Metropolis Capital Limited

UK Stewardship Code 2020

31 March 2021

Approved by the Board: 29 March 2021

Introduction

The UK Stewardship Code is a set of principles, published by the Financial Reporting Council (the "FRC"), which aims to enhance the quality of engagement between institutional investors and investee companies to help improve long-term returns to shareholders and to promote the efficient exercise of governance responsibilities.

All investment firms in the UK have a duty to ensure that they invest clients' monies responsibly and carry out thorough due diligence to ensure that the companies they invest in are focused on delivering long-term returns for shareholders and the efficient exercise of governance responsibilities.

For more information, please visit the FRC website (https://www.frc.org.uk/investors/uk-stewardship-code). The most recent UK Stewardship Code was published on 1 January 2020.

Metropolis Capital ("Metropolis") agrees with and supports the twelve principles outlined in the code and through our policy set out below, we aim to provide a clear framework for how we exercise our ownership responsibilities, how we monitor the companies we invest in and how we engage with companies when we have identified an issue which we feel could impact long-term returns for our investors.

Metropolis is regulated by the FCA (Registration Number: 507685) and is a Registered Investment Adviser in the United States of America (Registration Number SEC# 801-112310). Metropolis has been granted an exemption from requiring an Australian Financial Services Licence, by the Australian Securities and Investment Commission.

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.

We believe our purpose is to protect and enhance the real (i.e., inflation-adjusted) value of the capital which our clients entrust to us. This purpose is expressed through our long-term performance target of annualised inflation +10%. In addition, because we use a long-term real discount rate of 6.6% as the return hurdle for the businesses in which we invest - which is the long-term real rate of return from equities - we believe that investing in these companies when there is at least a 30% discount to our estimate of their intrinsic value will generate returns greater than global equity returns over time.

We offer investors a single long-only global equity strategy, either through our pooled vehicles (commingled funds) or via segregated mandates. The strategy has on average 15-25 positions with holding periods of greater than 5 years and is benchmark-agnostic. As active investors in public equities, we believe the greatest opportunity for long-term value creation for our clients comes from investing in a small number of deeply researched and well understood companies. For this reason, we have restricted ourselves to a single high conviction strategy. This approach ensures that the Portfolio Managers have the bandwidth to engage with their portfolio companies and exercise their stewardship responsibilities with great care.

The investment philosophy is value-based. The Portfolio Managers seek to invest in businesses with sustainable competitive advantages which are selling materially below their assessment of intrinsic value. There is an emphasis on identifying management teams who are good allocators of capital. They particularly like "owner occupied" (founder-led) businesses because they believe that the alignment of interests between the owners and the shareholder of a business leads to more effective and responsible corporate governance.

The same 'owner occupied' mentality informs the culture and values we share as a firm. The two founders of the firm are also the Portfolio Managers managing our clients' assets. They and their families have 100% of their financial investments invested in the strategy. The rest of the Investment Team and other members of staff are also invested in the strategy. This ensures that the stewardship objectives of our clients are fully aligned with those of their management team.

To deliver effective stewardship for our clients, we believe it is important that our firm, and everyone who works for it, understands that the companies in which we invest are not just 'share prices on a screen' but real businesses affecting people's livelihoods, the environment and wider society. This belief derives from the fact that the firm's founders and Portfolio Managers have a successful background in industry, starting as strategy consultants with Bain & Company before spending 18 years founding and building businesses in media and software. We believe that this 'real-world' experience plays a critical role in our investment culture and our effective stewardship, in particular from the careful and successful allocation of investor capital into over 30 private company buy-outs combined with their experience since 2008 of running a successful long-only investment strategy in the public markets.

We embed these beliefs organizationally with a ‘flat’ and highly collegiate corporate structure. Although the two Portfolio Managers ultimately make decisions about the strategy’s investments, they work ‘should-to-shoulder’ with the Analysts at every step of the due diligence process, joining meetings and calls and discussing feedback at every point. We believe this structure delivers a highly effective level of stewardship for our clients. It ensures optimum communication, collaboration and information-sharing between the Portfolio Managers, the Analysts, the operations team and the marketing and client service team.

To identify investment candidates, the Investment Team undertakes deep bottom-up fundamental research, executing a private equity style of due diligence which evaluates each holding as if they were acquiring the whole business. Importantly, the Portfolio Managers have invested significantly in developing a robust framework which ensures that each investment case and valuation model is extensively documented, and checklists are complete prior to investment. This framework is never compromised and serves to limit the probability of mistakes in our analysis while also capturing our learning. There is a consistent focus on continuous improvement in which all Investment Team members (Portfolio Managers and Analysts) are stakeholders.

We believe the effectiveness of our stewardship over time can be measured in a variety of ways. Firstly, we have significantly enhanced the real (i.e. inflation-adjusted) value of our clients’ assets since the inception of the strategy. Our focus on avoiding excessive business risk, including ESG risks, we believe has also enabled us to protect the value of our clients’ assets in falling markets, where we have outperformed in 85% of down quarters[1]. Another measure of how effective we have been in serving the interests of our clients is the growth in the volume of clients who have chosen to entrust their assets to us.

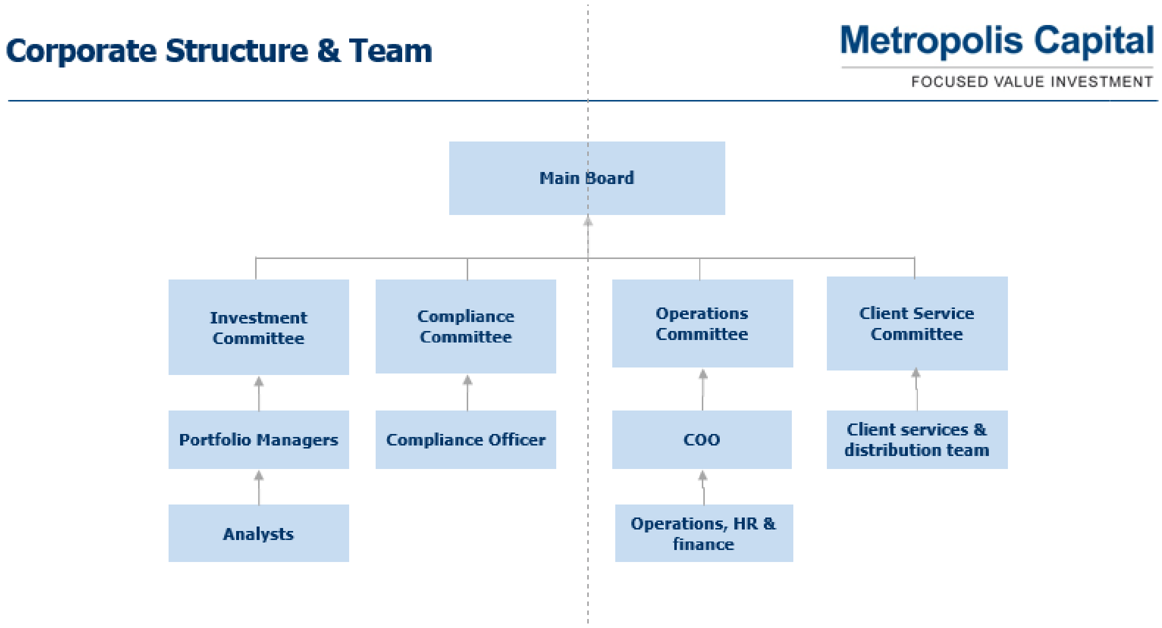
[1] Since the inception of the MI Metropolis Valuefund, our first open ended fund which was launched on 15/04/2011, calculated in GBP. Down quarters of the MSCI ACWI. Source data: Sharefunds, Maitland, Bloomberg.

