



**EVENLODE**

INVESTMENTS FOR LIFE



**Evenlode Investment**  
Annual Responsible Investment  
Report 2024

[evenlodeinvestment.com](https://www.evenlodeinvestment.com)



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

With a focus on long-term investment, we hold companies that we deem to be high quality. We define 'quality' in this context as companies that are not capital intensive, have a strong economic moat, reliable cash flows and a healthy balance sheet. We recognise the influence we can have on the companies we invest in on behalf of our clients. As highlighted through our purpose statement, active engagement is at the core of our stewardship strategy. We place significant emphasis on this approach as it allows us to encourage sustainable practices and drive positive change in the companies we invest in.

## 2024 Highlights:

Completed our first integrated Taskforce for Climate-related Financial Disclosures (TCFD) reports.

Engaged with material companies on their Net Zero Transition Plan.

Hosted a Net Zero roundtable bringing together various stakeholders within the business.

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# EVENLODE'S YEAR IN STEWARDSHIP

By Rob Harris, Chief Executive Officer

We seek real, durable returns for our clients over the long term, investing in a sustainable way that contributes to a positive future.

Over the years, responsible investing has often been misrepresented as 'impact investing' – a categorisation that can be misguided. At Evenlode Investment, incorporating environmental, social and governance (ESG) factors into our investment process is not about aligning with specific moral or ethical agendas, but about ensuring we are assessing all risks a company is likely to face over its business cycle. As equity investors, we typically hold stocks for five to seven years, meaning we must take a comprehensive view of potential regulatory, environmental and social risks that could affect a company's long-term resilience of its future earnings.

The recent backlash against ESG investing has done little to change our stewardship approach or investment process. It is clear to me that Evenlode has admirably steered a steady course over recent years, avoiding being swayed by the siren calls of commercial opportunism – whether that be the pull of dedicated sustainable fund launches a few years ago, or indeed the reverse zeitgeist of publicly retreating from climate commitments now. ESG considerations have always been embedded within our risk management framework, and our focus remains on identifying the risks and opportunities that will ensure companies in our portfolios continue to operate in the future. From regulatory shifts like carbon pricing and/or taxes, to evolving consumer preferences and supply chain vulnerabilities, these factors are central to ensuring businesses are well-positioned for the long term. We believe that companies that proactively manage these risks are more likely to sustain competitive advantages and generate durable returns for our clients.

## Stewardship with Purpose

The purpose of our stewardship team is to **preserve and enhance the value of our clients' assets through long-term engagement and analysis**. Robust risk management is at the heart of this, and as active owners, we play a key role in influencing companies to improve their governance structures, environmental practices, and social impact through their value chain. Unlike many investors who rely on external proxy advisors for voting recommendations, we conduct all our voting decisions in-house. This is not to say that proxy advisors do not have a place – they provide valuable insights – but given our long-standing relationships with investee companies, we feel that we have sufficient information to make well-informed voting decisions.

To strengthen this process, we have developed a proprietary annual general meeting (AGM) analysis framework that allows us to evaluate the most critical governance issues, such as board composition and remuneration structures, and to understand the implications of shareholder proposals. By taking this approach, we ensure that our voting decisions reflect a deep understanding of the companies we invest in, rather than relying on standardised recommendations.

One of the main objectives of our Stewardship team is to engage with companies over the long term to improve their sustainability characteristics. Effective engagement is not about short-term interventions, but about creating meaningful dialogues



Rob Harris, Chief Executive Officer

that lead to tangible improvements. This is particularly relevant given the SFDR Article 8 status for our Irish-domiciled funds, which we formally adopted in late 2022. This classification underscores our commitment to investing in companies that are actively improving their sustainability credentials, and engagement plays a crucial role in achieving this. This also aligns with our recent decision not to apply for a sustainability label for our UK-domiciled funds under the FCA's new Sustainability Disclosure Requirements (SDR) (see following page).

In 2024, regulatory and reporting requirements have continued to evolve, requiring closer collaboration between our stewardship and compliance teams. While regulatory demands have increased our workloads, they have also enhanced our internal processes, reinforcing our stewardship culture across both the investment and business teams. The integration of compliance considerations into our stewardship strategy ensures that we remain ahead of future regulatory changes.

# EVENLODE'S YEAR IN STEWARDSHIP

By Rob Harris, Chief Executive Officer

## Key developments in 2024

This year, we made several enhancements to our stewardship capabilities:

- **EDDIE platform enhancements:**

Our proprietary research and portfolio management system, EDDIE, has been upgraded to include a more granular level of detail on investee companies' net-zero transitions. This has improved access to sustainability data for the entire investment team, offering deeper insights for our clients.

- **Specialist focus areas:** Our team has continued to refine their expertise in key sustainability themes, including regenerative agriculture, deforestation, water management, and commodity risks. These areas are becoming increasingly important, as demonstrated by Rebekah Nash's in-depth analysis of the palm oil industry later in this report.

- **Sustainability Disclosure Requirements (SDR):**

We made a positive decision not to apply for a sustainability label. After internal debate and external advice, we felt that ESG integration alone (whereby the focus is on managing risk as opposed to having a specific sustainability objective or creating impact) was not a sufficient basis

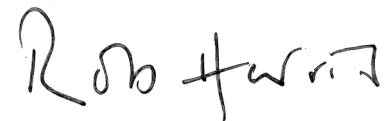
for applying for one of the FCA's four SDR labels (Sustainability Focus, Sustainability Improvers, Sustainability Impact, Sustainability Mixed Goals). The focus will remain on encouraging all companies to make improvements to their management of ESG risks. The funds do have sustainability characteristics though, so in order to comply with the new SDR rules we worked with our UK ACD to include additional sustainability wording in our fund prospectuses and we now also produce new 'Consumer-Facing Disclosures' which provide retail investors with essential information about the funds' sustainability practices, to help them make more informed investment decisions.

- **Task Force on Climate-related Financial Disclosures (TCFD) reports:**

In collaboration with Canbury, a sustainability consultancy, we successfully published our first TCFD report at both the entity and product level. This represents a significant step in our commitment to transparency and accountability in climate-related financial risks.

Over recent years, there has been a growing awareness of responsible investing within our industry, across government and wider society, and we believe that – despite short-term headwinds – momentum will continue to build. We have always understood that the role of asset management extends beyond capital allocation; we also have a fiduciary responsibility to drive positive change through our engagement strategies. When done effectively, engagement not only helps to improve the sustainability profile of individual companies but can also enhance their long-term risk-adjusted returns, benefiting both shareholders and the broader stakeholder community.

As we look forwards, Evenlode remains committed to preserving and enhancing the value of our clients' assets through long-term engagement and analysis. We will continue to engage with our portfolio companies to advocate for transparency, accountability, and improved operational and value chain efficiencies. We look forward to sharing our insights with you in the years ahead.



Rob Harris, Chief Executive Officer

# THE TEAM

By Sawan Wadhwa, Head of Stewardship

We are looking for strength and depth within our team and have hired individuals with experience from diverse backgrounds. This ensures we address all Evenlode's business values and enhance our investment process.

As an employee-owned business, the aim is to build a multi-generational team within which, in due course, the business can be handed from one set of employee-owners to another whilst continuing to consistently apply our process to the portfolios we manage. The concept of delivering in the long run for all stakeholders means that the team is structured to take collective ownership for the decisions made on the portfolios we manage, whilst containing lines of individual responsibility to ensure that accountability is not dissolved.

The team are responsible for analysing stewardship and ESG issues that are relevant for companies in the Evenlode investable universes and portfolios. The team believe that a company's ESG credentials are important risk factors to analyse over the long-term, and that engagement with companies on these issues can lead to positive outcomes in the Evenlode portfolios, the health of the company, and broader economy.

Over the past year, the team has continued to deepen its knowledge of four key themes important to our portfolio companies: regenerative agriculture, water management, commodity risks, and deforestation. For many years, a lack of transparency in global supply chains has created a significant gap between the sustainability claims made by companies in their reports and the reality on the ground. In the coming years, our goal is to further strengthen our understanding of these critical areas to better manage long-term risks.



Sawan Wadhwa, Head of Stewardship

# THE TEAM

By Sawan Wadhwa, Head of Stewardship

## Evenlode Income



**Hugh Yarrow**  
Lead Manager



**Ben Peters**  
Co-Manager



**Chris Moore**  
Co-Manager



**Charlotte Lamb**  
Deputy Portfolio  
Manager



**Leon Cyril**  
Investment Analyst

## Evenlode Global Income / Evenlode Global Dividend



**Ben Peters**  
Lead Manager



**Chris Elliott**  
Co-Manager



**Robert Strachan**  
Deputy Portfolio  
Manager



**Ben Armitage**  
Investment Analyst



**Phoebe Greenwold**  
Investment Analyst

## Evenlode Global Equity / Evenlode Global Opportunities



**Chris Elliott**  
Co-Manager



**James Knoedler**  
Co-Manager



**Cristina Dyer**  
Deputy Portfolio  
Manager



**Gurinder Samra**  
Investment Analyst



## Stewardship Team



**Sawan Wadhwa**  
Head of  
Stewardship



**Bethan Rose**  
Stewardship Analyst



**Rebekah Nash**  
Stewardship Analyst



**Lily Postlethwaite**  
Stewardship Analyst

## Innovation Team



**Tom Weller**  
Head of Innovation



**Samuel Ratcliffe**  
Junior Investment  
Analyst

# EVENLODE'S STEWARDSHIP STORY

By Sawan Wadhwa, Head of Stewardship

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Evenlode is a signatory of the UK Stewardship Code which was first published by the Financial Reporting Council (FRC) in 2010. After being updated in January 2020, the code sets high stewardship standards for asset owners, managers and service providers that support them. Consisting of twelve guiding principles for asset managers and owners and a separate set of six principles for service providers, the new code aims to encourage engagement between institutional investors and company management and promote a greater level of transparency. It is applicable to those firms who manage assets on behalf of institutional shareholders, including pension funds, insurance companies, investment trusts and other collective investment vehicles.

The Code increasingly helps us navigate around these complex risk mitigating themes and is increasingly recognising that ESG factors are becoming even more material to the long-term success of a company. We have welcomed the emphasis on investor engagement outcomes over the last couple of years.

We are hoping this will create more robust long-term engagement strategies with intended positive outcomes on investee companies.

To help us better manage long-term systemic risks we are members of various industry groups such as the United Nations Principles for Responsible Investment (UNPRI), Investor Forum, Carbon Disclosure Project (CDP), and Climate Action 100+. Additionally, we are a member of the International Corporate Governance Network (ICGN) and the Natural Capital Committee (NCC) whose focus is on the natural environment, ecology and biodiversity including climate change and the UN Sustainable Development Goals. These discussions bring emerging climate-related and market risks to our attention and help us curate thematic areas of analysis.

The UNPRI principles were developed in 2005 by an international group of investors who wanted to promote the increasing relevance of responsible investment. By becoming signatories, we have committed to implementing these principles and incorporating ESG factors into our investment process to better manage risks for our clients.



# ESG INTEGRATION

By Sawan Wadhwa, Head of Stewardship

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We assess companies in our investable universe on a range of financial and non-financial factors, divided into three different categories:

- **Business:** Economic Moat, Pricing Power, Long-term Industry Outlook, Economic Sensitivity, Diversification, Management and Cultural Quality, and ESG.
- **Financial:** Balance Sheet Strength and Cash Generation.
- **Investment:** Liquidity and Valuation Risk.

We assign a score of between A to E for each risk factor for each company we follow and analyse. This scoring methodology induces conversation within the investment team at our regular risk scoring meetings and when an investment case is reviewed, ensuring a collegiate decision is made considering a range of viewpoints. Companies that score badly on certain issues, or certain combinations of issues, are less likely to be included in our investable universe. For instance, an E for both Balance Sheet Strength and/or Economic Sensitivity, and an Economic Moat score less than a C. If a company scores an E on ESG risk because there are severe ESG concerns that the company is not managing adequately, it will be excluded from the portfolio/universe.

Where a company does not meet minimum ESG standards and consequently scores a D, this leads to active engagement on the identified issues that, if necessary, is escalated from direct engagement with the company to collective engagement through one of the investor initiatives we are members of.

We use several checklists which help us to focus our attention on the most significant and/or value-adding matters on behalf of our clients. Over the course of the year, in order to create more structure around how we score companies on ESG risks, we highlighted market-wide ESG issues that present long-term risks if not addressed:

- **Environmental risks:** Net zero transition plan, emission intensity, oversight of climate strategy.
- **Social risks:** Lack of transparency within the supply chain, labour violations, material controversies, pay parity.
- **Governance risks:** Arising from a poor governance framework – misalignment between pay and performance, inadequate independence of board members, disproportionate voting rights.



# ESG INTEGRATION

By Sawan Wadhwa, Head of Stewardship

## ESG Risk Methodology

Report scope 1, 2 & 3 emissions, coherent 'science-based' net zero strategy with interim targets, conducts scenario analysis, board-level oversight of ESG strategy, overall positive social impact with no material controversies in its supply chain, governance code compliant board, relevant ESG-related metrics in rem policy, positive engagement with shareholders.

**Engage to learn.**

Reports on scope 1 & 2 and some scope 3 emissions, long-term environmental targets, ESG strategy reported to the CEO, neutral social impact, moderate controversies not fully managed, majority independent board, metrics other than Total Shareholder Return/Earnings per Share used in remuneration policy, responsiveness to shareholders.

**Engage to address moderate issues.**

Does not report any emissions, poor ESG disclosure standards, relatively high emission intensity in portfolio(s), no environmental targets set, detrimental social impact of core product/business model, non-existent net zero strategy, misaligned remuneration policy, serious independence concerns on the board/committees, no engagement with shareholders.

