J O Hambro Capital Management Group

Regnan

2023 Stewardship Report

Delivering resilient, sustainable returns

Contents

Submitted to the Financial Reporting Council (FRC) by J O Hambro Capital Management Limited (JOHCML)

Foreword

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UK, Europe and Asia

I suspect 2022 will be a year we all remember for a long time. The end of the Covid-19 pandemic was nothing like a return to the world we had known before.

The year began with what until then was an unthinkable catastrophe, war in Europe. If this were not bad enough, and it is very bad indeed, the conflict turned the global energy market upside down. Combined with the supply chains broken through the pandemic, and the ongoing lockdowns in China, we saw hard currency inflation in double digits for the first time in a generation.

Sky-high energy prices challenged views on greenhouse gas emissions. Immediate issues of security and affordability were suddenly much more in focus, while long-term sustainability felt just that, a long way off. Pledges to transition to low-to-net-zero, goals that had seemed achievable only a year before, now looked challenging, even foolhardy. There is also increasing awareness of social challenges, whether related to poor working conditions in complex supply chains or to persistent differences in pay relative to issues such as gender, ethnic and social background.

In May, incredibly, the German police raided a wealth management firm, searching for evidence that it was mislabelling products as ESG in order to appeal to a wider market. That 'greenwashing' should become a criminal offence rightly sent shockwaves through the industry. We were proud to have the whistleblower, Desiree Fixler, as a guest on our podcast, Organising the Future with Andrew Parry, our Head of Investments.

The real change, across the industry, has been in attitudes and in regulation. It is no longer acceptable to simplistically screen out companies or sectors whose products we dislike. We need to think holistically, at a systems level, and understand that every silver lining comes with a storm cloud. There are no easy answers to the complex problems that we face. We need to embrace trade-offs. And we must accept that our work in the future faces much closer, more determined regulatory scrutiny, and that breaches come with more severe penalties than has been the case in the past.

Neither can we forget that we are first and foremost investors. Our clients come to us for defined, risk-adjusted returns. People's lives are on the other side of those returns, their need for income, for a pension, to sustain and grow the value of their assets. As an investment firm we need to respond to a range of client requirements, from impact funds to choices that may not be full-fledged 'green funds' but that aim to provide meaningful returns without causing undue damage to the world. Sustainability and financial returns need to be seen as one and the same thing.

Against this backdrop, I'm proud to say that we at JOHCML and our impact investing arm Regnan, have managed to stick to what we do best and what we believe in, as the pages of this report attest.

At the core of our success as a business is our belief in intellectual freedom. There is no right way and no wrong way. Our ability to nurture diversity is a critical strength of our culture.

Freedom brings accountability. Among our common values is the belief that we have responsibilities to all our stakeholders, including those in the companies in which we invest and the communities in which those companies operate. We bring both vigour and detailed insight to our stewardship, an approach that is only truly possible through active ownership.

There is much to improve and still to be built but I believe we can stand by what we do.

01
Our approach

Challenges to responsible investment

Andrew Parry
Head of Investment

What is active ownership?

The world has altered. No longer are asset managers absentee landlords. They are expected to assume greater responsibility for the social and environmental consequences of their investment decisions, beyond purely financial returns, as engaged and vocal stewards of client assets.

This is a sea change. Since the ascendancy of neo-classical economics in the 1980s, drawing on the theories of Milton Friedman, a mindset of growth at any cost has prevailed. Rewards for making nature and society invisible in economic value have been high. Many of the real costs of economic growth, 'externalities' with no immediate bearing on financial returns, could be ignored.

Fast forward and we now see a tsunami of interest in environmental, social and governance (ESG) issues and responsible investing. The experience of Covid-19 recalibrated how millions think of work and the value of labour. Climate change, formerly viewed as an externality to the fossil fuel industry, is increasingly internalised into business models across all industries.

The investment industry is a mirror of the evolving values of civil society, and a potential agent of change. Interest in sustainability (at the corporate and investor level) is creating a concept of 'value' beyond financial assets. Natural and social inputs, like land and trees, health and education – long considered costs in economic models – have taken on shared societal-level value.

'Sustainable' has become the desired outcome, 'impact' the consequence of our actions and how to mitigate their environmental and social cost. 'Investing for good' is not straightforward, however. The dangers and costs to society of smoking, known for decades, have led to tobacco stocks' exclusion in many portfolios. Yet smoking continues and tobacco stocks historically delivered strong returns, helped by tax hikes that masked price increases and that created barriers to entry for new competition.

Investing in an ESG or sustainable-labelled fund maybe aligned with an investor's values, but it should not be a substitute for direct action by consumers. Similarly corporate sustainability disclosures cannot be a convenient fig leaf for lack of tangible changes in business practices.Asset management must move beyond using ESG as an abstract acronym and one-dimensional score. The next stage of responsible investing is collaboration beyond market share. Sustainable finance can support a new economic paradigm, backed by the guardrails of law and regulation, that reflects the evolving values of society.

Support for this idea appears in an unlikely source, Friedman himself, who knew that markets need boundaries. His famous 1970 New York Times essay told businesses to 'make as much money as possible', but, often crucially forgotten, 'while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom'.

Certainly, the investment industry has the potential to act as a powerful enabler of change. Impact investing may still be a tiny proportion of the total invested assets in the world, but has an outsized influence. Thinking is shifting away from inputs and outputs (associated with ESG) to real world outcomes and consequences.

The objective of responsible investing was never supposed to be an inflow of new assets into funds, but to be part of a more resilient, fairer and more sustainable way of doing things. Robust (but not necessarily better) long-term financial outcomes should follow because of the improved health of the overall economic system.

Asset management faces challenges on the real-world influence of ESG in investing. Climate-orientated strategies crammed with fossil fuel stocks with a correlation of nearly 1.0 with the S&P 500, for example. Finance is not a replacement for elected governments. Clear boundaries are needed between what can be delivered through investing responsibly and what is needed from policymakers.

The use, or over-use, of ESG and related terminology as marketing labels rather than meaningful investment strategies has brought down the wrath of regulators. There have even been instances of police raids on asset managers suspected of misleading investors on their green credentials. From a tightening of the EU's Sustainable Finance Disclosure Regulation (SFDR) to the UK's Sustainability Disclosure Requirements (SDR) and the Financial Stability Board's Task Force on Climate-Related Financial Disclosure (TCFD), we are moving into a regulated, rules-based environment.

The impact investing market is estimated at US $715 billion globally and is growing rapidly. It has fostered a historically unseen level of collaboration in the investment industry between social entrepreneurs, academics, non-government organisations, activists, development finance and UN agencies. This collaboration has turned into new initiatives, such as the Institutional Investors Group on Climate Change (IIGCC), and helped recalibrate the thinking of asset managers, asset owners and banks.

The lack of environmental and social consequences in financial accounting is changing as a result. The Task Force on Climate-related Financial Disclosure (TCFD), for example, is being adopted globally, where companies and investors assess which of their assets are at risk under climate change projections.

The creation of an International Sustainability Standards Board (ISSB), under the auspices of the International Financial Reporting Standards (IFRS) Foundation, will, in time, provide a consistent framework for understanding sustainability risks more fully in business models and remove the 'invisibility of nature' from financial disclosures.

Lawyers are also an emerging force in the sustainability movement. The landmark victory in May 2021 of climate activists against Royal Dutch Shell is set to have profound implications for perceptions of risks in carbon intensive industries, and has triggered a wave of similar ligation.

Acknowledging the legal status of nature is an important step towards being able to place tangible value on it that can be reported alongside traditional financial assets. The simple removal of the inaccurate and derogatory 'non-financial' from EU sustainability reporting is a welcome development.

'Maximising returns' still plays a role in a system that measures success by solely through the quantum of growth. Quality versus quantity of growth remains a difficult topic for investors to manage. But voting, engagement and public policy advocacy have exploded in the investment industry, and asset managers are becoming truly engaged owners of assets and the broader inputs into long-term shareholder value creation.

It remains an open question whether investor engagement can make a bad company good. 'Own and engage' may legitimise a passive approach even if it acts without sanctions. But the risk of divestment can imply the exit of an otherwise awkward shareholder. Either way, while engagement can clearly be powerful, helping ensure that management understand the perspectives of key stakeholders, we need to be clear that there are practical limits to what can be achieved.

We need to be equally wary of outsourcing political decisions to private corporations. It is the business of elected politicians, for example, rather than private enterprise, to define the proper limits of greenhouse gas emissions,. The last 40 years have seen an erosion of the developed world's rules to limit the exploitation of society and nature. Activists turn to finance to punish companies, but finance's role is to grow other people's money – not to replace elected governments.

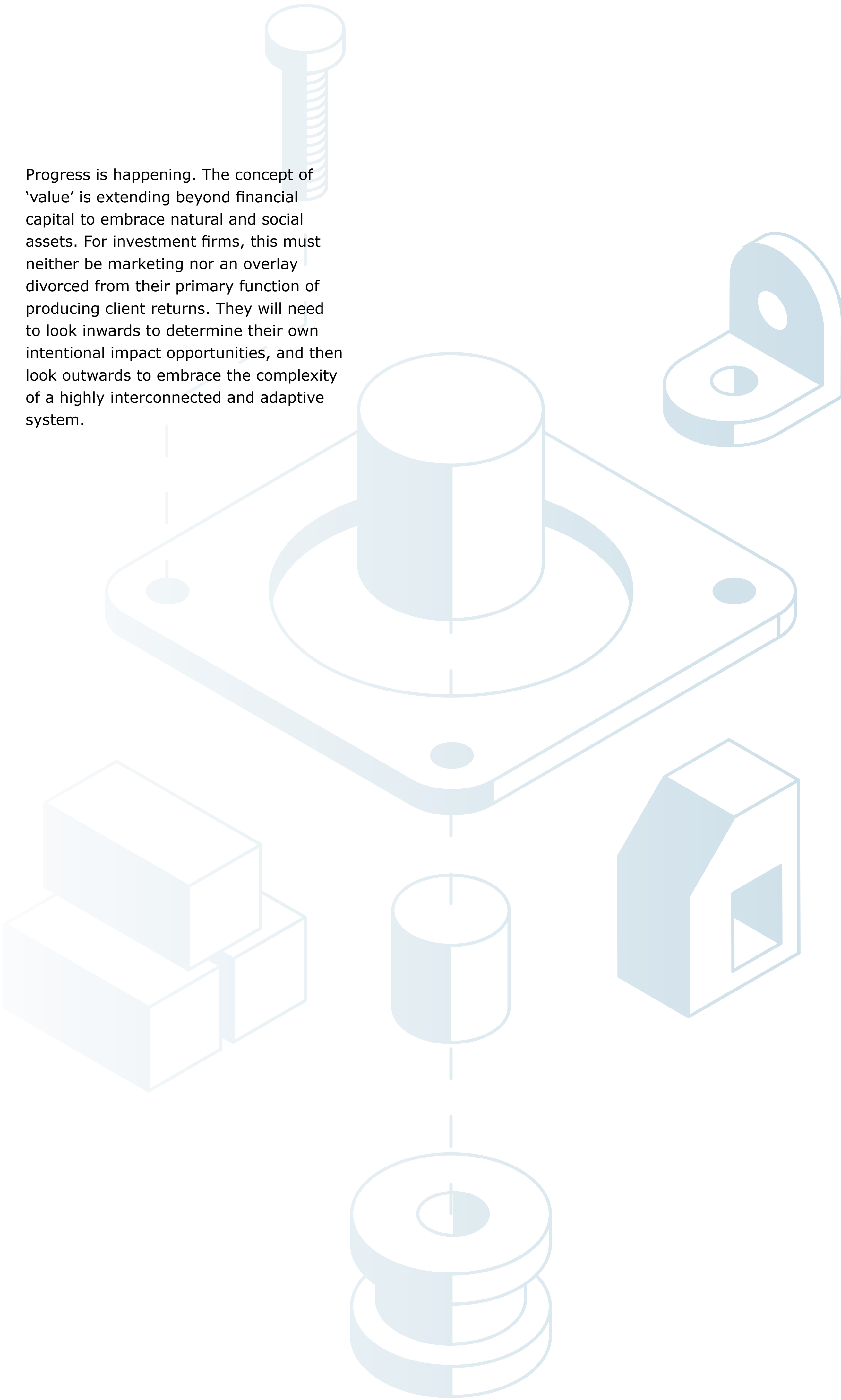
What to do? The Royal Society of Arts, in a 2021 sustainability report, used the analogy of a rainforest. Rainforests thrive on complexity and symbiotic relationships, from forest flowers to the giant trees of the canopy. Each has a role that evolves and adapts. So it should be with the investment world: a complex, adaptive system with symbiotic relationships forged on the understanding that no single approach should dominate.

Responsible investing is at a watershed. Asset management firms are committing considerable resources to broaden and deepen their activities. Climate change, human rights and antitrust abuses now regularly appear in discussions at trustee meetings and in stewardship reports.

But the flow of new capital to pressing underserved or unmet social and environmental challenges remains pedestrian. To achieve the ambitions of sustainability impact, while delivering robust financial returns, the financial services industry must embrace a more collaborative approach with a plurality of solutions, with adaptation and regeneration at its heart.

01 | Our Approach | Challenges to responsible investment

Progress is happening. The concept of 'value' is extending beyond financial capital to embrace natural and social assets. For investment firms, this must neither be marketing nor an overlay divorced from their primary function of producing client returns. They will need to look inwards to determine their own intentional impact opportunities, and then look outwards to embrace the complexity of a highly interconnected and adaptive system.



Our culture

A business model founded on diversity

JOHCML is a performance-led investment management business that provides a platform for a diverse number of successful, active, long-only, high-conviction investment strategies. We manage close to £30 billion of assets on behalf of institutional and wholesale clients. Our funds are managed from our offices in London, New York, Boston, Dublin, Singapore and Prague.

We operate a multi-boutique structure, with 14 individual investment teams offering 22 investment strategies, covering global and regional equities and multi-asset. Each investment team typically comprises from two to five investment professionals. Our nimble teams are supported by a global operating platform and distribution network.

We believe that the trust of our clients is critical to our success. We earn trust through transparency, clear communication and commitment to generating attractive long-term returns.

With no house view, our experienced fund managers are given full investment autonomy, subject to regulatory and contractual requirements; we do not impose a centralised, uniform view of economies, sectors or companies.

With no house view, our experienced fund managers have full autonomy

This allows each investment team to integrate environmental, social and governance information in a manner that reflects their own outlook and philosophy.

This plurality of approaches ensures diverse thinking and forms the bedrock of our culture and fosters abundant "edge effects". This leads to an environment in which investment managers constantly seek to adapt and evolve, reflecting a world in which investment landscapes are always in flux.

We aim to be the best investment house, not the biggest. When funds become too large, their performance can suffer from a lack of agility that prevents fund managers seeking the best opportunities to invest in. By limiting the total amount of money in our funds, we are supporting our pursuit of market-leading, long-term investment returns for our clients. This reinforces the alignment of our clients' interests with those of our investment teams.

Our business is built on an ethos of meritocracy, with success nurtured by diverse insights and investment approaches. We strive for superior results through an investment-led performance culture that backs independent action. Team members are recruited for their distinctive skills, experience and perspective, and shared values of integrity, honesty, respect, teamwork and potential to deliver high performance.

We have a shared ownership culture. Many of our employees have equity participation in our business.

What we believe

Responsible investing: an industry in flux

Recent years have seen a dramatic surge of interest in the concept of "responsible investing" and in organisations acting as good stewards of the assets entrusted to them. After many years as a specialist niche, strategies that fall under the broad banner of responsible investing – socially responsible, ESG, sustainable and impact being the main examples – have experienced record inflows.

While unprecedented levels of attention have been given to these strategies, there is still confusion about the distinction between each category. More recently, the brutality of the war in Ukraine has, for many observers, further complicated this picture with seemingly contradictory claims being made about responsible investments. This has only added to an already uncomfortable disconnect between growing social obligation to integrate environmental, social and governance considerations into investing practices, and the threat of enforcement action on greenwashing.

ESG is everything, and nothing

We believe that there should be a plurality of ways of implementing sustainability considerations into investment objectives, and not a single deterministic view of the world. We are in an adaptive system that will evolve over time, and it is our job as active managers to navigate our clients through a world in flux, interpreted through the approach of the fund in which they chose to invest. The treatment of ESG as a tangible "thing" is misleading and unhelpful to its usefulness to investors (and the real world) and renders it divisible from "normal" investing.

If the consideration of ESG matters is simply good investment practice, then why does it need a separate label? It will always be a complex, nuanced set of dynamic inputs that will vary across industries and regions, and importantly, adapt over time to changing business and social norms. They are part of the determinant of future investment returns alongside other traditional financial considerations: sometimes they may prove material, but at other times, influences such as monetary policy, competition, balance sheet strength, inflation and so on, will be far more material to the success or otherwise of a business model. Key is looking at how environmental and social considerations – and how they are governed by management – influence the long-term success of a business model. Having a good "ESG score" or being "green" are not sufficient conditions for successful investment outcomes. Active managers should have an inherent advantage when considering these complex series of inputs into decision-making, as they are focused on the efficacy of the business models looking forward and making selective, well-informed decisions to add value over a passive exposure to beta.

ESG vs sustainable vs impact

On the difference between ESG, sustainable and impact, we see it as follows:

- **ESG** considerations are inputs, though they are typically complex, nuanced and dynamic.
- **Sustainable** is the future outcomes we want – that is, resilient financial returns from well-governed companies that balance well the potential dynamic tension between the production of sustainable financial returns with the social consequences of their activities and their environmental impact.
- **Impact** describes the consequences of our business and commercial activities – the provision of solutions to tackle pressing social or environmental needs, or the reporting of the negative consequences of human activity and how we manage and mitigate them.

This perspective is aligned with the often cited "spectrum of capital approach", where ESG is acknowledgement of issues and their financial materiality, sustainable is emphasising the benefits of good governance of social and environmental issues, and impact is the contribution of solutions to underserved societal needs.

Values-based exclusions

One issue that frequently comes up, is the challenges created by the use of ESG as a fund label; JOHCML has not fallen into that trap. What many call ESG, is simply the avoidance or exclusion of certain activities (such as gambling or weapons) within an otherwise normalised ranking of the universe. The real-world deals in absolutes and should not be reduced to a form of moral relativism. Values-based exclusions are best handled by clients and with a clear understanding that they may lower expected long-term returns. The way that we view many of these activities is that they represent future risks to investment returns as they have the potential to become internalised into business models. Gambling is a good example, as laws and regulations on gambling change frequently and can damage a company's ability to generate future returns (such as a change in the rules relating to fixed-odds betting terminals or the legal status of online gambling in many countries). You can avoid these activities because of the potential risk they represent to future profits, but these are judgements that will depend on the purpose and intent of the investment strategy.

