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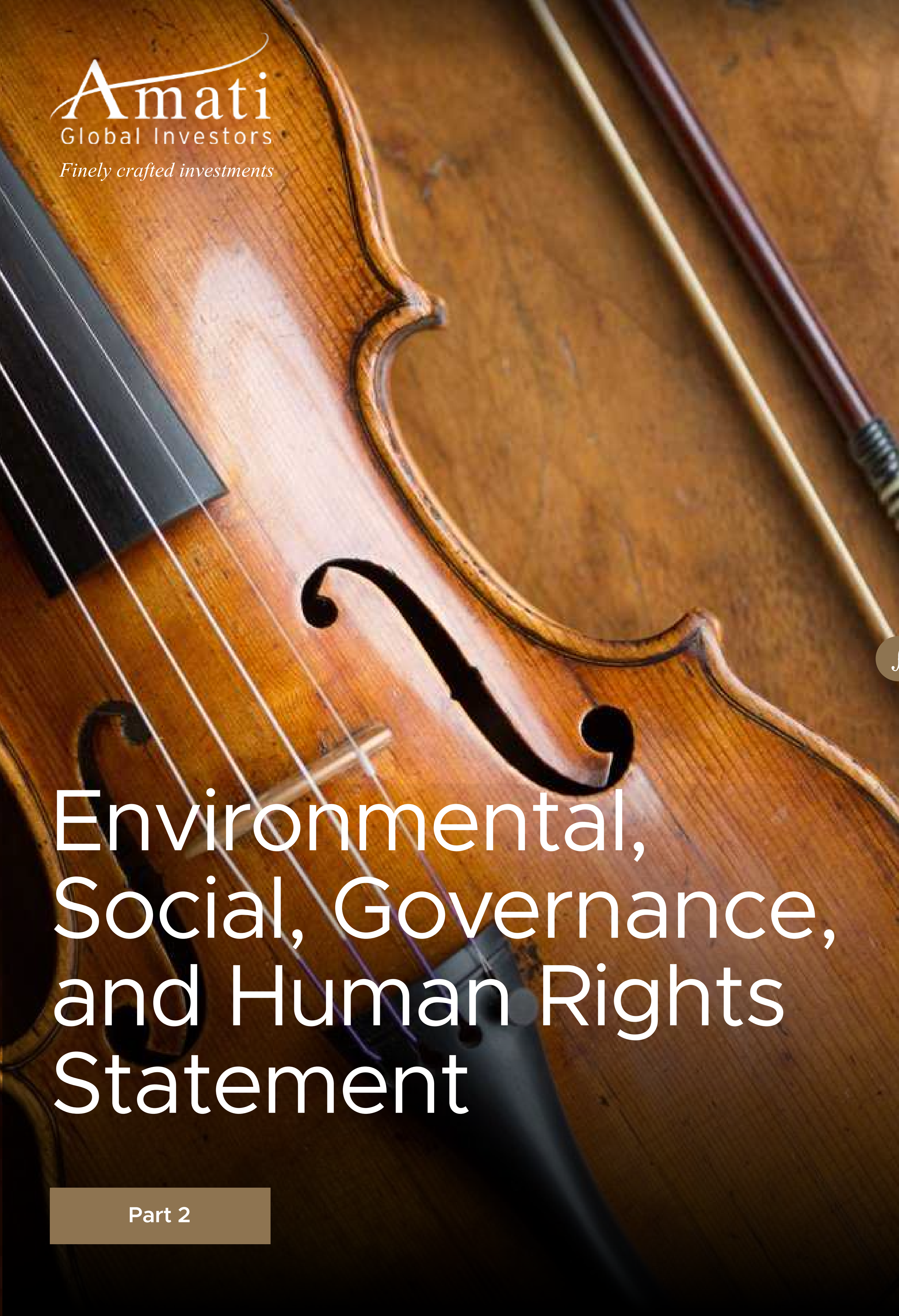

Environmental, Social, Governance, and Human Rights Statement

Part 2

ESGH in Practice

Inez Ling

Introduction

The consideration of the risks and opportunities related to environmental, social and governance (ESG) factors has always been implicit in our investment process and we actively engage with investee and potential investee companies on such matters. We are signatories to the Principles of Responsible Investment (PRI) and the UK Stewardship Code, whose broad frameworks underpin our approach to responsible investment and serve both to support and strengthen our investment strategy.