**Exclude from portfolio.**



Report on scope 1 & 2 and relevant scope 3 emissions, environmental targets set for medium and long term approved by external body, overall largely positive social impact with minor controversies that the company seek to address, non-financials measured in remuneration policy, fully independent board committees, active engagement with shareholders.

**Engage on minor issues.**

Reports on scope 1 & 2 emissions, weak governance on ESG strategy, only short to medium term environmental targets, recurring controversies within supply chain left unmanaged, lack of independence on the board and committees, opaque remuneration policy solely focused on share price/earnings, lack of responsiveness with shareholders.

**Actively engage for change.**

### Exclusions

- We do have a formal controversial weapons exclusion policy.
- We do not have a formal exclusion policy for tobacco, mining, oil and gas activities because our investment process already precludes investing in sectors which are capital intensive and can cause direct negative harm to the environment and/or society.

We wanted to ensure we had clear systems in place to eliminate any preconceived notions and biases and have created a checklist which asks 36 ESG-related questions of each company. Environmental, social, and governance considerations are weighted differently, with environment having the highest weighting of the three due to the increased importance we have attributed to our net zero targets. Example questions include:

- Is there board-level oversight of its climate transition plan?
- Is the company materially exposed to litigation risk?
- Has the company been involved in

human rights violations within its supply chain? And if so, how was it managed?

- Does the company disclose performance metrics targets in its remuneration policy?

Once the score is calculated, an independent judgement and discretion is applied by the Stewardship team as a common-sense overlay.

The resulting score is presented and discussed at our weekly investment meetings, serving as a crucial factor in determining the maximum position size for each company. This process benefits from independent discussion,

discretion, and calibration, allowing for a nuanced consideration of each potential issue and avoiding a purely mechanical approach to decision-making. Our process is collaborative, incorporating the perspectives of the entire team. We diligently use a comprehensive checklist to identify the most material matters. This approach not only highlights the most relevant Environmental, Social, or Governance (E, S, G) factors for a company's industry and business model, but also facilitates the continual evolution and improvement of our framework. This includes integrating thematic analysis derived from our specific company research.

# ENGAGEMENT AND EXCLUSIONS

By Sawan Wadhwa, Head of Stewardship

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## Why we exclude companies

We judge each business on its own merits when deciding on its ESG risk score, and do not exclude any sector from the outset. It is our belief that all companies face both ESG risks and opportunities, and we should critically assess those as part of our analysis before drawing conclusions. We do, however, formally exclude companies that directly manufacture controversial weapons, and our controversial weapons policy is available on our website.

As noted above, we will give a company an ESG risk grade of 'E' if it has significant ESG-related risks that are not being adequately managed. If a company scores an E, it will not be eligible for investment. This is fundamentally a risk control mechanism; it is our belief that companies that do not adequately manage their own business risks face potential liabilities through fines and regulatory censure, reputational damage, and subsequent lost revenues, profitability and cash flow. Such companies present heightened risks for owners of that business' equity. We therefore look elsewhere to achieve good risk-adjusted returns for our clients.

## The investment case for engagement

We will engage with those companies that we grade better than an 'E' in our ESG risk matrix.

We consider engagement with companies as an opportunity. Discussing challenges with companies enables us to understand their business context and obtain more information about their mitigation of and resilience to the risks that we perceive.

Ultimately though we are seeking to create long-term value for our clients through improving the sustainability characteristics of a company. However, we understand that all this takes time and a measured approach. This type of approach requires appropriate engagement objectives and is why we set objectives for each engagement, which allow us to stay focused and monitor our ongoing engagements.

Risk management is still a focus for those companies that we do not exclude on ESG grounds. The company's ESG risk score is considered when setting its maximum position size as a routine part of our investment process. Companies that have lower scores will, all other things equal, have lower maximum position sizes.

# THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

To gain a deeper understanding of the businesses we invest in, we measure the level of accessibility and transparency companies offer to their stakeholders. Over the years we have observed that there is a good correlation between companies that are willing to engage with investors proactively and those that have a strong and open culture throughout the organisation. IntegraFin is a good example. Last year, we engaged with the company multiple times on its new remuneration policy, double materiality (initiated by the company), and its net zero transition plan. Our discussions covered themes

such as net zero, carbon emissions, water usage, remuneration, and overall company strategy. IntegraFin has consistently been receptive to our engagement requests and maintains a strong governance framework, especially given its relatively small market capitalisation compared to other holdings in the Evenlode Income portfolio.

We consider stewardship to be an important part of our investment philosophy and over the past few years have developed a framework for engagement. We believe it is our

fiduciary duty to protect and enhance the value of our clients' assets, whilst responsibly minimising broad non-financial risks. Monitoring of investee companies is good investment practice, and we would never invest on behalf of our investors without undertaking sufficient due diligence.

In 2019, we updated our proprietary investment research software system (EDDIE) which now includes the 'Engagement Tracker' functionality. The 4-step process for documenting engagement activity in EDDIE is shown below:

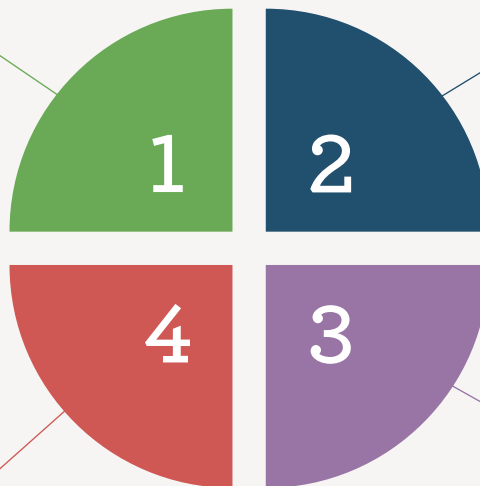
## Engagement Tracker

### INITIATION

The engagement is created because of either a vote against management at an annual general meeting (AGM), a specific issue which has been identified by Evenlode and raised with the company, or alternatively a contact from the company itself.

### ACTION

The outcome of the engagement is documented. Has the company implemented a new policy because of our engagement or made a strong enough argument to defend its current strategy?



### ACKNOWLEDGMENT

There is a response from either party with an acknowledgement of any concerns raised.

### DISCUSSION

The conversation around the engagement topic is documented.

	Interactions	2024
Initiation	38	49%
Acknowledgement	16	21%
Discussion	13	17%
Action	11	14%
<b>Total:</b>	<b>78</b>	<b>100%</b>

# THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

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## Examples of cases that lead us to prioritise an engagement are:

- **Roundtable discussion with like-minded investors to learn about a change in leadership:**

We attended a roundtable discussion of a company we hold in the Evenlode Global Income and Evenlode Global Equity strategies. The event is usually well attended from like-minded and notable investors discussing the company's governance framework, leadership, and long-term strategy.

Over the past three years, the company has undergone significant board changes, appointing five new members and a new CEO, a transition led by the nomination committee, including the Chair. Maintaining strong morale is crucial to retaining board-level talent, and leadership shifts have played a key role in improving engagement. Previously, leadership was distant, with financial engineering taking precedence over operational improvements. The pandemic exposed these weaknesses, necessitating decentralisation and highlighting the need for a more hands-on approach. Structural changes were delayed due to a misreading of growth drivers and an excessive focus on margins. Former leadership lacked industry depth, prioritising analytical strategies over consumer engagement. Now, the company is refocused on brand strength, innovation, and long-term investment, creating a culture of accountability and purpose. With stronger leadership alignment, employee confidence has improved, execution has strengthened, and the organisation is rebuilding its competitive edge through a clearer strategic vision.

- **To understand how an upcoming delay in European Union Deforestation Regulation (EUDR) will impact the company. This is what we learnt:**

The company is a leader in traceable supply chains, but the EUDR presented them with significant challenges. While the delay allowed more time to refine systems, it risks sending a weak message and could increase complacency. Only a few companies have actively invested in sustainability, and those that haven't will face significant costs. The regulation's practical challenge lies in the vast amount of data that needs to flow through the supply chain – something AI is not yet capable of managing. The company has worked hard to build these systems and will use the extra time to stress test them.

Supply chain segregation is particularly challenging for cocoa. Unlike palm oil, which can be traced to certified mills, cocoa is more complex due to fragmented sourcing at the local level. The company has had to work with major suppliers to ensure dedicated processing periods, allowing for greater traceability and reducing the risks associated with mass balance (mixing sources). Currently, over 50% of cocoa remains in the “unknown” category due to these challenges. The complexity comes from intermediaries operating at high speed, making visibility difficult. EUDR will bring more rationality to the process, though each supply chain will have unique challenges.

A key concern was whether EUDR could create a two-tier supply chain. However, major suppliers prefer a unified system, as managing multiple tiers would be inefficient and costly. The shift towards a single approach aligns with broader supply chain trends and net zero roadmaps. The regulation also raises questions about enforcement—particularly whether fines will be severe from the outset. While the financial penalties remain unclear, initial enforcement will likely focus on compliance rather than aggressive punitive measures. Regulators may use early cases as examples to push broader adoption, but drastic fines could destabilise commodity markets and spark trade tensions.

On deforestation targets, the timeline has been pushed to 2025 due to the inclusion of cocoa and coffee. The company acknowledged that achieving 100% compliance is challenging because rigid supply chain restrictions could exclude smaller suppliers. Instead, they aim to bring more farmers into compliance rather than shutting them out, like past palm oil strategies. Investors want ambitious sustainability targets, but the company takes a pragmatic approach – balancing ambition with realistic execution.

Cocoa prices remain a major challenge due to structural issues such as deforestation, crop failures, and speculation. While the upcoming harvest looks better, long-term sustainability depends on diversifying supply sources. Cocoa has distinct taste profiles, meaning sourcing options are limited. Despite these complexities, the company sees sustainability as a business imperative, not just an ethical obligation. Investing in traceability strengthens resilience, mitigates risks, and reinforces the company's leadership in responsible sourcing.

# THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

- **The new remuneration committee Chair writes to us to explain the rationale for a new remuneration policy.**

The Chair of the Remuneration Committee commissioned a review of the remuneration policy, which received 95% shareholder approval. The updated Long-Term Incentive Plan (LTIP) targets double-digit Earnings per Share (EPS) growth (10.5-14.5% Compound Annual Growth Rate (CAGR)) while maintaining focus on Return on Invested Capital (ROIC) and free cash flow (FCF).

The company had shown strong financial performance, with revenue growing at 5.3%, EPS at 6%, and FCF at 8.3% over the past decade. Earnings Before Interest and Taxes (EBIT) margins have improved by 110 basis points, the dividend payout has increased by 127%, and total shareholder return (TSR) had outperformed the FTSE 100 at 6.9% CAGR versus 5.9%.

A post-Covid growth strategy aimed to drive higher organic expansion by leveraging the company's core business model. To address shareholder concerns, the company added a couple of safeguards. The ROIC 'gate' for Enhanced LTIP awards will be set at a level that would make it counter-productive for management to pursue M&A unless it provided excellent returns; and in the event of any share buybacks, the impact will be excluded from the EPS calculation. These are steps we've supported and previously discussed with the company. Given the company's track record and these measures, we welcomed the changes.

Over the past 12 months, we have engaged with investee companies on various themes, including regulatory changes, policy updates, and roundtable discussions, reflecting our approach to selecting engagement opportunities. In adherence to our voting policy, we initiate dialogue with company management before we action a vote (if we need additional information) and also after actioning a vote (if we vote against management) via a letter. During the year, we engaged 38 times with companies regarding the AGM voting decision.

Due to the differing nature of governance frameworks globally, and the complexity of surrounding policies, it can be useful to speak with management before inputting the vote. If voting against management, our policy states that we must write to the company stating the reasons why. This induces a healthy conversation

post the AGM about the changes we want to see in the company and allows us (as investors) to better understand the company's point of view. Although the topics may differ between various geographies, the engagement strategy remains the same for all the funds. Recording each step of the engagement process allows us to record, analyse, monitor and measure the success of our engagements. As the information is now kept in a centralised database, it further enhances transparency and spreads the knowledge in the team, whilst eliminating the risk of sending conflicting messages. Ongoing maintenance of the tracker also can provide useful data which we can then use to create a more robust engagement framework.

For our full engagement policy please see: [evenlode.cdn.ngo/media/documents/Engagement\\_Policy.pdf](https://evenlode.cdn.ngo/media/documents/Engagement_Policy.pdf).

# THE ENGAGEMENT TRACKER

By Sawan Wadhwa, Head of Stewardship

## ESCALATION – KUEHNE+NAGEL

Engagement is an important part of our stewardship activities and is the preferred approach over divestment. Dialogue with our investee companies provides us with an opportunity to learn, collaborate and leverage off other like-minded investors. It is the main tool by which to achieve positive change at companies over the long term. However, for our engagement model to have impact, it must be accompanied with a clear and vigorous escalation process, and divestment is only considered where escalation has been exhausted and if there are significant, unmanaged and/or unmanageable risks identified.

After conducting our annual emissions analysis in the year, we escalated an engagement with Kuehne+Nagel, a holding in the Evenlode Global Income fund. We wanted to understand the reasons behind an anomalously high figure reported for the ‘Purchased Goods and Services’ category within their scope 3 emissions and their lack of science-based targets in their net zero strategy. Ahead of the meeting, we raised a query regarding the reported 2022 emissions figure of 16,520,000 tons of CO<sub>2</sub>e under Scope 3, specifically within the ‘Purchased Goods and Services’ category, making year-on-year comparisons appear inconsistent. As a digital solutions business focussed on creating efficiencies for customers, it seemed unusual to us that this scope 3 category would have come down in 2023 to a fraction of the size it was in 2022, without a clear explanation, or without corresponding changes appearing in the financials.

