
RESPONSIBLE
INVESTMENT –
STEWARDSHIP 2023



**Our purpose is underpinned by three core values:
Responsibility of Stewardship, Pursuit of Excellence
and Value of Partnership.**

REALISING PEOPLE'S PURPOSE

As responsible stewards of capital, we are committed to helping others achieve what matters most to them.



Responsibility of Stewardship

We take care of all that we are entrusted to protect and safeguard. Client relationships and assets, employees' careers and their wellbeing are at the heart of this.

We have a responsibility as a business to help achieve high social and environmental standards within our wider community.



Pursuit of Excellence

We strive to be outstanding in all that we do.

We constantly challenge ourselves to learn, so we can improve what we do and adapt to the changing needs of our clients and staff.



Value of Partnership

We believe in an alignment of purpose with our clients and we work in partnership with them towards common objectives.

We share ownership of our company and we have a responsibility to each other and to our society.

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FOREWORD



Reflecting on 2023, the continually evolving regulatory landscape for sustainability dictated much of the agenda. Governance and oversight of sustainability and ESG topics, and climate-related matters in particular, are increasingly important and touch on many aspects of our business.

We continued to play an active role in relevant consultation processes, including relating to the FCA's Sustainability Disclosure Requirements (SDR) and the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation review, to ensure we provide our perspective to new regulation.

In preparation of our first Task Force on Climate-Related Financial Disclosures (TCFD) report, due in 2024, we brought together a multi-disciplinary working group to create an overarching approach to managing all aspects of climate-related risk and opportunities, for Waverton as a business, and in relation to our clients' assets.

As the debate around "greenwashing" and mislabelling of sustainability and ESG products continues, we aim to be as transparent as possible about our approach, doing what we say we do and explaining why, while also continuing to refine our approach as the availability, quality and consistency of data continues to improve and as we learn along the way.

In 2023, we offset our carbon emissions to become carbon neutral across our Scope 1, 2 and our business travel and continued to work on migrating our IT infrastructure to the cloud, with the

aim to significantly reduce our carbon emissions, as well as enhancing efficiency and scalability.

The latter half of this report illustrates how Waverton approaches the integration of ESG factors into the investment process of each asset class, as well as our approach to engagement and voting. We also highlight some case studies of how we sought to encourage better corporate behaviours, with the ultimate aim of contributing to positive outcomes in 2023 and beyond.

We are firmly of the belief that to fulfil both our fiduciary duty to clients/investors while also delivering credible responsible outcomes, requires a pragmatic approach that acknowledges a period of transition during which we also need to recognise those companies on an improving ESG trajectory, as well as those that are an essential part of the transition solution.

Importantly, a company's long term "financial" sustainability often seems to be overlooked in the quest to deliver positive sustainability outcomes, but is critical to being able to achieve both objectives. The financial viability of a number of popular "new era" stocks came under greater scrutiny when interest rates were rising during 2022/23, and it became increasingly apparent that the cost of capital, ability to generate FCF and equity valuations do matter.

Our aim is to provide clients across our business channels with a carefully considered approach to responsible investment that not only creates value for them as long-term shareholders,

but also contributes to incremental improvements in ESG standards with real world benefits over time. A reliance on ESG scores or divestitures/exclusions of companies operating in specific industries, neither solves the problem nor necessarily accelerates the path to achieving the desired outcome, so we choose to engage with companies in all sectors to encourage positive behaviours, also exercising our voting rights to help influence positive outcomes, and always with a focus on a company's direction of travel.

As we look to the future, and our intended merger with London & Capital, we remain committed to continue to deliver responsible management of our clients' assets and to provide the best results for all our stakeholders.

Nick Tucker
Chief Executive Officer

Jennifer Fisher
Head of Equities

WAVERTON AT A GLANCE

WHO WE ARE

179

Employees

30

Person investment team

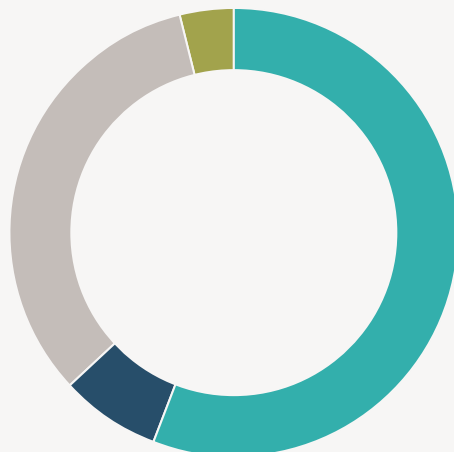
20 years

Average investment experience

£10.9bn

AUM

AUM BY BUSINESS CHANNEL



£6.1bn

Private Clients

£0.8bn

Charities

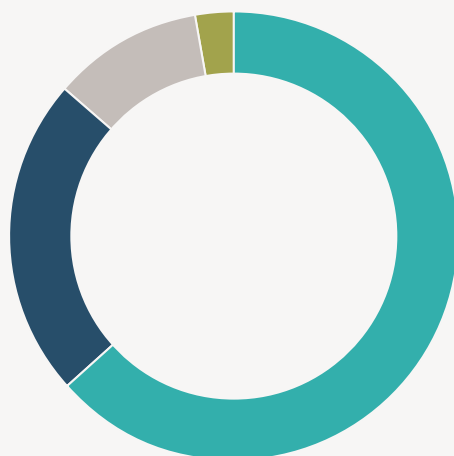
£3.6bn

Adviser Solutions

£0.4bn

Institutional Solutions

AUM BY ASSET CLASS (%)



63.5

Equities

23.0

Bonds

10.8

Alternatives

2.7

Cash

A SELECTION OF AWARDS FROM 2023



SIGNATORIES OF



Purpose and governance

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I PURPOSE, STRATEGY AND CULTURE

Our purpose

Waverton is an independent investment manager offering award-winning investment solutions for private clients, charities, financial advisers, and institutions. Our commitment to client service drives everything we do.

Our highly experienced Investment team sits at the core, with multi-asset capabilities that have been expanded and enhanced over time. While our investment process has evolved, our investment philosophy and the company’s focus on providing the highest levels of service to our clients remain steadfastly unchanged.

A personal approach has always been at the heart of Waverton’s business. We are thoughtful about what we do and work hard to help people achieve their objectives, be that our clients, our employees, our shareholders or our community.

REALISING PEOPLE’S PURPOSE

As responsible stewards of capital, we are committed to helping others achieve what matters most to them.

Our purpose is underpinned by our core values: Responsibility of Stewardship, Pursuit of Excellence and Value of Partnership. These all reflect the culture of our company and are embedded in our business and stewardship activities across the firm.



Responsibility of Stewardship

We take care of all that we are entrusted to protect and safeguard. Client relationships and assets, employees’ careers and their wellbeing are at the heart of this. We also have a responsibility as a business to help drive the transition towards higher social and environmental standards within our wider community.



Pursuit of Excellence

We strive to be outstanding in all that we do. We constantly challenge ourselves to learn, so we can improve what we do and adapt to the changing needs of our clients and employees.



Value of Partnership

We believe in an alignment of purpose with our clients and we work in partnership with them to achieve their long-term objectives. We share ownership of our company and have a responsibility to each other and to society.

BUSINESS STRATEGY

We are independent and owner-managed, and a significant number of directors and employees of the firm have an equity stake in Waverton, helping to ensure they are aligned to the values and financial sustainability of the business. The majority of our revenue is derived from portfolio or fund management fees, so it is in the best interests of the firm to deliver superior real returns for our clients over the long term.

Grow direct-to-client approach	Develop strategic partnerships	Create scalable business model
<ul style="list-style-type: none"> – Attract new clients such as entrepreneurs and US clients – Promote integrated wealth and investment proposition – Build regional presence 	<ul style="list-style-type: none"> – Position ‘Whole of Waverton’ to expand relationships – Become partner of choice for advisers and networks – Provide market-leading performance and service 	<ul style="list-style-type: none"> – Strengthen operational infrastructure – Build brand and reputation for excellence and service – Promote scalable investment solutions eg MPS, Waverton Funds

PURPOSE, STRATEGY AND CULTURE *CONTINUED*

Our culture

Fostering and maintaining a strong corporate culture is integral to our ability to meet our stewardship responsibilities. Good governance, the implementation of high standards and effective policies across the firm, and how we interact with our clients and partners, all foster a corporate culture that promotes the long-term success of Waverton.

Strengthening our policies and procedures and demonstrating a responsible and supportive approach to our people has allowed us to make real progress as the firm grows.

This is further supported by our commitment to integrate sustainability throughout the business. Our sustainability strategy consists of four pillars; Responsible Investment; People & Wellbeing; Environment; and Community.

We recognise we have a responsibility to understand and support the needs of all our stakeholders, from our clients and employees to our suppliers and the wider community.

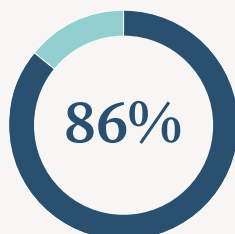
Responsible Investment

We are thoughtful, long-term investors and responsible stewardship of our clients' capital is at the core of Waverton's business. We fully recognise our responsibility to help drive positive environmental and social change, but also acknowledge that meaningful change on a global scale will take time. We believe this necessitates a pragmatic approach, where we prefer to actively engage with companies in all sectors and focus on their direction of travel. All aspects of our approach to responsible investment are covered in this report.

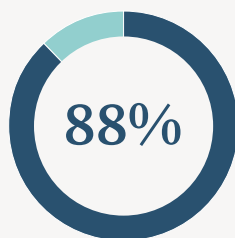
People & Wellbeing

Our people remain integral to the ongoing success of the business. We maintain a regular, direct and transparent level of engagement with all our employees.

