MONTANARO

ASSET MANAGEMENT

Report to: UK Stewardship Code

For the year ending 31 December 2020

Certified B Corporation

INTRODUCTION FROM OUR CEO

Montanaro Asset Management has been a signatory to the UK Stewardship Code since its inception in 2010. Our 2016 Stewardship Code statement was ranked a Tier 1 submission. We welcome the publication of the UK Stewardship Code 2020, which sets even higher stewardship standards for those investing on behalf of UK savers and pensioners.

In this report, we aim to explain how we comply with and support the 12 principles of the UK Stewardship Code in our role as an asset manager serving UK clients and those who invest through us in UK assets.

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is a responsibility that we take very seriously and underpins everything that we do at Montanaro.

Montanaro's mission is to be the "Gold Standard" of Small & MidCap investing. Our vision is to encourage quoted smaller companies around the world to support and embrace the Sustainability Revolution through active ownership and engagement. Sustainability is embedded within our culture: we fund our own charity, Tribal Survival, which supports the welfare of indigenous populations; and we donate time and money to small charities in partnership with the Giving Department. We even have beehives on our roof, supporting a local biodiversity project in the City of London.

ESG has formed an integral part of our investment process for many years: every Analyst at Montanaro conducts ESG analysis as part of fundamental company research. In June 2019, Montanaro became a certified B Corporation, meeting verified standards of social and environmental performance, transparency and accountability. We have amended our Articles of Association to ensure that our Board of directors takes into consideration the impact of our business on all stakeholders.

2020 was a year like no other. The COVID-19 crisis placed extraordinary pressures on the companies in which we invest as economies were locked down; on our clients as they grappled with volatile markets; and on our employees as they left the office to work from home. Responsible and thoughtful stewardship was needed more than ever as we engaged with companies to support them through the crisis and worked to meet our other stewardship responsibilities.

We are proud to be a signatory to the UK Stewardship Code 2020 and hope that you find our report useful and informative.

Cedric Durant des Aulnois – Chief Executive Officer
March 2021

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PURPOSE AND GOVERNANCE

PRINCIPLE 1: PURPOSE, STRATEGY AND CULTURE

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

Our purpose:
Montanaro Asset Management ("MAM") is a privately owned investment boutique, established in 1991, to invest exclusively in quoted global Small & MidCap equities. 30 years after our founding, we remain focused on a single asset class and we have no plans to change in future.

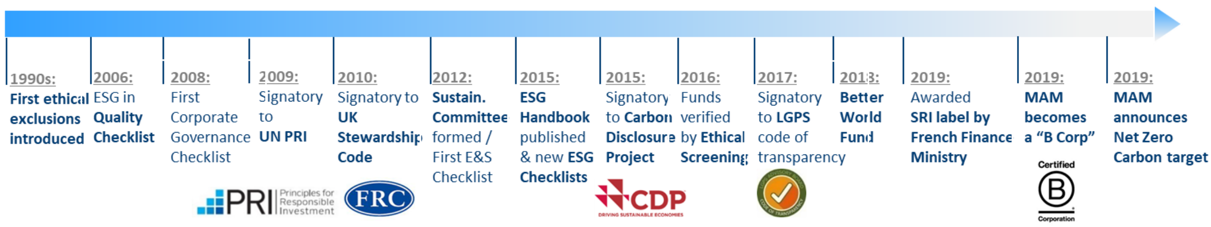
We invest on behalf of our clients including pension funds, local authorities, wealth managers, endowments, charities and family offices. We are not "asset gatherers", but rather seek to work with like-minded clients who share our responsible investment approach and long-term investment perspective. Many of our clients have worked with us for decades and we have grown and learned thanks to all of them. As of 31 December 2020, we managed assets of almost £4 billion.

Sustainability and a consideration for our stakeholders are embedded within our culture: we fund our own charity, Tribal Survival, which supports the welfare of indigenous populations; and we volunteer time and provide financial aid to small local charities in partnership with the Giving Department. We also have beehives on the roof of our office, helping to support a biodiversity project in the City of London.

In June 2019, MAM became a certified B Corporation, meeting verified standards of social and environmental performance, transparency and accountability. In 2020, we amended our Articles of Association to place a legal obligation on the Board to consider the impact of Montanaro's business on its stakeholders. We will recertify for "B Corp" status every three years and aim to improve our score with each submission.

At COP 25, the UN Climate Change Conference, we joined fellow B Corporations to announce that Montanaro would aim to achieve Net Zero Carbon by 2030.

Our ESG journey:



Our investment beliefs:
MAM's mission is to be the "Gold Standard" of Small & MidCap investing. Our vision is to encourage, through active ownership and engagement, smaller companies around the world to support and embrace the Sustainability Revolution. It is our belief that by doing so, we will enhance investment returns for our clients and ensure that the businesses in which we invest provide positive benefits to the economy, environment and society.

This mission is central to how we operate as investors. We are "Quality" investors. We believe that the best and most sustainable investment returns come from the highest quality businesses, run by the very best management teams. ESG forms a central part of our definition of a company's Quality. As a result, ESG is fully integrated into our investment process – we do not invest in companies that fail to meet our ESG standards or those that are unwilling to engage with us on areas of weakness.

An integrated approach to ESG:
We have a team of 34[1] which includes an Investment Team of 11 sector specialist Analysts. The size of our team has allowed us to effectively integrate ESG into our investment process and engage with the companies in which we invest. Through rigorous training and a consistently applied investment process, our Analysts conduct ESG analysis on the companies under their coverage as part of fundamental analysis. For a company to be deemed "Quality", it must meet the standards set out in our Ethical and ESG Policies, which are explained in detail in our ESG Handbook (which is available on our website).

Analysts complete an internally designed ESG Checklist for every company that we consider for investment. We do not invest in companies that fail to meet the standards set out in these Checklists, although we may engage with them if we identify areas of weakness that we think can be improved via constructive dialogue. Analysts are supported in this work by our Head of Sustainable Investment, who reports to the Head of Investments and Chief Executive Officer. ESG forms part of Analyst annual appraisals and is tied directly to their remuneration.

Developments in 2020:
As a certified B Corporation, we hold ourselves to the highest of standards and try to ensure that our organisation and culture matches the standards we expect from our investee companies. In 2020, at the company level, we took steps to better understand our environmental footprint as we work towards our Net Zero Carbon target. We appointed environmental consultant Green Element to help measure our environmental footprint. This will allow us to map our emissions across Scopes 1, 2 and 3 and design a detailed pathway towards net zero. This will strengthen existing policies that we have in place designed to conserve electricity; appoint sustainable suppliers; and reduce and manage office waste responsibly.

During the year we also made improvements to parts of our ESG analysis to better understand the environmental and social profile of our investee companies. Led by our Head of Sustainable Investment, our Investment Team redesigned our ESG Checklists allowing us to incorporate more data on the carbon, waste and water intensities of our businesses; and social metrics such as the diversity of company workforces. The new ESG Checklist will be rolled out across our companies during 2021.

We believe these developments affectively serve the best interest of our clients. In our opinion, investors increasingly wish to trust the investment of their assets with asset managers who have placed stewardship and sustainability as core values. We believe our B Corporation certification demonstrates this. Clients have taken comfort from the audited and verified certification process. In addition, clients want to see that our ESG investment approach is always developing and improving: this is shown by the improvements we have made to our ESG Checklists this year.

[1] *Please note that this figure includes the hiring of an ESG & Impact Specialist who joined the business in January 2021

PRINCIPLE 2: GOVERNANCE, RESOURCES AND INCENTIVES

Signatories' governance, resources and incentives.

Ownership & Board:
The monitoring and application of Montanaro's stewardship responsibilities begins with our Board, which is led by our Executive Chairman and Founder Charles Montanaro. As part of our B Corporation certification, the Board has a legal requirement – enshrined in Montanaro's Articles of Association – to consider the impact of our business on all stakeholders.

The Board monitors Montanaro's approach to stewardship, including company level targets and responsibilities (e.g. Montanaro's Net Zero Carbon 2030 target and Montanaro's charitable commitments) and those embedded within the services we provide to our clients (e.g. ESG in the investment process). The Board also sets targets for the company to achieve, such as the attainment of B Corporation certification in 2019. Importantly, such initiatives have the full support of Montanaro's shareholders. Montanaro is a private, family-owned boutique.

Senior Leadership:
Senior members of Montanaro's team have day-to-day responsibility for ensuring that fulfilment of our stewardship responsibilities. These responsibilities are described in respective job descriptions; embedded within annual appraisals; and influence remuneration decisions. Key roles include:

- **Chief Executive Officer** - ensures that MAM's approach to stewardship and sustainable investing remains embedded throughout our organisation.
- **Chairman of the Sustainability Committee** - chairs quarterly meetings of the Sustainability Committee.
- **Head of Investments** - ensures that MAM's stewardship commitments are integrated in our investment process.
- **Head of Sustainable Investment** - ensures the development of MAM's sustainable investment approach, including the formulation of ESG Policies and ESG Checklists; the directing of engagement and voting activity; and the achievement of Montanaro's corporate sustainability commitments.

Committee Oversight:
Oversight of Montanaro's stewardship activities is provided by two Montanaro Committees: the Sustainability Committee and the Executive Committee.