During the discussion, Kuehne+Nagel clarified that the inflated 2022 figure was incorrect: an error caused by confusing kilotons (ktCO<sub>2</sub>) and metric tons (tCO<sub>2</sub>). The company does not expect similar errors to recur but acknowledged that some reallocation of emissions across scope 3 categories may take place in the 2024 reporting cycle. Additionally, Kuehne+Nagel outlined their net zero strategy, which includes an ongoing resubmission of their science-based targets and a shift from absolute to

intensity-based targets, whilst remaining committed to their near-term 2030 goal. Updates to baseline data will account for recent acquisitions, with a full net zero update expected towards the end of 2024. Kuehne+Nagel also discussed its sector-specific decarbonisation efforts. The company is actively electrifying its fleet and encouraging suppliers to follow suit. In sea transport and aviation, direct impact is more limited due to minimal fleet ownership, but the company is exploring biofuel adoption models and promoting the use of Sustainable Aviation Fuel (SAF), whilst advocating for a shift from air to sea freight.

This engagement highlighted the challenges that companies face when calculating their emissions. As the first investors to question this figure, the business was grateful for our level of due diligence whilst also being surprised to find such an error in their published numbers. We view such an engagement as support for why focussing in on a company’s reported emissions figures, in the context of their business activities is important. We have found that speaking with our investee businesses about the challenges they face and emphasising that we appreciate the work they put into measuring and mitigating their emissions, helps us to build a stronger relationship in the long term. In turn, we can gain a deeper understanding of the companies in which we invest, enhancing our risk management process and helping us to make more informed decisions.

Although the engagement outcome was positive, we felt it was important to closely monitor their reporting practices when voting at their AGM that year. We also identified similar concerns in their remuneration policy. The policy listed ‘financial performance of the group’ as the main driver but lacks clear thresholds, targets, minimums, or maximums. Due to this lack of transparency, we escalated by voting against the remuneration policy and sending a follow-up letter explaining our decision.



# ENGAGEMENT THEMES

By Rebekah Nash, Stewardship Analyst

In 2024 we continued to combine our AGM and net zero engagements. This allowed us to have meaningful dialogue, focusing on quality rather than quantity of engagements.

Engagements via teams or face-to-face meetings remain a key part of our overall stewardship strategy. By combining our engagements with companies, we can focus solely on the most material ESG-related issues. Often these include themes around emissions data, governance-related analyses, and net zero assessments. This data often only changes annually so singular engagements are far more efficient.

This targeted approach has led to more positive interactions with portfolio companies, encouraging us to continue this strategy into 2025 while seeking to further streamline the process. Notably, net zero and remuneration emerged as the top two themes we engaged on.

## COLLABORATION – NET ZERO ROUNDTABLE

Our overall approach around direct vs collaborative engagements is simple. We believe collaboration is important to strengthen our collective influence in addressing ESG issues and learn from like-minded investors. However, as long-term investors, we have developed continuing relationships with our investee companies through direct engagements. We believe this is a key ingredient in effecting change which will benefit both our clients and companies.

In 2024, we hosted our second Net Zero Roundtable which gathered a diverse group of stakeholders, including representatives from public and private companies, charities, industry standard setters and clients. Each providing their own unique perspective and expertise. The objective of the day was to *explore the key challenges businesses face in reducing their indirect emissions within the value chain.*

Following feedback from our first roundtable in 2023, we focused the topics of this roundtable to decarbonising the supply chain and the role innovation can play to help achieve this. Through presentations, breakout sessions and a panel discussion we tackled these two key questions:

1. **What are the barriers businesses face when attempting to decarbonise their supply chains, and how can they be overcome?** How challenging is it to accurately measure and report your own carbon emissions? Are barriers mainly related to measurement, or do they also involve significant financial implications?
2. **What role does innovation play in achieving net zero?** Innovation in technology, business models, and processes is considered essential for achieving sustainability goals. How can organisations create a culture of innovation that drives significant reductions in emissions? What barriers currently exist and how can they be overcome?

# ENGAGEMENT THEMES

By Rebekah Nash, Stewardship Analyst

Our learnings from the day focused on supply chain transparency. Transparency in the supply chain is crucial for making informed decisions and holding suppliers accountable. Companies face challenges in collecting scope 3 data, this is particularly difficult when dealing with smaller suppliers who may not have the resources to measure their emissions in the way larger public companies require. There was discussion of the need for reporting platforms to aid this challenge of transparency for all suppliers. Secondly, we discussed how collaborative initiatives and policy support are essential for enabling the 'just transition' to clean energy. Companies should not aim to work in isolation but rather seek collective solutions and leverage policy makers. Consistent policy enforcement and mechanisms such as the carbon border adjustment mechanisms (CBAM) are essential for the decarbonisation process; the financial implications of not complying to policy and regulation create significant momentum towards progress. Furthermore, innovative companies and larger established companies can work well together to be part of the carbon reduction process. Building relationships between innovators and public companies is essential to enabling innovative solutions to be rolled out on a large scale. Thirdly, incentives such as ESG metrics in remuneration policies for executives, and sustainability-linked bonds and grants can drive innovation thus supporting the transition to greener alternatives. Philanthropy and flexible funding can also play a significant role in supporting the transition.

Although it is easy to feel bogged down by the climate crisis, by bringing together representatives from a variety of sources working to improve our environment, provided us with energy and hope for the future. The day showed us the positive momentum from those working on innovative solutions, such as plastic alternatives, to major companies making significant strides towards transparent supply chains and the important role legislation play in moving us towards a more positive future. Without transparency we cannot hold ourselves or each other accountable therefore improved transparency means improved results. This coupled with the incredible innovation taking place from the ground up show just how much hope and opportunity there is towards improving our climate.

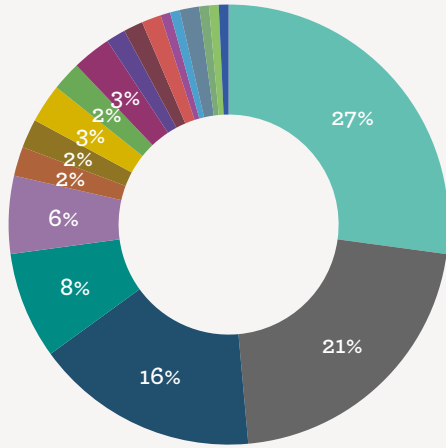
Building on the success of our first two roundtables, we plan to continue hosting the roundtable in 2025, where we will continue to bridge the gaps between different people within the decarbonisation supply chain and discuss the positive momentum we can bring to the challenge. This will be especially important in 2025 given the unstable geopolitical environment we find ourselves in.



# ENGAGEMENT THEMES

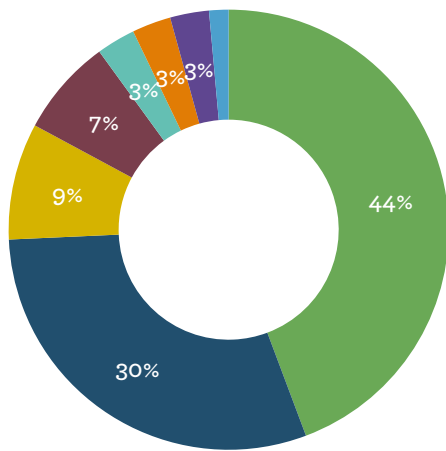
By Rebekah Nash, Stewardship Analyst

## Engagement Themes



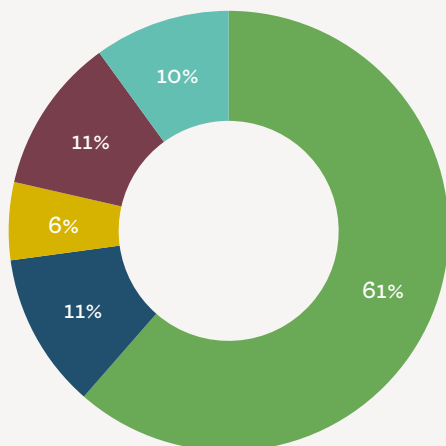
Remuneration	Audit Issues
Net Zero	Use of Water
Carbon Emissions	Labour Conditions
Company Strategy	Human Capital Management
Board Structure	Climate Change
Supply Chain	Balance Sheet
Deforestation	Human Health
Succession Planning	Dividend Policy
Product Quality and Safety	
Company Culture	<b>Companies</b> 57
Human Rights	<b>Engagements</b> 70

## Engagement by Region



United Kingdom
United States
France
Switzerland
Germany
Japan
Netherlands
Spain

## Who we Engaged



Investor Relations
Board Level
Other
Sustainability
Executive

# STEWARDSHIP IN PRACTICE

By Rebekah Nash, Stewardship Analyst

We carry out sufficient due diligence to invest in companies that are being managed according to principles and a strategy which we fundamentally agree. Therefore, our policy is to vote with management on resolutions put forward by management unless we have engaged with the company on this matter previously. If there has been no change after showing discontent and asking for improvement, we will vote against the resolution.

As a firm, we do not engage in stock lending and vote all our shares using the proxy voting service provider, Proxyedge. We have a close relationship with their representatives where we can use their platform to check for upcoming meetings (helping us to plan for AGM seasons), monitor voting rights and, finally, action our votes. Voting with the board is not automatic and in cases where we disagree with a specific issue we will vote against. Where possible this will happen when dialogue with the officers of the company has already taken place.

We do not use external proxy research providers as we believe it to be our fiduciary duty to vote shares in accordance with the investment philosophy that we set out to our clients. All of our research is carried out in-house by our stewardship analysts, using both publicly available information and internal research carried out by our fund managers and investment analysts. Due to the size and nature of our business, we do not seek independent assurance of our proxy voting and stewardship activities. Instead, we undertake an annual review of all of our stewardship activities (voting and engagement) at the end of the proxy voting season to better understand the market and how we can structure our engagement style going forward. For example, at the end of our review for 2022, we created a more targeted engagement strategy for our AGM voting season. We will look to proactively engage with companies where we have a significant ownership, at a portfolio and company level.

We consider the UK corporate governance model as best-in-class. However, we do understand that other jurisdictions and geographies have different requirements and take these into consideration when making our voting decisions.

We disclose all our voting activity in the stewardship section of our company website, on a quarterly basis. In the interests of best practice, transparency and investor information, we also provide details of when we have voted against management and the reasons for this.

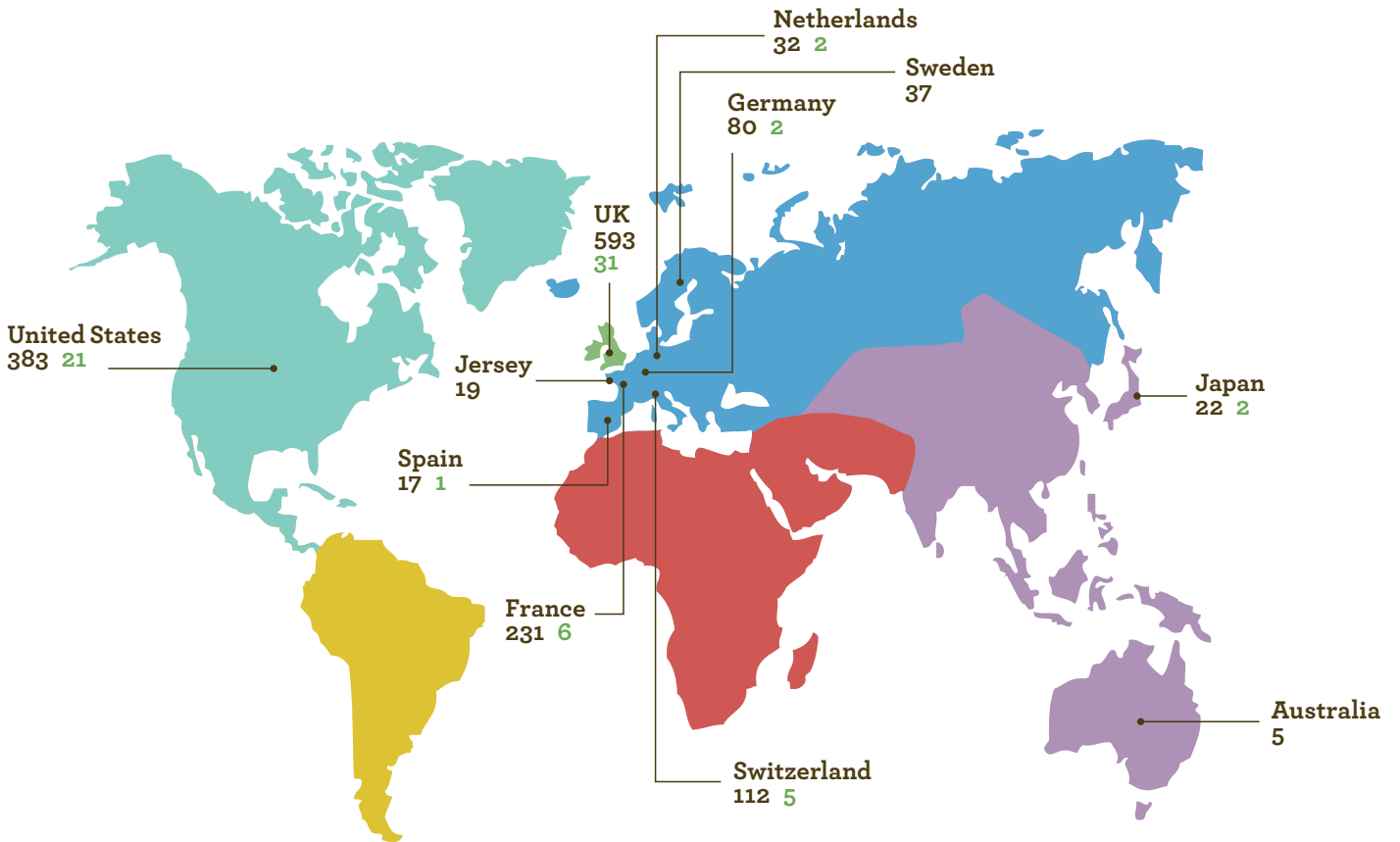
To access our voting records please visit the following: [evenlodeinvestment.com/stewardship/](https://evenlodeinvestment.com/stewardship/)



