

2021 Stewardship Report

Slater Investments Limited





INTRODUCTION

Stewardship and Governance has always been at the heart of Slater Investments Limited’s (“SIL”) core values, and we are committed the highest standards in our obligations as custodians of our client’s assets. We are proud to have been in the first cohort of successful signatories to the Financial Reporting Council’s 2020 UK Stewardship Code (“the Code”) in September 2021. The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.

SIL is a voluntary signatory to the United Nations’ Principles for Responsible Investment (“UN PRI”), a commitment to responsible investment, that places SIL at the heart of a global community seeking to build a more sustainable financial system.

This Stewardship Code Report for 2021 constitutes our second statement of compliance with the Code and details our approach to stewardship and responsible ownership within our investment processes.

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PURPOSE AND GOVERNANCE

Purpose, Strategy and Culture

SIL is an investment management company specialised primarily in providing UK equity products, managing £2.4bn of client assets as at 31 December 2021. Established in 1994 by Mark Slater and Ralph Baber, the company is wholly owned by its directors, staff and former staff. This maintains the integrity of the business and directly aligns SIL's staff's interests with those of its clients.

Our culture and purpose aim to add material long-term value for our clients by providing a framework for their investment objectives, be that sustainable capital growth, income or a combination of the two. SIL follows a clear investment philosophy:

- we believe that the stock market regularly misprices shares, which creates opportunity;
- we believe that most sensible criteria work if consistently applied, with our combination of criteria being optimal;

Our process:

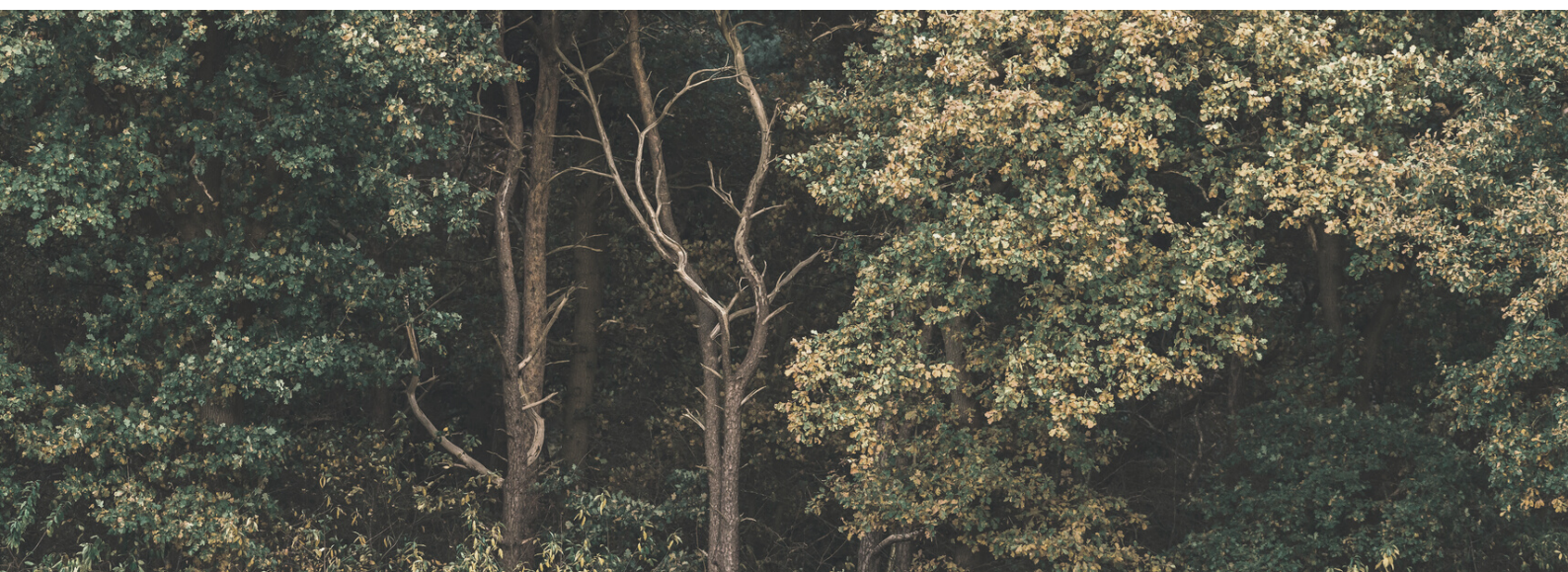
- we look to build a margin of safety;
- we are patient investors adopting a long-term approach;
- we regularly screen the market looking for companies that have sustainable above average growth; and
- we integrate our in-house environmental, social and governance (“ESG”) philosophy and standards into the investment making decisions.

SIL regards stewardship as integral to our investment process and our purpose is connected to our commitment to be a responsible investor. We define responsible investment as the integration of ESG factors into our investment processes and ownership practices. Embedding responsible investing principles into our investment process leads to better informed investment decisions. Over time, the inclusion of ESG factors into SIL's investment process has the potential to have a positive impact on all our products. Our ESG Policy describes how we integrate environmental, social and governance factors into our investment decision-making processes.

Our strong corporate governance practices and management of environmental and social risks are important drivers to the creation of long-term shareholder value. We aim to promote and exercise effective stewardship among the companies we own and to engage with them on the actual or potential adverse impacts of their business activities on ESG matters. Voting and engagement enables us to embed our purpose and values in the way we drive change within our investee companies. Our Voting Policy, Engagement Policy and Shareholder Rights Directive ("SRD") Engagement Policy demonstrate our approach to ownership and governance of the companies in which we invest.

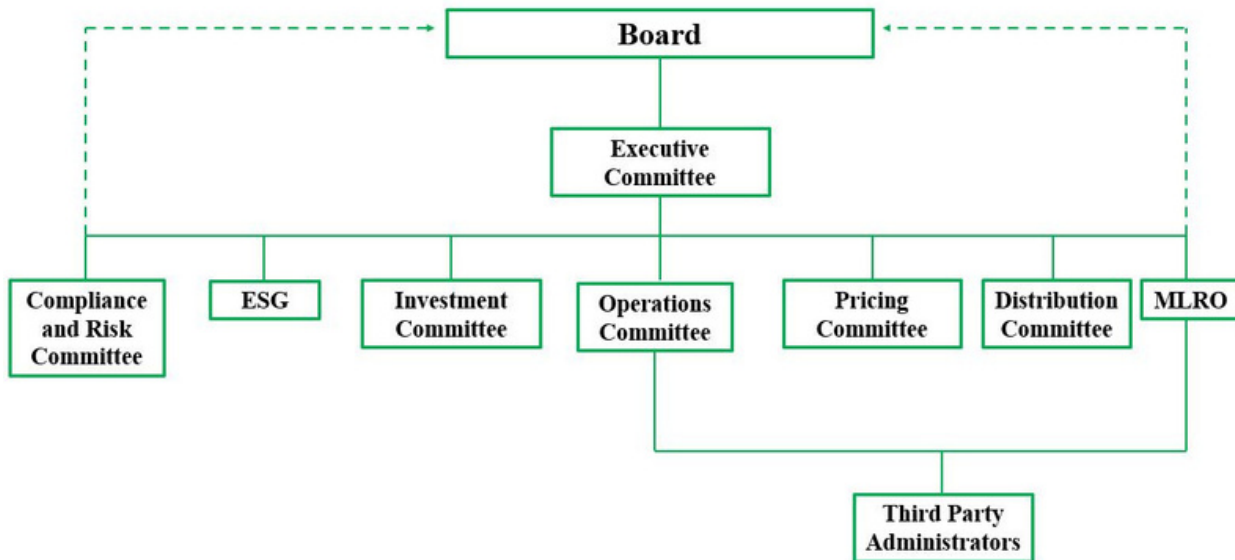
Further details are provided in 'Stewardship, Investment and ESG Integration'.

Our corporate values and culture are built around strong governance. All our staff hold integral roles in our success; with 18 permanent staff and 2 Independent Non-Executive Directors, the company has been kept purposefully streamlined. This allows for a simple organisational structure that avoids unnecessary corporate complications. It aids in developing a working environment where every staff member's contribution is both valued and purposeful. Recruitment is aimed at hiring skilled individuals who are looking to build their careers with SIL. This is reflected the low level of turnover, with the current average employment length being 7 years.