That sense of "purpose" is helpful when thinking about the EU's Sustainable Finance Disclosure Regulation (SFDR) and those of the Financial Conduct Authority's Sustainability Disclosure Requirements. As it is a disclosure regime and not a label – we are still waiting for those – stating a clear investment purpose and evidencing its implementation (for example, integration of non-financial data sets, proxy voting, engagements, investment/divestment rationales etc) should be a good starting point for fund designation.

Delivering sustainable returns

At JOHCML, our broad purpose is to deliver resilient, sustainable financial returns for clients (in line with the investment objective) through active management that seeks to guide them through a world in constant flux, identifying emerging structural trends (themes, if you like) and managing emerging risks. More simply put, it is to make them money. Many of the structural forces at play will be associated with changing environmental and social norms that will reshape business and economic models, but are not independent of wider investment considerations.

As with ESG, there is no standard definition of sustainable investing, but we feel there is a pragmatic way of representing it that fits the investment culture at JOHCML. Investment teams need to set out clearly the role of sustainability considerations in their decision-making.

The easiest way is for them to:

1. Identify those activities and business practices that they believe contribute to or support sustainable outcomes (which can be broader or narrower than the EU Taxonomy), and then demonstrate how their holdings are aligned to these issues.
2. Show how investment teams consider and balance any adverse factors and what minimum standards they set, such as no cluster munitions, no UN Global Compact breaches and the like (ie "Do No Significant Harm"); and how they report these matters to clients and engage with company management to mitigate concerns. This hierarchy of purpose, eligible activities, alignment, balance, minimum standards and engagement works for the EU, FCA and other international financial service regulators.

Truly active fund managers, such as those at JOHCML, should be the best positioned to determine which stocks do or do not contribute to sustainable outcomes.

Active funds do not just divest: they make a limited number of high-conviction decisions to buy securities and avoid securities that do not meet their demanding standards, and then sell if business outcomes fall short of expectations. Each portfolio manager typically has minimum standards of behaviours that they expect from their companies and areas of the market that they avoid. ESG insights are part of the input, but those decisions are not shaped solely by a mechanistic ESG score, as there is a myriad of other powerful forces at work that shape returns. This is why we always talk about looking at environmental and social issues through the lens of business models, as that is where the difficult decisions on allocating capital are made.

Truly active fund managers, such as those at JOHCML, should be the best positioned to determine which stocks do or don't contribute to sustainable outcomes. Enabling fund teams to bring this insight to life in a transparent manner that our clients can understand is one of the main focuses of our recently formed Sustainable Investments Team.

ESG *in* investing

Finally, there is no such thing as ESG investing. It is ESG in investing, as first and foremost our job is to make our clients' money, not to have a shiny label on our funds. The investment industry has still a lot of hurdles to surmount if it is to meet the ambitions of system change implicit in the wider sustainability movement of which it is part. **There are benefits of progressively integrating this thinking into our stewardship approach, and we outline our early progress elsewhere in this document [see below, Systems Level Thinking]**. "ESG investing", with an excessive focus on methodology, normalisation and labelling, has encouraged stasis by being too disassociated from formative change. If it continues to pursue scale and look for normative approaches to sustainable investing, then it will fail those whom it is ultimately intended to serve.

Bringing this together is not about labels, scores or ticking boxes: it is all about active managers making well-informed investment decisions, with the intent to deliver good long-term investment outcomes that consider the quality of management (governance) and how they balance the production of resilient future financial returns with changing social norms and environmental impacts. Taking this approach allows portfolio managers to own their narrative to achieve the sustainable objectives increasingly enshrined in regulation and broader social obligations. It just needs a clear statement of the purpose of the fund, and how environmental and social considerations are integrated into the investment objective.

Our approach to stewardship

Delivering sustainable returns

As responsible stewards of our clients' assets, we strive to be active owners, recognising that with ownership comes an opportunity to influence and effect change. As agents of our clients' capital, our purpose is first and foremost to deliver resilient, sustainable financial returns, but we also understand that our influence means we can contribute to shaping a more sustainable world.

At JOHCML, we believe the maximum impact is achieved through stewardship being fund-manager-led. Our success as an active asset manager has been founded upon experienced fund managers with proven investment pedigrees, and these carry weight when engaging with companies, thereby enhancing our ability to effect change.

There are no house rules on engagement. Each investment team conducts its own analysis, makes its own decisions and engages with the companies it owns, or considers owning, on its own individual terms. Some teams are especially active. Others focus on specific issues, such as capital allocation. Others, including our Regnan branded funds, take advice from Regnan research.

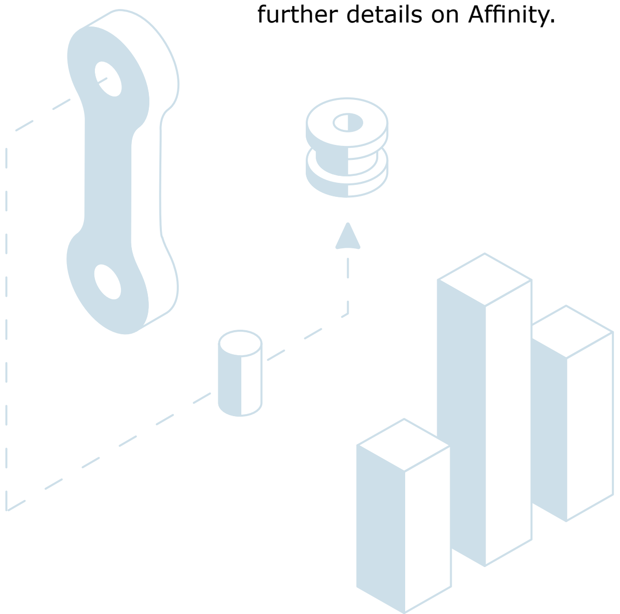
Opportunities to create impact through stewardship activities can be categorised into three main pillars:

1) Capital allocation

The companies in which we choose to invest (and avoid) influence the valuation of their stock and, therefore, their cost of capital. In the long run, this has implications for the growth potential of these companies and for the industries they are within. Higher valuations lower the cost of capital and attract new investment, thereby advancing the creation of rewarding new business opportunities and new technologies.

At JOHCML, most of our investment strategies are shaped around concentrated portfolios, typically under 60 names, ensuring analysis is detailed and investment horizons are long term. Each fund team conducts its own analysis, including how environmental and social inputs are integrated into business models, and how well a company is governed, as part of the influence on long-term shareholder value creation.

In 2022, the Sustainable Investments team launched a proprietary sustainable data platform, Affinity, to enhance investment team analysis of the factors that influence future returns. Please see the "Enhancing our approach" section for further details on Affinity.



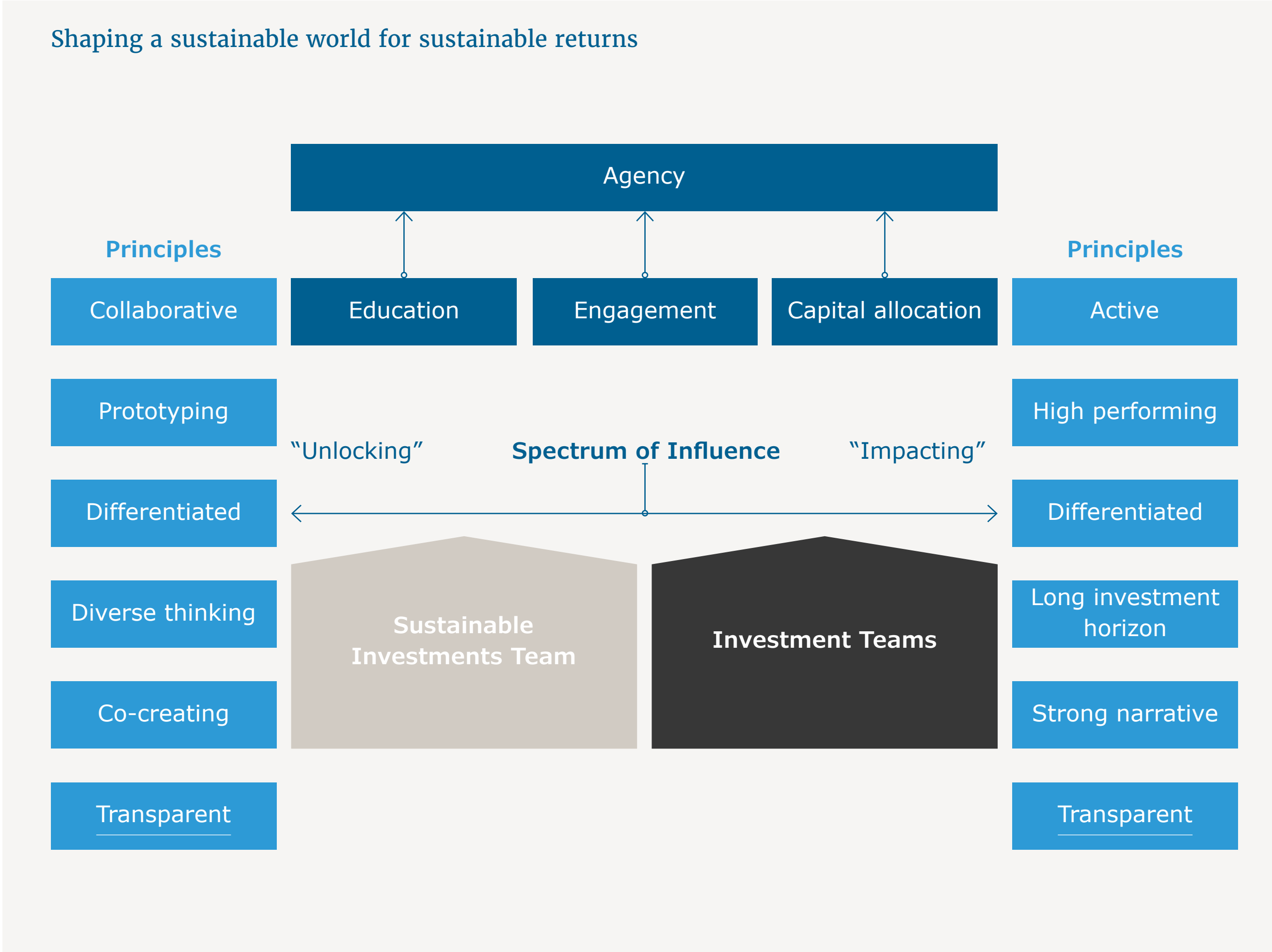
2) Engagement

Engaging with investee companies is a natural extension of JOHCML's active approach to investment management. Where appropriate, the fund managers undertake engagement with investee companies and issuers, focusing on where areas of concern have been identified, or where a fund manager's shareholding affords them greater influence. Each JOHCML investment team approaches engagement in a manner that is tailored to their investment objective, asset class, geography and client base. When management teams fail to make the changes requested by a fund manager, the issue will be escalated either through changes in capital allocated to the holding or through proxy voting. All proxy voting is conducted directly by the fund managers and linked to the investment purpose of the fund. Increasingly we are also taking a portfolio view of these risks. This requires greater consideration of the need for structural shifts in this context and the most effective levers by which this might be achieved."

3) Education

As agents of capital, fund managers hold privileged positions that provide high levels of influence and information. This information can include best practices, contextual understandings and data insights that are invaluable in shaping an evolving, sustainable world for clients, corporates and wider society.

In 2022, JOHCML signed a multi-year partnership with the University of Exeter Global Systems Institute and the Business School to enhance the integration of sustainable thinking into investment decision making. Please see the section "Enhancing our approach" for further details.



Enhancing our approach

Our client needs are rapidly changing due to increasing awareness of the climate crisis, global regulation and an underlying demand for choice and transparency. Clients are no longer just looking for a transactional relationship but also a trusted advisor, as they search for resilient financial returns that meet their sustainable objectives.

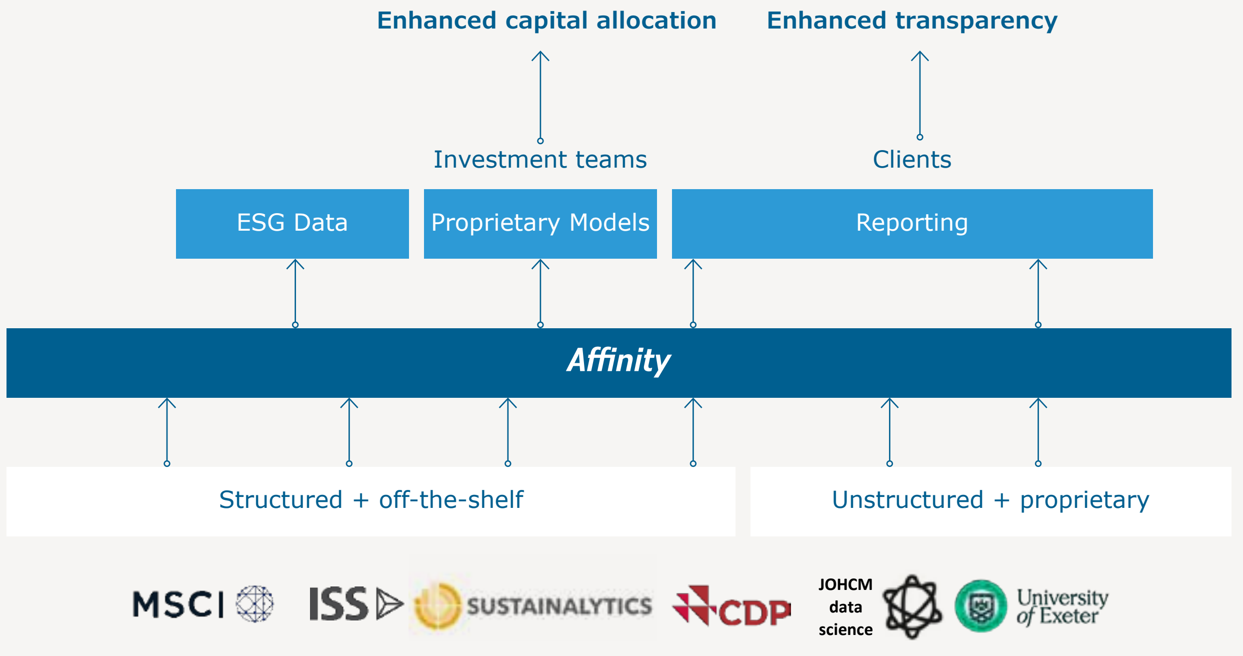
To enable this, a holistic approach needs to be taken to integrate sustainability data into investment decisions.

A new platform

At the end of 2021, JOHCML formed a dedicated Sustainable Investments Team to support its fund management teams. This was the first time a central investment resource team had been created at JOHCML, and in 2022, it led to the creation and launch of Affinity, JOHCML's proprietary sustainability data insight, engagement and reporting platform. In the same year, the team launched a data science capability to build novel approaches to modelling environmental data to enhance fund manager and client insights.

In 2022 JOHCML also signed a multi-year partnership with the University of Exeter's Global Systems Institute (GSI) and Business School to further an understanding of how the latest research on global systems risks related to climate change and sustainability can be integrated into company boardrooms across the world.[1]

A need for a holistic approach to ESG data: *Affinity*



These new resources created the foundations for JOHCML to develop its own GHG emissions forecasting model, Horizon.

1 https://www.exeter.ac.uk/news/university/title_931729_en.html

The challenge of climate data

Accurate greenhouse gas (GHG) emissions data is now an essential input into modern portfolio construction. Not only is it vital in measuring a portfolio's negative impact on the environment, but it is required to track progress against net zero commitments. Membership of the Net-Zero Asset Owner Alliance has grown to represent over US$10 billion of AUM and yet the data need to achieve this is by no means complete, consistent or easy to analyse. Our research shows that relying solely on a third-party data provider to forecast GHG emissions could represent a significant capital allocation risk to asset owners.

When creating a GHG forecast model, the first building block is the last emissions number reported by the company. However, our analysis indicates that significant differences exist between the numbers provided by data providers. The tables below illustrate the total percentage of reported emissions where providers are in agreement with each other for Scope 1, 2 and 3.

Scope 1 GHG emissions: % of emissions with same number

	Provider 1	Provider 2	Provider 3	Provider 4
Provider 1	100%	47%	18%	24%
Provider 2		100%	50%	31%
Provider 3			100%	60%
Provider 4				100%

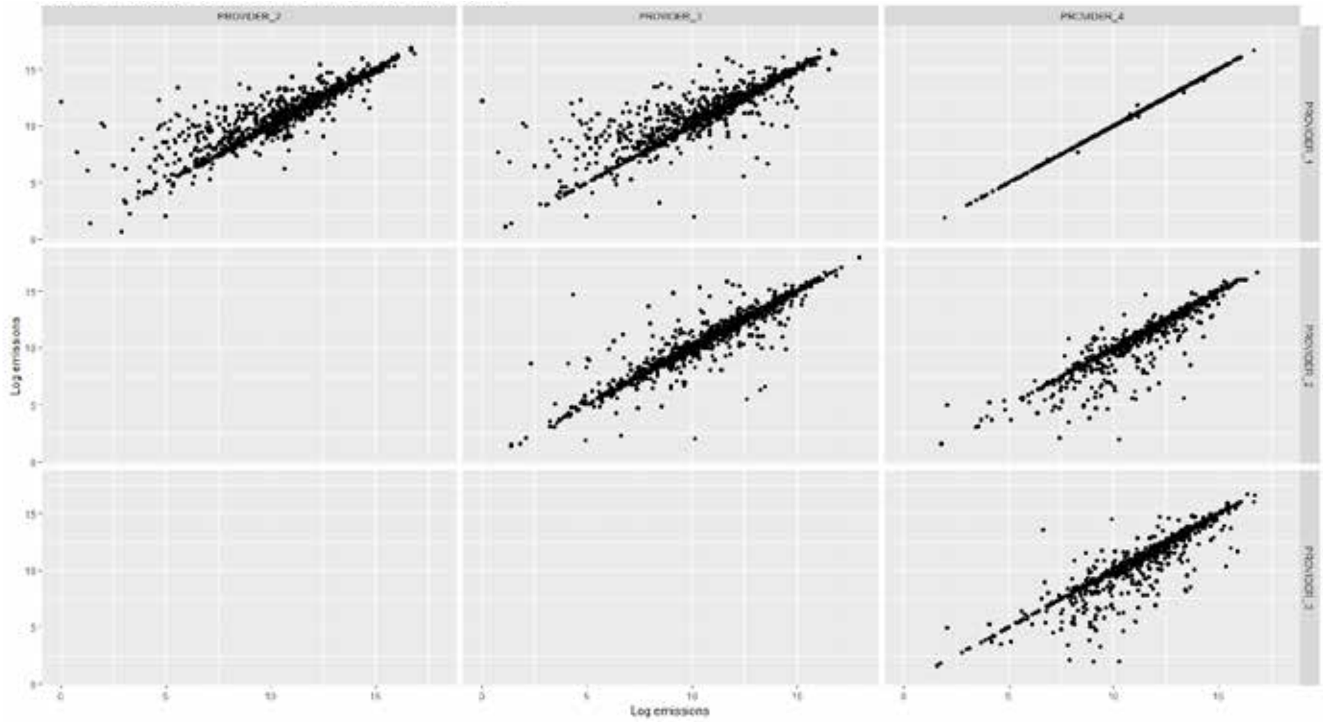
Scope 2 GHG emissions: % of emissions with same number

	Provider 1	Provider 2	Provider 3	Provider 4
Provider 1	100%	39%	45%	32%
Provider 2		100%	47%	31%
Provider 3			100%	58%
Provider 4				100%

Scope 3 GHG emissions: % of emissions with same number

	Provider 1	Provider 2	Provider 3
Provider 1	100%	63%	42%
Provider 2		100%	25%
Provider 3			100%

Scope 2 GHG emissions (reported) – comparison of data points



Source: JOHCML analysis October 2022

There are many reasons why numbers may differ between providers; data has not been updated, different reporting periods referenced, location-based estimates instead of market-based (Scope 2 only), different estimation methodologies and input errors. For example, Microsoft's Scope 2 emissions are currently reported by one data provider as tCO2 164k, whilst another reports them as tCO2 4 million. On inspection, it appears the second provider has used the location-based number, which is a far less accurate method of calculation as it does not reflect whether a company is sourcing its energy from renewables.

