2023

Stewardship and Responsible Investment Report

Close Brothers Asset Management

Contents

Foreword

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

This report is our third submission to the Financial Reporting Council (FRC), having been accepted as a signatory for our FY21 report. The report is aligned to and guided by the twelve 'apply and explain' principles set out by the FRC in the UK Stewardship Code 2020 (the Code).

The report covers the period 1 August 2022 to 31 July 2023, our last financial year (FY23). We recognise that stewardship best practice continues to evolve therefore over the reporting period we worked to improve our approach, particularly in three key areas:

1. We formalised environmental, social and governance (ESG) questionnaires for our active third-party funds and diversifiers asset classes.

2. We grew the Responsible Investment (RI) Team by hiring a Responsible Investment Associate to strengthen our resource for engagement and voting.

3. We strengthened our voting and centralised engagement functions, whilst continuing to develop our sustainable thematic research. This allowed us to be more responsive to market-wide events and collaborate with the wider industry more effectively.

Throughout the financial year many of the challenges we faced in FY22 persisted. In the UK, we continued to face political turmoil, alongside eight interest rate hikes. The escalation of the war in Ukraine continued to take its toll on the global energy crisis whilst propelling, alongside other deadly conflicts, the largest annual increase in the forced displacement of people on record, according to the UN Refugee Agency. The energy crisis was set against another record year for absolute global carbon emissions and climate-induced extreme weather events.

We believe our key areas of development during FY23 will supplement our ability to address the risks that such events present to our clients' capital now and into the future. In addition, we recognise that we do not operate in isolation; therefore, we have taken steps to improve our business for the benefit of our stakeholders, the environment and wider society. We are proud of the progress that we have made this year and are excited to share our stewardship and responsible investment developments with you.

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)

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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 ethical preferences.

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

Mission, values and strategy

We continue to support the Group's purpose, strategy, culture and responsibility. Our purpose is to help the people and businesses of Britain thrive over the long-term. Our strategy is to provide exceptional service to our customers and clients across lending, savings, trading and wealth management. Our culture combines expertise, service and relationships with teamwork, integrity and prudence, whilst we consider it our responsibility to address the social, economic and environmental challenges facing our business, employees and customers, now and into the future.

At CBAM our mission is "working together to be the best place in the UK for wealth professionals and their clients". We carry out our mission and strategy through our company principles and investment philosophy.

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.

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Our Business Principles

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, where we have questionnaires and templates to assess ESG considerations (see Principle 7) and a Stewardship and Responsible Investment Policy (outlined in this principle).

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 FY23, hiring 14. 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 interest 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 and asset class meetings, and ESG Investment Committees are examples of 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 being 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 FY23 we continued to improve our communication channels with the launch of our stewardship and responsible investment landing pages on our main websites, which have since been consolidated into one site; see more detail in this principle.

Source: CBAM.

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 invest prudently in order 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 adjusting the strategic framework.

Collegiate research

We are a team of more than 100 investment professionals. 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 for our asset class mix) as it allows us to respond to changing market conditions quickly and enables us to meet the income and drawdown needs of our investors.

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Our investment philosophy and beliefs of long-term prudency, active management and collegiate research have shaped our sustainable thematic investment research, engagement and overall stewardship approach in FY23. 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.

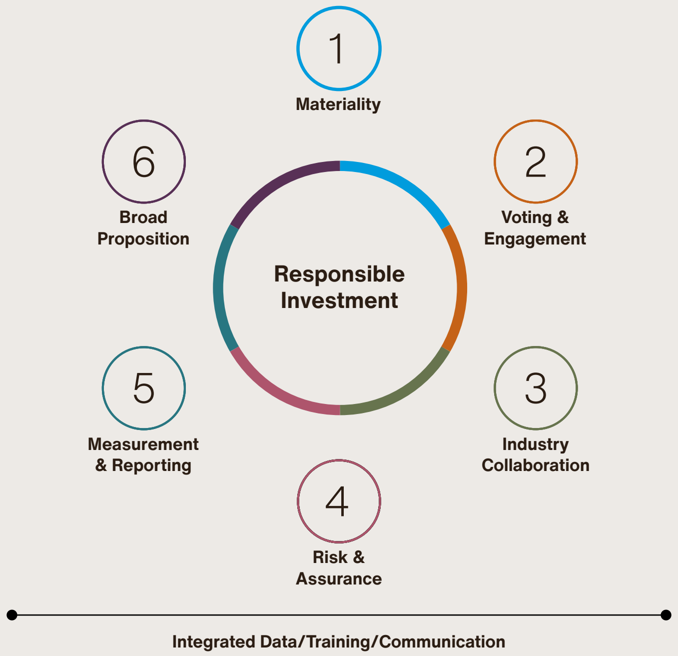
We recognise that there is a potential impact on an investment's value from an issuer's interaction with its stakeholders; including employees, customers, suppliers and the environment in which it operates. We will also use these considerations to inform our active ownership and stewardship approach,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

ESG issues can be 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 ongoing process. Together with the wider industry we are embracing responsible investment as a journey.

Responsible investment at CBAM

Our responsible investment approach is based on the following 6 pillars:



1. Materiality
Materiality refers to the relevance and significance of an ESG issue to a company's financial performance and long-term sustainability. We aim to identify the material environmental, social, and governance (ESG) issues that are relevant to our investments. We do this by considering ESG issues through bottom-up fundamental and top-down thematic research.

2. Voting and engagement
We will engage with issuers with the aim to improve corporate behaviour, mitigate against potential investment risks, promote sustainability, and aid our voting practices. One way we do this is proxy voting at company annual general meetings.

3. Industry collaboration
We will collaborate with other investors, industry groups, and other stakeholders to strengthen our influence on corporate behaviour, where taking collaborative action is in the best interests of our clients.

4. Risk and assurance
We aim to address ESG risks as part of our risk management framework and support compliance with our policies, relevant regulations and industry standards, and commitments such as the Principles for Responsible Investment (PRI), Net Zero Asset Managers (NZAM) and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

5. Measurement and reporting
We need to measure and report on our responsible investment approach to meet upcoming regulations and client demand. This can include tracking ESG (inc. climate) metrics and reporting on progress towards sustainability-related investment goals. Please see Principle 4 for details of our NZAM and TCFD reporting.

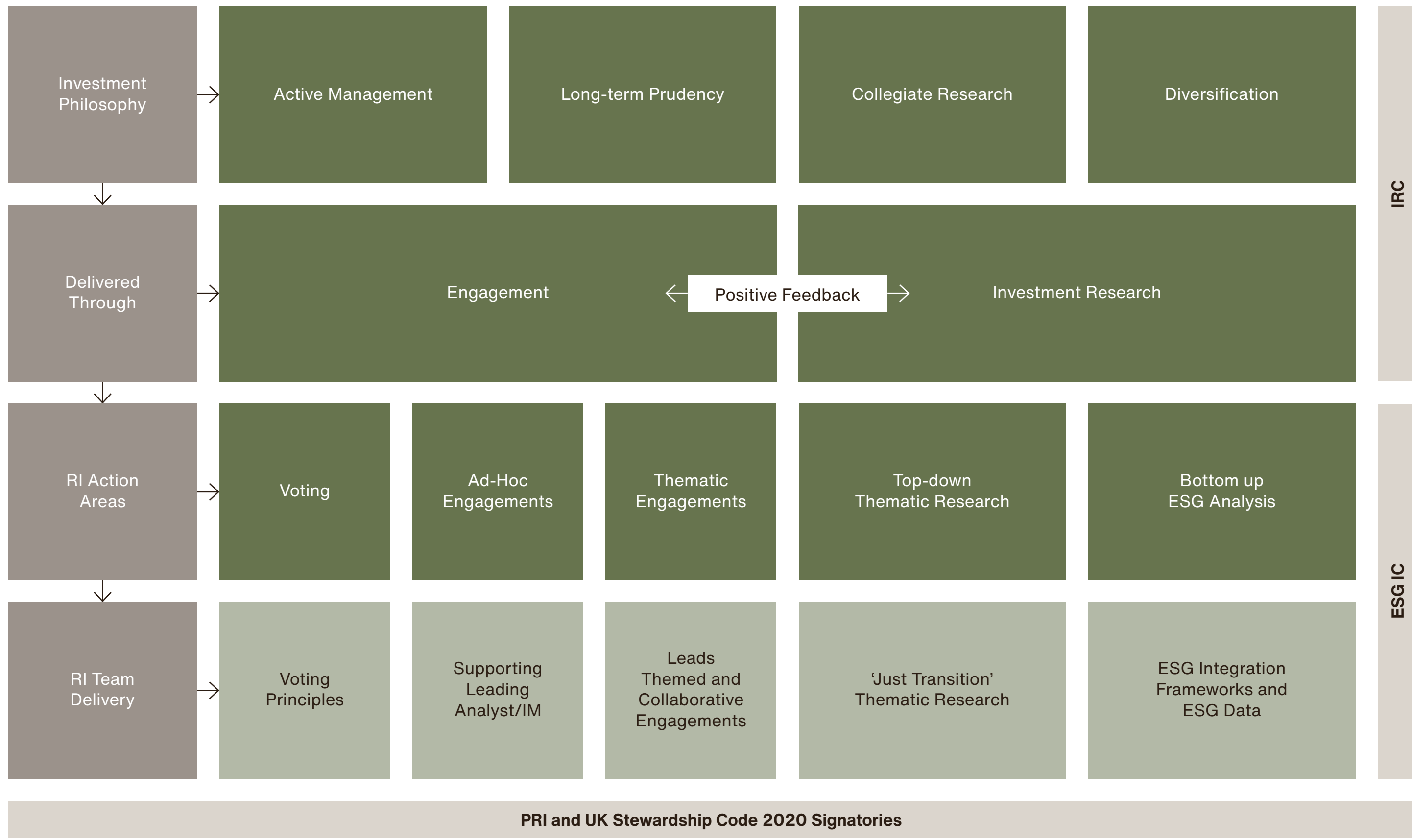
6. Broad proposition
We aim to offer clients a broad suite of investment solutions delivering fair value and reflecting their financial as well as non-financial (values or sustainability) goals. For further details, see Principle 7.

Training, data integration, and communications are critical to support our business, colleagues and clients while we continue to build our responsible investment approach and evolve along with the asset management industry over time. See details about our training in Principle 2, and the use and monitoring of data providers in Principle 8.

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 and questionnaires for each asset class (Principle 7). The ESG Investment Committee, described in Principle 2, guides this approach.



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. Having launched the function in FY22, the Responsible Investment Team continued to carryout thematic sustainable investment research across FY23 in order to:

1. Identify sustainability trends; and,

2. Understand whether they might cause material risks and opportunities for investments.

The thematic research also serves the 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, diversifiers). It can also be utilised by our equity, fixed interest and diversifiers 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.

As described in last year's report, 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 our 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.

Active management

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.

Our active management philosophy is a core factor behind how we make decisions. In order to improve our security selection decision making, in FY23 our equity analysts undertook an in-depth sector-specific ESG training course and we introduced new ESG frameworks for our third-party funds and diversifiers research. These frameworks guide us in carrying out ESG analysis, as part of research for all asset classes, to help uncover additional risks and opportunities to an investment thesis stemming from E, S or G factors.

1. Our active management philosophy is a core factor behind how we make decisions. By being active managers, we have the scope to consider ESG information relevant to our investments, allowing us to take a more holistic perspective from which the credibility of an investment case can be judged.

In Principle 7, we have outlined the updates we have made to the investment process for active third-party funds and alternatives during FY23, with respect to how we consider ESG information for those asset classes.

The processes we use to understand ESG information for other asset classes are also explored further under Principle 7.

2. Our active management philosophy gives us the opportunity to engage with management through voting and structured discussion.

We make a distinction between thematic and ad-hoc engagements. The analyst or investment manager with coverage of the issuer leads ad-hoc engagements and topics for engagement can be informed by the ESG section of the investment research notes. 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, will lead thematic engagements. There is more information about our engagements under Principle 9, Principle 10 and Principle 11.

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 or ethical considerations. 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.

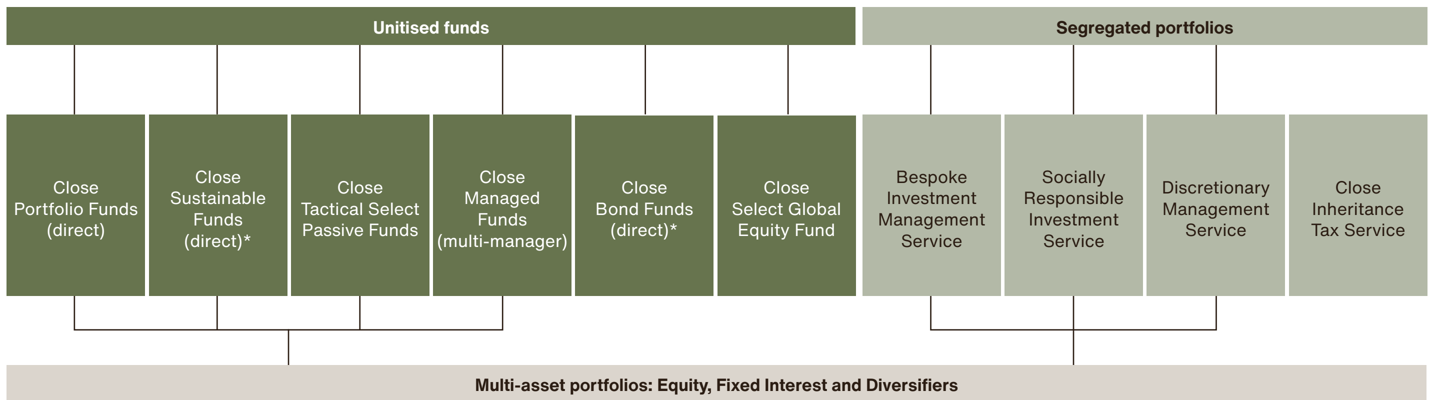
They have the support of our extensive team of analysts who conduct collegiate research, exploring and investigating each investment that we believe will drive performance.

The graphic below illustrates our full product suite available in FY23. 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 the issuers we invest in for better client outcomes.

Protecting and growing their wealth
We conduct our responsible investment and stewardship processes to inform our investment decision-making, identify investment opportunities and protect against investment 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 to our clients.

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.

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 our investee companies and us 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.

Improving client experience

Example

FY23 Client Experience Survey and Customer Duty

At CBAM our mission is "working together to be the best place in the UK for wealth professionals and their clients". In order to achieve this goal we aim for every client interaction to align with our core Business Principles. In November 2022, we gathered the views of over 1000 clients, with a third-party provider, and obtained insights from colleagues to understand their perception of the client experience that we provide, to help us continually improve. CBAM was successful in achieving a Silver award from the independent third-party for our client experience. The results reaffirmed that we consistently deliver an excellent client experience for Bespoke, Financial Planning and Integrated clients. Over 87% of these clients agreed that CBAM's employees behave with fairness, integrity and honesty, reaffirming our ethical conduct. Our clients also classified CBAM's employees as knowledgeable about the services provided.

The survey showed that there were areas that could be improved. To address these, CBAM has refreshed its Direct Investment Service and re-engaged clients to remind them of the service offering, ensuring clarity on what is provided and increasing engagement through our communication channels. Moreover, we have provided clients with new contact details for our existing servicing teams, offering a consistent and dedicated point of contact.

Finally, we have extended support hours to increase access and give clients greater opportunity to contact us. This llows our clients' needs to shape our actions and creates more opportunities for us to support client and user experiences.

