Close Brothers
Asset Management

Stewardship and Responsible Investment Report

2022

Contents

Foreword

We have created the 2nd edition of our Stewardship and Responsible Investment Report in a continued effort to be transparent about our approach to being diligent stewards of our clients' capital and how we embrace responsible investment as an organisation.

The report is aligned to and guided by the twelve 'apply and explain' principles set out by the Financial Reporting Council (FRC) in the UK Stewardship Code 2020 (the Code). The report covers the period 1st August 2021 to 31st July 2022, our last financial year (FY22).

We were delighted to be accepted by the FRC as a signatory to the UK Stewardship Code for our FY21 report submission, and were grateful for the FRC's feedback on where we could improve our stewardship approach. Where possible we have addressed the feedback and sought to make enhancements, particularly in three key areas:

1. Developed a stronger link between our overall company strategy and responsible investment approach.
2. Grew the Responsible Investment (RI) team in FY22 and the beginning of FY23, by hiring a Responsible Investment Analyst and Associate to strengthen our resource for sustainability research, engagement and voting.
3. Built out our engagement and sustainable thematic research functions. These have allowed us to be more responsive to market-wide events and collaborate with the wider industry more effectively.

FY22 was a challenging year politically, economically and environmentally. Russia's invasion of Ukraine not only exacerbated a spiralling global energy crisis but it sharpened the focus on the social implications of war. Whilst countries looked to fossil fuels to shore up their energy supplies and we recovered from the Covid-19 pandemic, absolute global emissions continued to rise. The need for climate change mitigation and adaptation, as well as social protections, is acute, and much more work needs to be done in these areas.

In such an environment, engaging with our investees and wider industries is all the more important. In order to fulfil our duties as effective stewards it is vital that we understand how environmental, social and governance factors might materially pose risks or opportunities for our investments. Engagement not only increases the common understanding between us and our investee companies but allows us to use our expertise and knowledge to put our clients' interests at the forefront of our actions.

Looking forward, we expect the increasing structural support from governments and regulators to strengthen responsible investment trends. We will continue to develop our tools and approach to harness these trends and advance our stewardship efforts.

Robert Alster
CIO of Close Brothers Asset Management on behalf of Close Asset Management Limited

(Close Brothers Asset Management is the trading name for Close Asset Management Limited)

Purpose and Governance

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.

Close Brothers Asset Management (CBAM) is part of the Close Brothers Group plc (CBG or the Group), a FTSE 250 leading UK modern merchant banking group, providing lending, deposit taking, wealth management services, and stocks and shares trading. We are one of the UK's largest and longest-established providers of financial advice, investment management and self-directed services to private clients and small institutions.

Our Investment Management business consists of two core units: one offering fund solutions, and the other offering segregated investment accounts ("portfolios") where clients may request that we reflect their specific values and preferences.

Across both units we are focused on protecting and growing our clients' wealth over the long-term.

MISSION, VALUES AND STRATEGY

In FY22 we updated our strategy to clarify both what CBAM does as an organisation and how we do it. We hope that the added clarity will increase common values between colleagues at CBAM and ultimately enable a stronger and more effective service to our clients. We continue to support the Group's purpose, strategy, culture and responsibility; and our mission is *to be the best place in the UK to look after clients' wealth and for wealth professionals to work*.

As part of our strategy update, we have now made it our responsibility to address the social, economic and environmental challenges facing our business, employees and customers, now and into the future. Details of how we carry out this strategy are further outlined below in our principles and philosophy and are explained throughout this report.

CBAM'S BUSINESS PRINCIPLES

Our Business Principles are designed to be our guiding values as we pursue our mission and strategy. They are a reflection of who we are and how we do business. They have not changed since last year.
Our Business Principles ensure we put our clients first, we remain responsive to their needs and manage their capital responsibly.

CLOSE BROTHERS GROUP: PURPOSE, STRATEGY, CULTURE, AND RESPONSIBILITY

Source: CBG.

Our Business Principles

Source: CBAM.

CLIENT
We pay attention and listen to our clients. Their needs shape our actions and that is why they feel valued and supported. We aim to build enduring relationships and deliver excellent outcomes for our clients through our long-term investment philosophy of growing and preserving wealth, and offering products that meet their needs. The former is supported by our in-depth research and Stewardship and Responsible Investment Policy (both outlined in this principle). In FY22 we developed a new template for ESG considerations in our research notes, see Principle 7. The latter has been validated by surveying our clients' sustainability preferences and ensuring we could offer a tailored service to meet these; see more detail in this principle.

EXCELLENCE
We keep upping our game. We go the extra mile. And we take pride in deepening our expertise. We aim to attract high quality Bespoke Portfolio Managers to work for CBAM, and have made headway on this aim in FY22, hiring 11. As competent professionals, they will help us to be the best stewards of our clients' capital that we can be and to effectively reflect the long-term investment targets and values of clients in our portfolios.

PEOPLE
It's always "we" not "me". We aim to be open, inclusive and kind. And we know that valuing different voices makes us stronger. In order to make strong decisions in the best of interests of our clients we believe it is important that our workforce is not only diverse but also feels included. Finding ways to empower our colleagues to work together is key, and regular stock meetings, asset class and ESG committees are important governance tools for achieving this. We cover diversity and inclusion and our governance structures more under Principle 2.

INTEGRITY
We aim to do the right thing, always. We place our colleagues and our clients at the centre of what we do. We strive to be more socially and environmentally responsible. How we conduct ourselves as a business is central to be a trusted steward of our clients' capital. We aim to develop the expertise of our colleagues and create an environment that improves open, purposeful communication. This has become a focus of what we do in order to improve decision-making and deliver better client outcomes with integrity. In FY22 we created new communication channels, including: 1) a sustainability hub which is a centralised resource colleagues can access at any time to understand our sustainability goals and Responsible Investment approach. 2) Webinars on sustainability topics, hosted by Group, that have increased engagement in key energy transition areas. 3) Monthly investment debate forums; these have been discussed further under Principle 2.

CBAM'S INVESTMENT PHILOSOPHY

Our fundamental investment philosophy and process remains focused on preserving and growing wealth over the **long-term**. We aim to generate the best possible returns, in line with expectations and appetite for risk, through **active, prudent investment management** expressed across **diversified, multi-asset portfolios**. Through **disciplined, collegiate research** and asset allocation we look to identify high-quality, liquid securities at attractive valuations. We believe this is the best way to achieve superior performance.

LONG-TERM PRUDENCY

Our remit is to prudently invest to protect our clients' capital. Investing over the long-term offers:

1. Reduction in volatility of returns.
2. Exposure to the power of compounding.

ACTIVE MANAGEMENT

We seek to add value through active tactical asset allocation decisions and individual investment selection. This process involves tilting the mix of asset classes in different market conditions to express our prevailing views. The purpose of tactical asset allocation is not to fundamentally alter a portfolio's long-term risk profile, but to enhance returns and reduce losses by making adjustments to the strategic framework.

COLLEGIATE RESEARCH

We are a team of more than 70 investment professionals. More than two-thirds have more than 15 years of investment experience. We encourage open debate within a structured framework of daily, weekly, monthly and quarterly meetings to leverage off this experience and to ensure we rigorously review and evaluate investment opportunities. Opportunities can stem from the research teams or the investment managers.

DIVERSIFICATION

A single asset class rarely outperforms in all market conditions. Therefore, we believe the best way to deliver real returns and reduce risk is through diversification – investing across asset classes, geographies and sectors. We invest predominately in liquid, direct securities (see Principle 6) as it allows us to respond to changing market conditions quickly and enables us to meet the income and drawdown needs of our investors.

Our investment philosophy and beliefs of long-term prudency, active management and collegiate research have shaped our thematic sustainable investment research, engagement and overall stewardship approach in FY22. These aspects outlined below have helped supplement our Stewardship and Responsible Investment Policy which can be found on our website.

We are integrating responsible investment practices in our investment process to aid us in creating long-term value for clients and beneficiaries, in turn, leading to sustainable benefits for the economy, the environment and society.

We define responsible investment as an approach to managing assets which explicitly considers and integrates the impact of material ESG factors on the long-term financial risk and return of our investments.

We recognise that there is a potential impact on an investment's value from a company's interaction with its stakeholders; including employees, customers, suppliers and the environment in which it operates. We will also use these considerations to inform our active ownership and stewardship approach, including engaging and voting on our investments to protect our clients' capital against risks and enhance returns.

ESG issues are material risks and opportunities for our investments so we are building the assessment of these factors into our investment process. We see this as a critical part of our duty of care and stewardship responsibilities for our clients.

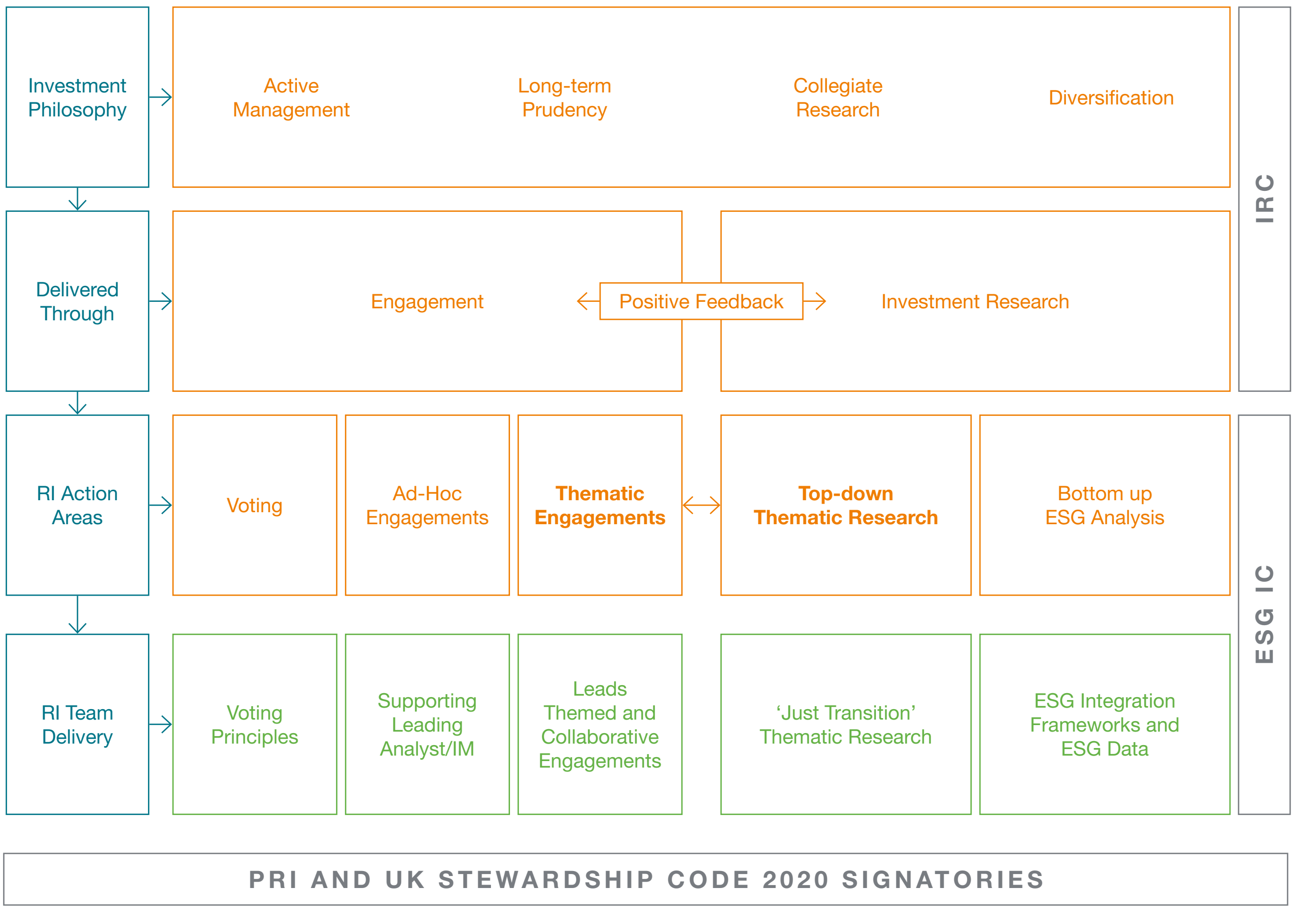
The development of our top-down thematic research, bottom-up ESG analysis (see Principle 7) and engagement approach is an on-going process. Together with the wider industry we are embracing Responsible Investment as a journey.

RESPONSIBLE INVESTMENT AT CBAM

The graphic below summarises how our responsible investment approach helps to serve the individual aspects of our investment philosophy, namely through engagement and research. We appreciate the positive feedback relationship between engagement and research, where research helps to inform engagements and vice versa.

The specific responsible investment actions include: voting (See Principle 12), engagements (Principle 9), thematic research (Principle 7) and bottom-up ESG Analysis (Principle 7).

Our Responsible Investment team provides the resource to carry out each of these actions. The team's delivery includes: defining CBAM's voting principles (Principle 12), supporting analysts and investment managers with engagement (Principle 9 and 11), leading collaborative engagements (Principle 10), producing sustainable thematic research (Principle 7) and creating ESG integration frameworks for each asset class (Principle 7). This approach is guided by the ESG Investment Committee, described in Principle 2.



IRC – Investment Review Committee
ESG IC – ESG Investment Committee
RI – Responsible Investment
IM – Investment Manager

Source: CBAM.

SUSTAINABLE THEMATIC RESEARCH

By their nature sustainability trends develop over years and so must be considered as part of a long-term, prudent investment approach. In FY22 our Responsible Investment team began conducting thematic sustainable investment research to:

1. Identify these trends;
2. Understand whether they might cause material risks and opportunities for investments; and/or
3. Create frameworks to understand how sustainable particular technologies, sectors and companies are now and in the future.

The thematic research also serves our collegiate research and diversification aspects of our investment philosophy. The thematic research is unconstrained by sector or geography and can be applied to all main asset classes (equities, fixed interest, alternatives). It is also utilised by our equity, fixed interest and alternatives analysts to inform their bottom-up research on risks and opportunities pertinent to their investment ideas.

We have framed our sustainable investment research around the overarching theme of a 'Just Transition'. A 'Just Transition' is the simultaneous shift to an economy that is lower carbon, more sustainable and preserves, if not improves, biodiversity and our current climate, while protecting workers' rights, and improving livelihoods and economic fairness.

We decided on the theme, based on a survey of our investment professionals that asked them which sustainability themes were the biggest risk or opportunity to their clients' investments, CBAM's investments as a whole and the wider economy. The results were a combination of social and environmental issues. A 'Just Transition' recognises the systemic interaction of key social and environmental factors as the world transitions to a sustainable future. The theme and associated research are discussed in more detail under Principle 7.

ENGAGEMENT AND STEWARDSHIP

The benefits of our active management philosophy and process are:

1. The ability to make active asset class and security decisions based on available risk and opportunity information; and,
2. The ability to influence investee management on our views of corporate best practice.

1. Our active management philosophy is a core driving factor behind how we make decisions. In order to improve our security selection decision making in FY22 we introduced a new ESG framework into our equity research initiation notes. The motivation for doing so was to provide an updated structure to help uncover additional risks and opportunities to a stock investment thesis stemming from E, S or G factors.

The section is predominately qualitative reasoning rather than quantitative analysis and consists of a series of questions for the equity analyst to consider. The questions work methodically to understand which ESG risks and opportunities the company is exposed to, how these externalities are being managed, how any of these might affect the material financial drivers of an investment thesis, and how they have influenced the investment case. To facilitate the thought process, the analysts are asked to consider past controversies, management incentives, alignment with the EU-defined taxonomy and any decarbonisation transition plans. The ESG research section is explored further under Principle 7.

2. Our active management philosophy gives us the opportunity to engage with management through voting and structured discussion. Covered more under Principle 9 and Principle 10, in FY22 we made a distinction between thematic and ad-hoc engagements. Ad-hoc engagements are led by the analyst or investment manager with coverage of the company and points for engagement can be informed by the ESG section of the equity research note. Thematic engagements will be led by the Responsible Investment Team, informed by our 'Just Transition' thematic research or other arising sectorial, national or global sustainability issues that pose material risk to our investments.

HOW OUR PRODUCTS SERVE OUR CLIENTS

Our product range is influenced by our investment beliefs of **long-term prudence, active management, diversification and collegiate research**. In addition, our mission to be the best place in the UK for our clients' wealth, we believe is achieved by a product range that can be flexible and bespoke to meet their needs. This is central to the 'Client' pillar of our business principles and helps drive our investment managers' decision-making when tailoring portfolios for clients.

As discussed in Principle 6, the vast majority of our client base are retail investors. Tailoring is especially important for our clients who invest with our Bespoke investment management solution as it allows them to reflect their unique goals and values in their investments. We work with our clients to identify their goals, their investment horizons and the level of risk they are comfortable taking prior to making any investment decisions.

We offer ethical screening, Sustainable Funds, and our Socially Responsible Investment Service for clients who wish to further align their investments to their values. We do not believe in a one-size-fits-all approach, which is why we have created a variety of investment solutions.

CBAM's intellectual capital is shared across the solutions and we believe we can carry out our stewardship responsibilities by tailoring portfolios to meet clients' needs.

Our investment managers select the most appropriate blend of equity, fixed interest, cash and diversifiers. This is called 'multi-asset class' investing. **We build multi-asset portfolios because of our belief that the best way to achieve strong risk adjusted returns is by diversifying investments**.

All of our solutions are managed on a discretionary basis, which means that our investment managers take care of day-to-day decision making, such as what to invest in or when to buy and sell. **In the active management approach, each investment manager has individual discretion** over:

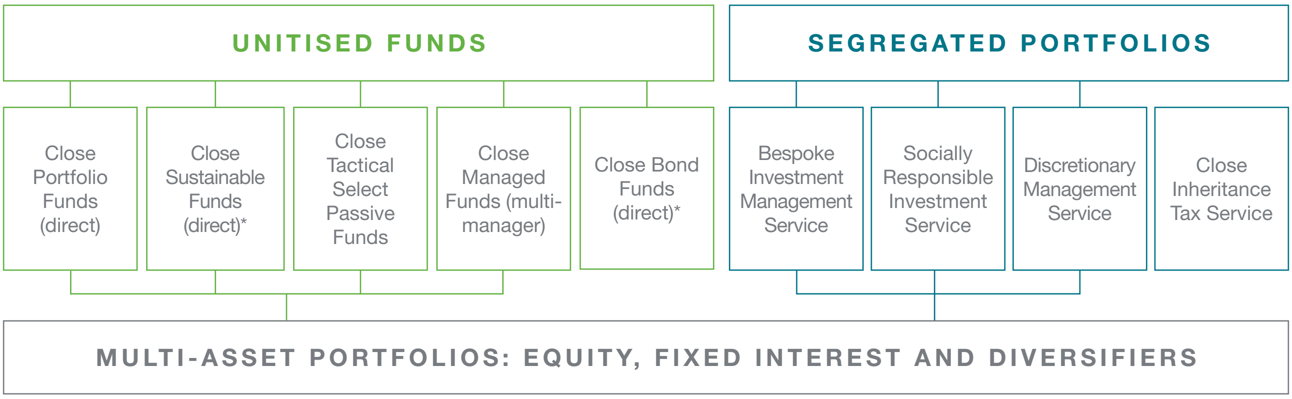
- Selecting the weighting of investments: they diversify risk by spreading investments across the right combination of cash, equity, fixed interest and diversifiers.
- Selecting each underlying investment: mostly shares in companies, corporate and government bonds, third-party funds and a small selection of commodities, infrastructure and property.

They have the support of our extensive team of analysts and collegiate researchers who explore and investigate each investment that we believe will drive performance.

The graphic on page 13 illustrates our full product suite available in FY22. We are continuously looking for ways we can improve our product and service range.

We benefit from access to leading external research, global insights and innovative analytical tools, and the use of third-party ESG metrics as part of our research process. We also engage external consultants for guidance on where we can improve our business to better serve our clients.

OUR PRODUCT AND SERVICE RANGE



Source: CBAM. *As of March FY23, Close Select Fixed Income (within Close Bond Funds) and Sustainable Bond Fund (within Close Sustainable Funds (direct)) have merged to become Sustainable Select Fixed Income. Diversifiers include; commodities, alternatives and property.

HOW EFFECTIVE HAVE WE BEEN AT SERVING THE BEST INTERESTS OF OUR CLIENTS?

We aim to serve the best interests of our clients through three channels. Our responsible investment approach supports each channel.

1. Protecting and growing their wealth.
2. Providing a tailored service within our Bespoke investment solution that can reflect a client's needs and values.
3. Engaging with our investments for better client outcomes.

Protecting and growing their wealth

We conduct our responsible investment and stewardship processes to inform our investment decision-making, identify opportunities and protect against risks. It is our belief that making investment decisions based on a wider set of information that includes environmental, social and governance issues can only be a benefit.

However, it is a difficult, imprecise task to know and measure the overall impact on our clients' investments of our ESG integration and responsible investment efforts. The process of ESG integration is explored more in Principle 7. From a purely financial perspective, our annual Assessment of Value report can be found here. This report considers the overall value we believe our authorised, unitised funds have delivered to investors.

Providing a tailored service within our Bespoke investment solution that can reflect a client's needs and values

In FY22 we also sought to understand to what extent we were serving the responsible investment interests of our clients and to what extent our solutions could address their needs and values. We conducted a survey to canvas the responsible investment and sustainability preferences of our clients. We had 723 respondents, 93% of which were advised clients and 7% were self-directed.

WE CONDUCT OUR RESPONSIBLE INVESTMENT AND STEWARDSHIP PROCESSES TO INFORM OUR INVESTMENT DECISION-MAKING, IDENTIFY OPPORTUNITIES AND PROTECT AGAINST RISKS. IT IS OUR BELIEF THAT MAKING INVESTMENT DECISIONS BASED ON A WIDER SET OF INFORMATION THAT INCLUDES ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES CAN ONLY BE A BENEFIT.

