



# Report to the UK Stewardship Code

For the year ending 31 December 2025



## **Introduction**

Montanaro Asset Management ("MAM" or "Montanaro") has been a signatory to the UK Stewardship Code since its inception in 2010. We were recognised as a Tier 1 signatory under the 2016 Code and as a first-wave signatory to the revised 2020 iteration. The Code has played an important role in strengthening transparency, accountability and long-term thinking across the investment industry, supporting the development of a more resilient and sustainable financial system.

The UK Stewardship Code 2026 introduces a two-part reporting model: a Policy and Context Disclosure (submitted at least every four years) and an Activities and Outcomes Report (submitted annually). The Policy and Context Disclosure is intended to provide stable, factual context that enables readers to understand the annual Activities and Outcomes reporting that follows it. In preparing this report, we have sought to provide clear and meaningful insight into how stewardship supports our investment approach and long-term value creation.

This is Montanaro's first submission prepared in accordance with the 2026 framework. It sets out our Policy and Context Disclosure, outlining the governance structures, investment beliefs and stewardship approach that underpin how we manage capital on behalf of our clients. Our annual Activities and Outcomes Report will demonstrate how these policies are implemented in practice, and the results achieved for clients and beneficiaries.

At MAM, stewardship means the responsible allocation, management and oversight of capital to create long-term value for clients, while contributing positively to the economy, the environment and society. It is fully integrated into our investment philosophy: active ownership, constructive engagement and disciplined voting are not supplementary activities but core components of how we invest.

Our commitment to responsible business practices is further reflected in our status as a certified B Corporation, first achieved in 2019 and subsequently renewed. This certification recognises high standards of social and environmental performance, transparency and accountability. We have also amended our Articles of Association to embed stakeholder considerations within Board decision-making, aligning our governance with our stewardship responsibilities.

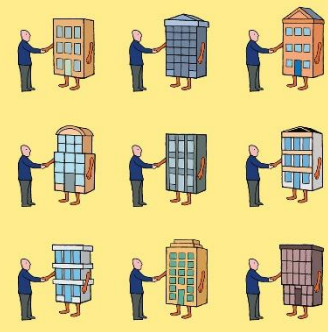
We hope this report provides a transparent and meaningful overview of our stewardship framework and the values that guide our work.

**Cedric Durant des Aulnois**

**Chief Executive Officer**

**Montanaro Asset Management**

**April 2026**



# Policy and Context Disclosure

Our approach to stewardship

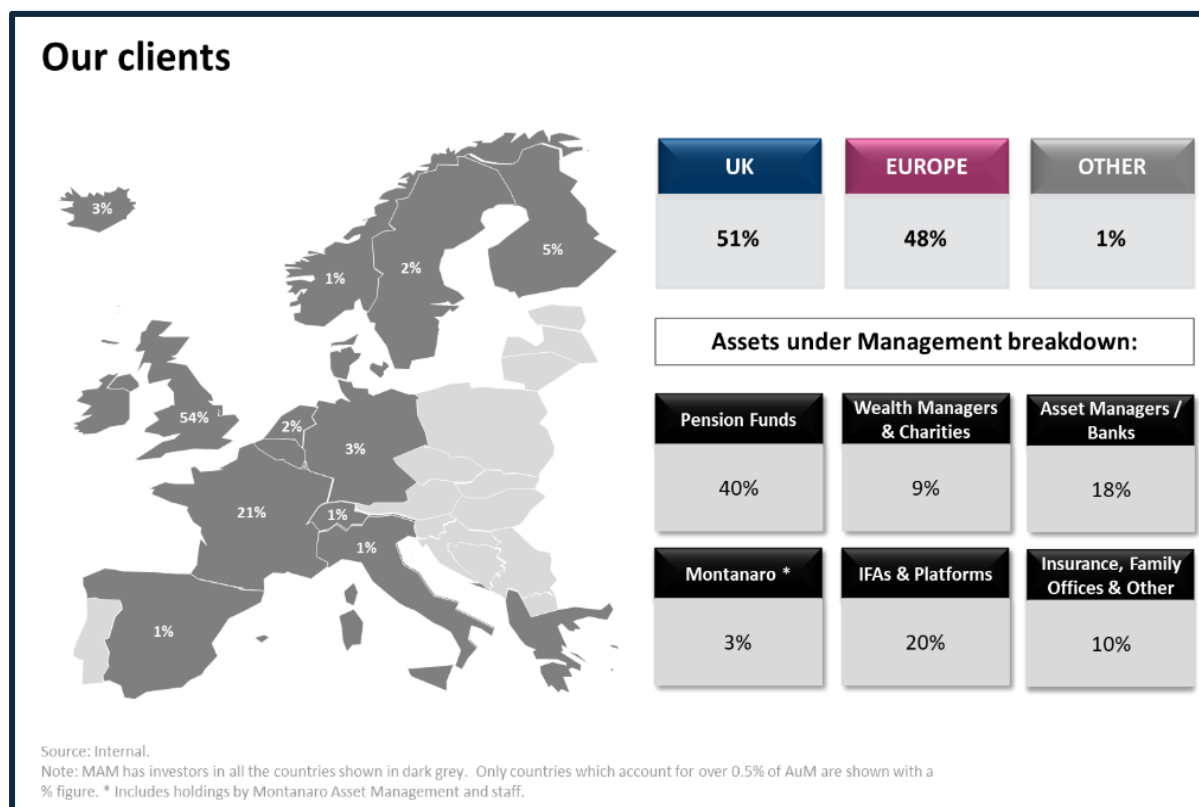
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## Disclosure A – Organisation, investment beliefs and stewardship approach

### Organisation overview

Montanaro is an independent specialist asset manager focused exclusively on long-only quoted Small & MidCap equities. Founded in 1991, we manage Global, European and UK strategies for a predominantly institutional client base. As at 31 December 2025, assets under management were approximately £2.5 billion.

We manage assets solely through actively managed listed equity strategies. Our client base includes pension funds, local authorities, wealth managers, charities, endowments, foundations and family offices, primarily in the UK with selected international relationships. Many clients have invested with us for extended periods, reflecting alignment on philosophy, time horizon and stewardship expectations.

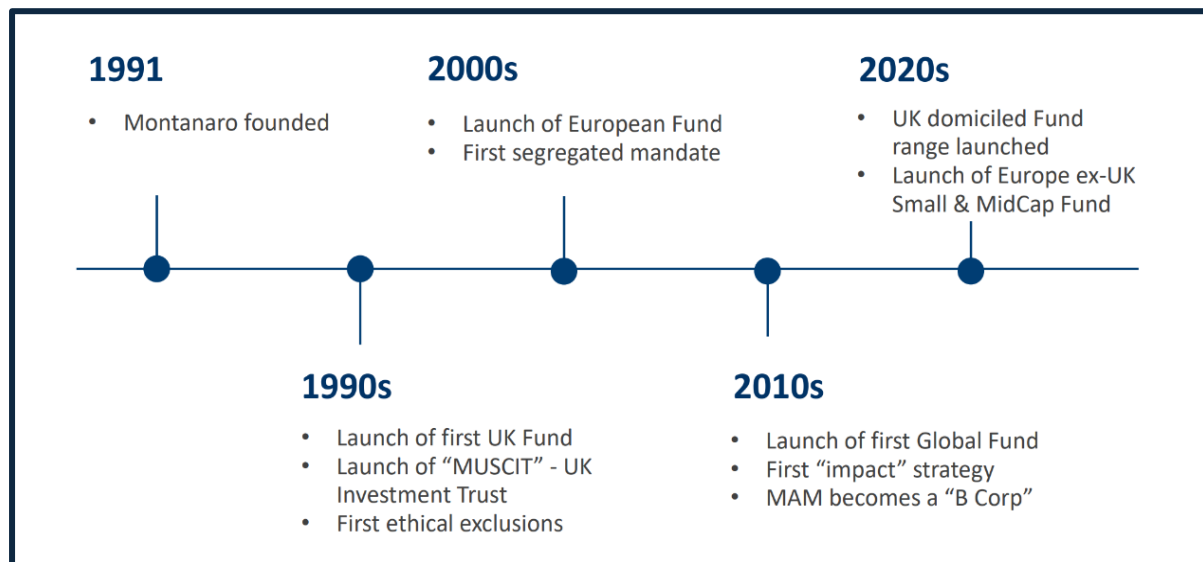


### Ownership structure and why it matters

Montanaro remains a privately owned boutique. Our founder retains majority ownership and key employees participate in the business through an Employee Benefit Trust.

We believe this structure supports effective stewardship. Without a parent company, external shareholders or pressure to maximise short-term asset growth, we are able to focus on long-term client outcomes. Our independence also reduces many of the commercial conflicts that can arise in larger or more complex organisations.

As a conservatively managed business with a strong balance sheet, we are able to invest consistently in people, research capability and systems across market cycles. This supports continuity of stewardship, including sustained engagement with investee companies and long-term investment in our team.



### Investment philosophy

All Montanaro portfolios are managed according to the same core philosophy: long-term investment in high-quality Smaller Companies capable of compounding value over time.

We seek businesses with:

- strong market positions and sustainable competitive advantages
- high-quality management teams with integrity and clear capital discipline
- attractive structural growth opportunities
- resilient business models and strong balance sheets
- high and sustainable returns on capital
- sensible valuations relative to long-term prospects

We are bottom-up stock pickers. Portfolio construction is driven primarily by company fundamentals rather than macroeconomic forecasts. We typically invest with a multi-year time horizon and maintain relatively low portfolio turnover.

### Our investment beliefs and stewardship

We believe stewardship is fundamental to long-term investment success.

In our experience, companies that allocate capital responsibly, maintain strong governance, treat employees fairly, manage environmental and social risks effectively and engage constructively with

shareholders are more likely to create durable value over time. Conversely, weak governance, poor culture or unmanaged sustainability risks can destroy value.

For this reason, ESG considerations are not a separate overlay. They form part of our definition of quality and are integrated into our investment process.

This is particularly relevant in Small & MidCap equities, where external research coverage can be limited and shareholder registers less crowded. In this part of the market, engaged long-term shareholders can often have meaningful influence. Our specialist focus, concentrated research effort and long holding periods place us in a strong position to act as responsible stewards of capital.

### **How we define stewardship**

We view stewardship as the responsible allocation, management and oversight of capital to create sustainable long-term value for clients and beneficiaries.

In practice, this includes:

- integrating financially material ESG considerations into investment decisions
- ongoing monitoring of holdings
- engagement with boards and management teams
- active and considered voting
- escalation where progress is insufficient
- collaboration where collective action can improve outcomes
- contributing to market standards and public policy where relevant

Stewardship is embedded across the investment lifecycle: before investment, during ownership and, where necessary, through decisions to reduce or exit holdings.

### **Responsible investment integration**

Responsible investment has long been embedded within our investment process. Ethical exclusions and ESG standards apply across 100% of assets under management.

We maintain proprietary research frameworks that combine third-party data with internal analyst judgement and company engagement. Companies that do not meet our minimum standards, or which are unwilling to engage constructively on material concerns, will not be approved for investment.

We believe this disciplined approach improves risk management, strengthens portfolio quality and enhances long-term outcomes for clients.

Firm-wide credentials	Investment integration
<ul style="list-style-type: none"> <li>Certified B Corporation since 2018</li> <li>Sustainability Committee</li> <li>Firm-wide net-zero ambitions / policies</li> <li>SDR Impact-labelled strategies</li> <li>Transparent reporting and assurance</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated ESG &amp; Impact specialists</li> <li>Proprietary ESG &amp; impact framework</li> <li>Active stewardship &amp; engagement</li> <li>Integrated voting policy</li> <li>Climate and biodiversity analysis</li> </ul>

**Impact investing**

In 2018, we launched the Montanaro Better World Fund, a global Small & MidCap equity strategy investing in companies whose products and services help address major environmental and social challenges.