To enhance our investment approach, we have dedicated personnel providing support to the fund managers in conducting research on non-financial risks and the integration of these considerations into the investment process. We are mindful of the many initiatives and approaches which have been developed in this area, none of which adequately captures what we believe is our more nuanced approach to responsible investment. For this reason, we took the decision to develop our own Taxonomy in this area and to limit our reliance on data from third-party providers. With this dedicated resource in place, we are now in a position to thoroughly investigate these aspects of investment risk as an integral part of our due diligence, and to document our findings in our proprietary customer relationship management (CRM) system, Connex, which is then reviewed and discussed within the investment teams. The objective is to complete a template for all investee and potential investee companies using our own methodology and scoring system, which gives every company a score of 1-10 (a score of 5 being neutral and 10 being the top score), based on targeted questions relating to each broad responsible investment area. This is in order to capture the most important metrics and information, both qualitative and quantitative, which is relevant to our approach and philosophy. The process will evolve over time and the templates will be continuously updated as and when developments arise within the companies or when an investment case is revisited. We are already realising the benefits of our new framework, in the sense that it has initiated meaningful discussions within the investment teams and served to identify points of engagement with our investee companies.

While ESG considerations are widely used in the industry, Amati's approach slightly differs in that we refer to the ESGH considerations, with the 'H' standing for human rights, which is one of the key areas of our analysis and one that we believe should be at the forefront of any responsible investment framework.

Please also see Part 1, "Investing responsibly in a complex and divided world", which sets out our fundamental principles and investment philosophy, as well as our approach to investing in controversial sectors.

First Steps

Before we explore in detail the four pillars of our framework, namely environmental, social, governance and human rights, the first step is to record the major inputs and outputs for the business so that the investment team receives a summary of the company before they begin their due diligence. This includes a description of the business, where the business is located, the number of employees, and the resources which are key to the business. This first step is valuable in order to highlight which factors will be most relevant to our research and to allocate our internal resources most efficiently.

As previously mentioned, although our primary source of data is that derived from our own proprietary process, we do however engage with a limited number of specialist providers to support our process. The first of these is Digbee, a dedicated ESG and data platform for the mining industry, which we use to enhance our process for the TB Amati Strategic Metals Fund.

Another service provider we are using to support our framework is Auquan, a Portfolio Intelligence Engine, which uses AI to reveal financially material insights from unstructured data, in order to produce comprehensive datasets on ESG topics to uncover issues relating to operations and supply chains across all of Amati's portfolio companies. We find this particularly useful to discover global news articles which may not be found when undertaking our own research. It can also uncover negative and positive reports which companies themselves may not necessarily provide on their own corporate websites.

Environmental

The need to avoid the worst effects of climate change has risen rapidly up investors' priorities over the last decade and is clearly shaping the investment landscape on global stock markets. We are taking an active role in investing in new technologies which will help decarbonise the global economy over the coming decades. We take the view that some changes can happen much faster than others and that Government and the private sector will have to work in partnership to bring about real change. For the reasons outlined in Part 1, we do not believe in demonising oil and gas companies in this process. We invest in the oil and gas sector adopting a Clean Trade approach as described in Part 1, understanding the importance of decreasing the reliance of the West on energy supplies from oil-cursed countries, whose dictators become more and more entrenched and more violent over time. We also recognise that oil and gas companies can play a crucial role in facilitating the energy transition, by lowering the carbon emissions from the production of oil and gas in the short term, and in the longer run by using their deep engineering capabilities to facilitate the wider adoption of clean energy sources and the active capture and removal of carbon dioxide from the atmosphere, which we see as having become essential to the mitigation of global warming in the longer term.

