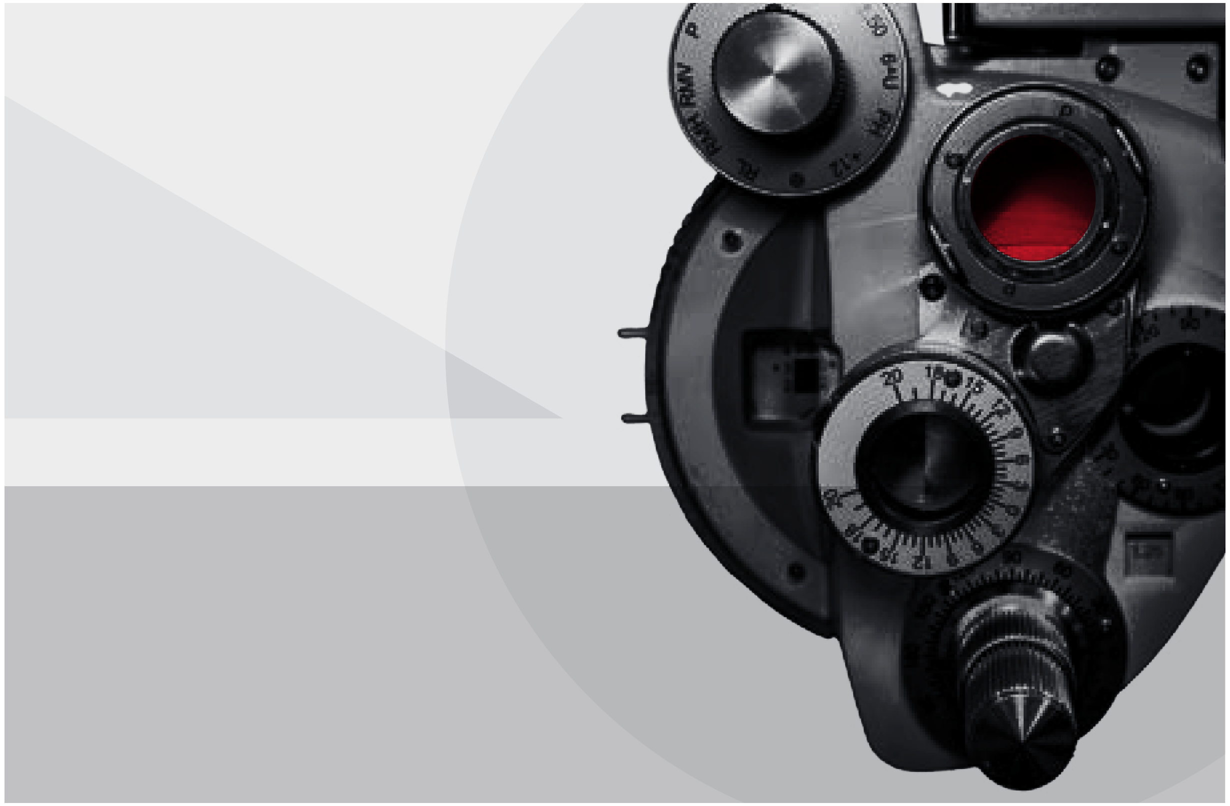
REDWHEEL VALUE & INCOME TEAM

Stewardship Report 2023

Contents

Foreword

Welcome to our annual Stewardship Report for the Redwheel Value & Income Team. In this report we strive to deliver a clear picture of our stewardship activities for the past year, from various corporate engagements and voting record, to an insight into our collaborations with other investors. We also seek to illustrate the risks, exposures and challenges faced by the stocks we hold on your behalf and the material sustainability risks at a portfolio level.



At the beginning of 2023, two of our UK equity SICAV funds converted to Article 8 status – the Redwheel UK Climate Engagement Fund and the Redwheel Value Fund. These offerings build on the ESG framework we have developed and our broader approach to stewardship. One of those funds, the Redwheel UK Climate Engagement Fund, is the culmination of many years of work, it is a natural development given the intensity of engagements carried out by the Investment Team. It is also a recognition that the fiduciary duty within a traditional mandate limits the action that can be taken on non-financial issues, such as climate change. This Fund offers clients a UK vehicle with a climate engagement aim, thus broadening the mandate aims beyond risk and return. The work carried out for this Fund benefits all our mandates, increasing our knowledge and understanding of climate risks within our portfolio holdings.

Our sustainability efforts were bolstered during the year with the increasing contribution from Greenwheel, Redwheel's dedicated sustainability research and product development practice. Early in the year Redwheel hired Jessica Wan to be the Social Lead within Greenwheel, bringing with her immense human rights knowledge from a career that has included working for the International Labour Organisation, and then in a consultancy role helping corporates identify human rights risks within their operations, supply chains and customer base. Jessica has hugely improved our approach and introduced a new human rights framework, and this was of particular help in our engagement with Barrick Gold on their human rights issues. Paul Drummond, also joined Redwheel in early 2023, as Climate and Environment Lead. Paul was previously a Senior Research Fellow on Climate, Energy and Environmental Policy at University College London. Paul's experience and knowledge has added greatly to our ability to engage with companies in a deeper and more sophisticated manner.

We also made tentative steps on attempts to influence policy ourselves. We recognise that without a clear and stable policy framework, many of our companies will struggle to transition their business and thus transition risks remain elevated. Examples of this early work undertaken in a collaborative manner include:

- A Letter to the Secretary of State, Department for Energy Security and Net Zero (NZ) in June on Ofgem's Net Zero mandate and adequately resourcing the regulation to support NZ.
- A Letter to the Prime Minister on ICE/EV and home heating boiler policy changes in September
- A Letter to Ofgem, the UK's energy regulator, on "acceleration of renewable energy capacity connections" and to "strongly encourage Ofgem to give every consideration to actions that will facilitate this objective and streamline the efficient and affordable decarbonisation of key sector companies" – a collaboration between Redwheel and our co-leads on the CA100+ collaboration in October.

Governance

One major headache during 2023 was turnover of management within our portfolio companies, with some high-profile CEO arrivals and departures. In January alone we saw three CEOs begin tenure – Wael Sawan at Shell, Margherita Della Valle at Vodafone and Mark Irwin at Serco. In the middle of the year Alison Rose resigned from NatWest Group and was replaced by Paul Thwaite. Meanwhile, Jon Lewis resigned from Capita and BT Group announced that Philip Jansen would step down in early 2024. In September, Bernard Looney resigned from bp, replaced by the CFO, Murray Auchincloss and Andy Bird announced his retirement from Pearson with Omar Abbosh as a replacement.

Some of this turnover was natural, some of it not, but such a high level of turnover is deeply frustrating. We have lost some very capable executives. Management change can often be a good thing, when a company needs to change strategy or take decisions that incumbents are too behaviourally compromised to take. However, when a company has set the course, what is needed most is focus, implementation and execution. A company does not need the distraction of change at the top, the drift between appointments with lame duck CEOs or interim caretakers, followed by a new CEO ringing management changes so as to bring in their own people, or thinking they must make their mark by changing course on strategy, which is not to mention the tendency to 'kitchen sink', getting as much bad news out at the beginning of a tenure, while laying the blame with previous management. This enables a re-set of expectations and usually a re-set lower of the share price to the benefit of the in-coming CEO's future reputation and remuneration. None of this supports long-run value creation for shareholders.

Performance

Our role as portfolio managers is to grow the value of our clients' capital. On that note 2023 was a good year for investors. In general, equity markets had a very strong year, with the MSCI AC World Index rising 23%. However, the US market dominated returns, the S&P 500 Index delivered a total return of 26%, while the NASDAQ Composite Index delivered 45%. Even more eye-watering, the so-called 'Magnificent 7' US tech stocks delivered a return of 107%.

The UK market had a healthy return of 8%, while the TM Redwheel UK Equity Income Fund outperformed the benchmark with a 10% return, very satisfactory in the context of long-run equity returns but dwarfed in comparison to the returns from US equities.

Source: Bloomberg to 31 December 2023. The Magnificent 7 stocks are Alphabet (Google), Amazon, Apple, Meta Platforms (Facebook), Microsoft, Nvidia and Tesla. Past performance is not a guide to the future. The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

The fund's portfolio benefitted from some exceptionally strong individual stock returns, particularly Marks & Spencer and Centrica, and sector allocation to energy.

Marks & Spencer performed very well from an operational perspective in 2023, taking market share in both clothing and food and the company is making good progress towards its longer-term operating margin targets of 4% in food and 10% in clothing.

Although it can't be quantified there is little doubt that the company is benefiting from the demise of several competitors during the COVID pandemic, and the company is able to invest capital at high returns in rightsizing and re-orientating its store estate.

Centrica announced the results of its strategic review at the time of its interim results in July. The company has a unique place in the energy value chain and can add value as a producer of power, through the provision of energy infrastructure, system optimisation through its Marketing and Trading business and energy retail through British Gas. Having simplified and de-risked the business, the management intend to invest in the energy transition and thereby create further value for shareholders.

No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

Nevertheless, the company's profits will continue to be sensitive to the level of energy prices, particularly if we assume a 'normalisation' of commodity prices to pre COVID levels in the next two years. The company does however also have significant net cash on its balance sheet, and this needs to be factored into any consideration of value. By 2026, the company could have around 30% of its market capitalisation in net cash, after all decommissioning liabilities have been deducted.

Within the energy sector, Shell, TotalEnergies and bp benefited from the renewed strength in energy prices. In June, Shell announced its updated strategy in which it said that it would increase shareholder returns to 30% to 40% of cash from operations through the cycle whilst maintaining its commitment to the energy transition through an investment of $10bn to $15bn into low carbon energy solutions. Bp, which downgraded some climate targets in February and then lost its CEO in September, struggled in terms of share price performance relative to peers.

The weakest performer in the portfolio was Anglo American. The company downgraded its production and capital expenditure guidance for 2024 and 2025 in December and as a result 2024 profit estimates, resulting in a cut to earnings forecasts by 20% to 25%. The resulting share price fall added to the earlier underperformance in the company's share price. The company has a diversified portfolio of assets, diamonds (De Beers), platinum, copper, nickel, iron ore and met coal. Whilst this diversity should help smooth the company's earnings profile, several unrelated events have hit the company at once. These include problems getting iron ore to port in South Africa (due to issues with the rail operator, Transnet), weak demand in diamonds and platinum and generally weaker commodity prices. Finally, the company is investing heavily in its Woodsmith polyhalite project (which is due to come on stream in the next few years) and for which the market remains unconvinced about the future demand for this organic fertiliser.

Conclusion

The coming year will likely continue to be as challenging, as 2023 was, on macro risks and on wider sustainability issues. Many social risks are becoming politicised and our portfolio companies risk being caught up in potential 'culture wars'. Meanwhile, the energy transition is also subject to political risk, as well as the challenges of higher interest rates and inflation as seen in 2023 and will likely remain a significant influence in 2024. The transition to net zero will not be a straight line... it has been and will continue to be turbulent, and we will see progress and regression along the way.

Across Europe politics weighed on government decisions in 2023. Poland, Hungary and Italy objected to a pledge to increase the bloc's emissions reduction target, Sweden slashed biofuel targets, and said it would cut funding for climate and environmental measures in 2024, while introducing tax cuts on petrol and diesel.

In the UK, Prime Minister Rishi Sunak also watered-down green policies, with the ban on the purchase of new petrol and diesel cars delayed from 2030 to 2035. Germany has also been lobbying for weakening of climate rules to boost its auto industry, while a legal judgement ruled against the funding of the new climate fund.

In 2024, Europe will see nine parliamentary elections and European parliament elections in June. However, the big election is the US presidential election in November, with Donald Trump threatening to reverse much of President Biden's Inflation Reduction Act. There is also the likelihood of a UK general election and we have seen that climate and environmental issues are going to be part of the campaign.

Elections matter, the election of Biden has led to a huge boost to low carbon energy in the US and the election of Lula da Silva has transformed Brazil's approach to climate change. Without a clear, stable policy framework companies will struggle to transition their businesses and decarbonise.

There are positives in all the gloom, there are signs of a strengthening of US/Chinese cooperation on climate issues, specifically on methane reduction targets, which is incredibly important to mitigate global warming in the short term.

We again commit to be a voice for sustainability and for responsible business behaviour, of holding our investee companies to the high standards deemed as best practice. We very much favour a focus on the long term, eschewing short-term share price gains for sustainable growth, emphasising financial resilience and prudence. This approach considers all stakeholders, and we believe it will also deliver the best outcome for long-term shareholders and help us deliver market beating returns for you, our investors.

Best wishes,
John Teahan, Ian Lance, Nick Purves

2023 in numbers

Here are some highlights of top-level characteristics at a portfolio level and individual company sustainability credentials from the past year (2022 in brackets). We endeavour, via our 'active owner' approach, to be a force for higher standards over time.

Net Zero Targets
29 out of 29 companies have disclosed an ambition to achieve net zero emissions (26/26).

Science Based Targets (SBTi)
16 out of 29 companies have SBTi-approved targets (14/26), with 1 other having committed to set a science-based target aligned with the SBTi's target-setting criteria within 24 months.

UN Global Compact
20 out of 29 companies are signatories to the UN Global Compact (19/26).

Sustainable Development Goals
21 out of 29 companies have set a target against at least one of the 17 Sustainable Development Goals (17/26).

S&P Sustainability Yearbook
The S&P Sustainability Yearbook contained 10 out of 29 portfolio companies (9/26).

CDP
6 out of 29 companies received an A grade in the CDP Climate report, 7 companies an A-grade, 13 companies a B grade and 1 C grade (7, 8, 9, 1/26). HP Inc was one of just 11 companies in CDP's universe to receive an A grade in Climate, Forests and Water.

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The year in review and looking ahead

Chris Anker,
Head of Stewardship

"Our investment teams have shown a real thirst for knowledge and contributions to group discussions on sustainability and stewardship have come from all corners of the business.

2023 was another year of significant progress for Redwheel.

Building on the product categorisation framework that we developed in 2022, and drawing on the experience and expertise of the sustainability resource we have been steadily building in recent years, we began launching new investment products during the year to sit in our Enhanced Integration, Transition and Sustainable fund categories. Funds in these categories are directly supported by our sustainable thematic research team, otherwise known as Greenwheel, led by Stephanie Kelly.

As development of these new funds progressed, it became clear that new dedicated sustainability-related governance and oversight functions needed to be created, to work in partnership with our existing governance functions (compliance, risk etc). Related work is now being led by Olivia Seddon-Daines, Redwheel's new Head of Sustainability Strategy, Policy and Governance.

Client and regulatory interest also continues to grow in relation to stewardship which encompasses sustainability considerations as well as more conventional financial aspects. To this end, we have also created a new dedicated Stewardship function, with a responsibility to provide oversight of and support for investment teams in relation to engagement and proxy voting, including the further development of technology platforms introduced to help capture, record, and report stewardship data and statistics, as well as monitoring adherence to stewardship claims made at the investment product level. This is the function that I now lead, also having responsibility for liaising with the organisations of which Redwheel is a member in relation to stewardship issues, and leading in the interpretation of new sustainability-related regulation of direct relevance to Redwheel in an investment sense.

Given the clear expectations on the part of legislators that stewardship should form part of the response to so many of the sustainability initiatives that have come through in recent years, it is no surprise that conversations relating to sustainability and stewardship remain closely knit. Our Sustainability Forum remains a key opportunity for representatives of our investment teams to come together with our sustainability teams to share thoughts and insights on how to get to grips with some of the underlying issues. Sessions during the year included a teach-in on the assessment of commodity specific ESG-risks, as well as more thematic sessions led by the Greenwheel team on climate (TCFD), human rights, green hydrogen and biodiversity (TNFD), A session looking ahead to the 2023 proxy voting season was also organised in March 2023. As ever, content was carefully curated to cover the latest thinking on market expectations relating to sustainability risk themes, and to offer guidance on how related analysis can be integrated within investment processes today.

Ultimate responsibility for the oversight of each team's approach to stewardship and the integration of sustainability considerations continues to rest with the Redwheel Sustainability Committee. This committee, formally recognised within the Redwheel governance structure, is chaired by our CEO Tord Stallvik, and also includes Head of Investments Arthur Grigoryants and the heads of the three sustainability teams mentioned above. A number of other senior leaders within the Redwheel business attend regularly as observers, helping to ensure comprehensive and frequent discussion and review of the breadth and depth of integration applied in practice by each investment team. Constructive and contextualised feedback is provided to teams as appropriate, including in relation to how integration is articulated in core fund literature and other marketing materials.

With the creation of a new triple-pronged structure, we have reviewed also the technical support arrangements available to our sustainability teams. To help address legacy implementation issues and to drive forward data-driven initiatives, James Morant has now been seconded to the teams as a project manager dedicated to sustainability initiatives. Not only does this enable our sustainability teams to focus more fully on their core responsibilities, but colocation ensures that issues can be identified,

discussed and addressed in short order, helping us to maintain a high tempo to the development and improvement of tools and resources introduced to help teams focus in on the most contextually important sustainability data.

