Amati Global Investors

Stewardship Report

This document explains how Amati Global Investors complies with the **UK Stewardship Code 2020**. The period covered is from **1 January 2021 to 31 December 2021**.

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 three collective funds: the TB Amati UK Smaller Companies Fund and the TB Amati Strategic Metals Fund, which are an open-ended investment companies, 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.

The TB Amati Strategic Metals Fund was launched in March 2021 to provide an opportunity for investors to gain exposure to “strategic” metals, which are those associated with the global energy transition from fossil fuels to cleaner, more sustainable and less carbon-intensive energy sources. We are also planning a global equity strategy which seeks to invest in companies that develop innovative products, services and business models that create value by addressing fundamental challenges facing businesses, consumers and societies. The energy transition and the related theme of sustainable economic development are becoming increasingly important to Amati, themes which find expression across our fund range.

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 an Edinburgh-based team of four fund managers, supported by a research analyst, who work collectively on the TB Amati UK Smaller Companies Fund, Amati AIM VCT and the Amati AIM IHT Portfolio Service. Research, due diligence and investment management are combined in the one team. A team of two other fund managers have primary responsibility for the TB Amati Strategic Metals Fund, although there is constant dialogue between the teams on areas of common interest and all research is shared on our proprietary system.

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 relevant 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, has during this period returned 998% (as at 31 December 2021), as against the benchmark (Numis Smaller Companies, excl. Investment Companies, plus AIM) return of 324% and the sector (IA UK Smaller Companies) average of 467%.

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%, as against the benchmark (Numis Alternative Markets Total Return Index) return of 59%.*

The TB Amati Strategic Metals Fund was launched in March 2021 and as at the end of the period covered in this report had not published performance information, per FCA requirements for funds less than 12 months old.

*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. During the period under review we enhanced this training programme to include an element focussing specifically on stewardship and governance, both during the induction programme for new starts, but also within our annual firm-wide training programme.

We are conscious of the need to make sure our resources in this are area are commensurate with our ambitions, so we are in the process of recruiting a specialist practitioner, whose sole function will be to support the firm in its stewardship activities. This individual will formally report to the Head of Risk and Compliance but will also have a reporting line to the CEO. We believe that the prospective appointment of a specialist practitioner is an important statement of intent by Amati - many boutique firms would not have a dedicated resource in this area.

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 have also developed internal systems to capture with more precision the risks and opportunities in this area. However, we choose not to rely solely 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.

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, in the first instance, be driven by those individuals managing the money and not by proxy advisers or external teams. Paul Jourdan, our CEO, is ultimately responsible for the stewardship activities of the firm, which are approved at board level, monitored at senior management level and implemented by the investment team. Paul has very good credentials in this area and is a founder-trustee of the Clean Trade charity. The Compliance function supports and has oversight of these activities, led by the Head of Risk and Compliance, who acts independently of the executive and has a direct reporting line to a non-executive director on the Board of Amati. The senior management team comprises the 3 executive directors of Amati, the Head of Sales and Marketing, the Head of IT and the Head of Risk and Compliance. The CEO is also a member of the investment team, which is comprised of 6 fund managers and an analyst. These are all very experienced investment professionals, for whom stewardship and governance has always been integral to their investment approach, albeit that it has become more formalised in recent years. These individuals come from a variety of backgrounds, with a range of qualifications, and with each member of the team taking responsibility for the approach to stewardship in relation to each company in their sector or thematic area of interest. We believe however that stewardship does not just rest with the board and the management of the firm; this is a top down and bottom up process, and every member of staff has a part to play, and indeed a moral and regulatory duty, to achieve the best outcomes for investors and to be responsible guardians of client assets. Further, to achieve these aims fully we acknowledge that we must shape a diverse and inclusive workplace, where we respect and value difference, whether that be by virtue of culture, gender, education, religion, orientation, national origin, or any other characteristic. Above all we value diversity of thought, in the absence of which firms are susceptible to groupthink, which can lead to narrow perspectives and the absence of internal critique or challenge.

We have developed a diversity and inclusion policy at board level, which seeks to achieve our desired outcomes in attracting and retaining talent, while at the same time constituting a fair, transparent and merit-based recruitment process. We achieve this by seeking to capture as wide a pool of potential applicants as possible, which includes those applicants from backgrounds under-represented in financial services, whether that be by virtue of having a protected characteristic or by a lack of social mobility. Regarding the latter we are deliberately pro-active, having begun to work with two charitable organisations with a view to their putting forward candidates for consideration.

