

Shareholder Engagement Policy

Background

As a UK Asset Manager investing in shares traded on EEA regulated markets and comparable markets outside of the EEA, Montanaro Asset Management (“Montanaro”) is required to develop and publicly disclose a policy on shareholder engagement, in line with the FCA’s implementation of the European Union’s Second Shareholders’ Rights Directive or SRD II. The aim of SRD II is to promote effective stewardship and long term investment decision making.

The policy is required to describe how and to what extent Montanaro:

1. Integrates shareholder engagement in its investment strategy;
2. Monitors investee companies;
3. Conducts dialogues with investee companies;
4. Exercises voting rights;
5. Co-operates with other shareholders and stakeholders of investee companies;
6. Communicates with relevant stakeholders of investee companies;
7. Manages conflicts of interest.

In addition to this policy, it may be useful to refer to Montanaro’s ESG Handbook and our latest Report to the UK Stewardship Code, both available on the website.

Annual disclosure of policy implementation

We are required to disclose publicly once a year how our Shareholder Engagement Policy has been implemented. This disclosure should include:

- a general description of voting behaviour;
- an explanation of the most significant votes;
- an explanation of any use of the services of proxy advisors;
- information on how votes on shares of investee companies have been cast.

Montanaro will not disclose how votes have been cast where the subject matter of the vote is insignificant or where its holding in the investee company is insignificant.

Access to shareholder engagement policy and annual implementation disclosure

The information is required to be available free of charge on Montanaro's website.

Policy

1. Shareholder engagement is part of our Investment Process

Engagement forms a crucial part of our investment approach. We engage with all companies in which we invest on financial and ESG matters which we believe may impact the long-term prospects of the company or of any of its stakeholders.

Engagement is conducted by way of visits of the company's premises, meetings with management, conference calls and email. Voting also forms a vital part of our engagement with companies - we aim to vote at all AGMs where we have authority to do so.

Engagement directly affects investment decision making, either enhancing our confidence in an investment case or highlighting a concern that makes investing less compelling.

This work is supported by the Head of Sustainable Investment, who reports to the Head of Investments and the Chief Executive Officer. In addition the Sustainability Committee reviews ESG related engagement cases that remain open at the quarterly meetings. ESG forms part of Analyst annual appraisals and is tied directly to their remuneration.

2. We monitor our investee companies

We have assembled a large in-house Research Team so that we can effectively monitor our investee companies to the highest of standards. Our team of Analysts is responsible for the analysis and monitoring of:

- **The performance of companies:** Analysts are responsible for monitoring companies via Montanaro's four checklists on Quality, Ethics, Environmental & Social and Corporate Governance (ESG), as well as financial modelling and internal investment meetings. Our Corporate Governance Checklist considers criteria set out in the UK Stewardship code: "*strategy, performance, risk, capital structure, corporate governance, culture and remuneration*". Results announcements are studied closely and we read all of our companies' Annual Reports. Additionally, we spend a great deal of time meeting with management teams and attending company site visits to ensure that we get to understand the culture of a business. This work is supported by monthly, quarterly and annual attribution analysis, provided by Montanaro's Risk & Compliance Team. We keep abreast of wider industry and sector-based trends that may impact the value of a company via weekly news flow monitoring. We use the information provider Factiva to assist us with this.
- **Review of the ESG footprint of companies:** The ESG checklist mentioned above allows use to integrate ESG factors into the investment process and identify areas of heightened ESG risk.

These checklists are updated to reflect any changes that might affect the ESG profile of a business. In turn this evaluation of ESG factors allows us to direct our engagement approach.

- The Executive team: We place emphasis on the performance of a company's management team and Board. We seek to understand how management are remunerated and whether pay policies work for the benefit of long-term shareholders and other stakeholders. We encourage Boards to have a majority of Non-Executive, fully independent Directors.
- Potential issues that may require engagement: Where possible, we aim to identify potential issues before they fully develop. We aim to allow investee companies time to improve their behaviour and address areas of concern.

