# Engagement Policy

## Overview

Church House is an investment management business focused on the management of discretionary investment portfolios, principally via our range of authorized funds. We aim to act in the best long-term interests of our clients when managing assets and making investment decisions.

Our primary responsibility is, and has always been, to our clients, managing their affairs to the best of our abilities in accordance with their wishes.

Active management of the securities in which we invest on behalf of our clients is central to our approach, with the purpose of safeguarding and increasing value for our clients. As active investors in both the UK and global markets, we place great importance on closely monitoring the companies in which we invest, assessing their fundamental drivers and whether they remain a suitable investment for each respective fund.

While we have always considered that investing in companies with properly sustainable practices and business models, run by people with integrity, as an integral part of what we do, we now aim to formally embed these practices into our investment process in our equity, fixed income and multi-asset class funds, as well as the approach that we take to investing clients' monies. We believe that the importance of ESG has never been more prominent and this manner of thought is shared across the firm as a whole.

## Engagement & monitoring investee companies

We are long-term shareholders and so, in some cases, have been in communication with companies over many years. Our active-management approach promotes ongoing research with investee companies. We attend company presentations, engage in one-to-one meetings with company management teams, and carry out continuous research and analysis in order to maintain a solid financial picture of the current and future value of stocks we hold, along with their development in ESG matters. When appropriate, we engage in active constructive dialogue with investee companies (via verbal or written communication) and vote at AGMs, EGMs and corporate actions, should this be in the interest of our clients, especially if direct communication with an investee company fails to satisfy our concerns. We question management on financial and non-financial matters and while opportunities for voting with fixed income instruments are limited, we endeavour to apply the above course of action.

## Escalation

In the event that we do have a concern with an investee company, we originally look to address this directly through meeting with the management team, or at least investor relations, of the given company. We would further look into the matter through our own analysis in addition to potentially discussing the matter with an analyst at one of our research providers. If, after taking these steps, we feel that no further action is required and that we have sufficient information then we will take no further steps and simply monitor the situation.

However, if we are not content with what we have heard from management and/or still feel that a given issue requires more attention, our usual course of action would be to write to the Chair of this business


50 Grosvenor Street, Mayfair, London W1K 3HW. Telephone 020 7534 9870
York House, 6 Coldharbour, Sherborne, Dorset DT9 4JW. Telephone 01935 382620

and, on occasion, we will arrange a one-to-one with the Chair to express our concern and discuss in more detail. In such a discussion, we would look to prioritise the key issues and communicate these clearly to the Chair. There are also the options to express our concern to the broker(s) of the Company and voting against management.

# Collaboration

On a minority of occasions, and where the above course of action has failed to yield our intended outcome, we may engage with other shareholders. We will only undertake this course of action should we believe it appropriate and in the best interests of our shareholders. This may arise as a result of an unsuccessful private engagement, or where collaboration with a larger shareholder grants us further reach to influence the decisions of senior management and the Board.

In the event that our concerns remain unaddressed after all of the above process has taken place, our usual course of action would be to exit the position as soon as practicable.

# Capital structure

When evaluating a bond, close attention is paid to the risks of various lending structures (senior secured/unsecured subordinated/lower tier) – we primarily invest in investment grade bonds. The bond’s duration and maturity, and the length of time it is intended to be held, is closely deliberated. Potential changes to the strength of a company’s balance sheet resulting from ESG or financial related issues are assessed, with particular attention paid to any effect on price and volatility. Further to this, our portfolios are highly diversified in order to mitigate specific risk.

# Social and environmental impact and corporate governance

As active, long-term managers, we are able to integrate ESG practices into our investment processes holistically. We look to invest in high quality companies with strong fundamentals and corporate governance, alongside sound ESG practices. While we have an analyst who has a focus on ESG, we believe it important not to segregate ESG discussion from the investment team. In this way, each fund manager embeds ESG into their investment decisions, where it is considered from a risk management perspective.

There are areas where ESG integration spans many asset classes. It is common for our equity fund managers and analysts to discuss mutual holdings with our fixed-income and multi-asset fund managers. This is a mutually beneficial relationship, which allows teams to approach financial, ESG and stewardship considerations from a potentially new angle. While ESG and stewardship are integrated holistically into our investment approach and decision-making process, discussions across teams on the investment desk allows us the opportunity for new insights, in addition to scope for further development of our broader understanding of these companies. This open-dialogue approach allows us to convey a unified view of ESG and stewardship matters when in discussion with investee companies.

