Active investment. Responsible outlook.

Responsible Investing Report

April 2020

ACTIVE STOCKPICKERS

svm

For professional advisers only – not to be relied upon by retail clients

Responsible investing is an important aspect of the service we offer our clients and a key point of differentiation with passive investment strategies and many other active managers. SVM began managing Socially Responsible Investment (SRI) products in 2006. Since then, our engagement principles have evolved to include environmental, social and corporate governance (ESG) issues across our range.

Our top priorities are to do our best for our clients, by maximising their portfolio returns and protecting their interests, and to drive benefit for society. To select investments we employ a consistent and disciplined approach that focuses on intensive bottom up research. As part of our investment process we assess many factors including ESG considerations for their potential to materially affect a company's performance.

As a boutique investment firm we recognise that, because in most cases we will not hold significant positions in investee companies, it can be difficult to encourage changes in management attitudes and behaviour purely by exercising client voting powers alone. Instead, we have adopted a more flexible approach and we engage with company management and boards as and when we believe it will be of most benefit.

Highlight – Remuneration

An important feature of SVM's focus on corporate governance is executive remuneration where we seek to ensure that senior management pay schemes are appropriate in terms of their quantum and priorities. There are 5 specific elements which we scrutinize and will vote against proposed remuneration schemes which do not meet these principles. The remuneration policy and report should;

1. Be clear in their objectives and comprehensive in their disclosure without being complex and incomprehensible
2. Be aligned with long term shareholder interests
3. Allow for an effective and truly independent audit committee
4. Avoid reward for "failure"
5. Ensure non-executive director remuneration is appropriate

Complexity is increasingly a problem when analysing the detail and priorities of remuneration packages. A simple look at the index of an annual report can often highlight the problem. The 2018 publication from the UK's largest company by market capitalization, Royal Dutch Shell, serves as a good example. Here the director's remuneration report spans from page 119 to page 147. By comparison the company's strategic report on the environment and society runs from page 66 to 71. Perhaps also a great indicator of where the company's priorities lie.

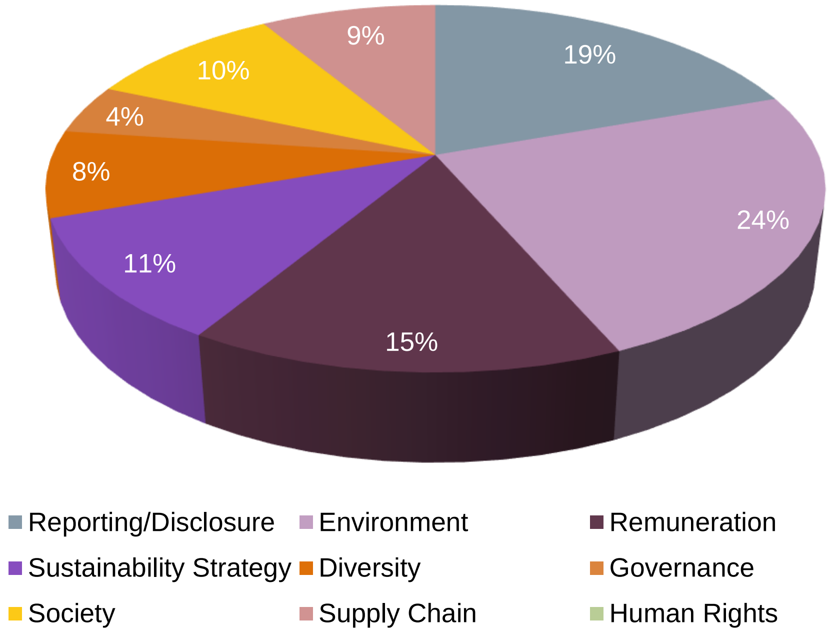
Alignment with long term shareholder interests was also a concern when we recently voted against the remuneration policy of the UK's Diploma PLC. Here the incoming chief executive had been awarded a full year's bonus for the fiscal year ending September 2019. As the CEO had only been with the company for 7 months the award of a full year's bonus was impossible to justify. Although the majority of shareholders did vote in favour of the report, an important threshold was crossed. As 20.02% of shareholders failed to support the policy the Board is now compelled to consult with shareholders and explain their actions in the following year's annual report. If nothing else this should focus the Board's attention on a more appropriate remuneration structure in the years to come. This is a satisfactory outcome for shareholders and despite SVM's modest assets under management the 0.02% margin by which the threshold was crossed means our vote was far from wasted.

Engagement Policy

We enter into a dialogue with every potential investment with a view to having a positive influence on the company concerned. Using information derived from a combination of in-house research, dialogue with the company and external sources we identify the key issues and discuss them directly with company management, in order to affect change.