Principle 2:

Signatories' governance, resources and incentives support stewardship.

The principle behind the development of the organisation has been to put in place a management team which can scale with the business and has more than sufficient experience and capability to deliver our mission with minimal risk to client outcomes. We have also aimed to ensure that there is redundancy in the structure to cope with all operational risks as the business develops.

The Board sets the strategy of the organisation and is the ultimate owner of all risk in the business. Each of the executive committees comprise at least 2 Board members. This ensures a total alignment of the executive policies and plans put in place and the strategy and risk plan signed off by the Board.



The Board comprises the two main shareholders and Portfolio Managers whose personal investments in the strategy aligns with the long-term interests of their clients. To ensure balance and diversity of thinking, the Compliance Officer and Chief Operating Officer have also been appointed to the Board and together bring a combined 50 years of investment banking and investment management experience.

The Compliance Officer has been selected for her deep experience of the finance sector including five years as a partner of a larger investment management business. This deep experience means that the Compliance framework at Metropolis goes well beyond box ticking but has been developed to ensure a total alignment between all activities of the team and the long-term mission to deliver outstanding returns for our clients.

The Chief Operating Officer brings with him experience of running all operations, risk and compliance for funds operating in much more esoteric and challenging asset environments than our concentrated portfolio of liquid public equities. He has developed robust backoffice systems to ensure that we can meet all client obligations efficiently with redundancy to ensure that all risks are covered.

In addition to three Board Directors, the Client Services Committee comprises two client services and business development executives with combined experience of 60+ years of servicing institutional and intermediary clients globally. Both individuals have managed the client service requirements of asset management firms significantly larger than Metropolis today and have been instrumental in supporting the development and execution of our approach to client engagement.

The structure of the Investment Team is designed to ensure the best possible outcome for our clients. The two Portfolio Managers are intimately involved with every step of the process of analysing the information gathered and processed on all investee companies. This close knowledge of each investee company is critical to ensure that trading in the position throughout our holding of that position is driven by our best knowledge of risks and potential upside of each company in which we invest.

In 2020, we formally created an Engagement Register which tracks the ESG profiles of all our portfolio companies and highlights the history, progress, and escalation of engagements with company management on key issues. We have also developed our own framework which we use for ongoing monitoring of ESG risk using input from multiple sources including proprietary research and direct engagement with the investee companies. This framework looks at objective measurable parameters. For example, we track greenhouse gas emissions by company in a dynamic comparative context by looking at each company's historical progress over multiple years and by comparison with identified 'best in class' peers in the same industry. The framework also tracks the history and level of disclosures from our portfolio companies.

The Investment Team engages actively in the process of voting on shareholder resolutions. The Analyst responsible for each portfolio company reviews each proxy vote and makes a recommendation which is approved by the Portfolio Managers. We lodge voting for all clients unless a client has issued instructions to the contrary or specifically asked us not to vote. Any votes cast against management recommendations or the advice of the proxy voting service provider are recorded.

The Analysts play a key role in building the detailed qualitative assessments and valuations of each investment company. Their "ownership" of the research process for each company ensures a deep understanding. We promote continuous learning via formal and informal training which is documented in a Training Register which has to be completed by all members of staff and which is reviewed regularly by the Board. The individuals whom we have appointed to the Investment Team have strong academic qualifications but, unusually, they also have real world business experience in private equity and strategy consulting and are driven by a genuine curiosity and desire to learn about different businesses and business models.

Our incentive structures also support effective stewardship. As the Portfolio Managers are also owners of the business their long-term remuneration is completely aligned with the success of the Company, which is directly linked to their success in delivering outstanding returns to their clients. This alignment is further enhanced by their personal commitment to invest 100% of their respective families' financial assets alongside their clients in the strategy. All staff are paid a competitive basic salary plus a long-term incentive scheme which is designed as a shadow equity programme structured much like the equity incentives of an LLC, i.e., they share in the growth and success of the firm. We believe that Analyst remuneration should not be linked to short-term personal performance. It is critical to us that Analysts maintain intellectual honesty. Attempting to reward based on performance creates conflict in the investment process and the formal appraisal process.

The cognitive and cultural diversity of the Investment Team supports effective stewardship. Firstly, the two co-founders came to fund management with very different backgrounds to most portfolio managers. They began their careers as corporate strategy consultants and then each built successful 'real world' businesses while making over 30 earnings-enhancing acquisitions before transferring their value philosophy to investing in listed companies in 2008. We have sought the same mix of diversity in business experience and academic skills in the four Analysts we have hired.

Principle 3:

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

At a high level many of the conflict of interest challenges of growing a successful asset management firm are addressed by our strategy of only managing a single strategy on behalf of our clients. This ensures that the entire organisation is focused on the simple mission of investing in a concentrated portfolio of global equities to deliver outstanding returns for a client base whose objectives and investment time horizons are largely homogeneous.

Conflicts of interest are further minimised by closely aligning the objectives of our staff with those of our clients. The Portfolio Managers have 100% of their financial investments in the same strategy as our clients. Most of the Investment Team is invested in the strategy and all members of staff benefit financially from the success of the business – a direct result of superior investment performance arising from our approach to stewardship.

However, the simplicity of the business model and alignment of staff is not itself sufficient to prevent all conflicts of interest arising. The Board takes its stewardship obligations in this regard very seriously and has put in place a clear conflicts of interest policy and register which are both reviewed and signed off by the Board annually.