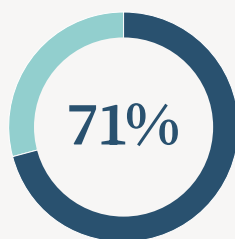
EMPLOYEE SURVEY HIGHLIGHTS



Feel motivated to perform well in their role



Are proud to say they work for Waverton



Feel valued for their contribution to the success of the firm

Our annual employee engagement survey yielded positive results overall, and we continue to use the insights gained to evolve our internal processes, an indication of our commitment to a strong and positive culture.

Strengthening our policies and procedures and demonstrating a responsible and supportive approach to our people has allowed us to make real progress as the firm grows.

[Read more about our equality, diversity and inclusion commitments in Principle 2.](#)

Environment

Waverton is committed to managing its impact on the environment and we measure our carbon emissions in line with the GHG Protocol. We offset set our Scope 1 and 2 emissions to ensure we are operationally carbon neutral, as well as our business travel, for which we partner with Carbon Neutral Britain. They also verify our annual measurements. We publish the details of our carbon footprint in our annual report, and, from next year, in our TCFD report, which is available on our website.

We recognise that most of our emissions are those that we finance through our investments. This year, we measured the carbon footprint of all our direct equity holdings, which account for over 63% of our AUM, to gain greater insight into our carbon exposure. We established that a handful of companies account for most of our financed emissions, making it easier to analyse and monitor progress on an ongoing basis and providing a focus for our engagement activities.

Community

Waverton has a proud history of supporting the wider community in several ways, from supporting our charity partners, to volunteering alongside charities, fundraising and matching charitable efforts from our employees.

In 2023, we donated over £108,000 to charitable and community causes, organised two firm wide volunteering days and supported our charity partners through fundraising and the hosting of events.


Investment philosophy

Client strategies are managed to clear risk and return objectives, principally focused on outperforming inflation over the long term. To achieve this, we use an active, direct and global approach through discretionary portfolios or specialist funds. We attach great importance to investing in what we believe to be the best ideas worldwide, be that in equities, funds, fixed interest or alternative asset classes.

Effectiveness of our stewardship activities

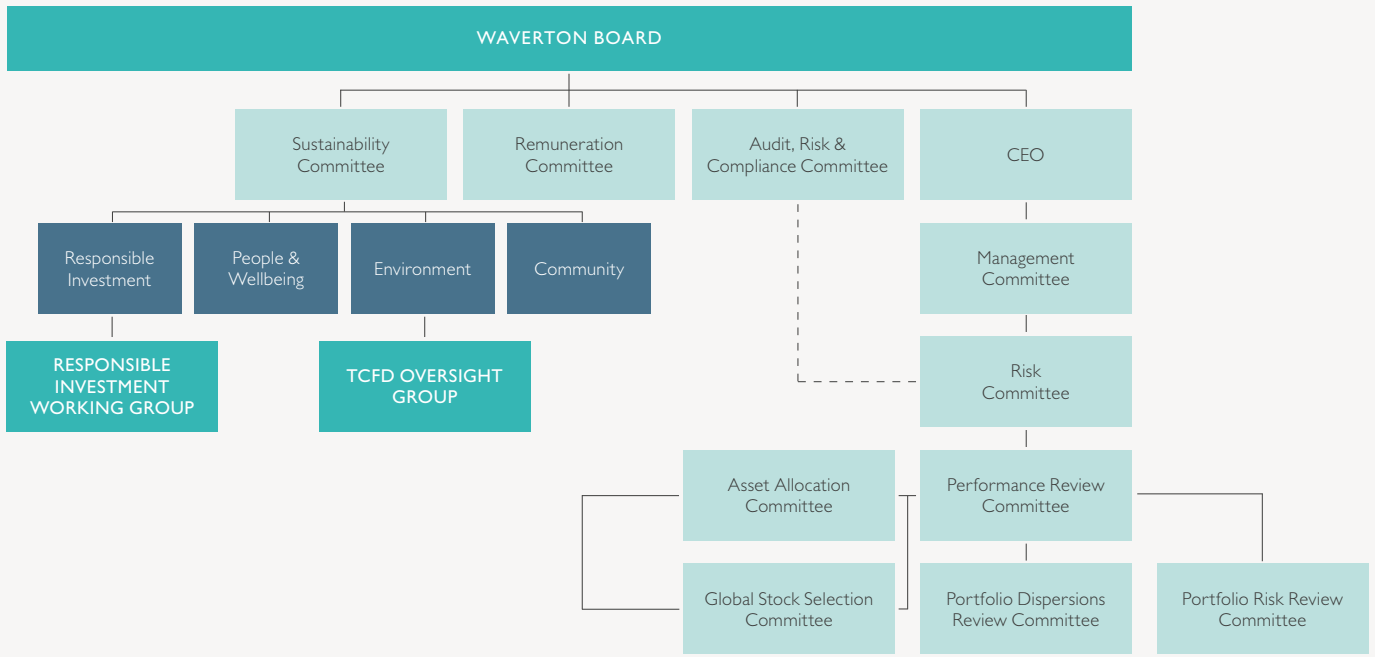
The investment returns we generate for clients, quality of our client service and longevity of our client relationships are the clearest measure of the effectiveness of our stewardship activities, and we will outline these in following sections of this report.

OUR INVESTMENT BELIEFS

 <p>Global A global approach provides clients with the widest possible set of investment opportunities to grow their capital in real terms over the long term.</p>	 <p>Active We strongly believe in the benefits of active management, both in terms of asset allocation and security selection. With greater flexibility to avoid areas at risk of capital loss, we aim to better protect capital in periods of drawdown and capture the upside as markets rebound.</p>	 <p>Direct Direct investment provides greater control over portfolio construction, in turn providing clients with greater transparency around what they own.</p>
 <p>High conviction A concentrated portfolio facilitates more detailed knowledge of each holding, and better management of risk.</p>	 <p>ESG integrated Consideration of ESG factors forms an integral part of our fundamental research, as these factors are intrinsically linked to the long-term financial sustainability and returns of an asset.</p>	 <p>Focus on real returns We aim to compound superior risk-adjusted returns over a cycle.</p>

2 GOVERNANCE, RESOURCES AND INCENTIVES

STEWARDSHIP GOVERNANCE STRUCTURE



Governance overview

The Board of Waverton is the ultimate governing body of the firm. It is responsible for setting the strategic direction of the business, ensuring its long-term success for the benefit of its stakeholders, and that the company acts to deliver good outcomes for its clients. The Board meets formally at least five times a year.

Sustainability Committee

Waverton’s Sustainability Committee (Susco) oversees our sustainability strategy as well as our regulatory reporting and adherence to global standards, including the UN Principles for Responsible Investment, FRC Stewardship Code and FCA Climate-related disclosures.

In January 2023 a new independent non-executive Director, Alexandra Innes, became Chair of Susco. Susco is now made up of: two independent non-executive Directors, CEO, Chief Operating Officer, Head of Equities and Sustainability Manager.

Its remit is to promote and support Waverton’s long-term sustainability agenda, which includes our integrated ESG investment approach, stewardship reporting, responsible business activities, Equality, Diversity and Inclusion (ED&I) initiatives and the wellbeing of our employees. The Committee meets at least quarterly.

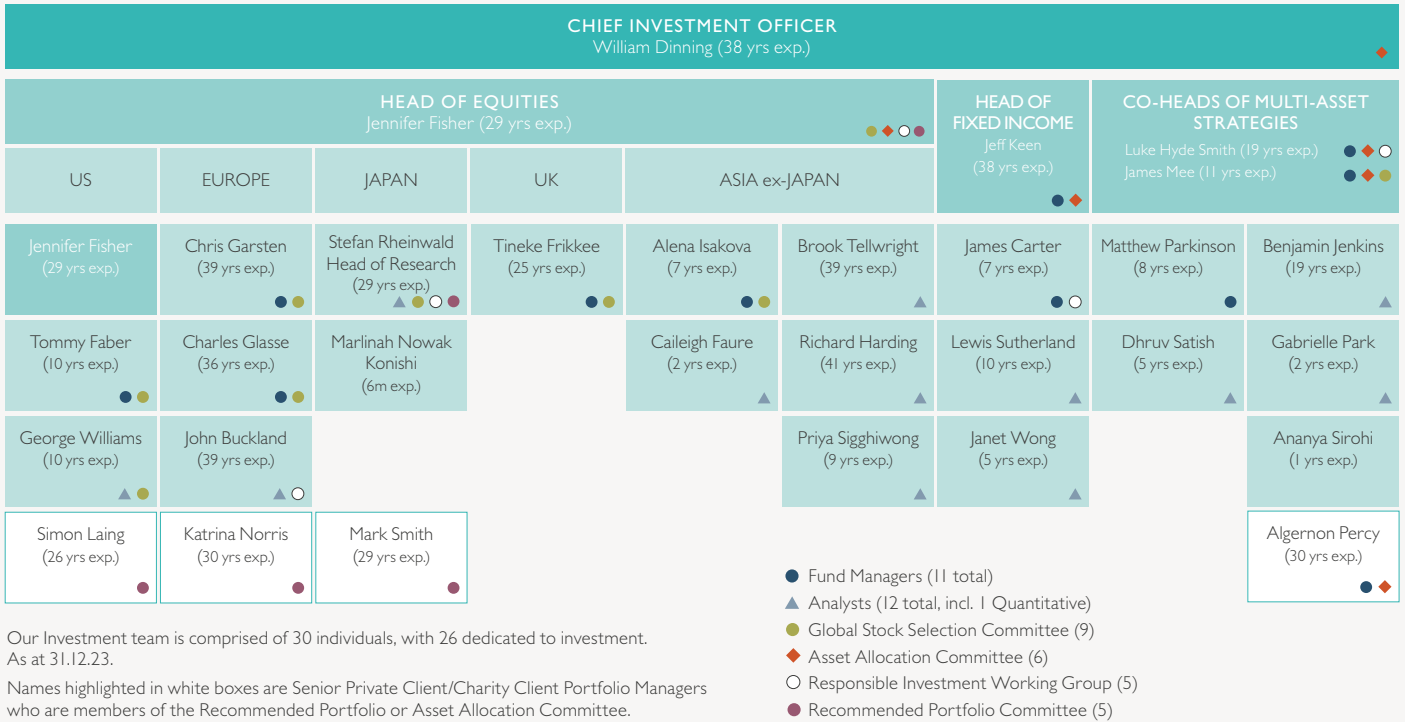
Day-to-day accountability for sustainability sits with the Sustainability Manager as well as the business, as each pillar has a lead who is responsible for setting objectives, targets, and measuring progress.