Our ESGH framework enables us to score portfolio companies across a number of environmental factors, including their response to climate change risk, toxic emissions and waste, energy and water consumption and carbon emissions.

We also analyse their positive environmental impacts via greater energy efficiency, use of sustainable materials and recycling methods.

With the diverse range of investee companies from innovative technologies, financial services, real estate to the mining industry, we recognise the need to focus most attention on the industries which intrinsically have the biggest environmental impact. There is no point trumpeting the environmental credentials of a professional services company, for example, albeit that we would still expect them to be good citizens in this respect. For a mining company, the environmental impact is a major factor. We consider not just its carbon footprint and emissions, but also the myriad of factors specific to its location. Water use is always a big issue, particularly in areas of high water stress, as is the impact on local communities, biodiversity, land use and waste disposal. With manufacturing companies and retailers supply chain issues become important, as does the concept of emissions embedded in imported goods. It achieves nothing useful for a company to lower its carbon footprint by simply outsourcing energy intensive processes to other countries, even though the UK Net Zero policy gives itself credit for doing exactly this.

The reporting of environmental factors is continually evolving, which creates challenges when carrying out our analyses and when attempting to make meaningful comparisons between companies operating in different sectors and with different business models. In the first instance we look to see that the companies are providing adequate and relevant data, as well as outlining what steps they are taking to improve the sustainability of their operations. We appreciate that this process may change as reporting systems are developed and the regulatory framework is strengthened. While many companies are at the start of their journeys in reporting on their progress towards decarbonisation, we do anticipate that there will be significant improvements over the next few years. However, we recognise that the combined impact of all the steps taken by companies will be modest without well-conceived and clear-headed policy making by governments.

Ultimately it will take a majority of the G20 to agree on some form of carbon emissions tax to move the world away from ever-higher concentrations of greenhouse gases in the atmosphere.

In relation to the above it is important to note that despite negative perceptions of the mining industry, several companies within our TB Amati Strategic Metals Fund are recognised as leaders in establishing best practice in modern mining methods and stewardship of the environment, as illustrated in our case study on Vulcan Energy. The company is a lithium producer and has a strong commitment towards limiting the environmental impact of its operations.

Social

When looking into the social risk factors of a company, human capital is at the forefront of our analysis. Seeking out companies who can demonstrate a duty of care to their employees and treat them with respect is fundamental to our approach. We explore firms' labour management processes and procedures, extending to their supply chains, and look to see what documentation surrounding their employee benefits, learning and development opportunities (L&D), diversity and inclusion (D&I), and health and safety (H&S) policies are available.

Employee satisfaction is a challenging area to scrutinise, especially in respect of companies operating globally. Looking at employee turnover rates and whether a company has conducted an employee engagement survey are helpful starting points. At subsequent reviews we can monitor how the company responds to the results and if corresponding improvements are made. Examining factors such as H&S, D&I and L&D policies all contribute to employee morale and as a consequence we would look not only for what policies are in place, but also look to undertake a thoroughgoing analysis of any statistical data. Which we can then gauge companies' approach to labour management, identify any anomalies and to determine whether companies are serious in addressing these issues and undergoing meaningful change. Our recent analysis of a portfolio company is quite instructive in this regard.

The firm provides electrical and utilities solutions and, among other accolades, has won "Best Employers" awards, its Total Recordable Incident Rate (TRIR) has been declining rapidly over the years and employee benefits and employee development programmes are in line with industry standards. However, while the above indicates an improving picture in relation to H&S policies and procedures, the employee turnover rate of over 36% seems particularly high for this industry, which would be a flag for us to interrogate the data more rigorously, to engage with management directly and to enhance our monitoring of the company.

