



RIVER AND MERCANTILE

River and Mercantile Investments Limited

2020 Voting & Engagement Report
FCA Firm Reference Number: 195028

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Introduction

The aim of this voting and engagement report is to set out how River and Mercantile Investments Limited (“RAMIL”) promotes effective stewardship and investment decision making in carrying out its duties as an investment manager in accordance with the requirements of the Shareholder Rights Directive II (“SRD II”). RAMIL is a member of River and Mercantile Group PLC (‘River and Mercantile Group’ or the ‘Group’).

SRD II, implemented in the UK in June 2019, seeks to promote better shareholder engagement, improve transparency in the ownership of companies, and enable asset owners to understand the way in which their asset managers engage with the companies in which they invest.

We have however, widened the scope of our reporting beyond the SRD II requirement to report on “shares traded on a regulated market” to capture all RAMIL’s voting and engagement activity. The additional reporting specifically relates to non-listed pooled investment vehicle holdings, which have been a core investment type for RAMIL, though as detailed later in the report RAMIL also invests in direct equity securities, along with exchange traded funds (“ETFs”) and investment trusts, which are specifically covered by the SRD II requirements.

We note the principles of SRD II, and responsibilities in order to give issuers we invest in transparency on what their shareholders think, and how we are going to engage and vote in future.

We are developing a best practice stewardship and engagement strategy. This includes specific issues (like climate) that drive how we vote, we will have pre-vote discussions where material and pre-declare voting intentions, and have clarity on how & when to escalate.

This is included in this report as a forward-looking intention for what companies we invest in can expect from R&M as a shareholder in future.

RAMIL provides investment advice and investment management services, including fiduciary management services, to predominantly UK based institutional investors. It has also been appointed as the investment manager of several funds. RAMIL is an FCA regulated firm and signatory to the FRC’s UK Stewardship Code (2012).

Voting Activity

Scope

This report covers RAMIL's voting activities on behalf of its clients in respect of equities, exchange traded funds ("ETFs"), investment trusts and non-listed pooled investment vehicle holdings. As detailed in the introduction we have expanded our reporting scope beyond the SRD II requirement to report on "shares traded on a regulated market" to capture all RAMIL's voting and engagement activity. The additional reporting specifically relates to non-listed pooled investment vehicle holdings, which have been a core investment type for RAMIL's clients.

Direct equity security holdings were re-introduced into a fund which RAMIL is the investment manager of, the Dynamic Asset Allocation Fund during Q4 2020. Accordingly, there were only a small number of direct equity security votes during 2020, due to the time of year (outside the traditional voting season), the short period and the limited exposure (direct equity securities were only held by the Dynamic Asset Allocation Fund, which also holds a range of other asset types). It is expected that the level of voting activity in direct equity securities will increase in future years.

We do not currently carry-out securities lending for any of our fiduciary clients' accounts, noting that securities lending does occur within third party managed pooled investment vehicles held by our clients.

The below voting activity relates to mandates where we have responsibility for exercising clients voting rights, which primarily relates to fiduciary client assets not held via life platforms, due to advisory clients and life platforms retaining control of voting rights.

Direct equity securities voting process

The Dynamic Asset Allocation Fund which accounts for RAMIL's direct equity exposure during 2020 is managed from an operational perspective by a Group affiliate, River and Mercantile Asset Management ("RAMAM"), and subsequently follows the RAMAM operational procedures. This includes using ISS as a proxy voting advisor to implement its policy for direct equity securities.

When our voting policy either has a for or against vote, we will automatically vote in line with our policy and we will only provide qualitative input to voting when a vote cannot be automatically determined in-line with our policy, in which case we will manually review the votes for that meeting.

One member of the portfolio management team will be responsible for an initial review of a vote referred for manual consideration and will make a recommendation to the remaining members of the portfolio management team (currently six people in total). We require two further members to approve the recommendation in order confirm our voting intention. During 2020, there were two meetings which required us to provide qualitative input to our voting intention.

Once we determine the voting direction, the RAMAM operations team are responsible for arranging confirmation of votes to be sent to ISS.

Listed & non-listed pooled fund voting process

Our fiduciary client portfolios are primarily comprised of pooled fund investments, together with UK government bonds and derivative holdings. Whilst the majority of our clients pooled fund investments are either unlisted or only nominally listed, we actively invest our clients into ETFs and have historically held REITS. During 2020, we also exercised the voting rights of one of our clients relating to two investment trust positions transferred to us when the client appointed RAMIL.

As detailed in our voting policy, RAMIL's Operational Due Diligence ('ODD') team, which has responsibility for non-investment aspects of the pooled investment funds on RAMIL's buy list, manages the research and policy aspects of RAMIL's voting on pooled investment vehicles.

For routine AGM proxies, the ODD team will make the election and record the result in the proxy voting log under delegated authority.

For special resolutions and EGMs, the ODD team will oversee the process, but seek authorisation from the relevant portfolio manager before making the proxy election and recording it in the proxy voting log.

RAMIL do not utilize a voting advisor such as ISS to formulate and implement its voting policy for pooled investment vehicles, but may purchase reports from providers such as IVIS to support its own analysis in certain situations. This is because in our experience pooled investment vehicles do not appear to be a core focus for these providers. We also believe that there is a strong alignment between voting on pooled investment vehicle resolutions and the broader responsibilities of our ODD team. We will nevertheless review our arrangements on a periodic basis to ensure they remain appropriate.

Voting Activity

We have presented our voting activities in several ways:

- A summary of significant votes which we have defined as votes against management’s recommended resolutions.
- Explanation of unvoted meetings.
- On an overall basis, comprising the votes submitted under both the direct equity securities and the pooled investment vehicle voting policies and processes.
- Specifically, for the direct equity securities voted under the direct equity securities policies and processes.
- For all the securities voted under the pooled investment vehicle voting policy and process, including exchange traded funds and investment trusts (i.e. both listed & non-listed pooled investment vehicles).
- Specifically, for the exchange traded funds and investment trusts voted under the pooled investment vehicle voting policy and process, which are also considered listed equity securities.
- By domicile of the position voted.

