the benefit and success of our education and communications is shown by the fact that in 2020 Liontrust was voted by financial advisers as the best asset manager for explaining and conveying our sustainable/ESG strategy (Source: Square Mile).

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

Liontrust is committed to being a Responsible Investor

We take seriously our role as custodians of client assets and Liontrust is committed to:

- environmental, social and governance (ESG) initiatives;
- providing the tools, training and resources to empower all our investment managers to consider ESG in their decision-making processes;
- including material ESG factors in our risk framework;
- exercising responsible stewardship of investee companies;
- engaging where we have concerns and to push for positive change;
- developing enhanced reporting of ESG-related information; and
- showing the positive impact our investment management activities have on our clients and wider society

Liontrust's purpose is to have a positive impact on our clients, stakeholders and society and so we are committed to environmental, social and governance (ESG) initiatives, responsible investment, and having a risk framework that captures and evaluates environmental and social controversies. A key aspect of meeting our purpose is to provide our clients with long-term above average investment returns within a client's risk expectations and Liontrust aims to achieve this by each investment team applying distinct and rigorous investment processes in managing their portfolios. Each team is truly active and takes a long-term approach to investment. This creates a deep understanding of the companies they invest in and promotes good governance and stewardship. Liontrust does not impose a one size fits all approach to integrating stewardship and ESG risk into investment processes but works with all our investment teams to help ensure the best outcome for all. By including ESG considerations into our investment processes, we improve our ability to understand a business and its ability to create, sustain and protect value with the aim of ensuring it can deliver outcomes in line with our clients' expectations.

We define ESG integration as the integration of environmental, social and corporate governance considerations into investment management processes and ownership practices in the belief that these factors can have a material impact on financial performance, in line with the UN PRI definition.

Liontrust's approach is engagement led, the integration of ESG factors alone does not prohibit any investments in all of our funds and strategies but we will engage where we have concerns and to push for positive change. Some strategies do have an overriding sustainability and ESG focus and/or contain exclusion-based approaches, but in theory our investment teams could invest in any business, sector or geography as long as the businesses meet the criteria laid out in their investment processes and the ESG risks of such investments are identified and taken into account.

Since 2017, Liontrust has increasingly placed more emphasis on 'sustainability' as a company and has accordingly committed to 'integrate sustainability appropriately throughout the business' to achieve a number of objectives. Liontrust believe that it makes sense to centralise some of our stewardship activities to increase their effectiveness and so a central 'Governance and Stewardship team' has been established whose role is to co-ordinate the Group's overarching approach to sustainability risk. We continue to invest in our team, and it produces ESG reporting, climate and emissions analysis, co-ordinates and implements voting policies and leads on engaging with companies on ESG matters at a company level.

Liontrust believe that the combination of a centralised Governance and Stewardship team and the integration of ESG factors into the investment processes produces the best results for our clients, stakeholders and society.

Minimum standards

At Liontrust, we believe that any company that we invest in should meet some universal standards when it comes to ESG factors. At a minimum, we expect companies to comply with the UN Global Compact guidelines and the accepted corporate governance standards (including pay & remuneration structures, disclosures and diversity) in their domestic market or to explain why doing so is not in the interest of shareholders.

Some funds use an investment approach that applies other ESG or sustainable based exclusions automatically, whilst others have the ability to invest in businesses that may not be complying with international standards of conduct but each investment highlighted as breaching these norms will be reviewed by the portfolio risk committee to ensure the ESG risks have been appropriately considered within the investment decision.

How the teams integrate ESG into their investment processes

Each team take their own approach to integrating ESG factors into their investment process. Liontrust believe that the best people to understand the future impact of ESG on a company are those people that analyse the businesses: our fund managers. Each Liontrust team have spent years developing their investment approach and each team understand what characteristics are important to driving the long term returns we aim to deliver to investors. We have been working to provide each team with the information and support to allow them to integrate ESG in the optimal way for them, ensuring that their processes are enhanced and complemented by this work rather than imposing a centralised solution.

Our Sustainable Investment team have fully integrated ESG factors and analysis throughout their process including using long term sustainability themes to identify potential opportunities and using a combination of screening, thematic analysis, and sustainability analysis with a proprietary Sustainability Matrix combining product sustainability with ESG management quality. These are all binding aspects of the investment process.

The Global Fixed Income team also directly integrates ESG factors into its investment process with two of their five investment pillars relating to these factors. They combine internal research with that of third-party providers to assess how the ESG factors pertain to the investment case.

For our other investment teams, the management of sustainability risk forms part of the due diligence process. Each team reviews the potential investment using their risk framework, which includes assessing the risk that the value of such investments could be materially negatively impacted by an ESG event or condition. The teams use ESG information from third-party data providers to assist in understanding the sustainability risks of each investment. They may also conduct fundamental analysis on each potential investment to further assess the adequacy of ESG programmes and practices of a company to manage the sustainability risk it faces. 'Controversies' are also monitored to investigate and assess issues which may include the impact of company operations, governance practices, and/or products and services that allegedly violate national or international laws, regulations, and/or other commonly accepted global norms.