THE RESULTS OF OUR SURVEY CONFIRMED CLIENTS' INTEREST IN USING ETHICAL SCREENING FOR THEIR INVESTMENT PORTFOLIOS, WHICH IS A SERVICE WE PROVIDE ACROSS BESPOKE INVESTMENT MANAGEMENT.

Our survey showed that there are few sectors where the majority of clients would like portfolio exclusions, and fewer if value swings become bigger. Most clients are broadly supportive of investing in oil and gas producers as they move towards renewables, and this aligns with our responsible investment approach to carry out research to understand companies' transition plans on a case-by-case basis as part of our ESG analysis rather than have a firm-wide exclusion on fossil fuels. For Bespoke clients who do want to exclude fossil fuels, we can apply a screen on request.

When asked which industries/sectors our clients would like to entirely exclude from their investment portfolio, over 60% of responding clients said they would want to exclude gambling, animal testing for cosmetic purposes, and tobacco, and over 80% said pornography. Over 30% said they would like to exclude weapons and munitions too. However, less than 20% of respondents would want to exclude other individual categories such as alcohol, oil and gas producers, oil and gas equipment, nuclear power, and gas utilities.

The results of our survey confirmed clients' interest in using ethical screening for their investment portfolios, which is a service we provide across Bespoke investment management. In addition, we have reflected these views in the methodology of our new Sustainable Select Fixed Income fund in FY23, please see more details under Principle 7.

Engaging with our investments for better client outcomes

Engaging with the companies we invest in is integral to our investment process where we are active managers. It helps to inform our investment research, mitigate against potential investment risks and drive long-term shareholder returns. Engagement not only increases the common understanding between us and our investee companies but allows us to use our expertise and knowledge to put our clients' interests at the forefront of our actions. Please see Principle 9, 10, 11 and 12 for more details on how effective our engagement approach has been.

WHERE WE CAN IMPROVE:

The survey showed that there is widespread uncertainty regarding Close Brothers Asset Management as a "responsible company", with 35% saying CBAM is responsible with regard to social and environmental factors, 60% saying either "neutral" or that they did not know. Only 5% of respondents said that they considered Close Brothers Asset Management to be "not responsible". We believe this shows that we have some work to do to enhance the communication of our Responsible Investment approach to clients.

ADDRESSING CLIENT DEMAND FOR SUSTAINABILITY

In FY21 we introduced our Sustainable Finance Strategy (now Sustainability Strategy) that has been developed to better meet the needs of our clients and stakeholders with regards to sustainability. The strategy set out targets and a schedule of work across our organisation including operations and investments. In FY22 we began work on our strategy and a traffic light system has been used to indicate progress made on each of the 10 areas identified in last year's report. Each area is owned by a senior staff member in the appropriate department; they provide oversight and are ultimately responsible for the progress. Where relevant the corresponding principle has been provided which sets out more detail on the progress.

Our Sustainable Strategy Progress

Diversity & Inclusion (Principle 2)	ESG Commitments and/or Targets (Principle 4 & 10)
Client Sustainability Preferences (Principle 1)	Purpose & Culture (Principle 1)
Investment Management & Advice (Principle 7)	External ESG initiatives (Principle 10)
Monitoring of Service Providers and Third Parties (Principle 8)	Sustainability Oversight & Accountability (Principle 1&2)
ESG Risk Management (Principle 4)	Shareholder Engagement (Principles 9, 10, 11, 12)

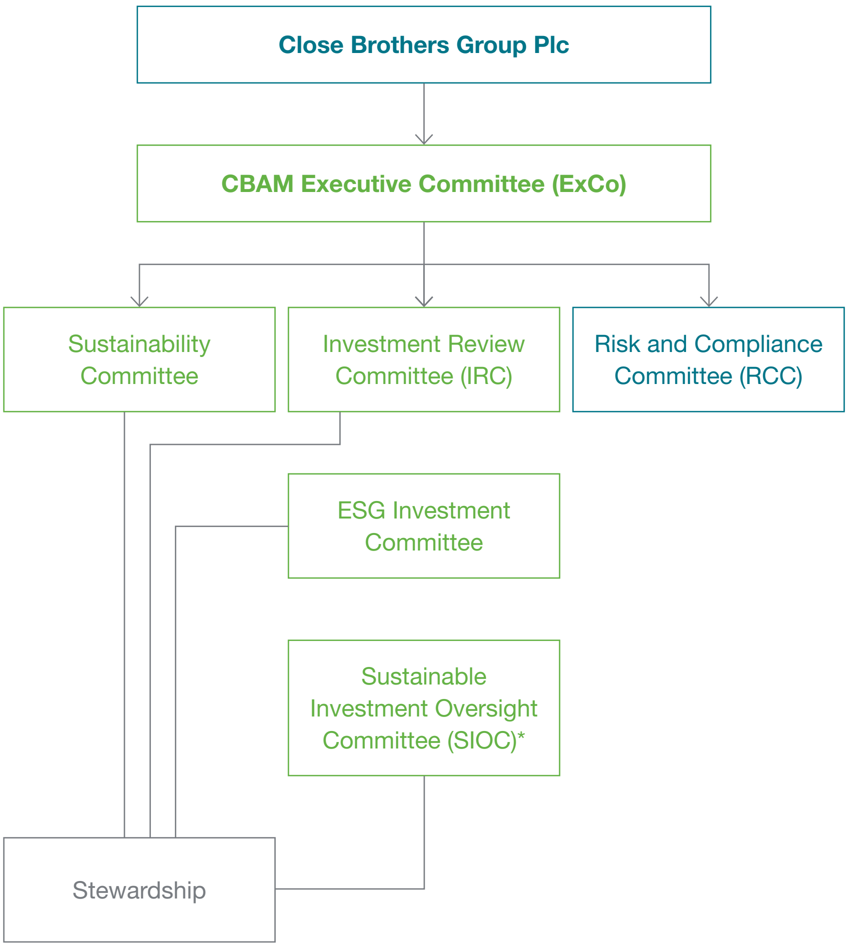
Source: CBAM.

ENGAGEMENT NOT ONLY INCREASES THE COMMON UNDERSTANDING BETWEEN US AND OUR INVESTEE COMPANIES BUT ALLOWS US TO USE OUR EXPERTISE AND KNOWLEDGE TO PUT OUR CLIENTS' INTERESTS AT THE FOREFRONT OF OUR ACTIONS.

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

The objective of our governance structure is to create a sound and consistent governance framework which aligns responsibilities and accountabilities of individuals with the requirements of CBG, our regulators and, importantly for our stewardship approach, our clients.

STEWARDSHIP IN OUR GOVERNANCE STRUCTURES



* New in 2022.

Source: CBAM

The Executive Committee (ExCo) (previously the 'Management Committee' (ManCo)) is the primary body for executive management oversight at CBAM. It has responsibility for the execution of strategy and for monitoring the effectiveness and compliance of CBAM's governance and controls. ExCo has formally delegated certain aspects of its responsibilities to, and conferred powers upon, various functional governance committees to assist it, and the board, in dealing with and making decisions on complex technical or specialised matters. This approach to governance ensures a clear and appropriate apportionment of significant responsibilities, and ensures that the division's strategic aims are implemented within a prudent and effective governance, control, and decision-making framework.

This graphic is an abbreviated version of our governance and committee structure. The green boxes show the committees most pertinent to our stewardship efforts.

CBAM EXECUTIVE COMMITTEE (EXCO)	Provides day to day management of and responsibility for all CBAM business: • Matters of Treating Clients Fairly ("TCF") and conduct risk. • Resolution and escalation of key business issues. • Review of sales, investment and operational performance, errors, breaches and complaints. • Key financial metrics and the development, embedding and monitoring of CBAM's culture and Business Principles. • Aspiring to be diligent stewards of clients' capital is at the heart of everything we do and the ExCo has ultimate responsibility for stewardship across the organisation.
RISK AND COMPLIANCE COMMITTEE (RCC)	Provides oversight, management and monitoring of risks that could affect our clients' capital and the business. The RCC ensures CBAM adheres to its risk management policies and framework and risk-related regulatory requirements.
INVESTMENT REVIEW COMMITTEE (IRC)	Provides oversight and control of investment process, performance and risk in accordance with the company's agreed investment strategy. The IRC is the governing body of stewardship from an investment perspective as it addresses how our investment approach can best serve our clients' and wider stakeholder interests. This is chaired by the Chief Investment Officer (CIO), who is the member of the senior management team responsible for stewardship.
SUSTAINABILITY COMMITTEE	Provides oversight and guidance of CBAM's sustainability strategy, promoting continuous improvement of sustainability management and performance, defining the overall sustainability strategic direction, and ensuring compliance with legal and regulatory obligations. The Sustainability Committee is also key to delivering on our stewardship ambitions, monitoring the investment team's progress on the strategic development of ESG integration and engagement. The Sustainability Committee also monitors the progress of our ESG reporting and collaborative engagement activities such as the Principles for Responsible Investment (PRI).
ESG INVESTMENT COMMITTEE	The ESG Investment Committee oversees the firm's Stewardship and Responsible Investment Policy and guides our Responsible Investment approach. It consists of the Head of Responsible Investment, investment managers representing all products and services, and research analysts, and is chaired by the CIO. The ESG Investment Committee is consulted on for our stewardship approach and activities, and the forum is used for gathering input from the wider business on our approach to responsible investment.
SUSTAINABLE INVESTMENT OVERSIGHT COMMITTEE (SIOC)*	The SIOC oversees our sustainable investing methodologies for our sustainable funds and Socially Responsible Investment (SRI) Service. It aims to maintain a common approach to sustainable investing across our product methodologies, and drive methodology development in line with CBAM's sustainability strategy. It is chaired by the Head of Responsible Investment. Members include representatives from the SRI Service, Segregated Portfolios team, Sustainable funds, Responsible Investment Team and Compliance.

* New in 2022.

Source: CBAM.

EXAMPLE: HOW EFFECTIVE HAVE ARE OUR GOVERNANCE STRUCTURES BEEN IN SUPPORTING STEWARDSHIP?

Our Sustainability Committee made good progress on furthering CBAM's stewardship activities throughout the course of FY22 via the ESG Initiatives and Shareholder Engagement work streams. This included our application to become signatories of the UK Stewardship Code, which was accepted; the approval to grow our Responsible Investment team to support the growth of our stewardship activities; and the development of our thematic approach to sustainability research and engagement centred on a 'Just Transition'.

In FY22 our governance structures supported the vast majority of the growth in our stewardship and responsible investment approach. In particular, our Sustainability Committee has been instrumental in planning and implementing our firm-wide sustainability strategy together with its book of work (seen in Principle 1). Our ESG Investment Committee has been used to effectively guide our Stewardship and Responsible Investment Policy and to gather input from the wider business on our approach to responsible investment. The latter was most keenly felt during the development of the Russia/Ukraine conflict. We held an ESG Investment Committee to discuss CBAM's investment response to the conflict and what our position was with regards to our investment exposure to Russia.

The outcome of the committee was twofold:

1. We placed a ban on buying Russian securities.
2. We initiated an engagement exercise with our research coverage and holdings to ascertain where CBAM investments might have direct or indirect exposure to Russia. The engagement was primarily centred on encouraging investees to disclose such exposure information and how they were managing it. Further details of this engagement exercise are found under Principle 9.

At the beginning of FY23 we hired a Responsible Investment Associate to provide more resource for thematic engagements such as these and to support our engagement and voting efforts more generally.

During FY22 we also sought to improve the governance of CBAM's sustainable investing methodology. We created the SIOC to assess the alignment of sustainable investment methodology across our relevant product range and to ensure that our sustainable investment products were positioned accordingly for current and future regulation, such as the UK Sustainable Disclosure Requirements (SDR).

The SIOC met twice in FY22 and so far has fulfilled its function in FY23 by introducing updates to our sustainable investment methodology, including the introduction of a carbon intensity KPI and net zero target for our Sustainable Select Fixed Income fund. See Principle 7 for more details.

The one key area of governance that we reviewed and began to restructure in FY22 and completed in FY23 is our Performance and Risk function. To meet the demands of our growing form and changing regulatory backdrop, the function was split into three specialised teams.

1. A first line risk function focusing on providing investment managers with risk analysis. The function is divided into two teams. One team provides support to our Bespoke investment managers and reports to the Head of Bespoke, and the other team provides support to our unitised funds and reports to our Chief Investment Officer.
2. A second line risk function that checks and challenges first line risk – reporting to our Head of Risk.
3. A separate Performance function focussing exclusively on performance data and reporting – reporting to our Chief Operating Officer.

HOW SENIOR MANAGEMENT SUPPORT OUR STEWARDSHIP AND SUSTAINABILITY FUNCTIONS

CBG BOARD

- Ensuring that responsibility for managing sustainability is formally allocated
- Monitoring progress of the execution of the Group's sustainability strategy, approval of risk appetite

CBG EXECUTIVE COMMITTEE

- Ensuring alignment across Group sustainability objectives
- Sign-off of Group sustainability disclosures

CBAM CHIEF EXECUTIVE OFFICER

Strategy & Culture - Responsible for ensuring the overall Sustainability Strategy and accountability is in place firm-wide

- Ensuring a holistic sustainability strategy is in place across the firm
- Setting the culture on the importance of sustainability and firm-wide accountability
- Ensuring CBAM's sustainability strategy is communicated to external stakeholders
- Actively engaging with executive committees with a sustainability oversight mandate

Chief Investment Officer: Responsible Investment & Sustainable Funds

Responsible for defining sustainability factors for investment strategy, including asset allocation, stewardship, research and products

Head of Bespoke: Client Servicing

Responsible for servicing clients with sustainable investment products

Head of Advice: Client Servicing

Responsible for servicing clients with sustainable investment products

Head of Risk: Risk Management

Responsible for identifying and managing the financial risks from climate change

Chief Operating Officer: Internal Operations Responsibility

Responsible for operational integration of Sustainability

Chief Financial Officer: Sustainability Disclosures

Responsible for external sustainability disclosures & third party management

Head of Human Resources: Training & CSR

Responsible for sustainability learning & development, and CSR

Source: CBAM.

OUR RESPONSIBLE INVESTMENT TEAM FUNCTIONS

In FY22 we hired a Responsible Investment Analyst to build out our thematic sustainable research function, which is now a key part of our responsible investment approach and complements our bottom-up fundamental research (see Principles 1 and 7). At the beginning of FY23 we hired a Responsible Investment Associate to strengthen our engagement and voting efforts (see Principles 9 and 12). We believe the current structure of the team provides the functionality that we require as a firm. The team is able to be small because the responsibility of bottom-up ESG integration resides with the security analyst.

IN FY22 WE HIRED A RESPONSIBLE INVESTMENT ANALYST TO BUILD OUT OUR THEMATIC SUSTAINABLE RESEARCH FUNCTION, WHICH IS NOW A KEY PART OF OUR RESPONSIBLE INVESTMENT APPROACH AND COMPLEMENTS OUR BOTTOM-UP FUNDAMENTAL RESEARCH.

Head of Responsible Investment

Role: Manages the firm's Responsible Investment Functions including ESG integration, stewardship and engagement.

Qualification(s): CFA

+

Responsible Investment Analyst

Role: Supports Head of RI, with primary focus on thematic sustainable research.

Qualification(s): ACA, CFA ESG Certificate

+

Responsible Investment Associate

Role: Supports CBAM's stewardship activities, with a primary focus on strategic engagements, voting and reporting.

Source: CBAM.

QUALIFICATIONS

The below table illustrates the qualifications that our unitised funds and research team has orientated towards the integration of ESG factors into investment decision-making and stewardship. Whilst traditional investment qualifications help our staff become better stewards of capital through expertise and relevant knowledge accretion, these qualifications are those associated with broadening our stewardship efforts to include environmental, social and governance considerations.

NUMBER OF STAFF (UNITISED FUNDS AND RESEARCH TEAM) WITH RESPONSIBLE INVESTMENT QUALIFICATION

CFA Institute Certificate in ESG Investing	7
CISI Sustainable and Responsible Investment Professional Assessment	1

Source: CBAM.

TRAINING

In addition to the annual trainings on the "Close Brothers Way" and compliance – both of which are important to our stewardship efforts – we introduced a firm wide climate risk training module and continued with our ESG education sessions:

Reoccurring Training

The Close Brothers Way	The culture at Close Brothers is very important. We are committed to creating an inclusive and fair environment that makes people proud to work here, and feel respected, valued and appreciated. The Close Brothers Way was developed to set out the behaviours and cultural attributes that are expected of all our colleagues. The module covers key things to remember when interacting with colleagues and the impact our actions have on others. We want to be open to discussion and it is important that staff members are able to speak up and raise concerns.
Compliance Policies	This includes training on Conflicts of Interest, Personal Account Dealing, Outside Business Interests, Whistleblowing, Gifts and Hospitality and Market Abuse.

Training New to FY22

Climate Risk	This training was rolled out firm-wide to all employees and the objectives were to: • Understand the importance of Climate Risk and why it is a priority. • Understand the financial risks associated with climate change and how financial institutions are affected. • Recognise different forms of climate change and how we can respond.
ESG Education Sessions	Our "ESG Education" sessions are organised to train and update our investment team on ESG issues. This past year we have held multiple of these sessions with industry experts, and topics covered have included: • ESG integration • Human capital • Energy transition • Net-zero • Third-party ESG and climate data

TRAINING IN FY23

In the first half of FY23 we released a Sustainability & Responsible Investment Training for all employees. This provided an overview of what sustainability is, why it is important for investors, key terminology and investment strategies, as well as our specific approach at CBAM. It included a mandatory assessment.

In FY23 we also rolled out our 'License to Recruit' training to all managers who are involved in the recruitment and selection process. New managers will receive this training at a session run every quarter. Importantly for our focus on obtaining the best staff as well as diversity and inclusion, the training seeks to mitigate potential bias and discriminatory behaviour and ensure the recruitment process is aligned to CBAM business principles.

In the second half of FY23, we will be rolling out specific training for the integration of ESG factors into equity analysis with an external provider. The training will be predominately for the research, unitised funds and SRI Service parts of the business. The training will cover the relationship of ESG information and share price performance, and then over the course of several weeks a deep dive into different sectors (oil & gas, industrial goods & renewables, food & beverages, health & pharmaceuticals, tech, media & telecoms).

DIVERSITY AND INCLUSION

As defined under Principle 1, our strategy includes our responsibility to address the social challenges facing our business and employees. Crucial to this is our culture. We want our employees to feel empowered coming to work for their own wellbeing and to allow them to positively contribute to CBAM's operations. In order to make strong decisions in the best of interests of our clients we believe it is important that our workforce is not only diverse but also feels included.

Our diversity and inclusion strategy is championed by the Executive Committee (ExCo), and driven by our Inclusion Committee. We are working to raise awareness of the diversity and inclusion issues that affect our firm and to take steps to improve. The Inclusion Committee assists ExCo in continuously improving the culture of the firm to be inclusive and promote diversity of thought. It acts as advocates on behalf of all employees of CBAM and provides a forum to discuss any idea or initiative put forward by any individual or group of employees to enhance our inclusion practices. The role of the Committee extends beyond the internal promotion of inclusion, demonstrating to prospective new staff members of CBAM and the wider community the equal importance we place on all members of our firm.

We have continued the reverse-mentoring scheme from FY21 which paired senior employees with more junior colleagues from across the business. The scheme ensures management's views continue to be challenged by colleagues with different backgrounds and perspectives.

We actively support a number of diversity and inclusion initiatives. We also have several working groups, comprised of representatives from across the Close Brothers Group, that allow employees to come together to offer their thoughts and suggestions and to drive diversity and inclusion actions forward.

The Diversity Project

We formally support The Diversity Project in their mission to accelerate progress towards a more inclusive culture in the investment and savings profession.

Ethnic diversity

We support #10,000 Black interns and mentored 13 interns in FY 2022; we are also signatories to the Race at Work Charter.

Working parents and carers

We have partnered with Bright Horizons to offer emergency backup care for those in caring roles.

Mental wellbeing

We support the Time to Change pledge and recognise both Mental Health Awareness week and World Mental Health Day. We have a network of employee Mental Health First Aiders who are easily accessible to all of our colleagues and all Employees also have access to the Thrive mobile app.

Social mobility

We support the Social Mobility Pledge and the upReach internship programmes.

Disability

We support the business disability forum.

LGBTQ+

We support Stonewall.

Gender balance

We support the Women in Finance Charter and 30% Club.

PERFORMANCE MANAGEMENT AND REWARD PROGRAMMES SUPPORTING OUR STEWARDSHIP

The quality of research, investment management services and client care are explicitly incorporated in the relevant objectives of our investment employees. Some senior employees have additional objectives that are focused on our responsible investment approach which supports the stewardship of our clients' capital.

Examples (not limited to):

1. The Chief Investment Officer (CIO) has explicit objectives to embed ESG issues throughout the investment process as well as to promote our Sustainable funds.

2. The Head of Responsible Investment shares these objectives, whilst in FY22 their objectives also contain goals to; develop our thematic and ad-hoc engagement approaches (see Principle 9), develop our voting guidelines which reflect CBAM's view, develop our sustainable investing methodologies, consult with the research analysts on ESG content within research reports and, finally, to carry out our overall responsible investment approach, governed through various committees (see details of committees in this principle).

3. ExCo have diversity and inclusion objectives which form part of their appraisal and reward package.

SYSTEMS AND RESEARCH PROVIDERS SUPPORTING OUR STEWARDSHIP

To be effective stewards of our clients' capital the quality of our internal research is paramount. Our analysts will use Bloomberg, AssetQ, Factset and Credit Suisse's HOLT alongside other sell-side research to aid their coverage of securities across all asset classes (equity, fixed interest, and diversifiers).

For the voting aspect of our stewardship we use the third-party partner, ISS, for best practice corporate governance voting research and their proxy voting platform. Our Voting Panel of analysts and investment managers determine how we should vote in the best interests of clients. ISS have created a custom policy to reflect our voting principles which are to be utilised for the FY23 voting season; we explain this process in Principle 5. Our engagement and voting approach is addressed further under Principles 9 and 12.