Significant votes

We voted against management’s recommendations on 20 resolutions during 2020, representing 6.6% of the 305 resolutions voted. We have provided further details on these votes below:

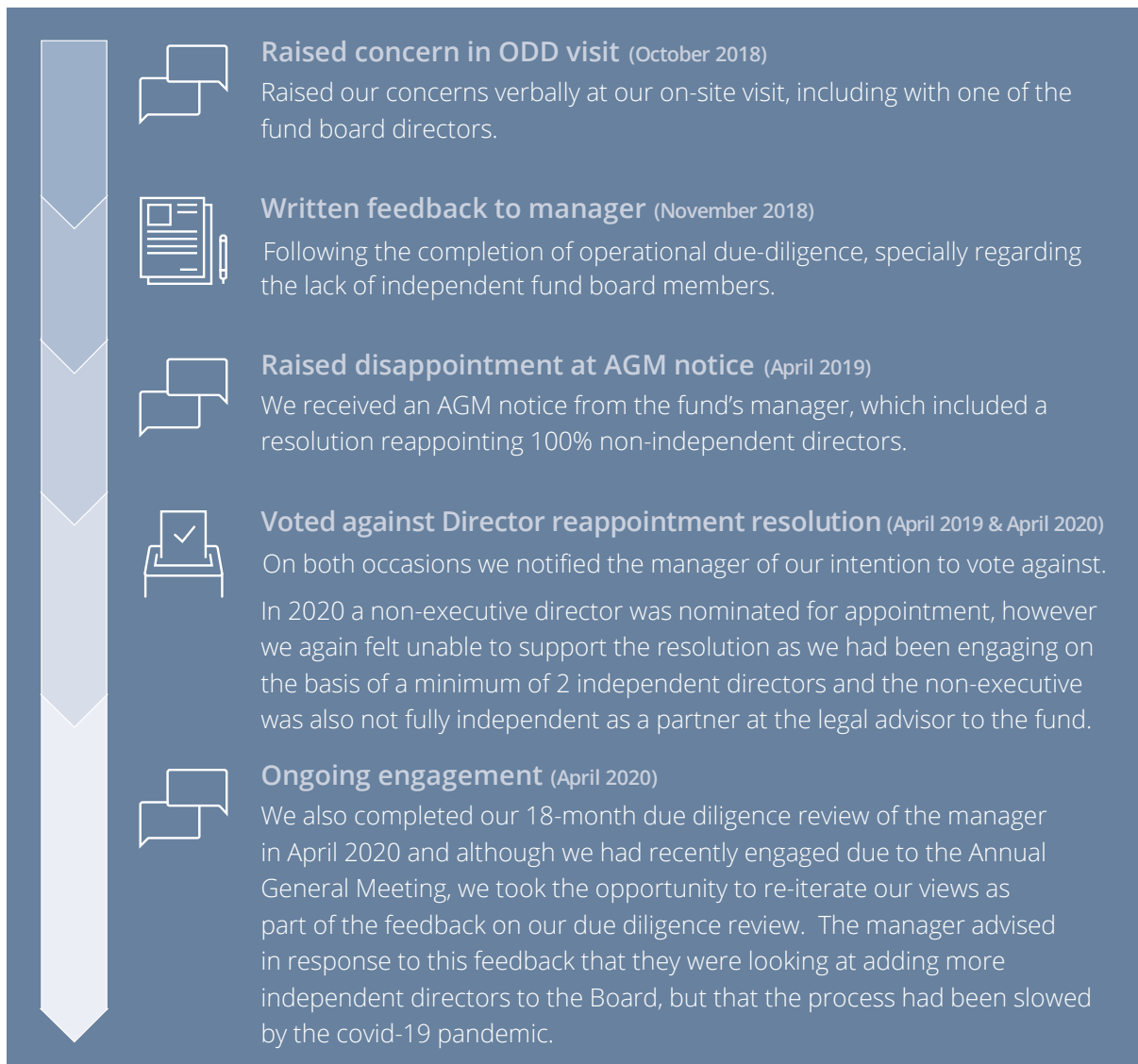
- 9 resolutions related to direct equity securities
 - We voted against 1 company, who wanted to authorise EU political donations and expenditure
 - We voted against 2 director elections at 2 different companies;
 - one was as a result of the nominee being a non-independent, non-executive director and we voted against this appointment as the board lacked majority independence.
 - The other as the nominee served as both Chairman and CEO so we voted against as the nominee was not independent and was being appointed as Chairman. We also supported a shareholder resolution addressing the same issue which requested an independent Chairman
 - We voted against a resolution to ratify the appointment of the auditors for 2 companies, as the auditors had not been changed for over 20 years
 - We voted against an advisory vote to ratify named executive officers’ compensation at 2 companies. In both scenarios, we voted against as the vesting period for part of the compensation was less than three years
 - We also voted against amending an omnibus stock plan as again the vesting period was less than three years and the non-executive directors were granted stock-based awards
- 3 resolutions related to exchanged traded funds, one of which related to the acceptance of financial statements and two of which were “Any Other Business” resolutions.
- 8 resolutions related to non-listed pooled investment vehicles:
 - We voted against 1 resolution regarding the reappointment of directors. We have provided further details of this vote below as a case study.
 - As detailed in our voting policy, we will typically vote against the reappointment of auditors who have been in-place over 20 years, subject to appropriate engagement having been undertaken. This represented 4 of

the resolutions where we voted against, however it should be noted that 3 of the votes related to 3 different sub-funds of a single umbrella company. As the vote occurred after 30 June 2020, for the reasons detailed below we have reported each sub-fund separately.

- As detailed in our voting policy we vote against “Any Other Business” resolutions, due to their open-ended nature. Votes against “Any Other Business” resolutions represented 3 of the meetings where we voted against a resolution.

Case study: vote against the re-election of a board of directors of a pooled fund

We voted against the reappointment of the fund board because of independence concerns. The vote was at an AGM for an umbrella company domiciled in Luxembourg run by a large global investment manager through which our clients hold investments in an equity and credit sub-fund. This vote represents part of an ongoing engagement dating from 2018 when it was identified that the fund board was 100% non-independent. The engagement is set out in further detail below:



Unvoted Meetings

We did not vote at 6 meetings during 2020 for the reasons detailed below. We subsequently voted 91.0% of the 67 meetings we were notified of during the period. As this reporting is on an aggregated basis, we have focused on scenarios where we did not vote common positions across any of our accounts.

Meeting 1 – February 2020 AGM for a pooled fund investing in insurance linked securities – We were in the process of redeeming from the fund and subsequently did not feel it was appropriate to vote at the meeting.

Meeting 2 – March 2020 EGM for a pooled fund investing in UK Property – Due to a delay in the processing of our votes we missed the cut-off for the meeting. An incident report was subsequently completed to review the issue. We intended to support the resolution which was passed at the meeting.

Meeting 3 – April 2020 EGM for a Luxembourg pooled investment vehicle umbrella company with client investments in a credit and an equity sub-fund. The EGM occurred on the same day as the AGM for the umbrella company, which along with the EGM not being posted in Broadridge 'ProxyEdge' we believe contributed to us failing to submit our votes. We believe the non-posting of the meeting in Broadridge 'ProxyEdge' reflects the less developed nature of the market in terms of voting on pooled investment funds. Our intention was to support the resolutions which related to changes to the fund documentation which we considered housekeeping changes to bring them into line with Luxembourg law and regulations. (Note: as this occurred prior to 30 June 2020 we have counted this as 1 meeting).

Meeting 4 & 5 – October & November 2020, two Swedish direct equity security holdings were not voted as the Swedish market requires a power of attorney for the fund sub-custodian which was not in-place at the time of the votes, which is being addressed.