Despite the variety of H&S risks, it is reassuring to observe a positive trend in the data relating to our investee companies' operations, including mental health and well-being, in addition to physical risks within the workplace. Health and safety is of upmost importance within the mining industry, for example, and we are seeing evidence to suggest that our investee companies are taking this area seriously and are working towards meaningful change and sustained improvements. The Investor Mining and Tailings Safety Initiative was launched in 2020 to adopt a new common industry standard to improve tailings safety, following the tragedy at Vale's Brumadinho mine in Brazil in 2019 where 270 lives were lost. This initiative is supported by, among others, the Church of England Pensions Board, and to date 79 mining companies, representing a third of companies with tailings dams, have committed to implement the initiative or are working towards alignment to it.

In the area of supply chain management, we look for evidence of robust risk management and adequate controls and procedures such as a Supplier Code of Conduct, together with regular compliance reviews. We also take particular note of key suppliers based in countries with very low scores on Freedom House, or where there are well-documented issues with exploitative labour practices or corruption.

We also investigate product and activity liabilities and detail if any risks such as product or chemical safety, data privacy and security along with regulatory risks, are evident.

Cyber security is one of the most serious threats facing businesses, fuelled by the explosive growth in global data, the opportunities for organised crime to exploit vulnerabilities and an exponential increase in the number of networked devices. Among other measures we seek to establish what certification programmes the company has completed and to ensure that this is reviewed on a regular basis as applicable for the relevant industry.

Community engagement and support are hallmarks of a well-run business and companies demonstrate this in a variety of ways from supporting volunteer work, sponsorship and consultation. Mining companies tend to have the most need to cultivate a social licence to operate and will routinely be involved in providing crucial infrastructure to local communities. Across our portfolios community support ranges from funding children's hospitals in India, setting up adult literacy programs in Papua New Guinea (where literacy level is only 62%), to health screening and vaccination programmes for local communities. We also look to see that mining companies employ workers from the local communities and that they incorporate local suppliers. Should evidence of community opposition arise we seek to see how the company manages these issues and monitor if and when they are resolved. News articles on stakeholder opposition and information from specialist third-party providers of industry intelligence, assist in our analysis.

Our social case study, Keywords Studios, highlights how a gaming technology company which employs 10,000 people globally can maintain the importance of the employee as central to the culture of the company and at the forefront of the company's values.

Governance

In terms of governance, this is an area in which the investment team would have a great deal of direct engagement with the company's management, pre- and post- investment. Strong corporate governance can be a greater challenge for smaller companies because it represents proportionately a greater cost in terms of resource.

We favour companies where founder managers still own significant stakes, particularly where these are in the 10-30% range. But we also recognise that this can lead to potential conflicts of interest between management and shareholders, which require a well-functioning Board to negotiate. We look for strong leadership skills and an ethical approach to business conduct from key managers. In particular we consider board structure and quality, ownership and control, alongside directors' remuneration. We take note of aggressive accounting practices and tax transparency, particularly in companies with operations in multiple jurisdictions. In this regard we would look for the average tax rates applied in the company accounts, in order to determine whether any tax incentives or penalties for underdeclared tax has been disclosed.

In terms of board structure, we look for the individual qualities brought to investee companies by each of the directors, the diversity of skills and the tenure of each member, as well as a balance of independent directors. Our investment teams normally engage with investee companies on any board changes, and this would be documented within our framework.

We review Board committee structures, looking for the capacity for objectivity and independent challenge, although this is generally difficult to weigh up externally. We note how many meetings occur annually and analyse attendance records to gauge the overall level of commitment from board members. Alongside the typical Committees-Nomination, Audit and Remuneration - we are increasingly seeing a number of companies adding an additional ESG Committee to ensure that full attention is given to these factors and that resources are allocated accordingly.

Remuneration of the directors and the alignment of pay structures within the business, as well as a peer-group analysis of companies in the same industry sector, is an important consideration when building an investment case. This is an area that we will, where necessary, be involved in direct engagement with management, sometimes being consulted for our views by the chairs of remuneration committees.

