

# Report to: UK Stewardship Code

For the year ending  
31 December 2023



**MONTANARO**



# Introduction

The UK Stewardship Code 2020 (“the Code”) set higher standards for those investing on behalf of UK savers and pensioners. The greater level of transparency required by the Code and its focus on reported outcomes is, we believe, of great support to the development of a sustainable financial system that works for the benefit of all stakeholders.

Montanaro Asset Management (“MAM” or “Montanaro”) has been a signatory to the UK Stewardship Code since its inception in 2010. Our 2016 statement was ranked a Tier 1 submission. We were pleased to have been listed as a first wave signatory to the revised 2020 iteration of the Code when it was published.

As in previous years, in this report we aim to explain how we have complied with and supported the 12 principles of the Code in our role as an asset manager serving UK clients and those who invested through us during 2023.

At MAM, we define “Stewardship” as the responsible allocation, management and oversight of capital to create long-term value for our clients, 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.

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. We were recertified as a B Corporation in 2022, cementing our commitment to responsible business practices.

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

**Cedric Durant des Aulnois – Chief Executive Officer**

April 2024

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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.**

Montanaro Asset Management (“MAM” or “Montanaro”) is an asset management company that specialises exclusively in the management of long-only Global, European and UK Small & MidCap equity portfolios. As of 31 December 2023, we managed assets of £3.3 billion.

### History & ownership

MAM was founded in 1991 by Charles Montanaro to provide an institutional approach to investing in Small & MidCap quoted equities. Based on experience from earlier in his career, Charles believed that the Small & MidCap equity market was overlooked by investors. He therefore founded Montanaro: *“a company of independent analysts to do the research needed on quoted SmallCap in-house on behalf of leading institutions who were never likely to have the resources to do the necessary work themselves”*<sup>1</sup>.

MAM remains true to this Smaller Companies heritage, although we have expanded our geographic remit over the last 30 years. During the 1990s, MAM invested exclusively in UK equities; in the 2000s we began investing in companies listed in Continental Europe; and in 2018 we launched our first Global fund.

Today, we continue as a privately owned boutique. Our founder retains majority ownership, while key members of staff have been awarded long-term equity options, ensuring that the integrity of the business is maintained and that we remain true to our purpose: to deliver strong and sustainable investment returns to our client by investing responsibly in quoted Small & MidCap equities.

We believe our structure significantly aids us with the delivery of our stewardship responsibilities. As an independent boutique we avoid excessive bureaucracy, internal politics and the conflicts of interest that can arise at larger firms or those owned by a parent company. We are a conservatively managed business with a strong balance sheet and there are no plans to sell the business. This means that in times of economic stress, we can not only retain our staff but also recruit talent.

We view our clients as our partners and seek to work with those who understand the long-term approach that is needed when investing in Quality Growth Smaller Companies. We support clients in their due diligence efforts when they are considering investing with us, and we spend time getting to know them too. We are not asset gatherers. This means that when clients invest with us, they understand how we invest; we know their expectations; and we are in a position to learn from one another. Some of our best collaborations have come from working together with our clients, such as on engagement projects. Our client base comprises pension funds, local authorities, wealth managers, endowments, charities and family offices, many of whom have been with us for years, some for more than 25 years.

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<sup>1</sup> Montanaro Investment Newsletter, 2015

## B Corporation

In 2019, MAM placed sustainability at its core by becoming a certified B Corporation. This was achieved by 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. This formalised our business approach as one of "Stakeholder Capitalism" - moving beyond a "shareholder primacy" model to consider the impact of our organisation on all stakeholders, including people and planet. We recertified our "B Corp" status in June 2022<sup>2</sup>, a requirement of the three-year re-certification cycle, receiving a much-improved score.



Our role as an asset manager can be understood with reference to our **Purpose**; our **Vision**; our **Principles**; and our **Values**. These are explained below:

### Purpose – what are we here for?

Our purpose is to deliver strong and sustainable investment returns to our investors by investing responsibly in quoted Smaller Companies.

### Vision – where do we want to be in the future?

As a private, independent company with no outside shareholders, we spend all our time trying to create value for our clients rather than gathering assets. We do not want to become too big. We passionately believe in remaining a small, specialist boutique to retain our culture and ability to generate attractive returns. Upon reaching capacity we will close the business to new investors and continue to work only with our existing partners. Montanaro will never be sold.

### Principles – how will we get there?

We believe in common sense investing. We are "Quality Growth" investors seeking to identify the best management teams and the large companies of the future. We keep turnover and transaction costs low; we follow our companies closely over many years; and we invest for the long term. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty.

We work closely with our companies to encourage sustainable business practices, which we believe play an integral part in the creation of long-term shareholder value. ESG considerations have always formed an integral part of our investment process. Montanaro was one of the first UK asset managers to become a B Corporation in June 2019.

### Values – what is important to us?

- **Always act with integrity and do the right thing.** Our reputation is all important to us.
- **Look after your clients and they will look after you.** We always put clients first, treating them as partners. Transparency is important and our door is always open. We are open about our investments and admit when we make a mistake. We never forget that it is only thanks to our clients that we are here.
- **Share the same investment risks that your clients do.** Our team are all invested in the Montanaro Funds. When we launch a new Fund, we seed it with our own money. Our interests and those of our clients will always be aligned.

<sup>2</sup> A summary of our B Corporation score is available here: <https://www.bcorporation.net/en-us/find-a-b-corp/company/montanaro-asset-management/>

- **You cannot be good at everything - stick to what you know.** We focus exclusively on high quality, growth companies and hold them for the long-term. Small and MidCap is an attractive place to invest because it is less researched. If you have the in-house resources to complete the due diligence yourselves, it is possible to find attractive investment opportunities and to produce superior returns.
- **Stay humble.** You learn more from your mistakes than from the investments that succeed. Humility goes a long way in the world of investing. We never forget that it is a privilege to meet the executives of companies in which we invest. We appreciate the time that they give to us; we will always be well-prepared and treat them with both courtesy and respect. That clients trust us with their capital is a responsibility we do not take lightly.
- **Treat your team as you would your family.** We place great emphasis on getting the work - life balance right. Three things matter in life - family, health and work - in that order. When coming to work, we want each heart to beat a little faster with excitement. To succeed in investing in SMidCap requires a dedicated and highly motivated team working together in harmony and mutual respect. We try to create a happy and stimulating working environment in which each member of the team feels cared for and is valued – an “Oasis in the City”.

### **Our investment approach**

At MAM, all portfolios are managed according to the same “Quality Growth” investment philosophy.

We are stock pickers at heart: we construct portfolios purely on a bottom-up basis. We aim to identify the highest quality companies with the best management teams that we can hold for the long term. We believe that you “get what you pay for in life”: it is worth paying more for a well-managed, financially sound business that operates in a growth industry and enjoys a sustainable competitive advantage. Businesses with such quality characteristics are able to “beat the fade” and maintain a high Return on Capital over the long term.

“Montanaro” companies share the following characteristics:

- Business models we can understand
- Profitable
- Focused business in growth markets
- Market leader
- High returns on capital with strong balance sheet / cashflow
- Outstanding management
- Exemplary standards of ESG and a willingness to engage

We take a conservative approach. We never lose sight of our primary goal which is to make money for our clients through sound investment decisions based on our own rigorous, fundamental analysis. We also believe that it is right and proper to align our interests with those of our investors – we all invest in our investment trusts and funds alongside our clients.

### **Sustainable investing**

A sustainable focus is central to how we invest. We believe that the best and most sustainable investment returns come from the highest quality businesses, run by the best management teams. ESG forms part of our definition of a company’s Quality and ESG is fully integrated into our investment process. 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 (available on our website<sup>3</sup>). 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. We believe this approach is well understood by our investee companies, providing us with good access to management when we need to engage, an approach endorsed by our clients.

We continue to evolve and improve our approach to sustainable investing and ESG. Developments in 2023 included:

- MAM's Investment Team developed a new ESG Checklist, which utilises ~80 ESG data indicators and enables better comparison of company ESG profiles against company peer groups; companies on our Approved List; and a benchmark index.
- Ed Heaven, Head of Sustainable Investments, **appointed to the Board of the UK Sustainable Investment & Finance Association** ("UKSIF").
- Announcement in March that **by 2030, MAM will be carbon negative across its operations** and will have **removed from the environment all historical emissions** since its founding in 1991. We believe we are the first UK Asset Manager to commit to these ambitious targets. We have published our methodology for "**Project: 2030**" on our website.
- MAM **invested further in its Investment Team**, hiring a **second ESG & Impact Specialist**, Harriet Topham. **Adam Montanaro also joined the business** after more than a decade as an Analyst and Portfolio Manager at Abrdn. He is a member of **MAM's Impact Team**.
- MAM's ESG & Impact Specialists wrote a **Deep Dive engagement report on the Built Environment**, exploring how cities and towns can move to a more environmentally and socially sound footing.

#### **Our industry commitments:**

- **2009:** Principles for Responsible Investment (PRI)
- **2010:** FRC Stewardship Code
- **2015:** Carbon Disclosure Project (CDP)
- **2017:** LGPS Code of Transparency
- **2019:** B Corporation Certification
- **2019:** Farm Animal Investment Risk & Return (FAIRR)
- **2020:** Net Zero Asset Managers Initiative
- **2021:** Glasgow Finance Alliance for Net Zero
- **2022:** Tobacco Free Portfolios Finance Pledge
- **2022:** Living Wage Accreditation
- **2022:** UK Sustainable Investment and Finance Association (UKSIF)
- **2023:** Task Force for Nature Related Financial Disclosures (TNFD)
- **2023:** Investor Coalition on Food Policy
- **2023:** ShareAction - Long-term Investors in People's Health (LIPH)
- **2023:** ShareAction - Workforce Disclosure Initiative (WDI)

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<sup>3</sup> <https://montanaro.co.uk/sustainable-investing/>

## Training & improvements

MAM continues to sponsor employees through qualifications relating to ESG, impact and stewardship, including the CFA ESG, Impact and Climate Change qualifications as well as the Sustainable Finance Course run by the Cambridge Institute for Sustainability Leadership (CISL). Beyond this, the company has also supported the attendance of conferences and events for learning and development in this area.