Since conducting the survey, an E-Signature tool has been introduced to some clients. This has provided value to clients by making it easier for them to review and sign documentation securely without the need for physical copies. As well as enhancing both clients' and colleagues' experiences, this initiative has reduced our paper usage.

Our delivery of Consumer Duty has supported us with the implementation of improvements identified from the survey that relate to each of the four outcomes (products and services; price and value; consumer understanding; and, consumer support). We have reviewed our communications to ensure we are meeting client needs by being clear, fair and timely, thereby meeting the diverse needs of our client-base, especially those with unique characteristics (such as vulnerability). CBAM continues to develop ways to monitor this, including ongoing Consumer Understanding Testing conducted on CBAM's behalf. We also have clear oversight of client outcomes and an escalation process whereby we can address any issues identified.

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

Example

FY23 Improvements from Survey on Responsible Investment and Sustainability

In FY22 we conducted a survey to canvas the responsible investment and sustainability preferences of our clients. The survey showed that there are few sectors where the majority of clients would like portfolio exclusions, and fewer if there is a greater chance of capital loss. The survey confirmed clients' interest in using ethical screening for their investment portfolios, which is a service we provide across Bespoke Investment Management.

The results of the survey supported our decision to become a signatory to the Net-Zero Asset Managers (NZAM) initiative at the beginning of FY23. We have reflected these views in the new methodology of our Sustainable Select Fixed Income Fund and Select Global Equity Fund during the reporting period (please see more details under Principle 7).

The survey showed that there was widespread uncertainty regarding Close Brothers Asset Management as a "responsible company". We believe this showed that we needed to enhance the communication of our responsible investment approach to clients. In FY23 we launched our public stewardship and responsible investment landing pages on the CBAM website. Here we outline our approach to stewardship and responsible investment, and created a designated place for clients to find our annual Stewardship and Responsible Investment Reports, Voting Reports, Stewardship and Responsible Investment Policy and Glossary.

In FY24 we have made it easier for clients to locate our updated and consolidated Stewardship and Responsible Investment page on our **website**. We continue to work on improving our communications with clients whilst increasing transparency through our reporting.

Addressing client demand for sustainability

In FY21 we introduced our Sustainable Finance Strategy (now Sustainability Strategy) that was developed to better meet the needs of our clients and stakeholders with regards to sustainability. The strategy set out targets and a schedule of projects across our organisation including operations and investments. In FY22 we began work on the strategy and in FY23 the projects matured and are mostly now embedded into regular operations and processes.

We have used a traffic light system to indicate year-on-year progress made on each of the 10 areas identified in our FY21 report. Please refer back to our FY22 and FY21 reports (found on our website) for previous status. Where relevant, the corresponding principle has been provided which sets out more detail on the progress.

Our FY23 Sustainability 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.

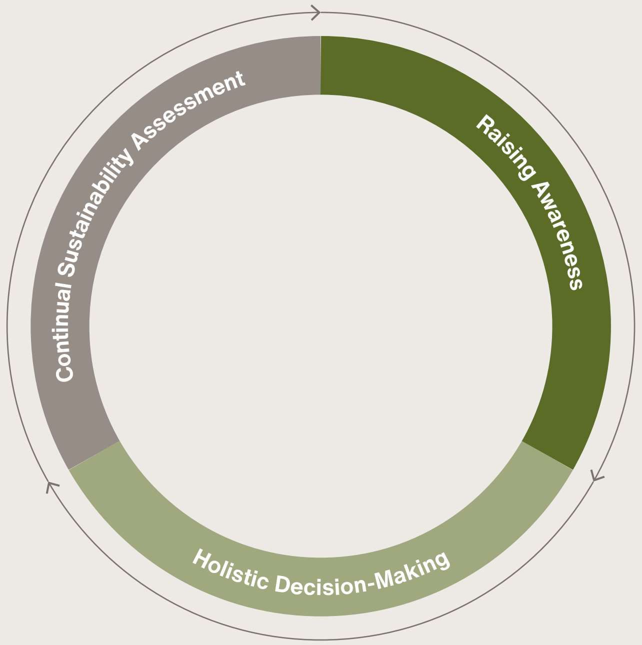
In FY23, the Sustainable Finance Strategy was consolidated, and our Sustainability Strategy has evolved to a three-pronged approach we operate today: raising awareness, holistic decision making and continual sustainable assessment.

Continual Sustainability Assessment

Establishing credible objectives and assessing performance against objectives and peers to **evaluate strategy effectiveness**.

Raising Awareness

Facilitate the development of **sustainability knowledge** across the business and amongst clients through **access to training, resources and relevant data**.



Holistic Decision Making

Embedding sustainability in investment and business analysis as a supplementary approach to **managing risk and identifying opportunities**.

Raising Awareness focuses on enhancing understanding among our teams and clients about the role of sustainability in today's business landscape. Through **Holistic Decision Making**, we ensure that our investment decisions and operational practices consider the broader impact on the environment and society, recognising the challenges of fully integrating these principles. **Continual Sustainability Assessment** underpins our strategy with a commitment to ongoing evaluation and adaptation, ensuring we remain aligned with evolving sustainability goals and practices.

Our approach is informed by a clear recognition of the role we play in a larger ecosystem, aspiring to make a positive impact over the long-term. With this broad approach we are confident that we will continue to make progress against our commitments – as well as making strides towards considering ESG risks and opportunities across all of our operations – promoting the development of sustainability over the long-term.

Examples of our Sustainability Strategy in action in FY23

Raising Awareness	Holistic Decision Making	Continual Sustainability Assessment
Sustainability & Responsible Investment Training for all employees	Sustainability committee consulted on NZAM and TCFD initiatives	MSCI data used to measure the underlying emissions of our Sustainable Funds' securities
Anti-Greenwashing training provided to key teams	Responsible Investment Strategy (see Principle 1)	Sustainability objectives included for the Sustainable Select Fixed Income Fund
ESG Research training for equity research	Risk Management (see Principle 5)	
Annual update by the Responsible Investment Team to the Investment floor on Responsible Investment at CBAM		

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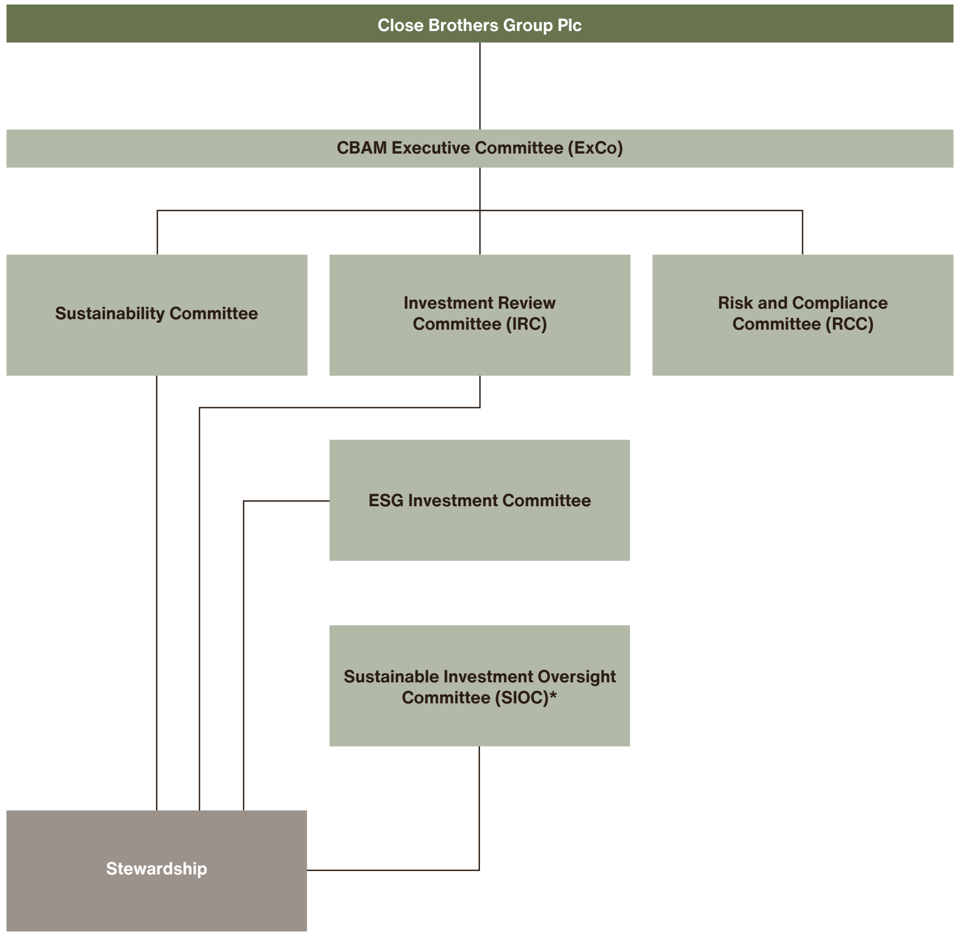
Principle 2
Signatories' governance, resources and incentives support stewardship.

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.

The Executive Committee (ExCo) 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 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 our divisions' 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 graphic below shows the committees most pertinent to our stewardship efforts.

Stewardship in our governance structures



Source: CBAM.

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 our clients' capital is at the heart of everything we do.
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, and responsible investment as it addresses how our investment approach can best serve our clients' and wider stakeholder interests. The Chief Investment Officer (CIO), who is the member of the senior management team responsible for stewardship and responsible investment, chairs this.
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 some 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 Responsible Investment team, investment managers representing all products and services, and research analysts, and is chaired by the Head of Responsible Investment. 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 achieve a common approach to sustainable investing across our product methodologies, where applicable, 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.

Source: CBAM.

Example

How effective have our governance structures been in supporting stewardship?

In FY23 the Sustainability Committee continued to oversee the implementation and development of stewardship at CBAM via the Sustainability Strategy, with particular progress in the areas of ESG Commitments and/or Targets, ESG Risk Management, Shareholder Engagement, and External ESG Initiatives. The Sustainability Committee also worked to develop and convert concepts outlined in the Sustainability Strategy (explained in Principle 1) from projects managed by the Sustainability Committee, to business as usual (BAU) activities, led by department heads. This was completed during the reporting period and now the Sustainability Strategy activities are either completed or owned as part of BAU by one of the Executive Committee members.

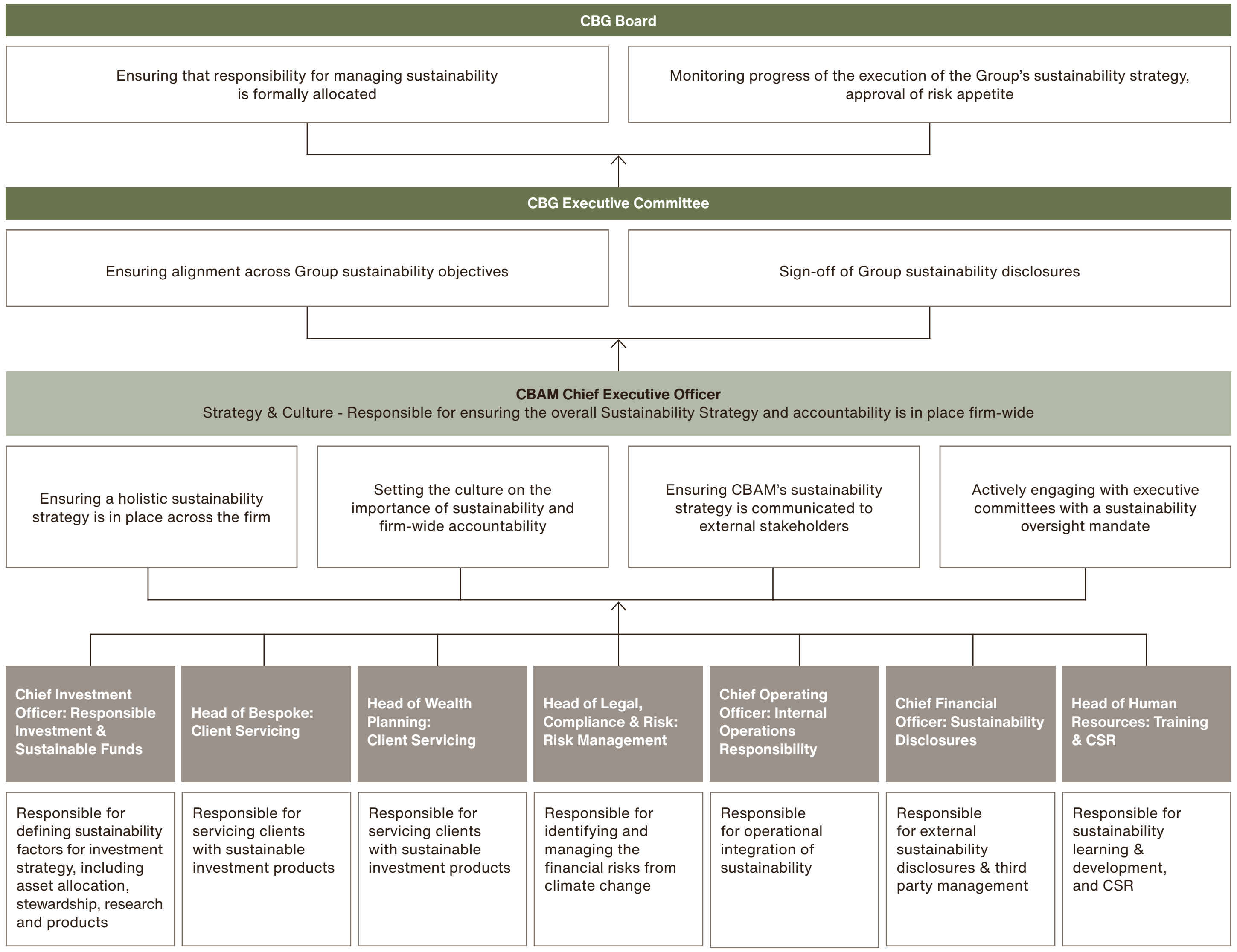
For example, the ESG Initiatives and Shareholder Engagement work streams included objectives to hire a Responsible Investment Associate to support the expansion of stewardship. In September 2022 (FY23), our Responsible Investment Associate joined the Responsible Investment Team and during the reporting period they supported the creation of our Stewardship & Responsible Investment Annual Report, Voting Report, and Escalation Process, as well as updates for our Stewardship & Responsible Investment Policy, Voting Process and Procedures, and Voting Principles. A key aspect of the Shareholder Engagement work stream was the creation of a centralised engagement tracker, to monitor our engagement progress and guide us in our escalation. Our Responsible Investment Associate created this tracker and now manages engagements as part of the Responsible Investment Team's BAU. Examples of engagements can be found under Principles 9 and 11.

In the area of ESG Commitments and/or Targets, the Sustainability Committee governed the decision to adopt a net zero commitment for CBAM's investments and sign up to the Net Zero Asset Managers initiative. First, the business impact was presented to the Sustainability Committee. The committee agreed to make an initial commitment to be signatories of NZAM, which NZAM approved in September 2022. Then, the Sustainability Committee governed the delivery of the NZAM commitment, monitoring and approving the work and timeline for determining the net zero targets, proportion of AUM initially committed, and appropriate risk management procedures to monitor the firm's adherence to the targets. In FY24, we submitted our net zero targets to NZAM and they were approved.

As noted in our FY22 report, a key area of governance that we completed in FY23 was to restructure 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 focusing exclusively on performance data and reporting – reporting to our Chief Operating Officer.

