

Stewardship Report

This document explains how Amati Global Investors complies with the **UK Stewardship Code 2020**. The period covered is from **1 January 2020 to 31 December 2020**.

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment and society.

Context

Amati Global Investors Limited ("Amati") supports the aims of The UK Stewardship Code 2020 ("the Code"), which was published by the Financial Reporting Council ("FRC") in October 2019. During the period covered by this review Amati managed two collective funds: the TB Amati UK Smaller Companies Fund, which is an open-ended investment company, and Amati AIM VCT, which is an AIM-based Venture Capital Trust. Amati also manages portfolios of AIM stocks on a discretionary basis for retail clients subscribing to the Amati AIM IHT Portfolio Service. As managers of clients' assets, part of our role is to monitor and, where possible, to influence the corporate governance of investee companies.

Amati Global Investors was established in Edinburgh in 2010 with the objective of providing our investors with savings vehicles offering exposure to dynamic areas of the market. We are specialists in small and medium sized companies and aim to curate diverse portfolios of carefully analysed businesses capable of performing in a variety of market conditions. Independent and committed to active management, we have created an environment that enables our investment teams to work together effectively, focusing on making good investment decisions for our clients. Indeed, Amati's entire business model is predicated around building long term value for investors, with a distinctive investment proposition and a culture built around independence, integrity and the alignment of our interests with those of our clients.

Amati recognises a need for 'through the cycle investing' and seeks to provide, as much as possible, investment vehicles for all seasons. Our focus is on quality growing business models, sustainable revenues & margins and strong balance sheets. We adjust the positioning of the portfolios over time to keep a focus on the best investment propositions we can find, taking into account the underlying macro-economic and political risks and industry trends present, as well as the specific circumstances of individual companies. In respect of the TB Amati UK Smaller Companies Fund, our aim is to produce a savings vehicle providing actively managed exposure to this dynamic segment of the stock market, which has proven itself capable of delivering superior long-term returns in the past (based on the data from the Numis Smaller Companies Index study published by Scott Evans and Paul Marsh), whilst targeting lower than average volatility compared to our peer group of funds.

ESGH (“H” being Human Rights) considerations, including stewardship, have always been integral to the way we work, forming part of the investment process and not as an adjunct to the process. Stewardship is never outsourced – we believe that the individuals managing the money should be those making decisions on stewardship and ESGH considerations.

Activity

Amati has a team of four fund managers, supported by a research analyst, who work collectively on each of the types of fund that we manage. Research, due diligence and investment management are combined in the one team.

Research coverage is broadly divided up by sector, and work on each stock that we research or invest in will be led by one member of the team, who will produce a recommendation on it, which will be updated over time during future monitoring reviews. This is then put to the others for debate. Our research will aim to encompass a consideration of the governance arrangements for each company, and if contentious, these will always form part of the evaluation made by the team. If we find particular aspects represent poor practice we will look to find ways of sending feedback to the company concerned, normally via the broker or NOMAD. We will generally hold regular dialogue with the directors of investee companies. Whilst our regular contact tends to be with the executive management team, we prefer also to have points of contact with non-executive directors, although this is not the norm.

Our point of maximum engagement tends to be when making qualifying investments for Amati AIM VCT, which involves dealing with companies that are raising money and hence, generally at their most receptive to suggestions about corporate governance issues. This is particularly true of IPOs on AIM, for which VCTs can play a crucial role, but it can also be true of investments made by our other funds when a company is raising money. We have on a number of occasions had our proposed governance changes accepted and implemented prior to an IPO, for example persuading a board not to issue non-executive directors with options so as to retain their independence in overseeing management incentive schemes, or advising on appropriate salary levels. In doing so we need to establish a high level of trust with the company’s management, and it would not be helpful in these relationships if we published details of our role on a case-by-case basis.

Beyond this, as active investors in UK quoted companies our investment approach is based around dialogue with the senior management both of companies that we invest in on behalf of clients, and those that we research. We would normally expect to see or talk to members of the executive management of investee companies at least once a year, and in many cases more frequently. In this ongoing dialogue we will often raise governance issues but will only do so where we see relevant issues to discuss. Issues raised may cover business strategy, board diversity, management appointments and executive remuneration, employment practices, environmental considerations and corporate responsibility.

In certain specific cases where in our view there are important matters of principle being disregarded, which we believe will have a significant impact on shareholder returns, we will engage with other parties involved with the company, whether they be nominated advisers to the company, or other shareholders. Such intervention will generally include seeking the participation of other shareholders and company advisers, and is unlikely to be made public, or to involve the media.

We are involved in quarterly dialogue with other VCT fund managers via the AIC's VCT Manager Forum, which provides a natural occasion for raising matters of both general and specific corporate governance amongst a wider group of fund managers. However, as a relatively small fund management business we recognise that we are likely to have an influence only on the smaller investee companies in which we hold significant stakes, and the way in which we engage with companies will reflect this. We may choose to sell an investment where we see little chance of resolving a matter of corporate governance to our satisfaction.

We will generally vote on all company resolutions put to shareholders, and as a matter of principle we would vote where we see a matter of particular significance, or where we are responsible for a significant stake in the business. We do not delegate voting control to a third party, nor do we subscribe to an advisory service about voting. However, because our fund managers are directly engaged in assessing the corporate governance of investee companies and because we invest in small and medium sized businesses, the kind of feedback we give directly will often be more influential than any votes we might have cast at a company meeting. We are likely to have less influence on the larger companies that we invest in.

We have a comprehensive training programme, the purpose of which is to instil and embed our core values throughout the firm. At induction every staff member is given a training needs analysis which explores how an individual's role can be developed in the context of the Code of Conduct as set out in SM&CR. This is also an opportunity to reinforce Amati's core values. Code of Conduct training is also given annually to all staff.

Our Stewardship and Shareholder Engagement Statement can be found at <https://www.amatiglobal.com/page/stewardship-shareholder-engagement>.

Outcome

It can be seen from our performance record that we have served our clients and beneficiaries well, by delivering excellent long term performance relative to the relevant benchmarks and sector peers. Our main client fund, the TB Amati UK Smaller Companies Fund, which has been managed by Paul Jourdan since August 2000, and during which time has returned 871% (as at 31 December 2020) against the benchmark (Numis Smaller Companies, excl. Investment Companies, plus AIM) return of 253% and the sector (IA UK Smaller Companies) average of 361%.

In the 10 years to 31 December 2020 Amati AIM VCT returned 210% against the benchmark (Numis Alternative Markets Total Return Index) return of 40% and the sector (AIC AIM-quoted VCTs) return of 148%.

Since its launch in August 2014 to 31 December 2020 the Amati AIM IHT Portfolio Service achieved a representative return of 132%, against the benchmark (Numis Alternative Markets Total Return Index) return of 59%.* The TB Amati Strategic Metals Fund was launched after the period covered in this report so its performance is not relevant here.

*Sources: Amati Global Investors, Numis Securities, FE Trustnet, Association of Investment Companies.

Principle 2

Signatories' governance, resources and stewardship support stewardship.

Activity

At Amati the client is central to the business. We are values-driven, with strong leadership and an integrated approach to investment and a somewhat non-hierarchical structure – research, due diligence and post-trade analysis and monitoring is carried out by the same team, in the same room and is not delegated to third parties. Stewardship, engagement and ESGH matters are integrated into the investment process and are not an adjunct to the process. Ownership of stewardship decisions is taken by the individual manager concerned, after which a consensus view is reached in collaboration with the investment team, while supported by the compliance function. Due diligence and investment conclusions are recorded on our proprietary ConneX CRM system, which enables recommendations to be reviewed and voted on by the team, as well as an assessment and analysis of the quality of research inputs into the process.

Managers are not incentivised by narrow performance targets. The investments managers share in the general success of the business and there are no perverse incentives to take disproportionate risks.

We have a comprehensive training programme around the SM&CR framework, which is used as an opportunity to discuss values, ethics, integrity at an individual and group level and to embed further our core values throughout the organisation.

The research budget is increasingly being used to purchase content from independent providers not conflicted by virtue of providing execution services. Our main provider for fundamental research and analytics, Refinitiv, has around 10,000 ESG and stewardship data points available and we are also investing in internal systems to capture with more precision the risks and opportunities in this area. However, we choose not to rely on external research for ESG scores for a number of reasons. We believe that matters relating to ESGH involve fine judgements which require the kind of detailed knowledge of the business involved that fund managers have, and that therefore this is not something to outsource - rather it should form part of the due diligence and investment appraisal by our fund managers. An area of particular interest is the development of tools to map our portfolio companies on to specific targets from the UN SDGs. In doing so we recognise that there are mostly concerned with improving life in developing countries are we are not looking to sanitise them for developed world consumption. But we do wish to think through where our investee companies may help meet some of the targets, and perhaps more importantly where any might be hindering some of them.