To facilitate and inform the integration of ESG issues as part of our stewardship approach we utilise third-party ESG data and sell-side research. Our centralised in-house equity and fixed interest research incorporates ESG analysis as an integral part of the security selection process. We address how ESG issues are integrated into our investment approach to fulfil our stewardship responsibilities under Principle 7.

THE QUALITY OF RESEARCH, INVESTMENT MANAGEMENT AND CLIENT CARE ARE EXPLICITLY INCORPORATED IN THE RELEVANT OBJECTIVES OF OUR INVESTMENT EMPLOYEES.

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

CONFLICTS OF INTEREST POLICY

As a regulated business, CBAM is required to take appropriate steps to identify and prevent or manage conflicts of interest. These can arise in the course of providing services to clients or where CBAM have any (financial or non-financial) interest in a particular outcome which could disadvantage the client or at the very least not put their best interests first. Our Conflicts of Interest Policy can be found on our website.

The CBAM Compliance department maintains a conflicts of interest register which is reviewed on a periodic basis. The Compliance team may undertake periodic monitoring of the disclosed conflicts. Where a conflict of interest is identified, we will always aim to act in the best interests of clients in accordance with our obligation to treat clients fairly.

We could fall short of being diligent stewards of our clients' capital if at any time our clients are disadvantaged by our organisation or employees. We are therefore particularly conscious of the broad types of conflict that can arise:

- Where CBAM (or an employee) is likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- Where CBAM (or an employee) has an interest in the outcome of a service provided to the client or a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- Where CBAM (or an employee) has a financial or other incentive to favour the interest of one client or group of clients over the interests of another client;
- Where CBAM carries on the same business as the client;
- Where CBAM receives, or will receive, from a person other than the client, an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service; and,
- Conflicts arising from CBAM's own remuneration or other incentive structures.

CBAM has a number of controls in place to make sure that conflicts are appropriately managed when providing services to clients.

TRAINING ON CONFLICTS OF INTEREST

Every new employee completes a conflicts of interest training session. Furthermore, as part of our annual key compliance policy training, every employee must complete a refresher online training module including a set of questions that must be answered and passed.

STEWARDSHIP CONFLICTS OF INTEREST

Specific stewardship and shareholder engagement conflicts can arise if we are not aligned with shareholders' interests in shareholder resolutions e.g. if we have a commercial interest that could influence how we vote for a resolution.

EXAMPLE OF A CONFLICT IN FY22

Conflict: We recognised the potential for a conflict of interest when running our fund range alongside segregated discretionary accounts, whereby there was a risk investment managers from our discretionary accounts could become aware of privileged information regarding our funds before the broader public.

Management of Conflict:
We introduced new guidance on handling sensitive information in respect of the funds with Sensitive Information Guidelines. We introduced a new Sensitive Information log, to capture any sensitive events, and to instruct any staff who become 'insiders' on sensitive events not to share information more widely in relation to that event, requesting them to sign a non-disclosure agreement, and prohibiting them from trading those funds.

EXAMPLES OF IDENTIFYING POTENTIAL CONFLICTS

1. **Potential Conflict:** One of our employees may have a non-financial interest or relationship with a company which we intend to engage with or vote upon. This could create a conflict of interest if this relationship could cause the voting decision or engagement approach to be skewed away from our clients' best interests.

   Management of Conflict: From a non-financial relationship perspective, no employee may engage in any additional outside employment without prior Compliance approval. In certain circumstances, consent may be withheld or conditions may be imposed.

2. **Potential Conflict:** Our client is a director of a public company we are invested in, and we intend to vote against management or the re-election of their directorship. This could create a conflict of interest between the incentives of our client as the director and our duty of stewardship to all the clients' best interests.

   Management of Conflict: Where our client is a director of a public company which is held in their portfolio, the shareholding is separated into a separate account that has an execution-only mandate. This is marked on our systems and those shares are not voted on by us. If the client wants to vote on their shares they can do so by direct instruction.

In FY23 we are carrying out a review of these potential conflicts and how they are managed by us. In FY23 we will be updating our voting template to include disclosure of any conflict of interest on each vote. We are also assessing the management of conflicts of interest where clients are directors of public companies.

On occasions, arrangements made to prevent or manage a conflict may not be sufficient to ensure, with reasonable confidence, that the risk of damage to client interests will be prevented. In this situation the nature of the conflict must be fully disclosed to the client prior to undertaking any business for the client.

This disclosure must:

- Be made in a durable medium (i.e. personally addressed to recipient, easily storable and can be reproduced);
- Include a specific description of the conflicts of interest that arise, taking into account the nature of the client;
- Include a description which shall explain the general nature and sources of conflicts of interest, as well as the risks to the client that arise as a result of the conflicts of interest and the steps undertaken to mitigate these risks, in sufficient detail;
- Clearly state that the organisational and administrative arrangements established to prevent or manage the conflict are not sufficient to ensure, with reasonable confidence, that the risk of damage to the interests of the client will be prevented; and
- Enable the client to take an informed decision with respect to the service in the context of which the conflict arises.

We do not deem disclosure alone as sufficient to manage a conflict. The Conflicts of Interest Policy will be considered deficient if there is an overreliance on disclosure.

In all scenarios, if the level of risk from a potential conflict of interest continues to be too severe, CBAM will decline to provide the service requested.

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

IDENTIFYING MARKET- WIDE AND SYSTEMIC RISKS

Identifying and managing market-wide and systemic risks is one of our key objectives as an asset manager. As discussed in Principle 1, our investment philosophy is centred on prudent investment management.

We apply a diversified approach to help us manage risks and deliver returns over a long-term time horizon.

Our risk management framework starts with our long-term Strategic Asset Allocation (SAA). The SAA determines the optimal mix of asset classes in a portfolio for a variety of risk profiles. In order to determine the SAA we have partnered with Moody's Analytics. Moody's Analytics provide us with long-term return and risk forecasts which we apply to our own asset class assumptions in order to create the optimal mix of asset classes for long-term investment returns at a given level of risk (the efficient frontier). Industry, sector and country risk will all be factors in the SAA calculation.

To be prudent, all our clients have a risk profile which has a corresponding SAA, an optimal mix of asset classes based on long-term risk and return forecasts. We recognise that there can be prolonged periods of time when asset class returns deviate from the long-term expectations. Therefore, as active investors, we aim to add further value to our clients' portfolios through tactical asset allocation.

Tactical Asset Allocation (TAA) involves adjusting the weightings of the portfolio relative to the strategic position in order to actively take advantage of changing economic and market conditions.

By doing this we aim to manage market volatility. We use a framework that focuses on key high-conviction investment ideas taking into consideration macroeconomic and valuation issues. Our TAA is determined by our investment team on a quarterly basis. The investment team discusses the key drivers of markets, and asset class implications using prevailing data points and seasoned judgement before arriving at a high-conviction view. We take a six-to-twelve month view when making tactical adjustments, which are intended to improve returns and reduce the risk of our clients' portfolios. Nevertheless, such tactical adjustments are not intended to fundamentally alter the portfolio's risk profile.

Supporting our asset allocation, we aim to add value through investment selection, for which we conduct our own research. Our dedicated in-house research team of analysts carries out robust and in-depth analysis on potential new investment ideas across all asset classes on a global basis. This research includes ESG considerations, as explained further in Principle 7.

Our research helps us to limit our investment risk by identifying assets that are high quality and liquid. Our research team provides a core investment universe for our investment managers in the form of well-researched and rated (buy, sell or source of funds) securities, from which each manager may find investment ideas to build their clients' portfolios.

To further manage our clients' assets' risks relative to the market, we vet turnover and exposures at monthly Product Governance Review (PGR) meetings for our funds (these are changing to quarterly in FY23), and quarterly Bespoke Governance Review (BGR) meetings for our Bespoke portfolios.

At the BGR meetings clients' needs and requests are reviewed, and their investments are tested against a range of criteria including asset allocation, performance, volatility, concentration, turnover, yield and income objectives, profiling, sensitivity, commonality, and suitability.

Our first line to identify market and systemic risks is our investment team. The investment team discusses macroeconomic, political, and company risks on a daily basis at our morning meeting as and when they emerge. Our CIO and research analysts host meetings for our investment managers with external industry experts to identify impending market and systemic risks on a regular basis.

Our macroeconomic views evolve over the quarter and are informed by an ongoing series of meetings addressing the key issues identified by the 'core view' voting process, as well as any ad-hoc issues that emerge. The quarterly Macro Forum provides a dedicated opportunity for the investment team to discuss macroeconomic issues and review the information gathered over the quarter.

The Responsible Investment team also now conduct thematic research on the theme of a 'Just Transition' as highlighted in Principle 1. These are communicated via written reports which are also presented to the investment team. They also guide the research analysts in carrying out bottom-up ESG analysis of our investments, to identify material ESG risks. See Principle 7 for more detail on the thematic research conducted and how we analyse ESG risks for different asset classes.

For FY22, independent review and challenge is provided by the Performance & Risk team in conjunction with our compliance and risk teams. Performance & Risk monitor our portfolios on an ongoing basis, ensuring that client portfolios are being run in line with their mandates. From FY23, the functions of performance and risk have been separated in line with the restructure highlighted under Principle 2. Our risk team conducts post-trade monitoring, looking at the specific trade history and also market movements and how the portfolios performed during those times, and monitor the risk/return corridors of each portfolio and their liquidity constraints.

EXAMPLE 1: OUR EFFECTIVENESS IN IDENTIFYING AND MANAGING RISKS ASSOCIATED WITH RUSSIA'S INVASION OF UKRAINE

We identified the risk of Russia invading Ukraine in calendar year 2021 but our in-house view at the time, and at the beginning of 2022, was that the probability of the risk materialising was low based on the information available. In this respect we were perhaps not as effective as we could have been at appropriately recognising the overall risk. However, we believe we responded to the invasion promptly and the management of the subsequent on-going risks was effective. This has been outlined below.

Following Russia's invasion of Ukraine, we conducted ongoing research into the situation and the broader risks associated with it, including looking at the ESG implications of the invasion. Our research included calls with third-party data and research providers. We held meetings to discuss the situation internally and shared the results of our research with our broader investment team. As explained in Principle 2, we held an ESG Investment Committee meeting to discuss CBAM's response to the conflict, and determine our position with regards to our investment exposure to Russia. The meeting resulted in CBAM placing a ban on buying Russian securities, and the initiation of an engagement exercise of our research coverage and fund holdings to ascertain where CBAM investments might have had direct or indirect exposure to Russia.

The research conducted by our Responsible Investment team specifically looked at the ESG risks and implications on sustainable investing of Russia's invasion on Ukraine. It looked at the correlation between ethics and risk management, with companies exiting Russian markets on ethical and reputational grounds; the role of energy companies in facilitating a 'Just Transition', including decarbonisation and scaling carbon capture technology; the need for a nuanced and detailed approach to analysing the environmental and social impacts of the defence industry and fossil fuels; and the requirement to determine whether to engage with or divest from these sectors.

We communicated our stance with clients through various insights, where we shared updates on the situation, including our thoughts on how it could impact investors. These insights looked at the human impact of the conflict; the economic effect of the unprecedented sanctions imposed by western nations on Russia; the pressure on energy prices, and consequently inflationary pressures.

The ongoing conflict emphasised the ESG risks of Russian assets. We understood the potential for businesses in Russia to face legal, compliance, operational, reputational, human rights and personnel risks due to the conflict. From an investment standpoint, we closely monitored the situation to take investment decisions to protect our clients' interests.

Aligned with our Stewardship and Responsible Investment Policy, which can be found on our website, the evaluation of ESG factors within our investment research process included the identification of material ESG factors as part of our bottom-up analysis, and focusing on key issues through active engagement.

At the time of Russia's invasion of Ukraine, our exposure to Russian securities and debt, including both direct and third-party funds, was not material (this remains the case in the current reporting period). This was largely a result of our strategic asset allocation, where the geographic exposure to Russia was less than 0.2%. We have systems in place to monitor any direct exposure to sanctioned companies and we follow the law by not investing in such companies. Additionally, we placed a ban on buying Russian securities when exchanges reopened.

Our research team also evaluated the ESG risks associated with our investments in non-Russian, multinational companies that may have subsequently been involved in Russia through their various business lines. The engagement exercise conducted with our research coverage and fund holdings was in the form of an email to relevant contacts at the companies (mainly investor relations). Given the materiality of ESG risks associated with Russian business, the engagement was primarily centred on encouraging investees to disclose exposure information and how they were managing this risk.

Our engagement with companies included asking them what the size and type of exposure their business had to Russia, including operations, activities and supply chains; how their business intended to manage any exposure, and; whether they had any strategic plans in Russia and if so, what they were. We contacted 28 of our holdings where we considered there to be possible material exposure, and where the companies had not yet disclosed relevant information on their exposure to the region. We received 13 responses. Based on the responses we received, we deemed there to be no material risk to the companies of interest or to the CBAM business. This decision was driven from satisfactory company disclosure, publically or in direct response to our engagement, demonstrating that either there was limited expose to Russia or that management had plans to manage the exposure responsibly.

Taking into account the complexities of international companies' involvement in Russia, we assessed our global investee companies' exposure and strategic plans in Russia on a case-by-case basis to aid us in our investment decisions.

From a financial opportunity perspective, the invasion and Russian policy drove a reduction in energy supplies and compounded the energy crisis in Europe particularly. As a result, we increased our exposure to non-Russian energy companies in order to benefit from the subsequent energy price increases.

EXAMPLE 2: OUR EFFECTIVENESS IN IDENTIFYING AND MANAGING ON-GOING RISKS ASSOCIATED WITH COVID-19

Since news of the coronavirus first emerged in FY20, Close Brothers Group closely monitored developments around the spread of the virus, preparing and testing a coordinated group-wide business continuity and pandemic response. The goal of these plans, which were overseen by the group crisis management team, was to protect our employees and enable us to service our clients and clients with a minimal level of disruption.

During the outbreak of COVID-19 and subsequent pandemic and resulting global lockdowns through reporting periods, we implemented a range of measures to ensure the safety and wellbeing of our employees, clients and clients. We put in place detailed operational and technology changes that enabled us to continue to conduct business as seamlessly as possible, including the use of specialist partner organisations, home working, and the re-location of critical teams and functions. These measures had undertaken significant planning and testing, so we were able to implement them at short notice, in response to advice from the UK government and health authorities.

Globally, FY22 saw many COVID-19 restrictions easing, with our staff being able to safely work from our offices again, having adapted to a hybrid working model. Nonetheless, the pandemic continued to have global implications, perhaps most notably in China with the country experiencing its largest outbreak in over two years during the reporting period. China imposed fresh lockdown orders and continued to see large disruptions due to the pandemic. These restrictions were partly responsible for remaining underweight equities from a SAA perspective during FY22, whilst remaining alive to security selection opportunities. We are long-term investors with a GARP investment style so our equity analysts looked for stocks or sectors that might be overly sold-off on a case by case basis. These ideas were communicated at our daily morning meeting, equity research meetings, and monthly asset class meetings. Healthcare was a particular focus and throughout FY22 our covering analyst followed continuing COVID-19 related drug development.

We believe we have been effective in monitoring the on-going risks and opportunities associated with China retaining and relaxing their lockdown policies respectively. We knew that our direct exposure to China was limited, so we monitored China's policies in the context of the impact they might have on our multinational holdings. The analysts covering these multinationals were acutely aware of how management were addressing the supply chains risks and how these impact forecasts.

Our monitoring was supported by organising China economists and strategists to present our analysts and investment managers. This meant that when China came out of lockdown earlier than expected in FY23 (i.e. December 2022 vs. March 2023) we were aware of the impact this might have on our holdings.

HOW OUR INVESTMENTS ARE ALIGNED TO SUSTAINABILITY RISKS:

We continue to see a transition to a sustainable world as an important trend that presents both positive and negative systemic risks. The integration of ESG risks across all our asset classes is ongoing, which is explained further in Principle 7. Furthermore, our clients can opt to; apply an ethical screen or exclusions to their portfolios, invest with our SRI Service or our Sustainable Funds.

We continue to seek opportunities to engage with the broader industry and provide feedback on initiatives to improve clarity around sustainable investment labels and criteria, with the aim of eliminating greenwashing and creating more clarity for clients. We do not market our funds in Europe, and therefore do not fall under the Sustainable Finance Disclosure Regulation (SFDR). We use the resources provided by our associations, including the PRI definitions, to guide us in the development of our responsible and sustainable investment approaches. The FCA published its consultation paper on the UK's Sustainable Disclosure Requirements in October 2022, outside of the reporting period, and we are currently working with our fund managers on the labelling of our products.

EXAMPLE 3: HOW WE HAVE IMPROVED OUR CLIMATE RISK MANAGEMENT

During the reporting period, the Intergovernmental Panel on Climate Change (IPCC) finalised the third part of the Sixth Assessment Report, Climate Change 2022: Mitigation of Climate Change. The report made it clear that we are now unlikely to limit global warming to 1.5°C above pre-industrial levels. The report also suggested that we could miss 2°C on our current emissions trajectory.

The impacts of not keeping the world below 1.5°C above pre-industrial levels are severe and even worse if warming rises above 2°C. The frequency and geographical spread of extreme weather events, wildfires, droughts and floods will increase which puts livelihoods, health, food production, biodiversity levels and supply chains at risk.

Our thematic research on the energy transition sought to focus on moving towards more sustainable energy solutions whilst maintaining energy security and affordability, particularly in the face of a COVID-19 recovery and the war in Ukraine. See shortened publication here. In doing so we remained cognisant of the fact that reducing carbon emissions is an urgent imperative if we are to keep biological pathways and social infrastructure intact. In continued recognition of the contribution of our business to climate change as well as the physical and transition climate risks posed to our business, and in keeping with our overarching theme of a 'Just Transition', we sought to develop our climate risk management, climate reporting and carbon emission targets at the Close Brothers Group and CBAM levels throughout FY22.

CLIMATE RISK MANAGEMENT AT CBAM AND CBG

	Target Setting	Reporting	Research & Risk Management
Close Brothers Asset Management	Signatory of Net Zero Asset Managers initiative	First entity-level TCFD report in 2024	MSCI climate change metrics Thematic research ESG analysis
Close Brothers Group	Net-Zero Banking Alliance – Committed to becoming operationally net zero through Scope 1 and 2 emissions by 2030.	First entity-level TCFD report in 2022 CDP participant	Assessment of climate exposure across loan book. Climate scenario analysis for key areas across the business.

Source: CBAM.

TARGET SETTING IN FY22

Close Brothers Group became a signatory to the Net Zero Banking Alliance and committed to becoming operationally net zero through Scope 1 and 2 emissions by 2030.

CBAM began the process to becoming a signatory to Net Zero Asset Managers (NZAM) Initiative in FY22, which commits us to reaching net-zero emissions by 2050 across all AUM. CBAM have also aligned operational net-zero targets with Group level and, since the end of FY22, we have formally become a signatory to NZAM.

NZAM Commitments:

- Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management ('AUM').
- Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner.
- Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

CBAM NZAM Preparation in FY22:

- Assessed what AUM could initially be in-scope and managed towards net-zero emissions.
- Identified which metrics will be used to demonstrate progress towards net-zero targets (Weighted Average Carbon Intensity (WACI)).
- Understood how to calculate WACI for in-scope AUM.

REPORTING IN FY22

Close Brothers Group completed their inaugural report against the Task Force on Climate-related Financial Disclosures (TCFD) framework for the period ending 31st July 2022. TCFD provides a consistent framework under which companies can disclose how they are managing climate risk through their governance, strategy, risk management, and metrics and targets.

Close Brothers Group continued to participate in the CDP (formerly the Carbon Disclosure Project) which provides an opportunity to disclose greenhouse gas emissions and approach to managing climate-related impact on a voluntary basis.

CBAM will be required to report against the TCFD framework by 2024. Including an assessment of climate risk in our investments.

As an NZAM signatory, CBAM will be required to report on its decreasing emissions pathway of investments being managed to net-zero for the first time by 22nd September 2023.

RESEARCH/RISK MANAGEMENT IN FY22

Close Brothers Group completed initial assessment across all categories of Scope 3 emissions including an assessment of financed emissions in our loan book.

Close Brothers Group identifies potential climate-related impacts across several existing principal or key risks; credit, operational, traded market, regulatory, conduct, business and strategic and funding and liquidity.

CBAM purchased access to MSCI's climate change metrics with the aim of improving our analysis of climate-related investment risks and opportunities, including; Carbon emissions (Scope 1, 2 and 3), Weighted Average Carbon Intensity, Climate Value at Risk (from physical and transition risks) and Implied Temperature Rise. The climate metrics will also aid us in our reporting for both the TCFD and NZAM.

As previously highlighted in Principle 1 – CBAM's Responsible Investment team now conducts thematic research on the theme of a 'Just Transition'. Please see Principle 7 for further details.

WORKING WITH WIDER STAKEHOLDERS AND INDUSTRY INITIATIVES TO PROMOTE A WELL- FUNCTIONING MARKET

We believe working collaboratively with wider stakeholders and industry initiatives is vital in facilitating and adding greater influence to our engagements with investees and regulatory bodies. By engaging we can hold both companies and regulators to account and help reduce risks to our shareholders where the risks are localised, and to the wider market where the risks are systemic. Please see Principle 10 for more detail on our engagement with stakeholders and industry initiatives. In particular the PRI is a network that provides us with a platform to help promote well-functioning markets.

We also often engage to seek greater disclosure from companies (see Principle 9) and the result of greater disclosure is a more informed market that functions more efficiently.

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

STEWARDSHIP AND RESPONSIBLE INVESTMENT POLICY REVIEW

The Investment Review Committee (IRC) is the governing body of our stewardship approach as it addresses how our investment approach can best serve our clients' and wider stakeholder interests. The IRC is the highest level of committee assurance our stewardship approach can receive. We think this is fitting because the expertise and experience of the personnel on the committee providing the assurance needs to be of a level appropriate for the importance of protecting our clients' wealth and interests. The IRC is chaired by the CIO, who is the member of the senior management team responsible for stewardship.