Audit, Risk & Compliance Committee

The Audit, Risk & Compliance Committee (ARCC), chaired by non-executive Director David Morgan, is responsible for the review and oversight of the company’s risk management and seeks regular assurance that the system of internal controls is effective in managing risks in line with this, as well as for the oversight of the financial reporting and audit processes, and compliance with regulatory matters. ARCC regularly receives presentations from Heads of Departments to ensure wide engagement with the business.

The Board receives regular updates on the progress of its committees throughout the year and is consulted on decisions as required.

INVESTMENT TEAM STRUCTURE



Our Investment team is comprised of 30 individuals, with 26 dedicated to investment. As at 31.12.23.

Names highlighted in white boxes are Senior Private Client/Charity Client Portfolio Managers who are members of the Recommended Portfolio or Asset Allocation Committee.

Management Committee

The Board also oversees our Management Committee (Manco) and reviews and constructively challenges its performance against the overall strategy. Manco assists the CEO in the performance of his duties as set by the Board, and in the day-to-day management of the business. Manco is also responsible for accurate and regular messaging to staff around strategy and wider business culture, so that Waverton's core values are maintained.

Stewardship governance

There are several oversight committees to cover the full investment process, one of which is the Asset Allocation Committee (AAC). Chaired by our Chief Investment Officer (CIO) and including five of the most senior members of our Investment team, the AAC recommends the house position on asset allocation across client strategies.

The AAC meets every six weeks with a broader Asset Allocation Forum (AAF) held in advance of the meeting. The AAF brings together the views of those that focus on macroeconomic research (top-down) and the analysis of the asset class teams (bottom-up), whose fundamental company research often provides more forward-looking insights into the health of the global economy.

The AAF also serves as a platform for the AAC to gather views from all of Waverton's investment professionals. Conclusions from the AAC feed into recommendations across all investment strategies that we manage, guiding specific short-term asset class weights. These views are immediately communicated across the firm and respective weights are reflected in our portfolio management system to be implemented in portfolios as appropriate.

Investment team

The Investment team is led by our CIO, with the Head of Equities, Head of Fixed Income and Co-Heads of Multi-Asset Strategies reporting to him. We continue to evolve the structure and oversight of our Investment team to ensure we maintain the quality of our investment services to clients.

The team includes 26 individuals dedicated to investment work (i.e. no client responsibilities) and is predominantly based in London, with three of our Asian equity specialists based in Bangkok. Having most of the team working from the same location and time zone offers greater opportunity for collaboration and the sharing of ideas. It also means the Investment team is accessible to clients and portfolio managers, facilitating easy and timely communication.

GOVERNANCE, RESOURCES AND INCENTIVES *CONTINUED*

The Responsible Investment Working Group (RIWG) aims to enhance the coordination and implementation of our integrated ESG approach, as well as our engagement and voting activities, across the Investment team.

Working Group members have a depth of ESG experience, with all asset classes represented, which is utilised by wider team members and client-facing colleagues. Members also present on ESG integration and relevant topics in our weekly investment meetings and directly with the business channels to raise awareness and understanding of ESG and Waverton's approach.

The Investment team is overseen by our Performance Review Committee and Portfolio Risk Review Committee, who are supported by data analytics from the Performance & Risk team.

These committees review investment performance on a regular and ongoing basis to ensure our portfolios operate within the guidelines of their given mandates.

Monitoring dispersion

At a portfolio level, the Portfolio Dispersion Review Committee monitors the performance of private client and charity client portfolios and requires the portfolio managers to validate returns if portfolios are identified as outliers.

Resourcing

To support our activities as responsible stewards of our clients' capital, we are committed to ensuring that we are appropriately resourced in terms of employee levels, professional qualifications and access to relevant tools that enable employees to perform their roles.

We adhere to all regulatory certification requirements and actively support our employees in their pursuit of professional qualifications through organisations including the FCA, CFA Institute, and CISI. Our Investment team has access to specific sustainability resources through our membership of CDP, the World Benchmarking Alliance, the UN Principles for Responsible Investment (PRI) and ESG data from MSCI and Morningstar. Several of our existing research providers are also incorporating extensive ESG data within their fundamental research, which we frequently find to be more relevant to, and aligned with, our integrated approach to ESG.

Waverton's Sustainability Manager leads our sustainability strategy and works closely with the Investment team to further embed our integrated ESG approach and stewardship activities across the wider business.

Equality, Diversity and Inclusion

Ensuring we continue to improve Equality, Diversity and Inclusion (ED&I) is one of Waverton's priorities and we pride ourselves on creating and sustaining a positive and inclusive working environment. Diversity of thought and opinion is a critical part of making good investment decisions for our clients and we are fortunate to have a highly talented Investment team with a blend of experience levels, skill sets, perspectives and nationalities. The combination brings different insights to our discussions, fostering greater debate and adding significant value to our asset allocation, security selection and portfolio construction decisions.

Significant focus continues to be made on improving gender diversity across the business, with improved levels of female representation across the firm, including at Board level and on Manco.

36% (10) of new hires in 2023 were female. Continued focus on increasing the number of female hires will assist us in meeting our Women in Finance Charter commitments, where Waverton has pledged to have 33% of senior management made up of women by 2025. We continue to work with partners, including Girls Are INvestors (GAIN), upReach and Investment 20:20 to improve the diversity of our candidate pools.

PARTNERSHIPS TO SUPPORT OUR DIVERSITY TARGETS



Building on the first ED&I survey in June 2022, the HR team rolled out a cloud-based HR system in March 2023 with a view to collecting and reporting on ED&I data across the business. The data held in the system provides real-time updates on the make-up of our workforce and helps to inform future ED&I strategy and initiatives.

At the end of 2023, the business ran its annual employee engagement survey. The results on inclusion were positive, with 81% of employees feeling as though they belong at Waverton and 92% feeling respected by colleagues.

Training

As the industry's understanding of ESG and sustainability issues continues to evolve, we are committed to providing the tools and training to support our Investment team and client-facing colleagues when considering ESG risks and opportunities in their decision-making.

Introduction to our sustainability strategy and approach to integrated ESG are part of the standard onboarding programme for all new joiners, and new starters in the Investment team complete advanced ESG training modules by the PRI Academy.

Employees are encouraged to seek ESG-related training topics as part of their CPD training obligations. This could be professional qualifications, for example we make the CFA ESG certificate available for all interested employees, or a combination of in-house teach-ins and participation in industry roundtables.

Throughout the year we seek on-the-job training opportunities and deliver ESG teach-in sessions to the client-facing teams. In addition, continuous professional development is facilitated through relevant webinars and conferences employees attend throughout the year. Employees also have access to broader training via LinkedIn Learning.

Individual training needs are addressed throughout the year and are formally assessed during on-boarding and end of year appraisals.

Incentives and remuneration

All employees have clearly defined objectives which outline their responsibility for contributing to the successful achievement of Waverton's strategic targets, and to ensure the highest standards of personal conduct. These objectives form an integral part of the year-end remuneration process and are considered when determining individual performance-related bonuses. All remuneration (including bonuses) is reviewed by the Remuneration Committee.

Our integrated ESG approach means that performance against stewardship activities and objectives is already included into overall performance reviews of the Investment team. Senior management also have specific stewardship objectives. As we learn more, we will assess whether implementing more specific ESG targets as part of the formal remuneration policy is needed.

Our CEO and Manco members are all responsible for supporting stewardship and responsible business activities, particularly in relation to our sustainability targets. Additionally, our CIO and the RIWG are responsible for ESG integration in line with Waverton's investment approach across the Investment team.

Effectiveness of our governance structure

At Waverton we seek to apply best in class principles to make our governance as effective as possible. Our structure ensures clear line of sight from Board level down to the executing teams, with crossover between various parts of the business to ensure a broad perspective on activities and risk.

We have robust business continuity plans in place, covering a range of topics including severe disruptions to our infrastructure and succession planning.

Employees have been encouraged to own shares in the company, to provide better alignment with Waverton's strategic priorities.

3 CONFLICTS OF INTEREST

Conflicts of Interest Policy

We are committed to act in the best interest of our clients and treat all our clients fairly, in line with the FCA’s regulatory standards for investment managers.

During the course of 2023, Waverton implemented the FCA’s requirements under Consumer Duty which requires the firm and all employees to act in a way that delivers good outcomes for retail customers. A key element to this is to identify, manage and mitigate conflicts of interest that could adversely affect client outcomes.

We maintain a Conflicts of Interest Policy on our website, which identifies applicable conflicts and sets out the controls and processes in place to mitigate risk.

+ Read our Conflicts of Interest Policy on our [website](#).

Where conflicts of interest are identified, they are mapped and categorised on the internal Conflicts Register, which is maintained by Compliance. Each new conflict is reviewed and assessed by the team, with additional review by the Risk Committee to ensure the controls in place mitigate the risk sufficiently.

We have established procedures which are designed to identify and manage conflicts of interests between Waverton and all other group entities. These include several organisational and administrative arrangements to safeguard the interests of clients and minimise the potential for conflicts to arise.

