EVENLODE
STEWARDSHIP

# Quarterly Stewardship Report

Q3 2026

Certified B Corporation

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## Our purpose is to preserve and enhance the value of our clients' assets through long-term engagement and analysis.

## QUARTERLY STEWARDSHIP REPORT

This report aims to provide investors with information on our voting and engagement activity, as well as highlighting some key focus areas for the Stewardship team for the year.

## VOTING

**Voted on 9 meetings**

**In 78% of meetings, we voted with management on all proposals**

**In 22% of meetings, we voted against management on at least one proposal**

## VOTING CASE STUDY – HALMA

This quarter we wanted to provide an example of a holding in the Evenlode UK Income fund, Halma. Normally we would speak about a contentious issue however, for this report, we wanted to highlight a best-in-class company which is considered a leader within the governance pillar of our proprietary ESG assessment.

Halma had a strong year and the pay reflected it. CEO Marc Ronchetti's single figure rose 32% to £7.1m, driven by a bonus paying out at 95% of maximum and 88% vesting of the Executive Share Plan (ESP). The DEI target was missed, with women holding 31% of Halma company board seats against a ≥35% target. That means the bonus outcome came almost entirely from Economic Value Added (EVA), which now makes up 95% of the scorecard. The ESP is split equally between EPS growth and return on total invested capital (ROTIC). The outcomes were earned, but we'd like to see a better balance of measures in the bonus.

The climate metric was dropped from the bonus this year, and its 5% weighting moved to EVA. When we engaged last year, the company told us the metric had become more of a distraction than a driver. It now relies on sustainability action plans for each business, which it says drive better accountability.

On the board, Jo Harlow steps down after nine years as Senior Independent Director (SID) and Remuneration Committee Chair. Sharmila Nebhrajani becomes SID and Giles Kerr takes over the Remuneration Committee. The board now has 10 directors, 50% of them female.

Our net zero assessment classifies Halma as Aligning. It has an adequate net zero target (though not SBTi-aligned), supporting underlying targets and adequate emissions disclosure.

All resolutions passed at this year's AGM. The remuneration report received the most significant opposition, with 7% of shareholders voting against. The reasons are unclear, but our guess is that some passive investors, following proxy adviser guidance, objected to the size of the pay increase. In our view, rising quantum isn't always a red flag, especially when the company's and executives' performance warrants it. This matters all the more given that UK talent has been moving overseas for higher pay. At Halma, pay rose in line with a strong year, so we were comfortable supporting it.

## ENGAGEMENT

| Engaged with 11 companies | Engaged the most on remuneration, company strategy and culture |
|---|---|

## ENGAGEMENT CASE STUDY – AUTO TRADER

We engaged with Auto Trader to highlight our concerns around the large weighting of Earnings Per Share (EPS) (weighted at 70%) in the Long-term Incentive Plan (LTIP). With the company taking buyback authority up to 15% to fund a planned £500m buyback, no disclosed buyback adjustment to the EPS measure, and EPS and revenue thresholds reduced for the latest grant, we saw a risk that vesting could reflect share-count reduction and therefore manufacture remuneration outcomes. The company secretary shared our letter with the Remuneration Committee Chair, Geeta Gopalan, and offered a meeting.

Geeta attributed the switch from operating profit to EPS to shareholder feedback, which she described as overwhelming, on the basis that the annual bonus already rewards operating performance. She could not give a firm rationale for the 70% level, speculating it was a like-for-like carry-over from the previous operating profit weighting, but confirmed the Committee will consider reducing it and accepted our point on disclosure. On buybacks, there was no clear yes or no. The Committee considers EPS on a rolling five-year basis and factors in how higher leverage raises interest costs, which partly offsets the accretion, and it thinks about buyback timing prospectively rather than after the fact.

We will engage again when the company consults ahead of the 2027 policy.

## ENGAGEMENT CASE STUDY – NEW YORK TIMES

We wrote to New York Time's management team after voting against their compensation report. There were two areas of concern: the absence of threshold, target and maximum disclosure for both annual and long-term incentive plans (LTIP), and the Committee's decision to replace digital subscription revenue with total revenue in the LTIP which was notably the weakest-performing metric over the performance period (90% vs 173% for adjusted operating profit and 200% for total shareholder return).

The company organised a call with their Head of IR, Head of Rewards, and General Counsel. On disclosure, they were clear that full targets would not be disclosing in in the near-term, referring to the US regulations' (Reg S-K) competitive harm exemption which states that disclosure is not required if it is for commercial sensitivity purposes.