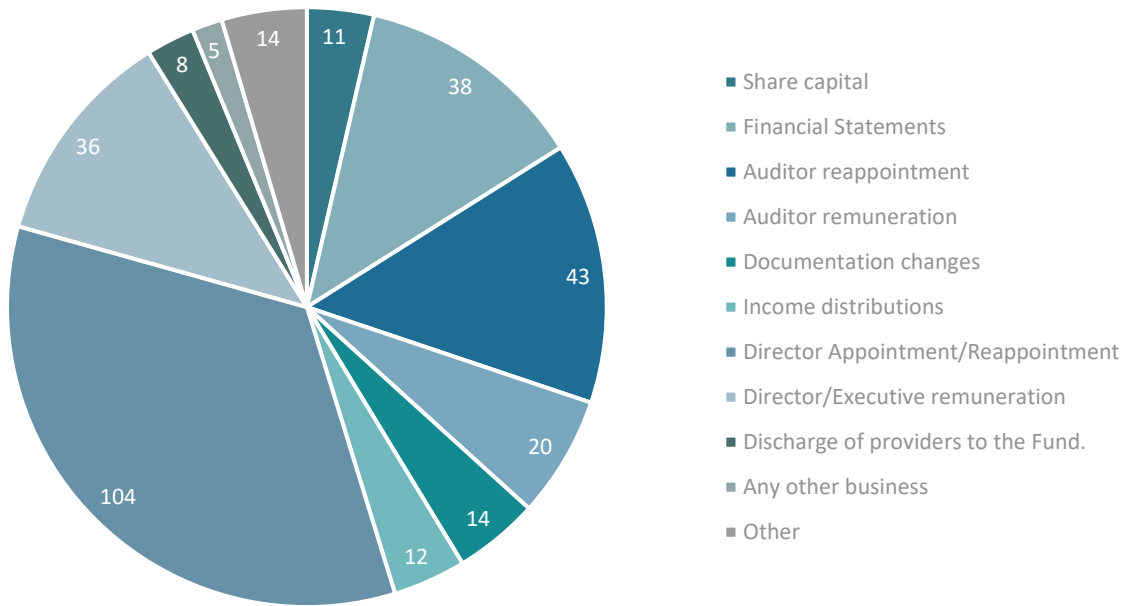
Meeting 6 – October 2020, ETF meeting subject to shareblocking. We did not vote due to the shareblocking and the resolutions all being business as usual, though we would have voted against an "Any Other Business" resolution had we voted.

Voting activity across all instrument types

The following charts provide a consolidated overview of our voting activities across all asset types, comprising: direct equity securities, ETF's and investment trusts and non-listed pooled investment vehicles.

Number of meetings including those unvoted	67
Unvoted meetings	6
	9.0%
Number of meetings with votes against	14
% of total meetings	20.9%
% of voted meetings	23.0%
Number of meetings with Abstain	7
% of total meetings	10.4%
% of voted meetings	11.5%

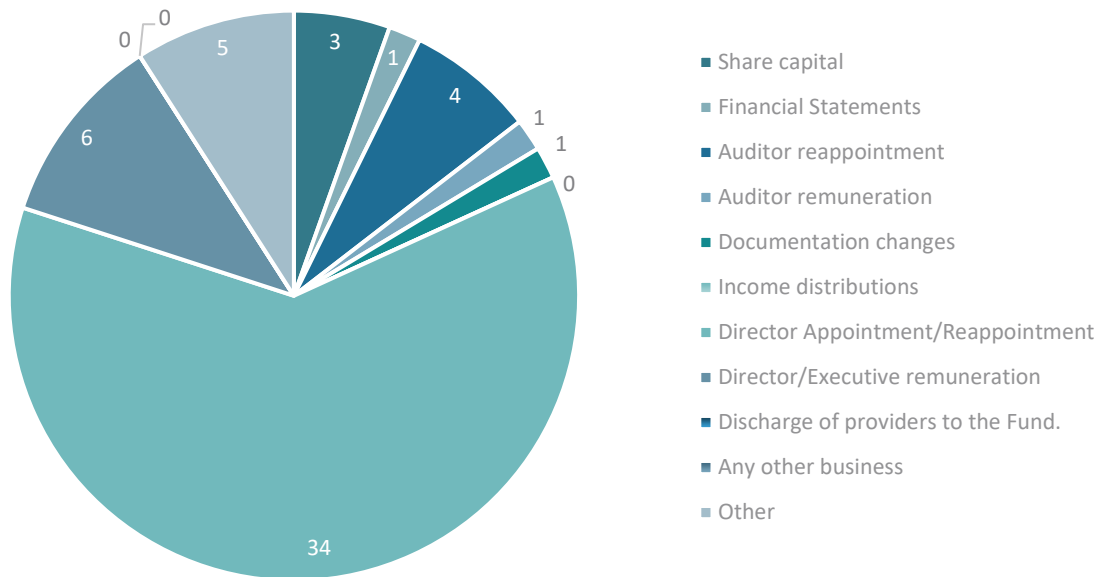
All Votes By Resolution - 12m to 31 December 2020 - 305 resolutions voted



Voting activity for direct equity securities

Number of meetings including those unvoted	7
Unvoted meetings	2
	28.6%
Number of meetings with votes against	4
% of total meetings	57.1%
% of voted meetings	80.0%
Number of meetings with Abstain	0
% of total meetings	0%
% of voted meetings	0%

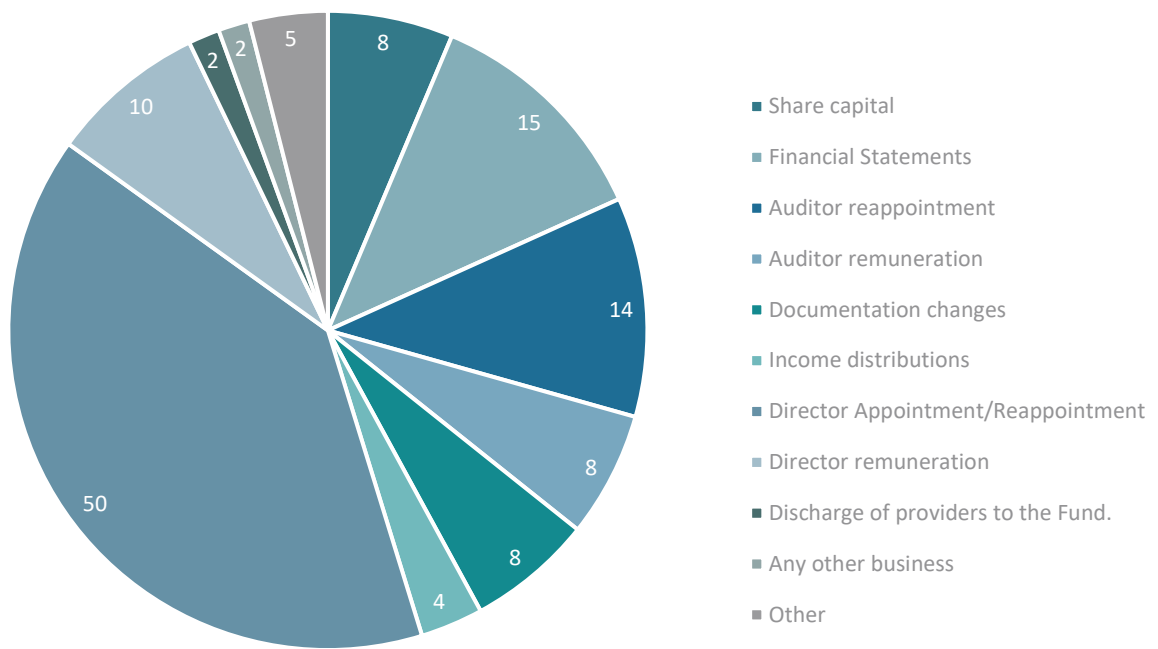
Equity Security Votes By Resolution - 12m to 31 December 2020 – 55 resolutions voted