With these new arrangements now in place, we believe we have a robust platform from which further sustainability-focused strategies could be launched in future, having now established how data driven approaches need to be designed if they are to be effective given the systems available. Critical of course will be to make sure that there is regular contact between our central resources and our investment teams given the vagaries of sustainability data and the long reach of the law of unintended consequences; much of what we have built and are now doing is being done for the very first time and it is for these reasons that we are being deliberate and thoughtful in our approach. We want to be sure that our processes work reliably day in, day out and that proportionate controls are put in place to manage timewise evolution in third party sustainability data (which remains a key input to some of our compliance and monitoring processes). Large parts of the industry are taking brave steps into the unknown right now and we want to make sure that we at least are moving at a speed that our clients think is reasonable as we look to build on the foundations we have put in place over recent years.

A final word. I wrote last year of my hope that enhancements to our approach in 2023 would be perhaps more incremental than they had been over prior years – however, our investment teams have shown a real thirst for knowledge and contributions to group discussions on sustainability and stewardship have come from all corners so as much as I may have hoped that things would slow down in the regulatory space to create a bit of breathing room (which they arguably have not – the FCA proposals on the UK Listing Rules being another significant piece of regulation with which we have been engaging recently), opportunities for rest remain few and far between!

Chris Anker
Head of Sustainability

Our approach

"Over the last couple of decades, many asset managers have pushed CEOs to pursue shareholder value maximisation policies and deliver results in the shortest possible time. We are fundamentally at odds with this mindset and instead believe that CEOs should run the company with long term sustainable value creation in mind." Redwheel Value & Income Team letter to the Chair, 2017

We are humbled by the trust placed in us by our investors to manage their capital and we are very clear in our fiduciary duty to protect and grow that capital over time. We believe that our stewardship role is wholly consistent with supporting companies to grow in a sustainable way, for executive teams and board members to run their companies for the long term and for the benefit of all stakeholders. We would venture further that companies not run in a sustainable manner, from lack of prudence on financial strength and recklessness in the pursuit of growth, at the expense of the environment and relations with other stakeholders, create enormous risks to shareholders' capital. By contrast, companies run in a prudent, sustainable manner for all stakeholders are usually more successful, resilient, and financially rewarding for shareholders.

We pride ourselves on being long-term investors. The very core of our investment strategy is that short-term sentiment amongst many market participants causes them to overreact to news which has little or no impact on the long run value of a business. Our long-term value strategy allows us to take advantage of such market dislocations, which provide an opportunity to purchase shares at less than their true value. This long-term approach also allows us to develop a deep understanding of the companies in which we invest, allows us to get to know the executive teams and board members, and to develop a deep understanding of their business strategies. We believe this approach enables better engagement with our investee companies, particularly when circumstance necessitates heightened levels of engagement.

"Sustainability issues can have a material financial impact on the value of a company along with their social licence to operate and, therefore, on the value of our investors' capital."

Environment

The potential for climate issues to cause a material financial impact on the value of individual companies and sectors has increased dramatically in the past decade. Climate change risks, both physical and transition, are top of the list. Pressures on natural resources, such as water scarcity and biodiversity loss along with pollution and waste are further prominent risks. As value managers, our companies tend to be old economy stocks and, on balance, more exposed to environment-related issues. Energy, materials, food retailers are all exposed in their own way. Few sectors, particularly in manufacturing, are without their exposure to such risks. However, services providers, for example banks providing credit and insurance companies providing property cover, are also exposed.

We believe that the answer to environmental problems is not as simple as divesting from challenged sectors. By actively engaging with companies, by supporting them in the transition to a sustainable business model, we believe the outcome can be better for the environment and support economic prosperity.

The transition to a low carbon economy necessitated by global warming, is one of the most important non-financial company risks we assess. The transition is happening now, and few companies are immune to it. The biggest business unknown with regards to the transition is the pace of the transition, including the speed of technological development. Other risks include the additional policies, laws and regulations that will be introduced to support the transition. The kind of policies required are becoming clear, but the pace of implementation is not clear. The introduction of the US Inflation Reduction Act in 2022 illustrates how quickly the landscape can change. However, the direction is not always one way. There are steps back as well as progress, as was saw in Europe in 2023.

Investor and customer preferences are also evolving, though not always in the same way as seen in the US, another risk for businesses.

Social

The financial impact from social issues can be substantial as we further set out in our 2017 Letter to the Chair:

"[W]e believe companies should act in the interests of all stakeholders. Putting pressure on employees, customers and suppliers may enrich shareholders in the short term but can damage the long run sustainability of the business. Too often, investors seem to believe you are either a champion of the shareholder or of the other stakeholders but in our view, they are not mutually exclusive. There should never be any inherent tension between creating value and serving the interests of employees, suppliers and customers."

Companies treating their employees, customers, or suppliers badly store up future problems for the business in terms of human capital (lower productivity, disruption to production, staff turnover), brand value (dissatisfied customers, litigation) and reputation (supply chain issues, health and safety). Local communities are also important to consider, particularly in extractive industries. Exposure to conflict regions is monitored as an elevated risk of human rights abuses.

Cyber security is a notable risk for many companies, particularly for those holding customer information, including sensitive sectors such as banks or utilities, or where intellectual property is the basis of the value of a company. In early 2023, Royal Mail (a subsidiary of International Distributions Services plc) was the subject of a ransomware attack, which took more than a month to resolve and led to the company telling customers to stop sending parcels and mail overseas. Such attacks are becoming more frequent and target both private and public organisations, the NHS ransomware attack in August 2022 being another grave example.

Governance

Governance has always been at the heart of our process as we believe it sets the basis for the culture of a firm, supporting positive environmental and social outcomes. We want management to run the business as owners, thinking long-term and about customers, employees, suppliers, and community, which ultimately benefits shareholders. To ensure this outcome, we believe in the importance of a strong board, with non-executive directors possessing the requisite skills, experience, and independence to counter the impact of a powerful or dominant CEO. Diversity can support this aim and helps to counter 'group think' and incorporate better the views of all stakeholders. We also observe the growing demands on non-executive directors (NEDs), and how those demands can surge at times of crisis. We therefore believe that NEDs may be over stretched and need to consider devoting more time to their roles.

Corporate behaviour

Governance in a sustainability context must go further than traditional boundaries. We look for responsibility for sustainability issues at a board level, ideally sitting with an independent director with relevant experience, who can challenge management on related sustainability issues.

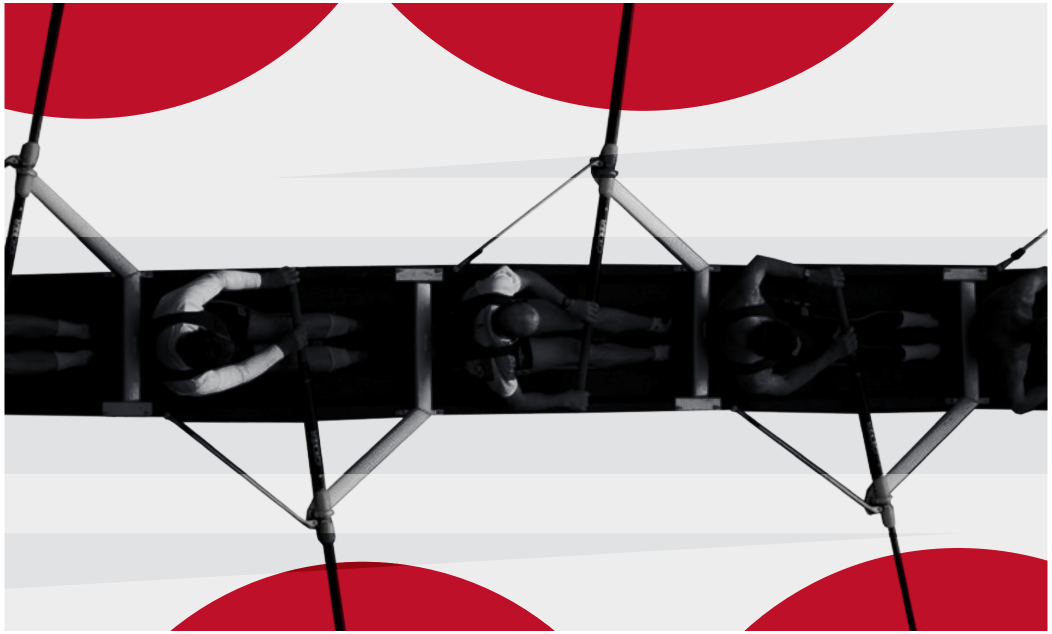
We encourage companies to commit to both global and industry level principles and codes that support high levels of sustainability practices. By committing to such codes, we can hold management to account should they fail to uphold the standards they have set for themselves. This is supportive of 'soft law' such as the UN Global Compact Ten Principles and shared values and the OECD Guidelines for Multinational Enterprises; in requesting companies commit to such values, they set the standards investors should expect of them, it is then our role to monitor subsequent behaviour and to sanction for breaches.

It is difficult for shareholders to anticipate events and often to identify corporate governance weaknesses. However, corporate structures aligned to the high standards of the UK Corporate Governance Code, reinforced by commitments to international codes and principles and demonstrated by a company's day to day behaviour towards other stakeholders and the way they run the business, gives a strong indication of corporate culture and future behaviour.

Engagement and collaboration

Engagement is central in communicating with our investee companies on areas of concern or where we want to express an opinion on strategy, with a long-term investment horizon and a concentrated portfolio we can build meaningful engagements. The engagement process is led and carried out by us, the portfolio managers, supported by the central Redwheel Sustainability function. Engagements are an extension of monitoring, and it is important to add that we feel management time should be protected from excessive demands from shareholders, so we will typically focus on annual meetings with management where a company is operating as expected. We will also interact with the non-executive directors, on general strategy, succession or on points of particular importance with the chair of the board, and on remuneration with the chair of the remuneration committee. A record of our engagements is included in this report. With our Climate Engagement strategy, engagement is core to the aim of encouraging companies to improve on their transition plans and to accelerate those plans where appropriate.

While directly engaging with management is our preferred approach, collaborative engagements are a useful tool for shareholders to further specific objectives. We are open to engagement with other individual shareholders in common holdings and have done so this past year and in previous years. Our main approach to collaborative engagement is via the Investor Forum, ClimateAction100+, the Investment Association, and the UN PRI Collaboration Platform.



We seek to join and to initiate engagement with other shareholders on issues that are important to us and where we feel a bigger voice will increase the chances of success. It may also be necessary where management or a board is refusing to engage on specific issues, or where our shareholding is not significant enough to get the attention of management.

Voting policy

We recognise our responsibility to actively exercise our voting rights and the opportunity voting affords us to convey a message to a company in the strongest terms, outside of divestment. It is therefore our policy to vote all shares at all meetings, except where there are onerous restrictions, such as share-blocking (where we must surrender our right to dispose of the shares for a period). We do not lend stock.

As an independent investment team within Redwheel we set our own voting approach, however, we draw on the support of the central Redwheel Sustainability function in developing that approach. We vote in the best interests of our clients and in line with the high standards of corporate governance as set out in the UK Corporate Governance Code 2018. Our voting is shaped by our fundamental research, by our engagements with our investee companies and by Institutional Shareholder Services (ISS), the proxy voting service. ISS follows best corporate governance practice in each market, based on local norms, codes and regulations. In the UK, ISS policy is rooted in the voting guidelines of the Pensions and Lifetime Savings Association (PLSA) and follows the guidance provided by the Financial Reporting Council (FRC) in the UK Corporate Governance Code. The PLSA and the UK Governance Code 2018 set a high standard globally on governance matters, along with reference to the ICGN Global Governance Principles, we use these standards as a benchmark on votes outside the UK, and where appropriate we will override local ISS policy for the higher standard. In 2023, ISS recommendations were based on the ISS Climate Voting Policy – prior to 2022, recommendations were based on the ISS benchmark Policy. The move reflected our own evolving views on governance and climate risk. As always, we reflect on ISS research and recommendations as an important input to our voting decisions. It supports our own internal research and our engagements on what voting position is in the best interests of our clients.

As part of an engagement escalation strategy, we communicate our voting decisions in various ways. Where we are a major shareholder and it represents a key issue for us or a very sensitive issue for the company, we communicate our voting intention to the company ahead of the annual general meeting. Where we may have less of an influential shareholding, but it is a key issue for us, we communicate ahead of the AGM to maximise the company's awareness of our position. When we feel progress is not being made or management is not engaging with us, we may decide to pre-declare our voting intention ahead of the AGM. We have done this on several occasions including when we publicly supported the 'Follow This' shareholder proposal at Shell's 2021 AGM, and when we voted against Barclays' transition plans at its 2022 AGM.

Remuneration

Remuneration is an area of controversy, with management pay ratcheting higher, often without consequence for failure or poor performance. There is also the challenge in attracting talent to run global companies based in the UK, from a global pool in which outsized US compensation skews executive expectations.

In our view, compensation packages must be tied to long-term drivers of sustainable value, rather than a function of financial engineering. The time-frame for executive evaluations should be extended and we believe management teams should be required to put significant 'skin in the game' to better appreciate downside risks. We have set out our views in our Remuneration Guidelines, which we may share with our investee companies. We contribute to the industry discussion on remuneration via the Investment Association, the Investor Forum, and other investors where we have common shareholdings. Please refer to the extended remuneration section in this report for a longer discussion on this topic.

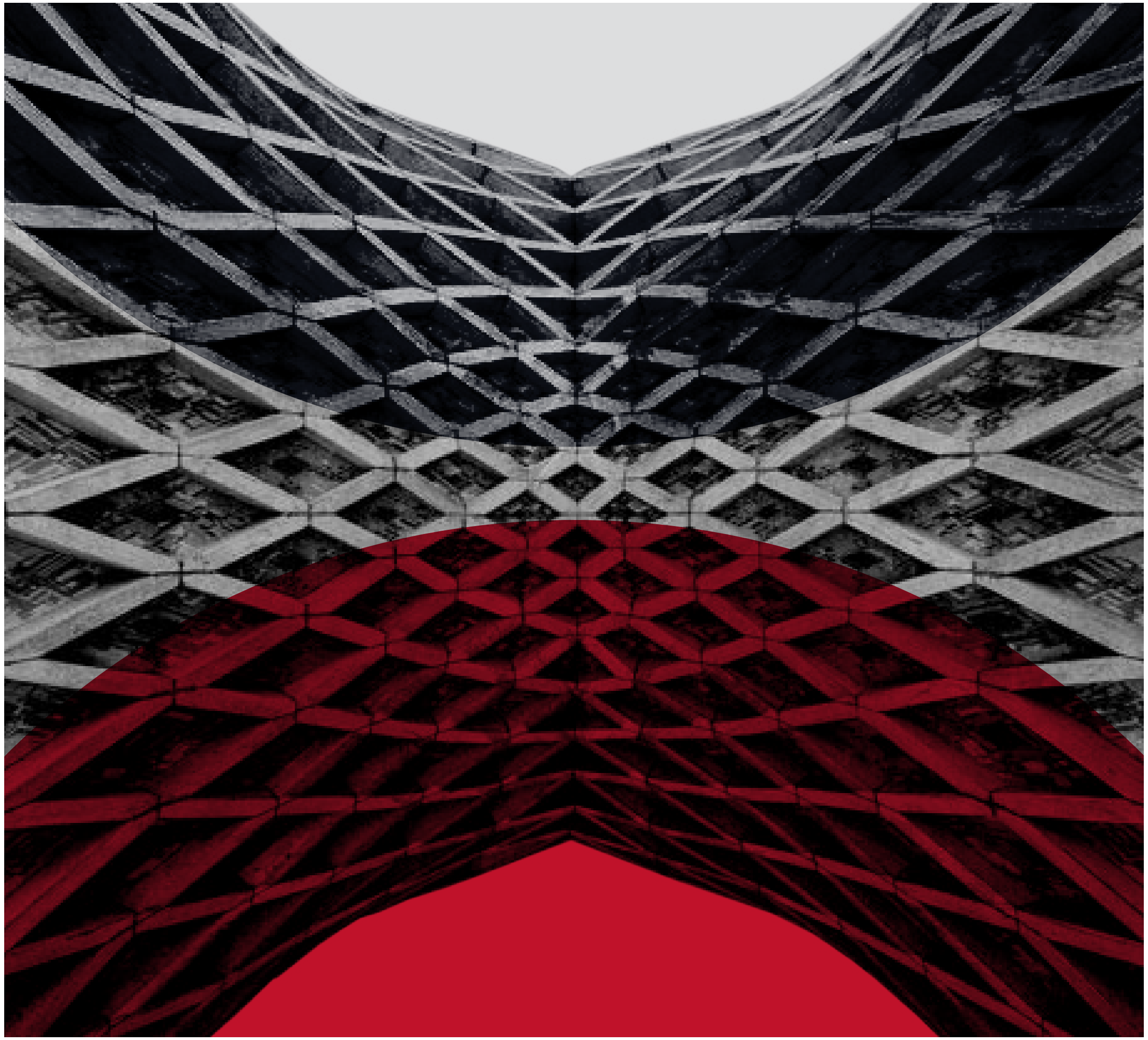
Conclusion

We see our role as stewards of our investors' capital as wholly consistent with investing responsibly and encouraging our investee companies to act sustainably. Sustainability and our long-term investment horizon go hand-in-hand. Furthermore, as value investors, we believe we can have an outsized impact on sustainability issues, as these are often of greater importance to older economy companies that typically fall into our value universe, particularly on environmental issues.