The monitoring of investee companies is further supported by:

- Montanaro's Sustainability Committee: The purpose of the Sustainability Committee is to ensure that Montanaro's ESG effort remains coordinated and integrated across the organisation. The Committee meets formerly on a quarterly basis. Its responsibilities include the review of ESG Checklists, proxy voting activity and Montanaro's Engagement Log. To ensure that there is buy-in across the organisation, the Committee is formed of members from the Management, Investment, Marketing and Compliance teams.
- Montanaro's Executive Committee: Montanaro's Executive Committee – comprised of the Chairman, Chief Executive Officer, Head of Investments, Head of Compliance and Risk, Head of Fund Management, Head of Sustainable Investments and Head of Marketing – meets on a quarterly basis to review the full operations of Montanaro's business. This includes a review of the work of the Sustainability Committee, including approval of Sustainable Committee meeting minutes. In turn, the Executive Committee reports to the Board of Montanaro.

3. We conduct a dialogue with our investee companies

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

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

Engagement is important to our investment approach. It allows us to deliver on client needs, our purpose and investment beliefs.

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

Our stewardship and engagement activity typically falls into one of the following categories:

1) Direct Company Engagements: a company-specific risk or issue has been identified on which we wish to engage. This may include an area of weakness identified in our ESG analysis or where we become aware of an incident or breach of our ESG policies or international norms (e.g. the UN Global Compact). In the main, we consider this type of engagement to be “reactive” as we are responding to a particular event although we may also conduct fact finds on a company-specific basis.

2) Proxy Voting: Voting is a vital part of our engagement with companies. This is why we attempt to vote at all Annual General Meetings for holdings within our Funds. We receive independent third-party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. Our decisions are guided by our proprietary voting guidelines..

3) Deep Dive Research: we conduct thematic “Deep Dive” engagement projects on specific subjects to better understand how our companies are exposed to a particular issue or area of risk. We consider this type of engagement to be “proactive” as we are taking steps to understand more about a particular subject and the exposure of our investee companies to that risk before it can manifest.

4) Collaborative Engagements: We seek out collaborative engagement projects that offer a material benefit to the achievement of engagement aims. These projects can add additional 32 support and aid in the promotion of sustainable investment practice.

5) Public Policy Advocacy: We are involved with groups that advocate for responsible stakeholder capitalism. These include the Glasgow Financial Alliance for Net Zero (GFANZ) and the B Corp Finance & Investment working group.

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

How we engage

There are a number of channels open to us when we seek to engage with a company. These include:

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

Engagement process

Our engagement process can be summarised as follows:

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

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

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

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

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

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

Escalation

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

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

Our escalation strategy falls into two parts:

- Internal: If an Analyst or another member of the team leading an engagement fails to get satisfactory answers to an engagement matter, then they will discuss the next steps with members of the Sustainability Committee. They will decide if further engagement is required and likely to be constructive. If we decide not to escalate the engagement further, then the Analyst will discuss the case with the Investment Committee and the Analyst may recommend that the stock be sold. If we decide further engagement is warranted, then we will proceed to step two.
- External: Escalation typically begins by escalating the engagement up the corporate hierarchy. For example, if our first point of contact has been the Head of Investor Relations, then we may ask to speak to a member of the Executive Team (typically the CEO or CFO). If they prove unresponsive, then we will seek to speak with members of the Board (such as the Chair or Chair of the Remuneration Committee). In the world of SmallCap, many companies remain majority owned by the founder, or family members of the founder. We have experience of escalating matters with companies which 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 34 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.

4. We exercise our voting rights

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

We make our own voting decisions

We receive independent third party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining. A vote to abstain must be backed up with sufficient rationale and may be subject to checks by the Fund Administrator.

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

We publish Voting Activity Summary Reports on our website

We use ISS to process our proxy voting. All voting activity is recorded in our Proxy Voting Log.

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

Please see Montanaro's Voting Policy in the ESG Handbook for further information on how we make voting decisions, and the latest Report to the UK Stewardship Code.

5. We co-operate with other shareholders and stakeholders

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

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

Each situation is considered on a case by case basis - it is important that a collective engagement effort is not deemed to be acting in concert with others. In practice, however, we find that most collective engagements:

- are focused on sectors in which we do not invest due to our Quality bias;
- involve LargeCap companies which are not part of our investment universe.