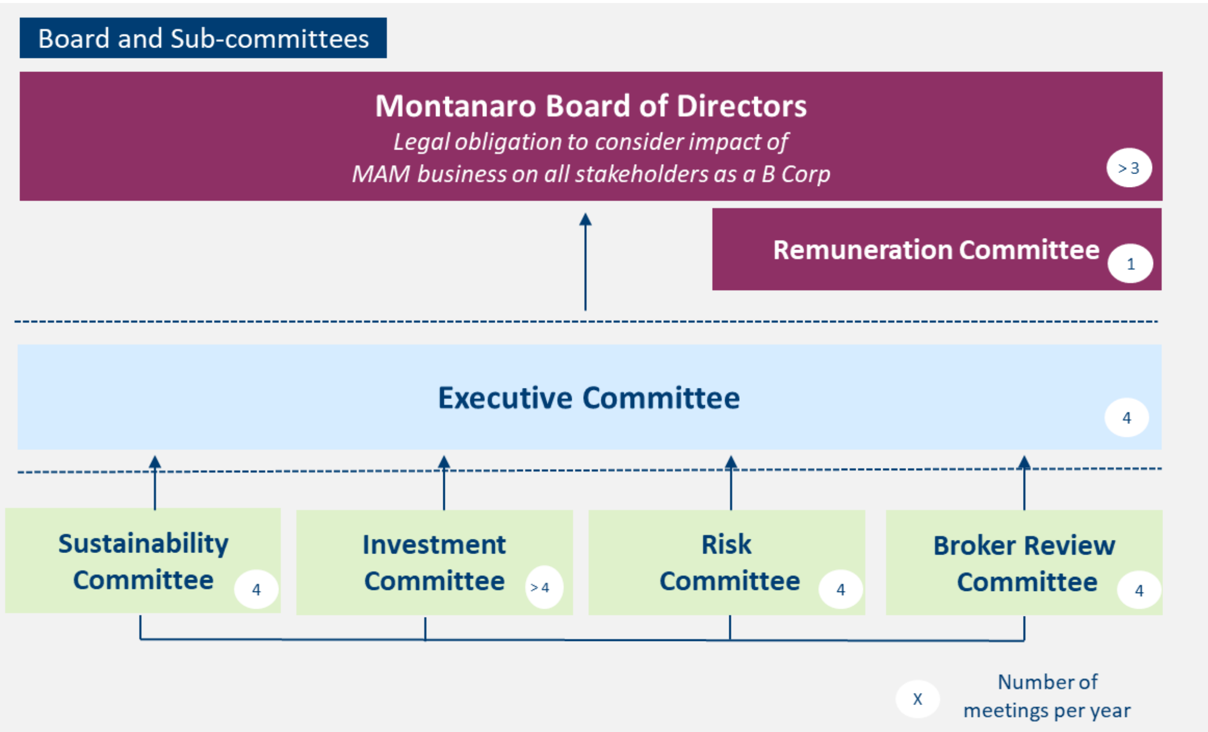
Sustainability Committee:
The Sustainability Committee has three main functions:

1) to ensure that Montanaro's ESG and sustainable investment approach remains fully integrated into our investment process and continues to develop and improve;
2) to oversee MAM's corporate stewardship responsibilities, such as our responsibilities as a B Corporation; and
3) to assess and vote on the impact credentials of potential investments for the Montanaro Better World Fund (our positive impact Fund).

The Committee meets on a quarterly basis and is chaired by a member of the team who has many years of experience of working in Sustainable Investments. Meetings have a formal agenda and minutes are taken, which are available to clients upon request. To ensure that there is buy-in across the organisation, the Committee is formed of members from the Investment, Client Relations and Compliance teams. Agenda items include:

1. Review of previous minutes and action points;
2. Review of voting activity;
3. Review of engagement activity;
4. Review of Sustainability Committee Voting on "IMPACT";
5. Sustainability topics highlighted for discussion;
6. ESG & Research;
7. Seminars, events and press contributions during the Quarter;
8. Sustainability at Montanaro;
9. Any other business;
10. Ethics (annual item).

Executive Committee:
Montanaro's Executive Committee – comprised of the Chairman, Chief Executive Officer, Head of Investments, Head of Compliance and Risk, and Head of Fund Management – meets on a quarterly basis to review the operations of Montanaro's business. This includes a review of the Sustainability Committee, including approval of Sustainability Committee meeting minutes. In turn, the Executive Committee reports to the Board, as illustrated below:



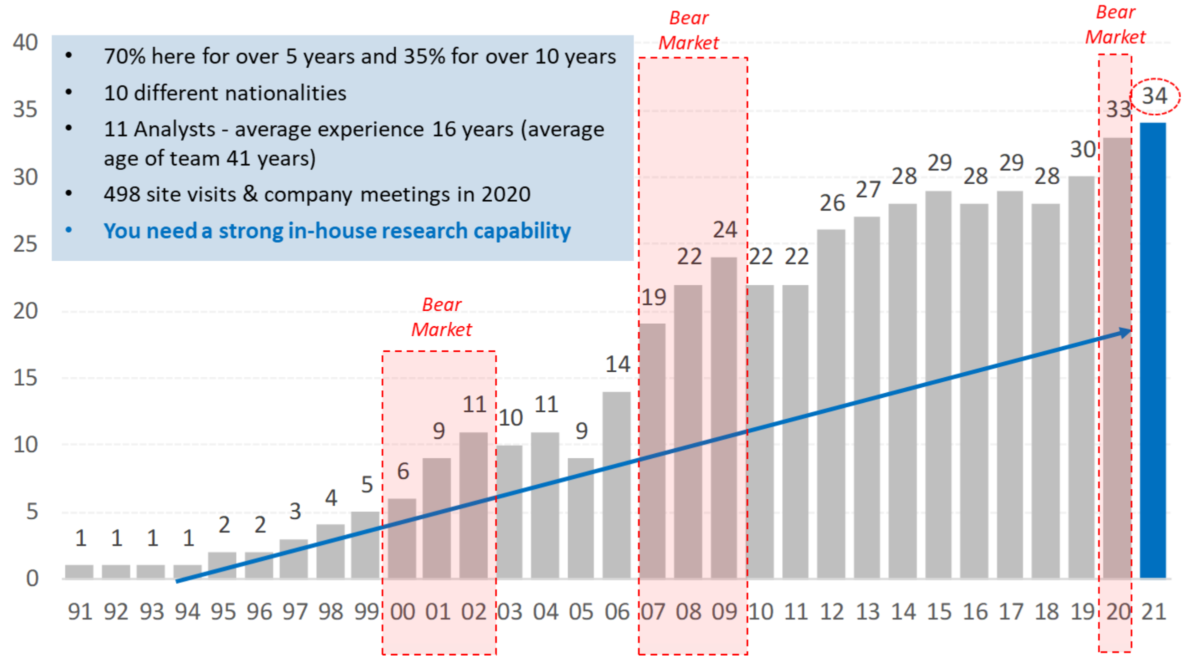
A well-resourced team:
We have a large team that is trained and incentivised to deliver on our stewardship responsibilities. We are a well-resourced boutique with one of Europe's largest investment teams dedicated to Small & MidCap quoted equities. Our 11 sector specialist Analysts are responsible for conducting ESG and impact analysis on the companies that fall under their sector coverage, both before we invest and during the holding period. This is time-consuming and labour intensive, but invaluable when investing

in quoted, smaller companies. Our market tends to be less well covered by the sell-side. In our experience, third-party ESG analysis and company ratings are sporadic and inconsistent.

As a result, while we receive ESG data from MSCI and Bloomberg on our investee companies, we do not use third-party ESG scores to influence our analysis. ESG data received from MSCI and Bloomberg is incorporated into our bespoke ESG Checklists, which we use to assess and rate the ESG profile of companies. These have been developed over time with input from our Sustainability Committee and Analysts.

Voting recommendations are provided to us by our proxy voting provider, ISS. Analysts are responsible for reviewing voting recommendations with support from the Head of Sustainable Investment and our ESG & Impact Specialist. An area that we have identified for development is our use of the ISS service to better understand voting patterns and trends and ensure a greater level of consistency in how we vote. In 2021, we are aiming for voting to play a more direct role in our engagement efforts. Work has begun on introducing a more detailed voting policy.

Maintaining a well-resourced team is a key priority for Montanaro. We have consistently grown our team, even during Bear Markets such as in 2000, 2008 and 2020. In the last two years, we have hired Analysts to provide additional cover for the sectors where we have significant weightings (Healthcare and Technology). In 2020, we appointed an experienced ESG & Impact Specialist to assist with the delivery of ESG and impact in the investment process and further aid our engagement and voting efforts as well as analysis of environmental and impact factors. Kate Hewitt[2] has an MA in Environment, Development and Peace from the United Nations University for Peace, a qualification that focused on bio-diversity issues and the UN Sustainable Development Goals.

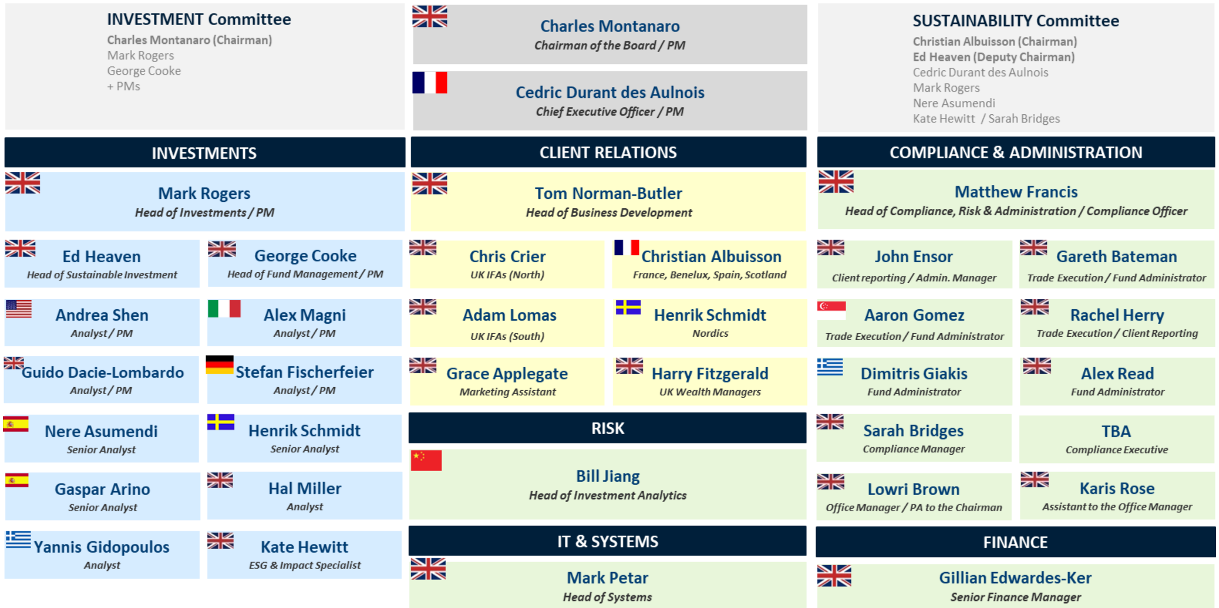


We have a diverse team, comprising 10 different nationalities and over 25% of staff are women. We have decided not to introduce strict diversity targets into the business as, with a relatively small team, a single hire or departure can have an undue influence on a numerical metric. However, in response

[2] Please note that Kate joined Montanaro in January 2021

to the "Black Lives Matter" movement, we have asked the recruitment firms that we use to remove names from any CVs they send us. There is some research that indicates employers are more likely to hire candidates with European names over ethnic minority candidates, even if the rest of their profile is identical. We want to eliminate the potential for this bias to exist in our recruitment approach. Our Sustainability Committee is continuing to think carefully about our approach to workforce diversity.

Our team:



A commitment to training and progression:

We have a training budget and sponsor staff through industry qualifications, such as the CFA's ESG Certificate which was launched in 2020. We run regular training sessions for members of our team that are led typically internally or with the assistance of outside experts. Training is designed to develop technical investment skills and promote team bonding via constructive debate. These sessions encourage collective ownership of the investment process. In addition, we seek to learn collectively from our mistakes and believe in humility.