The charts below show not only the scale of some of these differences but that differences are also not limited to estimated emissions data (ie for companies that do not report) and can just as easily occur in the provision of reported emissions data. Note that although the charts below only show Scope 2 data, the picture is similar for Scope 3 whilst Scope 1 reported data does show better alignment, albeit still far from perfect (charts available on request).

The scale and frequency of these differences mean that in order to build accurate GHG emissions forecasts, extensive data science and big data cleansing techniques need to be used to augment and align the data.

Net zeroes

Another crucial part of any GHG emissions forecasting model is inputting company-reported reduction targets. However, these data sets are currently very incomplete. In fact, only two data providers have noteworthy data sets capable of providing this information and these collectively only cover c.2,000 listed companies versus the c.4,000 companies that currently report Scope 2 emissions. It is worth noting that only c.800 of the c.4,000 companies are covered by both data providers. This means that using company-disclosed targets is not a scalable solution to ascertaining the projected emissions or alignment of a portfolio.

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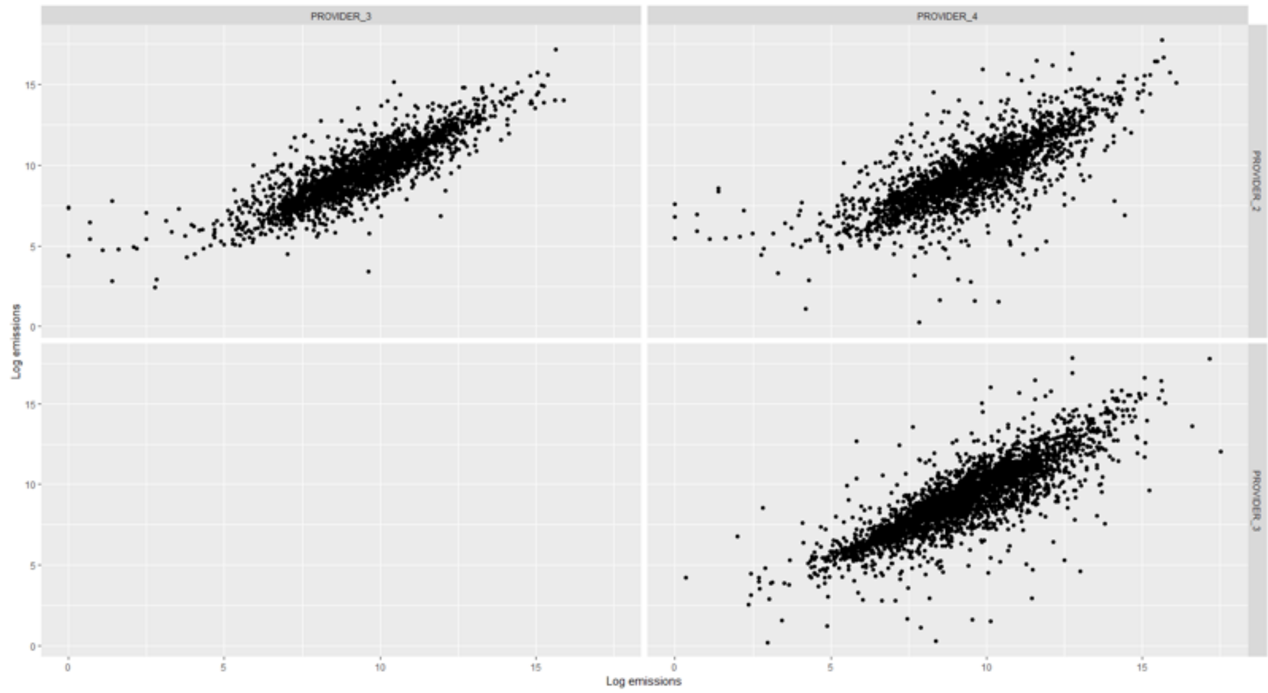
Scope 2 GHG emissions (estimated) – comparison of data points



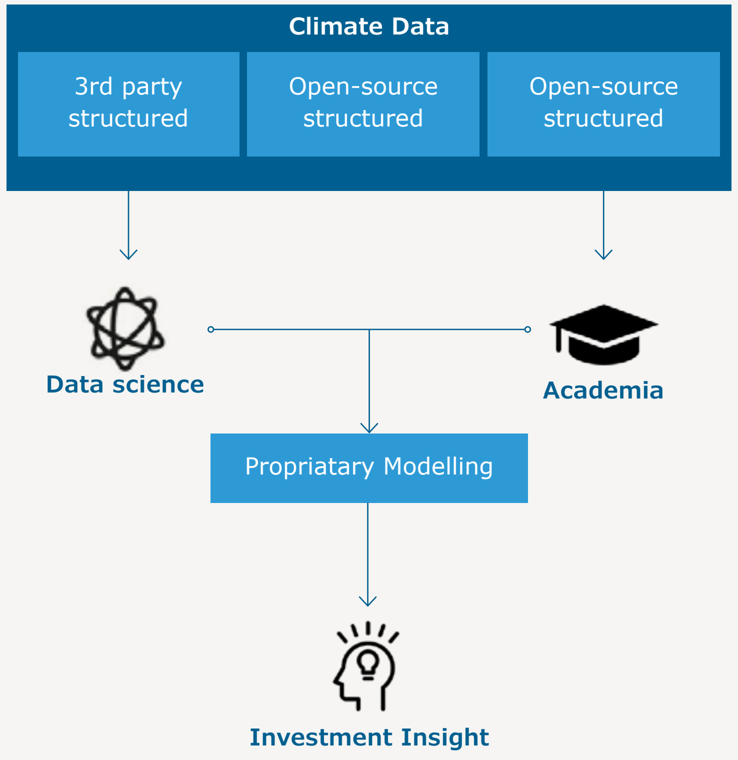
Source: JOHCML analysis October 2022

Delivering insight requires proprietary modelling

JOHCML believes that if our clients are to have the investment insight required to align their portfolios to a net zero target, then third-party data sets cannot be sufficiently relied upon, and proprietary approaches to modelling are needed. Proprietary approaches mean that data integrity can be ensured from the outset and all assumptions can be interrogated by the model's users, thereby providing the transparency required for fund managers and asset allocators to make informed decisions.

To ensure a robust approach to modelling, JOHCML believes an environment needs to be created in which multiple data sources are brought together using data science capabilities, challenged through academic insight.

Delivering insight requires novel approaches to modelling



Horizon: our proprietary emissions model

JOHCML believes that existing third-party emissions forecasting models are insufficient for its investment teams and clients due to issues over transparency and an over-reliance on backward looking approaches. In particular, the issues with these models include:

- The treatment of emissions as only historical data points
- The fact that emissions data can be re-stated and is often not audited
- Carbon reduction targets are often treated as facts, not ambitions
- Forecasting methods are often linear and assume targets will be reached
- No focus on the impact of cumulative emissions over time.

JOHCML's new data science capability has developed a probabilistic climate modelling capability: the "Horizon" model. The Horizon model projects the behaviour of a company's emissions, after their carbon reduction pledges, and scores how likely they are to reach the target that they have set. Very broadly, it creates a range of emissions that a company can reach (taking into account its targets) and then scores a company if it goes above or below that region. As a company publishes more data, the model recalculates against actual data to determine how likely they are to meet its original target.

These projections also factor in externalities such as government regulations, industry initiatives, consumer and investor pressure. Exeter's expertise contributes to the quantification of these externalities and how they affect the emissions trajectory.

Horizon: our propriatery approach to emissions modelling

Yesterday's emissions behaviour → Horizon is a probabilistic model, aimed at generating a forward-looking view of a company's emissions, based on its demonstrated behaviour profile. → Tomorrow's probable emissions

- ✓ Emissions data as a reflection of behaviour
- ✓ Companies as part of a system; affected by externalities
- ✓ Emissions and targets have a probability distribution
- ✓ The journey is a key factor, and will be non-linear

Next steps

These estimates are to form the basis of JOHCML's first Task Force on Climate-related Financial Disclosures (TCFD) report, which will be released this year (a year earlier than required by regulation) and will be available to all fund managers in Q2 to provide them with visibility over the carbon trajectory of their portfolios and individual stocks.

We see this as a critical step in helping our clients with their carbon commitments.

This will not only enhance existing products but will provide the foundations for finding clients new solutions.

What is systems level engagement

Systems level engagement is a necessary evolution in stewardship. Traditional methods of engagement – identifying issues at a company and talking to the business about them – will only get us so far. We must recognise these methods are not fully mitigating risks or realising opportunities. Annual global greenhouse gas emissions have never been higher, inequality has increased, and high-profile examples of poor corporate practice continue. There are limits on what individual companies or actors can do. What is needed is a broader approach in our engagement perspective, to identify all of the useful levers for achieving change in issues that will otherwise bring risks to portfolios. The complexity of the challenges to future returns means a single-issue focus is less likely to work. We need a multidisciplinary approach that thinks about the interconnected nature of the world we exist in. We need engagement at both the portfolio and system level.

The aim of systems level engagement is to bring decision-making and the impacts on the real economy closer together to reduce actual risk holistically. For example, engagement that goes beyond looking at a company's own operations, to the role they can play in public policy discussions to support a more consistent set of rules for all players. As good stewards we want to help encourage the tilting of the playing field towards a better system for everyone.

Collaboration across the value chain – from producers and growers, to suppliers, purchasers, manufacturers, and retailers – is key. Companies have supply chain relationships with each other, but have not typically structured themselves to work together to solve wider problems. We, as asset managers and good stewards, can help with that.

We recognise that just talking to individual sectors is not going to make much of a difference. Instead we should bring together senior leaders from across a value chain, to try and tease out the big areas creating difficulties, and what is needed to act on the long term risks attached to them. As asset owners we can create a forum of interrelated parties to have those conversations, with a common level of awareness of what is needed. Then we can try and identify where each company is inadvertently creating barriers to progress for other participants within the value chain. Financers play a huge role in backing investments in change at every level, and in creating positive incentives to alter the system. Combined with public policy action, the potential increases for a more consolidated voice of business, fostering a much more collaborative approach on highly interconnected issues.

Systems level thinking is not just about changing the system for the better. It is a way of being better informed to assess fully the 360 degree and aggregate risks to a portfolio. With the increased interest in environmental, social and governance-focused investing, we are at the intersection between what investors might call for in terms of the practices that they want to see from companies or any investment that they hold, and real change in the real economy. Diversifying out of risks is a short-term solution that will have limited impact if the whole system breaks. Investors can choose to decarbonise their portfolios and not hold some stocks because they have high emissions attached to them. But those emissions will still happen and are still creating risks. Unless the underlying factors are addressed, the ability to be able to construct a portfolio around them will become increasingly constrained. It is not possible just to divest from these problems. Systems level engagement recognises that a healthy financial or economic system relies on a healthy social and environmental system.

Food and agriculture

Regnan researchers in Australia have examined the complexities of system level engagement in agriculture, offering a framework for engagement in other sectors

The expansion of agriculture and food production to meet the requirements of a growing global population, presents one of the most pressing sustainability challenges over the coming 30 years. Dominant agricultural methods contribute to environmental and social issues that pose risks to return on investments, including through land clearing, chemical pollution, overuse of scarce water resources, and loss of biodiversity and critical ecosystems.

As well as facing increased risks from increasing extreme weather from climate change, agriculture can itself be emissions intensive. If left unchanged, the food system alone will produce enough emissions to exceed the global 1.5 degree warming limit. Depleted soil health reduces yields, while the potential to use chemicals to make up the difference is declining. Food is non-negotiable; scarcity implies geopolitical instability. History is clear, there's nothing like hungry populations to start civil unrest. Reliance on current intensive agricultural models alone, then, will exacerbate ecological loads, present increasing challenges for farmers, and contribute to geopolitical risks.

Based on Regnan's research, structural shifts towards a more regenerative food system are required. How food is grown, the types of food produced, and how the vast quantities of waste generated by agricultural and food production systems are dealt with, must be reconsidered and reimagined. A transition to more regenerative practices creates opportunities to produce more food, but in ways that are socially, ecologically and economically sustainable. Yet the complex nature of this challenge raises significant barriers for individual companies seeking to make these changes alone. Companies often face limitations on what they are able to themselves do unless other actors move. Agricultural companies can be reliant on supermarkets' willingness to change their specifications, for example with respect to the look and size of fresh fruit and vegetables, in order to reduce food waste. Investments by supermarkets and manufacturers in the adoption of recyclable packaging and enhanced product labelling can be difficult to implement without common guidelines and infrastructure. Farmers can be discouraged from investing in soil health where these efforts are not reflected in accreditation and labelling or in the valuation of their property relative to their neighbours. Good stewardship in this context involves understanding the disincentives and barriers to action within the system and working to try and remove them.

The size of the value chain for food and agriculture in combination with the complexity of social and environmental issues requires system-wide thinking. A myriad of different players are connected via their supply chains. But these players have not typically structured themselves to solve issues beyond their own corporate borders or first tier suppliers. Here we recognise that effective stewardship goes far beyond simply speaking with individual companies or sectors as the inherent complexities offer limited opportunities for lasting change. Instead, our Regnan research team in Australia and our London-based Impact Solutions team, brought together senior leaders from across the Australian food system value chain, to identify key areas preventing further action and collaboratively exploring how they might be addressed. For instance, recycling food packaging, often a key ingredient in reducing food waste, requires agreements with manufacturers to create items that are capable of being recycled, the infrastructure to collect the refuse, the capability to be able to turn it into something else as well as the existence of a ready market to buy the end output. We can, and should, engage for change at every step along this chain including the potential to create a more consolidated voice of business to support the required public policy changes.

Investors are fundamental and active players in making structural change happen in agriculture. Every step of the value chain has the financial sector embedded. Inaction, on the other hand, exposes the financial sector to huge risks. Climate-caused water scarcity, for example, massively reduces agricultural yields; for a bank with significant exposure to the agribusiness sector that manifests as more foreclosures and stranded assets. Similar issues await an insurer with significant underwriting in the agricultural sector that will find their back books constrained by increased risk. Asset managers with exposed holdings to elements of these value chains risk lower returns.

From farmers to financiers there is a need to engage across the value chain for agriculture and food production in order to affect change and ensure sustainability. Here a systems level approach to engagement has meant bringing all the parties together to unlock opportunities and overcome obstacles. Only by understanding and addressing these interlinkages are we going to bring about the required change.

Decarbonisation

Change is required

The need for climate action is in sharp focus for investment teams at JOHCML. The World Economic Forum ranks climate action failure as the most severe risk on a global scale over the next ten years.* While world leaders collectively recognised the urgency of this challenge for the first time at the COP26 climate summit, the plans submitted failed to provide a decisive pathway towards keeping the global temperature increase below 1.5°C. World leaders have been asked to revisit their plans and strengthen their 2030 targets by the end of 2022.**

If climate action is not to fail then change is required, and that change must come from across the global system, not just from regulation. As Paul Hawken writes in his recent book, “The climate crisis is not a science problem. It is a human problem.”*** Investors must encourage their companies to change, and companies must understand that they need to change if they are to survive. As Jack Welch once said, “Change, before you have to.”

At JOHCML, the independence of our fund managers is at the core of our culture. It is through freedom of thought and the power to act on original analysis, that talented investors can best make a difference for our clients on systemic issues such as climate change. While climate change and the need to transition to a net-zero carbon economy run through decisions on all our funds, how evidence is framed, analysed and interpreted differs from one fund to another, in some cases radically. Here we look at how three of our funds approach the issue, each working from a very different viewpoint.

* World Economic Forum’s Global Risks Report 2021

** https://www.wri.org/insights/cop26-keyoutcomes-un-climate-talks-glasgow

*** Regeneration – Ending the climate crisis in one generation (Paul Hawken, 2021)

JOHCM UK Dynamic Fund

The UK Dynamic team focus on “investing in change” with a track record established in understanding the likelihood of successful management and strategic change: the identification of sustainable change. Decarbonisation requires nearly all companies to change, so this sits naturally as a central theme affecting the portfolio. The team sees the ability of a company to manage sustainable change as being determined by its mindset. Understanding a company’s sustainability mindset requires analysis of the complex interplay of quantitative and qualitative information drawn from looking at an organisation’s purpose, its people, its processes, and assessing how these enable it to fit into its wider eco-system. The team believes it is companies that look to fit their wider eco-systems that are best placed to adapt and evolve into sustainable leaders of the future. Sustainable leading companies are those evolving the right mindsets for tomorrow, rather than just those with the right sustainable credentials today. The team has developed a proprietary Mind Set Evaluation (MET) framework, which seeks to capture much of this analysis. Climate-related risk assessments are integrated throughout the MET framework. Analysis begins with an assessment of an investee company’s risk exposure, by assessing current GHG emissions in both absolute and relative terms. To understand a particular company’s level of risk exposure, the team makes a relative assessment with reference to the investible universe (FTSE All-Share). Companies that fall into the highest cohort of GHG emitters within the investible universe are considered to be at high risk.