The strategy applies our core Quality Growth philosophy with an additional impact framework focused on intentionality, revenue alignment and measurable positive outcomes. We believe listed equities can play an important role in directing capital towards solution providers while seeking attractive long-term returns.



**Sustainability and stakeholder governance**

Montanaro became a certified B Corporation in 2019. In 2020, we amended our Articles of Association to require the Board to consider the impact of the business on all stakeholders.

We believe this governance framework reinforces long-term decision-making and is consistent with our fiduciary duty to clients. It reflects our view that durable investment outcomes are most likely when achieved alongside responsible treatment of employees, counterparties, communities and the environment.



### Geographic exposure of investee companies

We invest globally across developed markets through UK, European and Global strategies. The underlying revenues of our investee companies are internationally diversified, reflecting the global nature of many Smaller Company business models.

### Why clients choose Montanaro

Clients appoint us for specialist exposure to Smaller Companies, disciplined active management and alignment with long-term outcomes. Many also value a stewardship approach that is practical, evidence-based and integrated into how we invest rather than treated as a standalone exercise.

Our objective is to justify that trust through strong long-term investment performance, thoughtful stewardship and consistent partnership with clients and beneficiaries.

# Stewardship at a glance

As at 31 December 2025 unless stated otherwise



**Note:** Not all ratings are current – all awards were given either to MAM or the Montanaro Better World Fund (Irish UCITS V OEIC). Winner of "Sustainable Investment Fund Manager of the Year" (Inv. Week) for assets <£20bn.

## Disclosure B – Governance and resources

### Governance and accountability

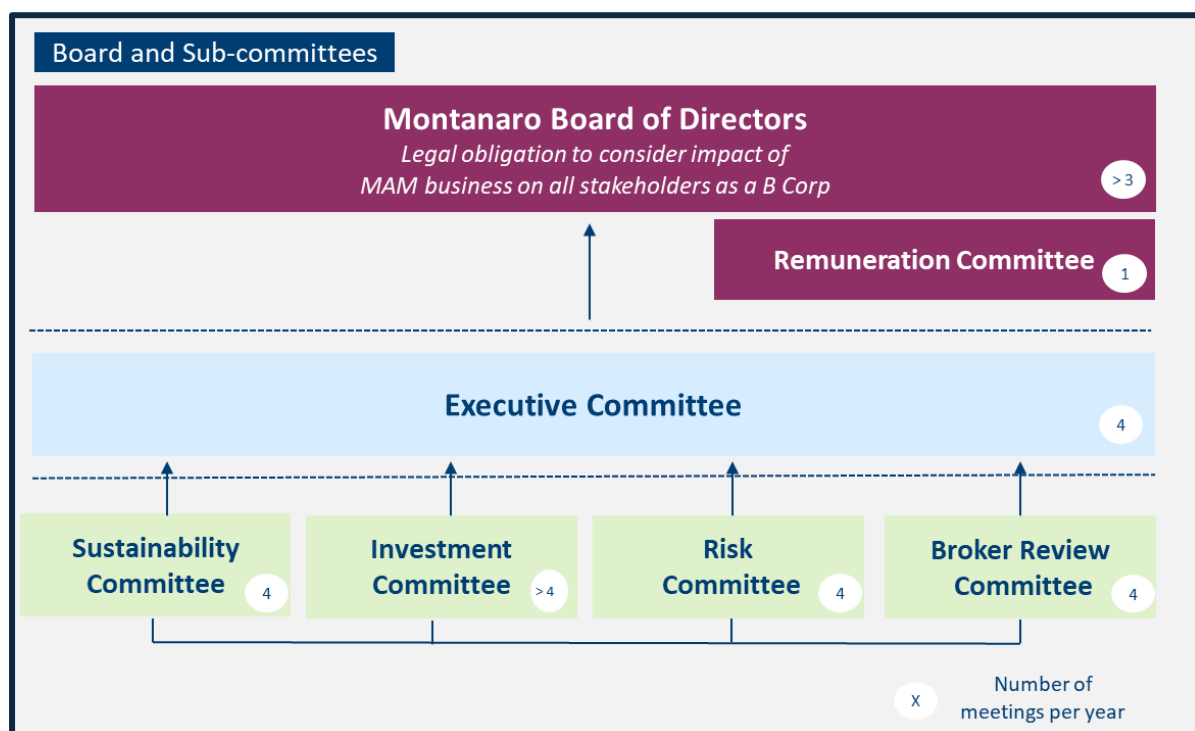
Effective stewardship requires clear accountability, experienced people and appropriate oversight. At Montanaro, stewardship responsibilities are embedded across the firm and integrated into how we invest.

Ultimate responsibility for stewardship sits with the Board of Directors. The Board oversees whether our stewardship approach remains aligned with our fiduciary duty to clients and beneficiaries, and whether it is supported by appropriate governance, culture and resources.

As part of our B Corporation governance framework, our Articles of Association require the Board to consider the impact of the business on all stakeholders. We believe this reinforces long-term decision-making and responsible stewardship.

The Board receives regular reporting on stewardship matters, including policy developments, voting and engagement activity, conflicts oversight and broader sustainability initiatives.

The Chief Executive Officer is accountable for ensuring stewardship responsibilities are delivered in practice. Day-to-day leadership is delegated to the Head of Sustainable Investments, working closely with the Chief Investment Officer and wider management team.



## Senior leadership and committee oversight

Stewardship responsibilities are led by senior management rather than delegated to a standalone function.

We believe this promotes ownership, accountability and integration with investment decision-making.

### Key leadership roles

- **Chief Executive Officer** – accountable for delivery of stewardship and sustainability commitments across the firm
- **Chief of Staff and Head of Sustainable Investments** – leads stewardship strategy, engagement, voting oversight, responsible investment policy and impact investing
- **Chief Investment Officer** – oversees integration of stewardship within research, portfolio construction and monitoring
- **Head of Compliance** – provides independent oversight of governance controls, conflicts management and relevant policies

### Committee oversight

#### Sustainability Committee

Meets quarterly and includes representatives from Investment, Client Relations and Compliance. Responsibilities include:

- review of engagement activity, voting decisions and escalation cases
- oversight of ESG integration and stewardship policies
- stewardship-related regulatory developments
- review of external service providers
- recommendations for policy or process enhancements

Minutes are recorded and actions tracked.

#### Executive Committee

Comprising heads of function, meets quarterly and reviews stewardship as a standing agenda item, including recommendations from the Sustainability Committee.

Where relevant, stewardship insights are also considered by the Investment Committee and Risk Committee.

## **Stewardship resourcing**

We believe stewardship is most effective when undertaken by the same professionals responsible for investment decisions.

Our investment team comprises 15 portfolio managers and analysts dedicated exclusively to quoted Small & MidCap equities. Each analyst is responsible for stewardship within their sector coverage, including company analysis, ongoing monitoring, engagement and input into voting decisions.

We consider this integrated model a strength. Those closest to the investment case are often best placed to engage constructively with boards and management teams, and to assess whether progress is sufficient.

This is particularly relevant in Small & MidCap equities, where third-party research coverage can be less comprehensive and direct company knowledge is valuable.

Stewardship responsibilities are reflected in role descriptions, annual objectives, performance reviews and remuneration considerations.

## **Skills, experience and development**

We seek to maintain a team with strong investment judgement, governance awareness and sustainability expertise.

Professional development includes:

- internal training on stewardship policies and voting guidelines
- regulatory and market updates
- participation in external conferences and industry forums
- sharing engagement case studies and investment lessons internally
- continued development of ESG and impact expertise relevant to sector coverage

We also value diversity of background, experience and perspective. Given our relatively small team size, we focus on building a balanced and inclusive culture rather than rigid numerical targets.

## **External service providers**

We use selected external providers to supplement internal capabilities while retaining full responsibility for stewardship decisions.

Key providers include:

- **ISS** – proxy voting execution and governance research
- **MSCI** – ESG data and analytics
- **Bloomberg** – market and sustainability data

- **Factiva** – news and controversy monitoring
- **Impact Cubed** – impact measurement support and regulatory reporting

These providers support data breadth, efficiency and market coverage, but do not determine our voting decisions, engagement priorities or investment judgements.

Each provider is reviewed at least annually by the Sustainability Committee or relevant function head, considering service quality, usefulness and value for money.

### **Systems and technology**

We invest in systems that support effective stewardship across the investment lifecycle. These systems assist with:

- monitoring governance and sustainability risks
- maintaining research records and stewardship notes
- proxy voting workflow and rationale capture
- tracking engagement activity and outcomes
- portfolio-level ESG analysis
- client and regulatory reporting

We believe robust systems improve consistency, transparency and accountability.

### **Artificial intelligence**

We are actively exploring the use of artificial intelligence to enhance research efficiency and information processing.

Current use cases include summarising public disclosures, identifying relevant news flow and supporting research preparation. AI tools are used to assist analysis, not replace judgement.

All investment decisions, voting judgements and engagement positions remain the responsibility of Montanaro professionals.

Our use of AI tools is kept under review through appropriate management and governance forums, and we will continue to report transparently as our approach evolves.

### **Why this matters**

We believe effective stewardship depends on accountable leadership, experienced investors, strong systems and a culture focused on long-term outcomes. Our specialist structure and integrated investment model are designed to ensure stewardship is practical, informed and aligned with the best interests of clients and beneficiaries.

## **Disclosure C – Policies, processes and review**

Our stewardship approach is supported by formal policies and embedded processes designed to ensure stewardship is consistent, accountable and responsive to regulatory and market developments. Key public policies are available on our website.

### **ESG Handbook**

Our ESG Handbook is the core document describing our responsible investment framework. It covers ethical exclusions, ESG analysis, stewardship, voting and impact investing, and sets the standards companies must meet to be considered for investment.

First published in 2014, it is reviewed at least annually by the Sustainability Committee and updated where required.

### **Shareholder Engagement Policy**

Our Shareholder Engagement Policy explains how engagement is integrated into the investment process. It covers monitoring companies, dialogue with management, escalation, collaboration, voting and conflicts management.

Engagement activity is recorded in our Engagement Log and reviewed quarterly by the Sustainability Committee.

### **Voting Policy**

Our Voting Policy sets out the principles guiding proxy voting, including board effectiveness, remuneration, shareholder rights and material ESG matters.

We seek to vote all eligible holdings and make our own voting decisions. ISS research and execution services are used for support only. Final decisions are made internally.

Voting rationales are recorded and voting summaries are published quarterly on our website.

### **Ethical Policy**

Our Ethical Policy sets out activities in which we will not invest, including fossil fuels, controversial weapons, tobacco, alcohol, gambling, pornography, high-interest rate lending and certain forms of animal testing.

The policy applies across 100% of assets under management and is reviewed at least annually.

### **Technology, cyber security and AI**

Technology controls relevant to stewardship sit within our wider operational framework.

AI tools may be used to support research efficiency and information gathering, but not to replace human judgement in investment or stewardship decisions. Oversight sits with the Head of Systems and relevant management committees.

## **Stewardship processes**

Policies are supported through day-to-day processes, including:

- ESG and impact assessments during due diligence
- ongoing monitoring of holdings
- engagement tracking and follow-up
- proxy voting workflow and rationale capture
- escalation where concerns remain unresolved
- reporting to committees, clients and the Board

## **How and when we review policies**

All stewardship-related policies are reviewed at least annually.

Reviews are led by the Sustainability Committee with input from Investment, Compliance and Risk teams. Interim reviews may also be triggered by regulatory change, market developments, client feedback or internal findings.

Material updates are escalated to the Executive Committee and, where appropriate, the Board. Updated public policies are published promptly following approval.

## **Approval responsibilities**

- **Sustainability Committee** – detailed review and recommendation
- **Executive Committee** – approval of material policy updates
- **Board** – approval where changes affect governance or strategic matters
- **Compliance** – oversight of regulatory alignment and controls

## **Internal and external assurance**

We apply both internal and external assurance to aspects of our stewardship framework.