# STEWARDSHIP IN PRACTICE

By Rebekah Nash, Stewardship Analyst

## Voted Resolution by Region



Number of voted resolutions shown in **black** and company engagements in **green**

### VOTING SUMMARY FOR 2024

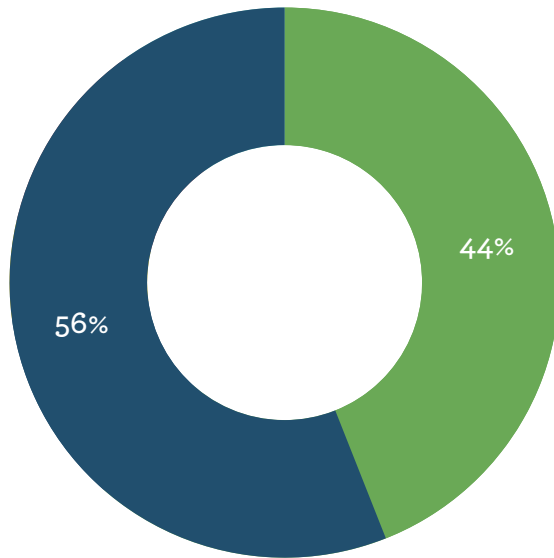
Meetings	84
Resolutions	1,531
With Management	1,435
Against Management	94
Abstain	2

**6%** of the total votes cast were against management.

# STEWARDSHIP IN PRACTICE

By Rebekah Nash, Stewardship Analyst

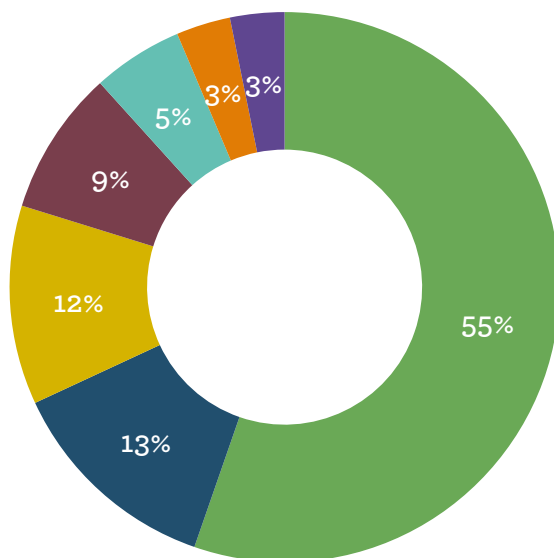
## Votes Against Management (per meeting)



- Votes against management
- Votes with management

In 2024, we voted on a total of 84 meetings, voting 100% of the time on all resolutions. We voted against management at 44% of the meetings on at least one resolution.

## Votes Against Management Themes (per resolution)



Theme	Total	%
Remuneration	52	55
Social	12	13
Director	11	12
Other Governance	8	9
Audit	5	5
Other Non Governance	3	3
Environmental	3	3
<b>Engagements</b>	<b>94</b>	<b>100</b>

# STEWARDSHIP IN PRACTICE

By Rebekah Nash, Stewardship Analyst

Below are some examples of situations where we have voted against management (with company names removed):

## COMPANY A

At the company's AGM, we voted against management on compensation-related proposals regarding the Executive Chairman and the Chairman of the Supervisory Board. Our main concern was the lack of disclosure regarding compensation details and the lack of a long-term incentive plan (LTIP). Additionally, the remuneration committee was not fully independent, therefore, not aligning to the AFEP-MEDEF code's guidelines on corporate governance.

We advocate for a LTIP which we feel, if structured well, leads to long-term shareholder value creation as well as incentivise management on outperformance. However, the current compensation policy does not contain an LTIP. The annual variable compensation is made up of financial and non-financial metrics. There is a lack of disclosure regarding net income and Corporate Social Responsibility (CSR) metrics. Notably, the CSR metric has been fully paid out over the past three years, preventing us from assessing the appropriateness of these payments.

Our vote against management highlighted the need for greater transparency and alignment in the company's executive compensation practices to ensure they meet established governance standards and effectively incentivise long-term performance.

## COMPANY B

We voted against management at the AGM regarding two resolutions. The first issue was the re-election of the Lead Independent Director. However, given their 18-year tenure on the board, we no longer considered them independent. Having a lead independent director who is truly independent is vital considering the roles of CEO and Chairman are combined. The Stewardship team have voted against their re-election since 2021. We also voted against the ratification of the auditor, who was appointed in 1988. Whilst we understand there are no specific regulatory rules in the United States regarding external auditor rotation, we would expect to see some guidance around the tenure of the auditor. We have been engaging with the company around this issue since 2022 and in 2024 we elected to escalate to a vote against management.



# STEWARDSHIP IN PRACTICE

By Rebekah Nash, Stewardship Analyst

## COMPANY C

We voted against management on the shareholder resolution from share action on the articles of association regarding sales of healthier and less healthy foods. We also voted against the compensation for the executive board due to the continuing lack of disclosure on the short-term incentive plan (STIP) despite the improvements around the ESG-related metrics.

The shareholder proposal called for less reliance on ultra processed foods (UPF) in the company's sales alongside setting a credible target for a higher proportion of healthy foods within the portfolio. We chose to vote with this resolution and against management because we see a significant regulatory and reputational risk associated with UPFs, especially in America with the historical evidence of large class action lawsuits on human health. Currently, they include certain foods within their healthy food targets that do not align with guidelines for healthy foods. Therefore, to mitigate reputational and regulatory risks, we would encourage the company to increase the proportion of healthy foods within their portfolio.

We have not seen in our engagements that they are currently managing the risk of UPFs appropriately. Furthermore, the rise of GLP-1 medications increases the risk of the company's exposure to UPFs and unhealthy products. Shifting towards a more balanced portfolio, with reduced reliance on unhealthy and UPF products, would not only align with evolving consumer preferences but also enhance long-term shareholder returns.

We voted against the STIP as it does not disclose any threshold or targets for the metrics included. We would like to see more disclosure so that we can analyse whether the management are being rewarded appropriately. We have held the company since 2018, and we have engaged with them on the lack of disclosure numerous times. As we have not seen material changes in the last six years, we continue to vote against the resolutions at the AGM. At the 2023 AGM, 8.6% of shareholders voted against the remuneration and 11.72% voted against at the 2024 AGM.

# CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst



Lily Postlethwaite, Stewardship Analyst

Globally, we have consecutively broken temperature records each year for a decade. The climate crisis intensified in 2024, with the global average surface temperature exceeding 1.55°C above pre-industrial levels<sup>1</sup>.

Scientific consensus confirms that human activity is the driving force behind climate change, with the sharp rise in atmospheric carbon dioxide (CO<sub>2</sub>) levels identified as a major contributor to global warming. CO<sub>2</sub> concentrations now exceed 420 parts per million - an alarming increase from pre-1911 levels, which never rose above 300 ppm. The natural climate pattern El Niño further intensified global temperatures in early 2024, while its typical cooling counterpart, La Niña, failed to materialise. Last year was marked by extraordinary and extreme weather events, from devastating wildfires in California to deadly floods in West Africa that claimed over 1,500 lives.

Set within this context, institutional investors have a critical role to play in accelerating decarbonisation. At Evenlode, we have been measuring and reporting our financed emissions since 2019. This report forms part of our commitment to achieving net zero emissions across 100% of our portfolios by 2050, aligning with the Net Zero Asset Managers (NZAM) initiative. The urgency of the Paris Agreement's goals has never been clearer. Drastic global action is needed now to reduce emissions and prevent the worst impacts of climate change.

We believe that conducting annual assessments of the financed emissions of our funds - and publicly reporting the results - enhances our understanding of the climate impact of our portfolio companies and the transition risks they may encounter over the long-term. This analysis allows us to engage more effectively with the highest-emitting businesses, supporting meaningful progress toward our net-zero emission intensity targets.

## METHODOLOGY

We report the financed emissions of our investments across all the Evenlode funds, based on the portfolios as at 31 December 2024. Our analysis covers scope 1, scope 2, and all categories across scope 3 emissions. For our analysis, we utilise the full Greenhouse Gas (GHG) emissions dataset provided by the Carbon Disclosure Project (CDP). This dataset collates companies' own reports of their emissions and fills in the gaps with modelled estimates.

This year, we continue to align our reporting with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), particularly with respect to climate-related metrics and targets.

<sup>1</sup> World Meteorological Organization, 2025, State of the Global Climate 2024. [View here.](#)

# CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

## RESULTS

In 2024, we saw an increase of 39.7% in our emissions per £10k invested across our investment portfolios, from 1.47 to 2.05 tonnes of CO<sub>2</sub>e. For context, the average UK resident was responsible for 5.4 tCO<sub>2</sub>e<sup>23</sup> and the average US resident was responsible for 13.4 tCO<sub>2</sub>e in 2024<sup>4</sup>. Ideally, our goal is for the data to move in the opposite direction, however, following our in-depth analysis, we fully understand the reasons behind the increase and are now well-positioned to focus our engagement efforts accordingly.

The IFSL Evenlode Global Equity (EGE) and Evenlode Global Opportunities (EGO) funds reported the lowest emissions per £10k invested among the Evenlode funds - a difference largely attributable to sector allocation. While IFSL Evenlode Income (EI), IFSL Evenlode Global Income (EGI), and Evenlode Global Dividend (EGD) maintain greater exposure to sectors such as Consumer Staples and Industrials, EGE and EGO hold higher allocations to financials and communication services sectors typically associated with lower emissions intensity.

This overall rise was driven almost entirely by a significant increase in a single scope 3 category for one company: Spirax-Sarco, a holding within the EI fund. Upon identifying the anomaly, we engaged with the company to verify the data. Spirax-Sarco responded with three key explanations for the increase:

1. The inclusion of the emissions of two major acquisitions in their 2024 reporting for the first time.
2. A conservative assumption of full-capacity usage of their products to prevent under-reporting.
3. The incorporation of full product lifecycle emissions, particularly for long-life technologies such as electric thermal solutions and steam systems.

In 2023, emissions in the 'use of sold products' category for Spirax-Sarco were estimated by CDP. In 2024, the figure was reported directly by the company. Although CDP expressed reservations about Spirax-Sarco's methodology, we have chosen to include the company's disclosed data in our analysis to maintain consistency in using company-reported figures.

In addition to the increase attributed to Spirax-Sarco, a methodological decision was made regarding the measurement of scope 3, category 11 emissions, 'use of sold products', for our Consumer Goods holdings. Procter & Gamble has consistently been one of our most carbon-intensive holdings, largely due to the indirect emissions from its household and laundry products - the energy associated with powering washing machines, dishwashers, and heating water. To ensure consistency, we incorporated the 'indirect use' emissions figures reported by Reckitt Benckiser and Unilever - sourced from their own disclosures - instead of relying solely on the 'direct use' figures previously reported to CDP. This approach is supported by guidance from the GHG Protocol and resulted in emissions increases of 174% for Reckitt Benckiser and 90% for Unilever, measured in tonnes of CO<sub>2</sub>e. It is important to note that this is a data decision made for consistency purposes, rather than evidence of Reckitt and Unilever becoming significantly more energy intensive.

<sup>2</sup> World Population Prospects 2024, Department of Economic and Social Affairs, United Nations. [View here.](#)

<sup>3</sup> 2024 UK Greenhouse Gas Emissions, Provisional Figures, Department for Energy Security & Net Zero. London. [View here.](#)

<sup>4</sup> IEA (2025), CO<sub>2</sub> per capita emissions by region, 2000-2024, IEA, Paris. [View here.](#)

# CARBON EMISSIONS ANALYSIS

By Lily Postlethwaite, Stewardship Analyst

Despite these changes, emissions per £10k invested remained stable for EGI and EGD over the year, as increases in certain holdings were offset by reductions elsewhere. Notably, the sale of C.H. Robinson - a company responsible for approximately a quarter of these funds' emissions in 2023 - contributed significantly to this balance. The decision to exit the position was driven by concerns around internal restructuring, heightened risk from

required technology investments, and broader industry shifts toward more capital-intensive and cyclical business models. The investment team concluded that more attractive opportunities existed elsewhere.

EGE and EGO experienced a modest reduction in emissions intensity, primarily driven by a reduction in exposure to Consumer Staples (from 21% to 16% year-on-year) and

an increased allocation to the lower-emitting communication services sector (from 7% to 10%).

Across all Evenlode funds, scope 3 emissions remained significantly higher than scope 1 and scope 2 emissions, highlighting the importance of understanding and disclosing value chain emissions across the full life cycle of a product or service.

