Church House Investment Management

UK Stewardship Code **Report**

2023

UK STEWARDSHIP REPORT

1st January – 31st December 2023

The UK Code (The 'Code') was first published in July 2010 by the Financial Reporting Council ('FRC') with a Stewardship aim to enhance the long-term returns to shareholders via improvements in the quality and quantity of engagement between investors and companies. The updated 2020 code has gone further, to also target the integration of Environmental, Social and Governance matters into the investment approach and decision-making process.

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FOREWORD

This document outlines our **stewardship and responsible investment activities in 2023**, with focus on active engagement with investee companies, integration of Environmental, Social and Governance factors into our investment process and our approach to stewardship.

We were **delighted to be included amongst the first of the Financial Reporting Council's list of successful signatories to the updated UK Stewardship Code**, with our 2020 report. The Code establishes a high standard of stewardship for asset managers, asset owners and service providers when investing money on behalf of UK savers and pensioners.

We are pleased to **increase transparency in our commitment to stewardship and sustainability** through our report, in which we have demonstrated (and look to continue to demonstrate) our **commitment to responsible investment** in the allocation and management of capital.

Church House is an investment management business focused on the management of discretionary investment portfolios, principally via our range of authorised investment funds. We act in the **best long-term interests of our clients** when managing assets and making investment decisions.

Our primary responsibility is and has always been to our clients, managing their affairs to the best of our abilities in accordance with their wishes.

Active management of the securities in which we invest on behalf of our clients is central to our approach, with the purpose of safeguarding and increasing value for our clients. As active investors in both the UK and global markets, we place great importance on closely monitoring the companies in which we invest, assessing their fundamental drivers and whether they remain a suitable investment for each respective investment fund.

While we have always considered that investing in companies with properly **sustainable practices and business models**, run by people with integrity as an integral part of what we do, we are pleased to be formally embedding these practices into our investment process in our equity, fixed income and multi-asset class investment funds, as well as the approach that we take to investing clients' money. We believe that the importance of ESG has never been more prominent, and this manner of thought is shared across the firm as a whole.

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THE STEWARDSHIP CODE 2020

From 1st January 2020, the updated Stewardship Code took effect. This sets high expectations on asset managers, such as Church House, on how it invests on behalf of its clients. This 2023 report will provide an update on how Church House has met the standards of stewardship set by the Code, detailed in Church House's own UK Stewardship Policy, since our last report in 2022.

The Twelve Principles

Purpose & Governance

Principle 1: Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy and society.

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

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

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

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

Investment Approach

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

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

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

Engagement

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

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

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

Exercising Rights and Responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

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PURPOSE & GOVERNANCE

1. Beliefs, Strategy and Culture

Church House is an investment management business focused on the management of discretionary investment portfolios, principally via our range of authorised funds, an absolutely key component of which is the **management of risk**. Our priority is to generate returns in accordance with client expectations, with a primary goal of avoiding the risk of permanent loss of capital.

We have always considered that investing in companies with properly **sustainable practices and business models, run by people with integrity, as an integral part of what we do**. As long-term investors, selecting companies that have demonstrated sound corporate governance has always been inherent to our diligence and risk management policies.

The Church House investment philosophy is to consider the **needs of our clients and their best interests**. Since the early 2000s, we have advocated the use of our own authorised investment funds as 'building blocks' to construct our clients' portfolios. The use of our investment funds allows us to carefully manage risk via our investment expertise and experience, pooling our clients' resources to generate cost-effective investment returns through scale.

Our **investment philosophy is closely aligned to our stewardship beliefs** in that we take a **long-term view**, managing assets for our clients as if they were our own. As active investors in both UK and Global markets, we place great importance on closely monitoring the companies in which we invest. We attend company presentations, engage in one-to-one meetings with company management teams and maintain continuous research and analysis to sustain a solid financial picture of the current and future assets we hold, including their development of ESG matters.

Background

Church House's first **client risk questionnaire and scale of risk** was established in 2002/3, aiming to match clients' expectations and understanding with a suitable long-term approach to risk for their investments. From the outset, the concept that we were selling risk and risk management rather than making performance claims came as a surprise to many. Our intention has always been to match clients' (realistic) expectations and understanding with outcomes in terms of results provided. As we developed our range of authorised investment funds, this became more nuanced but the essential principle of two layers of risk management for clients' portfolios has remained constant throughout.

The broad mix of assets that we consider to be **appropriate for each of our risk levels** is established first and changes are infrequent. Client portfolios, once established, have very low turnover, keeping costs to a minimum. The stock, sector, duration and other specific risks are then managed at the underlying investment fund level according to market conditions. As these investment funds are pools of clients' assets, they are significantly larger than any one portfolio, bringing the advantages of diversification, low transaction costs and tax benefits.

Each of our six authorised investment funds has **specific investment objectives**, but all are designed to form a suitable 'building block' for private client portfolios. Within the investment funds, we have always sought to invest in businesses of quality, established in jurisdictions that we can trust and run by managements with integrity. We have avoided a number of areas where we felt that the investment might be morally dubious, also considering that these businesses were likely to prove to be poor long-term investments, e.g.

pay-day and sub-prime lenders, gaming/gambling. We consider that the focus on the investment funds' objectives within the overall framework of a private client portfolio, and each underlying investment's suitability for such a purpose, combined with an aim to invest in 'quality' businesses (naturally, governance along with social and environmental behaviour form a part of this judgement) is most likely to provide long-term returns at an appropriate level of risk for our clients.

INVESTMENT BELIEFS

The investment policy we pursue, which we consider to be the approach best suited to provide consistent returns for our clients (in accordance with acceptable and understandable levels of risk), is based on long-term investment in diversified portfolios of high-quality listed companies and fixed interest investments. Within a disciplined risk scale structure (see below under *Strategy*), each risk level has defined proportions invested in particular funds/asset classes, this section refers to our beliefs regarding underlying investment policy.

We strongly favour quality, low debt, high margin businesses with pricing power. These are the companies that we expect to thrive and prosper over the long-term (25% of the companies in our UK Equity Growth Fund were first invested in more than twenty years ago). We dislike more cyclical and capital-intensive businesses, which tend to have low(er) margins and little pricing power. We find that the approach of companies (and the nature of the business that they undertake) to good governance and other ESG matters bears a high correlation to those that score well on our quality metrics.

Each of the investment funds that we manage for our clients, which make up the greatest proportion of their individual investment portfolios, is run to a specific brief to ensure, as far as possible, that their overall portfolios perform within expected parameters. For example, our international equity fund, CH Esk Global Equity Fund, is designed to provide international equity exposure for UK client portfolios, focused on major companies in developed markets. This is the broad portfolio analysis on 29 December 2023:

Esk Global Equity

Portfolio Analysis:

		Esk Fund Value	£66,723,192	
		Fund Value USD	$85,012,019	
		Number of holdings	43	
% > $5bn Mkt Cap.	98%	- Average Market Cap.	$342,890 $bn	
		Portfolio Beta	1.00	
		Weighted average Q Score*	7.0 (ex Banks and Insurers)	
		Average Accounting 'Blobs'*	1.3 (ex Banks and Insurers)	
		Current portfolio Yield (ex cash)	1.7%	3.1 Cover
		Prospective Earnings Yield	5.4%	

*The '*Weighted average Q Score'* is a measure that we use as an *independent* check on our quality assessments. QUEST is a division of Cannacord Genuity Limited, providing detailed analysis of company financial statements over the past fifteen years along with expectations for the next two years. The Q-score is their measure of a company's financial strength (scored out of ten), combining cash-flow returns, stability of cash-flow returns over time, current ratio and fixed charge cover.

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*The '*Average accounting blobs*' shows possible warning signs of irregularities in company figures, also scoring out of ten with 0 being good and 10 flashing warning signals. Of course, these measures also provide us with a guide to the quality of management.

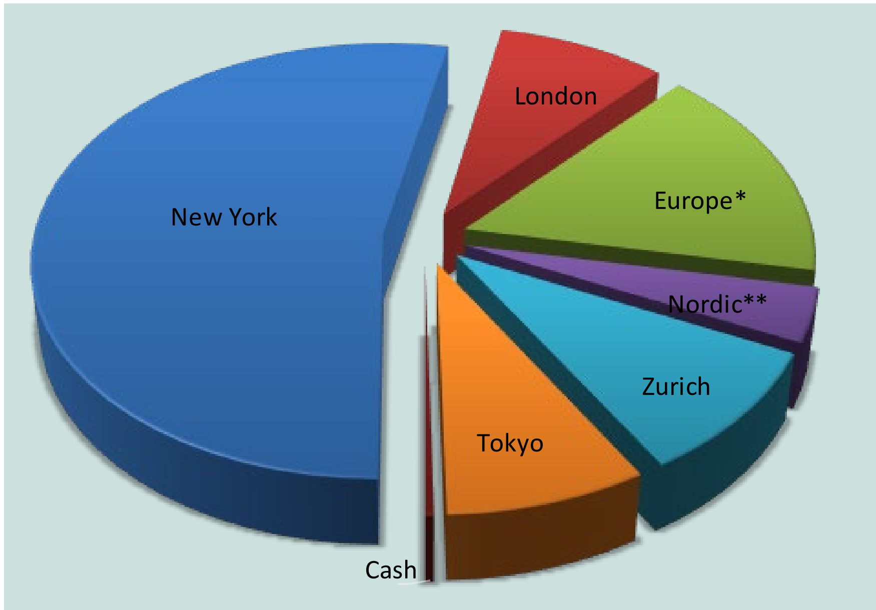
The quantity of holdings accords to our diversification guidelines. All holdings are listed, with a market capitalisation in excess of $1bn (as below re liquidity), with the average market capitalisation of the portfolio as a whole being much larger. As overleaf, the Fund's portfolio is international and invested in developed markets as shown.

CH Esk Global Equity Fund

Holdings Listed in:

New York	50.3%
London	9.1%
Europe*	16.7%
Nordic**	4.0%
Zurich	10.1%
Tokyo	8.5%
Cash	*1.2%*

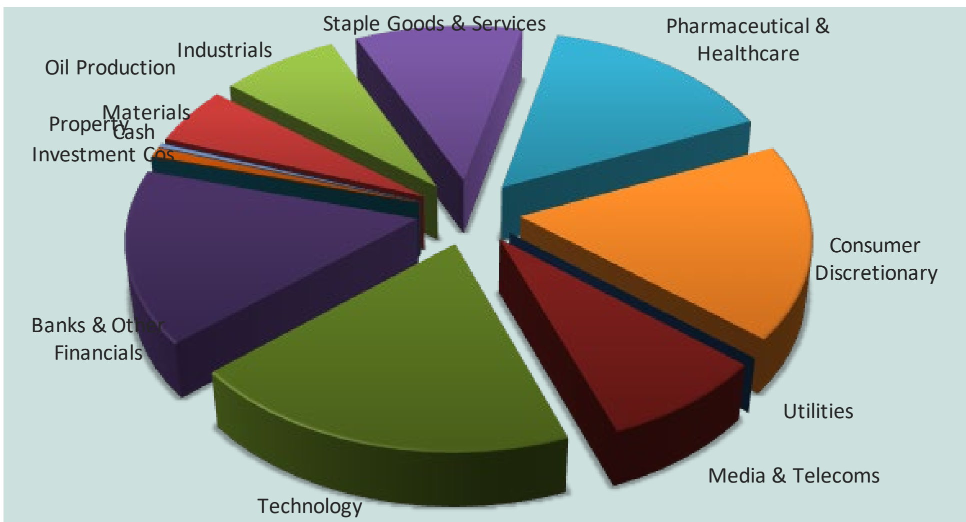
** Amsterdam, Frankfurt, Milan, Paris*
*** Copenhagen, Stockholm*



Source: Church House

Sector Weights:

Oil Production	0.0%
Materials	5.5%
Industrials	7.1%
Staple Goods & Services	10.6%
Pharmaceutical & Healthcare	15.1%
Consumer Discretionary	16.7%
Utilities	0.0%
Media & Telecoms	7.9%
Technology	19.9%
Banks & Other Financials	15.2%
Property	0.0%
Investment Cos	0.9%
Cash	1.2%



Source: Church House

The second of the two pie charts above shows the diversification across industrial sectors. Note that the Fund has no investments in oil and gas production companies, partly reflecting ESG concerns (though also reflecting our view on the companies).

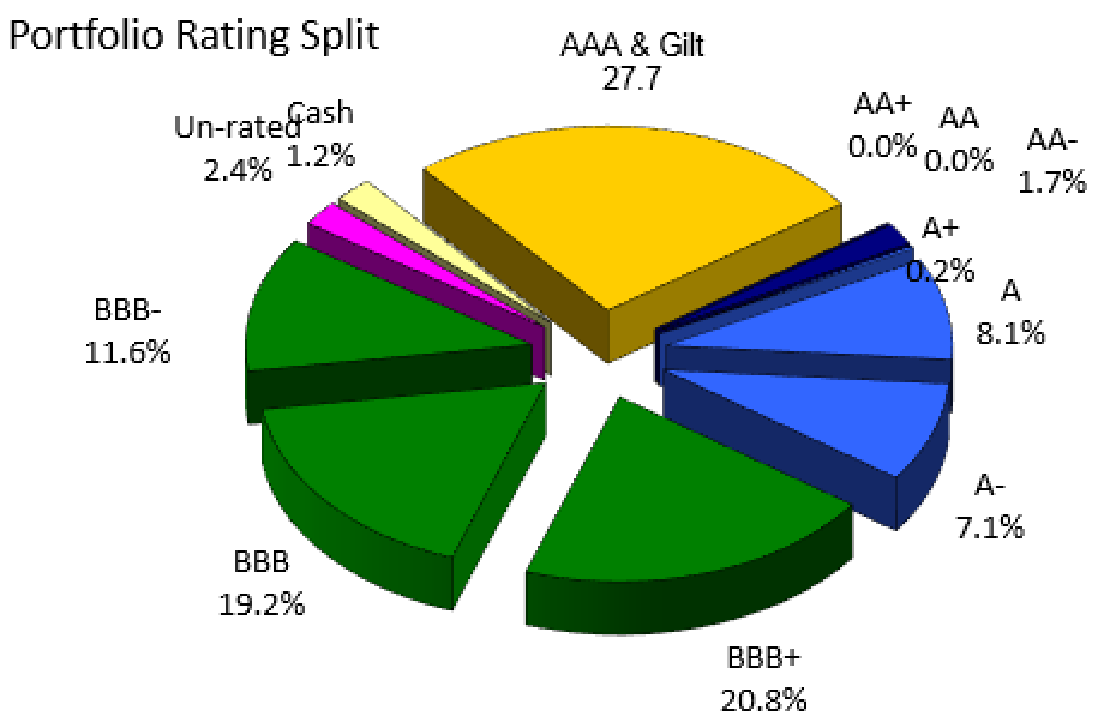
In the fixed interest markets, our approach is similarly based on quality and lower volatility of returns for our clients. This table shows the broad split of investments within our fixed interest fund, the CH Investment Grade Fixed Interest Fund, at the end of December 2023:

CH Investment Grade Fixed Interest	Dec 2023
Short-dated Securities (less than 7	74.2%
Medium-dated Securities (7 to 15	22.6%
Long-dated Securities* (over 15 years)	3.2%
Duration of Portfolio	3.1
Volatility** (past year)	4.7%
Number of Holdings	102
Yield (historic)	4.7%
Portfolio Value	£308m

The portfolio is broadly diversified and is currently maintaining a short duration, recognising the risks in the economy at present and the most suitable approach to this for our clients. This is reflected in the volatility figure for the past year of just 4.7% (for comparison the volatility of the FTSE Gilts All-Stocks Index over this period was 8.5%).

This pie chart shows the split of investments in the fixed interest fund by credit rating (as the name implies, it only utilises investment grade issues). The slice referring to 'Not rated' does not imply sub investment grade holdings, simply that the issue does not have a rating from one of the agencies. The proportion held in AAA-rated investments is never less than 25%.

CH Investment Grade Fixed Interest Fund – by Credit Rating



Source: Church House.

Liquidity and marketability

Investments are limited to liquid securities, considering that illiquidity risk is real and not a risk that we wish to expose client portfolios to. Essentially, we limit investments to listed instruments on recognised investment exchanges in developed markets, with a preference for larger capitalisation companies.

Our informal internal description of unlisted and a number of open-ended entities is 'lobster pot investments'. Easy to get into, practically impossible to get out of. Whilst not a technical description, we consider it to be descriptive of a valid risk.

Within listed equity investments, we avoid those with a market capitalisation of less than £250mn as these can also become illiquid. The bulk of our investments are in significantly larger, major companies.

Diversification

Diversification is an important tool in the management of risk, though this should not be taken to extremes. The summing of individual equity risks reduces their overall risk (and subsequent volatility) but spreading too far involves investing in lower quality companies, which we do not wish to do. The quality of the investments always outweighs the consideration of weightings in any index, we are happy to exclude companies/sectors which we consider to be inferior long-term investments. For our equity funds, we consider that holding 30 to 50 individual investments is most likely to achieve the right balance of diversification for our clients. Of course, at their individual portfolio level, this multiplies to a much higher figure.

Risk of Permanent Loss of Capital

The element of risk that is not addressed by the measurement of volatility is permanent risk to capital and we consider this to be extremely important to individuals. Most investors understand that investment markets can be volatile in the short-term, but for many the risk that concerns them most is the possibility of the permanent loss of capital (and its ability to provide future income streams). This under-scores our policy to invest in quality and investment grade companies listed on recognised stock exchanges.

Rule of Law

Beside the quality metrics and diversification described above, we also restrict investment to developed markets, considering that the additional risks from investing in emerging and other markets to be too high and inconsistent with this principle. We have always maintained that we only we wish to invest in countries/jurisdictions where the rule of law persists, without this we bring in unquantifiable political and legal risks.

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CULTURE & STRATEGY

Culture

The culture of the firm was first set out in the early days of the business. Below is an extract from a June 2001 Policy Document:

> Straightforward and Clear: In all our dealings with our clients we must aim to be as straightforward and clear as is possible. This has implications in a number of areas:
>
> - We should aim to give our clients the level of information about their affairs that we would hope to receive if our positions were reversed (over and above the regulatory requirements).
> - We should aim to interest our clients in what we are doing and not simply provide necessary information or "marketing" material (some, of course, may also prefer blissful ignorance).
> - In providing information on portfolios or investments we should be thoroughly open, explaining our ideas, or lack of them, our successes and our failures.
> - Our funds must have clear policies that we adhere to and those polices should be straightforward. Creating over complex products or fashion following funds is a route to future problems.
> - Above all, we must do what we say we are going to do. Without this the whole structure of agreements, agreed risk policy, welcome letters etc. is worthless.
>
> **Summary**
>
> So, when we thoroughly know our clients and they thoroughly understand the risks they are taking we invest their portfolios in investments that we would be happy to hold ourselves. Portfolios that have common characteristics:
>
> - Straightforward and clear investment objectives,
> - Objectives that are based on genuine long-term opportunities and not marketing,
> - That utilise sensible risk management policies,
> - That have a realistic chance of long-term outperformance of their benchmarks.

The essential principles of transparency and openness remain unchanged today, along with the core principle of treating our clients as we would wish to be treated if our roles were reversed – *'Put yourself in their shoes, is this the service you would expect if our roles were reversed?'*.

A simplistic view of the culture at Church House can be represented as a Venn diagram in which **Clients** are central but inter-linked with the other key pillars of **Investment Management**, **Risk Management**, **Responsibility** and our **Employees**:

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The CH Culture:

Clients First

At the centre of our diagram, clients come first, we must:

- Be straightforward and clear in all our dealings with them,
- Foster their understanding of risk and investment,
- Keep them well informed, educate where possible.

Are we giving them the level of service and information that we would like to receive if our roles were reversed?

Investment Management

Expert investment management is at the heart of what we do, we:

- Focus on the quality and suitability of investments for our clients,
- Take a long-term view,
- Seek consistent risk-aware returns aiming to exceed our clients' expectations from,
- Diversified portfolios with specific aims and objectives.

Always consider investments from the client's perspective, is this how you would wish to see your family's investments managed?

Risk Management

A proper understanding of risk in all its guises has been integral to CH policy from inception, including:

- Clients' understanding of risk - all investment involves risk, we are risk managers as much as investment managers,
- A rational and explainable presentation of risk while recognising that,
- For many/most clients the real risk that concerns them is the risk of permanent loss of capital (and its ability to provide income)

We maintain a multi-layered approach to risk in portfolios, at:

- The top level of asset allocation within portfolios, including,

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- Diversification (by asset class, type, scale, geography etc.) and,
- Risk at the individual investment fund level and,
- At the level of the underlying investments within the funds.

Responsibility

In a complex economic, business and market landscape we are responsible for our clients' investments and owe them more than a duty of care. We prioritise the suitability and 'appropriateness' of investments for our clients.

We also recognise a wider responsibility in the stewardship of our investments:

- Aiming to invest for the long-term,
- Invest in companies with sustainable practices and business models, run by people of integrity, which has always been part of our process,
- Avoiding areas of questionable morality (e.g. gaming, tobacco, door-step lending)
- We monitor all our investments closely, aiming to meet managements wherever possible including a discussion of their own ESG approach, and
- We vote at all general and extraordinary meetings.

Employees

Our employees are the life blood of the business and its 'face' to our clients. We recognise the important role that they play and their 'stake' in the business. We encourage:

- Their continuing development through regular training and courses,
- Their inclusion with regular exchange of views and ideas,
- Aim for high standards of HR along with employees' terms and working conditions,
- We seek to attract like-minded individuals in the industry to Church House, notably experienced private client managers, possibly disillusioned by some industry trends, and,
- Aim to attract new young and talented people starting out in the business.

Strategy:

Risk Levels

Church House's strategy is to **offer a discretionary portfolio management service** to UK (principally) private individuals along with their associated SIPPs, ISAs, Trusts etc. It is a service that is based on long-term relationships of trust with our clients and consistent long-term returns from investments with agreed levels of risk.

As outlined under *Background* above, the first and key element of our strategy is to **establish with our clients what level of risk is appropriate to them**, **their circumstances and understanding.** The latter being particularly important when talking to vulnerable clients for whom special arrangements may be necessary. Once established, an investment brief with an appropriate risk level is passed to the investment team for action.

At its simplest, we envisage a 1-10 scale of risk (from UK Treasury Bills to high-risk investments (akin to geared investing or gambling)) and expect that the majority of clients will fall in the level 3 to level 8 range. We can, and do, operate at lower levels of risk in the 1-2 area but this is more unusual, we do not operate at higher levels than 8 on our scale. Of course, the risk level number is a starting point, we recognise that

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individual clients will/may have particular requirements to accommodate.

In pursuit of this, we established a range of UK authorised UCITS investment funds to cater for the core requirements of UK private clients. These six 'building block' funds are shown overleaf. The UK authorised fund structure is particularly appropriate for UK investors as they achieve the requisite diversification, lower costs and bring tax advantages: changes within the funds are not subject to Capital Gains Tax, fees are charged to the funds themselves so are not subject to VAT and clients do not have to meet fees out of their own (taxed) income.

The Church House 'Portfolio' Funds

CH Investment Grade Fixed Interest Fund	To provide UK fixed interest exposure and regular income at a risk profile broadly equivalent to UK Gilts with a higher income (net of fees)
CH Balanced Equity Income Fund	Aiming for capital growth with income, principally major UK equities, balanced with some fixed interest and infrastructure investments
CH UK Equity Growth Fund	Aiming for long-term capital growth from a portfolio of UK equities. Some exposure (< 20%) to major international companies where the UK market is limited (e.g. technology, pharmaceutical)
CH Esk Global Equity Fund	Aiming for long-term capital growth from a portfolio of major international companies, developed markets only
CH UK Smaller Companies Fund	Aiming for long-term capital growth from investments in smaller capitalisation UK companies
CH Tenax Absolute Return Strategies Fund	A multi-asset class fund seeking broad diversification across asset classes aiming for low volatility and consistent returns

The **strategy** means that we can manage the balance within clients' portfolios (see below) and **directly manage the risk in the underlying portfolio of each of the Funds.** Each investment fund is diversified within its asset class(es), ensuring a broad diversification at the client portfolio level.

The strategy involves layers of risk management that commence with the explanation of and establishment of suitable levels of risk for each client. Once an appropriate level of risk is established, a broad asset allocation strategy at a high level is set out, the current broad asset split is shown below. This broad split is subject to regular review by the Investment Committee.

The spread of investments in our core investment funds (above) is such that a mix of them can accommodate each level of risk, as below. The strategy allows for further diversification of individual client portfolios by the use of other investment assets such as Treasury Bills, Gilts and investment trusts to accommodate individual requirements or take account of existing investments held by clients for other reasons (family connections, sale restrictions, Capital Gains Tax considerations, etc.)

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Current Broad Asset Split at Rising Levels of Risk*

CH Risk Level:	2	3	4	5	6	7	8
Cash / Fixed Interest	30%	37%	30%	20%	10%	0%	0%
Cautious Multi-Asset	50%	10%	10%	11%	12%	14%	10%
Infrastructure	0%	4%	4%	3%	0%	0%	0%
UK listed Equities	20%	40%	44%	46%	45%	41%	39%
International Equities	0%	9%	12%	20%	33%	45%	51%

** On a nominal 1-10 scale, where 1 represents UK T-Bills and 10 represents geared investment*

It is possible to achieve this asset split solely by the use of the CH core investment funds. For example, at present, at risk level 4, a split of CH investment funds as below, achieves this aim:

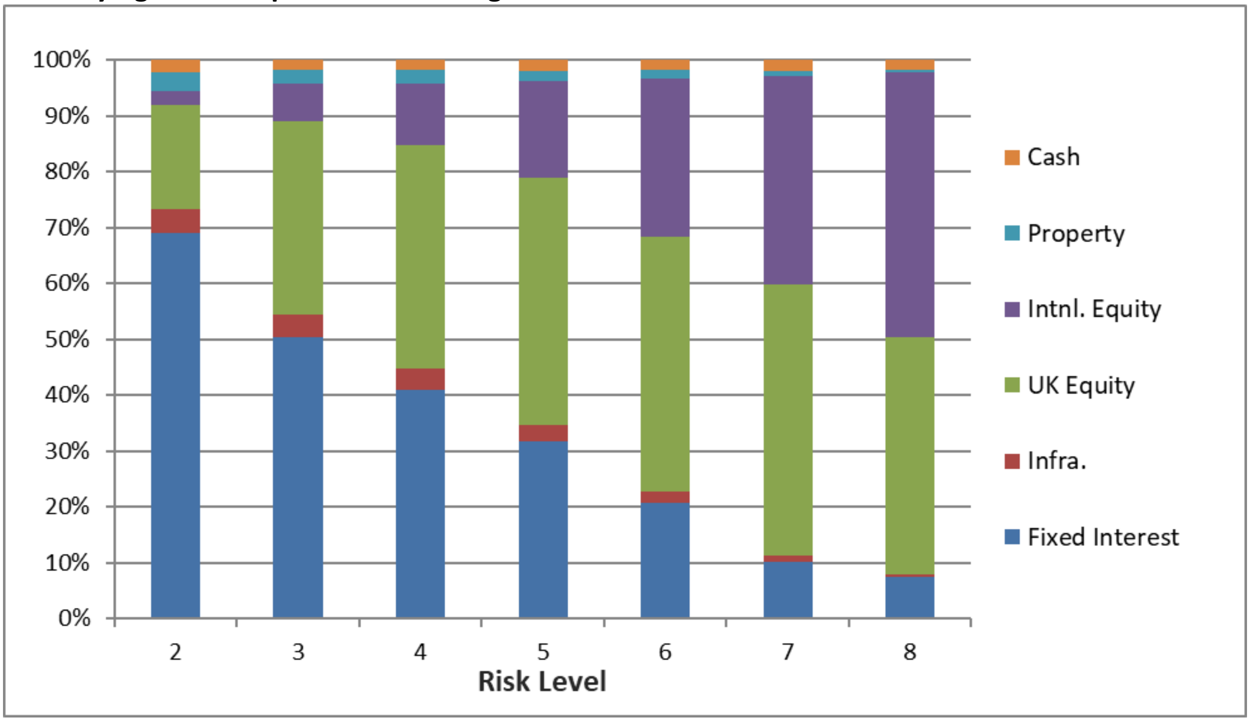
CH Investment Grade Fixed Interest	**29%**
Tenax Absolute Return Strategies	**12%**
CH UK Equity Growth	**15%**
CH Balanced Equity Income	**35%**
CH UK Smaller Cos	**0%**
Esk Global Equity	**9%**

We test this assertion each month with a 'look through' to the underlying assets held within the investment funds to ensure that the appropriate mix of investment is being achieved, currently this shows:

Current **Underlying Portfolio Disposition**	**Fixed Interest**	**Infra.**	**UK Equity**	**Intnl. Equity**	**Property**	**Cash**
Defensive Risk Level 2	69%	4%	19%	2%	4%	2%
Cautious Income 3	50%	4%	35%	7%	2%	2%
Income 4	41%	4%	40%	11%	2%	2%
Income & Growth 5	32%	3%	44%	17%	2%	2%
Equity Growth with Income 6	21%	2%	46%	28%	2%	2%
Equity Growth 7	10%	1%	49%	37%	1%	2%
Higher-Risk Equity Growth 8	7%	0%	42%	47%	1%	2%

Illustrated graphically shows the current progression across the risk scale levels:

Underlying Asset Dispositions at Rising Risk Levels



Source: Church House - Month-end Fund dispositions

Availability to outside investors

The Church House investment funds are UCITS schemes and, as such, are available to public investors. A number of financial intermediaries have identified CH investment funds as being suitable for their own clients, particularly our fixed interest and multi-asset funds, which have attracted a significant following. We meet many of these intermediaries to discuss our investment funds and our approach to their management, stressing their status as 'building block' portfolios for (our) private clients. The 'wholesale' money that this brings to the investment funds serves to lower the overall costs, furthermore, the ongoing dialogue with financial intermediaries gives us an insight into the broader private client marketplace.