A training session in 2020 focused on understanding the requirements of our redeveloped ESG Checklists and the analysis of environmental and social data points. We have also run a session on the UN Sustainable Development Goals and how the framework can assist the identification of positive impact companies. In 2021, we have scheduled training sessions focused on Climate Change and Carbon, further enhancing our analysis of environmental factors.

Stewardship influences remuneration:

Our commitment to sustainable investing is embedded in our organisation, job descriptions and staff remuneration. Analysts are appraised on the quality of their research and stock recommendations. This includes the quality of their ESG analysis and contribution to MAM's engagement and voting efforts. There is a specific section dedicated to ESG in Analyst appraisals. Annual appraisals directly influence variable remuneration.

In addition to our Analyst team, the Head of Sustainable Investment is appraised based on the quality of his leadership on ESG and sustainability matters. Our Impact & ESG Specialist will have variable pay linked directly to work on ESG issues.

Improvements in 2020:
A significant development in 2020 was the re-naming of the ESG Committee, which became the **Sustainability Committee** (as described above). This reflects a broadening in the Committee's remit to include not just ESG in the investment process, but also Montanaro's corporate sustainability commitments and CSR Policy. In addition, the Sustainability Committee now includes Montanaro's Ethics Committee, which discusses specific compliance matters such as MAM's dealing policy. This ensures that Montanaro's stewardship and sustainability responsibilities fall under the remit of a single committee.

A further significant development in 2020 was the appointment of **Green Element**, an environmental consultant, which is helping us to collect the necessary data needed for an appraisal of Montanaro's carbon footprint. This will help define a roadmap for us to reach carbon neutrality by 2030.

In addition, as part of our B Corporation commitments, our Board of Directors published their first **Impact Report**, detailing the progress made during the year across MAM's various sustainability initiatives, including our charitable donations and net zero carbon goal.

At the Executive level, we have also started to evaluate how Montanaro's Executives could have **remuneration** more aligned with the achievement of defined sustainability objectives. It is appropriate for us to do so as we are engaging similarly with many of our investee companies.

At the investment level, we undertook a major redevelopment of our **ESG Checklists** to place a greater emphasis on environmental and social data points, allowing us to better understand the strengths and weaknesses of our investee companies in this area. New Checklists will be rolled out in 2021 covering the companies on our Approved List.

Finally, we appointed **Impact Cubed**, a sustainability data and portfolio analytics company, to provide independent verification and auditing of our impact analysis for the Montanaro Better World Fund.

PRINCIPLE 3: CONFLICTS OF INTEREST

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

Managing conflicts of interest:
We have a duty of care to act in the interests of our clients and other stakeholders. We recognise that during the course of business, conflicts of interest may arise from time to time. In order to identify potential risks and procedures for remediation, we maintain a Conflict of Interest Policy. This Policy demonstrates that Montanaro is committed to identifying, monitoring and managing all actual and potential conflicts of interest that can arise between Montanaro (by which we mean employees and connected persons) and its clients. This policy is designed to fulfil MAM's obligations under SYSC 4 and SYSC 10, COBS and Principles for Business number 8 in the FCA Handbook.

Montanaro considers that its flat business structure minimises the risk of conflicts. MAM does not have any subsidiaries or connected parties.

Senior management are committed to ensuring that the Conflicts of Interest Policy is embedded in our culture. Potential conflicts of interest and actual conflicts of interest identified are discussed at regular Executive Committee meetings to ensure the correct action to mitigate the conflict was or will be taken. All staff are made aware of this Policy and also what they should do if they identify a potential conflict of interest. An annual review of our Conflicts of Interest Policy is conducted by the Head of Compliance, Risk Management and Administration.

Examples of where conflicts may arise are listed below:

New Clients:
When taking on a new client, any potential conflicts of interest are considered. The following points are checked and documented as part of the New Client Process:

- are any potential conflicts of interest between a member of staff, a connected person of theirs and the client identified following a check against the business interest declarations of MAM's staff?
- is there a conflict between any of MAM's other clients?
- is there a conflict between MAM and the client?

Where a conflict is identified with the new client and a member of staff, MAM will exclude that person from dealing with the new client. If there is a conflict between an existing client and the new client, it may be that MAM decides not to take on the new client or if it does, will disclose the conflict to both. The same may apply if a conflict is identified between MAM and the new client. In each instance, the details of any conflict are recorded in the Conflicts Register along with details of how the conflict was mitigated. In addition, it is notified to MAM's Compliance Officer.

New Products or Providers of Services:
When MAM considers a new product, it will undertake a conflict of interest check at the product development stage. If a conflict is identified, the product may need to be changed to eliminate the potential conflict. Any conflicts of interest identified are recorded in the Conflicts of Interest Register.

Monitoring:
Periodic operational risk reviews by senior management look for any new potential areas of conflict of interest not considered previously by consulting all relevant personnel. This is formally noted as an item in the minutes at MAM Board Meetings. Senior management also monitors expenditure and the Gifts and Benefits and Corporate Hospitality Registers to ensure that there is not a pattern of receiving or making gifts and providing benefits to any one particular client or supplier. They look at the Complaints Register to ensure that any complaints were dealt with fairly and promptly and at the Dealing Errors log to ensure that no client has been disadvantaged.

Remuneration:
MAM's Remuneration Policy, which includes the reward of discretionary bonuses, ensures that staff are not encouraged to put their own interests above those of clients in order to receive bonuses. A few members of our team consultants with specified remuneration and reimbursements that are reviewed and determined by the Board. MAM strives to ensure that all employees remain motivated whilst at the same time ensuring their remuneration and discretionary bonus do not encourage inappropriate behaviour for their own gain at the expense of clients. MAM acknowledges this potential conflict of interest and through its monitoring mechanisms remains alert to potential abuse.

Chinese Walls:
A Chinese Wall is the creation of an information barrier. Essentially, this requires information held by a manager or employee of one Fund to be withheld from, or not used by, persons from another Fund. The use of a Chinese Wall can be established and enforced by the Compliance Department and includes the physical segregation of staff, data and computer systems. However, MAM takes the view that it is better not to have Chinese Walls but rather to ensure that all Fund Managers have access to essentially the same material information at broadly the same time. Our "Treating Customers Fairly" Policy includes procedures to ensure this is the case. This cautious approach ensures that there is no risk of information leakage between teams.

Treating Customers Fairly:
MAM has a Treating Customers Fairly Policy in place in order to mitigate any potential conflicts of interests between clients. This is monitored by the Compliance Team, which reviews trading reports weekly and provides feedback to the Investment Management Team on any issues identified.

Inside Information:
This relates to confidential, non-public information of a precise nature that is related to one or more issuers of financial instruments or to commodities which is likely to have a significant impact on the price of a financial instrument, commodity or a related derivative of a financial instrument or commodity. The use of such information to make a financial gain or to avoid a financial loss is a criminal offence under the Insider Dealing Laws. The FCA and the Stock Exchange monitor dealings ahead of announcements to identify such behaviour. MAM has an Insider Dealing Policy in place and has made it known to all staff that Insider Dealing is a criminal offence punishable by immediate dismissal and likely criminal action.

Gifts and Inducements:
On occasion, employees may personally benefit from dealings with potential or existing clients, suppliers, service providers etc. A Gifts and Benefits Policy and Register are in place and monitored by the Compliance Officer to ensure that any such gifts or benefits are not excessive and do not create any obligation, debt or a conflict of interest. Staff are required to seek permission before making or accepting any gift or benefit with a value of £150 or above. Additionally, any corporate events held

with existing clients are pre-approved by the Compliance Officer and are documented in the Corporate Hospitality and Sponsorship Register before permitted to go ahead.

Personal Account Dealing:
It is not unusual for employees of a financial institution such as MAM to make personal investments. MAM recognises that this can create a conflict with its clients. All MAM's employees and connected persons are required to comply with the company's strict Personal Account Dealing Policy.

Business Interests and Suitability:
MAM is required to ensure that any activities undertaken are suitable for its clients. A conflict may arise if MAM or a person connected with MAM has an interest, relationship or arrangement that is material to the service, transaction or investment that is being provided.

For example, MAM's employees may have an interest, relationship or arrangement whereby they act as a Trustee, hold Power of Attorney on behalf of a client, or act as a Director for a corporate client or Partner for an LLP. Employees complete a Declaration of Business Interests Form when they join MAM and are required to notify MAM of any changes of outside interests or any new interests.

Conflict of Interest Register:
Conflicts of interest situations and potential conflicts of interest situations are reported immediately to the Compliance Officer. Under SYSC 10.1.6, MAM keeps and regularly updates a record of any conflict of interest that arises (or may arise, in the case of an ongoing service or activity) that entails a risk or damage to the interests of one or more clients. This information is included in the Compliance Report to the Board, which is reviewed at each Board Meeting.

During 2020, we continued to maintain our internal Conflicts Log used to document instances where we have identified the potential for a conflict of interest to occur.

The most common example that emerged during the year was that of a financial company being voted on that was also a client of MAM. These cases were reviewed by our Sustainability Committee and Compliance Officer in accordance with our voting policy. They were then added to our log as part of the voting process to ensure fairness and transparency.

Our Conflicts of Interest Policy is reviewed on an annual basis by our Risk Committee.

PRINCIPLE 4: PROMOTING WELL-FUNCTIONING MARKETS

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

There two main ways in which we seek to identify and respond to market-wide and systemic risks. We believe that such risks have the potential to impact the sustainability of investment returns and it is important that we identify and respond to them appropriately. These are explained below:

1) Investment Process: Our Investment Team may identify such risks when completing our company specific ESG Checklists. Risks that are consistently identified in our ESG analysis are discussed by the Investment Team and Sustainability Committee and we consider how they should be approached. For example, when supply chain management was identified as an area of common risk in 2018, the Sustainability Committee commissioned a Deep Dive engagement report for us to better understand how our companies were managing supply chains. Similarly, the systemic risk of climate change has led to a desire to better understand the steps our companies are taking to support the transition to a low carbon economy. In 2020, we launched "Project: Net Zero Carbon", a long-term engagement project designed to encourage companies to set and meet Net Zero Carbon targets.

We also use our engagement with companies to understand the risks they are confronting that may be considered systemic. Following a number of site visits in recent years to factories and other industrial facilities, we noticed that companies were exposed to the negative externalities generated by single-use plastic. This led to a number of engagements in 2020 as we sought to understand how companies could reduce or limit their exposure to single-use plastic. For example, Santen, a Japanese company, informed us that following our engagement they were trialling the use of a biomass-based alternative to single-use plastic bottles for one of their eye solutions.

2) External frameworks: We use certain external frameworks to help us identify market-wide and systemic risks. These set engagement priorities with companies. An example is the UN Sustainable Development Goals (SDGs). The SDGs have aided the identification of sustainability risks associated with investment opportunities for the Montanaro Better World Fund.