Governance, Resources and Incentives


SIL has a very simple and effective reporting structure which enables effective oversight, keeps senior management involved and informed but also allows change to be made relatively quickly and efficiently as and when required. The reporting structure, together with reporting lines, are set out diagrammatically in the following organisation chart:



The Board of Directors has overall oversight and final accountability for effective stewardship within SIL. Implementation of stewardship and ESG into the investment process is shared across different committees who have varying levels of seniority and areas of expertise which SIL believes to be effective as it enables a diverse range of insights but also facilitates collaboration.

SIL believes all staff should be aware of their role in ensuring ESG is implemented throughout the company. The importance of the growth of ESG was recognised by the Board of SIL, establishing an ESG Committee in 2019. Upskilling was a more beneficial approach for both SIL and its clients than having to rely on outsourcing certain functions. Members of this Committee were drawn from all areas of the business with a range of backgrounds including law, corporate finance, compliance, risk, accountancy and asset management.

The ESG Committee is Chaired by Ralph Baber, Chief Operating Officer. Ralph is chair of the Compliance and Risk Committee and sits on both the Executive Committee (“ExCo”) and the SIL Board. The personnel comprising ESG Committee has increased year on year, with the addition of a dedicated hire in 2021 to augment the Committee’s overall skillset, namely quantitative and cyber capabilities. The work performed by the Committee currently outpaces external exam material, therefore a conscious decision was made not to undertake specific ESG qualifications at this time. However, all members of the ESG Committee undertake continued professional development which includes ESG issues.



The ESG Committee reports to the Investment Committee and works closely with the Compliance and Risk Committee to ensure stewardship and ESG are integrated into our wider investment process. The Committee's role is not to screen out companies, but to identify any ESG risks and opportunities that exist and consider whether there is a pathway to deal with any identified risks. The ESG Committee also regularly engages with investee companies' executives, dealing with remuneration, governance and assisting companies in developing their ESG disclosure.

The single largest problem facing quantitative ESG ratings is the unavailability of accurate data, we have dedicated additional resource to both procuring the third-party data and assisting in laying the foundations for better and more accurate data collection going forward. This has been achieved by working with both third-party ESG ratings providers and the investee companies themselves.


Part of our investment universe is small to mid-market capitalisation companies where the availability of ESG data is limited. We have helped ESG ratings providers understand the nuances of collecting this information. Alongside this, we have assisted the companies we own in understanding the best practices and mediums for ESG data disclosure. It is a great credit to our efforts that the scoring by ESG ratings providers of our underlying investee companies has improved.

SIL's remuneration policy is in line with the firm's business strategy (including ESG risk factors) and objectives and contains measures to avoid conflicts of interest, encourage responsible business conduct and promote risk awareness/prudent risk-taking. Individuals are assessed on both financial and non-financial criteria. Non-financial criteria include achieving agreed personal objectives, compliance with regulatory obligations, adherence to effective risk management practices and compliance with the company's business principles and policies.

Conflicts of Interest

We may encounter conflicts of interest related to our stewardship activities. It is incumbent on all investment professionals and members of the Compliance and Risk Committee to identify and manage such conflicts, in line with SIL's Conflicts of Interest Policy. In all such instances, our objective is to ensure that these conflicts are identified and managed appropriately, to ensure our clients' best interests are served.

We have procedures and controls which identify actual and potential conflicts of interest that may exist within the company. All directors and staff are given conflict of interest training and it is their responsibility to identify and report any potential or actual conflicts as they occur. We also undertake an annual face to face review of conflicts where each member of staff is asked to further clarify and confirm any or all conflicts. We maintain a Conflicts of Interest register which records identified conflicts and monitors them. Conflicts of Interest are a standing agenda item and considered at each meeting of the Compliance and Risk Committee. Were there to be any material Conflicts of Interest, these would be escalated to the ExCo.



Conflicts of interest arise in two forms, at the company level and at an employee level. It is SIL's policy to take all reasonable steps to maintain and operate effective organisational and administrative processes to identify and manage any potential conflicts.


A company level conflict can arise when a stock is held in more than one Fund and/or Portfolios where the strategies differ, i.e. one Fund has a mandate for growth and the other a mandate for income. More specifically where paying a dividend may not be in the investee company's best interests for long-term growth but cancelling the dividend would be against its inclusion in an income mandate. Our approach to such events is based on common sense. We are long-term investors, it is of greater benefit to both mandates for the investee company to act in its best interests of all stakeholders, and not jeopardise its future by being straightjacketed by a particular dividend policy.

An example of this in 2021 was announced to the market in January 2022. Sureserve Group PLC ("Sureserve"), in which we are the second largest shareholder, engaged with us during the fourth quarter of 2021 as they wanted to amend their dividend policy. Sureserve's board were of the view that, given their strategy is to focus on acquisitions as well as organic growth, Sureserve's capital would be better deployed in driving its growth plans by retaining cash to invest in strategically enhancing acquisitions. At the time of the announcement, Sureserve was well represented in our growth mandates but was also the largest holding in the Slater Income Fund. We believed the company board were acting in the best interests of Sureserve and its shareholders and therefore supported their recommendation.

Potential company level conflicts can also arise in take-over situations where we hold shares in both the offeror and offeree. This happened on 3 occasions in 2021; 1 went ahead (Future PLC & GoCo Group PLC) and 2 were withdrawn (Premier Miton Group PLC & River and Mercantile Group PLC and Marlowe PLC & Restore PLC). In all 3 cases no conflicts arose.

Conflicts of interest may arise where SIL's executive directors may have external appointments. The decision to undertake external activities is a matter for an individual executive director to decide, bearing in mind their responsibilities to SIL. We believe that an executive directors' external appointments benefit SIL by providing them with a wider range of skills, experience and knowledge which will be relevant to their role at SIL. Details of any such appointments are recorded in the Conflicts of Interest register. Executive directors are limited to having two concurrent paid external appointments.

Further company level conflicts could arise through SIL's trading on behalf of its clients. However, SIL does not engage in principal trading, instead all stocks are bought and sold as agency transactions. Therefore, this risk is entirely mitigated.



Potential staff level conflicts occur through personal account dealing, where a member of staff requests permission to deal in a security that SIL's clients have a vested interest in through holdings in Funds and/or segregated accounts. All staff are required to comply with SIL's Personal Account Dealing ("PAD") Rules. SIL's PAD rules aim to ensure clients are not disadvantaged and that conflicts are extinguished at the earliest opportunity. Pre-approval must be sought from both a member of ExCo and Compliance when wishing to conduct any PAD. In 2021, of the 362 submitted PAD applications 7 potential conflicts were identified and dealt with in accordance with our Conflicts of Interest Policy. Monitoring is conducted on a monthly basis by our operations department to ensure compliance with the policy and the PAD Rules. The ExCo is informed of any issues arising.

We report annually on our Conflicts of Interest under our SRD II Disclosures.

Promoting Well Functioning Markets

Identifying & Addressing Risks


SIL is exposed to a number of risks. Some are industry wide and inherent to running an investment management business whilst others are unique to SIL and result from the strategy, size and structure of the business. SIL is, generally, a risk averse organisation and it seeks to mitigate the risks affecting the business where possible.

The Board of SIL recognises that, for SIL to be effective, it must have sound risk management policies and procedures. The Board regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process and, appreciating the importance of a sound and consistent risk culture, the Board has set and communicated the core values and expectations of the Company.

SIL has therefore built a robust governance structure in place with a number of committees established to ensure sufficient oversight activities based on three levels – risk management, risk oversight and independence assurance. These are distinct activities carried out by different individuals, committees and business areas (see the organisation structure chart in 'Governance, Resources and Incentives').

SIL has developed, updated and adopted effective procedures and processes that identifies and monitors the risks and mitigates such risks wherever possible to manage the risk relating to the business's activities, processes and systems, in light of its level of risk tolerance with checks and balances in place to control those risks that cannot be eliminated.