### **Internal assurance**

- quarterly Sustainability Committee review
- Compliance oversight of conflicts and voting controls
- reporting to the Executive Committee and Board

### **External assurance**

- B Corporation certification through B Lab
- independent review of Better World Fund impact reporting by Impact Cubed

**Why this matters**

Clear policies, embedded processes and regular review help ensure stewardship remains effective, proportionate and aligned with clients' long-term interests.

## **Disclosure D – Conflicts of interest**

Our core value of integrity underpins our approach to identifying and managing conflicts of interest. While our independent ownership structure reduces certain potential conflicts, we recognise that conflicts can arise and maintain formal processes to identify, manage and disclose them.

Our Conflicts of Interest Policy is reviewed at least annually by the Head of Compliance and discussed regularly by the Executive Committee and Board. All employees are made aware of their responsibilities under the Policy. A Conflicts of Interest Register is maintained and reviewed as part of the Compliance Report to the Board.

### **Stewardship-related conflicts**

The conflicts most relevant to stewardship are those that could influence engagement, voting or the exercise of shareholder rights. Key scenarios and mitigants are set out below.

#### **Investee company also a client**

Where an investee company is also a client of MAM, there is a risk that commercial considerations could influence voting decisions.

Potential conflicts are logged against the relevant meeting. Voting recommendations are reviewed by the Sustainability Committee and Compliance before submission to ensure decisions are taken in the best interests of clients holding the stock.

#### **Personal connections to investee companies**

Where an employee, or connected person, has a directorship, significant shareholding or other position of influence at an investee company, responsibility for research and voting is reassigned by the Chief Investment Officer.

Employees must declare outside business interests on joining the firm and confirm updates annually.

#### **Different client voting preferences**

Where clients have differing voting preferences, we apply our standard voting policy unless a segregated mandate has agreed alternative voting instructions within its client agreement.

Where we disagree with a client's preferred approach, we explain our rationale. The final decision rests with the client.

#### **Conflicts between clients**

Where we hold shares in a company for more than one client and a conflict arises between those clients' interests, affected clients are notified and approval is sought for the proposed course of action.

### **Ownership structure and alignment**

As a privately owned boutique with no parent company, affiliates or external shareholders, we are not exposed to certain conflicts that can arise in larger or listed organisations.

Our founder retains majority ownership and key staff participate through an Employee Benefit Trust. Employees also invest alongside clients in Montanaro funds, helping align interests with long-term client outcomes.

### **Personal account dealing and gifts**

Our Personal Account Dealing Policy prohibits employees and connected persons from investing in securities within Montanaro's investment universe.

A Gifts and Benefits Policy and Register are maintained by Compliance. Gifts or benefits above the stated threshold require prior approval from Compliance and senior management.

### **Disclosure and oversight**

Where a conflict cannot be adequately managed, it will be disclosed to the relevant client.

All identified conflicts and mitigating actions are recorded in the Conflicts of Interest Register and subject to ongoing oversight by Compliance, senior management and the Board.

### **Why this matters**

We believe clear controls, independent oversight and transparent disclosure are essential to ensuring stewardship decisions are taken solely in the best interests of clients and beneficiaries.

## **Disclosure E - Dialogue with clients**

We view our clients as long-term partners rather than simply investors in our funds. This approach shapes how we communicate, how we gather feedback and how we refine our stewardship priorities over time.

### **Understanding client needs**

Given the predominantly institutional nature of our client base, many clients undertake detailed due diligence before investing. This typically includes RFP responses, meetings with investment and client teams and, in some cases, site visits.

We use this process not only to explain our investment and stewardship approach, but also to understand each client's objectives, time horizon, reporting needs and stewardship priorities.

Many of our clients act on behalf of underlying beneficiaries, including pension savers, charities and endowments. We seek to reflect those long-term interests in our stewardship approach.

### **Public reporting**

We maintain a Sustainability Library on our website containing key stewardship-related materials, including:

- ESG Handbook
- Voting Policy
- Shareholder Engagement Policy
- Voting Activity Summaries
- Project: Net Zero Carbon report
- this Stewardship Report

For the Montanaro Better World Fund, we also publish an annual Impact Report covering our impact framework and progress against stated objectives.

### **Client-specific reporting**

In addition to public disclosures, we provide regular client reporting tailored to mandate requirements.

This may include:

- monthly factsheets covering performance, attribution and portfolio commentary
- bespoke quarterly reports with stewardship and engagement updates
- ESG and stewardship case studies

- responses to specific client requests
- Sustainability Committee minutes on request

We seek to provide information that is clear, relevant and proportionate to each client relationship.

### **Meetings and ongoing dialogue**

We engage with clients through a range of channels, including:

- one-to-one meetings and review calls
- client events involving investment professionals
- written market and portfolio commentaries
- podcasts, videos and digital content
- bespoke ESG and stewardship training sessions

We keep communication formats under review to ensure they remain useful and accessible.

### **How feedback informs stewardship**

Client feedback is an important input into our stewardship approach. Recurring themes and requests are captured by Client Relations and discussed with senior management and the Sustainability Committee where relevant.

Feedback has informed both our stewardship priorities and reporting. Examples include:

- client demand for best-in-class impact standards helped shape our pursuit and achievement of the UK SDR Sustainability Impact label for the Montanaro Better World Fund
- requests for greater impact transparency contributed to the continued expansion of Better World Fund impact reporting
- increased client focus on climate issues led to the publication of our annual *Project: Net Zero Carbon* report
- demand for more tailored stewardship information led to enhanced bespoke quarterly reporting and engagement updates

We view this dialogue as a valuable source of accountability and continuous improvement.

### **Different stewardship preferences**

Where clients have stewardship priorities or voting preferences that differ from our standard approach, we engage with them to understand their objectives.

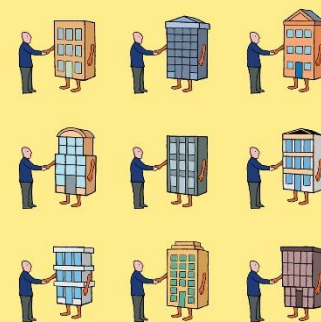
For segregated mandate clients with agreed voting instructions, those arrangements are implemented in line with the client agreement. Where we hold a different view, we explain our rationale and provide an alternative recommendation before the client makes the final decision.

**Why this matters**

We believe effective stewardship is strengthened by active dialogue with clients and beneficiaries. Regular communication and constructive feedback help ensure our approach remains aligned with client needs while supporting long-term value creation.

# Activities and Outcomes

## Stewardship in action



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Principle 5 is not applicable to Montanaro Asset Management, as we do not appoint or oversee external investment managers. All investment decisions and stewardship activities are undertaken internally through our in-house investment team, and therefore the selection and oversight of third-party managers does not form part of our investment process.

## Principle 1 – Integrating stewardship and investment

Stewardship is fully embedded within the MAM investment process and is central to the delivery of long-term sustainable value for clients. As an active manager investing exclusively in publicly listed small and mid-cap equities, stewardship is undertaken directly by portfolio managers and analysts, supported by ESG and Impact specialists. This ensures that insights from stewardship activities inform investment decisions across the full investment lifecycle, including stock selection, portfolio construction, ongoing monitoring and, where necessary, divestment.

Our stewardship approach is directly informed by our investment beliefs:

- **Long-term investing drives value creation:** We tend to adopt a long holding period, enabling sustained engagement with companies and supporting long-term strategic improvements.
- **Quality companies:** Businesses with strong governance, culture and sustainability practices are more likely to deliver superior risk-adjusted returns.
- **ESG factors are financially material:** ESG risks and opportunities are integrated into valuation and investment decision-making, rather than treated as separate considerations.
- **Active ownership enhances outcomes:** Engagement and voting are considered essential tools to influence corporate behaviour, improve disclosures and support sustainable business practices.
- **Small & MidCap investing enables access and influence:** Investing in smaller companies allows closer relationships with management teams and greater ability to effect change through engagement.

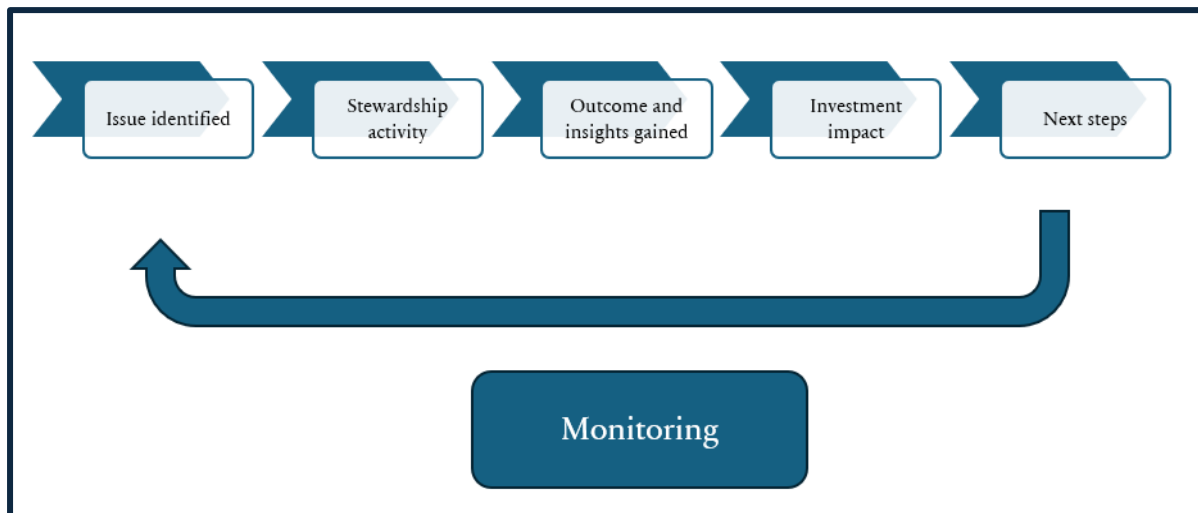
These beliefs underpin a stewardship model that is proactive, research-driven and integrated within the investment process.

Our approach is primarily bottom-up, driven by fundamental company analysis, but is complemented by top-down thematic priorities such as climate transition, governance standards and social factors including labour practices. These themes are identified based on materiality, client expectations, regulatory developments and systemic risks. This dual approach ensures that stewardship activity remains focused on financially and societally material issues while retaining flexibility to respond to company-specific risks and opportunities.

Stewardship considerations are integrated at the point of investment through our proprietary ESG Checklist, which forms a core part of our Quality Growth investment process. ESG factors, with a particular emphasis on governance, directly influence whether a company is eligible for inclusion in portfolios. This ensures that stewardship is not a separate overlay but a determinant of capital allocation decisions. Issues identified during due diligence frequently lead to targeted engagement prior to investment, shaping conviction levels and position sizing.

Ongoing stewardship activity, including engagement and voting, provides a continuous feedback loop into investment decision-making. During 2025, we voted at 100% of meetings and undertook

a broad programme of engagements across environmental, social and governance topics. These engagements are closely linked to investment oversight and risk management.



For example:

- Engagement with a **US software company** on cybersecurity risks provided assurance on governance controls and risk management frameworks, supporting our ongoing investment case.
- Discussions with **an industrial company** highlighted strengths in product efficiency and durability, reinforcing our understanding of the company’s competitive positioning while identifying areas for further monitoring, such as Scope 3 reporting.
- Engagement on remuneration structures with **companies** directly informed our voting decisions and assessment of management alignment with long-term shareholder value.

Voting is a key stewardship mechanism. We exercise voting rights on all holdings, using both internal analysis and external research (e.g. ISS) while retaining full discretion. Voting decisions reflect our assessment of long-term value creation, particularly in areas such as board composition, remuneration alignment and shareholder rights. Where concerns are identified, votes against management are used in conjunction with engagement to drive improved outcomes.

The integration of stewardship and investment is also evident in how we respond to new information. Insights gained through engagement or external ESG data can lead to changes in investment theses or escalation of engagement. In cases where risks are not adequately addressed, this may ultimately result in divestment. This dynamic process ensures that stewardship is not static but actively shapes portfolio management decisions.