In 2023, we introduced a revised version of our bespoke ESG Checklist. The most significant developments included the incorporation of over 80 ESG data points, allowing us to better understand the ESG profile of the companies we consider for investment. The new Checklist also allows our Analysts to compare a company's ESG profile against a company's sector, our Approved List, and a benchmark index. The design of the Checklist was completed at the end of 2023 and will be rolled out across our companies in Q1 2024.

## Sustainability at MAM

One of our core values is to "Practice what we preach". As a certified B Corporation, we apply the same sustainability standards to our business as we expect from our investee companies. We have continued our work to lower our operational emissions as we work towards the achievement of our climate related targets.

MAM has continued to support its charity partners during the year. MAM supports **City Harvest**, a charity that collects high quality surplus food from the UK's leading retailers, wholesalers, restaurants and manufacturers to distribute to more than 350 community programmes that serve meals to vulnerable people in London.

Montanaro also founded and supports **Tribal Survival**, a UK registered charity, which aims to promote the well-being of indigenous people across the world. Charles and a team of doctors take medical aid to remote tribes, including the Korowai in West Papua, a trip that was supported by the World Health Organisation.

We have continued to support Rewilding Britain and the Dorset Wildlife Trust. **Our funding to Rewilding Britain** will support its "Rewilding Network", a network of rewilding projects across Britain that provides support, education and guidance to those undertaking rewilding projects<sup>[1]</sup>.

**The support we provide to the Dorset Wildlife Trust** is helping to restore the River Sherford in Wild Woodbury. This is a flagship rewilding project, not only for the Trust (it is their biggest ever large-scale rewilding project), but for the country too. Covering an area of 170 hectares of farmland, acquired by the Trust last year, the project aims to restore woodland and wetland habitats across the site, reducing high nitrate levels in the local waterways and preventing them from entering Poole Harbour, located at the river's mouth.

From a national perspective, the Wild Woodbury project is unique: it is the country's first community rewilding project and will provide opportunities for people of all backgrounds and abilities, including the Montanaro team, to play a key role in helping to create a new space for nature. It aims to provide inspiration and guidance for further rewilding projects around the country.



# Principle 2: Governance, resources and incentives

## **Signatories' governance, resources and incentives support stewardship.**

### **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 climate change targets and charitable commitments) and those embedded within the services we provide to our clients (e.g. ESG and impact in the investment process). The Board also sets targets for the company to achieve, such as the attainment of B Corporation certification. 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 the 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 delivers on its purpose and that the senior leadership team fulfils our stewardship and sustainability responsibilities and commitments.

**Head of Investments** – oversees the integration of MAM's stewardship commitments in our investment process.

**Head of Sustainable Investments** - leads MAM's sustainable investment responsibilities, encompassing stewardship, impact investing, engagement, voting and reporting to clients.

**Chairman of the Sustainability Committee** - chairs quarterly meetings of the Sustainability Committee.

### **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. Ensure that Montanaro's ESG and sustainable investment approach remains fully integrated into our investment process and continues to develop and improve.
2. Review the ESG and impact analysis conducted by MAM's Investment Team, and review engagement and voting activity.
3. Oversee MAM's corporate stewardship responsibilities, such as our responsibilities as a B Corporation.

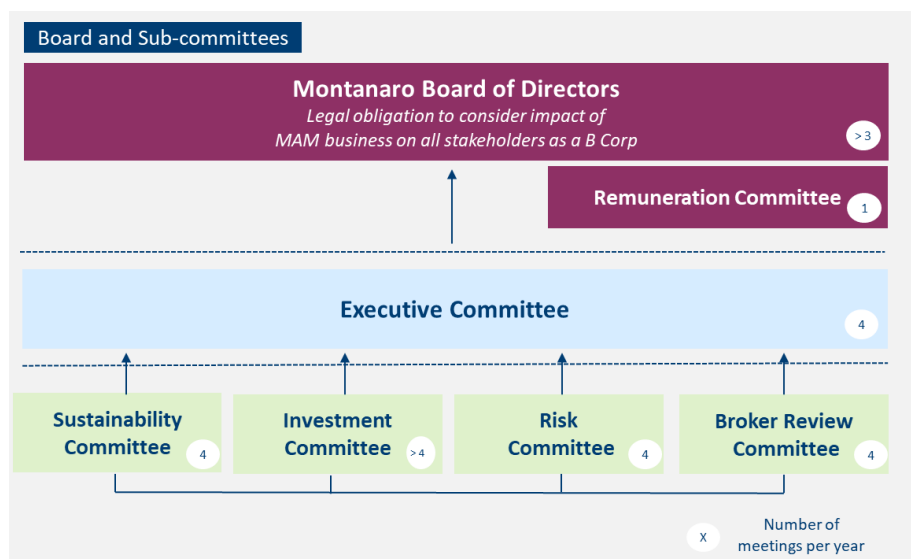
The Committee meets on a quarterly basis and is comprised of members who collectively have many years of sustainable investment experience. Meetings have a formal agenda and minutes are taken,

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 impact voting log
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 Fund Management, Head of Sustainable Investments, Head of Compliance and Risk, and Head of Business Development – meets on a quarterly basis to review Montanaro’s business. This includes a review of the activities and recommendations of the Sustainability Committee, including the minutes of the meeting. In turn, the Executive Committee reports to the Board, as illustrated below:



**A well-resourced team:**

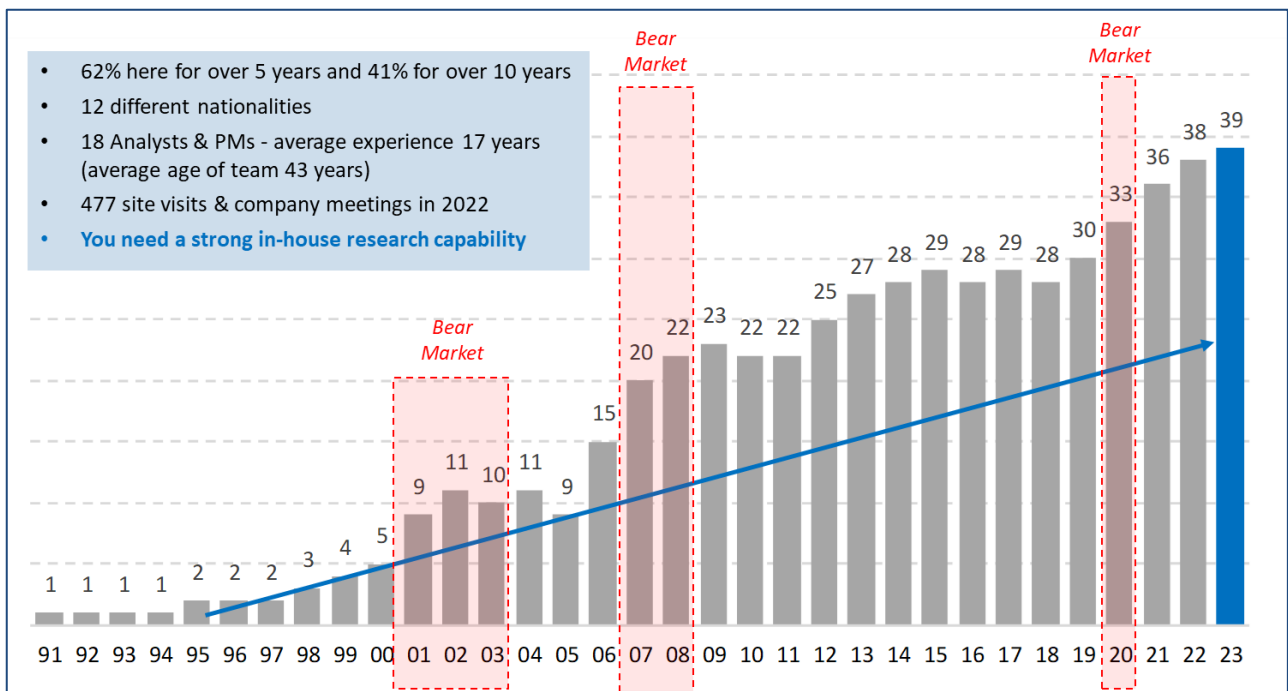
We have a large team that is trained and incentivised to deliver on our stewardship responsibilities. We are a well-resourced boutique with a large investment team dedicated to Small & MidCap quoted equities. Our Investment Team is responsible for conducting ESG and impact analysis on the companies that 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.

To supplement our own research, we receive ESG data from MSCI and Bloomberg for the companies in the global Small & MidCap investment universe. 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 Analysts.

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.