SIL's risk policy is formally reviewed once a year by the Board, and more frequently when required. The Board undertakes the review by considering all relevant legislation, including Senior Management Arrangements, Systems and Controls and the Collective Investment Schemes sourcebook.



SIL's Board is committed to:

- Developing a “risk-aware” culture in which SIL's staff are encouraged to identify risk and respond quickly and effectively.
- Ensuring SIL's key stakeholders recognise that SIL manages risk responsibly.
- Developing consistent risk management practices.

A key element to a sound and consistent risk culture is effective communication and challenge. The Board promotes an environment of open communication and effective challenge in which decision-making processes encourage a broad range of views, allow for testing of current practice, stimulate a constructive critical attitude amongst employees and promote an environment of open and constructive engagement.


SIL's Compliance and Risk Committee is responsible for the daily oversight of risks across the business, ensuring the interests of our clients are properly protected through the application of effective risk management. The Committee continuously monitors and reviews the adequacy and effectiveness of these processes. Risk reports are prepared and sent to the Funds Depository on a daily basis. The Committee also provides a permanent risk management function across the business, with hypothetical and historical stress tests of SIL's Funds performed regularly. It reports directly to the Board of SIL, and its committee minutes are reviewed by the Board on a weekly basis.

As long-term investors, the purpose of all risk monitoring conducted is not to stifle the ability of the Investment Committee, but to enhance existing analysis. The Chair of the Compliance and Risk Committee attends all meetings of the Investment Committee and retains the power to veto any action deemed not to be in the best interests of either SIL or its clients. The ESG Committee reports into the Investment Committee.

SIL also has a Pricing Committee that is responsible for the pricing policies for the Funds. The Pricing Committee is responsible for approving any instances of fair value pricing in circumstances such as price feed failure or significant market events. The Pricing Committee reports into the Compliance and Risk Committee.

During 2021 we identified the major market-wide and systemic risks to be:

- **Macroeconomic outlook:** This is the key risk factor. Sectors move in and out of favour according to the place in the economic cycle. Both are largely determined by changes in the cost of capital.
- **Market timing:** SIL aims to buy good businesses at reasonable prices. Few, if any, investors have a lasting success in this area. In addition, SIL can only deploy funds made available to it, and does not try to amplify or reduce its risk with derivatives.
- **Black swan events:** SIL does not take into account the risk of black swan events, such as the Covid-19 pandemic. Once these types of events are identified, SIL takes a view on how long they will last and makes decisions and adjustments accordingly.

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- Political risk: The UK has a five-year election cycle. We have to keep an eye on likely changes in tax regimes and regulatory policies. These are generally company-specific rather than applying to the market in general.
 - Environmental and sustainability risk: The rise in ESG regulation, disclosure requirements and attention has created additional risk factors that could negatively impact the financial performance or solvency of a company. Similarly, emerging clarification from the Financial Conduct Authority (“FCA”) regarding sustainable disclosures and labels will directly affect SIL’s Funds. Therefore, in the second half of 2021, SIL began the currently ongoing transitioning of its Funds to align with Sustainable Finance Disclosure Regulation (“SFDR”) Article 8.

Involvement in Industry Initiatives


SIL has a responsibility to help address market-wide systemic risks and promote a well-functioning financial system. We believe that being an active member of the Investment Association (“IA”), the trade body that represents investment managers & investment management firms in the UK, provides us with the most impactful platform and allows us to be directly involved in engagement with regulators and policymakers.

The risk climate change poses was the overarching topic of focus for us in 2021. The ramifications of the environmental pillar of ESG are becoming more real, with two headline events during the year in ‘a Dutch court ruling that Royal Dutch Shell must cut carbon emissions by 45% by 2030’ and ‘Exxon losing two board seats to an activist hedge fund over climate related proposals’ taking place. Therefore, we prioritised our efforts on industry initiatives tackling this issue.

Whilst our investment process does not lend itself to a significant number of capital-intensive companies, climate change will affect everyone, and we are keen to ensure management of the companies we own are alive to the risk. We therefore evaluated all investee companies with a specific focus on any potential stranded assets, and have engaged with companies regarding their plans for aligning themselves with the transition to net-zero carbon emissions. We intend to report on this in our next Stewardship report.

Members of our ESG Committee were formally involved with:

- a working group collaboration between the IA, the Association of British Insurers, and the Pensions and Lifetime Savings Association to create a standardised data set to help firms' pension scheme clients meet their Task Force on Climate-Related Financial Disclosures reporting obligations. The Carbon Emissions Template, the product of this working group, was endorsed and launched in February 2022.
- the IA’s response to the International Organization of Securities Commissions’ consultation on ESG Ratings and Data Products Providers (CR02/21).
- the IA’s Investible Opportunities working group, for which the purpose was to inform and direct the work of the IA in relation to supporting different sectors in their transition to net-zero, and to work with the UK Government to identify necessary policy interventions specific to each sector that will ensure net-zero and Paris Agreement goals-alignment.

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- the IA's Requisitioned Resolutions working group, for which the purpose was to inform and direct the IA's work in preparing guidance for investors to overcome the barriers to the successful requisitioning of resolutions in line with the general recommendations of the Asset Management Task Force's Report: 'Investing with Purpose: placing stewardship at the heart of sustainable growth'.
 - ongoing membership of the IA's Net-Zero Forum, which enables peer-to-peer knowledge sharing and provides a platform for all IA members to raise questions and find solutions in their journey to net-zero.

Review and Assurance

In our capacity as the Authorised Corporate Director/Manager of our Funds, we consider how we can provide better outcomes for our investors and challenge the service we provide to them to ensure the delivery of the outcomes we believe our investors expect. We provide a mandated Value Assessment Report which assesses, amongst other matters, the stewardship and governance provided to the Funds over the year (further information of this Report can be found in 'Client and Beneficiary Needs' section).

In addition to our due diligence processes and annual reviews, external auditors conduct an annual review of the internal controls of administration services of our third-party service provider, JTC Fund Solutions RSA (Pty) Limited, which is prepared in accordance with the International Standard on Assurance Engagement 3402.

All votes cast on behalf of our clients are reviewed by the ESG Committee on a weekly basis and reported quarterly on our website.

We do not use external auditors for our stewardship activities. However, a formal verification process testing the controls behind our stewardship activities and compliance with the Stewardship Code was undertaken during the year by a member of the ESG Committee. A review of this process and supporting evidence was reviewed by a second member of the ESG Committee. The report and evidence was then submitted to the Board of SIL. We also have the following internal procedures and policies in place including:

- Conflicts of Interest;
- Voting;
- Engagement;
- Personal Account Dealing;
- Best Execution;
- Gifts and Benefits; and
- Anti-Bribery and Corruption.

These policies and procedures are monitored by the Compliance and Risk Committee. Our investment and stewardship processes are reviewed on an ongoing basis by our Compliance and Risk Committee and are signed off by the Board annually. This Report was produced by the ESG Committee. The Report, together with verification notes, was submitted to the Board for sign off. The Board considers this Report to provide a fair, balanced and understandable view of our approach to Stewardship.



INVESTMENT APPROACH

Client and Beneficiary Needs

The investment products we manage are primarily UK equity based. We manage segregated accounts and offer a number of types of portfolios tailored to each client's individual objectives which includes high net worth individuals, occupational pension schemes and charities. The investment horizons range from a minimum of five years to an excess of ten years, depending on the client's risk and return preferences.

We also manage four UK domiciled UCITS Funds with different investment objectives but all of which are suitable for investors planning to hold their investments over the medium and long-term.

How we seek out and receive clients' views depends on the chosen investment route:

- clients with segregated accounts enter into dialogue with our fund managers detailing their objectives, targeted return and risk profile which are then incorporated into the investment process provided to them by the Company.
- clients investing in the Funds can either invest directly with SIL or through a platform on an execution-only basis. This allows the investor to assess their own risk and return preferences independently.

Segregated Accounts

Our segregated accounts have investment guidelines and restrictions put in place which are created to reflect the client's investment policy. Where clients opt for a segregated account, they are able to create a bespoke portfolio which can avoid exposure to a number of activities, asset classes or markets. Voting and engagement on behalf of our segregated accounts are delegated to us (please also refer to the Voting section below).

