



Response to ESG Questionnaire Chelverton

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Chelverton are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

Chelverton AM is a specialist equity investor, primarily investing in small and medium-sized companies. Our purpose is to ensure the delivery of our client's investment objectives over the long term through investing responsibly.

Chelverton believe ESG management focus is an investment quality indicator and that following a structured approach to ESG Integration and Stewardship is important for the protection and enhancement of investment value. We understand small and medium-sized companies are neither immune from the impact of ESG risks, nor without a significant role to play in delivering required change.

All Chelverton responsible investing policies, plans, and reports are available to view in the Responsible Investing area of our website. However, our general approach is summarised in the following infographic, that draws on definitions for responsible investing terms by leading proponents such as the PRI and Investment Association:

Style	Traditional Investment	Responsible Investment ESG Integration and Stewardship		Sustainability Characteristics	Sustainable Thematic	Impact
Definition	Limited or no consideration of ESG issues	ESG issues considered within analysis and decision making to protect and enhance investment returns	Active ownership of investments, including voting and engagement, to protect and enhance investment returns	Investments selected on defined sustainability criteria	Investments selected on defined sustainability themes	Investments targeting defined environmental or social returns
Examples	No systematic inclusion of ESG issues within investment processes	Systematic inclusion of material ESG risks and opportunities within investment processes	Responsible allocation, management, and oversight of investments	Best in class selection criteria Positive tilt selection criteria Exclusion criteria	Thematic inclusion criteria such as those relating to climate, water, biodiversity, or social themes	Impact measured against one or more of the UN Sustainable Development Goals
Approach	✗	✓	✓	✗	✗	✗

We have a company ESG Integration policy that guides how ESG issues are integrated within each investment process, and a Shareholder Engagement and Voting policy that guides stewardship throughout ownership. ESG integration and stewardship lie at the heart of our investment approach.

We consider our skill when engaging with investee companies to be a core business competency, central to how we build investment conviction over time given our investment universe is largely under-researched and published information can be sparse.

We consider effective engagement to be value-adding for our clients.

We engage with all committed holdings annually via letter regarding ESG risk and opportunity, asking for a questionnaire where necessary to ensure we have the information we need to inform our interactions.

Our approach and objectives are laid out in our annual Engagement Plan(s), which include setting out our ESG management and reporting expectations and offering support to our smallest companies, as appropriate, regarding their adoption of recognised ESG management standards and reporting frameworks.

Our 2023 Engagement Plan continued to highlight several systemic issues regarded by us as important for all companies to address, alongside the effective identification of material ESG risks using a recognised materiality map and the adoption of a credible sustainability strategy integrated within the company's business plan.

The issues we continued to highlight in 2023 were climate change and diversity, equity and inclusion, and we will continue to ask all committed holdings to consider the following in 2024:

1. The adoption of a science-based Net Zero target aligned with national commitments.
2. The adoption of a diversity, equity, and inclusion strategy for leadership and within the workforce.
3. The inclusion of meaningful ESG targets within executive remuneration packages

In 2023 we also requested additional information relating to the development of biodiversity policies, urging committed holdings to consider their natural resource usage, management of negative impacts on the natural world, and contribution to nature restoration as actively as possible.

We will continue to raise this issue in 2024 and intend to add portfolio level water and waste intensities to the list of other ESG risks we monitor.

We use the data gathered through our annual Engagement Plan to monitor company progress, particularly in relation to the adoption of science-based Net Zero targets and other areas of environmental and social responsibility such as DEI policies and prevention of human rights abuses within supply chains.

Chelverton became a signatory to the PRI at the start of 2021 and in 2023 submitted our first report, receiving four out of five stars in the Policy, Governance and Strategy module, five stars in the Listed Equity Active Fundamental module, and four stars in the Confidence building measures module. We will report again in 2024.

In 2023, following submission of our second UK Stewardship Code 2020 to the Financial Reporting Council, we were again accepted as signatory to the Code and are committed to reporting in 2024.

Chelverton are also investor signatories to the CDP (Carbon Disclosure Project) and have actively participated in relevant collaborative initiatives, including the development of environmental questionnaires for smaller companies. Although it is against Chelverton's approach to engage with other shareholders when addressing issues with the individual company holdings, we are committed to targeted collaborative engagement of this type, supporting the needs of our investing niche.

In 2022, 2023 and 2024 we similarly provided feedback via the Independent Investment Managers Initiative (IIMI) and PRI to the Financial Conduct Authority (FCA), regarding the proposed UK Sustainability Disclosures Regime (SDR) and associated anti-greenwashing rule, to ensure representation of smaller companies in regime and rule design.

Chelverton participated for a second year in the CDP's Science-Based Targets campaign, aimed at accelerating the adoption of science-based climate targets in the corporate sector. Despite only 5 Chelverton portfolio holdings being targeted we supported this campaign as we are committed to playing an active role in promoting a net zero transition.

2. Please provide an overview of how ESG is integrated into your business.

Our business is employee-owned, and we are a culture-led business. Our culture is purposeful, inclusive, and collaborative, fostering a collegiate environment that strongly aligns our business and investing objectives. Our Chief Executive Officer and Chief Investment Officer sit on the Board of Chelverton whilst also attending monthly ESG meetings. The Board reviews all pertinent risks on a quarterly basis, including any ESG risks highlighted during these dedicated ESG meetings and quarterly reporting.