How senior management support our stewardship and sustainability functions



Source: CBAM.

Our Responsible Investment Team functions

The Responsible Investment (RI) Team are CBAM's in-house experts on ESG issues and are central to integrating sustainability considerations in investment decision-making, working with teams across the firm. Specifically, they manage and monitor our stewardship approach (including voting and engagement), produce sustainable thematic research, contribute to our sustainable investment methodologies, and fulfil regulatory requirements.

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 Responsible Investment Team provides the functionality that we require as a firm. The team is able to be small because the responsibility for bottom-up ESG analysis for individual securities resides with the security analyst.

At the beginning of FY23 we hired a Responsible Investment Associate to strengthen our engagement and voting efforts.

Head of Responsible Investment

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

Qualification(s)
CFA

Responsible Investment Analyst

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

Qualification(s)
ACA, CFA ESG Certificate

Responsible Investment Associate

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

Qualification	Number
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 obligations – both of which are important to our stewardship efforts – in FY23 we introduced a variety of new training for our staff.

Reoccurring training	
The Close Brothers Way	The culture at Close Brothers Asset Management 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 FY23	
Sustainability & Responsible Investment	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.
Anti-Greenwashing Training	In the second half of FY23 the Responsible Investment Team developed Anti-Greenwashing Training for staff, which was rolled out to the appropriate teams.
License to Recruit	In FY23 we also rolled out our 'License to Recruit' training to all managers who are involved in the staff recruitment and selection process. We will train all new managers 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's business principles.
ESG Research Training	In the second half of FY23, we rolled out specific training for the integration of ESG factors into equity analysis with an external provider. The training was predominately for the research, unitised funds and SRI Service parts of the business. The training covered the relationship of ESG information and share price performance, alongside a deep dive into different sectors (oil & gas, industrial goods & renewables, food & beverages, health & pharmaceuticals, tech, media & telecoms). This training continued into FY24 and has totaled 24 hours of training.

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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 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 inclusive.

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 these areas. The Inclusion Committee assists ExCo in continuously improving the culture of the firm to be inclusive and promote diversity of thought. It acts as an advocate on behalf of all CBAM employees 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 Inclusion 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 previous years, 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.

Our Diversity and Inclusion Projects and FY23 Developments

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 17 interns in FY23; 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 scheme, mentoring an intern from the programme in FY23.
Disability	We support the Business Disability Forum, and in FY23 expanded our internship scope to include the Able Intern scheme, mentoring an intern from the programme in FY23.
LGBTQ+	We support Stonewall.
Gender balance	We support the Women in Finance Charter and 30% Club and in FY23 joined the Female Fund Manager Programme in partnership with The Diversity Project.

FY24 developments

- We have developed a new diversity and inclusion strategy which is organised into five priorities. Each of these priorities has become a work-stream within the Inclusion Committee, which is working to fulfil the FY24-25 action points.

- We have introduced a new School Leaver Programme.

- We have conducted a Front Office Survey into how we approach discrimination faced by front office staff, and how prepared they are for diverse clients.

We will report on these changes in our FY24 Stewardship and Responsible Investment Report.

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 FY23 their objectives also contained goals to; implement our engagement approach (see Principle 9), including collaborative initiatives; develop our sustainable investing methodologies, establish ESG frameworks across asset classes; 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 (Institutional Shareholder Services), 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. We worked with ISS to create a custom policy to reflect our Voting Principles which was introduced to our voting process 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 respectively.

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. 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.

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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 FY23

Conflict
We had a holding that was within scope of our voting but did not have an official owner on the Voting Panel. As per our voting process, this vote went to the largest holder to determine. When the investment manager was asked to determine how to vote for discretionary shares, they raised a potential conflict of interest due to a relationship with the company in question.

Management of conflict
The RI Team worked with Compliance to determine a process for managing the conflict of interest. The investment manager stepped back from voting on behalf of discretionary clients and the vote was determined instead by other investment managers who were holders but did not have any conflict of interest.

Examples of identifying potential conflicts

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.

If the employee with the conflict of interest is on the Voting Panel, we require members of the Voting Panel to declare potential conflicts of interest with companies on their watch lists. If a conflict is noted, the employee cannot initiate the vote.

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 CBAM investment portfolio, the shareholding is separated into a distinct account that has an execution-only mandate. This is marked on our systems and we do not vote on this shareholding. If the client wants to vote on their shares they can do so by direct instruction. If their investment manager is due to be the initiator of the vote, the investment manager must declare the conflict of interest and the vote will be managed by the other largest holders, or Voting Panel members without a conflict.

During the reporting period we carried out a review of these potential conflicts and how we manage them. We updated our Voting Panel Process and Procedures Policy, and added a section on voting conflicts of interest. This included types of conflicts which could arise, and the process for members of the Voting Panel to take if they deem there is a potential conflict of interest when voting. In FY24 we have updated our voting template, used as part of the four-eye check to sign off votes, to include disclosure of any conflict of interest on each vote. This provides an additional layer of oversight and accountability to better identify any potential conflicts of interests that arise, so that we can manage them before a vote is submitted.

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.

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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 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 a 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 quarterly Product Governance Review (PGR) meetings for our funds 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 conduct thematic research on the theme of a 'Just Transition' as highlighted in Principle 1. This is 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.

Our risk teams conduct post-trade monitoring, looking at the specific trade history alongside market movements and how the portfolios performed during those times, and monitor the risk/ return corridors of each portfolio and their liquidity constraints. In FY23, the functions of the performance and risk team were separated into first line risk for the unitised funds, first line risk for Bespoke Investment Managers, and a performance team. This was described in Principle 2.

Example 1

Our effectiveness in identifying and managing risks associated with Russia's invasion of Ukraine

In our FY22 Stewardship and Responsible Investment Report we wrote about how we identified and managed the risks associated with Russia's invasion of Ukraine. At the time of writing, the war continues. During the reporting period we continued to monitor the situation and the accompanying risks.

In June 2023, the Wagner militia began its advance on Moscow, in opposition to Russian forces. This typified the heightened volatility of the war during the reporting period. Belarusian President Alexander Lukashenko announced a deal with Wagner leader Yevgeny Prigozhin and Prigozhin announced that he had called off the offensive, ordering the army to return to base.

We identified a number of risks, including the following:

- Russia and Russian businesses faced further international sanctions that could negatively impact securities with connections to Russia.
- Growth in the region was at risk, given the military hostility. There was also a risk of indirect impact on the global economy.
- The hostility could spill over into a broader conflict.
- Given Russia's role as a significant energy exporter, energy supply disruption was a risk, pushing up prices.
- Impact on inflation and interest rates: Higher energy prices generally push up inflation, making a case for higher interest rates. However, higher energy prices can also function as a tax on the economy. At extremes, this can weigh on demand, making the case for lower interest rates.
- The Prigozhin event risked precipitating a regime change, with hard to predict outcomes.

As outlined in our FY22 report, we had several meetings to discuss the impact of the war. This continued to be a topic of discussion in internal meetings and communications. It is worth noting, as reported last year, that 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 them. Additionally, we have had an internal ban on buying Russian securities since the invasion.

During the reporting period, the impact in energy markets did push inflation higher, leading to rate hikes. Although the Prigozhin revolt ended soon after it began and was not followed by further political volatility, we still classify the war as an investment risk, especially given the ongoing possibility of escalation. We continue to monitor the situation and related risks and opportunities.

Example 2

Our effectiveness in identifying and managing on-going risks associated with the UK Government's credibility failure

During the reporting period, the UK government saw three Prime Ministers in office, the second of whom being Liz Truss, whose premiership lasted 44 days.

At the beginning of September 2022, we met with an external UK economy expert to assess the likely impacts of expected energy measures resulting from Russia's invasion of Ukraine. We then had a meeting in mid-September on UK energy prices to discuss the costs and implications of these measures on both companies and individuals. Later on in the month, the UK government under Truss announced a package (referred to as the "mini-budget") of unfunded tax cuts that was received negatively by the market, causing sterling to fall and bond yields to rise. This caused institutions, such as pension funds, to meet margin calls, in turn forcing them to sell other assets.

We identified a number of risks, including the following:

- The fall in sterling, if unchecked, could have developed into a currency crisis.
- The tightening of financial conditions could have constrained the economy and caused market disruption.
- Concerns around the creditworthiness of the UK Government precipitating a credit downgrade, and potentially a loss of confidence in UK government assets.
- The measures announced may have caused the Bank of England (BoE) to further tighten monetary policy.

Once the mini-budget was announced we studied and shared across our investments team initial broker reports, and called a meeting to discuss the market impact of the announcements. The investment team continued to monitor the situation whilst sharing their insights. We created an **initial report** on the day the mini-budget was announced, outlining the risks we had identified, and had webcasts on the matter for the two weeks following. The topic was also covered in other weekly communications.

Our investment decision was to remain overweight non-UK assets. Although we had not classified it as an imminent risk, the fall in sterling, if unchecked, could have developed into a currency crisis. We remained underweight UK equities, as the tightening of financial conditions could have constrained the economy and caused market disruption; this is something we continued to monitor. Therefore, we did not change our equity asset allocation, but we increased our fixed income exposure towards the benchmark.

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Example 3

Our effectiveness in identifying and managing on-going risks associated with the wars in the Middle-East

Since the end of the reporting period there has been an unprecedented escalation in the Israel-Hamas war, with a higher daily death rate[1] than any other conflict in the 21st century. This conflict has created an acute humanitarian crisis and further portrayed the fragility of international diplomacy whilst rippling throughout national politics globally. The violent escalation in hostilities between Hamas and the Israeli government poses a risk to growth in the region and drawing other nations into the confrontation. Iran, a significant oil exporter, has a history of supporting Hamas, while the US has expressed their support for Israel. There is a potential risk that Iranian oil output could be impacted by US sanctions, or a direct attack, which could push up oil prices.

Following the 7th October 2023 our Investment team joined calls with several external experts on the likely impact of the event. The situation was also discussed at our quarterly macro forum and weekly communications.

The hostilities have impacted growth in the region[2], however, it is not a significant share of the global index[3]. A broadening of the conflict could have a profound impact on global growth, and this remains a risk that we continue to monitor.

The war in Yemen has continued, in November 2023 Houthi attacks began on vessels situated in the Red Sea, gaining broader attention in January 2024. Houthi attacks in the Red Sea could increase shipping costs and cause freight disruption, forcing ships to re-route via the Cape of Good Hope instead. We discussed this situation in our Multi Asset Forum. Freight rates rose sharply in December 2023 and January 2024 but have since fallen back.

As at 30 June 2023, Israel made up 0.25% of the MSCI ACWI Investable Market Index[4]. Palestine and Yemen were not investible through this index. Due to our strategic asset allocation, our exposure to the region is very limited. No change was made to our portfolios. We continue to monitor the ongoing conflicts.

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 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 bespoke 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 and FCA 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 (SDR) in October 2022 (and subsequently published its policy statement in November 2023) and we are currently working with our fund managers on the potential labelling of our products.

Example 4: How we have improved our climate risk management

The Intergovernmental Panel on Climate Change's (IPCC) Sixth Synthesis Report produced during the reporting period stated that the global surface temperature reached 1.1°C above pre-industrial levels. The report also found that, "every increment of global warming will intensify multiple and concurrent hazards".[5]

We are cognizant of the impending risks and opportunities stemming from a warming world. Throughout FY23, we have sought to continue the development of climate risk management at CBAM as part of Close Brothers Group. Key aspects of our risk management approach are outlined in the table below:

Climate risk management at CBAM and CBG

	Target setting	Reporting	Research and risk management
Close Brothers Asset Management	Inaugural disclosure made to Net Zero Asset Managers initiative See Target Setting section below for more details	First entity-level TCFD report in 2024 Annual reporting to NZAM	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	Second entity-level TCFD report in 2023 CDP participant	Improvement in data quality for climate exposure of loan book Climate scenario analysis and stress testing for key areas across the business Engagement with supply chain on carbon emissions and wider environmental matters

Source: CBAM.

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Target setting in FY23

CBAM became a signatory to the Net Zero Asset Managers (NZAM) initiative during the reporting period, which commits us to reaching net-zero carbon emissions by 2050 across all AUM. CBAM have also aligned operational net-zero targets with Close Brothers Group, as the Group is a signatory to the Net Zero Banking Alliance and committed to becoming operationally net zero through Scope 1 and 2 emissions by 2030.

At the beginning of FY24, CBAM made its inaugural climate target disclosure to the NZAM initiative. The disclosure was based on the Net Zero Investment Framework. 18% of CBAM's AUM has initially been committed to our climate targets. The targets disclosed were:

Portfolio Coverage Target
100% of AUM in material sectors will be considered net zero, aligned, or aligning by 2050.

Portfolio Decarbonisation Reference Target
Weighted average carbon intensity 50% below relevant benchmarks for each portfolio by 2030 from 2019 baseline.

Engagement Threshold Target
By 2025, 70% of financed emissions (Scopes 1 and 2) are either aligned to a net-zero pathway or subject to direct or collective engagement and stewardship actions.

Reporting in FY23

Close Brothers Group completed their second report against the Task Force on Climate-related Financial Disclosures (TCFD) framework for the period ending 31st July 2023. 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.

CBAM will report against the TCFD recommendations in 2024, including an assessment of climate risk in our investments.

CBAM's initial NZAM target disclosure, submitted in November 2023, can be found here: initial NZAM target disclosure.

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.

Research and risk management in FY23

In FY23, our thematic research continued to explore the risks and opportunities stemming from sub-themes of the 'Just Transition'.

Any transition to a lower carbon economy that is just and equitable, and that seeks to protect the environment (i.e. Just Transition) will not just affect the energy sector.

Therefore, in order to obtain a more holistic understanding of how our investments might be exposed to such a transition, our research covered Sustainable Food Systems, Sustainable Buildings, Climate Change and Workplace Productivity, and Human Rights and the Mining Industry. Further details on this research can be found under Principle 7.

Close Brothers Group risk management

Close Brothers Group have significantly improved their methodologies in assessing their financed emissions, working closely with the Principles for Carbon Accounting Financials. They are combining their own loan book data with a number of external data sources, providing a more accurate assessment of these emissions, especially across their carbon-intensive sector of transport.

The Group have commenced direct engagement with their largest suppliers, to explore ways in which they can incorporate carbon impact criteria into their choice of suppliers, enhance their emissions data and develop their roadmaps to minimise the impacts in their supply chain.

Further to their previous work on long horizon scenario analysis, the Group are working to integrate climate exercises into wider group stress testing. Specific focus is expected to be on the transport, energy and poetry sectors.

Finally, the Group continued to identify potential climate-related impacts across several existing principal or key risks; credit, operational, traded market, regulatory, conduct, business and strategic and funding and liquidity.

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.

Stewardship and Responsible Investment Report | 2023

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 readers. 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. Finally, the report is reviewed and signed off by Compliance, the IRC and ExCo (see Principle 2). In our annual stewardship report, together with our Responsible Investment and Stewardship Policy, 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

Assurance is a process by which we ensure the integrity of our disclosures. 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 may bring, namely: independent verification, indications of areas of improvement and the potential for greater external stakeholder confidence in our reporting.

In FY23 we reviewed our approach to assurance for certain stewardship and responsible investment activities, including ESG integration, voting, climate risk and CBAM's Sustainable Funds. We determined that given our size and resources available, internal assurance remains most appropriate, and that we would prioritise strengthening our assurance over our Sustainable Funds and climate-related investment risks. In FY23, the Responsible Investment Team worked with the Investment Risk Team to determine a plan to address these areas. Our work is on-going and we have made good progress throughout FY24 (see the example "Strengthening our Assurance Processes").