We want to be a provider of the capital that will transform innovative companies towards a positive outcome which will deliver products and services that benefit the economy and society.

The information gathered from this analysis will be taken into account in deciding whether to invest, or the size of the position.

The Multi-Asset team use an approach that combines ESG data from third parties and performing a qualitative ESG assessment of underlying funds using a dedicated questionnaire in the request for information process, followed by face-to-face due diligence meetings with both an RI representative at company level and an investment manager of the respective fund(s). The idea of this deeper dive is to explore how firms are tackling incorporating ESG awareness across their top-down processes, what the priorities are, and indeed, the current challenges. At fund level, they look at how this is actually performed in practice and by whom, among other considerations.

Asset types and Geographies

Liontrust have always looked at ESG factors at an individual company level, however, we recognise that each asset class and geography hold different challenges. We have always had a strong voting record, and endeavour to vote at every meeting with our custom voting policy that holds companies to account against a broad set of criteria that is adapted for regional differences. Emerging market companies, or smaller capitalised companies will also produce less information on ESG related matters and are often not covered by third party data providers. With those companies, the relevant investment team will consider if any particular aspects of that company require further investigation on a case-by-case basis which often involves engaging directly with the companies. We participate in several collaborative initiatives to encourage companies to publish more ESG data to encourage better understanding of these issues by both management and the market.

We also recognise that the ability of a bond holder to influence a company is limited and often disinvestment is the only way to signal dissatisfaction with a company. The vast majority of the corporate bonds we hold are issued by large public companies and these are treated as per our approach to equities with an engagement led approach. Private issuers of bonds have different governance requirements than a public company, and in some areas, we do not have the same governance expectations, such as on independence, but will view their arrangements on a case by case basis.

Our portfolios can also invest in sovereign debt. However, generally we view bond holder influence over sovereign borrowers as very limited and so we apply an "exclusion over engagement" approach to ESG. Here, we use ESG ratings-based exclusion and cross reference these with the Freedom index. Lower rated sovereign bonds tend to be a feature of emerging market country issuers, investment in which is not a core part of our bond fund range.

Our Multi-Asset team invest in other funds and for this asset class we use a combination of ESG scoring from third parties as well as questionnaires and ESG specific analyst meetings. The focus is on the fund management company as well as the funds being considered.

Integration of material ESG factors into our investment risk framework

Liontrust has put a framework in place to challenge and support our fund managers, helping to integrate and enhance stewardship and the management of sustainability risk for all our clients. The remit of the Portfolio Risk Committee ('PRC') has been updated to include the oversight of ESG related risk within the portfolios and we are putting in place the reporting, to allow the committee to regularly review controversies reporting, ESG ratings and the climate impact for each of the funds and teams. Using this data, detailed ESG reporting will be available to the investment teams and the PRC to show the ESG positioning of each of the funds and teams. They will highlight the ESG risks by integrating the portfolio data with the third party ESG data for all investment teams including:

- ESG ratings for each individual company;
- Aggregated portfolio level ratings versus a relevant benchmark;
- Controversy reporting; and
- Carbon analytic portfolio reports versus a relevant benchmark.

Our approach to Climate Change

The key climate change factors that may impact Liontrust are increasing climate change regulation, actual changes in climate and its impact on crops, water and extreme weather. Over the last year, we have been working to integrate climate risk into our group risk frameworks. The investment risk team is working to automate the analysis of climate risk on our portfolios and report these to the fund management teams and the governance committees in a consistent manner. We are also looking to improve our long-term risk planning for Liontrust, which will also incorporate climate change into our risk framework and developing targets as we understand how climate change will impact us and our investments.

Liontrust became supporters of the TCFD in 2018, and will report our trajectory on how Liontrust are aligned to the recommendations in our report and account and sustainability report in Q3 2021.

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

Service providers have an essential role in some of the core areas of the Liontrust investment processes, such as providing data on ESG issues and advice on voting.

Liontrust systematically monitors and reviews service providers on an annual basis, and will engage should issues arise throughout the year on the ESG data provided by MSCI or with issues that arise with our voting.

An in-depth analysis of three mainstream ESG rating service providers was undertaken in Q1 2019, which reviewed cost, portfolio coverage, quality of research, flexibility, comprehensiveness and compatibility with other data providers and risk programmes.

Liontrust's Multi-Asset investment team recently started to request that their constituent fund managers complete an ESG questionnaire on their company-wide and portfolio level procedures. The team will engage with these fund managers at least every six months and discuss any contentious holdings within the relevant fund.

Liontrust has a counterparty selection and monitoring process that covers initial due diligence requirements and ongoing monitoring of our key counterparties.

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

Engagement with investee companies

Liontrust believes monitoring and engagement are essential parts of being an investor. It allows us to improve our understanding of investee companies and their governance structures and informs our voting decisions. The materiality and immediacy of a given issue will generally determine the level of engagement.

