



EVENLODE

INVESTMENTS FOR LIFE



Evenlode Investment
Quarterly Stewardship Report
Q4 2024

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

AS AT 31 DECEMBER 2024

Our Quarterly Stewardship 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
15 meetings

In 53% of meetings, we voted with management on all proposals

In 47% of meetings, we voted against management on at least one proposal

As an example, In November we voted on Pernod Ricard's AGM, a holding we have held in the IFSL Evenlode Global Income fund since March 2024. We voted with management on all resolutions, however the analysis identified some interesting observations. Firstly, governance and remuneration practices have been improving in the company. Alexandre Ricard holds both the CEO and Chair roles, concentrating leadership power, though the presence of Patricia Barbizet as a Lead Independent Director (LID) provided an important counterbalance. Board tenure is long, averaging over ten years, which raised some concerns about refreshment. This is particularly influenced by the Representative of the Société, Paul Ricard, who has been associated with the company for 40 years, albeit with annual changes to the individual representative.

The remuneration policy has undergone significant positive evolution in recent years, particularly in the Long-Term Incentive Plan (LTIP). The LTIP is now well-structured and transparent which is made up of Total Shareholder Return at 30%, measured against nine peers, profit from recurring operations

at 50%, and ESG-related metrics, including carbon, water, responsible drinking, and people at 20%. Targets and thresholds have continued to be challenging, and the maximum payout has been reduced from 150% of base salary. The Short-Term Incentive Plan is designed with a target payout of 110% of base salary and a maximum of 180%, relying on a mix of quantitative metrics such as recurring profit, free cash flow, and profit-to-sales ratios, alongside qualitative ESG and management targets. Overall, the CEO's take-home pay of €5 million, including a base salary of €1.25 million and balanced pension contributions in cash and shares, remains reasonable and consistent with previous years.

The LTIP's clear improvement and focus on long-term goals highlighted a remuneration which has improved and is now better aligned with long-term shareholder's interests. While over-boarding and governance issues continue to be of slight concern, the company is still aligned with the AFEP-MEDEF (French corporate governance) code and as such did not warrant a vote against any specific directors.



ENGAGEMENT

Engaged with
22 companies

Engaged on
15 themes

Engaged the most
on remuneration, net zero,
company strategy and
deforestation

ENGAGEMENT EXAMPLES

IFSL Evenlode Income

Peregrine Riviere, Head of Investor Relations and Chair of the Remuneration Committee at the London Stock Exchange Group (LSEG), wrote to update investors on the changes to the remuneration policy and sought our support at the upcoming AGM. The short-term incentive plan (STIP) will be assessed against a variety of metrics, including Group Adjusted Operating Profit, which carried the highest weighting at 60%. Additional components include Future Growth and Group Strategic Objectives, each weighted at 15%, and personal objectives, which account for the remaining 10%. Within the Future Growth category, the measures are further broken down into Annual Subscription Value growth and Net Sales, weighted at 10%, and Business Case Delivery metrics, weighted at 5%. We felt the inclusion of these metrics offered a good balance between forward-looking and retrospective measures, ensuring that both immediate and longer-term goals are appropriately incentivised.

The performance share awards under the long-term incentive plan (LTIP) will continue to be split between adjusted earnings per share, which is weighted at 60% of the metric, and relative total shareholder return (TSR), accounting for the remaining 40%. For the TSR component, performance will be measured against LSEG's global sector peer group and the FTSE 100, with equal weighting between the two. From 2025 onwards, the vesting range for TSR-based awards will extend from the 25th

percentile to the 80th percentile of the global sector peer group. We welcomed the detailed disclosure of the strategic metrics applied to the Future Growth element of the STIP and were supportive of the overall bonus structure in place.

However, as noted in our correspondence last year, we have consistently opposed remuneration policies where TSR and Earnings Per Share are the sole metrics driving the LTIP. We prefer to see additional metrics that align more closely with the company's long-term strategy and are within management's control, rather than being overly influenced by market conditions. While we are open to TSR being part of the policy, we believe profitability-based metrics should be included to provide a more balanced and comprehensive framework.

In our discussions, we have always supported the inclusion of an additional profitability-based metric aligned with the company's long-term strategy. Such a metric would have strengthened the LTIP structure, but there was some reluctance from the remuneration committee to make this change. Peregrine confirmed that, due to the extensive consultation process for the 2024 policy, the LTIP metrics have not been further reviewed for 2025. We will continue to engage with LSEG on this matter and, if necessary, consider escalating our concerns in the future.

IFSL Evenlode Global Income/Evenlode Global Dividend

Louis Vuitton-Moët-Hennessy (LVMH) recently engaged investors in a dedicated call led by their ESG Investor Relations team to discuss actions taken in response to supply chain concerns raised by irregular workers found in Dior's Italian operations. The issue, involving seven irregular workers in Tier 2 and 3 suppliers, drew judicial oversight, prompting Dior to enhance its controls. While the scale of the issue was relatively minor, it did highlight importance of having a strong supply chain risk management framework.