One way we currently try to build stakeholder confidence in our stewardship is to publish our annual reporting on our public 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.

CBAM example

Strengthening our assurance processes

Sustainable funds assurance
In FY23 our Investment Risk team began conducting a sustainability risk assurance review of CBAM's Sustainable Funds. It was completed in FY24. The risk assurance review included a detailed explanation of the fund managers' sustainable investment style and approach compared to CBAM's stated sustainable funds methodologies to provide assurance of the adequacy and effectiveness of our controls. We documented fund managers' internal investment processes for identifying and assessing ESG-related risks to challenge their thinking, enhance our governance framework, and promote an effective climate risk culture across CBAM.

Climate risk management
Climate risk has been integrated into our risk management framework in FY24 to support the transition to net zero. Our Sustainable Select Fixed Income Fund and Select Global Equity Fund seek to maintain a carbon intensity below their respective benchmarks,[6] targeting a level 50% below these benchmarks by 2030, and net zero emissions by 2050. To manage the progress of our net zero journey, we measure the carbon intensity (tonnes of Scope 1 and 2 CO_2e per US$m of revenue) of the funds and monitor progress towards their targets.

A dashboard is used to monitor and track the ESG and carbon intensity risks of the funds, and used as part of the ongoing risk management process. It is used as part of a risk report, run on a monthly basis with any potential risks or breaches flagged for further investigation and review with the business.

We are currently working on assessing and defining the climate scenario analysis to understand the implications of possible climate pathways (scenarios) on our assets under management, and therefore the resilience of our investment strategies during the transition to a net zero economy, in line with our regulatory obligation for TCFD reporting which has a deadline of 30 June 2024.

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 continued to improve our stewardship policies and processes during FY23.

Stewardship and Responsible Investment Policy
During the reporting period we created our current Stewardship and Responsible Investment Policy. The policy combines and replaces the previous two policies: the Responsible Investment Policy and the Stewardship and Shareholder Engagement Policy. New components include the description of our engagement system, based on thematic engagements, ad-hoc engagements and voting; our escalation process; and a section on climate change. In FY24, we also added a section on human rights.

The Responsible Investment Team presented the new policy to colleagues at an ESG Investment Committee, giving colleagues the space to raise any issues or queries. The Stewardship and Responsible Investment Policy is available on our sustainability and responsible investment landing page.

Responsible Investment Glossary
We updated our glossary to be up to date with our understanding of the terms we use in our literature and publications. The Responsible Investment Glossary is available on our sustainability and responsible investment landing page.

Voting Principles and Custom Policy
As explained in our last Stewardship and Responsible Investment Report, 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.

In FY23, ISS created a custom policy to reflect our voting principles which were utilised for the FY23 voting season. We continue to review our voting data and make changes to our custom policy as we develop our views on best practice corporate governance.

Engagement escalation process
During the reporting period we created an internal Engagement Escalation Process, to help guide colleagues on escalating engagements. In the document we explain our definition of engagement and the different types of engagement at CBAM (thematic, led by the Responsible Investment Team; and ad-hoc, led by the covering research analyst or investment manager).

The purpose of the document is for team members to understand what methods of engagement they can use to escalate concerns at issuers, and what processes they need to be aware of, including the different types of internal sign-off depending on the chosen escalation method.

The Responsible Investment Team presented the new process to colleagues at an ESG Investment Committee, giving colleagues the space to raise any issues or queries.

Voting Panel Process and Procedures
We updated our internal Voting Panel Process and Procedures document during the reporting period. The main changes were to include our voting principles and custom policy guidelines, and expand the section on conflicts of interest.

We continue to develop our responsible investment capabilities. The timeline on page 36 shows the progress we made in FY23. All of these activities are covered throughout this report.

Stewardship and Responsible Investment Report | 2023

Responsible investment timeline

2015
- Ethical screening for Bespoke portfolios

2016
- Launched Ethical DMS Service
- First ESG section in equity research

2017
- First ESG section in fixed income research
- Updated Ethical DMS to SRI Service

2018
- Appointed Head of SRI Research
- Stewardship Policy
- Included third-party ESG data in ESG analysis
- ESG tab on funds core list

2019
- Began firm-wide active proxy voting
- Created ESG Investment Committee

2020
- Engaged external consultants on sustainable finance strategy
- Published Responsible Investment Policy
- Launched sustainable funds
- Became signatory to the Principles of Responsible Investment
- First Shareholder Engagement & Voting Report

2021
- Created Sustainability Committee
- Firm-wide sustainable finance strategy
- Climate training for all employees

2022
- Hired Responsible Investment Associate and Analyst
- Became signatories to UK Stewardship Code
- Signed public UK Human Rights Due Diligence letter
- Endorsed Advance initiative
- Introduced sustainable thematic research function
- Established Voting Principles
- Signed the Global Investor Statement on Workplace Mental Health

2023
- Launched Sustainable Select Fixed Income Fund, incorporating a CO2 emissions target aligned with net zero by 2050
- Introduced CBAM Voting Guidelines and Custom ISS Research
- Created Engagement Escalation Process
- Introduced new ESG Research and anti-greenwashing trainings
- Converted Strategic Alpha into Select Global Equity Fund, employing our sustainable investment methodology
- Updated Voting Panel Process & Procedures
- Launched CBAM's sustainability and responsible investment page
- Submitted our first PRI Transparency Report
- Initial Target Disclosure to NZAM

Source: CBAM.

Stewardship and Responsible Investment Report | 2023

Investment approach

Principle 6

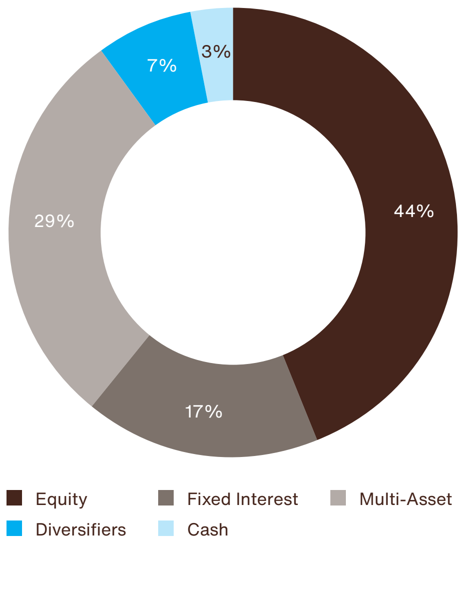
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Our clients and assets under management

CBAM's assets under management (AUM) were £16.4bn as at 31 July 2023. 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.

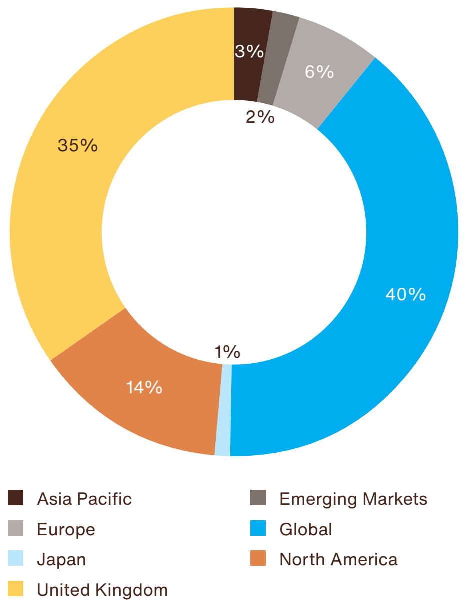
AUM split by asset class, 31 July 2023



Source: CBAM.

Diversifiers include commodities, alternatives and property.

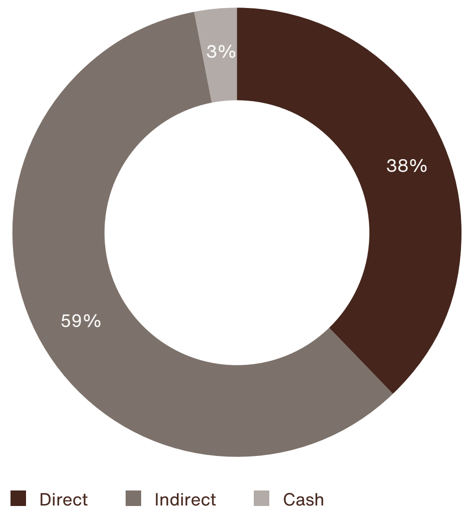
AUM split by region, 31 July 2023



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.

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.

CBAM relationship owner	Suitability confirmation period
Financial Planner	Annually
Bespoke Investment Manager	Every 2 years

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 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.

Please see Principle 1 for examples of gathering client feedback, via surveys, and actions taken as a result of these.

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.

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 ethical views and values through specific screening of investments. As part of the relationship development between Bespoke 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 execution-only holdings if they wish to.

In action

When a client wants to vote on their execution-only holdings, they can do so by direct instruction. Their shareholding is then separated from the rest of CBAM's holdings, and their voting instruction is carried out on their shares. Clients are also able to request records of their voting.

As described under Principle 3, any holdings where the client is deemed to have a conflict of interest, must be marked as execution-only. This includes where the clients or their immediate family members are directors of the business held. In these cases, the client has to instruct us directly as to how they wish to vote.

Example in FY23

During the reporting period, a company in which we invest had a Special Meeting with one proposal, to authorise the market purchase of ordinary shares in connection with a tender offer. A client, who was also the Deputy Chairman and Senior Independent Director at the company, requested to vote their shares in favour of the resolution. All assets for this particular client are held within an execution-only portfolio. As CBAM also chose to vote in favour of the resolution for discretionary holdings, the client's shares in the company did not need to be separated from CBAM's, and were therefore combined with CBAM's vote.

Communication of our stewardship and investment activities

We update and 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.

Stewardship and Responsible Investment Report | 2023

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 progressing our integration of ESG considerations across our investment types; direct equity, direct fixed interest, diversifiers and active 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.

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Investment type	ESG Integration	FY23 progress	FY24 developments and future intentions
Equity	Yes	The current framework links the fundamental business drivers with material ESG risks and opportunities, or externalities. Equity analysts undertook ESG integration training which covered the relationship of ESG information and share price performance, alongside a deep dive into key ESG issues for different sectors: oil & gas, industrial goods & renewables, food & beverages, and health & pharmaceuticals.	Continue analysts ESG integration training across tech, media & telecoms. Increase AUM with ESG integration coverage as more stocks are initiated on.
Fixed Interest	Yes	The current framework seeks to identify key ESG risks to the investment case, to protect against the downside business case. Fixed interest analysts undertook ESG integration training which covered the relationship of ESG information and share price performance, alongside a deep dive into key ESG issues for different sectors: oil & gas, industrial goods & renewables, food & beverages, and health & pharmaceuticals.	Increase AUM with ESG integration coverage as more stocks are initiated on.
Third-Party Funds (Active)	Yes	Launched a standardised questionnaire approach to help collate information on how active external third-party funds are developing their ESG integration and sustainability approaches.	Roll out the questionnaire to an increasing number of our third-party diversifiers. Utilise the answers as context for future discussions with fund managers.
Diversifiers and Property Collectives	In progress	Developed a standarised questionnaire for all Hedge Fund holdings. The questions are either answered using YES/NO or a quantitative scale which allows holdings to be compared. Supplementary detail is then also provided by the holding.	Develop a questionnaire for the remaining sub-asset classes of our diversifiers (e.g. Private Equity, Infrastructure etc.). Create a summary table to compare holdings inter- and intra- sub-assetclass.

For the investment types that have a formalised process to understand relevant ESG information, the analysis is performed by the analyst (or investment manager) covering the fund, trust or company. We believe this is best practice because the analysts have a deep understanding of their coverage and it allows ESG information to be considered in conjunction with financial information. We aim to integrate ESG analysis as part of new initiation notes, but the extent of ESG analysis can very across different investment teams and investment types.

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 also worked with an external provider to develop a further in-depth ESG analysis course for our research team and sustainable investment managers, which is was rolled out in FY23, carrying into FY24. More information about this training is outlined under Principle 2.

Top-down thematic research

The bottom-up analysis conducted by our research analysts is complemented 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.

Stewardship and Responsible Investment Report | 2023

In FY23 we focused our thematic research on the Mining Industry and Human Rights, Sustainable Food Systems, Climate Change and Workplace Productivity and Sustainable Buildings, covering a topic per quarter. Key takeaways from this research are highlighted below:

Sustainable food systems

The global food system already produces 25% of greenhouse gases (GHGs), yet to feed 10bn people by 2050 the world will need to produce 56% more food. The absolute necessity to address this issue creates a space for innovation, solutions and opportunities which this research explored.

Sustainable Buildings

To decarbonise in line with net-zero by 2050, renovation rates of buildings need to increase 1% to 3% a year by2030. The research explored investment opportunities stemming from this need to renovate, focusing on solutions that are effective at decarbonising the most emission intensive parts of the building life cycle and which are also economical.

Workplace Productivity

This research focused on the risks to labour intensive sectors stemming from climate change and warming temperatures. By 2050, more than 50% of the hours in an afternoon of work in Southeast Asia could be lost from breaks from the heat and sun, hindering sectors such as construction and agriculture.

Human Rights & Mining

The energy transition demands key metals such as nickel, copper and cobalt. Therefore, miners will play a key role in achieving a Just Transition. However, the mining industry has a high risk of exposure to human rights abuses relative to other industries. This research compared the major mining companies from a human rights policy and risk perspective.