It is worth noting, however, that remuneration is an area where there is little consensus between investors, and we have to recognise that our opinions will only be one amongst many. Remuneration has become highly complex, thanks in part to the rise of remuneration consultants, and it can be very time consuming to understand the terms and conditions of any deferred compensation, cash bonuses and stock awards. In an effort to induce some constraints on executive pay, it has become mandatory in the UK and US to disclose the ratio of the total remuneration of CEOs to that of the average employee, although it is not clear that this has had the intended effect.

Our governance case study details how Wolters Kluwer has evolved into a successful global company whose success has been driven by strong leadership and effective governance.

Human Rights

Finally, we address human rights (the 'H' in our ESGH template) separately, an area which we believe warrants attention and should not be subsumed into the 'Social' element of any responsible investment framework. While this is a complex and multi-layered area, broadly we seek to investigate the implications for human rights in companies' supply chains as part of our initial due diligence, and further assess the levels of freedom and commitment to human rights in the countries in which our companies operate.

As described in Part 1, we adopt a Clean Trade approach to all investments in Natural Resources. One of the key inputs we use for this is the Freedom House Map, 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'. There is a hard cut-off for natural resources based in countries which score 15 or lower on this scale, and for scores between 15 and 33 we ask the questions set out in Part 1.

For companies in all other sectors, we note the countries where they operate that have scores on Freedom House below 33, as this is normally highly instructive about where risks lie.. For companies with international supply chains we will note the key suppliers in such countries.

Corruption is relatively absent in the UK, and since the introduction of the Bribery Act in 2010, UK companies have operated under one of the strictest regimes in the world. But corruption, and its subtler form, clientelism, remains pervasive in many countries, and as a result we tend to underestimate it. Mindful of the risks in this area, we are generally suspicious of companies which gain prize assets too easily, or sail through a permitting process with a compliant host government or regional authority too quickly. Despite the obvious frustrations, we are committed as investors to backing companies which have strong anti-corruption policies, albeit that we recognise that our knowledge will only ever be partial in this regard and that complete transparency will not always be possible.

The issue of modern day slavery has risen to prominence over recent years and this issue mostly arises as one buried within supply chains. There is a link here to the resources curse, given that the regions of the world which tend to propagate modern day slavery are generally those worst impacted by the failure of countries to benefit fully from their natural resources. On that note it is encouraging that many companies in these jurisdictions have confirmed that their employees are fully trained in this area and have otherwise demonstrated a commitment to eliminate these practices from their workforces and supply chains.

We also monitor global and political developments which may impact the investee companies negatively and assess how these companies respond to these threats.

Once we have established the countries in which a company operates, we document relevant details including, but not limited to, the percentage of employees within each country; revenue generated in each region; the source of products and raw materials; and supplier locations.

It is reassuring when a company provides this level of detail and transparency in their reporting, especially where it relates to countries on the lower end of the Freedom House scale. None of the above is to suggest that companies cannot employ staff in vulnerable countries, nor indeed that we cannot invest in these countries, because as a first principle we view this as a positive for the countries involved.

The ongoing bifurcation of the world between democratic states allied with the US and autocratic states allied with China has unfortunately become one of the dominant themes of the 2020s. This raises the importance of understanding supply chain risks and mitigating them, as both Western companies and governments scramble to row back from a position of extreme dependency on Chinese exports. In this context, adopting a Clean Trade approach to investments in natural resources and allowing this to inform investments in other sectors has become doubly important, given that Western nations have a much-diminished range of natural resource suppliers to choose from, as China's Belt and Road initiative has brought many resource rich countries across Africa, South America and Asia under their control. More broadly, supply chains across many industries are being scrutinised for excessive dependence on China.