We have a diverse team, comprising 12 different nationalities. Over 30% of staff are women. We have decided not to introduce strict diversity targets into the business as, with a small team, a single hire or departure can have an undue influence on a numerical metric. However, in response 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:

<b>INVESTMENT Committee</b> Charles Montanaro (Chairman) Mark Rogers George Cooke Alex Magni + PMs		 <b>Charles Montanaro</b> Chairman of the Board / PM	<b>SUSTAINABILITY Committee</b> Ed Heaven (Chairman) Cedric Durant des Aulnois Mark Rogers Nere Asumendi		Kate Hewitt Sarah Bridges Rachel Herry
<b>INVESTMENTS</b>		<b>CLIENT RELATIONS</b>		<b>ADMINISTRATION, COMPLIANCE &amp; RISK</b>	
 <b>Mark Rogers</b> Head of Investments / PM	 <b>George Cooke</b> Head of Fund Management / PM	 <b>Tom Norman-Butler</b> Head of Business Development		 <b>Matthew Francis</b> Head of Compliance, Risk & Administration / Compliance Officer	
 <b>Ed Heaven</b> Head of Sustainable Investment	 <b>Alex Magni</b> Analyst / PM	 <b>Chris Crier</b> Head of UK Advisory Sales	 <b>Christian Albuison</b> France, Benelux, Spain, Scotland	 <b>Sarah Bridges</b> Compliance Manager	 <b>Laura Denny</b> Compliance Executive
 <b>Andrea Shen</b> Analyst / PM	 <b>Guido Dacie-Lombardo</b> Analyst / PM	 <b>Dan Powner</b> UK IFAs (South)	 <b>Henrik Schmidt</b> Nordics	<b>OPERATIONS</b>	
 <b>Stefan Fischerfeier</b> Analyst / PM	 <b>Adam Montanaro</b> Senior Analyst	 <b>Harry Fitzgerald</b> UK Wealth Managers	 <b>Grace Applegate</b> Marketing Assistant	 <b>John Ensor</b> Head of Operations	 <b>Gareth Bateman</b> Trade Execution / Fund Administrator
 <b>Nere Asumendi</b> Senior Analyst	 <b>Henrik Schmidt</b> Senior Analyst	<b>IT &amp; SYSTEMS</b>		 <b>Rachel Herry / Ajmol Hussain</b> Trade Execution / Client Reporting	 <b>Aaron Gomez</b> Trade Execution / Fund Administrator
 <b>Gaspar Arino</b> Senior Analyst	 <b>Hal Miller</b> Analyst	 <b>Mark Petar</b> Head of Systems	 <b>Sean Bennett</b> Systems Administrator	 <b>Dimitris Giakis</b> Fund Administrator	 <b>Klaudia Miziuk</b> Fund Administrator
 <b>Yannis Gidopoulos</b> Analyst / PM	 <b>Kate Hewitt</b> ESG & Impact Specialist	<b>FINANCE</b>		<b>RISK</b>	
 <b>Manroop Bal</b> Analyst	 <b>Harriet Topham</b> ESG & Impact Specialist	 <b>David Price</b> Senior Finance Manager	 <b>Jeremy Law</b> Risk Analyst	<b>OFFICE SUPPORT</b>	
				 <b>Lowri Brown</b> Office Manager / PA to the Chairman	 <b>Karis Rose</b> Assistant to the Office Manager

### A commitment to training and progression:

We have a training budget and sponsor staff through industry qualifications, such as the CFA's ESG Certificate, Impact Certificate and Certificate in Climate and Investing. We run regular training sessions for members of our team that are led 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.

In 2023, we trained our Investment Team on how to use the new ESG Checklist.

### 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 Investments is appraised based on the quality of his leadership on ESG and sustainability matters. Our Impact & ESG Analysts have variable pay linked directly to work on ESG issues.

**Improvements in 2023:**

**ESG Checklist:** In 2023, we introduced a revised version of our bespoke ESG Checklist. The most significant developments included the incorporation of over 80 ESG data points, allowing us to better understand the ESG profile of the companies we consider for investment. The new Checklist also allows our Analysts to compare a company's ESG profile against a company's sector, our Approved List, and a benchmark index. The design of the Checklist was completed at the end of 2023 and will be rolled out across our companies in Q1 2024.

**Regulatory Developments:** All Montanaro Funds domiciled in Dublin fall under the scope of the Sustainable Finance Disclosure Regulation (SFDR), part of the EU's Sustainable Finance Strategy (the other pillar being the EU Taxonomy Regulation). SFDR requires financial market participants such as asset managers to: 1) describe how Sustainability Risks are integrated into their investment decisions; and 2) describe the impacts of Sustainability Risks on the returns of the financial products they make available. As the Montanaro Better World Fund is an Impact Fund with sustainability as a component of its objective it qualifies as a financial product subject to Article 9 of SFDR. All other MAM Funds domiciled in Dublin have ESG analysis fully integrated into the investment process and are therefore classified as Article 8.

In order to help us comply with these regulatory requirements we have enlisted the help of an existing research provider, Impact Cubed. 2023 presented us with the first full year of data to report our SFDR Disclosures for our Dublin domiciled open-ended funds.

In addition, we participated in the FCA's consultation relating to the Sustainability Disclosure Requirements (SDR). We will continue this work in 2024 ahead of the implementation of this regulation, which we welcome.

# Principle 3: Conflicts of interest

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

**MAM seeks to act in the interests of all its clients when deploying capital, engaging with companies and policymakers and voting (see Principle 6).**

**While undertaking our investment management services – encompassing investing in companies and servicing our clients – conflicts of interest may arise. Our core value of integrity supports our regulatory obligations and stewardship responsibilities to identify and manage such potential conflicts.**

MAM considers that its simple and conservative business model minimises the risk of conflicts. MAM does not have any subsidiaries or connected parties and is a privately owned boutique.

In order to identify potential risks and procedures for remediation, we maintain a Conflicts of Interest Policy. This Policy demonstrates that MAM is committed to identifying, monitoring and managing all actual and potential conflicts of interest that can arise between MAM (by which we mean employees and connected persons), its clients and other stakeholders. 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; and support our stewardship efforts as defined by the UK Stewardship Code 2020.

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 and Board 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 Compliance Officer.

## **Our policy, register and approach to monitoring**

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### **Our policy:**

Our Conflicts of Interest Policy covers the following topics: identification, prevention, management, disclosure, monitoring, reporting, external interest of individuals, education and awareness. We aim to limit the scope for conflicts – for instance by implementing a Personal Account Dealing Policy which prohibits investments by staff in any quoted security within MAM's investable universe, irrespective of whether it features on MAM's Approved List or not. Our Conflicts of Interest Policy is reviewed on an annual basis by the Compliance Team.

### **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.

**Monitoring and assessing new risks:**

Given the potential for new conflicts of interest to arise, periodic operational risk reviews are conducted by senior management. Potential new risks are discussed at MAM Board meetings. However, because of MAM's simple structure and focus on a single asset class actual and potential conflicts of interest are rare.

Senior management 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. The Complaints Register is reviewed to ensure that any complaints were dealt with fairly and promptly; the Dealing Errors log is also reviewed to ensure that no client has been disadvantaged.

**Examples of where conflicts may arise**

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**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.

**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. 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, because of its modest size MAM



takes the view that it is better not to have Chinese Walls but rather to ensure that all Fund Managers have access to 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 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 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 London 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 £100 or above (£150 for Senior Managers). 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. MAM does not permit personal dealing in any company that falls into its investable universe, which reduces the risk of any conflict of interest arising between an employee and MAM’s clients.

**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.



## Case studies

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During 2023, 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. Such cases are 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.

**There were no other notable conflicts of interest in 2023.**

# Principle 4: Promoting well-functioning markets

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

As a certified B Corporation, our Board has a legal obligation – enshrined in our Articles of Association – to consider the impact of our business on all stakeholders. We view this as a key stewardship responsibility. Interest in responsible investing is growing in importance across the industry. Indeed, 68% of UK savers want their investments to consider people and the planet alongside profit<sup>8</sup>, according to recent research.

### Identification of market-wide and systemic risks:

MAM identified the following market-wide and systemic risks during the reporting period:

- **Macroeconomic risks:** including market risks and any political, legal, regulatory and fiscal developments. An emerging area of risk that was identified was tightening regulatory standards in relation to ESG and sustainability, notably from the EU via SFDR, the EU Taxonomy and in the UK the FCA's SDR regime. These impact MAM given we have a fund range domiciled in Dublin and therefore in scope of European regulation (certain UK investors invest in these funds rather than our UK-domiciled range of funds) and our UK domiciled fund range will abide by SDR when it is introduced in 2024.
- **Environmental risks:** this included climate change, notably the increase in the number of extreme weather events<sup>4</sup>. Also considered were the impacts caused by increased pollution as greenhouse gas emissions continue to rise, the impact on land systems and natural resources, rising sea levels and higher temperatures that warm the planet. We view all of our companies as being potentially impacted by climate change.
- **Social risks:** this included growing levels of inequality, for which the financial system may be partly responsible; human rights risks, which can span outside the markets in which we invest directly (for example via company supply chains); and political risk – namely a rise in populism that is evident in certain developed markets and affecting the regulatory backdrop.
- **Governance risks:** including corruption at a company/country level; and the risk to our investments of poor capital allocation decisions by management.
- **Policy risks:** a change in government policy or market regulation that shakes the fundamentals of the market. This includes regulatory changes to ESG type issues, such as climate change (e.g. the implementation of a market wide carbon tax which raises the cost of doing business for various companies), or the introduction of a tax on unhealthy foods; or policy changes such as a significant shift in interest rates.
- **Pandemics/global health risk:** following the Covid-19 pandemic, the risk of a future pandemic occurring is one that we continue to monitor via the horizon-scanning conducted by our Risk Committee.
- **Cybercrime:** a system-wide risk that increasingly impacts businesses, governments and households. A risk is that, despite increases in cybersecurity infrastructure, these are outstripped or rendered obsolete by increasingly sophisticated and frequent cybercrimes,

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<sup>4</sup> State of Climate in 2021: Extreme Events and Major Impacts | UNFCCC

resulting in economic disruption, financial loss, geopolitical tensions and/or social instability<sup>5</sup>.