Total returns achieved at different levels of risk

We **track and monitor our risk returns at each level of risk** to see that the outcomes provided for our clients met their (and our) reasonable expectations. This table shows risk levels 3-8, we expect that clients will seek levels of risk that, effectively, form a bell-curve with the greatest number around risk level 5, which has been the case. Utilising the historical (published) price data for our investment funds, this table shows the total returns achieved at different levels of risk along with the volatility of those returns for portfolios solely invested via the CH investment funds:

Annual Returns and Volatility – Total Return (after fees and charges)

	Risk 3		Risk 4		Risk 5		Risk 6		Risk 7		Risk 8	
	Return	*Volatility*	Return	*Vol.*	Return	*Vol.*	Return	*Vol.*	Return	*Vol.*	Return	*Vol.*
2008	-12.2%	*9.7%*	-16.6%	*13.9%*	-18.4%	*16.4%*	-20.2%	*18.2%*	-21.9%	*20.7%*	-22.3%	*23.2%*
2009	16.0%	*8.8%*	18.5%	*11.9%*	20.1%	*13.5%*	22.2%	*15.2%*	24.4%	*17.4%*	23.8%	*19.8%*
2010	9.5%	*5.4%*	10.7%	*8.2%*	11.9%	*9.9%*	12.5%	*11.4%*	13.6%	*13.4%*	15.2%	*15.3%*
2011	2.4%	*6.0%*	0.6%	*8.1%*	-1.7%	*9.4%*	-3.6%	*10.4%*	-6.3%	*11.5%*	-8.6%	*12.3%*
2012	10.5%	*3.7%*	11.6%	*4.9%*	12.3%	*5.9%*	13.1%	*6.8%*	14.6%	*8.0%*	17.2%	*9.1%*
2013	7.7%	*5.5%*	11.5%	*6.7%*	13.9%	*7.4%*	16.0%	*8.0%*	18.7%	*8.9%*	20.8%	*10.0%*
2014	5.8%	*3.6%*	5.7%	*4.7%*	6.0%	*5.2%*	5.7%	*5.7%*	5.4%	*6.4%*	6.4%	*6.9%*
2015	1.5%	*4.3%*	1.9%	*5.8%*	2.2%	*6.7%*	2.1%	*7.5%*	1.8%	*8.5%*	1.7%	*9.8%*
2016	7.5%	*4.0%*	10.2%	*4.9%*	12.6%	*5.6%*	14.6%	*6.1%*	17.8%	*7.0%*	21.3%	*8.1%*
2017	5.0%	*3.0%*	6.7%	*3.8%*	7.6%	*4.1%*	8.6%	*4.3%*	10.1%	*4.5%*	12.3%	*5.0%*
2018	-2.3%	*4.5%*	-2.7%	*5.8%*	-3.1%	*6.9%*	-3.5%	*8.1%*	-4.2%	*9.7%*	-4.6%	*10.3%*
2019	9.7%	*3.6%*	11.3%	*4.6%*	12.3%	*5.6%*	13.4%	*6.4%*	14.8%	*7.6%*	15.5%	*8.0%*
2020	1.9%	*11.6%*	1.9%	*13.4%*	3.2%	*15.0%*	4.7%	*16.5%*	6.4%	*18.6%*	9.8%	*18.5%*
2021	7.0%	*3.8%*	9.7%	*4.4%*	12.0%	*5.1%*	14.6%	*5.8%*	17.6%	*6.7%*	18.7%	*6.9%*
2022	-9.3%	*10.8%*	-10.2%	*12.2%*	-11.7%	*13.7%*	-12.7%	*15.1%*	-14.2%	*17.1%*	-14.3%	*17.2%*
2023	7.8%	*7.4%*	8.3%	*7.9%*	9.2%	*8.6%*	10.0%	*9.2%*	11.0%	*9.9%*	11.8%	*9.8%*
Averages	**4.3%**	***6.0%***	**4.9%**	***7.6%***	**5.5%**	***8.7%***	**6.1%**	***9.7%***	**6.9%**	***11.0%***	**7.8%**	***11.9%***

Source: Church House

Lower risk levels have exhibited lower volatility, progressing as the risk level increases. All levels have exhibited lower volatility of returns than the FTSE 100 Total Return Index over this fifteen-year period, while the return has been matched at lower levels of volatility.

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Assessing the Effectiveness of our Policies and Strategy in Serving our Clients' Best Interests

We assess the effectiveness of our policies in serving our clients' best interests at multiple levels starting with **individual clients** and progressing through to the **overall risk level strategy.**

We **report to all our clients on a quarterly basis** with each report being accompanied by our **Quarterly Review**. The Quarterly Reviews (which have been published since 2001) set out what we have been doing and shows the underlying holdings in our investment funds. .

At the outset of the business, we separated our individual roles between those who interact directly with our clients and those who manage the investment portfolios. We remain of the view that these are separate roles and that this division allows for the best outcomes for our clients.

We **encourage regular contact with each client's known contact at Church House**, particularly regarding any change in circumstances, and we hold face-to-face meetings at least once each year. This provides the means to ensure that we are still acting in accordance with their wishes and meeting their requirements.

Each one of the **Church House investment funds has an objective and role to play** in the construction of clients' portfolios. At the individual fund level, each is tested against its own objectives each month with results being reported to the Board and senior management. The **Investment Committee** reviews the monthly and trailing annual performance of each investment fund (along with the resulting performance at the different levels of risk) and takes reports on activity.

The joint CIOs, in consultation with the other fund managers, work closely to formulate **day-to-day strategy** in response to the unfolding economic and market background and to identify potential risks and opportunities. This allows for a swift response to events. This is then discussed at depth in the monthly Investment Committee. Examples of this would include the identification of high risk in medium and, particularly, longer-dated fixed interest markets in late 2021. Accordingly, we reduced the duration in the Investment Grade Fixed Interest fund to 3.7 in January 2022, steadily lower to 3.0 in the summer and 2.6 by the autumn.

The subsequent move in inflation and rapid increase in interest rates have completely validated this approach. We are retaining a low duration in the fixed interest portfolio, currently it is 3.4, concerned that rates may well remain 'higher for longer'. Similarly, we increased the cash and near-cash assets in our Tenax multi-asset fund to 40% in January 2022 and the duration of the fixed and floating portion of the portfolio to just 2.2. Following the big move in rates, this fund is gradually moving to fixed interest assets from floating rate assets but is also maintaining a lower risk appetite with a duration of 3.1 for the fixed and floating portion of the portfolio. To put this in context, the duration of the current ten-year UK Treasury, Gilt, is 7.7 and the twenty-year is 13.6.

We are confident that we have the systems and controls in place to assess and monitor the effectiveness of our policies and thereby serve our clients' best interests.

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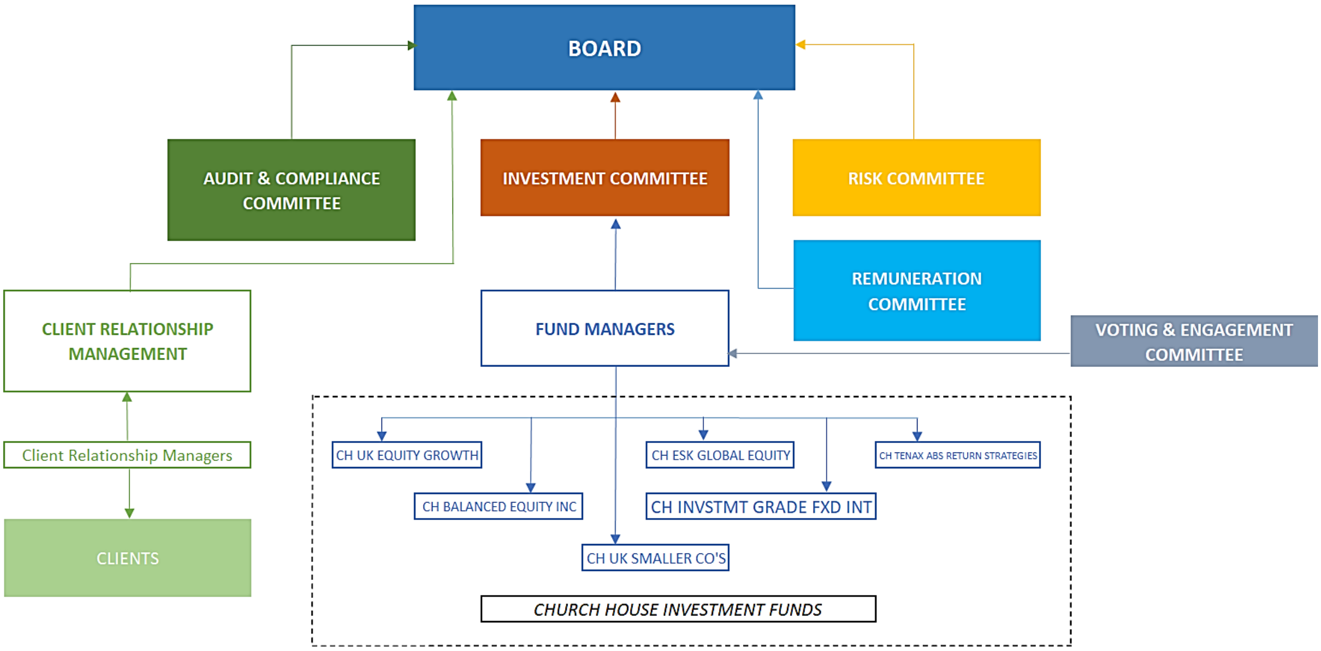
2. Governance, Resources and Incentives

GOVERNANCE STRUCTURES

Church House Investment Management is a privately owned business established to manage investments on behalf of private individuals, financial advisers and wealth managers. Church House (the Business) has a clear governance structure (see table below) that encourages individual accountability for investment and stewardship decisions at the **fund manager level**, whilst at the same time maintaining clear oversight at the **Investment Committee** and **Board level**.

Church House Board & Committees:



There are eight members of the investment team at Church house: four fund managers, two analysts and two portfolio managers.

Fund Managers – Individual Accountability

Fund managers are responsible for the day-to-day running of their given investment funds and all investment decisions made. This involves maintaining up to date coverage of businesses invested in, including stewardship and responsible investment considerations. Fund managers are supported by the two analysts, with one of these analysts having an ESG focus.

Voting and Engagement Committee – Improved Governance Structure

Within the investment team, there is also a *Voting and Engagement Committee* with the specific aim to provide more structure to our activities here. This committee is led by our ESG analyst, who monitors upcoming AGMs, EGMs and other events where we have the opportunity to vote on resolutions published by investee companies. During peak AGM season the Voting and Engagement Committee convenes weekly to discuss upcoming voting and to delegate responsibility for analysing newly published statements. The committee ensures we continue to challenge, where necessary, through our voting processes and greater engagement across the investment team. We continued to promote active engagement with investee companies within our governance structures throughout 2023.

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Investment Committee – CIO and Peer Oversight

All investment staff report to the **Investment Committee** (IC), which meets on a monthly basis. The IC review activity of the fund managers and is made up of all investment staff. The IC acts as a forum to discuss current issues and views on the macro-economic outlook and investee companies, in addition to reviewing investment fund limits, performance and volatility. In the IC, investment activity within the investment funds over the month is discussed, reviewing any engagement with investee companies, particularly any governance issues discussed with management.

The Board and Church House Ownership – Encouraging Long-Term Stewardship

Above the Investment Committee is the Board, made up of four executive directors and three non-executives directors. The non-executive Chair of the Board is also the Chair of the Investment Committee, whilst the two executive CIOs also both sit on the IC and Board. This provides direct crossover between the two groups, helping to align Church House's investment activities and stewardship with the Company's leadership.

Church House is majority owned by directors, employees and the Cayzer Trust. This is a long-term shareholder base that has seen little material change since the management buy-out over a decade ago. As both owners and directors, the Board looks to take a long-term view on business decisions and to promote Church House as a responsible and diligent investor of our clients' savings. It is the responsibility of the Board to highlight any concerns regarding stewardship and, in such an event, this view will be communicated to the investment team via the CIOs.

Resourcing – experience, seniority, service providers and analysis

The investment team are given extensive resources in order to support their investment responsibilities. We take a collegiate approach, meaning that all investment staff have oversight of all activity within our funds and are encouraged to take an active role in engaging with decisions made beyond their specific fund or mandate. For example, if an equity manager is voting on a business where we are both equity and debt holders, (e.g. Berkeley Group), they will also discuss the matter with the fixed interest manager. This means that there is a great deal of support within the team, from younger analysts to fund managers, to the more experienced CIOs.

Individuals are supported in their due diligence of investee companies by the wider investment team internally, via external research purchased from brokers and from access to information platforms such as Bloomberg and Quest. Meetings with companies are facilitated both by brokers and via direct contact with companies. For example, during 2023 the investment team took part in over 175 meetings with companies, both businesses that we are shareholders in and ones that we are not. We joined calls with every company that our Church House UK Equity Growth Fund (CHUK) and Church House UK Smaller Companies Fund (CHSC) is invested in and had one-to-one meetings with the majority of these companies. We believe that corporate engagement is a real strength of our investment process and have been shareholders of many of our portfolio companies for many years.

Training and qualifications

All members of the investment team are required to be professionally qualified, or to be in the process of obtaining relevant qualifications. Our team members come with a wide variety of previous experience in financial markets, led by Jeremy Wharton and James Mahon, CIOs, who have a combined 80+ years of market experience. We believe that we have a good blend of experience and youth in the investment team.

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Church House's Training & Competence Policy requires all investment staff to be assessed as competent in accordance with Church House's standards, our business model and the regulatory requirements. This includes maintaining ongoing training and development within their field of expertise, including covering ESG matters as part of their annual CPD requirements. Our Training and Competence Framework focuses on developing the individual within their field of expertise through relevant training and support. With the introduction of the FCA's Consumer Duty, the company implemented a further range of developmental training to ensure we continue to meet the needs of consumers and avoid any harm. This included a focus on the products and services we offer, reviewing their value to consumers and the information and disclosures provided to enable customers to make informed decisions. It has resulted in greater product literature aimed at customers and a better understanding within all departments of how we continue to deliver value to our clients. We continue to believe that by investing in the development of skills of our team, we make Church House an employer of choice.

For more information on the individuals mentioned and their qualifications, please visit our website.

Incentives

Individual remuneration is not focused upon investment performance or specific sustainability goals at Church House and has never been. The remuneration committee encourages the investment team to focus on long-term goals for the investment funds and wider business, of which governance is a key consideration. Fund managers and analysts are encouraged to take an active role in engaging with companies and sharing their conclusions with the wider investment team. The results of this can be seen in the increasing number of company meetings taken by the investment team over recent years and the fact that team members have been proactive in seeking opportunities to build upon our existing activity in challenging company's governance.

Outcome Reporting

We believe that we are continuing to make positive progress in improving our governance structures during 2023 so as to resource and incentivise responsible and long-term stewardship on behalf of our clients. The main, most recent change made to our governance structure was to create the ***Voting and Engagement Committee in 2021***, which has been a positive and proactive move. It has added improved structure to our monitoring of investee companies and promoted much discussion around investee company governance and, generally, the quality of company management.

In 2023 we further built on the progress made in 2022, specifically looking into certain business standards and practices that we might be able to encourage across all investee companies. For example, the percentage of equity that a management team can issue without requiring pre-emption rights or minimum shareholding requirements for CEOs are two matters that we feel this might work for. We are mindful that we do not want to be too broad-brush here and want to pay attention to individual company circumstances as much as possible, however also wish to be consistent in our approach and to avoid double-standards.

Voting on international companies (ex-UK) is also an area that we are looking to improve upon. The reporting standards of international businesses is not always as high as in the UK so we, as investors, have less transparency when it comes to voting. It may be that increased engagement with knowledgeable third parties on such matters would improve our processes.

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3. MANAGEMENT OF CONFLICTS OF INTEREST

Church House's Policy on Managing Conflicts of Interest is continually reviewed on an annual basis. The 2023 policy can be seen here: Conflicts of Interest Policy Mar 2023.pdf.

The regulatory obligation to ensure no investor suffers from the impact of **conflicts of interest** extends throughout all activity that Church House performs, using careful management and full disclosure. Church House takes all reasonable steps to identify and manage conflicts and potential conflicts of interest between it and anyone associated with the Company and its clients, and between one client of the Company and another client. The Company maintains a policy of managing conflicts of interest which is reviewed at least annually and will take all reasonable steps to manage its affairs to minimise the likelihood of conflict.

Church House does not operate a trading book for itself. Fund managers may conduct personal dealing, but this is within the confines of the FCA Conduct of Business rules and internal compliance approval. This ensures that no investment within our funds or client portfolios are ever conflicted with the personal holdings of Church House employees nor the Company itself. Any personal account dealing requires approval from both Senior Management and Compliance to ensure there are no conflicts.

Identifying Conflicts of Interest

In identifying conflicts Church House takes into account whether it or anyone associated with the Company either directly or indirectly is:

a) likely to make a financial gain or avoid a financial loss, at the expense of the Client;
b) has an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome;
c) has a financial or other incentive to favour the interest of another Client or group of Clients over the interest of the Client;
d) receives or will receive from a person other than the Client an inducement in relation to a service provided to the Client, in the form of monies, goods or services, other than the standard fee for that service.

Managing Conflicts of Interest

Escalation

If there is any doubt as to the identification of a conflict of interest, such doubt must be escalated to Senior Managers and Compliance. Church House has a total staff of forty-five, which includes three non-executive directors. Twenty-four are 'front line' staff, with very few personnel changes over the past few years, facilitating knowledge and oversight of any issues or potential issues. The Compliance Officer has an auditing function overseeing the efficient operation of the process and will report to the Board via the Compliance Report. A committee of the non-executive directors is the final arbiter of controversial matters that cannot otherwise be resolved.

Inside Information

Church House prefers not to be made an insider in relation to any potential transaction and will usually refuse such requests. Occasionally, we might agree to be brought inside if we consider that it is likely to assist in discussions with the activity of investee companies. In this case, the name of the company involved is disclosed to Compliance and a blanket ban is imposed on any dealings in securities of that company until such information is publicly available.

More broadly, any confidential information obtained through discussions with investee companies, especially if market-sensitive, is stored securely and only reported internally to Compliance in accordance with inside information and conflict of interest policies. This ensures no investment activity, as outlined above.

Actual & Potential Conflicts of Interest

Example 1

As part of the client take-on process we are careful to identify and manage any potential conflicts of interest that clients may have as a result of the service we are proposing for them. In the past 12 months, as we have had in previous years, we have had cases where clients have asked what property/ commodity companies we hold, due to their work in M&A/ Accountancy/ Management Consultancy. Of course, they cannot tell us which deals/clients they are working on, without becoming an insider, and we do not ask. Crucially, the intention to open a portfolio at Church House has to be cleared with their respective compliance departments. It is usual to provide them with confirmation that their portfolio(s) will be managed 100% in collective investments (no direct holdings) and under a discretionary investment management agreement for them to pass on - this is usually sufficient. By confirming the client has no influence on the discretionary mandates and that no single stocks are held, some companies do require confirmation of trades (contract notes). For others we send on contact notes following trades.

Example 2

The Conflicts of Interest Policy was updated 12 months ago to ban employees acting as a trustee or attorney for a client. Over this time, employees have been stepping down from these roles, which is still ongoing in a few cases. Acting as an attorney may be permissible in a few limited circumstances, in which case specific permission will be required from the Managing Director and Compliance.

Example 3

We have a Trust where the Trustees have to periodically review the life tenants income. This has been especially significant over the past 12 months with increasing opportunities for income in portfolios. The Trust deed states that the life tenant is only entitled to the income, not the capital. Whilst we can always tweak the yield on a portfolio to increase income, we have to provide the Trustees once again with sustainable long term portfolio options to help inform their decision. Their endeavour is to ensure neither the income nor the ultimate capital beneficiaries of the Trust are being materially disadvantaged by a change of decision.

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4. MARKET-WIDE AND SYSTEMATIC RISKS

Market-wide and systematic risks should be appreciated in the most relevant ways to a practitioner, such as Church House, but also in the wider context of globally interconnected entities. All of the Stewardship Principles we are addressing in this document are important and an understanding of Principle number 4 is crucial as, without it, practitioners are exposing their investors to underappreciated risks.

To Church House as a private client focussed firm, the concept of **Stewardship of assets is key** as individuals entrust us directly not only with the investment of their assets but also their safe holding, i.e. custodianship, suitability of chosen investments, asset classes and ultimately a **thorough understanding of any underlying risks associated with those investments.** We communicate regularly with our clients, whether ad-hoc or via our Quarterly Review, to ensure that our private clients (and other investors directly into our funds) are aware of our actions and commitment to the suitability of assets for investment.

Our joint CIO's have **lengthy experience** in the evolution of the financial system, one having been a Member of the London Stock Exchange (working on the floor of the old exchange) and the other having started at Big Bang in 1986 and remaining in over-the-counter (OTC) markets ever since. Between the two of them, having seen this evolution, there is a deep understanding of the risks of both on and off-exchange dealing and market-wide risk. They strive to ensure that their knowledge and experience is passed on to the other employees of Church House through the Investment Committee and regular meetings with 'client facing' teams. We also brief and engage with members of other firms through fund updates, webinars, seminars, trade bodies and other channels of communication. Their experience has encompassed many instances and periods of intense market stress, systemic, economic, geo-political et al.

Market-wide & Systemic Risks- process for identification

Risk Committee

Church House separates its approach to market-wide and systemic risks into **economic and market risks**, which are the subject of day-to-day management by the Chief Investment Officers, and **broader risks facing the business**, including financial, regulatory, and personnel risks. Therefore, separate to the investment management side of the business, we have a **Risk Committee.**

We have a broad **Risk Management Policy** that is approved by the Board, setting out the purpose and scope of the Policy:

> *The purpose of the risk management policy is to provide guidance regarding the management of risk to support the achievement of corporate objectives, protect clients, staff and business assets and ensure financial sustainability. The policy applies to all Church House Investments Ltd activities. It forms part of CHI governance framework and applies to all employees.*

The Risk Management Policy sets out a hierarchy of Risk Governance, commencing with the Board of Directors, down to the individual staff level. It also establishes the **Risk Committee**, which oversees the regular review of risk management activities. The Risk Management Policy document itself is proprietary information.

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The Risk Committee comprises the Chairman and two non-executive directors along with the Managing Director (Head of Operations), the Head of Compliance and the Company Secretary. Broadly, but not exclusively, they consider risks in the following areas:

Compliance Risk
Private Client Risk
Investment Management Risk
Third Party Risks
Fund Management Risk
Finance Risk
Operations Risk
Third Party & Project Risks
Risk's Risk (i.e. the risk of missing an area of risk)
Information Technology Risk
Management Risk

We maintain a **Risk Register**, which rates individual risks that have been identified at any one time and scores them. The highest rated of these is drawn to the attention of the Risk Committee for consideration and proposing/questioning, as well as testing of mitigation.

Day-to-day discussions & the Investment Committee

Identifying and being proactive in mitigating market-wide and systematic risks is at the heart of our risk management process. While our approach to **investment is bottom-up**, focusing primarily on the individual companies that we invest in, we realise that there are **wider macro issues** that need to be monitored, should they pose a risk to any of our positions or asset allocation. The co-CIOs, James Mahon and Jeremy Wharton, in consultation with the other fund managers, work closely to formulate day-to-day strategy in response to the unfolding economic and market background and to identify potential risks and opportunities. This allows for a swift response to events. This is then discussed in depth at the **monthly Investment Committee (IC)**.
At our Investment Committee meetings, we begin by reviewing fund limits and best execution, before James Mahon and Jeremy Wharton, alongside the other fund managers, present their Macro & Micro-Economic Review.

The IC agenda from November 2023 is shown below:

Church House Investment Management

INVESTMENT COMMITTEE MEETING AGENDA

15th November 2023

50 Grosvenor Street, London

1. Review last meeting's minutes.
2. Review monthly fund limits, monthly stats/volatility, risk level portfolios.
3. Best Execution
4. Macro & Micro-economic review
5. CHUK
6. Tenax
7. Esk
8. Quick review on remaining funds/inflows & outflows
9. Investment Trusts
10. ESG & Stewardship
11. Other Governance Matters
12. Any Other Business

R. Taylor
6th November 2023

In this *Macro & Micro-Economic Review* James Mahon and Jeremy Wharton lead discussion of current macro topics that are, in turn, debated by the wider Committee. In his capacity as an equity fund manager with over 50 years' experience in investment, James Mahon will present from an equity viewpoint, while Jeremy Wharton (who manages our fixed interest fund and wider bond exposure across the Firm) will focus on developments in credit markets.