We have bespoke systems for capturing due diligence and investment conclusions, which have 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 have created 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 company. 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 and the TB Amati Strategic Metals 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 robust 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 in relation to the TB Amati Strategic Metals Fund, which at launch in March 2021 was managed for us by individuals seconded to Amati who also acted as advisors to a Swiss-based fund advisory firm. At the end of the period covered by this report, one of the fund managers had left the third party firm to become solely employed by Amati. One manager continues to have direct responsibility as an adviser to a UCITS fund which has some crossover with Amati's 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 holds 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) have deep expertise in the mining and commodities markets; and indeed the fund was launched to provide investors with 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 is embedded in the investment process and is 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 continue to work 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 have enhanced 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 be inadequate 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. This group will be reconvening shortly to update guidance to members following proposed changes made to the regime by the FCA at the end of the post-Brexit transition period.

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. Our team-based investment process is effective in identifying portfolio-level and macro risks and in promoting well-functioning markets, albeit that our firm is not of systemic importance. In particular, 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. This is an important thematic for Amati and we believe we can make a meaningful contribution here.

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 collaborated with them to devise 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.

During the period we asked our compliance consultants to review our stewardship reporting, with a view to establishing whether in their view our reporting was generally fair, balanced and understandable. While the overall assessment was favourable, there were some areas identified for improvement, which will be reflected in future communications to investors and stakeholders.

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 £1.3 billion (as at 31 December 2021). 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 2021, Amati managed three collective funds as well as an investment service for private clients used for inheritance tax planning. Although they each 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. 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 2021 had assets under management of £996 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.

TB Amati Strategic Metals Fund. The fund has been managed by Georges Lequime and Mark Smith since its inception in Mach 2021 and as at 31 December 2021 had assets under management of £52 million. The Fund aims to achieve long term capital growth through investing in a well-diversified portfolio of internationally-listed metals and mining companies whose primary revenues are sourced from the sale of strategic metals. These metals, deemed to be of strategic importance to the global economy and future macro-economic trends include, but are not limited to, gold, silver, platinum group metals, copper, lithium, nickel, manganese, and rare earth metals. The fund is able to invest in mining companies listed in London, US, Canada, Australia and other developed markets. The benchmark for the fund is the EMIX Global Market Index, 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 £269 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 £53 million as at 31 December 2021. 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. Our rationale for taking this approach is that, strictly speaking, we do not have a formal regulatory relationship with the end client in each of our collective funds. There are regulatory constraints in making direct, unsolicited approaches to clients, so we try to make up for this by widely publicising our activities and events in the hope that the end clients, especially those that are not advised by intermediaries, will engage with us. This has so far been a very successful approach, and as a result we feel very close to our investor base and also feel that we have carried them with us in our approach to stewardship.

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 funds, 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:

We completed the process of converting the higher charging legacy 'A' shares of the TB Amati UK Smaller Companies Fund to the cheaper 'B' class, which was a recommendation arising from the so-called 'Value for Money' assessment undertaken by T Bailey, the ACD of the fund. While this was a very good outcome for the shareholders in the fund, for technical reasons approximately 0.6% of the issued share capital was still represented by the A shares. Following further feedback from stakeholders we took the decision to go further and to seek to close down the 'A' share class altogether, which would be done on viability grounds. This process is ongoing.

We continued to develop mechanisms for the reporting of ESG metrics to the ACD, to work with them to enhance our risk and liquidity monitoring, and to 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 continued to expand the information presented on stewardship and ESGH-related matters during meetings, seminars, annual and interim reports, and fund documentation. Fact sheets are issued monthly, fund updates on BrightTALK take place quarterly, and we hold an annual investor days in conjunction with the AGM of our VCT client, the latter very often featuring presentation by portfolio companies, which gives a chance for investors to challenge company executives on stewardship matters. The information communicated through the various media very often takes the form of case studies on companies involved in the energy transition or related areas, which we view as a major theme for Amati and as a debate to which we make a distinctive contribution. We also distribute questionnaires after investor events and this feedback has been valuable in gauging the ‘temperature’ of our clients and intermediaries and in evaluating the effectiveness of our communication with clients on these matters. 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 difficult 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.

We believe that our approach broadly aligns with that of our stakeholders, a testament to which is that to date we have not encountered any significant resistance on these matters, even though we facilitate opportunities to provide feedback on stewardship and governance at every possible juncture and by various methods of contact. For this reason we believe that we are broadly aligned with our clients’ approach to stewardship and their investment philosophy, and 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.