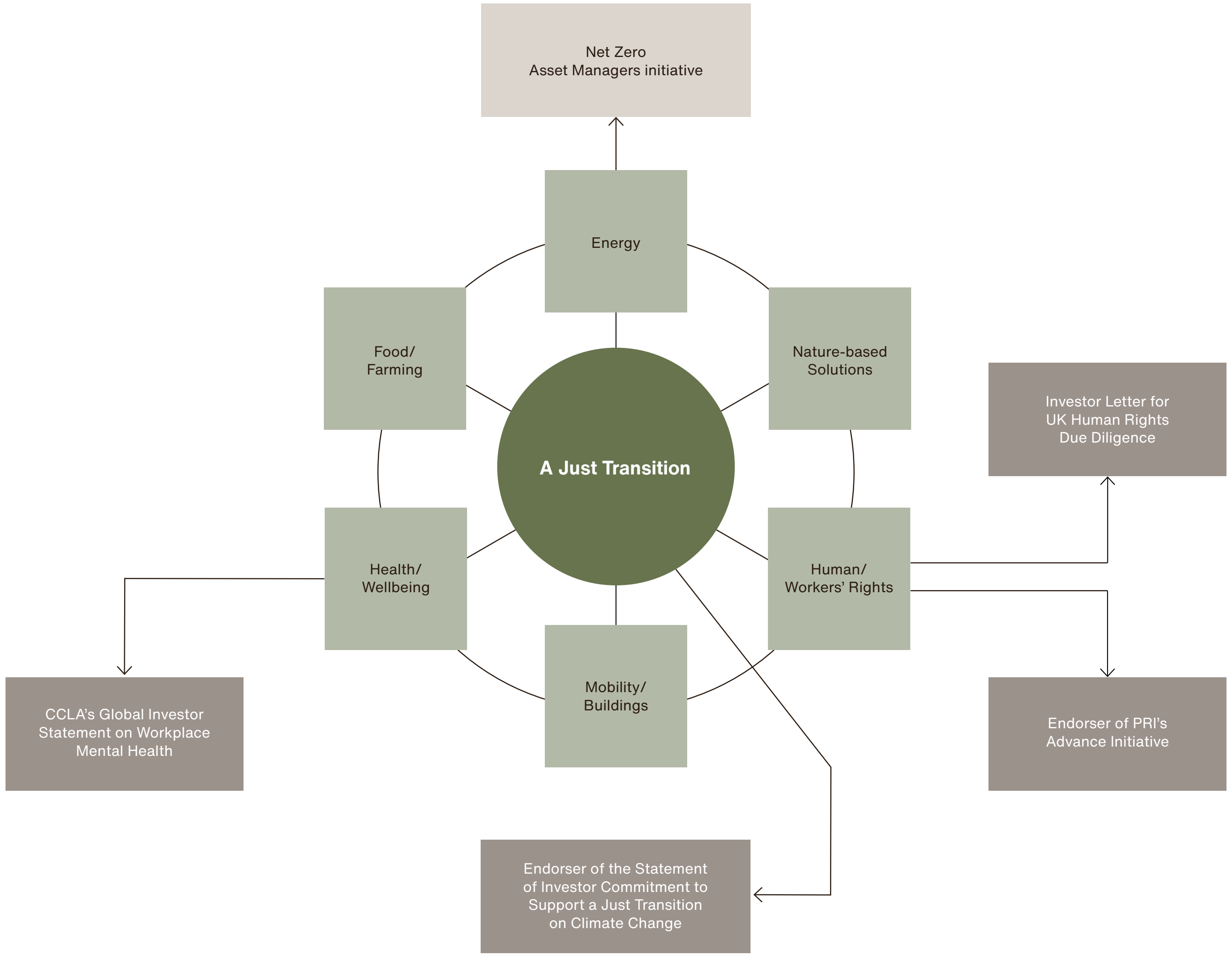
In the beginning of FY24, we have written on nature based solutions to climate change with a specific focus on the voluntary carbon market. The diagram on page 54 illustrates the sub-themes together with aligned thematic engagements efforts we have pursued, the details of which can be found in Principle 10.

Having produced a thematic white paper on each of the six sub-themes we will now focus on strengthening our knowledge and conviction on particular areas of the sub-themes. The research will be conducted in short form notes that attempt to answer a question e.g. What stress will an increasing number of electric vehicles placed on the grid? Incidentally, we covered the UK Government's changing policy position on electric vehicles in our Autumn 2023 Investor Insights video.

By 2050, more than 50% of the hours in an afternoon of work in Southeast Asia could be lost from breaks from the heat and sun, hindering sectors such as construction and agriculture.

Stewardship and Responsible Investment Report | 2023

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 and geopolitical risks (see Principle 4) 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 a qualitative analysis of material ESG issues into their research reports within a defined section. 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 of those ESG issues arising?
- What are management doing to mitigate the risks or capitalise on the opportunities?
- How might the ESG issues affect the financial statements?
- 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 and how they contribute to the overall recommendation (Buy, Neutral, and Source of Funds).

CBAM example

Sports Apparel Brands

Issue
During the reporting period we initiated on two sports apparel brands, conducting a 68 page research note on the companies, which included a comprehensive ESG analysis.

Process
When looking at the negative externalities for both companies, the most important ESG topic for each was their supply chain: they both employ (directly and indirectly) hundreds of thousands of workers globally, with a heavy reliance on supply chains in regions with poor working conditions. Supply chain issues can be material and have a high probability of negatively impacting a business given their complexity. We looked at the labour management incentives at both companies, realising that whilst one of them had relatively limited incentives compared to peers, the other had robust policies on labour management for its supply chain. We also looked at how the companies had been affected, and how they had reacted to allegations of suppliers subjecting Uyghurs to forced labour in factories in the Xinjiang region of China in order to source cotton.

The main positive externality we found for these companies was the sustainable sourcing of materials, which can be a clear source of competitive advantage if done correctly. We found both companies to be leading peers in their sustainable procurement policies, with one of them attaining its internal target of sourcing 100% of its cotton sustainably – 90% being Better Cotton Initiative (BCI) certified, 10% being recycled and organically sourced – whilst the other sourced 100% BCI-certified cotton. The second company also incorporated sustainability into its company strategy and management incentives, with a target of producing 90% of products sustainably by 2025 (i.e. either manufactured from recycled or regenerative materials, or from a circular process).

We analysed what both companies are doing to mitigate ESG risks and capitalise on opportunities, including internal targets and strategies. We looked at their emission reduction plans, whether they would fail an ethical screen, and if they have a history of controversies that breach the UN Global Compact norms. We also reviewed their management incentives and Board/management composition, and noted where we thought improvements could be made.

Conclusion
Given the potential severity of reputational damage related to negative working conditions at supplier factories, it was imperative to conduct an ESG analysis on these companies in order to understand their positioning. For both companies in question, the ESG analysis undertaken made it clear that enough was being done by management to monitor and manage risks within the respective company's supply chains, and in doing so provided us with enough comfort to recommend a potential investment.

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CBAM example

British Multinational Hotel and Restaurant Company

Issue
During the reporting period we initiated research coverage of a hotel and restaurant company. Our initiation note included an ESG analysis, where we looked at ESG issues that could challenge or complement the business model's key drivers; how externalities could impact the value of the business; and, mitigation of these risks or potential capitalisation of opportunities, alongside the potential impact of ESG issues on their financial statements, and impact on the investment case.

Process
The main externalities we identified were labour shortages, supply chain management and energy management:

- Labour shortage is a key theme in the hospitality industry. To prevent staff from leaving and in attempt to attract new employees, many companies have increased wages, offered more flexible working conditions, and focused on career progression for staff. The company initiated on is known to be a good employer and had been ranked number one in the UK for hospitality apprenticeships the previous year. The company has higher pay than competitors and offers employees wellbeing support through a third party, providing an independent service and 24/7 hotline support.
- At the time of initiation, lockdowns had put pressure on supply chains worldwide, impacting the hospitality sector's ability to offer the same standard of service. Supply chain pressure can lead to a shortage of key ingredients for restaurants. Additionally, food price inflation continues to have an impact on costs. A shortage of food for a restaurant can mean a change in menu or increased prices, which can impact demand. At the time of initiation, the company had simplified its menus in many locations in order to combat this. Longer-term, sustainably sourced food is becoming more prevalent. Companies that take proactive measures to address customers' concerns around provenance, farming practices, food quality, and food waste, are better positioned versus peers to improve brand perception and gain market share. The company has a target of reducing food waste by 50% by 2030 (we noted that its main competitor had no target).
- Environmental protection increasingly becomes a key social issue, the pressure for companies to lead by example in their energy management is increasing. Energy costs had been incredibly volatile at the time of initiation, so managing these was very important for the company. Energy management issues were already very prevalent for the company, and they had hedged most foreign (non-sterling) currency energy costs forward on a rolling one-year basis. We noted that there had been no progress from a sustainability and renewable energy standpoint, and that energy costs were having an impact on margins.

Our initiation note also covered the company's emissions reduction plan, business involvement screens that would be flagged by the company, whether the company had any controversies that would breach the UN Global Compact norms, and potential engagement points for the company.

Outcome
We determined that the company had satisfactory ESG credentials, with labour being the key area to monitor. Labour was the company's largest cost and therefore has a significant impact on its income statement. We noted that the company's ability to manage inflation and the impact that would have on margins was important. We concluded that companies with higher turnover rates and inferior labour practices would experience higher costs in retaining, recruiting, and training staff; therefore the company was relatively well placed.

The company's labour practices positively impacted the investment case, increasing our conviction that the company was managing this issue well. The company's simplification of its menus and its food-waste targets set it apart from competitors, whilst we will keep monitoring its energy management.

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.

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 evaluate an Issuer's ESG risks. Any factors deemed to be material risks are included in a distinct 'ESG' section of a recommendation.

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 track-records on ESG issues.

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CBAM example

German Life Sciences Company

Issue
We identified two potential BUY opportunities in German life science companies. Animal testing was identified as a potential key ESG risk for both.

Process
We carried out an assessment of the life science companies' ESG profiles and both were flagged for conducting animal testing. We therefore conducted a review of both companies' animal testing practices and policies. This involved speaking directly with both companies, as well as ESG experts, credit rating experts and other third-parties.

We found that one company conducted animal testing for medical purposes (i.e. drug testing) only, whilst the other conducted animal testing for both medical and non-medical purposes (cosmetic testing, and crop fertiliser testing).

The two companies are required, by international law, to perform animal testing on new drugs prior to testing on humans, but they are not required to conduct testing on new cosmetic or other chemical products.

Companies must also have a clearly defined policy and the appropriate accreditation such as the AAALAC accreditation (Association for Assessment and Accreditation of Laboratory Animal Care).

Outcome
Our assessment showed that the first company met our expectations of best practice: only testing on animals where required by law, and holding the appropriate accreditation. The second company did not meet our expectations, as they conducted animal testing on products where they are not required by law to do so. We view this as a negative ESG externality and therefore a risk factor which the first company was not exposed to.

We engaged with the second company over email to assess whether they planned to phase out animal testing for non-pharmaceutical purposes, and were not satisfied with the response we received. We decided the second company's bonds were ineligible for inclusion in the Sustainable Select Fixed Income portfolio and informed them that we do not consider their bonds as viable investments given current animal testing policies. As a result, we ended our analysis on the company.

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.

During the reporting period, we introduced a sustainability questionnaire to collate information and/or data from third-party fund providers which may guide us in understanding their own approaches to both sustainability at a firm-level and their approach to ESG-integration and engagement at a strategy level. We've requested the questionnaire be completed by approximately half the funds on our 'Core List' to date and we are using the answers to compare third-party funds we may own. Responses may also provide context for future discussions when CBAM's fund managers again meet the third-party fund managers as part of their regular review cycle of strategies held on CBAM's Core List.

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.

Highlights of key items that we may consider are:

- **Firm Level** – Alignment of interests, sustainability credentials of senior management, decision making, diversity, voting and engagement approach, policies and industry body participation.
- **Strategy Level** – Employee training, employee incentives for ESG integration, ESG integration process, engagement, reporting, fund labelling.

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, alongside the items raised in our sustainability questionnaire. 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.

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

Japanese fund with a sustainable equity focus

Issue
In April 2023 we were informed that the lead portfolio manager was leaving the asset manager to set up their own sustainability-focused asset management firm, because he felt that within the existing wider organisation sustainability was not being prioritised, therefore creating misalignments with areas the manager wanted to focus on.

The asset manager had agreed that they could transfer the fund to the new firm, however, we were concerned that this might not be a smooth transition. In addition, the fund manager's departure might have prompted clients to sell the fund, rendering it no longer viable for our investment. The possibility remained that the fund would not move asset manager firms, but in that case we would have likely sold it as it would have been under a new fund manager without the sustainability expertise and commitment required to fulfill the fund's sustainability focus.

Process
We studied the situation to understand this risks involved with the holding. We had a conversation with the portfolio manager who was leaving to better understand his position.

Outcome
We sold the fund in June 2023. After we sold, the fund's Authorised Corporate Directors said that they did not feel they could recommend transferring the fund to the new business and the fund went on to be closed.

Diversifiers

CBAM's diversifiers analysts look at the extent of ESG integration at the firm-level and strategy level. We expect our diversifier investment strategies 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 alternative fund managers to be ignoring key environmental or social issues we will view this as a risk.

At the end of the reporting period we introduced a standarised ESG questionnaire for all Hedge Fund holdings. The questions are either answered using YES/NO or a quantitative scale which allows holdings to be compared. The alternative fund managers then also provide supplementary detail. The questionnaire covers the following areas:

- Firm-level
  - Culture (diversity & inclusion, incentives, commitments and governance)
  - Capabilities (specialist product offering, specialist resourcing)
  - Initiatives (UN PRI, UK stewardship Code, Net Zero Asset Managers initiative, TCFD, SFDR)
  - Voting (voting scope, voting practice)
- Strategy-level
  - ESG integration in investment philosophy
  - ESG integration into investment process
  - ESG integration into portfolio construction
  - Resource
  - Screening

We plan to develop standardised ESG questionnaires for the rest of our alternative sub-classes, such as private equity and infrastructure. We look forward to providing more detail on the answers to these questionnaires in the next publication.

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 business involvement, ESG, and impact data.

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 on the next page.

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 more or less alignment to the SRI methodology 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 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 ESG characteristics which are aligned with the SRI methodology. Data is available from company reports and third-party data providers. However, commodities and absolute return sub-asset classes are deemed as having low ESG 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 FY23, the third-party data provider Net Purpose services were fully integrated into the SRI reporting.. 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.

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.

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 Bespoke 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 related to business-involvement in certain activities to lists of potential investments to rule companies in or out of contention for investment, based on clients' 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

Our Sustainable Balanced Portfolio Fund is a multi-asset fund that uses a three-stage process to generate consistent, long-term returns; it firstly uses an ethical screen, which excludes entities based on certain business activities, secondly it applies an ESG screen which focuses on how entities operate, where ESG ratings from a third-party are used. Only companies with a certain level of ESG rating are included in the multi-asset investable universe 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.

During the reporting period, our sustainable bond fund was subsumed into our main bond fund, Select Fixed Income, to form Sustainable Select Fixed Income Fund (SSFI).

Our Sustainable Select Fixed Income Fund and Select Global Equity Fund both use our new sustainable methodology that not only targets consistent, long- term returns but also a defined sustainability objective.

Key aspects of our new 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 8. 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).
- Analysis of climate and emissions data for reporting (Data provider: MSCI).
- Impact reporting (Data provider: Net Purpose).
- 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 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 FY23
At the end of FY23, we began a review of our contracts with third party ESG data providers.

The market for ESG data providers has matured significantly over the last five years. With this in mind, the goal of the review was to ensure we had access to ESG data that best suited our business and investment needs.

Early in FY24, we started a comparison of the quality of the datasets from our largest incumbent third party data provider against an established competitor.

No immediate changes have been made to date but we are continuing the review of the competitor.

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.

In FY23, we strengthened our ability to review the services provided by outsourced parties by introducing an ESG section into our due diligence for Tier 1 and Tier 2 supplier onboarding. 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. In FY24 we will look to refresh our legacy supplier due diligence with this new section.

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 FY23
Broadly we have been happy with the quality, responsiveness and coverage of external research that has been provided. This was evidenced by retaining all research providers from the beginning of FY23 until present. Ongoing reviews of our provider list will be conducted throughout the remainder of the year, and appropriate changes will be made if and where necessary.

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 monthly when we update our recommended list.

When we meet with managers on our 'Core List', the discussions provide assistance in reconfirming the recommendations, and also give us the opportunity to question the portfolio managers 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.

In FY23, we introduced a sustainability questionnaire to collate information and/or data from third-party fund providers which may guide us in understanding their own approaches to both sustainability at a firm-level and their approach to ESG-integration and engagement at a strategy level. We've requested the questionnaire be completed by approximately half the funds on our 'Core List' to date and we are using the answers to compare third-party funds we may own. Responses may also provide context for future discussions when CBAM's fund managers again meet the third-party fund managers as part of their regular review cycle of strategies held on the CBAM 'Core List'.

Meeting our needs: Quality of third-party fund manager delivery in FY23
Examples of how we monitored our third-party fund managers and held them accountable for the service provided during FY23 can be found under Principle 9.