We believe in free market capitalism. However, we believe that the agency problem, short-termism, and a sole focus on shareholders, undermines the system in the long-term. A fairer, more socially responsible free market benefits business over the long term and benefits shareholders, as well as other stakeholders. We will lend our voice to raise concerns and push for change where we think necessary, and where we have influence.

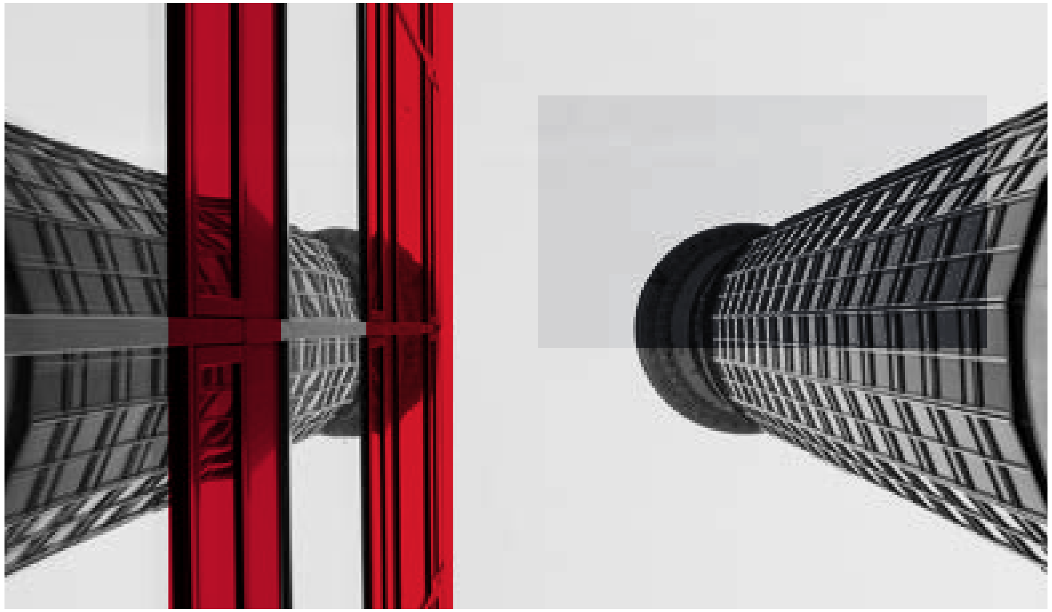
We would encourage those thinking of investing with us to keep in mind our long-term focus. On both financial metrics and sustainability issues, companies need time to deliver on their sustainable value potential.

Our ESG approach is further documented in our Team ESG guidelines, and we encourage our investors to read that policy for a full description of our approach and framework. ESG investing is a fast-developing area, we will endeavour to develop our policies in line with industry best practice and raise the bar where we can. We commit to keeping you, our clients, fully informed and to working with you to achieve your objectives.



Materiality discussion

Companies have reported on material ESG issues for a long time now. One of our largest holdings, Anglo American, has discussed material ESG issues separate from the annual report's 'Other Risk Factors' since the introduction of its Report to Society in 2004. In that report it said, "We believe that our key material risks and impacts are covered: those that measure our economic contribution; the effects our operations have on the natural environment and how these are managed and mitigated; the safety, health and development of our people; and the role we play in contributing to the long-term quality of life of society." BT Group, another holding, was one of the first companies to set a carbon reduction target back in 1992. It documented its annual improvement targets in an annual Environmental Performance Report and by 1996 reported that total energy consumption over the previous four years had reduced by over 13% (the Group annual report stated "For a copy, call (0171) 356 5636", how quaint!).



However, ESG materiality reporting has increased significantly over the last few years. TCFD have pushed companies since 2017 to disclose more on climate-related materiality risk issues, while on the investment side, UN PRI encourages the integration of ESG factors, which incorporates a materiality assessment of ESG risks. This is reflected within corporate publications with sustainability reporting exploding in recent years. One small, but we believe incredible example of the speed of development, comes from Barclays. 'Financed emissions' are deservedly getting more attention. This is illustrated in the mention of the term 150 times in its 2023 annual report. In 2021 'financed emissions' were mentioned 16 times and in 2020 the term was used twice. Note, in this period the annual report itself increased from 380 pages to 510 pages.

We therefore feel it may be useful to share our thoughts on the issue and the ESG materiality risks in our portfolios for the benefit of our investors.

A paper by Harvard Business School, 'How ESG Issues Become Financially Material to Corporations and Their Investors', gives an interesting perspective on the dynamism of this subject. Companies and society may be misaligned, but either due to lack of awareness or lack of information, such misalignment is accepted. This may not persist if society becomes aware of the misalignment,or if a company pushes the misalignment further in the pursuit of greater profits, or if society itself moves in its own definition of acceptable practice. The paper offers interesting examples of how individual issues became material over time; the pharma industry was drawn into a political battle over drug pricing as a few miscreants, including Mylan, Valeant and Marathon Pharmaceuticals, went well beyond what was previously accepted in drug price increases. Valeant's approach of using large amounts of debt to buy other companies and then raise drug prices "for such diseases as diabetes, acid reflux and serious heart conditions" caused outrage. Drug pricing became a material issue for the entire pharmaceutical industry. We experienced this pressure on pharma share prices in the portfolio in 2015 and 2016, before a recovery in 2017 and 2018. The pricing issue continues to hang over pharmaceutical companies, a bipartisan campaign in the US in 2022 sought to cap the pricing of insulin products.

We have witnessed a similar dynamic as regards to climate risks since the Paris Agreement was signed in 2015. While it has been a subject of debate for decades, the Paris Agreement seems to have been a watershed moment in terms of moving society from awareness to a broad demand for action, coupled by investors becoming increasingly active in demanding change and discussing divestment. Successive Intergovernmental Panel on Climate Change (IPCC) reports have increasingly raised the alarm on climate change – the sixth IPCC report in 2021, a 'Code red for humanity', highlighted in no uncertain terms the crisis we face. This development in turn has forced major strategic changes among energy companies. In September 2020, bp announced a 40% cut to hydrocarbon production by 2030 (partially reversed in early 2023), not so long-ago, long reserve life was a big positive, now it signals the potential for stranded assets. Shell, TotalEnergies and bp have moved to net zero emission targets by 2050. The European majors have reacted fastest to the changing zeitgeist, US majors like Exxon Mobile have been much slower. Nevertheless movement towards a decarbonised world is not as linear as it appeared to be coming out of Covid. The Russian invasion of Ukraine changed the context in the West, suddenly governments were changing their tune on fossil fuels, at least short term, with the US chief energy adviser reportedly describing as "un-American" the refusal of US shale investors to ramp up drilling, while President Biden wrote to seven oil majors encouraging them to increase refining capacity, allowed sanctioned Venezuela to export oil, and paid a visit to Saudi Arabia in a bid to get higher oil production.

In terms of assessing materiality, we rely on our long, combined experience as a team looking at companies to understand material risks. We also look at how companies rate their own material ESG risks, along with other independent sources such as the Sustainability Accounting Standards Board (SASB) Materiality Map. We are also horizon scanning, that means being on the constant lookout for risks that we may not have been previously aware of, and this exercise is largely unstructured (albeit news alerts from Sustainalytics is a structured part of the exercise).

The SASB framework gives an alternative view of ESG materiality. SASB is an independent non-profit organization that sets standards to guide the disclosure of financially material sustainability information by companies to their investors. The SASB Materiality Map is a tool that identifies and compares disclosure topics across different industries and sectors. While the map is not a perfect fit for each company, for example companies will span across sub-industries and therefore across materiality risks, it does help to ensure individual issues are not totally overlooked and it gives a top-down view of the portfolio. These issues are unweighted, i.e. each issue is given equal importance and therefore the overall ranking reflects which ESG risks arise most often across all the holdings. For instance, it might be a surprise that data security ranks so highly within our portfolio of value stocks, whereas technology companies holding vast amounts of customer data, such as Facebook, or companies where intellectual rights underpin the value of the firm, such as Netflix, are well understood as being exposed to data security and cyber security threats. A high-profile example of a cyber security breach was the Sony hack in 2014 and closer to home the ransomware attack on Royal Mail in January 2023. However, most companies now hold some level of customer data or have valuable trade secrets and thus data breaches and cyber threats are relevant for most sectors.

Data security

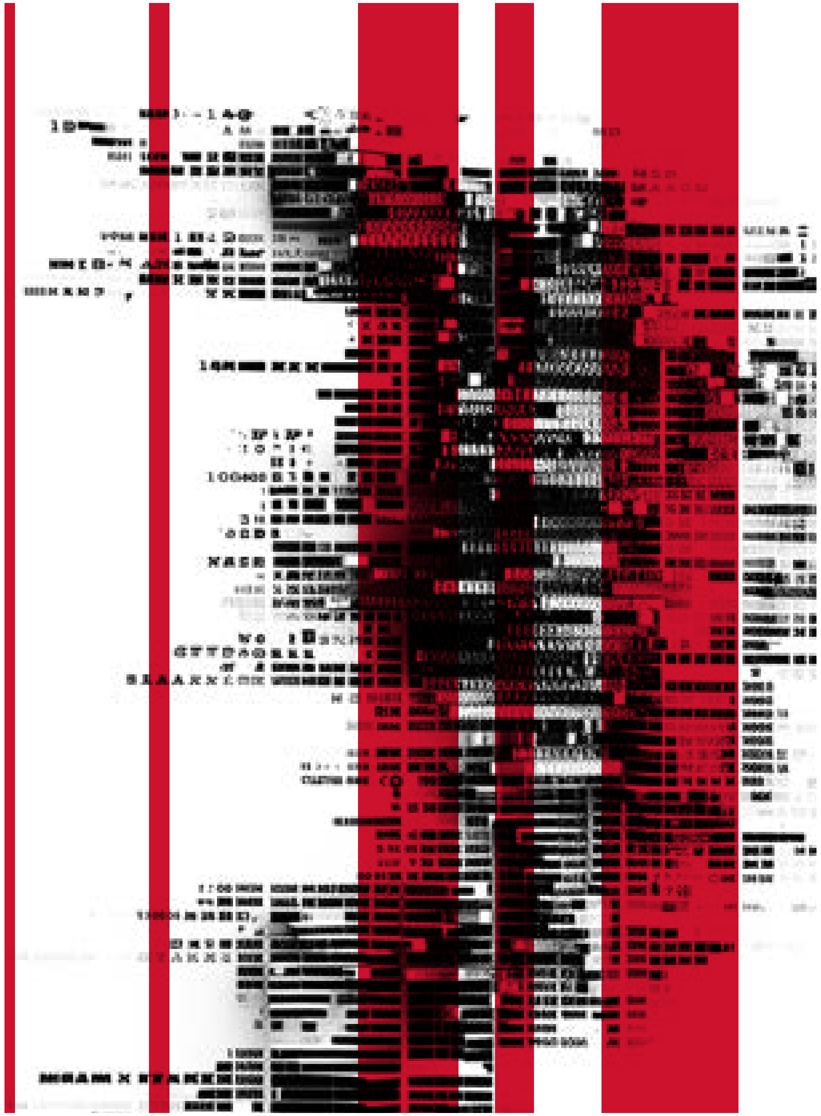
Data security is the most common material issue across the portfolio based on the SASB materiality map. Banks, insurers, retailers and telecommunications all hold sensitive data that, were it lost, stolen or leaked, would cost the respective business in terms of reputation and regulatory fines. For example, GDPR fines range from 2% to 4% of annual revenue, which would represent the annual profit for a food retailer.

As an example of a data security breach, and prior to becoming a portfolio holding, Currys Plc suffered a massive customer data breach for a period during 2017 and 2018. Subsequently, the company was fined £500,000 by the Information Commissioner's Office (ICO), for context company profits for 2018 equalled £166m. This illustrates that while the risk may be present, the monetary fine may not be material. The more difficult quantification to make is the damage to a company's brand and reputation due to a data breach. While the fine was relatively small, the company responded by investing to enhance its cyber security and cyber security became one of the most regular topics of discussion at Board meetings.

Banks are a much more serious target for cyber criminals. If individual banks, or the sector in general, were to suffer a large, successful raid, trust in the banking sector would be badly damaged. The financial consequences of this could be severe. NatWest Group identifies cyber threats as one of the main external risks that the bank faces. Each year it invests in additional capability and controls to defend against evolving and more sophisticated threats. It also focuses on staff and customer education and runs cyber resilience exercises to simulate such attacks on the bank.

Business ethics

Business ethics represents the second most common material issue based on the SASB analysis. Business ethics is important to all companies but for those in the extractive industries, such as mining and oil exploration and production, it is even more material due to the regions of their operations. Corruption increases reputational risks, political action, and regulatory fines. Business ethics is also high on the materiality list for banks. In 2021, NatWest Group received a criminal conviction and a fine of £264.8m by a London court. The bank pleaded guilty to failing to prevent a £365m money laundering scheme between 2012 and 2016. While NatWest's controls had obviously failed, it had invested £700m in anti-money laundering systems between 2010 and 2015. Since 2016 it has invested a further £700m in financial crime compliance. The episode illustrates both the cost when systems fail in terms of fines, and the cost in terms of investment to ensure systems are sufficiently robust to mitigate the risks. As portfolio managers, we must satisfy ourselves that the company is appropriately addressing the historical weaknesses, that the additional cost of fixing those weaknesses will not have an undue impact on profitability, and that the valuation and risk/return profile remains attractive. With NatWest Group we believe this to be the case.



The table represents the materiality of each category, on an unweighted basis. The darker shaded categories represent risks that occur more frequently across holdings.

Dimension	General issue category	Portfolio
Environment	GHG emissions	
	Air quality	
	Energy management	
	Water & wastewater management	
	Waste & hazardous materials management	
	Ecological Impacts	
Social capital	Human rights & community relations	
	Customer privacy	
	Data security	
	Access & affordability	
	Product quality & safety	
	Customer welfare	
	Selling practices & product labeling	
Human capital	Labor practices	
	Employee health & safety	
	Employee engagement, diversity & inclusion	
Business model & innovation	Product design & lifecycle management	
	Business model resilience	
	Supply chain management	
	Materials sourcing & efficiency	
	Physical impacts of climate change	
Leadership & governance	Business ethics	
	Competitive behavior	
	Management of the legal & regulatory environment	
	Critical Incident risk management	
	Systemic risk management	

Source: Redwheel, as at 31 December 2023. The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

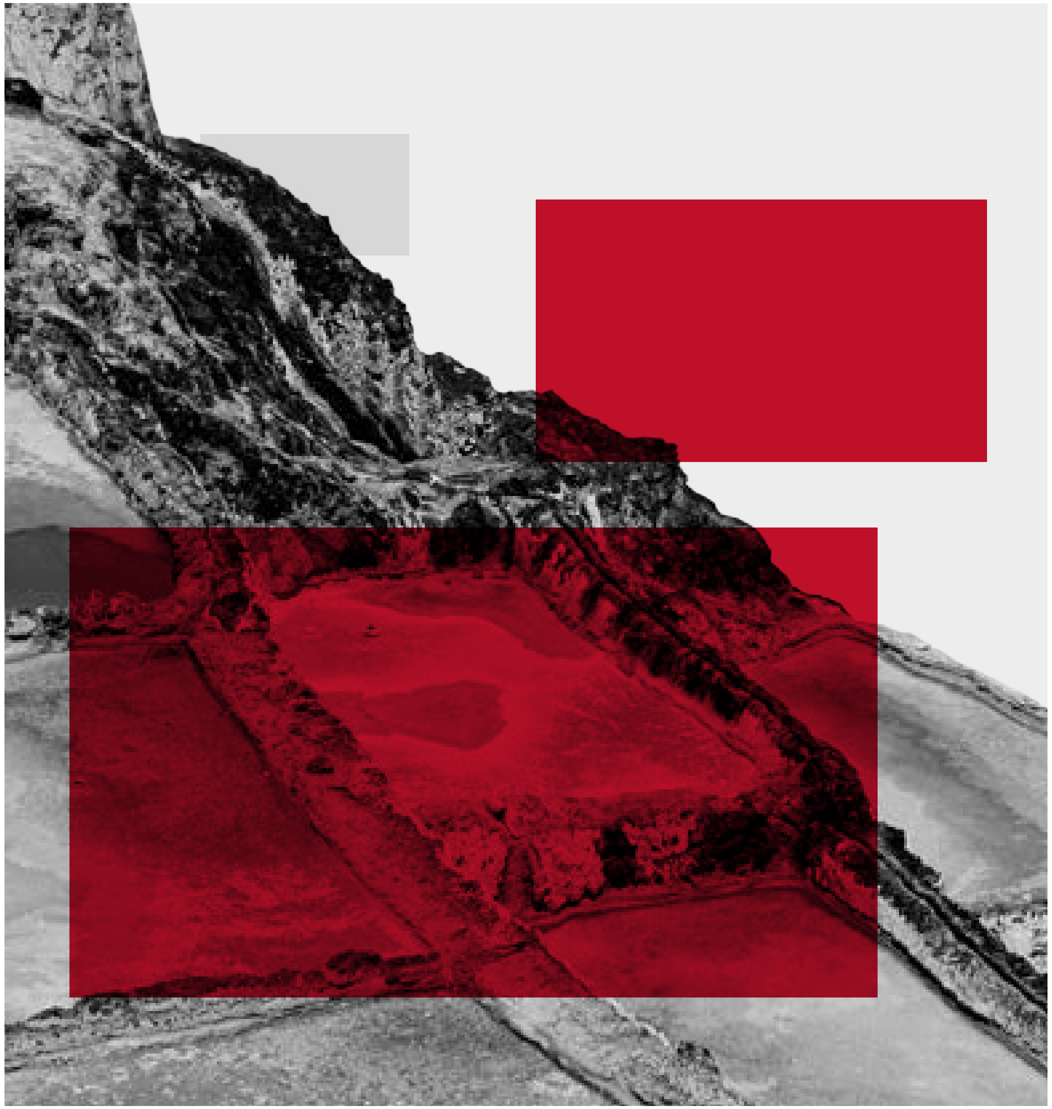
"We are not for one moment complacent on these issues and continue to closely monitor our holdings, pushing the laggards to align with Paris and matching words with actions."