To identify areas in which there are governance concerns, we use a range of resources including our own fundamental research. We hold regular meetings with the management of the companies in which we invest to discuss relevant issues including strategy, sustainability and performance, and to review management processes against best practice corporate governance principles.

At a minimum, we expect companies to comply with the UN Global Compact guidelines and the accepted corporate governance standards in their domestic market or to explain why not doing so is in the interests of shareholders. We believe that well-managed companies will report on material social and environmental risks and opportunities and explain how these are managed. We will engage directly with company management or the Board where we believe there is the potential for a material impact on shareholder returns.

Liontrust uses a third-party ESG research and data provider for all investment teams to provide ESG ratings, ESG controversy monitoring and carbon analytics of all portfolios, which empowers our investment managers to consider ESG issues in their decision-making processes. We currently use MSCI ESG Manager, and where a company is not rated by this provider, investments teams may use other sources of available information to assess the sustainability of a company.

Liontrust is in the process of moving to a more strategic approach to engagement, and how we prioritise pro-active engagement will be agreed in consultation with the Sustainability & Stewardship Working Group on an annual basis. We adopt a case-by-case approach to re-active engagement on material governance, environmental or social issues. We will engage with management in an appropriate manner and endeavour to make a record of this engagement, which may be by conference call, letter or by seeking access to the Chair or Directors in person or virtually. Company-wide engagement will be co-ordinated by the centralised Governance & Stewardship team. Liontrust has recently hired a Stewardship Manager to lead on our engagement strategy.

All Liontrust funds and many fund managers engage with their investee companies across a range of issues, including strategy, risk and capital allocation. This year, the response to Covid-19 was high on the agenda. In 2020, Liontrust Investment teams held 789 meetings with companies. While many of these discussions may cover ESG issues, this is not something we have had a systematic approach to capturing. However, we are exploring options to capture our engagement activities to allow increased transparency on our activities.

The Sustainable Investment team prioritises its proactive engagement initiatives with input from its Advisory Committee. The team has a formalised process that has been enhanced over 20 years. The team produces an annual engagement and voting report that is available on our website, a summary of which is outlined below, and includes a number of case studies.

Liontrust's Multi-Asset investment team recently started to request that their constituent fund managers complete an ESG questionnaire on their company-wide and portfolio level procedures. The team will engage with these fund managers at least every six months and discuss any contentious holdings within the relevant fund. As this process is in its infancy stage, we shall not be reporting on outcomes for 2020. We aspire to report on 2021 activity in our 2022 submission.

Liontrust's engagement priorities for 2021 are as follows:

- **Climate Crisis:** To engage with a pre-defined number of the highest carbon emitting companies within Liontrust's investment portfolios, to ensure they have strategies to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees.
- **UN Global Compact Compliance:** To engage with companies who 'fail' to comply or are on the 'watch-list' for non-compliance of labour rights, human rights, environmental and anti-corruption laws.
- **Increased Corporate Diversity:** To engage with companies on corporate diversity. We believe companies that are more diverse are better able to prosper over the long-term so we are engaging to encourage greater diversity, looking at gender and ethnic balance at a Board level and senior positions, and looking at efforts to reduce any gender pay gaps.

Collaborative engagement will be summarised under Principle 10 on page 25.

Summary of the Sustainable Investment team's engagement in 2020

The Sustainable Investment team prioritises a number of proactive engagement initiatives in collaboration with their Advisory Committee at the beginning of each year. They assess how their holdings are positioned on these issues and, where appropriate, define target companies with whom they will engage.

As well as continuing their efforts to increase corporate disclosure on ESG impacts, mitigation efforts and performance, the team focused on delivering improvements on the following priority initiatives:

- **Climate Crisis | 1.5 degrees Transition Challenge:** To ensure companies have strategies to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees.

- **Impact and Sustainable Development Goals:** The team continues to prioritise efforts to quantify the main impacts (good and bad) from the companies in which they invest. They will engage with companies to disclose their main impacts so they can report on these. This is an evolving field and they are keen to build on the work they have already done in this area.
- **Encouraging sustainable use of plastics:** The team is looking for companies providing solutions to plastic pollution as potential investments as well encouraging companies to reduce the amount of single use plastics they introduce to the environment.
- **Increased corporate diversity:** The team believes companies that are more diverse are better able to prosper over the long-term so they are engaging to encourage greater diversity, looking at gender balance at a Board level and senior positions, and looking at efforts to reduce any gender pay gaps.
- **Worker well-being:** How companies manage the human capital of their direct operations, as well as workers further down supply chains, can affect their long-term success. The team will engage to encourage companies to offer decent work and pay living wages and to ensure they mitigate risks, protect workers' rights and maximise the opportunities to support employees. The team will also encourage companies to use their influence to drive forward best practice further down their supply chains.
- **Encouraging the transition to sustainable investment:** Individuals are having to take responsibility for their long-term finances and adequate savings and pension provision is critical. To date, the majority of saving has been into non-sustainable funds but as demand for sustainable investment grows, companies should do all they can to promote it. The team will focus on determining which are leading the way and which need to do more.