## Tonnes of CO<sub>2</sub>e/£10k invested across scopes 1, 2 and 3

Fund	2020	2023	2024	y-o-y % change	% change since baseline
IFSL Evenlode Income (EI)	2.34	1.51	2.57	71%	10%
IFSL Evenlode Global Income (EGI)	2.14	1.56	1.56	0%	-27%
Evenlode Global Dividend (EGD)	2.13	1.57	1.59	1%	-25%
IFSL Evenlode Global Equity (EGE)	0.89	0.54	0.41	-25%	-54%
Evenlode Global Opportunities (EGO)		0.54	0.41	-24%	
<b>Evenlode Total</b>	<b>2.30</b>	<b>1.47</b>	<b>2.05</b>	<b>40%</b>	<b>-11%</b>

Tonnes of CO<sub>2</sub>e/£10k invested across scopes 1, 2 and 3 as at 31 December 2020, 29 December 2023 and 31 December 2024. Source: CDP and Evenlode. Evenlode portfolios as at 31 December 2021, 30 December 2022, 29 December 2023 and 31 December 2024, using data from the CDP 2021, 2022, 2023 and 2024 Full GHG Emissions Datasets.

The emissions footprint associated with investing £10k in any of the Evenlode funds is lower than an equivalent allocation to a strategy which tracks the MSCI World Index or FTSE All-Share Index. The difference can be largely explained by looking at sector allocation; the Evenlode funds have low exposure to energy-intensive industries, such as the Oil & Gas, Materials, Real Estate, and Utilities sectors. Evenlode favours investments in asset-light

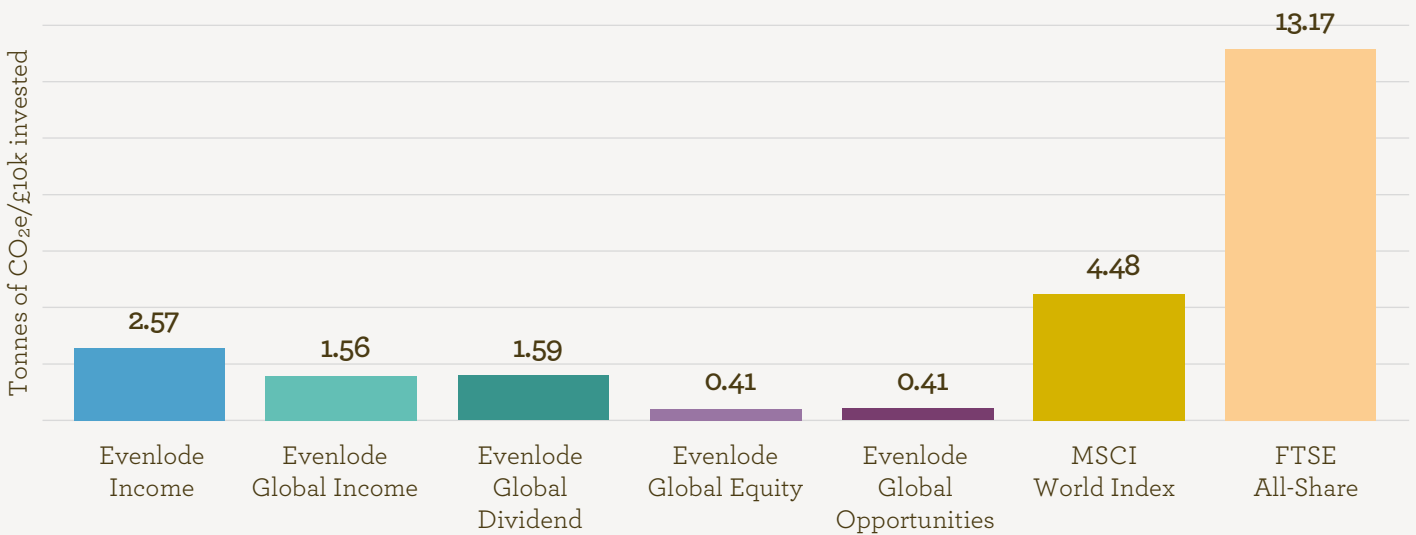
businesses and our approach has a bias towards quality; these factors also play a role in the difference in intensity between our funds and the indices. The FTSE All-Share Index comprises fewer, smaller businesses than the MSCI World Index and it also has a much higher weighting towards the Energy, Materials and Consumer Staples sectors, for these reasons the FTSE represents a more intensive benchmark than the MSCI.

Despite the 2024 increase, emissions per £10k invested remain 5.3% lower than in 2022, suggesting longer-term improvement. Evenlode continues to target a 7% annual reduction through 2030, in line with SBTi's Net Zero Standard. Challenges remain around volatility in disclosure and the pace of change among some holdings

# CARBON EMISSIONS ANALYSIS

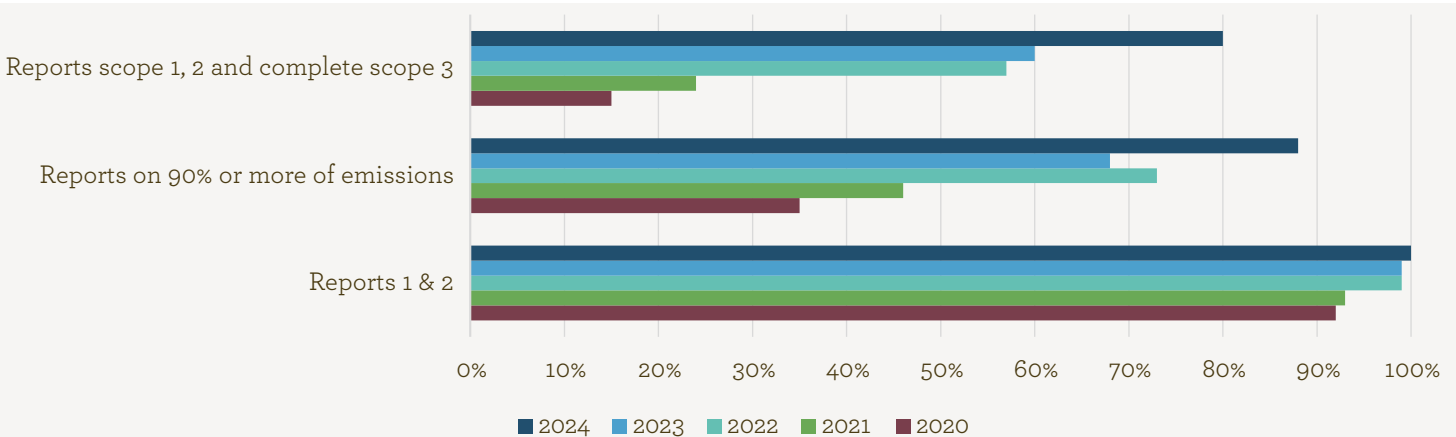
By Lily Postlethwaite, Stewardship Analyst

## Scope 1, 2 & 3 emissions per £10k invested



Scope 1, 2 and 3 emissions per £10k invested as at 31 December 2024. Source: CDP 2024 Full GHG Emissions Dataset, Evenlode, MSCI and FTSE Russell. Evenlode as at 31 December 2024. MSCI World and FTSE All-Share portfolios as at 31 December 2024. Index data converted from weighted average emission intensity into emissions per £10k invested based on portfolio revenue and asset value as at 31 December 2024.

## Holding companies' emission reporting by scope



Percentage of companies in Evenlode portfolios reporting across the different scopes. Source: CDP Full GHG Emissions Dataset and Evenlode. Based on Evenlode portfolios as at 31 December each year, using data from CDP full GHG emissions dataset.

## OUTCOME

While measuring financed emissions is inherently complex and imperfect, the process continues to yield valuable insights that inform our investment decisions and stewardship activities in support of our net-zero targets. Encouragingly, data availability and quality are improving - 61 of the 76 companies we invest in now report 100% of their emissions across all scopes.

As our analysis and company engagements mature, we are better able to assess climate impacts and communicate a more accurate picture of our financed emissions to clients. Evenlode remains committed to ongoing engagement with portfolio companies to enhance emissions reporting and support meaningful emissions reductions.

Access the full version of this document and find all our portfolio emission reports on the Stewardship section of our [website](#).

# INVESTMENT CASE FOR JAPAN

By the Global Income team

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The Evenlode Global Income team selected Japan as its target for a geographical deep dive in 2024. The key themes discussed were:

1. History of the Japanese economy.
2. Accounting, reporting and corporate access.
3. Review of new ideas.
4. Corporate governance reforms.

Having visited the country in 2019 to research companies and the corporate governance landscape, we felt enough time had passed to revisit some of the questions raised during that trip. Interest in the equity market picked up last year driven by a weaker yen, improved transparency through new rules introduced by the Tokyo Stock Exchange, and the Topix surpassing highs not seen in over thirty years.

Despite some of the governance and reporting challenges, we have already invested client capital in a small number of Japanese companies where the business models are readily visible to us. And while some challenges remain, progress on the key issues of corporate governance and reporting has been made. There is push back on the notion that the Kansayaku (see page 29) board structure is as weak as is made out in the West, and diversity on boards has improved. The analysis of executive compensation clarified the pros and cons of corporate culture in Japan. On the one hand it is commendable that executives put the success of the corporation over individual wealth accumulation. But on the other, Japanese companies may benefit from the experience brought by managers of overseas enterprises in a globally integrated and competitive market. That experience would come with an elevated benchmark for individual remuneration.

An analysis of accounting scandals highlighted some of the challenges that Japanese corporate culture may bring to businesses, particularly firms experiencing operational or competitive disruption. This made us think that we should certainly not let our analytical guard down in our financial analysis of Japanese businesses. We have the guard firmly up for Western companies for good reason – a different culture has not resulted in zero scandals or corporate collapses. Corporate reporting and access remain a challenge, however, with large corporations reporting in English there is at least an opportunity to hear or read the company's view of itself in a language we can understand. We discussed the history, corporate access and reviewed various new ideas in our deep dive, however we have highlighted the important reforms in corporate governance below.

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## Corporate Governance Reforms

The Japanese Corporate Governance Code defines corporate governance as a structure for transparent, fair, timely and decisive decision-making by companies, not forgetting the needs and perspectives of shareholders, customers, employees and local communities. It was a significant milestone in the country's efforts to modernise its corporate governance practices. Although the definition and the desired outcome of the Code sounds like the western multistakeholder approach, the governance system is markedly different (lagging) to many western models.

Since the financial crisis in the 1990s and the establishment of the Corporate Governance Code in 2015, changes have aimed to enhance transparency and accountability with the ultimate objective being the growth of the Japanese economy.

# INVESTMENT CASE FOR JAPAN

By the Global Income team

Japan's corporate governance reforms have focused on three primary objectives:

## 1 Strengthening management systems and group governance

One of the most notable changes has been the push for gender diversity on corporate boards. In June 2023, the Japanese government set a goal for women to account for over 30% of directors on Tokyo Stock Exchange Prime Market companies by 2030. Progress has been made; in 2013, 84% of listed companies had no female board members, but by 2022, that number had dropped to 19%.

## 2 Enhancing shareholder engagement

Japan has embraced digital transformation to increase corporate transparency and engagement. New technologies such as e-voting, e-disclosure, and e-meetings have improved shareholder participation. The Ministry of Economy, Trade, and Industry (METI) has promoted Digital Governance as a framework to enhance corporate value while addressing cybersecurity and balancing innovation with traditional business culture.

## 3 Promoting medium- to long-term investment

'Guidelines for Investor and Company Engagement' have encouraged a 'comply or explain' approach, ensuring companies actively engage with shareholders and integrate long-term investment strategies. These efforts align with the broader goal of improving return on equity (ROE) and return on assets (ROA), which have historically been lower in Japan than in western economies.

## Kansayaku Board System

Japan offers three corporate governance structures:

1. The Kansayaku Board (Audit and Supervisory Board).
2. Companies with three designated committees (Nomination, Remuneration, and Audit).
3. Companies with an Audit and Supervisory Committee.

The Kansayaku Board remains the most common governance structure in Japan, though it is often met with scepticism by foreign investors. Established over 130 years ago, it primarily oversees management and audits accounting practices. The main responsibilities of the Kansayaku Board are auditing financial statements, preventing fraud and even conducting investigations with the authority to sue directors. Although the latter can prove to be a big advantage, paradoxically, in one way this is also a weakness of the system, as the powers are so strong and confrontational in nature, that they are almost never exercised. The Kansayaku board also has a legal authority to prevent management fraud, often seen as more critical than the roles played by independent directors in other governance models. However, they have weaker powers compared to audit committees as they are *not full board members with voting rights*, which limits their ability to influence board decisions directly.

## Keiretsu

This is a Japanese term referring to a network of interrelated businesses with cross-ownership, usually centred around a large financial institution or conglomerate. Strategically, it is an approach where companies invest in each other to develop a reciprocal ownership arrangement. The system helps insulate each company from stock market fluctuations and takeover attempts.

The Keiretsu can be categorised by two types:

- Horizontal: an alliance of cross-shareholding companies led by a Japanese bank that provides the necessary financial services. Historically, horizontal structure was more dominant, however, due to significant reduction in cross-shareholding practices and the 1990s economic crisis which led to Japanese banks losing their dominant position, the structure has been in decline.
- Vertical: a partnership of manufacturers, suppliers, and distributors that work cooperatively to increase efficiencies and reduce costs. This has become more dominant in contemporary Japan especially in the automotive and electronics industry. This structure allows for tighter integration of supply chains, which is crucial in the current economic environment as it enables companies to maintain better control over quality and costs.

# INVESTMENT CASE FOR JAPAN

By the Global Income team

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## Remuneration

### Disclosure

Despite efforts to enhance transparency, progress in improving disclosure on remuneration has been slow. Companies are still only required to disclose the pay of executives earning ¥100m (£520,000) or more. This regulation has been in place since 2010. Listed companies in Japan typically pay independent directors a fixed monthly fee rather than stock options. While *some* offer restricted stock, these instances are usually tightly structured and transparent.