Voting activity for exchange traded funds (“ETF’s”) and investment trusts:

Number of meetings including those unvoted	23
Unvoted meetings	1
	4.4%
Number of meetings with votes against	3
% of total meetings	13.0%
% of voted meetings	13.6%
Number of meetings with Abstain	1
% of total meetings	4.3%
% of voted meetings	4.5%

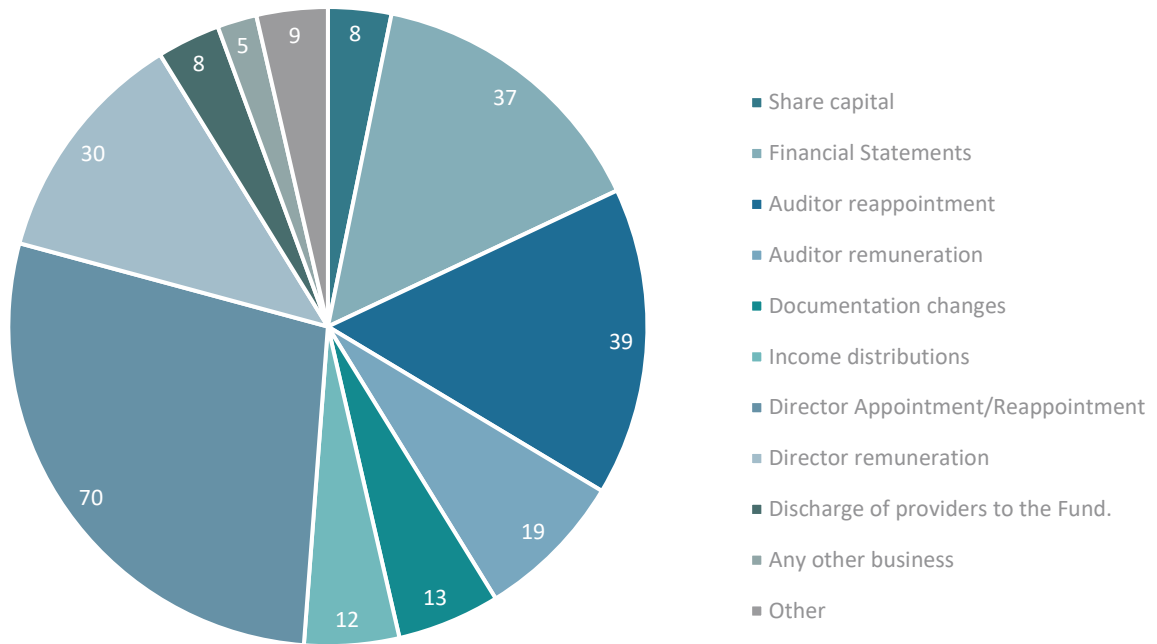
ETF & Unit Trust Votes By Resolution - 12m to 31 December 2020 - 126 resolutions voted



Voting activity for all pooled investment vehicles including exchange traded funds (“ETF’s”) and investment trusts:

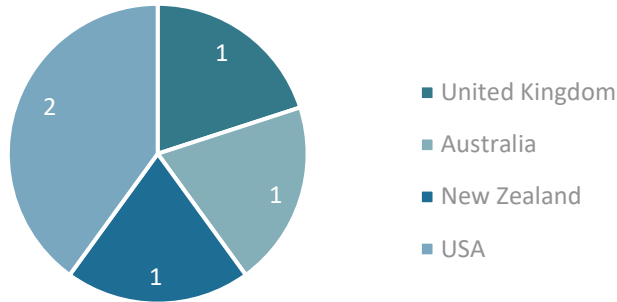
Number of meetings including those unvoted	60
Unvoted meetings	4
	6.7%
Number of meetings with votes against	10
% of total meetings	16.7%
% of voted meetings	17.9%
Number of meetings with Abstain	7
% of total meetings	11.7%
% of voted meetings	12.5%

All Pooled Investment Vehicle Votes By Resolution (including ETFs & Unit Trusts) - 12m to 31 December 2020 - 250 Resolutions voted

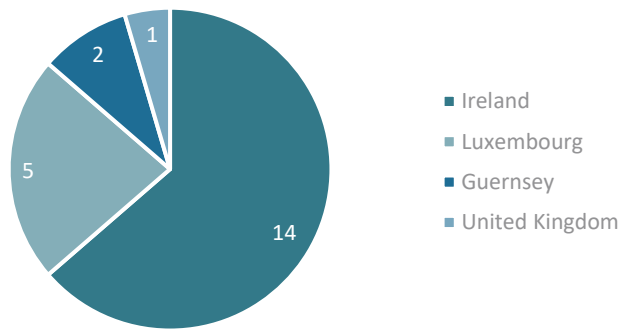


Voting activity by geography:

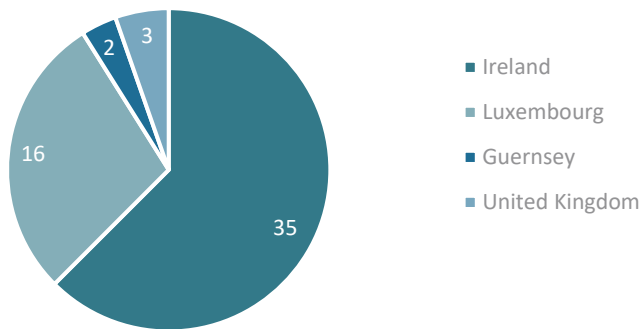
Direct Equity Securities - voted meetings by geography