# Voting

## In-house Voting

At Church House we take our own responsibility for proxy voting and do not outsource any part of the process to third parties. We do this because we see proxy voting as a responsibility that we would like autonomy over and, just as we would not outsource an investment decision, we prefer to keep **voting decisions in-house.**



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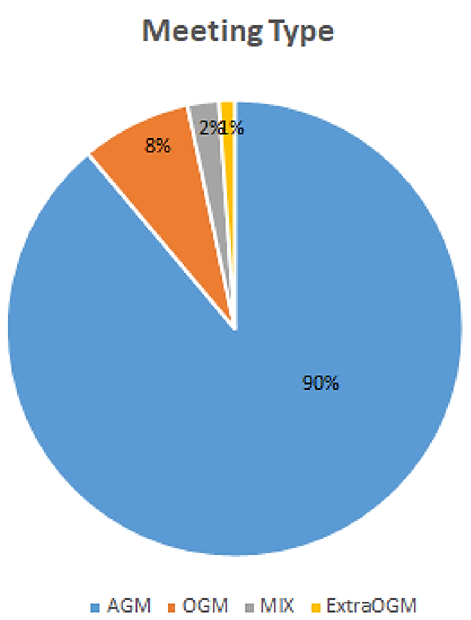
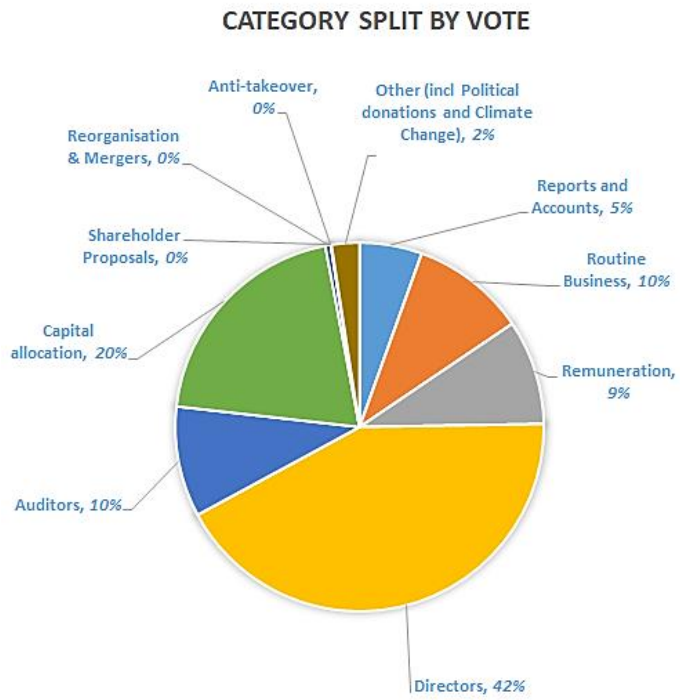
In comparison to much larger investment businesses, it is unlikely that we would ever have the voting power to change the course of action, unless it is a smaller company. However, we strongly believe in the power of communicating our concerns when required and believe that this is our responsibility as asset managers.

## Voting activity in 2021

During 2021 we voted on a total of 96 events, made up of a total 1,634 items. 90% of these events were AGMs, with the majority of the balance being EGMs. Here is the full split of meeting type that we voted on:




We **voted against management** on 25 occasions and abstained 31 times. Combined that makes it 3% of votes where we did not vote with management.



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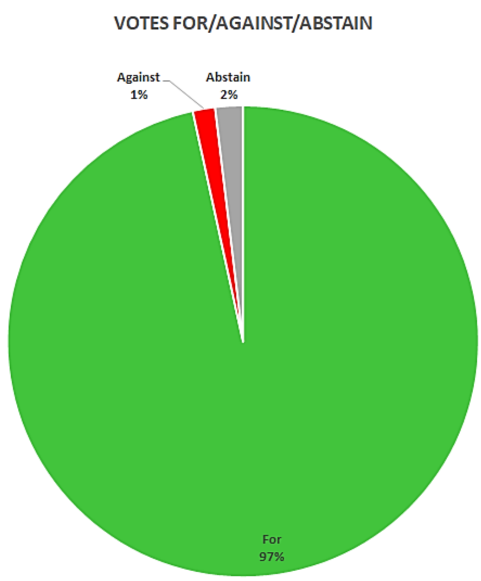


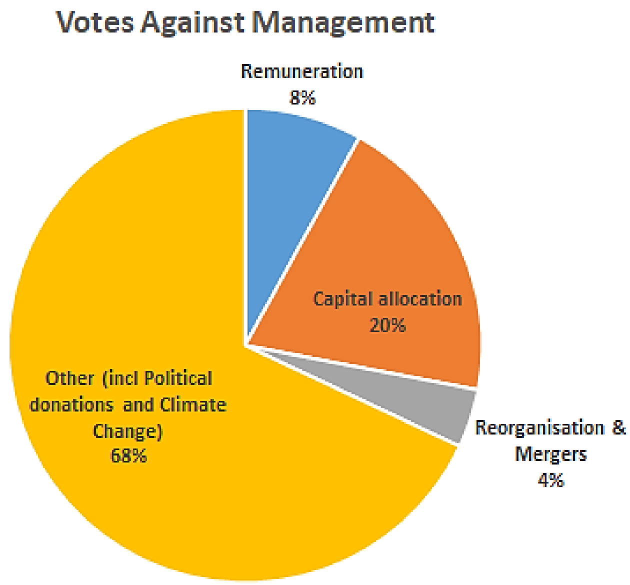


## Significant voting

**Significant votes** can be seen looking at the 25 occasions when we did **vote against management**, the category split can be seen below.