We have a number of core principles and beliefs that shape our general approach, which we articulate as follows:

Resist financialisation
We believe that the ethics of finance are improved as the underlying investors’ knowledge of and understanding of what they are investing in improves, and that financialisation (the process where investments are abstracted into mere numbers or indices) works directly against this.

Fund Manager-led process
We believe that the work on ESGH factors and the engagement on them with executives at investee companies needs to be done by the fund managers making the decision on investments, and insofar as it is possible not something passed on to dedicated “ESG specialists” or outsourced to consultants.

Avoid excessive complexity
We are wary of creating excessive complexity around ESGH integration and set out to be sparing in the adoption of third-party sources or metrics. We are looking to rely primarily on our own judgement, and to continue to engage with the myriad of issues that arise, so that our judgments evolve over time.

Maintain independent judgement
We believe that active fund managers should preserve independence of thought, whilst engaging critically with broad debates that arise on these topics within the industry and being willing to change our minds if the evidence before us changes, or if stronger arguments emerge.

Be wary of overstatement
Fund managers who overstate the impact that their work can have on specific non-financial goals will create unrealistic expectations, and these may be damaging in their own right, if by giving the impression that something substantial is being done where it isn’t, they diminish the perceived importance of sound policy making, strong public institutions and international co-operation in solving the big problems we face today.

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, Amati was a Tier 1 signatory to the UK Stewardship Code 2012, and during the period under review met the expected standard of reporting against the UK Stewardship Code 2020, becoming a signatory in March 2022. 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. More recently, Amati became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), which was created by the Financial Stability Board (FSB) to improve and increase reporting of climate-related financial information.

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 have declined what would have otherwise been excellent investment opportunities on 'Clean Trade' grounds, in respect of companies appearing to have good ESGH credentials (and often including a commitment to reporting under the United Nations' Sustainable Development Goals). Notwithstanding the fact that in each case the economic 'multiplier' would have been significant for the local population, ultimately we could not get comfortable, when seen through the lens of the Clean Trade principles, with investing in resource-cursed countries, 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 corrupt regimes.

As outlined above in our response to Principle 4, Amati is increasingly investing in the new economy, and indeed has launched 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 'ESGH' fields 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. In parallel with this we have developed our own ESGH taxonomy and scoring system, 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 are most interested in the carbon intensity of investee companies' operations and supply chain and their efforts to reduce emissions; in the social sphere we try 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. This is an ambitious project and is part of a continuous process of enhancing our systems in order to more fully integrate analysis, research, engagement, investment conclusions and reporting, and which also feeds into our reporting under the Principles for Responsible Investment.

During the period under review we began to plan a major conference to raise industry and societal awareness of the 'Clean Trade' principles and approach. The conference will be held under the auspices of the Clean Trade organisation and will be attended by various stakeholders including executives from mining companies, brokers, asset managers, research providers and ESG practitioners.

Given the scale of our ambition in this area we have taken the decision to increase our resource by creating a new role within Amati to coordinate and develop our stewardship activities. We feel that this is a sign of our commitment in this area and a recognition that this is of sufficient importance to warrant a dedicated resource, as opposed to being a marginal activity carried out by the compliance function. 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 on which we continue to engage with Refinitiv. As we have stated above, we have now developed our own ESGH taxonomy which will 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. As outlined in our response to Principle 1, our maximum engagement tends to be when a VCT-qualifying company is raising money, although this holds true to most companies in our universe that are raising money. As specialists in small cap and AIM stocks (see Principle 6) we have a much closer and personal relationship with our portfolio companies that what would be the case for a large cap manager, and where we have a significant amount leverage to make sure that stewardship considerations are not overlooked. Many companies at this end of the market have inexperienced management teams and weak governance structures, and we often find that the management of these companies are very willing to leverage our experience and to work with us on shaping deals, to the ultimate benefit of both the issuer and our clients. Thus we believe that, given the nature of our universe of companies and the mutually beneficial relationships that are created and maintained, in what is a relatively small ecosystem, our broad approach of constructive engagement ultimately leads to better outcomes for our clients than an adversarial approach.

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.

Our engagement approach does not differ markedly for different funds or geographies, although given our focus on human rights, political freedom and exploitative practices, we would typically be more assertive and interventionist in respect of companies in the extractive industries, which often have operations in emerging and developing economies. We have certain red lines in this area, such as levels of democracy and the right to legitimate protest, which would clearly render ineffective a policy of non-adversarial constructive engagement.