### **Our governance processes for risk:**

MAM keeps abreast of all macroeconomic and regulatory developments that may affect its business and / or its portfolios. Horizon scanning is enabled by MAM's service providers which provide regular written reports and invite MAM team members to partake in conferences and webinars.

On a quarterly basis, A&L Goodbody provide a full review of regulatory developments affecting the UK and European funds industry, while KB Associates – which acts as ManCo to MAM's Irish fund range - keep us abreast of any upcoming regulatory changes. Waystone – who act as ACD to MAM's UK-domiciled fund range - also provide a similar report focused on the UK, as well as quarterly reports focused on the outlook for dividends in the UK. Similarly, our Cyber Security and HR consultants notify MAM of any relevant developments in these fields.

### **These inputs feed into our internal Committees which consider which risks are most relevant to our business. Our various Committees also conduct Horizon Scanning of their own:**

- **MAM's Risk Committee** conducts “Horizon Scanning” to consider what risks might exist, or could emerge, that might threaten the stability of MAM's business and the stability of the wider financial system. These risks are discussed at quarterly meetings of the Committee.
- **MAM's Sustainability Committee** considers Sustainability / ESG risks at quarterly meetings, particularly in relation to our investment portfolios and the impact these may have on financial market conditions. The Committee also considers ESG risk from the perspective of MAM's business and was instrumental, for example, in suggesting that MAM sets an operational Net Zero Carbon target for 2030.
- **MAM's Executive Committee** considers the risk comments and observations detailed in the minutes of the aforementioned Committees at quarterly meetings. Under the Risk section of the Committee agenda it will also discuss all types of risk that may affect the business in the short or medium-term.
- **MAM's Board** considers all forms of risk that may affect the business in the short, medium and long-term. Inter alia, it reviews a live document which is updated annually, entitled: “Risk Assessment for Montanaro Asset Management Ltd”. This document covers the following risk areas:
  - **Investment:** e.g. ESG risks / an investee company running into financial difficulty
  - **Financial:** e.g. a significant fall in markets, caused by a macroeconomic event
  - **Market conditions:** e.g. reduced liquidity in equity markets
  - **Staff:** e.g. loss of key staff
  - **Information systems:** e.g. cybersecurity risks

Each risk issue is scored by the Board for: impact; likelihood; and mitigation (the steps we have taken to protect ourselves from this risk). A total risk score is then applied out of 10. **This report is reviewed and signed off by MAM's Board on an annual basis.**

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<sup>5</sup> WEF The Global Risks Report 2021.pdf (weforum.org)

## Industry initiatives:

In 2023, we continued our participation in the following initiatives:

- **PRI:** We have been signatories of the Principles for Responsible Investment (PRI) since 2009 and complete the annual PRI questionnaire. In 2023, we received our score for the submission completed during the year. We were pleased to have been awarded a “5 Star” rating across the three categories: Policy Governance and Strategy; Direct – Listed equity – Active fundamental; Confidence building measures.
- **CDP Disclosures:** We disclosed our carbon emissions and transition plans via the CDP platform. As a partner to the Net Zero Asset Managers initiative, this was a way to fulfil our commitments and report on progress toward our targets in 2023. We also remained part of the group of investors coordinated by CDP to request that big corporate emitters align their transition plans with the 1.5°C degree goal of the Paris Agreement using Science Based Targets.
- **NZC20:** 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 20% of the Better World Fund by value will be invested in companies that have achieved Net Zero Carbon. This initiative led to the launch of our “**Project: Net Zero Carbon**”, a long-term engagement project to encourage investee companies to set and meet ambitious carbon related targets. The [latest report](#) can be found on our website.
- **UKSIF:** Our Head of Sustainable Investments was elected to the Board of the UKSIF, further strengthening our contribution to the development of sustainable investing in the UK alongside the membership group.

## We invest based on the risks we have identified:

We believe that our investments are well aligned to the risks that we have identified. This is achieved via the implementation of a single investment process which is applied to all portfolios that MAM manages.

Our **Ethical Framework** (see response to Principle 7) means our Funds have low exposure to areas of equity markets that are most directly exposed to certain risks. For example, we exclude investments in companies involved in the exploration and production of coal, oil and gas. This ban encompasses both onshore and offshore extraction and includes fossil fuel refinement companies. This means we have low exposure to companies that may suffer from climate-related stranded asset risk.

Our **integrated approach to ESG** analysis means that the above risks are considered as part of investment analysis before we invest and during the investment period. Analysts must complete an ESG Checklist (explained in response to Principle 7), which ensures that we only invest in companies that pass our ESG thresholds.

Our focus on **Quality** companies also minimises risk exposures. When assessing the fundamentals of companies, our Analysts complete a Quality Checklist, which among other things appraises the quality of a company’s management team; the sustainability of a company’s financials; and its competitive Strengths, Weaknesses, Opportunities and Threats/Risk (“SWOT”). Management’s capital allocation track record is also assessed.

**Risks that are 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 project, undertaken by our Investment Team, in order 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. This work continued in 2023 and at the end of the year, we published an updated report on our companies’ progress. We aim to continue publishing annual progress reports in future.

**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 has led to engagements with businesses as we sought to understand how companies could reduce or limit their exposure to single-use plastic. Our deep dive engagements can be found on our [website](#).

In addition, **using certain external frameworks helps 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.

**Effectiveness of our approach:**

We believe that our approach to identifying and responding to market-wide and systemic risks to promote a well-functioning financial system is effective. Together with external service providers and internal Committees, horizon scanning allows us to consider risks that are material to our business and approach to investing.

**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.**

The Board of Directors has overall responsibility for assuring processes and policies and assessing the overall effectiveness of our activities, including those relating to stewardship. To that end, the Directors contributed to this Stewardship Report, including founder Charles Montanaro (Chairman) and Cedric Durant des Aulnois (CEO). The report was formally approved by our CEO in April 2024, signifying MAM's view that the report provides a fair and balanced view of our approach to stewardship and responsible investment.

In addition to the Board's oversight, MAM has a number of internal Committees (see Principle 2) that are responsible for overseeing all elements of our business, including investment, marketing and distribution, and compliance and operations.

Specifically, MAM'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 a standing agenda item. 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 Analysts for every company that we invest in. Given this, changes need to be well thought through and beneficial to company level ESG analysis.

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.

We disclose how MAM discharges its 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 require 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. It is available on our website via our ["Sustainability Library"](#).

## 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.**

**Montanaro is a specialist boutique asset manager. We manage long-only, quoted global Small & MidCap equity portfolios – these account for 100% of our invested assets.** We do not manage any other strategies or make investments in any other asset classes. We do not use any derivative instruments and do not hedge our funds against market or currency risk. 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 2023, we managed £3.3 billion. 100% of this was invested in global Small & MidCap equities across UK portfolios, Europe ex-UK portfolios, and Global portfolios.

MAM's investor base is institutional in nature and comprises regulated financial institutions such as pensions schemes, wealth managers, and foundations. The breakdown of our AUM by geography and client type is shown below. Pension Funds account for our largest client type. While retail investors can access our Funds via various platforms, we do not market directly to retail investors.

All Montanaro Funds and segregated mandates 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 (five years or more).

### **We view our clients as our partners:**

We spend a huge amount of time getting to know our clients before they invest with us so that we understand their needs and views on important topics. We seek to understand exactly what their requirements and expectations are from both an investment and stewardship perspective. We ensure that they understand exactly how we invest – via our “Quality Growth” investment process – and that we will not deviate from our investment approach, regardless of market conditions (e.g. we will never seek to rotate our Portfolios into “Value” stocks to take advantage of short-term market conditions).

Similarly, we want to understand clients' stewardship priorities so that we can understand the extent of the overlap with our own as well as any areas of difference. Typically, we are well aligned to high level priorities, but there may be difference at the application level. For example, clients may specify that climate change is a priority for them – as it is for us – but we may have to point out that we cannot participate in initiatives such as ClimateAction 100+ as such campaigns do not cover smaller companies.

Due to the nature of our largely institutional client base, it is rare for clients to directly invest with Montanaro without conducting significant due diligence, which typically includes lengthy RFP documents, multiple meetings with our sales team, meetings with Fund Managers and other members of the Investment Team, and in many cases, conducting site visits to see our investment process and operations in action. This allows us to understand client and beneficiary needs and communicate the



expected outcomes of stewardship and investment activities to them.

As a boutique with limited internal resources, we try our utmost to provide reporting on investment and stewardship matters that is of direct benefit to our clients. 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.

We have an “**ESG Library**” available on our website that houses the following documents which are relevant to the Stewardship activities for all MAM Portfolios<sup>6</sup>:

- **Montanaro’s ESG Handbook:** The Handbook explains our Ethical & ESG Philosophy & Process and our related policies.
- **CSR Policy:** our CSR statement explains how we manage our business to be socially accountable to our various stakeholders.
- **Deep Dives:** thematic engagement reports.
- **Project: Net Zero:** annual report outlining our progress towards zero emissions portfolios.
- **PRI Reports:** annual assessments reports.
- **Stewardship Code:** annual report.
- **Shareholder engagement policy:** detailing how we engage.
- **Biodiversity policy:** detailing our approach to biodiversity investment issues.
- **Climate change:** an explanation of our corporate carbon targets.
- **Modern Day Slavery Statement**
- **Voting policy:** explaining our approach to voting.
- **Voting record:** Each year, we publish a summary of our voting statistics on our website. This includes the number of resolutions that we voted either in favour of, against or abstained. Proxy Voting Activity Summaries are produced each quarter and are available on Montanaro’s website<sup>7</sup>.