In 2020, the Sustainable Investment team had 35 face-to-face meetings with companies and 292 conference/video calls. The team raised 317 key ESG issues with companies over the year, either in direct meetings or through other forms of correspondence.

Over the year, the team made over 40 specific requests for change and is in the process of analysing the success of these requests for our Annual Engagement reporting.

In 2020, the Sustainable Investment team engaged with 111 companies

Total number of face-to-face meetings	35
Total number of webinar/calls	292
Total number of emails on	74

Total number of ESG issues raised (E, S, G)		317
Environmental	Climate crisis, Water management	73
Social	Supply Chains, Employee issues	147
Governance issues	ESG and Impact disclosure, Corporate tax	74
Corporate Governance	Remuneration, Auditors, Diversity	22

Total number of ESG issues raised (Priority vs. Reactive)	Examples include	
ESG issues raised – Priority initiatives	Impact/SDG (inc. Climate crisis), Sustainable plastics, Anti-bribery & corruption, Diversity, Workforce wellbeing, Transitioning to Sustainable Investment, Covid-19	249
ESG issues raised – Reactive engagement	Controversies, ESG impacts, Supply chains, Tax	67

In the team's experience, continued engagement over a longer time period is more likely to achieve better engagement outcomes than over a yearly reporting cycle.

The Sustainable Investment team's priority initiatives for 2021 are as follows:

Reversing the collapse in biodiversity: The team will engage with companies in their portfolios exposed to key biodiversity impacts either in their direct operations or through their supply chains. They will encourage these companies to do more to protect and promote biodiversity, and to invest in nature-based solutions and technologies. They aim to collate examples of best practice and to see improvements in policies and practice that show how business can thrive alongside enhanced biodiversity.

Encouraging a faster transition to a circular economy: The team want to ensure companies are looking for ways to reduce their impact through circular practices. They will engage with companies to reduce the amount of single-use plastics and ask more about inputs, waste policies and the potential for more circular practices within their business models.

Encouraging the transition to sustainable investment: To date, savings and investments have typically been geared towards traditional investments that don't necessarily incorporate ESG. However, as demand for sustainable and ESG-integrated investments grows, and regulations to better classify what constitutes 'sustainable' investment follow suit, companies should play their part to promote it to further accelerate the transition needed for a more sustainable economy. The team will focus on determining which companies are leading the way and which need to do more.

The team will continue to engage on their Climate Crisis 1.5° Transition Challenge, increasing corporate diversity and ensuring worker well-being where engagement will cover companies' response to and management of the current pandemic, including workforce adaptation, Covid-19 safety, redundancies, supply chain impacts and so on.

Case Study: Smurfit Kappa Group Plc | Climate crisis

The Sustainable Investment team spoke to Smurfit Kappa in January 2020 to encourage the company to do more and engage with the Science Based Target (SBT) initiative. The company recognised the need to reduce emissions to zero and are working with five-year planning timeframes. The new targets they have implemented are a 40% reduction by 2030 (on 2005 levels) as they do not model as far out as 2050. In May 2020, the company reported that it is committing to align its CO2 target with the SBT initiative. SBT validation will confirm that the company's target is ambitious and aligned with the Paris Agreement. The company will also support the recommendations of the Taskforce for Climate-related Financial Disclosures. This is encouraging and demonstrates that the company is playing its part.

Case study: Gender diversity engagement and voting success

Between 2016 and 2020, Liontrust's Sustainable Investment team targeted companies across their funds with fewer than 30% of women on their boards. This has led to meaningful progress; 26 companies in the funds increased the proportion of women on their Boards to over 30%; going from having an average of 23% to now nearly 38% female representation. A further six companies fall under the 30% threshold, but still increased the proportion of women on their Boards significantly from an average of just 16% to 25%. Eight companies did not make any progress and four companies reversed any progress over this time. The team found that the increase in female representation has directly translated into more diverse views and opinions inside investee company boardrooms, reassuring us that they are well-equipped and more likely to be managed effectively, which is particularly critical when it comes to challenging times ahead from the continuing Covid-19 pandemic.

Case Study: Liontrust Sustainable Investment team – 1.5 Degree Transition Challenge

In early 2020, Liontrust's Sustainable Investment team committed to its One and a Half Degree Transition Challenge. This involves engaging with all the companies held in the Liontrust Sustainable Future funds and challenging them to revisit their decarbonisation targets and raise their ambition to reduce absolute levels of emissions at a rate consistent with a one and a half degree global average temperature rise.

The science is telling us we need to decarbonise rapidly, the sooner the better, to avoid the negative impacts of climate change on our economy, society and the environment. While estimates vary, this involves an unprecedented decarbonisation rate that halves global emissions by 2030 and continues at this pace to 2040 and 2050. But to increase the probability of remaining within the one and a half degree global average temperature rise this century, this rate should be front loaded by happening faster within the next five to 10 years.