Our human rights case study on Perseus Mining illustrates a situation where a red line has been crossed and we felt compelled to sell an investment, in this case due to an acquisition by a company in a jurisdiction we considered unacceptable. We do not take these decisions lightly, but in this case it was clear that such an investment would not benefit the citizens of the country and indeed would serve to support and perpetuate an oppressive regime. While we take the Freedom House assessment of human rights and political freedoms into consideration across all of our assets under management, the Clean Trade principles, as applied in this case, are specific to the natural resources sector, arising from Article 1 of the International Covenants on Human Rights.

Environmental
Vulcan Energy

Vulcan Energy is an Australian energy metals company that aims to become the world's first zero carbon lithium producer. We invested in Vulcan, which is developing its innovative facility in Germany's Upper Rhine Valley, through the TB Amati Strategic Metals Fund.

Demand for lithium, a key component of electric vehicle batteries, is forecast to treble between 2020 and 2025, driven largely by the automotive industry, as two billion electric vehicles are needed to achieve net zero by 2050. A sustainable supply of lithium is vital to support decarbonisation efforts.

Vulcan's emergence as a low-cost producer of high quality zero carbon lithium is significant as it offers an environmentally-friendly alternative to traditional lithium production processes.

Conventional production involves either hard rock mining or evaporation ponds, both of which produce carbon emissions and can have a negative impact on local habitats. They also involve relatively high energy and water consumption, which is a concern as global lithium production is largely concentrated in areas of water scarcity.

By contrast, Vulcan's Direct Lithium Extraction (DLE) process is designed not only to produce a sustainable source of zero carbon lithium in Europe, but also to deliver wider positive environmental impacts. These include generating renewable geothermal energy as a by-product of the DLE process, enabling Vulcan to heat thousands of homes in Germany by 2025.

The DLE process uses geothermal power generated from hot salt water circulating through rock deep below the earth's surface that is naturally enriched with lithium and other minerals.

As it does not require open pit mines or evaporation ponds, Vulcan requires a far smaller land mass for its facilities than is needed for either of those methods.

Whereas DLE is a carbon neutral process, every tonne of lithium produced via evaporation ponds results in 5,000 tonnes of carbon emissions, while carbon emissions from hard rock mining are three times greater. DLE uses substantially less water too, using less than half that of hard rock lithium mining and a tiny fraction of the water required for evaporation ponds.

Vulcan plans to commence phase one of production in 2024 and has already secured sales agreements for the first five years of production from global manufacturers including Volkswagen, Stellantis, Renault, Umicore and LG Energy Systems.

Vulcan has also committed to devising waste management, prevention and recycling solutions in support of the circular economy.

Social
Keywords Studios

Keywords Studios is a Dublin-headquartered business that supplies technical and creative solutions and services to the world's biggest video games developers. The company, one of the largest holdings in the Amati AIM VCT, employs some 10,000 people in 74 studios located in 23 countries worldwide.

Its board and leadership team have a strong focus on making a positive social impact, from nurturing their own global workforce to introducing programmes aimed at increasing diversity and inclusion, as well as charitable initiatives to support local communities.

Diversity is a particular challenge within the gaming sector, which is heavily male dominated. Women represent 46% of people playing video games globally, yet only 24% of employees, with just 6% occupying executive roles. At Keywords, women account for 25% of employees, though there is higher female representation in support roles at 44%, and 25% of its board directors are female.

Keywords has established a Global Diversity, Equality and Inclusivity Council to help foster an inclusive and multi-cultural working environment. Projects include education, unconscious bias training for recruiters, and community engagement. It has also partnered with the Women in Games Ambassador programme which aims to encourage more women into the sector.

The company has invested in employee health and wellbeing programmes and other measures designed to make Keywords a great place to work, including a hardship fund for those particularly badly financially impacted by the pandemic.

These efforts have achieved external recognition: its Manila operation was certified by Great Place To Work® Philippines, while the Dublin operation was named among Ireland's 150 Best Employers for 2021. Several UK studios have also won 'Best Places To Work' Awards.