Our organisational structure under the Senior Managers and Certification Regime allows for oversight and clear lines of responsibility. The fund managers, supported by the compliance function, lead on stewardship and ESGH considerations, which we firmly believe should be, in the first instance, driven by those individuals managing the money and not by proxy advisers. We have bespoke systems for capturing due diligence and investment conclusions, which has been subject to an ongoing series of enhancements in order to integrate stewardship and ESGH into the investment process. These considerations have always been implicit in our investment process, but we have recognised the need to

formalise our approach to a degree, while resisting it becoming a mechanistic process. This also feeds into our reporting against the Principles for Responsible Investment (PRI), to which we have been signatories since December 2018 and relating to which there is significant crossover with our stewardship responsibilities, especially in relation to the risks arising from climate change. We are using the resources available from the PRI to drive an ongoing process of improvement in our ability to capture these risks and to more fully articulate our response to them for the benefit of all our stakeholders.

Our PRI Transparency Report 2020 is available at:

<https://www.amatiglobal.com/page/principles-for-responsible-investment-pri>

Our remuneration policy is designed to incentivise and reward key members of the senior management and risk-takers of the business, while at the same time promoting effective risk management and consistent with an annual appraisal of individual performance.

The level of variable remuneration is determined by a formula which allocates points to an individual's role based on good performance, and which covers all aspects of the investment process including stewardship and ESGH considerations. We have not created perverse incentives and there is no direct link between investment performance and variable remuneration. All variable amounts are distributed as cash annually and there is no remuneration in the form of shares, share-linked instruments and other types of instrument.

Our Remuneration Disclosure is available at: <https://www.amatiglobal.com/page/regulatory-information>.

Outcome

Our governance structure is relatively non-hierarchical and works well in supporting stewardship. It is simple and transparent and without layers of responsibility or hiding behind committee structures. We are making continuous improvements to our systems to support stewardship, developing tools to integrate a wider range of data and other inputs into the decision-making process. In particular, we are creating our own taxonomy for ESGH considerations, as outlined in Principle 7.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

Amati currently manages only the types of fund described above and does not trade on its own account. As a boutique fund management business the scope for conflicts of interest in relation to stewardship is limited, but Amati will take all reasonable steps to identify, report, and minimise any conflicts of interest that may arise. We have a robust policy for the management of conflicts of interest and this is reviewed regularly. Conflicts of interest are recorded in a conflicts of interest register and are considered at monthly management meetings and quarterly board meetings of Amati. Any conflicts arising are reported to clients as appropriate.

Activity

Amati's fund managers do on occasion act as non-executive directors for investee companies of Amati AIM VCT. This can give rise to a complex series of potential conflicts, where for example, a fund may not be able to deal in a stock due to Amati having inside information, or where subsequent investments in the company may be made by funds managed by Amati. In these cases, the fund manager who is on the Board of an investee company will defer all subsequent investment decisions to the other fund managers in the team, subject always to permission to deal being sought and obtained from the Chairman of the company concerned. It would be very unusual for Amati not to vote in favour of Board resolutions where it has representation on that Board. In the interests of transparency any perceived conflicts of interest would also be reported to the VCT Board.

This situation also gives rise to a potential conflict of interest in relation to the investee company's remuneration policy in respect of its non-executive directors. However, in these cases Amati has a very strong reputational reason to act in the interests of shareholders and to be a force for restraint in relation to remuneration policies. In one case, for example, Amati was responsible for negotiating all non-executive director fees down by 50% prior to a fund manager taking on the role.

Other types of cases where conflicts can arise would be where a client of a fund managed by Amati is related directly or indirectly to the management team of an investee companies. For example, the pension fund of an investee company may become a client of Amati. In these cases, the fund managers may feel constrained in how they vote on company resolutions or make representations about corporate governance to that company. Amati does not currently have any clients which might give rise to this kind of conflict of interest. However, we have a clear policy in place regarding the management of this potential conflict, and the relevant disclosures to be made in relation to it.

The overriding principle is that Amati will always seek to put its clients' interests ahead of its own corporate interests in situations where a conflict of interest between the two arises, whether this be in relation to stewardship or any other matter. It is also possible for conflicts of interest to arise between different funds managed by Amati. This is most obviously the case in relation to dealing, and Amati has a detailed allocation policy to take account of this, so that every order placed is also assigned an allocation principle which will explain the nature of the allocation between different funds. In relation to stewardship, there is likely to be a bias towards devoting energy and resources to qualifying investments held by Amati AIM VCT, as these are generally likely to be the largest positions that Amati holds in relation to the percentage held of an investee company's share capital. But these also tend to be the companies most receptive to receiving advice from Amati about governance issues. It makes sense for us to target our resources on the situations in which we can make the most difference.

Where there is a conflict of interest in relation to proxy voting, for example if a security is held across more than one fund under Amati's management, we will always vote in the interest of the underlying fund. The action taken will be documented and considered at monthly management and quarterly board meetings and will also be notified to the Board of the Amati AIM VCT and to the Authorised Corporate Director (ACD) of the TB Amati UK Smaller Companies Fund.

Regarding the potential conflict between stock lending and proxy voting, we do not lend out stock and nor do we have plans to do so in the future. Although we do not have an objection in principle to the practice, we believe that in the area of the market that we operate the benefits in terms of engagement and leverage with investee companies of retaining all of our voting rights at all times outweighs the potential revenue benefits from lending stock. We would view it as an unacceptable risk that a contentious situation might occur and we would not be able to exercise our voting rights on behalf of our shareholders, and that those rights would potentially be exercised by a third party with no interest in the long term welfare of the company. In any case, our funds under management are too small for stock lending to be of any material economic benefit to our shareholders.

Regarding the differences in our internal policies on stewardship and ESGH and those of our clients, typically we drive the agenda and work with all clients to ensure a consistent approach. We are open and transparent regarding our approach to these matters, which is outlined across our fund literature. We have quite a thoughtful and nuanced approach to stewardship and ESGH, which resonates with our shareholders and which in some respects makes our clients self-selecting.

Regarding personal dealing, this is strictly regulated and we have strict procedures in place to minimise risk in this area. In recognition of our growth in our operations, the expansion of our investment universe and the risks of information being available outside the investment management team, we have recently tightened our policy further so as to not permit any personal investment in a security held, or being considered as a holding, in any Amati fund or product. We also have strict limits on gifts and hospitality so as to avoid any suggestion of inducements to trade or otherwise improper conduct.

Outcome

The investment in our business by Mattioli Woods (“MW”), an AIM-quoted wealth manager, created a potential conflict of interest, which we managed successfully at the time of the investment and continue to do so, hence the inclusion of this issue within this reporting period. At the outset we adopted a policy of not investing in Mattioli Woods’ shares across our product range, on the grounds that we might have much greater access to information than other investors on AIM (even if we weren’t strictly “insiders” in the company), and that if we held the shares we may be conflicted over any decision to sell them. We wished to have the relationship with our major partner whereby both parties could contribute fully to the development of the business, and we wouldn’t want to be excluded from any knowledge or information which would prejudice this relationship or lead us to being constrained by considerations under the Market Abuse Regulation (MAR). We believe that this approach is in the best interests of both parties and, ultimately, to our investors.

Another challenge occurred towards the end of the reporting period in designing a new fund managed for us by individuals seconded to Amati who are also advisors to a Swiss-based fund advisory firm. The individuals concerned have direct responsibility as fund advisers to a UCITS fund that has some crossover with Amati’s new fund, and it is with this fund where the situation can arise where they are instructing orders for two or more clients at the same time. These potential conflicts can be especially acute where the funds are taking part in primary or secondary placings, where the objective will be to ensure that all of the funds are treated equally by the brokers involved. This has necessitated a new allocation policy, which

has been agreed with the external parties so that all clients are not disadvantaged and are at all times treated fairly. The new policy also necessitated enhancements to our dealing system so as to capture the new allocation principles and to provide a complete audit trail of any relevant trades. There are a complex set of relationships involved in the management of the new fund, but the new process manages the conflict well and to the satisfaction of all parties.