Our Stewardship and Responsible Investment Policy (the Policy, which can be found on our website) and associated activities are reviewed and signed-off by the IRC on an annual basis.

The Policy can be updated between annual reviews when necessary. It is vital that senior management are aware of how we are managing clients' capital and interests. The CIO feeds into ExCo relevant changes and updates to the Policy and approach where necessary. Prior to being reviewed and signed off by the IRC, any material evolution in the Policy must be reviewed by the ESG Investment Committee. As per the description of the committee under Principle 2, the ESG Investment Committee is the appropriate committee to review the Policy because it is used as a forum for gathering input from the wider investment team on our approach to responsible investment. Given that the Policy affects a myriad of aspects of our investment process, the ESG Investment Committee is used to canvas views from different teams. Any new or updated policy has to be reviewed by our Compliance team before it is made public.

STEWARDSHIP REPORTING

Balanced: Vital to ensuring our stewardship reporting is a balanced representation of our relevant activities and the contribution from all parts of the business. Whilst the Responsible Investment team is accountable for the production of the annual Stewardship and Responsible Investment Report, they do not write it as an isolated function. Staff from Investments, Compliance, Risk, Performance, and HR will all provide the relevant information required to accurately illustrate how at CBAM we act as stewards of our clients' capital.

Understandable: Once the report has been written, our Marketing and Communications team review and edit it to ensure that it is suitable and readily understandable for our readership. We are conscious that some of our stewardship activities (particularly investments) are often described using technical language and we think it is important for our reporting to be understandable to a broad audience. To aid the readability of our Stewardship and Responsible Investment Report we will try to use tables and infographics where we can represent information in a more concise manner.

Fair: The Stewardship and Responsible Investment Report is reviewed through various levels of seniority to corroborate the fairness of the reporting. Each of the contributors is given the opportunity to review how their information has been synthesised in the process of making it balanced and understandable. The report is then reviewed by the ESG Investment Committee (see Principle 2) who are asked for comments. Finally, the report is reviewed and signed off by Compliance, the IRC and ExCo (see Principle 2). In our annual stewardship reporting, we make the required disclosures for SRDII.

THE STEWARDSHIP AND RESPONSIBLE INVESTMENT REPORT IS REVIEWED THROUGH VARIOUS LEVELS OF SENIORITY TO CORROBORATE THE FAIRNESS OF THE REPORTING.

POLICY REPORTING ASSURANCE

The review processes for our stewardship and responsible investment policies and reporting provide explicit **internal assurance**. At present, we believe this type of assurance is appropriate given the relatively small size of our organisation and our smaller resource base. However, we are appreciative of the benefits that external assurance can bring, namely: independent verification, indications of areas of improvement and the potential for greater external stakeholder confidence in our reporting.
As a result, we are reviewing our assurance process and its ongoing appropriateness in FY23.

One way we try to build stakeholder confidence in our stewardship reporting currently is to externally publish our annual reporting on our website, which includes aggregated proxy voting statistics and how we have voted (i.e. for/against management, for/against shareholder resolutions and with/against ISS). See separately our published voting report on our website and more information on how we use voting to strengthen our stewardship efforts in Principle 12.

IMPROVEMENT IN OUR STEWARDSHIP POLICIES AND PROCESSES

In FY22 we reviewed our capabilities as a Responsible Investment team to fulfil our stewardship responsibilities. Two gaps in our capabilities were identified: our ability to engage at scale, and a cohesive voting approach that reflected our investment beliefs. As a result of the review we have sought to improve our stewardship policies and processes across two areas:

1. Responsible Investment team's responsiveness to key environmental or social macro events.
2. Development of voting principles and a thematic engagement approach.

Please see Principle 4 for an example of how we have addressed number 1. We provide details of how we reacted to Russia's invasion of Ukraine as an organisation.

EXAMPLE OF POINT 2

Issue: CBAM is a relatively small investor, with small positions taken in companies and investment trusts, therefore our ability to influence corporate management to improve behaviour and/or drive returns may be limited if we engage or vote alone or in an unaligned fashion.

Process: In FY22, a working group was created to develop a set of voting principles that reflected CBAM's investment beliefs, the principles were then discussed with our Voting Panel and reviewed by our proxy voting platform and research provider ISS. The principles provide guidance to our voting panel members on how to vote on certain ESG issues, the majority of which are governance scenarios, and clarify to our wider stakeholders what we believe to be best practice corporate governance.

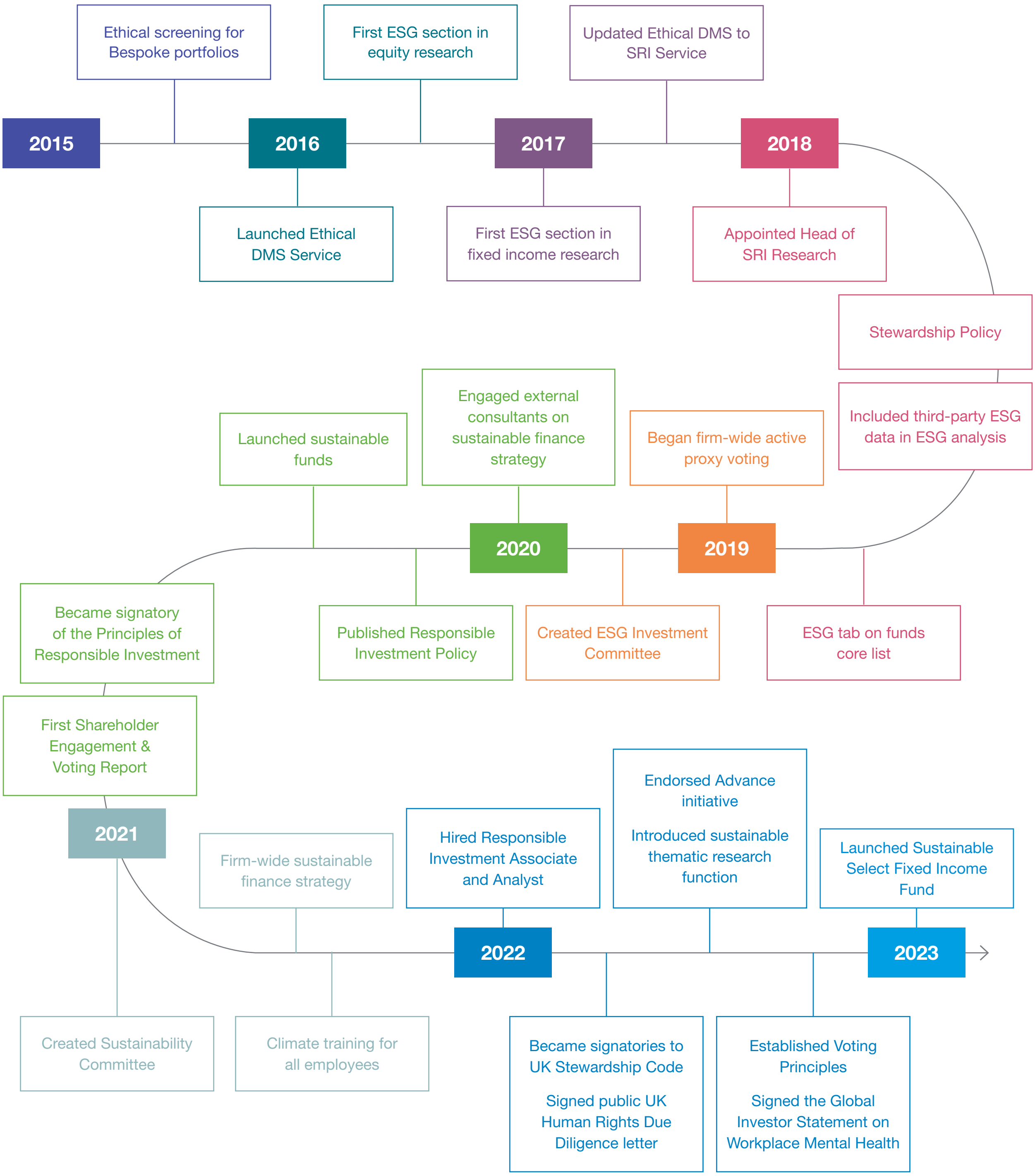
To address our thematic engagement approach, the Responsible Investment team worked on formalising a new structure for carrying out different types of engagements.

We determined that the responsibility of all strategic thematic engagements would be led by the Responsible Investment team, whilst ad-hoc, stock specific engagements were to be led by the relevant equity analyst or investment manager and supported by the responsible investment team.

Outcome: ISS have created a custom policy to reflect our voting principles which are to be utilised for the FY23 voting season. More details can be found under Principle 12. In addition, we developed a thematic engagement approach based on research and enhanced through collaboration. More details can be found under Principle 9 on our thematic engagement approach, and under Principle 10 on collaborative engagement.

We also continue to develop our Responsible Investment capabilities in FY22. The timeline on page 42 shows the new activities in FY22, all of which have been covered across this report.

RESPONSIBLE INVESTMENT TIMELINE



Source: CBAM.

Investment Approach

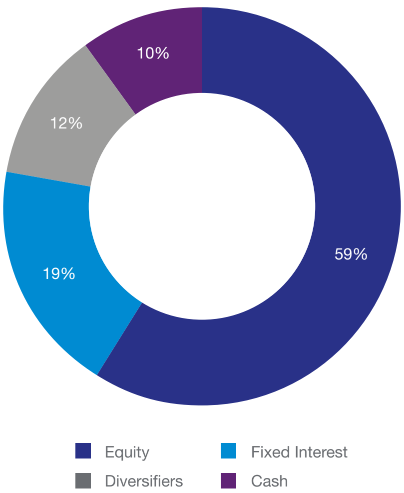
Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

OUR CLIENTS AND ASSETS UNDER MANAGEMENT

CBAM's assets under management (AUM) were £15.3bn as at 31 July 2022. This is the combined AUM of our unitised funds and segregated portfolios, as described in Principle 1, which total our complete investment management service. The pie charts below display the AUM split by asset class and region. Notably we are predominately invested in equities and the UK.

We work with a primarily retail client base of professionals, business owners, families and their advisers, who are looking to preserve and grow their long-term savings and investments, as well as charities and trusts. Over 50% of our clients are based in the United Kingdom. Across the client base we seek to provide an institutional quality investment management service.

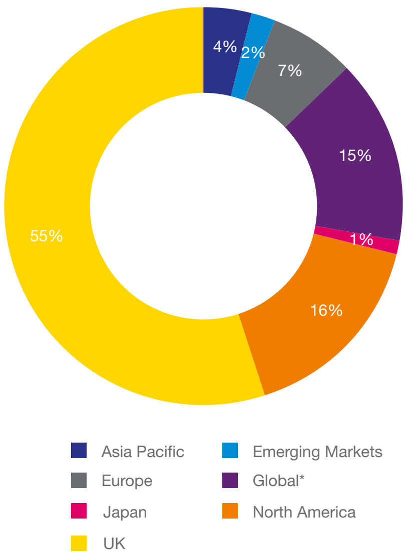
AUM SPLIT BY ASSET CLASS, 31 JULY 2022



Source: CBAM.

Diversifiers include; commodities, alternatives and property.

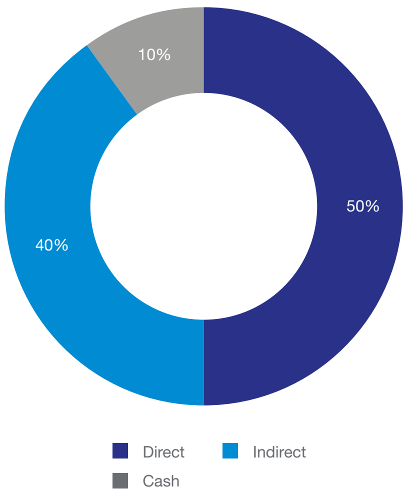
AUM SPLIT BY REGION, 31 JULY 2022



Source: CBAM.

* Global = a fund that is invested in more than one region.

SPLIT OF AUM BY DIRECT AND INDIRECT INVESTMENTS



Source: CBAM.

OUR INVESTMENT TIME HORIZON AND ALIGNMENT WITH CLIENT NEEDS

We are typically long-term investors across all asset classes with the aim of maximising returns for our clients over this period. This aim is incorporated into the investment objectives and policies of each of our unitised funds.

Across most of our segregated portfolios and advice business, we engage directly with our clients and ensure that their personal and financial aims and objectives are linked closely to the investment strategy put in place.

For the vast majority of our directly-advised clients, we expect their investment time horizon to be at least five years and mostly beyond. In many cases, we have relationships and investment strategies that straddle multiple generations within a family and will take that into account when positioning their investment strategy.

LISTENING TO OUR CLIENTS

For most of our segregated clients, we have a direct relationship either through one of our financial planners, a Bespoke investment manager or both. Via this direct relationship, we are able to build a strong and thorough picture of our clients' views, needs, requirements and beliefs.

Bespoke Investment managers will then use their knowledge and experience to determine the appropriate risk level, asset allocation and stock selection to meet the client's objectives while taking into account their expressed preferences and beliefs. Clients will be asked to confirm the suitability of their investment portfolio on a regular basis, dependent on which CBAM service is being provided to them.

CBAM Relationship Owner	Suitability Confirmation Period
Financial Planner	Annually
Bespoke Investment Manager	Every 2 years

We will also engage with clients on a regular basis to ensure that any changes in their circumstances or views are captured and reflected.

For other clients, where the relationship is intermediated through external financial advisers we rely on that external relationship to ensure that the investments are suitable and clients' views are reflected. Our clients who invest directly through our self-directed platform are provided with the information they need to make an objective assessment of the most appropriate investment, including our own funds.

For clients investing in our Sustainable funds, our Socially Responsible Investment (SRI) Service, or who have opted to apply an ethical screen or exclusions to their discretionary portfolio, we ensure that they have a full understanding of the security selection process, through the fund or service documentation or regular meetings, and what may, or may not, be included in their portfolios.

As part of the Bespoke portfolio service that we offer, clients can opt to screen out companies that are unaligned to their ethical values. We use Ethical Screening as our service provider for this functionality and our investment managers use a questionnaire to help identify industries or activities clients want to avoid on ethical grounds.

The questionnaire indicates the level of activity involvement that would be screened for as well as the number of companies that would be excluded should the client choose to avoid a particular industry or theme.

Once we have captured Bespoke clients' screening preferences, our risk function carries out weekly post-trade screening, and notifies the investment manager if any trades breach the screening criteria. If there is a breach the investment manager must sell the position.

GATHERING CLIENT FEEDBACK

For the majority of our clients where we have a direct relationship, feedback is mostly gathered on a 1:1 basis through regular review meetings and ad-hoc conversations and interaction. We have chosen this approach as we consider it an effective way to receive feedback directly, allowing us to work with clients on any queries when they arise. We view the strength of our relationships with our clients as key to how we manage their assets and we can incorporate their objectives into the heart of our investment process. Our clients' tenures are high, reflecting the quality of the investment manager and financial planner relationships and our clients' satisfaction with our service.

For the majority of our clients whose assets are held in custody by our Nominees, we issue quarterly valuation packs either by post or through the online portal – depending on client preference. This allows clients to clearly see their investment portfolio, performance and transactions along with our commentary on markets. Our investment managers and advisers speak to their clients regularly, and through these conversations will receive feedback.

To assess our effectiveness at obtaining client views, we also undertake regular client engagement surveys across both our discretionary investment management and financial planning clients where we seek feedback on the quality of our engagement.

We believe that these surveys, conducted through a third-party, give us a thorough and unbiased overall representation of the views of our clients. The last client engagement survey undertaken was outside of the FY22 reporting period, in November 2022. Prior to this, we conducted a client engagement survey in 2019. The results from these surveys are used to agree priority areas to focus on, and improvements are tracked on an ongoing basis. Furthermore, the scores and commentary from clients who opted not to remain anonymous are shared with the respective investment manager and/or adviser to follow-up and where appropriate to take action to resolve any immediate issues. Whilst the next client engagement survey has not been formally scheduled, we intend for these to take place more regularly going forward as the findings help us identify areas of both strength and improvement, insights that allow us to further tailor our services to the current needs of our clients.

We are conscious that our clients' preferences for responsible investment and stewardship activities are likely to be evolving as interest and knowledge increases.

WE VIEW THE STRENGTH OF OUR RELATIONSHIPS WITH OUR CLIENTS AS KEY TO HOW WE MANAGE THEIR ASSETS AND WE CAN INCORPORATE THEIR OBJECTIVES INTO THE HEART OF OUR INVESTMENT PROCESS.

THE SURVEY HELPED US TO FIRSTLY; UNDERSTAND HOW EXISTING PRIVATE AND PROSPECTIVE CLIENTS VIEW SUSTAINABILITY IN THE CONTEXT OF THEIR INVESTMENTS AND THEIR WIDER LIVES; SECONDLY, EXPLORE THEIR EXPECTATIONS OF CBAM WITH RESPECT TO BOTH THEIR INVESTMENT APPROACH AND WIDER CORPORATE BEHAVIOUR; AND LASTLY, TO HELP US CLARIFY HOW TO POSITION OURSELVES WITH OUR CLIENTS AND IN THE MARKET WITH RESPECT TO SUSTAINABILITY.

CBAM EXAMPLE

Please see Principle 1 for an example of gathering client feedback, via a survey, on what they need, want and expect from CBAM when it comes to sustainability and responsible investment. The survey helped us to firstly; understand how existing private and prospective clients view sustainability in the context of their investments and their wider lives; secondly, explore their expectations of CBAM with respect to both their investment approach and wider corporate behaviour; and lastly, to help us clarify how to position ourselves with our clients and in the market with respect to sustainability.

Alongside other findings, the survey revealed that although the profile of our clients varied little from others observed by the company commissioned to conduct the survey, CBAM has a greater number of clients in the third-party's "responsible investor" category than the UK population. Those in this category are motivated to play a personal role in tackling environmental and social challenges and expect the companies they choose to also play their part. They see their investments as another way to reflect their personal values. The survey also found that our clients place more importance on climate matters than social issues, and that more communication is required to help clients better understand where CBAM stands in its approach to sustainable, ethical or other responsible investments.

The results of the survey supported our decision to become a signatory to Net-Zero Asset Managers (NZAM) as it showed us that clients expect us to move in that direction. The insights from the survey confirmed our clients' interest in responsible investment and sustainability, and therefore encouraged us to continue the development of our responsible investment approach for all investments.

MANAGING ASSETS IN ALIGNMENT WITH OUR CLIENTS' VIEWS

Under Principle 7 we outline our Bespoke portfolio service. Our Bespoke investment managers can incorporate specific client views and values through specific screening of investments. As part of the relationship development between our investment managers and clients, a discussion can be had on what ethical values are important to the client and these points will guide the selection of industry activities to exclude for that client's investments.

Our clients delegate voting and engagement with their holdings to us as their investment manager and, whilst we do not offer the option for clients to direct the way we vote as a firm, we take clear account of our Stewardship and Responsible Investment Policy, which has been developed over recent years and is published on our website. We do allow clients to direct the voting of their own holdings if they wish to.

CBAM EXAMPLE

In FY22, we experienced a similar client request as we did in FY21, whereby our client wished to vote their shares in favour of the motions at the AGM of a company they were on the board of. As described under Principle 3, CBAM would have an execution-only mandate on these shares and therefore the client had to instruct us directly on the way they wished to vote.

COMMUNICATION OF OUR STEWARDSHIP AND INVESTMENT ACTIVITIES

We will publish this Stewardship and Responsible Investment report annually in line with the Stewardship Code principles. We hope the report gives a clear explanation of how we have carried out our stewardship activities for the year, an update on how we integrate ESG considerations into our investment process and how we have engaged with companies on our clients' behalf. The report also fulfils our SRDII reporting requirements.

For our funds, we publish monthly fund manager updates on our website (accessible here), where our fund managers review fund performance and provide updates on investment activities alongside market commentary.

In addition, both our unitised fund and segregated portfolio clients will be kept abreast of developments throughout the year on request or when our fund and investment managers meet with them as part of an informative service.

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

INTEGRATION OF ESG ISSUES

Central to our investment philosophy is being an active investor, as illustrated under Principle 1. Being an active investor allows us to make judgements on the materiality of idiosyncratic and systemic environmental, social and governance risks and opportunities for our investments.

We believe considering material ESG issues is important because they provide an additional information set and more holistic perspective from which the credibility of an investment case can be judged. Our analysis of ESG issues benefits from our long-term prudent investment approach given these issues often materialise over a multi-year period. Being cognisant of ESG risks and opportunities over an extended period helps to fulfil our stewardship responsibilities and align our investments with our clients' long-term financial goals.

We consider ESG issues through bottom-up fundamental and top-down thematic research.

Bottom-Up Fundamental Research

We are continuing to integrate ESG considerations across our investment types; direct equity, direct fixed interest, alternatives and third-party fund managers. Broad examples of factors in each of the E, S and G categories include, but are not limited to the following:

- Environmental factors: climate change, biodiversity, resource depletion, waste, pollution, deforestation.
- Social factors: human rights, modern slavery, child labour, working conditions, employee relations.
- Governance factors: bribery and corruption, executive pay, board diversity and structure, political lobbying and donations, tax strategy.

Investment Type	ESG Integration	FY22 Progress	FY23 Developments & Future Intentions
Equity	Yes	The current framework links the fundamental business drivers with material ESG risks and opportunities, or externalities.	Continue analysts development in the space (training due FY23).
Fixed Interest	Yes	The current framework seeks to identify key ESG risks to the investment case. Fixed interest is only interested in protecting against the downside business case.	In FY23 we updated the fixed interest framework to reflect updates to our Sustainable Select Fixed Income fund methodology.
Third-Party Funds	Yes	Formalised method for assessing environmental or social risks was in development FY22, but not implemented yet.	Launched a standardised ESG Questionnaire approach to assessing funds in January 2023.
Alternatives and Property Collectives (Alternatives)	In progress	Analysis of ESG issues at asset manager and strategy levels in research, but not using a formalised approach yet.	In FY23, we will be looking to use a more formalised approach for ESG analysis and align the third-party fund and alternative ESG integration frameworks where appropriate given similarities in the investment vehicles.