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). 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. However, Amati did participate in one collaborative engagement during the period under review (see the fourth case study under Principle 12), and we aim to engage in this way more in the future, recognising that collaborative engagement is an important stewardship activity and in order to align with the Code more fully.

With the above in mind we have begun planning for a ‘Clean Trade’ conference in 2022 (see Principle 7), which we hope will be a catalyst for broader engagement and lead to a more collaborative approach to other fundamental issues of stewardship and governance among our industry peers. The purpose of the conference is not only to raise awareness of the Clean Trade principles among the asset management industry, but also to bring pressure to bear on companies, especially those involved in extractive industries, to foreground human rights in their approach to ESG considerations. Recent events after the period end have brought into sharp focus the importance of human rights and the related issue of energy dependency. In that sense, we believe that we have been prescient in our thinking about these complex issues and that our approach to ESGH has been vindicated.

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 were concerned to learn that the CEO of an AIM-traded software company, who already owns 30% of the company's issued share capital, had been awarded a new LTIP, and arranged to speak to the chairman. We had a frank but constructive conversation, making the point that new shareholders such as Amati had joined since the IPO, when the company made a substantial fundraise to finance more growth. At no time were we made aware that a new LTIP would be created to reward management. The chairman said that they had hired remuneration consultants to advise on the appropriate structure and as part of their review prepared examples of companies that in the same way did not factor in existing shareholdings when preparing LTIPs or salary packages. The chair and the head of the remuneration committee claimed to have questioned this approach but were told it was standard practice. We pointed out that standard practice doesn't always mean best practice and that the company should not uncritically accept all of the recommendations of its external consultants. Nonetheless we reviewed the LTIP and did concede that it set meaningful and challenging performance and vesting targets, although we did insist to the Chairman that we would strip out share-based payments from EBITDA for our internal valuation purposes, as in our view this is a cost of doing business. Further, we strongly urged the company to separate any resolutions on remuneration from those relating to the reports and accounts in future, failing which we would not hesitate to use our voting rights to send an unambiguous signal that bundling them together is not best practice. The Chairman agreed to take this into account at the next AGM, and we will be monitoring developments closely.

- We became aware of several press reports highlighting the quadrupling of pay of the CEO of a listed UK home furnishings retailer. We spoke to management and discussed this alongside the results they had delivered during and after the pandemic. The company had done very well throughout this period, and were able to adapt to more ecommerce, as well as adjust their stores to keep customers and staff safe and engaged, and at the same time paying back any Covid loans. The management had also taken significant pay cuts in 2020. We ultimately voted in favour on the grounds that the management team had delivered in difficult circumstances, and that the new overall levels of remuneration were not out of line with the wider market.

- An AIM-traded cybersecurity company brought to our attention that ISS had recommended voting against their proposed remuneration policy, which included salary sacrifice options that were issued as part of the company's response to the Covid crisis. We discussed this directly with the Chairman of the company, who explained that this was a voluntary scheme offered to all staff on the same terms, in exchange for a waiver of cash remuneration during the height of the pandemic, and further that the board had taken a 28% overall reduction (50% for the CEO) in cash remuneration in 2021 as compared to 2020. The options in question had a strike price which was well above the prevailing share price and which would have a required an uplift of more than 50% (excluding tax impacts) before any participant in the scheme would make a return. We concluded that ISS did not fully appreciate the context of this scheme and we therefore agreed to vote in favour of the resolution.

- We invested in a private company in advance of a stock market listing and engaged with them on a lack of gender balance on the board. We reached an understanding that the board would appoint at least one female director soon after gaining admission to AIM, and were pleased to note that such an appointment had been made. We have, however, made it clear to the management that much more progress needs to be made in this area, and that we will not hesitate to use our voting rights strategically to effect positive change in the future.

- We worked closely with a listed biotechnology company on its 2021 remuneration policy, which was a complex exercise given the differing approaches to remuneration in the UK and the US, the latter which will be the source of most of the future talent in the organisation and the likely next CEO in the succession plan. The new policy, while recognising the commercial reality of higher incentive payment norms for US-based executives (albeit that the proposed incentives are at the lower end of the range for companies listed on the Nasdaq), nonetheless in all important respects aligns with the requirements of the UK Corporate Governance Code, which include the following: aligning pension contributions with the wider workforce; paying a proportion of the annual bonus in deferred shares; putting in place longer vesting horizons for long terms incentives (three year performance period and two year holding period); and strict guidelines on post-employment shareholdings. Regarding the remuneration arrangements for non-executive directors, this in some respects is even more challenging, given that under the UK Code chairs and independent directors are not permitted to receive incentives linked to share price or corporate performance. The proposed mechanism was to award additional cash payments to US-based NEDs, in recognition that there is also a "market" for NEDs in the US, but importantly with a requirement that the post-tax value of any additional payment is used to acquire shares in the company at the prevailing market price, which would then be subject to a one year lock-in. In line with the UK Code no performance targets are attached to the acquired shares, which means that the NEDs are aligned with shareholders but without compromising their independence. Ultimately we were comfortable in supporting the new remuneration policy, which was duly approved at the next AGM.