In addition, we publish an annual Impact Report for our positive impact strategy, the Montanaro Better World Fund, explaining our approach to impact investing and reviewing the performance of the strategy over the year<sup>8</sup>. In this report we also explain how the companies we invest in really make a difference on the ground. Clients have provided positive feedback on the report and in 2019, our Impact Report received the “Best Impact Report” award from Pensions for Purpose.

**The following information is provided 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

<sup>6</sup> ESG Library. We have also provided individual links to reports in the library at the end of this report: <https://montanaro.co.uk/sustainable-investing/>.

<sup>7</sup> <https://montanaro.co.uk/sustainable-investing/> (in ESG Library) and the 2021 proxy summary is available here: <https://montanaro.co.uk/wp-content/uploads/2023-Vote-Summary-Report.pdf>

<sup>8</sup> Available here: <https://montanaro.co.uk/fund/montanaro-better-world-fund/>



performance of their strategies. These reports often 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 that detail performance numbers relative to respective benchmark indices, attribution analyses, 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:**

We hold quarterly webinars on all MAM funds to update clients and prospective clients on events during the past three months. Clients may also request that we deliver ad hoc ESG training presentations. We have conducted such sessions when requested to share our understanding of ESG, impact and stewardship practices with clients.

We also organise events for our companies to attend. During the course of our net zero engagement project, a common piece of feedback we have received from companies is that it is difficult to know where to start with climate action. There are many third-party frameworks and initiatives, while best practice seems to evolve rapidly. Even measuring current emissions can prove challenging. Nevertheless, action is needed. In response to these challenges, we hosted an event in 2022 that brought together over thirty CEOs from a range of industries across the companies in which we invest. The aims were:

1. To encourage CEOs to set a tone from the top about the importance of climate change.
2. Create a network of CEOs to help provide support, guidance and share ideas amongst companies.
3. Highlight one company’s journey to Net Zero to discuss the pitfalls and the triumphs that have come with making a net zero pledge.

In 2023, we hosted a webinar focused on Fusion Energy for our clients. Guest speakers included Professor Sir Ian Chapman, Chief Executive Officer of the UK Atomic Energy Authority, and Professor David Gann, CBE, Chair of the UK Atomic Energy Authority Board. This provided an opportunity for our clients to understand the potential for fusion energy in a world transitioning away from fossil fuels.

### **Taking account of client views:**

Client views shape our research priorities. For example, we had noticed an increasing number of clients asking us about biodiversity. Having published a Deep Dive research paper on the subject in 2022, last year we formalised a Biodiversity Policy, setting out how we consider biodiversity factors in our investment process.

# 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.**

The integration of stewardship and investment is consistently applied across all Montanaro portfolios. This is a result of our focus on a single asset class (quoted Small & MidCap equities) and our single investment process (Quality Growth).

Our primary ESG service provider is MSCI. Our Head of Sustainable Investment is responsible for this relationship and ensuring that MSCI delivers on our two requirements:

1. The provision of quarterly environmental data for companies within the MSCI World SMidCap Index
2. The provision of quarterly ESG ratings from companies within the above index.

This information is then integrated into our investment process by our Risk Analyst and our Investment Team, as explained below.

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 Analysts alongside fundamental analysis. The result is that our investment decision-makers “do” ESG. Companies that we consider for investment must pass criteria set out in our Ethical and ESG policies as outlined below. Each policy has a corresponding checklist that Analysts complete before we invest in a company; this is updated 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 Investment 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

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**On ethical grounds, we do not invest in companies that are involved in any of the controversial activities listed below. .**

The detail behind our banned list is explained in our ESG Handbook, which is available in our Sustainability Library: <https://montanaro.co.uk/sustainable-investing/>

We do not invest in companies with any production revenue exposed to these activities. We have a 10% revenue limit to companies that distribute products or services on the Banned List; and we have a 20% revenue limit to companies that provide services to areas of the economy included in our Banned List.

### ETHICS

Exclusions:

- Fossil fuels
- Weapons
- Tobacco
- Alcohol
- Gambling
- Pornography
- High interest rate lending
- Animal testing (ex-Healthcare & Regulatory)

As an example:

- **we would not** invest in an oil and gas producer as this would breach the 0% production revenue threshold.
- **we could** invest in a company distributing energy, such as a power company operating an energy grid, so long as less than 10% of energy came from fossil fuels.
- **we could** invest in a company providing IT services to the oil and gas sector, so long as revenue to such companies was less than 20% of total company revenue.

**During the course of 2023, our ESG policies were updated to reflect the new metrics we consider in our new ESG Checklist, as per the below.**

## Environmental Policy

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**Our Environmental Policy helps us to select the highest quality companies by identifying the environmental factors we need to consider from an opportunity, strengths, weaknesses and risks perspective. The areas that we focus on are influenced by and support the UN Global Compact.**

Via an internally designed ESG Checklist, we assess and score companies out of 10 based 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 assess the data of a company's Environmental Profile, comparing this against a global benchmark, our Approved List (companies that we can invest in across our portfolios) and a relevant peer group. Indicators considered include:

### ENVIRONMENTAL

#### Climate targets

- Net Zero (interim and final) & SBTi

#### Carbon Emissions

- Absolute, intensity and trajectory for Scope 1 & 2
- Absolute Scope 3
- Use of renewable energy
- Carbon intensity of supply chain

#### Water

- Policy
- Intensity

#### Waste

- Policy
- Waste intensity of operations (including toxic emissions and packaging waste)

#### Biodiversity

- Policy
- Exposure to operations with highly fragile ecosystems & with land or ecosystem disturbance

## Social Policy

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**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.**

We engage with companies on social issues – by doing so, we believe that we can help to encourage management teams to contribute to a more sustainable world, which will ultimately lead to better investment returns. Companies are scored out of 10 for their social profile on our ESG Checklist. We use MSCI, Bloomberg and company sourced data to measure and record data relevant to a company's social profile.

We assess the data of a company's Social Profile, comparing this against a global benchmark, our Approved List (companies that we can invest in across our portfolios) and a relevant peer group. The

factors we consider include:

SOCIAL
Diversity <ul style="list-style-type: none"><li>• Women in workforce &amp; management</li><li>• Diversity and discrimination controversies</li><li>• Gender pay gap reporting</li></ul>
Labour practices <ul style="list-style-type: none"><li>• Health and Safety (policy, injury rate, annual fatalities)</li><li>• Management of supply chain</li><li>• Controversies (human rights and supply chain labour)</li><li>• Annual employee turnover</li></ul>
Policies <ul style="list-style-type: none"><li>• Human Rights, Child Labour, Diversity, Equal Opportunity, Bribery and Anti-corruption, Business Ethics, Consumer Data Protection</li></ul>
Tax gap

## Corporate Governance Policy

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**We wish 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 our ESG Checklist, we assess and score companies out of 10 on their governance profile. 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. We assess the data of a company’s Governance Profile, comparing this against a global benchmark, our Approved List and a relevant peer group. Indicators considered include:

GOVERNANCE
<b>Board composition</b> <ul style="list-style-type: none"><li>• Chair (independence, whether combined with CEO)</li><li>• CEO gender (not scored)</li><li>• Board (independence, % women, average tenure of independent directors, significant votes against)</li></ul>
<b>Insider ownership</b> <ul style="list-style-type: none"><li>• CEO equity (changes, multiple of salary)</li><li>• Remuneration</li><li>• CEO (total pay USD &amp; whether in extreme range, non-equity bonus paid, CEO-to-employee ratio)</li><li>• Pay (link to sustainability, say on pay policy, significant votes against)</li></ul>
<b>Committees</b> <ul style="list-style-type: none"><li>• Remuneration (including % independent directors)</li><li>• Audit (including % independent directors, financial expert present, tenure of auditor)</li><li>• Nomination</li></ul>
<b>Ethics</b> <ul style="list-style-type: none"><li>• Business ethics</li><li>• Controversies</li></ul>

### ESG Checklist:

Analysts complete the ESG Checklist for every company that we consider investing in. The ESG Checklist draws on 80 data points, sourced from MSCI, Bloomberg and directly from company reports. Analysts also score companies based on their own research and informed opinion. This results in an “MAM ESG Score”. Companies with scores of less than 5 require engagement as a material point of weakness has been identified. An example summary of our ESG Checklist is show below:

SCORE SUMMARY	
ETHICS	PASS
ENVIRONMENTAL <i>weight 30%</i>	7.1
SOCIAL <i>weight 30%</i>	6.3
GOVERNANCE <i>weight 40%</i>	6.9
<b>MAM ESG RATING</b>	<b>6.8</b>
<b>RESULT:</b>	<b>PASS</b>
<b>MSCI RATING</b>	AAA
<b>MAM UNIVERSE SCREEN ESG RATING</b>	AAA
<b>RAW MAM ESG DATA SCORE (EQUAL WEIGHTING)</b>	6.8

### 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 BWF 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 their revenue alignment to six impact themes:



Analysts complete an “Impact Profile” for every company that we consider for investment. This allows us to assess how a company’s products/services are helping to solve a major world problem, such as climate change or a healthcare challenge. Analysts attribute company revenue against the Fund’s themes and we will only invest in companies with revenue alignment of at least 50%. Our Impact Team – a subset of our Investment Team – debate and vote on whether a stock passes for impact.

In 2021, our Impact Team developed an “Impact Score”, further developing our approach to impact investing and allowing us to better assess the spectrum of impact across the portfolio. A company must have an impact score of at least 25 (out of 50) in order to pass our Impact Criteria.