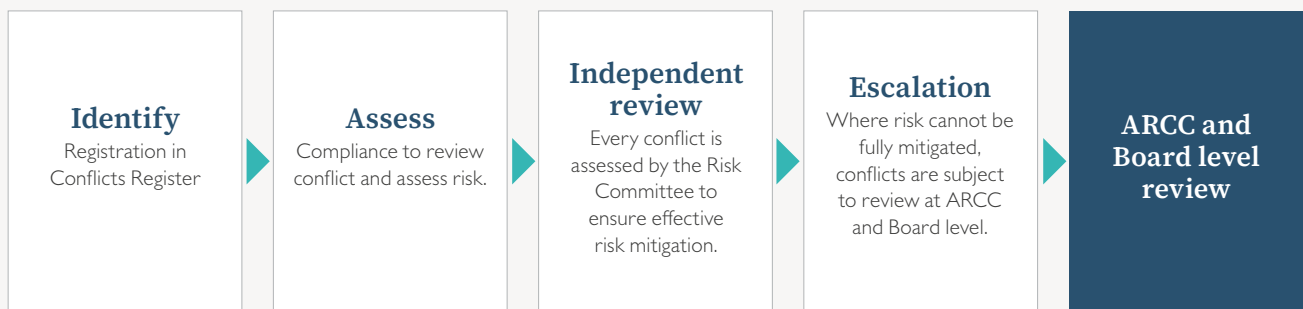
On a six-monthly basis, Compliance conducts independent assessments of conflicts of interest as part of the monitoring programme. This reviews the controls in place against each identified conflict of interest to ensure they are appropriately designed and operating effectively. Each assessment is risk-rated according to the findings noted.

Our Conflicts of Interest Policy and Register are both reviewed on an annual basis by Compliance, the Risk Committee, the Audit, Risk & Compliance Committee (ARCC) and the Board, to ensure they remain fit for purpose.

All new employees undergo strict training and guidance on internal policies and procedures as well as the expectations of our regulators. This covers all scenarios where conflicts of interest can arise, such as gifts and hospitality, personal account dealing and market abuse.

Additionally, all employees are required to disclose any personal or business-related conflicts of interest to Compliance. A monthly email communication is sent to all staff reminding them of their obligations to inform Compliance of any changes to personal circumstances that may present a conflict of interest.

CONFLICT REVIEW AND ASSESSMENT



POTENTIAL CONFLICT OF INTEREST

CONFLICT

1. Where Waverton acts as a discretionary investment manager for clients, a conflict could arise between Waverton, the investee company or a client when exercising voting rights.

 **Read more about our proxy voting process in Principle 12.**

RISK MANAGEMENT APPROACH

Waverton collaborates with Glass Lewis, a leading independent voting advisory service provider, using proxy voting where we feel there is an opportunity to enhance or protect shareholder value. The use of Glass Lewis provides a default recommendation in line with industry peers. Waverton reviews recommendations on a case-by-case basis, however, and may deviate from the recommendation in line with our investment approach.

The responsibility for voting decisions sits with the Investment team who undertake the fundamental analysis, and build and maintain the relationship with investee companies around the world. Decisions are proposed by the relevant specialist within the team and approved by the regional and/or global equity fund managers. Voting decisions for investment companies are made by the Multi-asset team. In the unlikely event a conflict were to arise, the voting recommendation of Glass Lewis will be instructed. Compliance monitoring undertaken reviews the rationale for voting against the recommendations by Glass Lewis.

2. Where an employee or officer of Waverton also serves as an officer of an investee company, Waverton may utilise its voting rights in a manner that personally benefits the employee or benefits Waverton over the shareholders and Waverton clients.

Waverton maintains a Conflicts Register that records the external roles undertaken by all employees and officers. There are strict procedural controls in place to prevent such external investee companies to be held in client accounts, thereby mitigating the voting rights risk. If such a scenario were to arise, Waverton would abstain from the vote to ensure a fair and independent vote is held by the remaining shareholders. Compliance obtains and assesses each external interest and role undertaken by new hires from a client risk perspective.

Compliance monitoring undertaken reviews the rationale for voting against the recommendations by Glass Lewis.

3. Where an employee or officer of Waverton also holds external roles, such as advisory board memberships, non-executive roles and investment committee memberships for other companies, Waverton may utilise its discretionary investment powers to recommend and purchase these companies for client portfolios outside of the investment process to the benefit of the employee or Waverton, over the client.

Waverton's Conflicts Register records the external roles undertaken by all employees and officers. There are strict procedural controls in place to prevent such external roles from being undertaken, and an independent risk assessment by Compliance on the roles undertaken. System configurations are in place to alert the team to trades involving these companies. External roles are also reviewed by the Risk Committee on at least an annual basis.

During 2023, there were no purchases for discretionary-managed client portfolios in companies where a Waverton employee or officer has an external role.

4. Incentive structures for Waverton's research and portfolio management teams that increase the risk of inappropriate recommendations, risk-taking and short-termism in conflict with maximising shareholder value over the long term.

Waverton's Remuneration Policy, maintained and handled by HR, ensures that employees are not remunerated solely based on performance of stock recommendations or client performance. Remuneration is aligned with business strategy, objectives, values and long-term interests of the company and its clients.

5. Where Waverton's engagement with potential or current investee companies gives rise to inside information, this could be utilised by employees or officers of Waverton to the detriment of clients, other shareholders and the wider structure of the markets and may deviate from the recommendation in line with our investment approach.

Employees and officers are informed about the Market Abuse Regulations upon joining Waverton. Compliance acts as gatekeeper for the receipt of inside information. Over the course of 2022, there were six instances where Waverton was in receipt of inside information. Compliance prevented the trading of these stocks until the news became public information. In addition, Waverton makes use of an external trade surveillance tool to screen all trades for the risk of market abuse, including inside information.

4 PROMOTING WELL-FUNCTIONING MARKETS

Managing market-wide and systemic risk

As a business, we rely on the ability to invest in stable and well-functioning financial markets to serve our clients and other stakeholders. Equally, as responsible stewards of capital, we have an obligation to contribute to the long-term sustainability of financial markets.

Waverton's six pillar risk framework ensures we monitor and review all potential areas of market wide risk and systemic risks to the business. The risk framework is a quantitative risk monitoring tool that was developed by Waverton to support well-functioning financial markets.

Within Waverton's risk governance and oversight structure, there are three committees with specific oversight for investment performance and risk:

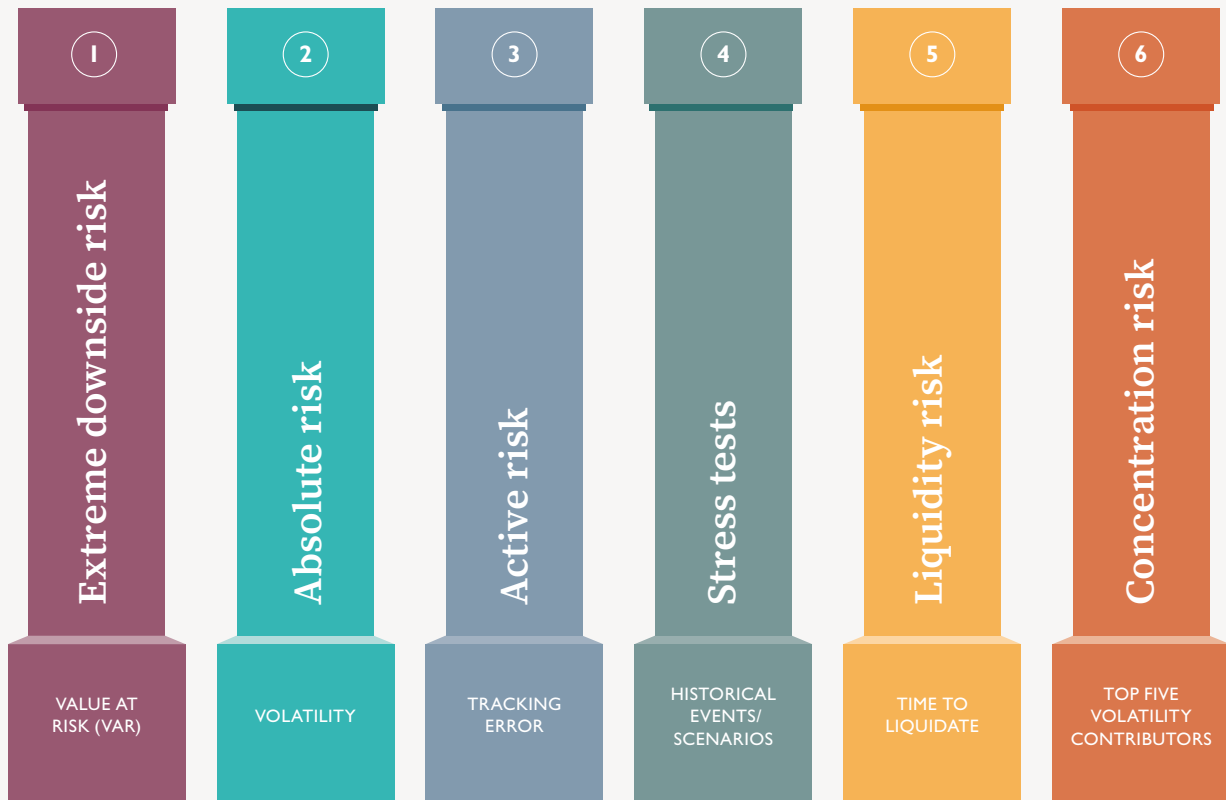
- Performance Review Committee
- Portfolio Dispersion Review Committee
- Portfolio Risk Review Committee (PRRC)

The latter is responsible for identifying and managing market risk. The PRRC is supported by the Performance & Risk team, which sits independently from the Investment team and monitors risk daily. Waverton's Board is kept informed of potential risks to the business and how these risks would impact the company.