This is a huge challenge: to put it in context, from 1 January to 11 June 2020, the latter half of which was under lockdown conditions, global emissions were only around 8.6% lower than last year. At the peak of the lockdown in April, emissions in the UK had fallen by 31% but they are already rising back towards normalised levels as the economy reopens. Put simply, reducing global absolute emissions by more than 5% a year will require major changes across the economy.

In terms of the team's targets in this area, the pandemic has slowed progress as they suspended new engagement on the climate crisis in Q2 and Q3. During that time, the team focused instead on understanding how the businesses in the Sustainable Future funds were impacted by Covid-19, as well as how they were managing during the pandemic. The team pushed for companies to take a longer term view where possible and manage their businesses for eventual recovery, adopting a stakeholder approach to minimise the impact on staff and supply chains, which will be needed as the economy gradually opens up again.

Given the backdrop, the team has not been able to finish its climate crisis engagement or publish a report on findings in 2020 as originally intended. That said, they were on track to have contacted companies that account for well over 70% of all emissions from the Sustainable Future funds by the end of 2020 and have met and discussed the One and a Half Degree Transition Challenge with over 40 companies already.

The Sustainable Investment team are continuing this work and intends to publish its findings in time for the United Nations Climate Change Conference of Parties (COP 26), which is due to be held in Glasgow in early November 2021 after being postponed for a year.

As part of the work so far, they have found:

- An encouraging number of companies have already taken a very proactive approach and made considerable progress in setting ambitious targets as requested. Many of these have done this by signing up to the Science Based Target Initiative, which is helping businesses work out a consistent approach.
- The majority of companies are receptive to increasing their decarbonisation targets and actively looking into including more timely absolute emissions targets. Even so, the scale of this challenge means not all are on track for a 50% reduction in emissions by 2030.
- There are a small number of companies where it is not clear that there is an obvious pathway to achieve this accelerated rate of decarbonisation (largely in so-called hard to decarbonise industries such as materials).

As the team continues engagement as part of this Challenge, it will be interesting to see the response from less carbon-intensive companies yet to be contacted. These are businesses where carbon emissions have not historically been seen as a major material driver, and given findings so far, this could be an area where the team can identify some relatively easy, economically attractive, actions that can make a meaningful contribution to quickly reducing easy-to-abate emissions.

To reiterate, the team believes there is an imperative for businesses to commit to reducing their contribution to emissions in our economy. The challenge of rapidly reducing emissions will drive innovation, both in terms of how operations are run as well as highlighting the opportunity to develop ultra-low carbon products and services. There is a competitive advantage to be gained by proactively managed businesses that will be rewarded economically in an increasingly carbon-constrained world.

It is worth pointing out that the Sustainable Future funds are aggressively positioned for an ultra-low carbon economy due to the thematic analysis that drives the team's investment ideas. This is designed to help find companies expected to experience structural growth in demand for their low-carbon goods and services while avoiding those predicted to suffer structural decline from regulation and consumer preferences for much lower emissions.

This engagement is looking at a proactive sub-set of the economy and these companies are better than the market average on carbon abatement. This should also serve as a wake-up call to those not aware of the ever-more urgent need to speed up the pace of change in addressing the climate crisis as well as the subsequent uneven impacts this will have on investment returns for businesses across our economy. The One and Half Degree Transition Challenge has involved a significant amount of work already and the team has learnt a great deal about reducing emissions across the economy. They look forward to sharing this in our report in late 2021.

Our Sustainable Investment team is always assessing ESG issues to determine whether to hold, sell or buy an asset. Below are some examples to illustrate how this worked in practice for the team in 2020.

Examples: Decisions to sell on ESG grounds

- **Informa** – The team exited their position in Informa after a long holding. The company was previously focused on structural growth and defensive educational publishing and data analytics. However, the company transformed in 2017/2018 into a largely events-focused business with the acquisition of Penton and then UBM. Now, roughly 70% of revenues are derived from exhibition and conferences, which has increased the cyclicality of the business and means it is not driven by one of the team's sustainability themes. Following divestment, the company has dramatically underperformed the index, proving the increased cyclicality of the new business structure.
- **Terraform Power** – Terraform Power was acquired in August 2020 by Brookfield Renewable Energy fund. Both investment vehicles are majority owned and managed by Brookfield Asset Management, and the outstanding balance in Terraform power was bid for. The new vehicle includes both the developed world renewable energy assets from Terraform, alongside the hydro-electric power assets in Brookfield Renewable, which is largely located in Latin America. The new vehicle was rated uninvestable given the related social and environmental issues associated with these assets.
- **Roper Industries** – The team took the decision to sell Roper Industries. The company continues to pursue an M&A strategy, which is driven purely by a return target, rather than an underlying strategy related to a more sustainable world. This makes it difficult to understand what the business will look like in five years' time. The team also downgraded the management quality rating, reflecting a lack of an integration of sustainability considerations into the business strategy. This, combined with corresponding valuation analysis, resulted in the team selling the position and reallocating the capital to new positions.