Our own assessment of material sustainability risks led us to give specific focus to carbon emissions and coal exposure in 2020, we therefore deal with these risks in greater detail in the following sections.

Carbon footprint and climate risks

Carbon emissions and climate change are material risks for the portfolio. The two are very much interrelated, carbon emissions driving planetary warming and thus climate change, but the risks arising from the two are both linked and somewhat independent. The risks include transition risks, physical risks, and the risk that society will turn against individual companies and sectors, forcing heavy regulation and forcing investor divestment. All these risks have the potential for material financial consequences for shareholders. The risks remain real whether society makes a successful transition to a low carbon economy or if it fails to do so.

Can our investee companies make a successful transition to a low carbon world, whilst keeping their profitability and balance sheets intact? This is a transition risk. This risk is particularly important for our integrated oil companies and energy intensive companies in the mining sector. What will oil companies look like in the future as they move from being integrated oil companies to integrated energy companies? Will they generate attractive returns for shareholders, or will cash flows be consumed by the transition to low carbon businesses, will their equity be severely impaired due to stranded assets? Will they remain aligned with all stakeholders and thus retain the support of the wider society? How will the transition impact the demand for iron ore as recycling increases, or the demand for coking coal as steel making decarbonises?



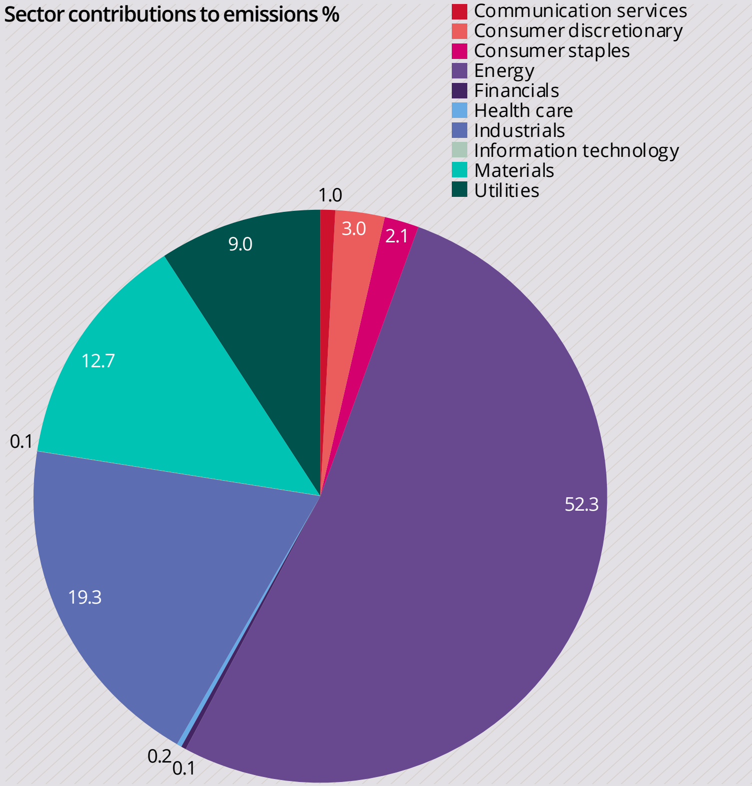
There are physical risks associated with climate change. Changing weather patterns and rising sea levels brings the risk of damage to property and plant, or curtailed production. Seventy-five percent of Anglo American sites currently fall within water-stressed areas based on World Resources Institute's Aqueduct tool. Water availability is a particular issue for Anglo American in Chile, in 2022 the company secured a desalinated water supply for its Los Bronces copper mine, by 2025 desalinated water will be pumped from the sea to the mine, c. 150kms away and 4,000 metres above sea level. This is climate adaptation in motion and illustrates the challenges and costs that companies face now and will increasingly face in the future. It also illustrates why we believe that being climate resilient and ready to adapt to physical risks is very much about financial resilience, having the financial capacity to take measures like Anglo American have done to protect their assets from becoming stranded assets. It also illustrates how such measures protect their licence to operate, contributing locally by reducing freshwater abstraction in water scarce regions.

We track both carbon intensity and absolute carbon emissions for the portfolio. By doing so we can see how carbon intensive our individual companies are and how exposed they are to carbon risks, such as carbon pricing or carbon tax. Interestingly, on an absolute basis oil companies exhibit the highest level of emissions, because of their size, while on an intensity basis mining companies score worst. We also measure our portfolio versus the benchmark and include the comparison in this report.

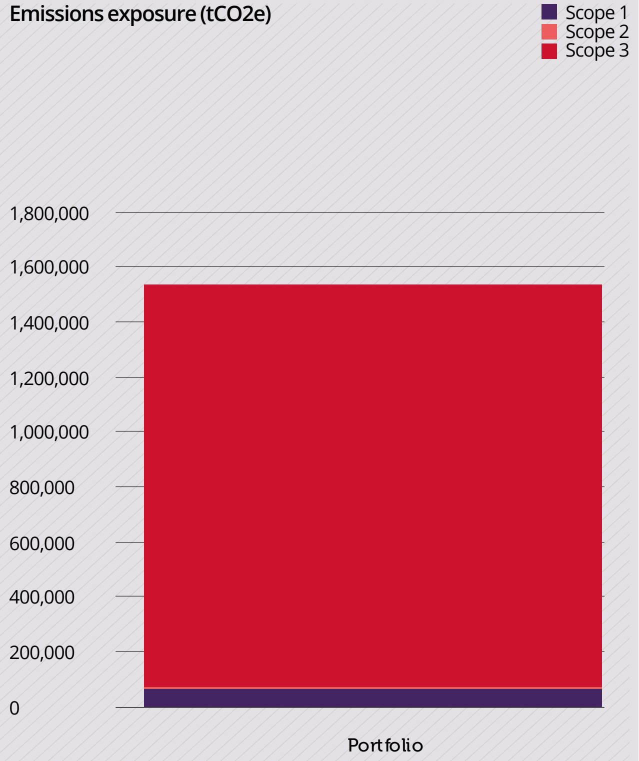
Carbon footprint

A portfolio's carbon footprint is the sum of a proportional amount of each portfolio company's emissions (proportional to the amount of stock held in the portfolio) (UN PRI, 2022).

Sector contributions to emissions %



Emissions exposure (tCO2e)

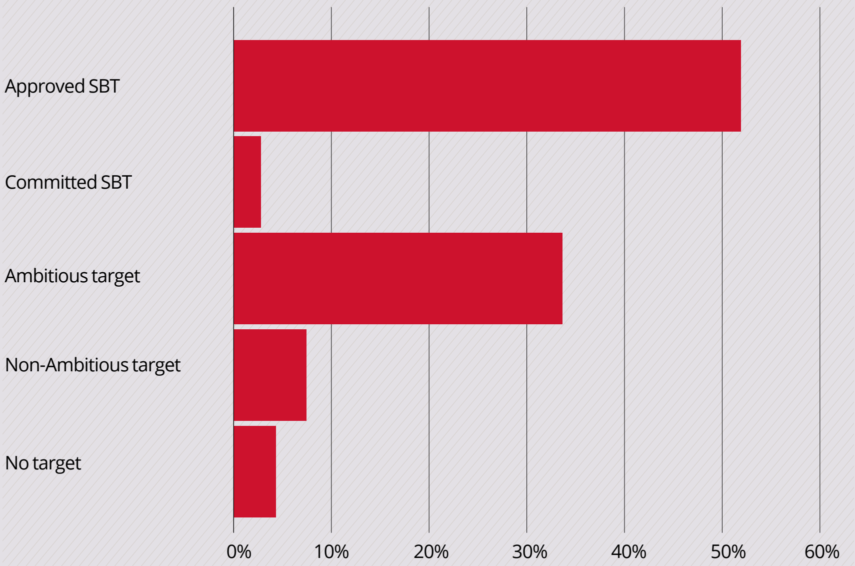


Source. ISS ESG, 31 December 2023
The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice. The two charts above show the sector contributions to emissions and the emissions exposure of the TM Redwheel UK Equity Income Fund portfolio. Energy is the largest sector contributor to emissions, with Scope 3 emissions (emissions that are generated from value-chain activities) making up the bulk of emissions exposure.

All companies within the portfolio have set a net zero emissions target by 2050 or sooner. Publicly announced targets by companies vary in their trustworthiness. A company may make promises for 2050, but if it leaves the heavy lifting for future management, then those commitments may be suspect. A way of getting assurance on targets and ambitions is where a company engages with and gets approval from the Science Based Target initiative (SBTi). The SBTi provides technical assistance and expert resources to companies who set science-based targets in line with the latest climate science. It also provides independent assessment and validation of targets. Companies are slowly engaging with SBTi. Having initially got net zero commitments from companies, shareholders can ratchet up the pressure for a credible pathway by pushing their companies to join the SBTi initiative. This is a strategy we endorse and 16 of our portfolio companies have a SBTi validated near-term target while another portfolio company has committed to setting a science-based target aligned with the SBTi's target-setting criteria within 24 months. SBTi is in the guidance development phase for certain sectors, such as oil and gas. This guidance will need to be finalised before the European majors in our portfolio can get validated by the organisation.

While a SBTi approved target is a useful signal of a company's commitment to tackle their emissions, it does not provide any guarantee of success given the uncertainty around how companies evolve and how the science and modelling evolves. SBTi does not monitor if companies are meeting their targets, so this something that we, as investors, need to do. It is therefore important for us to continue engaging with all companies and applying pressure to keep to the targets they have set.

GHG reduction targets by portfolio weight



Source. ISS ESG, 31 December 2023
The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

We hope we have demonstrated from the work in this section and our engagement work elsewhere in our report, that we take these issues with the utmost seriousness. We believe our companies can navigate these risks because: 1) the vast majority accept the issues and are working towards solutions that will align them with global climate targets; 2) they have the financial wherewithal to make the transition in terms of balance sheet strength and cash flows; 3) their current valuations reflect an incredible pessimism about their ability to make the transition, this affords us the opportunity to invest in these companies, act as cheerleaders for their moves to a low carbon economy and make an attractive return for our investors. We are not for one moment complacent on these issues and we continue to closely monitor our holdings, pushing the laggards to align with Paris and matching their words with actions.

Top 10 contributors to portfolio emissions

Name	Contribution to portfolio emission exposure (%)	Portfolio weight (%)	Emissions reporting quality	Carbon risk rating
Shell Plc	21.8	6.7	Strong	Medium Performer
BP Plc	18.4	6.8	Strong	Laggard
TotalEnergies SE	12.1	4.5	Strong	Medium Performer
Anglo American plc	9.8	2.9	Strong	Medium Performer
Centrica plc	9.0	5.6	Moderate	Medium Performer
easyJet plc	6.7	0.7	Strong	Medium Performer
CK Hutchison Holdings Ltd.	6.2	1.5	Moderate	Outperformer
International Distributions Services Plc	5.8	5.0	Strong	Outperformer
Barrick Gold Corporation	2.9	1.8	Strong	Outperformer
Marks & Spencer Group Plc	2.1	7.6	Strong	Outperformer
Total for Top 10	94.9	43.1		

Source. ISS ESG, 31 December 2023
The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

Top 10 emission intense companies (tCO2e S1&2/revenue mil)

Name	Emission intensity	Peer group avg intensity
easyJet plc	1,106.0	1,180.3
Barrick Gold Corporation	748.7	482.3
Anglo American plc	466.2	708.5
CK Hutchison Holdings Ltd.	400.7	71.1
Shell Plc	300.2	630.6
TotalEnergies SE	262.2	630.6
BP Plc	181.1	630.6
Centrica plc	84.6	4,344.7
International Distributions Services Plc	42.7	190.3
Honda Motor Co., Ltd.	37.3	40.8

Source. ISS ESG, 31 December 2023
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Human rights & community relations

10 December 2023, marked the 75th anniversary of the Universal Declaration of Human Rights, which is generally agreed as the foundation of human rights law and greatly influenced the European Convention on Human Rights (ECHR), which came into effect in 1953.

It was therefore rather fitting that last year was one of learning and development in how we think about human rights, and as is often the case, the more you learn the more you realise how little you know. Reading books like Jeremy Paxman's Black Gold (history of coal mining in the UK) and Siddharth Kara's Cobalt Red (current cobalt mining in the DRC) drives home how through time mining has been such a brutal industry, one that has been marked by dreadful working conditions, unbelievable tragedies, negative impacts on local communities, inflicting damage on the environment and contributing to global climate change.

Yet, it has also driven incredible economic growth and huge advancement for society in terms of prosperity and raising living standards for most people. For an investor, it might be easier to strike a line through the sector and move on, but that's not our approach and not one that does anything to solve the problems inherent in the industry nor one that helps in delivering the transition metals needed for the energy transition.

Black Gold is worth a read if you wish to understand how coal was a major factor in the success of the British empire, underpinning the success of the Royal Navy, how it created vast wealth, but also led to great misery and a fraught relationship between employers and employees that resulted in a history of political turbulence and prolonged strikes, with the coal miner strikes of the 1970s and 1980s being the most famous.[1] If you are curious to see how bad conditions were, read the testimony of Patience Kershaw and others from a Royal Commission into Children's Employment in Mines 1842.[2] Cobalt Red illuminates the dark side of the smart phone and EV revolution, how it is near impossible to properly balance the need for such metals without terrible local consequences and how difficult it is to ensure metals tainted by child labour or aspects of modern slavery don't end up in the supply chain… and ending up in a smart phone or EV in the developed world.[3] You can read an extended review of the book in the New York Times.

The biggest leap in learning for us this year was driven by two events. Firstly, Redwheel hired Jessica Wan to be the Social Lead within Greenwheel, bringing with her immense human rights knowledge from a career that has included working for International Labour Organisation, and then in consultancy role helping corporates identify human rights risks within their operations, supply chains and customer base. Jessica has hugely improved our approach, introduced a new human rights framework, and then supported investment teams in adopting the

1 Black Gold: The History of How Coal Made Britain, Jeremy Paxman, HarperCollins Publishers, 2022
2 https://calderdalelocalstudies.wordpress.com/2022/08/10/the-royal-commission-into-childrens-employment-in-mines-1842-a-halifax-example/
3 Cobalt Red: How the Blood of the Congo Powers Our Lives, Siddharth Kara, St. Martin's Press, 2022

framework. Secondly, an engagement with one of our mining companies has been a thoroughly educational experience in how challenging it is to conclude on whether a company has sufficiently addressed its human rights impacts and provided access to remedy. This particular company has made great progress in cleaning up legacy problems and adopting international best practice. But questions remain and various stakeholders are yet to be convinced. Ensuring that there is actual good practice on the ground, that legacy issues are adequately addressed, and that future risk of recurrence is minimal, is a difficult judgement to make.