For the investment types that have a formalised process to integrate ESG information, the analysis is performed by the analyst (or investment manager) covering the fund, trust or company, and forms a part of their initiation research reports. We believe bottom-up ESG analysis should be performed by the covering analyst because we believe ESG information should be analysed in conjunction with traditional financial information, and the analysts are the ultimate experts on their companies under coverage.

The Responsible Investment team – our experts on sustainability themes and ESG factors – guide our analysts in the integration of ESG factors in their research process and provide our investment team with on-going education about key sustainability issues which are pertinent to relevant sectors. Material ESG factors, such as risks due to climate change, are discussed in detail within our analysts' research reports and considered in each investment case. Alongside mandatory firm-wide sustainability training sessions developed by the Responsible Investment team, we are also working with an external provider to develop a further in-depth ESG analysis course for our research team and sustainable investment managers, which is going to be rolled out in FY23.

Top-Down Thematic Research

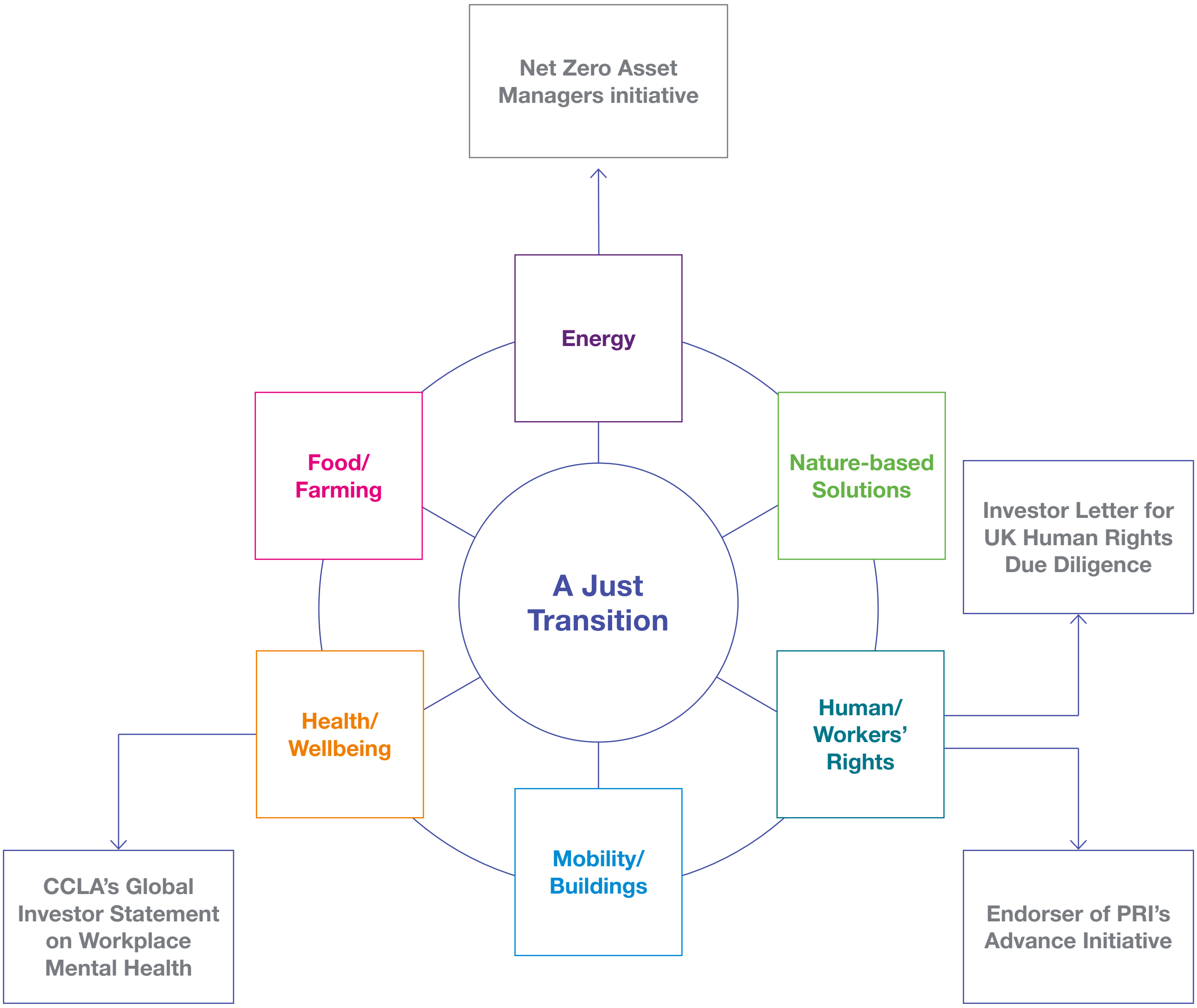
The bottom-up analysis conducted by our research analysts is complimented by the top-down thematic research conducted by our Responsible Investment team. The thematic research, based on our approach to a 'Just Transition', provides investment managers and the wider business with insights into current sustainability topics, and feeds into our stewardship and collaborative engagement approach.

It is our belief that a transition to a lower carbon economy will be one of the most impactful challenges we will face this century as a species and one that touches all corners of the environment, society, business and investment. Because of its wide reaching influence, we believe that it is vital that the transition is conducted in such a way that social issues, including workers' rights, livelihoods and economic fairness, are protected. Social and environmental issues are inherently linked, and we aim to take a holistic view to sustainability research by addressing their interconnectedness through the theme of a 'Just Transition'. We also believe that the focus on a 'Just Transition' is a crucial aspect of adhering to our strategy's responsibility to address the social, economic and environmental challenges facing our business, employees and clients, now and into the future.

To structure our thematic research we have broken the 'Just Transition' theme down into six sub-themes; Energy, Nature-based Solutions, Human/Workers' Rights, Mobility/Buildings, Health/Wellbeing, and Food/Farming. Breaking it into sub-themes has allowed for collaboration with our wider equity research team. The Responsible Investment Team seeks their input as to how their coverage may be exposed to a particular sub-theme.

In FY22 we focused our thematic research on the energy transition and a summarised version of this research can be found here. The plan for FY23 is to cover Human/Workers' Rights, Food/Farming, Health/Wellbeing and Mobility/Buildings, covering a topic per quarter. The diagram on page 52 illustrates the sub-themes together with aligned thematic engagements efforts we have pursued, the details of which can be found in Principle 10.

OUR SUSTAINABLE RESEARCH AND ENGAGEMENT THEMES



Source: CBAM.

GEOGRAPHIC VARIABILITIES

Where we invest directly we are predominately developed market investors (i.e. North America, Europe and Japan). Our investment managers will also use managed funds and listed investment trusts where they are available to get exposure to other geographic markets or diversifying asset classes. We are mindful of geographic standards when considering the ESG issues of an investment. We understand that norms vary between regions and we take this into account from our initial analysis of investments through to our engagements. Whilst we take into account third-party global ESG ratings, we have found that these often do not take into account regional nuances and therefore if we have any concerns regarding a third-party assessment of any investment we will engage directly with the issuer to understand their position further.

How we approach ESG issues across the different asset classes is outlined in more detail in this section. These geographic and asset class differences apply to our engagement, escalation, and voting approaches.

DIRECT LISTED EQUITIES

Our equity investment research approach focuses on identifying good quality companies, with strong balance sheets, robust governance and competent management, that are priced attractively. An integral part of our understanding of the quality of a business is to consider the risks and opportunities posed to it by non-financial issues. We believe that investments that have strong ESG qualities are less likely to be impacted by negative events that could ultimately lead to substantial falls in their valuations.

Our equity research analysts, on our central Research team, incorporate ESG analysis into their equity research reports in a defined section. Throughout FY22 we sought to improve this section to make the ESG analysis more relevant to the overall investment case and therefore more decision-useful for the analysts. The structure and nature of this section will inevitably develop over time as company ESG data disclosure improves.

The section is structured around an ESG integration framework which asks our analysts to consider the following broad questions:

- What are the key drivers to the business and the investment case? How might ESG issues affect those drivers?
- What is the likelihood, scale and financial statement impact of those ESG issues arising?
- What are management doing to mitigate the risks or capitalise on the opportunities?
- Have the answers to the above questions affected the investment case?

To answer the framework our analysts will use third-party ESG data, industry research, and company reports to identify ESG risks applicable to the company under research. Where ESG factors are deemed material, our analysts will discuss how they have considered them as part of the investment case, resulting in their ultimate investment recommendation (Buy, Neutral, and Source of Funds).

CBAM EXAMPLE

Issue: We initiated on a global semiconductor company in the reporting period. The externality where the greatest financial risk lay was in the potential of further client and regulatory disputes around the company's licence business, which could entail legal costs, and potentially lower the company's licence revenue growth rate.

Process: We carried out an analysis of the company's ESG factors and found that client and regulatory disputes had steadily eased and were unlikely to reopen in the next few years. Most of the legal cases, which were around the company's licence business, the group had managed to succeed, demonstrating its investment case to the regulators. We found that the ESG ratings providers had not taken into account the easing in regulatory disputes in their report.

Additionally, our ESG analysis of the company exposed that it has strong opportunities in clean technology. We quantified the materiality of these risks where possible. We estimated the potential legal costs by taking into account previous industry court cases, looked at the worst-case possibility for the lower licence revenue growth rate for the group's licence business, and included revenue growth potential associated with clean tech opportunities.

Outcome: The risks and potential extra costs noted were not deemed material enough, as most of the legal cases had been succeeded, to prevent a buy recommendation being assigned to the company.

CBAM EXAMPLE

During the reporting period we conducted research into the aerospace and defence sector. As part of this research we engaged with our third-party ESG data provider to gain a better understanding of how the agency rates aerospace and defence companies and how its methodology differs from that applied to other sectors. From this engagement we gained an understanding of their interactions with corporates within the sector, and the sector-specific assessments used.

During the reporting period, we initiated on two defence companies, completing an in depth analysis with integrated ESG considerations on both. In these research reports, both over 40 pages long, ESG considerations totalled between 16-20% of the reports.

BRITISH DEFENCE, SECURITY, AND AEROSPACE COMPANY

Issue: In recent years the defence sector, in particular in Europe, had been impacted by investors' increased focus on sustainability and ESG issues. In Q1 2022, geopolitical tensions raised questions of shifting market views on the sustainability considerations of the defence sector, due to the social need for defence of human rights. This company had been vocal about their sustainability agenda and ethics, and has been increasingly distancing itself from controversial weapons. We thought there could be a potential investment opportunity if geopolitics created a structural shift in the way defence companies are viewed by sustainable investors.

Process: Our Aerospace & Defence analyst carried out an ESG analysis as part of their broader fundamental analysis of the company to determine the materiality of ESG factors for the investment case. Our ESG analysis highlighted risks associated with governance (a number of controversies), labour, and carbon targets, and the potential financial impact of these risks. Our assessment of these risks showed that the company demonstrated a clear understanding of the risks, and had established solid frameworks to mitigate such risks going forward, alongside continued embedding of sustainability into its organisation. Furthermore, we saw potential upside in terms of clean technology, as the company was expanding its clean energy footprint to new areas.

Outcome: Given the upside valuation of the stock, the risks we found were not deemed material enough to prevent a buy recommendation being assigned to the company.

AMERICAN AEROSPACE AND DEFENCE, INFORMATION SECURITY, AND TECHNOLOGY CORPORATION

Issue: We found key ESG-related risks to be compliance costs tied to carbon emissions regulations, and potential costs associated with product safety and quality. In addition, the company had a number of controversies relating to previous management teams, which could have financial implications.

Process: We carried out research to clarify the magnitude of these risks for our investment case and found that the current management team demonstrated a clear understanding of these risks and established solid frameworks to manage such issues going forward. The company have invested in clean technology, developing energy solutions and investing in solar energy storage, alongside taking various measures to reduce their environmental impact. We see upside potential for the company's clean technology portfolio. The company also showed its commitments to provide benefits to wider society through a number of initiatives, primarily focused on supporting science, technology, engineering, and mathematics (STEM) education and military and veteran causes, supporting programs that focus on student achievement, teacher development, and gender and ethnic diversity. These initiatives demonstrate how the company's business model was incorporating ESG considerations to benefit stakeholders and not for profitability alone. Our assessment showed that despite the risks faced by the company, the probability of a material incident occurring was low.

Outcome: Taking ESG factors into account in our assessment of the company, alongside other material risks and opportunities and its upside valuation, led us to suggest a neutral recommendation on this stock.

SMALL CAP DIRECT LISTED EQUITIES

The ESG data available for small cap equities by third-party ESG research providers is much less prevalent than for larger caps. This creates an opportunity for our small cap investors to pursue their own ESG analysis and engagement practice. The main focus continues to be on governance issues. If our analysis uncovers poor governance practice, with respect to the wider market peer groups and analyst knowledge, it can be a catalyst for written or in-person engagement, voting against management, and a driver for not investing initially or divesting.

Our small cap investment managers have established close relationships and direct communication with small cap investee's executive level management teams, which allows for a deeper understanding of their governance and business strategy as well as a better opportunity to influence. Information obtained from these meetings and analysis of governance structures feeds into research and engagement activities and ultimately investment decisions.

CBAM EXAMPLE

Issue: We were considering investing in an AIM listed global electrical equipment supplier headquartered in the UK, after they sold off the principle volatile activity which was supporting off-grid power for mining, oil and gas. With the sale of this side of the business, we considered whether it would be a good time to invest.

Process: We undertook due diligence on the company and engaged with management for a deeper understanding of the business, personnel and expertise on the board and shareholder structure. We discovered that there was a lack of board independence where the board was seemingly governed by one shareholder. We also identified that our long-term investment interests were not aligned with this shareholder.

Outcome: Due to governance concerns we decided against buying shares in the company.

DIRECT FIXED INTEREST

Our aim is always to grow wealth prudently over the long-term, so our fixed interest research process, carried out by our fixed income fund managers, focuses on finding safe, high-quality, liquid bonds. Typically these will be high quality sovereign and corporate bonds in developed markets. Corporate bonds can be investment grade, high yield or unrated. We also invest in index-linked securities to reduce inflation and interest rate risk.

Our fixed interest investment and credit research process factors in ESG risks in exactly the same way as we consider all credit risks. Proprietary knowledge, primary research, rating reports, sell-side analyst notes and third-party ESG data and research reports are all used to consider the ESG factors associated with an issuer. If our fixed interest team deems any of these factors to be risks then they are included in the research report under the 'ESG' section.

For example, sub-optimal board representation or exposure to fossil fuels could be treated as a credit risk, for which the team would then consider the likely impact over the short and medium-term. This may mean we demand extra compensation to hold a bond (i.e. a greater yield) or opt to not invest in the bond at all.

Our direct bond funds are concentrated, which allows us to be particularly selective about the companies we invest in.

It is likely that if a company has persistently poor governance frameworks or a poor track-record of environmental mismanagement or exposure to industries such as coal, then we would be unlikely to invest in the company's bonds. These types of risk can be sufficiently material that they fundamentally change the investment case of a company – rendering the company not investable until improvements are made.

If a company issues a vanilla corporate bond and a green bond with the same risk/return characteristics then we will invest in the green bond. Whilst we appreciate that the standardisation of green bond criteria needs development, we believe green bonds could enjoy greater market demand in the future making their price more attractive. However, we tend not to invest in the green bonds of 'bad actors' in sectors such as coal and tobacco.

Unlike equity holders, our fixed interest investors have no board representation or mechanism for voting. This is covered to a greater extent under Principle 9. However, we endeavour to use our 'soft' powers effectively. Given we are essentially lending companies money, the economic power we can wield is strong and immediate. Within our fixed income fund, Sustainable Select Fixed Income, we are robust with management and are clear that we will not invest in those companies with poor ESG track-records.

CBAM EXAMPLE

Issue: During the reporting period, we initiated on a Spanish utility company. Carbon emissions were identified as a key ESG risk.

Process: We carried out an assessment of the utility company's market position with regards to the risks and opportunities it was facing and the company's short and long-term plans to address carbon emissions.

We found the company to be relatively well positioned against the risks arising from carbon emissions reduction policies because of its well-diversified generation portfolio across Europe, Latin America, the US and Australia. Its geographical diversification lowered this risk due to carbon pricing policies taking place through individual governments. Additionally, the carbon intensity of their European fleet is relatively low.

We expect its carbon intensity to decrease further as the company continues to build out its renewable capacity, keeping in mind a completion of the merger between one of its subsidiaries and an energy holding company may temporarily increase the environmental risk exposure of the Spanish utility. Looking to the future, the company plans to be carbon neutral by 2030 in Europe and by 2050 globally.

Outcome: Our assessment showed that the company is adequately managing its risk around carbon emissions relative to peers. While not determinant, this was deemed as supportive for the investment case. And after assessing wider ESG and credit risks we assigned a 'Buy' recommendation to the company's bond.

THIRD-PARTY FUNDS (ACTIVE AND PASSIVE)

We also invest in third-party funds to utilise external expertise to support diversification, or if an investment remit requires them. Our fund manager research team identifies those managers that are the best in their sector or region, across all asset classes. We assess each third-party manager on People, Philosophy, Process, Performance; collectively known as the four Ps. Our assessment of each of these factors together aids the identification of fund managers or strategies that have a competitive edge to exploit market inefficiencies better than their peers. Performance alone, however, will never be a reason for investing into a third-party fund. Instead, performance that is inconsistent with the philosophy or process will likely be a red flag and point for engagement.

In FY22 we began the development of a formalised process to assess how a third-party fund manager integrates social and environmental factors into their investment strategy. We expect our fund managers to take into account all relevant risks, and we expect ESG concerns to be included in that. We review each strategy on a case-by-case basis and if we perceive third-party fund managers to be ignoring key environmental or social issues we will view this as a risk. The assessment of governance at the manager level along with how the strategy considers governance factors in the investment process is a critical part of our manager research process.

Key items that we consider are alignment of interests (i.e. does the fund manager have appropriate ownership arrangements), how the performance fee (if any) is calculated, how decisions are made with effective challenge of decision making across the team, and whether the funds label themselves appropriately. As our third-party fund coverage is international, we take into account varying geographical environments and norms when analysing funds.

Whilst social and environmental factors do not currently constitute an explicit factor upon which we base our fund investment decisions, we may consider ESG ratings of fund managers on our core list. During our investment process we may include comments on the fund manager's ESG approach and we are not precluded from investing in sustainability themed funds. Subsequently, our in-house manager research team will identify and distinguish where external fund managers are running Sustainable, ESG, or Impact strategies and list them under these categories in a separate section of our Funds Core List. We are aware that there are areas for improvement in our approach with regards to understanding how a manager considers environmental and social stakeholders in their stewardship approach. We have addressed this in more detail under Principle 8, and have developed a standardised approach utilising an ESG questionnaire for FY23.

For our passive fund range we seek to add value by actively investing in index-tracking securities, including Exchange Traded Funds ("ETF") and passive unit trusts.

Among other factors, we analyse the engagement strategies of the ETF providers. We aim to actively engage with ETF providers to deepen our understanding of their Stewardship Policies as we firmly believe that ETFs that actively engage in an attempt to improve the ESG performance of the companies in which they invest are more likely to outperform ETFs that do not engage with their investee companies. However, we currently do not analyse the ESG issues of the investee companies of the ETFs in which we invest nor do we engage directly with them.

CBAM EXAMPLE

Issue: In February 2022, one of the funds on our core list changed its strategy. They followed good governance practice and notified us prior to the change. Although the new strategy was managed by the same team, their investment universe and focus changed.

Process: In cases such as this where a fund has changed its strategy, following our internal governance practices, we reconsider reintroducing it to our core list of funds by analysing it as a new fund and comparing it to peers. In this case the fund changed from targeting income towards a strategy aimed more at capital growth.

Outcome: We decided to remove it from our core list.

ALTERNATIVES

CBAM's alternatives analysts look at the level of ESG integration at asset manager and strategy level. This includes how ESG issues inform and influence investment outcomes and how these are measured and reported. We take into account the organisation's diversity and inclusion policies, whether they consider the UN SDGs, whether they are signatories to the PRI, if they have a net zero carbon commitment at fund and organisational levels, and if they have joined the Net Zero Asset Managers initiative. We look for management with a progressive approach that can influence their industry by encouraging stakeholders to match their net zero carbon commitments. As our alternatives coverage is UK focused, our approach doesn't need to take into account regional nuances.

HOW OUR APPROACH TO STEWARDSHIP AND ESG INTEGRATION DIFFERS FOR OUR INVESTMENT PRODUCTS

We take a centralised approach to responsible investment, building the integration of ESG factors into our fundamental analysis conducted by our research analysts and investment managers as part of our investment research. However, we also offer investment products that prioritise sustainability factors and allow clients to further align their investments to specific values and impact themes. To do this we utilise screening using third-party ethical, ESG, and impact data.

CBAM EXAMPLE

Issue: During the financial year, we engaged over video conferences and emails with the management of a UK-based specialist alternatives asset manager regarding their energy storage fund, which we are invested in. The purpose of this was to help the asset manager understand the requirements regarding the sustainability-related objectives and targets we demand of our investments, and requirements regarding ESG metrics and broader disclosures.

Process: The asset manager's sustainable investment approach was formed of two core elements: firstly, to develop investment products that meet both the sustainability and financial objectives of their clients, and secondly, to be able to measure and report on the sustainability risks, opportunities and outcomes associated with their investments.

We completed a questionnaire they provided, to help them understand our sustainability-related priorities and objectives. The questionnaire included questions on investment objectives, reporting, regulation, climate change objectives, ESG metrics, data providers and peer analysis. We expressed that we expect the asset manager to contribute to the transition to a low carbon economy and that we expect them to publish an annual responsible investment and stewardship report.