The discussion highlighted LVMH's Convergence Program, a comprehensive risk management framework that includes supplier assessments, risk analyses, and on-site audits. In 2024 alone, LVMH conducted over 3,100 audits, with significant focus on Italian suppliers. To ensure accountability and progress, LVMH has developed a robust governance structure, with

CEO oversight, data tracking, and compliance to European regulations such as the Corporate Sustainability Due Diligence Directive (CSDDD). A Risk Management Committee and enhanced governance measures are expected to be fully operational by the end of 2024. Further measures include unannounced supplier audits, grievance mechanisms, and the rollout of a Business Partners Initiative. LVMH plans to introduce new Fair Wage Principles and expand its whistleblower system globally.

The new structures which are in place seem to be robust ensuring better oversight through audits, direct engagement with suppliers and a clear focus on human rights. The main company concerns were brand reputation and the knock-on effect to sales, and their ability to push pricing.

ENGAGEMENT EXAMPLES (continued)

IFSL Evenlode Global Equity/Evenlode Global Opportunities

In October, the Stewardship team reached out to Nestlé to discuss their approach to the upcoming European Directive on Deforestation, originally set to take effect at the end of 2024. However, the regulation has since been delayed by a year. John Armstrong, Head of Sustainability and Investor Relations at Nestlé, responded to our engagement and offered to have a call to address our questions. The conversation was engaging, candid, and insightful.

Nestlé expressed its support for the original enforcement timeline, having already dedicated significant time and financial resources to preparing its supply chains and implementing the technology needed to manage the additional data requirements. According to Mr. Armstrong, a two-tier system - where “clean” commodities are sold in the EU and others elsewhere - was unlikely to pose a significant risk. He explained that the administrative burden associated with such a system would be prohibitive for most of their business segments. Additionally, for commodities like cocoa, where taste profiles are highly specific, smallholders cannot easily be replaced, making such segregation challenging. He suggested that the impact on

margins would likely be minimal since much of the preparatory work had already been completed. While slight price increases might occur, they are not expected to be significant in the near term.

For specific commodities like cocoa, and potentially palm oil, Nestlé plans to implement supply chain segregation. This means that for certain periods during the year, mills will exclusively process Nestlé’s commodities, thereby improving traceability.

Nestlé’s initial target of achieving a deforestation-free supply chain by 2020 was previously extended to end of 2025. This extension accounted for the inclusion of additional commodities, such as cocoa and coffee, as well as the unforeseen challenges of ensuring a fully deforestation-free supply chain for small-scale farmers. Mr. Armstrong acknowledged the difficulty of reaching 100% deforestation-free status but emphasised that Nestlé remains ‘committed to striving toward this goal’. He also clarified that the company does not intend to develop a vertically integrated supply chain.

STEWARDSHIP TEAM & ESG RATINGS



Sawan Wadhwa
Head of Stewardship



Bethan Rose
Sustainable Investment Analyst



Rebekah Nash
Stewardship Analyst



Lily Postlethwaite
Stewardship Analyst

Our ongoing commitment

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.

Signatory of:



Policy Governance and Strategy



Direct - Listed Equity Active fundamental



Confidence Building Measures



IFSL Evenlode Income
 IFSL Evenlode Global Income
 IFSL Evenlode Global Equity
 Evenlode Global Dividend
 Evenlode Global Opportunities



The Morningstar® Sustainability Rating™ is intended to measure how well the issuing companies of the securities within a fund's portfolio holdings are managing their environmental, social, and governance risks relative to the fund's Morningstar Global Category peers, with 5 globes being the highest rating. IFSL Evenlode Income, IFSL Evenlode Global Income, IFSL Evenlode Global Equity and Evenlode Global Dividend based on 100% of AUM as at 30 November 2024. Evenlode Global Opportunities based on 98.4% of AUM as at 30 November 2024.

The Morningstar® Low Carbon Designation™ is intended to allow investors to easily identify low-carbon funds across the global universe. The designation is an indicator that the companies held in a portfolio are in general alignment with the transition to a low-carbon economy. IFSL Evenlode Income based on 97.0% of AUM; IFSL Evenlode Global Income based on 98.8% of AUM; IFSL Evenlode Global Equity based on 98.6% of AUM; Evenlode Global Dividend based on 97.6% of AUM. Data as at 30 November 2024. Evenlode Global Opportunities based on 97.4% of AUM. Data as at 31 October 2024.

MSCI ESG Fund Ratings aim to measure the resilience of funds to long-term risks and opportunities arising from environmental, social and governance (ESG) issues. Each fund scores a rating on a scale from CCC (laggard) to AAA (leader). The rating is based first on the weighted average score of the underlying holdings of the fund. ESG momentum is then assessed to gain insight into the fund's ESG track record, which is designed to indicate a fund's exposure to holdings with a positive rating trend or worsening trend year over year. For more information on the methodology please visit our website. All five funds are based on 100% of AUM as at 30 November 2024.

Important Information

Evenlode has developed a [Glossary](#) to assist investors to better understand commonly used terms.

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 issues (for example greenhouse gas emission reduction). However, please note that the Evenlode funds do not have a sustainability objective.

This document is not intended as a recommendation to invest in any particular asset class, security or strategy. 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.

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ESG ratings

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