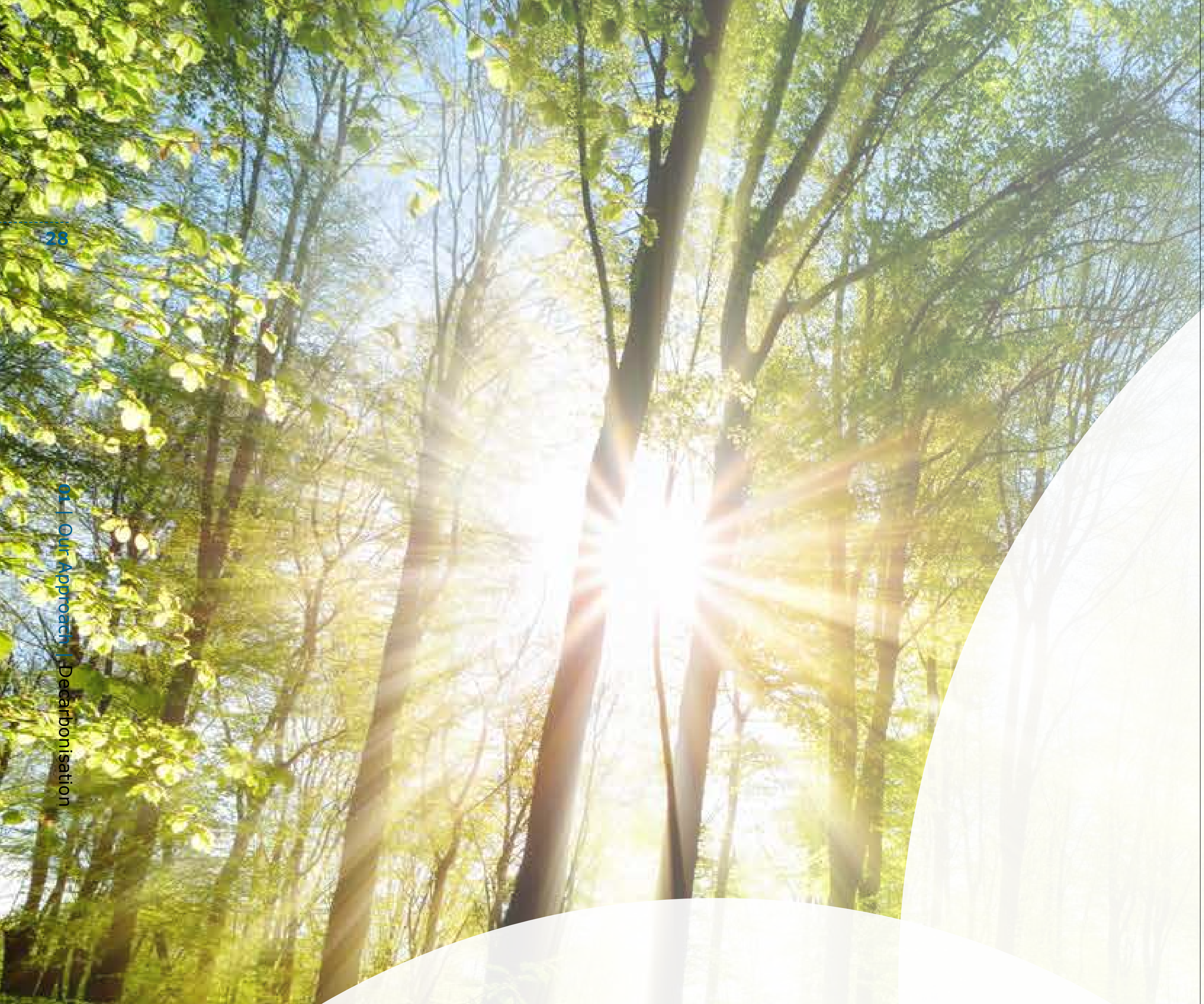
To understand how a company is managing this risk, the team seeks to understand:

1. What commitments and progress a company has made in reducing its GHG emissions across all scopes (for example, the company is committed to setting or has already set a Science-Based Target, has implemented and is disclosing progress to achieving short, medium and long-term GHG reduction targets, and the company is on track to achieving its GHG reduction goals).

2. Whether the company makes disclosures in line with recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), conducts analysis in line with a 2°C or 1.5°C degree scenario to quantify impacts, and submits regular data to CDP, with a view to improving scores over time.

The team performs deep qualitative assessments of company TCFD reports and transition plans to gain insight into where climate change risks and opportunities can manifest, and what strategies are in place to manage these risks or take advantage of the opportunities. The more advanced companies are those that integrate the learnings from their climate scenario analysis directly into their climate strategy and financial forecasts.

The team also factors governance mechanisms into the assessment,with the best-performing companies having board oversight of climate risk, linkage of climate targets to executive remuneration



schemes, and a strong sustainability governance framework in place. Strong accountability mechanisms bring validation to a company's climate risk management strategy. The approach has led to a portfolio in which over 70% of the capital is either signed up to the Science-Based Targets initiative (SBTi) or actively working towards signing up. It has also resulted in a schedule of climate action related engagements, focused on the relatively low number of companies in the portfolio where the team feels progress could be meaningfully accelerated (see Essentra case study for reference).

JOHCM Global Opportunities Fund

The Global Opportunities team views climate change as one of several key areas where shareholders have a responsibility to encourage companies to behave in a way that results in positive outcomes, including the reduction of adverse impacts. Any way in which a company can be perceived to be responsible for a negative impact, by acting against the interests of non-equity stakeholders, presents a risk to shareholder value. Companies which are "part of the problem", not "part of the solution" to climate change, will find themselves the wrong side of regulators, legislators and ultimately their own customers. The team's approach to sustainability emphasises the need to focus on areas of harmfulness and engage with companies about their direction of travel and their commitment to improve. It incorporates these factors into a proprietary Sustainability Score, which takes a multidimensional, forward-looking and company-specific view, rather than relying on backward-looking metrics or third-party ratings, or applying blanket sector-wide exclusions. This Sustainability Score underpins its engagement activities and forms the basis for certain stock-specific exclusions. It actively seeks to invest in agents for positive change, which can sometimes involve investment in what are regarded as controversial sectors.

The team's forward-looking approach, and awareness of the importance of investing in agents for positive change among larger, often incumbent, companies, means that it will sometimes invest in what are regarded as controversial sectors. With regard to climate change, for example, it sees the regulated utilities sector as both critical drivers and also beneficiaries of the need to reduce global carbon emissions from power generation. It is willing to invest in utilities with worse-than-average carbon footprints, for example, but only if management has committed to a clear roadmap to reducing this, with quantifiable targets and milestones, ideally incorporated into management remuneration schemes to ensure accountability.

Its engagement activity typically focuses first on disclosure and then on emission reduction targets. An example of a recent engagement was with the Texas utility, Atmos. The team has had regular communication with senior management, both formal and informal. It has specifically asked that the company adopt holistic carbon targets, rather than just for methane, and that management remuneration be linked to achieving those targets.

Regnan Sustainable Water and Waste Fund

The Regnan Sustainable Water and Waste Fund invests in water and waste-related solutions, and the team understands that sustainably decarbonising the economy is important, and that adaptive solutions to physical manifestations of climate change are necessary for the smooth functioning of economies. As in other sectors, decarbonisation offers opportunity as well as risk. Disposal of waste and treatment of wastewater are inherently relatively high carbon-intensive processes. For example, companies can reduce their dependence on fossil fuels by increasing fleetefficiency through alternative fuels and electrification, and route optimisation. In addition, emissions such as methane generated in the waste management process can be captured to produce energy for transport and electricity.

The team factors governance into the assessment of climate risk.

Company-level consideration of climate risks within the Regnan Sustainable Value Assessment (SVA) framework takes an exposure (what is the exposure of a given company to an issue) and response (what is the company doing about it) approach. The SVA on climate change includes both transition and physical impacts of climate change. Few of the factors taken into consideration include: an understanding of the emissions profile, exposure to carbon regulatory schemes, strategic recognition of key aspects of transition risks and opportunity, mitigation action the company is undertaking in relation to transition exposures, and monitoring of the evolution of transition exposures over time.

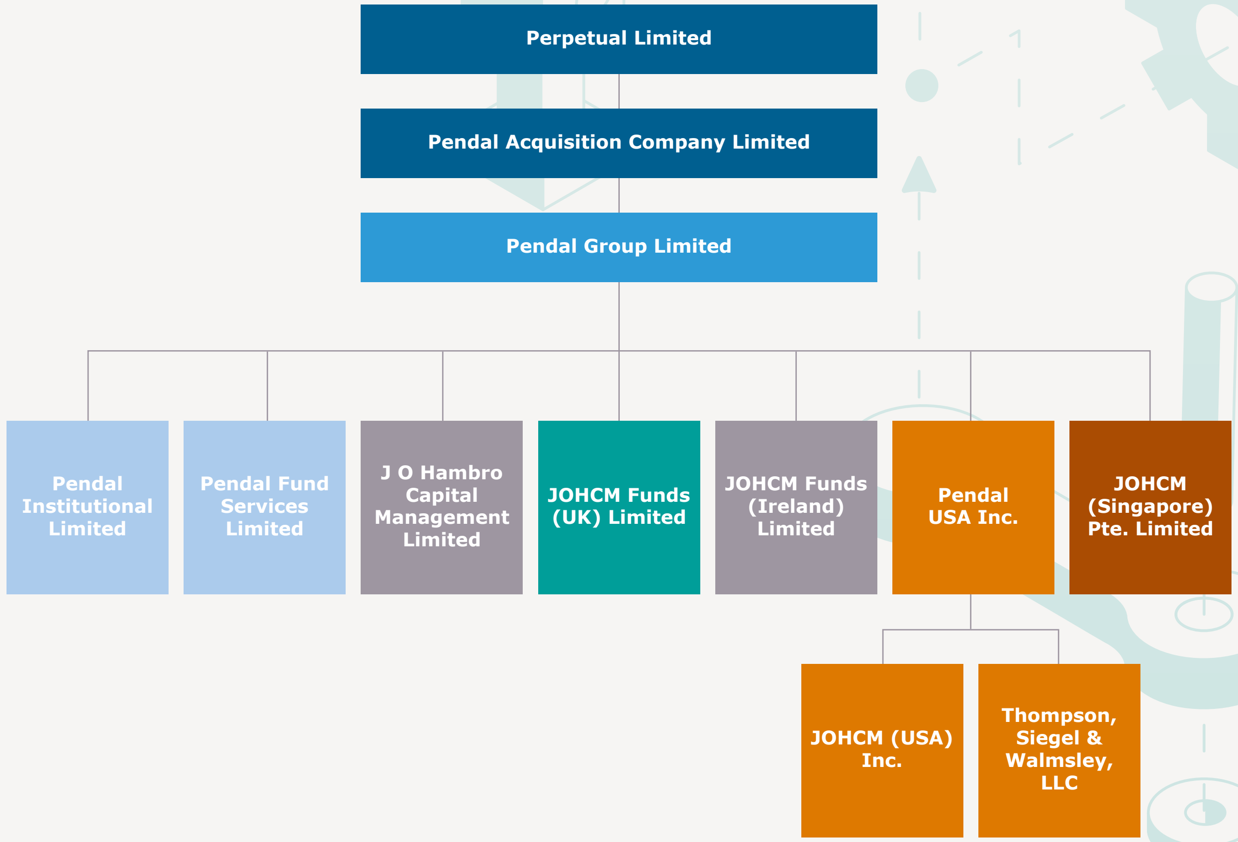
The team takes the view that the transition to net-zero is a gradual process and that end-goals will not be achieved overnight. As a new fund, launched only in September 2021, there is no history of engagement at this point. The planned approach is to focus on change and to track progress. The expectation is to prioritise companies highly exposed to transition risks, especially in areas where related risks are seen as inadequately managed.

02 Our organisation

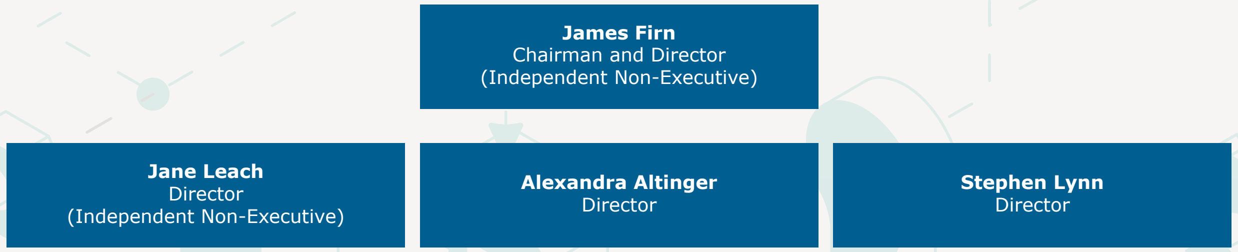
Corporate governance

The JOHCML business has operated as an investment boutique within the Pendal Group since 2011. In January 2023, Pendal Group Limited was acquired by Perpetual Limited. Perpetual is listed on the Australian Securities Exchange (ASX code: PPT) and is a diversified financial services company providing asset management, private wealth and trustee services. There are no changes to key investment teams or capabilities and JOHCML maintains its investment autonomy and its unique value proposition.

Organisation



JOHCM Limited board of directors



Our day-to-day operations are delegated to the senior management team. This team generally meets on a monthly basis as the Executive Committee, depicted opposite. The Chief Executive reports on behalf of the Executive Committee to the JOHCML Board.

02 | Our organisation | Corporate governance

Risk governance

Corporate governance

The board of JOHCML ("JOHCML Board") has overall responsibility for the management of risk at JOHCML. It formally owns the Risk Management Framework ("RMF"), risk policies and is responsible for setting the risk appetite and associated limits. This provides the context for senior management to manage risk and report regularly to the JOHCML Board on risk positions against these defined parameters. The JOHCML Board delegates oversight of risk management activities to the JOHCML Risk Committee, which meets quarterly and is chaired by an independent non-executive director. JOHCML has a hierarchically and functionally separate dedicated Risk Team led by the Head of Risk, responsible for the implementation of the RMF. The Head of Risk reports regularly to the risk focused meeting of the Executive Committee and JOHCML Risk Committee. JOHCML has a Risk Appetite Statement (RAS) and RMF suitable for its business, risks and relevant regulatory requirements.

The Head of Risk reports directly to the CEO – UK, Europe & Asia as well as the Group Chief Risk Officer (CRO). The Head of Risk is supported by an Enterprise Risk Manager and a team of Risk Analysts.

The JOHCML Risk Appetite Statement (RAS) is approved by the JOHCML Board and contains qualitative statements and quantitative limits, including predictive Key Risk Indicators (KRIs), which are measured and included in a regular risk report. Quarterly risk reports are presented to the JOHCML Executive Committee and the JOHCML Risk Committee.

Three lines of defence

JOHCML operates a continuous risk management life-cycle, whereby all material risks within the firm are identified, assessed, managed, monitored and reported. JOHCML seeks proactively to identify all material risks that may affect the business, and to ensure that these are managed appropriately in line with the Three Lines of Defence model:

1) First line of defence

(1LoD) is the identification, implementation, evaluation and ownership of risks and controls by front-line staff.

- Top-down risk identification and assessment is performed by senior management at JOHCML.
- Bottom-up business area risk registers reinforce ownership and accountability of risks.

2) Second line of defence

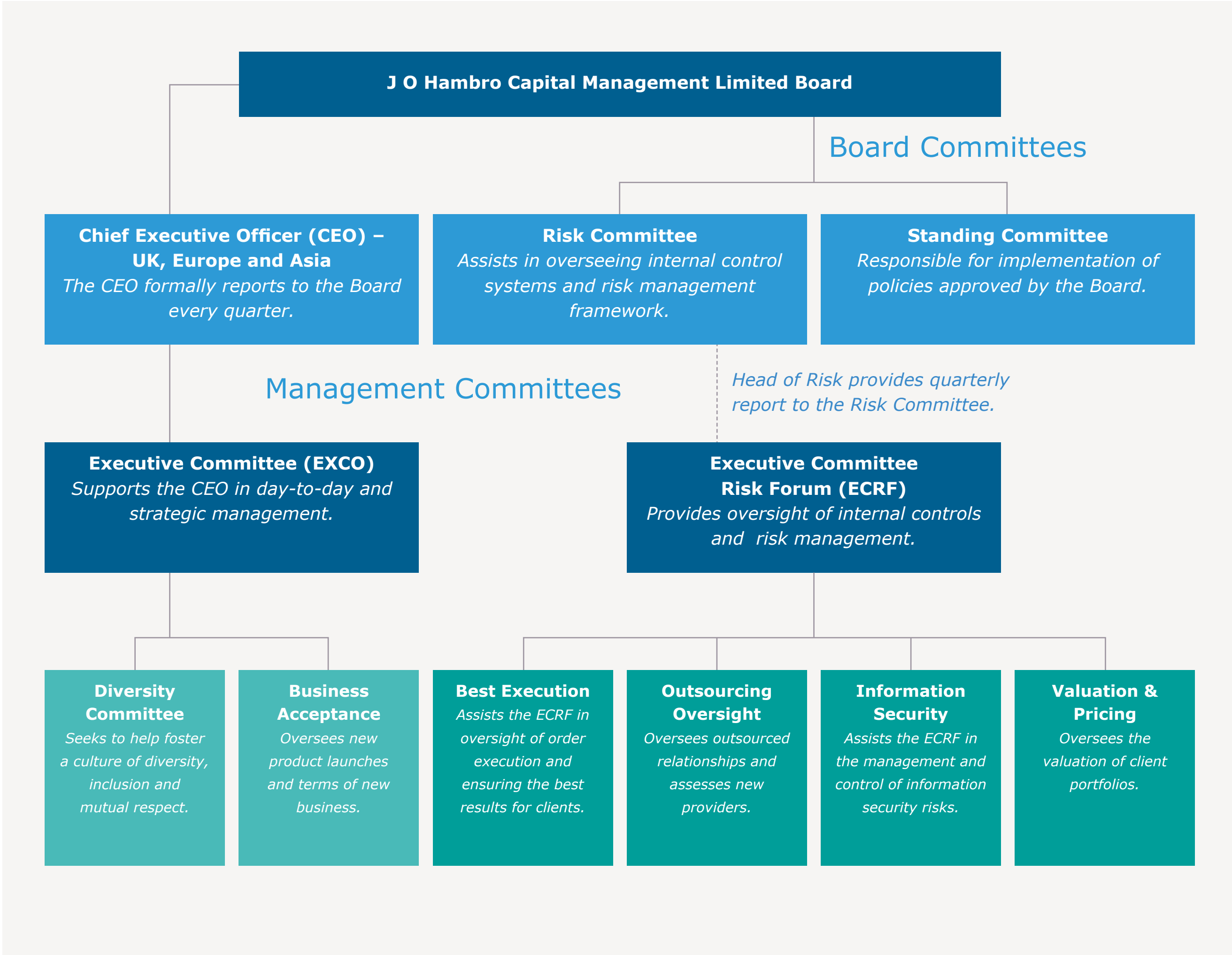
(2LoD) is the independent oversight of the risk management activities performed by 1LoD.