Examples: Decisions to buy made on ESG grounds

- **Oxford Instruments** produces spectroscopy, microscopy, cameras and software to analyse properties of materials, cells, and astronomical objects. This is used in fundamental research and quality control, and enables a safer and more resilient supply chain. The importance of safe and transparent supply chains has been brought into sharp focus with the Covid-19 crisis, so the team is confident in the demand for Oxford Instrument's products. The company is well managed and discloses its impacts, such as energy and CO2 intensity, as well as efforts to improve gender diversity balance by increasing the proportion of female intakes from balanced shortlists.
- **Unified Post Group** is a cloud-based SME digital business services company based in Belgium and focused on digitising business documentation. The company has recently added a number of complementary services including business identity management, digital payment facilitation and working capital analytical tools. Penetration rates in digital invoicing is very low throughout Europe, with roughly 90% still on paper, so this is a huge and nascent addressable market. The team rates the company's products positively due to the de-materialisation away from paper, reducing incidence of fraud and helping to reduce the 'VAT-gap' tax evasion. The company's products save time and money for SMEs moving from paper. There are cost savings of 60-80% digital versus e-invoice, with a payback of 0.5 to 1.5 years from switching over to fully digitised documents.
- **National Express** is a public transport operation with bus, coach and rail services in the UK, Continental Europe, North Africa, North America, and the Middle East. This is a long-term holding in the UK funds but the team has added it to the European funds on the back of good fundamentals and an extremely attractive valuation. Growth may accelerate for the company in the coming five years driven by increased outsourcing and failing competitors in the wake of the Covid-19 crisis. Additionally, the environmental advantages of public transport are an important factor in reducing emissions, which along with urbanisation, should drive growth in the longer term.

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

Liontrust considers collective action in collaboration with other shareholders or a representative body in the event of financial, ESG or legal circumstances with the potential to materially affect the investee company. Liontrust prioritises collaborative engagements where they fit with our engagement priorities, and where we are more likely to succeed with the engagement objective through collaboration. Consideration as to which initiatives to prioritise is agreed with the Sustainability & Stewardship Working Group, with a focus on ensuring they are in line with Liontrust's values and principles.

Liontrust undertook several collaborative engagements in 2020, most notably:

- **CDP Non-disclosure campaign** – In March 2020, CDP invited investor signatories to collaboratively engage with non-disclosing corporations. Liontrust co-signed 259 letters on behalf of Liontrust investment teams which were sent directly to specified companies from one investor on behalf of the group. The letter encouraged reporting of climate change disclosure through the CDP platform.
- **UN PRI Just Transition Investor Working Group** – As a member of this Working Group, the Sustainable Investment team participated in a call highlighting case studies of where investors are including the social dimension in the energy transition for different asset classes. The team have included aspects of the Just Transition in its 1.5-degree Transition Challenge where businesses have significant carbon-intensive industries they intend to dispose of or change. The thematic approach of our Sustainable Investment team and work to get companies on the right side of the energy transition means there are few cases of this compared to a more mainstream investor owning significant amounts of businesses in transition. But we recognise an energy transition that fails to take people with it is unlikely to succeed.
- **Workforce Disclosure Initiative (WDI) 2020 Survey** – As part of Liontrust's commitment as an investor signatory to the Workforce Disclosure Initiative (WDI), the Sustainable Investment team contacted 55 holdings in its funds to request they respond to the WDI's 2020 survey. So far, from engagement in 2020, 13 companies have signed up to do this, with a further eight companies looking to do this for the 2021 survey.

In 2020, Liontrust became early adopters of the standardised approach to ESG reporting within the UK Housing Association sector. Through this, the Sustainable Investment team has committed to using the ESG criteria in its investment process. A critical and growing sector within the UK credit markets, these standards should help bring greater transparency and comparability, which in turn should bring greater investing and support to this sector.

Anyone who wishes to discuss the possibility of collective engagement, please email stewardship@liontrust.co.uk.

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

Where we believe shareholder value is threatened or is not being realised, we may request that the company's Board takes appropriate action. A robust private dialogue with executive management, non-executive directors and company advisers is our preferred way to protect our clients' interests. We will also engage with the Chair of the Board or the Senior Independent Director where appropriate.

Where initial engagement does not lead to an appropriate outcome, we may choose to adopt a stronger stance. As some issues may take a number of years to resolve, we use our position as a long-term investor to maintain the pressure on companies and aim to monitor these companies over a number of years. Where appropriate, we may reduce our holding or divest to protect our clients' assets.

Each investment team will adopt their own approach as to how they escalate stewardship activities, and, where they feel it is in the best interests of clients' assets, they may vote against a management resolution at an AGM/EGM, reduce their holding or divest from an investee company.

Kingspan is an example of how the escalation strategy of the Sustainable Investment team works in practice.

Kingspan Group plc

The Sustainable Investment team has invested in Kingspan for more than 15 years and held the company in high regard for both the quality of the products it sells and its integrity, playing a key role in carbon reduction and the circular use of materials. Revelations from the Grenfell Tower Inquiry late last year, however, raised serious concerns about the culture and controls within the insulation business which need to be taken seriously.