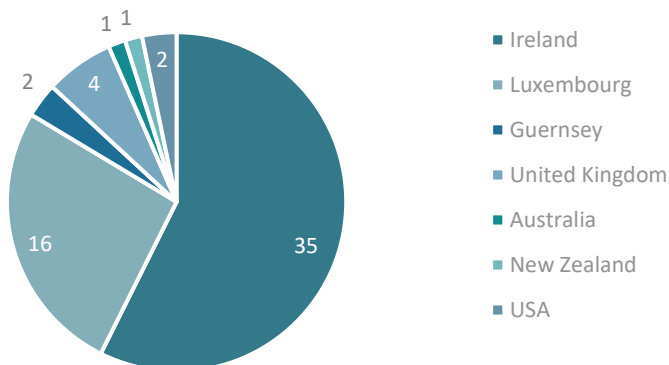
Unit trusts and exchange traded funds (“ETFs”)- voted meetings by geography



All Pooled Investment Vehicles (including unit trusts and exchange traded funds (“ETFs”))- voted meetings by geography



All voted meetings by geography



Notes:

Please note the following points regarding the voting data presented in relation to the pooled fund voting process (including exchange traded funds (“ETFs”) and investment trusts)

- Until 30 June 2020, where we held multiple pooled investment vehicles that are part of a single umbrella company, we only counted the meeting and resolutions once. From July 2020 we count the meeting and associated resolutions separately for each sub-fund as we believe this is typical market practice.
- As the reporting is on an aggregate basis, unvoted meetings for pooled investment vehicles reflects where a common holding in a pooled investment vehicle was not voted across any of our accounts.
- The data is based on the votes we have been notified of, whether via Broadridge ‘ProxyEdge’, the custodians of our client accounts, the Administrator, Transfer Agent or manager of the funds we invest in. Since the introduction of Broadridge ‘ProxyEdge’ our confidence that we are been notified of events has increased. However, this part of the market remains manual, whilst as demonstrated above there are multiple different sources through which we may receive voting event information, meaning that it is difficult to be sure that we have been notified of all events.
- The voting data has been compiled from multiple sources, including manual records. Whilst we implemented the Broadridge ‘ProxyEdge’ system at the start of 2020, not all our client accounts or the underlying assets in those accounts are currently supported on the Broadridge ‘ProxyEdge’ system, as detailed earlier in this section. We have tried to adopt a similar methodology to Broadridge ‘ProxyEdge’ for our manual records

Engagement

Our engagement activities during 2020 primarily related to activities undertaken by the investment research function, which comprises investment and operational due diligence aspects and focuses on the pooled investment vehicles on RAMIL's buy list.

We have also provided details of our engagement process for direct equity securities, whilst noting that due to the allocation only being made to this asset class in Q4 2020, we have not yet undertaken direct engagements for direct equity securities although the Group has participated in a collaborative engagement.

Investment due diligence engagement

Investment due diligence engagement activities are undertaken through the following streams:

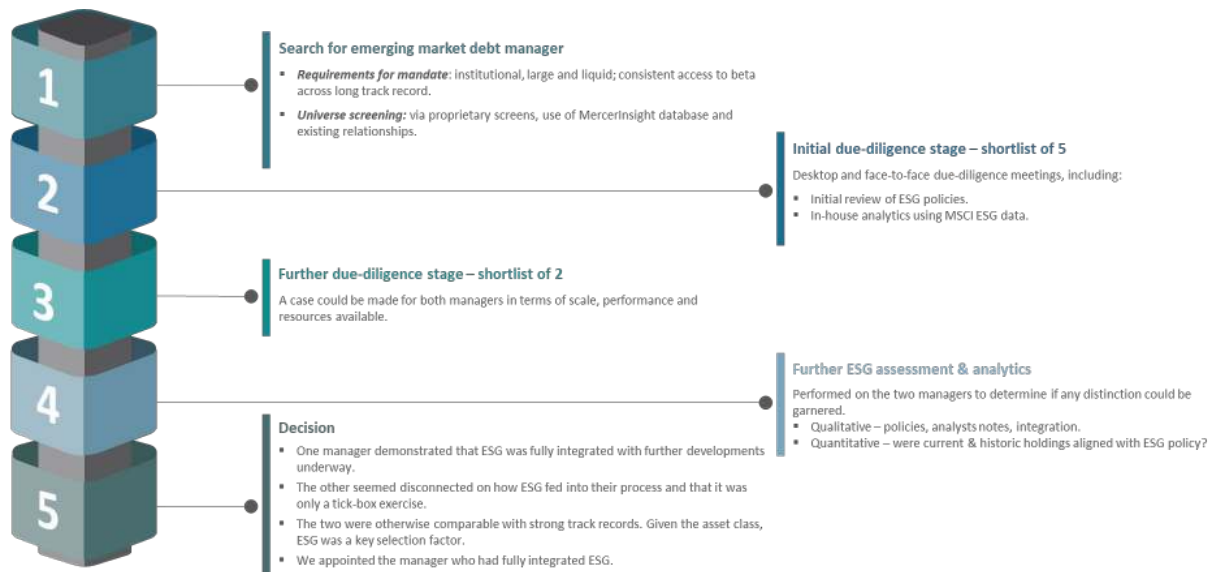
- As part of initial reviews of pooled investment vehicles, we will engage on areas we identify for improvement. We have included a case study of an initial review at the bottom of this section, detailing an emerging market debt fund search.
- We seek to fully review buy rated pooled investment vehicles on an ongoing basis at least every 18 months, which creates an opportunity for continued engagement or to engage on newly identified areas. We also monitor each of our buy rated funds on a quarterly basis including, more recently; monitoring changes in ESG scoring and identifying what engagement and voting underlying managers have undertaken during the period.
- An example of a periodic engagement occurred during a broad asset class review of multi-asset funds that took place in 2020 where we identified issues with a fund. On deeper inspection and through several interactions with the manager we noted significant changes to the way the manager invests which we were not happy with. Although the overlying philosophy of investment remained unchanged the way it was being implemented had and we saw this as a notable change and potential risk to investors. Outcome – following our analysis we recommended the fund be SELL rated and clients should disinvest.
- Engagement scenarios may also be triggered on an ad-hoc basis by communications from a Fund, issues identified in the press or notable changes in a fund's ESG scoring.

We seek to engage on all issues identified through our due diligence. However, where we feel strongly on an issue, this is prioritised through concentrated ongoing engagement until agreement is reached, whereas for a lower priority engagement point we may be comfortable relying on the periodic engagements that occur as part of our monitoring framework (e.g. 18 month review cycle).

We use a wide variety of engagement methods including in-person and virtual meetings and ongoing dialogue. We seek to provide feedback on all our due diligence reviews.

We carried out circa 800 engagements during the twelve months to end of December 2020 in relation to our due diligence activities. The engagements carried out range from our regular quarterly monitoring calls or meetings (approximately 360 of these were carried out during the period) and ad hoc data request calls and meetings to specific meeting requests related to a particular research matter (approximately 150 of these type of engagements were carried out during the period). These engagements were predominately telephone or video meetings due to the current pandemic. In normal circumstances many of these would be face to face meetings.