The following is a list of the most likely potential conflicts which may exist directly in the management of our client's assets and how we address each to ensure that they are resolved in the best interests of our clients:

Potential conflict of interest	Resolution
A member of staff holds or deals in securities of any company whose securities are held on behalf of a client.	There is a clear PA dealing Policy in place followed by all members of staff. Any PA trade by any member of staff must be signed off by the Compliance Officer prior to execution. PA trades by any member of staff in companies which are invested in the strategy is prohibited. Within the Investment Team, PA dealing in single stocks is restricted only to those holdings which were held prior to employment. This is closely monitored by the Compliance Officer through quarterly attestation and all members of staff are required to submit an annual holdings declaration.
A member of staff is involved in the management of any company whose securities are held on behalf of a client.	All outside business interests must be declared by each new member of staff and these are updated annually. Employment contracts prohibit external commercial roles without prior approval from a Board member.

A transaction is executed in securities in respect of which the firm, or a member of staff is contemporaneously trading or has traded on its / their own account or has either a long or short position.	The restrictions and controls imposed by the PA Dealing Policy (as set out above) address most of this risk. The strategy is long-only so will never trade in short positions on behalf of clients. The firm will never trade a proprietary book.
The firm may when acting as agent for two or more clients need to apply a trade allocation method for aggregated trade orders in the same security for multiple client accounts.	The Order and Best Execution Policy is reviewed and signed of annually by the Board. This Policy addresses a number of conflicts including the selection of execution venue, aggregation of orders, partial fills and resolution of trade errors (which are always either neutral or to the benefit of the client). Allocation of partially filled trades is in the first instance handled by the Order Management System under the management of the Chief Operating Officer and not the Investment Team.
The Investment Team may receive investment research from execution venues (brokers) who are providing such information for free to encourage the Portfolio Managers to use their trade execution services.	As an FCA authorised firm, receiving broker research is prohibited unless the research is specifically paid for by the firm. Adherence to this law is confirmed in the Order and Best Execution Policy referred to above.
The firm may vote proxy votes for portfolio companies in a manner which is not in the best interests of the client.	Metropolis has a Proxy Voting Policy which is reviewed and signed off by the Board annually. The Investment Team will review each and every proxy vote for its portfolio companies and consider what is in the long-term interests of its clients. Where Metropolis judges that a recommendation is not consistent with shareholder interests and/or company policies, the oard or management recommendation will not be supported. On these occasions, Metropolis will exercise its right to vote against the resolution or abstain. Metropolis will ensure the same voting instructions are lodged for all portfolios unless clients of segregated accounts have issued instructions to the contrary or specifically asked Metropolis not to vote.

The Investment Team may receive insider information which could lead to them making transactions on behalf of clients which are both unlawful and in conflict with the objectives of a fair and well-functioning financial system.	On rare occasions, we may be asked by one of our investee companies or a broker to become an insider. Generally, we are not willing to become an insider, as we want the ability to trade in the companies we hold. If we do become an insider, we restrict trading in a company until we are satisfied that the information has come into the public domain or is no longer price sensitive. All staff are trained in how to deal with material non- public information and are required to reaffirm their adherence to Metropolis's Code of Ethics on an annual basis. Metropolis maintains and periodically updates the Restricted List in the internal Operations Model and Order Management System of financial instruments that are prohibited or restricted from investment as a result of a conflict of interest or inside information. Access to the restricted list is limited to the Chief Operating Officer and the Compliance Officer to ensure a strict separation from the Investment Team.

Metropolis expects each member of staff to avoid any situation that presents an actual, apparent or potential conflict between the member of staff's personal interest and our duties and obligations to our clients, the firm and the law. In addition to the above, there are clear policies and a monitoring programme are in place which address: political donations, the accepting or offering gifts, entertainment and corporate hospitality.

Where a conflict of interest arises, it is adjudicated upon by the Compliance Officer and, if necessary, escalated to the Board for a final decision and any disciplinary measures.

One area of conflict of interest which has been a feature of the investment management industry has been where fund management firms received investment research from brokers and paid for it by channelling share transactions on behalf of clients to those firms who would charge commissions on those trades, an activity known as 'softing.' The conflict was whether the requirement to pay for the research services was over-riding the fiduciary duty to secure 'best execution' for the client. We believe that we successfully managed this conflict by deciding right from the inception of our firm that we would not use 'soft' dollar payments but instead pay for any broker research at our own expense and transact our clients' trades without any soft commissions. When this practice became the norm with MIFID 2 requirements, we were fully 'in scope' because this had been our policy since the inception of the strategy.

In January 2020 we made the decision to subscribe on an arms-length basis to have access to third-party investment research from two sources: Goldman Sachs and Bank of America/Merrill Lynch.

Principle 4:

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

The investment philosophy and approach of Metropolis has many characteristics which ensure that the investment team monitors market-wide, systemic risks and supports a well-functioning financial system.

The investment team identify market-wide and systemic risks most obviously via their assessment of the 'Quality' score which we assign to each company we consider. For each company in the portfolio, we end up with a quality rating. These scores are based on an assessment of the strength of a company's competitive position or 'moat' and how well-placed it is to withstand market-wide and systemic risks. We also add to this calculation of quality a score for the severity of different market-wide and systemic risks potentially threatening the company which we term disruptive threats. We discontinue considering the company if the market-wide and systemic risks are either too large or too unknowable. As a result of this high quality threshold, 92% of our universe fail our quality rating. We believe this is the best safeguard for protecting against market-wide and systemic risk. Our portfolio allocation model uses the quality rating as one input for determining position size.

When we re-appraise a company's quality score (for any reason), we use the portfolio model to reweight the position. Thus, if post investment, we have uncovered a new ESG risk and our engagement process with the company is not leading to any obvious change in the way that management is addressing this risk, then we will consider whether this changes our quality score. This happened with our investment in a European pharmaceutical company: it spent over Eu10bn on two acquisitions which we felt were over-priced. This misallocation of shareholders capital led us to downgrade the position and to reduce our valuation of the business by our assessment of the excess cash spent on these two companies. Accordingly, we reduced our position size. Subsequent to this, the company has written down the value of these transactions on their balance sheet.

Our deep understanding of a few companies therefore means that we are able to process market-wide information and consider carefully the impact of unforeseen events on each company in the portfolio. For each portfolio company, we have modelled downside and upside scenarios for different market conditions or events. Both our quality score framework and our detailed valuation can be reassessed under circumstances of severe stress. This information is then fed into our portfolio allocation system providing an actionable trading strategy.

Secondly, our long-term perspective and long average hold-periods, combined with our deep understanding of each business when faced with different macroeconomic environments, helps us to look through short-term headwinds and take advantage of market price over-reaction. This often means that we are adding to our positions when the market narrative is focused on negative short-term conditions. This contrarian approach helps to promote a well-functioning financial system by providing liquidity when the market has shifted into sell-mode.

