MONTANARO

ASSET MANAGEMENT

ESG HANDBOOK

Responsible Investing at Montanaro

Welcome to Montanaro!

This document is designed to tell you everything about our Ethical & ESG Philosophy & Process:
why we think Ethics & ESG is important;
why Ethics & ESG forms a natural part of our "Quality" approach;
how we integrate Ethical & ESG analysis into our investment process;
and why being Responsible Investors is integral to our role as long-term shareholders.

Certified B Corporation

This company meets the highest standards of social and environmental impact

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1 - ABOUT MONTANARO

A bit about us…

Montanaro was established in 1991. We have the largest and most experienced specialist team in Europe dedicated exclusively to researching and investing in Global quoted Small & MidCap companies. Our team of 30 is multi-lingual and multi-national (with no less than nine nationalities). This ensures that we have the benefit of local contacts and knowledge that is so essential to detailed and thorough research.

As at 30 June 2019, Montanaro's funds under management were £2.2 billion (€2.4 billion). Our clients are mainly leading international financial institutions (insurance companies, pension funds, local authorities, endowments, family offices, universities, charities and fund of fund managers).

Many of these institutions sit at the centre of the sustainability revolution, requiring ESG considerations to be fully imbedded into the investment of their assets. We manage segregated mandates for a number of institutions which have specific ESG requirements.

We manage a total of 6 open-ended Funds, 2 closed-ended, listed Investment Trusts and several segregated mandates. Investors seeking exposure to Global Small & MidCap can choose from Montanaro's wide range of actively managed products:

- **Vehicle:** we manage open-end funds with a variety of share classes (Sterling, Euro, US Dollar, SEK, Accumulation/Distribution, Retail/Institutional shares), closed-end funds and segregated mandates;
- **Geography**: we manage Global, Pan-European, Continental Europe (ex-UK) and UK only products;
- **Strategy:** we offer capital growth, income and global impact strategies;

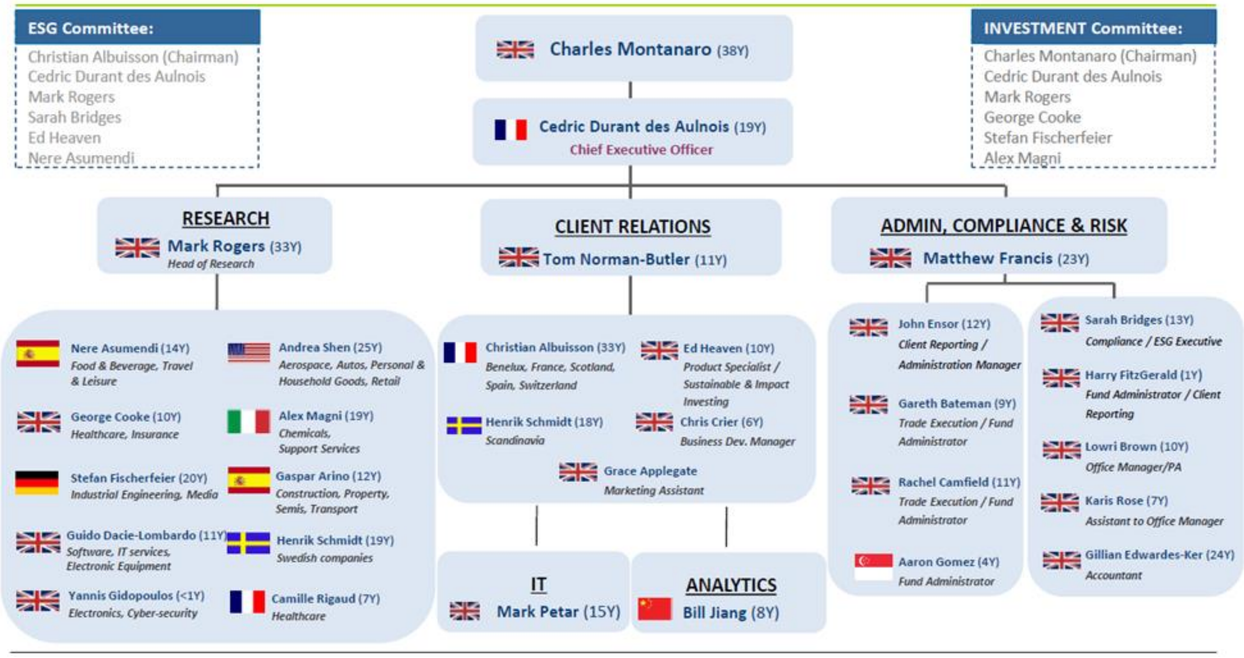
FUNDS	**Strategy**	**Structure**	**Launch**	**Size** (€m)	**Size** (£m)
1 European Smaller Companies Fund	SmallCap - Pan-Europe	Open-end	Dec 2000	€525m	£470m
2 UK Income Fund	Income - UK Small & MidCap	Open-end	Dec 2006	€457m	£409m
3 European Income Fund	Income - Europe Small & MidCap	Open-end	Mar 2012	€251m	£225m
4 European MidCap Fund	MidCap - Pan-Europe	Open-end	Mar 2012	€128m	£115m
5 Better World Fund	Global Small & MidCap - Impact	Open-end	Apr 2018	€168m	£150m
6 Select Fund	Small & MidCap - Pan-Europe	Open-end	Jul 2016	€15m	£14m
INVESTMENT TRUSTS	**Strategy**	**Structure**	**Launch**	**Size** (€m)	**Size** (£m)
1 MUSCIT	SmallCap - UK	Closed-end	Mar 1995	€255m	£229m
2 MESCT	SmallCap - Europe ex-UK	Closed-end	Sep 2006	€212m	£190m
SEGREGATED MANDATES	**Strategy**	**Country**	**Launch**	**Size** (€m)	**Size** (£m)
1 University of London	SmallCap - Pan-Europe	UK	Jul 2006	€98m	£88m
2 FRR	SmallCap - Pan-Europe	France	Aug 2009	€m	£m
3 Amundi PEA-PME	MicroCap - Pan-Europe	France	Mar 2018	€25m	£22m
4 ERAFP	SmallCap - Pan-Europe	France	May 2017	€278m	£249m

Our investment approach

We are **"Quality Growth"** investors. We take a common sense approach to investing, identifying the highest quality companies with the best management teams that we can hold for the long term.

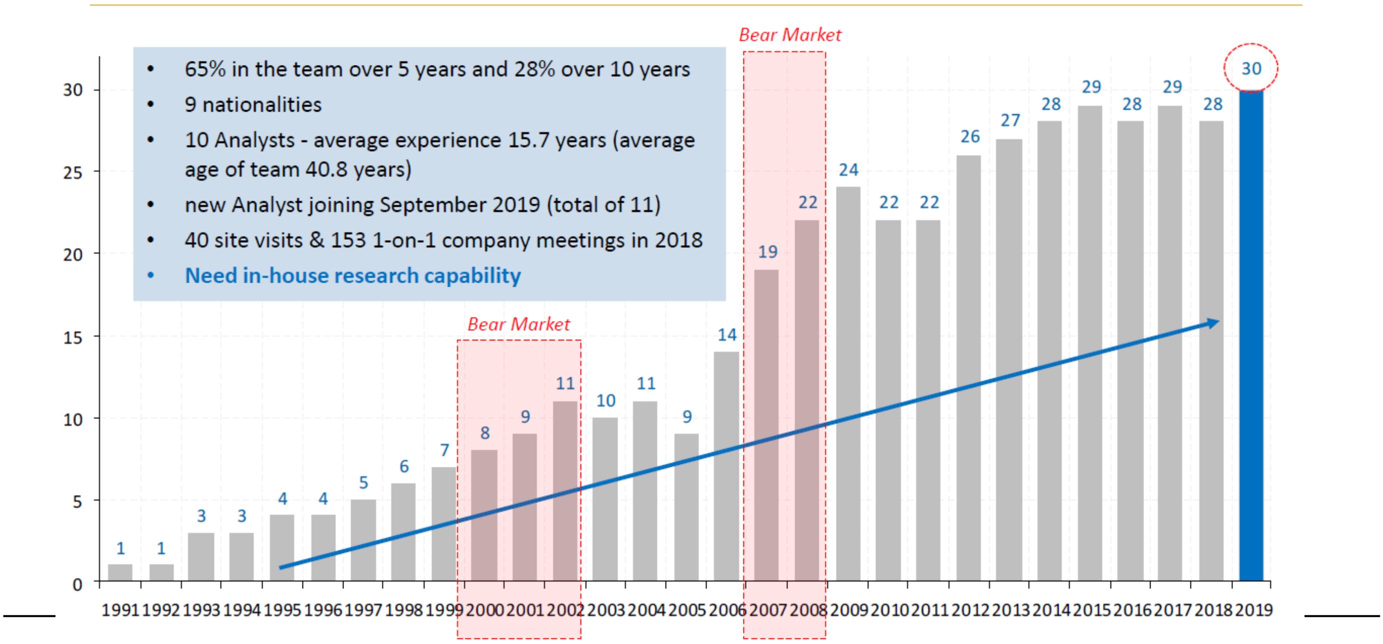
We believe that you "get what you pay for in life": it is worth paying more for a well-managed, financially sound business that operates in a growth industry and enjoys a sustainable competitive advantage. Businesses with such Quality characteristics are able to "beat the fade" and maintain a high Return on Capital over the long term.

Our team



Source: Montanaro, as at 30/06/19.

The team has grown steadily over the years:



2 - OUR COMMITMENT TO ESG

Being Responsible Investors

ESG analysis is fully integrated into the investment process for all Montanaro Funds. Analysts at Montanaro are responsible for conducting fundamental research alongside ESG analysis. This helps us to build as complete a case as possible for the "Quality" of an investment. To us, being Responsible Investors means considering anything that may influence the long-term financial performance of our investments. Oversight is provided by our ESG Committee who formulate our ethical and ESG policies and ensure their consistent implementation across the house.

Research (see appendix) supports our view that there is a positive correlation between how well a company manages issues in relation to ESG and what we are ultimately concerned with: the long-term return for our clients. We believe that this approach will help to foster a more sustainable form of capitalism.

We have a long-term investment horizon

We are genuine long-term investors, an increasing rarity these days. We still hold investments made in our first Fund launched in 1993, more than twenty years ago.

We are a truly Sustainable Business

We encourage our colleagues to live sustainably at Montanaro and in the world beyond. In recent years we have launched a number of sustainability initiatives: we have policies to reduce energy use and waste; we offset our carbon footprint; and we are active in the community via charitable work and donations. Our sustainable focus became embedded within the legal framework of our company when we became a certified "B Corporation" in 2019. Montanaro is also a certified UN PRI signatory and has been awarded the "Label ISR" (SRI label) by the French Ministry of Finance.

Sustainability is part of our investment DNA

It forms an integral part of how we think, behave and invest. ESG was first included in our investment process over 15 years ago and today is firmly integrated within our approach. Every Analyst at Montanaro is responsible for conducting ESG and impact analysis on the companies under their coverage. The result is that our investment decision makers "do" sustainability analysis.

We conduct fundamental company analysis

At Montanaro, all research is conducted in-house. This has allowed us to integrate ESG into our investment process. We recognise that this is resource and time consuming, especially in SmallCap where managers cannot rely on external ESG research. It is one reason why we have the largest team of SmallCap Analysts in Europe. It is also why our Analysts are capable of not just assessing a company's finances, but also the more qualitative aspects of a business.

We seek to engage with our investee companies

As fiduciaries of our clients' assets, we take our shareholder responsibilities seriously. Through regular interaction with management teams we seek to promote high standards of ethics, an awareness of environmental and social issues and transparent corporate governance practices. We have an active policy of proxy voting and a track record of seeking to improve companies through engagement rather than exclusion.

We take a stance on ethical issues

There are some companies that we will not consider engaging in. Typically this is where they are involved in operations that we deem ethically detrimental to wider society. Our stance in these areas forms part of our commitment to our fellow stakeholders and helps to foster a longer-term perspective in the asset management industry.

Our Public Commitments

Certified B Corporation:

- Montanaro became a certified B Corporation in June 2019

The UN Principles for Responsible Investment (PRI): 2009

- An international network of investors working together to put six Principles for Responsible Investment into practice
- Principle 1: *"We will incorporate ESG issues into investment analysis"*

The Stewardship Code (Tier 1 Rating): 2010

- *"Investors in the company…play an important role in holding the board to account for the fulfilment of its responsibilities".*

The Carbon Disclosure Project (CDP): 2015

- *"CDP has incentivised…companies…to measure and disclose their environmental information".*

The Montreal Pledge: 2018

- A commitment to measure and publicly disclose the carbon footprint of our investment portfolios on an annual basis.

Task Force on Climate-related Financial Disclosures: 2018

- We have publically pledged our support to the aims of the TCFD

Our Funds and Investment Process have been endorsed externally:

Better World Fund Awarded 5 Star Rating by 3D Investing

- specialist UK ESG Ratings Company: over 200 Funds rated
- only 6 Equity Funds have been awarded a 5 Star Rating

Better World Fund awarded leading SRI label

- awarded by the Finance Ministry after extensive due diligence to recognise "best-in-class" SRI products in Europe
- only two Funds rated in the UK

Net Zero Carbon: Project 2025

- Following collaboration with other stakeholders, we are setting an ambitious target that by 2025, at least 10% of companies within the Montanaro Better World Fund by value will have achieved "Net Zero Carbon".