Investment due diligence engagement case study



Operational due diligence engagement

Operational due diligence engagement activities are undertaken through the following streams:

- As part of initial reviews of pooled investment vehicles, we will engage on areas we identify for improvement.
- We seek to review buy rated pooled investment vehicles on an ongoing basis at least every 18 months, which creates an opportunity for continued engagement or to engage on newly identified areas.
- The ODD team is also responsible for voting on pooled investment vehicles on behalf of clients. Annual and extraordinary general meetings subsequently provide another opportunity and a different engagement tool to address ongoing points, as well as an opportunity to identify and engage on new issues.
- Engagement scenarios may also be triggered on an ad-hoc basis by communications from a Fund or its service providers, or something identified in the wider market or the press.

Our engagement objectives are implicitly set via our pooled investment vehicle voting policy and via our ODD reporting templates which outline the scope of our due diligence reviews.

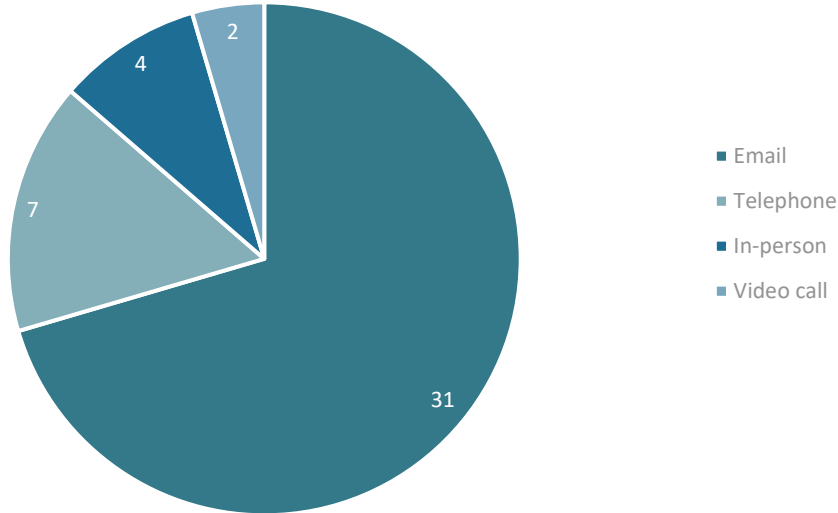
We seek to engage on all issues identified through both our due diligence and voting processes, however where we feel strongly on an issue this is prioritised through concentrated ongoing engagement until agreement is reached, whereas for a lower priority engagement point we may be comfortable relying on the periodic engagements that occur as part of our monitoring framework (e.g. 18 month review cycle and participation at general meetings).

We use a wide variety of engagement methods including in-person and virtual meetings and ongoing dialogue. We seek to provide feedback on all our due diligence reviews, whilst as detailed in our voting policy we would typically seek to engage before placing an against vote. We also aim to provide forward guidance to managers on areas that we believe could become an issue in the future, with a good example of this being our policy to usually vote against incumbent auditors who have been in-place over 20 years.

To demonstrate the extent of our engagement, we have produced the below analysis, which details our methods and summarises the key areas of engagement. Please note that for 2020, the Operational Due Diligence team engagement metrics solely focus on the main engagements undertaken during the year, in line with the records that the team have maintained. From 2021 the team are planning to expand their record keeping capturing all their engagements to bring the methodology closer in-line with the Investment Due Diligence records.

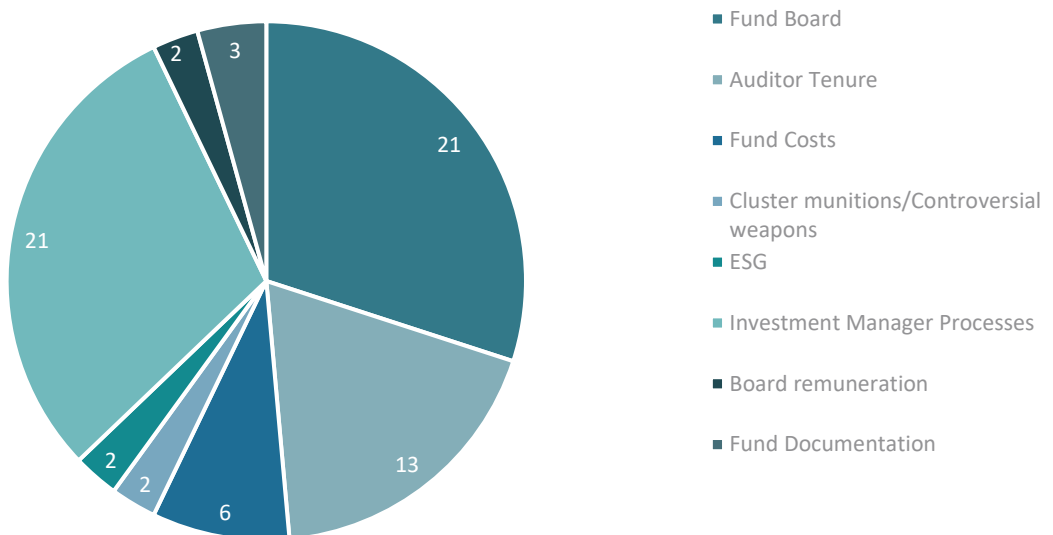
We carried out 44 engagements during the year in relation to our due diligence and voting activities, utilising the following methods of engagement.

Method of Engagement



Within the 44 engagements carried out, we calculate that we engaged on 8 separate areas on 70 occasions. These areas have been summarised in the following chart.

Topics of Engagement



As detailed in the chart, our topics of engagement either relate to the pooled investment vehicle or to the investment manager. The pooled investment vehicle engagements related to both our due diligence and voting activity, whilst the investment manager engagements primarily related to our due diligence activity.

We have provided further detail on our engagement on the majority of the above topics in this report, but for completeness have detailed below the type of areas covered during our engagement on investment manager processes:

- Availability of internal controls report for review by clients;
- Investor notification process for general meetings;
- Level of insurance coverage;
- Trade controls;
- Cross trade activity;
- IT controls
- Compliance controls
- Out of date or unavailable policies; and
- Reporting lines and committee arrangements

Operational due diligence engagement case studies

Case study 1: Auditor tenure



Why does auditor tenure matter?

Pressure on audit firm fees has a potential impact on the quality of audits.



Auditor rotation rules are in effect for listed companies

Legislation requires 10-year rotation of auditor, though includes flexibility to extend to 20 years, which has been adopted by the UK.



Our view for pooled funds

Given the lower complexity of pooled funds than a listed company, and independent oversight from fund administrators, we adopt a max. 20-year period when voting on auditor reappointment.