Given our exclusive focus on listed equities, we are able to exercise stewardship rights consistently across all assets under management. However, we recognise that the depth of engagement may vary depending on factors such as company size, geographic location and data availability, particularly within the small and mid-cap universe. We address these limitations through direct company dialogue and proprietary analysis, rather than relying solely on third-party data.

Overall, our integrated approach ensures that our stewardship efforts provide investment insight, enabling us to allocate capital responsibly, manage risks effectively and support the long-term success of the companies in which we invest, in line with the objectives of our clients and beneficiaries.

## Principle 2 – Promoting well-functioning markets

### Identifying market-wide and systemic risks

Market-wide and systemic risks are those that cannot be mitigated through diversification and that have the potential to affect our portfolios, our clients' outcomes and the broader financial system. Our geographic focus on global developed markets, our exclusive investment in quoted Small & MidCap equities and our long-term investment horizon all influence the risks we identify and monitor. We have identified the following market-wide and systemic risks as most relevant to our business and portfolios:

- **Macroeconomic and geopolitical risk** encompasses market volatility, political instability, and fiscal and regulatory change. The evolving landscape of sustainable finance regulation, including the EU SFDR, EU Taxonomy and UK SDR, is particularly relevant given our Dublin-domiciled and UK-domiciled fund ranges, both of which are subject to these frameworks.
- **Environmental risk** is a systemic concern across all of our portfolios. Climate change, including extreme weather events, rising temperatures and resource depletion, presents both physical and transition risks for our investee companies. We also monitor risks associated with water scarcity, biodiversity loss, deforestation and pollution, all of which have the potential to affect the long-term value of our holdings and the economies in which they operate.
- **Social risk** includes rising inequality, human rights concerns within supply chains, modern slavery, political populism and global health risks. These factors can affect regulatory environments, consumer behaviour and the reputational and operational resilience of our investee companies.
- **Governance risk**, including corporate corruption, poor capital allocation and weak board oversight at both company and national levels, remains a persistent concern and one that our investment process is specifically designed to address.
- **Technological risk**, particularly cybersecurity, is a growing systemic threat. The scale and sophistication of cybercrime continues to increase and presents risks not only to our own operations but to the companies in which we invest and the stability of the broader financial system. We also monitor the risks and opportunities presented by the rapid development of artificial intelligence.

We recognise that market-wide risks can also present investment opportunities. Our Better World Fund builds on this approach by applying a dedicated impact framework to identify companies whose products and services address sustainability challenges. This enables us to target structural growth drivers, such as electrification and resource efficiency, where commercial opportunity is aligned with positive real-world outcomes. These include structural trends such as the energy transition, advances in healthcare and the development of more efficient and sustainable technologies.

## 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 focusses on risks that have the potential to affect long-term value creation across multiple sectors. Climate change remains the most significant, reflecting both the physical impacts of global warming and the structural changes associated with the transition to a low-carbon economy. Recent data continues to underline the scale of this challenge, with global temperatures exceeding 1.5°C above pre-industrial levels in recent years<sup>1</sup>.
- **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

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<sup>1</sup> <https://climate.copernicus.eu/copernicus-2025-was-third-hottest-year-record>

- 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.

### **How our investments reflect the risks we have identified**

Our approach to market-wide and systemic risk is reflected directly in how we construct and manage our portfolios.

Our ethical exclusion policy means we do not invest in companies involved in the exploration, extraction or production of fossil fuels, which limits our exposure to stranded asset risk and climate transition risk.

Our integrated ESG analysis, conducted by our Analysts using our proprietary ESG Checklist, ensures that environmental, social and governance risks are assessed before we invest and monitored throughout the holding period. 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.

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.

### **Engaging with companies on systemic risks**

We use our close relationships with investee company management teams to understand and influence their approach to systemic risks. Our multi-year Project: Net Zero Carbon engagement programme is designed to encourage companies to set and meet science-based net zero targets, and we publish annual progress reports on our website. Our thematic Deep Dive engagement projects allow us to explore systemic risks in depth across our Approved List. Past Deep Dives have covered topics including supply chain management, biodiversity, the built environment and single-use plastics, the last of which emerged from observations made during company site visits. Our Deep Dive reports are available on our website<sup>2</sup>.

We also use external frameworks to identify and prioritise systemic risks in our engagement with companies. The United Nations' Sustainable Development Goals (UN SDGs) inform our approach to impact investing through the Montanaro Better World Fund and help us to identify sustainability risks and opportunities that are relevant to our investment universe more broadly.

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<sup>2</sup> <https://montanaro.co.uk/deep-dives/>

## Supporting well-functioning markets through industry initiatives

We engage with the broader responsible investment community through a range of industry initiatives, policy consultations and collaborative engagements. Our focus is on contributing to the development of frameworks and standards that address systemic risks and support well-functioning capital markets, rather than passive participation.

- **Global frameworks and investor initiatives**

- **Principles for Responsible Investment (PRI):** We have been a signatory to the PRI since 2009 and complete the annual reporting and assessment process. The PRI provides a globally recognised framework for integrating ESG considerations into investment and stewardship practices. Our participation supports market-wide consistency in responsible investment approaches and encourages improved disclosure and accountability across issuers. In our most recent assessment, we received a five-star rating across all assessed modules.
- **Net Zero Asset Managers initiative (NZAM):** We joined NZAM in 2021, committing to align our portfolios with net zero emissions by 2050 and to set interim targets. Climate change represents a systemic financial risk affecting all sectors and geographies. Through NZAM, we contribute to the development of industry standards on decarbonisation, target-setting and investor accountability. We continue to report progress through our annual Project: Net Zero Carbon report.

- **Nature, biodiversity and environmental frameworks**

- **Taskforce on Nature-related Financial Disclosures (TNFD):** We are participants in the TNFD and early adopters of its framework. TNFD aims to improve the identification, assessment and disclosure of nature-related risks and dependencies. Biodiversity loss has implications for economic stability and long-term asset values. Our involvement supports the development of consistent methodologies and encourages improved corporate disclosure in this area.
- **PRI Spring:** We have endorsed PRI Spring, which focuses on addressing biodiversity loss and nature-related risks through investor stewardship. This initiative promotes coordinated investor action on systemic environmental risks that cannot be addressed through company-level engagement alone.
- **Business coalition against plastic pollution / Global Plastics Treaty advocacy:** We have supported investor and industry initiatives advocating for a global plastics treaty, including participation in collaborative efforts taken to UN-level discussions. Plastic pollution is a systemic environmental challenge with cross-sector implications.

These initiatives aim to establish global standards and regulatory frameworks to reduce environmental damage and improve corporate accountability.

- **UK policy engagement and industry bodies**

- **UK Sustainable Investment and Finance Association (UKSIF):** As a member of UKSIF, we contribute to industry dialogue on UK sustainable finance regulation and market standards. UKSIF plays an important role in shaping policy and ensuring that regulation supports transparency, comparability and investor protection.
- **UK Government consultations on climate and transition risk:** We have responded to UK Government consultations on transition risk and related regulatory developments. Engagement with policymakers allows us to contribute practical insights from an investment perspective and supports the development of effective, market-relevant regulation.

- **Other collaborative engagement and thematic initiatives**

- **Food Foundation investor coalition (public health and nutrition):** We have participated in investor initiatives focused on public health and nutrition, recognising poor nutrition and obesity as systemic societal risks with long-term economic and healthcare implications. These engagements aim to influence corporate practices and improve outcomes at a population level.

These initiatives align with our stewardship approach by addressing risks that are systemic in nature and cannot be mitigated through portfolio construction alone. Climate change, biodiversity loss, public health and environmental degradation all have the potential to affect long-term economic stability and investment outcomes.

Through participation in these initiatives, we aim to:

- Support the development of consistent reporting and disclosure frameworks
- Contribute to policy and regulatory discussions
- Encourage improved corporate practices across markets
- Enhance the quality and comparability of ESG data available to investors

This complements our company-level engagement and reflects our belief that effective stewardship requires both direct engagement and contribution to broader market standards.

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.

## Principle 3 – Engagement

### Prioritisation

As a boutique asset manager, we must be thoughtful about where and how we direct our engagement efforts. Our prioritisation approach is a continuation of our investment philosophy, our ESG analysis and our understanding of what is most material to the long-term value of our portfolios and the interests of our clients. We engage where we believe it can make a difference.

Our starting point is our proprietary ESG Checklist, which is completed by the responsible Analyst for every company on our Approved List of approximately 250 companies. The Checklist draws on around 80 data points sourced from MSCI, Bloomberg and directly from company reports, and scores each company out of ten across environmental, social and governance areas. Any company scoring below five in a given area is automatically flagged for engagement, as this indicates a material weakness that we believe warrants direct dialogue with management. This systematic, bottom-up scoring process ensures that our engagement priorities are grounded in our own research rather than being driven solely by external events or third-party ratings.

To complement this company-level analysis, we use our ESG Aggregation Tool, which consolidates data from individual ESG Checklists across our entire Approved List. This allows us to view our engagement priorities at a higher level, identifying patterns across sectors, geographies and ESG dimensions. Where a particular weakness or risk appears across a number of holdings, this signals that a thematic, portfolio-wide engagement may be more efficient and impactful than a series of individual company engagements. The outputs of the Aggregation Tool are reviewed by the Sustainability Committee at each quarterly meeting and directly inform our decisions about where to focus our collective effort in the period ahead.

Thematic engagement priorities are selected by the Head of Sustainable Investments in consultation with the Investment Team and Sustainability Committee. In determining which themes to prioritise, we consider a number of factors: the materiality of the issue to the long-term financial performance of our investee companies; the breadth of exposure across our portfolio; the extent to which the issue represents a systemic or market-wide risk as well as a company-specific one; the degree to which we believe engagement can realistically effect change; and the relevance of the issue to the stewardship priorities of our clients. This last point is important: client feedback is a genuine input into our prioritisation decisions, and where we notice a theme emerging consistently in our conversations with clients, we treat this as a signal that it warrants closer attention. Our approach to thematic engagement takes the form of Deep Dive projects, through which we engage with companies across our Approved List on a specific subject, seeking to understand their current approach, identify areas for improvement and encourage the adoption of best practice.

Alongside this proactive, analytically driven prioritisation, we also respond to events as they arise. News monitoring allows us to track company-specific developments, and where a controversy,

incident or material governance change is identified, the responsible Analyst assesses whether engagement is required. Similarly, our voting process generates engagement priorities: where we intend to vote against management or identify a resolution that raises a concern, this typically becomes the starting point for a direct conversation with the company.

Engagements are recorded in our ESG Engagement Log, which is reviewed by the Sustainability Committee at each quarterly meeting to ensure that open cases are being progressed appropriately and that resources are being allocated accordingly.

Finally, we are mindful that not all engagement objectives can be achieved within a single reporting period. Some issues, particularly those involving structural governance concerns, long-term environmental targets or complex supply chain risks, require sustained dialogue over several years. Where this is the case, we do not close an engagement case simply because immediate progress has not been made. Instead, we maintain it as an open priority on our Engagement Log, revisit it in our Sustainability Committee meetings and consider whether escalation through voting, reducing/exiting our position or involving other shareholders, is warranted. This long-term orientation is consistent with our identity as long-term shareholders and reflects our belief that meaningful stewardship takes time

### **Purpose of engagement**

Our engagement with investee companies serves several distinct but overlapping purposes, each of which is rooted in our belief that close, co-operative dialogue with management teams leads to better investment outcomes for our clients and better outcomes for the companies themselves.

As a long-term investor in Small & MidCap companies, we often hold positions for many years, sometimes decades, and over that period expect to develop a mature understanding of a business's culture, strategy, governance, and approach to the material risks and opportunities it faces.