Our Conflicts of Interest and Co-Investment & Order Allocation and Execution policies are available at: <https://www.amatiglobal.com/page/regulatory-information>.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

Risk management is inherent in the provision of Amati's investment management services. In addition, Amati itself is exposed to business and operational risks that require oversight and management. Whilst T Bailey Fund Services and the VCT Board (in relation to the UCITS funds and the VCT respectively) have ultimate responsibility for risk management of these funds, both parties have delegated the day-to-day portfolio management to Amati and, as such, inherently involves an obligation on Amati to manage the risks of the funds we manage responsibly. While Amati itself is not of systemic importance, we have nonetheless benchmarked ourselves against the standards expected of those firms that are of systemic importance, which are the so-called 'enhanced' firms under the Senior Managers and Certification Regime (SM&CR).

Amati's Risk Management Policy provides an overview of the risk management framework in place at Amati and has been designed to be consistent with the Undertakings for Collective Investment in Transferable Securities ("UCITS") Directive, the Alternative Investment Fund Managers Directive ("AIFMD"), the FCA's Collective Investment Schemes Handbook ("COLL") and the FCA regulatory principles and industry best practice guidance. The Policy brings together all the different strands of investment risk management - risk and liquidity monitoring, regulatory parameters and constraints - and aligns them with the relevant UCITS and AIFM rules. While we are not a UCITS or AIFM firm, the expectation is (and best practice dictates) that we should align ourselves with these regimes.

Our Risk Management Policy:

- (a) Identifies the principal risks for each of the Funds and the AIM IHT portfolios;
- (b) explains our approach to managing risk in the Funds, the AIM IHT portfolios and in our business.
- (c) identifies the techniques, tools and arrangements used in our risk management arrangements;
- (d) explains the techniques, tools and arrangements the assessment and monitoring of liquidity risk under normal and exceptional liquidity conditions including the use of regularly stress-testing;

(e) outlines the allocation of responsibilities pertaining to risk management;

(f) describes the use of risk limits and how these are aligned with the risk profile of the portfolios as set out in the relevant prospectuses and marketing communications;

(g) outlines the risk management reporting

(h) describes the nature of the potential conflicts of interest by not having an independent risk management function and the reasons why these measures are reasonably expected to result in independent performance of the risk management function.

The policy is reviewed and its effectiveness assessed at least annually, or where we adopt materially different risk management arrangements or undertake investment management which has a materially different risk profile.

Our Risk Management Policy can be found at: <https://www.amatiglobal.com/page/regulatory-information>.

The investment team hold regular meetings to facilitate the exchange of ideas and, in particular, the identification of systemic risks. Fundamental analysis is combined with an awareness of the macro environment. The managers responsible for the TB Amati Strategic Metals Fund (launched in March 2021 but planned and designed during the period under review) have deep expertise in the mining and commodities markets; and indeed the fund was launched to provide investors exposure to the risks and opportunities of climate change, in the context of the global energy transition. This provides a rich source of cross-fertilisation for the investment management team.

The major market-wide risks we have identified and seek to respond to are liquidity, interest rate changes, geopolitical events, commodity prices, currency rates and climate change. Consideration of these risks are embedded in the investment process and are not simply an adjunct to the process.

Market liquidity risks arise where the managers are unable to unwind investment positions due to market disruptions. The small cap universe of stocks encompasses some of the highest levels of risk and likewise the highest levels of potential reward in unleveraged equity investing. The AIM market and smaller company securities are typically characterised by lower levels of trading volumes and greater price sensitivity compared to larger capitalized securities and markets. This has limited direct impact on the VCT and AIM IHT service, where investor liquidity is determined by the market the VCT itself is listed on and the investors' own decision to redeem. However, liquidity is highly relevant to our UCITS funds, which offer daily redemption terms. On that note we have been working intensively with the ACD of our UCITS funds on enhanced liquidity and risk reporting and monitoring, in response to the general shift in regulatory focus on the part of the FCA in the aftermath of the collapse of the Woodford Equity Income fund and subsequent scrutiny of the relationship between ACDs and host funds.

In relation to interest rate risk, the companies we invest can be exposed to interest rate risk directly through their own levels of borrowing and indirectly through their sensitivity to interest rate changes in the wider economy. The investment managers consider interest rate risk within their macro-economic and stock specific research. We measure the susceptibility of the portfolios to interest rate risk in our stress and scenario testing.

In relation to systemic risk arising from geopolitical events and trends, these are monitored daily by the investment managers through a formal asset allocation and investment selection process, with appropriate diversification (where possible) to mitigate the effect on rare but plausible events on the portfolios. Our investment strategy is the long-term holding of investments and trading volumes are low. We monitor a range of risk parameters such as liquidity, market cap, beta, position size relative to benchmark and instrument and sector weightings, as well as various measures of risk-adjusted performance. We also stress test the portfolios against a number of historical scenarios to model the behaviour of the portfolios under stressed conditions, with a view to constructing more resilient portfolios in the future.

Climate change is now actively considered as a significant investment risk in the due diligence conducted on potential investee companies, and we are working to enhance our investment process in order to capture those risks with more precision. More generally, Amati is increasingly investing in the new economy, and specifically in companies associated with the energy transition; indeed the TB Amati Strategic Metals Fund was designed for the very purpose of enabling retail investors to gain exposure to the metals that will drive global decarbonisation and the transition away from fossil fuels, and which will be essential if as a society we are to meet the targets of the Paris Agreement.

We have contributed to the AIC position on Key Information Documents, which are a requirement of the PRIIPS (Packaged Retail and Insurance-based Investment Products) legislation. These documents are widely thought to not adequately capture the risks involved in investment products of the nature covered and that they potentially lead to poor outcomes and a lack of protection for consumers. Amati's Head of Risk and Compliance is a member of the AIC PRIIPS Working Group, which was formed to develop policy positions and to offer guidance to AIC members.

Paul Jourdan, our CEO, is an active member of the VCT Managers' Forum, which is an industry group formed to discuss themes of common interest and to develop policy and best practice in this area. Risk funding is one of the drivers of economic growth and the role of VCTs is critical to the prospects of many early-stage companies. There is a difficult trade-off between risk and reward that managers and investors alike must negotiate, and the conversation between managers relating to, among other things, the warranties required of investee companies and the ongoing monitoring of the compliance with state aid rules, is critical to the future sustainability of the sector.

Outcome

We believe that our portfolios have achieved excellent long-term risk-adjusted returns and further that they are well positioned to withstand market risks. The addition of two experienced investment professionals to the team to manage the TB Amati Strategic Metals Fund has enhanced our collective expertise and raised our awareness of the risks and opportunities relating to the energy transition.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

Amati's size works to its advantage. The managers discuss stewardship issues in real time and any conclusions are acted on immediately by the managers themselves or, where applicable, by the compliance function.

Amati's stewardship policies are reviewed annually at board level to assess the effectiveness of the policies, which is informed by the monitoring of companies during the previous 12 months, our voting record on these companies, and any issues identified that have required escalation. This process aligns with, and is informed by, our reporting requirements under the UN-supported Principles for Responsible Investment.

Our policies are also reviewed by our external compliance consultants for clarity, fairness, balance, and comprehension.

Outcome

In order to assess the effectiveness of these policies we have made a number of enhancements to our CRM and investment management systems, with a view to capturing at a more granular level any results from the ongoing monitoring of investee companies. This information includes companies' adherence to the principles of the UK Corporate Governance Code; any corporate developments affecting the investment case or altering the risk/reward dynamics of the investment; and the quality of companies' reporting, including that which relates to ESGH considerations, the carbon intensity of their operations, and any commitment to net zero emissions.

As a result of our PRI reporting process, we have made the following improvements: first, we have increased the number of engagements (and the assertiveness of these engagements), especially around governance, board membership and diversity; and second, we are using a range of ESGH metrics in an effort to capture systemic risks, including climate risk, with more precision. A project to enhance our internal recording and monitoring engagement activity is at an advanced stage. As set out in Principle 1, a measure of the effectiveness of our engagement activity is the excellent long-term performance of our funds and products.

TBFS, in the capacity of ACD provides additional assurance of the effectiveness of our stewardship activities. We are working with them on a new template for ESGH reporting in respect of the TB Amati Strategic Metals Fund, which the ACD will roll out to all of their host funds, where relevant, for reporting to the Risk Committee of the ACD. Amati is taking the lead in this respect. Feedback on our policies and reporting is also sought from the ACD, with a view to constant improvement in terms of fairness, balance, and consistency. Internal assurance is provided by the compliance function, acting independently from the executive, and external assurance is provided by our compliance consultants.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Context

Amati is a specialist fund management business based in Edinburgh, with assets under management of approximately £860 million (as at 31 December 2020). Amati focuses on small and mid-sized companies, with a universe ranging from constituents of the FTSE Mid 250 and FTSE Small Cap indices, to stocks quoted on AIM and, more recently, to metals and mining companies listed on international markets.