# Principle 8: Monitoring managers and service providers

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

**In 2023, an agenda item was added to the Sustainability Committee, “Third Party Service providers”, specifically to review the respective offerings of our service providers at quarterly meetings. The following companies provide services to Montanaro. Each is reviewed as explained below.**

## ISS

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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:** The annual review, led by the Sustainability Committee, involves a thorough examination of voting records to confirm adherence to our voting policies and preferences, especially in instances where we have voted contrary to ISS recommendations. Annual meetings with ISS are organised to evaluate their service offerings, ensuring they remain cost-effective and fully utilised. We are pleased with the consistent quality of research notes and analytical tools provided by the ISS voting platform, which significantly aid in our decision-making process and subsequent review of voting patterns.

## MSCI

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We receive ESG data on the companies in the MSCI World SMidCap Index from MSCI, which is provided to us on a quarterly basis. This data is incorporated into our ESG Checklists, allowing us to better understand the ESG profiles of the businesses in which we invest. We also receive MSCI’s company level ESG ratings, which we use to compare and contrast with the conclusions of our internal ESG Checklists.

**Review:** Led by the Sustainability Committee, we assess the quality of quarterly MSCI ESG data and its usefulness in allowing us to monitor crucial ESG metrics across our Approved List of companies. The data received in 2023 enabled us to pinpoint underperformers within portfolios and direct our engagement efforts more effectively. MSCI remains our chosen service provider for the forthcoming year, reflecting our satisfaction with their offering.

## Bloomberg

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While MSCI is a primary provider of ESG data, we continue to supplement our databank with information from Bloomberg, for instance for certain metrics where data coverage is low from MSCI. Bloomberg ESG data is used in our internal ESG Checklist.

**Review:** The review of Bloomberg’s service offering is led by the Head of Fund Management. This encompasses all facets of Bloomberg’s offering, focusing on the utility of their data in performance and company analysis. The data sourced from Bloomberg remains vital for monitoring disclosure levels and fostering informed engagement with companies.

## Factiva

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Global news monitoring and search engine Factiva allows us to monitor company news flow and identify news stories related to our companies that we may otherwise not see by simply focusing on mainstream news sources. We use this tool primarily to help us identify issues on which engagement may be required.

**Review:** An annual review is led by the Sustainability Committee. We are satisfied with Factiva as a news monitoring system. The service offering can be used to identify any potential controversies that could be detrimental to the ESG profile of a business.

## Impact Cubed

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Impact Cubed helps us to externally verify and assess the impact credentials of the Montanaro Better World Fund. In addition, the company provides a tool allowing us to meet the reporting requirements of the Sustainable Finance Disclosure Regulation (SFDR) and EU Taxonomy for our Dublin Domiciled Funds and certain mandate portfolios.

**Review:** Throughout the year, we regularly engage with Impact Cubed to ensure their service offering meets our needs. Over the past year, this has included integrating new features tailored to SFDR and the EU Taxonomy, enhancing our regulatory reporting capabilities.

The Sustainability Committee reviews the scope of services provided by Impact Cubed at quarterly meetings. These reviews confirm the alignment of Impact Cubed's offerings with Montanaro's regulatory obligations and strategic goals in sustainability.



# 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 important to our investment approach. It allows us to deliver on client needs (as identified in our response to Principle 6) and our purpose and investment beliefs (as identified in our Response to Principle 1<sup>9</sup>).

Engagement is typically initiated and conducted by our Analysts as they hold the closest relationships with company management. Support is provided by the Head of Sustainable Investments and our ESG & Impact Specialists, who may lead certain cases, such as those involving multiple stakeholders, collaborative engagements, or those that affect a number of companies within a portfolio. Our internal Sustainability Committee reviews engagement activity at quarterly meetings. The Committee will commission "Deep Dive" projects should they feel there is a need for a thorough review of a particular topic and its effect on multiple companies within our investment universe.

Our stewardship and engagement activities typically fall into one of the following categories:

- 1) **Direct Company Engagements:** 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. the UN Global Compact). In the main, we consider this type of engagement to be "reactive" as we are responding to a particular event although we may also conduct fact finds on a company-specific basis.
- 2) **Proxy Voting:** voting is a vital part of our engagement with companies. This is why we attempt to vote at all Annual General Meetings for holdings within our Funds. We receive independent third-party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. Our decisions are guided by our proprietary voting guidelines which can be found on our website: [here](#).
- 3) **Deep Dive Research:** 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

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<sup>9</sup> Our mission is to "encourage, through active ownership and engagement, smaller companies around the world to support and embrace the Sustainability Revolution".

understand more about a particular subject and the exposure of our investee companies to that risk, ideally before it can manifest.

- 4) **Collaborative Engagements:** we seek out collaborative engagement projects that offer a material benefit to the achievement of engagement aims. These projects can add additional support and aid in the promotion of sustainable investment practice.
- 5) **Public Policy Advocacy:** we are involved with groups that advocate for responsible stakeholder capitalism. These include the Glasgow Financial Alliance for Net Zero (GFANZ), the B Corp Finance & Investment working group, UKSIF, ShareAction, and the Investor Coalition on Food Policy.

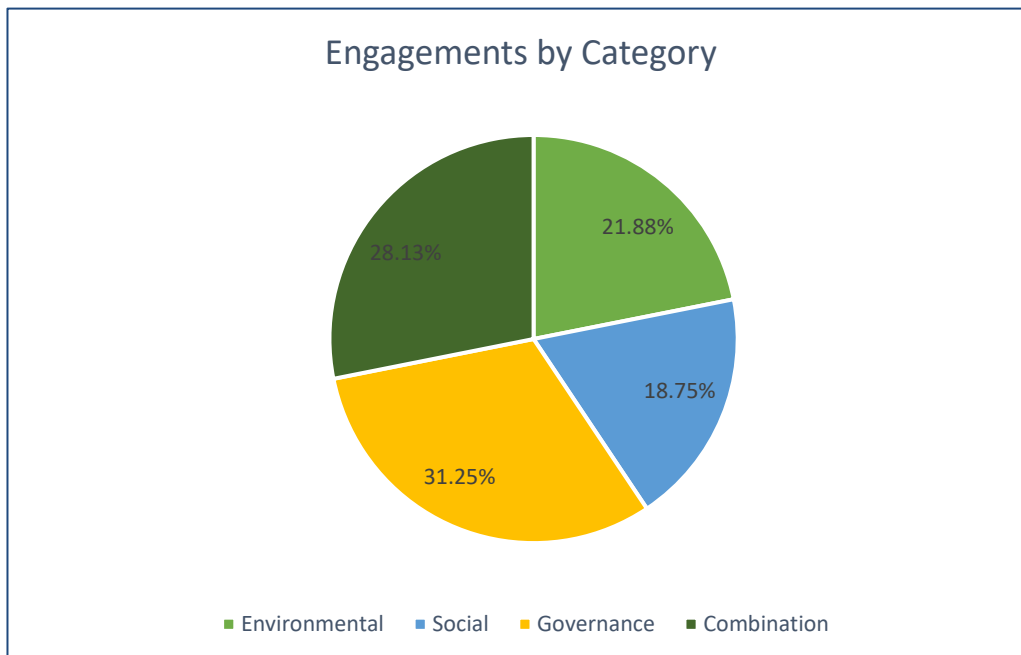
These approaches have been chosen because they are efficient; amplify our voice; and ensure that we stay abreast of changing market conditions. By carefully targeting our engagement efforts we are able to effect change, despite the modest size of our organisation.

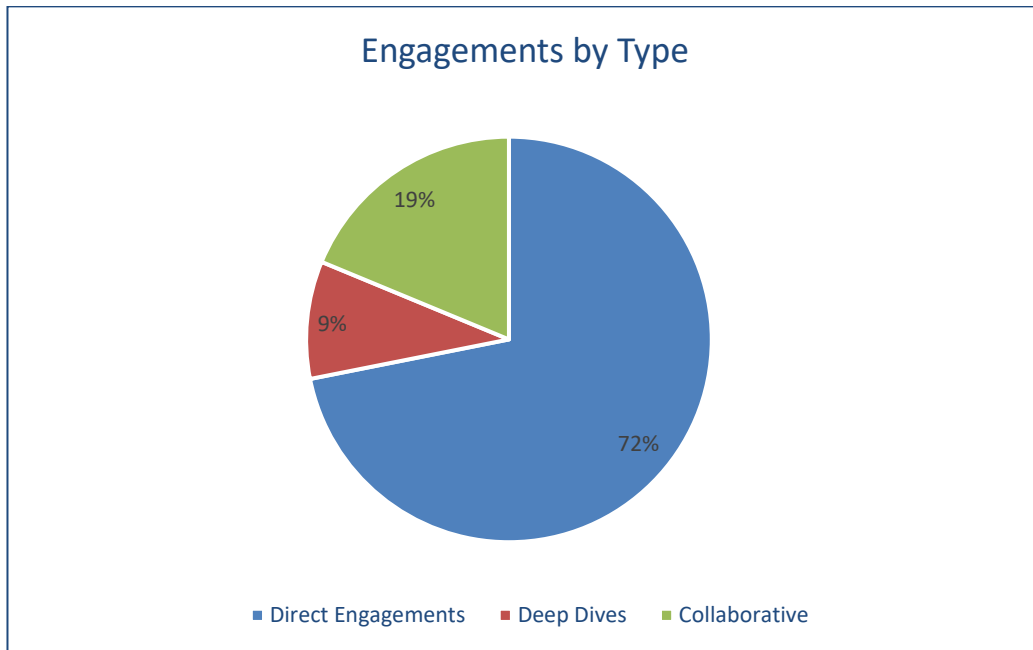
### Summary of engagements in 2023

In 2023, MAM conducted 64 company engagements addressing various issues. These engagements included collaborations and discussions with academics, charities, and research organisations that were integral to our Deep Dive research project on the Built Environment.