We are conscious of the contributions our investee companies make to the SDGs and their underlying targets. The SDGs offer a digestible framework for understanding global problems to which our companies may be exposed. This can help us to better understand how shifts in governmental priorities may affect current and future investment opportunities. For example, UN SDG 7 "Affordable and clean energy" calls on governments to "facilitate access to clean energy research and technology, including renewable energy…". As investors, we consider the likely progression of such trends. The likely growth in renewable energy – and the increased risk this poses for companies heavily exposed to or dependent on fossil fuels – was addressed when re-designed our ESG Checklists in 2020 as we incorporated data from MSCI to assess how well a company is managing the transition to a low carbon economy.

We aim to use the EU Taxonomy to help us identify sustainability risks – and corresponding investment opportunities – in the years ahead.

Our work with stakeholders and our participation in industry initiatives helps with the identification of market-wide and systemic risks and influences what we set as our engagement priorities:

As a boutique investment manager, we are mindful of internal resource constraints and try to be selective with the industry initiatives in which we participate. We recognise that, due to our Small & MidCap focus, we may not be able to participate in some initiatives. For example, we explored contributing to the Climate Action 100+ initiative but noted that this did not cover any of the companies in which we invest. Our participation in industry initiatives is agreed by the Sustainability Committee.

Working with Stakeholders: We have worked with various stakeholders to promote the continued improvement of the functioning of financial markets. We have been signatories of the Principles for Responsible Investment (PRI) since 2009 and complete the annual PRI questionnaire. In our opinion, this is the most high-profile international initiative for signalling a commitment to high standards of stewardships within the confines of an investment process.

As a B Corporation, we also seek to promote a responsible approach to business that takes into account the impact our activities have on all stakeholders. We are active participants in the B Corp community and a member of the COP26 Group. In 2021, our Head of Sustainable Investment will become Co-Chair of the B Corporation Finance and Investment Working Group which aims to share best sustainable investment practice among fellow B Corps and encourage other companies working within our sector to consider the certification.

Industry initiatives: In 2020, we continued our participation in the following initiatives:

- CDP Science-Based Targets Campaign: We joined this CDP campaign to encourage companies to set science-based targets. We co-signed letters to certain investee companies and are pleased that some took steps to sign up to the Science-Based Targets Initiative, for example Swedish company Thule.
- NZC10: In collaboration with P1 Investment Management, other asset managers and the UK Climate Impacts Programme at the University of Oxford, we have set a target that by 2030 at least 10% of the Better World Fund by value will be invested in companies that have achieved Net Zero Carbon. In 2021, this target will be reviewed and potentially increased. This initiative led to the launch of our “Project: Net Zero Carbon” engagement initiative in 2020 where we have been engaging with all of the companies in the Better World Fund to understand their approach to climate change as we encourage them to set science-based targets.
- Net Zero Carbon Goal: At COP 25, Montanaro Asset Management joined fellow B Corporations to announce that we would achieve Net Zero by 2030. In 2020, we appointed Green Element, an environmental consultant, to help us measure and assess the environmental footprint of our business. This will help shape our pathway to net zero in the years ahead.
- Investor Statement on Coronavirus Response: we signed this statement responding to the COVID crisis led by the Interfaith Centre on Corporate Responsibility. The statement called on companies to provide paid leave to staff if sick with COVID-19 regardless of whether they were employed on full-time or part-time contracts; to look after their suppliers by providing payments on time; to maintain employment; and ensure strong financial management even in times of economic stress. This was a worthwhile initiative that helped to shape our engagement response to COVID-19 as documented below.

The outcome of the above participations can be seen in how we have integrated ESG into our investment process:

The way in which we integrate ESG into our investment process ensures that we align our investments with our stakeholder and industry commitments. For example, in response to climate change, our Ethical Policy bans investments in fossil fuel exploration and production companies. In addition, our Environmental Policy makes it clear that we expect our investee companies to play their part by decarbonising their operations and supply chains and the setting of ambitious emissions reductions targets in line with climate science. Where we identify environmental risks facing companies we hold within our Portfolios, we approach them to open a dialogue about ways they can improve their disclosure and action on climate change.

A particular focus in 2020 was our engagement efforts to encourage investee companies to use the Science Based Targets initiative (SBTi) as a way of ensuring that their future climate ambitions are aligned with the Paris Climate Accord. An example of our engagement work on this topic is Chr Hansen. The Danish supplier of bioscience products has set science-based climate targets for scope 1 and 2 emissions. This includes all production and energy consumption. Alongside this, they will also screen scope 3 emissions (downstream supply chain activities) and most likely set reduction targets. The targets are in line with agreed recommendations for limiting global temperature rises to 1.5 °C above pre-industrial levels.

In response to our participation in the Investor Statement on Coronavirus Response, we also launched "Project COVID", in March 2020. With a lockdown in place in many of the markets in which we invest, we wanted to engage with our companies to assess how they were managing the sudden change in business and working conditions. Taking guidance from the Investor Statement, we focused on: working from home strategies; how well management were managing health, safety and staff well-being; what sick pay support was being put in place, particularly for those staff on short-term or part-time contracts; and how management were managing the business from a financial standpoint given many were seeing swift revenue shortfalls.

Where issues were identified, we engaged further to find out more about the health and safety policies and practices of companies. In the case of one company that had kept a key facility open, a number of staff had subsequently tested positive for COVID-19. In response, the company stopped production at the site for ten days to get relevant test results and take guidance on how to proceed. To avoid future incidence of disease, the Executive team informed us that they had daily calls with senior management teams to relay site specific information and build a clear picture of how risks should be managed at different facilities. The company went above and beyond the government guidance to deal with the outbreak when it occurred and to limit the likelihood of a recurrence.

Our approach to collaborative engagement is discussed further under Principles 9 and 10.

PRINCIPLE 5: REVIEW AND ASSURANCE

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

Montanaro's internal Sustainability Committee is responsible for reviewing our ESG policies; assuring procedures; and ensuring that stewardship reporting is fair, balanced and understandable.

A review of Montanaro's sustainability policies occurs at quarterly meetings of our Sustainability Committee and is covered under Agenda Item: 6. ESG & Research. The Committee discusses Montanaro's Ethical and ESG Policies and considers whether changes or amendments are needed. Such reviews are important as changes have a direct impact on our investment process. A change to our Ethical and ESG Policies requires a corresponding change in our Ethical and ESG Checklists, which are completed by our Investment Analysts for every company that we invest in. Given this, changes need to be well thought through and beneficial to company level ESG analysis.

Changes may occur to our policies for a variety of reasons:

- **To introduce to a new Ethical restriction** on investing in a particular area: two years ago, we introduced a new exclusion on investing in exploration & production fossil fuel companies.

- **To better clarify an existing policy**: in 2020, we amended our Animal Testing Policy to incorporate the "Three R's" guidance (Replacement; Reduction; Refinement). This allowed our Analysts to better understand and identify how businesses are exposed to animal testing, while also improving how we explain our approach to this area of ethical risk to our clients.

- **A more substantive change is required to our policies and checklists**: for example, in 2020, it was decided to incorporate environmental data from MSCI into our ESG Checklist. Given this required significant changes to the design of our Checklist, the Committee commissioned a complete review of our Checklists, which was undertaken by the Head of Sustainable Investment under the supervision of the Head of Investments, in collaboration with the Analysts. The result of this work was a major redevelopment to the ESG Checklist which will be rolled out in 2021 across the 260 companies on our Approved List.

As previously set out in the answer to Principle 2, Montanaro's Executive Committee reviews the work of the Sustainability Committee to ensure that it is functioning in a way that meets our stewardship responsibilities. This includes oversight of any changes made to Montanaro's ESG approach. We believe that this internal review structure is appropriate given the single focus of Montanaro and the specialist nature of the Small & MidCap asset class. We want our structure and processes to be clear and comprehensible to clients.

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. Changes to our Ethical and ESG Policies requires an amendment to Montanaro's ESG Handbook, which is updated and published accordingly on our website. This document is designed to be user friendly and understandable even by those who are not "experts" in the field of responsible investing.

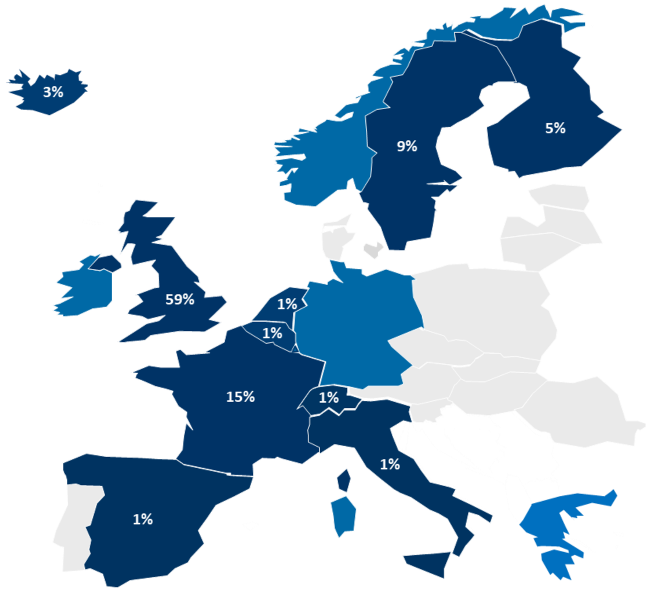
INVESTMENT APPROACH

PRINCIPLE 6: CLIENT AND BENEFICIARY NEEDS

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

Our clients:
Montanaro is a specialist boutique asset manager. We manage long-only, quoted global Small & MidCap equity portfolios. We do not manage any other strategies or make investments in any other asset classes. As a result, we believe that our business model is as simple and transparent as is possible for an asset manager.

At the end of December 2020, we managed almost £4 billion. Our client base as a percentage of assets is shown below by geography and client type. Pension Funds account for our largest client type, alongside other financial institutions, such as Asset Managers, Wealth Managers and Charities. While retail investors can access our Funds via various platforms, we do not market directly to retail investors.



UK	59%
FRANCE	15%
NORDICS	16%
BENELUX	1%
USA	1%
SWITZERLAND	1%
Other	7%
UK	**59%**
CONTINENTAL EUROPE	**40%**
NON-EUROPE	**1%**

Pension Funds	**32%**
o/w Government	17%
o/w Local Authorities	7%
o/w Corporations	4%
o/w Universities	3%
Wealth Managers / Charities	**10%**
Asset Manager / Multi-Manager	**34%**
IFA / Stockbrokers	**2%**
Platforms	**11%**
Other (inc. Insurance)	**12%**

Source: Internal.

All Montanaro Funds and Portfolios are managed with a long-term time horizon, by which we mean a minimum of 5 years. The long-term nature of our investment strategies reflects the long-term investment horizon of our clients, many of whom are investing their assets to meet multi-year investment objectives (such as providing for the retirement of pension scheme members). Our investment time horizon also reflects our belief that, to experience sustainable investment returns, an equity investor should invest for a reasonably long period of time.