There are many stakeholders in mining, beyond the usual corporate, shareholders, employees, suppliers, and customers, who also have a very strong... stake. There is the local community, many of whom may not benefit from a mine, but may see their livelihoods impacted when waterways are polluted or when indigenous land rights are taken away; local, provincial, and national governments compete for a share of equity and taxes; various NGOs or other representative organisations will represent human rights, environmental issues or pursue specific grievances. Conflicts are evident across the stakeholder spectrum and made assessment and resolution less than easy.

Simple sounding solutions like monetary compensation may ignore cultural issues or the fact that no price can be put on damage to sacred sites. Compensation itself may prompt more claims, sometimes without basis. Should mining companies have open purses for all claims, for all time, to atone for past guilt? Other tricky questions include artisanal mining, which can play a crucial role in poverty alleviation and rural development but may be illegal in some countries or fraught with compliance problems in ensuring it is free of modern slavery or child labour. Site security can cause problems, poorly trained local police or private security have caused many deaths, while site invasion and illegal mining are real problems for mining companies.

In conclusion, the assessment of a corporate's management of its human rights risks is never final. It is based on trust in management, strong processes, independent verification, meaningful and open dialogue with local communities, including respecting free, prior, and informed consent, and, ultimately, in their operating record.

The assessment of any of these may change with time or with more information. However, it is worth the effort. Supporting good mining companies in turn supports economic and social development, as well as economic growth, and these companies will a big factor in transitioning society to a low carbon future. Amid all the ambiguity of what is meant by a 'Just Transition', there is no ambiguity that human rights are central to a Just Transition in the mining of transition metals.

Remuneration

Governance within UK companies is generally of a very high standard. This reflects the UK Corporate Governance Code and a long history of efforts to raise standards. However, remunerationan area of extreme importance and active engagement for us. In 2023 it ranked, along with climate, as the most common topic for engagement with investee companies.

The engagements are more of a pull than a push, with companies driving the number of engagements rather than shareholders. Company remuneration committee chairs are eager to engage and thus ensure that voting outcomes on remuneration policies and reports at the AGM are favourable. The remuneration policy is a binding vote, with policies typically renewed every three years. The resolution on the remuneration report is non-binding and happens annually.

Remuneration is not a simple topic. The challenge for both shareholders and company boards is to ensure companies can attract the best talent to run the respective business, while limiting unnecessary rent extraction. Unjustifiably high levels of pay leak value for shareholders, may cause disquiet among lesser paid employees, and even cause reputational problems among customers (where are the customers yachts!), while badly designed incentives schemes may encourage inappropriate risk-taking among executives. More broadly, increasing levels of pay ratchet up pay levels across industries.

A justification from remuneration committee chairs for higher levels of pay is often the difficulty they face in attracting talent in a global pool that is dominated by the US and the extremely generous pay packages available to US-based executives. We do have sympathy for this problem, but we are also wary of remuneration chairs being 'captured' by management and the notion that their job is to keep management happy.

In our 2016 investor letter, Reforming Capitalism, we set out some of the issues we wished to focus on with regards to remuneration, in the context of capitalism working for all stakeholders in society. Our key objectives are to increase long-term thinking and encourage greater alignment of management to shareholder interests. These objectives also include a greater emphasis on other stakeholders.

The basis of a good corporate remuneration policy is a well constituted remuneration committee. This requires both the independence of the committee members and relevant experience in the field of remuneration. We are somewhat circumspect on remuneration consultants; the committee must retain control and ownership of the policy. The committee must guard against the ratcheting upward of compensation awards, balancing this with attracting and retaining talent. We are also highly sensitive to cross boarding, and how this may lead to increasing remuneration levels.

[4] Your Guide Directors' remuneration in FTSE 100 companies October 2022

Where a policy has been adopted, we take a very dim view of subsequent 'exceptions' or alterations to fit circumstances. We may reflect such displeasure on subsequent votes regarding the remuneration report, remuneration policy or committee member re-election.

We encourage companies to set metrics that align with the overall strategy, reflecting appropriate financial metrics, in combination with non-financial metrics relating to ESG issues, specifically environment and social issues. The environmental objectives should be set to meet specific challenges within the industry of operation, while on social issues, relations with employees, customers, suppliers and the community should be reflected as appropriate. A concern we have with the drive to incorporate ESG within remuneration plans, is the lack of stretching metrics and the often qualitative nature of the assessments, which allows for higher compensation without substantial progress on underlying sustainability issues. Deloitte's annual review of FTSE 100 remuneration stated that 90% of companies currently use ESG metrics in their incentive plans and 60% under LTIPs.[4] According to the report, Scope 1 and Scope 2 emission reduction is becoming increasing prevalent in LTIPs, with a minority linking incentives to Scope 3 emissions reduction.

On carbon emissions, a report by PWC, LBS and the Leadership Institute called 'Paying for Net Zero' pointed out that "Payouts on carbon targets disclosed in 2022 averaged 86%, with over half paying out at 100%. This is surprisingly high given the common understanding that we're making inadequate progress on reducing carbon emissions…" Companies may be enthusiastic in adopting ESG targets within compensation plans, appearing receptive of shareholder demands, but the actual metrics may not be stretching, or can be achieved in ways that do not really result in decarbonisation as in the case of emissions metrics (such as divesting, rather than finding ways to decarbonise a business).

Performance metrics should be stretching for executives and payouts for meeting threshold or target performance should be restrained. For illustration, a 20% payout of a 275% LTIP scheme for threshold performance, as is typical, is an award of 55% of salary, while a 50% payout for target performance is a payout of 138% of salary. Is this warranted for threshold or target performance? A remuneration committee should retain and employ discretion to ensure payouts are matched by the quality and sustainability of the underlying performance. Malus and clawback should have a wide interpretation and be formally accepted by management.

Executives should have significant 'skin in the game' and this should include purchasing shares from their own resources.

Remuneration is a complex area and challenging to get the right balance between the various objectives and agendas. Shareholders will invariably give conflicting feedback to remuneration committees. Where we have significant influence, we will engage with companies in the construction of the remuneration policy. Where we feel our shareholding is not as significant then we will share our own remuneration guidelines to make clear to companies what we expect.

We expect companies to supply us with a clear link between the remuneration policy and the long-term strategic objectives of the business. We also expect them to provide us with clear links between remuneration and sustainability issues that are relevant for their company. Should we fail to have a satisfactory response from the company, we may escalate via collaboration with other shareholders and voting against the remuneration policy. We may vote against the election of the remuneration chair and individual board directors where we do not support the remuneration report for a second consecutive year or there is a significant breach of the remuneration policy. We will also use our votes to display our displeasure where there is a failure to employ discretion, when appropriate.

We will continue to develop our own policy and push for higher standards, ensuring that we protect shareholder interests and promote long-termism, set in the context of sustainability for all stakeholders.

Management Turnover

The FT reported in mid-September that with 18 departures 2023 was the second highest annual total since 2000, one week later and the resignation of Pearson's CEO added to the tally.

Among our portfolio holdings we have seen some major CEO arrivals and departures among UK companies. In January alone we saw three new CEOs begin their tenure - Wael Sawan at Shell, Margherita Della Valle (Interim) at Vodafone and Mark Irwin at Serco. After a period of calm (linked to semi-annual reporting), casualties started to mount in July. Alison Rose resigned from NatWest Group (Coutts/Farage controversy and leaks to the BBC) and was replaced by Paul Thwaite (on a 12 month contract), Jon Lewis resigned from Capita (after a bruising 6 years trying to turn the company around) and BT Group announced that Philip Jansen would step down in early 2024 (before completion of his multi-billion investment into fibre networks). The attrition continued into September, Bernard Looney resigned from bp (misleading the board on past relationships with colleagues), replaced by Murray Auchincloss (interim) and Andy Bird announced his retirement from Pearson (after three years "Andy feels now is the right time to hand the reins to a successor") with Omar Abbosh as a replacement.

Other notable changes across the market include a new CEOs at Unilever, Diageo, British American Tobacco, Reckitt Benckiser, Rolls-Royce, Prudential, Whitbread, St James's Place, Rightmove, RS Group, Halma, Hargreaves Lansdown and United Utilities.

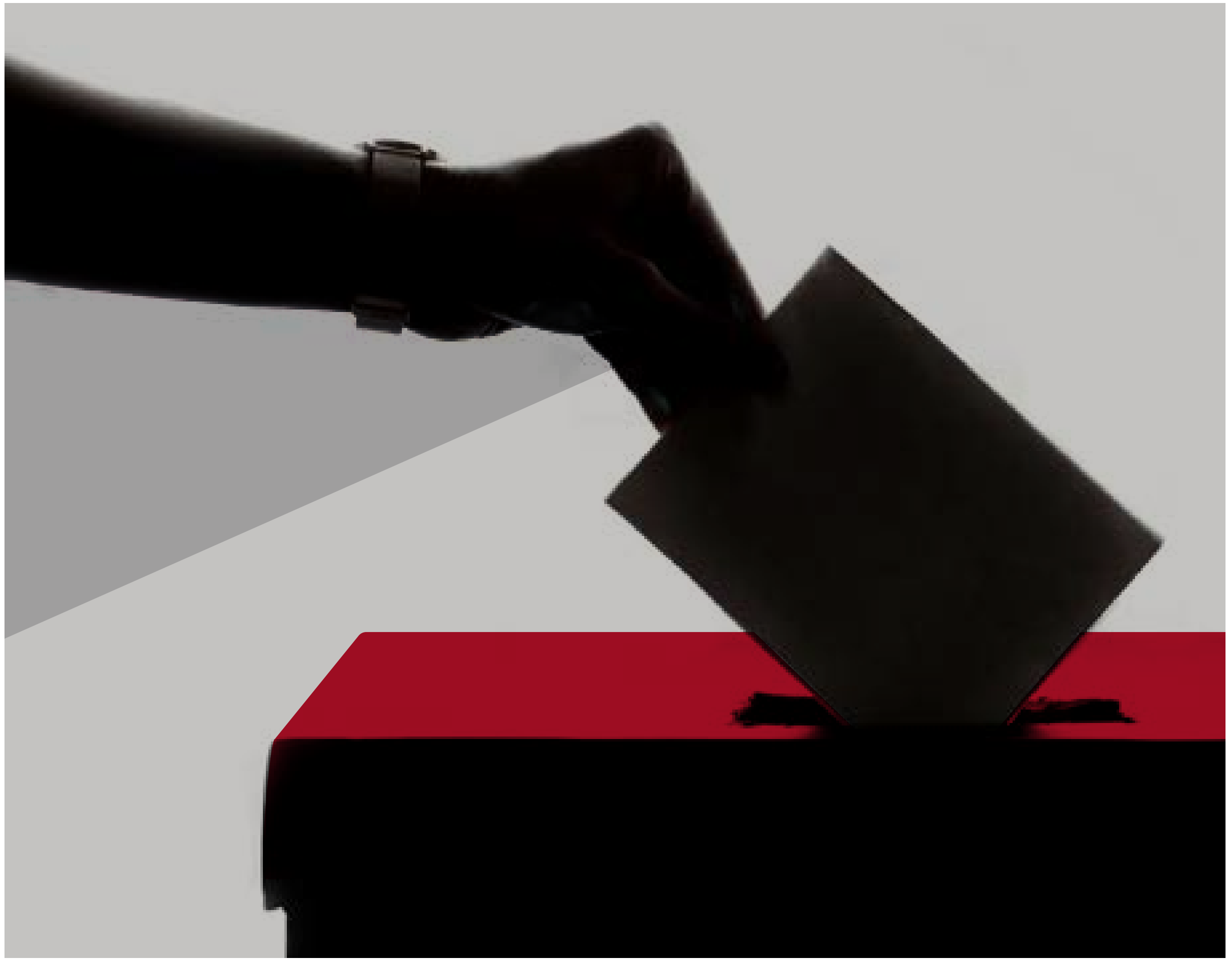
Without going into the rights or wrongs for individual departures, this was deeply frustrating. We lost some very capable executives in 2023. Management change can often be a good thing, when a company needs to change strategy or take decisions that incumbents are too behaviourally compromised to take. However, when a company has set the course, what is needed most is focus, implementation and execution. A company does not need the distraction of change at the top, the drift between appointments with lame duck CEOs or interim caretakers, followed by a new CEO ringing management changes so as to bring in their own people, or thinking they must make their mark by changing course on strategy… that is not to mention the tendency to 'kitchen sink', getting as much bad news out at the beginning of a tenure, while laying the blame with previous management. This enables a re-set of expectations and usually a re-set lower of the share price to the benefit of the incoming CEO's future reputation and remuneration. None of this supports long-run value creation for shareholders, or any stakeholder for that matter, save a small cadre of triumphant executives.

Indeed, a Deloitte study in 2021, What sets outperforming CEOs apart and how boards can help, proved out what is intuitive, as the results "showed that frequent changes in CEO reduced the company's potential to improve premium, hereby, hurting shareholders' long-term returns. The companies with fewer CEO transitions enjoyed an additional average [share price] premium CAGR of 1.5 percent against companies with frequent CEO transitions during the period. Stability and continuity of CEOs ensured higher returns."

To change this behaviour is a challenge; we encourage longer-term thinking, and longer tenure, among portfolio companies by asking remuneration committees to introduce longer-term incentive plans for management executives. These proposals include, for example, having longer 'performance periods' for shares received as part of remuneration awards, particularly for awards received in the early years of a CEO's reign. Here we get a lot of push back, with companies gravitating to the minimum recommended by the IA Principles of Remuneration "which should be no less than three years", ignoring the rest of the statement which reads "and shareholders would generally prefer longer". One of our recently retired CEOs has left two years into his five-year strategic plan for the company, leaving the market to wonder what now happens to that plan and the associated targets, a strategy in limbo.

There seems little prospect for a change in this behaviour.

Voting record and difficult decisions[5]



AGM season and the resolutions and proposals on which we vote, offer a natural point in the year to access a company on certain issues. While we are continually assessing the financial and non-financial performance of portfolio holdings through the quarterly, semi-annual and annual updates, issues such as board composition and performance, remuneration, climate transition plans and reappointment of the auditor come up for review and, as such, a definitive assessment is forced by the need to take a position on how to vote. These are very important issues and often throw up difficult decisions. For the most part, shareholders should be voting in favour of a company and its management, otherwise there is something fundamentally wrong and management should be changed. However, votes on climate plans, re-election of non-executive directors and approval of remuneration reports or policies are areas where shareholders may take more robust positions according to the Investor Forum, in 2023, 90% of '20%+ votes against' related to issues of remuneration, capital raising powers and individual director re-elections. However, the Investor Forum also reflected that "The 2023 voting season was relatively subdued with fewer shareholder resolutions compared to 2022. For the first time in seven years, executive remuneration was not the most contentious issue..."[6]

Much commentary in the media during the year was around the lack of attractiveness of listing in the UK and whether our restrictive approach to remuneration is part of the problem. It is important to recognise that UK-based companies are competing globally for talent, but what that really means is competing against the US, because Asian and continental European do not see the same levels of compensation that is seen in the US. Therefore, it is a balance, trying to hold the line on excessive compensation, while attracting talent. Ideally, where companies must pay up for talent when competing in the US market, there would be an increase in performance hurdles or the length of holding period. However, there is a reluctance from companies to make these demands.

On the other hand, shareholders are feeling "the messages that they send through their votes, are often-times not being addressed." The

[5] The voting record represents voting across all Team strategies.
[6] https://www.investorforum.org.uk/wp-content/uploads/securepdfs/2024/01/Annual-Review-2023_Final.pdf

difficult relationship between corporates and their shareholders was further illustrated by Tulchan's 'The State of Stewardship' report, published in November 2022. Directors "felt the relationships between the boards they lead and their companies' shareholders are not working as well as they should".[7] The Report also blamed the role played by the proxy advisors, the "proliferation of ESG (environmental, social and governance) standards and scorecards" and what they see as a box-ticking approach of many institutional investors.

One area where we do feel there is a risk of undermining the relationship with companies, is where in a desire to demonstrate active stewardship credentials, voting records become one of the clearest and easiest metrics to prove activism on the part of investors. The harder assessment on stewardship is a qualitative one and we believe that while voting records are important, they cannot become the main indicator of stewardship, or the unintended consequence will be a decline of real engagements with companies as relationships deteriorate and trust erodes.