We have contributed more broadly as founders of the London Value Investor Conference in 2012. The conference takes place twice a year in London and New York attracting audiences of 600+ delegates. The focus of the conference is to provide a platform for investors who share a similar philosophy to our own as long-term investors seeking sustainable business models with strong corporate governance. The conference brings together some of the leading global investment management firms, industry practitioners, investment consultants and institutional investors to share views and long-term investment theses. A selection of agenda items from the December 2019 conference illustrate the emphasis on promoting and educating delegates on a style of investing which is highly supportive to a well-functioning financial system: 'Thoughtful Value Investing in a Complex World', 'Investing where others fear to tread', 'Putting things in perspective: Uncommon value in Public Equities' and 'Does Valuation Matter anymore?'

Another industry initiative in which we participated during the year was a front-page headline interview we gave in Value Investor Digest magazine in February 2020 in which we explicitly discussed the important market-wide and systemic risk represented by 'Disruption'. In it we said: 'We think about disruption constantly. A core part of our assessment of business quality is a disruption score that is designed to capture the sustainability of a company's market leadership against any number of threats for example, from new technology, changing regulation, changing supply chains, changing customer wants and needs, new or improved competition and climate change.'

As a result of our dialogue with clients, prospective clients and investment consultants, we made the decision to improve client disclosure on industries in which we are very unlikely to invest as a result of our assessment that systemic risk from climate change factors undermines the future sustainability of the business model. Specifically, we clarified formally, and communicated to clients, that our strategy will not have direct exposure to thermal coal and tar sand oil as well as tobacco and controversial weapons.

During 2020 we also conducted a review of the different external ESG ratings agencies, including the one we were using, looking at side-by-side comparisons of research on individual companies within the portfolio. We concluded that there is significant variation between their approaches to assessing individual company-specific risk. As a result, we developed our own framework which we use for ongoing monitoring of for assessing ESG risk. This framework looks at objective measurable parameters for example greenhouse gas emissions and tracks these in a dynamic comparative context by looking at each company's historical progress over multiple years and by comparison with identified 'best in class' peers in the same industry. The framework also tracks the history and level of disclosures from our portfolio companies.

We believe that a good indicator of the effectiveness of our approach to identifying and responding to market-wide and systemic risks such as climate change and the well-functioning sustainability of financial markets was the very high score our strategy received from Morningstar in 2020. Morningstar, using analysis provided by Sustainalytics, awarded our strategy its highest rating of 'five globes', putting us in the 5th percentile for Sustainability among 6838 global funds.

Response to Covid-19

In late January 2020, while the stock market was reaching new highs, we realised that if the coronavirus spread to Europe and the USA, it was likely to have a major economic impact. We assigned one of the Analysts to focus on it. This enabled us to build a potential new valuation scenario for each company in the portfolio.

As it became clear to us in late February that the virus was taking hold in Europe, we used this early understanding to make some rapid investment decisions and changes to the portfolio during the first two weeks of March. We believed the likely government responses would need to be more serious than the markets initially factored in. We therefore repositioned our portfolio away from those companies, whose business models we assessed were potentially long-term impaired by the effects of wide-spread lockdowns. This reduced the impact of the stock market declines on our clients' assets and positioned their portfolios more safely to meet the economic disruption that was to come.

Simultaneously, the significant drawdown in the markets removed much of the over-valuation that we had seen and had brought several high-quality companies on our watchlist within valuation range. We were therefore able to review those companies which had fallen to an attractive price level and where we are also confident that their intrinsic values were more insulated from the potential effects of the coronavirus and the accompanying lockdowns. We initiated a number of new purchases and the combination of these, and our sales of more Covid-sensitive stocks has been accretive for our clients' investment performance in 2020[2].

[2] Source: Maitland / Metropolis Capital: MI Metropolis Valuefund performance : 01/01/2020 – 31/10/2020

Principle 5:

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

Metropolis reviews and, if necessary, revises its policies regularly to ensure the effectiveness of its activities.

In addition to this Stewardship Code Disclosure, Metropolis has in place Policies and Statements which set out its stewardship objectives with respect to Modern Slavery and Human Trafficking, Proxy Voting, and Responsible Investment and Engagement. All of these documents will be accessible via a dedicated Stewardship page on our website during 2021. Each policy is reviewed and signed off formally by the Board on an annual basis.

One of the Analysts has a responsibility to keep abreast of best practice in stewardship activities by attending conferences, reading relevant publications and listening to webinars and podcasts.

Examples in 2019/20 which members of the team have attended include:

“Divest or Engage? Strategies for Responsible Investing” Conference on 28 October, co-hosted by the Centre for Endowment Asset Management (CEAM), based at Cambridge’s Judge Business School and the European Corporate Governance Institute (ECGI),

Seward & Kissel Webinar - ESG Overview for Asset Managers on 18 March 2020 and the Style Analytics ESG Summit on 5 May 2020.

To support the effective execution of these policies, the firm has put in place an operational framework to monitor the investment strategy and our engagement with our portfolio companies.

For Modern Slavery, the most significant risk is that a portfolio company is exposed to human rights abuses within its supply-chain. The investment team maintains a register of all portfolio companies and their own policies on Modern Slavery. On a company specific basis, the investment team seeks out third-party data sources which confirm that the portfolio companies are complying with their stated policy in this regard. Success is measured by how infrequently we miss public data sources which undermine any portfolio company’s credibility in this area.

The firm uses ISS as a platform to provide an efficient method for executing its voting policy and will review the research provided by ISS which accompanies each set of resolutions, however, the firm will not apply any default voting rules, instead both Portfolio Managers and the relevant Analyst for each portfolio company will review in detail each proxy vote and exercise care in its decisions on how to vote to serve the best long-term interests of the client. To support this, the Investment team applies a voting framework: for any vote against a Board recommendation, the issue is assessed in terms of the degree of risk which arises. The higher the level of risk, the more actively the investment team will engage with a company to attempt to bring about change.

An external validation of the effectiveness of these policies to enhance stewardship came from Morningstar. Morningstar, using analysis provided by Sustainalytics, awarded our strategy its highest rating of ‘five globes’, putting us in the 5th percentile for Sustainability among 6838 global funds.

2020 Policy and Process Enhancements

The Board developed and signed off the Responsible Investment and Engagement Policy for the first time as part of its efforts to meet its obligations under the Shareholders Rights Directive II.

In 2020, we enhanced our monitoring of portfolio companies with a checklist of questions which examine whether our investee companies have policies and procedures in place to highlight the risk of modern slavery in their supply chains and among their business partners.