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Engagement

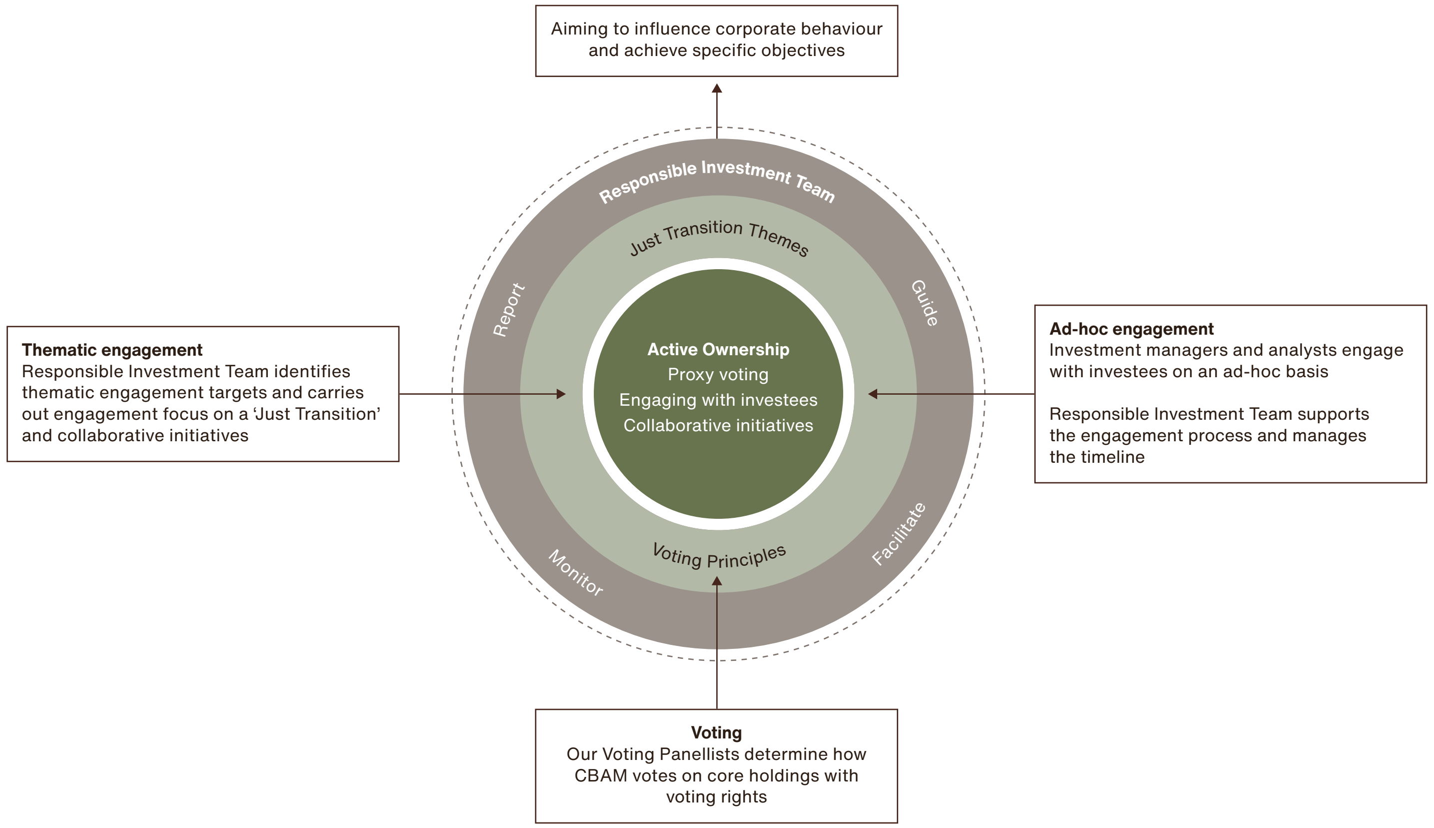
Principle 9
Signatories engage with issuers to maintain or enhance the value of assets.

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.

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 which is extremely difficult to demonstrate, without confirmation from the investee. Nonetheless, we continued to formalise our engagement processes during the reporting period to help track alignment between 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 FY23 we continued to formalise and strengthen our engagement processes for investments. As outlined in Principle 2, at the beginning of the reporting period we hired a Responsible Investment Associate to build our resource for engagement and voting. The additional resource has strengthened the role of the Responsible Investment Team in guiding, facilitating, monitoring and reporting on firm-wide engagements in a centralised manner. Since their joining, we have been able to formally track our progress on engagements, which is supporting our efforts to engage more effectively, by clarifying objectives for, and tracking progress on the issues we are currently engaging on.

During the reporting period, we created an engagement escalation process to help guide our actions when we engage with issuers. Our escalation methods are further explained in Principle 11.

The previous graphic 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.

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.

We developed our Voting Principles in FY22 to reflect our in-house views on best practice corporate governance. At the beginning of FY23 we worked on the customisation of our ISS voting research to reflect our Voting Principles which differ from the ISS' Benchmark proxy voting guidelines. We worked with ISS to create a custom policy, which was implemented for the FY23 voting season. We therefore now receive both the benchmark research and our custom research. 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 FY23. Examples of particular ad-hoc engagement methods by asset class are highlighted under this Principle.

Methods of engagement and frequency in FY23

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.

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 generally set the objectives of the engagement. Whilst most communication with our holdings is to inform our research and view on the company/investment trust's 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 logging their ad-hoc engagements appropriately. Nonetheless, as this is a newly established procedure during the reporting period, it will take time to integrate across the firm, and for all our investment managers to become used to liaising with the Responsible Investment Team on every ad-hoc engagement activity.

We are continuing to improve our engagement logging systems. Since the reporting period we have engaged with third-party platforms for this purpose, and are working to build an engagement-specific add-on to our research logging platform to make logging and tracking engagement activities easier and more efficient internally.

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, alongside our custom voting research developed from our Voting Principles, for best practice corporate governance voting research. Our Voting Panel of analysts and investment managers determine how we vote in the best interests of clients. Further details on this, the development of our custom research, and our use and relationship with ISS can be found under Principle 12.

CBAM example

British Multinational Hotel and Restaurant Company

Issue
As part of monitoring the company, we identified some concerns regarding short-term incentives for the management team at the company, as it appeared there were big changes year-to-year when we analysed these through our third-party data provider.

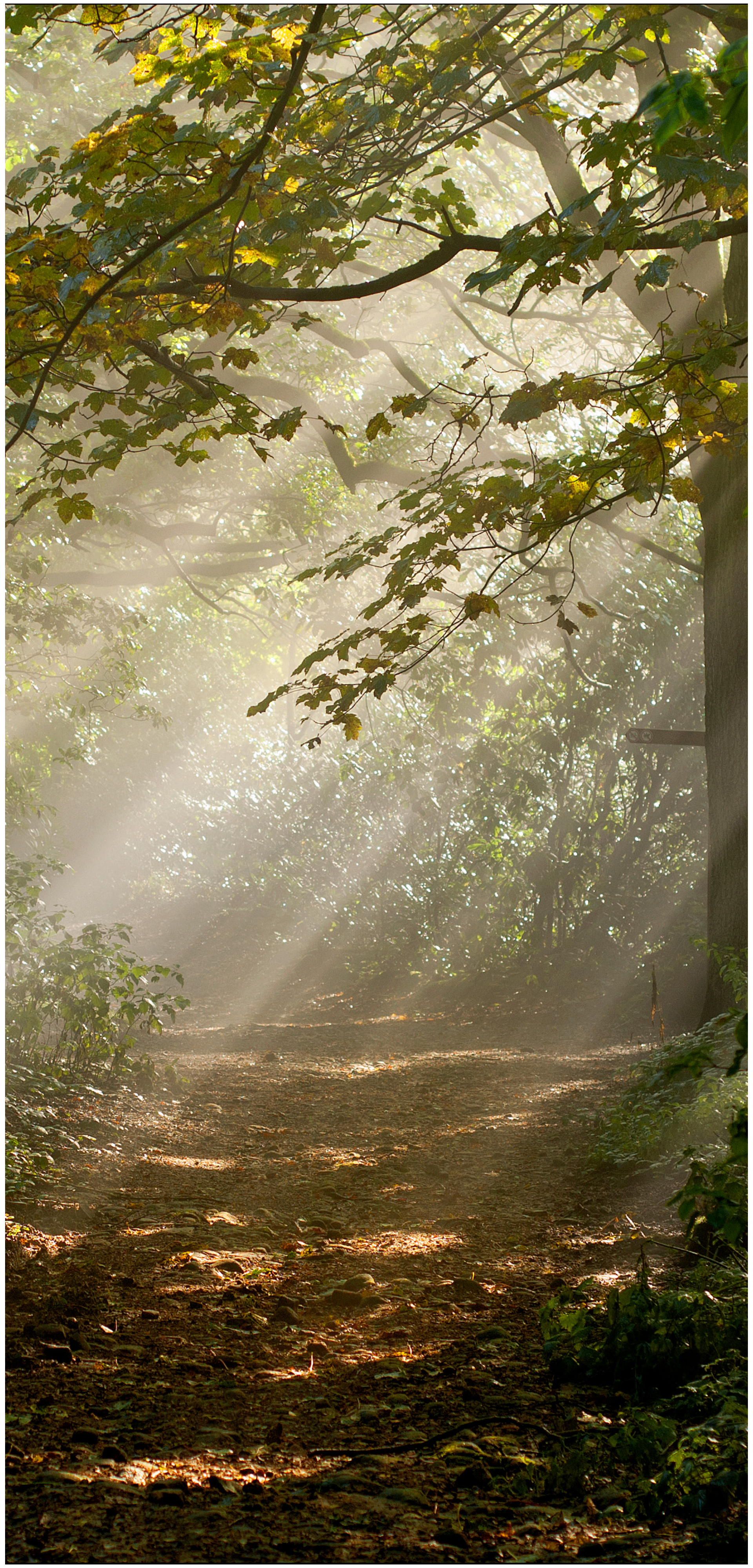
Process
We emailed the company's Investor Relations Team to express our concern and to ask if there was any reasoning for this, and whether the company was "moving the goal posts" in order for the management team to meet its own targets. They responded that there have been some changes over the years but provided a summary of how the allocations in the annual incentive scheme had evolved which helped us understand the changes that had been made. When we compared these to the numbers reported by our data provider, we weren't able to reconcile the difference, so we emailed our data provider with our concerns.

Outcome
Our email prompted the data provider to engage with their vendor to update their methodology to better capture the true weights of individual metrics. The third-party data provider's vendor's methodology was updated and the weights in their management incentives were correctly displayed, and reconciled with what the company was reporting. This, alongside the company's response, allayed our concerns and no further action was required. We continue to invest in the company.

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.



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 350 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%).

As explained in Principle 7, we have introduced a sustainability questionnaire to collate information and/or data from third-party fund providers which can guide us in understanding the approaches to both sustainability at the firm-level and the approach to ESG-integration and engagement at the strategy level. Responses to this may provide context for future engagements with fund managers.

CBAM example

Listed Renewable Infrastructure Fund

Issue
When monitoring the fund, in which we are a large shareholder, we found there was a lack of action and communication by management to shareholders in order to address the significant share price discount to net asset value (NAV).

Process
Given the significant share price discount to NAV, we emailed the Chair to propose that the Board pivot away from its growth strategy and focus on buying back shares given the attractive valuation. In our view, investing in the fund's shares at the discount to NAV would offer improved risk adjusted returns versus them making new acquisitions.

We also asked for concrete plans that the Board had in place to close the discount to NAV.

Outcome
The Chair responded to CBAM in a timely manner, confirming that the Board was very focused on the NAV discount and was evaluating all options, which included balancing the growth investment opportunities with the proposals that we put forward.

Since this, and within the FY24 reporting period, we engaged again following their results, this time flagging the continuation risk resulting from the shares trading at a >10% discount to NAV for more than 12 months.

We once again put forward the proposal for a meaningful share buyback alongside selling assets to prove the NAV. We flagged that the Board had not publicly presented a tangible capital allocation policy to investors, which created a lack of clarity over their strategy at that point in time, and their plans to mitigate the continuation vote risk. We also proposed the fund consider a quarterly or six-monthly tender of shares at NAV with the growing cash pile on the balance sheet. The Chair once again responded in a timely manner confirming the Board was aware of our feedback.

The fund has since initiated a £100m share buyback program. We were concerned that the pace of share buybacks was too slow and raised this with the Chair, who confirmed that the fund was in the "close period" until their results. Under the market manipulation rules they cannot give the brokers who are running the buyback program any new instructions with regards to the pace of the buybacks.

We remain holders of the fund and we view the initiation of the share buyback program a positive development; we will continue to monitor the share buyback and engage again, should the pace not be increased following the results and the end of the closed period.

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Ad-hoc Engagements: Alternatives

CBAM example

UK Infrastructure Investment Company

Issue
We found there was a lack of action and communication by management with shareholders to address the significant share price discount to NAV.

Process
CBAM is a long-term shareholder of this investment company. In advance of the AGM vote, we emailed the Chair to enquire into what firm plans the company had in place to close the meaningful share price discount to NAV.

We also asked that whatever plans were in place should be made public via an RNS so the market would also be made aware prior to the AGM. We stated our preference would be to see material disposals that prove the NAV, coupled with a share buyback, or that a bidder is found for the company.

Outcome
The Chair responded in a timely manner confirming that the Board was focused on closing the discount to NAV and agreed that disposals were an effective strategy to achieve this.

At their annual results and on the investor roadshow the company communicated to investors that further disposal activity was in progress, proving the valuation and delivering NAV enhancement whilst providing a source of funding outside capital markets.

The Chair also confirmed that the best use of those disposal proceeds was a key consideration for the Board and the Manager and that this was kept under regular valuation; at the time, the priority was to repay the floating rate debt liabilities.

The Chair also addressed our proposal of a share buyback stating that the company has a buyback policy and the Board has had numerous discussions with the Manager and the company's advisers on the merits of buybacks within the context of best capital allocation. They said that these conversations would continue and would take into account all available information at the time.

The company has since continued with the disposal of assets above carrying value, further proving the NAV. We view the above actions as positive developments to address the NAV discount; we remain holders of the company and we will continue to monitor the developments of asset sales and capital allocation and engage when necessary.

CBAM example

LSE-listed Real Estate Investment Trust (REIT)

Issue
We found there was a lack of action and communication by management with shareholders to address the significant share price discount to NAV.