We communicate on our approach and activities regarding stewardship in three ways:

- we report to our segregated accounts on a quarterly basis (as well as ad hoc when requested) where we provide further detail about our stewardship activities including our engagement activities with investee companies. We also maintain regular contact with our clients and have conversations around their interests, time horizons and needs;
- we publish voting reports on our website, which are available to the public; and
- we produce a blog, PEGwatch on our website and organise events for investors. This includes in-person events, virtual conferences and webinars.

We continue to review how we can further improve our communication with clients. The format of each of our segregated accounts quarterly reporting has developed over time to best meet the client's reporting needs and preferences.

Occupational Pension Schemes

Recognising the increasing statutory requirement of some of our segregated accounts to understand how their assets are being managed and invested and, in particular, our occupational pension schemes clients, we realised that we had to adapt how we approach and engage with our investors.

Three of our segregated accounts, which are occupational pension schemes, are now required by statute to publish the arrangements they have with us, as their asset managers, and include this in their respective Statement of Investment Principles. For the schemes publishing audited accounts after 1 October 2021, these schemes were required to publish on-line how they have implemented their engagement policy, including voting behaviour by, or on behalf of the Trustees, of the respective Schemes. We have engaged with the Trustees of these schemes via their advisors to ensure the information provided to them fulfils their statutory requirements.

We are currently reviewing how we can improve our engagement with all our segregated accounts in respect of improving stewardship and governance of their accounts and, in particular, in respect of the pension schemes how we can best report to them in order for them to fulfil their statutory obligations.

Our Funds

The assets of the Funds are managed in accordance with the respective Fund's investment objectives and policy. Voting and engagement are delegated to us (please refer to the Voting section below).

SIL maintains both institutional and retail focused Investor Relations functions and, whilst no advice can be given, any investor is welcome to contact SIL at any time; contact details for which are publicly available on our website and in all communication. Communication with our Fund investors is broadly similar to that of our segregated account namely:

- we publish annual and interim reports for each Fund on our website and send the same report to all Fund investors on our register;
- voting reports are published on our website quarterly together with the Shareholder Rights Directive II disclosures;
- Fund factsheets are published monthly on our website;
- we organise events for Fund investors including webinars; and
- we produce an annual Value Assessment Report which is published on our website (see section below).



Value Assessment Report

In our capacity as the Authorised Corporate Director/Manager of our Funds, we continually consider how we can provide better outcomes for our investors and challenge the service we provide to them to ensure the delivery of the outcomes we believe our investors expect.

To improve and strengthen fund governance we conduct an annual review of our UK domiciled funds to evaluate the value provided to investors. This report, which is approved for publication by the Board of SIL, covers the following areas:

- Quality of Service
- Performance
- Fund Management Costs
- Economies of Scale,
- Comparable Services
- Comparable Market Rates; and
- Classes of Units

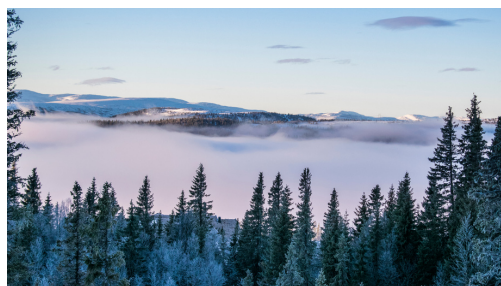
Within this report is an assessment of our stewardship and governance activities provided to the Funds over the year. The report is available to all visitors to our website.

During the year under review (2021) we considered whether investors were in the most appropriate Unit/Share class. Where a potentially better outcome may be available to an investor, we considered whether suitable action, such as offering the investor a free conversion into an alternative lower fee unit class should be made. We therefore identified and contacted a number of investors and offered them a free conversion into a lower fee unit class.

Any materials designed for client use must be approved by the Compliance department prior to distribution.

Stewardship, Investment and ESG Integration

The integration of ESG factors into SIL's existing investment process is not indicative of a change in its process, nor of style shift. Instead, as buy and hold investors, SIL uses ESG factors to help identify companies positioned for strong long-term performance. Used as an additional risk indicator, ESG can help mitigate risk and lead to superior long-term performance. ESG integration is approached from a practical perspective, considering these issues against the backdrop of SIL's investment time horizon and goals of its Funds and segregated accounts. Our investment process is not driven by ESG, however, the search for investable companies inevitably leads to companies with above average levels of corporate governance. Similarly, our growth process has been biased towards "capital light" businesses which typically present relatively few material environmental concerns.





The integration of ESG factors within SIL's investment process involves the following:

- We believe Governance to be the most important of the three ESG pillars and is an aspect of our stewardship we pride ourselves on. Without effective governance there is limited prospect of positive developments in ESG and little prospect of profitable engagement. Our initial focus is on the constitution of the board and the track record of the individual (Non-)Executive Directors. This initial work is conducted by the Investment Committee, which is followed up by a more comprehensive study by the ESG Committee including, but not limited to, diversity, upwards mobility within the work force, tenure, compensation, culture, transparency, capital discipline, risk management, independence, and asymmetrical ownership dynamics. A key factor where we spend time is executive remuneration. We try to understand how incentives, including those linked to non-financial targets, are aligned with our interests as shareholders.
- Companies that emerge from our fundamental screens as potential investments are then screened for ESG factors. We do not use a one size fits all process, instead our focus changes from company to company as we look at what we deem to be material to each company based on a combination of existing ESG standards (eg Sustainability Accounting Standards Board) and our own in-house standards. With the rising uptake in ESG related reporting, there is increasing overlap with the areas identified by the companies themselves, which makes monitoring easier. If issues are identified that might undermine the prospect of an upwards re-rating in the price earnings ratio, these are flagged to the Investment Committee. Companies which we believe might present a reputational threat are also flagged.
- Ongoing monitoring of portfolio companies is conducted throughout the year and is linked to the results cycle and other company statements. Companies are monitored both against their own KPIs and ESG factors we deem material. Where it necessary to seek additional information or clarification, we will engage with the company directly. In the instances where the ESG Committee's concerns are not entirely alleviated, this information will be relayed to the Investment Committee. We also seek to monitor press coverage of portfolio companies and any new concerns or ideas are communicated to the Investment Committee.
- External ESG ratings are still in their infancy. The ESG Committee both reviews external ESG ratings for companies under consideration and monitors those for existing investee companies. They form a starting point for engagement, however, are never taken at face value. These ratings will gain in value once globally acceptable standards are adopted across the market capitalisation spectrum; we look to International Financial Reporting Standards' International Sustainability Standards Board in this regard.
- The nature of our engagement depends on the size of our shareholding/strength of our relationship with directors and the level of concern about issues that arise from the ESG Committee's initial research and ongoing monitoring.



- We believe the philosophy of ESG investing is based on creating shared value which generates greater innovation and growth for both companies and society at large. To that end, we also conduct themed engagements where we seek to identify the most important issues that are relevant to companies we own and engage across the board. Examples of which are disclosed in the ‘Engagement’ section below.
- During the second half of 2021, we commenced work to transition all the Slater Funds into compliance with SFDR Article 8 and anticipated compliance with the FCA’s impending sustainable disclosures and label strategy. This project has involved a thorough review of the entire investment process to ensure the thorough overlay of our ESG integration at every stage, along with the production of appropriate supporting documentation. This process is ongoing.

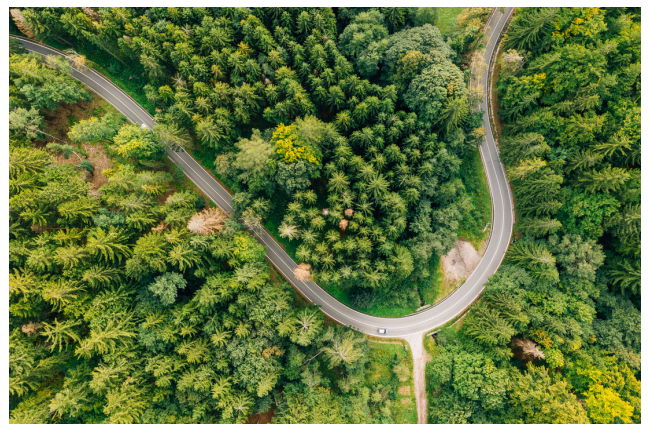
Monitoring Managers and Service Providers

All our service providers are subject to our selection process, which includes, where relevant, questions on their approach to ESG. When selecting the Depositary and Custodian to the UCITS Funds we included questions on the respondent’s company policies on anti-bribery and anti-corruption, anti-money laundering, anti-facilitation of tax evasion, modern slavery and human trafficking and climate change and environmental protection. In addition, we requested details as to how these policies were communicated in the organisation, the types of training provided to their employees and how compliance with the policies was monitored.