Based on what the team have learned and, it must be said, in advance of the company being able to respond to the Inquiry, the team decided to downgrade Kingspan's sustainability rating from A1 to A4 in December 2020. Such a downgrade means the team view a company as higher risk and its weighting in our portfolios should be smaller. The reduction in the size of Kingspan within the Sustainable Future funds has already happened and they are not adding to their position.

The team began questioning Kingspan the day after the tragedy in June 2017 and they have continued engaging about Grenfell in particular, and the fire resistance of the company's products more generally. More recently, they requested a meeting with Kingspan's management, which was to be held after they had responded to the Inquiry in early January. Due to Covid lockdowns, however, the response was delayed until early February 2021 and, in the meantime, the company put out the following statement on 16 December 2020:

'Kingspan condemns any actions that do not demonstrate a proper commitment to fire safety. The Inquiry has highlighted historic process shortcomings and unacceptable conduct within a part of our UK Insulation business, for which we have apologised unreservedly and which we are treating with the utmost seriousness. These matters do not reflect the organisation that we are or aspire to be, and significant actions have been taken and are in progress, that further underpin our commitment to fire safety and to professional conduct. We continue to support the Inquiry in its work and are determined to learn all necessary lessons.'

Kingspan has also made changes to the management of the insulation business. These changes, and the constructive response overall, indicates the company is listening, will learn from its mistakes and is taking appropriate actions to ensure such conduct never happens again. The team will reserve judgement, however, until the Inquiry concludes (which was expected to be at the end of February), and they have been able to discuss the findings and recommendations with Kingspan management. They maintain a reduced holding as we proceed with engagement; for now, the risk and quality of the investment is affected so the team feel a smaller portfolio position is appropriate and therefore reduced the position, but the situation is ongoing.

Principle 12 – Exercising rights and responsibilities – Signatories actively exercise their rights and responsibilities.

Exercising rights and responsibilities is an essential part of active ownership. Here we outline how Liontrust discharges these responsibilities for both equity and fixed income asset classes.

Voting Framework

Liontrust operates a global voting policy, which guides our voting decisions across funds. We strive to be responsible stewards of our clients' assets within a framework of good governance and transparency. Liontrust recognises that good stewardship means active engagement in voting, and Liontrust will always actively vote every shareholding where possible.

This policy applies to segregated clients who have delegated responsibility for voting on their holdings to Liontrust. Our custom proxy voting policies are based on best practice globally. Our policies are updated at least annually, taking into account emerging issues and trends, the evolution of market standards and regulatory changes. The policies consider market-specific recommended best practices, transparency and disclosure when addressing issues such as Board structure, director accountability, corporate governance standards, executive compensation, shareholder rights, corporate transactions and social/environmental issues.

We assess voting matters on a case-by-case basis, taking into account a company's circumstances, although we are guided by our overarching principles on good corporate governance. We recognise that regulatory frameworks vary across markets, and corporate governance practices vary internationally so we will normally vote on specific issues in line with the proxy guidelines for the relevant market. Where a proposal is inconsistent with our principles and guidelines, we will consider voting against the proposal.

We take a proportional approach to governance expectations, and therefore we have put in place guidelines broken down by geographic region and market cap size. While this document discusses our general approach to voting, to understand the entire framework it should be read in conjunction with the specific region/market cap size custom voting policies listed below, which are publicly available on our website www.liontrust.co.uk/governance-policies.

- UK (FTSE 350) & Ireland (ISEQ20)
- Europe excl. UK & Ireland
- US & Canada
- Rest of the World [Argentina, Australia, Brazil, Cayman Islands, China, Chile, Columbia, Hong Kong, India, Indonesia, Israel, Japan, Korea, Latin America, Malaysia, Mexico, New Zealand, Peru, Philippines, Russia, Singapore, South Africa, South America, Taiwan, Thailand].

Exceptions apply for Small Global Capitalised Companies including FTSE Small Cap and below/FTSE AIM and one of our investment teams who vote in line with the relevant ISS benchmark policy. However, appropriate alerts are applied to notify if there is a Special/Court meeting to ensure that the team are consulted on proposals if there is a vote referring to:

- Mergers & Acquisitions
- Related Party Transactions
- Mandatory Takeover Bid Waivers
- Reincorporation Proposals
- Shareholder Proposals
- Other non-routine items/controversial items.

Liontrust's Multi-Asset Investment team adopts the recommended guidelines of ISS to vote on AGMs of underlying fund managers and holdings.

In addition to the principles outlined above, other issues may be relevant in our consideration of company practice and proxy voting decisions. Liontrust' Corporate Governance and Voting Framework is available on our website www.liontrust.co.uk/governance-policies.

Sustainability and Climate Crisis

We believe that well-managed companies will report on social and environmental impacts and mitigation efforts. Where companies do not disclose information publicly in annual reports, we reserve the right to use our voting policy to withhold support from the adoption of the annual report and accounts or another appropriate resolution.