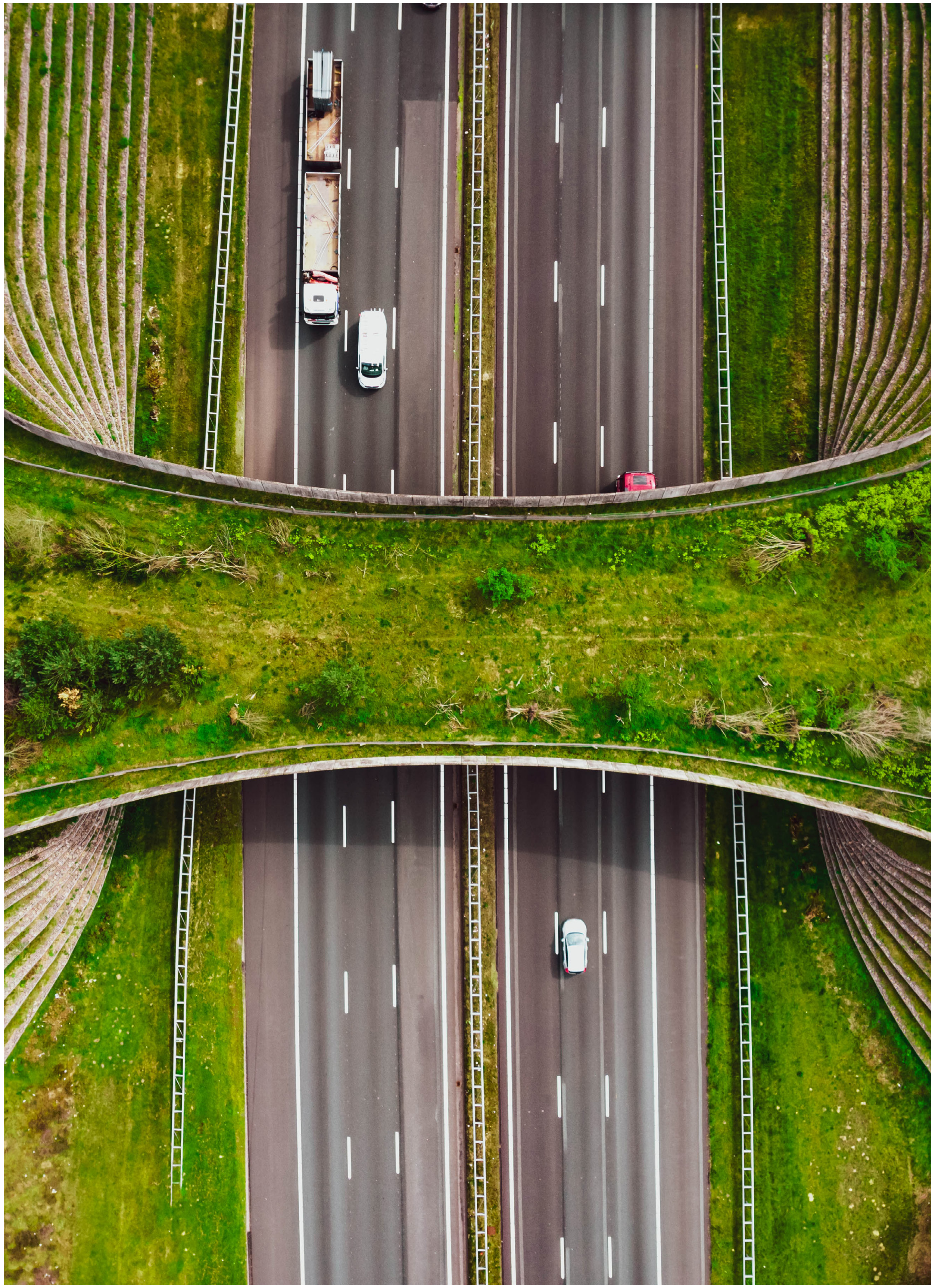
Process
Following another disappointing set of results, CBAM engaged with the Chair over email, highlighting the issues which included a likely dividend cut and the share price languishing way below NAV.

Our proposals were for the Board to seek bidders for all three assets or one bidder for the whole Plc (given private equity has been active in acquiring within the REIT sector). We stated we would fully support a wind up or bid at, or close to, NAV.

Outcome
Following the engagement with CBAM and other shareholders, the REIT initiated the process of selling its local authority assets to pay down its floating rate debt.

The remaining assets will be shared ownership and retirement; however, at the REITs results, they also stated that they continue to review further disposals and may rationalise the retirement portfolio.

We regard these actions as positive developments to pro-actively address the significant share price discount to NAV. We remain holders of the trust and we will continue to monitor the developments of asset sales and engage when necessary.



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

Utilising collaborative engagements to increase our influence over issuers as an asset manager is a core focus of our strategic engagement approach (see Principle 9). It is an area we continue to evolve 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.

In line with our overarching theme of a 'Just Transition', in FY23 we were accepted as endorsers to the Statement of Investor Commitment to Support a Just Transition on Climate Change.

Building on our energy transition research as well as considering our previously stated responsibility as a business, we became a Net Zero Asset Managers initiative signatory in FY23.

In support of our research on human/workers' rights, in FY23 we were made an endorser of PRI's Advance engagement initiative that is focused on human rights. We publicly support the PRI Advance Investor Statement. For more information on our application to this initiative, please see Principle 10 of our FY22 Stewardship and Responsible Investment Report.

In early in FY23 we became a signatory to CCLA's global investor statement on workplace mental health, in support of our research on Health/Wellbeing.

During the previous reporting period we 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.

FY23 was a year of consolidation, with our applications from previous reporting periods to multiple initiatives being accepted. Our collaborative engagement focus for the year therefore was on the aforementioned initiatives, and not on expanding our reach further. The Principles for Responsible Investment (PRI) collaborative engagement platform will nonetheless remain one of the main resources we use, as a signatory, to find information on collaborative initiatives and where we have been able to speak to leaders of initiatives including other investors.

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

Just Transition

- Commitment to take action to support a 'Just Transition' by integrating the workforce and social dimension into our climate practices

During the reporting period we endorsed the Statement of Investor Commitment to Support a Just Transition on Climate Change, which states that we believe that strategies to tackle climate change need to incorporate the full environmental, social and governance dimensions of responsible investment. We understand that as investors we can play an important role in helping the transition produce inclusive and sustainable development. As described in Principle 7, our thematic research is built around the theme of a 'Just Transition', and we continue to build on our capabilities in this area.

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

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 endorsed the Advance initiative as it targets improvement in corporate behaviour towards human rights policy commitments and due diligence processes.

Our ESG Frameworks for equities and fixed income now 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 previous reporting period we wrote a research paper on human rights in the mining industry.

Outside of the reporting period, in FY24, we have started work on our internal human rights approach and policy.

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.

Global investor statement on workplace mental health

- Commitment to engage with 1-2 companies from the CCLA Corporate Mental Health Benchmarks on their employee mental health approach

We believe that positive mental health practices are crucial to employee wellbeing, and can be beneficial to businesses, investors, and society. The Corporate Mental Health Benchmarks provide an analysis into how more than 200 of the world's largest listed companies approach and manage workplace mental health, based on their published information. They have a UK benchmark and a Global benchmark, each comprising approximately 100 companies. Each year they evaluate the public information provided by these companies, and place them on a tiered system to encourage improvement.

As collaborators in this initiative, we are encouraged to engage with companies in lower tiers that we are invested in, to encourage them to strengthen their approaches whilst sustaining a structural focus on workplace mental health. We have embarked on our first collaborative engagement with this initiative outside of the reporting period, in FY24, engaging with one of our holdings on their mental health practices and publications.

Letter to UK Government on human rights

- Signed a PRI-organised letter with 39 other investors (£4.5tn 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.

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).

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 Investment Association to engage with the consultation.

We are encouraging the funds we meet and invest in to ensure their calculations are as efficient as possible and that they are engaging with the FCA on the Future Disclosure Framework. We are also continuing to educate clients on the matter.

Outcome
The campaign is ongoing but progress has been made. We are in the process of getting government and regulator support to remove all London Stock Exchange-listed Investment Companies and REITs from the scope of regulations designed for open-ended products in retained EU law (AIFMD, MiFID and PRIIPs) so that investors don't have to double count their costs and market-makers are no longer disproportionately penalised acting as liquidity providers to the sector. In the beginning of FY24, we submitted our consultation response to His Majesty's Treasury regarding investment trust cost disclosures.

Principle 11

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

Escalation of our engagement efforts

As diligent stewards of clients' capital we need to be clear about our intentions and the scope of our engagement practices. We want to set expectations and help our investee companies develop strategies to manage important and material issues. If progress is not satisfactory through engagement with the company, whether one-off or ongoing in nature, and where an issue presents a material risk to our clients' investment we can escalate our engagements. 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, 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. During the reporting period we created an engagement escalation process. This document helps guide our actions when we engage with issuers. Our methods of engagement include meeting with management and/or investor relations teams; formal and informal correspondence and calls with companies; meeting with the Chair or Board; proxy voting at AGMs and EGMs; writing open letters to the company; co-signing letters with other investors or taking part in collaborative initiatives for engagement.

Depending on the approach that we take there are different processes, such as working with our legal or compliance teams, or requiring approval from our Chief Investment Officer, that need to be taken into account. This document outlines which steps are required for each of these approaches.

We have outlined below how our engagement approach can lead to various escalation methods:

Informal conversation(s)
We can bring any potential issue(s) identified to our routine conversations with the issuer. Speaking with an issuer's Investor Relations representative/team is often the first point of contact when an issue needs clarifying or further details need to be obtained. If they, or another member of staff from the issuer, are able to provide us with satisfactory solutions or answers to our questions, there may not be a need for further engagement on the issue.

Meeting with management or the board
Meet with management or the board to discuss the issue and propose solutions to them that we consider best practice. Although we meet with company management, boards, or directly with fund managers in the normal course of due diligence, for this to classify as engagement the reason for our communication needs to go past information gathering, to requesting a change.

Formal correspondence
This level of engagement is typically used as a way of powerfully reflecting and protecting our clients' interests. We will typically classify engagement correspondence as formal when we have had internal meetings with multiple CBAM colleagues about the issues concerning us, and sign-off from our Chief Investment Officer. The issues addressed through this method of engagement will often be either imminent, high risk or high impact to their interests. We will send the company an email or letter to discuss the specific issue(s) we are concerned about and the change(s) we wish them to make.

Indicating our Intention to vote
In all of the above engagement approaches we may choose to indicate to the issuer our intention to vote at their next general meeting, and how this is affected by their actions (or lack thereof).

AGM actions
There are multiple ways we can use Annual General Meetings to bring to attention the issue(s) we are concerned about:

- **Ask questions** – We can use the AGM as a forum to ask questions of concern.
- **Shareholder resolutions** – We may table or support shareholder resolutions where we consider these to be in the best interest of shareholders.
- **Voting** – We can hold individual directors to account for shareholder outcomes alongside voting against resolutions we do not think are in the best interests of shareholders by using our vote. 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.

Writing an open letter
We can write an open letter that is viewable by the public 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.

Litigation
Legal action may be considered in extreme cases. This could be legal action from CBAM, or CBAM deciding to support another party such as a third-party, an investor or a civil society organisation in their legal action.

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 and therefore the possibility of influencing the issuer's practices. We may reduce our holding or divest entirely 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

American Retail Automotive Services Company

Issue
Following the announcement of the separation of its two business segments during a previous reporting period (whereby the company was selling its products segment, and focusing on its retail services), we met with the CEO, CFO and IR representatives of the company in November 2022. We wanted to understand how the company would structure remuneration in the future as we had concerns that there would be misalignment following the split, as some incentive measures would favour franchise growth over company-owned store growth. We were also concerned that management could end up better off on their old targets as they were made pro-forma for the asset sale.

Process
Management informed us that they would be making changes to remuneration in the December 2022 proxy which sounded directionally appropriate, with a second more comprehensive stage to follow in the next year. We reviewed the Proxy, which announced that the compensation committee had eliminated the strategic initiatives component of annual incentive compensation for their operating segment leaders in connection with the Company's announcement to pursue a separation of its business segments. We waited for further announcements to be made on their remuneration.

At the beginning of FY24 the company announced a new CEO, without having announced any further changes to their remuneration structure.

We sent the company a formal letter expressing that following our conversation in November 2022, whilst we acknowledged the changes made, we had expected there to be further changes to compensation after the business separation, and that we believed the company should amend its Named Executive Officer compensation to fully reflect the business split and re-focus of the company around retailing. We wrote that we expect any structure to reflect best-in-class practices for growth retail companies, with a balance of KPIs across revenues, profits, cash flow and returns, as we believed this would align with the interests of long-term shareholders for the delivery of value-creation on a sustainable basis. We stated that if their remuneration was not reviewed prior to the 2024 AGM we would consider using our vote to express our views on the matter.

We then had a meeting with the company's Investor Relations Team, who informed us that further changes were to be announced in December 2023, in their 2024 Proxy. There, it was announced that the Compensation Committee had approved a new peer group that aligned with the company's size and complexity, and changed the metrics to align the financial and strategic goals with those of a pure retail services business.

Outcome
We were happy with the changes and therefore did not need to escalate the engagement any further, and voted in line with management for the Named Executive Officer's compensation at the 2024 AGM. We remain invested in the company.

CBAM example

US Incorporated Security Software Provider

Issue
In our FY22 Stewardship and Responsible Investment Report we wrote about our engagement escalation with a US incorporated security software provider, on concerns around compensation and independence, engagement which ran into FY23. Since then, we identified other concerns such as the auditor payments not being disclosed and the bundling of Board member reappointments.

Process
Since June 2022 we have been in active discussions with the Board about its composition and the membership of its audit and remuneration committees. Through both virtual and face to face interactions we have been able to clearly articulate our concerns and constructively discuss potential solutions with the Board. We have also interacted directly with the CEP over email, virtually and in person. The issues identified and discussed are as follows:

1. The CEO was a member of the Audit Committee. Engagement highlighted that this was due to demands being placed on the small non-executive director (NED) team, with the CEO being needed to share the burden. The CEO was very receptive of our views and acknowledged the need for, and benefits of, a greater NED support for the business.
2. The NEDs all have options and historically the Remuneration Committee reviewed these when they expired. Through engagement it became clear that there is a very different culture in US firms and that options are an expected part of a compensation package, it was however acknowledged by the company that the members of the remuneration committee should not have oversight of their own compensation.
3. The annual payment to the auditor was not disclosed in the annual report. The CEO was happy to disclose the costs on request and we found these were reasonable. However, the lack of disclosure in the annual report combined with the tenure of the chair of the Audit Committee and the composition of said committee saw us push for change.
4. A decision was taken to bundle the reappointment of all Board members into a single vote for their 2023 AGM. We remain in active discussions with the Board and remain supportive of their positions given the constructive engagement and discussions which have been had. That said, we were surprised by this change of voting style which makes it difficult to target individual Board members if change were required, which we have done in previous years.

Outcome
We have been broadly encouraged by the constructive discussions that we have had with the Board and the changes that they have made.

1. As highlighted in our report last year, the CEO stepped down from the Audit committee in FY23 following the appointment of an additional NED who is a financial expert.
2. On their remuneration structure, also highlighted in our last report, as a compromise between US norms and ISS and investor expectations, the option awards previously reviewed by the NEDs and issued periodically will now only be granted on appointment (similar to a joining fee, in line with US culture). Going forward from FY23, board members will not have anything to do with the decisions taken on their own compensation and will not be eligible for further options issuance. 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.
3. In spite of constructive discussions with the Board which yielded a change in composition of the Audit Committee and a change in the Chair of the Audit Committee, disclosure of auditor compensation has not yet improved. As such, having previously been supportive of the auditor's retention, preferring to actively vote against the reappointment of the previous Audit Chair, we chose to abstain from the auditor's reappointment in their 2023 AGM to reiterate our dissatisfaction and to open further engagement with the new Audit Chair.
4. Whilst we were frustrated with the bundling of all reappointments in to a single vote, we did not view a vote against the reappointment of the entire board as being in the best interests of shareholders. We remain encouraged by the level of engagement to date and the changes which have already been affected. We also acknowledge that the Board remains in a period of transition given the tenure length of two of its members. The Chair is anticipated to exit over the next two years once the more recent appointments have bedded in. The last Board member is a subject matter expert and in our view adds considerable credence to the Board's monitoring of the Group's investment in product development and given the highly specialist nature of the Group's operations will be much harder to replace in the short-term.