We do not delegate any investment management services outside of the Company nor do we delegate voting to any third parties (please also refer to the Voting section below).

Both activities are retained in-house. Neither the Funds nor the segregated accounts pay for research as this is fully paid for by SIL. We do monitor the quality and accuracy of the information provided and, if the provision of this service is not acceptable, our contract with the particular research provider is terminated.

In 2021 we engaged the services of an external specialist ESG data provider, Clarity AI. We maintained a strong working relationship and were in contact on a regular basis to request updates, ask for clarification on data points or to collaborate on projects, for example, amending scoring methodology or liaising with our investee companies to provide ESG data. We were reliant upon Clarity AI to help strengthen our approach to integrating quantitative ESG screening into the investment process by providing us with up to date and relevant data, this identification was one of the principal reasons behind dedicating more resource towards the production of in-house ESG data capabilities.

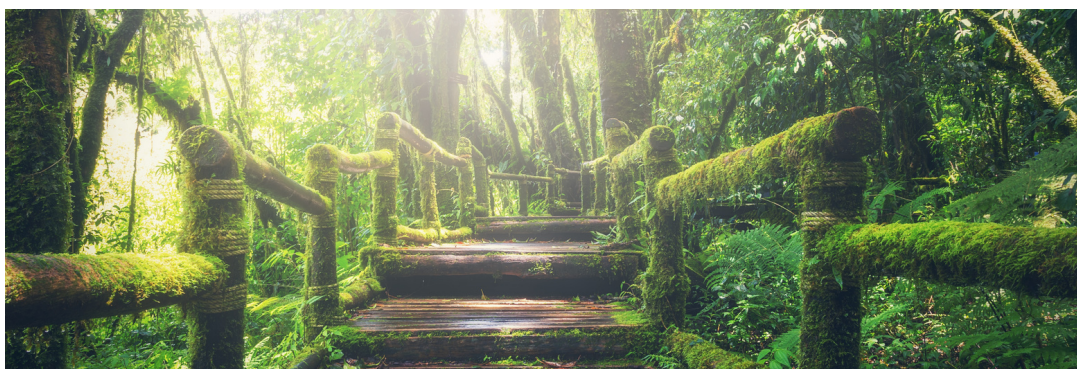




However, there were growing instances during 2021 where we found that reporting investee companies data was either not being identified by them or there was a material time lag before it was reflected in the relevant ESG scores. This was also only identified by them once we engaged directly and/or arranged for our companies to liaise directly with Clarity AI. We actively engaged with Clarity AI, however, the issues we experienced were largely difficult to avoid due to current flaws in the wider ESG data landscape. Improvements were made but these were insufficient for our requirements. We therefore terminated the services of Clarity AI at the end of 2021.

We now use an alternative external data provider, Refinitiv, for our ESG data requirements and are developing proprietary software to enable us to bring this functionality in-house. The completion of this project will further enhance our ESG research capabilities and reduce our reliance on external data providers.

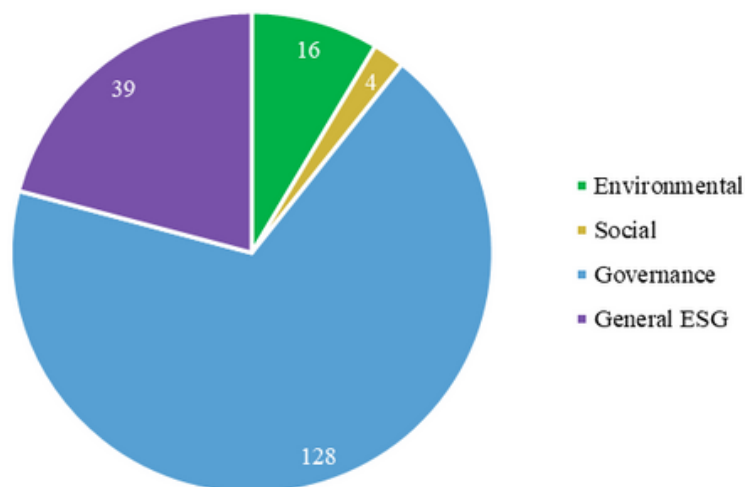
This experience reinforced our view that third-party data sources can only be one input alongside our own in-house fundamental analysis and engagement insights (please also refer to the Stewardship, Investment and ESG Integration section above).



ENGAGEMENT

We do not invest in a company with the view of engaging; in an ideal situation we aim to buy into a high-quality business and monitor it. This ongoing monitoring of investee companies is equally as important as the initial investment decision itself, and sometimes shareholder engagement can help to support good corporate governance. This is important not only because it enhances shareholder interests directly, but also owing to the wider benefits it can have from an ESG perspective. Instances where it may be necessary for us to engage with investee companies include where we have concerns about the company's strategy, performance, governance, remuneration or approach to risk. We will engage with any investee company when we feel there is a need to do so, regardless of our holding. However, we have a greater impact where we have a material holding, defined for us as ownership greater than 3% of the company.

During 2021, our ESG Committee met with company representatives on 496 separate occasions. We classed 187 of these interactions as engagement, broken down by classification as follows:



Members of both the ESG and Investment Committees are involved in the process of monitoring and engaging with our investee companies. Neither engagement with companies nor discussions and considerations of ESG factors are conducted by one section of the business in isolation.



Case Studies

Our engagement falls into one of two categories; that conducted with individual companies on specific issues, and thematic engagement on a broader scale with a group of companies.

Company Specific

In January 2021, IG Design Plc announced its new remuneration policy. The proposed value creation scheme (“VCS”) set a 450p share price as the base level for performance when, at the time of release, the company’s share price was 610p. This would mean that the VCS would pay out £14.9 million in March 2023 to the executives even if the share price fell to 570p. The market dislocation caused by Covid-19 was taken advantage of by the Board. We engaged with the Chair of the Remuneration Committee and were far from impressed by her response. We made our position clear to the company and voted against the implementation of this policy. When the resolution was ultimately passed, we could not support such value destructive actions and sold out of our position. The share price has since collapsed.

On 8 December 2021 the Boards of Clinigen Group PLC (“Clinigen”) and Triley Bidco Limited announced they had agreed terms for a recommended all-cash acquisition of Clinigen at 883p per share. We were the second largest holder of Clinigen, with an ownership stake of 7.46%, and did not agree that the offer price represented a true reflection of value for shareholders. We signalled our intent to vote against the recommended offer. Post-period end, in January 2022, the Boards of Clinigen and Triley Bidco Limited announced an increased and final recommended all-cash offer for Clinigen to 925p per share, this represents an increase of 42p and 5% per share. The General Meeting was also delayed until February 2022, where the bid was duly approved.

In April 2021, City of London Investment Group PLC announced that the company's payment of historical dividends over a period of 12 years had resulted in a technical infringement of the Companies Act 2006. For a business that is not hugely complicated, we see this as a disappointing demonstration of governance. Along with asking the company for an explanation from the Audit Committee about the quality of their auditors, we also pointed out that they should have a finance director and cut back on the number of directors. We have further consulted with the Chairman and Chair of Audit & Risk and believe the augmented internal controls that are being put in place are a step in the right direction.