Case study – 2020: Australian Strategic Policy Institute Report

Background

Over the summer, we became aware of the report published by the Australian Strategic Policy Institute highlighting the human rights issues around forced Uyghur labour being used in certain manufacturing plants in China. This report highlights several global companies which may have exposure to such human rights abuses within their value chain. Of the 111 companies mentioned, three were portfolio companies: Adidas, Cisco, and Google. This additional data source was a useful test as to whether our previous sources of data for assessing this risk were flawed.

Actions taken

For each company, we reviewed responses from the company to the report, reviewed our original 3rd party data sources and where we were not able to identify specific responses, engaged directly with the company. The focus of this research was risk-driven, i.e., the amount of effort was proportionate to the level of risk we envisaged.

Adidas’s business is most at risk from this issue. China is an important part of Adidas’s supply chain and any connection to this kind of human rights abuse would have both regulatory and brand implications globally.

From a previous investment in this industry (Nike), we were aware of a history of poor practice in sourcing – this occurred over 20 years ago and at the time, we were reassured that Nike had taken significant steps to address this. Prior to investing in Adidas in March 2020, we looked at data and commentary on Adidas’ supply chain and labour policies published by 3rd party independent sources such as ‘KnowTheChain’ and the ‘Fashion Transparency Index’. These 3rd party sources all rated Adidas highly with regards to the policies Adidas has put in place and the efforts it goes to monitor and train its suppliers. In addition, Adidas has stated it has never sourced products from Xinjiang and the company cited in the ASPI report had falsely claimed to be a supplier.

"The adidas workplace standards strictly prohibit all forms of forced and prison labour and are applicable to all companies across our supply chain. The use of forced labour by any of our partners will result in the termination of the partnership." - Adidas

With respect to Cisco and Alphabet, the risk to their business models is very low:

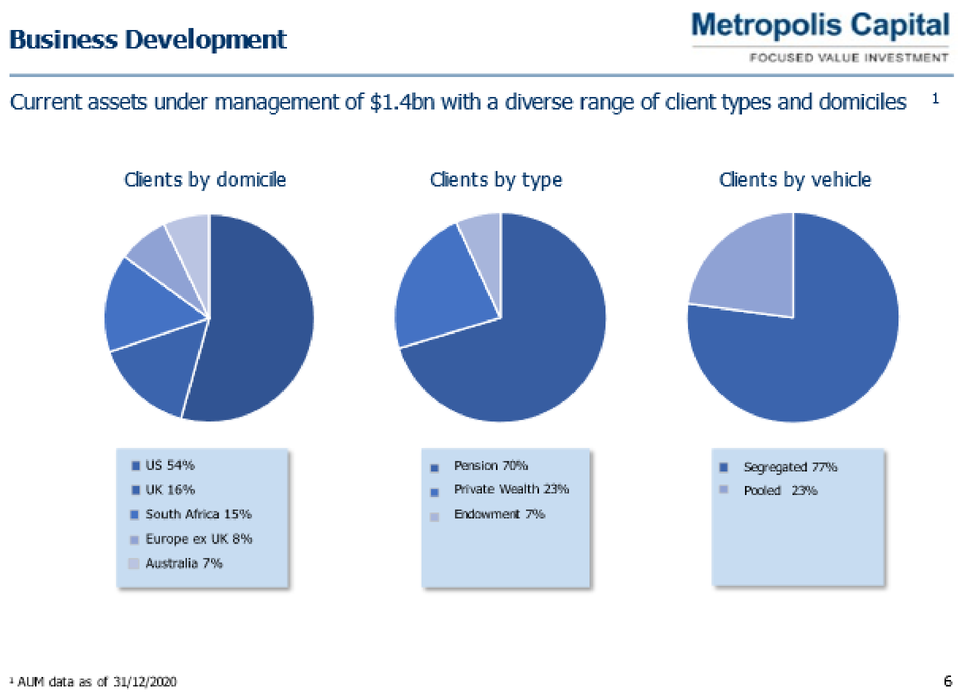
Cisco has reduced manufacturing in China significantly in the last two years. Whilst this is primarily driven by de-risking exposure to the US-China trade war, it also reduces any risk to their business model of exposure to this specific human rights abuse in the supply chain. We have raised this issue in a discussion with Cisco, who confirmed that neither of the two factories mentioned in the report are suppliers to Cisco.

Alphabet's potential exposure is limited to a fraction (<5%) of revenue (and a much lower % of profit) which is derived from hardware sales. Alphabet produces a detailed Responsibility Supply Chain Report which sets out their zero-tolerance approach to any form of slavery in the value chain. The report provides a high degree of disclosure on the results of their supplier audits which gives us confidence that the management team of Alphabet are addressing this risk. We will be raising this issue when we next engage with them.

Principle 6:

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

Funds under management as at 31 December 2020 is broken down by strategy, client type, and location as below.



By assets, our client base is 95% institutional. 100% of the assets are invested in a concentrated portfolio of up to 25 global equities (across all accounts) and a residual amount of cash. By offering a single specific strategy to a client base of informed and professional investors we have a high level of certainty that our clients know what they are buying and why they are appointing us. Clients typically have a 'risk budget' which may include an allocation to lower risk assets and passively managed products, but which also allows for an exposure to a more actively managed high-conviction strategy such as ours. In general, we are recommended to clients by investment consultants who have made a thorough assessment of our suitability for their clients' objectives. Furthermore, we find that institutional clients are increasingly allocating to us as active managers because they appreciate the enhanced stewardship value which we bring to our investment strategy.

Each of our Institutional mandates are supported by detailed Investment Management Agreements (IMA) setting out the mandate objectives and restrictions. Stewardship goals and restrictions are set out in the IMA. Since client needs, requirements and objectives are so thoroughly examined and discussed during the drafting of these IMA's, a process typically taking several weeks and comprising multiple drafts and re-drafts, we believe it is a highly effective mechanism for ensuring that we thoroughly understand our clients' needs prior to assuming responsibility for investing their mandates. These are then communicated both to the Investment team, who build these rules into their checklists prior to initiating a new position and to the Operations team, who hard-wire any rules into the pre-trade compliance module of our order management system.

We communicate regularly with all our clients via a detailed quarterly Investor letter written by the Investment Team. These letters, typically 15-20 pages long, provide information of our analysis behind new and existing positions covering all aspects of the investment thesis including ESG risks and opportunities. Through these letters, we also share with our investors any significant engagement we had with an investee company.

In the Q3 2019 letter, we included a copy of the letter we wrote to the Board of a portfolio company, which described in detail why we believed that the Board's proposed merger with a competitor was not in the long-term interests of shareholders, encouraging them to review their decision and making it clear that we would be voting against the proposed transaction.

In the Q1 2020 letter, we set out our direct engagement with both the Chairman and CEO of another portfolio company and our subsequent decision to exit the position because we were not able to sufficiently influence their strategy, which we believed would be long-term negative to shareholder returns.