As an illustration of this, here are the minutes from the *Macro & Micro-Economic review* at the May 2023 Investment Committee meeting:

4. Macro & Micro-economic review

- Inflation:
  - UK numbers still double digits this morning. Gilts taken a kicking. Inflation reduction performance not doing well. Ten-year gilts back to 385 sterling remains best performing currency among majors.
  - Inflation has fallen back in the US and EU. The UK is lagging due to Brexit inefficiency, and balance of payment issues caused by imports ballooning and exports collapsing.
  - Energy prices have come off significantly however food inflation has taken over.
  - Overall, the UK economy has been more durable than expected.
  - Inflation rates of this level add fuel to the fire in the public sector: more strikes expected as wage inflation goes up.
  - Inflation will cool off but is generally going to stay higher than expected. Rates will edge up.
- Banking crisis:
  - Moved on from last month's banking crisis. Eurozone banks are actually making money.
  - The banking wobbles were exceptions not systemic, as predicted.
- US:
  - US sovereign credit default swap at highest level since taper tantrum in 2013.
  - Flipside: VIX at 17%, very low and S&P 500 has performed well this year. Shorts feeling pretty uncomfortable.
  - S&P up 7%. 5.8% of that from 5 stocks (FAANGs, Tesla, Microsoft, etc)
  - Reporting season started with JPMorgan last night. Headline comment: 'recession looming'.
- Real Estate:
  - US commercial real estate: deeply high yield (a market pretty much shut) bond holders taking control of real estate.
  - Vacancy rates around Washington are c.25%
  - Huge difference between the number of people working in BlackRock's office in London vs NYC: still bad in NYC.
  - Huge levels of non-performing debt: $620bn of potential nonperforming liabilities. Nasty hole in balance sheet.
  - Will lose money if involved in the wrong part of commercial property.
  - Credit tightening all round with QT.
  - As ever, real estate is a risky asset class. Debt associated with it is even more risky. We have land securities at the opposite end of the spectrum.
- Losing money: we don't use AT1s. Last month has vindicated this approach.
- IMF comments: rates going below 2 which is surprising.
- Clear that what is going on in banks is tightening credit – going to see more regulation.
- UK:
  - Good to see sterling strong: will help drive inflation out of system. Petrol prices going down.
  - Does help having a stable Government sensible budget, Windsor agreement.
  - UK is only place with baby boom in the next 10 years.
- Japan:
  - Huge outflow from dollar into Yen. New central bank head in Japan. They will find it harder than anyone to exit ZIRP. Cracks will appear. Including closer to 3% inflation. Minimum wage raised which will put upwards pressure. Work is required. Clearly a link between demographics and growth.
- China:
  - Growing. Western companies who have business with China done 2x better than the Chinese stock exchange, e.g., LVMH. Luxury brands doing well.

As can be seen from these minutes, specific macro issues relevant to the time are raised and discussed from a risk perspective. Where it is deemed that a macro theme poses material risk to our investment process and exposures within our funds, these will be flagged to the fund managers who sit on the Committee and are responsible for acting upon this. The co-CIOs will also be responsible for reporting any material issues flagged to the Board as well as what action is being taken.

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Examples of Risks identified

Here are some examples of market-wide and systemic risks identified during 2023, our action taken to mitigate these risks and a brief review of how effective our processes were:

Fixed Interest

We have earlier shown examples of identifying and responding to market-wide risks in 2021 and 2022. As ever 2023 brought its own set of potentially systemic risks and these first manifested themselves in the problems seen in the US secondary banking system as both Silicon Valley Bank and First Republic encountered serious deficiencies in their balance sheets followed by a depositor exodus. Thankfully this was contained and ultimately the largest banks in the US banking system took over these entities and absorbed their liabilities seamlessly ensuring there was no systemic failure or contagion.

From a Church House perspective we do not invest in assets from second tier American or European banks. We are acutely aware that our asset base originates from private clients and ensure that we invest in only the most creditworthy institutions. However, things can change almost overnight so we do not have an ounce of complacency regarding the names we invest into and when things change we act swiftly. A powerful example was when Credit Suisse, a previously creditworthy institution and Switzerland's second biggest bank saw a confluence of factors entail a loss of confidence. Ultimately the Swiss authorities engineered a rescue/takeover by UBS, Switzerland's largest bank but as events unfolded we acted to reduce any exposure we had and we sold the CS 7% 2027 bonds out of our funds.

Marketwise risk similarly abounded in 2023. The above-mentioned single name, potentially systemic, risks also impacted the wider market in similar financials, manifesting itself in what was to prove a relatively short lived wobble in financial credit spreads. Interest rate risk was again a market wide risk also. Central Banks having appeared to conclude their hiking cycles, market attention, and speculation, turned to when an easing cycle might get underway.

This led to a year, and still does, of data watching. As different activity measures and inflation prints led to some rate volatility towards the end of the year hopes rose for an early pivot. Whilst we had moved our duration levels out slightly we did not buy into the latter stages of the duration rally which quickly reversed leaving investors nursing losses. This is an example of Church House's awareness of market risk and the avoidance of losses which we maintain is good stewardship of our clients and investors assets.

Geopolitical Risk and Rule of Law

In our 2022 Stewardship Report we discussed geopolitical risk and Rule of Law at length. This was against the backdrop of Russia's invasion of Ukraine on 24th February, which became a defining moment that set the backdrop for a year of Russian isolation and an increasingly tense relationship between NATO members and China. We commented that:

"This was arguably the end of an extended period of globalisation and economic growth fuelled by a liberalisation of international trade and cheap Chinese labour – the investment landscape has changed for the foreseeable future to a more isolationist and inflationary world."

One the one hand, we took comfort from our insistence on **Rule of Law**:

*"At Church House we have always invested in regions where the '**Rule of Law'** applied. This means that all*

of our direct investments are in businesses that are domiciled, incorporated and listed in developed markets, predominantly the UK, EU, North America, Switzerland and Scandinavia. We believe that this protects our clients' assets against the risk of nationalisation and the worst of government interference."

On the other hand, we noted the need to remain vigilant on **Chinese risk**:
"What did come out of our discussions at the Investment Committee, and at the fund manager level, was the need to take a keener interest in the Chinese exposure that our investments had, both in terms of earnings and manufacturing operations. Short-term, businesses with China exposure were already hurting due to ongoing harsh lockdowns and 'Zero COVID' policies, but longer-term our worry was that doing business in China would be getting more difficult and the risk of government intervention was higher."

In our two case studies we looked into Chinese exposure for our investments in **InterContinental Hotels Group (IHG)** and **Halma**. Our conclusions and further action in 2023 were as follows:

IHG HOTELS & RESORTS

- **2022 Report Conclusion:** "*For us, this is an openings plan for China that we are uncomfortable with, particularly given how poorly IHG's Chinese operations have performed since 2020. We took the decision to reduce our position in IHG by c.25% as shares rallied during 2022, lowering our exposure to this Chinese risk and will continue to monitor the situation as it develops."*
- **2023 Action:** both the underlying business and share price of IHG performed strongly during 2023, with shares rising over 40% during the 12 months. We continued to monitor their Chinese exposure closely and were content that this remains a risk that is being managed appropriately. We took the opportunity of the rising share price to further reduce our position in IHG, although this was more a reflection of the equity valuation than China-specific concerns.

Halma

- **2022 Report Conclusion:** *"On the back of this meeting, we concluded that Halma was managing its Chinese exposure well and we were happy to maintain Halma as a larger position within our funds."*
- **2023 Action:** we remain long-term holders of Halma and our position remained steady over 2023. We noted at Halma's interim report that the business is continuing to see *'weaker China trends'*. We will continue to monitor closely.

One business that we did exit during 2023 on the back of its Chinese exposure was Genus, a UK-listed business that sells animal genetics, specifically used by farmers of pigs and cows.

Genus

Genus has a notably larger exposure to China than most businesses because China is the biggest global

market for pork. We had been monitoring Genus's performance in China closely as we felt that they were at risk here, being a UK business operating in the territory against the backdrop of increasing macro tensions and, more specifically, the ongoing headwind of African Swine Fever in the Chinese pig population.
In May 2023 Genus released a trading update that highlighted:
*"**Since December 2022 the Chinese porcine market has been weak**, reflecting high supply of slaughter pigs following widespread African Swine Fever ('ASF'). Expectations of a recovery in the market grew during February 2023, when the pig price rose from a low of 14.1 RMB/kg to 15.9 RMB/kg on 2 March. However, since then the pig price has fallen back below 15 RMB/kg and is currently 14.3 RMB/kg, with continued widespread ASF outbreaks and subdued demand. At these prices, producers are unprofitable, and many are not replacing and rebuilding their sow herds at the current time. Due to the volatile porcine market PIC China's **trading has been weaker than the first half of the fiscal year**, achieving lower revenues, with operating profit also impacted by costs associated with the clearance of inventory at two PIC farms that were infected by ASF in the period …*
… Due to the challenging porcine market conditions in China, we now expect PIC China to be modestly loss making in the second half of the year"

On the back of this announcement and our own further research we sold our entire Genus position in July 2023. Shares have since fallen by a further 50% and are currently trading at five-year lows. We will not be reconsidering investing in Genus for the time being.

Interest Rate Risk

On the back of interest rates having increased sharply over 2022 and into the middle of 2023, it was clear that this was a systematic risk that would be felt across all asset classes and all of our investee companies. Banks and other financial institutions that we invested in would be particularly affected by increased rates, as significant borrowers and lenders in financial markets. One such institution that we looked into was Close Brothers Group.

<u>Case study</u>

Close Brothers

Discussion
Close Brothers Group (CBG) is one such investment held within our UK Equity Growth Fund and Balanced Equity Growth fund that was flagged to the Committee for increased credit risk. CBG is a 150-year-old UK Merchant Bank which provides lending, deposit-taking, wealth management and securities trading. In recent years, CBG has struggled to increase revenues and improve margins, in main due to the low interest rate environment the world inhabited up to 2022/23.

Like many of its peers, CBG decided to diversity it's business into numerous different financial lines including motor financing and litigation funding. In 2017, CBG bought Novitas, the legal finance specialist.

In January 2023, CBG came to market announcing that as the owner of Novitas it was preparing to write off £90m after admitting that it's book of cases in unlikely to come to anything. The shares fell up to 15% on the news and have not recovered since. Their second half results later in the year, highlighted that CBG had increased their provision against the Novitas write-off to up to £115m. On the basis of these write-offs and increased worry in the company we sold our position across 2023.

Outcome

For us, we had invested in CBG on the basis of their agility and diverse financial revenue streams (in particular wealth management and securities trading). We were not expecting this write-off to materialise. In the drive to increase revenues and diversification in the low interest rate environment, you could see why the company and their peer group went down this route, but for us it was deemed a risk and an uncertainty too far, so we sold our position in the portfolio.

Collaborating with Other Stakeholders to Promote Continued Improvement in the Functioning of Financial Markets

Example – Fund & Market Outlook Presentations

Our Fund Managers regularly participate in industry events and fund presentations, where prevalent market risks across many asset classes are discussed directly with market participants and clients. During these events, we convey our investment beliefs, strategy and potential change in fund stance, as a result of market conditions.

During fund and market outlook presentations, the **fund managers communicate to participants recent portfolio activity, as well as** their views on the market, multiple asset classes, changes in policy and resulting implications. During these meetings, we **encourage participation and questions**, which allow the fund managers and attendants to share their insights and challenge each other. We believe this collaboration **promotes the healthy functioning of financial markets**, via the sharing of expertise and experience of our fund managers.

Example –Market Commentary publications

Further to this, extracts for our multi-asset market commentary can be seen below. We publish monthly to inform clients and market participants of unfolding events in the current market environment and consequent changes in stance in the fund. Market commentary, changes in fund positioning and portfolio activity are also published for the majority of all our funds.

Fixed income market commentary, September 2023:

Major western Central Banks are pausing left, right and centre amidst hopes that we have found terminal rates. Unfortunately, we look set for 'higher for longer', but this is better than 'higher and higher'.
Before the FOMC meeting US 5yr and 10 yr Treasury yields hit their highest levels since 2007, pre GFC, influenced by rising oil prices and a worrying Canadian inflation print. The Federal Reserve kept their funds target rate unchanged but still with a tightening bias just to keep everyone on their toes. We still appear to be on course for a further hike before the end of the year but presumably this remains data dependent. They sounded noticeably more optimistic on economic activity for 2024, the dot plot predicting potential for only 50bp of cuts next year and then on hold until 2025/2026. These dots are liable to move as we know but either way the US economy looks resilient and might well achieve the soft-landing scenario.

The picture in the Eurozone is much more fuzzy. The ECB did deliver a dovish hike of 25bp against analyst consensus of a pause. They have probably found their terminal rate and weakening growth in major EU economies will be top of their minds as too will be stubbornly high inflation near term data although underlying inflation pressures are easing and forecasts show a more rapid fall. They did not change their QT stance, being content to stop reinvesting maturing bonds under its Asset Purchase Facility but still reinvesting maturing principal payments under the PEPP (the pandemic one). It's all the same balance sheet in my view. Greece regained investment grade status, they've come a long way from 2011.

The UK economy is not a particularly pretty picture as we printed weaker July GDP numbers than expected mainly due to a surprise drop in the contribution from services, the drop in industrial and construction activity was expected. A shallow recession is still on the cards. Unemployment increased slightly and it looks as though private sector wage growth has found a level but overall average earnings at 8.5% remains punchy. A surprise, and welcome, drop in August inflation numbers, in particular a healthy drop in the core rate to 6.2%, almost putting us in range of other major economies, must have been a major contributor to the MPC's surprise 5/4 split vote to hold rates at 5.25%.

Sterling Credit spreads remain in a fairly tight range although EUR spreads recently widened a touch with the roll in indices. Issuance across all currencies remains healthy but Friday has almost become a 'non-primary' day as we saw the 31st zero issuance day this year.

Further examples of market and fund commentary can be found here.

Engagement with Market Participants and Stakeholders & Supporting Industry Initiatives

We are members of industry bodies, such as **PIMFA** (since May 2019) and support the work by the **FRC,** via our signatory status to the UK Stewardship Code. Further, we are a contributing member to **Managed Portfolio Indices (MPI)**, a platform available to **STEP** members to assist them with their investment related activities, where we provide our fund data each month for comparison versus industry peers.

Participating In Collaborative Initiatives:

Synthetic OCFs

2023 saw a continuation of our collaborative work on **PRIIPs and UK Retail Disclosure** with a large and expanding group of investment managers and, latterly, brokers. Initially the group was discussing appropriate responses to HM Treasury's consultation paper on the topic, though actual submissions to the Treasury were confidential to each firm. Our submission to the Treasury can be found here:
PRIIPs and UK Retail Disclosure.docx

The email chain on this topic with the principal group runs to around 15 over the course of the year though there have been many others with interested parties. Towards the end of the year, we were all focused on an appropriate response to the Treasury after their response to the consultation(!). Ultimately it was agreed that this would be best coming under the auspices of the London Stock Exchange (and their lawyers). Accordingly, we co-signed the submission from the London Stock Exchange, which, by the closing date included:

32	Investment Firms (incl. Church House)
86	Listed Investment Companies
27	Asset Managers
15	Investment Banks and Corporate Advisors
8	Law Firms
4	Research Firms
23	Members of the House of Lords
105	Further signatories from the investment world
23	Late signatories across most categories

Into the New Year, Baroness Altmann has been progressing her Alternative Investment Fund Designation Bill. She wrote a letter to The Times in support of the Bill, which James Mahon, joint CIO, co-signed for Church House.

Sir, For the past two years the UK's listed investment companies have been spiralling into a deepening crisis. They have been shunned by investors and investment platforms because of EU regulation which, although it does not apply to listed investment companies in Europe, remains on the UK statute book.

Under UK interpretation, investors are told that management charges are an additional cost, which is misleading. All expenses, comprehensively and transparently expressed by investment companies, are paid by the company and are reflected in the share price.

Investors are deserting these companies, stalling their ability to raise capital, when they are perfect vehicles for long-term investment in vital public services such as healthcare, housing, energy and transport.

In the House of Lords on March 1, during the second reading of Baroness Altmann's Alternative Investment Fund Designation Bill, peers from all sides, including Labour's front bench, agreed that a simple change to the interpretation would bring the UK into line with the rest of the world and was urgently needed in the interest of the country. We agree.

Baroness Bowles of Berkhamsted, Baroness Altmann, Lord Davies of Brixton, John Baron MP

Evaluation of our effectiveness at responding to these market-wide and systemic risks:

In conclusion, we feel that to provide and fulfil Stewardship principles towards those clients entrusting us with their assets, a deep and thorough knowledge of the risks involved both market-wide and systemically is essential. We strive to communicate our experience widely through our regular publications and meetings, but also to listen and add to it with the knowledge and experience of others, as well as taking part in collaborative initiatives where appropriate.

5. Review of Policies, Procedures and their Effectiveness

Although the principles of stewardship are strongly embedded in the CH culture and, consequently, all aspects of our investment and fund management activities, we review them in a number of different ways to ensure their consistent application, effectiveness and communication. **The over-riding principle is to ensure the responsible allocation, management and oversight of capital to create long-term value for clients and investors leading to sustainable benefits for the economy, the environment and society.**

Our approach to stewardship is not something newly adopted but has been embedded throughout all our investment activity since inception in 1999. We view this as fundamental to the management of the risks to which we expose our clients' money. We highlight the FRC's updated UK Stewardship Code 2020 Policy on our website where we explain our approach to each of the twelve principles.

With increasing focus on ESG factors, we have formalised our approach to incorporate environmental, social and governance issues in a separate Church House ESG Policy.

Reviewing Policies

We review our internal processes regularly in order to ensure effective stewardship and acting in the best long-term interests of our clients. All policies are subject to review and approval. We have two CIOs, both of whom have over thirty years of investment experience, and who are responsible for monitoring all investment decisions. All fund managers are required to report on their portfolio activity to the Investment Committee, which has an independent Chair with long experience and high standing.

Church House strives to maximise value for its clients via the careful management of its funds and underlying investments. There are a multitude of factors our fund managers take into account when considering an investment. Our active management approach promotes on-going research with investee companies. We attend company presentations, engage in one-to-one meetings with company management teams and carry out continuous research, analysis and dialogue in order not just to maintain a solid financial picture of the current and future value of stocks we hold, but also to gain insight into the values and priorities that a company attaches to ESG matters. We engage in active and constructive dialogue with many of our investee companies and vote at AGMs, EGMs and corporate actions. This is especially so if direct communication with an investee company fails to satisfy our concerns.

Review and Assurance Processes

The first level of assurance is the **Investment Committee**, which meets monthly and has a formal agenda for checking each fund's activity against its relevant risk tolerances, including any (potential) stewardship issues. Before each Investment Committee meeting, Compliance circulates a report of their checks on each fund and its compliance with regulatory and internal limits and objectives. Church House employs an **Operational Assurance Manager** whose primary role is to monitor this process, which includes monthly sample checks on market transactions to ensure best execution. The Committee also reviews the makeup of the risk scales for client portfolios and their ongoing results in terms of performance and volatility against expectations (see Principle 1 for outcome of this data).

The next level is the **Risk Committee** and **Audit Committee.** The Risk Committee is chaired by the non-executive Chair, whose terms of reference specifically include a detailed audit of all the main business risks, including the consistent application of stewardship principles. The Audit Committee is made up of the Managing Director, Head of Compliance, Head of Finance and three Non-Executive Directors. One of the primary roles of the Audit Committee is to monitor the adequacy and effectiveness of the firm's internal controls, including those relating to stewardship. The Managing Director is responsible for the implementation of internal controls. The operational and control processes are reviewed annually by our external auditors.

The top level in assuring our processes is **the Board**, to which the Risk Committee report, which includes representatives of significant external shareholders who naturally expect to see the highest levels of observance to all our published policies such as stewardship and ESG.

Church House maintain a Risk Register to highlight, manage, monitor and control its business risks. Through 2023, Church House continued to utilise the support of an external consultant to review the process of recording and communicating its key Risks. The heads of each business unit have ownership, under the leadership of the Managing Director, of the risks in their area. The top risks of each unit are presented to and reviewed by the Risk Committee and the Board regularly.

Reviewing and improving stewardship policies and processes

In maintaining effective stewardship, our **Voting and Engagement Committee** has the specific aim to provide structure to our voting activities. Regular meetings, usually weekly, take place to co-ordinate and confirm votes at AGMs, EGMs and other corporate actions in investee companies. Matters raised are discussed within the **Investment Committee.**

Ensuring Reporting is Fair, Balanced and Understandable

All reporting and marketing literature is subject to scrutiny by Compliance. While the particular focus is regulatory, to ensure that all our external communications are '*fair, clear and not misleading*', this neatly overlaps the FRC's requirement that all stewardship reporting should be '*fair, balanced and understandable'.*

Our **Quarterly Review** publications continue to ensure that our clients are kept up to date with the current economic and market background, including credit and equity market commentary, sustainability pieces and a high level of visibility and transparency into each fund's activity during the quarter. This are distributed to our existing clients.

We also **publish regular updates and insights for both professional and private client audiences.** These articles include portfolio and market commentary written by the fund managers, ESG and sustainability, personal finance commentary and news relating to the firm. The complete library can be found here.

It is hoped that our publications reinforce the message that successful investment management centres around the effective management of risk and that avoiding investment in companies demonstrating unsustainable business practices such as poor governance, damaging environmental practices or weak social impact credentials is an important element of that risk.

Our funds are subject to independent assessment by **MSCI as part of their ESG Ratings service**. We do not pay for this service nor have any input into their process. However, we are pleased to see that they rate four of our funds as AA on their scale and two as A.

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MSCI ESG ratings:

IFSL Church House Tenax Abs Rtn Strategies A Acc

Peer Group: Absolute Return GBP Low
Domicile: UK
Holdings as of: December 31, 2023

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | **AA** | AAA

IFSL Church House Investment Grade Fxd Intr Acc

Peer Group: Bond GBP Corporates
Domicile: UK
Holdings as of: February 29, 2024

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | **AA** | AAA

IFSL Church House UK Equity Growth A Acc

Peer Group: Equity UK
Domicile: UK
Holdings as of: January 31, 2024

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | **AA** | AAA

IFSL Church House Balanced Equity Income A Acc

Peer Group: Equity UK
Domicile: UK
Holdings as of: December 31, 2023

MSCI ESG RATINGS AA

CCC | B | BB | BBB | A | **AA** | AAA

IFSL Church House Esk Global Equity A Acc

Peer Group: Equity Global
Domicile: UK
Holdings as of: January 31, 2024

MSCI ESG RATINGS A

CCC | B | BB | BBB | **A** | AA | AAA

IFSL Church House UK Smaller Companies A Acc

Peer Group: Equity UK Sm&Mid Cap
Domicile: UK
Holdings as of: January 31, 2024

MSCI ESG RATINGS A

CCC | B | BB | BBB | **A** | AA | AAA

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6. Communication of Activities and Outcomes of Stewardship

ASSETS UNDER MANAGEMENT (AUM)

As at 31st December 2023, Church House Investment Management had AUM of c.£1.01bn with the retail/institutional split being 68% versus 32%.

We define '**retail**' as our direct private clients that have signed a Discretionary Management Agreement (DMA) with us. These can include private individuals, family groups, charities and trusts. Their assets are held in General Investment Accounts (GIAs), Self-Invested Personal Pensions (SIPPs) and Individual Savings Accounts (ISAs).

We define '**institutional**' as third-party investors (Wealth Managers, Financial Adviser groups and Independent Financial Advisers), who purchase our funds, often via intermediary platforms.

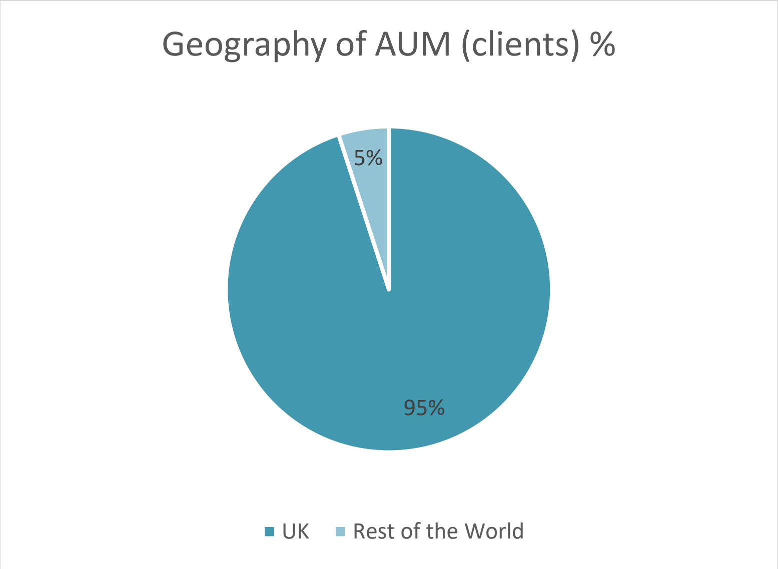
Over the course of 2023, we saw an increase in private client in-flows, accompanied by some significant institutional outflows with the result that the balance between the two has almost exactly reversed with the retail side of the business now accounting for 62% of the business (up from 37% in 2022) and institutional side 38% (down from 63% last year). The percentage increase in retail assets was emphasised by the rally in equities in Q4 last year, relative to the heavier fixed interest weightings in the institutional funds.

	Assets Under Management %
Retail	68%
Institutional	32%

Source: Church House Investment Management
Data as at 31st Dec 2023

GEOGRAPHIC SPLIT OF CLIENT BASE AUM

The Church House client base is principally domiciled and resident in the UK. There is a small number of clients living, or owning homes, abroad for personal reasons. We have seen little change in the split from last year. We have no US clients owing to the prescriptive nature of US FATCA legislation.



	Geography of AUM (clients) %
UK	95%
Rest of the World	5%

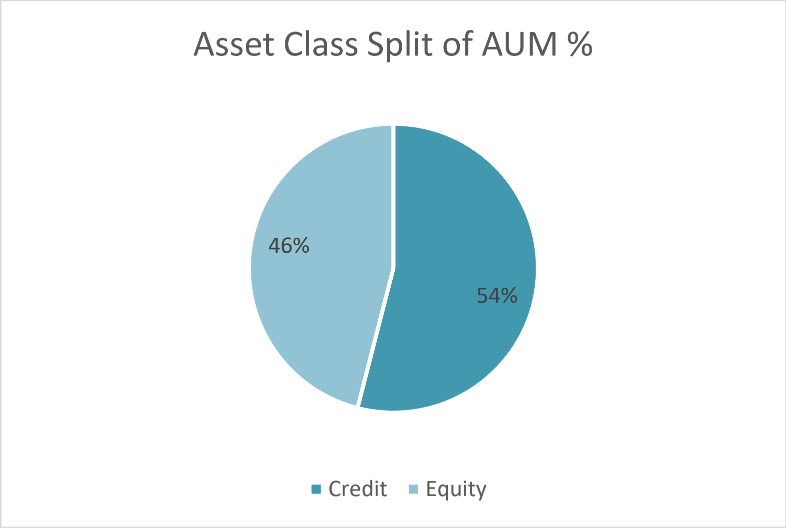
Source: Church House Investment Management
Data as at 31st Dec 2023

ASSET CLASS SPLIT OF AUM

The asset class split of AUM is 54% credit assets versus 46% equity assets.

Credit assets include: Treasuries, Corporate bonds, Floating Rate Notes, Convertibles and other Fixed Interest Investments.

Equity assets include: UK and International Listed Equities, Investment Companies and Real Estate Investment Trusts (REITs).



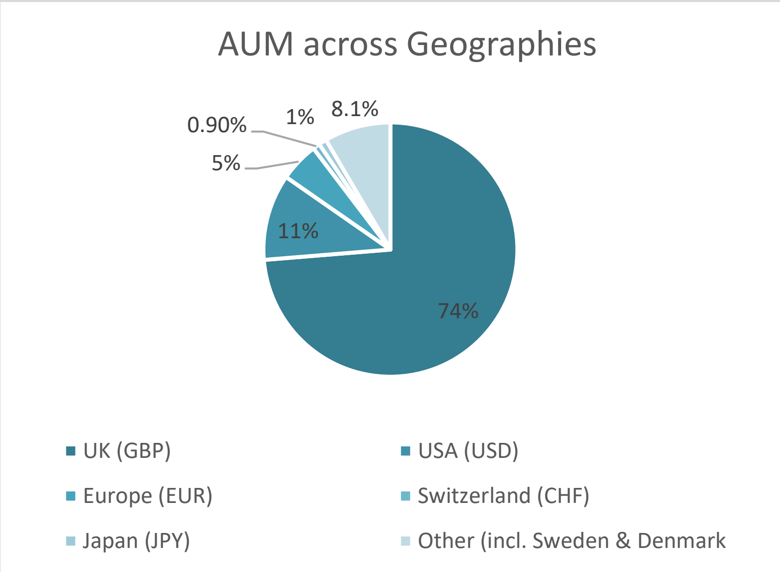
	Asset Class Split of AUM %
Credit	54%
Equity	46%

Source: Church House Investment Management
Data as at 31st Dec 2023

In terms of asset class split, the decrease in the credit weighting largely reflects redemptions made by third-parties holders of the two main credit funds. Within private client portfolios themselves, the percentage allocations to fixed interest and equity assets remains broadly as before.