Stress tests

A key part of the PRRC's remit is to identify systemic risks and review the exposure of client assets to them. The systemic risks are built into stress tests using a third-party factor-based risk model (FactSet MAC Model). These tests are incorporated into our risk monitoring systems and form part of our six pillar risk management framework. Stress tests are performed monthly and are reviewed formally on a quarterly basis by the PRRC. Stress tests are reviewed individually and are aggregated when we set risk limits, referencing the risk profile of portfolios when setting these limits.

THE SIX PILLAR RISK FRAMEWORK



CASE STUDY

Stress Testing Expanded

Risk management is continually evolving and in 2023 the PRRC, responsible for the governance and oversight of investment risk, conducted a study on the effectiveness of the stress testing performed. This resulted in an expansion of our existing approach.

Historically, stress testing took the form of 10 pre-defined stress tests that were applied to all portfolios and models. Periodically, the committee would review and refresh the list of stress tests performed, to incorporate those that were considered more relevant than those that had been retired.

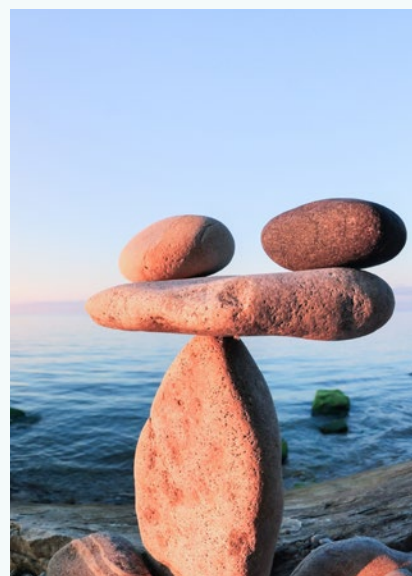
When the review was conducted, it soon became apparent that the pre-defined stress tests were not suitable for every mandate or portfolio, with some scenarios producing positive outcomes depending on the

investment mandate of the portfolio. Whilst we saw the benefits of reviewing both positive and negative outcomes, the purpose of the stress testing measure was to limit downside risk. It was therefore agreed to expand the level of stress testing to incorporate a much larger array of scenarios.

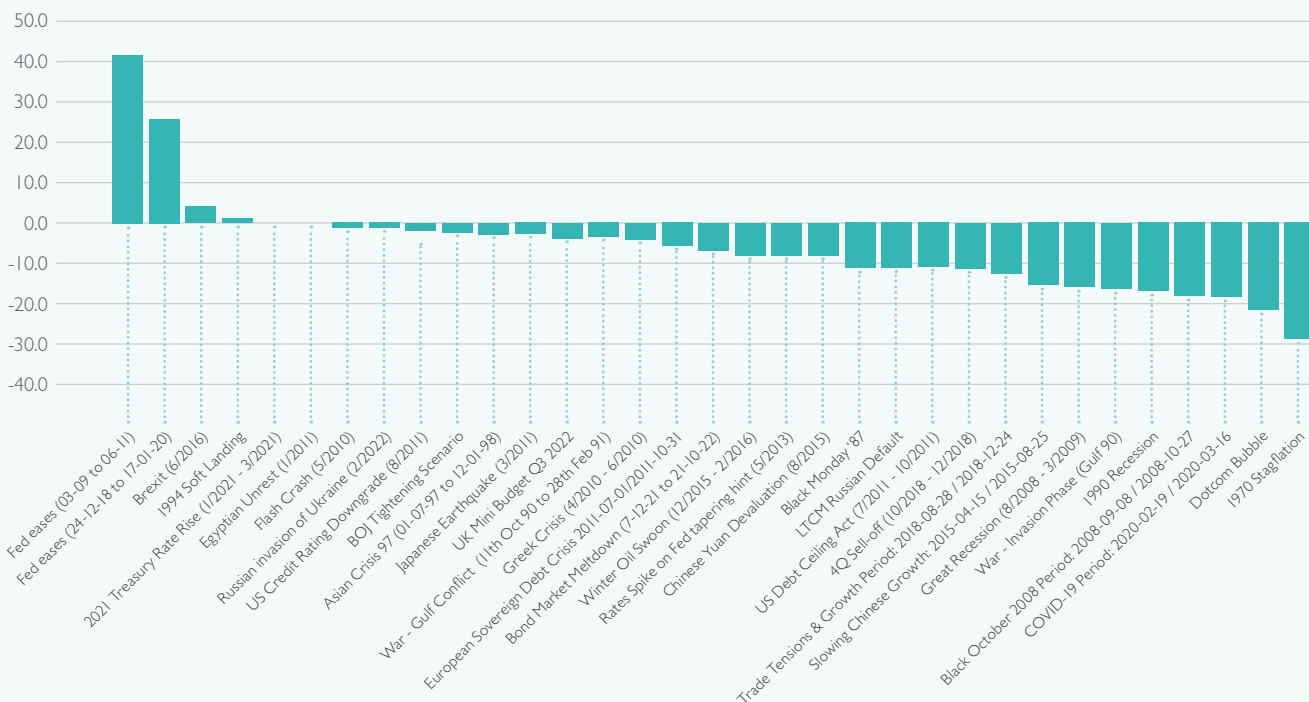
We have since expanded the number of stress test scenarios from 10 to in excess of 30. The stress tests range from stock market crashes and recession simulations, to conflicts and a pandemic scenario.

Furthermore, it was agreed that we would introduce a new methodology for setting limits, that would be based on the bottom decile loss of all scenarios specific to a portfolio. These changes have helped to deliver a downside risk parameter that fits with the mandate guidance we outline to

clients, and has also helped to provide a more comprehensive understanding of potential portfolio outcomes under a range of scenarios, both positive and negative.



WAVERTON GROWTH MODEL PORTFOLIO



PROMOTING WELL-FUNCTIONING MARKETS *CONTINUED*

Climate change

Assessing environmental and climate-related risks and opportunities is part of our integrated ESG approach. The long-term financial sustainability of a company cannot be properly assessed without considering the impact that climate risks (transition and physical) could have on its business model and ability to generate and grow free cash flow. Similarly, the risks a company could face by virtue of the location of its operations, exposing it to greater risks from climate change and/or severe weather-related events, could also impact its growth potential over time. We expect well-managed companies to be forward-thinking in their allocation of capital, constantly assessing innovative technology and practices to mitigate transition and physical climate-related risks, and with effective business contingency plans in place in the event of severe weather-related damage and disruption.


Monitoring climate risk

The assessment of climate risk is a constantly evolving area that companies continue to report on in various ways, using different methods of measurement, or sometimes not at all. Through our memberships of Climate Action 100+ and the CDP, we help promote the implementation of common standards and greater transparency around corporate disclosures on environmental impact. Both initiatives allow us to collaborate with others to encourage wider implementation of more standardised disclosures, and also provide the Investment team with access to their libraries of global corporate environmental data.

The availability of good quality and consistently presented carbon data, especially if investing globally, still remains an issue for anyone in the investment industry attempting to accurately assess a fund/portfolio's current carbon footprint and its path to net zero.

Building on the Equities team's work in 2022 to measure the carbon emissions of our Global Recommended Portfolio, we measured the carbon emissions of all our direct equity holdings in 2023, accounting for 63.5% of our AUM.

Members of the Equities team also initiated a research project review the Climate Transition Plans (CTP) of our equity holdings with the aim of providing the equities team with additional information to feed into their engagement with management teams on the topic.

 [Read more about the project in Principle 9.](#)

We will produce our first TCFD report in 2024, setting out our approach to managing climate-related risk and opportunities across our business. The report will be available on our website.

Industry-wide initiatives and consultations

In 2023, Waverton and its employees were actively involved in a number of industry-wide initiatives and consultations to promote well-functioning markets.

 [Read more about our contributions in Principle 10.](#)

5 REVIEW AND ASSURANCE

Policy review

Our responsible investment policies, including our integrated approach to ESG, engagement and proxy voting, are reviewed on an ongoing basis. In 2023, we updated our Responsible Investment Policy which sets out how we incorporate responsible investment into our investment process. The policy covers all our stewardship activities and is updated annually or when significant changes occur.

+ Our Responsible Investment Policy can be found on our [website](#).

While we continue to develop our policies where they enhance our investment approach, we focus on those aspects where we can be most effective in helping to influence genuine and positive outcomes.

Assurance

Our corporate policies and governance are also reviewed on a regular basis. We work with an external provider to provide internal audit services and to present an audit plan to the ARCC. The audit plan is based on our key strategic objectives and the associated risk profile and assurance framework within the firm. From this, an internal audit universe of auditable entities and audit priority is created for a four-year cycle which is reviewed annually.

On an annual basis, different parts of the business are selected to undergo an internal audit. Selection considerations include key risk drivers and other factors sourced from business plans, the risk register, compliance monitoring, requests by our ARCC, management concerns, sector challenges and emerging issues.

Waverton is committed to remediate any recommendations from internal auditors. Improvements made by the business are reviewed by internal auditors and the Risk Committee, and ARCC and the Board have oversight over the remediation progress.

Due to the size of our firm, we have not sought external verification of our processes to date. However, we are signatories to the FRC's Stewardship Code and UN Principles for Responsible Investment, both of which require our approach to meet minimum standards which is assessed and reviewed annually.

Stewardship reporting

Our stewardship reporting complies with all relevant regulatory requirements and we always strive to ensure that our messaging is transparent and an accurate representation of Waverton's approach. Our annual stewardship report is reviewed and approved by our Sustainability Committee as well as our Board.

We produce a separate annual Engagement & Voting Report, and broader client communications on our integrated approach to ESG.