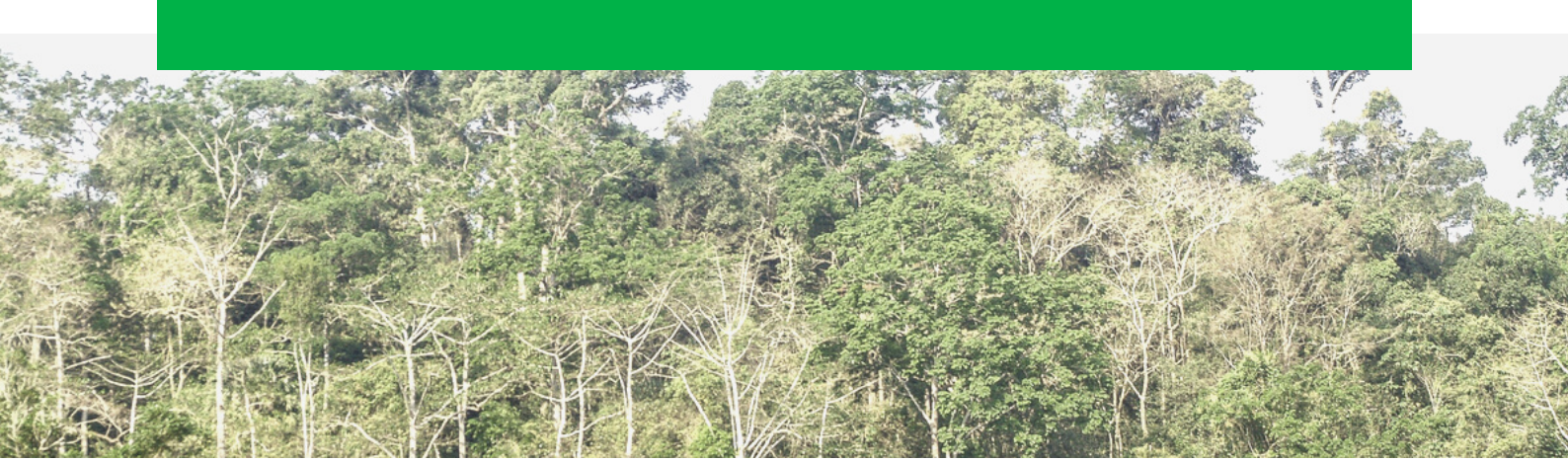


In our April 2021 review of Elixirr International PLC (“Elixirr”), in which we are the second largest shareholder, we noted that we did not believe the current Non-Executive Directors (“NEDs”) on the Board were of the standard we would expect of a listed company as we did not believe them to be suitably independent. All three NEDs had at some point been consultants to the company. Since then, we have engaged with the company’s leadership to help move the company forward in strengthening its governance, particularly involving Elixirr’s succession planning. Our engagement with the company continues.

We were consulted on the proposed remuneration package proposed by the Board of Mears Group PLC (“Mears”) at their June 2021 Annual General Meeting (“AGM”). We have long believed that management at Mears are underperforming and have previously engaged with the Chair to this extent. Considering this, we were surprised at the quantum of remuneration which was being proposed; a remuneration structure that has presided over unprecedented value destruction was being increased. We saw this as the Board rewarding management for their failures. We made the company aware of our feelings on the matter and subsequently voted against the proposed changes at the AGM, along with the re-election of the Chief Executive Officer (“CEO”). The results ultimately yielded a material vote against the remuneration report at 23%, and 19% of votes against (with 9% withheld) against the CEO.

Thematic

On 4 August 2021, we wrote to the Chair of the Audit Committee for all companies where we hold a material position. Our intention was to examine the risks each company faces; to understand how they are discussed at Board level, and how much time the Board spends reviewing these risks. We were very pleased to receive a response from all 39 companies we contacted, with an average response time of 17 days. All meetings have now been conducted. We have been encouraged with the quality of the engagement and found it interesting that many of the Chairs of the Audit Committees have confirmed this is the first time an investor has asked to engage directly with them. We aim to make this an annual occurrence. The results of this process are currently being reviewed internally, and we may look to publish our findings in the future.



Our continued engagement with fellow shareholders and investee company management, in line with our Voting Policy to vote against resolutions which provides for a general disapplication of pre-emption rights on allocations of shares, was successful during the year. Investee company Jubilee Metals Group PLC withdrew its proposed resolution to disapply pre-emption rights from its annual general meeting on 29 December 2021 based on feedback received from shareholders. We continue to make this a point of discussion with all our investee company boards.

Collaborative

In certain circumstances, we may partake in collaborative engagement with other institutional investors if we believe this will lead to a more positive outcome. However, before deciding to do so, we consider a range of factors including, but not limited to:

- whether or not collaborative engagement is likely to be more effective than independent involvement;
- the size of our holding;
- the extent to which the objectives of the other investors are aligned with our own; and
- SIL's conflict of interest policy as well as regulatory requirements, such as market abuse and insider dealing considerations.

If we do partake in collaborative engagement, we will always ensure that we speak for ourselves and do not rely on others to take responsibility for articulating our views. During 2021 we have generally found it difficult to partake in collaborative engagement generally due to an unwillingness from our fellow institutional investors to involve themselves in collaborative engagement despite some of them also being signatories to the Stewardship Code.

In the SIL 2020 Stewardship Code Report, we noted that investee company Dotdigital Group PLC (“Dotdigital”), of which we are one of the largest shareholders, engaged with us regarding their proposed new Long-Term Incentive Plan (“LTIP”), which we could not support. Upon voicing our concerns to the company, we were surprised to be told we were the only shareholder to have had raised any concerns. We wrote to the other nine largest holders in December 2020 asking them if this was the case. To date, we have yet to receive an answer from any of these other shareholders. Again, this is despite many of these institutional investors professing to regular collaborative engagement with fellow shareholders. The remuneration report was passed at Dotdigital's 2021 AGM. We will continue to pursue this with other shareholders.

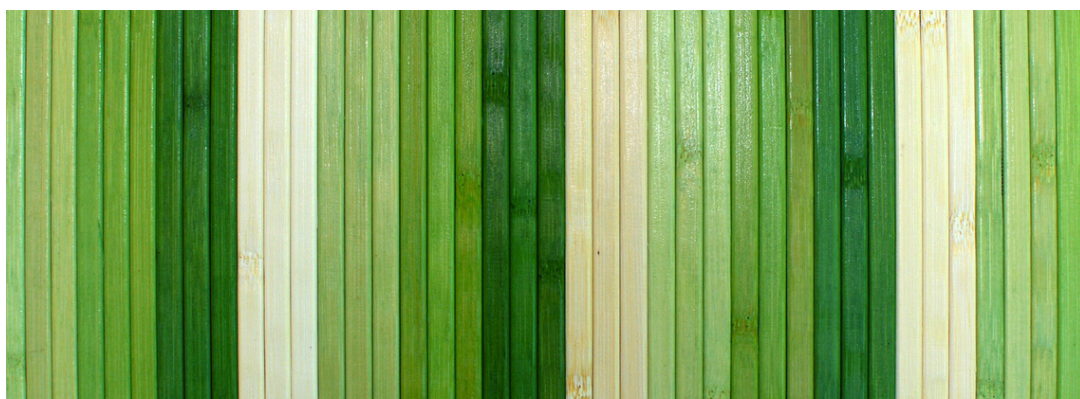


AFH Financial Group PLC was the subject of a takeover by management backed by private equity in January 2021. In our view, there was a clear conflict of interest where the NEDs failed to protect the interest of shareholders. We were the largest institutional shareholder and engaged with the executive board and the NEDs, the bidder and other shareholders. Together with other shareholders, we successfully voted down the scheme of arrangement, which the bidder needed to complete the takeover. The NEDs were incorrectly adamant that shareholders would support their recommendation. We were eventually persuaded to support a higher bid as this would benefit all stakeholders.

We spent time engaging with other major shareholders of Palace Capital PLC. We believed that the Non-Executive Chairman had been in situ for too long and was no longer complying with the 2018 UK Corporate Governance Code. Through our work with the other shareholders, the Chairman agreed to step down and a new Chairman has been found. We believe the company is now better set to move forward. Another aspect of our engagement was the company's holding in Circle Property PLC, where they had 5% interest. After a consultation with ourselves and other shareholders, management agreed that the holding should be sold and that they would consider a buyback of their shares.

Escalation

We prefer to conduct our engagement with our companies confidentiality as this allows for the frank exchange of views that is essential to bring about the desired change. We have found companies to be much more receptive when we approach them directly, working with them not against them. Engagement in the public domain should only ever be a last resort, such an extreme step can sour the more productive relationships we've spent so long building with management. However, we would never rule this out.