Keywords has made significant strides in employee engagement, evidenced by its most recent annual employee engagement survey, which showed a sharp rise in global employee Net Promoter Score (eNPS) to 42 from 22 previously. This score is used to express the strength of the relationship between a company and its employees, with 10 to 30 considered good and 50 considered excellent. We directly engaged with the company regarding the factors behind this improvement, which included adding studio heads helping with employee engagement; increasing the number of townhalls; ensuring 30-40 minutes for Q&A's; and employees working from home during the pandemic, which boosted employee morale. The company expects that the 2022 eNPS score will be relatively high, albeit that it may lower slightly as employees return to the office environment. We also learnt that the Philippines score was 63, which supports their Manila operation receiving the award.

Our knowledge of the wider gaming sector and the troubles it has faced (overly intensive working conditions and sexual harassment have been reported in recent years) shows that Keywords has performed well. We continue to interrogate other management teams in the industry on their approaches to staffing and the issues they face, particularly when managing employees in difficult regions, for example in Russia. Successful and nurturing management teams such as Keywords and TinyBuild (another portfolio company) have managed this better than others, which speaks well to their approach.

Governance
Wolters Kluwer

Wolters Kluwer is a global provider of information and software services and solutions to professional clients in sectors spanning medicine, law, accountancy and technology.

The CEO of the Dutch-headquartered company is US-born Nancy McKinstry, who has led Wolters Kluwer for nearly 20 years, steering its transformation from a traditional print publisher to a business deriving more than 90% of revenue from digital sales.

Good governance is inextricably linked to strong and disciplined leadership. McKinstry ranks as not only one of the longest-serving CEOs of a major international plc, but also one of the most highly regarded, with international consultancy McKinsey including her as one of the world's top 200 CEOs of the 21st Century.

Under her guidance, the business established a rigorous data-driven approach to value creation which underlined the company's successful digital transformation, an essential element in future-proofing its operations.

The company has a two-tier board structure comprising an Executive Board and a Supervisory Board. The role of the Supervisory Board is to oversee the policies of the Executive Board and the general affairs of the company, taking into account stakeholder interests. Wolters Kluwer Supervisory Board members are all independent of the company, effectively creating checks and balances in cases of potential conflicts of interest.

The company has made significant progress in achieving gender diversity with females accounting for 46% of the total workforce and 50% of the Executive Board. Several studies have produced evidence of links between boards with greater gender diversity and better financial performance.

Effective governance is evident in the company's approach to several important risk management issues, including all-employee compliance training on IT and cybersecurity, data privacy and business ethics. While not a big producer, the company has also made major progress in implementing key programmes to reduce carbon emissions.

It also adopts best practice on major ethical issues for business, including use of OECD guidelines for multinationals and UN Guiding Principles on Business and Human Rights. Amati's internal analysis of Wolters Kluwer's performance on governance, which entailed scrutiny of ownership and control, board structure and quality, business ethics and tax transparency, resulted in one of the highest scores within our investment portfolio.

Human Rights
Perseus Mining

We sold our investment in Perseus Mining, a West African gold mining company, due to its acquisition of a gold exploration project in Northern Sudan. The company would own 70% of the project, with 20% Sudanese Government and local Sudan enterprise owning 10%. This acquisition was 14% of the market capitalisation at the time of the deal and in our view was material enough to warrant divestment due to a breach of our Freedom House guidelines, given that Sudan ranks 10/100 on the Freedom House scale. The United Nations, alongside other organisations, has raised serious concerns over Sudan's record on human rights and democracy, following a military coup and dissolution of the government in 2021.

Although this acquisition was a gold development asset and not a producing mine or cash flowing business, as is the case for the company's three operating mines, it was a sufficient change in terms of geographical risk and management focus, to warrant us selling our investment. Our decision to divest was no reflection of the quality of their existing assets, but our adoption of the Freedom House guidelines.

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