### ‘Other’ Resolutions - Against

As can be seen, 68% of the occasions when we voted against management were on ‘Other’ resolutions such as **political donations** and **climate change**. This is one area we chose to focus on specifically this year as this has historically been a category which we feel management teams have, on occasion, used to pass irregular resolutions that we have not agreed with.

### Examples for voting against management – Political Donations & Climate Change

For example, we voted against political donations for defence company **BAE Systems**, UK bank **Barclays** and Anglo-Australian miner **Rio Tinto**. All three of these businesses have a chequered past when it comes to political donations and we saw no situation in which we, as shareholders, would like to see these businesses making donations. We realise that the legal definition of ‘political donations’ is relatively wide and that, in some instances, passing such resolutions gives flexibility to management teams to support groups that are not political parties or individuals, but that are still caught under the above definition as a political donation.

Having considered this, the Voting and Engagement Committee concluded that this was not sufficient mitigation and that, regardless, **we did not think it suitable for these businesses to be making political donations**. During 2020 none of these three businesses made payments to political parties, but Rio Tinto and Barclays did provide administrative support to their respective federal Political Action Committees (PACs) in the US, funded by the voluntary political contributions of eligible employees. In both cases the amount donated was under $50K over the year. We do not view this support of US PACs as concerning.

### Capital Allocation - Against

Capital allocation resolutions, specifically relating to **disapplication of pre-emption rights** have been another area of focus for the Voting and Engagement Committee in 2021. As long-term investors, we feel that equity is paramount and we do not like to see management teams being liberal in issuing equity to fund acquisitions – we favour businesses and management teams that take a more conservative approach and that grow by reinvesting free cash flow. We are not completely against management


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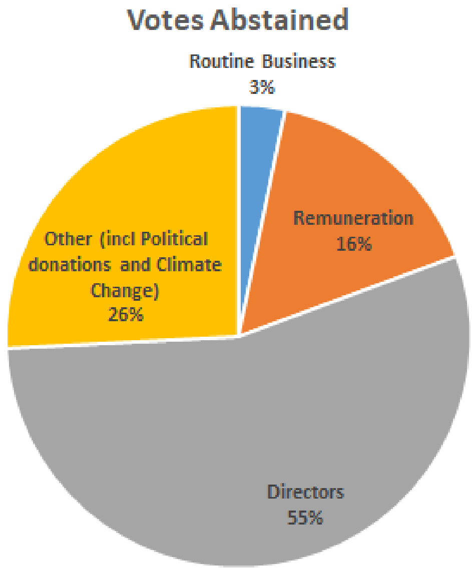
issuing shares when there is a viable investment case for this, but beyond a certain level, we feel that a management team should require the approval of equity holders before going ahead.

### Examples for voting against management – Capital Allocation

One such group of resolutions that we voted against were **Aviva's** resolutions 19-21, authorising directors to disapply pre-emption rights on up to 1/3rd of the Company's equity capital under certain conditions. As equity holders, we saw this as materially too high an amount of equity for management to be allowed to issue without putting the vote to shareholders, and so we voted against the resolution.

## Abstentions




We abstained on reappointing directors on 17 occasions during 2021. Here are two occasions where we abstained and our reasoning:

### Examples for abstaining on our vote – Directors

**Bioscience business**

This example is on a venture capital bioscience business, established to invest in breakthrough biotechnology businesses. We have been shareholders since IPO.

We abstained from re-electing three newly-appointed directors. Investment in this business has been disappointing, after a series of management and board changes that, in our opinion, compromised the Company's investment abilities and resulted in poor performance.

During 2021, the largest shareholder in the Company (the 'Shareholder'), were successful in their attempt to overhaul the Board, replacing the CEO with their own chair appointment in addition to a number of new directors. We saw this as an aggressive and unnecessary shakeup to an already fragile leadership structure. Furthermore, we felt that the CEO had done a good job in improving the Company during his short time as CEO, as reflected in strong share price performance.

We therefore decided to **abstain from re-electing the three newly-appointed directors** at the 2021 AGM. These directors were appointed to the Board by the Shareholder, in which we had little conviction. Moreover, we had had no communication with the individuals since their appointment. We are continuing to monitor progress at the Company and have, so far, seen no evidence of improved management under the new Board. In fact, investor communication has been minimal.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# Conflicts of Interest

Church House takes all reasonable steps to identify and manage conflicts and potential conflicts of interest between it and anyone associated with the Company and its clients, and between one client of the Company and another client. The Company maintains a policy of managing conflicts of interest which is reviewed at least annually and will take all reasonable steps to manage its affairs to minimise the likelihood of conflict.

August 2022



50 Grosvenor Street, Mayfair, London W1K 3HW. Telephone 020 7534 9870
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