### Quantum

Japanese executives traditionally earn a fraction of what their US and European counterparts receive. This can be challenging for Japanese companies operating overseas, acquiring overseas firms or trying to attract new overseas talent. For CEOs of very large corporations earning over \$10 billion in annual revenues, the average compensation package – including fixed salary, performance-based pay, and stock options – is approximately \$10m in the US, \$6m in Europe, but only slightly over \$1m in Japan. This disparity highlights a cultural difference in Japan, where the success of the corporation often takes precedence over individual wealth accumulation.

While cultural differences in wealth accumulation exist, there is a significant gap between the salaries of Japanese and US companies. This could pose challenges for Japanese companies in attracting talent. For example, in 2022, the average CEO compensation at Japan's top 100 companies was about \$1.5m, compared to around \$14.7m for CEOs of S&P 500 companies in the US. Some Japanese companies are beginning to adopt more performance-based pay systems and increasing executive compensation to better compete globally, however, there is still a significant hurdle for Japan's economic competitiveness in sectors such as technology and engineering.

## Conclusion

Japan's corporate governance reforms, while significant, have faced challenges in fully aligning with western models, particularly those emphasising shareholders. The Kansayaku Board, a unique Japanese governance framework, offers some power and oversight advantages, but comes with limitations around independence and influence. The Keiretsu, a network of interrelated businesses, has historically provided stability but the horizontal structural has created inefficiencies. However, the move towards a vertical structure enables companies to maintain better control over quality, costs, and production timelines.

Despite progress in areas like gender diversity and digitisation, the country's remuneration practices and disclosure standards still lag international standards. The slow pace of reform, coupled with cultural factors and the enduring influence of traditional business structures, highlights the complexities of modernising Japan's corporate governance landscape, although whether the western style of corporate governance is the right approach remains debatable.

# PALM OIL, WHAT IS THE PROBLEM?

By Rebekah Nash, Stewardship Analyst



Rebekah Nash, Stewardship Analyst

## What is palm oil and which companies depend upon it?

Palm oil is a vegetable oil from the fruit of the oil palm tree. It comes in two forms, crude palm oil from the flesh of the fruit, and palm kernel oil from the kernel of the fruit. Palm oil has been reported as a commodity since the 15th century, although it was likely used for centuries before this. It is native to western Africa and was originally traded in tandem with the slave trade. Following the abolition of slavery in Britain in 1807, palm oil became the key replacement commerce for the west African traders. Its demand increased when it became a key component in the industrial revolution – it was an ideal substitute of animal-based fatty wax used in soap and candle making, as well as being used as a key lubricant for machinery. One of the companies most involved in the industrialisation of palm oil was Lever Brothers. They merged with Margarine Unie to form Unilever in 1929.

It wasn't until 1911 that the first successful plantation of palm oil was set up in Indonesia. Although not native to the area, the oil palm tree was taken to Indonesia by the Dutch colonists and planted in the botanic

gardens. Here the botanist Adrien Hallet, observed the yield of the plant in Indonesia being higher than in its native Africa. This led to the first oil palm plantation. By 1936 the Indonesian plantations had surpassed all Nigerian palm exports. The majority of palm oil is now produced in Indonesia followed by Malaysia, Colombia, Nigeria and Guatemala.

Palm oil is predominantly used in cosmetics, but it is also found in 50% of all packaged products in a British supermarket. Therefore, consumer goods companies, whether they are producing face cream or chocolate, are dependent on palm oil. The Evenlode portfolio, across all 5 funds, has a consumer goods exposure of 19%, therefore understanding the nature of this commodity is essential to Evenlode's investment process.

## What makes palm oil so special?

Palm oil is both versatile and efficient. It's versatility has increased the demand over time as new applications have been discovered. It stays firm at room temperature but melts in the mouth, therefore, it has become a key ingredient in margarine, chocolate and many other foods. Palm oil is used to manufacture sodium lauryl sulfate which is used as the foaming agent in body care products and household cleaning products. As a fat, it also makes an ideal emulsifier for moisturisers, make-up and candles. Alongside its versatility, it is significantly more efficient than other oil-producing crops. In comparison to rapeseed oil, which has the second highest yield per hectare of land, palm oil yields 2.99 tonnes versus 0.73 tonnes. Palm oil makes up over 35% of vegetable oils and is grown on less than 20% of the land in comparison to rapeseed and soybean production. It also requires less pesticide and fertiliser.

Palm oil has created significant employment opportunities for a large portion of the population in Indonesia and Malaysia, lifting many out of poverty. Following the second world war, Malaysia used palm oil production to promote economic growth by establishing the Federal Land Development Authority (FELDA) to distribute land to farmers for development. This programme gave each farmer four hectares of land to grow palm or rubber, as well as a small house and land to plant food. Malaysia received recognition for this model of alleviating poverty by the World Bank and the United Nations. Indonesia soon followed a similar model with support from the World Bank. Currently more than 7m smallholders globally cultivate oil palm as their main form of livelihood, with an additional 11m people being employed by the sector in Indonesia and Malaysia. Therefore, the industry continues to serve as an effective economic tool to alleviate poverty in a sustainable way.

The price of palm oil has remained relatively stable over the last few years compared to other commodities. It saw a significant increase, reaching its highest price of 7,268.00 MYR/MT in the first half of 2022 due to the Russian invasion of Ukraine and Indonesia's temporary export ban. The price returned to normal ranges in 2023 and has remained relatively stable since then.

# PALM OIL, WHAT IS THE PROBLEM?

By Rebekah Nash, Stewardship Analyst

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## What is the problem with palm oil?

Despite the popularity of the product, concerns began emerging in the early 2000s over the significant environmental damage caused by the industry. Large scale deforestation occurs to create space for palm oil. This has led to a destruction of animal habitats and subsequently a loss of biodiversity. Deforestation driven by the palm oil industry is a major factor in the decline of orangutan populations, pushing them toward extinction. In the name of socio-economic improvement, forests were indiscriminately cleared to grow palm oil. This removal of forests increases climate change due to excess CO<sup>2</sup> no longer being absorbed by the forests. To clear the land, the forest is often burned, generating even more CO<sup>2</sup>. It is cheaper for smallholder farmers and plantation owners to burn down the ancient forest than to increase the efficiency of their current land.

These issues can be traced back to the cheap price of palm oil. The price of palm oil in the late 1990s and throughout the 2000s meant manufacturers turned to palm oil as a cheap and effective alternative to petroleum-based chemicals and it became a biodiesel feedstock. Making biodiesel from palm grown on newly cleared land increases greenhouse gases when compared to petroleum diesel. In response to this research, the EU is phasing out palm biofuels by 2030. Indonesia, however, still markets palm oil as Green Diesel.

## Is there a solution?

The current global demand and usage of palm oil is unsustainable, with increasing demand leading to widespread deforestation, particularly in Indonesia and Malaysia. Some argue that due to this deforestation, palm oil should be boycotted. However, it is not that simple due to the efficiency of the palm oil crop. If palm oil was no longer in demand, alternatives could be found in other vegetable oils such as soybeans and rapeseed, however, they require significantly more land. Soy is primarily grown in the Amazon and is responsible for more than double the deforestation of palm oil. Therefore, we must focus on alternative, more sustainable methods of growing palm oil, forming a sustainable system for its production. The Roundtable on Sustainable Palm Oil (RSPO) was set up in 2004 and aims to promote the growth and use of sustainable palm oil products through global standards and multi-stakeholder governance. Although this has led to some improvements, consumers pay higher prices for responsibly sourced products and historically, producers have not had any incentives to seek certification. For example, only 17% of all palm oil sold is certified.

The European Union Deforestation Regulation (EUDR) is on track to come into effect in January 2026. This will ensure that all palm oil sold must be grown on land that has not been deforested from 2020 onwards. If the product does not comply with this and was grown on deforested land, a fine of up to 4% of revenue will be applied to the company selling the product. This regulation has pushed companies to engage with their supply chains regarding their palm oil mills in more detail, consider the traceability of their products and work with smallholder farmers to ensure that efficiency of the land is maximised. Many companies now report to the 'Palm Oil Scorecard', run by the Worldwide Fund for Nature (WWF), which provides clear information about their efforts to improve their sustainability of their palm oil supply chains. Despite the increased efforts from the EU, there has been significant opposition from Indonesia and Malaysia. They have stated it will increase cost to the producers of palm oil, have a disproportionate impact on those from a lower household income and could have a devastating impact to the nation's economy.

Despite the growing push for traceability regarding deforestation caused by the palm oil industry, the current global political landscape threatens to delay or weaken regulations such as EUDR to accommodate political agendas. This could exacerbate deforestation, putting the people of Indonesia and Malaysia at heightened climate risk, as well as reducing the likelihood of keeping below the 2-degree scenario outlined by the Paris Agreement.

# WHAT DO WE MEAN BY INTEGRATION?

By Sawan Wadhwa, Head of Stewardship



Sawan Wadhwa, Head of Stewardship

The term integration is widely used in the investment industry. For us, integration within our investment process means considering both traditional financial risks and non-financial risks when evaluating a company. This includes assessing management and cultural quality, emission intensity, historical controversies related to litigation and human rights, misalignment between pay and performance, and the mix of skills on the board – alongside conventional risks such as debt levels, pricing power, and economic and operational sensitivity.

As stewards of our clients' capital, we proactively assess and manage all risks a company may face throughout its lifecycle. Active risk management is fundamental to ensuring long-term investment returns. While Evenlode strategies are not restricted by sector or geography (beyond the stated mandate), additional risk management is applied at the portfolio level to ensure diversification and resilience. This includes fundamental risk management, which focuses on the idiosyncratic risks specific to each company.

## Risk scores

Evenlode operates within a defined risk framework centred on 10 key risk factors that influence a company's ability to withstand uncertainty. Among these, ESG risk is independently overseen by the Stewardship team, reinforcing our commitment to a comprehensive, risk-aware investment approach.

The purpose of the risk scores is to provide a framework for discussion of the risks that businesses face. All risks are scored on a range from A to E, with A being highest quality, C being the average company (considering all companies, not just those in the investable universes), and E being the lowest quality. They are deliberately non-numerical to de-emphasise the idea of exactly measuring or diversifying

away risk. The ESG risk assesses the impact of potential disruption of related factors and is not an ethical judgement on the company's activities. If a company scores an E on ESG risk, because there are severe ESG concerns that the company is not managing adequately, it will be excluded from the portfolio/universe.

Inclusion of a company into our investable universe is based on the outcomes of the quantitative and qualitative research. The purpose of the qualitative research is to assess the ability of a company to maintain high returns on invested capital into the future. Materiality is the key driver of qualitative research and determines the level of resources that should be invested. Quantitative research provides analysis of the historic fundamental performance of a business and gives insight into the success (or otherwise) of past capital allocation decisions.

## New ideas

When conducting research on potential new ideas, analysts undertake a qualitative analysis on the company being proposed. This initial analysis results in four outputs; the initiation note; the summary profile; the investment thesis, and the initial risk scores.

1. Initiation note: The purpose of the initiation note is to explain the current position of a company and drivers of future performance.
2. Summary profile: This includes sector exposure, geographic exposure, any major ongoing risk and/or market dynamic.
3. Investment thesis: The purpose of the thesis is to explain why the company will be able to maintain and/or improve returns on capital over a period of 5 to 10 years (or longer).
4. Initial risk scores: mentioned above.

# WHAT DO WE MEAN BY INTEGRATION?

By Sawan Wadhwa, Head of Stewardship

## CASE STUDY – AIRBNB

We initially started looking at Airbnb as a new idea for the Evenlode Global Equity fund in September 2023. The business can be described as a platform for vacation rentals with a network of over 5m hosts. Additionally, it provides hosts with listings, marketing services, insurance and education to improve occupancy. The investment thesis was that the global vacation rental market is expected to grow by 10% p.a. to meet rising demand for lodging (4% p.a.). Airbnb will maintain its take rate while taking market share from offline vacation rentals and subsequently generate low double digit organic revenue growth over the long term.

We continued the qualitative research of the business by completing our ESG risk score matrix which highlighted the following:

1. Airbnb provide good disclosure on environmental-related indicators. Although they do not operate in the most emission intensive industry, they report on scope 1, 2 and 3 emissions via the Carbon Disclosure Project (CDP) platform. They have also set both absolute and intensity emissions reductions targets including a net zero target across scope 1 and 2 by 2030.
2. Airbnb impacts certain communities and traveller hot spots. Often locals feel they are priced out of certain areas or pushed out of rental properties so that landlords can place properties on the platform. This means that many countries and cities have put in place – or are thinking about putting in place – regulation to contain the issue. For example, exposure to increased regulation further impacting the moat, industry and/or pricing power was high, especially in large cities

like New York. Also, the company seem to get dragged into various lawsuits relating to incidents inside rental units (illegal listings, accidents etc).

3. Airbnb's co-founder Brian Chesky is the CEO and Chairman which is not uncommon in the US, but means the company needs a lead independent director and a robust succession plan. Remuneration policy was less than satisfactory. Brian Chesky's compensation consists entirely of 10-year restricted stock units (RSUs), which vest only if Airbnb's stock price hits specific targets over the next decade. To fully vest, the stock must reach over 7x its IPO price and 13x its grant price. Chesky receives a \$1 base salary and does not participate in the short-term cash incentive plan (STIP). For other executives, the STIP focuses primarily on non-GAAP, non-financial metrics, which was not ideal.

Airbnb has disproportionate voting rights. It consists of four share classes: A, B, C, and H. Class C and H shares have no voting rights, while class A and B do. Founders and early investors hold class B shares, which carry 20 votes per share, compared to class A's single vote. At the time of the analysis, the founders alone held 73.9% of the voting rights making it difficult for minority shareholders to have an active voice and effecting change at company level.