Much of our engagement takes the form of regular meetings, calls, site visits and informal exchanges that allow us to stay close to the companies in which we invest and to build the kind of relationship in which management teams feel comfortable sharing information candidly and in which we are able to offer considered perspectives in return.

This relational dimension of engagement is particularly valuable in the Small & MidCap space, where companies are often under-researched by the sell-side and where the quality of management is frequently a determining factor in long-term investment performance. Our Analysts hold the primary relationships with company management and are responsible for initiating and conducting most of our engagement activity. The closeness of these relationships means that we are often able to raise concerns informally and constructively before they become material issues, and companies generally understand that our engagement comes from a position of long-term support rather than short-term pressure.

- **Gathering and exchanging information**

A significant proportion of our engagement is designed to deepen our understanding of a company. We engage regularly with management teams to discuss strategy, capital allocation, competitive dynamics, operational performance and the company's approach to material ESG factors. The information we gather through these conversations informs our ESG Checklist assessments and our ongoing monitoring of holdings. It also allows us to assess the quality and integrity of management, which is a central component of our Quality Growth investment philosophy.

We also share our perspectives with companies during these exchanges. Where we have a view on a company's strategy, governance structure, remuneration policy or sustainability approach, we share it directly. We regard this as part of our responsibility as engaged, long-term shareholders: not merely to observe and assess, but to contribute constructively to the thinking of the management teams in which we have invested. In a number of cases, companies have told us that our engagement has prompted them to consider issues they had not previously prioritised or to approach a challenge in a different way. This exchange of perspectives, rather than the imposition of demands, is how we prefer to operate.

**Case study:**

Area	Detail
Context	During our ESG monitoring, we identified that a portfolio company's third-party ESG rating appeared inconsistent with our internal assessment. Our analysis suggested this was driven by data gaps and potential inaccuracies rather than underlying weaknesses in the company's practices.
Engagement activity	We engaged with management to understand the drivers of the rating and the company's approach to ESG data collection and disclosure. This discussion provided insight into how ESG data is compiled, validated and submitted to external providers. We also shared our perspective that improving the completeness and accuracy of disclosures would better reflect the company's ESG performance and reduce the risk of misinterpretation by investors.
Outcome and insights	The company acknowledged the challenges associated with the ESG rating process and confirmed that it is taking steps to review and challenge data points with the provider. It committed to improving data accuracy over time. This engagement enhanced our understanding of the limitations of third-party ESG data and reinforced the importance of combining external inputs with proprietary analysis. It also demonstrates how constructive dialogue can support improved disclosure without the need for prescriptive demands.

- **Encouraging improvement and change**

Where our ESG analysis identifies a material weakness, or where a company's behaviour falls short of the standards we expect, we engage with a clear objective: to understand the root cause of the issue, to communicate our expectations and to encourage the company to take steps to address it.

We approach these engagements constructively. Our preference is always to work with management rather than against them, and we will typically raise a concern directly with the company before reflecting it in our voting or considering further escalation. We regard ourselves as active shareholders rather than activists: we seek to influence through discussion in the first instance, reserving more assertive tools such as voting against management, reducing our position or divesting for situations where dialogue has failed to produce a satisfactory response.

**Case study:**

Area	Detail
Context	Through our ESG monitoring, we identified a governance concern at a portfolio company relating to board composition and independence. The presence of closely related individuals on the board raised questions about oversight and alignment with shareholder expectations.
Engagement activity	We engaged with the company to understand the rationale for the existing board structure and to communicate our expectations regarding independence and robust governance. We raised the importance of ensuring appropriate challenge and oversight at board level, highlighting that stronger independence would better align with best practice and investor expectations.
Outcome and insights	Following our engagement, the company implemented changes to its board composition, including the departure of a related party from the board. This represented a clear improvement in governance and demonstrated responsiveness to shareholder feedback. The engagement reinforced our view that constructive dialogue can lead to tangible change, and that escalation through voting or other means is not always required where companies are willing to engage and act.

- **Verifying credentials**

For our impact strategy, the Montanaro Better World Fund, engagement serves an additional purpose: verifying that the companies we hold continue to meet our impact criteria and are making genuine, measurable progress against the environmental and social outcomes we have identified as material. This involves detailed discussions with management about how they measure and report on their impact, how they are evolving their products and services in response to changing needs, and how they are managing the risks associated with their impact claims. This form of engagement

is closely integrated with our Impact Framework and the ongoing monitoring of our impact scores, and it informs our assessment of whether a company continues to merit inclusion in the portfolio.

**Case study:**

Area	Detail
Context	As part of our ongoing monitoring within an impact strategy, we identified inconsistencies in reported impact data for a portfolio company operating in the healthcare sector. Specifically, discrepancies in disclosed patient reach metrics raised questions about the reliability and methodology underpinning reported outcomes.
Engagement activity	We engaged with management to clarify the reported figures and to better understand the methodology used to measure and disclose impact. This included detailed discussions on how patient outcomes are defined, calculated and verified, as well as the controls in place to ensure data accuracy. We also communicated our expectation that impact reporting should be transparent, consistent and supported by robust methodologies, given its importance in assessing eligibility for inclusion in an impact portfolio.
Outcome and insights	The company acknowledged that previously disclosed figures contained an error and provided corrected data, alongside greater clarity on its impact measurement approach. This enabled us to update our internal impact assessment and maintain confidence in the company’s inclusion within the strategy. The engagement reinforced the importance of verifying impact claims through direct dialogue and demonstrated how engagement supports the integrity of our Impact Framework and ongoing monitoring of impact scores.

- **Engaging ahead of voting**

Where we have a concern about a resolution ahead of an AGM, our preference is to raise it with the company before the meeting rather than simply voting against without prior notice. This allows management the opportunity to provide additional context or to give assurances about future conduct, which we take into account when making our final voting decision. Where we do vote against management, we record our rationale and typically follow up with the company after the meeting to explain our decision. In this way, our voting activity is not an isolated act but a continuation of an ongoing conversation.

**Case study:**

Area	Detail
Context	Ahead of a shareholder meeting, we identified concerns with a proposed resolution seeking authority to renew and extend share issuance powers. The scope and duration of the authority appeared broad, raising potential concerns

	around shareholder dilution and alignment with minority shareholder interests.
<b>Engagement activity</b>	Prior to voting, we engaged directly with the company to better understand the rationale for the proposal and to give management the opportunity to provide additional context. This discussion allowed us to assess whether the authority was likely to be used proportionately and in line with shareholder expectations.
<b>Outcome and insights</b>	While the company provided clarification on the intent of the proposal, we concluded that the scope remained excessive relative to best practice. As a result, we voted against the resolution. This engagement ensured that our voting decision was informed by direct dialogue with management and demonstrated our preference to raise concerns in advance rather than relying solely on voting as a signalling mechanism. We subsequently monitored the company's approach to capital management and will continue to engage where necessary.

## Methods of engagement

We define an engagement as any substantive interaction with an investee company, or with a relevant third party, that is directed at understanding, influencing or monitoring a sustainability matter material to our investment case or our stewardship responsibilities. This includes formal scheduled meetings, results calls, site visits, written correspondence and less formal conversations that arise in the course of our ongoing relationship with a company. Not every interaction constitutes an engagement in this sense: routine investor relations calls or conference presentations, where there is no specific ESG issue being raised or discussed, are not recorded as engagements. Where a substantive issue is raised or a specific stewardship objective is being pursued, the interaction is recorded in our ESG Engagement Log and remains open until we are satisfied that the matter has been resolved or that further engagement is unlikely to be productive.

- **Direct engagement with management**

The primary method of engagement for MAM is with company management. This reflects both our investment philosophy, which places a premium on understanding the quality of management teams, and the practical reality that in the Small & MidCap universe, direct access to senior management is generally available to us in a way that it may not be for investors in larger companies. Our Analysts hold the closest relationships with company management and are typically the first point of contact when an engagement is initiated. They raise issues directly in the course of regular company meetings, results calls and more targeted conversations arranged specifically to discuss a particular concern.

The seniority of the person we engage with depends on the nature and urgency of the issue. For routine information gathering or ESG-related fact finding, engagement typically takes place with the Head of Investor Relations or the relevant sustainability lead. Where the issue is more material,

for example a governance concern, a significant ESG weakness or a failure to respond to earlier engagement, we may request a meeting with one of the c-suite or, in more serious cases, with a member of the Board directly, such as the Chair or the Chair of the Remuneration or Audit Committee. In the Small & MidCap universe, many companies remain majority owned by their founders or founding families, and we have experience of escalating engagements to meetings with family shareholders who do not routinely meet with institutional investors.

- **Site visits**

Site visits are a particularly valuable engagement method. They allow us to observe a company's operations, culture and working environment first hand, providing insights that are difficult to obtain from written materials or formal meetings alone. Site visits have, in a number of cases, been the source of engagement priorities that we would not have identified through desk-based research alone. They also allow us to meet a broader range of people within a business, including operational managers, sustainability leads and, in some cases, employees, giving us a more rounded picture of the company's culture and the extent to which its stated values are embedded in practice.



- **Written correspondence**

Where an issue requires a formal record or where a company has not responded satisfactorily to verbal engagement, we may follow up in writing. Written correspondence is also used to communicate our voting intentions ahead of an AGM, to set out our concerns about a specific resolution and to explain our reasoning. We find that a written communication can be an effective way of ensuring that our concerns are taken seriously at board level, particularly where previous verbal engagement has not produced the desired response.

Letters are a common form of engagement within collaborative initiatives, and we regularly co-sign these alongside like-minded investors to articulate shared concerns.

- **Collaborative engagement**

Where we believe that our individual voice is unlikely to be sufficient to effect change, or where an issue has a systemic dimension that extends beyond any individual company, we consider whether collaborative engagement with other investors would be more effective. We are selective about the collaborative initiatives we join, focusing on those where our participation is genuinely additive and where the subject matter is relevant to our Small & MidCap investment universe. There is more information on our approach to collaboration below.

- **Thematic Deep Dive engagements**

For issues that affect a significant number of our holdings, we conduct thematic Deep Dive engagement projects. These involve a structured programme of engagement with companies across our Approved List on a specific subject, typically combining written questionnaires or structured interview frameworks with follow-up meetings to discuss the findings. Deep Dives serve a dual purpose: they allow us to gather comparable data across our portfolio on a given issue, and they signal to companies that the subject is a priority for us as a shareholder.

- **Voting**

Voting is an integral part of our engagement toolkit. We vote at all AGMs where we have the authority to do so, and we treat our voting decisions as an expression of our stewardship views. Where we intend to vote against a resolution, we aim to notify the company in advance and explain our reasoning, giving management the opportunity to provide additional context before the vote is cast. Where we vote against management, we follow up after the meeting to maintain the dialogue. All voting activity is processed through the ISS ProxyExchange platform, which provides an auditable record of our decisions and rationale, and is reviewed by the Sustainability Committee on a quarterly basis

## **Collaboration**

We recognise that collaborative engagement can amplify the influence of individual investors, particularly on systemic or market-wide issues where a single shareholder's voice may carry limited weight.

We are selective about the initiatives we join. Many collaborative engagement campaigns are focused on large-cap companies that fall outside our investment universe and we do not join initiatives simply to demonstrate participation. Where we do engage collaboratively, we seek to contribute substantively, whether by sharing our proprietary research, participating actively in working groups or using our close relationships with Small & MidCap management teams to advance the aims of the initiative in our corner of the market.

The table below summarises our current collaborative engagements and industry commitments, together with a description of our role and contribution in each case.