- The Risk Team is responsible for the day-to-day oversight and implementation of the RMF which consists of the identification, assessment, management, monitoring and reporting of risks across JOHCML.
- Risk & Control Self-Assessments (RCSAs) completed by the 1LoD provides ongoing risk identification and assessment, including assessment of the design and operating effectiveness of associated controls.

3) Third line of defence

(3LoD) is provided by Internal Audit, which independently assesses and makes recommendations to improve the effectiveness of 1LoD and 2LoD.

- An independent and objective assurance service was provided by KPMG for the JOHCML Board and senior management. Internal audit services are now provided by Perpetual's Internal Audit function (since Jan 2023).



Risk monitoring

Risk and control monitoring is the ongoing responsibility of individual business managers in the 1LoD, with oversight and support provided by the Risk Team. The Risk Team reports at least quarterly to the risk focused meeting of the Executive Committee and JOHCML Risk Committee via its risk report. This report includes analysis of the current risk position against the risk appetite set out for all risks as defined in the RAS, enabling effective risk-based decision making through aggregated risk reporting.

Senior members of the Risk Team also engage in the continuous scanning of the exogenous risk environment, with any material issues identified being reported. The risk taxonomy for JOHCML lists the material risks identified as part of the top-down risk identification process. As at 31 December 22, this included:

A. Strategic & business risks: Strategy alignment and execution; business model; people (investment team concentration risk); transformation (change management); group risk; responsible investing.

B. Product & performance risks: Product and investment performance risk (portfolio performance, investment risk, liquidity, credit & counterparty and product governance); distribution.

C. Operational risks: Behaviour and conduct (including internal fraud); people; regulation and legislation; supplier management (including outsourcing); business resilience, cybersecurity, data management, systems and Processes.

D. Financial risks: Firm liquidity, credit & counterparty, capital management and market risk.

Qualitative statements and quantitative limits, including Key Risk Indicators (KRIs) with defined thresholds, are detailed within the JOHCML RAS.

Management of investment risk and stewardship

Market-wide risks are captured as part of the Risk Team's top-down risk identification process; however, more often than not, insight into identifying and responding to these emerging risks is best provided by the investment teams. With established track records, long investment horizons and strategies spanning the world, the investment teams' knowledge of news flow provides the most timely and informed approach to managing most market risks. Market-wide risks are usually considered under investment risks, including the macroeconomic environment and systemic risks. JOHCML's Head of Investments reviews the investment teams assessments of market risks on a quarterly basis (see the section "Management of Investment Risk and Stewardship"). The Head of Investment further chairs a quarterly Portfolio Management Forum to discuss both market-wide and systemic risk and risks that may be specific to asset classes and/or strategies.

Integrating environmental and social factors into investment processes is essential in ensuring that systemic risks are identified and included in investment risk. The plurality of investment approaches across JOHCML brings diversity of thought on how best to mitigate these complex risks for our clients. Many of our investment teams have opted into the European principal adverse impact regime (PAIs) under the SFDR. At a firm level, PAIs have been prioritised to determine whether the mitigating actions taken by our investment teams are sufficient in relation to the identified sustainability indicators.

JOHCML uses the World Economic Forum ("WEF") annual Global Risks Report ("GRR") as the basis for its prioritisation of sustainability indicators (these can be found at www.weforum.org/reports/). Since 2006, the GRR has been underpinned by the WEF's Global Risks Perception Survey ("GRPS"), which draws insights from the responses of nearly 1,000 global experts and leaders, representing one of the most comprehensive, independent and global assessments of global risks available.

The GRR details a Global Risk Severity top ten; to create this directory, respondents are asked to choose nine risks from a list of 37 global risks and rank them from 1 to 9 according to their perceived severity of impact. The 'most severe' is defined as having the potential to yield the most damage on a global scale within the next ten years. Respondents are also asked to value the impact of risks considering multiple criteria, including:

- human suffering;
- societal disruption
- economic shock
- environmental degradation
- political instability

JOHCML then identifies if the global risks from the GRR's Global Risk Severity top ten have any relevant sustainability indicators related to them. The sustainability indicators are then mapped to these global risk categories and prioritised according to the GRR. In 2023, JOHCML will be reporting on TCFD for 2022 at a firm and product level and integrating TCFD recommendations into the firm's oversight structures. This will bring a deeper understanding of systemic risks posed by climate change into the firm's governance model, thereby influencing not just investment insight but JOHCML's strategy. As part of our multi-year 'Sustainable Systems' partnership with the University of Exeter, the investment teams and the JOHCML executive committee attended a half-day presentation from two leading academics on the science of climate change and sustainability.

Market-wide and systemic investment risk

The heads of JOHCML's Investment, Risk and Performance teams provide comprehensive oversight of the investment teams and their strategies. Each team attends a formal quarterly review which incorporates an analysis of the performance, decision-making, risk profile, fund liquidity, compliance, and a sustainability risk review.

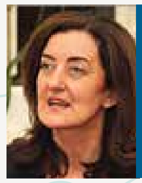
These quarterly reviews provide comprehensive oversight of investment teams and their corresponding funds, including monitoring the attainment of any environmental and/or social characteristics they may promote or sustainable investment objectives. Any matters arising from these meetings are escalated to the Investment Oversight Committee, which monitors any exceptions.

JOHCML's proprietary ESG data platform ("Affinity", please see page 17 Enhancing our approach) supports the firm's monitoring process as it brings together data from several third party and open-source providers to create a range of sustainability indicators and metrics. These metrics are available to the firm's monitoring and control functions on a real-time basis at an individual company level and at the aggregated portfolio level. Affinity also provides a platform for individual investment managers to track and record all voting and engagement activity, which can also be monitored.

Executive committee

JOHCML Executive Committee

Alexandra Altinger
Chief Executive



Christina Grove
Head of Legal and Compliance

Markus Lewandowski
Chief Operating Officer

Andrew Parry
Head of Investments

Stephen Lynn
Chief Financial Officer

Steve Alexander
Head of Risk

Human resources

Training and development

A key component to a best-in-class stewardship approach is ensuring all staff are trained to understand and handle the constantly emerging risks and issues that come with managing our clients' assets. We continue to support our staff in further learning and development, through a central budget dedicated to staff training and professional qualifications.

Upskilling all our staff in their understanding of environmental, social and governance risks has remained a key focus throughout the year. Training stretches beyond just the investment teams, as we believe a best-in-class stewardship approach requires a sustainable mindset to be instilled throughout the organisation, including those staff running the day-to-day operations of the business. Following a successful uptake last year, in 2022, two people from our RFP and Secretarial Support teams participated in the CFA Society UK's Certificate in ESG Investing and two people from our US Product and Fund Managements teams participated in the CFA UK Certificate in Climate and Investing. We will continue to support our people in studying these important areas of investing on an ongoing and voluntary basis.

Monitoring and improving employee wellbeing is another key component of a best-in-class stewardship approach. Building on the suite of education and training opportunities focused on increasing understanding of mental health and wellbeing last year, in 2022 we partnered with medical and topic experts to host focused sessions on Managing Grief and Creating an Inclusive Working Environment.

Diversity, equity and inclusion

The success of our business relies on valuing every employee for their distinctive skills, experience and perspective. We believe that divergent views promote creative thinking and innovation, which in turn strengthen decision-making, risk management and business performance.

Supported by the work of the JOHCML Diversity, Equity and Inclusion Committee, we continue to focus efforts on fostering a truly diverse and inclusive organisation, in which fairness and transparency are valued and promoted. We recognise that a culture of diversity and inclusion requires clearly defined KPIs, embedded from the top of the organisation, that are regularly reviewed and refined, plus a programme of targeted activity. Key partnerships and initiatives we participate in include:

- DE&I diagnostics. JOHCML has an established Diversity, Equity and Inclusion Committee which drives the ongoing efforts towards a diverse and inclusive workplace. To build on these efforts, in 2022 the firm engaged with external consultants who specialise in DE&I to assist in analytical support and help the firm perform diagnostics to inform it's DE&I priorities and develop a clear and measurable action plan as the firm considers it's DE&I strategy over the long-term.

- Future Female Fund Managers Programme. We have committed to this new initiative, which commenced in January 2023. It is a targeted programme aimed at developing female fund management talent.

- Moving Ahead Mentoring. We are participants in the MissionINCLUDE mentoring scheme, a cross-company initiative focused on improving diversity across organisations, by offering mentorship opportunities and championing diverse talent within organisations. Building on this, an internal mentoring programme is being established with plans for a pilot programme to go live Q1 of 2023.

- Diversity Project. We are a member firm of the Diversity Project, which is a cross-company initiative championing a more inclusive culture within the savings and investment industry. Our CEO, Alexandra Altinger, sits on the CEO Advisory Board.

- Investment20/20. JOHCML has been a supporter of this initiative for a number of years. Investment20/20 is a sector-led talent service for the investment management industry, providing a platform for our industry to reach and develop capable young people from more diverse backgrounds.

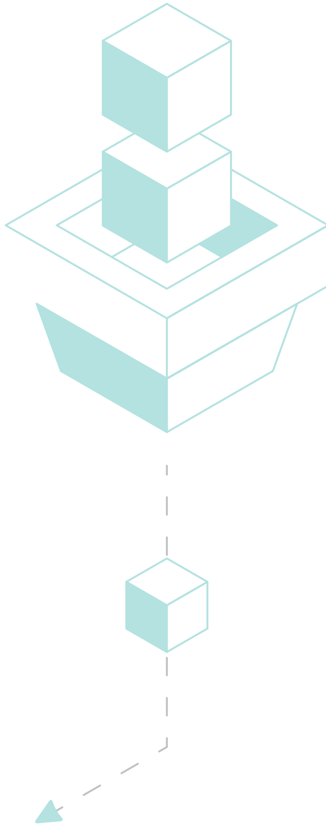
- Remote Working Policy. In recognition of and to support the work-life balance of our people, JOHCML has implemented a Remote Working Policy which is practiced across all levels of the Company.

- Diversity data collection. As part of the Company's ongoing commitment to diversity, equity and inclusion, we have actively focused efforts on the collection and maintenance of diversity data across the organisation. Through targeted campaigns, our staff are encouraged to disclose diversity data and significant progress has been made in the gathering of such data.

Remuneration practices

The objective of our remuneration policy is to establish a remuneration framework necessary to support our investment-led strategic approach, to attract, retain and motivate the best people over the long term, and to align all employees with the interests of clients and shareholders. Critical to our success has been the remuneration structures we have in place for our investment teams. These remuneration arrangements are directly linked to the investment performance of the funds managed by the investment teams. Therefore, an investment team's remuneration is aligned with asset owners' long-term interests and the long-term success of the firm. This promotes a sound and effective risk management culture, to protect the value of the investment portfolio.

Conflict of interest



We operate within a policy framework that enshrines the core fiduciary values of honesty, fairness and professionalism. These underpin our relationship with our clients, and reflect the trust that our clients place in us in our role as investment adviser and manager. These values are in turn articulated in the various regulatory regimes to which we are subject in doing business around the world, and the policy framework is therefore also designed to meet those regulatory standards on an ongoing basis. The Conflicts of Interest Policy is the overarching component of the framework, and sets out the guiding principles of JOHCML's approach:

- Identification of potential and actual conflicts of interest.
- Recording conflicts in the JOHCML Conflicts Register.
- Implementing policies and procedures to prevent or manage conflicts that are identified.
- Monitoring the effectiveness of those policies and procedures, including the Conflicts of Interest Policy itself.
- Informing clients about our approach to conflicts management, including disclosing specific conflicts where required (noting that disclosure may be used only as a last resort, where our arrangements to prevent or manage conflict are insufficient to ensure, with reasonable confidence, that risks of damage to client interests will be prevented).
- Reporting to senior management in relation to conflicts of interest, and maintaining appropriate oversight and governance arrangements on this topic.

We would expect that with the normal application of our Conflicts of Interest Policy and controls in place, the material conflicts that could arise will be infrequent. An example of where conflicts could arise is where the firm is invested for our clients in companies that are on both sides of the same corporate transaction, e.g., a takeover or merger. Our Conflicts Register sets out the measures in place to manage this risk, notably, the firm's market conduct procedures. It is recognised that while this risk cannot be entirely eliminated, given the relative infrequency with which these types of transaction are entered into, and the size of the issuers involved, our positions are unlikely to be the sole influence on the outcome of any transaction. We publish our Conflicts of Interest disclosure on our website.

Service providers

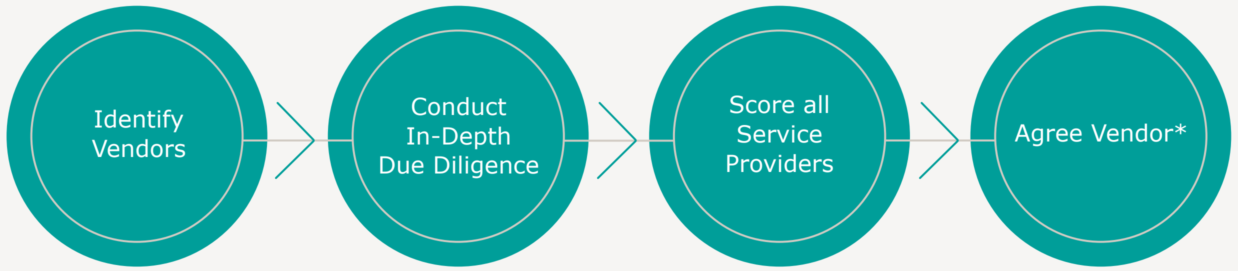
Onboarding

All our service providers are subject to JOHCML's Vendor Management Framework. We seek to ensure that any third party that supports our day-to-day activities is held to the same high standards against which we are measured. The selection process is broken down into four key stages, as shown in **Figure 1**. In order to obtain the relevant information from service providers to conduct a risk assessment, third parties are asked to complete a Due Diligence Questionnaire (DDQ). The DDQ is designed to allow us to perform an assessment and ensure that a set of minimum criteria is met to support:

- Our regulatory obligations (for example, this will include Australia's Modern Slavery Act, the European Union's and United Kingdom's GDPR regulations, and the FCA's rules on outsourcing).
- Our understanding of the third party's operational model and legal structure.
- Our understanding of a service provider's associated suppliers that it itself relies upon.
- Our assessment of any other relevant services or solutions the service provider may be required to provide, that are linked to the core service or solution proposition.

When onboarding technology and data to support our sustainability strategy: each provider is asked to provide a proof of concept that we can test and verify internally. Given the fast-moving pace of technology, data and solutions in stewardship, we believe it is critical that we also operate in an environment that allows us to prototype new technology, while also managing a rigorous and effective due diligence process.

Figure 1: JOHCML's onboarding framework



* Finalise commercial negotiations.

Over 2022, the Sustainable Investments team designed, built and launched the Affinity platform (please see page 17 Enhancing our approach)

The ongoing relationship with service providers

We aim to implement a collaborative partnership with our third-party service providers that is supported by a robust oversight process. This process starts with the establishment of metrics and targets, with appropriate assessments then being made to ensure that our goals are aligned with service providers.

The assessment can include annual visits and quarterly calls or meetings to ensure that standards are being met and maintained. The frequency and type of assessment will depend on the type of service provider and its importance and materiality to our operations. When reviewing two prospective vendors within 2022 our DDQ included questions on:

- Modern slavery, bribery and corruption and the processes that govern how these risks are managed
- Approach to ESG integration and whether this includes an assessment of modern slavery (or human rights) risks in the companies or assets in which they invest.

With regard to our ESG data providers, we are currently conducting a rolling due diligence to assess whether our data packages are meeting the ongoing regulatory requirements. We have also entered into rolling one-year agreements instead of the traditional multi-year contracts. This approach will ensure that we are providing our investment teams with cutting-edge data solutions wherever possible.

Further improvements identified for next year

In addition to the technology and data enhancements being implemented in 2023, we will also be reviewing the DDQ process and expanding it to include questions that directly address environmental and social issues, responses to which will influence our assessment. We are constantly reviewing our DDQ process and expanding it to include the most relevant questions on environmental and social issues.

03
What we do

Active ownership

What is active ownership?

Active ownership refers to the use of the rights and position gained from the ownership of securities to influence the activities or behaviour of investee companies or issuers. This can occur through corporate engagement and proxy voting, or other engagement and advocacy activities undertaken more broadly, such as with policymakers. As an active and responsible investment manager, we believe that such practices are critical to support the investment goals of our clients.

Our engagement approach

Consistent with our multi-boutique structure, we do not subscribe to a "house" approach to investee company engagement. We believe the best framework is for each investment team to develop and undertake its own engagement, tailored to its strategy and jurisdiction. However, our teams collaborate internally where there are common shareholdings.

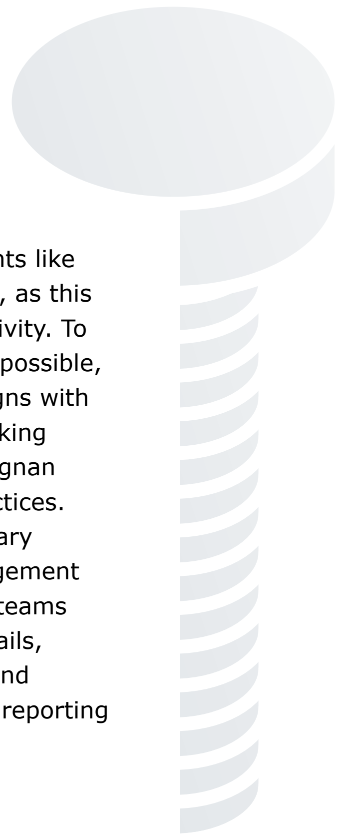
When engaging directly with investee companies, we focus on those where we have identified areas of concern, or where our shareholding affords us greater influence. As responsible stewards of our clients' investments, our engagements seek to improve the environmental, social and governance risk management of these companies and wider sustainability practices, where appropriate.

We primarily raise these issues in meetings with board directors and senior company leaders to constructively build the case for change. Rather than seek to "name and shame" companies, we prefer to support them behind closed doors, to manage risk better and realise opportunities.

In practice, while our investment teams may discuss similar issues with a range of companies, their approach is guided by the nature of the risks, the amount of progress already demonstrated, and an assessment of what a suitable response might look like, recognising that this may vary between companies, even within the same sector. We seek to avoid being prescriptive in seeking change.

Instead, we convey our expectations of areas that need to be addressed, and allow the company at hand to address these in a manner best suited to its unique operating context. The typically long-term nature of our teams' investments means engagement with their investee companies is an ongoing process over a number of years, with milestones along the way.

The investment teams often draw upon the knowledge and expertise of the Regnan Insight and Advisory Centre (Regnan Insight) of Pendal Institutional Limited, in Australia, for advisory oversight on best engagement practices. Regnan Insight has over 20 years of experience in providing engagement and advisory services on environmental, social and governance issues.