As at 31 December 2020, Amati managed two collective funds as well as an investment service for private clients used for inheritance tax planning. Although they have distinctive mandates, all of our funds and products are managed with the same philosophy of creating long term value for clients and as far as possible seeking to align our interests with those of our clients. The TB Amati Strategic Metals Fund was launched in March 2021 and is not included in the summary below. We use a bottom up investment approach, where stocks are chosen after rigorous analysis and with a bias towards quality growth companies with sustainable revenues and margins. Risk metrics are actively monitored, with an emphasis on liquidity and diversification by sector and geographical source of revenues. Stewardship and ESGH considerations are central to the investment process and inform all of our investment activities.

TB Amati UK Smaller Companies Fund. The fund has been managed by Paul Jourdan since August 2000 and as at 31 December 2020 had assets under management of £591 million. The fund aims to achieve long term capital growth through investing in a well-diversified portfolio of UK smaller companies, which is consistent with the IA UK Smaller Companies sector definition, but includes in scope all stocks beneath the index of the UK's largest companies. The portfolio is therefore spread across medium and small capitalisation stocks on the UK's main market and AIM. The performance of SMCO has been recognised in a number of awards and ratings. The benchmark for the fund is the Numis Smaller Companies Index (plus AIM, excluding Investment Companies), Total Return, although the fund is not constrained by, or managed to, the index. The beneficial shareholders are retail clients and are almost entirely UK-based, and the investment horizon is 5 years or more.

Amati AIM VCT plc. The fund has been managed by Amati since it was awarded the mandate in March 2010 and had assets under management of £237 million as at 31 December 2021. The investment objective of the VCT is to generate tax free capital gains and regular dividend income for its shareholders, primarily through Qualifying Investments in AIM-traded companies and through Non-Qualifying Investments as allowed by the VCT legislation. The fund holds a diversified portfolio across a broad range of sectors to mitigate risk. Subscribers for new shares in the VCT benefit from the strength and depth of the maturing portfolio of companies built up over many years. The benchmark for the fund is the Numis Alternative Markets Index, Total Return. As this is a tax-advantaged investment vehicle the shareholder base is retail and are almost entirely UK-based. The investment horizon is 5 years, that being the length of time which shares must be held in order to attract the initial income tax relief.

Amati AIM IHT Portfolio Service. This service was launched by Amati in August 2014, with assets under management of £32 million as at 31 December 2020. The Service operates on the basis of a Model Portfolio of AIM-quoted stocks, which provides the template for the discretionary management of portfolios held by clients of wealth managers and other intermediaries. The stocks chosen for the Model Portfolio are those that to the best of our knowledge are likely to qualify for Business Property Relief ('BPR'), and as such could potentially provide up to 100% inheritance tax relief after a holding period of two years. The benchmark for the fund is the Numis Alternative Markets Index, Total Return, although the Service is not constrained by, or managed to, the index. As this is a tax-advantaged investment vehicle the shareholder base is retail and resident in the UK. The investment horizon is 2 years, that being the holding period to qualify for BPR, albeit that the shares must be held on death, which means that the effective time horizon is much longer than two years.

Activity

Although Amati is a relatively small fund manager we will generally vote on all company resolutions and as a matter of principle we would do so where we hold a significant position in the company, or where we believe there to be a contentious issue arising. Proxy voting services are only used to process voting instructions and no advice is taken. Issues we are particularly conscious of are those surrounding board structures, the concentration of share ownership, as well as option schemes and other forms of remuneration.

In the past, our approach was to disclose our voting record at particular company meetings on request. However, since September 2016 we have been making quarterly disclosures of our complete voting record available on Amati's website. As part of our engagement process, we may inform companies in advance if we intend to vote against a board recommendation, and if we have not sold the holding we will continue to engage with the company. However, before that stage is reached we would do everything possible to persuade the company not to put forward resolutions at general meetings that would potentially be voted down, believing that it is far better for all parties for differences to be resolved before a confrontation develops and reputational damage is incurred by the company, to the detriment of all stakeholders.

Our investor base is comprised almost entirely of retail investors resident in the UK, the majority being the clients of wealth managers and other intermediaries, advised and execution only, and across the major fund platforms. Our funds are marketed as long term savings vehicles, with a recommended investment horizon of 5 years or longer. The defined target market for our funds is that which captures investors seeking long term capital growth, having a medium to high risk tolerance and being willing to accept significant price volatility in exchange for the potential to achieve higher returns. Investors in our VCT and in our IHT product also enjoy significant potential tax benefits. We also make it clear that our products are not suitable for those investors who have very low tolerance for risk or seek full or partial capital protection.

We believe that our communications with clients are among the best in the industry in terms of content and investor education, be that through Annual General Meetings, Investor Days or webinars, or else through the medium of our fund literature. We take every opportunity to engage with all our stakeholders, having an ongoing conversation with them, listening to their views, and delivering on a progressive agenda of stewardship and governance.

In relation to our funds, we work closely with our clients, the board of Amati AIM VCT and T Bailey Fund Services, the ACD of our UCITS funds, to take account of their views and agree common approaches to stewardship and governance.

Our stewardship policies have always been aligned with those of our clients and there has never been a situation where our approach to stewardship and governance has been a source of conflict. We believe that our thoughtful and nuanced approach to stewardship and governance resonates with our clients, as does our willingness to engage and connect with them.

We use a variety of methods to communicate with clients, including fact sheets, webinars, events connected to AGMs at our VCT client as well as a dedicated investor line. Fund managers are always available to speak to individual clients and beneficiaries – our sense is that this facility is quite unique among managers of collective funds. Intermediaries are increasingly sending dedicated 'ESG' due diligence questionnaires, our responses to which we are refining constantly and using as a basis for discussion with intermediaries and other stakeholders. Our VCT is overseen by an independent board of directors, to whom we report on a quarterly basis, and which includes a summary of our stewardship activities and engagements with investee companies. This interaction is valuable and has enabled us to bring the directors on board with our approach, of which they are broadly supportive and indeed which is enshrined in the Prospectus for the fund and taken ownership of by the directors. The compliance function at the ACD reviews our stewardship and engagement policies as part of their ongoing due diligence on the TB Amati fund, which has been generally enhanced in the light of the challenges facing the sector and the increased scrutiny of the ACD/Host relationship, after having been brought into sharp relief by the demise of the Woodford Equity Income Fund. During lockdown communication with clients became even more important and we increased the number of online events and presentations open to clients and intermediaries, to keep stakeholders informed and to maintain contact.

Outcome

Some actions taken during the period under review after various interactions with stakeholders include the following:

The 'Value for Money' assessment, which is a Prescribed Responsibility for Authorised Fund Managers under SM&CR, was published by the ACD in respect of the TB Amati UK Smaller Companies Fund in May 2020. The fund was deemed to have delivered value for money under six out of seven of the assessment criteria, which among other things included performance and costs relative to the fund's peer group, the ability to achieve economies of scale, as well as quality of service. The only issue identified was in relation to those investors remaining in the higher charging 'A' share class where they were at the same time eligible to move into the cheaper 'B' class. Approval was obtained from the FCA for TBFS to conduct compulsory conversions where it was in the best interests of the shareholder to do so, which turned out to be the case for almost all shareholders. The conversion process was duly completed and there only remains 0.6% of the issued share capital which is now represented by the A shares. This was a very good outcome for the shareholders in the fund.

We also introduced more granular reporting of ESG metrics to the ACD and worked with them to enhance our risk and liquidity monitoring and share information of mutual interest.

This process has become very much a collaboration with our ACD client, as opposed to collecting data independently and reporting to them in isolation. We believe this has strengthened our controls and will lead to better outcomes for the end client.