Client communication:
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 activity with clients as follows:

Public reports:

- **Montanaro's ESG Handbook**: The Handbook is designed as a user-friendly guide to explain our Ethical & ESG Philosophy & Process. Why we think Ethics & ESG is important; why Ethics & ESG form 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. It is available on our website.
- **CSR Policy**: our CSR statement explains how we manage our business to be socially accountable to our various stakeholders. It is available on our website.
- **B Corporation certification**: our assessment and score is publicly available on the B Corporation online directory.
- **PRI submission**: We have been signatories to the Principles for Responsible Investment since 2009. Every year we submit our response to the annual questionnaire, which is available online.
- **Voting**: Each year, we publish a summary of our voting statistics on our website. This includes the number of resolutions where we voted either in favour of, against or abstained. Proxy Voting Activity Summaries are produced each quarter and are available on Montanaro's website.
- **Better World Fund Impact Report:** We publish an annual impact report for our positive impact strategy, the Better World Fund, explaining our approach to impact investing and reviewing the performance of the strategy over the year.
- **Engagement:** We share in depth, engagement "Deep Dive" reports to demonstrate the value of detailed and long-term engagement work.

On request:

- **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.
- **Engagement**: We record all engagement activity in an 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".
- **Reporting**: Certain clients receive bespoke monthly and quarterly reports detailing the performance of their strategies. These reports may include a summary of engagement activity on companies in which their assets are invested. We also provide details of our Sustainability Committee minutes to clients upon request.
- **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.

Events & Presentations:

In 2020, we held numerous webinars through Zoom to discuss the performance of our strategies with clients and prospective clients. During these calls, we shared examples of engagement work and our approach to impact investing. This was a new medium for us and worked well, with many of our clients reporting that it was more time and cost effective for them to dial into a call rather than attend a group update in person at our office (when possible in non-COVID times).

Taking account of client views:
We are a client-centric organisation and always seek to take account of the views of our clients and provide them with the information that they request. We seek to learn from our clients and work with them to develop our reporting and communication.

In 2020, we saw a vast increase in the number of clients who requested information on the engagement activity undertaken on the companies in which we invest on their behalf. Many clients have their own bespoke reporting template for engagement. To ensure reporting is accurate, we made a small change to our own engagement log to add in a column denoting the company ISIN reference. This is a minor change but makes it much easier to ensure that clients receive the engagement information on all of the companies that are relevant to their portfolio.

In addition, we also saw an increased interest in environmental matters, chiefly climate change and Net Zero Carbon. This influenced the production of our first “Project: Net Zero Carbon” report, which focused on a number of climate-related engagements with companies in the Better World Fund. This report has been shared with our clients and is available on our website.

Finally, clients in the Better World Fund have asked that we continue to develop further our approach to impact measurement. We will provide more detail in our 2021 Impact Report. This was one reason why we decided to appoint Impact Cubed to assist us with impact measurement in 2021.

PRINCIPLE 7: STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

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 can "beat the fade" and maintain a high Return on Capital over the long term. As such, our analysis of companies focuses on identifying businesses with Quality characteristics. Both financial factors and ESG considerations form part of our definition of a company's Quality.

ESG is fully integrated into the Montanaro Investment Process. ESG analysis is conducted by our Research Analysts alongside fundamental analysis. The result is that our investment decision-makers "do" ESG". Companies that we consider for investment must pass the criteria set out in our Ethical and ESG policies as outlined below. Each policy has a corresponding checklist which our Analysts complete before we invest in a company and update during the holding period.

With little consistency between the main ESG ratings agencies, we believe it is paramount that investors conduct ESG analysis themselves. This is particularly important when it comes to smaller companies where coverage and availability of data tends to be worse than it is for larger companies. The size of our in-house Research Team allows us to fully embed ESG analysis into our investment process. The ESG criteria that we highlight below forms an intrinsic part of Montanaro's assessment of a company's "Quality".

Ethical Policy:

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. On ethical grounds, we do not invest in the following areas of the economy. We exclude from investment any company which derives 10% or more revenue from these areas:

- Exploration & production fossil fuels;
- Tobacco producers & distributors;
- Alcohol producers & distributors;
- Controversial weapons;
- Gambling;
- Pornography;
- High Interest rate lending;
- Animal testing (unless it is required by law for healthcare related companies).

Environmental Policy:

Our Environmental Policy helps us to assess which companies are managing their environmental footprints well and those with material environmental risks or weaknesses. The areas that we focus on are influenced by and support the UN Global Compact.

Via an internally designed Environmental Checklist, we assess and score companies out of 10 on their environmental profile. Our approach helps to drive more accurate risk analysis, helping us to invest in those businesses capable and willing to manage their environmental footprint in a changing world. We engage with companies on environmental issues to better understand their approach to environmental issues; improve areas of weakness; and encourage improved levels of data disclosure and reporting.

We consider specific areas of environmental exposure in our analysis:

- Environmental intensity: how much carbon, water and waste is produced/consumed by our companies?
- Stranded asset risk: how exposed are our companies to unanticipated or premature write-downs of assets?
- Reporting: which companies are failing to report quality environmental data?
- Climate change: which of our companies have taken steps to materially reduce their carbon footprint?

We use MSCI, Bloomberg and company sourced data to measure the environmental intensity of our companies across carbon, water and waste. Where available, we record the carbon intensity of companies across Scopes 1, 2 and 3 based on tonnes of carbon used per million US Dollars of sales generated. We do the same for water and waste. This allows us to compare the carbon intensity of companies across our Approved List as well as within a given sector or Portfolio.

In addition to the above, we also record two MSCI scores related to how well companies are managing the transition to a low carbon economy:

Low Carbon Transition Management: this indicator measures how well a company manages risk and opportunities related to the Low Carbon Transition. It combines Management assessments for the following key issues: Carbon Emission for all companies; Product Carbon Footprint; Financing Environmental Impact; Opportunities in Clean Tech; and Opportunities in Renewable Energy where available. Higher scores (on a scale of 0-10) indicate a greater capacity to manage risk.

Low Carbon Transition Score: this is a company level score that measures a company's level of alignment to the Low Carbon Transition. Companies with higher Low Carbon Transition scores (on a scale of 0 - 10) are more aligned with the Low Carbon Transition compared to the companies with lower scores.

We assess environmental management culture (in accordance with UN Global Compact Principles 7-9); supply chain management; and the extent to which a company's products/services are a positive influence on the environment. We also record whether a company's operations are certified by a national or global standard (e.g. ISO 14001).

Finally, we consider the quality of a company's environmental reporting and if they have a Net Zero Carbon target or other environmental targets in place.

Social Policy:

Our Social Policy allows us to analyse specific social factors, leading to more accurate risk analysis of investment opportunities. The areas that we focus on are influenced by and support the UN Global Compact.

Via an internally designed Social Checklist, we assess and score companies out of 10 on the risks and opportunities that they face from a social perspective. Analysts score companies on the following areas: Labour Practices; HR Management & Training; Health & Safety; Supply Chain Management; Social value add of product / service; Anti-bribery controls; and Quality of reporting.

We use MSCI, Bloomberg and company sourced data to measure and record the following:

- % Employee Turnover;
- % Women in Workforce;
- % Women in Management;
- Gender Pay Gap Breakout;
- Company 5-year tax rate;
- Underlying tax rate;
- Estimated Tax Gap;
- Social tax rating.

We engage with companies on social issues. By doing so, we believe that we can help to encourage management teams to consider the impact of their business on all of their stakeholders and manage social risks accordingly. Such an approach can ultimately lead to better investment returns.

Corporate Governance Policy:

We want to align the interests of company management teams with the interests of long-term shareholders. Our Corporate Governance Policy helps us to identify companies with high standards of governance, while highlighting companies with areas of risk or weakness. Our logic here is simple: good corporate governance increases the quality of a business – and the higher the quality of a business, the greater the sustainability of investment returns.

Via an internally designed Corporate Governance Checklist, we assess and score companies out of 10 on their governance profile.

The Corporate Governance Checklist considers:

- Remuneration of the Executive Board;
- Capital Allocation Record;
- Board Independence;
- Board Ownership;
- Board Diversity.

We engage with companies on governance issues and work with management teams to foster a responsible and long-term approach to the running of their companies.

How we use our Checklist Scores:

Scores for each ESG area are weighted and then aggregated to produce a final ESG score out of 10. We weight the Corporate Governance section of our checklist higher than Environmental and Social as we believe management are ultimately responsible for a company's approach to ESG. The summary section of our ESG Checklist is shown below:

MONTANARO ETHICS & ESG CHECKLISTS			
SUMMARY			
	Score	**% Weight**	**General Comment / Key Issues**
ETHICS	Pass	/	The company has a very poor score on its Environmental Checklist. The company publishes very little data on its environmental footprint and does not publicly disclose its approach to environmental matters. We need to arrange an engagement with management to understand why disclosure in this area is so poor.
ENVIRONMENTAL (1 to 10)	2.0	30%	
SOCIAL (1 to 10)	6.0	30%	
CORPORATE GOVERNANCE (1 to 10)	6.0	40%	
ESG Score (1 to 10)	**4.8**	**100%**	
ESG Rating	**REVIEW**		
Engagement Required?	**YES**		

Conclusions from our ESG analysis are presented to the Investment Committee who discuss any issues with the Analyst. The Committee will decide to continue with, or discard, a new idea based on the Analyst's findings. Companies with a total ESG score of below 5 are flagged on the Checklist under "Review" (as shown above) meaning that engagement is required if we wish to invest in the company. Analysts continue to update the ESG Checklists throughout the holding period as new information comes to light, for example after a set of results; the AGM; or an engagement. The Sustainability Committee monitors the ESG scores of companies on our Approved List at quarterly meetings to understand how Analysts are scoring companies.

We aggregate company ESG scores across each of our investment portfolios to produce a total ESG Fund Score, which is visible on monthly factsheets for each of our investment products.

Our clients typically have long-term investment horizons (five years plus) and our approach to ESG reflects this long-term commitment. As a result, we are prepared to invest in a company with a weakness in its ESG profile so long as management express a willingness to engage with us and a desire to improve any areas of weakness. These checklists have led to engagements that have resulted in higher conviction in the investment case and also decisions to sell stocks, for example:

- **Increased conviction:** The Environmental reporting of a Swedish company we invested in was notably poor, with little detail given on Scope 1, 2 or 3 emissions. After engaging with the CEO of the company, we encouraged them to sign up to the Science Based Targets Initiative in support of the CDP Science Based Targets Campaign. The company has done so and delivered an improved Sustainability Report with a greater level of reported environmental data. This allowed our Analyst to increase the Environmental Checklist score and increased our confidence in the investment case.