Montanaro are proud to have been recognised for our excellence in the field of ESG:

- 2017: Shortlisted for **Best ESG Fund Management Group** in Investment Week's Sustainable Investment Awards 2017.
- 2018: Shortlisted for **Best ESG Fund Management Group (Generalist)**
- 2018: Shortlisted for **Best ESG Research Team**
- 2018: Shortlisted for **Best New Entrant (Better World Fund)**
- 2019: Shortlisted for **Best ESG Fund Management Group**
- 2019: Shortlisted for **Best ESG/SRI/Impact Research Team**
- 2019: Shortlisted for **Best Impact Fund**
- 2019: Shortlisted for **Best Thought Leadership Paper on Sustainable Investing**

3 - ETHICAL & ESG POLICIES

Companies that we consider for investment must pass the criteria set out in the following policies. Each policy has a corresponding checklist which our Analysts complete during the research process. The Ethics and ESG criteria that we highlight below forms form an intrinsic part of Montanaro's assessment of a company's "Quality".

1. ETHICAL POLICY – our Ethical Exclusions apply across the house

Investors occupy a position of immense responsibility as they direct capital flows across economies. As such, investors should consider the ethical value (either good or bad) of a company's products, services, and wider operations. By doing this, investors can aid the development of economic systems that benefit all stakeholders.

While our primary fiduciary duty is to maximise investment returns for our clients, attractive returns and sound ethical considerations are not mutually exclusive. We strongly believe that it is possible to have the best of both worlds and "*do well by doing good*"[1].

Our Ethical Policy falls into three parts:

1) **TOTAL BAN:** we ban certain business areas and also companies with 10% or more revenue exposure to these banned areas;

2) **WATCHLIST**: additional business areas sit on our ethics "watchlist". These may be subject to partial bans or relate to company specific issues that we seek to engage on;

3) **UN GLOBAL COMPACT:** we recognise that there is an overlap between Ethics and ESG. We consider other areas that may form part of investors' ethical concerns in our Environmental & Social Policy, which complies with the United Nations Global Compact.

These are explained in further detail in the ethical framework below:

[1] *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*, David Vogel, p.19

MONTANARO ETHICAL FRAMEWORK	
1. We BAN businesses involved in the following areas:	
Exploration & production fossil fuels	TOTAL BAN
Tobacco producers & distributors	TOTAL BAN
Alcohol producers & distributors	TOTAL BAN
Controversial weapons manufacturers	TOTAL BAN
Gambling companies	TOTAL BAN
Adult entertainment (pornography)	TOTAL BAN
High interest rate lending companies	TOTAL BAN
Animal testing	TOTAL BAN (unless required by law for healthcare related companies)
(We also ban companies with 10% or more revenue exposure to these business areas)	
2. Additional business areas sit on our ethics **WATCHLIST**. These may be subject to partial bans or relate to company specific issues that we seek to engage on:	
Animal welfare	We engage to reduce all forms of animal testing
Environmental impact	Seek to improve the environmental impact of businesses
Nuclear energy	Considered in context of Low Carbon Economy transition
Climate change	We encourage the adoption of Net Zero Carbon strategies
Plastics	Considered in the context of a company's environmental footprint
Genetically modified organisms (GMO)	Likely company specifc
Nutrition	Likely company specifc
Other	Analysts consider company specific areas of ethical risk
3. In addition we do not invest in companies that in our view breach the **UN GLOBAL COMPACT** principles. These areas are considered as part of our Environmental & Social Policy, but we recognise that there is overlap with investors' ethical preferences:	
Human Rights	*Considered as part of Environmental & Social Policy*
Labour Practices	*Considered as part of Environmental & Social Policy*
HR Management	*Considered as part of Environmental & Social Policy*
Bribery & Corruption	*Considered as part of Environmental & Social Policy*
Environmental Transition	*Considered as part of Environmental & Social Policy*
Supply chain	*Considered as part of Environmental & Social Policy*
Other (e.g. tax, lobbying, consumer rights...)	*Considered as part of Environmental & Social Policy*

The areas that we ban from our investment universe are explained below:

Exploration & production fossil fuels:

Coal: We formally exclude coal extraction & production companies from our investment universe. In CO_2 terms, coal is the most polluting energy industry. Thermal coal remains an inefficient way to generate energy[2]. Companies that are heavily involved in these operations are *"unlikely to be able to assist with the transition to a low carbon economy[3]"*. A coal power station produces twice the carbon dioxide per unit of energy relative to a gas powered one[4].

Oil: We formally exclude oil exploration & production companies from our investment universe. We do not wish to direct capital towards companies developing new sites. In addition we make the following points:

[2] http://www.c2es.org/energy/source/coal
[3] https://www.churchofengland.org/media/2235218/climate%20change%20policy%2030%2004%2015.pdf
[4] http://www.eiris.org/blog/fossil-fuels-logic-divestment/

- Tar Sands: we recognise that certain forms of oil production are worse than others. As a group of Canadian scientists have argued[5], the recent proliferation of tar sands appears incompatible with climate protection initiatives.
- Oil Services: we will invest in certain oil service companies, particularly those whose products and services help to reduce the environmental impact of oil production.

Gas: We formally exclude gas exploration & production companies from our investment universe. However, it must be noted that gas can play a role in the energy mix transition. Replacing coal with gas can yield a substantial decrease in greenhouse gas emissions. The UK is a good example of this, where declining coal use in favour of a blend of gas, wind and solar has pushed UK carbon emissions to levels last seen in 1890. Nevertheless, we recognise that gas still has a net negative environmental impact, in part due to the high level of methane released[6]. The CO_2E of gas based equivalents should be considered by investors.

Tobacco:
We do not invest in tobacco producers and distributors. This includes companies involved in the manufacture and distribution of vaping or e-cigarette products. Smoking causes the largest number of avoidable deaths in Europe on an annual basis[7]. Across the world, tobacco use kills 6 million people each year with nearly 80% of those deaths in low and middle-income countries. Tobacco use caused 100 million deaths worldwide during the 20th century. If current trends continue, it will kill 1 billion people in the 21st century[8]. We see no case for justifying investing in an industry that knowingly causes so much harm and distress to so many often disadvantaged people.

Alcohol:
We do not invest in alcohol producers and distributors. Across society, alcohol causes immense harm. In the European Union, alcohol-attributable disease, injury and violence costs the health, welfare, employment and criminal justice sectors some €125 billion a year[9]. The UK Department of Health[10] estimates that 10 million adults drink more than the recommended alcohol consumption limits. A cause of concern is that alcohol companies do not differentiate between responsible drinkers and those who misuse alcohol and show limited attempts at controlling underage drinking.

Controversial Weapons:
We do not invest in controversial weapons manufacturers. This includes weapons such as anti-personnel mines, cluster munitions, chemical & biological weapons and companies involved in the production, supply or storage of weapons grade nuclear fissile materials. We also do not invest in companies that make or sell civilian handguns. Our ban on these is total and in line with our obligations under the United Nations Principles for Responsible Investment[11]. In the Better World Fund we go further and ban any investment in military companies, as classified by the defence sector.

[5] http://www.oilsandsmoratorium.org/
[6] http://www.sciencemag.org/news/2018/06/natural-gas-could-warm-planet-much-coal-short-term
[7] http://europa.eu/pol/pdf/flipbook/en/public_health_en.pdf
[8] http://www.tobaccoatlas.org.
[9] http://ec.europa.eu/health/archive/ph_determinants/life_style/alcohol/documents/alcohol_europe_en.pdf
[10] https://www.gov.uk/government/organisations/department-of-health
[11] http://www.unpri.org/

Gambling:
We do not invest in gambling companies. All forms of gambling have the potential to lead to destructive addiction. Academic studies suggest that the social effect of gambling is worse for those from economically disadvantaged communities[12]. Gambling has been linked to increases in domestic abuse as well as alcohol and drug addiction. [See Montanaro article *"Gambling: why we divest"*[13]].

Adult Entertainment (pornography):
We ban investment in companies that produce and distribute pornography (including magazines, newspapers, videos, films, websites and related software) as well as any companies involved in the staging of live sex shows or the ownership of sex shops. We use guidance from the Church of England to define pornography as *"the sexually explicit depiction of persons, in words or images, created with the primary, proximate aim, and reasonable hope, of eliciting significant sexual arousal on the part of the consumer[14]"*. Porn has been linked to social exploitation, particularly of vulnerable women, and has been negatively linked to behavioural and mental health conditions.

High Interest Rate Lending:
Pay-day lending companies are a contentious area for investors. On the one hand, they are deemed unethical, preying on the most vulnerable by charging exorbitant rates of interest. On the other, they are seen as a necessary part of the credit market, servicing customers who have been priced out of accessing loans by banks and credit card companies[15]. Despite the debate, in our view the scales fall in favour of a total exclusion of payday loan companies. Although we welcome new regulation from the Financial Conduct Authority (FCA) which has capped daily interest rates, fixed default fees and capped total borrowing costs[16], too much of the sector remains opaque. We use the Church of England's definition of a pay-day lending which is as follows: "*Any company, whose main business activity or focus is the provision of home-collected credit ('doorstep lending'), unsecured short-term loans ('payday loans') or pawnbroker loans, directly or through owned-subsidiaries…Typical indicators of potentially exploitative lending will be triple-digit, or close to triple-digit, Annual Percentage Rates (APRs); short loan term durations (less than 18 months);and no requirement for security[17]".*

[12] *Research on the Social Impacts of Gambling*, Scottish Executive, University of Glasgow pg. 42-63
[13] http://www.montanaro.co.uk/smallcap-corner-blog/2017/gambling-divest
[14] https://www.churchofengland.org/media/1376293/pornography%20policy%20nov%202011.pdf
[15] http://www.adamsmith.org/blog/regulation-industry/wonga-post/
[16] http://www.fca.org.uk/news/fca-confirms-price-cap-rules-for-payday-lenders

[17] https://www.churchofengland.org/sites/default/files/2017-11/High%20Interest%20Lending%20Policy.pdf

Animal Testing:

Montanaro does not invest in companies that use animal testing for purposes other than healthcare research. The only exception to this policy is when animal testing is required by law and alternative tests are not permissible. In such cases the company in question must have a clear animal testing policy, compliant with "The Three Rs":

1. **Replacement:** methods which avoid or replace the use of animals in research;
2. **Reduction:** use of methods that enable researchers to obtain comparable levels of information from fewer animals, or to obtain more information from the same number of animals;
3. **Refinement:** use of methods that alleviate or minimise potential pain, suffering or distress, and enhance animal welfare for the animals used.

2. ENVIRONMENTAL & SOCIAL POLICY – Guided by the UN Global Compact

Our Environmental & Social Policy helps us to identify the highest quality companies by guiding us towards truly sustainable investment opportunities.

By analysing specific areas of environmental and social concern, our companies are encouraged to foster a long-term focus in their business. The aim is to get management teams to realise that contributing positively to society and the environment is better for their business. This can drive more accurate risk analysis, leaving a company well-placed to deliver sustainable returns in a changing world. Engaging with companies in these areas can aid high quality stock selection at Montanaro.

The areas that we focus on are influenced by the UN Global Compact:

Human Rights:

We acknowledge and support the United Nations (UN) *Declaration of Human Rights*[18], whose 30 Articles act as a common standard of human rights for *"all peoples and all nations*[19]*"*. In particular, the UN's *Corporate Responsibility to Respect Human Rights*[20] guide, notes that companies should *"address adverse human rights impacts with which they are involved"*[21]. Indeed, *"business enterprises should respect human rights…[and] should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved*[22]*"*. This guidance is important firstly because it places responsibility on companies to respect human rights and secondly, it acknowledges that human rights abuse can (and sadly does) happen. If it occurs, companies are obliged to address their failings. As investors we can encourage sound human rights practices through active engagement with our investee companies.

Labour Practices:

Human Rights and Labour Practices are inextricably linked. Indeed, in June 2006 the UN merged the Global Compact Human Rights Working Group with the Labour Working Group, *"in light of growing recognition that labour rights are human rights*[23]*"*. We conduct separate analysis on labour practices given their importance to the ESG framework of companies. The International Labour Organisation[24] sets out a guideline for ensuring high standards of ethical practices that can be applied universally. These include regulated working hours; regulation of labour supply; protection of the worker against sickness, disease and injury; protection of children, young persons and women; provisions for old age; protection of workers when employed in countries other than their own; equal remuneration for work of equal value; freedom of association; and vocational and technical education. We expect our companies to abide by international guidelines. We actively engage with companies if issues around labour practices arise.

Human Resources Management:

Also Tied to Human Rights and Labour Practices is a company's approach to Human Resources. A

[18] http://www.un.org/en/documents/udhr/
[19] Ibid
[20] Ibid
[21] Ibid
[22] Ibid
[23] https://www.unglobalcompact.org/issues/human_rights/human_rights_working_group.html
[24] www.ilo.org

company's employees are one of the major stakeholders in the organisation and *"their satisfaction [can be] measured through indicators which are closely linked to a company's policies and culture[25]".* These include policies relating to working culture, employee retention and turnover rates, remuneration and workforce diversity. Analysts monitor employment and remuneration trends, changes to the senior management team (as set out in our Corporate Governance Checklist) and also consider a company's training and development programmes. Analysts also pay attention to company specific Corporate Responsibility Reports in order to understand a company's relationship with its local community (for example, if it sponsors local charities and promote local jobs).