As a result of shareholder and intermediary feedback we expanded the information presented on stewardship and ESGH-related matters during meetings, seminars, annual, and interim reports, and fund documentation. We also distribute questionnaires after investor events and this feedback has been valuable in gauging the 'temperature' of our clients and intermediaries. For example, we have been constructively challenged on a number of issues such as our approach to holding fossil fuel companies, the part we can play in the global energy transition, our views on board diversity and inclusion in our investee companies and other stewardship and ESGH-related matters. Although it is hard to gauge the requirements in this area of all the underlying shareholders, we do take every opportunity to explain to shareholders, failing whom their intermediaries, our rationale for the positions we take and the approach to stewardship and engagement in general. To date we have not encountered any significant resistance from stakeholders and believe that our nuanced and thoughtful approach to these matters resonates with our wider client base.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

Amati recognises that managing investments on behalf of clients involves considering a wide set of responsibilities in addition to seeking to maximise financial returns for investors. Industry practice in this area has been evolving rapidly and Amati has been an active participant in seeking to define and strengthen its principles accordingly. This involves both integrating ESGH considerations, including those relating to climate change, into the investment decision-making process as a matter of course, and signing up to major external bodies who are leading influencers in the formation of industry best practice. The following is an outline of the kinds of ESGH considerations that Amati takes into account as part of its investment process.

- Environmental – examining issues arising from supply chains, climate change and contamination. Amati looks for management teams who are aware of the issues and are proactive in responding to them.
- Social – seeking to avoid unequivocal social negatives, such as profiting from addiction or forced labour and to support positive impacts which will more likely find support from customers and see rising demand.
- Governance – examining and, where appropriate, engaging with companies on board membership, remuneration, conflicts of interest such as related party transactions, and business leadership and culture.
- Human Rights – adopting and advocating a Clean Trade (<http://www.cleantrade.org/>) approach, which means avoiding companies that tacitly support the most oppressive regimes and engaging positively with those that uphold Article 1 of the International

Covenants on Civil and Political Rights, particularly in relation to the extraction of natural resources.

In terms of external validation and support, during the period under review Amati was a Tier 1 signatory to the UK Stewardship Code 2012, which aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. Amati is also a signatory to the UN-supported Principles for Responsible Investment (PRI), which works to support its international network of signatories in incorporating ESG factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate, and ultimately of the environment and society as a whole.

Activity

As institutional investors in small cap equities, broadly defined as companies which represent the bottom 10% of the stock market by market capitalisation, plus AIM, we will in some cases become significant shareholders in investee companies. As part of a more recent development we also invest internationally in small and mid-cap mining companies with operations all over the world, which adds moral complexity to the already challenging dynamics involved. In addition, as VCT managers, we are involved with funding companies directly, at very significant points in their development. At these moments we have the ability to make a difference to these companies and the dialogue between fund manager and company executive tends to be at its most open. We take seriously our responsibility to be a positive influence on the companies in which we invest, expecting high standards of corporate governance and social and environmental responsibility from executives, which we believe are in the best long-term interests of shareholders.

While it is clearly in the long-term interests of shareholders that Amati's managers pay careful consideration to the social and environmental impact of the companies in which they invest, it is often not in shareholders' short-term interests, given that an approach which disregards these matters may achieve better results in the short term, at least in a narrow financial sense. This sets up a complex dynamic for fund managers. At what point should matters of principle outweigh the possibility of short-term advantage? How should those points of principle be defined? This is clearly not just a question for funds which set out to label themselves as "ethical" or "sustainable," just because they have defined a process which they believe can form desirable judgments about these questions. Rather, we regard these questions as important to every investor. The fact that we don't choose to label our funds in this way reflects our belief that the issues are too complex, and too much a matter requiring personal judgment to be adequately captured by a formulaic or mechanistic process. This is because the issues raised are highly complex, and judgments formed are mostly subjective and involve taking an overall view on the balance of many different factors, we do not believe that a formulaic or box-ticking approach produces worthwhile conclusions, and hence we are reluctant to make any strong claims about our ability to form such judgments. However, we deal with such considerations with the utmost seriousness, and seek to engage in dialogue with our clients about issues raised by the stocks in which we invest.

Being active investors in AIM creates an added dimension of difficulty in this regard, because the universe of stocks on AIM includes companies operating in almost every region of the world, under widely differing legal jurisdictions, with management teams from the

widest possible range of cultural backgrounds. The most international sector on AIM, namely natural resources, has also become by far the largest, and illustrates the issues more sharply than any other. Clearly the mining and oil and gas industries often have a significant impact on the countries in which they operate. The problem, particularly acute in Africa, known as 'the curse of oil,' where countries with massive oil wealth remain blighted by poverty and are ruined by war, highlights how much is at stake from the behaviour of such companies. Whilst bank lending to mining projects in emerging economies is now often being shaped by practices developed by the IFC and encapsulated in the Equator Principles, a voluntary code of conduct which is being increasingly adopted by international banks, such issues are generally less well considered by equity investors, reflecting in part the fact that much less information is made available to them. We have a strong preference for mining companies which have secured project financing from banks which have adopted the Equator Principles, because this is the best benchmark we have for good practice.

However, over more recent years, we have realised that the principles outlined above do not go far enough, and that the "curse of oil" phenomenon is far more destructive and self-perpetuating than we had supposed. This re-evaluation was influenced by the thinking of Leif Wenar, author of *Blood Oil: Tyrants, Violence and the Rules that Run the World* (Oxford University Press, 2016), with whom we have been working to establish criteria for avoiding investing in resource cursed countries, where such investment is more than likely to prolong the rule of an oppressive regime, and which outweighs the positive impacts of foreign investment on the local population in terms of economic development.

Following on from his work in the area, Prof. Wenar founded the Clean Trade organisation, of which Paul Jourdan, our CEO, is a founder trustee. The Clean Trade principles, which we apply to potential investee companies in our UCITS funds, essentially concern an interpretation of Article 1(ii) of the International Convention on Civil and Political Rights, which states: "All peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligation arising out of international economic cooperation, based on the principle of mutual benefit, and international law." Clean Trade argues that where the level of freedom in a country falls below certain thresholds, there can be no reasonable expectation of the Article being satisfied. We would therefore avoid companies operating in countries with authoritarian regimes, where civil liberties are compromised and where governments are not accountable to its citizens.

When considering these issues, we use as a starting point the Freedom House scale (<https://freedomhouse.org>) which rates access to political rights and civil liberties in 210 countries throughout the world. The combination of the overall scores for political rights and civil liberties, on a weighted basis, determines the status of each country as 'Free' 'Partly Free,' or 'Not Free.' This methodology produces a wide range of outcomes, but as a general rule we would need to be convinced on a number of ethical, legal and constitutional questions in respect of any country scoring such that it led to a status of 'Partly Free' or 'Not Free' and would not invest under any circumstances in countries scoring less than 15. In short, the benefits of foreign investment in terms of economic development would need to outweigh the costs to human rights more generally and the risk of legitimising regimes which use natural resources revenues to drive oppression. We raise the bar very high in this regard and do not hesitate to exclude any stocks that do not satisfy their criteria, albeit that we always start from the position that foreign investment can bring benefits to developing countries. This is an area our stewardship of our funds is at its strongest and most

interventionist. Indeed, we declined an otherwise excellent investment opportunity in a mining company listed on a developed market, with operations in the Democratic Republic of Congo, on 'Clean Trade' grounds, even though the company itself appeared to have good ESGH credentials (and which included a commitment to reporting under the United Nations' Sustainable Development Goals). Notwithstanding the fact that the economic 'multiplier' would be significant for the local population, ultimately we could not get comfortable, when seen through the lens of the Clean Trade principles, with investing in a resource-cursed country, where civil liberties and political rights are compromised and where we could not be convinced, on the balance of probabilities, that the resultant tax revenues would not be used to legitimise a corrupt regime.

As outlined above in our response to Principle 4, Amati is increasingly investing in the new economy, and indeed has designed a fund for the very purpose of enabling retail investors to gain exposure to the metals that will drive global decarbonisation in the context of the Paris Agreement. Our clients have responded very positively to the approach that we are taking, recognising that these metals are essential to the 'electrification' of the world, but at the same time not willing to compromise on human rights and to contribute to environmental degradation.

As outlined in Principle 8, the source of our ESG external scoring data is Refinitiv, which has one of the most comprehensive databases in the industry, albeit the information is incomplete as it relates to a significant proportion of our investment universe. However, as more companies at the smaller capitalisation end of the market report more fully, either because of moral pressure or regulatory reach, this information will become more available and could in time help with our due diligence and monitoring process. We will continue to engage with Refinitiv and improve the interface between their portal and our systems so as to capture the relevant data. We monitor the performance of Refinitiv carefully and flag to them any performance issues or problems with the integrity of the data (see Principle 8).