GEOGRAPHIC SPLIT OF AUM

Church House's AUM is majority-invested in **UK-listed securities and investment funds** (c. 74%). The remainder is made up of direct investments **USA** (c.11%), **European Union** (c. 5%), **Switzerland** (c.0.9%), **Japan** (c.1%) and **Other** (Scandinavia, Emerging Markets etc.) at c. 8.5%. Owing to the use of collectives, these weightings do not represent portfolio asset allocations.



	AUM across Geographies (based on currencies)
United Kingdom (GBP)	74%
USA (USD)	11%
Europe (EUR)	5%
Switzerland (CHF)	0.9%
Japan (JPY)	1%
Other (incl. Sweden & Denmark)	8.1%

Source: Church House Investment Management
Data as at 31st Dec 2023

TIME HORIZONS

Church House has always been a long-term investor and this is reflected in the discretionary portfolios we manage for clients. To be most effective, and in order to manage the risk/reward equation carefully, clients are only taken on in the full knowledge and understanding that their **investment time horizon should be a minimum of five years,** preferably longer. This time horizon works hand-in-hand with stewardship.

A **shorter time horizon** limits the opportunity for clients to achieve their objectives while also minimising the impact of stewardship within their portfolios. As with our clients, we aim to foster long-term and pro-active relationships and engagement with company management teams to extract the highest levels of stewardship across all environmental, social and governance issues.

Activity

Church House's ethos and attitude to stewardship has for long been embedded in our investment philosophy. From the outset of engagement with new clients, our ESG policy is prominent in client discussions. Clients are therefore made aware from the outset that their funds will be managed with proper attention to social and governance issues, in accordance with a clear ESG policy.

Client reporting

Communication to clients on stewardship matters is considered an important part of our reporting and marketing material. We send out regular emails to clients and publish 'big picture' pieces on topics which are firmly based on matters regarding Stewardship, Environmental, Social or Governance. These can be found on our website.

This type of thought-leadership is a key pillar in our marketing and communication with clients. Not only is it useful marketing material, but this collateral emphasises that we are ready and willing to challenge what constitutes proper, fair and balanced stewardship in 2023.

As well as the bigger picture pieces, each portfolio activity or market commentary will refer to stewardship elements as part and parcel of the way we manage money. For example, the rationale behind the purchase of a green bond in our fixed interest fund.

Other reports available to our clients include annual voting reports, our submission to the Stewardship Code and monthly ESG reports on our underlying holders. These can be found either on our website or by request.

Consideration of client views

As part of our client onboarding process, Relationship Managers undertake a **Fact Find** to obtain all the necessary **Know Your Client (KYC)** information. This consists not just of the normal fixed client data required for on-boarding but also the client's broader, financial situation, approach to investing and philosophy of life. Further to this, open-ended questions in the Fact Find are used to establish and gauge a client's potential ethical and stewardship requirements. This often becomes **more pertinent with charity and trust clients** whose trustees will often state their fiduciary duties include a more defined investment policy as regards an entity's ESG requirements.

Annual Reviews

These aspects are reviewed in a client's Annual Review, either in relation to the investment funds or the specific stocks held in their portfolios, to topical events impacting their portfolios, or by reference to wider investment context. This is evidenced in the **review notes** for each client, which are circulated to the fund and portfolio management teams for actioning where relevant and information more generally so that all are fully aware of client feedback.

Because we manage clients on a direct and individual basis, client views can be accommodated in designing and managing a mandate that is most suitable for them. **Suitability** is regularly reviewed (and at a minimum, once annually) and documented on client files. Our relationship with clients is personal, direct and discrete i.e. we are not selling packaged products in volume to clients we don't know.

New Fact Find to directly address a client's attitude to ESG

To further improve our approach, we include a section in our **new Fact Find** which **directly addresses a client's attitude to ESG issues**. This often leads to a discussion about our approach and the client's own views on how important ESG is to them. This is evidenced on client files, where we keep records of client responses, questions, and conversations around ESG issues. We believe this is an important issue to discuss with potential clients to ensure their views and our approach are correctly aligned.

We also discuss ESG issues with clients on a one-to-one basis as it can be an area where individuals have strong views. We believe that by engaging on an individual basis, we are better able to understand our clients' opinions and requirements with regard to ESG, and how this may influence their investment preferences.

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Example – Fulfilling client ESG preferences

A typical example of this occurred during 2023, when we were asked to exclude specific investments, such as arms and armaments, and to include more environmentally progressive and socially impactful investments in their portfolio. Following an analysis of the existing investment funds deployed in her portfolio, we replaced one CH investment fund (which held BAE Systems PLC) with another that did not have any arms companies and built out the portfolio mandate with investments such as: Impact Healthcare REIT, Gresham House Energy Storage Fund, Impax Environmental and Keystone Positive Change funds. This fulfilled the client's request without impacting the portfolio's main objective.

Church House run many investment portfolios across these stewardship parameters, as defined by charity stakeholders and trustees' policies. For **individual private clients**, we can provide access to a purely **Ethical Portfolio solution** via our Managed Portfolio Service (MPS) and for our **larger clients** we can allocate our stock selection to a portfolio totally tilted towards ESG. We also tailor client portfolios using funds with strong ESG focus and engage with clients to understand their evolving views.

Example – Answering a specific client request

Another example during 2023 occurred when we were asked by a client to incorporate investments aligned with the growth of alternative energy sources and battery storage. This we achieved by accessing specialist investment funds, such as SDCL Energy Efficiency Income Trust and Gresham House Energy Storage to build out a bespoke portfolio with this particular ESG focus.

Outcome

Among our clients, we have found there is stronger engagement over ESG issues with the younger generation of client for whom the wider issues surrounding Climate Change often feature in discussions.

We believe that we have an **effective method of communicating with our clients on ESG and Stewardship matters** and have **improved and enhanced** the way we consider client views and how we act upon them. In addition to the **new Fact Find that clearly documents a client's views on ESG**, we continue to document and circulate client views and this is where ESG considerations are considered and acted upon.

Our **reporting and commentaries** are thorough and regular, sometimes with pieces relating to contemporary ESG and sustainability matters. Diving down into the majority of our marketing and communications output, there is emphasis on stewardship within the monthly commentaries and portfolio activities, which report on our processes and activities at a fund level.

To other clients, we have had to defend our withdrawal from investment in the oil majors and other fossil fuel companies, especially where this has impacted performance or caused a particular fund to lag behind peers in that fund sector. We continue to defend this position which is, mostly, accepted by our clients who support the rationale and understand the implications of not holding these companies in our portfolios.

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7. Integration of Stewardship and Investment, including ESG

At Church House, we have incorporated ESG and stewardship firm-wide into our equity, fixed income and multi-asset class funds, with our primary responsibility always being to our clients and putting their needs and wishes at the forefront of our decisions.

As active, long-term managers, we are able to integrate ESG practices into our investment processes holistically. We look to invest in high quality companies with strong fundamentals and corporate governance, alongside sound ESG practices. While we have an analyst who has a focus on ESG, we believe it important not to segregate ESG discussion from the investment team. In this way, each fund manager embeds ESG into their investment decisions, where it is considered from a risk management perspective. This approach is used for our *UK Equity Growth Fund, UK Smaller Companies Fund, Esk Global Equity Fund, Balanced Equity Income Fund, Investment Grade Fixed Interest Fund* and our *Tenax Absolute Return Strategies Fund.*

INTEGRATION OF ESG AND STEWARDSHIP ACROSS MULTIPLE ASSET CLASSES & GEOGRAPHIES

There are areas where ESG integration spans many asset classes. It is common for our equity fund managers and analysts to discuss mutual holdings with our fixed-income and multi-asset fund managers. This is a mutually beneficial relationship, which allows teams to approach financial, ESG and stewardship considerations from a potentially new angle. While ESG and stewardship are integrated holistically into our investment approach and decision-making process, discussions across teams on the investment desk allows us the opportunity for new insights, as well as scope for further development of our broader understanding of these companies. This open-dialogue approach allows us to convey a unified view of ESG and stewardship matters when in discussion with investee companies.

UK equity

As a UK investment firm, aside from fixed interest, we primarily invest in UK equities, where we endeavour to form strong long-standing relationships with the senior management and non-executive directors of the companies in which we are shareholders. We believe this makes for more conducive and effective discussion.

Global equity

Where possible, we engage with the senior management and non-executive directors of our global equity holdings. Outside of the UK, our investments are primarily in the US, Europe and Japan. Engagement with these global companies is lower than with our UK listed holdings, although we aim to engage further with our globally listed companies each year.

In both of the above, **voting** is also an important aspect of engagement with our investee companies. We recognise that as a small investment firm, our influence in this manner is not huge; however, we are happy to vote in the best interests of our shareholders and believe it is our duty to do so. More information on voting can be found in Principle 12.

Where appropriate, and where we believe it would be in the best interests of our shareholders, we may opt for **collaborative engagement**. This may arise because of an unsuccessful private engagement, or where collaboration with a larger shareholder grants us further reach to influence the decisions of senior management and the Board.

Corporate bonds

We consider the stewardship credentials and governance of the company issuing a bond. With many of our equity and bond holdings overlapping, this lends itself to a holistic evaluation of our holdings. Further, we encourage improvement in ESG practices and look for openness in issuer engagement, alongside increased transparency with bondholders.

Sovereign credit

With sovereign credit, paramount importance is placed on the rule of law in countries issuing government bonds. Consequently, we only invest in developed markets (primarily the UK), where we trust the rule of law and running of institutions. Please see more detail in the section below entitled '*Rule Of Law – Geography / Market Listing'.*

Holdings in Closed-Ended Investment Vehicles

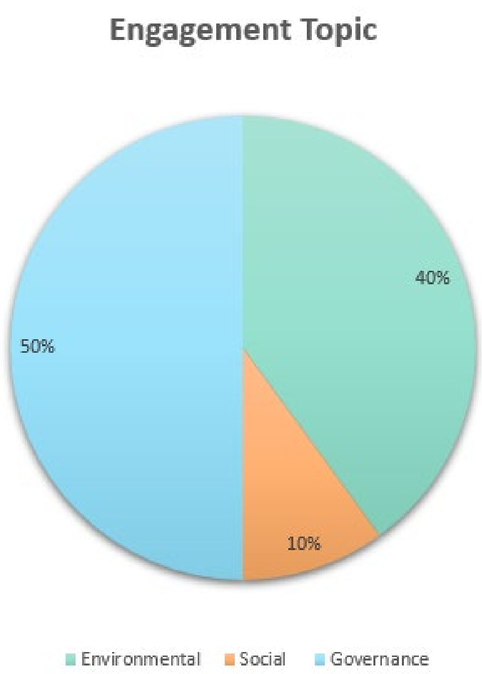
In order to further diversify our funds and where we believe specialist expertise would be beneficial for our clients, we use investment trusts to gain exposure to certain areas, such as energy efficiency trusts, private equity and emerging markets. We have regular meetings with the fund managers of these investment trusts, where we are able to discuss the management, engagement and governance of the underlying holdings. Emphasis is also on the environmental and social credentials, if material, and we expect management to incorporate ESG into their investment approach.

ACTIVE MANAGEMENT & ENGAGEMENT

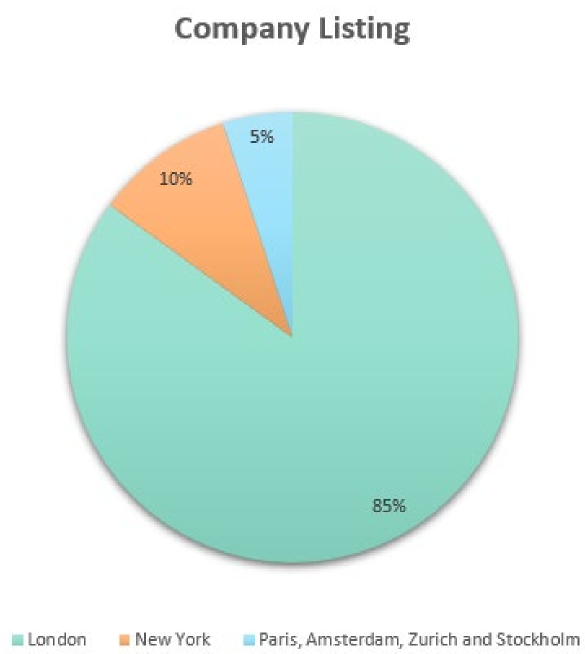
As active investors in both the UK and global markets, we place great importance on closely monitoring the companies in which we invest, assessing whether they remain a suitable investment for each respective fund. Our active-management approach promotes ongoing research with investee companies. We attend company presentations, engage in one-to-one meetings with company management teams, and carry out continuous research and analysis in order to maintain a solid financial picture of the current and future value of stocks we hold, along with their development in ESG matters. When appropriate, we engage in active constructive dialogue with investee companies (via verbal or written communication) and vote at AGMs, EGMs and corporate actions, should this be in the interest of our clients; especially, if direct communication with an investee company fails to satisfy our concerns. Church House may seek to engage with other shareholders via both formal and informal avenues, should this lead to more effective discussions in addressing material concerns with an investee company. We question management on financial and non-financial matters and while opportunities for voting with fixed income instruments are limited, we endeavour to apply the above course of action.

EQUITY

Throughout 2023, we engaged with many of our investee companies. We participated in 175 meetings during the year, and we have recorded a subset of prominent engagements below with the topic discussed upon engagement, the country of the company listing and the fund type by asset class engaged in these discussions, visually represented in the pie charts below.



Source: Church House Investment Management.
Data as at 31st Dec 2023



Source: Church House Investment Management.
Data as at 31st Dec 2023

Engagement by Geography

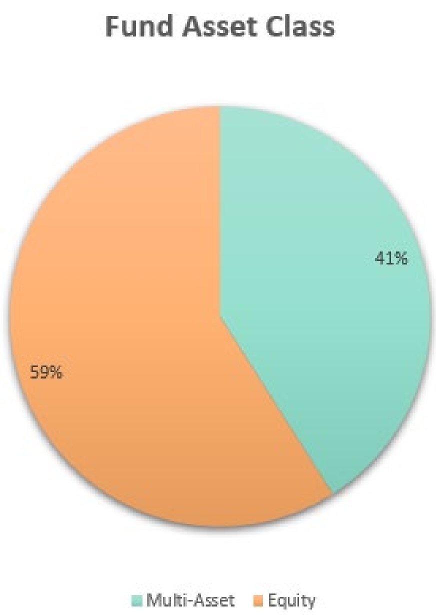
We acknowledge that the **majority of our ESG engagements in 2023 were with London listed companies**, as access to UK senior management and non-executives of potential and existing investee companies is more easily available to us than with other listed global companies (in our case, the USA, Europe and Japan). As a result, we have been able to build strong relationships with many of these investee companies, predominantly in the UK.

As investors primarily in the UK markets (85% of AUM, based on currencies), for both equity and bonds, we feel this priority of engaging with UK listed companies to be reasonable. Nonetheless, we are **always willing and aiming to engage more across all of our global holdings. Engagement across our global holdings via voting**, particularly in North America, has increased nominally and as a proportion of overall votes, compared to last year. A breakdown and more discussion on this can be seen in Principle 12.

Environmental, Social and Governance engagements

During 2023, **governance** matters accounted for the lion's share of prominent engagements (50%), followed by **social** (10%) and **environmental** (40%). While it appears that we have directly engaged less on governance matters, our investment philosophy is to invest in good quality companies with strong management teams. As a result, engagement to enact change in this regard is more rarely necessary. This is not to say that we do not keep a close eye and monitor the governance of a company. We are always willing to intervene and engage with management should we deem this necessary and be in the best interests of shareholders.

We have included a number of examples in our discussion with management teams on ESG matters in the activities and outcomes section below.

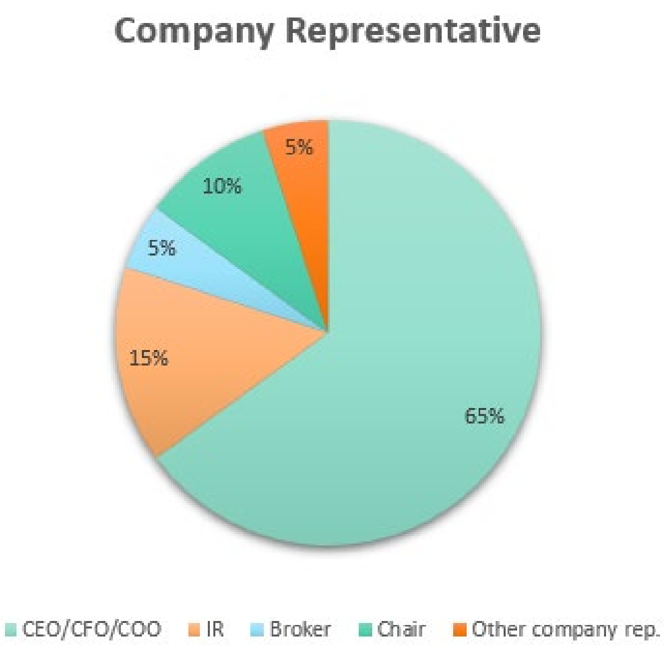


Source: Church House Investment Management.
Data as at 31st Dec 2023

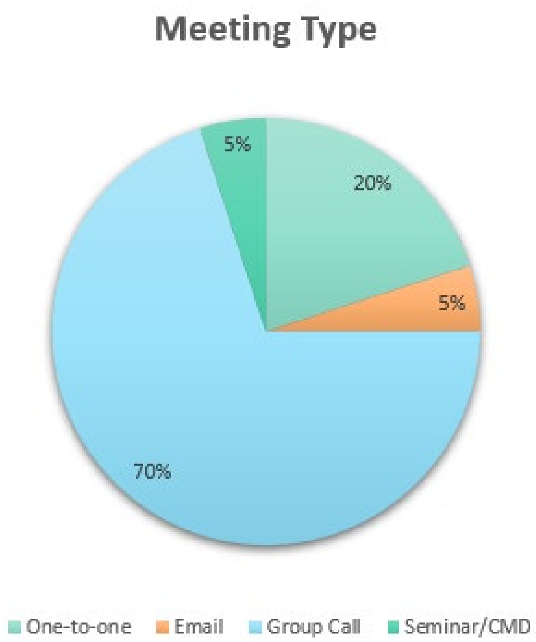
Engagement by Fund asset class

We aim to **apply strong stewardship across all of our holdings**, regardless of asset class, although it is notably **easier to do so across our equity holdings**, where we are also able to influence our investee companies via the shareholder vote, something we are unable to do with our debt-related holdings.

Factors which influence our decision to engage with companies include the **size of our holding across funds, seeking further understanding or action on governance**, **environmental or social matters**, **new initiation of a holding**, and/or **escalation of a recent or ongoing issue**.



Source: Church House Investment Management.
Data as at 31st Dec 2023



Source: Church House Investment Management.
Data as at 31st Dec 2023

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We are pleased that the majority (65%) of our prominent engagements are with the **CEO, CFO and/or COO** of the relevant companies, and on occasion with the **Chair**. In terms of meeting dynamic, **20% are one-to-one meetings**, with the largest portion (70%) being **group calls**. We are pleased with the access we have to management teams and the meeting dynamic, which allows us to listen and engage directly to further our understanding of a subject or raise matters of concern.

We have comprised in-house proprietary ESG checks, split into the headings 'Environmental', 'Social' and 'Governance' matters.

ENVIRONMENTAL

We look to invest in companies which demonstrate a strong willingness and determination to carry out positive ESG practices, and ultimately guide companies along the path to create a more sustainable and environmentally friendly society. We understand that environmental concerns vary by company and, where concern is high (i.e. energy), we assess the company's long-term growth strategy and trajectory of change towards sustainability. Factors which we may take into consideration include, but are not limited to, energy efficiency, renewable energy, GHG emission reduction, plan for net-zero, waste reduction, recycling, water usage, plastic use, palm oil and climate change policies.

SOCIAL

We aim to invest in companies with employee diversity and equality, with an effective upholding of human rights. Non-discriminatory, progressive policies with well-placed controls in employee health and safety, tend to be reliable measures of company culture and social practices. Cyber security and data privacy also remain key concerns and close attention is paid to controls in place to mitigate cyber-threats.

'Red line' companies are those in which we will not invest. These include businesses whose profit is made from pay-day lending, pornography and civilian firearms/land mines. Other areas such as gambling are viewed as morally questionable.

GOVERNANCE

Engagement with investee companies, often via regular meetings and direct dialogue with management, is core to our due diligence investment process, and helps us gain a holistic and sound understanding of a company's corporate governance, including their long-term strategy. We aim to promote sound corporate governance in our investee companies, towards robust ESG and sustainability practices.

Assessing the corporate governance of a firm is important in determining the long-term sustainability, incentives and culture of a company and facilitates us in evaluating which (potential) investments to enter, hold or exit.

Under governance, factors considered include scrutiny of the Board, with close attention paid to the number of directors, non-executive members, independence of the Chair, and the number of women on the Board. For the audit committee we look at the independence of directors and relevant financial experience.

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ESG MATERIALITY

We recognize that the materiality of ESG issues and opportunities vary by company and sector and these issues are thus discussed accordingly. Ultimately, we view ESG as a positive risk mitigator, which promotes investment in high quality businesses and has a positive effect on company fundamentals and the long-term interests of shareholders. Our deep knowledge of each of our investee companies allows us to identify relevant and material (potential) issues to put forward and discuss with management teams.

We do not necessarily view divestment as the most beneficial course of action. As responsible investors, and where possible, we aim to help drive a change to positive ESG integration via active engagement, assuming the business fundamentals and pricing are still attractive. However, where there is a significant and material ESG risk in an investee company, should we feel dissatisfied with the willingness of the company to change tack and ameliorate the matter, we may divest.

ESG INTEGRATION

The integration of ESG into our investment team allows for in-depth discussions of material ESG risks in our UK and global investee companies, or potential companies in which we may invest. Should material risks come to light, these are brought forward in our daily investment team discussions, and further reviewed at our monthly Investment Committee meetings. Often, we will engage with investee companies to better understand their views on ESG, the material risks and concerns, and how they plan to address these. Discussions may be via one-to-one meetings with management teams or Investor Relations directors, and/or group meetings and conferences.

Key for us is the engagement on these matters – as long-term shareholders, regular company meetings with management teams and independent non-executive directors allow us to form strong relationships and an open forum for discussion. We hope in this way, both our understanding of the company and its trajectory is improved, and our support, concerns and guidance openly received. We hope to positively influence our investee companies in terms of their internal policies and practices, corporate governance, culture and environmental and societal impact.

RULE OF LAW – GEOGRAPHY / MARKET LISTING

We only wish to invest in countries/jurisdictions where the rule of law persists, there is a free and liquid marketplace and unrestricted currency convertibility. Companies being considered for investment must be incorporated in one of these countries and their shares/stock must be listed on the exchange(s) of one of them. Essentially these are the recognised Developed Markets (which should exclude any countries on the UN Sanctions List).

Activities & Outcomes

Below are examples of discussions with senior management teams on material ESG concerns for each company, via one-to-one or group meetings.

Viability of net zero targets:

Land Securities *engagement on the progression and viability of sustainability targets*

One-to-one meeting with Head of Investor Relations and Director of Group Finance
Held in our Tenax Fund

Land Securities are one of the largest real estate companies in Europe, with a £12 billion portfolio of retail, leisure, workspace and residential.

Objective: During this meeting, we were keen to understand the impact of sustainability targets on the management of the company's portfolio. How integral were the company's net-zero targets to its operations, and what was the impact on the underlying performance of the portfolio.

Discussion: The HoIR highlighted that the company had reduced direct/indirect emissions by 26% versus its 2019/20 baseline. This was more than hallway towards meeting its near-term target of 47% reduction by 2030. They continue to progress net zero targets with a retrofit of first air source heat pumps due to start imminently, and they are launching the Landsec Futures Fund to invest £20m over next decade to enhance social mobility.

It was pointed out that while the company has its own targets, so too do most, if not all, of its tenants. Therefore, the company's progress in meeting net zero targets is a virtuous cycle that makes its own buildings more attractive to tenants. In both retail and office space while there has been concerns for the recovery of demand since covid, there is strong demand for prime space. Particularly for buildings that are energy efficient and will help their tenants meet sustainability targets. He explained that there is very little demand for office space in Canary Wharf, primarily due to poor energy efficiency of the buildings, while new building in the City and Victoria are 100% occupied. There are similar trends in retail, as well in the development of mixed-use urban neighbourhoods, where the company is creating thriving, sustainable urban places

Outcome: We were happy that the company's sustainability targets are not just something that they are paying lip service. Instead, it is being driven by both desire to improve the sustainability of the company, but also the demand from tenants, local authorities and other stakeholders. As such we see no reason why the company would go backwards on its targets, and instead expect good progress to be made to 2023, and thereafter in reaching net zero by 2040.

Succession planning:

Judges Scientific *engagement on succession planning*

In person-meeting with two COOs (one recently appointed) at AGM
Held in our CH UK Smaller Companies Fund

Judges Scientific is an AIM-quoted group specialising in the acquisition and development of a portfolio of scientific instrument businesses. Corporate expansion is pursued, both through organic growth within its subsidiary companies and through the acquisition of top-quality businesses with established reputations in world-wide markets.

Objective: Judges has a business model that we think works very well, whereby the company acquires smaller businesses and leaves management in place to continue to operate as before. For the owner of the acquired business it gives an opportunity for, typically founding, shareholders to exit. For the shareholder of Judges returns are created through the reduction of debt, payment of increasing dividends and through organic growth.

Considering its business model, we are especially aware that Judges was founded by Chief Executive and largest shareholder, David Cicurel, in 2002 and the likelihood is that he may retire in the near future. We wanted to understand the process at Judges for succession planning, given that David Cicurel has been such a key to its success.

Discussion: At the AGM we met with Mark Lavelle, COO since 2017, and Tim Prestridge, Group Business Development Director since 2023. Both Mark and Tim worked previously at Halma (FTSE-100 listed company with similar business model to Judges) where they both had direct experience in acquisitions and mergers. We discussed with them the reason for the appointment of a Group Business Development Director and they were quite open that it was part of the Board's plan to line up a successor to David Cicurel, as well as being something that was needed as the company grew.

Outcome: While there is no specific announcement of who will be the next Chief Executive, nor a timeline given, we are happy that the two candidates that the company have lined up both have significant experience at a high-quality company with the same operating business model. We do not believe a new CEO is needed, and are happy in our own discussion with David Cicurel about his desire to continue to grow the company, but we are reassured from our engagement that the strength in depth of their management team is sufficient.

Takeover bid for the company:

Dechra Pharmacueticals *engagement on takeover bid for the company*

Letter to the Chair, Alison Platt
Held in our CH UK Equity Growth Fund

Dechra is a global specialist in veterinary pharmaceuticals and related products business. Their expertise is in the development, manufacture, marketing and sales of high quality products exclusively for veterinarians worldwide.

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Objective: We had been shareholders of the company since 2019 and we more than doubled our position since weakness began in 2021. We had backed Dechra through difficult markets due to our conviction in the long-term opportunity and were excited by recent M&A and investment into the pipeline. We saw EQT's bid as opportunistic during a period of share price weakness.