Bribery & Corruption:

Principle 10 of the UN's Global Compact states that *"businesses should work against corruption in all its forms, including extortion and bribery[26]"*. Corruption is a major hindrance to sustainable development. It has an extreme impact on poor communities and tends to benefit the few at the expense of the many. The cost of corruption to businesses in Europe is breath-taking: the European Commission estimates that corruption costs European businesses €120 billion a year[27] while the World Bank suggests that *"bribery has become a $1 trillion industry[28]"*. We expect all of our companies to take active steps to promote a zero tolerance attitude towards bribery and corruption. We monitor internal controls and feel that we are part of *"a growing number of investment managers [who] are looking to these controls as evidence that the companies undertake good business practice[29]"*.

Supply Chain:

For businesses to remain a going concern over the long-term, supply chains need to be sustainable. There are significant business benefits to ethical supply chain management be they risk reduction, supply security, operational efficiencies, appropriate supplier selection and reputational protection. Globalisation has increased the risk of unethical practices entering the global supply chain. This is especially the case given goods and materials can be sourced from economically vulnerable countries and communities. A fundamental part of supply chain management is the *"ability to identify and trace the history, distribution, location and application of products, parts and materials, to ensure the reliability of sustainability claims[30]".* This is important given customers' need to be confident in what they are buying. We aim to engage with all of our companies to ensure that materials are ethically sourced. In addition – and with reference to the Modern Slavery Act 2015[31] – we seek to ensure that companies we invest in do not under any circumstances use or benefit from slave labour.

[25] *Global Equity Strategy, Investing responsibly: The ESG handbook,* HSBC, December 2015
[26] https://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/principle10.html
[27] http://ec.europa.eu/dgs/home-affairs/e-library/documents/policies/organized-crime-and-human-trafficking/corruption/docs/acr_2014_en.pdf
[28] http://live.worldbank.org/corruption-can-it-ever-be-controlled
[29] https://www.unglobalcompact.org/aboutthegc/thetenprinciples/anti-corruption.html
[30] https://www.unglobalcompact.org/docs/issues_doc/supply_chain/Traceability/Guide_to_Traceability.pdf
[31] https://en.wikipedia.org/wiki/Modern_Slavery_Act_2015#Supply_chain

Climate Change: Our views on the "Energy Transition"

Climate change is possibly the greatest challenge facing humanity. To ensure that climate change is kept within a manageable range, a shift in how we produce and consume energy is required. Different views exist on how this can be achieved and the role that investors can play.

There are those who believe that investors should divest from fossil fuel industries. The divest movement – which has been seen before in relation to sectors including tobacco and political movements such as apartheid South Africa – seeks to remove investor support for companies involved in the production and supply of fossil fuels. The aim of this is to drastically reduce, or halt, the amount of fossil fuels extracted from the earth. The scientific argument in favour of this is that between two-thirds and four-fifths of fossil fuel reserves need to remain in the ground in order to limit global warming to a rise of 2°C compared to pre-industrial temperatures (these reserves are often referred to as being "stranded"). There is far more carbon lurking within existing fossil fuel reserves than can be safely burnt.

At the other end of the spectrum are those who believe that investors should continue to invest in fossil fuel related companies. The benefits fossil fuel production have brought to the world are often cited in support of this view: cheaper and more available energy has helped lift millions of people out of poverty, supporting globalisation and the raising of living standards. Turning off capital flows to fossil fuel industries could place this at risk given the Replacement Energy System – e.g. renewables – remains in its infancy. According to research by the energy consultant Lambert Energy Advisory, *"out of the 280 million barrels of oil equivalent energy (BOE) produced to keep…6 billion customers happy, only 7 million BOE will be 'new renewables'."*[32]

Investors stepping into this debate must tread with care. Our aim is to support the shift to a cleaner energy mix as quickly as possible.

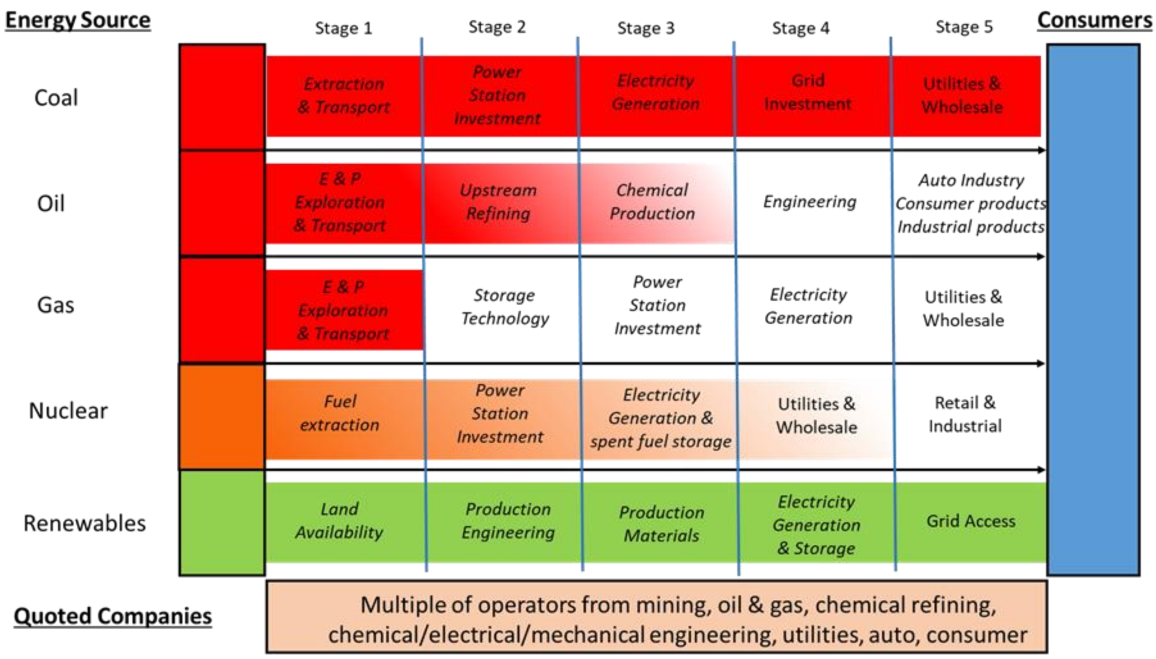
With this is mind, our stance can be summarised as follows:

1. We ban investments in oil, coal, and gas exploration & production companies;
2. To halt and mitigate the effects of climate change, fossil fuels must be kept in the ground;
3. Despite the development of new technologies, the transition to a cleaner energy mix will take time;
4. For now, investing further down the energy value chain is permissible given fossil fuels are likely to be a feature of our world for many years to come;
5. Investment is needed in carbon capture and more efficient storage technologies;
6. All companies have a role to play in the energy transition: we support companies who take steps to reduce their own energy consumption and apply 100% renewable or Net Zero Energy targets, or Science Based Targeting.
7. In July 2018, our Better World Fund set an ambitious target that by 2025, at least 10% of companies within Fund by value will have achieved "Net Zero Carbon". We have initiated this project in conjunction with asset owners and the UK Climate Impacts Programme at the University of Oxford.

[32] From speech by Philip Lambert, CEO, Lambert Energy Advisory - *FT Energy Transition Strategies Summit, London, 14th June, 2018*

We have developed an Energy Transition Table (below) to illustrate how we view different areas of energy production. This enables us assess where an energy company sits within the energy matrix.

Energy Transition Table



As well as our exclusions of Exploration and production fossil fuels we also consider:

Nuclear:

High profile incidents such as Chernobyl and Fukushima have negatively impacted the public perception of nuclear power. Some countries, such as Germany, have stepped away from nuclear power altogether. While renewable energy has increased as part of Germany's energy mix, 40% of the country's electricity is generated from hard coal and lignite. The nuclear debate is one that we will continue to monitor. The energy produced is cleaner than fossil fuel energy, but clearly there are other challenges: if something goes wrong the consequences are potentially catastrophic, while the issue of radioactive waste disposal is yet to be settled. Another point to consider, particularly from an investment perspective, is the high cost of nuclear power plants, which makes a decent return on invested capital challenging[33].

Renewables:

The World Energy Council notes that *"the rate of improvements towards cleaner energy is far slower than required to meet emissions targets".* Solar and Wind currently account for just 8% of energy produced. Clearly renewable energy must take up a greater share of the global energy mix if climate change is to be stopped, or reversed. A steady transition is needed, however, so that the most sustainable and efficient technologies emerge. These must not rely on unsustainable subsidies and

[33] https://www.ucsusa.org/nuclear-power/cost-nuclear-power#.W2K2YLgna71

investors should carefully consider the investment risks of "concept" ideas that have yet to deliver a financial return. New technologies must be cleaner than fossil based alternatives across their value chain, not just when they reach the consumer.

In addition to the above, we wish to encourage all of our investee companies to consider their energy consumption and what they can do to reduce their own carbon footprint. Companies that have a publicly stated "Net Zero Energy" goal should be applauded. Such targets can help the energy transition, allowing the "Carbon Budget" (the estimated amount of carbon we can use without breaching the 2°C limit) to be used by areas of the economy where it is most essential. With the carbon budget in mind, we encourage companies to sign up implement Science Based Targets. These can help investors to best contextualise a company's energy usage.

We also engage with companies to better understand and influence the steps they take in relation to their carbon emissions. We want to encourage our companies to aid the transition to a lower-carbon economy, hence in 2015, we became signatories of the Carbon Disclosure Project. We also encourage our companies to consider joining the RE100 club, a network of companies committed to 100% renewable power.

The focus on a business's environmental impact is only likely to increase over time: three of the ten UN Global Compact Principles are dedicated to the environment. These state that companies should *"support a precautionary approach to environmental challenges…promote greater environmental responsibility…and encourage the development…of environmentally friendly technology*[34]*".* We encourage companies to continue improving their levels of environmental reporting.

[34] https://www.unglobalcompact.org/issues/environment/

3. CORPORATE GOVERNANCE POLICY – Linking governance to financial fundamentals

We wish to align the interests of company management teams with the interests of long-term shareholders. Ensuring high standards of corporate governance forms an important part of this. Our logic here is simple: good corporate governance increases the quality of a business; the higher the quality of a business, the greater the sustainability of returns. Academic evidence supports such a stance[35]. A report by Deutsche Bank, *Sustainable Investing, Establishing Long-Term Value and Performance*[36], which analyses the major academic studies in the field of ESG, highlights the importance of corporate governance:

"Any company that thinks it does not need to bother with improving its systems of corporate governance is, in effect, thumbing its nose at the market and hurting its own performance all at the same time"

Similarly, Sir Adrian Cadbury's ground-breaking 1992 Corporate Governance report (*"The Cadbury Report"*) notes that *"companies whose standards of corporate governance are high are the more likely to gain the confidence of investors and support for the development of their businesses[37]".*

Our Corporate Governance Policy follows the principles of the UK Corporate Governance Code.

Our Policy considers the following areas:

Remuneration:

We consider the level of executive compensation, including base salary, bonuses and long-term incentives. In particular, we are interested in the structure of remuneration packages and the role of the Remuneration Committee. The right kinds of incentives can ensure that management are focused on what matters most for shareholders: creating sustainable shareholder value. As long-term investors, we want the interests of management to be aligned with ours. We expect management teams to behave ethically and responsibly in relation to pay, taking into account the impact excessive executive pay can have on other stakeholders.

Capital Allocation Record:

When we model a company's financials, we also analyse the capital allocation record of the management team. This tells us whether management have been deploying capital efficiently and effectively, thereby enhancing the long-term value of the business. To ascertain this, we analyse Return on Capital Employed (ROCE) relative to the cost of capital. Shareholder value is created when economic ROCE is sustained at a level above the cost of capital. We are specifically interested in what management are directing their capital towards. We consider the level of reinvestment in the business; the acquisition track record; the dividend policy; share buyback programs and the level of cash relative to debt.

Board Independence:

Companies should aim to have the right governance structure in place. In general, we look for

[35] *For a fuller examination of the academic research in this area, please refer to the* What research says about ESG *section of this handbook*

[36] https://institutional.deutscheawm.com/content/_media/Sustainable_Investing_2012.pdf

[37] http://www.ecgi.org/codes/documents/cadbury.pdf

Boards to have a majority of Non-Executive, fully independent Directors. We recognise, however, that this may not always be possible or warranted in the case of small companies. An executive founder, or a family, may retain a material interest in the business and a significant presence on the Board. Therefore, we consider the suitability of Boards on a case-by-case basis, taking into account Director tenure, skills and reputation. We expect companies to disclose sufficient biographical information about Directors to enable investors to make a reasonable assessment of the value they add to the company. We want to see our investee companies achieve Board independence over time.

Voting:

Voting is a vital part of our engagement with companies which is why we vote at all AGMs.
We receive independent third party corporate governance reports and voting recommendations from Institutional Investor Services ISS ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. As such, we consider ourselves as “active” shareholders rather than “activists”.