Outcome

In order to integrate ESGH into our investment process we have added an 'ESGH' field to our CRM system, so that the investment managers' consideration of these issues and any relevant engagement with prospective or current investee companies can be demonstrated and with a clear audit trail. As part of this process, we are developing our own ESGH taxonomy, based on targeted questions to investee companies and with a view to capturing the most important ESGH (including human rights) metrics and information, both qualitative and quantitative, which is relevant to our approach and philosophy. In the environmental area we will be most interested in the carbon intensity of investee companies' operations and supply chain and their efforts to reduce emissions; in the social sphere we will be trying to determine whether there are exploitative practices in the workforce and supply chain, as well as exploring issues such gender balance and diversity; in terms of governance we will look at board structures, management ownership and remuneration; and in the human rights sphere we will be looking at companies' supply chains and the levels of freedom and commitment to human rights in the countries of operation, especially in relation to extractive industries. We will also map the characteristics and mode of operation of investee companies to the UN Sustainable Development Goals, in order to determine the extent to which companies' activities help achieve these goals or, conversely, hinder the achievement of the goals. This is an ambitious project and is part of a series of enhancements to our

systems to more fully integrate analysis, research, engagement, investment conclusions and reporting, and which also feeds into our reporting under the Principles for Responsible Investment. ESGH is rapidly gaining momentum in the industry and we are increasingly being asked to explain our approach to these issues to existing investors as well as prospective investors. We are never complacent and are constantly challenging our own thinking in this area.

Amati's policy in relation to environmental, social and governance issues is available at: <https://www.amatiglobal.com/page/esg>.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Activity

We do not outsource investment management as we have our own in-house team at Amati. The management of the fund is team based, and the research and portfolio management functions are combined. This approach allows broader coverage of markets and stocks and enables individual managers to develop an in-depth knowledge of a prospective investee company prior to initiating a position in the stock. Although there is inevitably some crossover, due to the collaborative nature of the process, individual fund managers assume broad responsibility for originating deals and performing the initial due diligence across the industry sectors. Individual manager investment conclusions are disseminated to the rest of the investment team by email and at the weekly portfolio review. Managers must present a detailed investment case and a clear rationale for their recommendation, and only when consensus is reached is approval given for a trade to be made. All investment management activities are subject to oversight by senior management, and we have a robust internal governance framework which establishes clear lines of responsibility and accountability.

Similarly, we do not use proxy advisers, feeling strongly that those directly managing the money should take responsibility for voting decisions, and that consideration of these matters should take place when first examining the investment case and not as an exercise by a third party as an adjunct to the process.

We use third party investment research providers and have a rigorous process in place to monitor all research consumption, as well as assess all research inputs for quality and contribution to investment decisions, at both analyst and firm level. Where we feel that a research provider is not adding value this will be reflected in the research procurement process for the following year. The growth of the TB Amati UK Smaller Companies Fund (and the addition of a new fund) has enabled us not only to spend more on core research but has also allowed us to expand and deepen our coverage by engaging with independent providers, who are not conflicted by virtue of offering execution services and can often provide unique insights to shape and challenge investment theses and decisions.

Amati therefore uses the research budget to pay for published research and other research-related services, to ensure that it receives independent research coverage of all the companies in its investment universe. This complements our in-house proprietary company research and makes for a more efficient and comprehensive research process, which includes the ongoing monitoring of investee companies. We monitor carefully and continually

assess the quality of our research providers, using a system developed internally for voting on quality and analysing research outcomes at broker and analyst level, and which feeds into the procurement process for our research budget for the following year.

We also use third party data and analytics providers to support the investment process and to feed into our modelling. We have also recently brought in a highly respected analyst to lead a major data project to integrate third party data into our dealing system and to enhance our research capability. We carefully monitor the performance of our data providers for quality and accuracy and recently took the decision to discontinue the use of a major data provider of fundamental research and analytics due to ongoing problems with attribution data. We then reviewed the offerings of several providers before engaging Refinitiv and have since worked with them to integrate their data into our dealing system. One of the reasons we selected Refinitiv was the ability to use application programme interfaces (APIs) to enable our respective systems to interact, which wasn't possible with other providers with more 'closed' systems and where the use of data by clients is strictly controlled. While there remain various issues relating to the integrity of the data and coverage of our universe, we are confident that these can be resolved and that we have the basis for a good partnership going forward to support our investment process.

Outcome

Although we do not at present use proxy advisers, we use Broadridge to administer our proxy voting. All our instructions have been carried out and we are satisfied with the level of service. We have not ruled out using a proxy adviser in the future, notwithstanding that our firm belief is that the individuals managing the money should make stewardship decisions. However, we do plan to engage with a major provider shortly to establish whether they could inform our process, albeit that in any case we would make the final decisions internally and would not hesitate to vote contrary to any recommendation from a third party.

We use Refinitiv for ESG data and while Refinitiv has one of the most comprehensive databases in the industry, with more than 10,000 ESG data points, we have found that the information is incomplete as it relates to a significant proportion of our investment universe and its scoring system doesn't yet seem very meaningful to us. Although this will be the result of the wide variation in the level of reporting (and the integrity of the data) from the companies themselves, especially those companies with smaller market capitalisations or those on AIM, this is nonetheless something we are engaging with Refinitiv on as a matter of urgency. In the meantime, we are developing our own ESGH taxonomy to complement data provided by third parties, based on targeted questions to investee companies and with a view to capturing the most important ESGH metrics and information consistent with our broad approach and philosophy (see Principle 7).

All third-party providers are reviewed on an ongoing basis, which is covered in various company policies and risk management protocols under MiFID II and the SM&CR regime. A senior manager takes direct responsibility for this process.

Principles 9, 10 and 11

Signatories engage with issuers to maintain or enhance the value of assets.

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Signatories, where necessary, escalate stewardship activities to influence issuers.

Given the overlap between Principles 9,10 and 11 we have responded to them within the same section.

Activity

Open and constructive engagement with companies is integral to our process – before and after investment. The engagement is often directly with the company, unmediated by investor relations' departments or brokers. In the first instance our approach is always discreet and non-confrontational as we believe that this ultimately produces better outcomes for the company and our clients alike. The fund managers are central to the process, which is not delegated to a separate team, and for which they take collective responsibility. We generally have good access to the executive directors, the chair and non-executive directors, the latter being critical to the process as they can influence voting, remuneration, executive performance, board diversity, board succession and strategy.

Our engagement process is, broadly, that we conduct due diligence on the potential investee company, usually with the CEO and FD, but also with the Chair or a non-executive director if there is a need to challenge any governance or remuneration arrangements; ongoing monitoring of investee companies, which typically involves two meetings a year with the company as well as regular interactions with analysts and brokers; addressing problems or issues, which again we would seek to address through dialogue with the senior management and board, and ultimately through escalation if necessary (see Principle 11); regular discussions between the investment team on the status of the investment, the engagement strategy going forward, whether to hold/add or, if the investment thesis (of which stewardship considerations form an integral part) has been weakened or undermined, to reduce the holding or disinvest; and finally an analysis of the outcome or impact of any engagement or escalation that has taken place in relation to the investee company.

We clearly need to prioritise our engagement activities, with the aim of achieving the best outcomes relative to both the resources at our disposal and the leverage we have with each investee company. The important factors for us are the materiality of the position, the likelihood of successful engagement, any fundamental points of principle (e.g. human rights or exploitative practices) and alignment with our core philosophy and values as articulated in Principles 1 and 6.

The monitoring of investee companies is central to Amati's business and is conducted by the fund managers. Monitoring will include reviewing all statutory company announcements, reports and other shareholder circulars, as well as research published about the company by sell side analysts. Fund managers spend a great deal of their time meeting company management teams as part of their appraisal of a company's prospects, business quality, and value. We aim to invest in companies which are well-managed, with sound corporate governance, and a clear focus on producing long-term shareholder returns. We will regularly

engage in debate with management teams about business strategy and governance issues and view private meetings as the best forum for doing so.

Electronic records of company meetings are made and stored in Amati's research database. Generally, Amati will not attend AGMs or send a representative to do so. We find that the direct engagement we have with management teams and their corporate finance advisers provides our views with sufficient representation.

If an investee company is found to be in clear breach of the UK Corporate Governance Code then Amati will expect to make some direct representations to the management and will consider whether to vote against resolutions put to a general meeting.

Amati will not seek to hold inside information on a company unless this is in relation to a specific fund-raising activity across a limited time period. If inside information is obtained inadvertently this will be recorded in Amati's dealing system, and the funds will not be able to deal further in shares of that company until the information has either become public or has become no longer relevant or price sensitive.