Our client services team is in regular contact with each of our accounts and will facilitate communication directly with members of the investment team via ad-hoc emails, telephone calls, video conferencing and face-to-face meetings as required by the client. Through this process we maintain a dialogue with our clients and beneficiaries about their needs and requirements.

Detailed quarterly analysis on all shareholder resolutions voted on their behalf is available on request for all clients, many of whom have taken up this option. In addition, summary information on our voting record during the year is provided on our website. We are open to taking direction on voting, although on all mandates thus far we have been given discretion to make all voting decisions.

With respect to one of our international accounts, we have been requested to use an alternative proxy advisory service to ISS, the inhouse service we use. Despite the additional operational overhead, we have been happy to meet our client's requirements as this also provides an additional source of research on voting which has enriched our information resources and is of benefit to all clients.

2020 Enhanced Disclosure

During 2020, as a result of our dialogue with clients, prospective clients and investment consultants, we have made the decision to improve client disclosure on industries in which we are very unlikely to invest as a result of our assessment that systemic risk from ESG factors undermines the future sustainability of the business model. Specifically, we have clarified formally, and communicated to clients, that our strategy3 will not knowingly have direct exposure to the following: 1. Tobacco manufacturers; 2. Manufactures of controversial weapons; 3. Tar sand oil extraction companies; 4. Thermal coal mining companies.

[3] Where we invest in conglomerates, we will not invest where we assess that intrinsic value comprises more than 10% of the specified industries

Principle 7:

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

Central to our investment philosophy is that we think about each investment we make as if we are buying the entire business to own it forever. Driven by this long-term thinking, at the core of our valuation of each new position is an assessment of the long-term sustainability of a company's economic model.

Ultimately, we believe that good corporate governance results in management thinking long-term about their businesses and acting sensibly to ensure that the economic model is not imperilled by social, environmental, or other threats. As such, we feel that a focus on governance must come first.

The research process at Metropolis is split into discrete stages. The first stage is a quantitative screen from which Analysts select interesting candidates for an initial piece of research which is the second stage. This stage is supported by a semi-automated template with charts and data populated from 3rd party information sources; the Analysts then complete several questions which support our initial qualitative review of the business. Included in this stage of the research are questions which ensure that we are considering a broad range of disruption threats including environment (encompassing climate change), social and governance risks. The main purpose of identifying potential risks at this stage is to guide the more detailed research which is conducted in stages 3 and 4. The emphasis of stage 3 is on desktop research and stage 4 on bottom-up valuation work, supported with interviews, scuttlebutt research, and external data sources. A checklist is used in stage 3 to ensure that we have covered off all potential analysis. Included in this checklist are 30 questions which can be addressed to help in the assessment of ESG risk. The Analysts seek out third party data sources that are specific to the company and its industry to validate their assessments of each risk area. Engagement with the company directly typically takes place as part of the 4th stage and we use this opportunity to address all risk areas including ESG concerns. The majority of investment candidates which go through the third and fourth stages of the research process get placed in our watch or reject list. If, however, we believe that we have found a business which is of sufficient quality that we can conservatively value it and is priced with a sufficient margin of safety to this valuation, we will initiate it in the strategy. Before we do this, we take the thesis through one further checklist which ensures that we have asked all the fundamental questions; this includes ESG factors. This checklist has been derived from 20 years of investing experience, first applied to the due diligence process of buying whole businesses and since 2008 for the purpose of public equity investing.

The strategy is global; however we have not found that our approach to integrating stewardship and investment has had to adapt very differently because of the geographic markets in which we invest. Our investment universe is restricted to large international companies in well-regulated markets where we have experienced good communication and generally high standards of corporate governance.

The selection of case studies below, which covers 40% of our portfolio companies, provide some examples of how we have identified and prioritised issues under each ESG category. With respect to governance, we look to ensure that management behaviour and incentives are correctly aligned with long-term shareholder interests. We focus on social issues where we have questions about supply chain labour or where disclosures (e.g. health and safety) are inadequate. With environmental risk, the priority is climate change and, as we have explained, monitoring carbon risk and greenhouse gas emissions, and company policies and disclosures behind these, on a progressive and comparative basis.

Governance

16/04/2020 Portfolio Company A: We were concerned about the lack of clarity on equity grants for management. On a call, the company provided better granularity on how the equity vests and the restrictions around selling which confirmed to us that this is aligned with long-term interests of shareholders.

01/06/2020 Portfolio Company B: Following an issue raised by ISS, we discussed with the company whether their proposed level of deferred compensation for senior executives was excessive. We were satisfied that the amounts in question were small relative to their salaries and that it is a useful way for the company to borrow from its staff.

23/10/2020 Portfolio Company C: ISS had objected to the lack of performance criteria for two senior directors' RSU awards. On our call with the company, we learned that there was a significant compliance function for both roles and as such performance-based awards were not appropriate. We agreed and therefore supported management in the vote.

10/11/2020 Portfolio Company D: We were concerned about the existence of a 'poison pill' clause to prevent a hostile takeover and spoke with the company. This has been in place since 2013 and will be up for review in 2021. ISS recommended voting against the election of all Directors which we believed was excessive, however, we agree with the principle that this restriction should be removed. The current Chairman of the Governance Committee was in place when this was last reviewed so we voted against his re-election and informed the company.

24/11/2020 Portfolio Company E: Having written to the company, we had a call in which we raised a number of issues. We objected to the appointment of one of the NEDs because of our previous experience of investing in a company at which he had been CEO. As CEO, he had approved a merger with a competitor which had significantly undervalued the portfolio company and hence disadvantaged shareholders. We argued that he had a poor record of defending shareholder interests and therefore was an inappropriate NED. We voted against his appointment. We also requested the company to improve disclosure about the success of their acquisition strategy.

Social

23/09/2020 Portfolio Company E: We spoke to the company about its inclusion in the Australian Strategic Policy Institute highlighting the human rights issues around forced Uyghur labour being used in certain manufacturing plants in China. They confirmed neither of the two factories mentioned in the report were suppliers to the company. Furthermore, the company has been shifting manufacturing away from China.

23/10/2020 Portfolio Company C: We contacted the company to request that they produce a gender and minorities pay gap report at Group level, and not just for the UK.

20/01/2021 Portfolio Company F: The company scores poorly with ISS on its health and safety record, largely due to inadequate disclosures. We have contacted the company seeking explanations for its poor disclosures on labour health and safety and likewise for product safety quality and brand. We have requested updates on actions taken a result of recent industrial accidents.