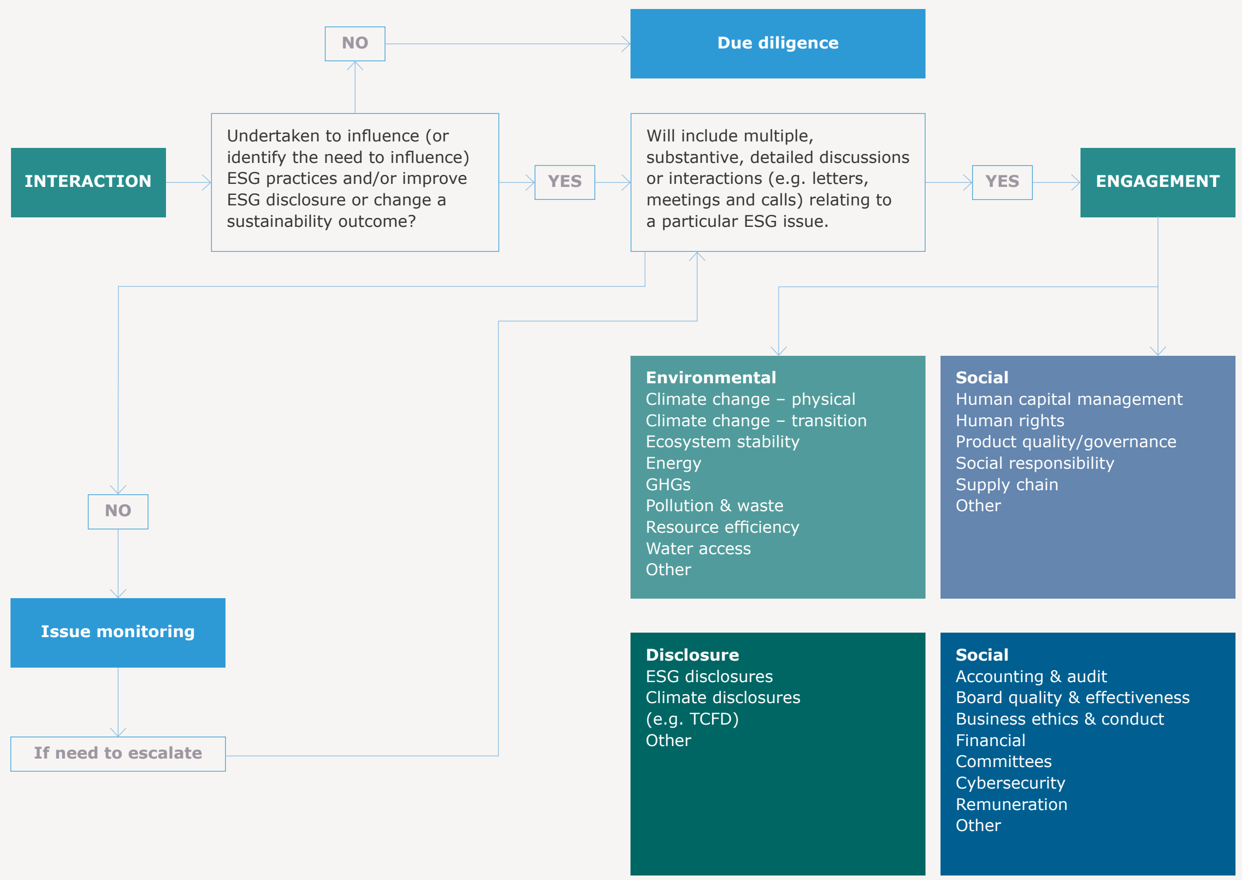
Quality, not quantity

As responsible investors, we take the recording and reporting of our engagements seriously.

First and foremost, engagement is not a numbers game. Engagements should not be judged on their quantity but on their quality; what was the relevance of the issue and what efforts were expended to garner the positions of influence required to effect a change? Even the outcomes of engagements should not be used to judge their merit, as often the most important issues are the most contentious, and therefore carry an inherently higher failure rate. This is why escalation will always be an important further lever for responsible investors.

Despite this, we understand clients like to see our engagement numbers, as this can help to paint a picture of activity. To ensure as authentic a picture as possible, our definition of engagement aligns with that outlined by the UN PRI, working closely with our colleagues at Regnan Insight for guidance on best practices. In addition, Affinity, our proprietary ESG data platform, has an engagement application enabling investment teams to capture interactions (e.g., emails, meetings and calls), objectives and outcomes enabling standardised reporting to clients.

Our recording of engagements



Our client base

Client base figures

AUM by client type (GBP)	Dec 2022
Insurance	82
Multi-manager	773
Pension fund	2,776
Pooled vehicle	13,779
Sovereign Wealth Fund	247
Sub adviser	5,312
Total	**22,968**

AUM by strategy type (GBP)	Dec 2022
Asia	576
Emerging Markets	2,702
Europe	748
Global	14,846
UK	4,097
Total	**22,968**

AUM by Asset Class (GBP)	Dec 2022
Equity	22,814
Multi Asset	149
Fixed Income	5
Grand Total	**22,968**

AUM by investment vehicle (GBP)	Dec 2022
Mutual Fund	5,659
OEIC	6,850
Seg	9,189
DST	1,181
CIT	88
Total	**22,968**

AUM by client type (GBP)	Dec 2022
Family Office	
Insurance	82
Multi-manager	773
Pension fund	2,776
Pooled vehicle	13,779
Sovereign Wealth Fund	247
Sub adviser	5,312
Total	**22,968**

Our engagements

Client engagement

Stewardship continues to grow in importance for our clients, and we recognise that our communications with them play a critical role in delivering this effectively. JOHCML is recognised for its long-term investment approach, so our clients understand the importance we place on building lasting relationships. We continuously engage with our clients to gather thoughts and feedback, so as to ensure reporting activities are delivered in accordance with their expectations, and assets are managed in line with their preferences.

We do not market our funds to retail investors, but through wholesale distribution platforms or financial institutions. Offering direct contact with our investment teams is an important part of our client experience, and forms the basis of ensuring client preferences are correctly reflected in our stewardship approach. Clients have access to each investment team via ad hoc email requests, quarterly update meetings and regular webinars. Client feedback is always shared with the appropriate investment teams and, where relevant, with our Sustainable Investments Team, so our approach to stewardship continues to evolve to meet clients' needs. Client ESG and sustainability questions embedded within RFPs are also monitored and collated to identify stewardship priorities and emerging trends.

Where differences are identified between a client's preferences and the investment team's approach, direct contact between both parties will be the first port of call. It can only be through better understanding our clients' objectives that investment teams can best learn how to serve them. For example, with increasing client requests for environmental and social data, it has been important to engage with and educate our clients on the inherent limitations of incomplete data sets and inaccurate measurement methods. As long-term investors, helping our clients to avoid adverse decisions through pointing out the short-fall of overly prescriptive approaches to investing, forms an important part of our role as responsible stewards. For clients invested in our funds, we are responsible for all aspects of their stewardship. For our segregated account clients, we offer two approaches: first, a full service where, as with our funds, we manage all aspects of stewardship; second, a partnership approach where the client may choose to appoint a third-party agent or retain control of the shareholder voting process.

When onboarding segregated account clients, we review which approach the client wishes to take. Institutional clients can require a tailored approach to stewardship, to ensure their voting is aligned with their internal stewardship requirements.

Client communication

We provide monthly and quarterly reporting for both our funds and segregated accounts, as well as statutory annual and interim reports, for our funds. On a quarterly basis, we provide segregated clients with a detailed performance report, which includes investment team commentaries. We also share voting activity on a quarterly basis, and from May 2022 we will be publishing all proxy voting outcomes on our website, and engagement and stewardship information is available on request. JOHCML recently conducted a survey among our professional UK intermediaries as part of the Assessment of Value of UK domiciled funds. We feel it is vital to ask our clients their views on the services we provide and the information we share.

Our engagements in numbers

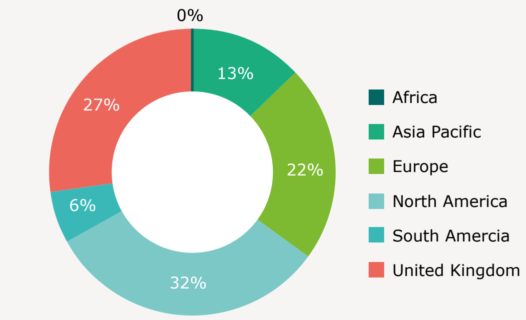
The following data provides an overview of engagement activities. However, we would urge readers to seek out the case studies within this document or to arrange meetings with any of the investment teams to understand the real-world impacts of these numbers:

197
Engagements

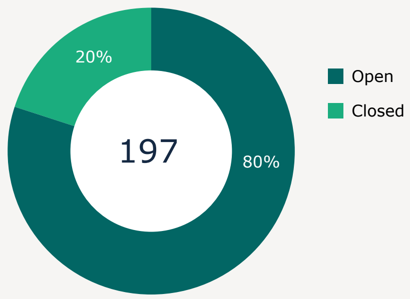
100
Companies engaged with

27
Countries

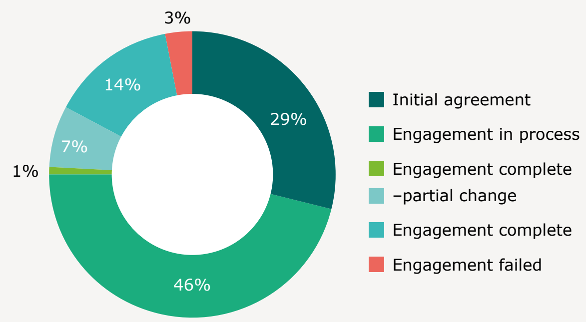
Percentage of engagements by region



Status of engagements

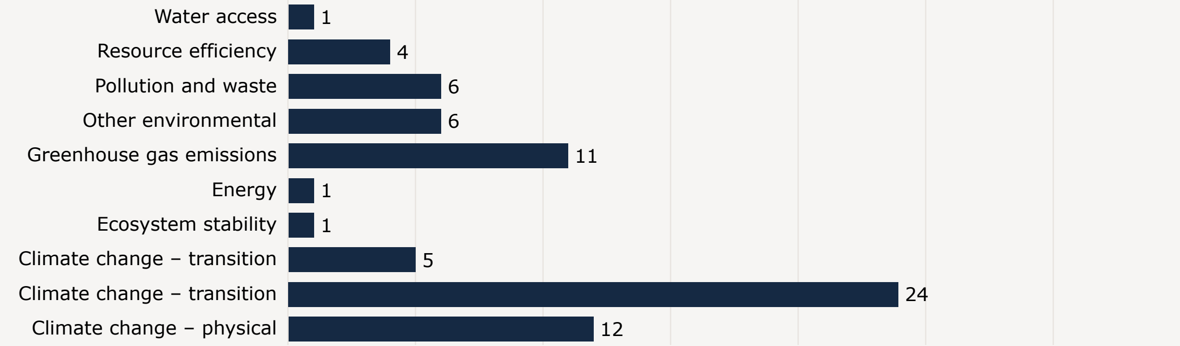


Percentage of engagements by outcome



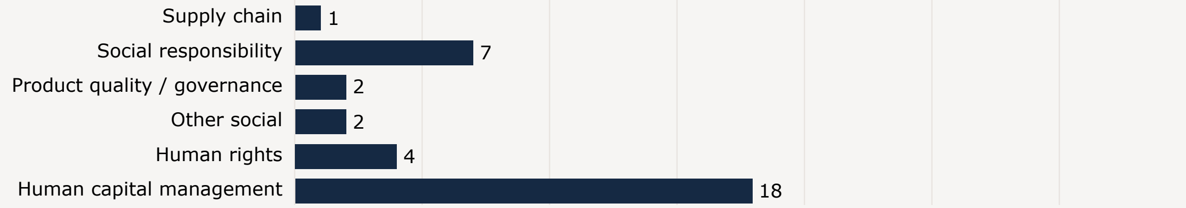
Environmental
Our engagement related to environmental concerns

71



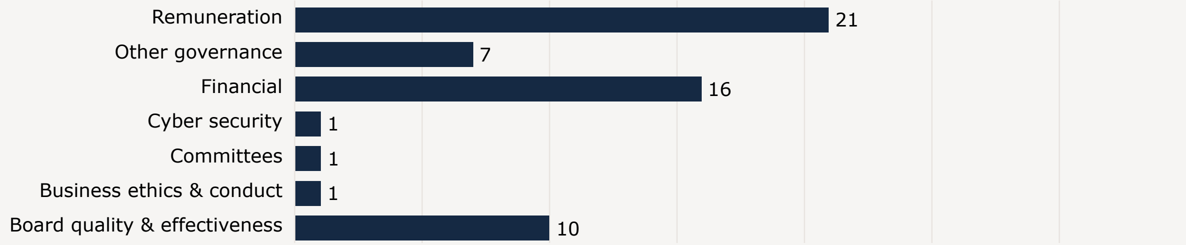
Social
Our engagement related to social concerns

34



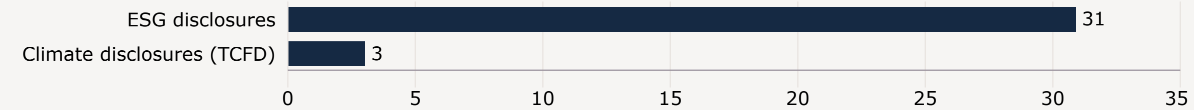
Governance
Our engagement related to governance concerns

57



Disclosure
Our engagement related to disclosures concerns

34



Voting

Why do we vote

Shareholders are entitled to a say in some aspects of how the company in which they own shares is run. Expressing their views through voting of their shareholder rights is an integral part of the governance process.

As stewards of our clients' capital, we have an obligation to our clients to vote responsibly on their behalf at company meetings.

We have robust written policies and procedures designed to ensure that, when voting proxies in respect of the securities that we manage for our clients, we:

- Do so in the best interests of our clients, addressing any conflicts that may arise between our interests and those of our clients.
- Disclose to our clients how they may obtain information from us about how we voted with respect to their securities.
- Describe to our clients our proxy voting policies and procedures and, upon request, provide further details of these policies and procedures to clients.

In 2022, JOHCML voted over 97% of the votes that it was eligible to cast.

Proxy voting and research

Institutional Shareholder Services Inc. (ISS) is our sole proxy voting and research service provider. This service provides us with granular reporting on our voting and hosts our publicly accessible voting disclosure capability on the JOHCML website (this can be found here).

Our voting process

All upcoming annual and extraordinary general meetings, together with details of their agendas and related research, are circulated to all relevant investment teams for consideration, using the automated process provided by ISS.

The ISS system generates a customised voting template, which puts forward a voting recommendation in line with the investment team's voting policy and, in most cases, reflects the research recommendation made by ISS.

Investment teams have discretion to make a voting decision based on their analysis of the proposals, their engagement with the company and/or any available third-party research. Where the investment teams agree with the proposals, and they are in the investors' best interests, they will vote in favour of them.

When proposals do not reflect the best interests of stakeholders, the investment teams may choose to escalate these concerns to the senior independent director or company chairman. Our investment teams may also engage in discussions with other investors where appropriate and in compliance with market conduct rules.

The investment team's voting decision is communicated to our Operations Team, where an authorised individual will submit the proxy vote using the ISS system. Our voting records are held on ISS's secure system.

Directed voting in segregated accounts

The same approach to voting is used for segregated account clients as for our funds. For accounts where we hold the authority to vote, managers will vote the same way on segregated accounts as they do on their "master" pooled fund strategy. It is at the investment team's discretion if they want to deviate from that and vote differently on a segregated account.

Significant votes

In analysing the votes cast by our investment teams and reporting these to our clients, we believe the focus should be on "significant votes" as required by the Shareholders Rights Directive under UK law. While the directive does not define "significant", we define this as votes where:

1. Votes relating to any resolution proposed by shareholders; OR
2. Withheld votes; OR
3. Abstained votes; OR
4. Any votes where either ISS or the investment team has recommended voting AGAINST management.

Investment teams may also add any votes they deem significant.

Approach to stock lending

A stock lending programme is operated by a third-party administrator for several of our client accounts. The programme is elective, and many of our investment teams choose not to loan out their securities. For those that do join in stock lending, it is again at their discretion if they wish to recall stock on loan ahead of a vote and ensure their full holding is voted. The default state is not to recall lending ahead of voting – therefore, if an investment team wishes to vote shares which are on loan, the team needs to request that the lending be recalled in advance of the vote. This is only likely to be the case on significant votes, and we do not believe that our stock lending activities compromise our ability to engage effectively with investee companies.