Governance issues were the focus of 31% of engagements, showing a slight increase in emphasis compared to the previous year (27%). Social issues saw an increase from 16% in 2022, accounting for 19% of engagements in 2023. Environmental issues, including climate change, comprised 22% of our engagements, indicating a slight decrease from the previous year (34%), but still a significant focus of our engagement efforts.

General issues covering multiple categories accounted for 28% of our discussions, indicating a holistic approach to addressing ESG factors.





In 2023, the majority of our engagements occurred with UK companies, which accounted for 38% of our activities, while 25% were with companies in Europe (excluding the UK). American companies were engaged with less frequently, constituting 13% of our engagements. The remaining 14% of our engagements were with companies from the rest of the world.

In 2023, climate change-related engagements constituted 86% of the environmental issues we addressed. The remainder focused on:

- Biodiversity
- Waste management and the protection of waterways
- Transparent environmental reporting

## Case studies

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### Environmental:

<b>Company:</b>	<b>Bentley Systems</b>
<b>Topic:</b>	Sustainable Built Environment
<b>Objectives:</b>	To evaluate the contribution of Bentley Systems' iTwin Platform in creating a sustainable built environment and to understand how digital twins can improve climate resilience and operational efficiency.
<b>Process:</b>	Engagement call with Bentley Systems' Director of ESG.

**Outcomes:** Bentley Systems' iTwin Platform supports the development of infrastructure digital twins, aiding in climate adaptation and increasing the efficiency of infrastructure asset design and operation. Our engagement reinforced the potential of digital twins in driving sustainability within the built environment, providing actionable insights for our Deep Dive engagement project.

### Social:

<b>Company:</b>	<b>Britvic</b>
<b>Topic:</b>	Nutritional Value and Health Impact
<b>Objectives:</b>	To engage with Britvic on its initiatives related to improving the nutritional value of their products and reducing sugar content, as part of their "Healthy People, Healthy Planet" program.
<b>Process:</b>	Participation in a collaborative project with ShareAction and a call with Britvic to review progress on integrating health considerations into business strategy.

**Outcomes:** During the engagement, Britvic demonstrated its commitment to health through its program aimed at achieving less than 30 calories per 250ml serving across their product portfolio. It has successfully met this target, although no new KPIs will be set until 2025 due to being in the middle of its strategic cycle. The discussion also covered the environmental and social targets under the same program, with a focus on monitoring progress on these fronts. MAM will continue to engage with Britvic to ensure ongoing progress towards both environmental and social targets.

### Corporate governance:

<b>Company:</b>	<b>Bloomsbury Publishing</b>
<b>Topic:</b>	Remuneration
<b>Objectives:</b>	Evaluate new proposals for the company's remuneration policy and its alignment with ESG metrics.
<b>Process:</b>	Participation in a shareholder consultation regarding the remuneration policy.

**Outcomes:** Bloomsbury’s policy revisions, including the alignment of executive pension provisions with the wider workforce, were seen positively. However, the delay in introducing ESG metrics to the KPIs was disappointing. We provided feedback asking for such metrics to be incorporated in future policies. We will continue to monitor the company and will review our voting decisions when we receive the 2024 AGM materials.

# 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 Investments, 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 with the support of MAM's ESG & Impact Specialists.

## **Collaborative engagement example: Business Coalition for a Global Plastics Treaty**

MAM joined the Business Coalition for a Global Plastics Treaty during 2023. The group is convened by the Ellen MacArthur Foundation and WWF and includes businesses and financial institutions dedicated to supporting the creation of an ambitious, effective and legally binding UN treaty to end plastic pollution.

The coalition aims to reduce plastic production and use, enhance circulation of plastics within a circular economy and prevent environmental leakage of micro- and macro-plastics. These goals address urgent environmental issues such as climate change, biodiversity loss and public health impacts.

MAM co-signed a collective investor statement and participated in multiple discussions and webinars with stakeholders, including environmental NGOs and industry experts, to shape and influence the development of an effective and comprehensive global plastics treaty.

The coalition's engagement is set to accelerate significant policy shifts towards sustainable plastic use and disposal. It fosters broad industry collaboration and governmental engagement to ensure that plastic production and use are within safe environmental limits, aligning with the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework.

This collaborative effort exemplifies how the collective influence of investors can be used to address systemic risks and opportunities that single investors might not effectively influence alone.

In addition to the efforts detailed above. We also participated in the following collaborative initiatives during 2023:

Initiative	Description	Involvement
<b>CDP</b>	CDP is an organisation that helps businesses and other organisations to appropriately disclose their environmental impacts.	We lead engagements with the CDP Non-Disclosure Campaign, joining over 260 financial institutions urging companies to enhance transparency by reporting their environmental data.
<b>FAIRR</b>	Farm Animal Investment Risk and Return (FAIRR) is a research and engagement organisation specialising in the ESG risks associated with animal agriculture.	We are signatories to two of its collaborative engagement initiatives that concern our investee companies. The first addresses the environmental risks associated with aquaculture and the second involves labour risks in the meat production sector. We have been involved with both of these campaigns for a number of years.
<b>Long-term Investors in People's Health</b>	This ShareAction led initiative is dedicated to improving population health. This gives way to huge opportunity as the link between health and economic prosperity runs both ways. Better health boosts economic development through increased worker productivity and lower health-related costs, which can create a drag on the economy.	We will help the coalition by working towards the pillars of Worker Health, Consumer health and the Environment. We have joined the working group and we will participate in collective engagements as well as sharing our experience of direct engagements with our investee companies to provide helpful case studies for other signatories. This builds on the work of the Healthy Markets Initiative, that we have been involved with for a number of years, to expand the scope of the collaboration and cover more health-related engagement topics. In 2023, we became active members of their working group on Air Quality.
<b>Net Zero Asset Management initiative</b>	The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.	We have published our emissions reduction targets for our portfolios and used this to encourage investee companies to set ambitious and credible reduction goals that are aligned with the Paris Agreement. We publish our progress on an annual basis and in our net zero engagement project report.

**TNFD Forum**

The Forum supports the development of the TNFD framework by providing a venue for collaboration and feedback.

This platform allows participants to contribute to the evolution of nature-related financial disclosures and ensures that the framework remains robust, applicable, and effective across different sectors and geographies.

**We intend to maintain our involvement in these collaborative efforts to amplify our voice as stakeholders by joining like-minded peers with a common goal.**



# Principle 11: Escalation

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

**Escalation is applied consistently across all Montanaro Funds given our single asset class focus (100% Small & MidCap quoted equity).**

We always attempt to engage constructively with the companies in which we invest. If we identify an issue that requires engagement, we will attempt to 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:**

- **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 likely to 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 be sold. If we decide further engagement is warranted, then we will proceed to step two.
- **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 remain majority-owned by the founder, or family members of the founder. We have experience of escalating matters with companies that have resulted in meetings with family shareholders who have not, or do not usually, meet with minority shareholders. In some instances, 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 STUDY

**Company:** ATOSS Software

**Date:** April 2023

**Background:** ATOSS Software, a German software company, has been repeatedly noted for its lack of gender diversity in its leadership.

**Aim:** To address the ongoing issue of gender diversity within the company's leadership structures and influence ATOSS Software to make substantial improvements.

**Discussion:** Despite multiple engagements, there has been no noticeable progress in addressing the

gender diversity concerns. We have previously opted to support management resolutions to re-elect board members and hoped that our engagement efforts would be sufficient to encourage improvements in gender diversity. In 2022, when no improvement was noted, we abstained on the re-election of the Chairman of the Supervisory Board.

**Escalation:** Given the lack of improvement, we have opted to vote against the re-election of Moritz Zimmermann, the Chairman of the Supervisory Board at the 2023 AGM.

**Rationale:** The decision to vote against is based on the company's failure to make any meaningful changes despite repeated engagements and the clear signalling of expectations from our investment team.

The vote and the reasons behind it were communicated to ATOSS Software, emphasising the importance Montanaro places on gender diversity and its role in effective governance.

**Montanaro plans to continue monitoring the situation closely and is prepared to engage further if the company shows a willingness to revisit its diversity policies and implement concrete changes.**

**Depending on the company's response to the voting outcome and subsequent actions, we will consider further escalation steps.**

# Principle 12: Exercising rights and responsibilities

## **Signatories actively exercise their rights and responsibilities.**

Voting is a vital part of our how we exercise our stewardship responsibilities. It is a key shareholder responsibility, which is why we vote at all AGMs. We receive independent third-party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings. These are used for advice only. Our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. As such, we consider ourselves as “active” shareholders rather than “activists”.

Our voting policy is applied consistently across all our Funds and Investment Trusts. Our policy is applied to segregated portfolios where we have authority to vote on our clients’ behalf. If we do not have authority to vote for segregated mandates, we still share our view with our clients. We do not engage in stock lending in any of our Funds (although our segregated clients may have their own policies on this).

### **Our Voting Policy can be summarised by the following points:**

- We seek to exercise all of our voting rights
- We make our own voting decisions
- We do not choose 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 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 update our voting guidelines annually to reflect evolving best practice in stewardship, emphasising diversity, transparency, and sustainability.