Outcome: The asset manager assured us that their fund is committed to the decarbonisation of the energy system and that they will incorporate our objectives as they work to enhance the sustainability-related reporting for the fund. We will be following up on the outcome of our inputs in our annual review in FY23.

SOCIALLY RESPONSIBLE INVESTMENT (SRI) SERVICE

The SRI Service is a multi-asset discretionary portfolio service. Our SRI portfolios are designed to reflect our clients' values with respect to building a more sustainable future. They mirror the UN Sustainable Development Goals and their commitment to the promotion of prosperity and sustainability, allowing our clients to invest in global businesses with concern and respect for wider social, environmental and economic issues.

When considering companies for inclusion in a SRI portfolio, we identify which of the following impact and investment themes they best reflect: social empowerment, environmental protection, health and/or economic advancement.

Companies in our SRI portfolios are analysed through three lenses, namely ethical, ESG and impact which produce indications as to its growth potential, material risks and sustainability profile.

We apply screening using third-party ESG data to identify the SRI investment universe, as expressed in our SRI Service investment process infographic below:

SRI SERVICE INVESTMENT PROCESS

Applying an ethical screen using MSCI Business Involvement Screening data, removing companies that do not align with the UN's Sustainable Development Goals from our investable universe. Such companies include (but are not limited to) tobacco, armaments and alcohol.

Reference ISS Ethix reports which use controversy analysis to identify severe human rights and environmental protection risks. This review is more subjective compared to a traditional, revenue-based 'negative screen'. Companies flagged through ISS Ethix require additional research.

Identify companies with the best Environmental, Social and Governance scores using ESG data from MSCI. Each company receives an ESG score from AAA to CCC (best to worst) relative to their global sector peers.

Score companies based on the percentage of revenue aligned with our impact themes:

- Social Empowerment
- Environmental Protection
- Health
- Economic Advancement

Meticulous company selection based on a combination of ESG and impact scores, combined with rigorous fundamental and valuation analysis.

REGULAR REVIEWS TO MONITOR SRI CREDENTIALS AND OPERATIONAL EXCELLENCE.

Source: CBAM.

In addition to CBAM's centralised research, for our SRI Service we also conduct bottom-up research for our investments and assess ESG risks and opportunities. During our research we engage with companies and industry professionals via email, phone, and meetings, and analyse information from sources such as company reports, ISS, MSCI and news outlets, to better understand the ESG and impact factors for the companies we are considering investing in on behalf of our clients.

Within the bond sub-asset class, UK Government bonds, it is not possible to invest in gilts with superior SRI characteristics versus the underlying asset class (UK Gilts) because the ethical, ESG, and impact qualities are considered the same for all gilts. It is the view of the SRI Service team that investment in government bonds is positive from a SRI perspective as this is an essential source of funding for countries allowing them to invest in infrastructure among other things. This consideration overrides other factor such as, in some instances, the possible misappropriation of funds by governments or the fact that governments must have defence and security in their budgets, and therefore screening out a country for exposure to armaments does not make sense.

Within diversifiers: infrastructure, global REITs, and UK real estate sub-asset classes do have distinguishable SRI characteristics and data is available from company reports and third-party data providers. However, commodities and absolute return sub-asset classes are deemed as having low SRI distinguishability because most products still lack differentiation and supply chain traceability. We will invest where there are products with positive distinguishing characteristics, such as ethically sourced gold bars.

During FY22, our SRI Service sought to improve the reporting of the downstream sustainability impact of their portfolios. The service began the process of on-boarding the third-party data provider Net Purpose. Net Purpose provide quantitative facts on the social and environmental performance of companies and investment portfolios with the quality and transparency we expect of financial data. The process of reviewing Net Purpose's capabilities is detailed further under Principle 8.

CBAM EXAMPLE

Issue: The SRI team had held a multinational paper and packaging company in clients' portfolios. It was a well-managed business supported by long-term secular trends in e-commerce and sustainability with the switch from plastic to paper. When Russia invaded Ukraine in February 2022 the company was flagged by ISS, as it derived 12% of revenue from Russian operations and generated ~20% of underlying EBITDA in the region in the prior three years. Further, the company had one paper bag plant located in Lviv, Ukraine, which employed around 100 people. The company had operated in Russia for over 22 years.

Process: The SRI team engaged with analysts and management (through their prompt updates and reports) as well as clients. We were pleased that the company not only provided direct support to colleagues in Ukraine but also pledged €1 million to support the United Nations World Food Programme's emergency operation to provide food assistance for people impacted by the conflict. Nonetheless, following a number of internal and external meetings, we decided to exit the investment due to its operations in the region.

Outcome: Within weeks of the conflict starting the SRI team made the decision to exit our position in the company as there was no indication of intent to stop these operations. Operations in Lviv were suspended, and employees' wellbeing and safety was put front and centre of the company's considerations. However, Russian operations continued until August 2022. Following a decision to divest its Russian assets in May 2022, the company announced the decision to sell its most significant facility in Russia. Ultimately, we think the company is a very sound business that is in the right area to capitalise on the transition to a more sustainable future, however we could not maintain the investment in light of Russia's human rights violations and the conflict with the SRI Service's values-based proposition.

BESPOKE PORTFOLIOS

Our Bespoke portfolios are designed to the specific needs of our clients, including both financial goals and their non-financial values. The dedicated investment managers can utilise the research from our analysts that integrates ESG factors whilst also using the ethical screening to aid in their portfolio construction. Ethical screening is the application of filters to lists of potential investments to rule companies in or out of contention for investment, based on investment preferences, values or ethics. This screening ability allows us to tailor Bespoke portfolios to more closely match our clients' interests and preferences. Often, exclusion criteria (based on global norms, ethics and values) can refer, for example, to product categories (e.g. weapons, tobacco), company practices (e.g. animal testing, violation of human rights, corruption) or controversies.

SUSTAINABLE FUNDS

In FY22, our sustainable funds aimed to generate consistent, long-term returns by screening out unethical practices, and focusing on investment opportunities with positive track records of sustainability. Our sustainable multi-asset fund and sustainable bond fund utilised a three-stage process to achieve the stated aim; unethical companies are excluded, only companies with an MSCI ESG rating above BBB and a are included in the bond and multi-asset investable universes respectively and the remaining companies are analysed on a fundamental and valuation basis.

We will always use our own judgement to take account of information that may not be reflected in an ESG rating. For example, we may decide to rule out a company if its management are interested in acquiring a business that would not get through our ethical screening. We would do this even if its current ESG rating was high.

When we are investing in diversified assets for the multi-asset fund – such as property, infrastructure and commodities – we have to use a different approach. This is because the data we need to apply our Ethical Screen is not sufficient, and ESG ratings are not available. So, we take a thematic approach. It is based on sustainable themes, rather than data.

For example:

- In property, we look for opportunities in social housing and sustainable farming.
- In infrastructure, we look for opportunities in solar and wind power, as well as in schools and hospitals.
- In commodities, we look for precious metals that are certified as responsibly sourced by relevant trade bodies.

In FY23, our sustainable bond fund was subsumed into our main bond fund, Select Fixed Income, to form Sustainable Select Fixed Income (SSFI). SSFI utilises our new sustainable methodology that not only targets consistent, long-term returns but also a defined sustainability objective.

Key Aspects of Sustainable Methodology

- Maintaining a lower carbon intensity than the benchmark global bond index at all times.
- Targeting a carbon intensity level 50% below the 2019 benchmark by 2030.
- Exclusion criteria placed on; thermal coal, civilian firearms, controversial weapons, gambling, adult entertainment, tobacco product manufacturing.
- Exclusion of companies we believe are in severe breach of Global Norms, based on UN Global Compact.

SERVICE PROVIDERS SUPPORTING OUR ESG INTEGRATION

A description of the service providers we use to fulfil our ESG integration efforts can be found under Principle 2. We utilise these sell-side research brokers and third-party ESG data providers to inform our assessment of the impact of ESG risks and opportunities on our investments.

Our research analysts will also utilise norms research to ascertain whether a company is involved in any unaddressed severe controversies relating to the UN Global Compact Principles. This assessment can drive both engagement and further research if required. Our research analysts also use ESG data from third-party providers to inform their analysis. The third-party data is not taken as read for research purposes and instead our analysts will challenge the third-party reports when necessary.

In addition, we use ISS as our proxy voting platform and as a provider of corporate governance best practice recommendations. More details can be found on ISS under Principle 9 and Principle 12.

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

DATA PROVIDERS

We use third-party data providers to help us meet our daily needs across the business, including;

- Analysis of ESG issues in investment research (Data provider: MSCI, ISS).
- Ethical Screening for Bespoke portfolios (Data provider: Ethical Screening).
- Research for voting (Data provider: ISS).

How we monitor our data providers

Our data providers are categorised as Tier 1, Tier 2 or Tier 3 depending on their access to our systems and functionality they provide to the business. Tier 1 being the strictest category for on-boarding the data provider. Data providers that help meet regulatory requirements are Tier 1 and, driven by an increasing requirement for climate and sustainability reporting, we will be reviewing those data providers that aid the delivery and their tier.

We have frequent calls with our third party account managers and product specialists to discuss product updates and obtain clarification on the data or research they provide.

Our Risk teams monitor the weekly data feeds from Ethical Screening. The data file is uploaded into our portfolio modelling system via User Categories so any amendments/ additions will be reflected in our monitoring rules in thinkFolio, the platform we use for monitoring investment portfolios.

The second line risk team identifies where there are ethical flags for which we need more clarity. To do this they sense check the security in question using the ethical data we receive from MSCI Business Involvement Screening metrics, and/or query with our provider, Ethical Screening.

Meeting our needs: Quality of data provider delivery in FY22

1. To enhance our ESG research, reporting and to meet regulatory needs (e.g. Task Force for Climate Related Disclosures (TCFD) recommended reporting) we upgraded our MSCI ESG metrics access to include their suite of climate tools.

   In addition, we engaged with a strategic technology partner to understand how our current data platforms were prepared for upcoming regulations (TCFD and UK's Sustainable Disclosure Requirements (SDR)). We compared existing and potential new data providers on reporting capability, data requirements, data consistency and costs. Despite issues integrating MSCI data into our centralised reporting function we found the positives of utilising their climate data (comprehensive, no major business changes required) outweighed the benefits of integration in the short-term. We therefore continued to use MSCI climate metrics.

2. At the beginning of FY22, our data providers did not have the capability to provide coherent, transparent and precise data on the impact our investees had on their stakeholders and the environment. To resolve this data gap, and to be able to provide impact reporting for our Socially Responsible Investment service, we decided to look to add to our current data providers. After reviewing a number of potential providers, our SRI service has partnered with Net Purpose to provide quantitative environmental and social performance reporting starting in FY23. Since Net Purpose was classed as a Tier 3 data provider, the on-boarding process was less extensive.

OUTSOURCED SERVICES

We will use outsourced services for many operational business functions where we require expertise or resource.

How we monitor our outsourced services

For outsourced services, we retain responsibility for these vendors. The risk to the business is assessed and the vendor is categorised.

Higher risk vendors are subject to a third-party detailed review, the scope of which is to assess the suitability of the controls within their company in relation to the provision of services they are contracted for and within their wider corporate business. The key areas of review are: People, Process, and Third-Party risk, Cyber Risk, Data Protection, Technology, Business Resilience, Conduct Risk and Sustainability.

Findings are documented and reported to the Third-Party Oversight Committee with actions noted and delivery dates agreed. Monitoring also includes consideration of alternate providers in the event the requirements are not met.

Meeting our needs: Strengthening our outsourced supplier review

Part of CBAM's strategy is now our responsibility to address the social, economic and environmental challenges facing our business. Aligned to this, we are looking to strengthen our ability to review the services provided by outsourced parties and introduce a new survey in FY23. The survey will be focused on the environmental, social and governance performance of the suppliers. The survey will not only allow us to analyse if the supplier is aligned to CBAM's strategy but also to understand if the supplier will pose CBAM any unseen risks from its environmental or social performance.

INVESTMENT RESEARCH PROVIDERS

Collegiate and expert research is a core part of our investment philosophy, as defined under Principle 1. We utilise external research providers for insight and to broaden our coverage. We are mindful to pick research providers that will ultimately enhance our end client's experience.

How we monitor our investment research providers

We run half-yearly evaluations, where the whole investment team are able to provide feedback on our provider list, with a focus on areas they find valuable. We ensure the importance of these evaluations are communicated to each individual, and as a result of this we tend to get an 85% completion rate on average.

We use the results from the evaluation combined with consumption data analysis to help determine our service levels with each provider. All agreements are discussed and approved in our External Research Oversight Committee meeting which takes place on a monthly basis, and comprises of members from all Investment Teams.

This committee is also used to discuss/approve free trials, the on-boarding of new providers, corporate access, and anything MiFID II/ Research related.

These processes have given us the capability to clearly gauge the firm's research needs, including ESG research, and has resulted in on-boarding, off-boarding and changes in service levels with providers.

Meeting our needs: Quality of research provider delivery in FY22
Broadly we have been happy with the quality, responsiveness and coverage of external research that been provided. This was evidenced by retaining all research providers from the beginning of FY22 to the end of FY22, whilst adding a few more.

THIRD-PARTY FUNDS AND TRUSTS

Third-party funds and trusts are a core investment class for our Bespoke and Funds parts of our business.

How we monitor our third-party fund managers
Engagement with our third-party fund managers is the main way in which we hold the standard of their service to account. The key aspects of how we engage with the fund managers is covered under Principle 9, however this section covers additional points on our monitoring approach.

We reconfirm our investment recommendations on funds annually.

During the reconfirmation process we question management specifically on material issues with regards to any of the 4 P's described under Principle 7; Philosophy, Process, People or Performance. Performance that deviates from what we expect based on the philosophy and process will lead to further questions and due diligence. If our investment case for the fund is based on the fund manager's competitive edge then we will monitor their motivations and incentives, and any change in key personnel on the strategy will raise a red flag and is a potential reason to change our recommendation.

We use the AssetQ platform to help track fund details. AssetQ is a public depository of fund due diligence information and collects information from fund managers in areas such as key persons, team members, risk & liquidity, process and responsible investment details. Within the responsible investment details we have access to the funds voting and engagement records.

We are conscious that AssetQ's information set is reliant on the voluntary disclosures of asset managers therefore we engage with the fund managers to make sure the information we get from AssetQ is up to date and accurate.

Meeting our needs: Quality of third-party fund manager delivery in FY22
Examples of how we monitored our third-party fund managers and held them accountable for the service provided during FY22 can be found under Principle 9.

Engagement

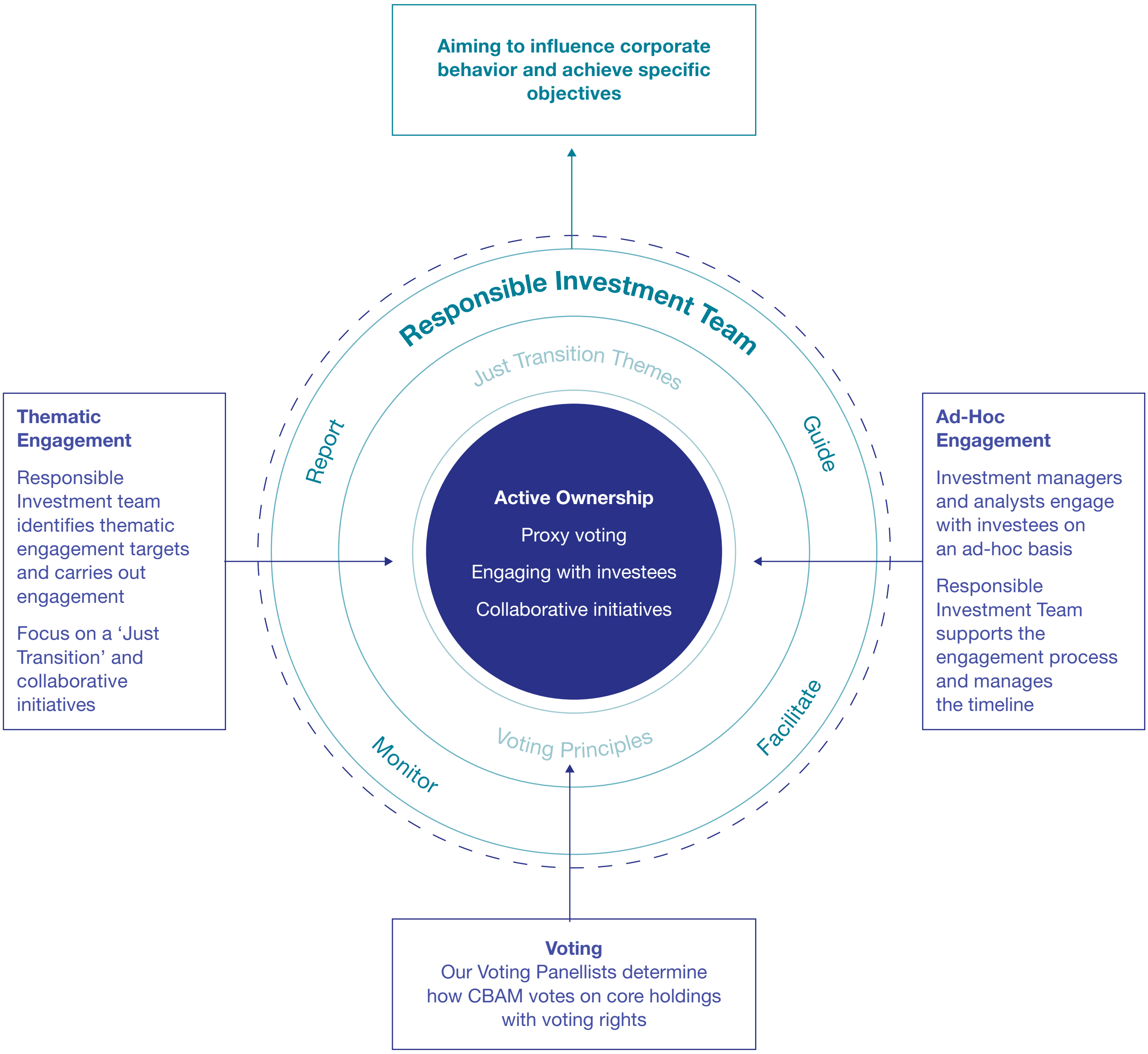
Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

OUR ENGAGEMENT APPROACH ACROSS ASSET CLASSES

Engaging with the companies we invest in is integral to our investment process as active managers, for informing our investment research, mitigating against potential investment risks and driving long-term shareholder returns. Engagement not only increases the common understanding between us and our investee companies but allows us to use our expertise and knowledge to put our clients' interests at the forefront of our actions. We make efforts to engage across all asset classes where necessary, but given the resource intensive nature of engagement we focus our attention primarily on public companies in which we hold shares with voting rights, and where there is opportunity for value-creation.

At CBAM, we define engagement as the communications we initiate with our investees for the purpose of influencing corporate behaviour and achieving specific objectives. To be able to make the claim that we were the 'catalyst' for an investee's action (change or impact), we would need to be able to prove our engagement drove investee action that wouldn't have otherwise occurred. This is extremely difficult to demonstrate, without confirmation from the investee, but in FY22 we continued to formalise our engagement processes to help track alignment with our engagements and management decision making or strategy over time. Our engagements are underlined by prior research and we make a distinction between thematic engagements and ad-hoc engagements.

OUR ENGAGEMENT APPROACH



Source: CBAM.

In FY22 we formalised our engagement system for investments by strengthening the role of the Responsible Investment Team in guiding, facilitating, monitoring and reporting on firm-wide engagements in a centralised manner. To do this we grew our resources for stewardship by adding another team member to Responsible Investment. They joined in the beginning of FY23 and have since been tracking our progress on engagements. This supports our efforts to engage effectively, by clarifying objectives for, and tracking progress on ESG topics and areas for investee improvement on those issues going forward.

The graphic below shows how we engage at CBAM as part of our focus on active ownership. The three key pillars of our engagement system are 1) thematic engagements, 2) ad-hoc engagements, and 3) voting. Thematic engagements are long-term strategic engagements aligned with our sustainability research theme of a 'Just Transition'. The Responsible Investment team leads the engagement activities in this category, as they are the experts on sustainability themes and produce research to support our focus on a 'Just Transition'. Ad-hoc engagements are identified by investment managers and analysts covering holdings and are usually event-driven. Our voting activities are carried out by our Voting Panel, which consists of investment managers and analysts responsible for voting on a subset of holdings where they have expertise.

METHODS OF ENGAGEMENT + FREQUENCY IN FY22

ENGAGEMENT METHOD
Correspondence with Investor Relations or Management
Meeting with Investor Relations or Management
Voting
Collaborative Initiatives
Meeting with Chair or Board
Open Letter/Co-Signing Letters
Formal Letter to Chair or Board

(Green = Often, Orange = Sometimes, Red = Rarely)

We focus our voting predominantly on core holdings within our managed portfolios and funds which are listed equity and listed investment trust securities with >£1m discretionary AUM. We find that having the ability to vote gives us the best leverage when engaging and therefore directly held equities and investment trusts are the most resource efficient asset class when engaging for change.

Although our approach does not differ between the geographies we are invested in (i.e. predominately developed markets as described in Principle 7), we are global investors and we are mindful of geographical and sectorial norms which can help orientate our analysis. During FY22 we further developed our Voting Principles to reflect our in-house views on best practice corporate governance. During the reporting period we agreed on the principles and have since began their implementation. The implementation of these revised principles has carried into FY23, where we have been focused on the customisation of our ISS voting research to reflect our Voting Principles which differ from the benchmark ISS Proxy Voting Guidelines. Our fourth principle reads as follows: "We aim to stand behind a global standard but are mindful of common practices within sectors and geographies; compensation peer groups should be relevant". See Principle 12 for more detail on our voting processes and activities.

A summary of the methods used for both thematic and ad-hoc engagement can be found in the table below. A traffic light system has been used to indicate how relatively often a particular engagement method was used in FY22. Examples of particular ad-hoc engagement methods by asset class are highlighted under this Principle. Examples of thematic engagement methods are highlighted under Principle 10.