Liontrust believes that the ongoing climate crisis will be a defining driver of the global economy, society and financial markets in the future, and presents significant investment risks and opportunities that may impact the long-term financial sustainability of companies. Boards should provide effective monitoring, assessment and oversight of the company's approach to managing risks, including those arising from the climate crisis.

We expect companies to be transparent as to how their business may be impacted by climate risk, in its ability to realise a long-term strategy and that appropriate governance structures are in place to assess, adapt and mitigate these risks. We also expect companies to be aware of and act on potential opportunities arising from emissions reduction efforts globally that are pertinent to their business.

Reporting frameworks such as those developed by TCFD and CDP provide useful guidance to companies in identifying, managing and reporting on climate-related risks and opportunities.

We believe companies need to address all material sustainability aspects relevant to their business and we will engage on other sustainability issues that we believe are material to the company and need to be given due consideration by Boards. The sustainability issues are dependent on the context of the business but can include a broad range of aspects, such as waste, deforestation, water usage/scarcity, biodiversity, staff safety and recognition of human rights.

Voting statistics for 2020

In 2020, we voted at 99% (1022 of 1035) of votable meetings and voted against management or abstained on proposals in at least one vote in 60% (619 of 1022) of votable meetings.

Our investment teams have the discretion to refute our custom policy recommendation/ISS recommended guidelines should this be in the client's best interests. We voted against these policy guidelines on 59 ballots in 2020, and a record of these rationales is maintained centrally by the Governance and Stewardship team.

For the funds that adopt the Liontrust custom policy, during the year we voted to abstain or voted against:

Voting records

Liontrust publishes quarterly voting reports on the Liontrust website, outlining how we vote on each holding www.liontrust.co.uk/governance-policies.

Liontrust defines a 'significant vote' by the:

- Size of holding: where Liontrust funds hold more than 5% of a company's market capitalisation; and/or
- where Liontrust funds:
  - Vote against a company's remunerations policy;
  - Vote on a Merger or Acquisition;
  - Vote on a contentious issue identified by the Governance & Stewardship team; and
  - Vote against management on a shareholder proposal.

Liontrust publishes how we voted in 2020 on the above classifications on our website.

Liontrust' Sustainable Investment team publishes quarterly voting records with the rationale for voting an 'against' or 'abstaining' on management resolutions www.liontrust.co.uk/sustainable.

The Liontrust Sustainable Investment team publishes an annual engagement voting review on the Liontrust website www.liontrust.co.uk/sustainable

Share lending

Where Liontrust believe it is in the best interests of clients, or where requested by clients, the shareholdings managed by Liontrust may be loaned. If stock has been loaned, then the voting rights are given up and it would be necessary to recall the loaned stock in order to vote it. Liontrust will endeavour to recall all stock prior to a meeting deadline and restrict stock being lent out where we are aware of upcoming meetings.

Voting in pooled funds and segregated mandates

Liontrust's custom voting policies aim to reflect the best market practice for governance, together with our expectations for companies to be transparent on their strategy for environmental and societal risks. We believe we are well placed to vote in the best interests of our clients. While we do not have the capacity to accept direct instructions from individual clients on how to vote within pooled funds, we welcome dialogue with clients so we can consider their rationale for a particular AGM/EGM or indeed consider a change to our custom voting policy.

For segregated mandated clients, the approach to voting is clearly stipulated within each Investment Management Agreement.

Fixed Income strategies

Liontrust has two fixed income teams: the Sustainable Fixed Income Investment team and the Global Fixed Income Investment team. Both teams vote on corporate actions in relation to their portfolio holdings, which may involve minor amendments to existing indentures or on occasion decisions on accepting terms for tender arrangements.

The Liontrust Sustainable Fixed Income team's focus is predominantly on investment grade issuers, and given the size of assets under management in corporate bonds, are unlikely to be invited to initial discussions on transactions and on matters regarding the structuring of new corporate bond issues. The team does engage with their holdings in areas such as environmental, social and governance aspects and also on any controversies that have arisen. For example, the team engaged directly with companies within the insurance sector to find out more about their responsible investment policies. In particular, they asked how ESG factors were considered in their investment decision-making process and for a list of any exclusionary criteria used (negative screens). Similarly, they have engaged with all of the banks held in their bond portfolios to better understand and challenge their approach to moving to a scientific-based approach to reducing emissions in their corporate loan book in line with international targets, such as the Paris Agreement.

The Liontrust Global Fixed Income team uses a specific credit template referred to as "PRISM" in their investment process to help assess the viability of corporate bond investments. The 'S' in their PRISM research framework stands for Sustainability. The team seeks sustainable investments in all senses: investing in issuers that can service their debt beyond the maturity of any bonds purchased, and not be subject to large contingent liabilities or technological disruption. The 'M' stands for Motivation: in accessing how the interests of the owners of a company are aligned with bond investors. Their preference is for considerable alignment, with owners and management invested in the success of their enterprise for the long term and whose managements' motivations are aligned with those of bondholders. During the year, the team did not participate in bond issuances where they felt this motivation was not aligned.

All documents referred to within this report are available under the sustainability section of our website.

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