Figure 1 Investor Forum – voting in practice annual review 2023[8]

	Cumulative FTSE 350 AGM votes (1.1.12 - 31.12.23)			
VOTES AGAINST	10 – 20% Potential emerging issues	20 - 50% Public register	50%+ Failed votes	TOTAL
Capital related	98	31	5	134
Director votes	97	26	1	124
Remuneration	60	33	2	95
Meeting technicalities	15	4		19
Sahreholder resolution	3	4		7
TOTAL	273	98	8	379

7 Tulchan, The State of Stewardship report November 2022 (link)
8 https://www.investorforum.org.uk/wp-content/uploads/securepdfs/2024/01/Annual-Review-2023_Final.pdf

Voting record

	Votable meetings	% Votable voted	% meetings with one or more votes against management	All proposal: % of proposals voted with	All proposal: % of proposals voted against/ abstentions	Management proposals: % of proposals voted with	Management proposals: % of proposals voted against/ abstentions	Shareholder proposals: % of proposals voted with	Shareholder proposals: % of proposals voted against/ abstentions	% Proposals voted against ISS policy	% Proposals votes
2014	42	95.2	28.6	92.7	3.8	94.4	2.0	45.8	54.2	0.0	0.0
2015	50	92.0	28.0	85.9	3.6	88.1	1.0	27.6	72.4	0.0	0.0
2016	46	93.5	47.8	81.6	8.6	83.0	6.7	48.5	51.5	4.7	4.7
2017	60	90.0	33.3	82.0	3.2	82.9	2.1	64.7	25.5	0.0	0.0
2018	67	97.0	32.8	94.9	2.9	95.9	1.8	42.9	57.1	0.0	0.0
2019	56	96.4	28.6	92.8	2.8	94.0	1.6	44.0	52.0	0.2	0.1
2020	64	93.8	40.6	90.5	3.6	91.7	2.8	57.9	26.3	0.2	0.2
2021	46	97.8	15.2	94.7	2.0	95.5	1.2	50.0	50.0	0.9	0.9
2022	41	100.0	61.0	93.0	7.0	93.5	6.5	55.6	44.4	7.2	3.9
2023	37	100.0	40.5	96.2	3.8	96.5	3.5	81.3	18.8	5.1	3.0

"The harder assessment on stewardship is a qualitative one. While voting records are important, they cannot become the main indicator of stewardship, or the unintended consequence will be a decline of real engagements with companies as relationships deteriorate and trust erodes."

Source: ISS, Redwheel as at 31 December 2023

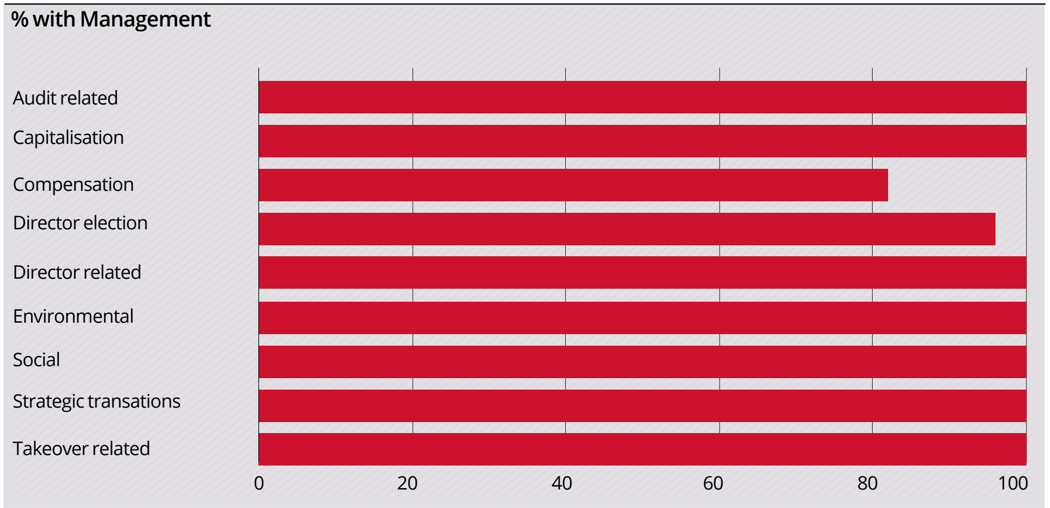
In 2023, we had 37 votable meetings and voted on 100% of those meetings. Of the 695 management proposals, we voted with management 96.5% of the time, and against 3.5% of the time.

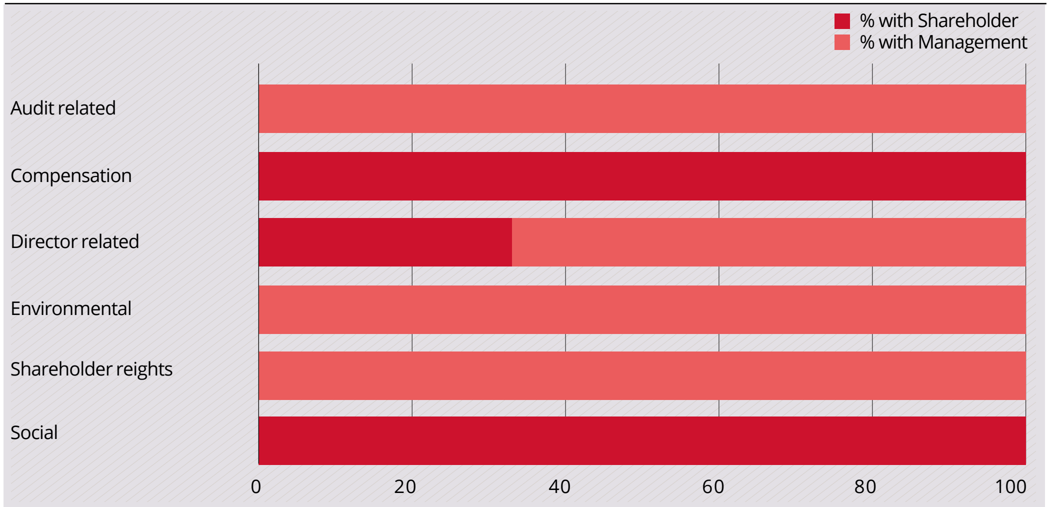
Of the 16 shareholder proposals, we voted for 56% of proposals and against 44% of proposals. We did not support a shareholder resolution regarding climate change targets for bp, nor a shareholder resolution for Shell to align its 2030 target for reducing scope 3 GHG emissions (i.e. those arising from the use of its energy products) with the goal of the Paris Climate Agreement. We do not feel obliged, nor do we believe it would be appropriate, to have a policy of blanket support for shareholder proposals. Some proposals may be poorly formulated, have unintended consequences or impede engagements.

A decision as to which way to vote on a resolution may rely on an engagement with a company, which helps supplement our own analysis. For example, we engaged with both BP and Shell on their respective remuneration reports. In this case, we voted against the BP Remuneration Report as we felt there had been insufficient adjustment to account for the windfall gain to executives. We also voted against the Shell Remuneration Report due a lack of meaningful adjustment to the new CEO's salary and the full marks received for safety despite there being two fatalities.

Where we vote against management recommendation, we will generally communicate our position to and, when asked to, we will provide feedback to the company. For example, following ITV's AGM, the company contacted us to understand why we voted against the re-election of one of their non-executive directors. In this situation we had voted against the director due to overboarding concerns. We fed this back to ITV, explaining why we voted against and the importance of overboarding.

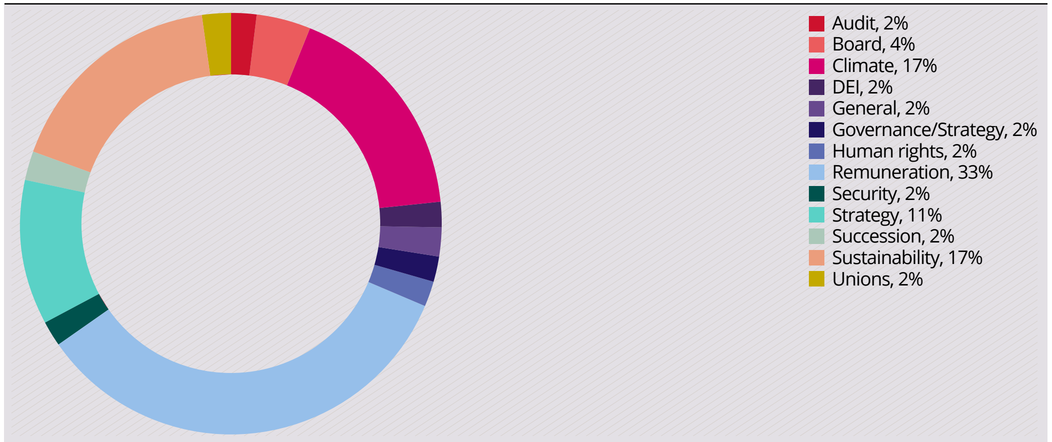
Engagements with a company can also help us improve our decision making. For example, in 2022 we voted against HP's chair due to concerns of overboarding. However, following an engagement with HP's chair we changed our assessment and voted 'for' in 2023. We assessed that he is doing a good job and is a sensible influence on strategy and management, and the relationship gives us a means of communicating with the board, which we might jeopardise with a new chairman.





Source: ISS, Redwheel as at 31 December 2023

Engagement record



Source: Redwheel as at 31 December 2023

Engagement is of great importance in understanding and communicating with our investee companies. With a long-term investment horizon and a concentrated portfolio, we can build meaningful engagements. The engagement process is led and carried out by the portfolio managers. Engagements are an extension of monitoring, and it is important to add that we feel management time should be protected from excessive demands from shareholders, so we will typically focus on annual meetings with senior management where a company is operating as expected.

Engagements will be determined by the size of the exposure within the portfolio and the materiality of the identified risk, including ESG risks. We will draw from experience in assessing materiality risks, plus we draw from both the company's own materiality assessment and independent assessments on a sector basis, such as the SASB Materiality Map. Please refer to our Team ESG Policy for more detail on how we prioritise engagements.

The number of engagements we have with companies continues to increase. The trend is driven by our desire to understand sustainability risks better and as companies wish to explain their sustainability plans to us. In 2023, we had 46 separate engagements, comprised of 110 individual interactions.

We engaged with management 74% of the time, and 26% of the time at the board level. We will engage with the board when there are question marks over strategy, when there are issues around governance and remuneration or on succession. Additionally, we may engage with the board on sustainability issues where we perceive that the management team is not engaging sufficiently on the matter, or when we wish to apply greater pressure on specific topics such as emission reduction targets.

Climate - Barclays

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Reason for engagement

We have had a long running engagement with Barclays on its climate transition plans, going back to the 2021 AGM. Following in-depth analysis of its updated transition plan in early 2022, we determined that the detail offered in its strategy did not support the company's high level aims and its desire to align with the Paris Agreement and the stretch goal of 1.5°.

Barclays had set out three aims:

Aim 1. Achieving net zero emissions. This was flattered due to Covid and use of various synthetic instruments.

Aim 2. Reducing its financed emissions. This was undermined by carve-outs and exemptions.

Aim 3. Financing the transition. This was flattered though backdated start date, and impact capital committed not financially meaningful.

As a large lender to the fossil fuel sector Barclays will increasingly come under pressure to manage these exposures in a way that supports society's energy transition and avoids possible future impairments of loans made to carbon intensive companies. The bank also needs to be cognisant of changing customer preferences, regulations and capital flows, and be mindful not to risk the accusation of greenwashing through their products or through their transition plans. Failure to manage these challenges properly may undermine the profitability of the company, thus the valuation of the company. It will also mean the company remains not aligned with the goals of the Paris Agreement.

Scope & process

Ahead of the 2022 AGM vote, we wrote to the Barclays' Chair, setting out why we came to the decision to vote against its climate strategy, and that we would like to further engage on the issue. In the letter, we encouraged Barclays to continue developing its transition plan. At the same time, we shared our analysis of Barclays transition plan with 35% of the shareholder register, ShareAction and IIGCC, and publicly announced our position ahead of the vote.

Post-AGM we received a letter from Barclays inviting us to engage, leading to a meeting with the Barclays Sustainability Team, followed by a meeting with the Chair where we presented our views on Barclays' climate strategy. Barclays sustainability team and company secretary followed up requesting the presentation we shared with the Chair.

Outcome

In Q1 2023 we took part in a group call with Barclays to discuss its ESG update. Barclays' updated plan addressed most of our issues with its original plan:

Aim 1. There is a greater focus on actual reduction of emissions (focusing on their EV fleet, PPAs, reduced travel, reduced energy consumption), rather than buying energy attribute certificates and offsets.

Aim 2. Barclays has aligned the thermal coal power generation policy in the US with that of Europe and the rest of the OECD, and effectively ceased lending to oil sands.

Aim 3. Barclays is increasing its sustainable financing to $1 trillion and increased its Impact Capital Programme funding from £150m to £500m.

On its green mortgages, Barclays has shifted the language away from greenwashing type of claims to much more humble 'piloting' language as it attempts to understand homeowner behaviour and thus learn how to drive real decarbonisation of residential property. It has also established a Board Sustainability Committee, a welcome development and a sign of the increasing commitment of the bank to improve on its climate plans and sustainability credentials more broadly.

Barclays acknowledged our important contribution, including our detailed analysis of its transition plans and the many engagements we had with the company. This successful engagement shows what can happen when we get our voice and analysis into the board room.

Following the engagement, we now have regular meetings with the chairman, management and the sustainability team, at their request. In these meetings we can share feedback on their evolving plans and market expectations.

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Human rights - Barrick Gold

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Reason for engagement

Barrick Gold is a Canadian based mining company. In early 2019 it completed its merger with Randgold Resources to create the world's largest gold miner at the time. The company was responsible for 4% of total global gold mine production in 2020, second to closest peer Newmont Corp (4.9%) and ahead of AngloGold Ashanti (2.5%). Gold accounts for 93% of company revenue, copper 6%, other 1%. By assets the company has greater exposure to emerging markets (57%), than developed markets (43%).

The company has a troubled history. When it merged with Randgold in early 2019, several of Barrick's mines were not operating due to controversy. Two particularly troubled mines included Porgera in Papua New Guinea and North Mara in Tanzania. Randgold had a much better operational reputation and its management team, led by CEO Mark Bristow and CFO Graham Shuttleworth, took control at the merged company, Barrick's John Thornton remained as Executive Chairman.

Barrick Gold's shares underperformed Newmont's shares for several years, with several factors driving the underperformance (latterly the underperformance has closed as Newmont's acquisition of Newcrest raised concerns about Newmont's strategy). However, we believe Barrick Gold was suffering a discount to Newmont due to the latter's superior ESG ratings. Barrick's environmental and human rights issues was discouraging ESG focused investors, notably the company was and remains on the Norges Bank IM Exclusion List for 'severe environmental damage'.

Riverine tailings disposal methods at the Porgera, and allegations of violent conflict, sexual assaults, and human rights violations at both North Mara and Porgera were immediate problems for the company to address, along with the longer-term decarbonisation of their mining operations.

Scope & process

We met with the Barrick Gold CEO and CFO, along with the head of Sustainability in November 2020. Our judgement at the time, was that there was much work to do, but the management team had a clear plan to deal with these legacy issues. We did, however, write to the Chairman in 2021 encouraging the company to improve on its GHG emission disclosure and emission reduction targets.

We have continued to monitor and communicate with the company since then. In 2021, as the company worked to rebuild relationships with various stakeholders the CEO said "Generally, you can operate in the majority of mineral-endowed countries in the world, provided that you're prepared to recognize and build a licence to operate, and what happened in Papua New Guinea is, we lost that." (Financial Post 15/04/2021). It was at this point that Barrick agreed a new arrangement with the government of Papua New Guinea, with PNG stakeholders getting 51% of the new joint venture and receiving 53% of the economic benefits over the life of the mine.

This past year Redwheel hired Jessica Wan to be the Social Lead within Greenwheel, bringing with her immense human rights knowledge from a career that has included working for the International Labour Organisation, and then in a consultancy role helping corporates identify human rights risks within their operations, supply chains and customer base. Jessica has hugely improved our approach and introduced a new human rights framework.

Using that framework, we conducted a thorough review of Barrick Gold's human rights policy. Our assessment was that Barrick Gold has implemented a comprehensive human rights policy, made good progress in cleaning up legacy issues and aligned with international best practices. We did identify areas where the company could improve to give more confidence about the implementation of best practice and redress of legacy issues, such as improving the grievance mechanism and demonstrating meaningful and open dialogue with local communities, including respecting free, prior, and informed consent, and with civil society.

Some stakeholders in Barrick Gold are yet to be convinced that the company has fully addressed all past issues. Barrick remains on the Sustainalytics watch list for breach of global norms and one of our large investors deemed them to be in actual breach, using their own assessment framework.

To get reassurance that Barrick Gold has properly addressed these issues, we engaged again in 2023 with the company's CEO and with the company's sustainability team who gave an in-depth account of how they had handled the legacy issues and what steps were being taken to prevent a recurrence in the future.