Effectiveness of our processes and policies

One of the ways we measure the effectiveness of our structure, process and policies is through the consistency of our investment performance. Participation in the Asset Risk Consultants (ARC) Survey highlights the industry leading investment performance delivered, for example, by our Private Client business. Moreover, our Institutional Funds have a track record of delivering returns that are consistently in the top half of the peer group. Over 3 years, the results are even better, with the majority of funds ranked in the 1st quartile and in a number of cases top decile, versus their respective peer groups.

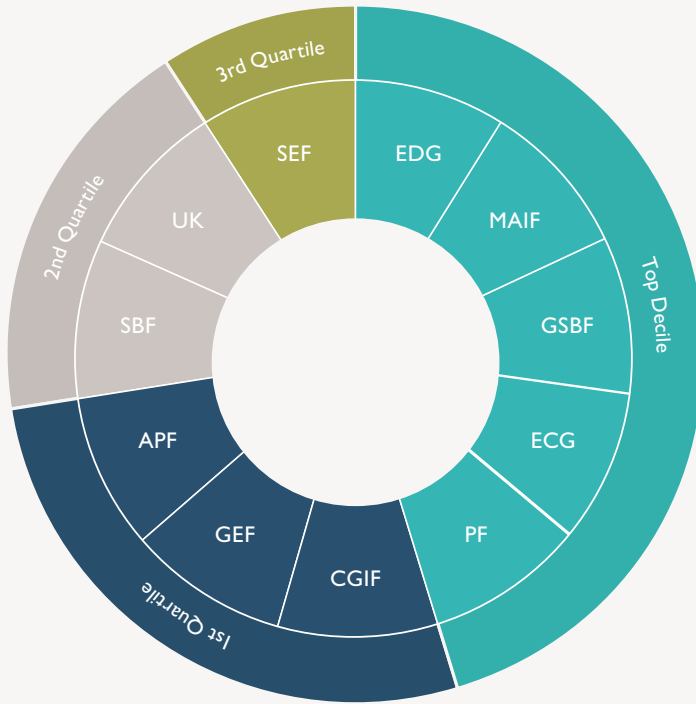
ARC provides a range of services to private clients, charities, family offices, professional trustees and their trusted advisers, including performance reporting. To this end, ARC has an extensive research capability to assist investors and their professional advisers in making informed investment decisions.

The central aim of this research function is to place performance into perspective. The performance tables on the next pages highlight our performance versus peers included in the survey, across our two largest business channels.

The breadth of performance across risk profiles (from Defensive to Equity) highlights the quality of output being provided by the Investment team across all asset classes.

REVIEW AND ASSURANCE *CONTINUED*

WAVERTON FUNDS 3 YEAR RANKINGS



EDG	European Dividend Growth Fund
MAIF	Multi-asset Income Fund
GSBF	Global Strategic Bond Fund
ECG	European Capital Growth Fund
PF	Portfolio Fund
CGIF	Charity Growth Income Fund
GEF	Global Equity Fund
APF	Asia Pacific Fund
SBF	Strategic Bond Fund
UK	UK Fund
SEF	Strategic Equity Fund

Source: Waverton. As at 31.12.23

Performance tables

For Private Clients, we have achieved 1st quartile returns over 1, 3, 5 and 10 years for Equity, Growth, Balanced, Cautious

and Defensive mandates. With respect to MPS mandates, we have achieved 1st quartile returns across Equity, Growth and Balanced mandates over 1, 3, 5 and 10 years.

ARC PCI Survey vs Private Client House Composites to end 2023

ARC PCI VS HOUSE COMPOSITES	1 YEAR		3 YEARS		5 YEARS		10 YEARS	
	RETURN	QUARTILE	RETURN	QUARTILE	RETURN	QUARTILE	RETURN	QUARTILE
Private Clients Defensive GBP	6.7	1st	6.8	1st	17.1	1st	45.3	1st
Private Clients Cautious GBP	7.5	1st	11.2	1st	29.8	1st	64.4	1st
Private Clients Balanced GBP	10.5	1st	14.7	1st	39.6	1st	79.7	1st
Private Clients Growth GBP	12.9	1st	17.6	1st	48.9	1st	96.6	1st
Private Clients Equity GBP	18.2	1st	27.7	1st	68.4	1st	132.5	1st

MPS (External) - ARC PCI Survey to end 2023

ARC PCI SURVEY	1 YEAR		3 YEARS		5 YEARS		10 YEARS	
	RETURN	QUARTILE	RETURN	QUARTILE	RETURN	QUARTILE	RETURN	QUARTILE
MPS Defensive	6.2	2nd	4.7	2nd	24.7	1st	45.5	2st
MPS Cautious	7.3	2nd	7.3	1st	32.3	1st	59.0	1st
MPS Balanced	8.8	1st	11.1	1st	42.8	1st	77.2	1st
MPS Growth	10.4	1st	14.6	1st	51.6	1st	94.1	1st
MPS Equity	12.8	1st	19.5	1st	65.3	1st	123.2	1st

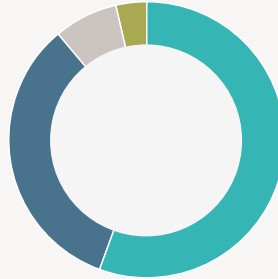
Risk warning: Past performance is no guarantee of future results and the value and income from such investments and their strategies may fall as well as rise. You may not get back your initial investment. Capital security is not guaranteed.

Investment approach

6	Client and beneficiary needs	21 – 26
7	Stewardship, investment and ESG integration	27 – 39
8	Monitoring managers and service providers	40 – 41

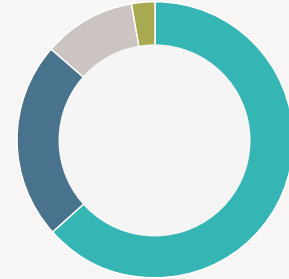
6 CLIENT AND BENEFICIARY NEEDS

At Waverton, we put our clients first. Ensuring that our services are valued and appropriate for each client is at the core of our approach, and we are able to cater for clients with a wide range of different requirements. Our investment approach and stewardship activities are designed to deliver superior levels of client service, alongside real returns that meet our clients' investment objectives over the long term. We service clients across four business channels: Private Clients, Charities, Advisers, and Institutions.



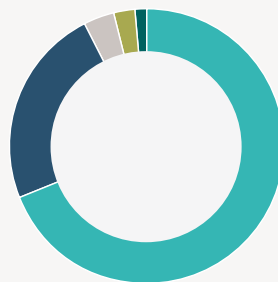
AUM by business channel (%)

Private Clients	55.8
Adviser Solutions	33.4
Charities	7.3
Institutional Solutions	3.6



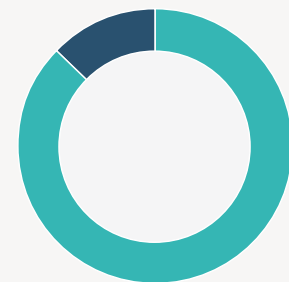
AUM by asset class (%)

Equities	63.5
Bonds	23.0
Alternatives	10.8
Cash	2.7



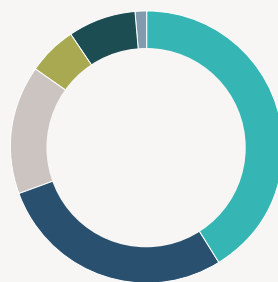
AUM by client location (%)

United Kingdom	69.1
Europe	23.5
Channel Islands	3.7
Other	2.4
United States	1.3



AUM by client type (%)

Retail	87.4
Professional	12.6



AUM by region (%)

North America	41.4
United Kingdom	28.3
Europe ex UK	15.2
Asia Pacific ex Japan	6.1
Japan	7.9
Emerging Markets	1.2

Source: Waverton. As at 31.12.23.

CLIENT AND BENEFICIARY NEEDS *CONTINUED*

SEEKING CLIENT VIEWS

Capturing the views and expectations of our clients is essential. We continually seek feedback in a variety of ways:



CASE STUDY

Multi-Asset Growth Fund (Euro)

Issue

A long standing private client with cross-border requirements relocated back to Spain. Following careful tax planning, the advice provided to the family was for their assets to be managed within an offshore UCITS structure with reporting fund status. The family investment committee required a Euro based solution which was not, at that point, an available option at Waverton.

Action

To service our client, we considered three main options.

- 1) Establish a new Private Family OEIC that was specifically for the benefit of the family in question. This was ruled out based on the cost implications.
- 2) Establish a euro hedged version of our pre-existing Multi-Asset Growth fund. The concern with this approach was the cost and potential inefficiency of the hedging arrangement.

- 3) Establish a new euro denominated fund which would be run alongside similar lines to the sterling Multi-Asset Growth Fund, but with euro fixed income and alternative investments.

On providing the options to the family's advisors the decision was taken to proceed with option 3.

Outcome

Waverton were prepared and able to allocate significant time and resource to creating a project team to establish a new fund that would meet the specific requirements of this client.

The outcome is that we now have a dedicated euro denominated UCITS Multi-Asset fund with €45m AUM, which is expected to grow over time. This fund is available to all of our existing and future clients, providing a very attractive alternative to creating a, more costly, private OEIC.

OUR APPROACH TO CONSUMER DUTY

Consumer Duty is a new UK legislation introduced by the FCA in July 2023. The aim of the Duty increases the responsibility of firms to ensure they deliver good outcomes on an ongoing basis and be able to evidence outcomes. At Waverton, we believe that our standards were already compliant with the requirements prior to the Duty's introduction – we take care to prioritise our clients' needs.

As part of the scope of work to implement the Duty, various workstreams reviewed not only existing systems, controls and arrangements, but looked ahead to the potential risks that can arise that cause client harms, and the metrics and management information that can help assess the materialisation of such harms. We have undertaken an extensive client survey looking at a range of areas, including the evaluation of Waverton under the Duty.