We remain engaged with the Board on their options programme, disclosure of auditor compensation and Board composition.

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 to hold them to account on their engagement strategies, but not with the underlying investments of the funds.

CBAM example

Fund that invests in multiple hedge fund strategies

Issue
A change in European regulation meant that the fund changed the fee charged to end clients. Their fees went up and we felt they were too high for the target level of return.

Process
We spoke with our sales contact at the fund to let them know our thoughts, and to suggest they lower their fees. We informed them that if they didn't do anything we would likely sell the fund.

Outcome
The fund increased its fees, and we sold out in January 2023.

Engagement escalation: Diversifiers

CBAM example

Publicly traded investment trust focused on growth companies

Issue
A Board member of an investment trust we are invested in went to the press claiming issues with the governance of the trust. We found this to be a concerning and unusual situation, as it is not common for board members to go to the press with concerns about the board they sit on.

Process
We wrote a formal letter to the Chair explaining our concerns and asking for further information on the issues raised by the director who had gone to the press. The Chair responded to us in a timely manner and agreed to schedule an in person meeting with us. In the meantime, we attended their AGM in person to cast our votes. Following the AGM, the Chair of the trust met with us in person, where we were able to highlight our concerns, and receive answers for our queries.

Outcome
We felt the Chair answered all our questions, and allied our concerns, and we didn't need to escalate further. We continue to monitor the trust.

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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 the 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 are included on the Voting Panel emails, which serve as notification once a vote has been approved and instructed in the ISS platform by the Voting Panel.

The Asset Servicing Team also receives daily emails from ISS of votes that have been input and are awaiting authorisation. The Asset Servicing Team confirms proper approval has taken place for vote submission, allocates the shares appropriately (e.g. excluding any execution-only and advised holdings), and then authorises 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 voting 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 views, diverging slightly from ISS' 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 we introduced 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 (01/08/2022 – 31/07/2023)
During the financial year 1 August 2022 to 31 July 2023, we voted at 311 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 4950 proposals, of which 172 were shareholder proposals. We voted 4602 resolutions (93% total votes) "FOR", and 270 resolutions "AGAINST" (5.5% total votes). Less than one percent of total resolutions were voted "ABSTAIN", "WITHOLD", or "DO NOT VOTE".

For our unitised funds, we voted at 80% 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 20%. 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.

This reporting period we saw an increase in our missed votes. This was due to the tool which identifies holdings to be voted on misclassifying certain holdings.

We are working to ensure holdings in the system are classified correctly. In the future we also plan to condense our voting parameters to optimise our capacity and strengthen our stewardship efforts with core companies.

We voted 235 resolutions (4.7% total votes) against (contrary to) ISS's benchmark policy recommendation, and we voted 240 (4.8% 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 FY22. As we continue to build CBAM's internal view, with the regular review 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	311	
Number of resolutions voted	4,950	100%
Number of votes cast "for"	4,602	93%
Number of votes cast "against"	270	5.5%
Number of votes cast "abstain"	18	0.4%
Number of votes cast "withhold"	11	0.2%
Number of votes cast "do not vote"	7	0.1%
Number of votes cast "Say on Pay proposals"[7]	42	0.8%
Number of votes cast against ISS policy	235	4.7%
Number of votes cast against Management	240	4.8%
Number of votes cast against CBAM policy	141	2.8%
Number of votes cast on Shareholder Proposals	172	3.5%

Source: CBAM.

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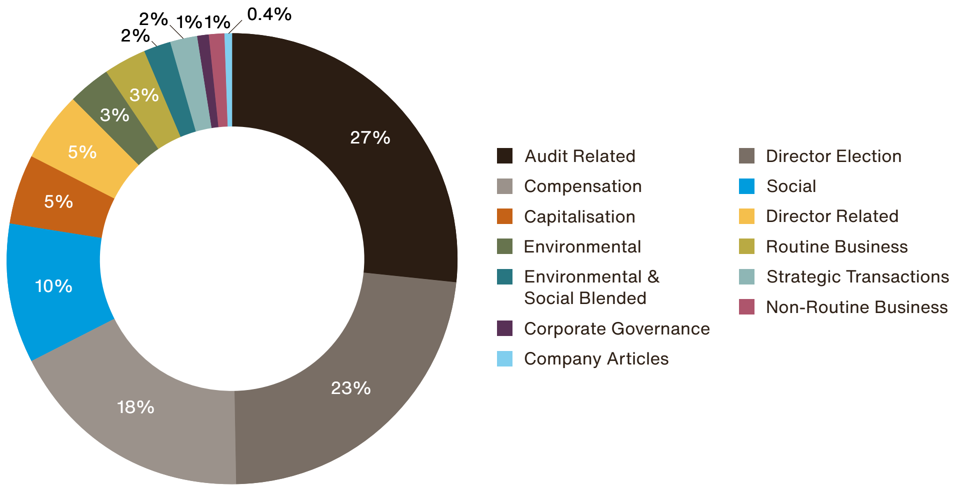
Categories of votes against management

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", "environmental" and "environmental & social blended".[8]

The largest category was "audit related", constituting 27% of total votes against management. This increased from 16% in FY22, mainly due to the introduction of our custom policy in FY23, which includes guidelines on auditor tenure.

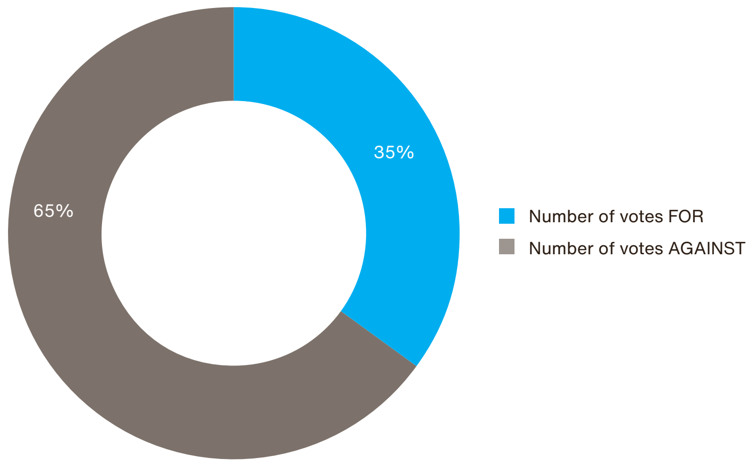
The second largest category of votes against management was "director election". Reasons we may vote against the election of a director is if the director is not fulfilling his/her duties, is over-boarded, or has had their independence called into question.



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

Shareholder proposal votes

We have voted on more shareholder proposals over the reporting period than in previous years, as the number of shareholder proposals being put forward continued to increase over the reporting period.



Source: CBAM.

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CBAM voting outcome examples

Vote not in line with ISS examples

American Auto Parts Retailer
Advisory Vote to Ratify Named Executive Officers' Compensation

Issue
The CEO's equity pay mix was less than 40% performance-conditioned and there were no disclosed ownership guidelines.

Details
Both of these issues go against our custom policy, where we think that firstly, it is best practice corporate governance for CEO's variable short- and long-term compensation to be majority performance-conditioned (our policy takes into account regional differences on this issue); and secondly, that management and boards have a material and proportionate investment in the company, and for these ownership guidelines to be disclosed.

Voting outcome
We voted against ISS' benchmark policy (and against management) on the resolution to ratify the names executive officers' compensation.

Multiple Issuers
Ratification of Auditors

Issue
Auditors with a tenure of more than 10 years.

Details
Our custom voting policy, which was introduced during the reporting period, includes our stance on auditor tenure. In order to protect the integrity of reports and accounts, we believe it is best practice corporate governance for auditors to not have tenures exceeding 10 years. This is a stricter approach to ISS' Benchmark proxy voting guidelines.

Outcome
Our policy is to vote against proposals to ratify auditors where the audit firm has a tenure of 10 years or more, and to abstain where the audit firm has a tenure of 10 years or more, however a tender process is to take place over the next year. We voted against over 40 proposals to ratify auditors in FY23, were no tender process has been announced by the issuers.

Vote not in line with policy examples

American multinational drinks corporation
Report on Congruency of Political Spending with Company Values and Priorities

Issue
Shareholder proposal requesting that the company publish a report analysing the congruency of its political and electioneering expenditures in the US during the preceding year against its publicly stated company values and policies, listing and explaining any instances of incongruent expenditures, and stating whether the company plans to make changes in contributions or communications to candidates as a result of the identified incongruences.

Details
We agreed with the Board that existing policies and practices governing the company's political spending adequately address the issues raised; furthermore, the company had a newly created Public Policy and Political Engagement webpage that includes updated policies, disclosures, and political giving criteria.

Voting outcome
We voted against this shareholder proposal, our custom policy and ISS, and in line with management. Over 70% of votes were cast against, therefore this shareholder proposal did not pass.

Multiple Issuers
Require Independent Board Chair

Issue
We saw several shareholder proposals across our holdings requiring issuers to have an independent Board Chair.

Details
Our custom policy did not originally include a guideline to require an independent Board Chair, and our voting research was driven by ISS' Benchmark proxy voting guidelines. We found that when reviewing our voting data, we had mostly voted in favour for these shareholder proposals, despite various recommendations from ISS' Benchmark proxy voting guidelines, as we believe having an independent Board Chair is best practice corporate governance.

Outcome
We updated our custom policy in early FY24 to include this issue, therefore going forward our standard policy will be to support shareholder proposals that require an independent Board Chair, unless our Voting Panel decides otherwise on a case-by-case basis.

Vote against management example

American Multinational Retail Corporation
Advisory Vote to Ratify Named Executive Officers' Compensation

Issue
Concerns regarding equity award structure.

Details
The company's long-term incentive program used solely one-year measurement periods, rather than multi-year performance periods. This concern was heightened as the company used an overlapping metric between the short- and long-term programs, which resulted in maximum achievement for the same goal under both programs. While the company provided a rationale for its pay program structure, we consider it best practice for a majority of long-term awards to be tied to long-term, multi-year performance goals.

Voting outcome
We voted against management and the ratification of the named executive officers' compensation. Over 20% of investors opposed management on this proposal, however, the founding family own a substantial shareholding in the company, so when looking at just independent investors, it was close to 47% opposing management.

Japanese Manufacturer of Optics and Reprography Products
Amend Articles to Allow Virtual Only Shareholder Meetings

Issue
The passage of this proposal authorised the company to hold virtual only meetings permanently, without further need to consult shareholders.

Details
The proposed language failed to specify situations under which virtual meetings would be held, even after the resolution of the Covid-19 health crisis.

Voting Outcome
We voted against management, alongside over 22% of other shareholders. The resolution was therefore approved.

Vote abstained examples

UK-based Infrastructure Investment Company
Director Election

Issue
Potential overboarding.

Details
We had concerns over potential overboarding as the nominee held the role of Non-Executive Chair at the company, whilst also serving in various roles at other publicly listed companies, which could compromise their ability to commit sufficient time to their role at the company.

Voting outcome
We abstained from this vote as apart from the potential overboarding, we did not identify any other concerns to warrant voting against their election.

Multiple Issuers
Ratification of Auditors

Issue
Auditors with a tenure of more than 10 years, in tender process.

Details
Our custom voting policy, which was introduced during the reporting period, includes our stance on auditor tenure. In order to protect the integrity of reports and accounts, we believe it is best practice corporate governance for auditors to not have tenures exceeding 10 years. We found multiple of our holdings had auditors with a tenure of more than 10 years, where the issuers had commenced the tender process of the auditor.

Outcome
Our policy is to vote against proposals to ratify auditors where the audit firm has a tenure of 10 years or more, and to abstain where the audit firm has a tenure of 10 years or more, however a tender process is to take place over the next year, we therefore abstained on these proposals.

Vote for a shareholder resolution example

American Multinational Fast Food Chain
Report on Animal Welfare

Issue
Additional disclosure on the key welfare indicators used by the company to measure animal welfare would allow shareholders to better be able to assess the effectiveness of the company's animal welfare efforts and management of related risks.

Details
The shareholder proposal asked for the company to disclose what exactly the key welfare indicators being used for the company's animal welfare program are. The disclosure should include specific details about the indicators and how the company is using each one to measure and improve the welfare of animals in its poultry supply.

Voting outcome
We voted for this shareholder resolution as we believed that additional disclosure on this issue would benefit shareholders by enabling them to analyse the company's management of the risk with more ease.

American Multinational Technology Conglomerate
Report on Risks of Doing Business in Countries with Significant Human Rights Concerns

Issue
Concerns over the company's announced plans to expand data center operations in locations reported by the US State Department's Country Reports on Human Rights Practices to present significant human rights violations.

Details
The proposal asked for the report to examine the scope, implementation, and robustness of the company's human rights due diligence processes on siting of cloud computing operations. To assess, with an eye toward the rights enshrined in the Universal Declaration of Human Rights, the standards established in the United Nations Guiding Principles on Business and Human Rights (UNGPs) and in the Global Network Initiative Principles (GNI Principles), the priorities and potential impacts on people, any mitigating actions, any tracking of outcomes, and whether the company identifies and engages rights-holders to ensure its human rights efforts are well informed.

Voting outcome
We voted for this shareholder resolution as we believe shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries.

Vote against a shareholder resolution example

American Multinational Consumer Products Company
Adopt Share Retention Policy for Senior Executives

Issue
The shareholder proposal urged that the company's executive pay committee to adopt a policy requiring senior executives to retain a significant percentage of stock acquired through equity pay programs until reaching normal retirement age and to report to shareholders regarding the policy in the company's next annual meeting proxy.

Details
We believe the proposed policy is not standard industry practice and was excessively onerous. At the company, senior executives are already required to hold significant amounts of company stock. The CEO is required to own company stock equal in value to eight times their annual salary, and the other Named Officers must hold company stock equal in value to four times their annual salaries. Other senior managers are subject to ownership requirements of one or two times their annual salaries.

Voting outcome
We voted against the shareholder proposal as we believe the company already has robust stock ownership guidelines and compliance of said guidance.

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, we only invest directly in listed bonds so do not make 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 in the example, whilst for vehicles not yet listed we can exercise our rights and responsibilities through requests to adapt the fund documentation.

CBAM example

Digital Infrastructure Assets Investment Trust

Issue
We had engaged with the Chair of the Trust on our concerns around management's ability to close the gap between the Trust's share price and NAV.

Process
We had requested over email that they make any strategic plans to close the discount to NAV public prior to their AGM, and that excess cash be used to fund a buyback to increase the share price prior to any new investments were considered.

Voting outcome
We felt our requests were ignored, therefore we voted against the re-election of directors at the AGM.

Endnotes

1. www.visionofhumanity.org/wp-content/uploads/2023/06/GPI-2023-Web.pdf
2. www.documents1.worldbank.org/curated/en/099721412142313834/pdf/IDU043992ccb0c283048bd0941e073dbfc46633b.pdf
3. www.msci.com/research-and-insights/visualizing-investment-data/acwi-imi-complete-geographic-breakdown
4. www.msci.com/research-and-insights/visualizing-investment-data/acwi-imi-complete-geographic-breakdown
5. www.ipcc.ch/report/sixth-assessment-report-cycle/
6. Benchmark used for the Sustainable Select Fixed Income Fund is BAML Global Corporate Investment Grade Index; benchmark used for the Select Global Equity Fund is MSCI All Countries World Index.
7. This category is for Say on Pay proposals.
8. ISS added the proposal category "environmental & social blended" during the reporting period.

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CBAM12370. 26.04.2024.