We also introduced Barrick to our investor, so that they could have their own engagement on the issue. We sought further input through conversations with SHARE (a Canadian shareholder organisation) and the leads of the PRI-Advance Initiative's Barrick Gold Collaboration. This organisation is similar to CA100+, with a focus on human rights rather than decarbonisation.

Outcome

These dialogues are ongoing, and, most recently, we co-signed a letter with our large investor making specific recommendations to Barrick on the areas outlined above. We believe it is worth supporting good mining companies, that they can generate attractive returns for investors and, in demonstrating their role in supporting economic and social development, as well as the transition, and by acting in line with global norms, they improve their image and brand. In turn, this should reduce sustainability risks for the portfolio.

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Climate - Bp

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Reason for engagement

Bp announced a climate transition strategy adjustment in February, reducing the scale of the planned upstream divestments, which had a knock-on impact on the GHG scope 3 reduction targets arising from their production (35%-40% scope 3 target reduced to 20%-30%).

This change elicited many negative news headlines as the move was broadly interpreted as reducing bp's climate commitments. However, as with the original commitment in 2020 to reduce hydrocarbon production by 40% by 2030 perhaps received too much praise, the latest announcement is perhaps judged too harshly. The February change to production targets did not change emission targets for scope 1 and scope 2 (-50% by 2030), bp will have to work harder to meet the same targets, while the changes led to a slight shift in the net zero sales target based on average lifecycle carbon intensity 'greater than 15% reduction' from '15-20% reduction'. The slight reduction in the latter target illustrates in essence what bp is doing - it will sell more of its own hydrocarbon product in future and sell less of third-party hydrocarbon product. Of course, had it divested those hydrocarbon assets as planned, the irony is that it may have then bought back the same hydrocarbons from the buyers of the underlying assets.

Scope & process

Rather than accept the headlines, we wished to understand more deeply the impact of the changes and the motivation for those changes. There are several 'narratives' as to why bp altered the strategy. Critical narratives might point out that bp was never a true transition believer, the plan announced in 2020 being a nice way to present asset disposals when oil prices were low, now with high oil prices they decide to keep the assets.

A less critical narrative might claim that the management felt pressure from shareholders to slow the speed of the transition, that the earnings bridge between the legacy hydrocarbon business and the low carbon growth businesses was too risky, the decline rate on legacy too steep and the growth rate on low carbon too uncertain. By slowing the decline, more time was given to the low carbon businesses to deliver the offsetting profits. The share price before and after the announcement appeared to give some credence to this explanation. Having underperformed Shell by 20% since February 2020, the share price all but closed the gap following the announcement.

There is also a further part to this narrative. For various reasons (potentially hard and soft divestment, but more likely a function of general outflows from UK equities), UK-based shareholders have general been selling bp over the last few years (top UK institutions have reduced their bp position by 30% since February 2020). Given this backdrop, if the company is going to attract new investors given this backdrop, it is more likely to be from US-based investors. This may also help to explain the revised strategy, which is focused less on the climate targets and focused more on cash flows.

The company is pushing its own narrative, however. The work it has undertaken to reduce costs over the last few years has allowed it to hold on to more upstream assets and exploit them at a lower cost per barrel. Doing this allows it to lean into the low carbon businesses more quickly because of the additional profit generated.

A back of the envelope calculation based on company guidance suggests that it will generate $17.5 billion additional EBITDA by 2030 from holding on to the upstream assets. But holding on to the upstream assets and developing them requires additional capital, c. $8 billion. Of the net $9.5 billion remaining, it will spend an additional $8 billion on the low carbon businesses, leaving c. $1 billion for additional shareholder returns. More capital to upstream, more capital to low carbon businesses.

We should recognise that by not divesting as originally planned, there is increased risk of stranded assets, if oil demand destruction happens at a pace faster than currently anticipated, then these assets may be worth less in the future and may not generate the cash flows as expected. The company say this is mitigated by focusing on short payback and tie-back projects (leveraging existing infrastructure).

In understanding bp's change in strategy, we engaged numerous times with the company (including CEO, CFO, Head of Gas and Renewables, Head of Sustainability and Company Secretary), we spoke with peers in the financial industry to gauge other views and our internal Greenwheel team guided us in our assessment against net zero pathways.

Outcome

The original scope 3 reduction target was driven by divestment, up to 80% or more. It also drives scope 1 and 2 targets, last year divestment accounted for 1/3rd of scope 1 and 2 emission reductions. From a purely financial standpoint, divestment of high-cost barrels reduces stranded asset risk, bp uses the term 'resilient hydrocarbons' to describe this strategy. If companies can divest assets and invest the recycled capital into successful projects, this is value creative. However, the challenge is selling hydrocarbon assets in a buyers' market, and how attractive the returns are in the low carbon businesses where the capital is then deployed, renewables for example generate much lower returns.

What we do know is divestment itself does not decarbonise the real world, it may decarbonise a company or indeed a portfolio, but it does not follow that it reduces real world emissions or mitigates global warming. Bp and other majors have been selling assets to private companies who sweat the assets harder and often have worse environmental records, and they certainly are less transparent. Hilcorp is one example of a buyer of bp's assets, it is owned by US billionaire Jeffery Hildebrand, and has a terrible environmental track record in Alaska (assets it bought from bp), and is credited with stabilising production at aging oil fields, i.e. not declining production as fast as it was declining under bp. Therefore, divesting is not climate positive.

The second leg to understand is how the cashflows are spent from the upstream assets whoever the owner, we have no view as to how Hilcorp is deploying capital to mitigate climate change or develop low carbon businesses (according to its website it only has oil and gas operations, and according to a Ceres sponsored report it is one of the most methane emissions intensive energy companies in the US), but we can see that bp is deploying more capital to low carbon businesses as a result of retaining more upstream assets.

On balance, bp's latest move may be climate positive. However, if the move signals to other oil majors that retreating from climate ambition is acceptable, then this would clearly be a negative outcome. On alignment with net zero, bp's scope 3 targets from production still align with the IEA net zero pathway (based on oil consumption in the IEA NZ scenario), but the scope 3 targets for sales or average lifecycle carbon intensity do not align and didn't align before the change in policy.

Climate - Anglo American

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Reason for engagement

Anglo American is a multi-national mining company and is a major producer of platinum, diamonds, copper, nickel, iron-ore and steelmaking coal. Due to the nature of its business, Anglo American has been identified as one of the world's largest GHG emitters by the Climate Action 100+ investor coalition. Anglo American its targeting net zero in Scope 1 and Scope 2 emissions by 2040, and a 50% reduction in Scope 3 emissions by 2040 (against a 2020 baseline).

Scope & process

To go beyond our own research, we commissioned an external assessment of Anglo American's transition plan. The assessment reviewed Anglo American's climate transition plan, financial and sustainability disclosures with an aim to identify opportunities where the company can better align with a 1.5°C future.

We held several meetings with Anglo American during the year regarding its transition plan. This included meetings with Anglo American's investor relations team and its Head of International Policy and UK Government Relations. We also held a meeting with the company's CEO focusing on performance, demand outlook and production issues, strategy, and capital allocation.

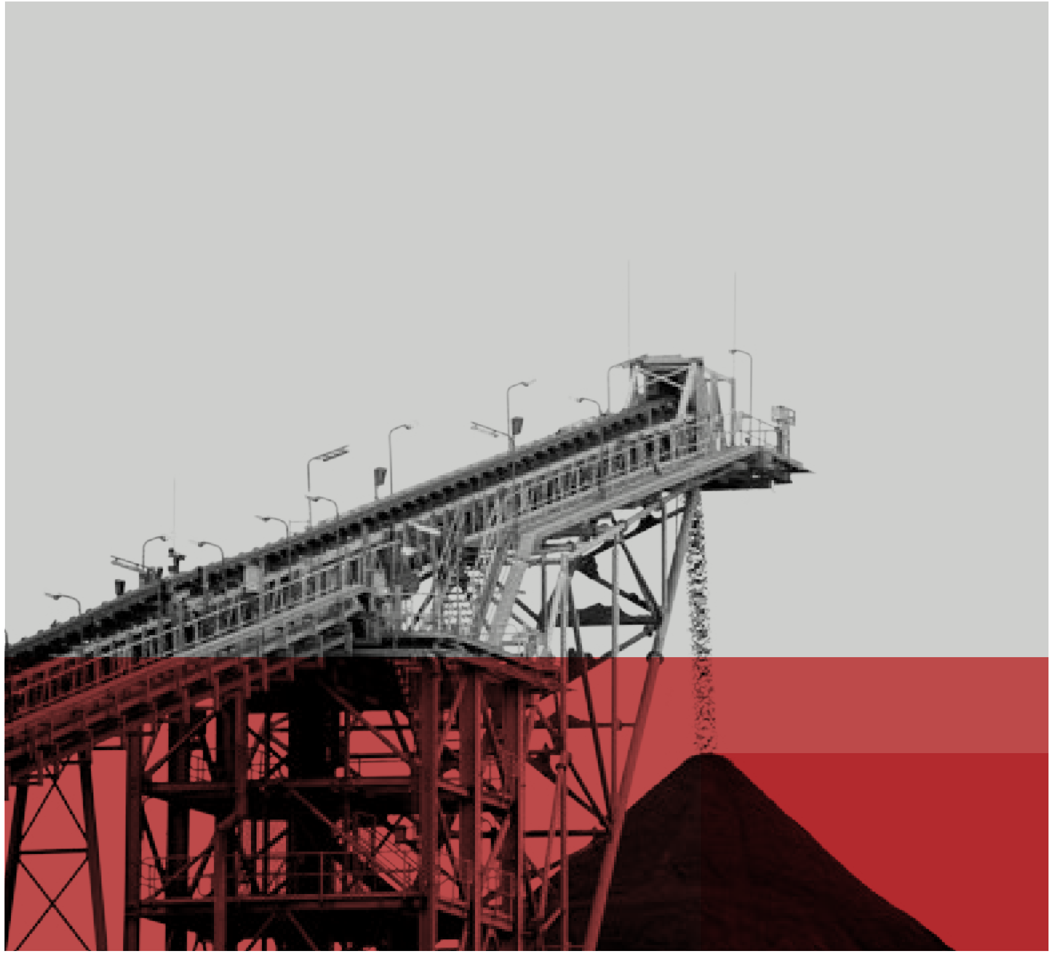
We presented to Anglo American our assessment of its transition plan, the details of the external assessment, highlighting strengths and weaknesses and providing recommendations. For example, we noted Anglo American's incoherent messaging when it comes to Scope 3 in that Anglo American its increasing net coal production while deflecting responsibility for decarbonisation to its clients. Here, we recommended it sets Scope 3 targets and improve its current Scope 3 disclosure by adopting annual reporting and disclose underlying assumptions.

A second important area was the company's methane emissions (second most common GHG). Methane is often present in underground coal seams and is a safety hazard to miners. Ventilation of mines releases methane into the atmosphere. We wish to see progress on methane reductions and the company's ability to capture, store, or destroy methane. Anglo American appreciated our in-depth research and the opportunity to have a structured and constructive discussion on the issues the company faces.

Following the meeting we reiterated the key points of the presentation in an email to Anglo American. The company committed to revert to us, responding fully to the points we raised. As a next step, we offered to facilitate an introduction between Anglo American and the company that produced the external assessment of Anglo American's transition plan.

Outcome

Following our engagement with Anglo American, we were introduced to the lead investors on the Climate Action 100+ Anglo American assessment and asked to become a contributing investor. We shared our research on Anglo American's transition plans with the group. By sharing this information with both the company and other shareholders, we believe we can maximise the chances of improving the company's transition plans. We will be continuing our engagement with the company and collaboration with Climate Action 100+ in 2024.



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Climate - Centrica

Reason for engagement

Centrica (the parent of British Gas) is an energy supplier, which owns upstream assets and a stake in the UK nuclear fleet, and has an energy marketing and trading business. The company has had a very difficult time over the last decade, with an unstable regulatory regime, political interference in the energy market and strategic mistakes resulting in dividend cuts and share price declines. Our ESG analysis showed the transition to be a material issue for the company, in particular, how it should move its carbon intensive businesses and navigate the difficult regulatory and political risk attached to the transition.

Centrica's current transition plan (published in 2022) was a big development on its previous position. However, there is further work to do to ensure the company is managing the transition risk, to reduce its large carbon footprint and be recognised for this by the market.

The aim of this engagement was to present to Centrica the challenges we face as investors, the importance of frameworks used by investors to assess net zero alignment, and the challenges we face in assessing Centrica itself, which is what assessment frameworks also struggle with as Centrica has multiple business lines.

Scope & process

While the current engagement started in 2022, when we shared with Centrica our in-depth analysis of where the company has come from and where they are now, we were engaging with the company on the transition since 2020. We believe that that engagement led to a much improved plan in 2022, albeit with lots of room for improvement.

In the autumn of 2022, Redwheel was invited to become a co-lead on the CA100+ Centrica collaboration. Joining the collaboration and having had Centrica just publish a climate transition plan, really marked a new phase in the engagement.

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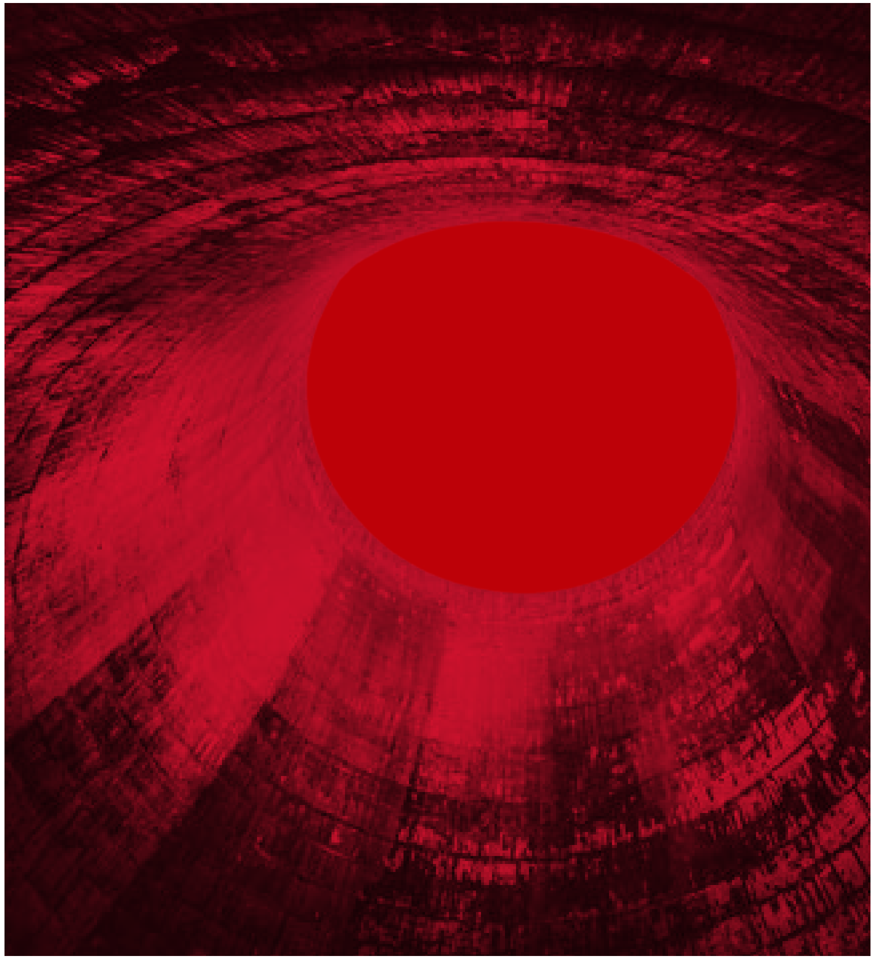

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In 2022, we met with Centrica's Chair, Centrica's Group Head of Environment and Centrica's CEO. We also began our meetings with the CA100+ Collaboration.

In 2023, we had eight separate interactions with Centrica as part of this engagement/collaboration. This included in person meetings and video meetings.

As part of the Climate Action 100+ Centrica collaboration, we met with Centrica's Group Head of Environment to walk him through an external report on Centrica that we had commissioned with the other CA100+ co-leads. We explained the problems with the current plan and the lack of detail on levers for driving decarbonisation. We also met with the CEO individually and with our CA100+ Co-Leads.

These interactions led to workshops with Centrica's Environment Strategy Team where we deep-dived into assessing emission disclosures, alignment benchmarks and decarbonisation strategies. Two of these workshops took place in March and April 2024.

In addition, Redwheel, along with several other investors, corporates, industry associations and consumer groups came together to encourage the government to include a net zero mandate for the Office of Gas and Electricity Markets (Ofgem) in the Energy Bill. We also wrote with our co-leads to OFGEM on "the importance of enabling an acceleration of renewable energy capacity connections for companies to achieve necessary progress towards the net zero by 2050 target."

Centrica is an example of a deep engagement directly with a company, which deepened further via a collaboration. Redwheel act as a co-lead on the Climate Action 100+ Centrica collaboration.