14/01/2021 Portfolio Company G: We wrote a letter to the company to address the negative press about their services with respect to food deliveries to school children in the UK. We requested that they share with us what they understood to have happened and how they would remedy the allegation that their education catering subsidiary had not met expected standards in the provision of food parcels as a substitute for school meals, when pupils have been learning from home in the recent lockdown. The company responded constructively with an immediate call. The deficiency in service delivery was under very unusual circumstances when they were asked to convert from catering in schools to home delivery over night with ingredients which were suited to mass catering not food boxes. We understood that strong mitigating actions were being taken. Subsequent monitoring of the situation continues to suggest that the issues have been addressed.

Environmental

14/09/2020 Portfolio Company H: We raised our concerns about poor scores from ISS on Environmental Risks and Opportunities. In a call, the company responded by saying that they were aware of their shortcomings, that the issue was one of disclosure and that they had appointed a head of ESG and completed a major project with PWC to address these issues.

10/12/2020 Portfolio Company I: We submitted data request for metric tonnes of greenhouse gas emissions (scope 1 and scope 2) for the period 2019 and for prior years. In subsequent discussions with the company in January 2021, we have now received the required data for 2019 and have been informed that they have now established a department to focus on ESG disclosure which result in improvements during 2021.

11/12/2020 Portfolio Company J: We submitted data request for metric tonnes of greenhouse gas emissions (scope 1 and scope 2) for the period 2019 and for prior years. The company has subsequently published this data.

Principle 8

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

We maintain a register of all service providers with a note of when they were last reviewed and a date for when they will be reviewed again. The review process is very thorough and is led by our Chief Operating Officer reporting through to the main Board. For incumbent providers it starts with an internal review of service satisfaction from team members before formally 'testing the market' through approaching non-incumbent firms.

Metropolis' strategy is to use external brokers and rely on their expertise as regular market traders to get the best results for our Clients. The rationale for this approach is that Metropolis trades infrequently. As such, any internal trading function would be very part-time. Given the frequency of trading, it is unlikely that Metropolis would be able to attract and retain the talent required to ensure the best possible outcome for its clients.

Brokers are approved by the Board of Metropolis following thorough Broker due diligence. It is the firm's policy that only Approved Brokers may be used for any trading. Metropolis has determined that it will maintain at least three broker relationships. This ensures that it can constantly benchmark the relative service levels, efficiency, and performance of the different providers.

Each trade is recorded in a trade register and there are checks undertaken for whether the price being offered appears to be a good result for the Client:

1. The Portfolio Manager will check the price achieved against actual market spreads to ensure that the price is appropriate for its volume based on the liquidity of the stock.
2. We record and monitor the difference between initial order price, executed price and day high-low trading range on all trades.
3. A sample of at least 20 trades per quarter are checked on a random sample basis by the Compliance Officer who performs a detailed process monitoring all aspects of the trade including pre-trade compliance, call records and transaction records.
4. 100% of trades executed are checked retrospectively on a quarterly basis versus the day high low range of the relevant trading day.

Whilst Metropolis uses several different sources of information to support the detailed research work undertaken by the Analysts, this data is never entirely relied on to develop the thesis. We develop extensive proprietary collateral which underpins our investment decisions such that third party data is cross-verified and validated by other data sources. As an example, we currently use S&P CapIQ for financial data to help the building up of initial valuation models and to facilitate financial analysis. However, the data which drives the bottom-up model which is created to complete a detailed company valuation in the final stage of our process is always sourced directly from the firm's Annual Report and Accounts. Where discrepancies between S&P CapIQ data and original data sources are spotted, the Analyst will contact the S&P CapIQ data analysts to understand the issue and to hold them to account, which often results in S&P CapIQ making updates and thereby ensuring that they continue to meet our specific needs. Similarly, use of broker research to which we subscribe or data from Bloomberg is only used to enhance our qualitative understanding of the business and industry.   We review our primary data provider once every three years. The last time we changed supplier was in 2015; we are conducting a full review of service providers in 2021.   Our selection of investment research suppliers is reviewed at least bi-annually by undertaking competitive trials with alternative providers.

Metropolis has engaged ISS Proxy Voting Services to help facilitate its voting and engagement activities. ISS enhances its platform to facilitate the voting process with research reports for each vote which include recommendations on whether to vote in line with management, against management or to abstain.   These recommendations are based on the NAPF (National association of Pension Funds) guidelines and ISS's own proprietary research. Metropolis will review each vote carefully along with its own detailed research of the company. The ISS recommendation is just one input which is taken into consideration when voting. Metropolis does not always vote in line with ISS's recommendations when it does not agree that this would be in the best interests of its clients.

Metropolis monitors closely the following aspects of this service:

1. 100% of all votes are executed on a timely manner for all client accounts.
2. Reporting from ISS on voting activity is delivered in a timely manner such that we can ensure that we meet our own voting disclosure requirements with our clients.

Service provider review 2020

In 2020 we undertook a comprehensive review of the various ESG ratings agencies. Lasting several months, the review involved a series of detailed presentations from each provider explaining their process and methodology, their resources and their future development plans. To create an 'apples vs apples' comparison, we asked each provider to send us side-by-side comparisons of research on the same individual companies within the portfolio. Whilst the analysis from the agencies was valuable, we concluded that there was significant variation between their approaches to assessing individual company-specific risk. As a result, we decided to develop our own framework which we use for ongoing monitoring of ESG risk. Input from our ESG data provider is only one input in this framework as we now review data from multiple sources, including our own proprietary research and engagement with the investee companies directly. This framework looks at objective measurable parameters such as carbon emissions and considers the following three dimensions: (a) progress over time – looking at historical progress over multiple years, (b) comparison against identified peers in the same industry, particularly against "best in class", and (c) levels of disclosure. This data is informing our discussions with the companies when we engage with them.

Principle 9

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

Our objective is to deploy such a thorough research process that we avoid investing in companies which require extensive engagement to keep them on track. As such most of the engagement with our portfolio companies is to seek information to support our detailed understanding of the business, the assumptions which underpin our valuation models or for clarification on issues and risks identified by the investment research team. This engagement starts prior to investing in the company and continues actively throughout our ownership period.

We maintain an Engagement Register which tracks our interactions with investee companies and the issues addressed with them. With this, we track all issues on which we have engaged so that we can monitor progress towards resolution. We assess the risk level of each issue to determine the pathway of escalation in engagement.

If the issue is left unresolved, then we will seek to exercise our fiduciary rights as shareholders and vote against the Board at AGMs and EGMs. Sometimes, the vote will be direct, e.g. in the case of a resolution to improve disclosure on gender pay gap, or sometimes indirect, e.g. we will vote against the election of the Director heading up the remuneration committee if we have any issue with management incentivisation and are not able to vote on the issue directly. Our voting intentions are communicated to the company with an offer for further dialogue. The pathway from this point is then determined by the risk level. Where we deem the issue to be a fundamental risk, then we will review our quality score and valuation assumptions. In some cases, this can lead to an exit or early exit from the position. Where the risk is deemed to have the potential to impair our valuation but not to a material level, we will continue to engage with the company and at the next opportunity widen the level of voting against the Board, particularly the re-election of specific Board members.