- **Reduced conviction:** We spoke to a company listed in Hong Kong about their plans to transition to a less carbon intensive business model following the completion of the company's ESG Checklist. Management informed us that they were unlikely to set any environmentally linked targets for their business as there is little incentive from the Chinese government for them to do so. Coupled with some concerns about the ownership structure that were flagged by the Analyst in the Corporate Governance Checklist, we decided to sell our holding.

Our ESG Checklists also help us to set ESG priorities. In particular, they allow us to identify risks common to many of our companies. When we identify such risks, our Head of Investments and Head of Sustainable Investment work with the team to explore the issue in greater detail via an engagement "Deep Dive". The purpose of these Deep Dives is to engage with companies from across our Approved List and improve our understanding of a particular risk and the quality of our analysis. In recent years we have conducted engagement Deep Dives on:

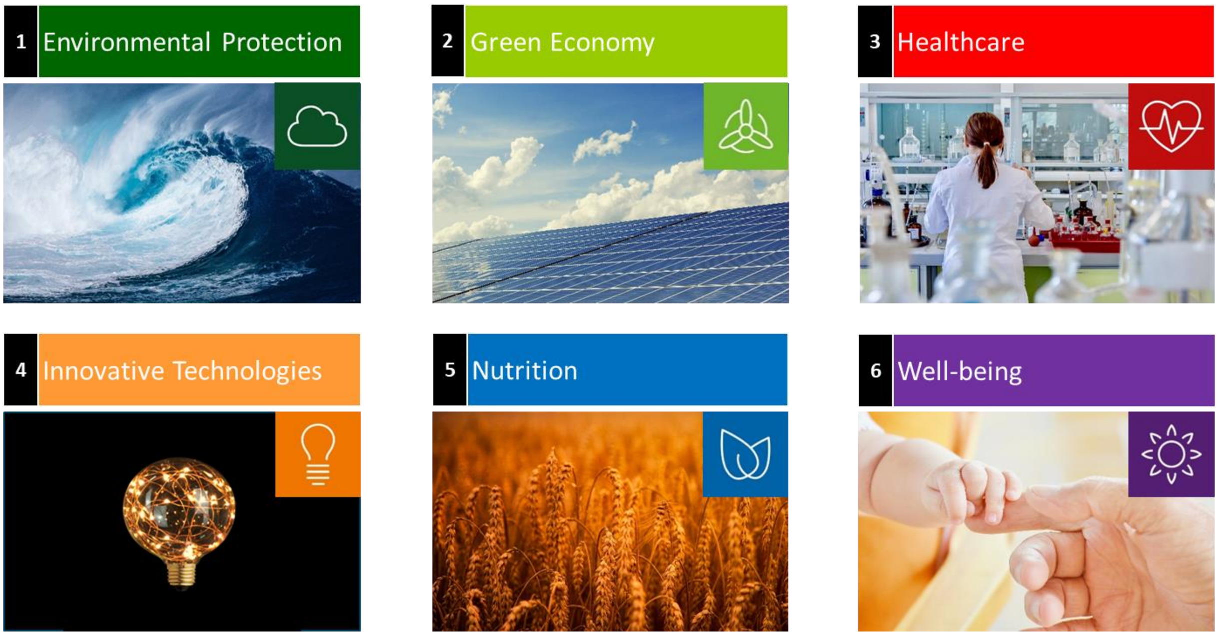
- **Nutrition**: our consumer Analyst wanted to better understand how food companies were responding to healthy eating trends and government regulation on unhealthy foods and ingredients (including sugar and salt);

- **Supply Chain Management**: we noticed that the management of supply chains was frequently a low scoring area on our ESG Checklists. Analysts indicated that low supply chain visibility was one reason scores in this area were low. We engaged with a number of companies in order to better understand how companies were approaching supply chain management. This improved our analysis of this area, allowing us to identify best and worst supply chain management practice.

Our Deep Dive reports are available on Montanaro's website. A detailed explanation of our ESG Policies and Checklists is contained within our ESG Handbook, which is also available on our website.

Impact investing:
In 2018, we launched the Montanaro Better World Fund to invest 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.

The investment process for the Better World Fund is largely the same as for our other Funds in terms of the financial fundamentals and our analysis of ESG factors. However, there is an additional step that considers the impact of a company's products and services and whether they are positively aligned to six impact themes.



Analysts complete an "Impact Report" for every company that we consider for investment. These reports help us to understand:

- Solution: how the company's products/services are helping to solve a major world problem, such as climate change or a healthcare challenge.
- 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?
- 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%.

Our Sustainability Committee votes on whether a stock passes or fails for impact. Since launch the Sustainability Committee has failed 20% of the ideas it has been asked to consider.

PRINCIPLE 8: MONITORING MANAGERS AND SERVICE PROVIDERS

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

The following companies provide services to Montanaro. Each is reviewed as explained below:

ISS: We receive independent corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of votable meetings. We use these for advice only and review every ISS voting recommendation before we submit our vote.
Review: Annual review is led by the Sustainability Committee. We review voting records to ensure that votes have been cast according to our policies and stated preferences (in instances where we have decided to vote against the ISS recommendation). We also arrange annual meetings with ISS to discuss their service offering to ensure that it remains cost effective and we are utilising the full range of their services. Over the course of 2020, we found that the research notes from ISS have been detailed and informative. They are excellent at providing updates on company management and the governance structures in place at our investee companies. The voting suggestions are well-reasoned and, even where we choose not to vote in line with the ISS recommendations, their recommendations offer valuable points of discussion both internally in order to reach a voting decision and as topics for engagement with the companies in question. With this in mind, we remain satisfied with the service that ISS deliver and will continue to subscribe to the platform in 2021 and review the provision annually.

MSCI: We receive environmental data from MSCI on the companies within our Small & MidCap investment universe. This data is incorporated into our ESG Checklists, allowing us to better understand the environmental footprint of the businesses in which we invest. It is worth noting that we do not receive ESG related scores from any service provider as we consider these to be inconsistent. We score companies on their ESG profile via our own internally designed checklists.
Review: Annual review is led by the Sustainability Committee. The focus is on ensuring that the data is being supplied to us in a timely manner (we request a fresh batch of data every quarter-end); that the data is accurate; and we understand what estimations have taken place, allowing us to identify which companies are not reporting environmental data themselves. This helps us when we engage with companies. For example, over the course of 2020 we engaged with a number of companies in the Better World Fund to get them to improve their reporting of carbon data.

Bloomberg: We source company level ESG data from Bloomberg which is incorporated into our ESG Checklists.
Review: Annual review is led by the Head of Investment Analytics covering the entire scope of the Bloomberg offering, including the data and content used for performance and company analysis. From an ESG perspective, we record the percentage of companies that report on various ESG metrics, which influences company engagement as we work with management teams to improve the disclosure of ESG related data.

Factiva: Global news monitoring and search engine Factiva allows us to monitor company newsflow and identify news stories related to our companies that we may otherwise not see by simply focusing on mainstream news sources. We use this primarily as a tool to help us identify issues on which engagement may be required.
Review: Annual review is led by the Sustainability Committee. In 2020, our review found that certain stories highlighted to us via the Factiva system were not particularly current. An old news story is not

useful as the opportunity to have engaged with management may have passed. To try to mitigate this, we have retrained staff on how to use Factiva and have brought it under the responsibility of our ESG & Impact Specialist, who joined the business in January 2021.

Summary Review: As well as a review of individual providers, the Sustainability Committee also reviews the full scope of our providers and considers if there is a "gap" in their offering. During 2020, the Committee decided to launch a search for a provider of impact analysis to aid the reporting of our impact strategy, the Better World Fund. After conversations with several providers, we enlisted the service of Impact Cubed. We were impressed with their methodology and look forward to working with them to support our impact reporting as we work towards the publication of the Better World Fund Impact Fund in the spring of 2021. We will review their service on an annual basis.

ENGAGEMENT

Principle 9: Engagement

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

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.

Engagement forms a key part of our long-term approach, allowing us to identify and manage risks within our portfolios, fulfil our stewardship responsibilities and consider other stakeholders (a duty of all B Corps). Engagement is used as a tool to better understand a company's impact, leading to better investment decisions.

Engagement is typically initiated and conducted by our Analysts as it is they who hold the closest relationships with our investee companies. Support is provided by the Sustainability Committee who review engagement activity at quarterly meetings. The Head of Sustainable Investment may lead certain cases, such as those involving multiple stakeholders, collaborative engagements, or those that affect a number of companies within a portfolio. We typically engage with ~30% of a portfolio in any one year on company-specific issues. We do not seek to boost statistics and do not class management meetings at which ESG questions are asked as engagement.

We have an Engagement Process that is detailed in our ESG Handbook. The purpose of this is to help us to identify engagement issues and priorities. Our focus on Small & MidCap quoted equites means that this process is applicable to all of our investment strategies. Broadly, engagement at Montanaro falls into two categories:

1) **Company Specific**: a company specific risk or issue has been identified on which we wish to engage. This may include an area of weakness identified in our ESG analysis or where we become aware of an incident or breach of our ESG policies or international norms (e.g. UN Global Compact). In the main, we consider this type of engagement to be "reactive" as we are responding to a particular event.
2) **Deep Dives**: we conduct thematic "Deep Dive" engagement projects on specific subjects to better understand how our companies are exposed to a particular issue or area of risk. We consider this type of engagement to be "proactive" as we are taking steps to understand more about a particular subject and the exposure of our investee companies to that risk before it can manifest.

Company Specific Engagement explained: We have a defined engagement process for company specific engagements which can be summarised as follows:

<u>Issue source</u>: we may 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, we also monitor company newsflow, through the information provider Factiva as well as more mainstream news sources.

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 Sustainability 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.

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 Sustainability Committee to review this Log at each meeting to monitor progress and discuss priorities. Every engagement has a designated "objective" and the result of engagement is recorded in the log alongside "next steps"; "impact on the investment case"; and "change to ESG score".

Monitoring engagement: once we have initiated engagement with a company, the Analyst and Sustainability Committee – supported by other members of the Investment Team, such as the Head of Sustainable Investment and Head of Investments – 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 will 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.

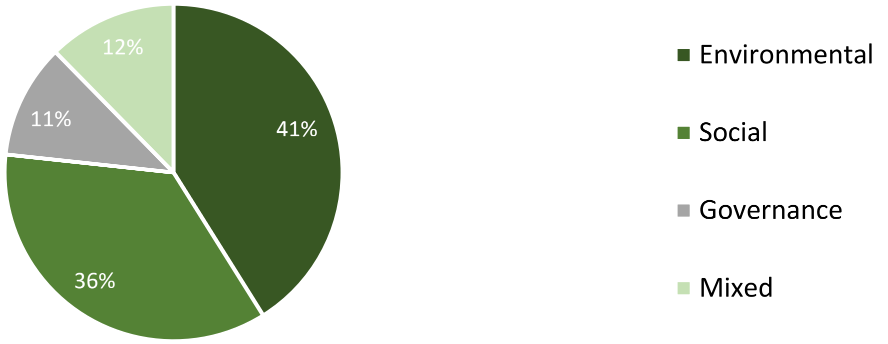
Reaching a conclusion: in an ideal world we would like to reach a positive conclusion on every matter of engagement. Our single aim when we engage with companies is to encourage an improvement in behaviour that leads to more sustainable business practices. We are realistic, however; engagement is often 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 may be sold.