Q1 2020 Engagement Update

During the quarter we engaged with 24 companies on 92 ESG issues.



Source: SVM

Company Engagement – Q1 2020

COMPANY	Reporting/ Disclosure	Environment	Remuneration	Sustainability Strategy	Diversity	Governance	Society	Supply Chain	Human Rights
Rentokil	●	●		●	●		●		
Diploma	●	●	●		●			●	
Intermediate Capital	●	●	●	●			●		
Cranswick		●	●	●			●	●	
Segro	●	●							
Hilton Foods Group	●	●	●	●	●		●		
Flutter	●	●	●	●			●		
Keystone Law						●			
Ocado	●	●							
WHSmith	●	●	●	●	●			●	
Kingspan	●	●	●	●	●	●		●	
Dart Group		●				●			
K3 Capital	●								
Kainos	●	●	●				●	●	
Experian	●	●	●		●			●	
On the Beach	●	●							
Rio Tinto	●	●	●						
Oxford Instruments	●	●	●	●	●			●	
Balfour Beatty		●							
Total		●	●						
Novartis		●				●			
Ryanair	●	●					●	●	
IAG	●	●	●	●			●		
H+H	●	●	●	●			●		

Source: SVM

The companies mentioned are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Voting Policy

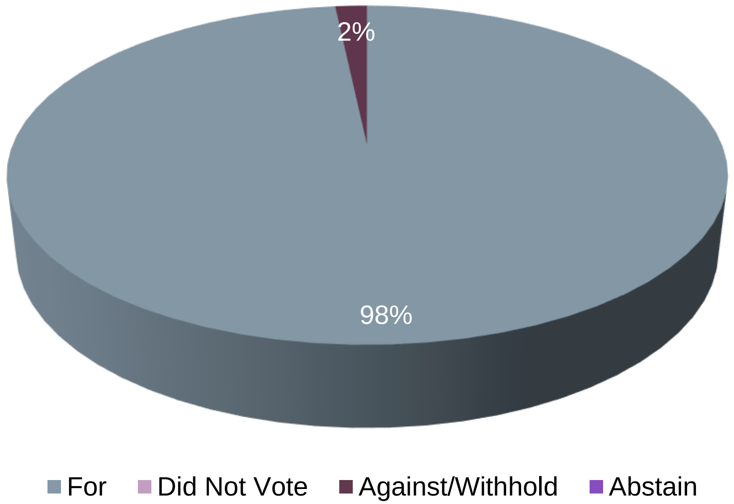
We seek to promote corporate social responsibility through engagement and a negative vote will only be viewed as a final measure to be adopted when this process of engagement has not been successful. We have and will express our views in this way if necessary. Our emphasis is on engagement and resolving issues through dialogue.

Click here for voting records for SVM Asset Management from 1 January 2019

Q1 2020 Voting Update

Across 193 unique proposals available to vote, we voted 166.

Votes cast were in line with management recommendations 99% of the time, with 1% contrary to management recommendations.



Source: SVM

Voting Rationale – Q1 2020

Date	Security	Resolutions Voted Against	Reason
07/01/2020	Diploma plc	12. Approve Remuneration Report	Voted against item 12 -as a result of the package put in place for the new CEO. He has been awarded a maximum bonus for 2019 (fiscal year ends September) despite being appointed in February of that year ie only served 7 months of the period. His pension contribution is also in excess of the workforce average which now contravenes the UK code. Finally the company has increased the LTIP maximum pay out to 250% of CEO salary which they justify as necessary to attract him to the company. Despite this they now say this is the new normal for the company which appears to contradict this justification
06/02/2020	Plus500	1 - 3 Remuneration policy & report	voted against items 1,2 and 3 - proposing to increase both the share based compensation (+10%) and the LTIP (+155%) for both the CEO and CFO of the company. The reason given is somewhat vague citing changing and difficult operating environment At the same time the Share Appreciation Rights they are granted have no performance condition attached other than continued employment. They have offset this to a certain extent by not proposing either a salary or bonus increase and have increased the vesting period for the LTIP from 2 to 3 years. Despite this, the first two items do go against best practice and ISS recommend we vote against.
17/02/2020	SSP Group plc	1 Remuneration Report	We voted against the SSP Remuneration report as the CEO is getting paid a full years bonus despite resigning half way through the year.

Source: SVM

For further information please contact:

Erin Elliot
eelliot@svmonline.co.uk

SVM Asset Management
7 Castle Street
Edinburgh
EH2 3AH
+44 (0)131 226 6699
www.svmonline.co.uk
www.thevaluekey.co.uk

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