Amati will regularly engage with the directors of investee companies over matters of business strategy, corporate development, remuneration, management incentivisation, succession planning and corporate communication with a view to maintaining and enhancing the value and effectiveness of the business. During the past 12 months we have been consulted on a number of occasions by non-executive directors who chair Remuneration Committees for investee companies.

There are some situations where collaborative engagement is important and appropriate. This can be the case where our leverage is less due to holding a relatively small position in the company, or a point of principle relating to which there is broad agreement about the outcome required on the part of our industry peers and where what is at stake is not price sensitive (and thus would make a collaborative engagement difficult or inappropriate under MAR). Amati hasn't participated in collaborative engagement during the period under review, however it has done in the past and would not rule out doing so again if it was felt to be appropriate. As we get bigger we have more leverage over companies and find that approaching them individually is usually more appropriate and can often be sufficient.

We are actively engaged with other institutional small cap investors through an AIM VCT industry group (under the auspices of the Association of Investment Companies), and value the views of our colleagues in the industry. Whilst always conscious of wishing to avoid the risk of being deemed a concert party, we will from time to time seek to discuss issues relating to specific companies with other investors. Our approach is to listen to all industry groups and to contribute to the discussion, although we believe nonetheless that direct engagement with the company concerned, or at the very least through its advisers, is a more appropriate and effective channel for effecting change. Where the consensual approach outlined in our response to Principle 9 has not been effective, we are of course willing to consider collective engagement, albeit that the extent of this intervention would depend on the size of our investment, the size and nature of the investments of the other interested parties, and whether such a collective intervention would have more chance of achieving a positive outcome than the consensual approach. Issues that might prompt a collective approach, whether that be a formal alliance, or a more informal strategy of pressure being brought to bear from all sides, would include but not be limited to the following:

- Board composition
- Corporate strategy
- Mergers and acquisitions
- Management remuneration including stock options

We must be careful talking to other investors because of sensitivities around pricing and the perception that asset managers could be working in concert, but where possible we do work together on themes of common interest such as those outlined above, in an effort to raise general standards on AIM. On a number of occasions this has resulted in a modification of incentive schemes prior to investment. However, on some occasions this has not been possible and we have declined to invest. This has inevitably resulted in our missing out on some otherwise attractive investments, however there are certain red lines that we have, regarding which we cannot compromise.

We also have good relationships with other corporate bodies that bring shareholders together around governance issues relating to smaller quoted companies, including the Quoted Companies Alliance and the UK Individual Shareholders Society, some of whose members hold significant stakes in investee companies of Amati funds.

Escalation would typically begin at a relatively early stage, where we believe an investment thesis has been undermined, and which would include the consideration of governance issues as a matter of course - indeed, governance issues can often be at the very heart of the problem, the resolution of which can be the key to restoring a company's fortunes. A plan for action/engagement is developed at daily investment meetings, informed by our priorities for engagement outlined in Principle 9, and led by the investment manager responsible for that company whose initial investment conclusion led to the purchase. Escalation would occur through the broker, or equally we can go direct to the investee company where the relationship makes this possible. In our investment universe this is indeed possible much of the time, given that our funds are growing rapidly and even relatively modest positions for the fund can represent a significant ownership in the portfolio company. We would usually seek to meet the chair or an independent non-executive director to outline our concerns and get a sense of whether the issues identified can be resolved within an acceptable time frame and with a view to obtaining the best possible result for our clients. If the concerns are serious or the initial discussions have not been productive we may send a formal letter to the company and its advisers and, exceptionally, we would seek to requisition an EGM. At this point we may contact other investors, where appropriate, and where there are no considerations under MAR (see Principle 10).

Amati is not typically an "activist investor" in the sense that it will make a new investment with a view to bringing about change directly in a company. We will make new investments on the basis that we believe the companies to be well managed. Where we find that this turns out not to be the case, or an issue of governance arises which we feel compromises our investment we will initially raise our concerns at meetings with management, or else through the company's advisers. Where this proves ineffective, we may begin dialogue with other shareholders with a view to building a consensus strong enough to influence change. If this proves not to be possible, we are likely to sell the investment.

Issues that we may seek to intervene over would include:

- Management appointments
- Adviser appointments
- Acquisition / disposal strategy
- Responsible governance
- Board diversity and inclusion
- Inappropriate management incentive and remuneration packages

We will always seek to work constructively with boards of investee companies and recognise that in most cases the directors have access to fuller information than we do, and are normally best placed to form judgements over the best means to enhance shareholder value. In practice we do not find it conducive to our investment style to escalate an issue to the extent of requisitioning an EGM, although we would never rule this out. We are in a constant process of dialogue with our investee companies, and we feel that it is far more effective to remain constructively engaged with them rather than escalating the issue and potentially to lose the ability to influence the company in more subtle ways. The same could be said of public statements – our close relationship with these companies is one of our strengths and in our view a strategy of constructive engagement is for us a far more effective way of influencing companies in the area of corporate governance and ultimately enhancing shareholder value. However, if the above strategy was not successful, Amati would in exceptional circumstances be prepared to act on its own, or in conjunction with other shareholders, to requisition an EGM to propose changes to an investee company's governance structure.

Where we cornerstone investments or participate in pre-IPOs, this gives us the maximum amount of leverage with prospective investee companies, in which case we always pay particular attention to board representation (including gender balance and diversity), share options and share incentive schemes. This is especially the case for the VCT, where rule changes in recent years have steered VCTs towards earlier stage investments, and where even a relatively modest investment as a percentage of the VCT's assets can represent a significant investment for investee companies and be critical to their success. It is important to note, however, that these interventions do not always fully succeed, in which case we take a view on a case-by-case basis and may not proceed with the investment.

Outcome

Some examples of engagement around corporate governance during the period under review included the following:

- We challenged a proposed long term incentive plan for the management of a listed support services company that was not aligned with the interests of shareholders, and which we successfully reversed after engaging with the non-executive chairman.
- We invested in a private company in advance of a stock market listing and are engaging with them on a lack of gender balance on the board. We have reached an understanding that soon after the company floats the board will rectify the situation and appoint at least one female director.

- We pushed back on the mechanism for voting on the remuneration policy at an AIM-traded investee company, whereby the remuneration policy was not listed as a separate resolution at the AGM. The company in question agreed to include the remuneration policy as a separate resolution going forward. This is a widespread problem on AIM, as companies are not required to do so under the AIM regulations. However, it is considered best practice and in doing so avoids the suspicion that inappropriate remuneration arrangements are being pushed through under the cover of a more general vote to accept an annual report.
- As a result of sustained pressure from the fund managers, the non-executive directors of an AIM-traded investee company no longer receive options or pension entitlements, which we believed was sending a bad signal to the market and might have given rise to suspicions that the directors' objectivity and independence had been compromised. We are also currently engaging with the same company's board on the long term incentive plan.
- The Chair of the Remuneration Committee of an AIM-traded health care company engaged with us as a major UK shareholder regarding the structure and benchmarking of remuneration. The majority of the company's operations are based in America, where remuneration norms differ significantly to the UK market. We discussed the UK market norms and where we would be comfortable supporting salary, bonus and options for the senior management team after a year of operational excellence. Following this we were able to support the Committee Chair's prudent decision regarding a cash bonus benchmarked at the 50th percentile. Additionally, our position that options should be highly valued and not issued annually in an "equity refresh" was incorporated into the remuneration policy.
- The Chair of the Remuneration Committee of an AIM-traded health care company contacted us to discuss how to effectively incentivise management. During the conversation it emerged that the proposed structure could have the unintended consequence of incentivising management to engineer an exit by providing a large exit bonus. We suggested a more balanced approach of an equal split between options and exit bonus. To the management's credit they were concerned that this would leave very little of the 10% option pool available for other company staff. They countered with a split of 25% options and remainder exit bonus. We agreed with this approach.
- An AIM-traded fast fashion company represented an attractive investment opportunity, given its improving margins and rapidly growing revenues in the UK and overseas. However, whilst the company set out their approach to Tier One suppliers, they were not able to provide reassurance beyond direct suppliers, which is an issue in terms of their sourcing both in the UK and the Far East. We attempted to engage with both the executive and the ESG team at the company without any success and felt that the website did not provide sufficient clarity on the monitoring of its supply chain. When it was clear that we could not prevail upon the company to provide more clarity on their supply chain we took the view that there was not only a moral

imperative at stake, but also a clear investment risk for our clients and a reputational risk for our firm, so we sold down our position.