Outcome

The overall objective was to improve Centrica climate transition plans, bringing them into Paris alignment where possible. We see this as a multi-year engagement, and we will be able to determine the measure of progress through the updated Climate Transition Plan to be published in 2025 (the previous plan was published in 2022).

However, the objective to have Centrica deeply and genuinely engage with us on the matter has been achieved, we asked for CA100+ to be included in a more in-depth discussion on the development of Centrica's transition plan and disclosures, where CA100+ could help inform an outcome that a wide group of investors wish to see. This request was taken very positively by the CEO and we have now participated in two deep-dive workshops in early 2024, with more to follow.

Voting policy

We recognise our responsibility to actively exercise our voting rights. It is therefore our policy to vote all shares at all meetings, except where there are onerous restrictions, such as share-blocking (where we must surrender our right to dispose of the shares for a period). We do not lend stock.

As an independent investment team within Redwheel we set our own voting policy, however, we draw on the support of the central Redwheel Sustainability team in developing the policy. Our policy is to vote in the best interests of our clients and in line with the high standards of corporate governance as set out in the UK Corporate Governance Code 2018. Our voting is shaped by our fundamental research, by our engagements with our investee companies and by Institutional Shareholder Services (ISS), the proxy voting service. ISS follows best corporate governance practice in each market, based on local norms, codes and regulations. In the UK, ISS policy is rooted in the voting guidelines of the Pensions and Lifetime Savings Association PLSA and follows the guidance provided by the Financial Reporting Council (FRC) in the UK Corporate Governance Code. The PLSA and the UK Governance Code 2018 set a high standard globally on governance matters, along with reference to the ICGN Global Governance Principles, we use these standards as a benchmark on votes outside the UK, and where appropriate we will override local ISS policy for the higher standard.

In 2022, the proxy recommendation the team moved to the ISS Climate Voting Policy. The move reflected our own evolving views on governance and climate risk. We will, however, diverge from the recommendations when our own research or engagements leads us to an alternative view on what is in the best interests of our clients.

Focus areas

We will continue to develop our voting policy to ensure we lever this very important and influential shareholder tool to improve outcomes. We will use our position to cast votes on behalf of our investors to support policies that we believe improve corporate social responsibility, many which were set out in our investor letter, Reforming Capitalism, in 2016. These include;

1) improving professionalism of non-executive directors,
2) including employees on company boards,
3) reforming pay and promoting greater 'skin in the game' for management,
4) ending quarterly reporting,
5) encouraging more responsible ownership. Some are more immediately attainable than others.

On remuneration we have set out a clear guidance as described in the Remuneration section of this report. Our experience on remuneration engagements tends towards hardening our voting stance at AGMs.

We subscribe to the UK Governance Code on board composition (principle 3) "appointments… should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths."

Diversity offers a defence against 'group think' and improves a board's ability to manage the many opportunities and challenges it will face through a range of experiences, skill sets and backgrounds. We believe the board should be regularly refreshed to benefit from new skills and views. Diversity is also an increasingly important subject for customers and employees, which company management needs to consider.

In addition to composition, we review the election of directors in the context of external commitments, we wish to avoid non-executive directors being overextended with such commitments. While in the normal course of events a portfolio of directorships is perfectly manageable, in a crisis the demands placed on NEDs may increase substantially and we need to see this reflected in board members' obligations. ISS recommends no more than five public company board directorships for an individual, a Chair position counting as two mandates and an executive director counting as three. However, this recommendation fails to account for non-public board memberships or other commitments, nor does it account for how demanding individual company situations may be. As value managers, many of our companies are going through intensive transitions and require a deeper level of commitment than normal. Therefore, we take a more hard-line stance on over boarding by directors. Should a board member be over committed we may communicate this via the Chair or Senior Independent Director and vote accordingly at the AGM.

Shareholder proposals

We may support shareholder proposals (a proposal put forth at the AGM, sponsored by one of the company's shareholders or a group of shareholders) linked to our focus areas, or which aim to raise the standards of corporate governance in other ways. We will also support proposals where we are aligned and where management is not engaging on the specific issue. Where management is responding to shareholder pressure in a constructive manner, we will allow them the flexibility to find the best and most appropriate resolution of an issue, rather than tying their hands through shareholder proposals.

We support proposals that seek greater disclosure. For example, we dislike companies making political donations and with both political donations and lobbying we will support disclosure proposals from other shareholders. We accept some lobbying is necessary to educate and represent industry to those making laws and regulations pertaining to the industry. However, we monitor companies' memberships of trade associations and non-profit organisations for alignment to the stated principles and policies of a company.

We caution investors seeking blanket support for shareholder proposals. Some proposals may be poorly formulated and have unintended consequences. There are also examples of shareholder proposals countering the spirit of greater diversity and inclusion. An example was a shareholder proposal at Disney (Workplace Non-Discrimination Audit), which worked against efforts to foster a diverse and inclusive workforce.

Commitment to our community and industry

In 2020, Redwheel reinitiated programmes on social enterprise, environment, and diversity which together are referred to as SEED. A SEED Steering Committee now has formal oversight of activities, with work in each area being driven by employee volunteers from right across the business.

At a team level we have sought to contribute to our local community. In 2019 we initiated an internship programme for secondary school students. The students are given two-week, paid internships and sit with the Equity Income & Value Team, while also gaining exposure to other parts of the company. The students are selected from the Westminster Academy, a non-selective secondary school based in one of the most deprived areas of our borough. Of the Academy's student population 77% do not have English as their first language (England secondary school average 17%), 58% are eligible for free school meals (England secondary school average 28%) and 23% of pupils receive SEN Support (England secondary school average 11%). In July 2023, four students completed a two-week internship. This brings to 17 the total interns since the programme began, more than 70% female from ethnic backgrounds. While it is small in number, the feedback from the interns gives us a sense of the value of the programme to these students. We would love to share our experience and extend our support in helping set up similar internship programmes in other firms in the industry (please do contact us if interested).

Felix THE FELIX PROJECT
GOOD FOOD FOR GOOD CAUSES

As a team and as a firm we also support the Felix Project. This is a London-based food redistribution waste charity set up in 2016 to tackle the issue of food poverty in London and the waste generated by the food industry (restaurants, food retailers, food producers). Food retailers have set targets to reduce food waste as part of their sustainability commitments, for example Marks & Spencer (a portfolio holding) committing to "100% of edible surplus to be redistributed by 2025 and food waste reduced by 50% by 2030." Charities, like the Felix Project, have a huge role to play in helping to achieve a reduction in food waste, while alleviating food poverty on our doorstep.

We endeavour to contribute to the betterment of the industry through participation in industry bodies. John Teahan volunteers for CFA UK, he is currently hosting the CFA UK Climate Change podcast series. He was recognised in 2023 by the Investor Forum for his engagement work with UK banks on climate issues and was selected as an ESG Champion by the National Resource Forum, for "outstanding contribution in driving forward innovation, education and enacting real change in the implementation of ESG policies and strategies across the industry". John also Chairs the Redwheel SEED – Social Enterprise Group.

ESG risk ratings & scores

We use Sustainalytics as our primary ESG ratings provider. In 2019, Sustainalytics transitioned to a new, risk-based, scoring system significantly improving their service and bolstering our internal research. The Sustainalytics ESG Risk Rating measures the degree to which a company's economic value is at risk driven by ESG factors.

Best ranked	Company	Risk score	Risk category
1	Pearson Plc	5.44	Negligible
2	Kingfisher plc	10.53	Low
3	WPP Plc	11.25	Low
4	HP, Inc.	11.57	Low
5	ITV Plc	11.57	Low

Lowest ranked	Company	Risk score	Risk category
1	BP Plc	35.97	High
2	Shell Plc	33.68	High
3	Barrick Gold Corp.	30.85	High
4	Honda Motor Co., Ltd.	28.7	Medium
5	Marks & Spencer Group Plc	28.23	Medium

Source: Redwheel, as at 31 December 2023. The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

Sustainalytics ESG Risk Rating Methodology

The ESG Risk Rating is a measure of a company's 'overall unmanaged risk' which is made up of unmanageable risks (risks that are inherent to a particular business model that cannot be managed by programmes or initiatives – such as product-related carbon risks for an oil company that arise from the burning of oil in the use phase), as well as risks that could be managed by a company through suitable initiatives, but which may not yet be managed (a management gap).

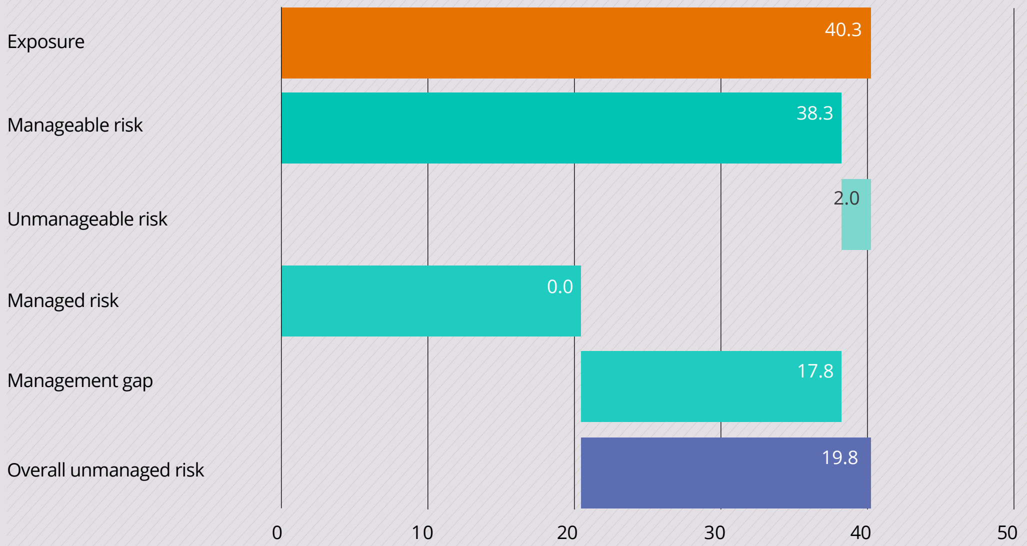
This ESG Risk Rating is made up of:

1. Exposure. Reflects the degree to which a company's enterprise value is exposed to material ESG issues.
2. Management. A measurement of a company's ability to manage it exposure to material ESG issues.

A lower ESG Risk Rating represents less unmanaged risk. Unmanaged risk is measured on an open-ended scale starting at zero (no risk) and, for 95% of cases, a maximum score below 50. Based on these quantitative scores, Sustainalytics can group companies into one of five risk categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all industries covered. This means that a bank, for example, can be directly compared with an oil company or any other type of company Sustainalytics cover.

The chart below illustrates this process for NatWest Group. NatWest Group has been determined to have a low ESG Risk Rating.

Sustainalytics NatWest ESG risk rating



Source: Morningstar Direct.

Source: Redwheel, as at 31 December 2023. The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

Engagement with Sustainalytics

Where we feel that a company is not being treated fairly from a scoring perspective, we will look to engage with both Sustainalytics and the individual company. An ESG score is only one small input in our process, however, it does matter for many funds and thus a weak score indicating high ESG risk may preclude many funds from buying shares in the company and act as an impediment to a higher stock valuation.

Comparison to MSCI ESG Ratings

To aid in our analysis, we cross check the Sustainalytics ESG Risk Ratings versus the publicly available MSCI ESG Ratings[9]; there are some differences between the two. For example, Pearson is the best ranked of our companies on Sustainalytics, while Aviva and Kingfisher are the best ranked of our companies using MSCI (AAA – Leader - rating). BP ranks as the lowest rated company in the portfolio using Sustainalytics, while Stellantis is the lowest using MSCI ratings (BB – Average - rating).

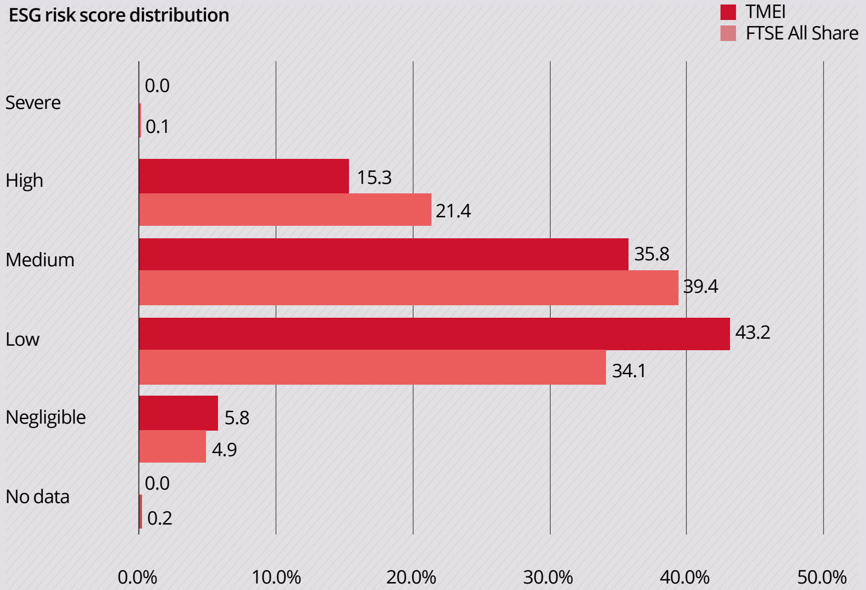
Of the MSCI ESG Ratings data publicly available, Aviva and Kingfisher attain the highest rating of 'AAA', and fourteen companies achieve the second highest rating of 'AA'. Two companies are rated A, two BBB, and one BB. We have eight companies for which we do not have access to MSCI ratings. 71% of our holdings are rated A or above on the MSCI ESG Ratings scale.

[9] MSCI ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).

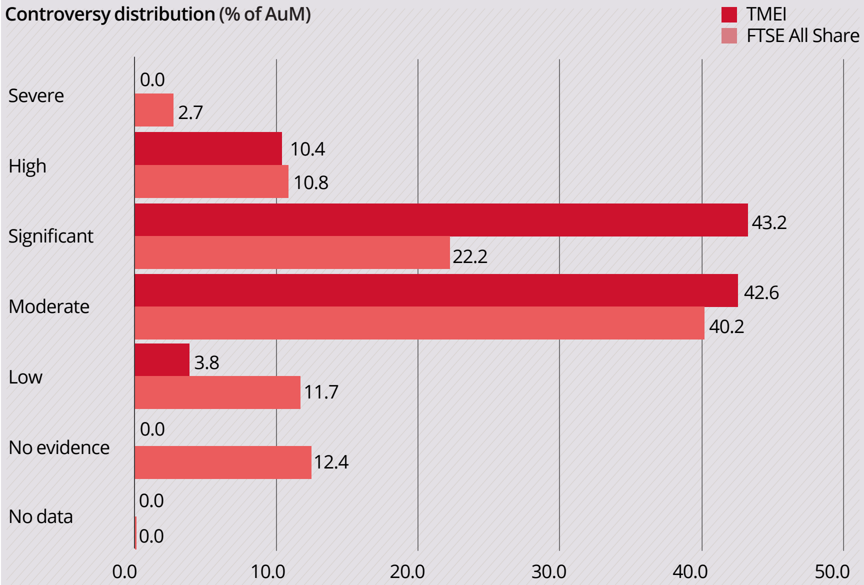
Sustainability report: ESG risk overview

TM Redwheel UK Eq Inc S Acc

	TMEI	FTSE All Share
Coverage	100.00%	93.75%
ESG Risk Score	21.79	22.58



Source: Morningstar Direct.



Source: Morningstar Direct.

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The Alternative Fund Managers Directive (Directive 2011/61/EU) ("AIFMD") is a regulatory regime which came into full effect in the EEA on 22 July 2014. RWC Asset Management LLP is an Alternative Investment Fund Manager (an "AIFM") to certain funds managed by it (each an "AIF"). The AIFM is required to make available to investors certain prescribed information prior to their investment in an AIF. The majority of the prescribed information is contained in the latest Offering Document of the AIF. The remainder of the prescribed information is contained in the relevant AIF's annual report and accounts. All of the information is provided in accordance with the AIFMD.

In relation to each member state of the EEA (each a "Member State"), this document may only be distributed and shares in a RWC fund ("Shares") may only be offered and placed to the extent that (a) the relevant RWC fund is permitted to be marketed to professional investors in accordance with the AIFMD (as implemented into the local law/regulation of the relevant Member State); or (b) this document may otherwise be lawfully distributed and the Shares may lawfully offered or placed in that Member State (including at the initiative of the investor).

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The representative and paying agent of the RWC-managed funds in Switzerland (the "Representative in Switzerland") is Société Générale, Paris, Zurich Branch, Talacker 50,

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Contact us

Please contact us if you have any questions or would like to discuss any of our strategies.

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