Please see the Collaboration section of our Report to the UK Stewardship Code for examples of recent collaborative engagements.

6. We communicate with relevant stakeholders of investee companies

We are active within the Responsible Investment community. We have been signatories of the UN PRI since 2009, and the UK Stewardship Code since 2010, and we also participate in other industry initiatives including the Carbon Disclosure Project Science Based Targets Campaign, the NZC20 initiative, the Investor Statement on Coronavirus Response, while we are also signatories to the Net Zero Asset Managers Initiative. Our ESG policies and approach to Responsible Investing are documented in our ESG Handbook, and we produce an annual report to the UK Stewardship Code, both of which are publicly available on our website. We are also regularly asked to present at seminars and events on Responsible Investing.

The views and opinions of relevant stakeholders are taken into account in our investment process, and we may engage with customers, employees, and NGOs on specific concerns.

7. We manage actual and potential conflicts of interest

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

Due to this we maintain a Conflicts of Interest Policy which is available on our website. The purpose of the policy is to ensure that Montanaro remains conscious of our responsibility to always act in the best interests of its clients and to be aware of any potential conflicts that may arise.

This policy is supported by:

- Our simple business model: We are a “long only” manager of quoted Small & MidCap equities. As a result, we believe that our business model is as transparent as is possible for an institutional asset manager.
- Our Personal Account Dealing Policy: This prohibits employees and connected persons from dealing in any security that falls into Montanaro’s investment universe for their own account.

- A ban on dealing in investments for our own account. We only invest on behalf of our clients.
- An annual review of our Conflicts of Interest Policy by our Compliance Officer.

Examples of where conflicts may occur include:

1. **Where the company being voted on is a client of MAM:** In this situation, a record of the potential conflict will be logged against the upcoming Annual General Meeting in our internal log. This ensures that the potential conflict and its resolution are monitored by Montanaro's Compliance Team. The Analyst covering company then recommends how to vote. Prior to the actual vote being processed, the Analyst's recommendation would be reviewed by the Sustainability Committee and the Compliance Officer, to ensure that the decision reflects the best interests of the clients holding the stock.
2. **Where the MAM employee making the voting decision (or a person connected to them) is a director of, significant shareholder of or has a position of influence at the company being voted on:** Employees sign an annual declaration notifying MAM of any outside business interests. If a Montanaro Analyst had a connection to an investee company, responsibility for researching that company (and for making voting decisions) would be assigned to another Analyst by the Head of Investments.
3. **Where MAM or an affiliate is a shareholder of the company being voted on:** MAM does not deal for its own account, with the exception of holdings in its own funds. MAM has a simple business structure and does not have any affiliates.
4. **Where there is a conflict of interest between one client and another:** Given Montanaro purely invests in Small & MidCap equities on a long-only basis, we do not take contrarian positions in company shares. Our clients all benefit when the shares in our investee companies appreciate and vice versa. In terms of voting, decisions are made by the Analyst responsible for the respective company – following dialogue with the wider Investment Team – and applied across all accounts where we possess the right to vote. If a conflict arises between one client and another, both clients would be notified of the conflict by the relevant Client Relationship Manager and asked to approve any relevant voting decision made on their behalf. Voting decisions are applied across all portfolios where we have authority to vote, unless the client has formally specified that a different policy should be applied.
5. **Where the director of a company being voted on is also a director of MAM:** All MAM employees and directors are required to declare outside business interests. In this situation, a record of the potential conflict will be logged against the upcoming Annual General Meeting in our internal log.

The Analyst covering the company would make their recommendations on how to vote as usual, and prior to the votes being processed would refer their recommendations to the Sustainability Committee and the Compliance Officer, who will ensure that the decision reflects the best interests of the client.

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

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

Annual disclosure of implementation

Montanaro will disclose publicly on its website (www.montanaro.co.uk) once a year how its Shareholder Engagement Policy has been implemented. This disclosure will include a general description of voting behaviour, an explanation of the most significant votes, an explanation of the use of the services of proxy advisors and how votes on shares of investee companies have been cast.

Montanaro will not disclose how votes of shares of investee companies have been cast where the subject matter of the vote is insignificant or where the holding in the investee company is insignificant.