Initiative	Description	Our involvement
<b>FAIRR (Farm Animal Investment Risk &amp; Return)</b>	An investor network that raises awareness of the ESG risks and opportunities associated with intensive animal agriculture.	We support FAIRR’s work to deepen investor understanding of risks within global food systems, including environmental impact, supply chain resilience and animal welfare. These risks are systemic given their links to climate change, biodiversity loss and resource use.
<b>GIIN Healthcare Benchmark</b>	A benchmark developed by the Global Impact Investing Network to assess the impact performance of investments in healthcare.	We contributed portfolio data and participated in working groups to help develop healthcare impact KPIs and SDG alignment frameworks. This supports improved comparability and transparency in measuring social outcomes, addressing gaps in market standards.
<b>Investor Coalition on Food Policy</b>	A collaborative initiative seeking to influence food-related policy in the interests of sustainable food systems and long-term investor returns.	We participate in this coalition to support engagement on systemic food system risks, which we regard as material to a number of our investee companies across healthcare, nutrition and consumer-facing sectors.
<b>Investor Coalition on the Global Plastics Treaty</b>	An investor group seeking to influence the development of a global treaty on plastic pollution, supporting the reduction of single-use plastics and improved waste management.	We co-signed investor statements and participated in stakeholder discussions and briefings. Our engagement supports the development of global policy frameworks and improved corporate disclosure on plastic-related risks, addressing systemic environmental challenges.
<b>The Living Wage Foundation</b>	The Living Wage Foundation is a UK-based organisation that sets and promotes the real Living Wage, an hourly rate based on the actual cost	We are an accredited Living Wage employer. We also encourage our investee companies to consider Living Wage accreditation and

	of living. It accredits employers who commit to paying all employees and contracted workers at least the real Living Wage, and advocates for fair pay as a matter of economic justice and social responsibility.	fair pay practices across their workforce and supply chains.
<b>Long-term Investors in People's Health (LIPH)</b>	A collaborative investor initiative focused on encouraging companies to improve public health outcomes through their products, services and operations.	We participate in LIPH engagements relevant to our investment universe, using the initiative's framework to engage with investee companies on health-related risks and opportunities, including those associated with nutrition, product safety and employee wellbeing.
<b>Net Zero Asset Managers Initiative (NZAM)</b>	A global initiative of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050.	Members since 2021. We have set interim and long-term targets for our financed emissions and report annually on progress through our Project: Net Zero Carbon report.
<b>Principles for Responsible Investment (PRI)</b>	The world's leading proponent of responsible investment, providing a framework for incorporating ESG factors into investment practice.	Signatories since 2009. We complete the annual PRI assessment and were awarded a five-star rating across all three assessed categories in our most recent submission. We are Spring endorsers, supporting the PRI's stewardship programme for listed equity investors. We also participate in PRI-led and PRI-supported investor initiatives through the organisation's Collaboration Platform, which enables us to engage collectively with other signatories on material ESG issues relevant to our portfolio.

<b>Taskforce on Nature-related Financial disclosures (TNFD)</b>	A framework for organisations to assess, manage and disclose nature-related risks and opportunities.	Early adopters of the TNFD framework. We engage with investee companies to raise awareness of nature-related risks and to encourage preparedness for emerging disclosure requirements. We draw on TNFD outputs to inform our biodiversity engagement and our ESG Checklist.
<b>Tobacco-Free Portfolios</b>	A global initiative encouraging financial institutions to adopt tobacco-free investment policies.	Signatories since 2022. Tobacco is excluded from our investment universe under our Ethical Policy, and our participation in this pledge reflects and reinforces our long-standing position on this issue.
<b>UK Sustainable Investment and Finance Association (UKSIF)</b>	The UK's membership body for sustainable and responsible finance.	Active members. Our Head of Sustainable Investments sits on the UKSIF Board, allowing us to contribute directly to the development of responsible investment policy and practice in the UK and to represent the perspective of smaller, specialist asset managers in industry discussions.

## Collaborative engagement case study: Investor Coalition on the Global Plastics Treaty



## Limitations of collaborative engagement for a Small & MidCap investor

We believe it is important to be transparent about the practical limitations of collaborative engagement for an investor with our profile. The majority of collaborative engagement campaigns, including many of the most prominent climate and governance initiatives, are directed at large-cap companies. The companies in which we invest are typically not the primary targets of these campaigns and in some cases are not covered by them at all. This means that the most impactful collaborative engagement available to us is often the kind we organise ourselves, bringing together our own research, our relationships with management teams and our long-term perspective, rather than simply joining an existing initiative. We regard our Deep Dive engagement projects as a form of structured, internally led thematic engagement that serves a similar purpose to collaborative campaigns in a universe where the latter are less applicable.

### Escalation

Our preference is always to engage constructively and patiently with the companies in which we invest. We recognise that meaningful change takes time, particularly on complex ESG issues, and we are willing to maintain a dialogue with management teams over an extended period before concluding that escalation is necessary. However, where our concerns are not being addressed, where a company is unresponsive or where we judge that the strength of our engagement needs to increase to achieve our objectives, we will escalate. Escalation is applied consistently across all of our portfolios given our single asset class focus.

It is important to distinguish between escalation and routine engagement. The steps we take when escalating are intended to represent a deliberate and meaningful increase in the intensity of our engagement, not simply a continuation of the same dialogue.

### 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. The decision to escalate to external engagement is made by the Head of Sustainable Investments in consultation with the Chief Investment Officer and is reported to the Sustainability Committee at its next quarterly meeting. The Sustainability Committee reviews all open escalations at each meeting and may recommend divestment to the Investment Committee where it judges that further engagement is unlikely to be productive.

- 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.

**Case study:**

Area	Detail
Context	Through our ESG monitoring, we identified serious animal welfare concerns at a UK-listed food producer with vertically integrated livestock operations. Allegations of unacceptable practices at a supplier farm raised risks relating to animal welfare standards, operational oversight and reputational damage. The issue attracted heightened external scrutiny, increasing its materiality.
Engagement activity	We initially engaged with Investor Relations to understand the company’s response and the controls in place. As further allegations came to light, we escalated our engagement to the CFO to communicate clear expectations around strengthening oversight, improving monitoring and ensuring alignment with stated animal welfare standards. Our engagement focused on the need for robust, independently verified processes and greater transparency.
Outcome and insights	The company commissioned an independent veterinarian-led review and implemented a range of remedial actions, including the introduction of AI-enabled CCTV monitoring, enhanced staff training and the standardisation of procedures across operations. The independent review found farms to be compliant at the time of inspection and set out a series of recommendations to further strengthen practices. This escalation demonstrates how sustained engagement, moving from initial dialogue to senior-level interaction, can drive meaningful operational and governance improvements. We continue to monitor implementation to ensure these changes are effectively embedded over time.

## **Progress of engagements**

We maintain a comprehensive record of all engagement activity in our ESG Engagement Log. During the course of the year we initiated 46 engagements with 36 different companies. Every engagement case is recorded when initiated and remains open until we are satisfied that the matter has been resolved, that sufficient progress has been made, or that further engagement is unlikely to be productive. The Log is reviewed by the Sustainability Committee at each quarterly meeting, ensuring that open cases are being actively progressed and that our collective engagement effort is being directed appropriately.

We recognise that meaningful stewardship rarely produces immediate results. Many of the issues on which we engage, whether governance structures, climate transition planning, supply chain practices or board diversity, are complex and require sustained dialogue over months or years before meaningful change is achieved. We therefore do not measure the success of our engagement solely by reference to whether a case has been formally closed within a given reporting period. Instead, we track progress against the specific objectives we set at the outset of each engagement and update our assessment as new information comes to light.

## **Categories of engagement**

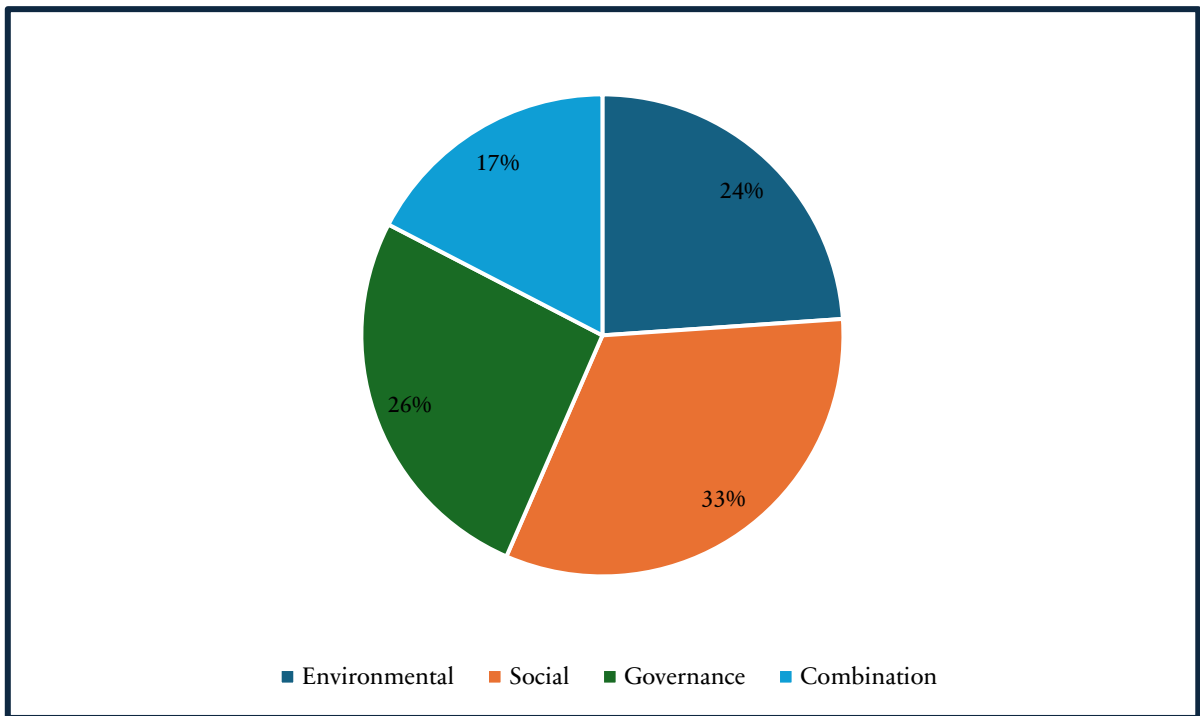
Our engagements during the reporting period fell into the following broad categories, reflecting both our proactive thematic priorities and the reactive engagement prompted by specific company events or ESG Checklist findings.

Environmental engagements focused primarily on climate transition, including progress against net zero targets, the adoption and verification of science-based targets and levels of Scope 1, 2 and 3 emissions disclosure. We also engaged with a number of companies on biodiversity-related risks, water management and single-use plastics, reflecting both our own Deep Dive research and the growing regulatory focus on nature-related risks.

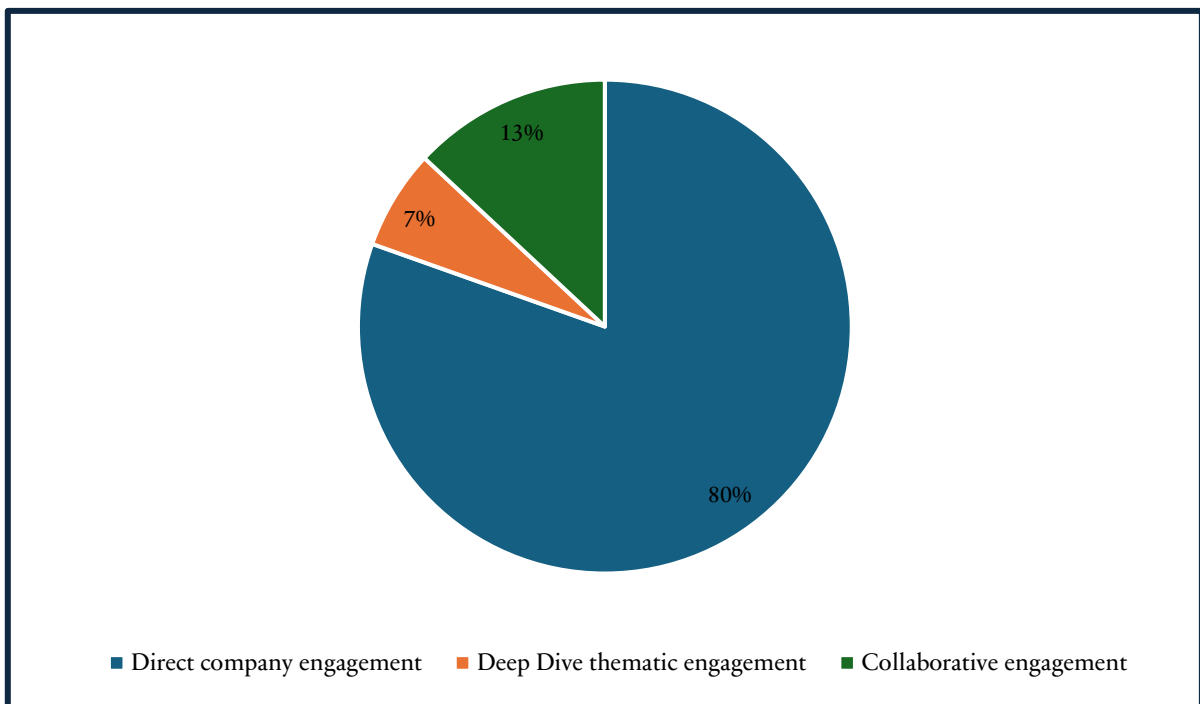
Social engagements covered a range of topics including supply chain labour practices, employee health and wellbeing, workforce diversity and human capital management. We drew on the frameworks provided by our participation in the Living Wage Foundation and the Long-term Investors in People's Health initiative to structure a number of these engagements and to benchmark company responses against broader industry practice.