We are also seeking feedback on an ongoing basis from our intermediaries that service end clients, financial advisers. Our aim is to not only empower clients to make the right decisions for their needs, but to ensure they receive products and services that meet those needs and provide fair value. We continue to seek ways to improve our offering and client servicing to support customers throughout their journey with Waverton. We will continue to interact with our clients to identify improvements and are planning client feedback sessions over the course of 2024.

CASE STUDY

Increase in collateral for advisers to share with retail clients to explain funds and approach

Issue

Our team's ongoing conversations with financial advisers, and our surveys following the introduction of Consumer Duty, helped us identify the need for our suite of literature to be reconsidered for end-client suitability. While we regularly produce detailed commentary for investment professionals, we were made aware that while valuable, this type of literature is not helpful for most underlying clients who would not appreciate excessive detail or industry jargon. Industry surveys regularly show that time is of the essence for financial advisers, and therefore it would be beneficial for us to provide material to the adviser which is in a format suitable for their end clients, as they would not have the time to make the necessary amends to make our material client friendly.

Additionally, with end clients and advisers being increasingly focused on ESG matters, we identified the need for advisers to undertake robust due diligence of providers and products and the need for this to be in a simple and client friendly format. With this in mind, we identified an opportunity to provide advisers with the requisite due diligence information and third-party research alongside client-friendly material to assist them when recommending a Waverton solution to underlying clients.

Action

Over 2023, we evaluated our suite of literature and, together with our Compliance team, made amendments to several documents. Where possible, we wanted to make all of our documents relevant for both

financial advisers and their end-clients. For our monthly portfolio manager commentary, this involved changes including the removal of reference to complicated financial instruments, limited use of industry jargon and the addition of retail-friendly benchmarks when referencing performance.

We also created a new and interactive document entitled 'Navigating the Financial Landscape'. This document goes through the fundamentals of investment, providing a useful and enticing prop for financial advisers engaged in meetings with less financially literate clients, those who may be investing for the first time or who may not have experienced market volatility before. This document includes charts explaining the corrosive effect of inflation on cash savings, the importance of diversification and on the importance of remaining invested.

Regarding ESG, we created an interactive document, in addition to our standard and wide-ranging suite of literature, specifically for advisers and their clients, containing all of our due diligence information in a user-friendly format. This includes information from PRI, MSCI and several Waverton resources such as our Engagement and Voting report. The document is updated annually and is available to download on our website. The PDF also includes several client-friendly documents and links to videos and other resources for advisers to share with their clients.

Outcome

Feedback on our amendments has been extremely positive – with many advisers commenting on the importance of 'point-of-sale' literature to help them with direct client meetings.

CLIENT AND BENEFICIARY NEEDS *CONTINUED*

Meeting our clients' needs

The starting point for any client new to Waverton begins with a thorough and detailed exploration of their needs and investment objectives for the available funds. After encountering a wide variety of client requirements over many years, we now offer an equally wide range of services to cater for the most common scenarios. For example, our International Clients Committee (ICC) draws on the experience of a team with an average 23 years investment experience across all major asset classes. The ICC has extensive knowledge gained from working across multiple jurisdictions on behalf of clients and their investment vehicles, to deliver appropriately constructed portfolios that may also incorporate enhanced segregation of income and capital where appropriate.

Another specialist service is our offering for US persons, be they resident in the US or elsewhere. These clients have complex tax reporting requirements that may include reporting in multiple jurisdictions, each with their own rules governing the tax implications of different securities. Our offering includes bespoke and model portfolios, both of which are designed to meet the needs of US persons whilst also delivering the excellent investment service common to all Waverton portfolios.

We have continued to broaden our wealth planning services through the introduction of Waverton Wealth, so more clients have access to both a portfolio manager to look after their portfolio in line with their investment objectives, and a wealth planner who works with them to create a bespoke wealth plan. This joined-up approach helps ensure a client's wider wealth, including assets such as property and businesses – is structured to be tax efficient and match their goals.

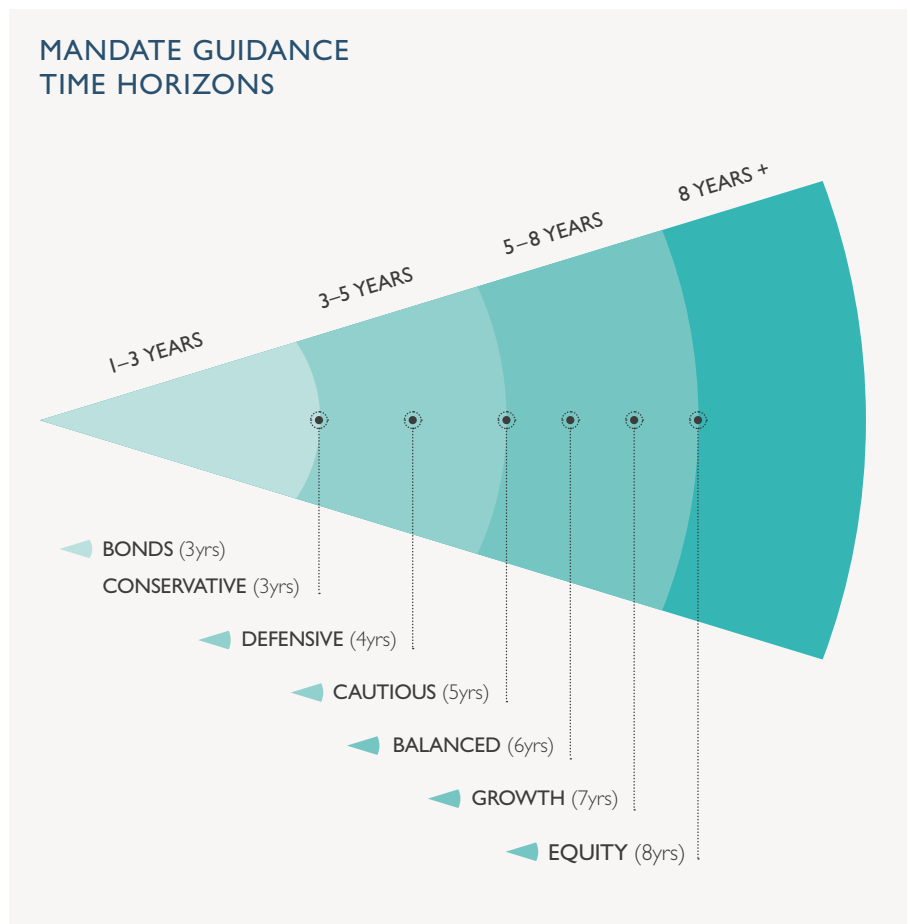
Communicating with our clients

Throughout the year, we produce both regular and ad hoc market commentary and investment insights which are distributed to our clients as appropriate.

We ensure that our clients are briefed and kept up-to-date with our investment horizons and expected returns. This is fundamental to the way we manage their assets, and as long-term investors, the approach we take to strategic asset allocation does change from time to time. This may impact the way our portfolios are managed to ensure we meet the investment objectives of our clients, whilst remaining within their risk appetite and tolerance for loss. We publish updated reports with supporting rationale to help clients keep abreast of these changes and the thinking behind our decisions.

At the start of all new client relationships, in annual reviews or when there is a significant change to a client's requirements, we provide a guide to our investment mandates which details the asset classes and investment horizons that we consider when constructing portfolios.

In this document we outline the time horizons for each mandate. These ranges provide our clients with the assurance that their portfolios will be managed in accordance with their objectives. These time horizons are an important consideration, since they seek to allow time for the portfolio to recover from any drawdowns. This central document was reviewed as part of our Consumer Duty programme to ensure it worked as intended and provided clients with all the information they needed in an accessible way.



CLIENT COMMUNICATION AND COMMENTARY



Regular reporting

Our reporting process is designed around our clients. We offer detailed and transparent reporting to keep clients informed about their assets and how they are performing. Clients can choose more simplified reports and every client has the option of printed or digital copies. Many clients made the transition to digital reports during the pandemic, with more than 78% of our clients now accessing their valuation documents online.

All clients receive a full valuation of each portfolio, a record of all income and capital movements and a performance report each quarter. They also receive a quarterly investment publication called Market Perspectives. This publication, authored by one of our most experienced portfolio managers has proven to be very popular with its readers.

We continue to prepare MSCI ESG Risk and MSCI Climate Risk Reports for our Funds, Global Recommended Portfolio and specific client portfolios on a quarterly and ad hoc basis.

These reports provide data across a range of ESG metrics, and compare them to a market benchmark.

Waverton was founded on the strong belief that clients should be as close as possible to those making investment decisions, rather than pure relationship managers who are detached from the core of the business. One of the advantages of primarily operating out of one location, is that our Investment team is easily accessible to both our portfolio managers and our clients.

At the end of the financial year, each client and/or their adviser receives more detailed reports including:

- an investment report
- dividend and interest statements
- composite tax certificates
- an acquisition schedule.

CLIENT AND BENEFICIARY NEEDS *CONTINUED*

Communicating our responsible investment approach

In 2023, we published the updated editions of our Responsible Investment reports. In 2024 we will also be producing a TCFD report that will detail our approach to managing climate-related risk and opportunities.

Building relationships that last

As part of our client engagement, we host a range of formal and informal events throughout the year, both online and in-person. We know our clients value the personal contact beyond their regular review meetings and so do we. Some of these events are more investment focused, and others more social. In 2023 we hosted 27 webinars, which generated over 1,500 views and 30 in-person events which attracted

over 1,000 attendees. The attendance and feedback from these events inform us on how our clients like to engage and helps us to build trusted, lasting relationships.