Voting data

Total number of meetings
1,043

Total number of significant votes
4,262

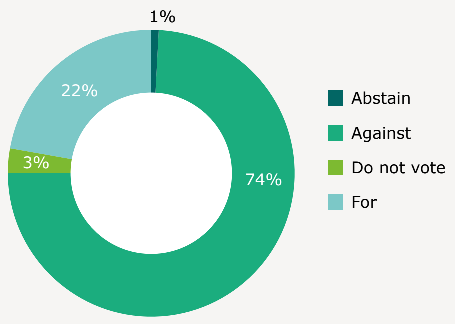
Total number of proposals
12,256

Total number of meetings voted on
97%

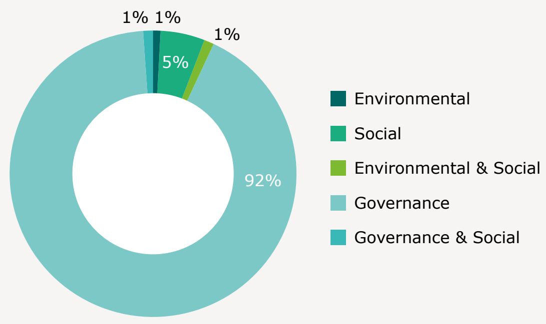
Percentage of significant votes
10%

Significant votes breakdown

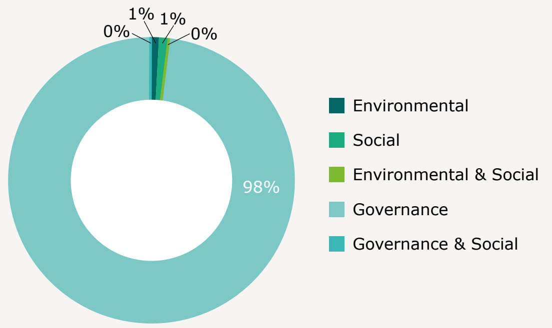
How we voted



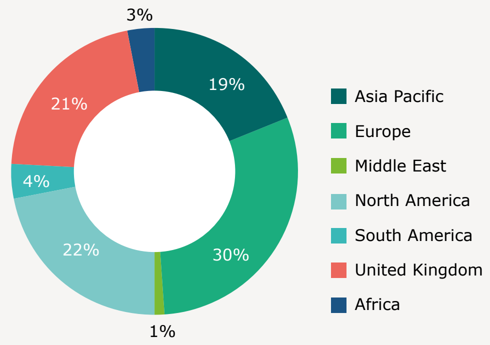
Votes against by category



Votes by category



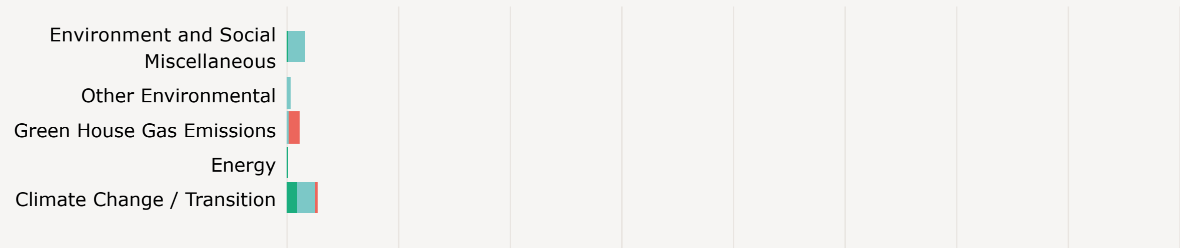
Votes by region



Significant Votes by category and region

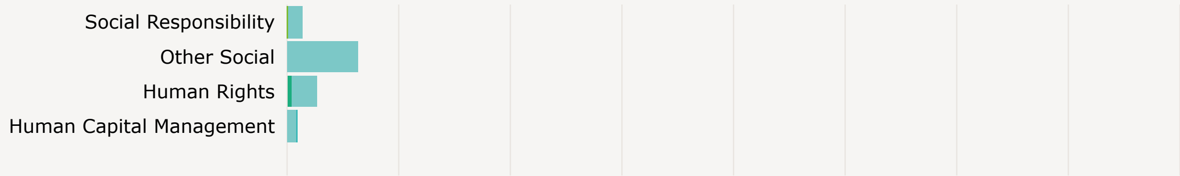
Environmental

Our voting numbers related to environmental concerns



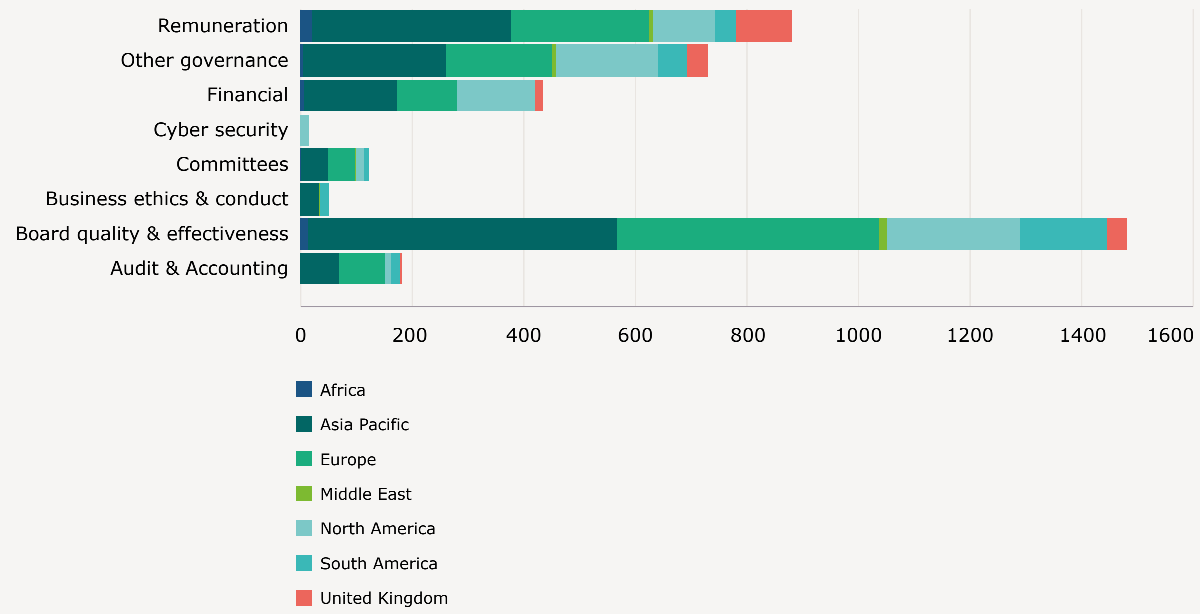
Social

Our voting numbers related to social concerns



Governance

Our voting numbers related to governance concerns



04
Case studies

Banco ABC

Global Emerging Markets

04 | Case studies | Banco ABC

Issue

The team initiated a position in Banco ABC on 4 March 2021. The investment team decided to buy Banco ABC despite the "CCC" MSCI ESG rating because the MSCI ESG report did not show any major "offence" apart from missing data, and the team saw fundamental upside due to the increasing focus of the bank on SME and retail banking. The main reason for the weak MSCI ESG rating was lacking information in several areas, including social (employee development programs, work/life balance, anti-bribery policies, whistleblower protection, employee satisfaction surveys, etc.) and environmental (lacking reporting on environmental policies in lending).

Objective

The team subsequently organized an initial video meeting with the company (attended by the company's CFO and head of IR) on 16 April 2021, where the team communicated their concerns regarding the areas mentioned above, but the information given by the company indicated that most underlying company practices were in-line with the other Brazilian banks. The company representatives shared additional details about the company's anti-bribery policies, whistleblower protection policies and employee satisfaction surveys. The team explained their concern with the weak MSCI ESG rating ("CCC") due to lacking disclosure and encouraged the representatives of Banco ABC to improve the disclosure of ESG-relevant metrics.

On 17 September 2021, the team organised a second meeting to discuss their progress, the central development achieved since the previous meeting included the publication of the first Sustainability Report of Banco ABC. The bank also explained that it was expanding the ESG development updates in quarterly reports and created a humanities program in July 2021 (promoting balance between professional and personal life to support employees' wellbeing).

Outcome

The MSCI ESG rating of Banco ABC was subsequently upgraded from "CCC" to "B" on 27 April 2022. The latest MSCI ESG report included an improved assessment of ESG-relevant metrics disclosure such as whistleblower protection, improved disclosure of job-specific development training programs and formal management systems to assess ESG risks in financing activities.

Action

The team exited the stock in October 2021 because of macroeconomic reasons. Although the team noted the improving ESG disclosure, Banco ABC is highly sensitive to macroeconomic factors, and the team did not intend to continue holding the stock. The team continued monitoring the ESG disclosure developments thereafter.

Mining companies have a significant impact on the communities in which they operate. The industry has been responsible for many avoidable controversies, and has often missed the opportunity to deliver positive impacts for host communities.

Human rights issues are an ongoing point of the engagement JOHCM UK Opportunities (UKO) raises with Barrick Gold. The rationale for the engagement is (i) the significant impact that mine sites have on local communities, (ii) the lack of disclosure from mining companies in this area, the (iii) the economic impact through licence to operate, (iv) increased demands from end customers for audited compliance with best practice.

Looking back further than 2022 for just a moment to the end of 2021, and our initial contact with Barrick, JOHCM UKO contacted the company highlighting certain objectives for engagement, aligned to the social criteria in our sustainability framework and to several UK Sustainable Development Goals (particularly 8,9,11,12).

A first objective was that companies should undertake and report local community engagement surveys, and that reporting on results from grievance mechanisms should be improved. Also that community health assessments should be undertaken and disclosed, and levels of local procurement and employment should be defined and disclosed on a country level basis. Likewise levels of community investment should be defined and disclosed on a country level basis. Finally we wanted the results of mine site rehabilitation programmes disclosed.

Following our initial contact to highlight these objectives we followed this up by meeting Grant Berringer and Duncan Pettit from Barrick's sustainability executive in November 2021, and raised them again during a meeting with Barrick's CEO, Mark Bristow, at our offices in December 2021.

In preparation for these engagements, J O Hambro had reviewed Barrick's policies and sustainability reports. We had also completed a detailed analysis of the recommendations of relevant standards organisations including the International Council on Metals and Mining (ICMM), the Initiative for Responsible Mining Assurance (IRMA), the Local Mining Procurement Reporting Mechanism (LMPR), and the Global Reporting Initiative Metals and Mining Supplement (GRI). We also met with representatives from the Responsible Mining Federation and from our sister company Regnan (who have experience with Australian mining companies).

Barrick published its latest sustainability report in April 2022, along with a sustainability update webcast. After this we again contacted the company to push the objectives stated above, particularly around improved disclosure. We met again with Barrick's sustainability executives in August 2022 to highlight specific areas that need better disclosure.

Since our initial contact in early 2021, the company has made a number of improvements. Results of a stakeholder survey were first published in April 2021, and while the survey does not meet all of our requirements on disclosure, it is a positive first step.

Similarly the 2021 sustainability report (the latest available) included better disclosure of site level grievances, particularly in relation to a resettlement in the Democratic Republic of Congo. We have pushed for more disclosure on the resolution of grievances and the publication of findings from independent NGO's that relate to significant grievance issues.

Barrick has committed to publish clearer definitions of community related spend, more meaningful disclosure of site rehabilitations, and an increase in both the consistency and quantity of site level social outcomes. We will be reviewing the 2022 sustainability report which Barrick expects to be published at the end of April 2023.

Barrick Gold Corporation

JOHCM UK Opportunities

Barrick Gold Corporation is a mining company that produces gold and copper with 16 operating sites in 13 countries. It is headquartered in Toronto, Canada. In 2022 JOHCM UK Opportunities sought engagement with the company in the areas of humans and labour rights, including supply chain rights and community relations.

Chart Industries

JOHCM Global Select

Issue

Chart is a leading player in a sector with significant environmental impact, in particular the supply of products and services related to the distribution of industrial and medical gases, such as nitrogen, oxygen, argon, carbon dioxide, hydrogen and natural gas, typically at ultra-low temperatures. It also services flammable gases such as propane and butane.

Objective of engagement

Following a number of meetings last year seeking enhanced ESG practice and disclosure, Chart's 2022 ESG report shows a number of developments consistent with key matters raised. Importantly, the report's release confirms Chart's commitment to timely annual ESG reporting enabling the market to more effectively take these practices into consideration. We see such reporting, informed by credible scenario analysis, as providing useful guidance for internal decision making as the company pivots to new energy sectors and to greater value add models focused on ongoing client relationships through the provision of equipment services. As a result, we expect greater scrutiny of product stewardship from a range of stakeholders and have sought greater assurance on its current practices via its public disclosures.

Following JOHCM Global Select's initial meeting with the CEO of Chart Industries in September 2021, Regnan has continued to meet with management to discuss investor ESG expectations in more detail, seeking enhanced practices in a number of key areas. Regnan again met with management following the release of the Chart's third sustainability report. Recent disclosure enhancements were welcomed, including the timeliness of disclosures and enhancement to safety, diversity and climate change disclosures, including moves to adopt reporting more consistent with the Task Force on Climate-related Financial Disclosures (TCFD). The latter is viewed as especially timely given recent moves by the SEC on climate disclosure and the prevalence of the TCFD within the first exposure draft on climate reporting from the International Sustainability Standards Board (ISSB).

Outcome

In Q4 2022, we wrote to the Director of Sustainability and Marketing to reinforce our key priorities for the company's forthcoming disclosures, including on climate change. We provided a sample of detailed 'investor useful' examples of TCFD and Scope 3 reporting to highlight good practice. This is especially relevant as the company seeks to enhance investor understanding of its strategic refocus in support of the transition of the energy sector.

Action

We continue to closely monitor progress and will assess our engagement priorities following the release of Chart's next sustainability report building on the gains achieved to date.

Evoqua is the leader in sophisticated water treatment solutions and is providing service-based solutions for companies to implement better water treatment in their operations.

Evoqua

Regnan Global Equity Impact Solutions

Issue

Evoqua has been in the early stages of establishing a sustainability strategy and reporting: its first sustainability report was published in 2021. This means that processes and reporting on key sustainability issues can be improved. This matters particularly to the most material issues: measurement of product impacts, human capital management, and decarbonisation of operations and supply chain. We believe that the company's adoption of a more systematic and transparent approach to sustainability issues will contribute to unlocking further value creation through higher operational quality recognised by the market.

Objective of engagement

The engagement has had three priorities since initiating a position in 2020: systematic measurement and reporting of product impact metrics such as avoided water use; establish a comprehensive decarbonisation plan covering Scope 1, 2 and 3 emissions; improve human capital management notably related to diversity, equality and inclusion (DEI).

Outcome

Some of the engagement objectives have already been met: in 2021, the company appointed a senior executive in charge of sustainability, expanded its internal capabilities with a better-resourced sustainability team, and improved sustainability reporting. This has been externally validated by upgrades in ESG ratings. Beyond this, the company has been working on decarbonisation and is currently working on establishing a Science-Based Target and carrying out lifecycle analyses to better understand the carbon footprint of its various water treatment technologies. They put in place a "Sustainability Innovation Checklist", a systematic way to review new products to quantify avoided water use, avoided carbon emissions, end-of-life plans etc. They established several DEI initiatives, such as unconscious bias training and an inclusion network, which they rolled out in 2022.

Action

In 2022, our engagement focused on deeper integration of product impacts (which the company refers to as "handprint"), not only in external reporting, but also throughout the company's R&D and product development processes. This enables deeper integration of sustainability issues from the design stage and is particularly important as the company has been investing more in R&D, notably opening a new R&D centre. We also discussed the potential to establish DEI targets to track progress on the company's DEI initiatives.

Fortescue Metals Group

JOHCM Global Select

Issue

Resource extraction in Australia, typically focused at remote sites, has a long history of conflict with Aboriginal peoples. The issue attracted significant attention in 2020, when Rio Tinto, the British mining conglomerate, destroyed 46,000-year-old cave shelters at Juukan Gorge in the Western Australian Outback. The incident led to a parliamentary inquiry and considerable adverse publicity for Rio Tinto. We took the initiative to engage directly with Fortescue Metals Group (FMG), a mining group active in Australia that, we own through JOHCM Global Select Fund. We were concerned FMG lagged its peers in its policies on Indigenous rights, and that this put it at risk.

Objective of the engagement

In our meetings in 2022, we focused on cultural issues within the sector and testing board oversight thereof, drawing on Regnan's thematic research in this area. In one of our first meetings, the remuneration committee chair and the outgoing CEO (who will be returning to a role on the board) provided an opportunity to continue our engagement on cultural heritage as well as on cultural issues in the sector more broadly. These discussions came about following the release of a report by Rio Tinto into workplace culture with a focus on racism, discrimination and sexual assault.

Outcome

In both meetings the company stressed the distinctiveness of its culture in mitigating against the worst examples of practice seen in the industry, although FMG has implemented a number of measures, including further limits to alcohol consumption on remote worksite and expanded CCTV coverage. FMG's much publicised shift to reposition for climate opportunities, most notable hydrogen, has enhanced its employment brand relative to peers but we note is likely to have also lifted expectations with regards to working conditions amongst this cohort.

FMG remained firmly reluctant to use independent mechanisms to validate the findings of its own internal investigations and feedback mechanisms. However, we were able to win acknowledgement that management prioritise scrutiny to areas of under rather than out performance. Good practice, as evidenced in previous Regnan engagement on conduct culture, includes a healthy scepticism of strong performance, something we will continue to seek in our ongoing engagement.

Action

We remain committed to FMG as a holding in the fund. However, we will continue to monitor its activity in respect of Indigenous rights and to engage actively as necessary.

National Express

JOHCM UK Equity Income

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Issue

JOHCM UK Equity Income believes that it is vital that the National Express board acts proactively to resolve the 'debt jacket' issue, and the rise in interest rates has accentuated this issue. If it doesn't, growth options that should be considered may lapse, and the value gap will remain elusive. There are many parallels to the First Group's positions pre the sale of their US business. National Express could become the focus of activist investors, which would create a distraction and sub-optimal outcomes as potential actions would become rushed and pressured.

Engagement Objective

The team sent letters and had meetings with the objective of engaging senior executives and the Board in finding innovative ways to address the balance sheet situation and unlock the 'debt jacket', thus allowing the stock to be valued appropriately and create enough balance sheet capacity to invest in the growth options available.

The team believe that the Board should pursue the sale of the US business. The rationale is the clear value tramline that recent transactions have highlighted, the attractiveness of it to a range of different bidders and the discrete nature of the US businesses. Such a sale would have the immediate benefit of highlighting and locking in part of the value gap in the share price.

Outcome

The National Express board acknowledged sharing communications with the board and recognised that an appropriate balance sheet is required to enable the company to deliver full value from the opportunities ahead. Accordingly, in August 2022, National Express assured JOHCM UK Equity Income that they remain rigorous in their ongoing review of capital allocation, and the composition and trajectory of their portfolio is a topic which is high on their agenda.

Next

JOHCM UK Opportunities

JOHCM UK Opportunities (UKO) is engaging with Next on sustainability on a number of fronts with a not inconsiderable degree of patience, while some moderate action is forthcoming by the company.

JOHCM UKO's environmental engagement with Next began in September 2021 by requesting Next improve its plastic packaging policy. Since that initial communication, we have had two meetings with the central finance director and head of product legislation and sustainable development, including visiting their head office. We have also exchanged emails on four occasions to discuss their policy in detail. We have also introduced Next to Mondi to find a paper based packaging alternative and Next has carried out a feasibility analysis in switching to paper packaging.

Despite JOHCM UKO's ongoing engagement with Next on its lack of disclosure and commitment to reducing use of plastics, its 2022 sustainability report yielded no improvements. In response we organised a call with the company to request action be taken. As investors we are keen to press this area because we know management teams who actively try to reduce, and ultimately eliminate, the use of plastics, are not only doing the right thing for the environment, but also for the perception of their brand, and so the sustainability of the future cash flow growth of the business.

Next, it must be said, is becoming an outlier in its field in this respect, despite JOHCM UKO's best efforts. It has not, for example, taken on the recommendation we made in December 2021 to become part of the Ellen Macarthur Foundation, New Plastics Economy initiative. Many of Next's competitors are signatories and disclose absolute numbers for use of virgin and recycled plastics. By comparison, the only change Next has made in the last 12 months is a decision to roll out a packaging collection scheme in stores, but there is no disclosure on when this will be done. Following our September 2022 meeting, Next has stated it will disclose its plastic packaging data in its 2023 corporate social responsibility report, and intends to set an absolute plastic reduction target.

The company is yet to make any material changes to its approach to plastics, however. Next's current targets for plastic reduction are the bare minimum as mandated by the UK government. If the company continues to do the bare minimum, we will start a collective engagement via the UK Investor Forum to get other shareholders involved in the initiative. We will also raise the issue with the board chair in a meeting later this year.