Deep Dive Engagements explained: Deep Dive engagements are commissioned by the Sustainability Committee. We select subjects that have either been identified as common areas of weakness for our companies during ESG analysis, or focus on an issue that we consider a market-wide or systemic risk. We select a number of companies from across our Approved List and engage with management and other stakeholders in order to improve our understanding about a particular subject. Deep Dives also have specific engagement objectives. For example, in 2020 a Deep Dive project focused on climate change and the objective was to encourage companies to set ambitious science-based climate targets.

Summary of engagements in 2020

During 2020 we conducted 73 ESG engagements, with 53 different companies. We also conducted engagements with five specialist groups and two academic organisations.

The split of our ESG engagements in 2020 by category is shown below:



Company Specific Engagement Case Studies

Company	Xylem - a US water technology business
Category	Social – Diversity
In light of the Black Lives Matter movement, we wanted to understand if Xylem is integrating diversity considerations into the running of its business. We spoke to the Vice President, Sustainability & Social Impact, who explained the company's social targets to improve gender diversity and ethnic minority representation. Xylem want to achieve 50% gender parity among the Senior Leadership Team globally by 2025. The company also want to have people from ethnic minority backgrounds to account for 25% of the US workforce by 2025. It was explained to us that this is only in the US, as minority definitions vary by country and a global goal on this is difficult to formulate. These targets have led to diverse candidate requirements when interviewing and they are also working with the water environment agency to increase the inflow of black and underprivileged black students into certain university courses. These targets are a major source of focus for the CEO. Following the call, we have used Xylem's targets and excellent standards of reporting as an example when speaking to other companies about workforce diversity. We have also increased Xylem's ESG Checklist score to reflect greater confidence in their ESG profile.	

Company	4imprint - a supplier of promotional merchandise
Category	Social - Labour Rights
Following a series of new stories highlighting the use of slave labour in China's Xinjiang region, we wanted to speak to the company to understand its potential exposure to these practices given their supply chain extends to parts of China. Specifically, we wanted to understand the company's exposure to Chinese cotton sourced from Xinjiang province. The company informed us that they are aware of this issue and are liaising with their Chinese suppliers to identify areas of potential risk and to develop an action plan to address them. They noted the importance and complexity of the issue and added that they do not source any product directly. The current focus is on working with tier 1 suppliers to identify "at risk" products. They will then verify and validate the source of the cotton in those products. This will lead to the development of a "supplier-by-supplier, product-by-product" plan to either change the	

source of cotton if necessary or discontinue the product. The company informed us that they are trying to be as proactive as possible and are clear that this problem must be addressed where it exists. 4imprint are working with their supply chain and have expressed that they are willing to discontinue any product where they cannot find a way to combat human rights violations. We will continue to monitor this engagement and plan to follow up with the company in 2021.

Deep Dive Engagement Case Study

Project Net Zero Carbon

At the 2019 United Nations Climate Change Conference in Madrid (COP 25), Montanaro joined fellow "B Corps" in announcing a Net Zero Carbon target for its business which it will seek to achieve by 2030. In collaboration with other investors and stakeholders, Montanaro has also set a target that 10% or more of the **Montanaro Better World Fund** (the Fund) by value will be invested in companies that have achieved Net Zero Carbon by no later than 2030. To achieve this, Montanaro's Investment Team has begun a long-term engagement: **"Project: Net Zero Carbon".**

We conducted detailed engagements with 17 companies held in the Fund over the last year, representing 27% of the Fund by value as at 31 December 2020[3]. We also had calls with policy experts and academics as we sought to understand the courses of action open to companies as they tackle Climate Change. Management teams were extremely willing to engage with us and we thank them for their time during what was an unprecedented year as they grappled with the impact of COVID-19 on their businesses.

The focus of our Net Zero Carbon engagement efforts to date have been to better understand how businesses are responding to the challenge of Climate Change; to identify the "leaders" and "laggards" across the Better World Fund; and to support our companies as they set targets and improve standards of reporting.

We have written a summary paper of our engagements on this topic which is available on our website.

[3] This figure excludes engagements with four companies that have since been sold from the Fund.

PRINCIPLE 10: COLLABORATION

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

Montanaro participates in collaborative engagements where we see a material benefit to the achievement of engagement aims and additional support to our commitment to the promotion of sustainable investment practice.

The Sustainability Committee decides whether Montanaro will participate in a collaborative engagement. A member of the Committee, typically the Head of Sustainable Investment, will be responsible for liaising directly with the organisation leading the collaborative initiative. Analysts will be responsible for contacting the relevant companies that fall under their coverage, typically with the support of a member of the Sustainability Committee.

Collaborative engagement example: Healthy Markets Initiative
Montanaro has a long-standing interest in healthy eating. In 2018, our Sustainability Committee commissioned a "Deep Dive" engagement on Nutrition, which was led by our Consumer Analyst. The aim was to better understand the risks and opportunities that our food related companies were exposed to, with a focus on healthy eating trends, obesity and new forms of regulation.

We have continued to engage with companies on these subjects and therefore we felt our engagement efforts could be augmented by participating in ShareAction's Healthy Markets Initiative. This is funded by Guy's and St Thomas' Charity and aims to tackle rising childhood obesity levels in the UK. As with other ShareAction initiatives, investors are invited to collaboratively participate and engage with relevant companies to encourage them to adapt to increasing regulation and demand for healthier products.

The project is also partnered with the Access to Nutrition Initiative (ATNI) to rate and track the contribution that major food companies in the UK are having in driving the uptake of healthy diets. This data is then combined with ShareAction's own research and analysis to provide investors with information and recommendations to help drive engagement with companies.

So far, the data provided to us via this initiative has helped us to better understand the challenges of promoting healthier foods over less healthy foods. The findings of this report suggests that both food manufacturers and retailers need to disclose the percentage of their sales that are derived from healthier products and to set long-term targets to increase that share. We will continue to use the ATNI and ShareAction reports and feedback as a basis for our engagement to support our suggestions to investee businesses on how they can combat the UK's growing diet-related health challenges.

In addition to contributing to the investor initiative as a signatory, we have also engaged directly with certain investee companies. We engaged with Britvic on multiple occasions during the year to encourage the achievement of a healthier product portfolio and a greater proportion of sales derived from healthy products. We are encouraged by the conversations we have had so far and look forward to hearing from the company on how they have enacted this strategy in their next report on the matter. In addition, the engagements undertaken so far have shaped future targets. We hope to go beyond the goals of the Healthy Markets Initiative and encourage companies to base a proportion of variable remuneration for executives on the achievement of a healthier product mix and revenues from such products.

This is a relatively new initiative and therefore the steps taken so far taken by the investor group towards the achievement of the established goals have yet to be collated. However, a frustration that we face with such initiatives is that they often focus on the largest companies in a particular sector, in this case the large food retailers. Given our Small & MidCap focus, we are not shareholders in these companies so the opportunity to engage directly with companies can be limited. To further this collaborative engagement effort, we are considering which other companies in our investment universe, such as certain suppliers, might be ripe for engagement on this topic.

In addition to our efforts with the Healthy Markets Initiative we joined several other collaborative programs during 2020. They are shown in the table below:

Initiative	Description	Involvement
Farm Animal Investment Risk and Return (FAIRR)	A research and engagement organisation specialising in the ESG risks associated with animal agriculture	Signatories to their collaborative engagement initiatives.
Net Zero Carbon 10 (NZC10)	Collaboration with asset managers, asset owners and climate scientists at Oxford University to encourage companies to set and meet Net Zero Carbon targets.	The focus of this engagement effort in 2020 was to better understand how businesses are responding to the challenge of Climate Change; to identify the "leaders" and "laggards" across the Better World Fund; and to support our companies as they set targets and improve standards of reporting. This has influenced a "Deep Dive" engagement: Project Net Zero Carbon.
Investor Statement on Coronavirus Response	Interfaith Centre on Corporate Responsibility	Signatories to the statement urging the business community to take what steps they can to prioritise the health and safety of workers and the public whilst maintaining employment and conducting their business in a responsible manner.

Companies contacted by the initiatives shown above have generally responded positively but we intend to follow up over the coming year to track changes as a result of the efforts of these groups.

PRINCIPLE 11: ESCALATION

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

We always attempt to engage constructively with the companies in which we invest. If we identify an issue that requires engagement, we will always speak to the company first. We recognise that engagement takes time and we are willing to speak to management teams a number of times in order to raise a concern and work with them to reach a solution. However, in instances where our concerns are not addressed or the company does not respond constructively to an engagement, we may decide to escalate the engagement to achieve our desired outcome.

Our escalation strategy falls into two parts:

1. Internal: If an Analyst or another member of the team leading an engagement fails to get satisfactory answers to an engagement matter, then they will discuss the next steps with members of the Sustainability Committee. They will decide if further engagement is required and will be constructive. If we decide not to escalate the engagement further, then the Analyst will discuss the case with the Investment Committee and the Analyst may recommend that the stock is sold. If we decide further engagement is warranted, then we will proceed to step two.

2. External: Escalation typically begins by escalating the engagement 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 have majority stakes that are owned by the founder, or 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. In serious instances, we may indicate that we are withholding our support by abstaining or voting against management. We may also consider calling an EGM. If the above steps do not allow us to realise the aims of the engagement, then we may choose to sell the shares.

Escalation Engagement Case Studies

Example 1:

We initiated a long-term engagement with a manufacturer of insulation products in which we were invested in 2017, two days after a fire engulfed a building in London, leading to major loss of life. We wanted to understand if they company's products were involved in the fire and what the consequences of this could be for the industry. The below is a summary timeline of this engagement and how it was escalated.