R&M actions

Engaged with at least 9 managers regarding auditor tenure. Voted against 1 related resolution, having previously engaged with the manager on this point.

Re-appointment of auditors is a standard Annual General Meeting resolution and given that the auditors used by the pooled investment funds held by our clients are typically well known and suitable, their tenure has become one of our main foci when voting on the re-appointment of auditors.

We have voted against the re-appointment of auditors based on their tenure since 2014, due to concerns around the potential impact on audit quality from downward pressure on fees.

Our view on the appropriate period of appointment for pooled investment vehicle auditors has evolved since 2014. Initially we were voting based on a maximum period of 5 years. However, we experienced strong push-back that this was too short a timescale, given that the audit partner and typically also the audit personnel are subject to regular rotation. We also found that investment managers often used the same auditor for all their pooled investment vehicles, meaning that a change of auditor was a substantial piece of work. Furthermore, it was emphasised to us that the pool of suitable auditors was not that large and was further reduced where the investment manager was following best practice and using a different auditor for their own accounts, creating an additional practical challenge.

We have not identified any market guidance on auditor tenure relating specifically to pooled investment funds. However, the European Union introduced EU Mandatory Firm Rotation (“MFR”) Regulations in relation to auditor tenure for listed equities in 2014, which came into effect in 2016. We have subsequently used this as a guide in our voting and engagement on auditor tenure of pooled funds since 2017. The regulations stipulate that auditors

for listed equities should be rotated every 10 years, but with the ability for member states to extend this to 20 years, which the UK has done. As detailed in our voting policy, given the lower level of complexity of a pooled investment fund compared to a corporation, plus the ongoing oversight provided by the pooled investment fund administrator, we have subsequently adopted the 20-year standard.

During 2020 we carried out 13 engagements relating to auditor tenure:

- Eleven of the engagements took the form of advising the manager of our policy, typically to provide forward guidance in advance of voting against incumbent auditors in-place over 20 years, though we note not all of the fund structures hold AGMs, limiting our ability to use our voting rights to further emphasise our concern and engagement on this issue.
- For one of the engagements the auditor had been in-place over 20 years. However, the manager was committed to changing the auditor by a set deadline in line with the transition arrangements permitted under the EU regulations and we subsequently supported the auditor reappointment.
- Following two other engagements, we voted against the auditor's reappointment as we had previously engaged and voted against this resolution in both cases. This has been recorded as 4 against votes in the voting section of this report, as one of the votes related to 3 sub-funds held by our clients within a single umbrella company.

Case study 2: Fund Costs

There are a number of different costs involved in the running of a pooled investment fund and a range of different approaches as to how these are paid. The main two ways the costs are usually covered is by the investment manager as part of their fee, or by the pooled investment vehicle itself. Different asset classes can take different approaches as to whether the investment manager or the pooled investment vehicle pay certain costs, for example hedge funds may adopt a "pass-through" approach whereby the pooled investment fund pays costs such as for computer systems, which in most asset classes would be considered a manager expense.

Another cost we would typically consider to be something that the investment manager should cover out of their fee is the marketing expenses associated with pooled investment vehicle. However, it is fairly common for pooled investment vehicle documentation to permit the charging of marketing expenses to the Fund. We carried out 4 engagements in relation to marketing expenses during 2020:

- We seeded a new credit fund during 2020 with a large institutional asset manager which was added to an existing umbrella company. As the documentation for the company permitted the charging of marketing expenses, we negotiated with the investment manager the inclusion of wording in the documentation for the new fund confirming that they did not intend to charge marketing expenses to it.
- We also queried whether marketing expenses were being charged for three existing pooled investment vehicle holdings, as was permitted under the respective fund documentation. In all cases the investment manager confirmed they were not and in one of the cases the investment manager advised they would consider clarifying this when the fund documentation was next updated.

We also carried out two other engagements during 2020 relating to fund costs, specifically seeking further clarity on the level of remuneration of an auditor and making clear that we believe investment managers should cover their own travel expenses.

Case study 3: Cluster munitions and controversial weapons

We are committed to avoiding direct investment in companies that design, produce, sell or maintain cluster munitions and/or land mines.

We first identified and engaged on this topic in 2019 with a global investment manager that had an exclusion policy for the Luxembourg domiciled pooled investment vehicle held by our clients but was not adopting this policy on a global basis. Whilst we understand that Luxembourg has specific regulations forbidding investments in controversial weapons, given the investment manager's global presence we felt it was valuable to challenge them on why they were not taking this approach more widely across their business. This engagement is set out below.



Identification of issue

The R&M Group do not invest in cluster munitions and believe that any underlying managers in our portfolio should have clear policies in place.

ESG analytics and monitoring

We perform regular analytics on a look-through basis of all managers in our portfolio (using MSCI ESG Research) to ensure no cluster munitions exposure.

As part of our operational due diligence, however, we noted there was an inconsistency within one manager's policies. The Luxembourg vehicle we invest via had an exclusionary policy, but this was not applied firmwide.

Engagement

We spoke to the manager to confirm their position on cluster munitions, who confirmed our understanding. We made it clear our belief that this policy should be applied firmwide.

Outcome

The manager confirmed a new ESG Chair was being appointed and this would be addressed with them.

We continue to follow up with the manager on this point and will monitor this situation as part of our ongoing engagements.

We carried out two similar engagements during 2020, where our clients were invested with global investment managers via Luxembourg pooled investment vehicles subject to exclusions on cluster munitions, which we did not believe were being applied globally. For one engagement we received no response to our email, but for the other engagement we received a positive response that the investment manager was in the process of extending the exclusions across other fund ranges, although we do not believe this covers all of their funds, so we will intend to engage with them further on this point as part of our ongoing operational due diligence monitoring.

Direct equity securities engagement

Our direct equity investment process uses the below four sustainability pillars as a key component.



Environment

We measure companies' climate change impact through their carbon intensity. For companies where other climate change factors (e.g. toxic emissions, electronic waste, packaging waste, water stress) are a key risk or opportunity to their business, this will be measured through our risk based ESG score.



Risk-based ESG

This is a broad measure based on traditional ESG characteristics, and the metrics used differ by industry. E.g. Banks are assessed on factors including privacy & data security and product safety. Energy companies meanwhile will be assessed on factors including toxic emissions and biodiversity.



People

Companies are dependent on people, not just at senior levels, but throughout the organisation. We assess firms on their ability to have policies and processes, as well as the culture and values, to create great places to work. This pillar quantifies this concept by evaluating a company's approach to areas such as human capital development and health & safety.



Innovation

We are interested in companies that use innovation as a means of achieving sustainability and retaining great people. We consider both a company's input, such as R&D spending, and also the outcome, such as an improvement in sales or margins.

By using this investment approach, we will typically be investing in companies that already demonstrate strength from an ESG perspective, but we still believe in the importance of engagement in supporting our investment approach. We will use our four sustainability pillars to identify weaker areas in what overall is a strong scoring company that we own and will look to engage if a significant threshold is exceeded.