Discussion: Following the announcement that the Board were in discussion with EQT Fund Management regarding an all-cash takeover. We wrote to the Chair to express our disappointment at the level of the takeover bid, when considering the company's share price performance over the past 24 months. We believe that the company has good prospects as a standalone entity, with exciting opportunities in the USA and Far East as the Med-Pharmex and Piedmont acquisitions started to deliver.

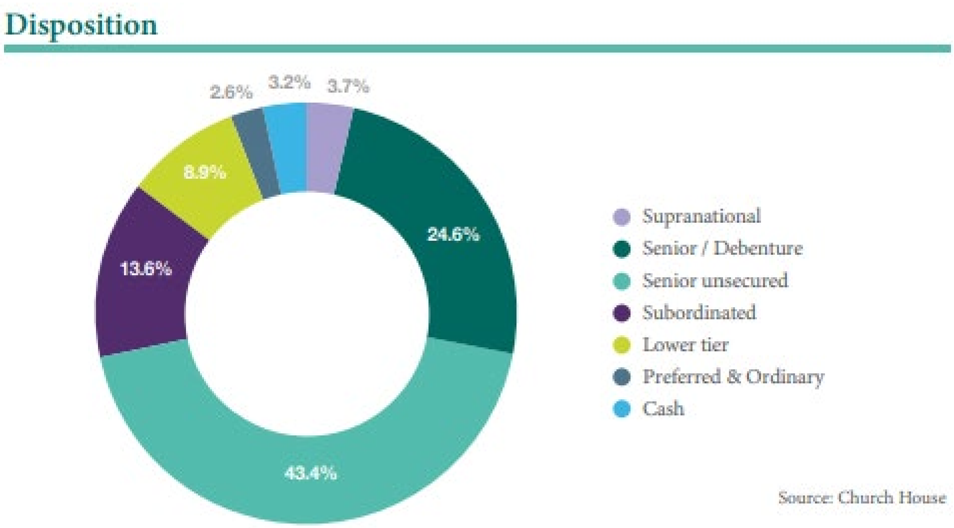
Outcome: We were offered a one-to-one call with the Chair, although this was disappointing. On it she explained the reasons why the Board were happy to accept a lower price than where shares had recently traded (due to discount rates and recent acquisition of Piedmont). Our understanding following the engagement with the company was the Board were falling in line with the founder and CEO's decision to sell, rather than trying to secure a succession plan and delivering the next leg of growth for the business and for shareholders.

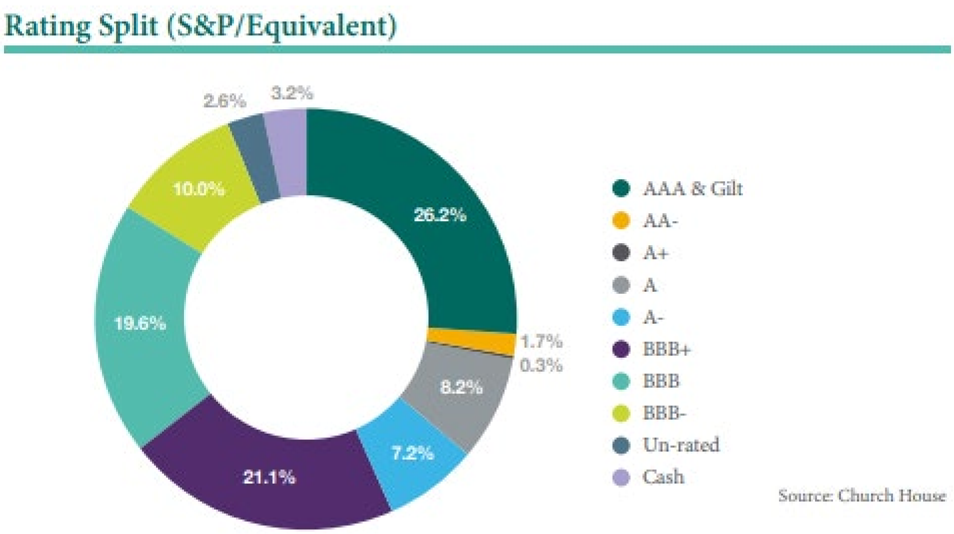
CREDIT

In relation to applying ESG to credit, we have always acted in the long-term and best interest of our clients, placing particular emphasis on corporate governance. In advance of taking-up an issue in a bond, the company as a whole is evaluated, with careful consideration paid to the sustainability of the business model.

When evaluating a bond, close attention is paid to the risks of various lending structures (senior secured/unsecured subordinated/lower tier) – we primarily invest in investment grade bonds. The bond's duration and maturity, and the length of time it is intended to be held, is closely deliberated. Potential changes to the strength of a company's balance sheet resulting from ESG or financial related issues are assessed, with particular attention paid to any effect on price and volatility. Further to this, our portfolios are highly diversified to mitigate specific risk.

The disposition and rating split of our Investment Grade Fixed Interest Fund as of 31 December 2023 can be seen below – all holdings are investment grade:





We keep up to date with movements in credit markets, paying close attention to sector themes, alongside maintaining close and regular contact with credit analysts who alert us to any areas of concern. Regular attendance of roadshows and engagement with issuers is an important feature in our investment process. With new issues, the fixed income team participate in the accompanying presentation, usually with the CFO/Treasurer. This is either in person or online via the Netroadshow meeting, usually as a one-to-one or group meeting.

Unlike equities, the nature of fixed income and green/social/sustainable bonds differ in that there is a defined structure and framework accompanying these issues, with a detailed policy and documented programme. For this reason, engagement with management teams tends to be lower than for equities.

Green bonds:

Funds we manage, which hold fixed income, include our **Investment Grade Fixed Interest Fund (CHIG), Tenax Absolute Return Strategies Fund (Tenax)** and **Balanced Equity Income Fund (CHBE).** We regularly engage with issuers via Netroadshows and closely look at the Sustainable/Green Bond Framework before taking allocations in issues.

We view these bonds as a good way to drive positive ESG practices and hold companies accountable in the use of the proceeds raised. If an issuer fails to deliver on their goals set, these companies will be held to account by bond holders, which will also deter investors from taking part in any further issuance. Coupon step-ups, should companies fail to keep to their ESG targets, are also a valued deterrent against any negligence in adhering to these promises.

Before taking part in an ESG bond issuance, we continue our investment process of bottom-up research to closely examine an issuer's financials, as well as, specifically for green and social bonds, their Green and Social Bond Framework, which includes the proposed use of proceeds, projects and second party verification. Before purchasing a bond, we are strict in our pricing criteria and aim to not overpay for a bond.

2023 activity

Sustainable bond issuance was more than a trillion dollars in 2023, just short of the 2022 record of $1.1 trillion. Green bond sales from corporates and governments amounted to $575bn and the prize for the largest single issue of Eur10bn went to the Italian government. In the UK, green issuance for 2023 reached £18.25bn with the focus being on re-opening the two existing gilts (0.875% 2033 and 1.5% 2053) to build up liquidity. Having said this, another year of rising interest rates, albeit with narrowing credit spreads, was not conducive to primary market issuers. As a result, for a second year, opportunities to invest in green bonds which also fit our other criteria of good quality, short-dated and investment grade, sterling issues were few and far between.

We are always looking to increase our allocation of green bonds. As at 31st December 2023, bonds in the green/social/sustainable space accounted for **17% of the fixed interest element of Tenax**, and **8% for CHIG.**

We added to our **Whitbread Green Bond 2.375% 2027** in November this year for our CH Investment Grade Fixed Interest Fund (CHIG). We also added to our **Berkeley Group Green Bond** holding in April for Tenax, and in December for CHIG. In November, CHIG subscribed to a new **4.5% 2028** sustainable issue for **International Finance Corp (IFC).**

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While we looked to add to more new green bond holdings, unfortunately this was not possible given the market and the lack of green bond issuance, which fit our aforementioned criteria.

Below we have set out examples of green bonds held in our funds, use of proceeds in accordance with their Frameworks & net road shows, and a reporting update on use of funds raised:

The light green format signals the bond was bought prior to the 2023 calendar year, while the darker green format signals the bond has been newly bought, or the holding was added to, during 2023.

Year	Date purchased/ added to	CH Fund	Company	Coupon	Currency	Amount	Maturity
2021	24/06/2021	Tenax	**Anglian Sustainable Linked Bond**	2.000%	GBP	2.3MM	07/2028

Use of proceeds:

• Anglian Water (Osprey) – GBP 7yr Sustainability-Linked Bond
• Step-Up Event - rate of interest will be increased by step up margin 12.5bps per KPI, if either KPI target not met:
o KPI 1 & SPT 1a (Sustainability Performance Target): Reduce Net Operational Carbon Emissions by 30 per cent by 31 March 2025 from the 2018/2019 baseline (expressed in tonnes of C02 equivalent)
• SPT 1b – Net zero on Net Operational Carbon emissions by 2030 from 2018/19 baseline.
• Action plan involves reducing/avoiding GHG emissions, use of renewable energy and green electricity.
• In calculating annual GHG emissions, raw data for fossil fuels, treated sludge, etc. is collected from around the business and entered into the UKWIR (UK Water Industry Research) Carbon Accounting Workbook. Data is then compiled within the Carbon Accounting Workbook to provide scope 1, 2 and 3 emissions.
o KPI 2 & SPT 2a: Reduce Capital Carbon Emissions by 65 per cent by 31 March 2025 from the 2010 baseline (expressed in % of emissions avoided in tonnes of C02 equivalent). This is carbon footprint as a result of the construction projects Anglian Water undertake (extractions, transportation and processing of raw materials).
• SPT 2b – 70% of carbon emissions avoided by 2030 from 2010 baseline.
• Action plan: verified process in place to manage carbon in infrastructure
• Annual communication on KPI & SPT (info & reporting) & performance against target externally verified by independent third party

Update from Sustainable Finance Impact Report (2023):

- **KPI Net operational carbon** (target by 2025 to reduce 106,905 tonnes of CO_2 equivalent compared to a 2010 baseline). Carbon emissions for 2022/23 were reduced by 35,167 tCO2e, a 9.9% decrease in emissions against the baseline. This carbon emission reduction has been achieved as a consequence of consuming less energy, as well as an increase in the proportion of renewable electricity.

- **KPI Capital carbon** (target by 2025 to reduce carbon emissions from construction activity by 65%, measured in tonnes of CO2 equivalent compared to 2010 baseline). In 2023 Anglian Water had achieved a 63% reduction, via their programme to increase storm retention capacity. The company have delivered capacity increases, while lowering the quantity of new, carbon heavy construction required, by using existing, redundant assets (extended and reconfigured) with lower carbon materials.
- **Plans by 2025 include:**
  - Maximising energy efficiency and renewable energy generation and storage
  - Procuring green electricity
  - Decarbonising vehicle fleet
  - Maximising the value of their biogas
  - Opting for alternative fuels
  - Developing an offsetting strategy

2021	04/08/2021 15/02/2022 18/04/2023	Tenax	**Berkeley Group Green Bond**	2.500%	GBP	4MM	08/2031

<u>Use of proceeds:</u>

• As a home builder, Eligible Green Assets will be Green Buildings, covering all of the development costs associated with delivering private and affordable homes which are EPC A or B rated and delivered on brownfield land (transforming neglected brownfield land into flourishing, well-connected, nature rich, low carbon neighbourhoods and communities).

• The environmental objective is climate change mitigation and biodiversity conservation.
• The Green Finance Committee will be chaired by the CFO and meet semi-annually to review and approve Eligible Green Assets.

Berkeley was the first homebuilder to launch a climate change policy back in 2007 and it reduced the carbon impacts of its direct operations by more than 70% between 2016 and 2019 through investing in more efficient operations and procuring 100% renewable electricity.

Berkeley has now adopted 1.5°C aligned science-based targets for reducing the full scope of greenhouse gas emissions connected to our company. This puts Berkeley on course to be a net zero business by 2040.

<u>Update from Impact Report (2023):</u>

Case study on reviving under-used spaces, including redundant gasworks and industrial estates.

- **Oval Village, Kennington** – on of Berkeley Group's 32 brownfield regeneration projects transforming an 8 acre site (including 4 derelict gas holders) into 1300 homes set around car-free streets, public squares and biodiverse landscaping enabling a 179% biodiversity net gain.

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2021	04/08/2021 27/05/2022 18/12/2023	CHIG	**Berkeley Group Green Bond**	2.500%	GBP	4.5MM	08/2031

Use of proceeds:

• As a home builder, Eligible Green Assets will be Green Buildings, covering all of the development costs associated with delivering private and affordable homes which are EPC A or B rated and delivered on brownfield land (transforming neglected brownfield land into flourishing, well-connected, nature rich, low carbon neighbourhoods and communities).

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2021	10/11/2021	Tenax	**Derwent Green Bond**	1.875%	GBP	4.75MM	11/2031

Use of proceeds:

Attended Net Road Show with Damian Wisniewski (CFO), Nigel George (Director) and John Davies (Head of Sustainability). Leading London-focused office REIT with £5.4bn portfolio (91% offices, 9% retail and hospitality), predominantly in the West End.

First of peers to set out net-zero pathway in July 2020. Existing and future major development projects to be net zero carbon, using lower carbon materials and construction methods, recycling of materials and use of verified carbon offsetting schemes. In operations, all electricity supplies are on renewable tariffs, retrofitting all electric boilers across the portfolio, and building specific energy targets in line with a 1.5 degree climate scenario (2030).

Use of proceeds from this Green Bond will be towards Eligible Green Projects as set out in their Green Finance Framework: £5-10m p.a. to spend on retro-fitting greenness on older buildings, on top of £400m of committed future capex on projects such as Soho Place, The Featherstone Building and 19-35 Baker Street.

Eligible projects include:

• Green buildings – new developments or major refurbishments subject to BREAAM Excellent/LEED Gold rating. Refurbishment of commercial and residential buildings and spaces, which may result in a measurable improvement in the EPC rating of the existing building.

• Renewable energy – projects such as investment, installation and deployment of on-site renewable energy generation sources e.g. solar and wind. As well as offsite renewable energy generation e.g. wind, biogas and geothermal.

• Energy Efficiency – improvements of at least 20% in the energy efficiency of the building or space.

• Pollution prevention and control – installation of waste facilities to allow for higher levels of recycling and recovery.

• Clean transportation – improve accessibility to clean transport (bicycle racks).

• Sustainable water & wastewater management, such as leak detection systems and low flow taps.

Update from Responsibility Report (2023):

Derwent has achieved a 10% reduction in energy intensity since 2019 with a 7% reduction in like for like gas consumption from 2022. Planning consent has been received for a 100 acre, 18.4 MW solar park at Lochfaulds, Scotland. Further progress has been made in offsetting residual carbon emissions which can't be eliminated and 30ha of trees have been planted over the year with a further 50ha planned for 2024/25.

2022	01/12/2022 21/12/2022	CHIG	**Deutsche Pfandbriefbank**	7.625%	GBP	7.1MM	12/2025

Use of proceeds:

Deutsche Pfandbriefbank AG is a German bank that specialises in real estate and public sector financing. pbb have decided to issue green bonds to enhance its contribution to society and the tackling of the climate crisis by helping property owners transition to a lower carbon economy. By issuing Green Bonds, pbb are able to promote the reallocation of capital to loans for the construction of 'Green Buildings', or retrofitting/modernising existing buildings.

An amount equivalent to the net proceeds of the Green Bonds issued will be allocated to Eligible Green Loans, which are to finance the modernisation, refurbishment or acquisition of existing Eligible Green Real Estate Assets, or to finance developments or construction of new Eligible Green Real Estate Assets.

These must meet at least one of the following two criteria:

- Green Building Certification, where Eligible Green Real Estate must be certified with a minimum of:
    - BREAM: Very Good or above
    - LEED: Gold or above
    - DGNB: Gold or above
    - HQE: Very High of above
- Energy Efficiency Performance
    - Where Eligible Green Real Estate have to demonstrate a Final Energy Consumption lower than certain thresholds depending on the use of the building (Office, Hotel & Retail, Residential, Logistics) – details in Framework.

Update from latest impact report (2023):
The decrease in CO2 because of green properties financed by PBB is calculated by comparing these property emissions against the emissions from a benchmark of standard properties in the market. As of 30th November 2023, PBB calculated a reduction of 38,190 tonnes of CO2 per year. As a result, per EURO 1 million bonds issued, 10.9 tonnes of CO2 are saved, or 7.2 tonnes of CO2 saved for every EUR 1 million financed. This is based on a total financed volume of EURO 4.75bn.

2023	28/11/2023	CHIG	**Intl Finance Corp Sustainable Bond**	4.5%	GBP	2MM	10/2028

Use of proceeds:
Proceeds from all bonds are allocated to projects which aim to achieve positive social outcomes especially but not exclusively for a target population. The projects are categorised into: A) Affordable basic infrastructure, B) Access to essential services, C) Affordable housing, D) Employment generation including through the potential effect of SME financing and microfinance of small and medium enterprises, E) Food security and F) Socioeconomic advancement and empowerment.

Update from Green and Social Bond Impact Report (2023):
Featured Social Projects:

- Supporting Women-Owned Businesses in Mongolia: Khan Bank - Women own two-thirds of all the small and medium enterprises in Mongolia. Yet female business owners lag their male counterparts when it comes to accessing both loans and favourable interest rates. MSMEs, including those owned by women, account for 77 percent of Mongolia’s registered businesses. As a group, these businesses employ 72 percent of the workforce and contribute 17.8 percent of GDP. IFC recently supported Mongolia’s largest financial institution, Khan Bank, with a loan of up to US$70 million from its own account. The funds, which are being supplemented by a mobilization of US$60 million from other lenders, will help Khan Bank offer financing to more women-owned businesses. The bank offers capacity-building to female entrepreneurs and currently provides banking services to about 80 percent of Mongolia’s population. IFC has been a strong supporter of Mongolia's sustainable finance development in the past decade and its investment in Khan Bank demonstrates the potential for change when gender and climate priorities are addressed.

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- Enhancing Access to Financial Services in Africa: M-Kopa (a leading tech platform) – In 2023, IFC provided $65m in loans in local currency to M-Kopa Kenya Ltd and M-Kopa Uganda Ltd. The loans will enable the fintech platform to expand its financial services to underbanked consumers in Eastern Africa by providing financial access for people without a credit history. M-KOPA's flexible credit model allows individuals to pay a small deposit in return for access to everyday essentials such as smartphones, electric motorcycles, and other devices. Customers can then pay off their loans in micro-instalments. The funding is IFC's first sustainability-linked loan to a pay-as-you-go provider in sub-Saharan Africa and the loan has pricing incentives to encourage M-KOPA to achieve environmental, social, and governance targets, which include commitments on the number of smartphone sales to women, the value of credit unlocked to women, and greenhouse gas emission reductions achieved through its solar products portfolio.

2022	03/11/2021	Tenax	**Natwest Green Bond**	2.057%	GBP	2MM	11/2028

Use of proceeds:

NatWest Group is supporting its residential mortgage customers to increase their residential energy efficiency with an ambition that 50% of their mortgage portfolio is at, or above an Energy Performance Certificate (EPC) rating of C or equivalent by 2030. Since October 2020 NatWest have introduced new Green Mortgage products offering lower interest rates for customers purchasing and remortgaging more energy efficient homes with an EPC rating of A or B, rewarding them for playing their part in helping to drive the UK transition to a net zero economy.

The Eligible portfolio focuses on energy efficiency, via Green Mortgages (or if unavailable, high EPC A or B) for new and existing domestic properties.

Update from Green, Social and Sustainability bonds allocation and Impact Report (2023):

All mortgages within the pool are on buildings with an A or B EPC rating and the average physical emissions intensity of these buildings is 13.8kg/CO_2e/m^2 compared to 37.88kg/CO_2e/m^2 for the NatWest Group residential mortgage portfolio. It is estimated that the reduction in carbon emissions through green buildings is 9.4m kgCO_2e.

2021	27/10/2021	CHIG	**Tesco Sustainability Linked Bond**	1.875%	GBP	2MM	11/2028

Use of proceeds:

The 400m GBP bond, which was heavily over-subscribed, will be used as set out in their Sustainability Linked Bond (SLB) Framework. Under its Sustainability-Linked Bond Framework, the financial structure of the SLB is tied to the achievement of their Sustainability Performance Target 1 (SPT): Reduce the Group GHG Emissions by 60% by 2025 with respect to 2015 baseline.

Tesco will focus on Scope 1 and 2 emissions for the purposes of this Framework as it represents the majority of their GHG emissions and is in Tesco's direct control. Tesco's Scope 1 and 2 emissions account for approximately two thirds of total emissions from the Group's own operations.

To achieve the set carbon reduction targets in its sustainability strategy:
- Tesco has committed to sourcing 100% of the Group's electricity needs from renewable sources by 2030 and reducing its transport emissions using alternate fuels, route optimization, the installation of electric

vehicle charging points, and engagement with major suppliers to encourage them to reduce their emissions.

Strategy to achieve the SPTs:
- Prioritising the sources which contribute the largest share: grid electricity made up the majority of such emissions, followed by refrigerant gases, heating, and distribution. As a result, Tesco's efforts to procure renewable energy via power purchasing agreements (PPAs) will play an important part in its overall strategy to achieve its SPTs. This is alongside Tesco's reduction in electricity demand through efficiency at its facilities and engaging with partners to achieve savings. Tesco accounts for 1% of electricity demand in the UK and online delivery capacity has reached 1.5m slots per week in the UK.

There is a step-up margin of 37.5bps p.a. if GHG Scope 1 Emissions and GHG Scope 2 Emissions as of FY2025/26 are reduced by less than 60% in comparison to FY2015/16 baseline.

Approved by Sustainalytics, Second Party Opinion, where Sustainalytics considers the 'SPTs to be ambitious and impactful'.

Update from Sustainability Linked Financing section of website:
For 2021/22, Tesco have lowered Scope 1 and 2 GHG Emissions (tCO2e) from the 2015/16 baseline, from 2,292,227 to 1,126,205 tCO2e. This equates to a 51% reduction from the baseline.

2021	27/10/2021	Tenax	**Tesco Sustainability Linked Bond**	1.875%	GBP	3MM	11/2028

Use of proceeds:
The 400m GBP bond, which was heavily over-subscribed, will be used as set out in their Sustainability Linked Bond (SLB) Framework. Under its Sustainability-Linked Bond Framework, the financial structure of the SLB is tied to the achievement of their Sustainability Performance Target 1 (SPT): **Reduce the Group GHG Emissions by 60% by 2025 with respect to 2015 baseline.**

Tesco will focus on Scope 1 and 2 emissions for the purposes of this Framework as it represents the majority of their GHG emissions and is in Tesco's direct control. Tesco's Scope 1 and 2 emissions account for approximately two thirds of total emissions from the Group's own operations.

To achieve the set carbon reduction targets in its sustainability strategy:
- Tesco has committed to sourcing 100% of the Group's electricity needs from renewable sources by 2030 and reducing its transport emissions through the use of alternate fuels, route optimization, the installation of electric vehicle charging points, and engagement with major suppliers to encourage them to reduce their emissions.

Strategy to achieve the SPTs:
- Prioritising the sources which contribute the largest share: grid electricity made up the majority of such emissions, followed by refrigerant gases, heating, and distribution. As a result, Tesco's efforts to procure renewable energy via power purchasing agreements (PPAs) will play an important part in its overall strategy to achieve its SPTs. This is alongside Tesco's reduction in electricity demand through efficiency at its facilities and engaging with partners to achieve savings. Tesco accounts for 1% of electricity demand in the UK and online delivery capacity has reached 1.5m slots per week in the UK.

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There is a step-up margin of 37.5bps p.a. if GHG Scope 1 Emissions and GHG Scope 2 Emissions as of FY2025/26 are reduced by less than 60% in comparison to FY2015/16 baseline.

Approved by Sustainalytics – Second Party Opinion – where Sustainalytics considers the 'SPTs to be ambitious and impactful'

Update from Sustainability Linked Financing section of website:
For 2021/22, Tesco have lowered Scope 1 and 2 GHG Emissions (tCO2e) from the 2015/16 baseline, from 2,292,227 to 1,126,205 tCO2e. This equates to a 51% reduction from the baseline.

2021	21/01/2021	Tenax	**United Utilities Sustainable Bond**	0.875%	GBP	1MM	10/2029

Use of proceeds:
• The company's first sustainable bond issue, with proceeds used to finance or refinance, in whole or in part, new or existing Eligible projects. Eligibility criteria include projects which reduce pollution and impacts of water abstraction, improve water quality, reduce water losses from the system and flooding mitigation projects.

Update from latest Sustainable Finance Framework Allocation and Impact Report (2023):
The new CEO, Louise Beardmore, has stressed her commitment to ensuring that United Utilities is "a purpose-led business operated in a responsible manner". The group is in the upper quartile across a suite of ESG indices and has a 3 star rating in the Environment Agency's assessment for 2022, meaning good environmental performance. In addition, they have lifted 84,000 customers out of water poverty.

Sustainable bond proceeds in action:

- **Southewaite Wastewater Treatment Works –** UU avoided installing large carbon intensive storm tanks and created a storm water treatment wetland with three open water pools. During storm conditions, flows from the treatment works pass through each pool and receive treatment before they progress, before being discharged to the river. Constructed wetlands mimic the processes found in natural wetlands as they physically slow the passing water, settling out some of the pollution present. Variations in depth encourages a range of different plants to establish promoting active biological treatment within the wetland cells to specifically target the removal of organic material, which if discharged to river, can affect the river system. The project has been shortlisted in the Natural Capital category of the Water Industry Awards.

- **Better Rivers Better Northwest – working with others to improve river health** – UU has created a team of six river rangers with the aim of improving the environment and river water quality in the region. They will be patrolling the banks of rivers, checking assets to organise maintenance and cleaning litter and debris. If the project is successful, the team will be expanded across the North West.

- UU have committed to deliver £230 million in environmental improvements. This will support a **sustainable decrease, of at least 33%, in the number of spills recorded** from storm overflows by 2025, compared to the 2020 baseline. Investment at these sites will result in 184 km of improved waterways, with all storm overflows monitored by 2023.

2021	03/02/2021	CHIG	**Whitbread Green Bond**	2.375%	GBP	4MM	05/2027
2022	04/05/2022 06/10/2022	Tenax	**Whitbread Green Bond**	2.375%	GBP	2.5MM	05/2027

Use of proceeds:

• Proceeds used to finance or re-finance Eligible Green Projects: **Green Buildings** (to BREEAM 'very good'+, LEED 'Platinum'+ or EPB B or above standards), **Energy Efficiency** (including installation of heat pumps), **Clean Transportation** (installation and running of EV charge points & investment in electric only vehicles, reducing waste to landfill through recycling, renewable energy across the estate in the UK & Germany) and **Sustainable Procurement** (Environmentally sustainable management of living natural resources and land use, such as sustainable timber, cotton and fish to protect aquatic biodiversity).
• Monitor use of proceeds and report on impact annually.

Update from Green Bond Presentation Allocation and Impact Report (2023):

£504m of the total £550m Green Bonds has been allocated to the Eligible projects in the Green Bond Framework (£46m remaining to allocate). This has been split into 234 in green construction, 234 in green operation and 36 in sustainable procurement. This has led to 7 sites being built to high environmental standards, 64.810 of CO_2 emissions avoided and 100% of consumables and fish allocated against were procured to certified sustainable standards.

2021	04/03/2021	Tenax	**Workspace Green Bond**	2.250%	GBP	3.5MM	03/2028

Use of proceeds:

• New green issue with proceeds towards eligible green projects, as outlined in their Green Finance Framework, including green buildings, eco-efficient/circular economy adapted products, production technologies and processes, renewable energy, energy efficiency, clean transportation, pollution prevention and control and sustainable water management. The most significant is financing or re-financing 'Green Projects', with the BREEAM excellent target. Example case study 'Brickfields' – re-built for requirements of modern businesses today.
• Green Finance committee responsible for upholding framework and selecting eligible projects with annual progress reported.