June 2017 - Call with Investor Relations	Montanaro's Head of Investments called the Investor Relations representative to understand if the company's products were involved in the building in London. We also sought to understand what insulation materials would have been included on a building such as this. We were informed that the company did not believe that their products had been included in the building but recognised that there are many questions

	that will take time to answer. They did inform us that they have a similar insulation product to what is known to have been in the building that has been certified with a high scoring UK fire performance certificate. The Analyst determined that further engagement will likely be required if new information comes to light given the initial engagement took place very soon after the fire when many of the facts were unclear. The Sustainability Committee agreed that we should request to speak to Senior Management in due course.
August 2017 - Meeting with CFO at Montanaro Offices	At a meeting led by our Analyst, we asked management several questions relating to the fire. By this stage, it was public knowledge that the company's products had been used in the building, although they had been acquired through a supplier rather than directly from the company. The CFO noted that the incident was now the subject of a wider investigation covering much broader issues, such as how buildings should be built regarding fire and safety standards. Finally, the CFO said that there has not been any measurable impact on the business and they do not expect any going forward. The Analyst saw no reason to change their view on the company given the company has informed us that their products were only used in the building without the company's knowledge and that these products had been appropriately certified.
November 2020 – Public Inquiry	Following the resumption of a Public Inquiry, it was found that the testing of the company's insulation product was "wholly invalid". Our Analyst concluded that this may refer to the test that the company referenced during our first engagement on the matter in June 2017. The Analyst escalated the engagement internally to the Sustainability Committee who concluded that Phase 2 of the Inquiry has scope to move beyond just the fire incident and therefore we must consider how the Inquiry's findings may affect the company's ESG rating. It was necessary to speak to the company again.
November 2020 - Call with Investor Relations	*This was our first chance to speak directly with the company following the comment of Module 2 of the Inquiry.* Our Analyst, Head of Investments and Head of Sustainable Investment, spoke with the Head of Investor Relations at the company. The company admitted that they had identified certain shortcomings in the way three fire tests of cladding systems were conducted (one undertaken in 2005 and two in 2014), but also in relation to the marketing of the material. As the Public Inquiry was ongoing, they were not able to share more information.
November 2020 - Sustainability Committee Meeting	The Sustainability Committee had the following conclusions: 1 Has the Inquiry unearthed a "VW" type scandal, where the manipulation of testing and certification procedures are widespread?; 2 The new information the Inquiry made public at the beginning of November 2020 should be reflected in the company's ESG Checklist (specifically Corporate Governance and Supply Chain);

	3 The Sustainability Committee should vote again on the company's impact case as the company is held in the Better World Fund; 4 A further call with a Director of the company may not lead to any new information at this stage given the likelihood that they will be restricted in what they can say due to the ongoing Inquiry. Escalation to other members of senior management will therefore not lead to a progression of the engagement.
November 2020	The Analyst responsible for the stock recommended that we sell the shares as the issues identified in the engagement process suggest a material weakness in the company's ESG profile that had a detrimental impact on the investment case.

Example 2:

In May 2020, we engaged with a company operating in the food industry after it issued a statement confirming the death of three workers from COVID-19 who worked at one of their plants. We wanted to understand the measures the company has put in place to ensure the health and safety of its employees in relation to coronavirus.

May 2020 - Call with CFO	The call with the CFO informed us that there was no connection between the deaths of the three workers, as they worked in different parts of the plant and in different shifts. The CFO insisted that employees are asked not to come into work if they have symptoms and that their health and safety measures are in line or better than those mandated by government. The company also noted that the employees could have contracted COVID-19 outside the plant. Given that food factory workers are key personnel and have been working during the crisis, the CFO thinks the risk of contracting COVID-19 is higher, but he doesn't think this situation has anything to do with other cases in the news about abattoirs in the US and other parts of the world. The reason is that the company's plants are high care sites (food consumed without cooking) and therefore cleaned every day.
August 2020 - Call with Finance Director	We had a call with the Finance Director and challenged him on workers ability to live on statutory sick pay while out of work with COVID-19. We were informed that the company had put in place: • £500 bonus to those who worked during lockdown; • Regular surveys of staff on measures introduced to safeguard the workforce; • Policies to ensure ill staff self-isolate and return to work as soon as they are fit; • Monitor individual cases if someone is having difficulties.
October 2020 - Email & call with CFO	We continued to engage with the company following the death of three members of staff from COVID-19. Cases of workers with COVID-19 have

	continued, but the company believes that these are related to community outbreaks / reflection of hotspots. The company informed us that they have continued to see cases among the work force during the “second wave”. They do not believe that cross contamination was the cause of the outbreak. Rather, evidence suggests that increased cases have been community driven. The company had taken decisive action by stopping production at the one plant for a 10 day period for isolation purposes. We will continue to monitor the situation and any ongoing impact of the virus on the company’s factories.
October 2020 - Sustainability Committee meeting	While we want to support the company with this difficult issue and they have dealt with the issue of COVID-19 outbreaks among their staff in keeping with government guidelines, our Analyst, in discussion with the Sustainability Committee, believes that we need a greater level of detail to fully understand working practices in food plants. We have therefore decided to escalate the engagement and have contacted a third-party organisation to see if we can join a collaborative engagement.
November 2020 - Email discuss with FAIRR	Our Analyst contacted FAIRR, a collaborative investor network that focuses on ESG issues in the food and animal production sectors. Having discussed the above engagements, FAIRR informed us that they will be launching a collaborative project in 2021 focusing on working conditions at meat processors and related food production companies: i) governance, oversight + disclosure, ii) health + safety improvements, and iii) grievance mechanisms, and enabling the workforce to have an independent voice through e.g. formal representation at relevant committees, relevant recognition of trade union or other forms of collective organisation. We indicated our support for this project and will be contributing to it in future.

PRINCIPLE 12: EXERCISING RIGHTS AND RESPONSIBILITIES

Signatories actively exercise their rights and responsibilities.

Voting Policy:

- We seek to exercise all of our voting rights.
- We make our own voting decisions.
- We do not chose to automatically support the Board or the Executive 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 any of our 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. Via dialogue with the Investment and Sustainability Committees, our Analysts aim to discuss any issues with management prior to voting against or abstaining.

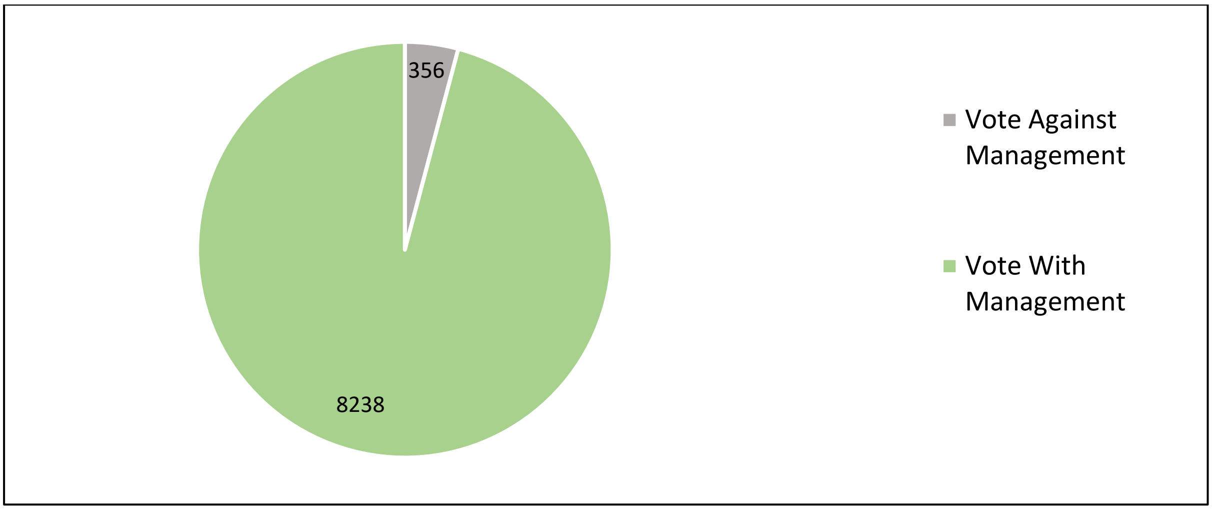
We apply the same voting decisions across all portfolios, unless a segregated client has specified that a particular voting policy be applied in their client agreement. We keep a record of our voting rationale.

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 Sustainability 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.

Review of voting in 2020:
Between 1 January 2020 and 31 December 2020, there were 222 meetings at which we were eligible to vote. We voted at 221 of these, equating to approximately 99% of votable meetings, with close to 0% unvoted. The meeting at which we did not vote was due to one company not being covered by our custodian's proxy service. We are currently exploring how we might resolve this issue.

The chart below shows votes cast on Montanaro ballots during the reporting period. It indicated that in 96% of cases, our votes were aligned with management. The ISS Benchmark Policy recommendations are at 93% alignment with management recommendations. The discrepancy between our voting record and ISS suggestions during the year is indicative of the oversight, analysis and engagement undertaken by our investment team. **Of the 8,954 votes cast, 356 were at odds with**

management recommendations. For more detail on voting, you can find the full Montanaro voting record on our website[4].



Votable Meetings	222
Meetings Voted	221
Meetings with Votes Against Management	62
Meetings with Votes Against ISS Policy	63

Votes cast during the reporting period were at least in line with management on matters concerning reorganisation and mergers, where 23% of votes went against management recommendations.

During 2020, executive compensation was another area where votes were most frequently cast against management. Analysts record details of executive remuneration, both base salary and variable pay and 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 preferably linked to long-term returns on capital employed. Analysts engage with companies where remuneration policies differ from our guidelines. 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 executives ahead of such proposals being presented to shareholders. Where engagement does not give rise to positive change, this is when we would explore voting against management on agenda items concerning pay.

<u>**Voting** Case Studies</u>

Executive pay:
An example of where this occurred in 2020 was the case of a Spanish Property company. We were concerned about the remuneration arrangements we were being asked to vote on at the 2020 Annual General Meeting (AGM). The proposed pay-out for executives seemed to us to be excessive, particularly in the wake of the COVID-19 pandemic. We approached the company ahead of the meeting to voice our concerns. During the conversation it became clear that no downward

[4] https://montanaro.co.uk/wp-content/uploads/2020-Proxy-Voting-Report-1.pdf

adjustments to the compensation were planned and as a consequence we opted to vote against the remuneration report. When we reviewed the results of the AGM we noticed that, although the resolution still passed, 35% of the votes had been cast against management. This sends a strong signal that investors disagreed with the pay arrangements at the business and this will hopefully influence the company's behaviour going forward. In the meantime, we have decreased the Montanaro ESG score for the company on the basis of heightened corporate governance risks as executive pay does not appear to be aligned with performance.

Special resolution:
Another example where our voting decisions ran contrary to management and ISS suggestions came in the form of a special resolution proposed by a UK Financial Services business. Shareholders were asked to approve an acquisition. When MAM Analysts and the relevant committees reviewed the proposal, it was decided that this was not a prudent course of action. We opted to vote against this resolution and spoke to the chairperson regarding the future strategy of the company. Following our engagement on the matter, it was decided that, whilst we disagreed with the acquisition, our belief in the long-term investment case remained unchanged.

[END]

For more information on Montanaro's approach to stewardship and sustainable investing, please contact Ed Heaven, Head of Sustainable Investment: eheaven@montanaro.co.uk

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