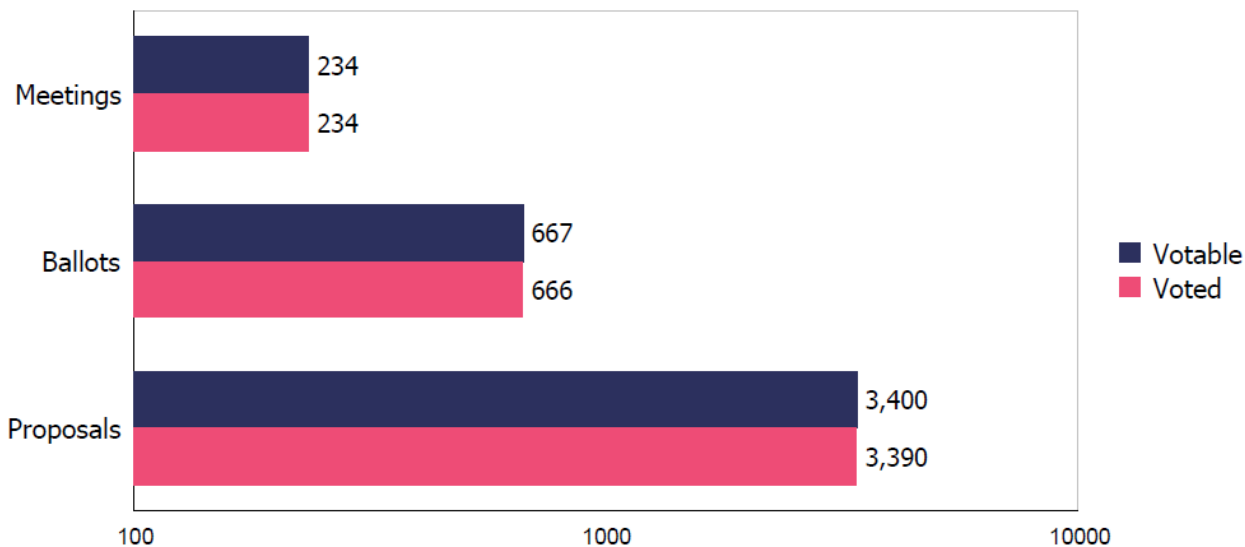
### **We publish voting activity summary reports on our website**

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.

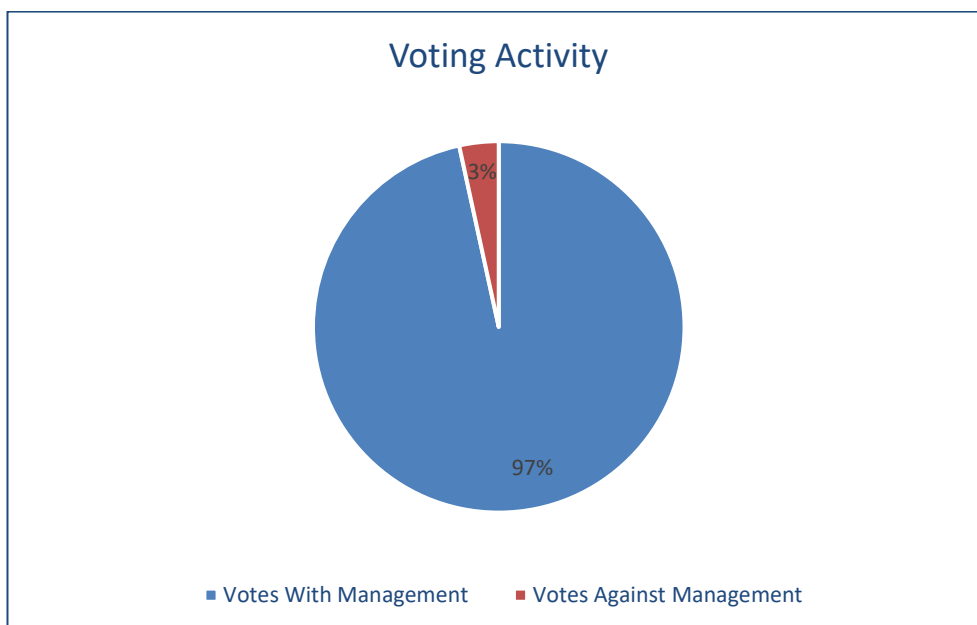
Our voting records can be found in our [ESG Library](#).

### Review of voting in 2023:

With 234 meetings available to vote during 2023, 234 were voted: this equates to 100% of the votable meetings. We aim to vote at 100% of meetings and when issues arise that prevent us from doing so, we liaise with Institutional Investor Services (ISS) to understand why and how we can prevent the recurrence of such issues.



Of the 234 meetings where we voted, 73 included at least one vote against management recommendations. Of the 3,390 resolutions voted on during 2023, c.94.8% were in favour of the proposed resolution, with c.3.8% voted against, and abstentions or withheld votes accounting for c.0.9% of the voted items. Votes were aligned with management on c.96.7% of the items put to us. More detail on our voting activity during 2023 can be found [here](#).



### Remuneration

<b>Company Name:</b>	<b>Diploma</b>
<b>Topic:</b>	Executive Remuneration Policy Consultation and Review
<b>Objectives:</b>	To evaluate and provide feedback on Diploma's proposed executive remuneration policy, ensuring it aligns with shareholder interests, reflects the executives' contributions to the company's growth and integrates ESG metrics into compensation structures.
<b>Process:</b>	Participation in consultations with the Remuneration Committee Chairman and HR Director regarding proposed increases in executive salaries and variable pay opportunities. We assessed the context of these changes with respect to the wider workforce and the shift in the performance share plan (PSP) metrics. We also discussed the introduction of ESG metrics that align with Diploma's Delivering Value Responsibly campaign.
<b>Discussion:</b>	We acknowledged the executives' role in Diploma's market capitalisation growth and entry into the FTSE 100 and the resulting proposed salary increases for CFO Chris Davies and CEO Johnny Thomson. We explained our preference for straightforward pay structures.
<b>Outcome:</b>	Following our meeting, we opted to support the new remuneration arrangements at the 2023 AGM.

### Election of Directors

<b>Company Name:</b>	<b>Thule Group</b>
<b>Topic:</b>	Board Composition and Director Overboarding
<b>Objectives:</b>	To ensure the Board composition aligns with governance best practices, specifically addressing the issue of overboarding of Directors.
<b>Process:</b>	A Director is deemed overboarded when they have numerous external commitments that could potentially hinder their capacity to devote the necessary attention and diligence to their duties at the company where we are shareholders. We approached our review of the AGM materials with this in mind.
<b>Discussion:</b>	Our review identified three Directors that we considered to be overboarded. We believe that Directors with extensive commitments may not be able to dedicate the necessary attention to each role, potentially impacting their effectiveness and the quality of governance.
<b>Outcome:</b>	We chose to vote against the re-election of these Directors. We encourage a board structure that ensures Directors have the capacity to focus on their roles, thereby safeguarding the interests of shareholders through effective oversight and strategic guidance.

## Diversity

<b>Company Name:</b>	<b>American Water Works</b>
<b>Topic:</b>	Assessment of Diversity, Equity, and Inclusion Commitment
<b>Objectives:</b>	To evaluate the necessity of a separate and additional racial equity audit in the context of the company's transparency and commitment to diversity, equity and inclusion.
<b>Process:</b>	Analysis of the company's public disclosures on diversity initiatives and a series of engagements including site visits to gain a firsthand understanding of the company's commitment and practices.
<b>Discussion:</b>	Recognition of the company's robust disclosure practices and firsthand observations confirming a strong dedication to diversity, equity, and inclusion. Consideration of the efficiency and need for a racial equity audit in light of the company's transparency and the effectiveness of current initiatives.
<b>Outcome:</b>	Decision to back management's current diversity efforts and to vote against the proposed audit. While appreciative of the need for transparency and accountability, the substantial progress already made suggest that the resources could be better used to continue direct diversity enhancement initiatives.

# Our ESG Library

## ESG Handbook:

- [ESG Handbook available here](#)

## Deep Dive Engagement reports:

- [Deep Dive #11: Project Net Zero Carbon 2023](#)
- [Deep Dive #10: The Built Environment](#)
- [Deep Dive #9: Waitaki Hydropower Scheme](#)
- [Deep Dive#8: Project Net Zero Carbon 2022](#)
- [Deep Dive #7: Biodiversity Loss](#)
- [Deep Dive #6: Data Centres](#)
- [Deep Dive #5: Project Net Zero Carbon 2021](#)
- [Deep Dive #4: Plastic Fantastic](#)
- [Deep Dive #3: Project Net Zero Carbon 2020](#)
- [Deep Dive #2: The Biomass Debate](#)
- [Deep Dive #1: Supply Chain Investigation](#)

## UK Stewardship Code:

- [UK Stewardship Code 2022](#)
- 

## Climate Change:

- [Climate Change Policy](#)
- [Carbon Targets: Methodology](#)

## UN PRI reports:

- [2023 – Assessment Report](#)
- [2023 – Transparency Report](#)
- [2021](#)
- [2020](#)
- [2019](#)
- [2018](#)
- [2017](#)

## Voting:

- [Voting policy](#)
- [Proxy Voting Summary 2023](#)
- [Proxy Voting Summary 2022](#)
- [Proxy Voting Summary 2021](#)
- [Proxy Voting Summary 2020](#)
- [Proxy Voting Summary 2019](#)
- [Proxy Voting Summary 2018](#)

Montanaro Asset Management Ltd | 53 Threadneedle Street | London EC2R 8AR

T: +44 20 7448 8600 [www.montanaro.co.uk](http://www.montanaro.co.uk)