Update from their Workspace Green Bond Allocation Report (2023):

All the proceeds raised have been allocated to Eligible Green Projects - £290m to the refinancing of green buildings and £10m to the purchase of certified renewable electricity. An example of an Eligible Green Project is Prospero, the greenest building south of the M25 with a BREEAM Excellent rating, electric vehicle charging points, roof mounted solar panels, intelligent LED lighting and green surroundings.

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INVESTMENT TRUSTS

Prior to the main investment example, the FCA itself have released ESG oriented requirements to allow the consumer to be more confident in their ESG choices and enhance the credibility of the Sustainable Investment Market. The FCA will impose anti-greenwashing rules on any sustainability claims, clear labelling of products so they are not misleading and ensuring ESG labels are not used when it isn't appropriate. This aligns with Church House's view and we welcome the change which will be complete by end of 2024.

Investment trusts allow us to gain exposure to specific areas, in which we feel external management teams with specialist expertise would best serve our clients. Below are examples of investment trusts in which we are shareholders, one of which is notably supporting the UK's transition to net zero by 2050, with actionable projects assisting in this pathway to a more sustainable future.

International Public Partnerships

First used in relevant Clients' Portfolios in September '07.

Context

Following a review of our risk scales this would have been available for selection for certain clients' portfolios as good exposure to the infrastructure sector. This would be under ongoing review at least annually.

Activity

We keep abreast of as many Investment Trusts as possible, paying attention to the universe as a whole, and not just the Investment Trusts of which we are currently shareholders. To do this, we regularly: listen to management teams present, read report and accounts, monitor research notes from reputable sources and track Investment Trust performance and activity at a stock specific level. Having been long term holders of International Public Partnerships we were aware of the investment case that this specific trust put forward with Church House holding over £2 million of the asset.

International Public Partnerships approach to investment is to invest responsibly in social and public infrastructure with the financial performance of its investments being linked to environmental and social success. As such they have both global frameworks and internal codes they follow and adhere to. These include following their Sustainable Development Goals (SDG) and the Sustainable Finance Disclosure Regulation (SFDR) while also being a signatory of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Principles of Responsible Investment (PRI). They are also on the advisory committee of the PRI since 2022.

Outcome

Given the above research and trust in our long-standing relationship, we decided to maintain the position in the trust, satisfied it more than meets our clients' objectives. As well as tracking performance, portfolio activity and management engagement – ongoing stewardship is best monitored through the International Public Partnerships Sustainability Report, the second edition of which was released in March 2023. The Sustainability Report updates the reader on the multiple ways it is affecting the communities with its projects from Clean Water to Gender Equality. They also have ongoing targets that can be tracked from year to year maintaining their accountability if any facet of their target should slip from the high standards set. Finally they also have proposals for future reports to track as they make publicly clear their future targets, in this case expanding their ESG data set, developing a more sophisticated tracking of their net zero targets in line with the Greenhouse Gas (GHG) Protocol and progressing EU Taxonomy alignment following clarifications from the ESA.

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8. Monitoring of Account Managers and/or Service Providers

MONITORING OF ACCOUNT MANAGERS

Activity

The **monitoring of the account managers (fund managers at Church House) is a layered process**. Initially, it is a responsibility of the two joint CIOs to monitor the actions of the fund managers, which they do on a daily basis. We have enhanced this by ensuring that the investment team sit together on the same bank of desks, both equity and credit teams, where a collegiate approach can help and ameliorate trading processes and idea generation.

Additionally, the CIOs and fund managers report to the Investment Committee each month, detailed reports are drawn-up prior to these meetings for each of the funds with a separate review as to limits and compliance by the Compliance Officer. Performance data as to returns and volatility of those returns for each fund and level of risk is also provided and escalated to the Board.

In 2021, we hired an Operational Assurance Manager to give the business greater oversight in this function as the firm increased in size. The Operational Assurance Manager covers three essential areas critical to the efficient and compliant functioning of the funds: Legal & Technical, Monitoring & Risk Reporting, and Oversight & Due Diligence. This ensures the funds are fully compliant, e.g. meeting prospectus restrictions such as Investment Objectives & Policy, monitoring liquidity, charges, turnover and confirming that best execution has been demonstrated.

Our funds have remained compliant throughout the year.

Outcome

2023 was a tough year for investors, alleviated by a strong market in the fourth quarter. As a result, the performance of our individual funds was positive over the course of 2023. The risk level performance of our client portfolios and volatility of each of the levels was however satisfactory given these market conditions. We have made no changes to the managers and mix of managers of our funds over the course of 2023, however, we did hire a new graduate investment analyst on the equity side of the business who joined the team on the 1st March 2023.

MONITORING OF SERVICE PROVIDERS

Activity

As a firm, we do have service providers which provide us with research, specifically with regard to ESG matters. An example of this can be seen in Principle 7 with Jefferies ESG webinars and the research we benefited from during the year. We gather information from a variety of sources, notably Bloomberg and audited company reports and the companies themselves. We do not utilise service providers in the management of our funds. While we perform ESG and fund management functions in-house, we take extensive economic, sector and stock specific and ESG research from a wide range of banks and brokers, e.g., Barclays, Lloyds, Jefferies, JPMorgan, Berenberg. All such bank and broking connections are subject to regular review by the Investment Committee.

As a discretionary investment management company, we believe it is important that the fund managers arrive at their own decision in terms of voting, so unlike the majority of our peer group, we do not outsource to voting advisers. The creation of the Voting and Engagement Committee (please see Principle 12) carries out our voting and engagement function.

Likewise for engagement with companies, we believe that the best form of engagement is direct with management of companies, rather than outsourcing. We recognise that sector specialist research analysts at the major houses are an important source of additional information to inform our processes. We aim for our meetings with management to discuss ESG and stewardship matters, and in some cases, we will have meetings with management that are solely ESG based.

Reviewing and monitoring is an integral part of the businesses counterparty on-boarding process. Church House has a specific Risk Committee which reviews, monitors and escalates third party relationships and transactions with the firm. It is chaired by the Non-exec Chair and comprises of five members as stated below:

Risk Committee

Non-Exec
Chair

Managing Director Finance Compliance Non-Exec Director

Since 2020, we have added a Finance function to the Risk Committee to give us further insights (from a financial perspective) into these relationships with service partners.

Outcome

Voting

We decided to make our process for voting at company meetings more formal in 2021 as we felt that there was a risk of missing some voting deadlines. Into 2023, we now have a voting group (the Voting and Engagement Committee) consisting of seven members: at least two fund managers, an analyst and one of our joint CIOs. This Committee usually meets/has email correspondence once each week to review all forthcoming meetings/votes. We consider that this will lead to a more consistent and sustainable process in voting. Please see Principle 12 for more in-depth analysis on our new voting and engagement committee.

Research provider

Most recently, in 2020, we appointed Berenberg as a new research provider (paid for research), they provide excellent coverage on a broad range of UK companies along with UK and European economic research. We have kept the same research providers as since 2020, as we are happy with the quality and breadth of research we are receiving. This is something we constantly monitor, but on a formal basis this is reviewed once a year at our Investment Committee meeting.

Authorised Corporate Director (ACD)

We continue to be impressed with the service that IFSL have provided since they became the ACD for our funds in October 2022. In order to monitor their service, our Operational Assurance Manager holds monthly review meetings with them, where a full and frank discussion on any issues identified by both parties is carried out. Ahead of the meetings IFSL will provide us with Key Performance Indicators on a number of crucial areas such as compliance, dealing, fund accounting & distributions, investor support, marketing, pricing and relationship management. Our Operational Assurance Manager is also in daily contact with IFSL, monitoring any open issues that we have with them and ensuring that these are prioritised and resolved to our satisfaction.

ENGAGEMENT

9. Engagement with Issuers to Maintain/Enhance the Value of Assets

Church House is an investment manager focused on the management of discretionary investment portfolios for private individuals, principally via our range of authorised investments funds, which are all UCITS. Within these investment funds, the split of underlying assets is approximately two-thirds in fixed interest investments and one-third in equity investments. Over the totality of our clients' investment portfolios, the split is closer to 60% fixed interest to 40% equity. Further details of this, and the **split in AUM** (68% Retail, 32% Institutional), the **Geographic split of clients by AUM** (95% UK clients, 5% Rest of World) and the **Geographic split of Investments**, by currency (74% UK, 11% USA, 5% Europe, 0.9% Switzerland, 8.1% Other including Sweden & Denmark, and 1% Japan) can be found in **Principle 6.**

Differing asset classes

Across the fixed interest investments, greater than 95% are investment grade issues. Equity Investments are principally UK listed, with a bias towards FTSE 350 companies. When investing overseas, direct equity investments are limited to developed markets, we also utilise some specialist international investment trusts in client portfolios. We do not invest in unlisted securities.

CREDIT

The majority of new fixed interest investments are undertaken at issue, we only consider those that are rated as investment grade by one of the rating agencies. Each issue is accompanied by detailed research and is discussed with the issuing bank(s) where we seek to influence the pricing and terms. As the issuance of 'green bonds' has gathered pace we have gradually increased the proportion of our holdings in these instruments; however, this has been difficult during 2023 given the limited green bond issuance during the year that also fit our other quality criteria.

Fixed Interest – Methods of Engagement

Across our fixed interest funds, voting and engagement is more limited, given the nature of the asset class. However, we regularly engage with issuers via Netroadshows and closely look at the Sustainable/Green Bond Frameworks before taking allocations in green issues. We keep up to date with movements in credit markets, paying close attention to sector themes, alongside maintaining close and regular contact with credit analysts who alert us to any areas of concern.

While all fixed income issues in which we invest are predominantly investment grade and sterling, the issues themselves can either be UK or foreign companies. However, we only invest in developed countries who abide by the 'Rule of Law' mentioned previously.

Fixed Interest Funds - commentary

Issuance in 2023 picked up and credit spreads steadied and ended the year 50bps tighter albeit with a wobble in February/March. We participated in 27 new issues versus 17 in 2022. Our reputation as a buy and hold investor along with our strong relationships with market participants enables us to get good allocations in the bonds that we apply for. We bought a new 8.45% 2028 issue for the AA after attending the roadshow lunch and listening to management. A non-publicly quoted company such as the AA requires a higher level of due diligence to come to a decision as to whether to invest than say, a quoted company such as John Deere which we also invested in when they came with a 5.125% 2028 bond. Mutual holdings across our equity and fixed interest funds promote insightful discussions amongst the relevant fund managers, an example of our holistic approach to investment. We are holders of the Primary Health Properties bonds as well as the 2.875% 2025 convertible bond and we added to our bond holdings after an informative meeting with management at our offices in September. We decided not to invest in the London Power Networks 5.875% 2040 (issued in November 2023) because, although it was a green bond, we thought that it was too long dated and the credit spread of 125bp not attractive enough to compensate for the risk of investing for seventeen years. Further examples of engagements via Netroadshows, and details of eligible projects under frameworks for green and sustainably linked bonds can be found in Principle 7.

EQUITY

Each of the equity funds have their own investment policy but there are overall sector preferences that we apply across the board. For example, we have run an under-weight exposure to oil & gas producers and tobacco companies for a number of years, increasingly finding that their engagement with ESG matters (and consequently too, the investment case) was poor. We now have zero exposure in these industries across our equity funds.

Equity – Methods of Engagement

Where we find companies that meet our quality criteria we seek to engage directly. We do not invest in companies that engage in peer-to-peer lending, pornography, gambling and contentious firearms manufacturers such as cluster bombs, land mines or weapons for personal use. Similarly, companies in the mining sector, which met our tolerances for governance, jurisdiction and behaviour has vastly reduced.

During 2023, the investment team have held many meetings with senior management, IR or non-executive directors of existing or potential investee companies, including ESG specific meetings and meetings with fund managers of Investment Trusts. This took the form of either one-to-one meetings, group meetings, webinars, conferences or site visits. On each occasion, we hope to raise material ESG matters and enhance our understanding of the company's business strategy.

In Principle 7, we have explained further how engagement has differed between our funds, asset classes and geographies.

Engagement priorities

Factors which influence our decision to engage with companies include the **size of our holding across funds, seeking further understanding or action on governance**, **environmental or social matters**, **new initiation of a holding**, or **escalation of a recent or ongoing issue**.

UK investments

As a UK investment firm, where we primarily invest in UK equity and credit, we endeavour to form strong long-standing relationships with the senior management and non-executive directors of these companies. We believe this makes for a more conducive and effective discussion. As can be seen in Principle 7, the majority of our engagements in 2023 have been with London listed companies. This is where we have more ready access to management, and where we prioritise our engagement, given that 74% of our investments are UK based (by currency). We often find management to be open and receptive to meetings with us, given our strong long-standing relationships. **This therefore limits the occasions in which escalation is necessary; however, there are rare occasions where, if in the best interests of shareholders, we will take this route**.

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Large cap vs Small cap

With **larger, more established UK and global companies**, broker research and access to company management is accessible to us. However, there are occasions, in particular with **small market capitalisation companies** either in the UK or abroad, where our sole route to engagement is not available via a broker, but instead by reaching out directly to the company.

Global equities

In certain geographic listings, in particular **Japan**, as well as with **major global companies**, engagement is limited due to our reduced ability to access these management teams. **Recognising our scale**, we listen to **company presentations and utilise sector specialist analysts** from major broking houses (Jefferies, Berenberg, JPMorgan etc) to inform our view and question policies.

Further to equity specific research, we participated in **sector and country specific meetings**, as well as **macro-economic outlook** meetings**,** in order to better inform our investment decisions, and act in the best interests of clients.

Equity Funds

Across our UK Equity Funds (UK Equity Growth, UK Smaller Companies, Balanced Equity Income), engagement across our holdings is strong, where we have established strong relationships with management teams. With regards to our Esk Global Equity Fund, as mentioned above, engagement is often through our brokers due to the global nature of the underlying holdings.

Engagement conclusion

Over the past 12 months, we are pleased to have continued our engagement with issuers. We believe that in this Principle, as in Principle 7 and 10-12 we are demonstrating our engagement with issuers. However, due to the nature of debt investing, it is evident that we are much stronger on the equity side and need to further develop our engagement with credit issuers.

10. Collaborative Engagement

&

11. Escalation of Stewardship Activities to Influence Issuers

Engagement at Church House

At Church House, we are active managers and we have always looked to engage with companies that we invest in via regular meetings and calls with management teams. We are long-term shareholders and so, in some cases, have been in communication with companies over many years. For example, in our UK Equity Growth Fund, we have been shareholders in Unilever, RELX and Diageo since the early 2000s and have been having meetings with these companies for over twenty years now.

Approach

In the event that we do have a concern with an investee company, we originally look to address this through meeting with the management team, or at least investor relations, of the given company. We would further look into the matter through our own analysis in addition to potentially discussing the matter with an analyst at one of our research providers. If, after taking these steps, we feel that no further action is required and that we have sufficient information, then we will take no further steps and simply monitor the situation.

Escalation

However, if we are not content with what we have heard from management and/or still feel that a given issue requires more attention, our usual course of action would be to write to the Chair of this business and, on occasion, we will arrange a one-to-one with the Chair to express our concern and discuss in more detail. In such a discussion, we would look to prioritise the key issues and communicate these clearly to the Chair. There are also the options to express our concern to the broker(s) of the Company and voting against management.

Voting

As a relatively small investment business, it is unlikely that we would ever have the voting power to change the course of action, but we strongly believe in the power of communicating our concerns when required and believe that this is our responsibility as asset managers.

Collaboration with other shareholders

On a minority of occasions, and where the above course of action has failed to yield our intended outcome, we may **engage with other shareholders**. We will undertake this course of action should we believe it appropriate, and in the best interests of our shareholders. This may arise as a result of an unsuccessful private engagement, or, where collaboration with a larger shareholder grants us further reach to influence the decisions of senior management and the Board.

Process if the outcome is unsuccessful

In the event that our concerns remain unaddressed after all of the above process has taken place, our usual course of action would be to exit the position as soon as practical.

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Escalation Activity in 2023

Healthcare Business *engagement on takeover*

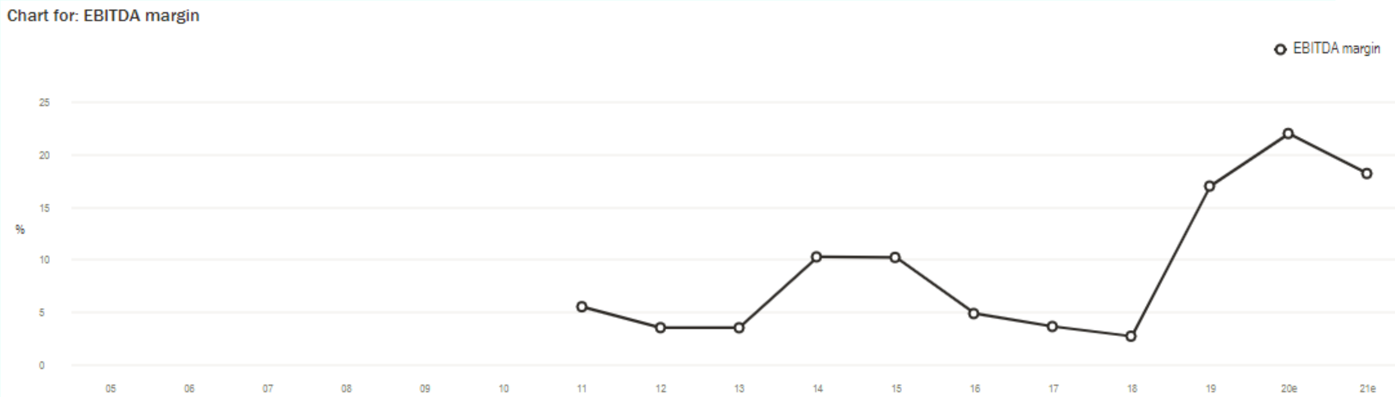
One-to-one meetings with CEO and CFO
Feedback to house brokers
Abstaining from merger vote
Held in CH UK Smaller Companies

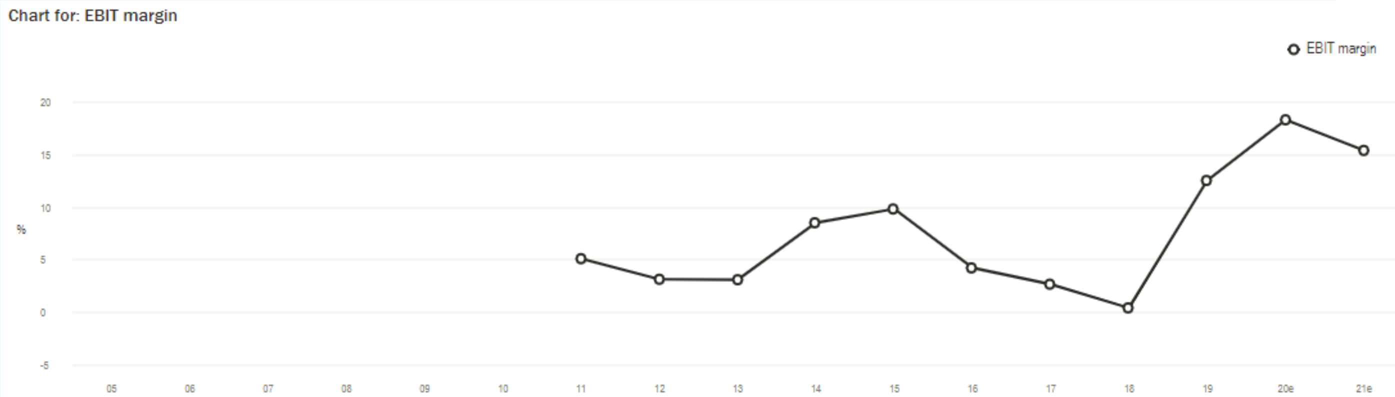
This example relates to a healthcare services company (the Company) that we first invested in for the CH UK Smaller Companies Fund in January 2022.

Context

We were first attracted to the business due to its impressive financials, high insider ownership and consistent growth. Despite being a relatively small business, at a market capitalisation below £1bn, we felt that this business had the underlying quality and growth potential to become a core holding long-term.

The below charts from Canaccord Genuity's Quest platform demonstrate the strong margin and returns progress that the Company had demonstrated previous to our first investment:





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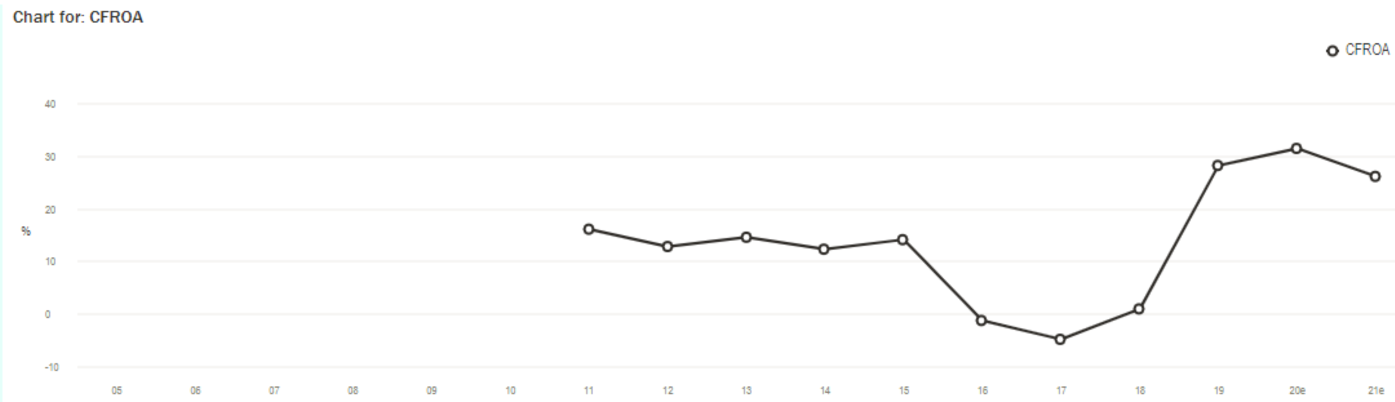
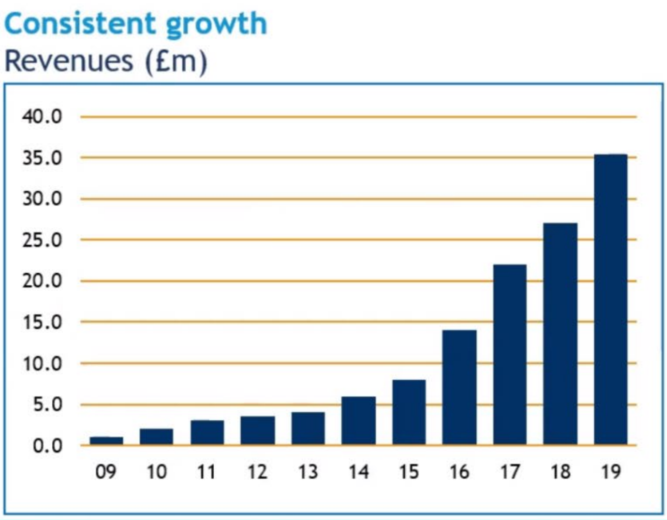
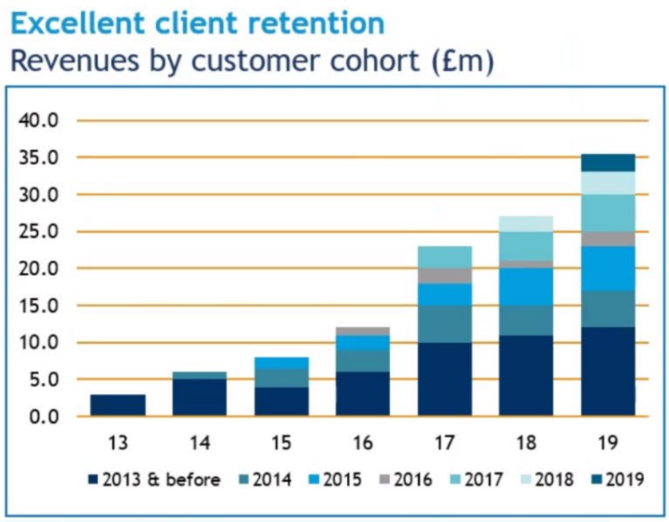


Source: Canaccord Genuity Quest

Impressive revenue growth and client retention:





Source: The Company

High insider ownership:

Major Shareholders (%)

		%
[redacted]	CEO and Founder of The Company	22.3
Standard Life Aberdeen plc		10.3
BlackRock, Inc.		9.9
J.P. Morgan Asset Management, Inc.		7.2
Slater Investments Limited		6.9

Source: Bloomberg

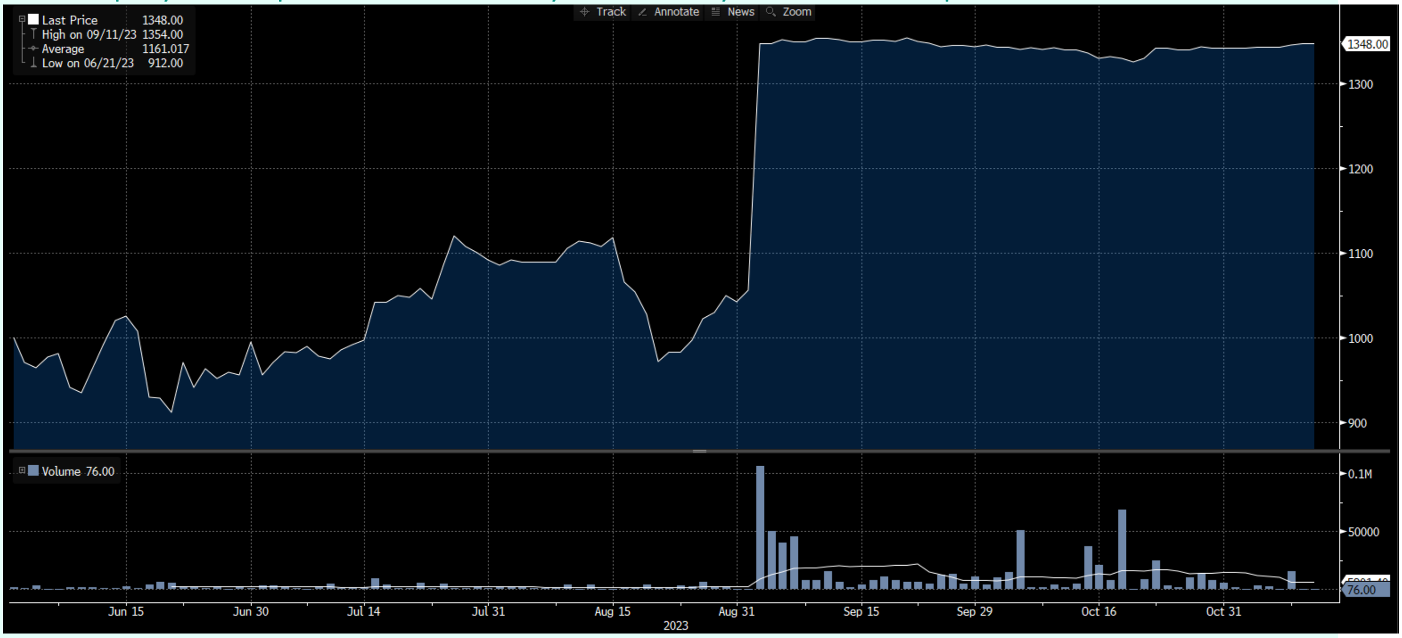
Announcement

In September 2023 an announcement was made that an international private equity business had made an

offer to acquire the Company. Furthermore, the Company had agreed to the deal and were recommending that shareholders vote in favour of the takeover.
The Company stated:

> *'"The offer from [redacted], which follows multiple rounds of negotiations and extensive discussions on valuation, represents a highly attractive valuation and offers shareholders the certainty of cash today. The Acquisition also fairly reflects the exceptional quality of the [redacted] business, its people and its future prospects. Under the [redacted] private ownership, [redacted] will be able to pursue its organic growth strategy, while benefiting from the expertise and capital to accelerate its acquisitive growth plan. Accordingly, following careful consideration, the Board intends to recommend unanimously that [redacted] Shareholders vote in favour of the Acquisition."*

The Company's share price rose immediately to effectively reflect the offer price:



Source: Bloomberg

Our analysis

We were disappointed at the acquisition news given our relatively recent investment in the Company and the fact that, even at the buyout price, we were making a return of 30-35% for our clients. Given our long-term horizon and the prospects that we had identified for the Company, we felt that higher returns for our shareholders could be achieved by remaining an independent and listed entity. While the multiples offered for The Company looked reasonable to us on a one-year view, the multi-year returns on offer were potentially far higher.