Remuneration is the second prominent area on which we are engaging with next. JO Hambro held a meeting with Next's chair in November 2022 to again provide detailed feedback on their remuneration policy, in line with JOHCM UKO's sustainability framework, which encourages remuneration metrics that tie pay to the long term performance of the company and to the achievement of strategy and sustainability goals.

Next plc is a British multinational clothing, footwear and home products retailer, which has its headquarters in Enderby, England. It has around 700 stores, of which around 500 are in the United Kingdom, and around 200 across Europe, Asia and the Middle East.

JOHCM UKO's engagement around remuneration with Next has three objectives. Firstly, we would like a proportion of the annual bonus to be paid in shares, as is common across many company incentive schemes. Currently, 100% of the annual bonus is paid in cash to all executive directors except for Lord Wolfson, where he receives shares once his bonus exceeds 100% of salary. This is a point of engagement for us because ultimately a higher shareholding by management is the best way to align to shareholders with company performance. We recommend at least a 50% weighting to shares in the annual bonus paid to executive directors.

Secondly we have told Next we would like to broaden the long term incentive plan beyond 100% on total shareholder return. Alternative metrics we have proposed include cumulative free cash generation, ending return on capital employed, quantitative ESG targets and/or earnings per share growth.

Finally on remuneration we have engaged with Next on broadening annual bonus metrics to 100% on earnings per share, including cash conversion, return on capital employed, and operational measures. We feel this is particularly appropriate given the significant capital expenditure spend planned at Next over the coming years, the focus on cashflow generation within the 15 year stress test, and the growth potential at LABEL and Total Platform.

We have previously highlighted our concerns with Next's remuneration policy and have voted against it at AGMs since 2020. This year marks the start of a new policy cycle and we have again sought to influence the policy having contacted the company in March 2022, and again in October 2022, highlighting our recommendations.

This engagement is currently in progress and Next is gathering investor feedback. The initial response from the chair suggests they do not agree with our suggested changes, however the consultation is ongoing and we expect to hear back from the company during the first quarter of 2023.

We continue to own the stock, despite its lacklustre approach to sustainability in both plastics use and remuneration, and have not changed our voting actions, except in voting against Next's remuneration report, where alongside other points, we are disappointed Next do not have remuneration linked to their ESG strategy. We reserve the right to divest if material improvements are not forthcoming.

Philip Morris International

JOHCM Global Opportunities

Philip Morris International (PMI) is an American multinational tobacco company, with products sold in over 180 countries. The most recognised and best selling product of the company is Marlboro, and PMI is often referred to as one of the companies comprising Big Tobacco. However the company is actively trying to change this depiction.

PMI is investing its future in smoke-free products that are a better choice than cigarette smoking. Its vision is these next generation products will one day replace cigarette smoking. PMI is unique in this approach among tobacco companies, and that uniqueness forms the basis of JOHCM Global Opportunities (GLO)'s investment case for PMI.

JOHCM GLO had two meetings with PMI in 2022, and in all our engagements with the company we discuss it having less harmful products than is currently the case in cigarettes. For its part, the company has spent significant time and money in developing such next generation products. These include a 'heat not burn product', vapes, pouches and snus. PMI's investment in these areas is significant, at the scale of £6bn to £7bn over 10 years. The company has a target it is working toward for 50% of its sales volumes to be in this next generation of smokeless products by 2025, and this target forms the basis of JOHCM GLO's engagement with the company.

While some of these next gen products have been very successful in advanced Western markets like Japan and Korea and even Europe, we have advised PMI it needs to go further. Progress would look like building out the portfolio of products to make it suitable for a wider array of flavours, tastes, habits, wealth, demographics. In this vein, JOHCM GLO has been encouraging PMI to prepare itself to set more meaningful targets beyond the 2025 ones, with the ultimate aim of becoming a totally smokeless business. Changing PMI in this way has two positive effects. One is on the user in terms of the chemicals they will no longer be exposed to. The other is in terms of passive smoking. PMI's ambition, and JOHCM GLO's engagement with it, is focused on trying to eradicate both those factors.

PMI's multi-billion dollar investment in developing smokeless products includes getting them registered by the US Food and Drug Administration (FDA). In the last year the company has had one product registered by the FDA, which was a positive part of its update to JOHCM GLO on its progress. PMI has also been delivering on the wider suite of products. Some of that work has been developing a cheaper product so it is more suitable for emerging markets. The price point of their original products is quite high at around £100 to buy the device and nearly the same price to keep refilling it. PMI is paying attention to that need for a lower price point, and has developed a device that is cheaper and better suited to emerging markets.

Another major development in 2022 was PMI's acquisition in November of Swedish Match, the leading pouches brand for consuming nicotine orally. This gives PMI another opportunity in its portfolio of products, on top of what the company is designing internally, and it also further opens up the US market.

The move to smokeless products has been the narrative for PMI for the last two years, which we are happy with. Looking ahead to the future we ask whether the company is prepared to think about setting bigger targets. The answer is yes, but it is still too early. We need to achieve the 2025 target of 50% smokeless sales first. That said, future targets are the present aspiration of the dialogue between JOHCM GLO and PMI. We expect probably in another 12 to 18 months PMI will be in a position to set a further target, having achieved the 2025 goal. This future target may look like 75% of sales volumes of smokeless products.

We think, however, that it may be a bit too onerous for PMI currently to be highly confident of changing smokers in the emerging markets. This is less because of the price point, which PMI is working on, and more because of regulation. There are certain emerging market countries that do not allow next generation products, with India being the most extreme example. We hope for change in this area following FDA approvals. We need regulators to buy into the next generation products as being less harmful, but we think PMI is on a good path for that.

Ultimately we don't see PMI as any old tobacco business, we see it as unique. We completely understand a lot of the concerns and why people don't want to invest in tobacco. We have very similar worries. PMI is the only business we think has really grasped the elephant in the room on harmful products. Some would argue PMI needs to grasp it harder and faster, because people are getting killed by their product. Our response is to hold up the money PMI has invested, and the regulator approvals it has sought and obtained – no other tobacco company comes close to any similar commitment, and no other rival is remotely talking about being a smokeless business. We are also of the belief progress takes time, and the pace of progress at PMI so far is fair. If we begin to think it is not fair, potentially that would lead us to consider divesting the stock.

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Rank Group

JOHCM UK Growth

Its brands now include Mecca Bingo, and Grosvenor Casinos, the UK's largest casino operator. In the UK it operates Grosvenor Casinos, Mecca Bingo, and Rank Interactive (online gaming and betting). It also operates additional Grosvenor Casinos clubs in Belgium, and Rank España in Spain. Rank is listed on the London Stock Exchange.

JOHCM UK Growth's approach to Rank is that of a journey. It is a business with a limited amount of capital resource to invest as it transitions into a better operator. As such we take the view we need to give it the benefit of time and patience, and help with the resources it needs to become an absolutely perfect corporate citizen in an area, gambling, where there is a lot of government focus.

From a stakeholder perspective, we have encouraged, and Rank has instigated, having the right checks on the doors of its premises, the right people using its services, and using technology as much as possible to keep to safer gambling initiatives and ensure a place at the forefront of the industry. With the Government's long anticipated gambling white paper due, we expect a lot of further regulation as far as affordability checks and safer gambling initiatives are concerned. We believe Rank is very well placed for this. It has been investing in those initiatives for a number of years. As a result of this investment, we think the more stringent the checks, the better it is for Rank as a holding in our portfolio, because it will potentially take market share as other players in the industry fail to keep up with the high regulatory intensity we are likely to see.

Resources are a more recent area of our engagement with Rank, for example, electricity. Currently Rank's electricity use is 100% from non renewables, so we have engaged with the company on that issue, to try to get a more diversified energy source on its sites. One fair pushback we have had from the company on this issue is that it leases, rather than owns its sites. However we have discussed how, as important tenants, Rank can exert its influence on its choice of energy provider. We are starting to see traction in this area, though the significant number of sites and small locations have to be taken into account, so we have to expect Rank will take time to transition. However we continue to raise the issue and engage so the tide starts to shift.

JOHCM UK Growth has also spoken to Rank about female representation on the board, which is something the company has rectified more recently. It now has a more consistent balance, with two new female non executive directors joining within the last 18 months. This is a fundamental shift to improve the diversity, balance and quality of decision making within the group. During the same time, changes have been made in terms of management remuneration, specifically long term incentive plans, which now have more ESG criteria attached to them as part of the qualitative criteria.

Rank published its first sustainability report in September 2022, which we had fed into, the only asset manager to do so. This is a significant move for a business where the ability to disclose some ESG metrics is limited because of the onerous requirements, from that point on, to keep tracking and controlling them. We

The Rank Group is a gambling company based in the United Kingdom, the location of its principal market and headquarters.

are aware Rank currently falls foul of some UN Global Compact Principles, though we believe this is more an issue of disclosure than of processes, and we are trying to engage with Rank on this. Part of this engagement is encouraging Rank to disclose the right information to the necessary bodies, for example to Institutional Shareholder Services. Further to this point, we have encouraged Rank to take control of its own datasets going forward. We believe having a centralised authority of real data that can be sent to ratings agencies allows small and mid cap businesses to have more input into their ratings, and importantly, improves processes. Again, however, we need to give Rank time to get those data feeds into the right metrics.

Last but not least, employees are another focus of our engagement. We have encouraged Rank in its next sustainability report, to spend more time addressing employee engagement scores, employee satisfaction scores, and employee churn scores. These metrics are very relevant not just for Rank, but to all stakeholders. We have asked Rank a number of questions, including; how easy has it been to identify the right calibre of employees? What is churn looking like? What is employee satisfaction looking like? The feedback from Rank is that it recognises why these issues are important and relevant. As such, we think we will see changes in this area in the next 12 months or so. This, we expect, will include how Rank is trying to improve the lifecycle of employees, and how that eventually leads to lower attrition rates, and so eventually, from our point of view as investors, better equity value.

Vodafone

JOHCM UK Dynamic

Issue

We have started a line of analysis on Vodafone to try and understand if there is an alternative way forward and whether there is value that can be created in the share price by contemplating a more aggressive strategy of simplification and focus, particularly around some of the higher growth and more coveted parts of the business.

Objective of the engagement

Analysts' investigations around these subjects have thrown up some interesting observations but have also left more questions than answers. Many traditional analysts do not know enough about the African assets and M-Pesa, given that Vodacom is discussed in such glowing terms by management that it seems strange and maybe an opportunity.

A big decision point is coming up around Vantage Towers. Two of the main other European tower owners, Orange and Deutsche Telekom, have decided to either partially or wholly sell/demerge their own tower assets. The importance of this can't be underestimated (for Vantage and Vodafone) and needs careful thought and, we believe, input from all stakeholders. The tower market is moving rapidly, and ownership of the European space is changing. As shareholders, we need first to have a proper understanding of what might happen and secondly be able to participate in some key board decisions about to be made.

In light of this, and coupled with the ongoing decline in the Vodafone share price, we contacted Vodafone's head of investor relations. We decided to ask Vodafone for a meeting with Nick Read / Margherita Della Valla to understand and debate the executive strategy around Vodafones's growth assets more clearly. We also asked for a meeting with the new chair of the board, Jean Francois Van Boxmeer.

We had a long discussion with Matthew Johnson, group investor relations director, who seemed pleased to engage in the above debate and agreed to get us time with the CEO and finance director, as well as weith the head of Vodacom, Shameel Joosub.

Outcome

The company is trying hard to do the things that we suggested, but the shares have not responded due to shorter-term trading momentum and margin pressures which are broadly related to macroeconomic issues.

The engagement led us to believe that Vodafone management understood the imperative to simplify and manage their balance sheet and seemed committed to finding a solution to this via exiting certain assets and/or markets. With the separation of Vantage towers, it was clear that they were willing to sell down their stake further albeit they had a slightly different timeframe to us and wanted to maintain control given it is a key asset, and there are market consolidation opportunities in Europe.

Action

We continue to own Vodafone but engage effectively as our focus is on the successful business transformation through an aggressive simplification and focus strategy

Waste Connections

Regnan Sustainable Waste and Water

Waste Connections is a North American integrated waste services company that provides waste collection, transfer, disposal and recycling services, primarily of solid waste.

It has operations in both the United States and Canada, and is headquartered in Texas. We have engaged with Waste Connections on two main issues this year; methane emissions, and recycling.

High emissions are a feature of the waste sector, particularly methane in landfills and collection. Consequently, one expectation we have of Waste Connections as part of our engagement is to have well evidenced decarbonisation goals, with comprehensive plans and targets.

Regnan Sustainable Water and Waste (RSWW) has been on a journey of delicate negotiations with Waste Connections this year. We used our first meeting with the company to test the potential for absolute emissions reduction in addition to intensity targets. In response, Waste Connections indicated that before it set absolute or intensity targets, it wanted to first better understand its existing and planned carbon profile, given the company's growth aspirations, including via acquisitions.

We understood and supported Waste Connections' position. We emphasised to the company the importance of considering emissions in strategic decision-making, including acquisitions. We committed to providing feedback as the company develops its targets, processes, and strategy on emissions, and have since further engaged with the company at its request.

We are pleased that as a result of our engagement with Waste Connections on its emissions in its 2022 sustainability report the company committed to add a new target to reduce scope 1 and 2 emissions by 15%, along with a goal to continuously improve emissions intensity. Given the medium-term timeframe of the targets (10 years) interim targets were deemed by the company to be unnecessary.

RSWW further suggested the company should disclose both the emissions reductions achieved, and the progress of the underlying emissions reduction projects. This would provide investors with the additional reassurance sought in the absence of interim targets. Overall our current assessment is Waste Connections' emissions reduction activities, linked as they are to biogas recovery, recycling efforts and carbon offsets, are well tailored to its operations.

Recycling has been the other main point of our engagement with Waste Connections over the past year, and we are pleased to report similar success in this area. We welcome a decision by the company to set ambitious recycling targets. We see this as critical to reducing net emissions within the real economy relative to the use of virgin materials.

In our engagement with Waste Connections we emphasised the important role of recycling in decarbonisation, as a significant way to cut greenhouse gas emissions within the real economy by conserving natural resources and reducing the energy required for production. This is particularly true for composting, which reduces the need for synthetic fertilisers, and for recycling materials that are energy-intensive to produce, such as steel, aluminium and glass. We encouraged the company to disclose its activities in this area.

In response Waste Connections has stated over the next four years it plans to invest $800m in technology upgrades and new facilities in underserved markets to support better and more recycling. These investments are expected to significantly improve sorting efficiency through the installation of optical sorters across the company's network. Additionally, the company is actively working to reduce contamination in its recycling waste streams through increased awareness campaigns.

The company is also focusing on increasing recycling in its commercial waste business, as currently only a small percentage of customers use the recycling service. The company likewise acknowledged that offering multiple services to customers can help retain them.

Following our engagement Waste Connections has also made its contamination goal more ambitious, setting it at 10%, down from its current progress of 16%, which is in itself an improvement on 20% a few years ago.

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Waste Management doing business as WM, is a waste management, comprehensive waste, and environmental services company operating in North America.

Founded in 1968, the company is headquartered in Houston, Texas. RSWW had one engagement meeting with the company in 2022, to discuss objectives around two main areas; emissions and recycling. Following our talks, Waste Management made some good progress on disclosure and targets.

Waste Management has prioritised avoiding emissions in its decarbonisation strategy. In our meeting with the company we reinforced our view this needs to be accompanied by reductions in absolute emissions. We told Waste Management we would ideally like these reductions to be supported by short, medium and long-term goals. Given the high emissions associated with operations in the waste management sector, particularly on methane emissions in landfills and collection, we expect companies to have well evidenced decarbonisation goals with comprehensive plans and targets.

Following our discussions, Waste Management affirmed its commitment to decarbonising, including setting a meaningful science-based target. The company confirmed work on this was underway, board approval pending, and expected to have plans finalised by year end 2022. The culmination of these moves was in its 2022 sustainability report Waste Management then committed to reducing absolute scope 1 and 2 GHG emissions by 42% by 2032 (against a 2021 baseline), aligned with the Paris Agreement to limit warming to 1.5C.

In our view, the company's current response is sound based on current regulatory and stakeholder expectations.

We will monitor progress against these commitments and the adequacy of the targets as regulatory and stakeholder expectations evolve.

Another issue RSWW engaged on with Waste Management was how to better manage renewable natural gas from landfills. We talked about how better landfilling processes and technologies offer the most opportunities to cut greenhouse gas emissions. State-of-the-art operations are able to capture and reduce emissions by up to 90%, for example. We also discussed how converting landfill gas provides a renewable form of energy, while also converting methane to CO2 and water. Methane in landfills is becoming a valuable energy resource, given its renewable credentials, offering substantial sustainability benefits while reducing the source company's carbon footprint. We encouraged Waste Management to disclose its approach so any of its activities in this area could be recognised by the market.

We were pleased the company was able to demonstrate a sophisticated approach to methane capture, with a dedicated officer focusing on renewable natural gas. The company has assessed 200 landfill sites and prioritised 17 landfill sites for landfill gas capture based on climate, size and other factors. Waste Management subsequently disclosed plans to invest $825m to expand its renewable natural gas network by 2026, considerably expanding the capture and beneficial use of landfill gas. We will continue to monitor the company's implementation of stated plans.

Finally RSWW engaged with Waste Management on creating ambitious recycling and reuse targets. We see this as critical to reducing net emissions within the real economy relative to the use of virgin materials. In our engagement meeting we emphasised the important role of recycling in decarbonisation, highlighting that it can make a significant contribution to reducing net greenhouse gas emissions within the real economy by conserving natural resources and reducing the energy required for production.

This is particularly true for composting, which reduces the need for synthetic fertilisers, and for recycling materials that are energy-intensive to produce, such as steel, aluminium, and glass. We encouraged the company to disclose its activities in this area.

Waste Management responded that over the next four years it plans to invest $800m in technology upgrades and new facilities in underserved markets to help improve recycling at the company. These investments are expected to significantly improve sorting efficiency through the installation of optical sorters across the company's network. Additionally, the company is actively working to reduce contamination in its recycling waste streams through increased awareness campaigns.

The company is also focusing on increasing recycling in its commercial waste business, as currently only a small percentage of customers use the recycling service. The company also acknowledged that offering multiple services to customers can help retain them.

The company has a waste goal set at 10%, down from its current level of 16%, which is an improvement from 20% a few years ago. Given the work underway we will continue to encourage Waste Management to set formal public targets for recycling.

Waste Management

Regnan Sustainable Waste and Water

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This report has been prepared and approved by J O Hambro Capital Management Limited, whose role in compiling the report has been overseen by our UK authorised fund manager and authorised corporate director (ACD), JOHCM Funds (UK) Limited. This report also complies with certain requirements of our regulator, the Financial Conduct Authority (FCA), to report under the Shareholder Rights Directive II.