4 - ESG COMMITTEE

Our ESG Committee is made up of experienced members from across our business. Their primary responsibility is to ensure that Montanaro's ESG effort remains coordinated across the house. The ESG Committee meets officially on a quarterly basis. Meetings have a set agenda:

1. Review of previous minutes and action points
2. Review of engagement activity
3. ESG engagement with clients
4. Client reporting (ensuring that institutional client demands are managed appropriately)
5. Review of ESG within the Investment Process
6. ESG seminars / events attended / training required
7. Latest developments of ESG standards & guidelines and their implications
8. Long-term ESG objectives for Montanaro

In addition, the ESG Committee assesses and votes on the impact credentials of potential investments for The Better World Fund. A company cannot be invested in within the Better World Fund unless the Committee has approved it for impact.

Our ESG Committee:

Christian Albuisson
CHAIRMAN
Christian has over 20 years' ESG experience. He chairs our ESG Committee which leads Montanaro's approach to Responsible Investing.

Cedric Durant des Aulnois
CEO
Cedric sits on both the ESG and Investment Committees, ensuring that everyone at Montanaro "buys in" to our Responsible Investment approach.

Ed Heaven
DEPUTY CHAIRMAN / IMPACT INVESTING
Ed manages the the impact analysis of our companies through the committee. He coordinates our engagement efforts and is responsible for our Impact Report, ESG Handbook and B Corp submission.

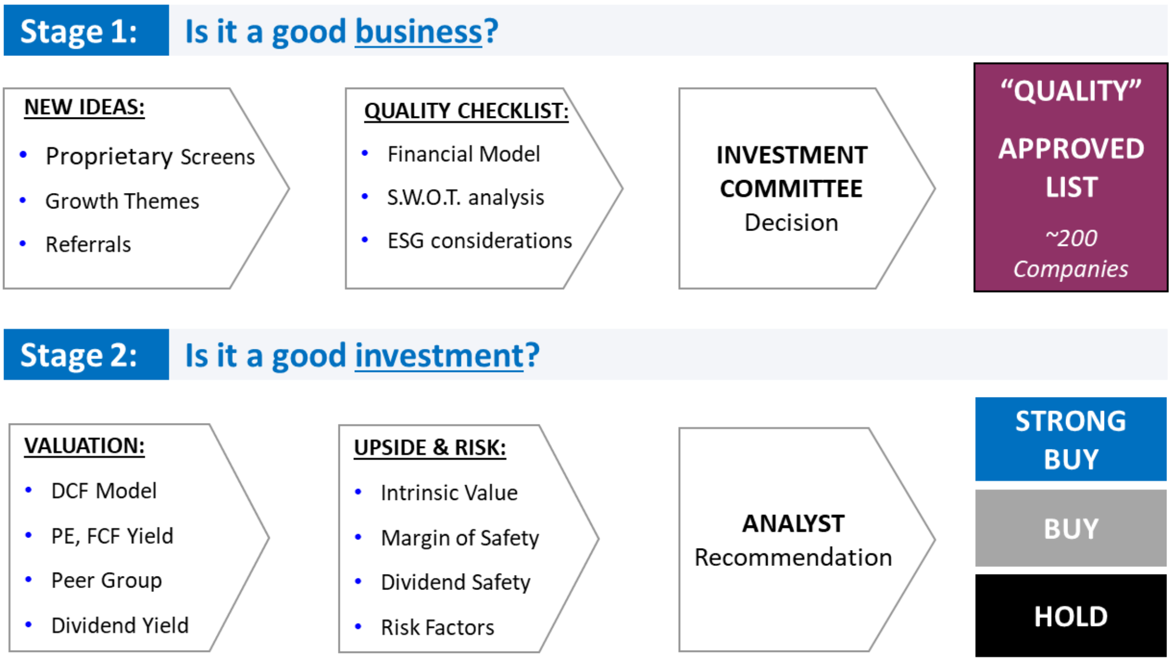
Mark Rogers
HEAD OF RESEARCH
Mark brings an investment hat to the ESG Committee. He leads our Research Team and ensures Impact & ESG considerations are fully integrated into Montanaro's company analysis.

Nere Asumendi
SENIOR ANALYST
Nere has been our Consumer Analyst since 2010. In 2017, she authored a Nutrition & Healthy Eating report. She has a long-track record of engaging successfully with our companies.

Sarah Bridges
ESG & COMPLIANCE ANALYST
Sarah helps to co-ordinate Montanaro's approach to voting. With a Masters in Biology, she has a strong interest in environmental matters.

5 – ESG IN THE INVESTMENT PROCESS

The following investment process is applicable to all of our Funds, although the Better World Fund has an additional "impact" stage which is explained in the Impact section of this handbook.



Our investment process has two distinct stages:

The **first stage** focuses on identifying High Quality companies. In essence, we aim to answer the question: "**Is it a good business?**". If the answer is "No" then we stop there.

Once an idea has been identified, the Analyst will spend several days analysing the business, its industry and articulating the investment case. The Analyst will complete Quality and ESG Checklists as well as a Financial Model. If the Analyst is confident that this is a good business that we should own for the next 10 plus years, they will present it to the six person Investment Committee which decides whether it should be added to our "Approved List". Only companies that have been formally approved (there are c.200 currently) are available for investment.

The **second stage** of the process focuses on answering the question: "**Is it a good investment?**".

Having established that a company meets Montanaro's "Quality" criteria, the Analyst then conducts valuation work using a proprietary DCF model to work out the intrinsic value of the business.

Once this is completed, the Analyst will produce a Target Price for the share of equity. Alongside this, an official recommendation (STRONG BUY / BUY / HOLD) is placed on the stock, reflecting Analyst conviction. These are subject to change, based on company performance and market conditions.

Finally, we meet management typically twice a year and always visit the operations of our companies, wherever they are located in the world. These site visits helps us to "kick the tyres" by seeing the operations of the company with our own eyes and meeting other members of staff. Analysts prepare detailed questions in advance of meetings and site visits, which enables us to set the agenda and get the most out of our time with the company. Site visits are labour intensive but add considerable value. These face-to-face meetings are excellent opportunities to raise any concerns we may have about ESG.

Examples of our Ethical & ESG Checklists are below:

Ethics Checklist:

A company will either pass or fail the Ethics Checklist – we assign no numerical score to Ethics. In order to make an informed decision, we look at the revenue exposure of the company to areas of the economy that we consider controversial.

Ethics Checklist			Does the Co. meet MAM's minimum standards? Yes
Social Added Value of Product/Services	**Concerns?**	**Pass / Fail**	
Controversial Weapons	No	Pass	Belimo products help to improve energy efficiency in air-conditioning and water flow systems in buildings. The company is driven by innovation to create products that reduce energy consumption.
Tobacco	No	Pass	
Gambling	No	Pass	
Pornography	No	Pass	
Alcohol	No	Pass	
High Interest Rate Lending	No	Pass	
Fossil Fuel E&P	No	Pass	
Environmental Impact	No	8	
Other Social Added Value	No	7	

Environmental & Social Checklist:

Social & Environmental Checklist			Score: 7.3
Area of Concern	**Yes/No**	**Level**	Belimo support the Global Compact and have an extensive Ecological and Social Responsibility report that they publish every year. They came second in 2014 for Swiss Employer Award.
Human Rights	No	8	
Labour Practices	No	8	
HR Management	No	7	
Bribery & Corruption	No	6	
Environmental Transition	No	8	
Supply chain	No	7	
Other (tax, lobbying, consumer rights, etc)	No	7	

Key E&S Issue	
Supply chain	We wanted to beter understand their complex supply chain and have included the company in our Winter 2018 Supply Chain Project. The ESG Committee has recommended a site visit to better understand the impact of Belimo's products & services.

We score each area separately out of 10 (10 is good). These scores are combined and equally weighted to achieve an Environmental & Social score, also out of 10.

If a point of concern is identified the Analyst will record this in a Key E&S Issue box alongside a qualifying comment. The Analyst will then be expected to engage with the company to better understand the issue at hand. Our ESG Committee will monitor and support the engagement process.

Corporate Governance Checklist:

1 - Remuneration of Executive Board				Score: 7.0
Measurement metric	**Base Salary**	**Annual Bonus**	**LTIP**	
Strategic KPIs	Yes	Yes		
Profit Share				
EVA/ROCE				
Relative TSR				
EPS/Net Profit Growth		Yes		
ESG				
Overall level of pay	Normal			

Belimo offers market-oriented and performance-related remuneration in order to recruit and retain senior management members with the required capabilities and personal characteristics. The remuneration system is designed in the way that their interests are in line with those of the Company. The basic elements of the remuneration are designed in a simple and comprehensible way.

Sensible max limits on bonuses and total remuneration

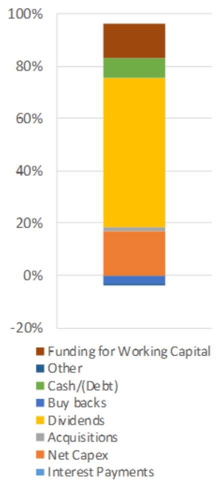
3 - Board Independence & Ownership		Score: 7.0
Board:		**Ownership Level**
Chairman:	Prof Dr HP Wehrli	
CEO:	Lars van der Haegen	
# of Execs:	6	
# of Dependent Non Executives:		
# of Independent Non Exec Directors:	5	
Independence Ratio	45%	

Family own 19% of the shares and are represented on the Board of Directors. The new CEO is an inside man having been at Belimo since 2000. Long stable tenure.

4 - Other Governance Issues (Auditor, Disclosure, Board Skills, Voting Rights, Gender and Minorities) **Score: 6.0**

2 - Capital Allocation Record						Score: 6.0
Metric	**Year T-4**	**Year T-3**	**Year T-2**	**Year T-1**	**Year T**	**AVERAGE**
ROACE	33%	28%	22%	25%	26%	**27%**
ROIC	33%	28%	22%	25%	26%	**27%**
Invested Capital growth	15%	25%	8%	(2%)	9%	**11%**
	T - 5 to T	**T - 4 to T**	**T - 3 to T**	**T - 2 to T**	**T - 1 to T**	
Return on Incremental Capital	14%	12%	28%	90%	23%	**34%**

Metric	**Year T-4**	**Year T-3**	**Year T-2**	**Year T-1**	**Year T**	**Total**
Cash Flow	62,159	65,053	54,694	69,179	77,912	**328,997**
% Allocated to:						
Interest Payments	(0%)	0%	1%	(1%)	(1%)	**0%**
Funding for Working Capital	14%	14%	10%	4%	27%	**14%**
Net Capex	31%	56%	23%	(11%)	(0%)	**18%**
Acquisitions	0%	2%	0%	0%	5%	**1%**
Dividends	59%	61%	73%	58%	59%	**62%**
Buy backs	(3%)	(13%)	(0%)	(1%)	0%	**-3%**
Cash/(Debt)	(1%)	(21%)	(6%)	51%	12%	**8%**
Other	0%	0%	0%	(1%)	(2%)	**0%**



Belimo grow organically, do not make acquaitions and use most of their generated cvashflow to pay dividends and allow for a biuld up of cash. They regularly have been generating above average returns and have been focussed on growing the asset base. Incremental returns have come down recently due to weak markets and their ramp up of the US production facilities. In all a conservative capital allocation record.

Ethical & ESG Checklist Summary:

RATINGS		
	Score	**% Weight**
ETHICS	Pass	
CORPORATE GOVERNANCE (1 to 10)	6.5	60%
SOCIAL & ENVIRONMENTAL (1 to 10)	7.3	40%
TOTAL ESG Score (1 to 10)	**6.8**	**100%**
Engagement Required?	**YES**	

General Comment / Key Issues

Belimo is a Swiss Family firm. There appears to be a strong ESG focus throughout the business which comes from the top (senior management). We want to better understand how they manage supply chain risk and also further understand the impact of their products & services.