Terms of the offer – premiums of approximately:

- 32.4 per cent. to the three-month volume weighted average price per Share
- 32.7 per cent. to the six-month volume weighted average price per Share
- 28.3 per cent. to share price … at the close of business on 1 September 2023, the last Business Day before this announcement

Terms of the offer – implied multiple: enterprise value multiple of approximately 24.0x its Adjusted EBITDA

Action/Escalation

Having analysed the term of the acquisition ourselves, we decided that the appropriate next course of action would be to speak with the Company's brokers. In particular, we were looking to gain more information on:

1. The Company's rationale for agreeing to the takeover
2. To judge where shareholder support levels were

We discussed the takeover with Numis Securities, who were one of The Company's appointed corporate brokers. The overwhelming message we received to the above questions was that The Company was highly motivated for the transaction to go through and that they were satisfied with the multiples being offered for their business. At a human level, the founder, CEO and largest shareholder in the business was of retirement age and clearly had a preference for crystalising the substantial gains that he had made on his shareholding. Beyond this individual's 22% shareholding, the remaining top holders of the equity were all large institutions who had been shareholders long-term. They appeared to be no appetite to dispute the takeover from these shareholders.

Conclusion and Further Action

After speaking to Numis Securities, we concluded that the acquisition was very likely to go through as it had the support of both management and the large shareholders. We decided that it was in the best interests of our clients to vote in favour of the acquisition rather than to use up resources lobbying against an all-but-done deal. We were sorry to see another high-quality healthcare name leave the UK markets, however applaud The Company for the exceptional returns that it did generate for long-term holders in a competitive market.

No further action was required – we held onto the shares until the takeover, ensuring that our clients received full price for their investment.

Translation Services Business (cont. from 2022) *engagement on governance*

Group meetings with CEO and CFO
Feedback to house brokers
Abstaining from remuneration vote
Held in CH UK Smaller Companies Fund

This example relates to a translation services company (The Company) that we have been shareholders in for our CH UK Smaller Companies Fund since 2020. We wrote about this company in the 2022 Stewardship Code, which continued into 2023 and this submission.

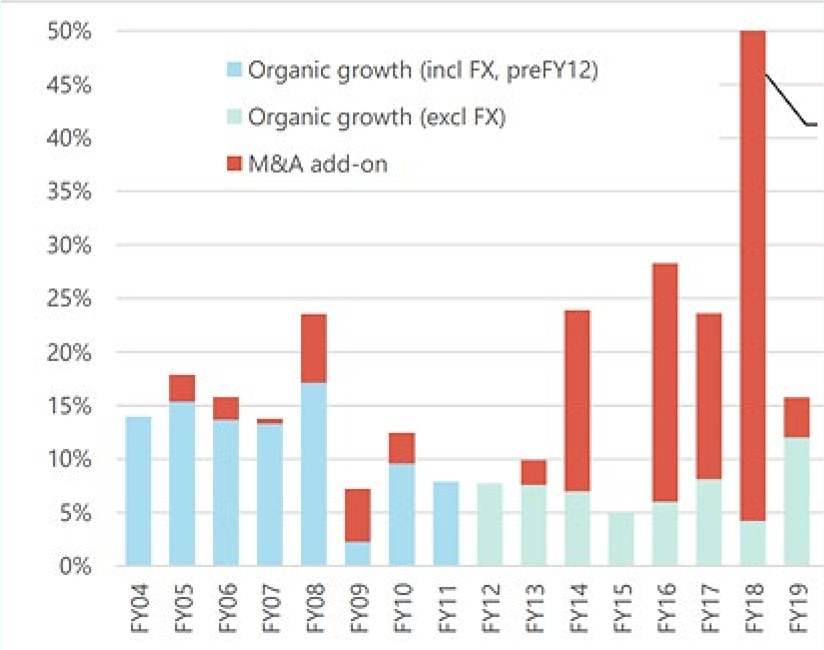
Context

Our initial investment case for the Company was based on their excellent long-term record of delivering organic growth at the same time as maintaining high ROCE and cash conversion ratios. The Executive Chair had effectively founded the business in the mid-1990s and remains the largest shareholder to today – we viewed this as a positive alignment of shareholder interests.

Shares in the Company had been weak during 2020 on the back of the announcement of a large acquisition and we saw this as an opportunity to initiate a position with shares trading on a discount to their historic multiples. We were aware of the operational risk that this acquisition posed but felt that there was already a margin of safety built into the discounted share price and backed management, who had performed well up to this point, to integrate the acquired business successfully.

Disappointing Performance, Management Change and Our Analysis

Over subsequent reporting periods we noticed that organic growth consistently undershot our initial expectations for the business and that the quality of their earnings was deteriorating. As the chart below demonstrates, organic growth prior to our investment in 2020 was typically in the 5-10% range and had been supplemented by some sensible acquisitions:



Organic growth in the following years was 2020: -1%, 2021: +4%, 2022: -1%, a clear slowdown.

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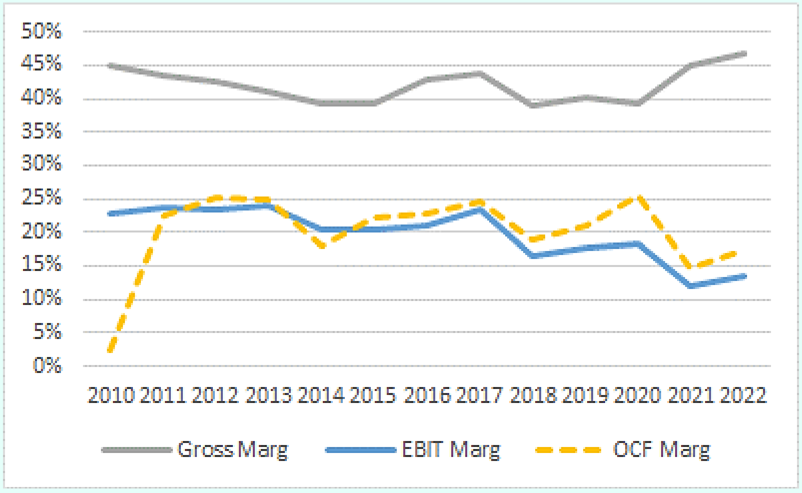
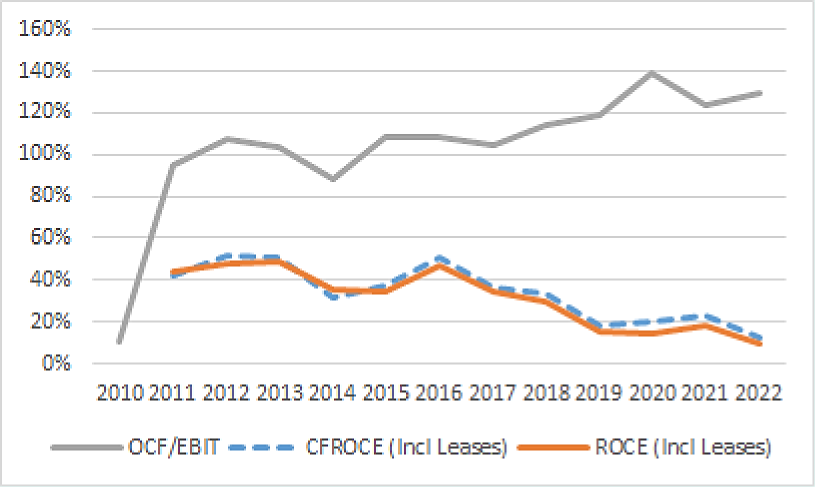
Furthermore, margins began to fall:



..as did ROCE:



In addition to these key financial metrics getting worse, we were also perturbed to see the CEO and CFO of the Company both leave the business in 2021, albeit the Executive Chair (and large shareholder) remained in place.

By 2022, we concluded that our investment was not performing as we had hoped and that we wanted explanations.

Escalation of Activity – Voting

In February 2022 we had the opportunity to vote at the Company's AGM. In our review of the proxy form the remuneration policy was flagged. We took issue with two elements of this:

1. That the outgoing CEO had met 100% of his personal objectives for the year, which included integrating the business acquired in late-2020. We felt that effectively 12 months of ownership of

the acquired business was too short a period over which to judge the success or otherwise of integrating the acquisition, particularly given the deteriorating financial metrics. Here are the details of the bonus (we have blocked out company and individual names for anonymity):

Personal Objectives (30% of bonus)	Objectives	Committee Assessment	% of max payable
CEO	Complete a detailed review of the Company and the acquisition's operations and agree the target operating structure, progress the Company's ESG agenda, review the Company's and the acquisition's employee experience including engagement levels, diversity and retention, progress the integration	Following a review of the CEO's performance post year end, and noting that he served c10 months out of the year, the Committee determined that all of the objectives were met in full.	100%
CFO	Integrate The acquisition's finance, tax and treasury functions, review and integrate transfer pricing and hedging policies, improve year on year cash conversion, manage new auditor appointment process, progress aqu. integration	The Committee assessed the personal objectives for the CFO as being partially achieved.	70%

Based on the above, the annual bonus awards earned for the year ended 30 September 2021 were as follows:

		Financial	Personal	Total
CEO	% of max	65%	100%	76%
(150% of salary maximum)	£	£342,301	£225,000	£567,301*
CFO	% of max	65%	70%	67%
(100% of salary maximum)	£	£171,151	£78,750	£249,901

2. That base salaries for the CEO and CFO be materially increased to reflect the increased size of the group post-acquisition (full terms outlined below). We believe that this motivates management to grow the business via acquisition and does not take into account long-term performance of these acquisitions.

> Base salary levels should be right sized for the size and complexity of the business. As such, the CEO's base salary was increased from £450,000 to £600,000 and the CFO's base salary was increased from £300,000 to £375,000. While the Committee is aware of the sensitivities of above workforce salary increases, and noting the CFO's salary was increased to £300,000 in 2019/2020 before the acquisition, the Committee concluded that the salary increases, which were aimed at broadly aligning salaries to FTSE 250 median levels, were appropriate given the size and nature of both the roles. Although the Committee notes that best practice would have been to phase the increases over two or three years, this was not considered appropriate for the company given the Committee's belief that:
>
> > market level salaries should be paid to the executives now for the roles they are undertaking, particularly noting that before the salaries were adjusted, they were lower than those of the acquisition's CEO and CFO; and
>
> > rather than increasing fixed pay over time, the performance targets attached to the annual bonus and new LTIP should measure how successful the acquisition has been (given that stretching annual and long-term targets have been set for the combined businesses going

Having discussed the remuneration policy and these two elements in particular, we decided to **abstain** from voting on this. We note that both the CEO and CFO subsequently left the business.

Escalation of Activity – Management Meetings and Feedback

During 2022 we had two group calls with the Executive Chair where we set out to understand the reason for the underperformance. The second of these meetings was supposed to be in-person, however this was moved online at the last minute due to train strikes – a shame given that we feel face-to-face meetings are more valuable in such a situation.

During our first meeting we sent a list of questions for the house broker (who was leading the meeting) to put to management. The aim was for these to be direct and detailed questions that would give us a sense of how the business was being run, and the 2020 acquisition integrated, from an operational perspective. For example, we asked:

- *'Please could we have more detail on your 'antiquated systems'? Why were they allowed to get this way and how are they managing the project to improve these systems (e.g. have they hired in new operations staff or are they using external providers?)'*

We were not satisfied with the answers given by management and felt that the detail given was scant. On the back of this first meeting we fed back to the broker, who in turn relayed this message to management:

- *'[the Company] really need to deliver on their stated improvements now. In our opinion they are still yet to deliver on the promises made when the acquired [anonymous] and the timing of their downgrade has put them on the IR backfoot at the wrong time.'*

The second meeting, as already mentioned, was let down from the start by the Executive Chair not being in attendance, but at least other members of the management team attended; this was reflected in our feedback to management.

- *'[We were a] smidge disappointed not to get the chance to meet [the Chair], but I realise trains got in the way and nice to meet [the CEO, the CFO and deputy CFO]. Please send my thanks to them for making the effort to come and present in person – it is genuinely appreciated.'*

2023 Update and Action

In 2023 the company delivered a double whammy of disappointment, a cyber attack and poor results. The company was hit by a cyber attack on its legacy project management application which hit investor confidence and consequentially the share price. The company stated that the attack was immaterial. Then, a few weeks later, the company made an announcement to the market with their first half earnings and trimming profit guidance. The shares were hit badly and the price fell to an all-time low.

Conclusion and Further Action

Having monitored the Company closely since investment in 2020, our dissatisfaction with developments led us to escalating matters in 2022 and 2023. As indicated above, this was done via abstaining from voting on the remuneration policy at the AGM, seeking out meetings with management and expressing our concerns to the Company via their corporate brokers.

Eventually, we reluctantly sold our entire position in the company in Q2 of 2023. With hindsight, we should have been quicker at selling the business. Technological change was outpacing the company's products and we should have been more proactive, and give less benefit of the doubt, in selling our position.

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Pharmaceutical Business *engagement on governance*

Letters to Chair and Non-Exec Directors
Feedback to house brokers
Call with Chair and broker
Working in party with fellow asset managers
Engagement with national and industry press
Held in CH UK Equity Growth Fund

This example relates to a veterinary pharmaceutical company (The Company) that we have been shareholders in for our CH UK Equity Growth Fund since 2019.

Context

Our initial investment case for the Company was based on their excellent long-term record of delivering organic growth with long-term double-digit revenue growth. Gross margins were consistently strong and north of 50%. The Chief Executive Officer founded the business in 1997 after a MBO from a high-street pharmacy chain. He remained one the company's largest shareholders– we viewed this as a positive alignment of shareholder interests.

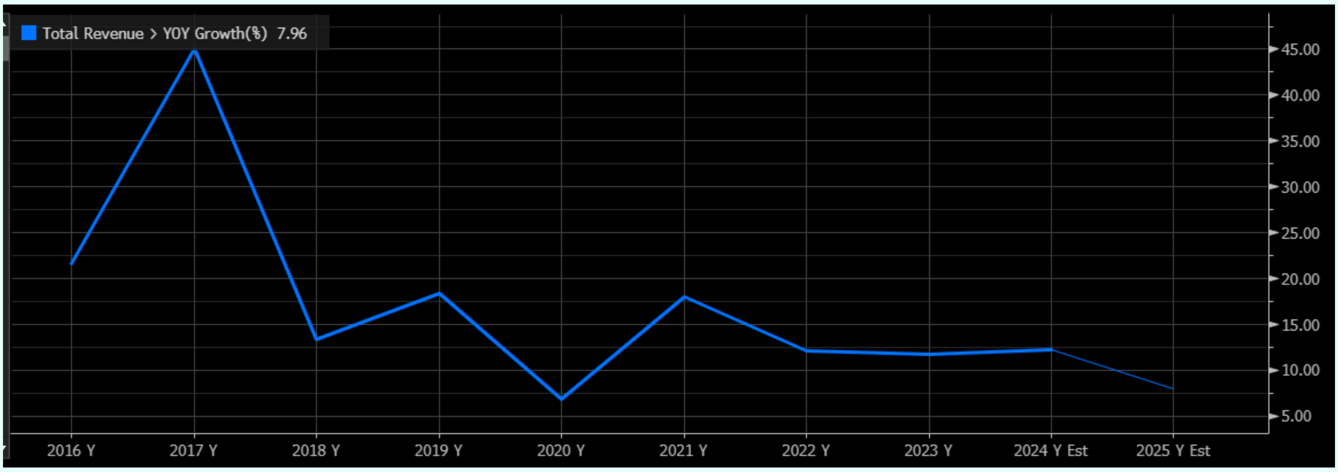


Chart for year-on-year Revenue Growth (Source Bloomberg)

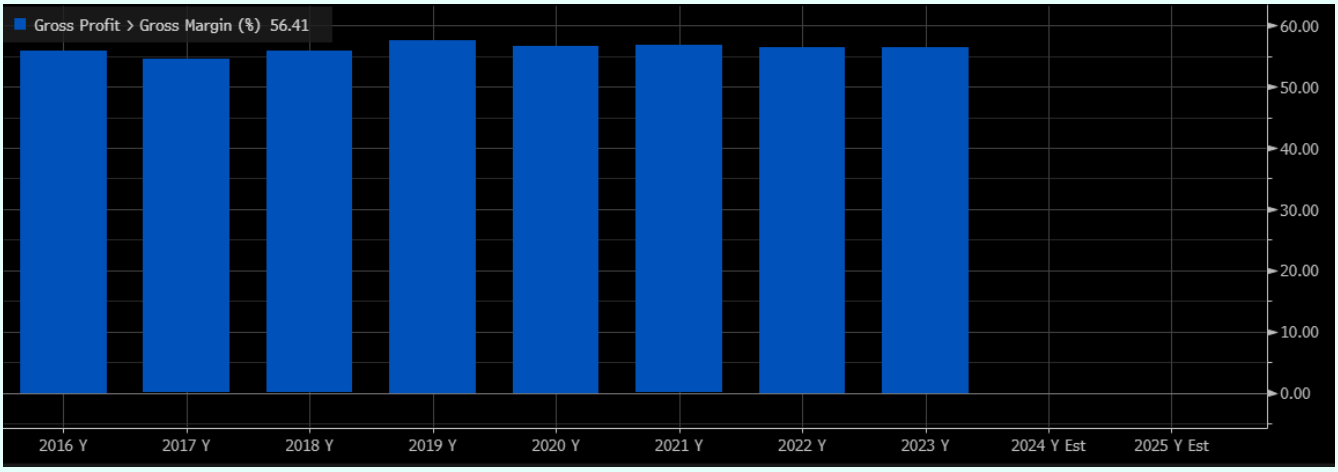
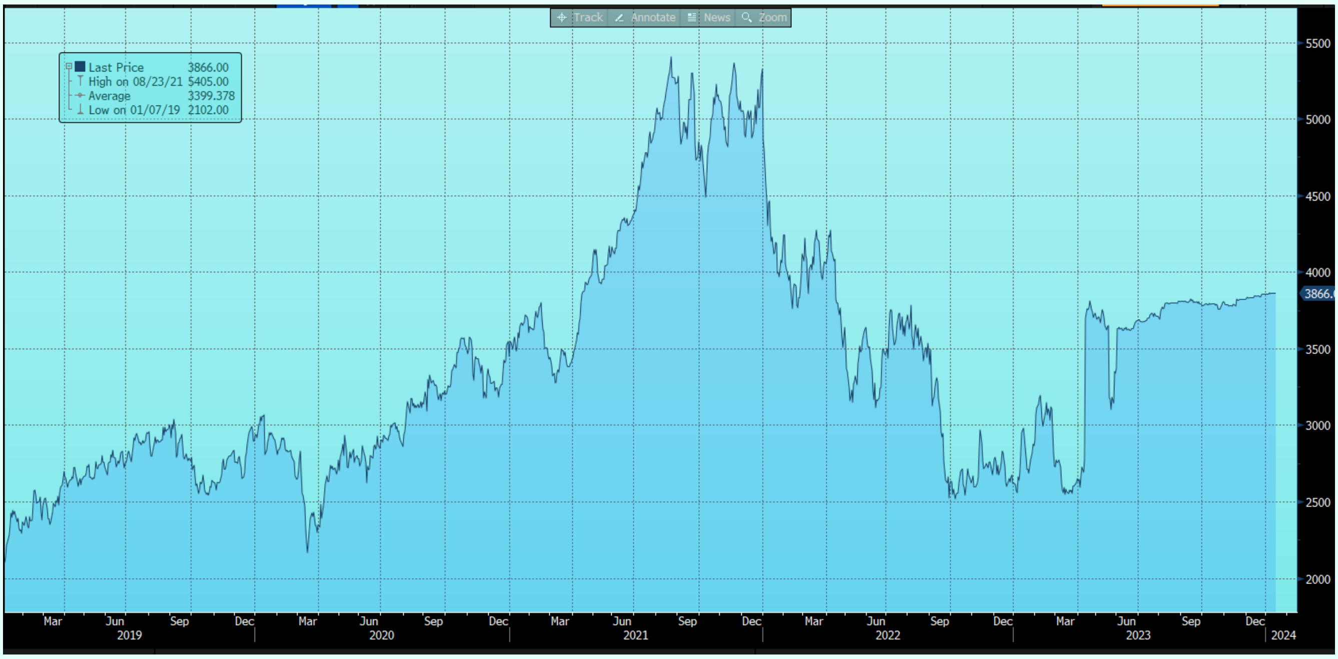


Chart for Gross Margins (Source Bloomberg)

Since initial investment in January 2019, the company performed extremely well. It weathered the Covid-

19 pandemic and then like much of the UK market absolutely boomed in 2021. Even though the underlying numbers still continued to organically grow, the share price tailed off and halved from its peaks in September to December 2021 to the lows in September 2022.



Price chart from January 2019 to January 2024 (Source Bloomberg).

Takeover offer and reaction

On 13th April 2023, The Company came to market announcing:

"The Board of [the Company] and [Bidco] note the recent press speculation and confirm that they have entered into discussions with respect to a possible all-cash recommended offer for the entire issued, and to be issued, ordinary share capital of [The Company].

Under the terms of the possible offer, [the Company] shareholders would receive 4,070 pence per ordinary share in cash.

Having considered the possible offer, together with its financial adviser [redacted], the Board of [the Company] has confirmed to [Bidco] that it is prepared, subject to the finalisation of all relevant terms in a manner satisfactory to it, to provide a recommendation at the possible offer price indicated should [Bidco] announce a firm intention to make an offer pursuant to Rule 2.7 of the Code on such terms.

There can be no certainty that any offer will be made for [the Company]. A further announcement will be made as appropriate."

This announcement jolted the Company share price back to life, leaving it up 40% on the announcement, up to around 3,850p level. This was obviously welcomed, and we felt more worthy of a true justification of what the share price should be. However, this was still c.1,500p off the previous highs just 15 months earlier.

Escalation and Engagement

Press release to fund holders via email, newsletter and website

This mismatch between offer price and what we truly believed the company to be worth (and what would be a fair price for shareholders) sprung the team into gear and we started our escalation by releasing the subsequent comment to our fund shareholders:

Comment on CHUK Top 10 holding [The Company] following takeover news – 17th April 2024

"After a quiet post-Easter week in markets, our screens began to light up on Thursday afternoon as rumours about a bid for **[The Company]** spread. Post-close the Board of [The Company] confirmed that they were in talks with [Bidco] regarding an all-cash takeover.
[The Company] produce, distribute and sell drugs for *companion animals* (dogs, cats and horses) and have enjoyed huge success in doing so. We have been shareholders of [The Company] since 2019 and regular followers of our UK Equity Growth Fund will no doubt have heard our arguments for why we believe that [The Company] is such a strong business. [The CEO] founded the business in the early-1990s and has remained CEO and a substantial shareholder throughout. [The CEO] is a shining example of a British entrepreneur who has built a global business on the back of scientific progress and sales clout.
COVID or no-COVID we are seeing structural growth in the number of dogs and cats kept as pets in the western world and (as owners well know), vet bills are only going one way! [The Company] were early movers in this space and look set to benefit for years to come – no wonder [Bidco] want to get their hands on it. **We have been arguing for a long time now that [The Company] shares are undervalued and more than doubled our position in the Company over the last 18 months, putting our money where our mouth is!**
We see this bid as vindication that the market has been undervaluing [The Company] and that this is a unique and attractive business for a long-term owner. We hope that the management team of [The Company] push back on the current price being offered by [Bidco] and would much rather hang onto the shares ourselves at the price being offered. We will make our feelings known to the Board and see how the bid process progresses.
[The Company] is not the only quality-growth name in the UK currently undervalued on short-term concerns that a patient buyer can comfortably see past. Watch out **Company A, Company B, Company C…** (all holdings within Church House UK Equity Growth Fund)"

As is evident from our statement, we thoroughly believed the shares of the company were grossly undervalued and even doubled our position over the previous 18 months. Whilst we saw the bid as vindication of the company's undervaluation we still believed that the offer did not fully reflect the fair value of the company.

Letter to the Chair of [The Company]

Escalating further we decided to write a letter to the Chair of the company expressing our opinions and looking forward to feedback from the Board:

CH Church House Investment Management www.ch-investments.co.uk

Church House Investment Management
50 Grosvenor Street
Mayfair
London
W1K 3HW

[redacted]

19th April 2023

Letter to the Chair of the Board, concerning a potential takeover of [redacted]

Dear [redacted]

We are shareholders in [redacted] and have been since January 2019. Our clients have benefitted from strong share price performance (+70% on book cost), and we thank you for your work as Chair over this period.

We are writing to you to express disappointment with the proposed price (4070 pence a share) offered by the bidder, regardless as to whether it is the start of negotiations or not, and would disagree with any recommendation from the board at these levels. Our reasons are as follows:

- **Implied Share Price:** 4070p offered by the bidder is low when considering the company's share price over the past twenty-four months. It is at a modest 18.7% premium to the company's July 2022 fundraise at 3430p for [redacted] and is at a 35.7% discount to the share price's recent highs in August 2021. We believe that the current bid is far too opportunistic at these modest levels.
- **Opportunity as a standalone entity:** [redacted] has been at the forefront of a market that has been experiencing strong growth, which has been accelerating since the Covid-19 pandemic. CEO has created and established a business with an outstanding long-term track record. Strong recent acquisitions have bulked out the pipeline of novel companion animal drugs and we see exciting opportunities for the business in the USA and Far East with [redacted] and [redacted] starting to bed-in and deliver.

We urge the board to consider the long-term growth prospects of [redacted] and in the best interest of all shareholders, if a bid to takeover were to be accepted, to lobby for a significantly higher share price than what is currently on the table.

Yours sincerely,

Rory Campbell-Lamerton

Fred Mahon

Fund Managers, Church House UK Equity Growth Fund

[redacted]

Our key points reflected our worries against valuation and the company's continued opportunity as a standalone entity.

The potential offer of 4,070 pence was intricately low when compared to the company's previous 24 months. It was at a modest 18.7% premium to the company's June 2022 fundraise (at 3,430p) and at a 35.7% discount to the share price's recent highs in August 2021.

The company had also made two recent acquisitions where we saw excellent opportunities for growth in the USA and Far East which were yet to come to fruition.

We urged the board, in the best interests of all shareholders, to reconsider the offer and consider the company's long-term growth prospects.

Escalation with press and fellow shareholders

Unfortunately, we didn't hear back from the company Chair or broker for a few weeks. With wind in our sails, we started not get in touch with fellow shareholders to see if they would be interested in setting up a concert party to challenge the Board in numbers.

We started with an interview with an industry newspaper: **Citywire Wealth Manager**, which was published on 25th April 2023.

CITYWIRE WEALTH MANAGER

UK EQUITIES | 25 APR, 2023

[redacted] snubs 'opportunistic' PE £4.6bn [redacted] swoop

[redacted] and [redacted], portfolio managers at [redacted], say [redacted] private equity firm's bid is too low and fails to recognise the veterinary medicine group's prospects.