Our Engagement Register records the date of the engagement initiation, the company, the description of the issue, the risk level we attribute to it, the actions we have taken and the company's response, how we have subsequently voted (if a voting issue), and whether the issue is open or closed and any outcome.

Under Principle 7 we included some examples of how we identify and prioritise engagements. Here we show how we have well-informed and precise objectives for engagement and how outcomes are reviewed and monitored and followed up or updated with further action points if necessary.

The strategy is global; however we have not found that our approach to engagement has had to adapt very differently because of the geographic markets in which we invest. Our investment universe is restricted to large international companies in well-regulated markets where we have experienced good communication and generally high standards of corporate governance.

Over the period 01/01/2020 to 31/12/2020, we recorded the following number of engagements with our portfolio companies:

Company presentations / group calls:	63
One to one meetings / calls:	28
One to one meetings which were specifically to engage on issues identified:	7

Principle 10

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

We are willing to participate in collaborative engagement to influence issuers as long as it does not prove too much of a distraction from the effective stewardship of our clients' assets in general. In the past we have been asked if we should become more activist which would involve instigating and coordinating a much more active level of collaborative engagement with other investors to influence issuers. We have had two experiences of being activist (fighting the MBOs of portfolio companies in 2009 and 2016). Whilst in both cases we were able to achieve higher prices from our actions, both processes were a significant investment of time. Our view today is that we serve our investors better by focusing that time on finding alternative investment ideas.

On 1st June 2020, we became signatories to the UN PRI. An advantage of this is the opportunity to join collaborative engagements with other investors through a relatively straightforward process which should not distract us from our day-to-day portfolio management responsibilities. The opportunity to initiate or join with a PRI collaborative engagement is expressly included for each engagement issue on our Engagement Register. In the short time that we have been PRI signatories, however, the issues have been ones upon which we have been able to influence issuers without the need either to initiate or join a PRI collaboration with other investors.

Principle 11

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

When we identify risks and issues which we believe the company is not properly addressing, we open a direct dialogue with the company. This can help to clarify the extent to which the company's management team has already started to address the issue.

We have put in place a framework for formal escalation of issues where we do not believe that there is sufficient progress being made towards resolution. We start by assessing the risk level. This determines the pathway of engagement.

If the issue is left unresolved, then we will seek to exercise our fiduciary rights as shareholders and vote against the Board at AGMs and EGMs. Sometimes, the vote will be direct, e.g. in the case of a resolution to improve disclosure on gender pay gap, or sometimes indirect, e.g. we will vote against the election of the Director heading up the remuneration committee if we have any issue with management incentivisation and are not able to vote on the issue directly. Our voting intentions are communicated to the company with an offer for further dialogue. The pathway from this point is then determined by the risk level. Where we deem the issue to be a fundamental risk, then we will review our quality score and valuation assumptions. In some cases, this can lead to an exit or early exit from the position. Where the risk is deemed to have the potential to impair our valuation but not to a material level, we will continue to engage with the company and at the next opportunity widen the level of voting against the Board, particularly the re-election of specific Board members.

Under Principle 7 we included examples of our 2020 engagements and in Principle 9 we included a summary of our 2020 Engagement Register which shows outcomes, follow-ups and further escalation where required. In the majority of cases the outcome was 'closed' either because we were satisfied with the response from the company, or we resolved the information gap which had prompted the engagement. In the case of the 'open' engagements, we can summarise the future steps as follows:

Portfolio Company C:

after speaking with the company about their lack of a group-wide gender diversity pay gap report, we were pleased to see that they have produced a report on gender diversity. We regard this as a sign of some progress on the issue of diversity. We will be monitoring to see whether the company implements the findings of its diversity report in terms of its employment practices, and we will use either our votes, or a collaborative engagement, to influence further change if necessary.

Portfolio Company D:

we have written to the company to inform them that we will vote against all directors at the next meeting if this Poison Pill is not removed at the next review which is in 2021.

Portfolio Company I:

We submitted data request for metric tonnes of greenhouse gas emissions (scope 1 and scope 2) for the period 2019 and for the prior ten years, if available. In subsequent discussions with the company in January 2021, we have now received the required data for 2019 and have been informed that they have now established a department to focus on ESG disclosure which result in improvements during 2021. We will review this disclosure and determine whether further escalation is required.

Principle 12

Signatories actively exercise their rights and responsibilities.

Metropolis has a Proxy Voting Policy which is reviewed and signed off by the Board annually.

The guiding principle of this Policy is that voting rights should be exercised and proxy votes should be cast in the best interests of clients. Voting decisions are made on a case-by-case basis in a manner that is deemed most likely to protect and enhance the long-term value of a security as an asset to the portfolio. Where we judge that a recommendation is not consistent with shareholder interests and/or company policies, the board or management recommendation will not be supported. On these occasions, Metropolis will exercise its right to vote against the resolution. Conflicts of interests are considered when voting.

We recognise the strong link between good corporate governance and investment value. We aim to enhance shareholder returns by discouraging disadvantageous corporate policies through discussion, where possible, with company management and the exercise of voting power. Similarly, there are opportunities to encourage effective management through the endorsement given by positive votes. We believe that by adopting high standards in relation to corporate governance, companies can avoid potential damage to trade or reputation and therefore enhance and protect the long-term wealth of their shareholders. Our corporate governance research activity not only seeks to monitor the integrity of companies in which we invest and to reduce the risk of corporate mismanagement and failure but also seeks to protect the rights of all shareholders.

Metropolis uses ISS as a platform to provide an efficient method for executing its voting policy. When lodging voting instructions, we ensure voting instructions are lodged for all portfolios unless a client of a segregated account has issued instructions to the contrary. All votes cast are recorded, and periodic reporting is available to all clients upon request.

ISS also provides a research report for each vote and the ability to exercise a default vote based on the ISS recommendation; we will not apply any default voting rules, instead both Portfolio Managers and the relevant Analyst for each portfolio company will review in detail each proxy vote along with the ISS research which is one input into our decision. We do not always find ourselves in agreement with the ISS assessment and have been comfortable to vote against ISS recommendations just as we sometimes vote against management. We do not engage in stock-lending which simplifies the challenge of meeting our voting obligations.

Summary of Voting 2020

Ballots cast: 1834

Against ISS / Hermes recommendation: 254

Against Management: 127

Last reviewed: 26/03/2021

Approved by the Board of Metropolis Capital Limited: 29/03/2021

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