We have only invested in direct securities in RAMIL from Q4 2020 onwards and as a result, our engagement approach to direct securities continues to be an evolving process. We use a two-pronged approach for engagement:

1. Individual engagement
2. Collaborative engagement

We believe that our approach to engagement should be to encourage already strong companies to improve in areas where they are not demonstrating strength, rather than investing in weaker companies from an ESG perspective and then seeking to improve them.

We have established the following process to identify companies that we believe are suitable candidates for engagement:

- We look for companies that, while overall showing strength on our four sustainability pillars, are demonstrating weakness in one of our pillars
- We also then dig into the underlying factors below these pillars and look for those companies that are not showing evidence of improvement. Our view is that good management teams, even if they are weak in a particular area, should be showing improvement
- We then apply an overall significance test, meaning that we recognise our engagement with a company is only likely to be considered if we hold a sufficient position in that company. We have set this threshold to be relatively low at 0.5%; i.e. we will engage in situations where we own more than 0.5% of a company's market cap.
- If the significance test is not met, we will instead seek opportunities to engage with other shareholders as a group through collaborative engagement.

So far, as of the end of 2020, we are yet to meet the significance test for any of the companies we have held in our portfolios so have not engaged with any companies on an individual basis. However, direct equity investments also create the opportunity for collaborative engagement, with the Group participating in an engagement relating to social media companies, as detailed further below.

Following the tragic shootings in Christchurch New Zealand in March 2019, River & Mercantile are supporting a collaborative engagement initiative with social media companies led by the New Zealand Super Fund. The engagement was driven by the role of social media in online extremism and specifically the inability of social media companies to prohibit live streaming of such atrocities. The overarching aim of engaging was to strengthen controls to prevent the livestreaming and dissemination of objectionable content, with a series of underlying objectives.

This has involved our name being added to the names of institutions on whose behalf letters have been sent to Facebook, Alphabet (Google) and Twitter. We are pleased to see that Facebook are starting to respond to such initiatives by creating an independent committee that will be responsible for overseeing and governing the content on their social network.

Alphabet, in particular, has been a laggard in taking action, in particular human rights board oversight engagement is a serious issue that needs to be addressed.

We have seen some tangible progress since we have been involved with the collaboration but as highlighted with Alphabet, we still believe there is further improvements that need to be made and we are continuing to engage on a collaborative basis to achieve the stated objectives.

Managing conflicts of interest

RAMIL is a member of River and Mercantile Group PLC ('River and Mercantile Group' or the 'Group').

The Group has established and implemented a conflicts of interest policy (the 'Conflicts of Interest Policy') which applies to its UK regulated subsidiary entities, River and Mercantile Asset Management LLP (RAMAM) and River and Mercantile Investments Limited (RAMIL).

The Conflicts of Interest Policy has been approved through the Group's policy approval framework, by the Group Board and by the management bodies of RAMIL and RAMAM.

The policy sets out how we seek to identify and to prevent or to manage all material conflicts of interest and all members of staff are required to read and comply with it. The Group's Risk Committee and the Group's Board are ultimately accountable for the management of risk within the Group and reviewing the effectiveness of internal systems and controls. Non-compliance with the conflicts of interest policy may result in disciplinary outcomes, depending on the nature of non-compliance and actions taken to address this. The policy is reviewed annually and on an ad hoc basis and training on conflicts of interest is also provided to all staff members annually.

An essential part of the Group's business involves Group members acting as agents for clients when advising on or making decisions in financial markets on behalf of them. Confidence in the Group's integrity in acting on their behalf is at the heart of the relationship of trust between the Group and its clients. This means that when making investment decisions, or providing products or services to clients, the Group must always act in the clients' best interests and put those interests ahead of our own. The Group also has an obligation to treat all clients fairly, which may give rise to the need to manage conflicts of interest between different groups of clients for whom we act as agent. Certain conflicts of interest may be inherent in an agent and principal relationship. Where the Group acts as agent it is possible that conflicts of interest may arise with clients or between the competing interests of different clients.

A key principle of our Conflicts of Interest Policy is the prevention or management of any conflicts of interest with disclosure of a conflict of interest treated as a measure of last resort.

Our conflicts of interest policy provides detailed circumstances that could give rise to a conflict of interest and guidance on how we manage such conflicts that might arise in relation to the order and execution of trades, investments by clients in our own funds, cross trading, giving and receiving gifts or dealing personal securities which are held or advised on by members of the Group. Our policy is to take all reasonable actions to properly identify and manage conflicts of interest and always to act in the best interest of our clients, so that transactions are effected on terms which are not materially less favourable to the client than if the conflict had not existed. Such actions may include putting in place controls between the opposing sides of the conflict which may control or prevent the exchange of information and/or involve appropriate management of staff activities and segregation of duties.

Where such controls are insufficient to ensure with reasonable confidence that risks of damage to the interest of a client can be prevented, the Group discloses the general nature and/or the source of the conflict of interest to the client and the steps taken to mitigate those risks prior to undertaking the relevant business. The Group maintains a Conflicts Register of actual or potential conflicts for each of the Group's UK regulated entities.

Our Conflicts of Interest Policy is provided to all of our clients as part of their prospect packs and it is also available on request and can be found on our website at https://riverandmercantile.com/wp-content/uploads/2020/11/RandM_Conflicts_of_interest_policy_20200922.pdf

RAMIL is the investment manager of several in-house funds. An in-house fund in this context is a fund that has a board of directors independent of the Group, but which has RAMIL being integral to the fund's development and where RAMIL has been appointed as the investment manager or model portfolio provider of the in-house fund. In-house funds are developed to meet a client investment need and where accessing this investment is best done using a fund.

RAMIL is also the investment manager and steward of its clients' assets and is appointed to manage these assets under the terms of an investment management agreement ('IMA'). Under the IMA, RAMIL is permitted to invest in in-house funds up to certain limits. Further under the IMA, RAMIL is, as is market standard, able to vote on behalf of its clients.

A conflict of interest may arise where RAMIL is both the investment manager of the in-house fund and the investment manager of the client's assets and RAMIL votes on behalf of the underlying client on an in-house fund.

These conflicts of interest have arisen in RAMIL in 2020 both in the ordinary course, being usual AGM business, and where a shareholder vote is required on a change to the in-house fund investment objectives or policy. In the former scenario, as no actual conflict of interest arises, RAMIL votes on behalf of the clients in the ordinary course. In the latter scenario, in accordance with its conflicts of interest policy, compliance is notified, the relevant RAMIL employees undertake further analysis and may engage with the underlying clients prior to voting in favour of a change of the investment objectives and policy of an in-house fund. The decision to engage with the underlying clients is based upon an analysis of the materiality of the proposed change to the in-house fund.

Important Information

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