Governance engagements addressed board composition and independence, executive remuneration structures, audit quality and the separation of the Chair and Chief Executive roles. Governance remains one of the most frequent triggers for our engagement activity, reflecting both

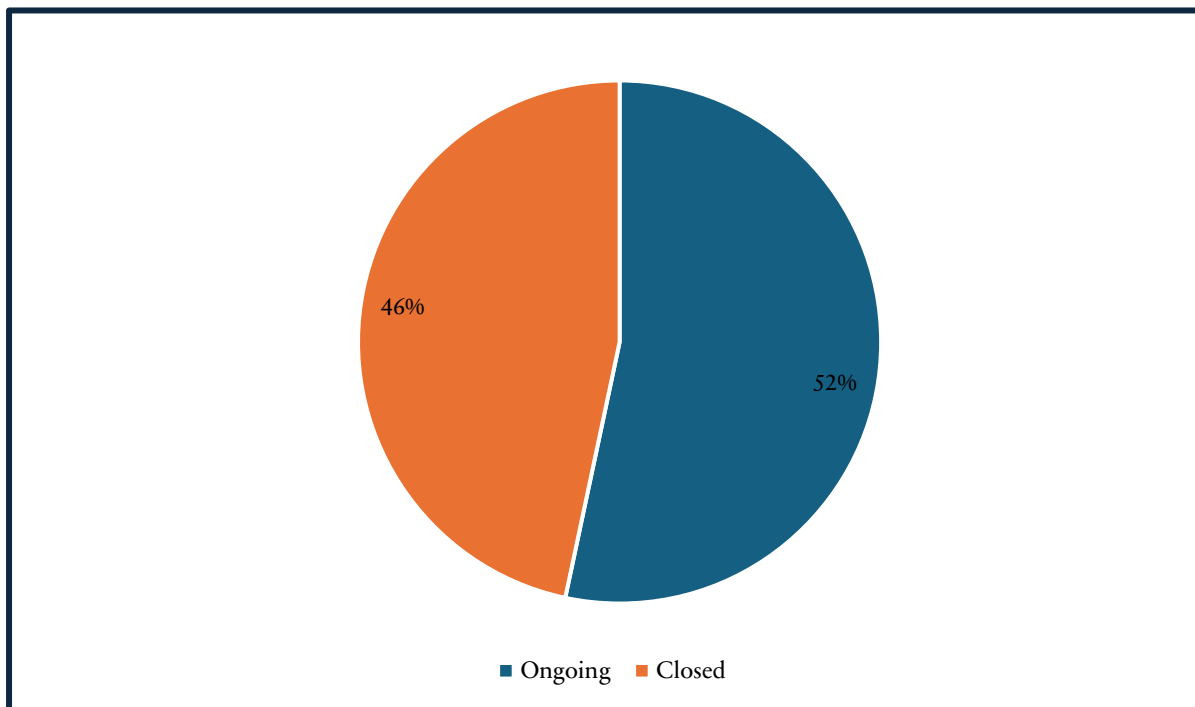
the importance we place on management quality in our investment process and the prevalence of governance-related resolutions at AGMs that require our considered response.



**Engagements by type initiated during the reporting period:**



**Engagements considered ongoing or closed at the end of the reporting period:**



A number of our most significant engagements are multi-year in nature and continued to progress during the reporting period without reaching a final conclusion. We believe it is important to report on these openly.

Where an engagement has reached a satisfactory conclusion during the reporting period, we record the outcome and close the case in our Engagement Log. A conclusion may take a number of forms: the company may have taken the action we requested; it may have made sufficient progress against an agreed objective; or we may have satisfied ourselves through dialogue that the initial concern was unfounded or had been adequately addressed. Where a case is closed without the outcome we had sought, for example following a decision to divest or where we have concluded that further engagement is unlikely to be productive, we record this as a concluded engagement with an unsatisfactory outcome and note the reasons.

We are pleased to report that a number of engagements concluded positively during the reporting period, including cases where companies took meaningful action on governance, climate disclosure and ESG reporting following sustained dialogue with our team.

Area	Detail
Context	Through our impact and ESG analysis, we identified that a portfolio company operating in the ventilation and indoor air quality sector had strong environmental credentials, driven by products that improve energy efficiency and reduce building emissions. However, there was limited disclosure on the

	proportion of revenues derived from these core activities and the quantification of associated environmental benefits.
<b>Engagement activity</b>	We engaged with management to better understand the breakdown of revenues linked to ventilation products and to assess how the company measures and reports the environmental impact of its solutions. We also communicated our expectation that more detailed product-level disclosure would strengthen transparency and support a clearer articulation of the company's contribution to energy efficiency and decarbonisation.
<b>Outcome and insights</b>	Following our engagement, the company provided greater clarity on the proportion of revenues derived from its core ventilation activities and enhanced its approach to product-level impact reporting. This enabled a more robust assessment within our Impact Framework and strengthened confidence in the company's environmental contribution. The engagement demonstrates how constructive dialogue can improve disclosure and better align reported data with underlying environmental outcomes, supporting both investment analysis and client reporting.

### **What our engagement activity tells us**

Beyond the individual outcomes of specific cases, our engagement activity as a whole provides us with valuable insights that feed back into our investment process. Patterns identified across our Engagement Log inform our assessment of systemic risks, shape the topics we prioritise for future Deep Dive projects and influence the development of our ESG policies. Where engagement consistently reveals a gap between what companies disclose and what they are doing in practice, this affects both our ESG Checklist assessments and, in some cases, our investment decisions. In this way, engagement is not a separate activity that runs alongside our investment process but an integral part of how we understand and monitor the companies in which we invest on behalf of our clients.

## Principle 4 – Exercising rights and responsibilities

As an asset manager investing exclusively in listed Small & MidCap equities, voting is our primary mechanism for exercising our rights and responsibilities as shareholders. We vote at all AGMs where we have the authority to do so and regard voting as an integral part of our broader stewardship approach rather than a standalone activity. Our full voting records are published on our website on a quarterly basis and are available as part of our Sustainability Library<sup>3</sup>.

### How we make voting decisions

We make our own voting decisions. We receive independent corporate governance research and voting recommendations from ISS ahead of each meeting, but we use these for reference only. Every resolution is reviewed by the responsible Analyst, with support from the Head of Sustainable Investments and our ESG and Impact Specialist, before a final decision is submitted. Where the Analyst and Head of Sustainable Investments disagree on a voting decision, the matter is escalated to the Chief Investment Officer for a final determination. In all cases where a conflict of interest has been identified, the Compliance team is involved in the review before the vote is submitted. Our decisions are guided by our proprietary Voting Guidelines, which cover board composition and independence, remuneration, audit quality, shareholder rights and ESG matters. Where we deviate from ISS recommendations, our rationale is recorded in our Proxy Voting Log and reviewed by the Sustainability Committee at each quarterly meeting.

We apply the same voting decisions consistently across all portfolios unless a segregated mandate client has formally specified an alternative policy. Where clients have their own voting guidelines, we review resolutions in line with their policy and, where we disagree with a proposed decision, we present our rationale and alternative recommendation before the client makes a final determination.

All voting activity is recorded and processed through the ISS ProxyExchange platform, which provides an auditable record of our decisions and rationale. Voting Activity Summaries are published quarterly on our website.

### Proportion of shares voted

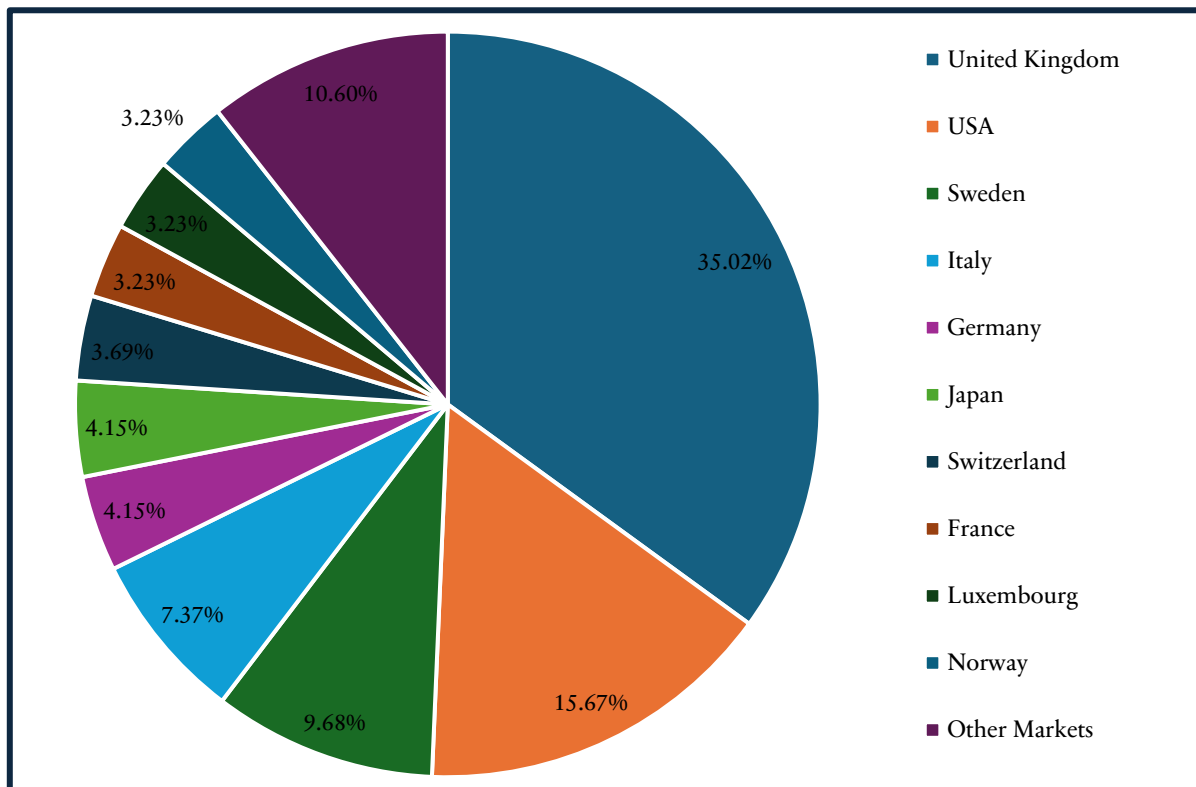
During the reporting period **we voted on 100% of all votable resolutions** across our portfolios. We do not engage in stock lending in any of our funds, which means we are not required to recall shares for voting purposes in our fund range.