The ESG Committee monitors these scores across the "Approved List" of companies and at the Fund level. Over time this will give us an indication of whether our companies are, in aggregate, improving in matters of ESG:

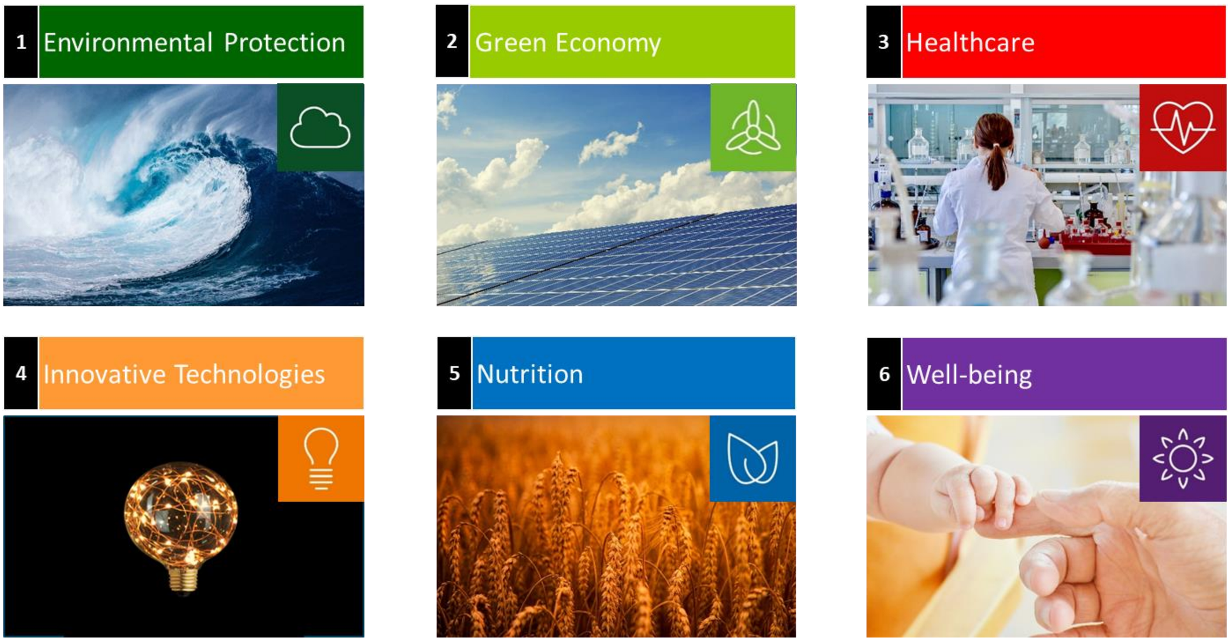
Fund/Trust	ESG Score (out of 10)						
	January 2016	July 2016	January 2017	July 2017	January 2018	July 2018	January 2019
European Smaller Companies Fund	6.32	6.38	6.46	6.36	6.38	6.40	6.39
European Income Fund	5.99	6.12	6.30	6.33	6.39	6.39	6.40
Montanaro UK Income Fund	6.23	6.31	6.43	6.22	6.21	6.20	6.28
UK Investment Trust	6.41	6.40	6.37	6.10	6.04	6.09	6.12
European MidCap Fund	6.16	6.13	6.37	6.41	6.42	6.36	6.33
European Investment Trust	6.10	6.11	6.28	6.20	6.26	6.27	6.30
Select Fund					6.41	6.41	6.39
Better World Fund						6.38	6.35
Average Of MAM Funds	6.20	6.24	6.37	6.27	6.30	6.31	6.32

1						Capital Allocation							Social & Environmental						Ethics		
2						Use of Cashflow over last 5 years							Human Rights	Labour Practices	Bribery & Corruption	Environmental	Supply Chain	Other	Concerns		
3	Stock	Analyst	Checklist	Ticker	Total ESG	Working Capital	Net Capex	M&A	Dividends	Buy backs	Cash/ (Debt build up)	Other	Score	Score	Score	Score	Score	Score	Energy	Nutrition	Other
95	JUPITER FUND MANAGEMENT	JS	71	JUP LN	6.5	5%	-43%	0%	41%	4%	90%	4%	7.0	7.0	7.0	7.0	7.0	7.0	No	No	No
96	PARTNERS GROUP	JS	75	PGHN SW	5.6	15%	-2%	0%	59%	16%	3%	8%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
97	RATHBONE BROTHERS	JS	69	RAT LN	6.0	322%	39%	4%	110%	-37%	73%	-333%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
98	ST JAMES'S PLACE	JS	74	STJ LN	6.0	0%	0%	0%	0%	0%	0%	0%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
99	VZ HOLDING	JS	76	VZN SW	5.9	0%	1%	0%	25%	0%	36%	38%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
100	ABERDEEN ASSET MGMT	JS	67	ADN LN	6.3	0%	-22%	12%	49%	18%	37%	2%	7.0	7.0	7.0	3.0	7.0	7.0	No	No	No
101	HARGREAVES LANSDOWN	JS	71	HL/ LN	5.0	0%	100%	0%	0%	0%	0%	0%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
102	ITV PLC	MR	70	ITV LN	6.1	-2%	-11%	14%	38%	3%	48%	1%	7.0	7.0	7.0	7.0	7.0	7.0	No	No	No
103	PROSIEBEN SAT.1 MEDIA	MR	67	PSM GR	5.9	1%	3%	-32%	63%	0%	57%	-17%	6.0	6.0	6.0	7.0	6.0	5.0	No	No	No
104	AUTOTRADER	MR	79	AUTO LN	6.5	2%	1%	-7%	21%	-97%	102%	44%	6.0	6.0	6.0	5.0	5.0	6.0	No	No	No
105	CTS EVENTIM	MR	78	EVD GR	5.9	-55%	-3%	47%	45%	0%	49%	13%	6.0	6.0	6.0	8.0	5.0	5.0	No	No	No
106	ENTERTAINMENT ONE	MR	59	ETO LN	6.5	124%	31%	305%	3%	-156%	-272%	15%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
107	EUROMONEY INSTL INVESTOR	MR	59	ERM LN	5.5	5%	-16%	42%	20%	4%	33%	7%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
108	HAVAS SA	MR	62	HAV FP	6.4	11%	36%	0%	32%	16%	-11%	2%	7.0	8.0	7.0	9.0	7.0	7.0	No	No	No
109	PROSEGUR COMP SEGURIDAD	MR	64	PSG SM	4.6	41%	2%	21%	24%	-3%	-14%	14%	3.0	3.0	4.0	5.0	6.0	5.0	No	No	No
110	RIGHTMOVE PLC	MR	83	RMV LN	7.3	-1%	0%	-6%	30%	74%	2%	0%	6.0	6.0	6.0	6.0	6.0	6.0	No	No	No
111	WILMINGTON GROUP	MR	58	WIL LN	6.3	1%	-98%	118%	92%	-4%	-37%	-4%	7.0	7.0	8.0	7.0	7.0	5.0	No	No	No
112	ITE GROUP	MR	62	ITE LN	5.4	-4%	-39%	110%	54%	1%	-21%	-1%	5.0	5.0	5.0	6.0	3.0	5.0	No	No	No
113	KERRY GROUP	NA	66	KYG ID	7.4	6%	8%	40%	12%	0%	24%	0%	8.0	8.0	8.0	8.0	8.0	8.0	No	No	No
114	LINDT & SPRUENGLI AG	NA	72	LISN SW	5.5	7%	39%	76%	30%	8%	-60%	0%	5.0	5.0	8.0	8.0	1.0	8.0	No	No	No
115	NOVOZYMES A/S	NA	75	NZYMB DC	6.2	-8%	18%	25%	26%	22%	15%	0%	8.0	7.0	8.0	5.0	9.0	8.0	No	No	No
116	WHITBREAD PLC	NA	73	WTB LN	7.2	-6%	66%	6%	30%	0%	-4%	-1%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
117	A.G. BARR PLC	NA	63	BAG LN	7.1	4%	16%	5%	42%	5%	25%	0%	8.0	7.0	8.0	6.0	8.0	8.0	No	Poor	No
118	BOOKER GROUP	NA	65	BOK LN	8.0	-2%	-2%	7%	46%	12%	35%	2%	7.0	7.0	8.0	8.0	8.0	8.0	No	No	No
119	CHR HANSEN HOLDING	NA	72	CHR DC	7.6	8%	5%	-3%	37%	-39%	79%	-1%	5.0	5.0	5.0	5.0	5.0	5.0	No	No	No
120	CINEWORLD GROUP	NA	66	CINE LN	6.9	6%	5%	197%	56%	-76%	-105%	0%	5.0	5.0	5.0	5.0	5.0	5.0	No	Poor	No
121	CRANSWICK PLC	NA	61	CWK LN	7.0	7%	25%	12%	33%	-2%	22%	-1%	8.0	8.0	8.0	5.0	8.0	8.0	No	Poor	No
122	DEVRO PLC	NA	61	DVO LN	7.2	17%	74%	-1%	46%	-3%	-38%	0%	8.0	8.0	8.0	8.0	8.0	8.0	No	Poor	No
123	DIGNITY PLC	NA	68	DTY LN	6.9	-1%	15%	36%	12%	52%	-53%	0%	8.0	8.0	8.0	4.0	8.0	8.0	No	No	No
124	DOMINO'S PIZZA GROUP	NA	68	DOM LN	6.0	-5%	-1%	16%	64%	5%	19%	0%	8.0	2.0	8.0	9.0	9.0	9.0	No	Poor	No
125	GENUS PLC	NA	62	GNS LN	7.2	3%	25%	21%	26%	0%	22%	-3%	7.0	8.0	8.0	5.0	8.0	8.0	No	No	No
126	HILTON FOOD GROUP	NA	64	HFG LN	6.1	-2%	42%	0%	46%	-6%	14%	0%	8.0	8.0	8.0	6.0	8.0	8.0	No	Poor	No
127	KWS SAAT AG	NA	64	KWS GR	6.5	46%	29%	19%	32%	-1%	-25%	-6%	8.0	8.0	8.0	5.0	8.0	8.0	No	No	No
128	MARR SPA	NA	64	MARR IM	6.2	42%	-15%	2%	70%	-1%	-8%	0%	8.0	8.0	8.0	5.0	8.0	8.0	No	No	No
129	ONTEX GROUP	NA	64	ONTEX BB	6.8	12%	7%	22%	0%	-64%	62%	0%	8.0	8.0	8.0	4.0	8.0	8.0	No	No	No
130	RESTAURANT GROUP	NA	63	RTN LN	7.0	-7%	46%	0%	46%	4%	8%	0%	8.0	8.0	8.0	8.0	8.0	8.0	No	No	No
131	VISCOFAN SA	NA	65	VIS SM	6.8	28%	23%	-1%	43%	7%	3%	0%	8.0	7.0	8.0	5.0	8.0	8.0	No	Poor	No
132	BOVIS HOMES GROUP	SF	63	BVS LN	5.2	107%	1%	2%	20%	-1%	-35%	1%	6.0	6.0	6.0	6.0	6.0	6.0	No	No	No

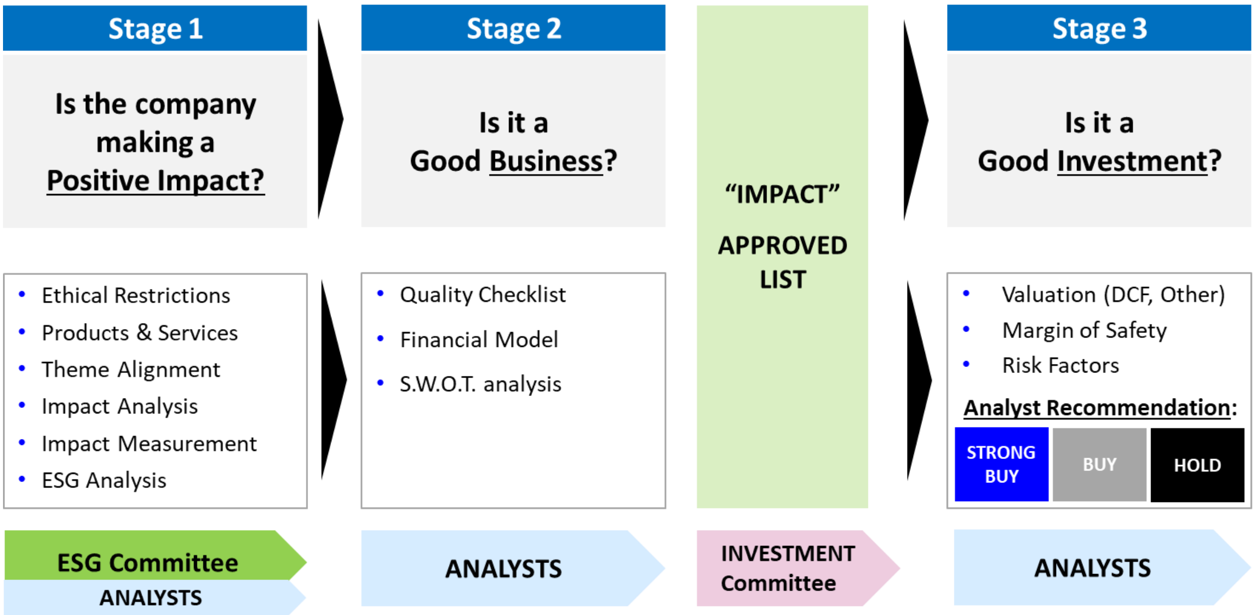
6 – IMPACT INVESTING

In April 2018, we launched the Montanaro Better World Fund.

The Montanaro Better World Fund invests globally in Small & MidCap companies whose products or services make a positive impact by helping to solve some of the world's greatest challenges in support of the UN Sustainable Development Goals. Companies within the Fund are aligned to six themes:



Impact Investment Process:
The investment process for the Better World Fund is largely the same as for our other Funds. We are interested in assessing the Quality of a company (Stage 2) and the valuation of the investment (Stage 3). However, "Stage 1" is unique to the Better World Fund and considers impact:



Stage 1:

Analysts complete an "Impact Report" for every company that we consider for investment. The graphic below provides a summary of what we include in these reports.

A) Products / services

- What product / service does the company offer?
- What problem does this help to solve?
- Key Performance Indicator
- Intentionality
- Additionality
- Affordability
- Reporting

B) Thematic revenue

- Is at least 50% of revenue attributable to our themes?
- UN SDG alignment

C) Engagement

- What is the engagement opportunity?
- Are there any areas of concern / weakness?
- Are management willing to engage?
- What is the engagement timeline?

A) Products / services:

Analysts consider how the company's products or services have the potential to deliver a positive impact by understanding the specific problem the company is helping to address. We attempt to identify key performance indicators to allow us to measure the impact of the company over time. We also seek to understand:

- Intentionality: are management operating the company with a purpose to deliver impact?
- Additionality: is the company providing a new product or service, or delivering an existing product in new ways, perhaps via a new technology that is better for the environment, or into a new geography?
- Affordability: are the products/services affordable to a large market, ideally including underserved people?
- Reporting: we consider the quality of company reports. Do they disclose the impact of their business in a form that recognises both the positive and negative impacts of their business?