However, our suggestion of disclosing the percentage change in targets year-on-year - rather than the targets themselves was received positively, and the company committed to feeding this back to the Committee. On the metric change, the company removed the digital subscription revenue metric with total revenue for FY26 onwards for the LTIP which was the metric most closely tied to the 15 million subscriber target. The company's position was that total revenue better reflects their multi-product model and that adjusted operating profit indirectly captures subscriptions. We suggested retaining the metric at a reduced weighting as an alternative. It was the first time we have engaged with the group on ESG-

related matters. And we felt the discussion was constructive and our points around increased disclosure around percentage change of metrics were received well and will be fed back to the Remuneration Committee.

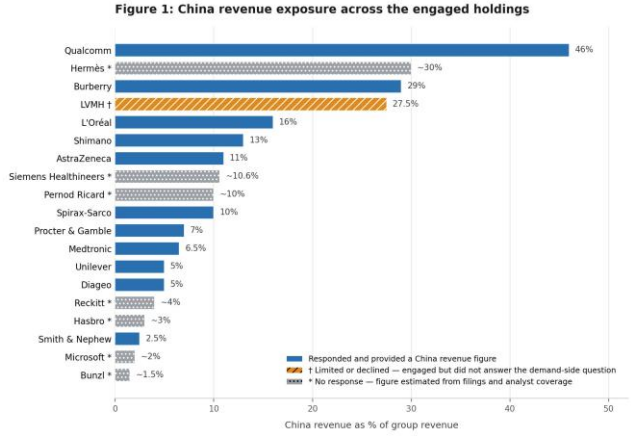
## CASE STUDY – DELEGATED, NOT DIVERSIFIED

In 2021, the global car industry lost around 7.7 million vehicles of production and an estimated $210bn of revenue because it could not get a hold of enough semiconductor components[1]. At the time it was observed how minor some of the incidents seemed relative to the damage they caused. A fire at a chip plant near Tokyo[2], bad weather in Texas[3] and a drought in Taiwan[4] No blockade, sanctions or any major geopolitical conflict of any kind. The industry experienced the effects of how concentrated semiconductor supply had become.

While we score companies on diversification by geography and segment, we also need to consider the supply chain concentration risks within the Evenlode portfolios. It seems almost every physical product now contains a semiconductor and the most advanced of these are made in one place - Taiwan. China is the assembly hub to the world for a vast array of products, and a huge end market in itself. To deepen our knowledge on supply chain exposures to these geographies, we recently wrote to 22 holdings asking six standardised questions, designed to separate two risks: the revenue at risk if a company can no longer sell into China, and the production at risk if Taiwanese semiconductor supply were cut off. Here are some of our key observations from the responses we received.

**Companies were willing to give us a China revenue figure (Figure 1)**[5]. Local-for-local manufacturing was the most common mitigation strategy to potential cross-border trade disruption, and many companies already operate that way: Procter & Gamble produces over 90% of each region's shipments locally, with Greater China around 7% of sales. Where disclosure was weak, we felt it was often correlated to where the exposures were most material and harder to mitigate.

**Figure 1: China revenue exposure across the engaged holdings**




[1] *AlixPartners, "Shortages related to semiconductors to cost the auto industry $210 billion in revenues this year," press release, 23 September 2021.* https://www.alixpartners.com/newsroom/press-release-shortages-related-to-semiconductors-to-cost-the-auto-industry-210-billion-in-revenues-this-year-says-new-alixpartners-forecast/

[2] https://www.renesas.com/en/about/press-room/notice-regarding-semiconductor-manufacturing-factory-naka-factory-fire

[3] https://www.sec.gov/Archives/edgar/data/1413447/000141344721000021/nxpaustinproductionupdate2.htm

[4] https://www.scmp.com/tech/tech-trends/article/3124623/taiwan-says-it-has-enough-water-keep-chip-makers-humming-amid

[5] *China revenue is shown as a percentage of group revenue. Nineteen of the holdings contacted are shown; the remainder are excluded because no China revenue figure was disclosed. † Limited or declined: the company engaged but did not answer the demand-side question. * No response: no reply received to the engagement letter. Figures for non-responders are estimated from segmental disclosures, public filings and analyst coverage. Source: company reporting and Evenlode engagement, 2026.*

On the supply side, dependence on Taiwanese semiconductors was universal, and mapping was almost always restricted to Tier 1 suppliers. The risk has been delegated, not diversified. As one sell-side analyst put it to us, holding three Tier 1 suppliers is no protection if all three draw on the same Taiwanese Tier 2 component. There is, however, an important distinction between the companies that depend on advanced components and those that do not.