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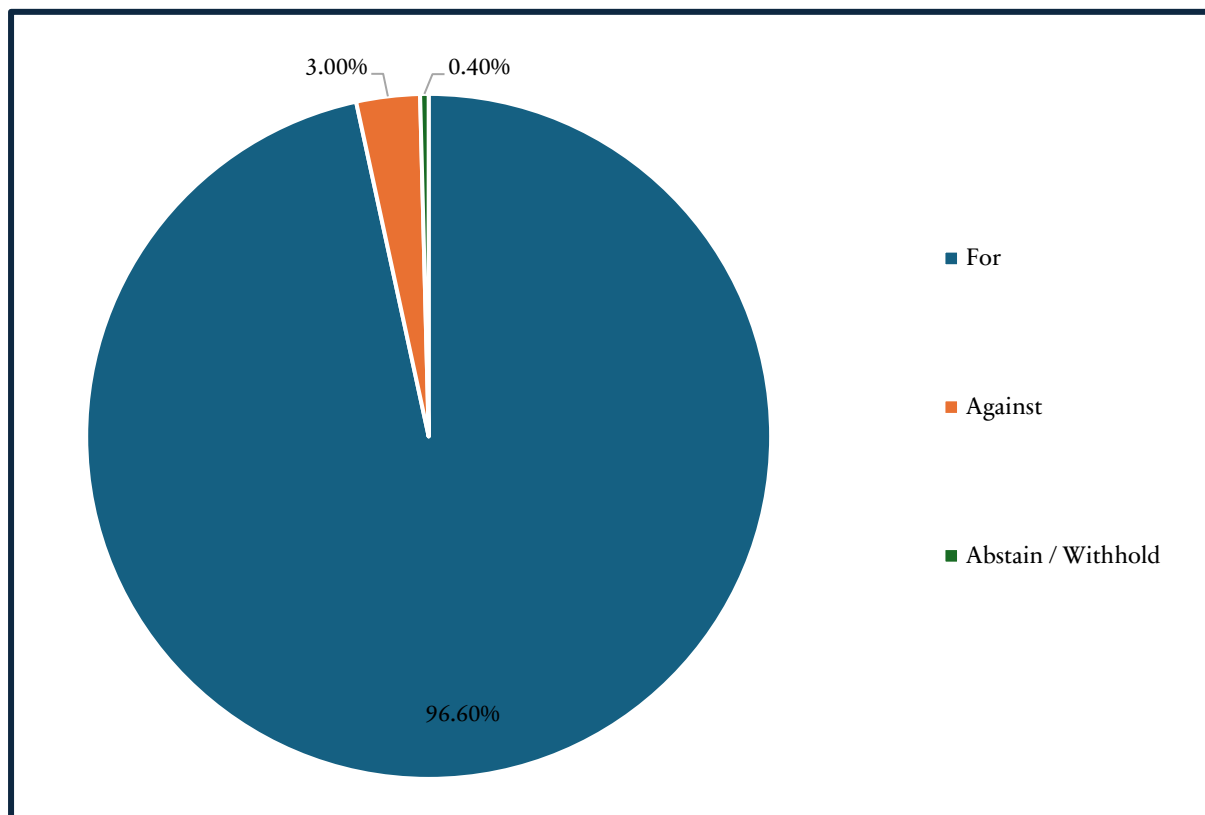
<sup>3</sup> <https://montanaro.co.uk/sustainable-investing/>

### Scale and coverage of voting:

- Total meetings voted: 217
- Total resolutions voted: 3,274
- Voting activity spanned multiple markets, with the largest exposures in the UK (35%), US (16%) and Sweden (10%), reflecting the geographic composition of the portfolio.
- Percentage of meetings voted by geography:



We voted in favour of the majority of resolutions put to us during the reporting period, reflecting the quality bias of our investment universe. However, we voted against or abstained on a number of resolutions where needed.



Voting against management is one of the tools we use when engagement has not produced the progress we expect. Where we have identified a concern through our ESG analysis or direct engagement and the company has not responded satisfactorily, a vote against a relevant resolution is often the next step in our escalation process (more details of which can be found under Principle 3 of this report).

Area	Detail
Context	We identified concerns at a portfolio company in the power electronics sector relating to executive remuneration, following a significant shareholder dissent at the prior AGM where the remuneration report received low support. The core issue centred on a perceived misalignment between pay and performance, particularly in relation to bonus outcomes and the continued use of variable pay despite operational challenges.
Engagement activity	Following the shareholder vote, we engaged with the company as part of its post-AGM consultation process, clearly communicating that our concerns extended beyond a one-off bonus outcome and reflected broader issues with

	<p>pay-for-performance alignment and remuneration governance. We emphasised the need for meaningful changes to the implementation of the remuneration framework, particularly before any increase in variable pay opportunity. As the company maintained its existing approach, we continued our dialogue ahead of the subsequent AGM, incorporating both our own analysis and external research to reassess our voting position.</p>
<p><b>Outcome and insights</b></p>	<p>Despite consultation, the company did not make material changes to its remuneration framework or its application, and concerns regarding bonus outcomes and disclosure persisted. As a result, we escalated our stewardship approach through voting, opposing the remuneration report to signal continued dissatisfaction. However, we adopted a proportionate stance on board accountability, recognising some evidence of engagement and improved recent performance, and therefore did not extend opposition to the Chair or CEO. This case illustrates our willingness to escalate where engagement does not lead to sufficient change, while maintaining a balanced and considered approach to voting that reflects both progress and remaining concerns.</p>

## Conflicts of interest

Our approach to managing voting-related conflicts of interest is set out in our Conflicts of Interest Policy and summarised in Disclosure D of this report.

During the reporting period, a small number of potential voting-related conflicts of interest were identified and recorded in our Conflicts Register. These primarily arose where an investee company was also a current or prospective client of the firm, creating a potential risk that commercial relationships could be perceived to influence voting decisions.

In each case, the conflict was managed in line with our established procedures. This included:

- ensuring that voting rationales were clearly documented and evidence-based
- involving the Compliance Team in the review of voting decisions where a potential conflict had been identified
- maintaining appropriate information barriers to mitigate the risk of receiving or acting on inside information
- ensuring that decisions reflected the best interests of all clients holding the stock, rather than any individual commercial relationship

No instances were identified where a conflict of interest materially influenced the outcome of a voting decision. We did not identify any conflicts arising from employee relationships with investee companies or from diverging client voting instructions during the period.

## **Principle 6 – Monitoring service providers**

We rely on a number of third-party service providers to support our stewardship activities, spanning proxy voting, ESG data, news monitoring, impact verification and regulatory reporting. We do not use external engagement service providers or investment consultants for stewardship purposes; all engagement is conducted directly by our own investment team. The oversight of all third-party service providers is a standing agenda item at our quarterly Sustainability Committee meetings and each provider is subject to at least an annual formal review. Our approach to each is set out below.

- **Proxy voting: ISS**

We use Institutional Shareholder Services (ISS) to provide independent corporate governance research and voting recommendations ahead of AGMs, and to process and record our proxy votes through the ISS ProxyExchange platform. ISS recommendations are used as an input to our own decision-making process, not as a directive. Every recommendation is reviewed by the responsible Analyst before a vote is submitted and we apply our own proprietary Voting Guidelines in all cases. Our use of ISS contributes to our stewardship process in two ways. First, the governance research notes provide useful context on company-specific issues and market norms, supplementing our own knowledge. Second, the ProxyExchange platform provides an auditable, searchable record of all voting decisions and rationale, which supports our quarterly review of voting activity and our annual reporting.

The quality and accuracy of ISS's services are monitored on an ongoing basis by the Sustainability Committee and reviewed formally on an annual basis. The annual review includes an examination of voting records to confirm adherence to our Voting Guidelines and preferences, with particular attention to cases where we have voted contrary to ISS recommendations. We hold annual meetings with ISS to evaluate their service offering, discuss any concerns and ensure the platform and research tools are being fully utilised. We are currently satisfied with the consistency and quality of the research and analytical tools provided by ISS and have confirmed their continued appointment for the next year. Should our annual review conclude that ISS's services no longer meet our requirements, we would seek to appoint an alternative proxy adviser. The criteria against which any replacement would be assessed include quality and independence of governance research, platform functionality, market coverage and cost-effectiveness.

- **ESG data: MSCI**

We receive ESG data on companies in the MSCI World SMidCap Index from MSCI on a quarterly basis. This data feeds directly into our proprietary ESG Checklists, where it is used alongside company-sourced data and Analyst judgement to produce our internal MAM ESG Scores. We also receive MSCI's company-level ESG ratings, which we use to cross-reference and challenge our own

internal assessments, helping us to identify divergences that may warrant further investigation or engagement.

MSCI's data contributes directly to our stewardship process by improving our ability to monitor ESG metrics across our Approved List, to identify underperformers and direct our engagement efforts accordingly. In the most recent reporting period, the quarterly data enabled us to identify specific areas of weakness that became the focus of targeted engagement.

The quality and usefulness of MSCI's data is assessed by the Sustainability Committee at each quarterly meeting. An annual review considers whether the data coverage, accuracy and timeliness continue to meet our needs and whether MSCI remains the most appropriate provider for this service. We have ad hoc meetings with our client support associate to help address any issues or discrepancies between research and data reported by MSCI and the company as and when they arise. We remain satisfied with MSCI's offering and have confirmed their continued appointment.

- **ESG data: Bloomberg**

Bloomberg supplements our MSCI data, primarily for ESG metrics where MSCI coverage is limited or where we require additional data points to complete our ESG Checklists.

The review of Bloomberg's service offering is led by the Chief Investment Officer and considers data coverage, accuracy, timeliness and value for money, alongside the utility of their data in performance and company analysis.

- **News monitoring: Factiva**

Factiva provides global news monitoring and search capabilities, allowing us to track company newsflow beyond mainstream sources and identify potential controversies or developments that may require engagement. It is used by our analysts as part of their ongoing monitoring of investee companies and as a tool to identify issues that may not otherwise surface through standard investment channels.

An annual review is led by the Sustainability Committee, and we are satisfied with Factiva as a news monitoring system. The service helps identify potential controversies that could be detrimental to a company's ESG profile.

- **Impact verification and regulatory reporting: Impact Cubed**

Impact Cubed provides two distinct services. First, it provides external verification and assessment of the impact credentials of the Montanaro Better World Fund, supporting our ability to make credible impact claims and to report transparently on the real-world outcomes associated with our

holdings. Second, it provides tools to support our regulatory reporting obligations under SFDR and the EU Taxonomy for our Dublin-domiciled funds and certain mandate portfolios.

Impact Cubed's services contribute to our stewardship approach by providing independent challenge and verification of our impact assessments, ensuring that our impact claims are grounded in robust, externally validated analysis rather than solely our own judgement. This is particularly important in the context of increasing regulatory scrutiny of sustainable investment claims.

We engage with Impact Cubed regularly throughout the year rather than solely at the point of formal review. Over the past year, discussing SFDR and EU Taxonomy requirements and how they are included in their assessment methodology, ensuring our regulatory reporting capabilities remain current. The Sustainability Committee reviews the scope and quality of Impact Cubed's services at each quarterly meeting, assessing the alignment of their offering with our regulatory obligations and strategic sustainability goals. As of the latest review we remain satisfied with their service and have confirmed their continued appointment.

## Conclusion

Stewardship is an expression of how we invest. As a privately owned, independent boutique focused exclusively on Small & MidCap equities, we have the structure, the conviction and the long-term orientation to engage meaningfully with the companies we invest in on behalf of our clients. The policies, processes and activities described in this report reflect an approach that has been built and refined over more than three decades, rooted in our belief that the highest quality businesses are those that manage their capital responsibly, treat their stakeholders well and take seriously their obligations to the world around them. We remain committed to continuous improvement in how we fulfil our stewardship responsibilities and to reporting on our activities with the transparency our clients and the wider market have a right to expect.

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