B) Thematic Revenue:

Analysts attribute company revenue against the Fund's 6 themes, where appropriate. We will only invest in companies with revenue of alignment of at least 50%.

C) Engagement:

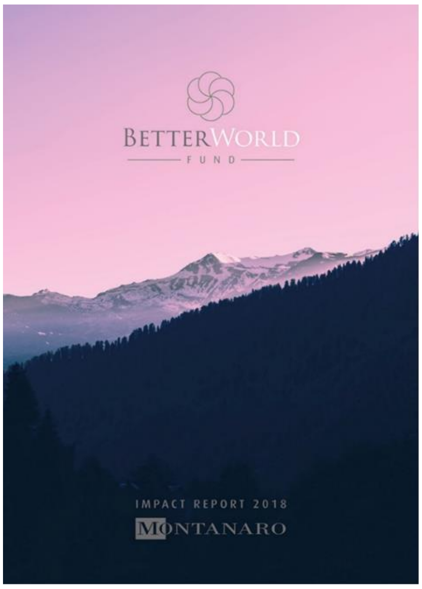
Engagement offers a potential avenue for the delivery of impact. We believe that the Small & MidCap markets are particularly attractive for engagement as shareholders have a louder voice and we have access to the decision-makers. Management teams recognise Montanaro as long-term shareholders and we are known for our patient approach to engagement and our focus on making improvements that stand the test of time.

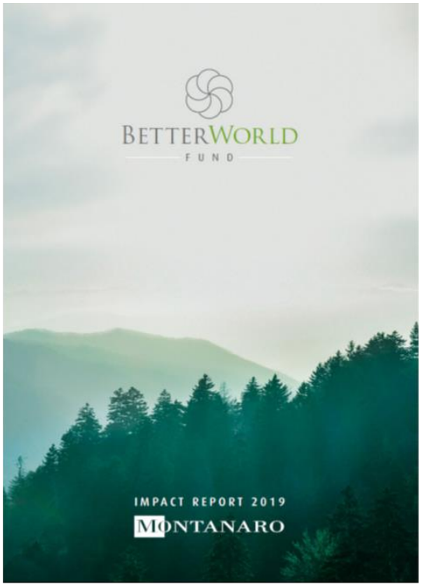
ESG analysis & targets:
Companies within the Better World Fund must also demonstrate high standards of ESG and pass our Ethics and ESG Checklists.

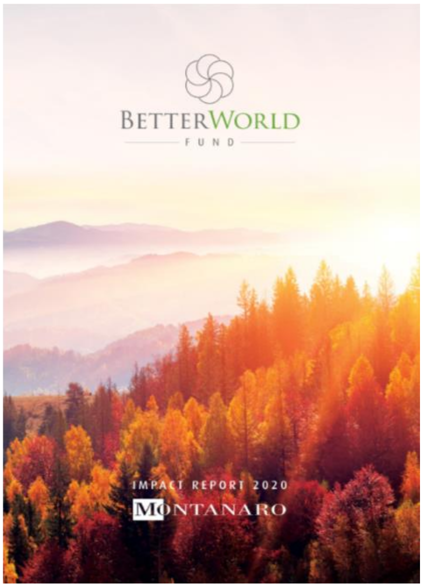
In addition, we have set out certain **ESG and Human Rights targets** that the strategy is aiming to achieve:

- **Environmental**: at least 10% of the companies within the Fund by value to have achieved "Net Zero Carbon" by 2030;
- **Social:** at least 30% of Women on Boards across the Fund by 2025;
- **Governance**: at least 75% of Independent Directors across the Fund by 2025;
- **Human Rights:** at least 70% of companies within the Fund reporting an Anti-Bribery Policy by 2025.

Reporting:
We publish an annual **Impact Report** detailing the progress of the portfolio from both an investment return and impact perspective. The report, which is publicly available on our website, provides a detailed explanation of how the Better World Fund aims to achieve impact, with detail analysis of the Portfolio's contribution to the impact objectives of the Fund:







We were delighted that our Impact Report won an award from **Pensions for Purpose in 2019 for Best ESG & Impact Report:**

7 – ENGAGEMENT

As responsible shareholders we believe that it is our duty to engage with our investee companies where necessary. In our experience, active engagement can help to foster positive long-term change in the way businesses are run and potentially lead to better investment returns and improved societal and environmental outcomes.

How we engage

There are a number of channels open to us when we seek to engage with a company. These include:
- Direct engagement with the management and /or Board;
- Speaking to industry competitors;
- Speaking with industry representatives such as Trade Unions;
- Liaising with other shareholders;

Engagement process

Our engagement process can be summarised as follows:

1. Issue source: we can become aware of issues that require engagement through a number of sources. Our Ethical & ESG Checklists are a primary source as they force our Analysts to "score" a company on Ethical & ESG grounds. A low score in a particular area often suggests that engagement of some kind is needed. Company meetings and site visits also provide us with an opportunity to discover whether an issue exists that requires engagement. In addition to this we also monitor company newsflow, through the information provider Factiva as well as more mainstream news sources.

2. Deciding to engage: if an Analyst (or any other member of Montanaro's staff) feels that engagement is needed with a company, the relevant Analyst will discuss the issue with the ESG Committee at an ad hoc meeting, or via email. They will agree on which of the Engagement Channels to pursue given the case details and the Analyst will then go ahead and engage.

3. Recording engagement: all engagement activity is recorded on Montanaro's ESG Engagement Log. Any activity is deemed to be "ongoing" until formally closed. It is the responsibility of the ESG Committee to review this Log at each meeting to monitor progress and discuss priorities.

4. Monitoring engagement: once we have initiated engagement with a company the Analyst and ESG Committee – supported by other members of the Investment Team, such as the Head of Research – monitor the company's response. This can go a number of ways:
   - The company responds promptly and assuages our concerns and/or provides material evidence to prove that they are going to solve the issue at hand.
   - The company responds promptly but we are not satisfied by their answer. We engage further. In some cases we may speak to competitors of the company to better understand the industry, or an industry body, such as a Trade Union or discuss the matter at a shareholders forum.

- The company does not respond, so our Analyst engages again with management. In some cases we may choose to escalate the matter to another member of the company's senior management team in an effort to garner a response.
- The company does not respond and appears unlikely to do so, so we liaise with industry bodies or other shareholders in order to gain further support for our cause, or better understand the situation.

5. Reaching a conclusion: in an ideal world we wish to reach a positive conclusion on every matter of engagement. Our single aim when we engage with companies is to encourage an improvement in behaviour that leads to more sustainable business practices. We are realistic, however; engagement is often a complex business in itself. We do not place a deadline on engagement as in our experience, complex issues can take time to resolve. As long-term shareholders, our focus is on ensuring the improvement of a company's performance over a long time period. However, if our engagement subsequently leads us to doubt the longer term attraction of an investment, that investment will be reviewed and could be sold.

Escalation

Our escalation strategy falls into two parts:

Internal: If an Analyst fails to get satisfactory answers to an engagement matter, then they will discuss the next steps with: the Head of Research; then the ESG Committee; then the Investment Committee (if for example the Analyst is recommending that the stock should be sold).

External: With the company, we may escalate matters up the corporate hierarchy. For example, if our first point of contact has been the Head of Investor Relations, then we may ask to speak to a member of the Executive Team (typically the CEO or CFO). If they prove unresponsive, then we will seek to speak with members of the Board (such as the Chair or Chair of the Remuneration Committee). In the world of SmallCap, many companies remain owned by the founder, of family members of the founder. We have experience of escalating matters with companies which have resulted in meetings with family shareholders who have not, or do not usually, meet with minority shareholders. In some instance we will also escalate matters more widely, either by speaking to industry bodies or other shareholders.

8 – UK STEWARDSHIP CODE

Summary:

We have been awarded a Tier 1 rating for our UK Stewardship Code statement

Montanaro Asset Management is an independent institutional investment manager with an exclusive focus on quoted UK and European Small & MidCap equities.

Our investment process is designed to ensure that we fulfil the responsibilities expected from an institution such as ours, including those set out in the UK Stewardship Code. With reference to the Code, we summarise our investment approach with the following statement:

At all times we aim to be effective stewards of our clients' assets by seeking to promote good Corporate Governance and the long-term success of the companies in which we invest, for the benefit of all stakeholders.

Principle 1

Institutional Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

Montanaro discloses how we discharge our stewardship responsibilities in our "ESG Handbook", a detailed document which sets out our approach to corporate governance and company engagement. This handbook includes a dedicated chapter titled *"Montanaro's Approach to the UK Stewardship Code"*. This information is publically available on our website.

How we discharge our stewardship responsibilities:
Montanaro seeks to invest in the highest "Quality" companies on behalf of our long-term clients. We assess both qualitative and quantitative factors when we conduct company analysis in order to ascertain the Quality of an investment opportunity. The attributes that we analyse include:

1. **Measuring company performance**: As part of company analysis our Analysts are responsible for the completion of Montanaro's four checklists: Quality, Ethical, Environmental & Social and Corporate Governance. Our Corporate Governance Checklist considers criteria set out in the UK Stewardship code: *"strategy, performance, risk, capital structure, corporate governance, culture and remuneration"*. With regards to this, Analysts consider:

- Leadership: We believe that Boards should be independent. Where there is a majority of Executive or non-independent Non-Executive Directors - which is relatively common for founder / family-owned small companies – Analysts, supported by the Fund Managers, engage with the Chairman to understand the logic and discuss the succession plan.
- Effectiveness & Accountability: Analysts monitor and judge the effectiveness of company management teams by detailing the experience and track record of the executive body in their company research. Management are held to account for the performance of the companies under their control in meetings, which our Analysts host at Montanaro. Fund Managers also attend these meetings. As we explain below, Voting and Engagement form an important part of accountability and responsibility for both sits primarily with our Analysts. They are supported in this by Montanaro's Investment, Executive and ESG Committees.
- Remuneration: Analysts record details of Executive remuneration (if publically available) including base salary and long-term incentive schemes (LTIPs). These are assessed against our internal guidelines (which are detailed in Montanaro's ESG Handbook). Whilst we recognise that every company is different Analysts encourage competitive, but not extreme, salaries and LTIPs that are linked to long-term returns on capital employed. Analysts engage with companies where remuneration policies differ from our guidelines.

2. **Engaging with investee companies**: The responsibility for company engagement predominantly sits with our Analysts given it is they who have direct lines of communication with our investee companies. Engagement includes "normal" events such as management meetings which we host regularly at Montanaro. Both Analysts and Fund Managers attend these meetings. At these meetings Analysts ask questions relating to the general management of the business including questions relating to matters of Corporate Governance. Where relevant, Analysts also ask questions relating to matters that require more focused engagement. They are supported in this by Montanaro's ESG Committee who may liaise with the company directly and other

relevant parties. The ESG Committee records and monitors all instances of engagement.

3. **Apply a clear and consistent approach to voting:** Voting is a vital part of our engagement with companies. Our Compliance Department receives independent third party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, which they send to our Investment Team. These are used for advice only. Our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. Via dialogue with Investment and ESG Committees, our Analysts aim to discuss any issues with management prior to voting against or abstaining. We apply the same voting decisions across all portfolios, unless a segregated client has specified that a particular voting policy be applied in their client agreement. The Compliance Department keeps a record of our voting rationale.

Principle 2

Institutional Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publically disclosed

Montanaro recognises that it is our duty, as an institutional investor, to act in the interests of our clients. Equally, we understand that in the course of our business, conflicts of interest may arise from time to time.

Due to this – and in line with our commitment to the UK Stewardship Code – we maintain a Conflicts of Interest Policy which is available on our website. The high level aim of the policy is to ensure that Montanaro remains conscious of our responsibility to always act in the best interests of our clients and to be aware of any potential conflicts that may arise.

This policy is supported by:

- <u>Our simple business model:</u> We are a "long only" manager of quoted UK and European Small & MidCap equities. As a result, we believe that our business model is as transparent as is possible for an institutional asset manager.
- <u>Our Personal Account Dealing Policy</u>: This prohibits employees and connected persons from dealing in any security that falls into Montanaro's investment universe for their own account.
- <u>A ban on dealing in investments for Montanaro's own account</u>. We only invest on behalf of our clients.
- <u>An annual review of our Conflicts of Interest Policy</u> by our Compliance Officer.

Examples of where conflicts may occur include:

1. **Where the company being voted on is a client of MAM**: In this situation, a record of the potential conflict will be logged against the upcoming Annual General Meeting in our internal log. This ensures that the potential conflict and its resolution is monitored by Montanaro's Compliance Team. The Analyst covering the company then recommends how to vote to the Investment Team. Prior to the actual vote being processed, the Analyst's recommendation would be reviewed by the ESG Committee and the Compliance Officer, to ensure that the decision reflects the best interests of the clients holding the stock.

2. **Where the MAM employee making the voting decision (or a person connected to them) is a director of, significant shareholder of or has a position of influence at the company being voted on:** Employees sign an annual declaration notifying MAM of any outside business interests. If a Montanaro Analyst had a connection to an investee company, responsibility for researching that company (and for making voting decisions) would be assigned to another Analyst by the Head of Research.

3. **Where MAM or an affiliate is a shareholder of the company being voted on:** MAM does not deal for its own account, with the exception of holdings in its own funds. MAM has a simple business structure and does not have any affiliates.