BY [redacted]

Another leading investor has come out against the private equity swoop for [redacted] suggesting growing shareholder opposition despite the veterinary medicine group's board standing ready to recommend the £4.6bn cash bid.

That follows similarly critical interventions by [redacted] a fund manager at [redacted] which is a top 10 shareholder in the group, as well as fund boutique Church House.

Boutique fund group Church House has also opposed the deal.

'We hope that the management team...push back on the current price being offered by [redacted] and would much rather hang onto the shares ourselves at the price being offered. We will make our feelings known to the board and see how the bid process progresses,' said managers [redacted] and [redacted] who have doubled the stake in their UK Equity Growth fund over 18 months.

Furthermore we got in touch with the Chief Business Correspondent of **The Times** as the news of the takeover was starting to hit the national press:

[redacted]

From: [redacted]@the-times.co.uk>
Sent: 25 April 2023 14:30
To: [redacted]
Subject: [redacted]

Dear [redacted]
Thanks for getting in touch. What is the percentage size of your investment in [redacted]
Are you aware of other institutional shareholders, beyond [redacted] and [redacted] who have concerns about the possible offer?
Best wishes

--
[redacted]
Chief Business Correspondent
The Times
[redacted]

For reasons of confidentially the entire email chain is unable to be documented within this Stewardship Report.

With all the press momentum we reached out to fellow disgruntled shareholders in the hope of organising concerted action. In total we spoke to four other asset managers but ultimately, and sadly, attempts to cooperate failed and we continued to pursue our action by ourselves.

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Escalation with Chair and Broker

In May, we eventually heard back from the company and the broker and were invited to a Zoom call with the Chair and the broker's head of equities.
For context we laid out our positions as follows:

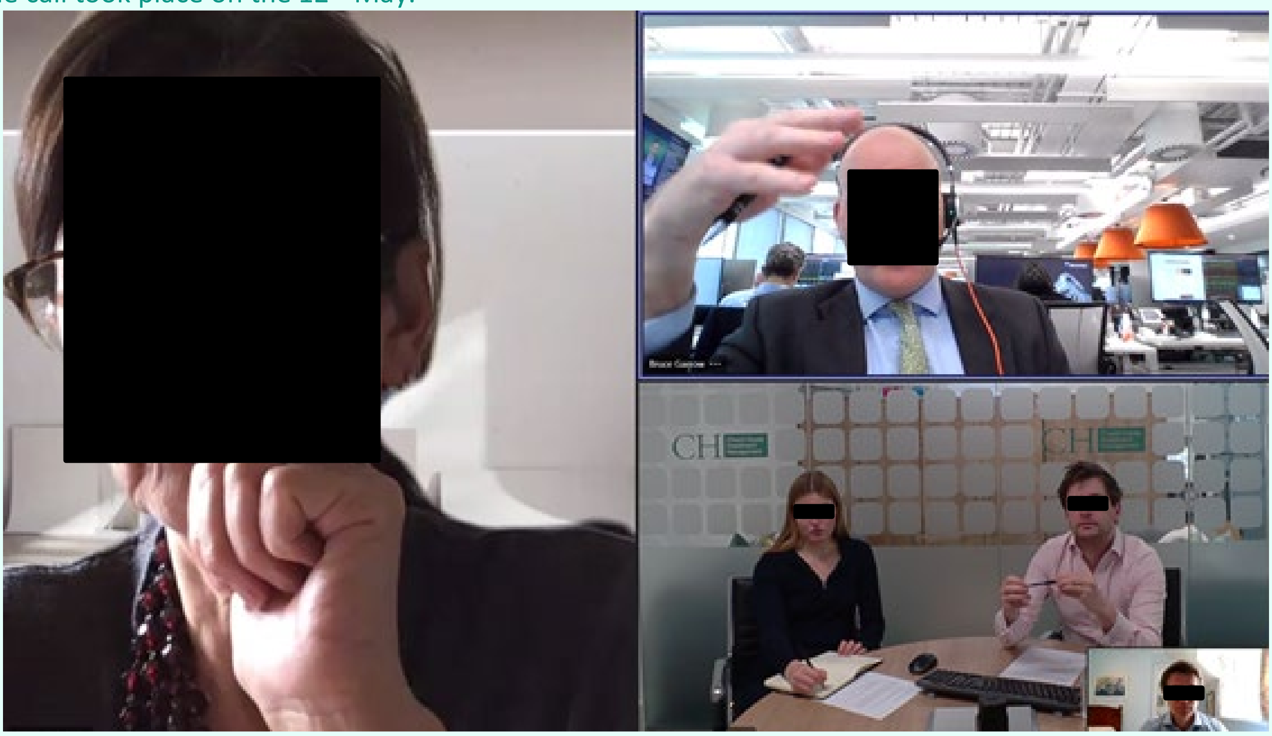
Our Position: We have been shareholders since 2019 and we more than doubled our position since weakness began in 2021. At 4070p we are not making a meaningful return on these additions. We backed [the Company] through tricky markets due to our conviction in the long-term opportunity and are excited by recent M&A and investment into the pipeline. We see [Bidco's] bid as opportunistic during a period of share price weakness. Disappointed that the Board to our knowledge are not pushing for a higher price, reflective of the quality of the Company and the growth potential ahead.

And the questions we would like to have answered:

Questions

- Can't have been a fun day when news of the press speculation came out…
- Has the Board pushed back on price?
- What is the message being send to staff, customers, suppliers… what if it does not happen?
- Feedback from other shareholders?
- If not, what is the succession plan for Ian?
- Gwth ahead:
    - Acquisition A and Acquisition B= record year
    - Pipeline/R&D

The call took place on the 12th May.



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Feedback from other shareholders:

- [The Broker] argued that feedback has not been all negative: [Shareholder A] voiced dissent in the media but were already selling in the market at £37. [Shareholder B] were not anti this position either.
- Other companies such as [Shareholder C] are in the same position as Church House.
- Private investors have shown lots of support for the bid.
- Returns since 2020 (when a lot of new investors took up a position in the stock) have been pretty attractive.
- 25x EBITDA multiple on bid and context of risk.

The board's opinion:

- The board had been excited about future with [The Company], however they have a duty to take opportunities when approached, as they have been with [Bidco]. "We felt like we had to engage, it was the right thing to engage with [Bidco]"
- [Acquisition A] acquisition was a pivotal moment.
- The pharma industry is always risky. Board have to take a risk weighted perspective when an opportunity arises. Thought the £40.70 was the right balance of risk.
- Didn't chose to sell: "The business wasn't up for sale".

Is [The Company] legally obliged to comment on the price?

- They were forced to comment on it because of the leak.
- [The Company] needed to show [Bidco] that they support the price: Organising due diligence etc for the purchase is time consuming and expensive, so [Bidco] needed to believe that [the Company] is going to accept the bid.
- It is good for the bid price to be public because if others know what the bid price is then they might put in higher offers.

CEO's succession:

- Board has been thinking about succession for a long time.
- CEO built this business and is extremely concerned about the future of business.
- Uncouple CEO and the bid. 'Happy is not a term Ian would use' to describe his view on it.

Evening of 2nd June is the final deadline. Very engaged in getting it to the line in next few weeks.

Feedback from call with Chair and Broker

*"This was a disappointing call where the broker did far too much talking and the Chair seemed happy to nod along. Reasons for being happy to accept a lower price than shares were at in the recent past included that '**discount rates have changed'** and that their acquisition of [Company A} (last year) was 'higher risk' and so they wanted to crystalise a gain!*

Our (sad) take on it is that [The CEO] has decided to sell and that the Board are all falling in line rather than trying to secure succession and the next leg of growth for the business. At one point [The Chair] said that 'it is [the CEO's] business in many ways' – in our opinion in many more ways it is the property of shareholders! It would be a great shame to see [The Company] go without more of a fight for and from shareholders."

Results

After a period of relative silence from the company, the broker, fellow shareholders and the industry and national press, the company came to market on 2nd June 2023 announcing:

"The board of directors of [Bidco] and [The Company] are pleased to announce they have reached agreement on the terms and conditions of a recommended cash acquisition by [Bidco] of the entire issue, and to be issued, ordinary share capital of [The Company]. It is intended that the acquisition will be implemented by way of court-sanctioned scheme of arrangement…

- *Under the terms of the Acquisition, each {the Company} Shareholder will be entitled to receive:* ***For each [The Company] share held: 3,875 pence****"*

Obviously, we were supremely disappointed that the final offer for the Company was actually lower than the proposed offer, valuing the business at £4.46bn versus the £4.6bn possible takeover price as indicated in April.

The Company and bidder had been discussing a potential price reduction since [the Company] warned that underlying profit would be below a previous forecast.

At the vote in the late spring of 2023 we abstained, but the motion passed.

On the 2nd June 2023, we received £38.75 for our shares.

Conclusion

Ultimately, we were disappointed with the outcome of the takeover, but were proud of our attempts to stick to our guns and valuation discipline. We accessed numerous avenues to attempt to change the direction of travel albeit ending in failure.

Our call with the Chair and the broker was disappointing. We were perhaps naïve in thinking that the broker would have the side of the shareholders. In practice a takeover and acquisition of a broker's clients results in a substantial payday for the broker, with the difference in price being de minimis.

Our failure to unite fellow shareholders against the takeover was disappointing and was probably due to our lack of size in shareholding and in brand.

That being said, our engagement with the press was productive and for a firm of Church House's stature to be mentioned across industry press and national broadsheets is indicative that we did the right thing in challenging and escalating this takeover.

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Two Learnings

From our time as shareholders in the Companies discussed above we have learnt two valuable lessons from both an investment and ESG point of view:

1. Executive Chairs, founders and large insider ownership: can be good news as this helps to align management and equity holder interest. However, this can also limit the ability of minority shareholders (such as ourselves) to influence the business and to provide critical feedback of executive management. In the case of this business, the lack of a non-executive Chair meant that we did not have the opportunity to raise our concerns with such a person and that oversight of the executive leadership was blunted somewhat. In the case of the final case study, it is of our opinion that the lack of a tangible succession plan for the founder and CEO, made the decision of the Board to accept the takeover offer easier.

2. To be particularly wary of businesses that have recently made large acquisitions: in the case of two of the businesses, while we did note the execution risk associated with the acquisition, it would have been prudent to wait a few reporting periods before making a decision on whether to invest or not. This would have given us *real world* evidence of how the integration was proceeding, rather than relying on the promises of management made at the time of making the acquisition.

12. Actively Exercising Rights and Responsibilities

Our Proxy Voting Process

In-house Voting

At Church House we take our own responsibility for proxy voting and do not outsource any part of the process to third parties. We do this because we see proxy voting as a responsibility that we would like autonomy over and, just as we would not outsource an investment decision, we prefer to keep voting decisions in-house.

Voting and Engagement Committee

As discussed in Principle 2, we looked to add resources and structure to our proxy voting process in 2021 by creating our new **Voting and Engagement Committee**. This committee is made up of seven members (an increase of one from 2022) from our investment team, including James Mahon (co-CIO and Board member) and convenes weekly to discuss upcoming voting and to delegate responsibility for analysing newly published statements. This committee is led by our investment analyst, who monitors upcoming events where we have the opportunity to vote.

The establishment of this committee has significantly improved our voting processes and promoted greater engagement across the investment team. It has further promoted active engagement with investee companies within our governance structures and we have further entrenched this into our processes during 2023.

Voting policy

We do not publish a formal voting policy on the basis that we invest in a wide variety of asset classes and businesses globally. We feel that the diversity of these businesses and their unique circumstances makes having one formalised policy problematic to apply and is not necessarily suitable. With a nine-person investment team, we also have finite resources, and do not feel like applying such a central policy would be suitable for Church House at present. However, **we have common standards and convictions that we apply for all of our investee companies.**

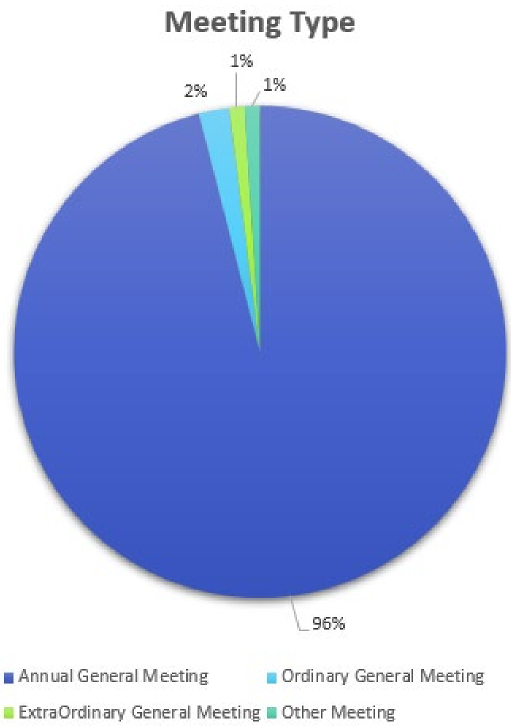
For example, we do not like for management teams to have the **right to issue material portions of equity** without the approval of shareholders. However, there are other items, such as **remuneration**, that we feel **varies too materially across sectors, geographies and market capitalisations** for one central policy to be applied. Despite not publishing a formal proxy voting process, we do aim to be consistent and uphold governance standards on behalf of our clients.

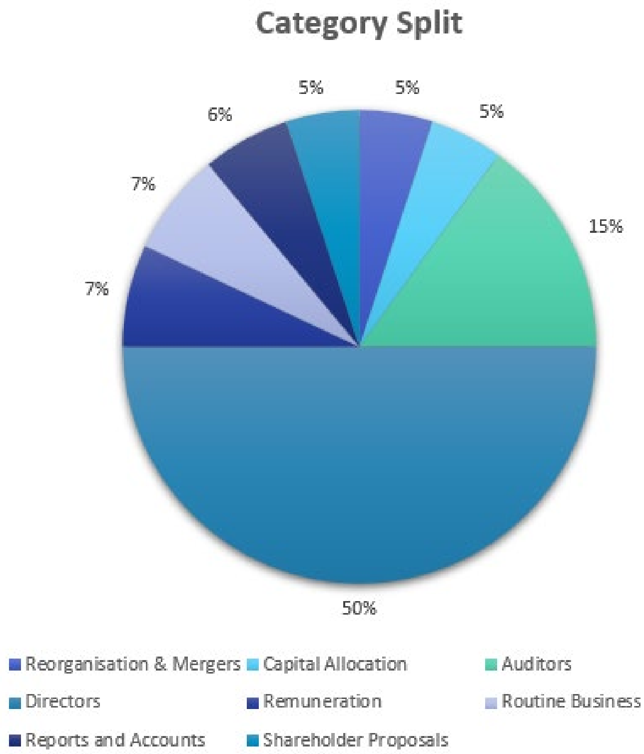
Voting – Equities versus Fixed Interest

As shareholders in equities, we are able to engage with management (in *support*, *against* or *abstaining*) via our **right to vote**. However, across our fixed interest holdings, we are unable to vote, given the nature of the asset class. Nevertheless, we regularly engage with issuers via netroadshows and other methods discussed in the previous principles.

Interest Proxy Voting Activity

During 2023 we voted on a total of 74 events, made up of 1,657 items. 96% of these events were AGMs. Here is the full split of meeting type that we voted on:





We **voted 'against' management** on 34 occasions and 'abstained' twice. Combined that makes it 2% of votes where we did not vote with management. In the below pie chart, we have defined voting against management as voting AGAINST, when the management recommendation was to vote FOR, or vice versa. Also included in voting against management is the ABSTAIN vote. As you can see, we primarily voted in favour of resolutions however we did vote against a number where we felt that the resolutions weren't in the best interest of shareholders. We abstained from 2 votes where management recommended against a board election. We also took part in voting for and against in resolutions put forward by shareholders.

Shareholder Proposals

With the largest majority of our votes against management being on Shareholder Proposals, it is worth delving into some examples of the companies and reasons behind these votes.

Case study: Apple 10th March 2023 AGM - voted **against** shareholder recommendation

In the below example, while the management recommendation was to vote AGAINST these shareholder proposals, after some discussion with the investment team, we concluded that it was indeed appropriate to vote with management, with the reasons highlighted below:

- **A shareholder proposal entitled " Civil Rights and Non-Discrimination Audit Proposal"**
  - For Apple to measure the company's impact in this area, including its inclusion and diversity efforts. We sided with management on this proposal as there is an ongoing audit from last year taking place.
- **A shareholder proposal entitled " Communist China Audit"**
  - For Apple to highlight in-depth, and annually, their relationship with China. The management rejected this proposal, commenting on it's pre-existing human rights commitments and it's continuing filings with the SEC on their business with China.
- **A shareholder proposal entitled " Board Policy".**
  - For Apple to amend their board policy to give shareholders more of a say. We believe the proposal is too prescriptive and restrictive and would detract from the Board's ability to effectively discharge its duties.
- **A shareholder proposal entitled " Racial and Gender Pay Gaps".**
  - For Apple to be more open in details they provide on pay equality by race and gender. For example, they currently provide mean and median numbers across the group, but little on pay in like-for-like roles. We believe that Apple are making great strides in levelling the playing field amongst remuneration bands and further action on the topic could divert away from the original 2017 target set by the company.
- **A shareholder proposal entitled "Shareholder Proxy Access Amendments".**
  - For Apple to give more shareholders the opportunities to nominate Directors. We believe that Boards should be as streamlined and representative as possible, but this proposal, although well-intentioned, would thoroughly dilute our beliefs.

Outcome – was the vote successful?

None of the shareholder votes were passed. Whilst the proposers will be disappointed by the outcome, we believe that the company's responses were the correct way to vote. That being said, we have in the past (and below) voted against management recommendations for shareholder proposals and we welcome every shareholder proposal that might challenge the status quo and we will vote where we believe lies the best course of action for our shareholders.

Case study: Swiss Re AGM 12th April 2023 – Abstained **against** management recommendation

This was a vote over the re-election of Sergio Ermotti as a Director and Board Chair of global reinsurance business Swiss RE. The management recommendation was to vote FOR hs re-election, however we decided to abstain on this proposal for the details set out below.

Background

Sergio Ermotti was the Group CEO of UBS Group from 2011 to 2020. Upon stepping down from the Swiss investment bank he became Chairman of Swiss Re. He won plaudits for his handling of the Swiss bank during a rough period, including a $2bn rogue trading scandal and a $6.5bn bailout of the institution by the Swiss government during the global financial crisis. We welcomed his appointment to the board of Swiss Re.

However, in March 2023, the UBS board brought back Ermotti to be its Chief Executive. We believed that it was impossible for him to be Group CEO of one of the world's largest investment banks (following its merger/acquisition of Credit Suisse) and Chair of Swiss Re. it would be nigh on impossible to maintain his previous levels of focus on his board role.

Although the management recommendation was to vote FOR his re-election as Chair we decided to abstain from the vote on the basis that he would be too busy. Our notes on the vote state that we will await further recommendations from management about next steps regarding the Chairman position.

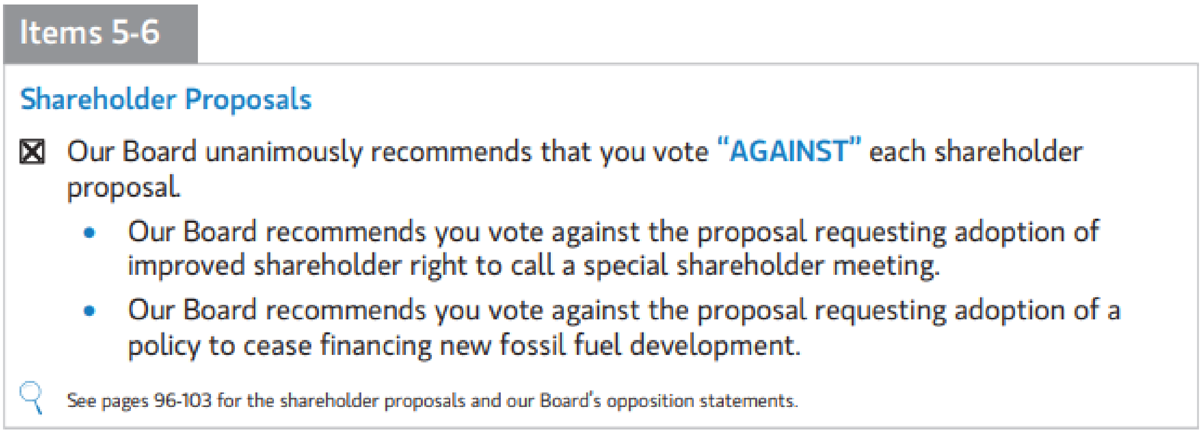
Outcome – What happened next?

After we submitted our vote (a couple of weeks prior to the AGM), the company announced that they will pursue a short, sharp recruitment process and facilitate a speedy and smooth handover of the Chairman's responsibilities. In July 2023 they made an ad hoc announcement that the Board of Directors propose Jacques de Vaucleroy for election as Chairman at the next AGM in April 2024. De Vaucleroy is the company's current Vice-Chairman, so will continue to work in this role until ratification at the next AGM.

Case study: Morgan Stanley Annual 19th May 2023 – voted to **abstain** from management recommendation

In the below examples, while the management recommendation was to vote AGAINST these shareholder proposals, after some discussion with the investment team, we concluded that it was appropriate to vote ABSTAIN.

The two proposal were as follows:



Items 5-6

Shareholder Proposals

☒ Our Board unanimously recommends that you vote **"AGAINST"** each shareholder proposal.

- Our Board recommends you vote against the proposal requesting adoption of improved shareholder right to call a special shareholder meeting.
- Our Board recommends you vote against the proposal requesting adoption of a policy to cease financing new fossil fuel development.

See pages 96-103 for the shareholder proposals and our Board's opposition statements.

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Regarding the two proposals, our reasoning was as follows:

- **Item 5: the proposal requesting adoption of improved shareholder right to call a special shareholder meeting**

This item proposed to give the owners of a combined 10% of our outstanding common stock the power to call a special shareholder meeting. This compares to the current 25% required to call a special shareholder meeting. While we appreciate the intention of this item to lower barriers for shareholders to actively engage in the stewardship of Morgan Stanley, we did not consider the current 25% level to be unreasonable and saw no specific reason why this should need to be lowered. Furthermore, we felt that lowering the level might in fact prove a distraction to management, taking their focus away from day-to-day running of the Company.
Therefore, on the balance of opinion, we elected to ABSTAIN.

- **Item 6: the proposal requesting adoption of a policy to cease financing new fossil fuel development**

We elected to ABSTAIN from Item 6 on the basis that while, on the one hand, we sympathised with the arguments of the proposal to cease funding fossil fuels to reduce global emissions, on the other hand, we felt this was too extreme a proposal that was at odds with what was practically achievable over the short-term for Morgan Stanley.
Morgan Stanley is one of a handful of truly global banks that are involved in the financing of businesses across multiple sectors and regions. While all of these banks have a responsibility to play their part in both promoting sustainable energy production and reducing the use of fossil fuels, this is a shift that will take years to achieve and cannot be achieved overnight. Completely exiting the funding of fossil fuels, as the item proposes, appeared to us to be an extreme action that was not suitable or attentive to the reality of global energy needs.
We read through the management response to the proposal and were satisfied that Morgan Stanley do have policies in place to assist the shift from fossil fuels to renewables. To highlight a few examples given by management:

- **In 2021, we publicly announced our 2030 interim financed emissions targets for the auto manufacturing, energy and power sectors, which we identified as the most emissions-intensive sectors in our corporate lending portfolio.** Our reduction targets, which cover client Scope 1, Scope 2 and Scope 3 emissions and all greenhouse gases, cover our corporate lending portfolio. The targets utilize the International Energy Agency Net-Zero Emissions by 2050 Scenario. The targets are informed by guidance from the Net-Zero Banking Alliance and our progress against them will be, in part, measured using guidance from the Partnership for Carbon Accounting Financials.
- **We committed to mobilize capital to support the transition.** In 2021, we committed to mobilize $750 billion to support advancing low carbon solutions by 2030, tripling our pledge from 2018. Our enhanced commitment is part of Morgan Stanley's larger goal to mobilize $1 trillion towards sustainable solutions in support of the United Nations' 2030 Sustainable Development Goals.
- **Coal-Fired Power Generation:** We seek to reduce the proportion of our energy financing to coal-fired power generation and will not finance transactions globally that directly support the development of new or physical expansions of coal-fired power generation or provide financing for a stand-alone coal-fired power plant, unless there is carbon capture and storage or equivalent carbon emissions reduction technology.

On the balance of both arguments regarding Item 6, we elected to ABSTAIN. We will pay particular attention to progress that Morgan Stanley makes over the next few years in achieving the targets that

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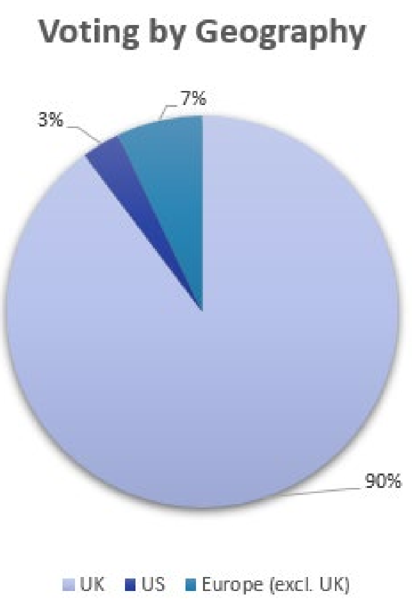
they have publicly stated and will act accordingly with our future voting.

Voting Coverage of Fund Assets

Improved voting process

Over 2023 we are pleased to have continued our voting across our fund holdings with the creation of our Voting and Engagement Committee and efforts made within the investment team. Whist previously voting had been the responsibility of one individual, all investment professionals are now actively engaging in voting and our processes have been improved to reflect this and ensure wider coverage.

Voting approach by Geography



UK voting

In 2023, the main areas of voting were for our **UK-listed investments** making up 90% of our votes. Where we have not voted has been due to a constraint on resources, as a small firm, or new holdings added during the year.

International voting

One challenge has been voting on international businesses. Given that we have seven members of our Voting and Engagement Committee and the time that is takes to effectively analyse and vote on resolutions, we have found that **our resources can limit our ability to cover international equities**, particularly mega-cap US companies that require significantly more time to cover than, for example, a smaller cap UK business.

Furthermore, **investor relations and wider company access is harder for these large businesses** and we, as a smaller investment company, do not get the same level of access as our larger asset management peers.

Individual Clients and Voting

In the event that an individual client has an investment in a segregated account that is not held in any other accounts at Church House and that client wishes to vote on this company, then we are happy to take instruction from this client. This would require specific instruction from the client. For more widely held positions we follow our core process, as outlined above.

However, given the nature of Church House's business model, we run most of our clients via a discretionary fund mandate, and as fund managers, vote on behalf of our clients. Therefore, the likelihood a client may override a house view is minimal.

Stock Lending

We do not engage in stock lending for any of our assets.

Fixed Income

Due to the nature of our Investment Grade Fixed Interest Fund being **debt**, we are **unable to vote** on these holdings. We are also unable to vote on our fixed-income holdings within our Tenax Absolute Return Strategies Fund and our Balanced Equity Income Fund.

Conclusion and intentions for 2024

We intend to continue with our Voting and Engagement Committee though 2024 and into perpetuity. It has now become a core part of our process and we are proud to be one of the few firms in the industry who undertakes all Shareholder voting in-house. We look to become more involved with tracking **management remuneration** and **insider trading**, as we believe both to be important indicators of what is incentivising management in their decisions, with a high insider holding by executives a true alignment to shareholder interests, with additions and sells of this often telling of their conviction and long-term interests in the company.

Jeremy Wharton
Chief Executive

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