The next step was an expert call with an industry specialist, which identified three key areas for further exploration.

1. The rise of property management software (PMS) posed the biggest threat, as cross-listings have become increasingly simple and inexpensive. To counter this, Airbnb is securing an exclusive share of available nights by enhancing its host tools, making it easier to find a co-host, and offering features that would typically require a paid PMS subscription for free.
2. Long-term growth will be driven by expansion into the hotel market, while short-term growth will be influenced by consumer trends, particularly the spending habits of Gen Z and Millennials.
3. We downgraded the management and cultural quality score, as Airbnb's internal culture has undergone significant changes since its IPO. Before Covid, individual team managers had greater autonomy which encouraged independent thinking. Post-Covid, CEO Brian Chesky has adopted a far more hands-on approach, centralising decision-making. The company now operates with a top-down leadership structure, reducing creative input from the broader team.

# WHAT DO WE MEAN BY INTEGRATION?

By Sawan Wadhwa, Head of Stewardship

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Finally, after the quarterly earnings statement at the end of 2023, we concluded that there was positive upside on the long-term industry outlook and ESG risks. Active listings were up by 19% which was equivalent to 1m new listings. They also experienced double-digit growth in all regions. The call highlighted that New York City only represents 1% of revenues, limiting the impact of new regulations. In fact, 80% of the top 100 Airbnb markets (by revenue) have some form of regulation.

As highlighted above, integration for us means embedding both traditional financial risks and non-financial risks – such as ESG factors – into our investment process from idea generation through to ongoing ownership. This is not a separate, standalone exercise but a fundamental part of how we assess a company's ability to sustain long-term returns. Our approach combines quantitative and qualitative research, risk scoring, and active stewardship to ensure we fully

understand the risks and opportunities a business presents. The Airbnb case study is a good example of this process in action: ESG risks such as governance structures, regulatory pressures, and litigation risks were assessed alongside fundamental financial metrics. Ultimately, integration at Evenlode is about recognising that financial and non-financial risks are interconnected, and by proactively managing them, we can better preserve and enhance our clients' assets over the long term.



# PHILANTHROPIC ACTIVITIES

By Rebekah Nash, Stewardship Analyst



Rebekah Nash, Stewardship Analyst

Under our Evenlode Foundation Programme, we allocate a percentage of our profits each year towards charitable activities. In 2020, we wanted to create a more structured approach towards our philanthropic endeavours and that is why we started working with Greenwood Place. Known as a ‘Philanthropic Accelerator’ they provide strategic advice and support to individuals, families, charitable organisations and businesses. They help clients connect with charities whose values and long-term ambitions align. After surveying the Evenlode team, they helped us create our philanthropic mission statement of ‘Empowering communities to address global problems in a sustainable and a scalable way’. As a result, our philanthropic activities are structured around three main themes driven by the preferences expressed by the Evenlode investment team. These themes focus on environmental challenges including climate change and biodiversity loss, and those working on reducing poverty and inequality. These themes are topical, and on the political and corporate agenda. They are also highly complex, and progress globally will require action from a multitude of organisations. We are open to evolving these themes through time as global needs and challenges change.

Due to the overarching nature of the themes from our charitable endeavours and sectors in our investable universe, we can triangulate information and further increase our understanding of the positive impact companies are having on society, adding more colour to their ESG credentials.

## CASE STUDY

The vision of Spark Microgrants is a world where everybody lives with dignity and determines their own positive future by enabling communities to design and launch their own social impact projects.

Spark Microgrants works with local partners to catalyse sustainable collective action and improve livelihoods through a community activation process accompanied by a microgrant.

The aim of Spark Microgrants is to help generate impact; they do not impose aid – they enable others to generate impact for themselves. It is an exciting community and process driven project which has gained significant traction and impact. They have worked with 816 communities in seven countries and have reached over 550,000 people. Of those there has been a 90% increase in household assets after two years, and a 100% increase in families eating at least two meals a day.

The inspiring work of Spark Microgrants is well aligned to the Evenlode Foundation purpose statement: *empowering communities to solve global problems in a sustainable and scalable way.*

# CONFLICTS OF INTEREST

By Richard Taylor, Head of Compliance



Richard Taylor, Head of Compliance

The Financial Conduct Authority (FCA) has established comprehensive rules to ensure that conflicts of interest are managed effectively within investment firms. These rules are designed to protect the interests of clients and maintain the integrity of financial markets. In order to comply, firms must identify, prevent, manage or disclose conflicts of interest that may arise between themselves and their clients, or between different clients. In alignment with the Markets in Financial Instruments Directive II (MiFID II), the FCA's approach emphasises the prevention of conflicts of interest as a priority. MiFID II mandates that investment firms should take all appropriate steps to identify and manage conflicts of interest, and where necessary, disclose them to clients in a clear and detailed manner.

A conflict of interest may exist where a firm:

- Is likely to make a financial gain or avoid a financial loss at the expense of a client.
- Has an interest in the outcome of a service provided or a transaction carried out on behalf of a client, which is different from the client's interest.
- Has a financial or other incentive to favour the interests of one client or group of clients over the interests of another client or group of clients.
- Carries on the same business as a client.
- Receives an inducement from a third party in relation to a service provided to a client, in the form of monies, goods or services, that is different from the standard commission or fee for that service.

Regulated activities carried out by Evenlode that may give rise to conflicts of interest include portfolio management, reception and transmission of orders, and execution of orders on behalf of clients. Included in the activity of portfolio management are both research activities and shareholder engagement activities.

## Conflicts of Interest Policy

To meet its obligations, Evenlode will:

- Identify circumstances which may give rise to a conflict, material or otherwise, and record these.
- Put in place appropriate and proportionate systems and controls to manage or prevent the conflict.
- Disclose to its clients when a conflict cannot be managed or prevented.
- Review its policy at least annually or before should the conflicts of interest change.
- Provide a report to the board annually on the management of identified conflicts of interest.

# CONFLICTS OF INTEREST

By Richard Taylor, Head of Compliance

## Potential conflicts of interest

Taking into consideration all of the above, Evenlode has identified the following areas that may give rise to a conflict of interest in carrying out its regulated activities, and has also identified mitigating controls:

Conflicts	Controls
Inducements – Unsolicited research from brokers	We only take research from agreed providers and pay for it ourselves. Unsolicited research is rejected. Brokers for execution are selected based on execution quality on cost.
Inducements – Gifts and hospitality from brokers/ other suppliers	Any gifts or hospitality above a certain threshold must be approved by the Compliance Officer. Brokers and other suppliers are selected based on quality of service and cost.
Receipt of material non-public information	Information has to be reported to the Compliance Officer. A trading ban is put in place until the information is made public. Ongoing monitoring of trading activity takes place to detect potential suspicious trades.
Personal account dealing	Personal account dealing by Evenlode employees requires pre-trade approval from the Compliance Officer. Employees are not allowed to trade in any shares held within the Evenlode portfolios.
Fee setting	Periodic reviews of fees charged to clients are performed.
Allocation of orders between funds.	Orders are allocated proportionately.
Stewardship activities – Portfolio selection, voting, engagement	Voting guidelines are in place which are designed to advance our clients’ interests over the long term. Engagement policies, voting history and the annual Responsible Investment Report are also made public.
Employees – Outside business interests/other connections	The conflicts of interest register contains details of any outside interests (e.g. other directorships) or other connections. These are reviewed in quarterly board meetings.
Profits from Impact portfolio due to a merger/acquisition	Initially, there would be an embargo on dealing. Secondly, Evenlode would remove itself from any discussions relating to a takeover and finally, majority of any returns will be re-invested back into the Foundation.

## Some practical examples

### Enhanced Sustainability Disclosures – New regulation

Evenlode is committed to achieving long-term capital growth for clients through equity investments, while also considering sustainability<sup>1</sup> factors that affect the ability of our investee companies to withstand uncertainty. As part of this consideration, ESG risk factors are assessed together with other traditional business risks.

We recognise that this creates the potential for conflicts; whilst effective

management of sustainability risks typically enhances company performance over the long term, conflicts can arise as our commitment to considering ESG factors and engaging with investee companies to drive positive change can sometimes be at odds with short-term financial performance goals. For instance, prioritising investments in companies with strong ESG credentials may limit opportunities in sectors that are currently more profitable but less sustainable. In addition, we recognise

that our clients will attribute differing levels of importance to sustainability factors compared to pure capital returns when selecting to invest.

We are dedicated to identifying, managing, and mitigating these conflicts to ensure that our investment decisions are aligned with both our financial objectives and our sustainability commitments, and to ensure that our clients get a clear understanding of our investment process and the role that ESG factors play in investment decisions.

<sup>1</sup> Sustainability is a broad term generally understood to mean being able to meet present needs without compromising the ability to meet future needs. Sustainable investments are those which aim to generate a financial return whilst also considering ESG factors.

# CONFLICTS OF INTEREST

By Richard Taylor, Head of Compliance

In 2024, the Financial Conduct Authority (FCA) introduced new Sustainability Disclosure Requirement (SDR) rules to enhance transparency and trust in sustainable investment products which allowed us to review and update our client facing documentation. The SDR includes several key components: an anti-greenwashing rule, new sustainable investment labels, and detailed disclosure requirements.

The anti-greenwashing rule aims to prevent firms from exaggerating the sustainability credentials of their products and mandates that all FCA authorised firms making sustainability-related claims must ensure claims are fair, clear, and not misleading. In addition to the anti-greenwashing rule, the SDR rules introduce specific disclosure requirements and sustainable investment labels to help consumers make informed decisions. These include consumer-facing information that provides accessible details about the sustainability features of a product.

Evenlode believes that delivering real, durable returns over the long term can be best achieved by integrating ESG factors into the 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). The Evenlode funds do not have a UK sustainable investment label because they do not have a specific sustainability objective, and they retain the flexibility to pursue a wide range of investment opportunities, without being limited by the specific criteria required for a label.

More details including the sustainability approach taken, how investments will be chosen, investments that will not be chosen, how we engage with companies on sustainability issues, Evenlode's net zero commitment and relevant sustainability metrics, are contained in the Consumer Facing Sustainability Disclosures, accessed via the Fund Documentation section of our website.

## Stewardship activities – Voting

In April 2024, we voted against management on Johnson & Johnson's compensation policy at their annual general meeting. Within the annual CEO bonus, 30% of the metrics (8 in total) were non-financial in nature. We encourage non-financials within the annual bonus, however, there was a lack of disclosure on the thresholds and targets being used to assess performance and full discretion was given to the compensation committee. While the committee should have responsibility, in times of underperformance (and excessive remuneration), we feel shareholders need more transparency to better understand the rationale behind the decisions being made.

Additionally, the metrics used to assess performance were earnings per share and relative total shareholder return. We wanted to see additional metrics aligned with the overall longer-term strategy of the business, along with an ESG-related metric weighted to at least 10%. We do not have a problem with paying executives for outperformance. However, at times of underperformance or at the early stages of a CEO's tenure, we want to see full transparency on the targets used to assess performance, especially during times of excessive remuneration.

## Employees

As an investment firm with 40 employees and an investment universe of over 150 companies, it is inevitable that from time-to-time there will be situations where employees have connections with companies in the investment universe (for example a family member may be employed by an investee company). This creates a conflict of interest for the employee.

When this situation arises, in order for Evenlode to effectively manage the situation, the following controls are put in place:

- The relevant employee does not perform AGM/EGM analysis for the company in question and does not instruct any AGM/EGM voting.
- Details of any planned Evenlode trading in the company cannot be shared.
- Material non-public information on the company cannot be shared. If the employee is notified of any material non-public information they are required to disclose this to the Compliance Officer without delay and this would necessitate Evenlode suspending trading until the information is made public.

For our full Conflicts of Interest policy please visit: [evenlodeinvestment.com/regulatory-and-mifid-ii/](https://evenlodeinvestment.com/regulatory-and-mifid-ii/)

# CLIENT BREAKDOWN

Evenlode Investment Management Ltd currently manages three open-ended UK OEIC funds and two Irish domiciled open ended ICAV funds. All the funds were launched with UCITS status and are adhering to the same rules post-Brexit, so are broadly suitable for all client types as defined by MIFID. The register of investors is well-diversified, and the funds are marketed to and mainly held by intermediate investors such as wealth managers, private banks, fund of funds and platforms in the UK. It is important to note that as collective investment schemes, Evenlode is responsible for all stewardship activities including voting and engagement, on behalf of the underlying unitholders in

these funds. This is a duty that Evenlode takes extremely seriously.

Evenlode states that investors should be prepared to invest for the long term, as with any stock market investment. The investor profile stated in the UK OEIC prospectus is as follows:

*The Sub-funds are marketable to all eligible investors provided they can meet the minimum age and subscription levels. The Sub-funds may be suitable for investors who see collective investment schemes as a convenient way of participating in investment markets. They may be suitable for investors wishing to seek to*

*achieve defined investment objectives. Such investors must have experience with or understand products where the capital is at risk. Investors must be able to accept some risk to their capital, thus the Sub-funds may be suitable for investors who are looking to set aside the capital for at least five years. If you are uncertain whether these products are suitable for you, please contact a financial adviser.*

Evenlode currently manages £5,226m (as of 31 December 2024).