4. **Where there is a conflict of interest between one client and another:** Given Montanaro purely

invests in European Small & MidCap equities on a long-only basis, we do not take contrarian positons in company shares. Our clients all benefit when the shares in our investee companies appreciate and vice versa. In terms of voting, decisions are made by the Analyst responsible for the respective company – following dialogue with the wider investment team – and applied across all accounts where we possess the right to vote. If a conflict arises between one client and another, both clients would be notified of the conflict by the relevant Client Relationship Manager and asked to approve any relevant voting decision made on their behalf. Voting decisions are applied across all portfolios where we have authority to vote, unless the client has formally specified that a different policy should be applied.

5. **Where the director of a company being voted on is also a director of MAM:** All MAM employees and directors are required to declare outside business interests. In this situation, a record of the potential conflict will be logged against the upcoming Annual General Meeting in our internal log. The Analyst covering the company would make their recommendations on how to vote as usual, and prior to the votes being processed would refer their recommendations to the ESG Committee and the Compliance Officer, who will ensure that the decision reflects the best interests of the client.

In addition to the above, Montanaro mitigates against the likelihood of certain conflicts by:

- Conducting thorough due diligence on all clients before take on, including an assessment of whether any conflicts of interest are likely to occur. This is reviewed annually.
- Requiring all employees and directors to disclose their outside business interests and directorships when they join the company. This is reviewed annually.

Principle 3
Institutional Investors should monitor their investee companies

Guidance relating to the UK Stewardship Code states that *"effective monitoring is an essential component of stewardship"*. To ensure that we fulfil this responsibility, we have built one of the largest in-house SmallCap research teams in Europe so that we can effectively monitor our investee companies to the highest of standards. Our team is responsible for the analysis and monitoring of:

- The performance of companies: Analysts are responsible for monitoring companies on a daily basis via Montanaro's four checklists, financial modelling and internal investment meetings. Results announcements are studied closely and we read all of our companies' Annual Reports. Additionally, we spend a great deal of time meeting with management teams and attending company site visits to ensure that we get to understand the culture of a business. This work is supported by monthly, quarterly and annual attribution analysis, provided by Montanaro's Risk & Compliance Team. We keep abreast of wider industry and sector based trends that may impact the value of a company via weekly newsflow monitoring. We use the information provider Factiva to assist us with this.
- The executive team: As per our Corporate Governance Policy, we place emphasis on the performance of a company's management team and Board. We seek to understand how management are remunerated and whether pay policies work for the benefit of long-term shareholders and other stakeholders. We encourage Boards to have a majority of Non-Executive, fully independent Directors. By doing this, we encourage companies to adhere to the spirit of the UK Stewardship Code.
- Potential issues that may require engagement: Where possible, we aim to identifying potential issues before they fully develop. We aim to allow investee companies time to improve their behaviour and address areas of concern.

The monitoring of investee companies is further supported by:

- Montanaro's ESG Committee: The purpose of the ESG Committee is to ensure that Montanaro's ESG effort remains coordinated across the organisation. As part of this, the ESG Committee meets formerly on a quarterly basis. Its responsibilities include the review of Checklists, company meeting notes and Montanaro's Engagement Log. The Committee liaises with the investment team regarding issues that may affect an investee company – for example they have recently requested that the Consumer Analyst completes a project on Nutrition to ensure that we fully understand how investee companies are exposed to changing diets and new food regulation. To ensure that there is buy-in across the organisation, the Committee is formed of members from the Investment, Business Development and Compliance teams.

- Montanaro's Executive Committee: In turn, Montanaro's Executive Committee – comprised of the Chairman, Chief Executive Officer, Compliance Officer and Head of Research – meets on a quarterly basis to review the full operations of Montanaro's business operations. This includes a review of internal company research, performance data and the work of the ESG Committee.

Regarding Insider Information:

- Montanaro would generally prefer not to be made an insider: however in some situations it is unavoidable. In these cases, we follow the guidance contained in Montanaro's Insider Dealing Policy. The Compliance Officer is notified and the stock in question is put on a banned list and blocked from trading in our Investment Management System until the relevant information is made public.

For more information on the monitoring of our investee companies, please contact Ed Heaven, who is a member of our ESG Committee at eheaven@montanaro.co.uk

Principle 4

Institutional Investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

Montanaro is open to engaging with every single company in which we invest. We believe that institutional asset managers are well placed to improve companies' long-term performance through engagement. In our opinion, this forms a fundamental part of good stewardship.

We will engage on a variety of issues. In line with our ESG Polices, these include, but are not limited to:

- **Ethics:** We do not invest in companies involved in the production or supply of indiscriminate weapons; tobacco producers and manufacturers; gambling companies; companies that produce and distribute pornography; alcohol producers; high interest rate lending companies. We may engage with companies if we are concerned that they have exposure to these areas. We also engage with companies concerning other areas of ethical interest.
- **Environmental & Social:** Guided by the UN Global Compact, we engage with companies on issues surrounding Humans Rights, Labour Practices, Bribery & Corruption, Environmental Impact, Climate Change and Supply Chain Management.
- **Corporate Governance:** We will engage with companies on a range of corporate governance factors, for example Remuneration, Capital Allocation Record and Board Independence.

Montanaro has developed an Engagement Policy to ensure that our approach to company engagement is consistent. This is set out below:

1. Deciding to engage

If an Analyst (or any other member of Montanaro's staff) feels that engagement is needed with a company, the relevant Analyst will discuss the issue with the ESG Committee at an ad hoc meeting, or via email. They will agree on a course of action given the case details and the Analyst will then go ahead and engage. There are a number of channels open to us when we seek to engage with a company, including:

- Direct engagement with the management and /or Board
- Speaking to industry competitors
- Speaking with industry representatives such as Trade Unions
- Liaising with other shareholders

2. Recording engagement

All engagement activity is recorded on Montanaro's ESG Engagement Log. Any activity is deemed to be "ongoing" until formally closed. It is the responsibility of the ESG Committee to review this Log at each meeting to monitor progress and discuss priorities.

3. Monitoring engagement

Once we have initiated engagement with a company the Analyst and ESG Committee – supported by other members of the Investment Team, such as the Head of Research – monitor the company's response. This can go a number of ways:

- The company responds promptly and assuages our concerns and/or provides material evidence to prove that they are going to solve the issue at hand.
- The company responds promptly but we are not satisfied by their answer. We engage further. In some cases we may speak to competitors of the company to better understand the industry, or an industry body, such as a Trade Union or discuss the matter at a shareholders forum.
- The company does not respond, so our Analyst engages again with management. In some cases we may choose to escalate the matter to another member of the company's senior management team in an effort to garner a response.
- The company does not respond and appears unlikely to do so, so we liaise with industry bodies or other shareholders in order to gain further support for our cause, or better understand the situation.

4. Reaching a conclusion

In an ideal world we wish to reach a positive conclusion on every matter of engagement. Our single aim when we engage with companies is to encourage an improvement in behaviour that leads to more sustainable business practices. We are realistic, however; engagement is often a complex business in itself. We do not place a deadline on engagement as in our experience, complex issues can take time to resolve. As long-term shareholders, our focus is on ensuring the improvement of a company's performance over a long time period. However, if our engagement subsequently leads us to doubt the longer term attraction of an investment, that investment will be reviewed and could be sold.

We have good relationships with our investee companies and they tend to be open to our engagement requests. Indeed, many of our companies reach out to us for guidance, notably in respect of executive remuneration. For instance, we are regularly approached by Remuneration Committees to discuss the structure of Long-term Incentive Plans (LTIPs) for the Executive.

Principle 5

Institutional Investors should be willing to act collectively with other investors where appropriate

We are willing to act collectively with other investors in situations where we believe it will be productive. This may occur when:

- Our initial engagement has failed to produce a desirable outcome.
- We are approached by other shareholders regarding a specific issue that threatens to negatively impact the value of our investment.

Each situation is considered on a case by case basis. We wish to avoid being deemed to be acting in concert with others. In practice, however, we find that most collective engagements:

- Are focused on sectors in which we don’t invest due to our Quality bias.
- Involve LargeCap companies which are not part of our investment universe.

Principle 6

Institutional Investors should have a clear policy on voting and disclosure of voting activity

- We seek to exercise all of our voting rights.
- We make our own voting decisions.
- We do not chose to automatically support the Board of an investee company.
- We have and will abstain or vote against resolutions.
- We publish Voting Activity Summary Reports on our website

We exercise our voting rights
Voting is a vital part of our engagement with companies. This is why we vote at all Annual General Meetings for the holdings within our Funds. We also do this for segregated portfolios where we have authority to do so. We do not engage in stock lending in Montanaro Funds (although our segregated clients may have their own policies on this).

We make our own voting decisions
We receive independent third party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining.

We apply the same voting decisions across all portfolios, unless a segregated client has specified that a particular voting policy be applied in their client agreement. We keep a record of our voting rationale.

We publish Voting Activity Summary Reports on our website
We use ISS to process our proxy voting. All voting activity is recorded in our Proxy Voting Log.

The ESG Committee reviews voting activity for the quarter at each meeting. Voting Activity Summaries are produced quarterly and published on our website. These include the total number of proposals we voted on and a breakdown of how we voted on different subjects such as approving Remuneration policies, electing Directors, and approving capital increases.

Principle 7

Institutional Investors should report periodically on their stewardship and voting activities

Montanaro maintains clear records of our stewardship activities. We recognise that transparency is an important feature of effective stewardship and unless a disclosure may involve confidential or price sensitive information, we share the details of our stewardship with clients as follows:

- **Company Research:** Our Analysts are responsible for writing and maintaining up-to-date Investment Case Presentations, Company Research Notes (including summaries of company meetings and site visits) and Checklists on all of the companies in which we invest. Details of these are shared with clients at meetings and on request. This helps our clients to understand why we have invested in a company on their behalf, and how we monitor companies during the holding period.
- **Performance:** Performance data is reported to our clients on a monthly, quarterly and annual basis for all of our Funds, Investment Trusts and segregated mandates. This includes monthly factsheets which detail performance numbers versus respective benchmark indices, attribution analysis, stock specific comments and an economic outlook. For certain clients, we also include summaries of recent "buys" and "sells" as well as an overview of engagement activity.
- **Engagement**: We record all engagement activity in our Engagement Log. Summary details of engagement cases are provided to clients as requested and in certain circumstances we have provided clients with detailed "ESG Case Studies". We quantify our engagement activity each year across the full ESG spectrum and publish this information on Montanaro's website.
- **Engagement reporting**: Certain clients receive quarterly engagement reports on companies in which their assets are invested. Additionally, we compile a Quarterly ESG Presentation which contains both qualitative and quantitative information on our stewardship activities. Our ESG Committee meetings are minuted and are also available to clients on request. We also provide a summary of engagement cases to the UN PRI on an annual basis.
- **Voting:** Each year we publish a summary of our voting statistics on our website. This includes the number of proposals where we voted either in favour, against or abstained. A more detailed breakdown of how we voted on specific issues and our rationale for doing so is provided to clients on a case by case basis. Proxy Voting Activity Summaries are produced each quarter and are available on Montanaro's website. As well as reporting to clients, we report annual voting statistics to the UN in line with our responsibilities under the Principles for Responsible Investment.
- **Montanaro's ESG Handbook:** The handbook explains our approach to investment and how we see ESG – and good stewardship – as an intrinsic part of our "Quality" investment approach. The handbook summarises our investment process and our three ESG policies. Details of engagement and voting activity are also recorded in the handbook. Montanaro's ESG Handbook is updated at least annually and is available on our website.

9 – BECOMING A B CORPORATION

Certified B Corporations® (B Corps™) are defined as for-profit companies that use the power of business to build a more inclusive and sustainable economy. As of June 2019, there are 2,800 B Corps in 130 industries and 60 countries around the world. Just 198 of these are based in the UK.

- They meet the highest verified standards of social and environmental performance, transparency and accountability.
-
- Certified B Corporations amend their governance so that, by law, they can make decisions and implement practices that consider not just shareholder value, but the impact on all stakeholders - employees, customers, society, and the environment.
-
- B Corp Certification is a highly selective status. Companies must document their positive impact to qualify and undergo verification every three years to maintain their Certification.
-
- Certified B Corporations range from multinational corporations [Natura] to wholly owned subsidiaries [Seventh Generation] to small businesses [Harvest Market] serving local communities.
-
- It is one of the only certifications that is not for a product or service but for the whole business behind the product or service.
-
- B Corporation Certification helps consumers identify companies with a mission and helps investors to select investments that align with their values.

Becoming a B Corp was a natural step in Montanaro's Responsible Investment journey.

The Certification process uses credible, comprehensive, transparent and independent standards of social and environmental performance. The B Corp assessment process measures a company's performance in five categories:

1. **Governance;**
2. **Workers;**
3. **Customers;**
4. **Community;**
5. **the Environment.**

The assessment is marked out of 200 and the pass mark to become a B Corp is 80. The median score for businesses who complete the impact assessment is 50.9.

Montanaro's 2019 B Corp score was 81.8. Our report can be viewed in full at:
https://bcorporation.net/directory/montanaro-asset-management

10 – EXECUTIVE REMUNERATION

Executive Remuneration is one of the most contentious area of Corporate Governance. This is largely because it is so difficult to come up with a *"one size fits all"* framework with which to appraise executive pay. No company is the same ands every business model is different. Executive Remuneration is therefore more of an art than a science. What is appropriate for one company may not work for another.