- We challenged 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 the financial statements.

- We challenged an AIM-listed construction materials distributor on the complete lack of diversity on its board, which even allowing for the fact that the company is arguably in one of the least enlightened industry sectors, was surprising and concerning to us. We put it to the company that not only would existing investors be reconsidering the investment case for the company, but that they would certainly become much less attractive to new investors, if they did not take immediate steps to address the situation. We are pleased to note that as a result of our intervention a female NED has now been appointed, which we regard as an important first step in what we are insisting should be an ongoing process of improvement in this area.

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 is quite rare that we feel compelled to vote against a resolution on a matter of substance, 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.

Our full voting record is available at https://www.amatiglobal.com/page/voting-records.

Our Voting Policy is available at: https://www.amatiglobal.com/page/regulatory-information.

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 2021, 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.

Towards the end of the period under review we became aware that many companies seeking formal approval for political donations have no current intention of making direct political donations, and are doing so merely to protect themselves from inadvertently breaching the Companies Act. This can arise when companies engage with stakeholders regarding concerns and issues that are broadly political and which potentially affect a company's operations, albeit that these interactions are not intended to support a certain political party or influence support for any political party. In response to this, and in line with guidance from the Chartered Governance Institute, we adjusted our policy to allow for a more nuanced approach, whereby in cases where it is clear that seeking the ability to make political donations is a protective measure only, and that no donations have been or are intended to be made, then we would be willing to support (or abstain from) that specific resolution.

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:

- We conducted a review of an AIM-traded healthcare company's remuneration arrangements and challenged the company on the rewarding of options to the CEO, who already owned more than 20% of the company. This level of ownership already very much aligns the CEO with shareholders, and for this reason we felt that the options could be used more effectively to incentivise other members of the management team and to attract high quality employees. Additionally, the CEO's salary was already disproportionality higher than the other executives, and the proposed options would only widen the differential. After discussions with both the Chair of the Remuneration Committee, the Chair of the company and a non-executive director, we could not prevail on the company to adjust the remuneration arrangements, so we took the decision to vote against the specific resolution relating to the remuneration policy. Regrettably, the remuneration policy was duly carried at the AGM but we continue to engage with the company on this issue.

- We reconsidered our policy of companies making political donations as a result of our discussions with an AIM-traded platform provider. We have moved to a more nuanced position which recognises that some companies seek approval to make political donations as a "protective" measure (see above).

- We reviewed the equity incentive plan of an AIM-traded health care company and challenged the company on the terms of the scheme. Share issuance under the scheme automatically increased by 5% each year, for which no rationale was provided and which we felt could not be justified. We engaged with the management in advance of the AGM but regrettably we could not prevail on them to change the terms of the scheme. We voted against the relevant resolution. The scheme was approved at the AGM but we continue to engage with the company.

- An AIM-traded resources company came under attack from a hostile concert party, which requisitioned an EGM with a view to replacing the Chair of the company with their own candidate. It was our view that this was not in the best interests of the company. After the dissident shareholders were not successful at the first EGM they requisitioned a second meeting, this time to require the directors to commission an independent forensic investigation into the affairs of the company. We did not believe that this investigation would yield any useful information and that it would be a huge distraction in terms of management time, not to mention the significant costs that would be incurred. As a major shareholder we engaged with all parties to achieve a resolution prior to both EGMs, being concerned about the reputational damage to the company. While ultimately we weren't able to broker an understanding between the board and the concert party to avoid this issue coming into the public domain, we worked collaboratively with those shareholders who were also broadly supportive of the board, to seek to achieve what we believed to be the best outcome in the circumstances, which was for the current board to continue and for the management to focus on creating value for shareholders. Both sets of resolutions were duly rejected by shareholders and we continue to work closely with the company, which remains vulnerable to further activism, in order to protect our interests and those of our clients.

DocuSigned by:

Paul Jourdan

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SIGNED: ________________________________

Dr Paul Jourdan
Chief Executive Officer
Amati Global Investors Limited