THEMATIC ENGAGEMENTS

Thematic engagements are strategic as they are driven by our strategy's focus on responsibility as a business. These engagements are informed by our top down thematic research and socio-geopolitical events, and enhanced by selected relevant collaborative initiatives. The latter are discussed in more detail under Principle 10. Thematic engagements are asset class agnostic and can either be targeted at companies or at industry and regulatory bodies.

Under Principle 4, we provided an example of how we engaged our investment holdings and stocks under research coverage on their exposure to Russia in response to Russia's invasion of Ukraine. In FY23 we are carrying out a similar exercise on our exposure to Xinjiang Autonomous Uyghur Region in response to the UN Human Rights Office's report on the human rights abuse in the region.

AD-HOC ENGAGEMENTS

Ad-hoc engagements are tactical and informed by our bottom-up research. Topics for engagement can therefore cover the full spectrum of financial and ESG issues. The covering analyst or investment manager will set the objectives of the engagement. Whilst most communication with our holdings is to inform our research and view on the company/trust/strategy, we consider the purpose of engagement to be to improve corporate behaviour to ultimately drive returns and/or to reflect our clients' interests.

We encourage ongoing communication between our research analysts and investment managers with our Responsible Investment team in regards to their ad-hoc engagements, so that they can be logged appropriately. However, this is a new process that is being established in FY23, so it may take time for all investment managers across the firm to get used to liaising with the Responsible Investment team on every engagement activity.

AD-HOC ENGAGEMENTS: LISTED EQUITIES

Our understanding of a company and its ESG factors informs our engagement and voting. We engage with companies to promote our clients' interests, such as best practice corporate governance, as poor governance can have a negative impact on shareholder returns. The engagement generally starts during the research process and once we are invested will tend to be prompted by internal change in perception of corporate behaviour versus best practice or by issues that arise.

We engage with our equity holdings in multiple ways, including hundreds of face-to-face and virtual meetings each year for research and engagement purposes. The meetings are a chance to question investor relations or management on issues we believe pose a material risk or opportunity to the business or on ad-hoc issues that arise. For the former, we will look to see if management are equipped to deal with the risk or opportunity and for the latter we will ascertain whether they have rectified the issue or have plans in place to do so. As described in Principle 7, engagement is an especially effective tool with our small cap listed equities because we tend to have a larger proportion of ownership in our AIM investees. With that larger ownership interest comes more influence, and more direct exposure with management teams.

In terms of influence and frequency, proxy voting is our main form of engagement. We use our third-party voting platform and research partner ISS for best practice corporate governance voting research, and our Voting Panel of analysts and investment managers determine how we vote in the best interests of clients. During the reporting period we commenced the development of our custom research with ISS. Further details on this and our use and relationship with ISS can be found under Principle 12.

CBAM EXAMPLE

Issue: An energy company we are invested in missed production and operations targets, underperforming against its own history. Furthermore, this underperformance was not reflected in compensation, raising concerns regarding the link between performance and pay. The company had been targeted by an activist investor that expressed frustration with the energy company's recent decline in performance. The activist campaign called for an overhaul of the company's board and management and highlighted the energy producer's safety track record, with a string of fatalities having occurred at the company, alongside operational challenges and a lagging share price.

Process: The company held an AGM shortly after we invested, at which we withheld our vote from all directors and voted against an advisory vote on their executive compensation approach. All directors were elected and compensation approach approved. Following their AGM, we met with management and the Chief Financial Officer and explained our voting rationales and concerns, which mostly concurred with the activist campaign.

Management understood the issues highlighted by the activist investor and shareholders such as CBAM, and accepted that change was required (namely around its safety and operational record) in order to close the valuation gap to peers. The CFO recognised the safety issues of concern and explained changes that were being made, such as restructuring central technical safety groups and investing in new technologies in mines to mitigate safety issues. The CFO also recognised the impact its safety and operational record had had on the company's valuation. Following this there was another fatality, after which the company announced the CEO was leaving. Then, the company announced three directors from the activist investor would join the board.

Outcome: We were satisfied with the answers we got from the company on engagement, and with the effect the activist campaign had had on management and the board. We remain invested in the company for the relative predictability of their oil sands assets and return of capital programme which makes the cashflows analogous to an oil-coupon bond.

CBAM EXAMPLE

Issue: We are invested in a UK-based insolvency practitioner, where we have engaged with management due to a lack of independence on the board over various reporting periods, and most recently in FY22 over their current auditor.

Process: Our engagement with the company started in 2018. We have engaged over phone calls with the company secretary, and have had numerous face to face meetings with the Founder, the Chair and the Group Finance Director regarding our concerns. During engagement they expressed that they will take this on board although it would take time.

The company explained to us that they are in the process of updating board members, the challenge being that two members have been on the board for a long time (with one previously an employee). Since we began engaging we have seen progress towards a more balanced board. They appointed one new non-executive director last year. During FY22 period they changed auditors, as the company's previous auditor resigned due to a conflict of interest. The new auditor appointed is not our preference, and has also been flagged by ISS. The new auditor was originally appointed on a temporary basis, but the company decided they were satisfied with them so decided to keep them.

Outcome: Despite the auditor not being our preference, we have supported the company in the appointment as, since they have made progress on the independence of their board, we have increased confidence in the overall governance of the company. For now, we have expressed to the company that we would prefer them to choose a better graded auditor and we will continue to engage with them on further board independence.

CBAM EXAMPLE

Issue: We are invested in a toys, games and giftware company where we have had ongoing engagements over various reporting periods since 2017 on our concerns over their governance and on improving independence on the board. We also disagree with their remuneration structure.

Process: Due to our continuous engagement with them over years they were already aware of our concerns. Across reporting periods we have attended their Annual General Meetings, had multiple in person meetings with the joint CEOs, alongside meeting with non-executive directors and with the senior independent non-executive director to express our concerns verbally and to discuss the issues we want to see addressed. During the FY22 reporting period we met several times in person with the executive team. We appreciate that in the nomination committee there has been one new independent board appointment and that a second is anticipated, but the existing status quo has been allowed to remain in place by the longer serving members of the board despite the new election.

The company did not make any changes following our requests in previous periods, therefore during FY22 we decided to vote against the re-election of the members of the remuneration committee, against the re-election of the Chairman, and abstain from the re-election of the new independent non-executive director. Following the vote, we engaged with the company and explained our position.

Outcome: Since the FY22 vote, the board has appointed another independent director. The underlying business continues to perform. We remain invested in the company, and will continue to engage with them to improve governance.

AD-HOC ENGAGEMENTS: FIXED INTEREST

Whilst we do not possess any voting rights over our fixed interest investments, as financial stakeholders we still have the opportunity to hold management to account on material risks to our investments, including ESG issues. The channels for engagement with our fixed interest investments exist primarily pre-investment, especially for questioning management over material ESG risks. To improve corporate behaviour, particularly over ESG concerns, the most effective tool we have is to not invest in a specific company's fixed interest securities and informing the company about the identified ESG concerns that led to a decision not to invest.

We are aware that the influence we have by not investing in an issuance is limited by our size and resources. We understand that an increasing number of bond funds within the industry have sustainability objectives or screening requirements within their prospectus, like our Sustainable Select Fixed Income fund, and therefore our hope is that where these restrictions have commonality, they will collectively have an influence on corporate behaviour.

CBAM EXAMPLE

Issue: A third-party provider downgraded one of our investments' third-party ESG ratings. The company subsequently had limited interactions with the third-party provider on the matter, with the provider flagging the company with "weak interaction" in their ESG rating.

Process: We engaged with the company over email, and explained to them that their weakened ESG rating made their bonds ineligible for our Sustainable Bond Fund (which had a minimum ESG rating hurdle). Further, given the "weak interaction" score – which seemed like an essential part of the process to improve their ESG rating, we expressed to them that we were also considering their suitability for our other funds. In our engagement with the issuer, we asked them if they were doing anything to improve their ESG rating with the third-party provider, and whether there were any factors they believed we should consider regarding their ESG rating.

The issuer responded to our queries by explaining that although they do have periodic engagement with the third-party provider and other similar organisations, each of these use different methodologies, some of which they do not agree with, which they find difficult to influence. On the other hand they shared with us a comprehensive ESG report they had just released, and explained their high scores with both the ISS ESG and the CDP Climate change assessment, alongside their position as the only US-based company in their sector on the Dow Jones Sustainability North America Index for the past five years.

Outcome: We were satisfied with their response, as the data provided bridged the gap in information. Additionally, their response detailed their strong ratings with other rating providers, highlighting the difference in methodologies between third-party rating companies. Their bonds remained ineligible for our Sustainable Bond Fund in FY22, due to its ESG rating hurdle, but we remained invested in our Select Fixed Income Fund during the period.

AD-HOC ENGAGEMENTS: THIRD-PARTY FUNDS (ACTIVE AND PASSIVE)

Our manager research process involves engaging with the fund manager before and during investment. We hold circa 400 manager meetings a year, meeting with the manager multiple times before an initial investment and typically on an annual basis thereafter once invested. We log all of our engagements and meetings with managers which allows us to track the frequency of engagement and the pertinent issues discussed at previous meetings.

We prioritise engagements with existing managers where the issue relates to a material change or negative indication in the people, philosophy, process or performance of the fund. Depending on the manager's response to our engagement on these issues we may either continue to hold and monitor or divest. We can set alerts on our AssetQ platform, used for manager due diligence, to inform us of relevant issues at the manager or fund level (e.g. when the size falls by 10%).

CBAM EXAMPLE

Issue: We were opposed to the merger of an investment trust we are a top 10 shareholder of and its fund manager. The integrity of the deal came into question when we identified potential conflicts of interest. The salary rewards for management to complete the deal were excessive, coupled with high prices that didn't take into account changes in equity market valuations. Additionally, the merger would change the investment strategy of the existing fund, and would cut two upcoming dividends.

Process: During the reporting period we engaged with the board over email and phone calls regarding our concerns and explained our voting position, we expressed that we did not want the merger to go ahead. However, the board expressed that they had indication of strong support from other shareholders, and didn't move on their position. We found that the Chair was not very responsive throughout our engagement process, and that it was the manager replying to most of our enquiries, which we also noted as poor governance given the Chair is supposed to be acting for shareholders' best interests, whilst the manager is simply the firm appointed to run the investment trust. To escalate our engagement, we voted against all resolutions at the special meeting in June 2022 to approve the deal but were in the minority, given a number of large shareholders committing in writing to vote for the deal. Shortly after, at their AGM, we voted against board remuneration, the dividend policy, board re-appointment (including the Chair), and against the authority to issue equity.

Outcome: The deal has gone on to complete. Since then, we trimmed our holding whilst at higher levels, and the shares have fallen to all-time lows. As we retain a position we will continue to engage on the topic of deal economics and where the value lies for shareholders. We also intend to continue to vote against the Chair and other remaining board members at future AGMs.

Given the escalation involved in this engagement, this example is also applicable to Principle 11.

AD-HOC ENGAGEMENTS: ALTERNATIVES

CBAM EXAMPLE

Issue: A sustainable energy infrastructure investment company that we were considering investing in launched a capital raise that was dilutive to existing shareholders and therefore did not seem to be in their best interests.

Process: We engaged with management over video conferences and emails. We escalated this governance issue with the representative of the company to get further context regarding the event, asking for a formal response from management on why they launched the dilutive capital raise. They provided us with mitigating factors which gave us a better understanding of their reasoning. The lead time regarding the pricing of the capital raise was such that their conservative estimates to ensure the capital raise was accretive to existing shareholders were surpassed due to unexpected moves in interest rates, power prices and inflationary forces outside of their control.

Outcome: Their transparent approach to the order of events made the outcome acceptable in our view. This is an investment we continue to monitor as part of our engagement with the industry to ensure best practice.

CBAM EXAMPLE

Issue: A real estate investment trust (REIT) we are invested in received a low ESG rating from a third-party provider.

Process: We contacted the manager to begin a dialogue on the poor rating and to see what they could do to improve it.

Outcome: The REIT took our observations on board and conducted a benchmarking exercise. They also improved disclosures of their corporate ethics policies and management programs such as an anti-corruption policy and board-level oversight on ethics practices.

After a successful meeting with the third-party provider in 2022 their ESG rating was upgraded.

CBAM EXAMPLE

Issue: We felt that a hedge fund we are invested in would benefit from becoming an Article 8 fund to broaden its appeal to investors.

Process: We engaged with management over video conference and emails, and gave them consistent feedback, making it clear that it would be helpful to obtain Article 8 status if we were to invest further in the fund and to broaden its investor appeal. They were happy to work with us towards this goal. We also supported their development of ESG related information such as portfolio scoring and ESG ratings.

Outcome: We supported their Article 8 submission and along with other investors were kept updated regularly regarding their proposals and submissions. The fund received Article 8 confirmation in February 2023.

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

Utilising collaborative engagements to increase our influence over issuers as an asset management was a core focus of our strategic engagement approach (see Principle 9) in FY22. It was also a clear area we felt we could improve from previous years and it is a product of our responsible investment and stewardship methods developing overtime.

The thematic research infographic under Principle 7 illustrates how we are also connecting our strategic engagement initiatives to our sustainable thematic research. Building on our energy transition research as well as considering our aforementioned responsibility as a business, we became a Net Zero Asset Managers initiative signatory in FY23. In preparation, we carried out research and a business impact analysis in FY22 prior to applying to the initiative.

In support of our research on human/workers' rights, we applied in FY22 to be a participating member of PRI's Advance engagement initiative that is focused on human rights initiatives, with their initial focus being in the renewables and mining industries. In FY23 we were informed that we have been made an 'endorser' rather than a 'participant' of the initiative due to the oversubscription of the initiative. This means that we are publicly supporting the PRI Advance Investor Statement.

We were disappointed with outcome as we wanted to join a working group, to increase our strategic engagement efforts, but will continue to search for other collaborative initiatives that are aligned to our research.

In FY22, we also signed a joint investor letter that was sent to the UK Government requesting for mandated corporate human rights abuse due diligence in their supply chains. Finally, in preparation for our research on Health/Wellbeing, early in FY23 we became a signatory to CCLA's global investor statement on workplace mental health, with collaborative engagement to commence in the first half of 2023.

The Principles for Responsible Investment (PRI) collaborative engagement platform was one of the main resources we used in FY22, as a signatory, to find information on collaborative initiatives and where we have been able to speak to leaders of initiatives including other investors. However, in forthcoming years we are planning to collaboratively engage directly alongside other asset managers and hope to build our network of peers with shared interests and engagement outcome aspirations. Crucially, we will always remain mindful of our Conflicts of Interest Policy and industry guidance on Competition Law to ensure we avoid collusive and concert actions.

OUR COLLABORATIVE INITIATIVES

PRI ADVANCE INITIATIVE

- 5 year initiative organised by the PRI to advance human rights through investor stewardship
- Initial focus is on mining and renewables sectors
- Encourages endorsing investors to have a human rights due diligence process

GLOBAL INVESTOR STATEMENT ON WORKPLACE MENTAL HEALTH (Coming in FY23)

- Engage collaboratively with other investors
- Engagement with 1-2 companies from the largest UK and Global companies on their mental health approach

LETTER TO UK GOVERNMENT ON HUMAN RIGHTS

Signed a PRI-organised letter with 39 other investors (£4.5 trillion AUM) asking for the creation of UK primary legislation to mandate companies to carry out human rights and environmental due diligence across their own operations and value chains

Source: CBAM.

DEEP DIVE INTO PRI ADVANCE INITIATIVE AND HUMAN RIGHTS LETTER EXAMPLES

Central to our 'Just Transition' engagement and research focus is the protection of jobs, livelihoods and ultimately human rights as we progress to a lower carbon economy. To support our focus we identified two collaborative engagement efforts in FY22 that target an improvement in corporate behaviour towards human rights policy commitments and due diligence processes.

PRI Advance Initiative

Issue: Human rights encompass a range of social issues which are both urgent and systemic in nature. We saw the mining sector as both crucial for providing the commodities required for the energy transition but also heavily exposed to incidents of human rights abuse.

Process: On application to be a participant to the initiative, we committed to engaging with a mining company to meet the initiative's expectations for companies;

1. Full implementation of the UNGPs – the guardrail of corporate conduct on human rights.
2. Alignment of their political engagement with their responsibility to respect human rights.
3. Deepening of progress on the most severe human rights issues in their operations and across their value chains.

The initiative also requires participant investors to have made a policy commitment to respect human rights and implemented a human rights due diligence process; or to commit to work towards doing so within a year of joining the initiative.

Unfortunately, we were not able to become a participant as when the initiative contacted us with a list of possible companies we could engage with, none were companies we were invested in, and all the companies that we could have engaged with were oversubscribed.

Outcome: Despite not being able to be a participant investor, we are endorsers of the initiative, follow its progress, and integrate its standards in our investment process where relevant. Starting in FY22, and into FY23, we updated our ESG Frameworks for equities and fixed income to include flagging and assessing severe human rights and UN Global Compact breaches. Human rights remains a key focus for us in thematic research, and during the reporting period we wrote a research paper on human rights in the mining industry. In FY23 we started a thematic engagement initiative with our investees on exposure to the Xinjiang Autonomous Uyghur Region in response to the UN Human Rights Office's report on the human rights abuse in the region. We are on the waiting list to become a participant of the PRI Advance initiative, should any spaces open in the working groups for companies we are invested in, or should the initiative expand to other sectors and companies.

Letter to UK Government on Human Rights

Issue: All businesses, including investors and other financial actors, have a responsibility to respect human rights and the environment. The process of continuously conducting robust human rights and environmental due diligence (HREDD) is a core requirement for businesses and investors in fulfilling that responsibility, as framed in the recognized international standards of the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. In addition, human rights abuse can create material risks for businesses and their investors. The UK Government should follow the EU in legislating for companies to conduct human rights due diligence in their operations and supply chains.

Process: We were made aware of the letter through our communication with the PRI in FY22. We decided the letter was complimentary to and supportive of our overarching 'Just Transition' theme and believed it provided a good avenue to express our views on the importance of protecting human rights in business and investment. After final approval from our CIO, we co-signed a letter alongside 39 investors, representing £4.5 trillion, to the UK government. The reason for the letter is in order to encourage the UK government to legislate for companies to carry out human rights and environmental due diligence across their own operations and value chains.

Outcome: We are awaiting a response from the UK government. The response will dictate our next steps; either we will have to push harder for the legislation or any positive progress made by the government will need to be supported.

We are members of both the PIMFA and IA and can consult with these industry bodies to ensure that we are in a position to engage collectively with investee companies on a broad range of topics, including environmental, social, and governance topics.

Engaging UK Government on Investment Trusts' OCF

Issue: The Ongoing Cost and Charges Figure (OCF) for Investment Trusts are not representative of the costs of their operating company peers.

Process: In FY22, we became involved in an industry campaign to tackle the issue. This has included supporting representatives of the campaign whom have met with the Association of Investment Companies (AIC), having collated stakeholder evidence to improve cost disclosure (specifically to exclude synthetic costs from the OCF, and to disclose them separately).

We have spoken to journalists and worked to convince the AIC of our case to gain alignment of the key stakeholders whom represent investors on our side of the fence (e.g. IA, AIC and LSE), before aiming to lobby policy makers who set the FCA's agenda.

Outcome: The campaign is ongoing but progress has been made. The issue is beginning to be spoken about in the right places as feedback increases regarding clients indicating an intention to disinvest from funds simply due to the new cost disclosure regimes.

In December FY23, the Government released a consultation paper on Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and we have been advised by the AIC and IA to engage with the consultation. We will therefore be submitting our letter to the Treasury and FCA to outline our views on why the current cost disclosure regime is not sensible.

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

ESCALATION OF OUR ENGAGEMENT EFFORTS

As diligent stewards of clients' capital we are not afraid to escalate our engagements where an issue presents a material risk to our clients' investments and where initial meetings with the investee company have not yielded a satisfactory response. The issues for which our engagement can be escalated are not limited to those captured within ESG factors and also include, amongst others, performance, key person concerns and market or systematic risks.

In general, we will prioritise the issues based on the size and probability of the potential risk posed to our clients. We will also consider the time period over which the issue might materialise; whether we are escalating in reaction to a current event, to mitigate an impending issue or to protect our clients' interests over the longer-term. As stated in Principles 7 and 9, we are predominantly developed market investors so our engagement efforts and therefore escalation activities for direct equities and fixed interest are focused on those geographies. However, where we are invested in emerging markets (typically via managed funds or listed trusts) our escalation may be required as well. In these circumstances, we will be mindful of geographic norms when considering how the asset affects and is affected by the environment, society and internal governance.

Our escalation approach is the same across all of our investments with the exception of the standard caveat for fixed interest where investors do not possess any voting rights. We have outlined below how our engagement approach can lead to various escalation methods:

Correspondence/meeting with investor relations
Speaking with a company's or fund's investor relations is often the first point of contact when an issue needs clarifying or further details need to be obtained.

Meeting with company management or fund manager
We will meet with company management or directly with the fund manager in the normal course of due diligence and also in cases where the reason for our communication goes past information gathering to requesting a change.

Meeting with the board/writing a letter/indicating our intention to vote accordingly
This level of engagement is typically used as a way of powerfully reflecting and protecting our clients' interests. The issues addressed through this method of engagement will often be either imminent, high risk or high impact to their interests.

Writing an open letter that is viewable by the public
We will write an open letter to reflect our client interests and also to give our engagement a greater chance of influence as it allows other shareholders to support our views.

Voting against management
As shown under Principle 12, we can vote against management when a resolution is not in the best interests of our clients and their capital.

Divesting

At any point in our holding of a company, we can choose to reduce our holding or divest entirely. Divesting is the last resort of escalation as it ultimately limits our ability to engage. We will divest if the issue is persistent, material or showing no signs of improvement and therefore presenting a risk to our clients' capital.