- We established a position in an international packaging company in early 2020 when company raised £90m to make an acquisition, and then added to our position after the shares fell in the pandemic sell-off. We also took the opportunity to add to our holding in a further secondary placing in August, which at the time was casually presented as a shareholder wanting to sell down their holding. In an extraordinary turn of events it was revealed in an RNS that this was in fact the CEO's holding. Following this announcement an additional LTIP incentivisation package for the same individual was proposed. We felt strongly that the manner of the sell down and the fact it was the CEO's entire holding, along with the additional LTIP that this precipitated, meant that in our view the CEO was no longer aligned with the interests of ordinary shareholders, leading us to lose confidence in the corporate governance of the company and ultimately disposing of our holding.

Our Stewardship and Shareholder Engagement Statement can be found at: <https://www.amatiglobal.com/page/stewardship-shareholder-engagement>.

Principle 12

Signatories actively exercise their rights and responsibilities

Context

Although Amati is a relatively small fund manager we will generally vote at all company meetings, and as a matter of principle we would do so where we hold a significant position in the company, or where we believe there to be a contentious issue arising. Proxy voting services are only used to process voting instructions and no advice is taken. Issues we are particularly conscious of are those surrounding board structures, the concentration of share ownership, as well as option schemes and other forms of remuneration.

In the past, our approach was to disclose our voting record at particular company meetings on request. However, in the interests of transparency and accountability we make available quarterly disclosures of our complete voting record on our website. As part of our engagement process, we may inform companies in advance if we intend to vote against a board recommendation, and if we have not sold the holding we will continue to engage with the company. However, before that stage is reached we would do everything possible to persuade the company not to put forward resolutions at general meetings that would potentially be voted down, believing that it is far better for all parties for differences to be resolved before a confrontation develops and reputational damage is incurred by the company, to the detriment of all stakeholders.

Activity

Broadly there are three methods of engagement in relation to voting. The first is direct engagement with investee companies before general meetings to try to modify or remove specific resolutions which we do not think are in the best interests of our clients – this is by far the most preferable course of action and where we have leverage and influence we will use it assertively. The second is to use our voting rights to overturn resolutions or, if those

rights are not enough to achieve that outcome, then at the very least to register our dissatisfaction with the proposals. We vote on every resolution in every meeting but in reality it rarely comes to this, as we have already conducted extensive due diligence on investee companies before investing. This means that unless something dramatically changes in terms of governance or remuneration structures at the company in question there is normally no need to vote against or abstain on resolutions. Finally, we have the ultimate sanction of disinvestment, which we do not hesitate to use if we have failed to achieve a satisfactory outcome for our clients.

As we do not have segregated accounts we have a clear and consistent policy across all our funds. We do not lend stock, believing that such a policy would be of only marginal benefit to our clients and would be outweighed by the loss of voting rights and the consequent inability to always act in the interests of our clients (see Principle 3). As outlined in Principle 8, we do not use proxy advisers at present, believing that these decisions should be made by those managing the money and not outsourced to third parties, however we are exploring whether a proxy adviser could inform our process by providing more information on investee companies than we are able to gather ourselves within the constraints we have. It is understood that under any scenario we would still make the final decisions on voting and would not hesitate to vote contrary to the recommendations of any third-party adviser. To date our clients have not overridden or challenged our house policy in relation to voting as our approach and philosophy has been understood and embraced by our main fund clients (the ACD of the TB Amati Smaller Companies Fund and the board of Amati AIM VCT) at the outset. In addition, regular dialogue takes place in order to bring our clients with us as our thinking evolves.

In terms of client disclosure, we do not make disclosure of our direct engagement with companies, taking the view such disclosure could amount to a breach of trust which could be counter-productive in achieving the result we desire. We do however report on specific engagements to our VCT client board members and are happy to discuss stock specific issues with investors in the funds that we manage, and our investors will engage us in such discussions on a regular basis.

For the above reasons Amati does not consider that it would be worthwhile obtaining an independent opinion on its engagement and voting processes. None of our stakeholders has so far shown interest in our doing so. This also reflects our view that relatively little of the effectiveness of our engagement on governance issues would be captured by a superficial look at our voting at general meetings, which in turn reflects the nature of the relationship between investors in small companies and the management teams which run them, as opposed to that between investors and management in large companies. As a small company we don't have the resources to put in place the structures to provide for an independent assurance process, however we do have robust procedures in place for the consideration of stewardship issues and voting policy. Further, with a view to strengthening this process, any activity around corporate governance, stewardship and voting policy is documented and considered at monthly management and quarterly board meetings, and notified to the directors of Amati AIM VCT and the Authorised Corporate Director of our UCITS funds, in the same way that we have outlined in relation to conflicts of interest in our response to Principle 3.

We voted on all shares during the period under review, using a proxy service provider for the administration of voting. We have an automated system for monitoring voting rights and reporting thresholds under the Takeover Code and the Disclosure Guidance and Transparency Rules.

Amati's full voting record is available at <https://www.amatiglobal.com/page/voting-records>.

Outcome

Given the nature of the relationship with portfolio companies, the extensive due diligence that we conduct on them and the leverage that we often have with them pre-investment, it is generally the case that we are broadly comfortable with the corporate governance of portfolio companies and, accordingly, we tend to vote in line with management recommendations. This has been the case in respect of most meetings held in the 12 months to 31 December 2020, except for political donations, which we generally vote against. A rare exception to this rule is where political lobbying is critical to a company's mode of operation, and where it would be perverse to vote against such a resolution. This would be the case with UK gaming companies, for example, which would arguably need the ability to lobby the government to support the sector in the form of tax reliefs, in order to level the playing field with foreign games developers.

Needless to say, we monitor our investee companies carefully and are always ready to respond to any corporate developments, indeed anything that weakens the investment case or otherwise gives rise to questions around corporate governance. Although for the reasons outlined above we generally vote with the management at company meetings, there are inevitably some occasions where, despite our best efforts, our engagement with companies has not succeeded and we feel compelled to vote against certain resolutions, albeit that in some cases we use the immediate threat of this sanction strategically to drive positive change and to protect our investment. During the period under review there were some notable cases where we believe we used our voting rights responsibly and effectively in relation to portfolio companies, including the following:

- an AIM-traded healthcare company, which was seeking to increase from 12.5% to 15% of issued share capital that options granted to senior management may represent. We were minded to vote against the proposal, however the Remuneration Committee Chair made the point that the company's option pool had very little headroom, partly due to poor construction but also due to having issued larger amounts at a lower share price to make them meaningful. After much discussion with the company we assented to this unusual upscaling of the option pool size, after gaining undertakings that the options would be used to hire new key staff required for company growth. In this case we felt that we used the leverage that we had in respect of our voting rights responsibly, by exerting pressure on management to be proportionate on remuneration but recognising the need on the part of the company to attract and retain talent.
- a listed challenger bank, where we voted against the remuneration report, which had proposed a 24% pay rise to the CEO over 2 years and a 13% rise to the CFO over one year, based on maximum achievable pay. The background to this is that as the bank grew it became subject to new rules on executive pay, meaning that a switch towards a higher ratio of fixed pay relative to variable pay was necessitated. The

company's answer to this was simply to reward themselves a (fixed) pay rise, however the proposed increase in our view was excessive and could not be justified in the then current economic climate. We impressed upon the company that given that the risk to the executive's overall remuneration was now reduced because of the higher proportion of fixed pay as a percentage of total compensation, this should be factored into any calculations on maximum achievable pay. We continue to engage with the company on this issue.

- The Executive Chair of an AIM-listed company in the services sector received 2.2 million Partly Paid Shares in connection with capital raising and bank financings. These securities carry voting rights but are not admitted to trading or carry any economic rights until fully paid. We voted against approval of the accounts because of the above disclosure, which appeared in the Notes to the Accounts. The individual was issued with these shares to prevent dilution of their stake at fund raisings, apparently to address concerns about hostile takeovers which would prevent the Chair from building the full future value of the company. While the company argued that this was justified on the basis of the Chair's personal guarantees over company borrowings, we believed however that the value transfer was disproportionate. Further, in our view these securities effectively represent a nil paid anti-dilution mechanism, which would remain in place until such time as they are exercised by the individual concerned. Since that time we have had extensive discussions with the advisers to the company and the executive of the company itself, to prevail upon them to address this issue, however to date the company remains unwilling to alter the mechanism. This is an ongoing situation and we will continue to take every opportunity to raise the issue with the company, while considering further remedial actions.