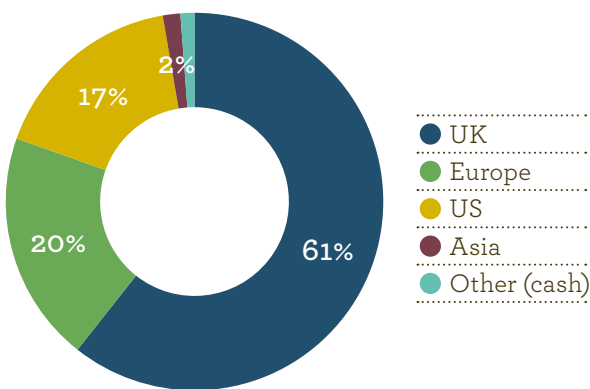
## Breakdown of assets by client-type

### Growth in AUM over 5 years

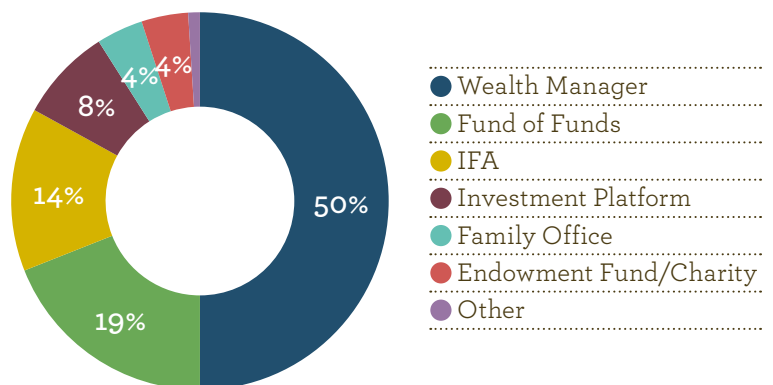
Year end	2020	2021	2022	2023	2024
Total assets in Evenlode Funds (£)	4,766m	5,220m	5,349m	5,723m	5,226m

Evenlode invests 100% in equities, mainly in large capitalisation firms. At the end of 2024, the geographical and client breakdown of assets under management (GBP) was as follows:

## Geographical Breakdown of AUM



## Client Breakdown



# CLIENT BREAKDOWN

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We pride ourselves on our engagement, not just with investee companies, but also with investors. We use a third-party marketing company, Spring Capital Partners Ltd to provide sales and marketing support as well as tailored client communication. Both Spring and Evenlode take their commitment to clients very seriously and ensure that investors' views are sought through face-to-face meetings, webinars and investor days. The portfolio managers and Stewardship team are active and available to clients, and all meetings are a two-way process, where clients are encouraged to question and feedback to the team. As mentioned, all Evenlode's current mandates are collective investment schemes with many thousands of underlying investors. For this reason, it is our approach to ensure that our ESG policy is clearly articulated to clients, giving them full opportunity to understand our policies and their intended benefits. We believe that transparency is key.

We believe in full disclosure and alignment of clients' stewardship and investment policies with our own. As collective investment schemes the Evenlode funds aim to strike a balance between our long-term performance objectives and ESG criteria rather than to sacrifice one for the other. Regardless of the diversity of our client base, it is all of our investors' wish that Evenlode makes informed decisions about where to invest, and proactively oversees the assets once invested.

We communicate very actively with clients about stewardship and investment activities. In addition to the face-to-face contact mentioned above, we produce a wealth of materials to keep our clients informed. Some examples of these are:

- Monthly factsheets with fund manager commentary and in-depth portfolio detail. This includes the fund's ESG ratings from MSCI and Morningstar, along with voting and engagement examples. It also provides an overview of the fund's emissions over time compared to relevant indices.
- Monthly investment views of the managers, looking at the investment landscape and discussing how the fund is positioned.
- Monthly monitoring of our Irish domiciled funds to ensure we are fulfilling our SFDR obligations. The report is shared internally with the compliance team.

- Regular interactive webinars with clients which are recorded and published on the Spring Capital website.
- Annual reports such as:
  - Responsible Investment Report which includes the portfolio's emission intensity.
  - Taskforce on Climate-related Financial Disclosures (TCFD) report at a product and entity level.
  - Net Zero Transition Plan for all the Evenlode portfolios.
- Quarterly Stewardship Reports highlighting voting and engagement activity for the period, available on Evenlode's website.
- Publication of full voting records for every company within the portfolio on a quarterly basis. Also disclosing rationales for when we have voted against management.
- Full disclosure of investment and stewardship policies through Spring Capital and/or the Evenlode website.
- Ad hoc videos by the portfolio managers or stewardship analysts, on a range of topics such as on our risk management framework, proxy voting season and how Evenlode engages with companies in its portfolio(s).

Evenlode and Spring Capital work together to analyse and respond to the requests for information we receive from clients. Over the last year, we have seen a sharp increase in the number of stewardship/ESG questionnaires we have been asked to complete by clients. Together with Spring Capital, we have responded to 100% of these in a full and comprehensive manner. Our aim is then to include much of this type of requested detail in the materials we regularly provide. This has led to an expanded range of collateral presented to clients over different media as described above. The feedback we have received is that the breadth and depth of material produced is welcomed and encouraged by clients, and they are happy with Evenlode's development and progress on ESG integration and engagement.

To better understand the needs of our clients we regularly review the content we post on our website and analyse this information to evaluate the usefulness of our communications with clients and propose and agree changes at our 'Content Calendar' meetings with the investment team.

# LOOKING AHEAD

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As stated at the beginning of this report, Evenlode's goal in stewardship is to *'preserve and enhance the value of our clients' assets through long-term engagement and analysis'*. We believe it is our fiduciary duty to protect and increase the value of our clients' assets through robust ESG analysis and long-term dialogue. Our ESG analysis highlights the best-in-class companies, and the Engagement Tracker allows us to highlight the companies which we feel can improve on ESG-related matters, providing us with crucial data on how to constantly improve our engagement approach.

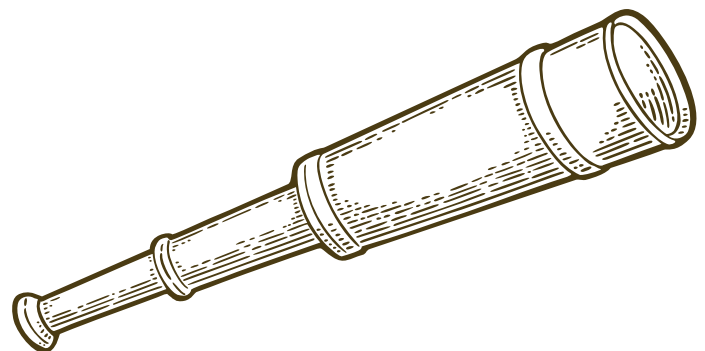
Our key focus for the year has been to expand our expertise in four critical areas: regenerative agriculture, water management, commodity risks, and deforestation. Developing our knowledge in these areas is a long-term commitment, and we are pleased with the progress so far:

1. **Deforestation:** Our work led to the inclusion of a nature-related question in our ESG risk score matrix. This has enabled us to assess investee companies more thoroughly, evaluating both their impact on and dependencies on natural resources.
2. **Regenerative agriculture:** We conducted analysis on portfolio companies adopting regenerative agriculture practices and actively improving ecosystems over time. Companies such as Heineken and Diageo are leading the way, integrating regenerative methods into their key supply chains, making significant investments, and directly supporting farmers in the transition.
3. **Water management:** While progress in this area has been relatively slower, it is increasingly clear that water management is becoming a critical issue in the AI-driven world. Poor water management can lead to resource depletion and higher operational costs. Given the rapid expansion of AI and rising consumption demands, optimising water efficiency is no longer just a sustainability goal - it is a necessity.
4. **Commodity risks:** Thematic analysis of commodity risks is inherently complex, which is why we chose to begin our research with the palm oil industry as Rebekah's analysis suggests.

For many years, the lack of transparency in global supply chains has created a significant gap between corporate sustainability claims and the realities on the ground. Deepening our understanding of these critical themes is essential to strengthening our ability to identify and manage the most material risks in industries most relevant to the Evenlode funds. These pieces of analyses will be instrumental in developing an ecological impact assessment framework for the business, in the near future.

We hope this report has given you a sense of how we go about investing responsibly at Evenlode, and the actions we have taken on behalf of our clients during 2024. We look forward to updating you on our progress during 2025.

Should you wish to learn more in the meantime, please feel free to contact our Stewardship team.



# GLOSSARY

Term	Description
<b>AGM</b>	Annual General Meeting, a yearly gathering of a company's interested shareholders.
<b>Article 8</b>	A classification under the Sustainable Finance Disclosure Regulation (SFDR). This classification applies to investment funds that promote environmental or social characteristics but do not have a sustainability objective. Funds classified as Article 8 must disclose how these characteristics are met and monitored, providing transparency to investors about the sustainability aspects of their investments.
<b>AUM</b>	Assets Under Management, the total market value of the investments that an entity manages on behalf of clients.
<b>Carbon Emissions</b>	The release of carbon dioxide into the atmosphere, contributing to climate change.
<b>CDP</b>	Carbon Disclosure Project, an organization that supports companies and cities to disclose their environmental impact.
<b>CAGR</b>	Compound Annual Growth Rate, the mean annual growth rate of an investment over a specified period of time longer than one year.
<b>ESG</b>	Environmental, Social, and Governance, criteria used to evaluate a company's operations and performance.
<b>EU DR</b>	European Union Deforestation Regulation, a regulation aimed at preventing deforestation caused by certain commodities.
<b>FCA</b>	Financial Conduct Authority, a regulatory body in the United Kingdom overseeing financial markets.
<b>GHG</b>	Greenhouse Gas, gases that trap heat in the atmosphere, contributing to global warming.
<b>ICAV</b>	Irish Collective Asset-management Vehicle.
<b>KIID</b>	Key Investor Information Document, a document providing essential information about investment funds.
<b>LTIP</b>	Long-Term Incentive Plan, a reward system designed to improve employees' long-term performance.
<b>MiFID II</b>	Markets in Financial Instruments Directive II, a legislative framework instituted by the European Union to regulate financial markets.
<b>Net Zero</b>	Achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere.
<b>OEIC</b>	Open-Ended Investment Company, a type of fund structured to invest in stocks and shares.
<b>Paris Agreement</b>	The Paris Agreement is an international treaty adopted in 2015 aimed at combating climate change. It seeks to limit global warming to well below 2 degrees Celsius above pre-industrial levels, with efforts to limit the temperature increase to 1.5 degrees Celsius. Countries that are part of the agreement commit to reducing their greenhouse gas emissions and enhancing their climate resilience.
<b>Proxy Voting</b>	A process allowing shareholders to vote on corporate matters without being physically present at the meeting.
<b>RSPO</b>	Roundtable on Sustainable Palm Oil, an organization promoting sustainable palm oil production.
<b>Scope 1 Emissions</b>	Direct emissions from owned or controlled sources.
<b>Scope 2 Emissions</b>	Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
<b>Scope 3 Emissions</b>	All other indirect emissions that occur in a company's value chain.

# GLOSSARY

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Term	Description
<b>SDR</b>	Sustainable Disclosure Regulation. It is a set of FCA rules and guidelines aimed at increasing transparency in how financial market participants consider sustainability risks. SDR requires companies to disclose information on their sustainability practices, helping investors make informed decisions based on environmental, social, and governance (ESG) criteria.
<b>SFDR</b>	Sustainable Finance Disclosure Regulation, EU regulation aimed at increasing transparency in how financial market participants consider sustainability risks.
<b>STIP</b>	Short-Term Incentive Plan, a reward system designed to improve employees' short-term performance.
<b>Sustainability</b>	A broad term generally understood to mean being able to meet present needs without compromising the ability to meet future needs. Sustainable investments are those which aim to generate a financial return whilst also considering ESG factors.
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures, an organization developing voluntary climate-related financial risk disclosures for companies.
<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities. A regulatory framework in the European Union that allows for the creation and distribution of investment funds that can be marketed to retail investors across the EU. UCITS funds are known for their high level of investor protection, transparency, and liquidity.

# DISCLAIMER

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Please note, these views represent the opinions of the Evenlode Team as of April 2025 and do not constitute investment advice. Where opinions are expressed, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. This document is not intended as a recommendation to invest in any particular asset class, security or strategy. The information provided is for illustrative purposes only and should not be relied upon as a recommendation to buy or sell securities. Every effort is taken to ensure the accuracy of the data in this document, but no warranties are given.

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.

The UK sustainable investment labels help investors find products that have a specific sustainability goal and that meet certain specific requirements in relation to their sustainability characteristics. Although the Evenlode Funds have sustainability characteristics, they do not have UK sustainable investment labels because they do not have a specific sustainability objective, and have flexibility to pursue a wide range of investment opportunities, without being limited by the specific criteria required for a label.

IFSL Evenlode Income, IFSL Evenlode Global Income and IFSL Evenlode Global Equity are sub funds of of the IFSL Evenlode Investment Funds ICVC. Investment Fund Services Limited (IFSL) is authorised and regulated by the Financial Conduct Authority, No. 464193. The Evenlode Global Dividend Fund and Evenlode Global Opportunities Fund are sub-funds of the Evenlode ICAV. The Evenlode Global Dividend Fund and Evenlode Global Opportunities Fund are authorised and regulated in the Republic of Ireland by the Central Bank of Ireland. Full details of the funds including risk warnings and costs and charges are published in the fund prospectuses, and the Key Investor Information Documents (KIID) which are available on request and at [www.evenlodeinvestment.com](http://www.evenlodeinvestment.com).

Past performance is not a guide to future returns. The funds are subject to normal stock market fluctuations and other risks inherent in such investments. The value of investments and any income derived can go down as well as up, and investors may not get back the full amount invested. You should therefore regard your investment as medium to long term. The Evenlode funds are concentrated with typically 30-50 investments, therefore the funds carry more risk than a fund that is spread over a larger number of stocks. The funds have the ability to invest in derivatives for the purposes of efficient portfolio management, which may restrict gains in a rising market. Investment in overseas equities may be affected by exchange rates, which could cause the value of your investment to increase or diminish.

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