For more information on our approach to Executive Remuneration, please request a copy of our separate publication: *Executive Remuneration: Montanaro's Principles.*

11 – SUSTAINABILITY AT MONTANARO

ENCOURAGING SUSTAINABLE BEHAVIOUR

We aim to practise what we preach. We encourage our colleagues to live as sustainably as possible, both during their time at Montanaro and in the world beyond.

OUR HOME: 53 THREADNEEDLE STREET

We are based in a beautiful building a few doors down from the "Old Lady of Threadneedle Street", the Bank of England. The bank has been here since 1744 and our building is not much younger. So we:

- Turn off lights and computers when they are not needed;
- Source stationary from Wild Hearts supporting the impact work of the Wild Hearts Foundation;
- Reduced plastic use: no plastic cups and no plastic covers on presentations;
- Support a bee-hive on our roof.

RECYCLING

In 2018 our recycling programme achieved:

- 1,930 kg of waste recycled;
- 2,710 kg of C02 saved (equivalent to 23 trees).

CARBON OFFSETTING

We offset over 28 tonnes of C02 in 2018 via ClimateCare, which helped to finance a range of impact projects including:

- The provision of safe water to 4 million people in Kenya;
- The delivery of energy efficient cookstoves to households in Ghana.

CHARITY & COMMUNITY

In 2018, Montanaro's charity work included:

- Ongoing support to Tribal Survival, a UK registered charity which aims to promote the well-being of indigenous people across the world.
- Staff volunteered over 100 hours of their time to work for local London charities.

HEALTHY EATING

We provide two baskets of fruit each week in the office from the company Fruitful Office. This helps to fund sustainable farming in Africa:

- We planted 101 fruit trees in 2018 for local communities in Malawi.

MINDFULNESS

A healthy body and a healthy mind go hand-in-hand. This is one reason why we host a weekly Yoga class, run by our multi-talented Head of Research, Mark Rogers.

APPENDIX

WHAT DOES RESEARCH SAY ABOUT ESG?

Appraising investment opportunities consistently from an ESG perspective can prove problematic. The reason for this is because, as Professors Elroy Dimson, Paul Marsh and Mike Staunton acknowledge[38], it can be hard to find a definition of an "unethical" company that is universally acceptable.

For instance, Medtronic, a medical devices company, is a constituent of the FTSE4Good Index but has a tax-inversion scheme that has been deemed unethical by certain stakeholders. The US supermarket, Walmart, scores highly on certain ESG metrics, but was divested by the Norwegian Sovereign Wealth Fund due to unacceptable labour practices.

Yet, when things go wrong, ESG failings are often highly visible. In recent years we have witnessed the unethical behaviour of the banking sector which contributed to the Global Financial Crisis; the environmental failings of BP after the Macondo oil disaster; and Tokyo Electric Power Company's social neglect, in the wake of Japan's Tsunami disaster. In all cases, shareholders and their fellow stakeholders suffered.

While ethical failings can appear obvious in hindsight, a problem for proponents of ESG investing is that there is no simple "forward-looking" way of evaluating ESG risk. Yet such difficulties should not preclude ESG from forming part of an investment process. In fact, there is academic support for such an approach:

- It is becoming increasingly difficult for investment decision-makers to dismiss ESG, given investors *"readily quantify business goodwill and other equivalently nebulous intangibles[39]"*.

- Responsible investing *"recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems[40]".*

- Considering ESG issues helps to protect all stakeholders, as *"shareholders…can exercise considerable influence over the management of companies[41]"*.

- Sustainability policies are a means of "*pre-emptive insurance for adverse ESG events[42]".*

- Worthwhile ESG policies require *"knowledge of the subject matter and criteria used to measure it[43]".*

We would suggest that there is no definitive proof that ESG increases shareholder returns. We would argue, however, that correctly integrated into an investment process, considering ESG makes

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[38] *Credit Suisse Global Investment Returns Yearbook 2015*, *Responsible investing: does it pay to be bad?* Elroy Dimson, Paul Marsh and Mike Staunton, London Business School, pg. 20
[39] ibid
[40] http://unpri.org/wp-content/uploads/1.Whatisresponsibleinvestment.pdf
[41] http://ec.europa.eu/environment/archives/finserv/fisum.pdf
[42] http://www.smithschool.ox.ac.uk/library/reports/SSEE_Arabesque_Paper_16Sept14.pdf
[43] http://www2.deloitte.com/content/dam/Deloitte/us/Documents/risk/us-aers-sustainability-reporting-landscape.pdf

positive investment returns more likely, rather than less. With this in mind, we would agree with the following statements:

- ESG "*considerations often have a role to play in the proper analysis of investment value*[44]*"*.
- "*Socially and environmentally responsible policies…[minimise] risks by anticipating and preventing crises that can affect reputation and cause dramatic drops in share prices*[45]*"*.
- *"Stock price performance is positively influenced by good sustainability practices*[46]*"*
- *"Sound sustainability standards lower the cost of capital of companies*[47]*"*
- *"Solid ESG practices result in better operational performance*[48]*"*
- "*Corporate engagement can pay, whether the focus is on environmental and social issues or on corporate governance*[49]".

In addition to the above, it is worth highlighting certain findings from a comprehensive report by Deutsche Bank, *Sustainable Investing, Establishing Long-Term Value and Performance, 2012*[50]. The report clearly demonstrates that there is academic support for considering ESG factors in investment decisions. Indeed, as the renowned economist Michael Jensen states, *"it is obvious that we cannot maximise the long-term market value of an organisation if we ignore or mistreat any important constituency*[51]*"*.

[44] *Credit Suisse Global Investment Returns Yearbook 2015*, *Responsible investing: does it pay to be bad?* Elroy Dimson, Paul Marsh and Mike Staunton, London Business School, pg. 20
[45] *The Commission Green Paper on promoting a European framework for Corporate Social Responsibility* COM (2001) 366 final (18/07/2001).
[46] http://www.smithschool.ox.ac.uk/library/reports/SSEE_Arabesque_Paper_16Sept14.pdf
[47] Ibid
[48] Ibid
[49] http://www.oekom-research.com/homepage/english/oekom_CR_Review_2013_en.pdf
[50] https://institutional.deutscheawm.com/content/_media/Sustainable_Investing_2012.pdf
[51] As cited in *Drivers of Long-Term Business Value: Stakeholders, stats and strategy*, Koehler & Henspenide, Deloitte, 2012

The Deutsche Bank report analyses the findings of *"over 100 studies…[including] 56 research papers, as well as 2 literature reviews and 4 meta studies"*:

- *"100% of the academic studies agree that companies with high ratings for CSR and ESG factors have a lower cost of capital in terms of debt (loans and bonds) and equity. In effect, the market recognises that these companies are lower risk than other companies and rewards them accordingly".*

- *"89% of the studies we examined show that companies with high ratings for ESG factors exhibit market-based outperformance, while 85% of the studies show these types of company's exhibit accounting-based outperformance".*

- *"The single most important of these factors, and the most looked at by academics to date, is Governance (G), with 20 studies focusing in on this component of ESG (relative to 10 studies focusing on E and 8 studies on S). In other words, any company that thinks it does not need to bother with improving its systems of corporate governance is, in effect, thumbing its nose at the market and hurting its own performance all at the same time".*

- *"Strong corporate commitment to ESG (or E, S or G) is positively correlated to a lower cost of capital. Again, this finding is evident in all the studies we analysed".*

GLOSSARY

Key terms used in the Field of Sustainable Investing[52]:

Concept	Definition	Source
Ethical Investment	Investment philosophy guided by moral values, ethical codes or religious beliefs. Investment decisions include non-economic criteria. This practice has traditionally been associated with negative (or exclusionary) screening.	Mercer, 2007
Values-Driven Screening	Values-based (also referred to as negative or exclusionary) screening is defined as an investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions products or services. Investments that do not meet the minimum standards of the screen are not included in the investment portfolio. Criteria may include environmental, social, corporate governance or ethical issues. For example, specific industries or sectors such as weapons manufacturers, or specific companies considered to be poor environmental, social or governance (ESG) executors.	Mercer, 2007
Socially Responsible Investment (SRI)	SRI, as it first emerged, was very similar to ethical investing in that it allowed a level of trade-off between corporate social and financial performance when making investment decisions, and predominantly utilized exclusionary screening. However, modern SRI represents an investment process that seeks to achieve social and environmental objectives alongside financial objectives, utilizing both values-driven, and risk and return screening.	DBCCA analysis 2012; Mercer, 2007
Sustainability	Sustainability or sustainable development refers to the concept of meeting present needs without compromising the ability of future generations to meet their needs. It encompasses social welfare, protection of the environment, efficient use of natural resources and economic well-being.	Brundtland Report, 1987; Mercer, 2007
Risk & Return Screening	Risk and return (or positive) screening is defined as an investment approach that includes non-traditional criteria relating to the policies, actions, products or services of securities issuers. Portfolios are tilted towards stocks that rate well on the nominated criteria, which can include ESG or ethical issues.	Mercer, 2007
Corporate Governance	Procedures and/or processes according to which an organization is directed and controlled. Corporate Governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision making. National and international best practice standards exist.	OECD, as cited in Mercer, 2007
Universal Owner	A large asset owner who, as a consequence of its size, owns a slice of the whole economy and market through its portfolios. Universal owners adapt their actions with the intent of improving long-term performance by benefiting the whole economy and market in a logical but ambitious extension of sustainable investing. They justify these actions on financial grounds.	Towers Watson, 2011
Environmental, Social and Corporate Governance (ESG)	The term that has emerged globally to describe the environmental, social and corporate governance issues that investors are considering in the context of corporate behavior. No definitive list of ESG issues exists, but they typically display one or more of the following characteristics: (i) issues that have traditionally been considered non-financial or not material; (ii) a medium or long-term time horizon; (iii) qualitative objectives that are not readily quantifiable in monetary terms; (iv) externalities not well captured by market mechanisms; (v) a changing regulatory or policy framework; (vi) patterns arising throughout a company's supply chain; and (vii) a public-concern focus.	Mercer, 2007
Best-in-Class Approach	Investment approach that focuses on companies that have historically performed better than their peers within a particular industry or sector on measures of environmental, social and corporate governance issues. This typically involves positive or negative screening or portfolio tilting.	Mercer, 2007
Responsible Investment	The integration of ESG considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance, in particular over the medium to longer-term. Responsible Investing (RI) can be practiced across all asset classes.	Mercer, 2007; DBCCA analysis

[52] https://institutional.deutscheawm.com/content/_media/Sustainable_Investing_2012.pdf

Key terms related to Corporate Social Responsibility and Shareholder Engagement[53]:

Concept Name	Definition	Source
Corporate Social Responsibility	Approach to business which takes into account economic, social, environmental and ethical impacts for a variety of reasons, including mitigating risk, decreasing costs, and improving brand image and competitiveness. This approach is sometimes implemented by means of a comprehensive set of policies and procedures integrated throughout a company, encompassing a wide range of practices, including: corporate governance, employee relations, supply chain relationships, customer relationships, environmental management, philanthropy and community involvement.	Mercer, 2007
Stakeholder	Individuals or organizations with an interest in the actions and impacts of an organization. They may be customers, suppliers, shareholders, employees, communities, members of special interest groups, non-governmental organizations, or regulators.	Mercer, 2007
Active Ownership	The voting of company shares and/or the engaging of corporate managers and boards of directors in dialogue on ESG issues as well as on business strategy issues. Increasingly pursued in an effort to reduce risk and enhance shareholder value. Can also be referred to as "Shareholder Activism".	Mercer, 2007
Shareholder Engagement	The practice of monitoring corporate behavior and seeking changes where appropriate through dialogue with companies or through the use of share ownership rights, such as filing shareholder resolutions. Shareholder engagement is often employed in attempts to improve a company's ESG performance.	Mercer, 2007
Proxy Voting	The delegation of voting rights from entitled voters who do not attend shareholders' meetings to delegates who vote on their behalf. Proxy voting allows shareholders to exercise their right to vote without committing the time involved in actually attending meetings. Proxy voting policies can include specific guidance on ESG and ethical decisions.	Mercer, 2007
Corporate Social Performance	A business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.	Wood, 1991:693[23]
Corporate Financial Performance	A term widely used within academia to refer to the financial or economic performance of a company. In general, academic studies have tended to focus on either financial accounting measures (for example, Return on Assets or Return on Equity) or economic measures (usually a company's stock performance) to measure, rank and compare the CFP of different companies.	DBCCA analysis 2012
Corporate Citizenship	A term used to describe a company's role in, or responsibilities towards society. For this reason it is sometimes used interchangeably with corporate social responsibility, although this concept is extended by some to refer to the political activities – and perhaps even rights – of a company.	DBCCA analysis 2012
Integrated Reporting	A growing practice of corporate reporting that demonstrates the linkage between an organization's financial performance in relation to environmental, social, and governance (ESG) factors that underlie the organization's core activities. By "integrating" financial and non-financial data, Integrated Reporting can help businesses take more sustainable decisions and enable investors and other stakeholders to transparently understand an organizations true performance.	DBCCA analysis 2012
Triple Bottom Line	A holistic approach to measuring a company's performance on environmental, social and economic issues. The triple bottom line focuses companies not just on the economic value they add, but also on the environmental and social value they add or destroy. This concept is frequently utilized in CSR or sustainability reporting.	Mercer, 2007; DBCCA analysis 2012

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