EXERCISING RIGHTS AND RESPONSIBILITIES

Voting

Exercising our voting rights is the most powerful tool we have. It is the one absolute way in which we can hold companies accountable. All proxy votes for our companies are assessed in-house by our ESG Committee in conjunction with our Investment Committee. We do not subscribe to, nor do we receive, voting recommendations from third-party voting services, though we do however listen to them and consider their recommendations.

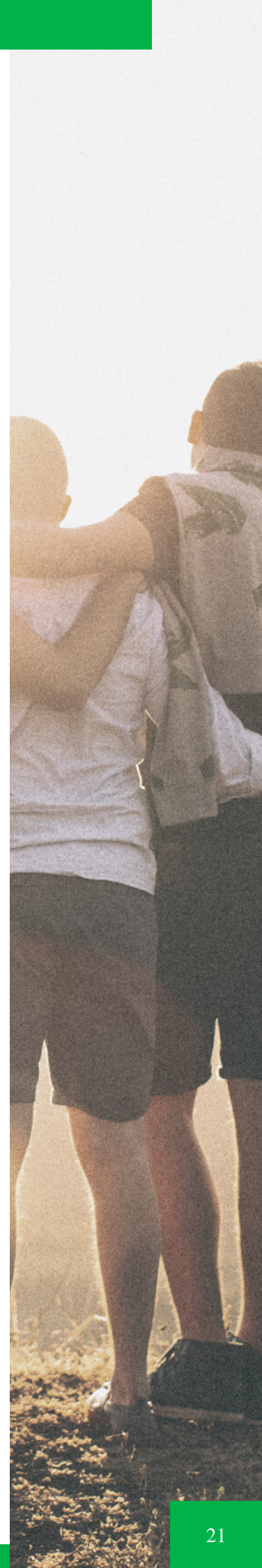
Voting is undertaken at a firm level in accordance with our Voting Policy (“Policy”), an up-to-date version of which is publicly available on our [website](#). Rare instances where this process could lead to a conflict of interest at Fund level have previously been addressed in the ‘Conflicts of Interest’ section of this report.

Scope

We vote via proxy at every shareholder meeting, regardless of the size of our investment. The below table provides a summary of all our voting instructions across all companies held by SIL on behalf of the clients we advise and manage during 2021:

Meetings	
Total number of meetings voted at	153
Total number of resolutions voted on	1,680
Number of resolutions where we voted with management	1,289
Number of resolutions where we voted against management	388
Number of resolutions where we abstained	3
Number of resolutions where we voted against our voting policy	12

Of the 153 meetings voted at, 1 meeting was for a company without a UK listing: a US listed company.



Votes Against Management

Overall, 92% of votes against management recommendations resulted from resolutions which fell into three main categories.

1) *Disapplication of Pre-Emption Rights and Share Allotment*

This category accounted for 63% of our votes against management. Pre-emptive rights give existing shareholders the opportunity to buy additional shares in any future issue of a company's common stock before the shares are made available to the public. The disapplication therefore removes this right. To protect shareholders against dilution, we do not believe this should be commonplace nor at management's constant discretion.

In the second quarter of 2021 we updated our Voting Policy to include a blanket voting against the power for Directors to allot shares, even without the disapplication of pre-emption rights. We do not believe Directors require such a general authority. If there is a business case this can duly be presented to investors.

2) *Remuneration*

This category accounted for 22% of our votes against management. We prefer to see simplistic remuneration reports and accompanying policies. Any overcomplication dilutes their ability to properly incentivise management over the long-term. We support management teams of investee companies that we think are doing an excellent job. However, the quantum of awards to executive directors has spiralled recently, in many cases it has become customary for executive directors to receive a handsome salary, plus the same again in cash bonus and a similar amount in nil-cost options; year on year. In our engagement with certain Remuneration Committees on this topic, we have rarely felt their stance was justified. Most have excused themselves of the decision-making responsibility, instead hiding behind the principle of "best practice" as this format is commonplace across the market. In most cases, we vote against any remuneration policy we consider excessive, overcomplicated or that contains the use of nil-cost options. The latter being a remuneration structure much more aligned with a cash-strapped start-up than an established profitable company.

3) Director Elections

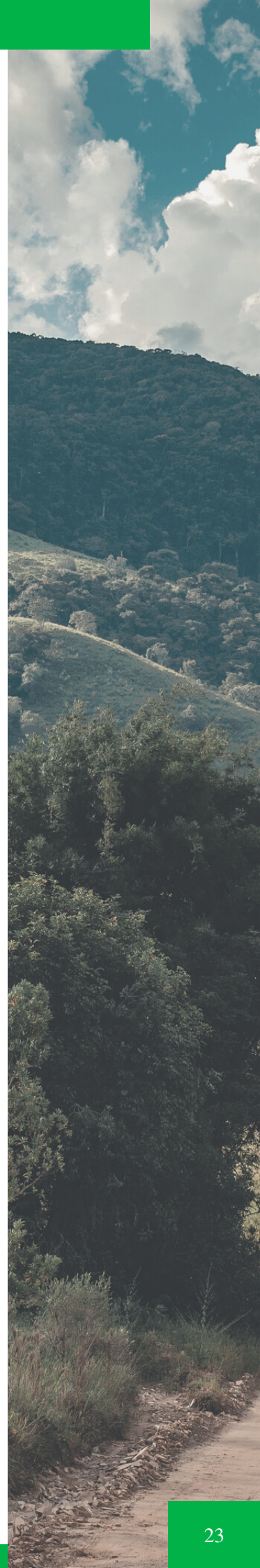
This category accounted for 7% of our votes against management. Beyond case-by-case decisions, we vote against the re-election of NEDs who preside over director remuneration policies that we disagree with. We also retain the list of Chairs of Remuneration Committees who chose not to engage with us when they were sent our [open letter](#) on nil-cost holdings, and have been voting against their re-elections on the grounds of poor shareholder communication.

Votes Against Policy

There were 6 notable meetings during the year where we voted against our Policy across 12 resolutions. All but one meeting concerned voting in favour of either or both the disapplication of pre-emption rights and the power for Directors to allot shares in instances where we did not participate in the capital raise. For each, the companies engaged with us prior to their meetings and, whilst we chose not to participate [for all clients], we believed management were acting in the best interests of both the company and shareholders. All the resolutions in question were duly passed at the subsequent meeting. The companies and meetings in question were:

- Avation PLC – Issue of Equity in Connection with the Issue of Bondholder Warrants ([link](#));
- Duke Royalty Limited – Fundraising ([link](#));
- UP Global Sourcing Holdings PLC – Proposed Acquisition & Proposed Placing ([link](#));
- SigmaRoc plc – Proposed Acquisition & Proposed Placing ([link](#));
- Supermarket Income REIT PLC – Proposed initial issue of new ordinary shares ([link](#)); and
- Urban Logistics REIT PLC – Proposed admission to the main market ([link](#)).

The other meeting where we voted against our Policy where we abstained on 3 resolutions at Future PLC's AGM. This is detailed below.



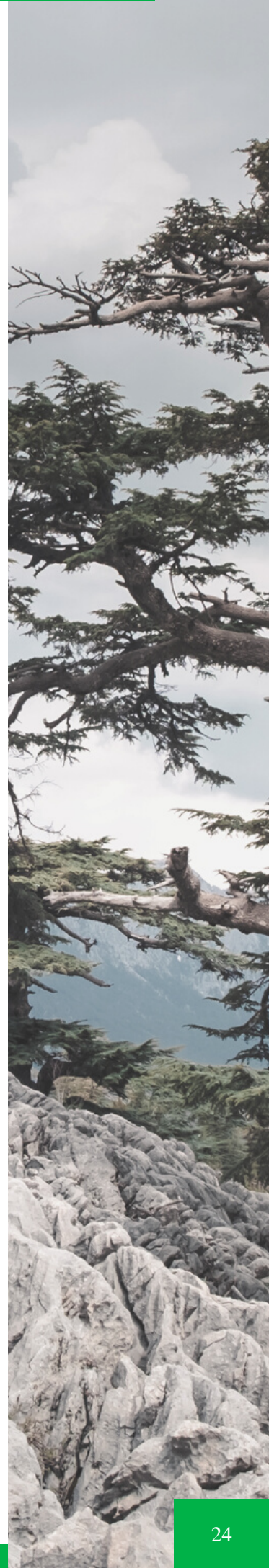
Votes Abstained

Our 3 abstained votes were at Future PLC's AGM in February 2021. As significant shareholders in the company we were heavily consulted on the company's desired transition away from a LTIP to a less commonplace Value Creation Plan ("VCP"). We approved of the implementation of the policy, and that the quantum of the award, based on reaching stretching performance targets, was suitable for a long-standing and exceptional management team. However, we felt the company was building a rod for its own backs in the potential level of reward to the newly appointed Chief Financial Officer, meaning we could not support the new policy in full. We agreed with the company to abstain at this meeting on the understanding that the process was not yet finished, and they would continue to engage with us after the meeting before finalising the VCP.