Spirax-Sarco is a good example of this. The company sources alternative suppliers from different regions when required, maintains inventory within its operating regions, and has the flexibility to increase stock levels or relocate inventory if disruption occurs. The electronic components in its Steam and Electric Thermal Solutions (STS and ETS) products - temperature controllers, sensors, etc. - are relatively mature by semiconductor standards and can be manufactured by multiple suppliers across different geographies, rather than being dependent on advanced-node fabrication within Taiwan.

**Inventory levels have been optimised, increasing risk.** In our call with a sell-side analyst, he described the past decade as one of constant inventory optimisation, with companies running stock levels down to release working capital. His view is that this now has to reverse, as buffers need to be rebuilt against disruption. As a rule of thumb, a company holding 60 or more days of inventory can withstand a long disruption, while those closer to 25 days are more vulnerable. The second-order effects could be significant: rebuilding buffers and/or building local capacity would increase working capital and potentially create a drag on Return on Capital Employed (ROCE) for the companies affected over the coming years.

**One pattern stood out.** Of the ten companies that answered in full, seven were UK-listed. It is a small sample, and we would not want to overemphasise it, but it is consistent with something we see across our work: UK companies have strong disclosure and engage actively with their shareholder base.

It's important to note that the consequences of such a geopolitical scenario playing out would not stop at the supply chain. If semiconductor supply were severely restricted, at some point IT infrastructure would begin to deteriorate, causing instabilities or security vulnerabilities. That would affect virtually all businesses in one way or another. Having said this, we are comfortable with the level of demand-side risk we are carrying, and are equally conscious that a supply-side disruption could be meaningful, and that it is best managed through portfolio construction and position sizing rather than through engagement alone.

## STEWARDSHIP TEAM

**Sawan Wadhwa**
Head of Stewardship

**Bethan Rose**
Stewardship Analyst

**Lily Chapman**
Stewardship Analyst

## Sustainability

We believe that delivering real, durable returns over the long term can be best achieved by integrating environmental, social and governance (ESG) factors into our risk management framework as this ensures that all long-term risks are monitored and managed on an ongoing basis. In addition to reviewing ESG factors when making investment decisions, we engage with portfolio companies on a range of ESG-related issues (for example supply chain resilience, cybersecurity, and remuneration, among other things). However, please note that the funds do not have a sustainability objective.

## Climate and Nature Reports

We recognise that climate changes pose significant financial challenges and opportunities in the short and long term. We continually assess the climate-related risks and opportunities faced by our investee companies and understand their readiness for a low-carbon economy. We have prepared Evenlode's entity-level **Task Force on Climate-Related Financial Disclosures** (TCFD) report which is available through our website and have expanded our disclosure this year to include nature-related risks and dependencies, aligned with the Taskforce on Nature-related Financial Disclosures (TNFD) framework. Our report details how we have managed clear systems and processes to identify, assess, and manage the climate and nature-related risks we face, applying the same process to each investment portfolio.

*Signatory of:*

PRI Principles for Responsible Investment

Evenlode Investment Management became a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2018. By becoming signatories, we commit to implementing these principles and incorporating environmental, social and governance factors into our investment process to help enhance returns and better manage risk for our clients.

**Policy Governance and Strategy: 4/5 or 88%**

★★★★☆

**Direct – Listed Equity Active Fundamentals: 5/5 or 98%**

★★★★★

**Confidence Building Measures: 4/5 or 80%**

★★★★☆

## Important Information

UK STEWARDSHIP CODE

**Important Information**

Evenlode has developed a Glossary to assist investors to better understand commonly used terms.

The information provided is for information purposes only and should not be relied upon as a recommendation to buy or sell securities. For full information on the Evenlode funds, including risks and costs, please refer to the Key Investor Information Documents, Annual & Interim Reports and the Prospectuses, which are available on the Evenlode Investment Management website (www.evenlodeinvestment.com). Recent performance information is shown on monthly factsheets, also available on the website. Every effort is taken to ensure the accuracy of the data in this document, but no warranties are given. Evenlode Investment Management Limited is authorised and regulated by the Financial Conduct Authority. No 767844.