ENGAGEMENT ESCALATION: LISTED EQUITIES

CBAM EXAMPLE

Issue: We are invested in a US incorporated security software provider, which also operates in the UK. We had concerns around compensation and independence. Firstly, the company was giving options to non-executive directors; secondly, we didn't think there was enough independence on the board, with some members being long-tenured and with the CEO/founder sitting on the audit committee.

Process: We took into account regional nuances in our analysis of companies, and we understood that there are different compensation norms in the US than in the UK, especially in terms of giving options to non-executive directors. We note that although this is not something we are aligned with, the cash compensation to their non-executive directors was much lower than the UK standard.

We have had ongoing engagement with the software provider where we have expressed our concerns around independence and non-executive director compensation. In FY22 we had a video meeting with the CEO and Founder of the business prior to their Annual General Meeting in June 2022, where we raised our concerns over the proposals detailed in the AGM agenda, and expressed the changes we wanted to see. We expressed that we did not believe the options based incentive was necessarily in the best interests of the shareholders as it could impact independence. We acknowledged that although their cash compensation for their board roles was below what we deemed to be market rate, this raised questions around the structure of their compensation. To this end we intended to vote against the Chair and the Chair of the Remuneration Committee, however voting against was not available as a voting option on the proxy form, therefore we abstained on the re-election of the Chair and the Chair of the Remuneration Committee at the AGM.

Following the call and the AGM, our engagement has continued into the FY23 reporting period, as the Board reviewed our requests and we had an in person meeting with the CEO where he laid out the positive changes that were being made including his removal from the audit committee, following the appointment of a fourth independent non-executive director (NED) which happened in December 2022.

Outcome: We are happy with the improvements made so far by the company, seeing two new board members added in the last two years and the CEO stepping away from Audit Committee. With regards to the long-tenured board members, we anticipate a transition over the next couple of years for the Chair, and we understand that the other long-standing Director is a subject matter specialist, and in our view adds considerable credence to the Board's monitoring of investment.

On their remuneration structure, as a compromise between US norms and ISS and investor expectations, they are introducing a one-off options award at the point of joining (similar to a joining fee, in line with US culture), but going forward board members will not have anything to do with the decisions taken on their own compensation. We consider this to be a big step forward in terms of the corporate governance of the business, and a significant improvement from the problems raised. We will continue engaging with the company, pushing for the cessation of their options programme.

CBAM EXAMPLE

Issue: We identified a governance issue at a UK-listed marketing and advertising company we invested in. The board had voted to give themselves options, whereby two of the three NEDs on the Board had an options based incentive which we did not believe was in the best interests of shareholders, as NEDs having options could compromise their independence. The scheme was implemented in June 2021 when the now “Senior Independent” NED and newly appointed Chair of the Audit Committee was Chair of the Remuneration Committee and the other member of the committee was the proposed Chairman.

Process: During the reporting period we engaged with several board members and the nominated advisor over video conference ahead of the company’s Annual General Meeting in June 2022 to express our concerns. They expressed that the incentive structure is being reviewed. During the company’s AGM, we would have ideally voted against both NEDs but as only the Chair of the Audit Committee was up for reappointment, we voted against their re-appointment.

Outcome: We are pleased that the incentive structure is being reviewed, and have added to the investment. We have had further engagement with the company since the reporting period and are anticipating an additional interaction with the NEDs ahead of the next AGM. In FY23 we will have further discussions with the executive team when they release their results for the 2022 calendar year, and we will continue to engage with the company following their review of the incentive structure.

ENGAGEMENT ESCALATION: THIRD-PARTY FUNDS

We do not give external fund managers a mandate to manage our money on our behalf, we invest in third-party funds as products and therefore these external fund managers have freedom to determine their own engagement and escalation processes with underlying investments. We therefore engage with the third-party fund managers, but not with the underlying investments of the funds.

CBAM EXAMPLE

Issue: A logistics assets investor had two equity issues in 2021 where the pricing of the new shares was below NAV, making it dilutive to existing shareholders. This demonstrated poor governance from management.

Process: In FY22, we engaged with the broker, management team and board about the poor governance being shown over email and conference call. During this engagement the management team and board tried to defend their actions, and claimed they hadn't received opposition from other investors. We requested direct communication with the Chair on the matter. During their FY22 AGM we voted against re-appointing all directors and giving them the ability to issue more shares.

Outcome: The Chair wrote to us to acknowledge our reason for voting against their re-appointment and expressed that they would continue to communicate our views on the matter to the rest of the Board. In FY23 the board has finally come under more pressure, with a shareholder engagement process taking place, and they have cut the fees paid to the manager and replaced one of the fund managers.

Exercising Rights and Responsibilities

Principle 12 – Signatories actively exercise their rights and responsibilities.

As outlined under Principle 6, we are multi-asset investors across direct equities, fixed interest, and diversifiers. We seek to exercise our full rights and responsibilities across each of the asset classes on behalf of our clients and as stewards of their capital to produce outcomes that are in their best interests. We divide our resources between each asset class partly based on amount of invested capital and availability of required expertise and knowledge.

Our Stewardship and Responsible Investment Policy is also our voting policy.

LISTED EQUITIES AND TRUSTS RIGHTS AND RESPONSIBILITIES

Voting is the core part of exercising our listed equity rights and responsibilities. We take an active approach to voting in the best interests of our clients based on our expertise and knowledge. We closely monitor forthcoming voting resolutions of the core companies we invest in, on a weekly basis, and vote via proxy or by attending an AGM. We focus our voting predominantly on core holdings within our managed portfolios and funds which are listed equity and listed investment trust securities with >£1m discretionary AUM. We have a log of the shares and trusts that we own which is updated overnight on a daily basis. We do not have any lent stock.

Each voting decision is taken by the Voting Panel, comprised of equity analysts and investment managers from across the investment team. The panel member covering the stock or trust will indicate their voting intention and rationale in an email form sent to the Voting Panel, which must be seconded by another panel member by filling out a form before the vote is submitted. These forms are logged for our records. When a vote is submitted by the Voting Panel on the front end of the ISS platform, it then goes to the back end of the platform managed by our Asset Servicing team, which sits within Operations. The Asset Servicing team get notified when a vote has been instructed from the Voting Panel, and also receive daily emails from ISS of votes that are due. The Asset Servicing team confirms proper approval has taken place for vote submission, allocates the shares appropriately (e.g. excluding any execution-only holdings), and then approves the vote to ISS for processing. As assets are continuously traded, the Asset Servicing team manages the approval of votes in line with the cut-off dates of different custodians, to ensure the correct amount of shares are being voted for each submission. The Asset Servicing team process voluntary and mandatory events for assets within our custody and for external assets where we are the appointed investment manager.

In some cases the Voting Panel may deem a vote to be a "major vote". This means that the vote is potentially controversial and highly publicised. Where this is the case the Voting Panel member responsible for the vote will share an analysis and voting recommendation to the investment managers that hold the security to seek their approval before submitting the vote.

We have used ISS as our proxy service provider since 2019 (our first voting season) and we execute our voting decisions via their platform. Our Investment Research Manager monitors upcoming votes and keeps the Voting Panel informed of upcoming votes they are responsible for. We have also subscribed to their insights on corporate governance best practice and voting recommendations. However, we do not always vote in accordance with ISS's voting recommendations as our research analysts and investment managers conduct their own analysis to ultimately determine the best way to vote, reflecting their knowledge of the company and our clients' greatest interests. Over time we have developed our own view, diverging slightly from ISS's Benchmark Proxy Voting Guidelines, leading to the development in FY22 of a set of voting principles that reflect CBAM's investment beliefs. With these voting principles ISS created a custom policy in early FY23, which will be utilised as part of our voting research for the FY23 voting season.

For our Bespoke offering, we do not vote on companies based in certain countries that require a signed power of attorney from the beneficiaries prior to participating in the vote. This is a small subset of countries and the full list of excluded countries can be provided upon request.

OUR VOTING RECORD (01/08/2021 – 31/07/2022)

During the financial year 1 August 2021 to 31 July 2022, we voted at 320 company meetings/voting events. The voting record reflects all votes, including those instructed by our clients for their execution-only holdings. We voted on a total of 4954 of which 158 were shareholder proposals. We voted 4689 resolutions (94.7% total votes) "FOR", and 220 resolutions "AGAINST" (4.4% total votes). Less than one percent of total resolutions were voted "ABSTAIN", "WITHOLD", or "DO NOT VOTE". For our unitised funds, we voted at 92% of the meetings within scope of our voting policy. We currently do not have exact data on the number of meetings within scope we missed for our aggregated unitised funds and our Bespoke portfolios, but we can estimate it to be approximately 8%. The reasons why meetings may be missed include technical issues, research delivery issues we encountered with ISS, or a missed deadline by the Voting Panel.

We voted 209 resolutions (4.2% total votes) against (contrary to) ISS's benchmark policy recommendation, and we voted 183 (3.7% total votes) resolutions against company management recommendations.

Usually management recommends shareholders to vote "for" resolutions, but in some cases, typically if there is a shareholder proposal, management may recommend shareholders vote "against" the proposal.

We will vote against management's recommendation if our internal research and analysis shows that management's recommendation does not follow best practice corporate governance principles and cannot be justified as being in the best interests of shareholders.

By voting against a management team's recommendation we are signalling where we would like to see change in the company.

We are still voting mostly in line with management, however, our votes both against ISS' recommendations and against management have slightly increased from FY21. As we continue to build CBAM's internal view, with the development of our voting principles and custom policy, we may see a larger divergence in our alignment with ISS in the future.

Category	Number	Percentage
Number of meetings/voting events voted at	320	
Number of resolutions voted	4,954	100%
Number of votes cast "for"	4,689	94.7%
Number of votes cast "against"	220	4.4%
Number of votes cast "abstain"	11	0.2%
Number of votes cast "withhold"	13	0.3%
Number of votes cast "do not vote"	21	0.4%
Number of votes cast against ISS policy	209	4.2%
Number of votes cast against Management	183	3.7%
Number of votes cast on Shareholder Proposals	158	3.2%

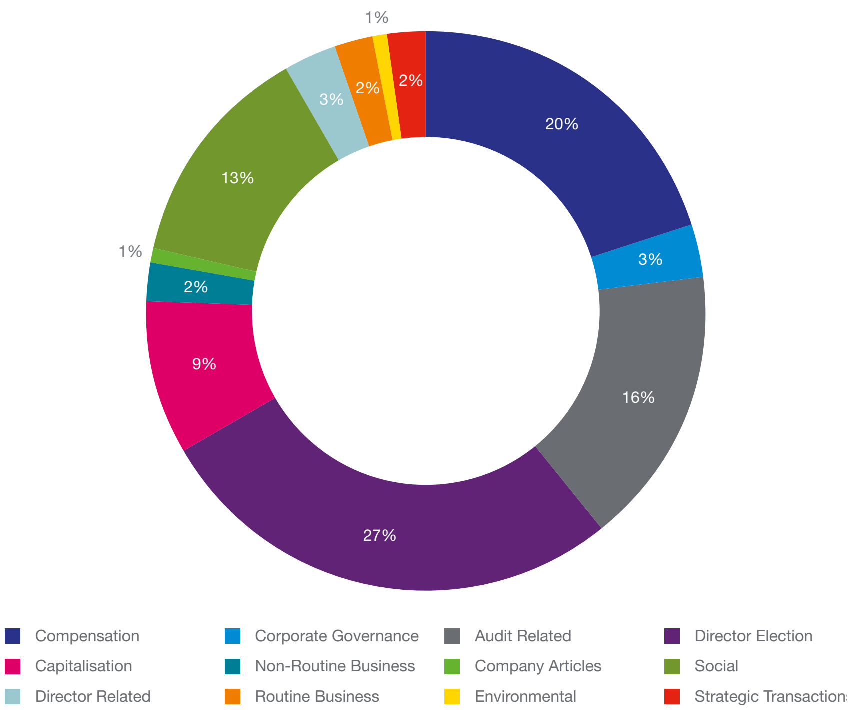
Source: CBAM.

The graph to the right shows a summary of where we voted against company management teams and it includes shareholder proposals. Categories consist of "director election", "compensation", "audit related", "social", "capitalisation", "corporate governance", "director related", "non-routine business", "routine business", "strategic transactions", "company articles" and "environmental".[1]

The largest category was "director election", constituting 27% of total votes against management. Reasons we may vote against the election of a director is if the director is not fulfilling his/her duties, is over-boarded, or has had their independence called into question.

The second largest category of votes against management was "compensation". Most of these votes were to approve remuneration reports and policies. Reasons for votes against management in this category include that incentive plans diverged from best practice (i.e. lacking the disclosure of clear performance objectives) or targets which were deemed not stretching enough.

CATEGORIES OF VOTES AGAINST MANAGEMENT



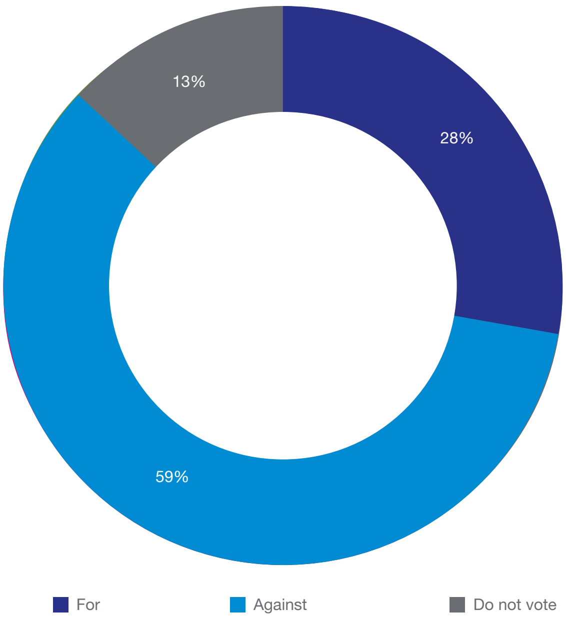
Source: CBAM. Percentages may not add to 100 due to rounding.

1. This classification differs from that used in CBAM's Stewardship and Responsible Investment Report 2021 due to ISS reclassifying proposal categories in June 2022.

We have voted on more shareholder proposals over the reporting period than last year, as there has been an increase in these proposals being put forward. This year markets specifically saw an increase in shareholder proposals focused on environmental and social considerations. About 14% of our votes against management were in the "social" and "environmental" categories. Most of these votes were around requiring a company to report on key social or environmental issues related to their business.

Typically, if we believe that the environmental or social issue the company is being asked to report on could be material, or the information will help us make a better investment decision, then we will vote for the proposal. Some examples of environmental and social proposals we voted for, and against management on, this year, include requiring companies to report on gender/racial pay gaps, efforts to reduce plastic use, political contributions, and potential human rights impacts.

SHAREHOLDER PROPOSAL VOTES



Source: CBAM

CBAM VOTING OUTCOME EXAMPLES

VOTE ABSTAINED EXAMPLE

British Professional Lighting Equipment Company: Re-elect Directors

Issue: Management proposals to re-elect three directors to the board.

Details: The makeup of the board lacked independence. We will be engaging with the business to ask them to set out some plans to improve this. Nonetheless, the board and executive demonstrated strong operational controls throughout the pandemic and we were pleased with the progress made.

Voting Outcome: In light of this, our voting instruction was to abstain from all three items rather than voting against.

VOTE NOT IN LINE WITH ISS EXAMPLE

United States Grocery Retailer: Ratify Auditors

Issue: A management proposal for the ratification of their auditors.

Details: Their auditors had been in place since 1969. We believe best practice is to change auditors on a more frequent basis to ensure independence and preserve the integrity of the accounts.

Voting Outcome: We voted against ISS and management on this item. We have used ISS's Proxy Voting Guidelines since our first voting season, in 2019, voting mostly in line with their insights on corporate governance best practice.

During the reporting period we voted against a number of auditor ratifications across companies due to their long tenure, diverging from ISS's recommendations. Our positioning on best practice corporate governance on this matter will be reflected in our new voting principles and our custom policy, whereby a vote against proposals to ratify the auditor will be warranted where the audit firm has a tenure of more than 10 years.

VOTE NOT IN LINE WITH POLICY EXAMPLE

British Manufacturing Company: Reappoint Auditors

Issue: A management proposal for the reappointment of their auditors.

Details: Their auditors had been in place since 2003. General best practice is to change auditors on a more frequent basis, and our position on best practice corporate governance is to vote against the auditor where they have a tenure of more than 10 years.

Voting Outcome: We voted for the proposal as the company had commenced preparation for the tender process in order to appoint a new external auditor by the end of FY22.

VOTE AGAINST MANAGEMENT EXAMPLE

Multinational Drink and Brewing Company: Approve Remuneration Policy

Issue: A management proposal requesting approval of the company's remuneration policy.

Details: The remuneration policy did not disclose clear performance objectives for the majority of the Long Term Incentive plans, which is not best practice. Furthermore, the company did not disclose the threshold/target/maximum levels for the metrics evaluated under the Short Term Incentives, making it difficult to assess the performance in a given year and to ensure that the targets set are sufficiently challenging.

Voting Outcome: We voted against management on this item and in line with ISS, as we believe adequate disclosure on performance metrics is within shareholders' best interests.

VOTE FOR A SHAREHOLDER RESOLUTION EXAMPLE

Multinational E-Commerce Company: Report on Efforts to Reduce Plastic Use

Issue: Shareholders requested that the board of the company issue a report, at reasonable expense and excluding proprietary information, describing how the company could reduce its plastics use in alignment with the 1/3 reduction findings in a report released by a charitable trust, or another authoritative source, to reduce the majority of ocean pollution.

Details: The shareholder proposal put forward that the report should, at the board's discretion: (1) Quantify the weight of total plastic packaging used by the company; (2) Evaluate the benefits of dramatically reducing the amount of plastics used in their packaging; (3) Assess the reputational, financial, and operational risks associated with continuing to use substantial amounts of plastic packaging while plastic pollution grows unabated; (4) Describe any necessary reduction strategies or goals, materials redesign, transition to reusables, substitution, or reductions in use of virgin plastic.

The company was not disclosing how much plastic packaging it was using, but was believed to be one of the largest corporate users of flexible plastic packaging, which cannot be effectively recycled. The company was seen to be falling behind its peers. Furthermore, we had voted for a similar shareholder proposal at the company's previous AGM, requesting a report on plastic packaging, including any company strategies or goals to reduce the use of plastic packaging.

Voting Outcome: We voted against management's recommendation, and for this shareholder resolution, as a report providing additional detail on the company's plans to reduce plastic in its business would be beneficial to assess potentially material risks faced by the company in this regard.

VOTE FOR A SHAREHOLDER RESOLUTION EXAMPLE

American Multinational Food, Snack, and Beverage Company: Require Independent Board Chair

Issue: The shareholder proposal requested that the Board of Directors adopt an enduring policy, and amend the governing documents as necessary in order that two separate people hold the office of the Chairman and the office of the CEO.

Details: The proponent put forward that the roles of Chair and CEO are fundamentally different and should be held by two different people, a CEO and a Chair who are independent of the current CEO and the company. The proponent explained that a lead director is no substitute for an independent Chair and that the lack of an independent Chair discourages new outside ideas whilst encouraging the CEO to pursue projects that may not stand up to effective oversight.

Voting Outcome: We voted in favour of this proposal, as best corporate governance practice would be to separate the Chair/CEO roles, with an independent Chair. The shareholder proposal received support of approximately 31% of the votes cast, therefore it did not receive enough votes to pass.

VOTE AGAINST A SHAREHOLDER RESOLUTION EXAMPLE

American Multinational Fast Food Chain Company: Report on Lobbying Payments and Policy

Issue: A shareholder resolution proposing the company create a report on its lobbying payments and policy.

Details: The shareholder proposal requested that the company provide a full, detailed disclosure of the company's direct and indirect lobbying activities and expenditures to assess whether the lobbying is consistent with the company's expressed goals and in shareholders' best interests. The proposal requested the Board prepare a report, updated annually.

Voting Outcome: We voted against this shareholder proposal and in line with management on this item. We considered that the company already provided detailed and sufficient disclosures on its political contributions and lobbying disclosures. The company stated that it generally does not make contributions to political parties, candidates, or political organizations, but in certain cases it may be in the best interests of the company and its stakeholders. Its spending on federal lobbying activities is publicly available on US government websites, and it contended that state spending is generally reported on applicable state websites.

FIXED INTEREST RIGHTS AND RESPONSIBILITIES

For our listed bond investments we will review the prospectus as part of our due diligence and engage with management where we have questions. However, there are no covenants on any of the bonds that we invest in and because we only invest directly in listed bonds there is no legal phase to our investment process and no requests to amend issuance or bond documentation.

THIRD-PARTY FUNDS (ACTIVE AND PASSIVE) RIGHTS AND RESPONSIBILITIES

The rights and responsibilities that we can exercise over our active and passive third-party funds are a combination of the rights that we have for both equities and fixed interest. For our listed trusts, we can exercise our rights and responsibilities through voting, as demonstrated above, whilst for vehicles not yet listed we can exercise our rights and responsibilities through requests to adapt the fund documentation, as per the example.

CBAM EXAMPLE

Issue: A listed active property investment trust proposed a wind up of their vehicle. In their announcement they expressed that they had consulted with their largest shareholders. This process would have entailed the chair canvassing opinions from their largest shareholders on what they wanted to see for the trust going forward, collating this information to decide on the strategy of the trust. We are a top 10 shareholder of the trust, and we realised we had not been consulted when we found out about the plans through the Regulatory News Service.

Process: After finding out about the plans, we reached out to the corporate broker over Bloomberg IB chat to express our concerns. We continued to engage with the corporate broker over phone and email and they apologised, explaining that due to an oversight we had been left off the list to discuss options with the Chairman in advance. We were then able to speak with the Chairman over phone and email. Following this we spoke with the manager of the trust over phone and email to see if they were for/against the wind up.

Voting Outcome: The vote to wind up the vehicle went ahead in FY23. We voted for the wind up as the manager was reluctant to run a smaller trust, so we decided that voting for the wind up was a favourable option for the return of capital.

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CBAM6598. 17.04.2023.