Shareholder Resolutions Relating to ESG Issues

Shareholder activist proposals are few and far between in the small to mid-market capitalisation space. However, in 2021 there were 6 resolutions across 4 of our holdings in larger companies.

- BP PLC and Shell PLC had proposals brought by shareholders at their respective AGMs, both with the aim of implementing a more comprehensive strategy to support society in meeting the goals of the Paris Agreement. We voted in favour of both, however, neither resolution passed.
- The Walt Disney Company had two resolutions brought by shareholders at their Annual Meeting, one requesting an annual report disclosing information regarding lobbying policies and activities, and the other requesting inclusion of non-management employees on director nominee candidate lists. We voted in favour of both, however, neither resolution passed.
- There were three resolutions proposed by shareholders at the BHP Group Ltd AGM. These were on the topics of an amendment to the constitution regarding the power to manage the business conferred on the Board, climate-related lobbying and capital protection through adequate planning in support for the global goal of achieving net-zero emissions. We voted in favour of all, though as these resolutions were conditional, the resolutions either did not pass or were not considered to be valid resolutions.



Voting Reports

An archive of our historic Voting Reports are publicly available on [our website](#).

Monitoring & Process

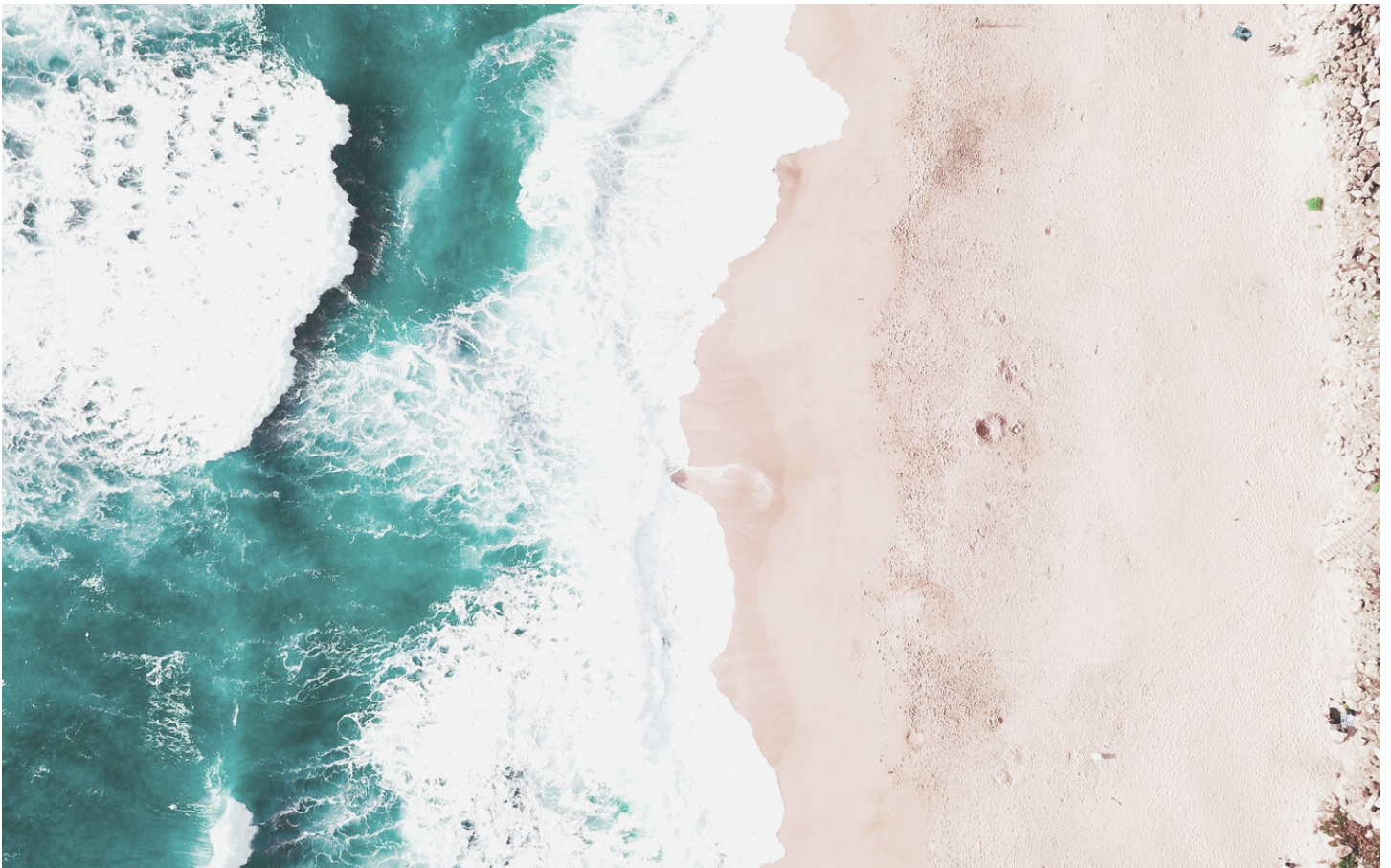
The ESG Committee are responsible for monitoring all voting requirements. Holdings in the companies we own are recorded with Broadridge Financial Solutions (“Broadridge”) and Institutional Shareholder Services (“ISS”) from information provided by the custodians, with daily stock reconciliations performed by SIL’s Operations Department. SIL does not participate in stock lending.

Broadridge and ISS provide portals on their respective platforms, through which SIL can monitor forthcoming meetings and vote as it chooses. For clients whose custodians are not part of Broadridge or ISS, SIL sends voting instructions directly to custodians and/or the meeting registrars. SIL also subscribes to all investee company Regulatory News Service feeds to monitor meeting notices.



CONCLUSION

We strive to provide our clients with the best possible product, the implementation of the Code in 2020 provided the opportunity for a review of our operations against the defined principles. Within the constraints of operating as a firm of our size, we have worked hard during 2021 to increase reporting where there was identifiable room for improvement. We believe this augmentation is well reflected in this report, particularly concerning the demonstration of how SIL actively exercise its rights and responsibilities.



PRINCIPLES OF THE UK STEWARDSHIP CODE 2020

The Principles of the Financial Reporting Council's [UK Stewardship Code 2020](#) for Asset Owners and Asset Managers:

Purpose and Governance

- 1) Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society
- 2) Signatories' governance, resources and incentives support stewardship
- 3) Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first
- 4) Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system
- 5) Signatories review their policies, assure their processes and assess the effectiveness of their activities

Investment Approach

- 6) Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them
- 7) Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities
- 8) Signatories monitor and hold to account managers and/or service providers

Engagement

- 9) Signatories engage with issuers to maintain or enhance the value of assets
- 10) Signatories, where necessary, participate in collaborative engagement to influence issuers
- 11) Signatories, where necessary, escalate stewardship activities to influence issuers

Exercising Rights and Responsibilities

- 12) Signatories actively exercise their rights and responsibilities

Important Information

The views expressed are the authors own and are not considered to be investment advice.

This document does not provide, and should not be relied on for accounting, legal or tax advice, or investment recommendations. For more information on the Slater Investment Funds or the risks of investing, please refer to the most recent Fund factsheets, Prospectuses or Key Investor Information Document (KIID), available on our website at slaterinvestments.com.

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