Our purpose is to ensure the delivery of our client's investment objectives through leveraging our niche investing strengths. This purpose has driven progressive investment in ESG resources since 2018 to support the work of our Investment Teams.

The business has built an ESG Team, now consisting of a Head of Responsible Investing and a dedicated Corporate Governance Manager, who work alongside the investment teams providing specialist analysis and support across the 3 pillars of E, S and G.

In 2022 the business created a leadership role within the ESG Team (Head of Responsible Investing) to ensure appropriate business focus and resourcing. This led to the creation a Responsible Business Trainee role within the ESG Team, with learning opportunities spanning responsible business and investing. Chelverton are now delighted to welcome this trainee into the Investment Team in 2024, further embedding ESG integration within our investment processes.

The ESG Team has built a shared company engagement tracker that brings together qualitative data and voting records to inform monthly ESG meetings for investment managers alongside interim ESG discussions between team members.

Chelverton are currently developing a Customer Relationship Management (CRM) platform, which will enable more effective information sharing on holdings, including company engagements, strengthening our Stewardship capabilities.

In 2024 the business has invested in a new ESG data service, replacing a previous service following trials of a number of alternative providers. Our aim is to enhance ESG risk insights through increased coverage and access to a broader range of risk metrics, supporting improved ESG risk reporting and the monitoring of a broader range of trend data.

In 2023 Chelverton's culture of supporting learning and development saw members of the ESG and Investment Teams develop their knowledge through formal and informal training and events, allowing CAM to remain abreast of evolving risks, opportunities, reporting and regulation. This will continue in 2024.

Chelverton's culture is supported by a variety of policies and procedures, including the Staff Handbook and Code of Conduct, which outline obligations and expectations regarding how we work together and with our partners to serve client and other stakeholder interests. These policies include equal opportunities, conflicts of interest, anti-bribery and corruption, data protection, whistleblowing, acceptable behaviour, and disciplinary and grievance.

Policies are reviewed and updated on a regular basis. Consistency is ensured by appropriate training. Company culture meetings were introduced in 2021 and are sponsored by our directors to reinforce shared objectives and company values. Our inaugural culture meeting included a guest presentation by the Carbon Disclosure Project (CDP) on the topic of environmental management and reporting. More recent culture meetings have focussed on the importance of Diversity, Equity and Inclusion and the adoption of a Responsible Business Policy. Our first culture meeting in 2023 focussed on values-based leadership. Subsequent meetings have focussed on the Consumer Duty, our business level carbon reduction plan, diversity, equity and inclusion within Chelverton, and risks to good company culture.

Finally, as a business the Board established an ESG working group in 2022 and this group continues to drive ESG initiatives within the business. As an indication of commitment, two Chelverton Board members including our CEO, are a part of the group, alongside the Head of Responsible Investing, Compliance Officer and Business Manager. The aim of the group is to broaden and embed our company focus to include working with our suppliers and partners on important issues such as Net Zero planning.

As proposed by the ESG working group, in 2023 Chelverton developed and adopted a Responsible Business Policy, providing an overview of our approach to responsible business and laying out the commitments that guide our approach, including adopting a carbon emissions reduction strategy.

The Responsible Business Policy highlights an approach focussed on three commitments:

1. Our commitment to responsible investing
2. Our commitment to our people
3. Our commitment to managing our environmental and social impact

The policy commits Chelverton to an annual Responsible Business Report, detailing the steps taken during the year to manage our business responsibly, reporting metrics, targets, and progress where appropriate.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

Chelverton does not currently manage any specialist sustainability-focussed or impact strategies excluding or including companies solely on sustainability criteria or in pursuit of defined sustainability objectives. However, whilst we do not apply exclusion or inclusion policies, the investment focus of all strategies on quality and sustainable cash flow will tend to exclude companies assessed as managing ESG risks badly and/or without a credible strategy. For example, a company operating in a high ESG risk sector, but identified as managing risk and opportunities poorly, will tend to be excluded from consideration by our selection criteria.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

Many improvements have already been alluded to in the sections above. However, we highlight:

The further development of the annual engagement plan to increase focus on biodiversity loss and natural restoration. As mentioned, in 2024 we intend to include additional portfolio level monitoring of water and waste intensities alongside carbon intensity, governance risk, sustainability risk and overall ESG risk. We have begun the process of transferring our company engagements into a CRM platform, to allow for improved information sharing.

During 2024 Chelverton will welcome our Responsible Business Trainee into an Investment Team role as an Investment Analyst with the benefit of ESG integration and stewardship training, as a sign of our continued commitment to ESG integration and stewardship over the long-term.

During 2023 our first Investment Director-level fund manager completed PRI Academy Responsible Investment training in the wake of all fund managers up to fund manager-level having completed this training in 2022.

Chelverton welcomed two new fund managers to the team in 2023 and they have also committed to completing this training in 2024, alongside our CEO.

In 2024 we have implemented a decision to change our ESG data service provider, with the aim of enhancing service coverage and improving ESG risk reporting capabilities.

During 2023 we were accepted for the second time as signatory to the UK Stewardship Code 2020 following a review by the Financial Reporting Council of our 2022 Report, and we are committed to submitting our third report during 2024.

Similarly, as mentioned, in 2023 we submitted an inaugural report to the PRI achieving high scores for our responsible investing activities, including 5 stars for active ownership of the listed equities that we manage. Finally 2023 saw the adoption of our first Responsible Business Policy including a commitment to report against this policy on an annual basis.

Important Notice

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