CLIENT ENGAGEMENT EVENTS



7 STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

Investment approach

Waverton has always adopted a global, active, high conviction and predominantly direct investment approach, reflecting a firm belief in the benefits of active management both in terms of asset allocation and disciplined security selection. We aim to better protect capital in periods of drawdown and capture the upside as markets rebound, thereby compounding superior risk-adjusted returns over the long term.

Our investment universe incorporates a wide range of asset classes, including equities, bonds, alternatives and third-party funds.

Bottom-up meets top-down

Waverton's investment process incorporates both bottom-up fundamental analysis and top-down macroeconomic research. Regular dialogue with companies around the world has always been an integral part of our investment process, providing both a clearer understanding of individual businesses and industries, as well as important and often more forward-looking insights on real economic activity.

This bottom-up perspective has been particularly valuable in recent years, with the pandemic and then Russia's invasion of Ukraine, impacting global supply chains, inventory levels, consumption patterns and government spending in a way that has created meaningful distortions to usual cyclical patterns. We blend these insights with analysis of global macroeconomic data to give us as much visibility as possible regarding the outlook from a macroeconomic, regional, industry and consumer perspective.

OUR PHILOSOPHY



Global multi-asset, direct

Provides the widest set of potential investment opportunities; direct approach facilitates greater control and transparency.



Active approach

Active management both in terms of asset allocation and security selection. What we avoid is as important as what we own.



High conviction

Concentrated in the best ideas across the global universe. Detailed knowledge of each holding enables better risk management.



Downside protection

Aim to better protect capital in periods of drawdown and capture the upside as markets rebound.



Superior real returns

Aim to achieve superior risk-adjusted, real returns over the cycle.



Integration of ESG

Assessment of material ESG factors and active engagement is an integral part of our fundamental research.

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION *CONTINUED*

Investment team

Responsibility for the Investment team sits with our Chief Investment Officer (CIO), William Dinning, with the Heads of each asset class team reporting to him. We have invested in the expansion of our internal research capabilities over the last decade, adding dedicated analysts/fund managers across all asset classes to create a centralised Investment team. This reflects Waverton's ongoing commitment to direct investment and ensures the level of due diligence required to meet clients' long-term investment objectives in today's world of rapid digital transformation, heightened ESG scrutiny and rising geopolitical tensions.

The team continued to expand in 2023 and includes 26 individuals dedicated to investment research with an average experience of 20 years. 11 of these are Waverton single/multi-asset fund managers and 12 are dedicated analysts. At the end of 2023, we also recruited three additional individuals, including a Fund Manager, a Multi-asset Analyst and a Responsible Investment Manager (new role), all to start in Q1 2024.

The team is predominantly based out of our London office, facilitating frequent collaboration and short lines of communication. This enables members of the team to draw on the experience, knowledge and skill set of the whole team when identifying trends and making investment decisions.

The Investment team has a dual role, not only providing investment recommendations to all four business channels, but also directly managing over £5bn of Waverton's AUM. This is largely via our single or multi-asset public OEICs that are owned within some Private Client, Charities and Advisory Client portfolios, as well as our single-asset class funds that represent all the building blocks of our MPS offering.

Please refer to Principle 5 for the performance track record of our

public OEICs, as well as our two largest business channels, Private Clients and Advisor Solutions.

Primary and secondary research

The Investment team is responsible for idea generation and uses a wide range of information sources during its due diligence process. Third-party research is also used to complement its own analysis and provides an important diversity of opinion. All our investment decisions are based on detailed fundamental analysis and the identification of selection criteria that we clearly define for each asset class.

Internal thesis reports for new securities added to the asset class "recommended lists" are written by the team, along with regular updates on key holdings. This research is uploaded onto Waverton's portal (GMC) and accessible to the wider business. This provides timely dissemination of the Investment team's latest views, enabling portfolio managers to stay up to date with all relevant news, earnings results, management/analyst meetings and their latest recommendations.


The asset allocation guidelines and individual asset class recommendations provided by the Investment team feed into all four business channels, with all Waverton clients benefiting from an institutional grade investment process which is rigorous, robust and repeatable, with proven results through market cycles and rotations.

Risk oversight

As discussed in Principle 4, all client portfolios and fund strategies are regularly reviewed by the relevant performance and risk committees, to ensure portfolios are constructed in line with recommended guidelines and managed within appropriate risk parameters. Managers are required to validate returns if portfolios/funds are identified as outliers.

Responsible investment

We are thoughtful, long-term investors and responsible stewardship of client capital is at the core of Waverton's business. Our objective is to provide clients with a carefully considered investment approach that not only creates value for them as shareholders, but also contributes to incremental improvements in ESG standards and positive real-world outcomes over time.

 [Read more about how we engage with companies in Principle 9.](#)

 [Read more about how we exercise our influence in Principle 12.](#)

ESG integration

We firmly believe the consideration of ESG factors is an integral part of good fundamental research, rather than something new to accommodate. Governance is central to delivering a sustainable business in all its forms (durability, returns for shareholders, improving ESG standards) and is an essential part of our analysis. Similarly, when considering other relevant factors that could impact a company's ability to generate free cash flow (FCF) over the long term, it is impossible to ignore material environmental and social factors that could have significant operational and financial consequences for its business.

ESG factors are, therefore, intrinsically linked to the long-term returns of an asset and we employ a bespoke framework that helps identify, prioritise and assess the most material issues of the companies in which we place our clients' capital. Focusing on material ESG issues when evaluating a company's performance with regards to ESG factors, is also a far more effective way to assess real-world environmental and social outcomes.

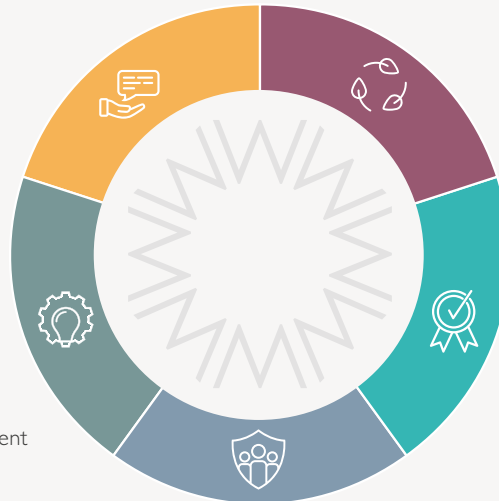
MATERIALITY FRAMEWORK

Leadership and governance

- Critical incident risk management
- Systematic risk management
- Business ethics and behaviour

Business model and innovation

- Material sourcing/supply chain management
- Product design and lifecycle management
- Physical impacts of climate change



Human capital

Labour practices/health and safety

Environment

- Biodiversity / land use
- Energy management/GHG emissions
- Waste and hazardous materials management
- Water and wastewater management

Social capital

- Product quality and safety
- Customer welfare
- Data security and consumer privacy
- Human rights and community relations
- Access and affordability
- Selling practices and product labelling

Our materiality framework is adapted from the Sustainability Accounting Standards Board's (SASB) ESG materiality framework and based around its five sustainability pillars (Environment | Social Capital | Human Capital | Business Model & Innovation | Leadership & Governance).

We assigned six material issues to each of the 163 Global Industry Classification Standards (GICS®) sub-industry groups depending on their relevance, with an assessment of corporate governance standards included as a core element within our due diligence on all companies, and "other material factors" also incorporated to capture any ad hoc controversies.

The framework ensures key material issues are identified and investigated in a more consistent manner across the wider Investment team. It has been fully integrated into the investment process of our Equities and Fixed Income teams and was rolled out across our Multi-asset team during 2023. Some of the more complex Alternatives sub-asset classes require a different approach.

CASE STUDY S

UnitedHealth Group

The consideration of key social risks and opportunities formed a part of the research and analysis of UnitedHealth. For example, exploring customer welfare and its commitments and service to providing access and treatment outcomes for patients. Further, data security & consumer privacy is a meaningful risk area given UnitedHealth's handling of around half of the US population's health data. Our research qualified sound processes and corporate governance to help manage these risks and opportunities, which is also acknowledged in their AA ESG Rating from MSCI.

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION *CONTINUED*

Specialist ESG data

The Investment team has access to specific sustainability resources through our membership of CDP, the World Benchmarking Alliance, Morningstar and ESG risk data from MSCI. While the latter can provide useful reference points, we do not use ESG ratings as a decision driver in either our security selection or portfolio construction. Many of our existing research providers now incorporate an ESG perspective within their fundamental research, which we find more relevant to our integrated and forward-looking approach.

ESG reporting

Accurately measuring or scoring companies' exposure to ESG risks and opportunities still remains problematic, open to interpretation in the absence of a standard methodology, and compounded by significant variation in the quality of corporate disclosures on a global basis. Third-party ESG scores/ ratings tend to be backward looking and fail to capture a company's direction of travel which, combined with issues around consistency and data accuracy, can lead to very misleading outcomes. We believe it is the recognition of these discrepancies using our detailed knowledge of companies that enables us to identify opportunities where value can be captured and alpha generated.

To date, we have used MSCI's ESG and carbon portfolio analytics to provide reports on client fund/portfolio exposures. We chose MSCI for its global, multi-asset reporting capability. As the providers of Waverton's performance benchmarks, it also provides an element of consistency in our reporting.

While acknowledging shortcomings in the quality of all ESG data, these reports help provide some insights into the "outcome" of our integrated approach and ESG credentials of our funds/portfolios. Perhaps more useful is the direction of travel both at the individual security and portfolio level.

Even then, however, changes to the rating agencies' methodologies can also result in changes to a fund's ESG rating even with no change in the underlying holdings. Understanding what drives their calculations, therefore, is absolutely key and we continue to work constructively with MSCI to encourage greater transparency.

Non-exclusionary

At the corporate level, we have chosen not to implement "blanket exclusions" and prefer to engage actively with companies in all industries and focus on their direction of travel. Where we identify concerns, we use engagement and voting to help influence or encourage better behaviours.

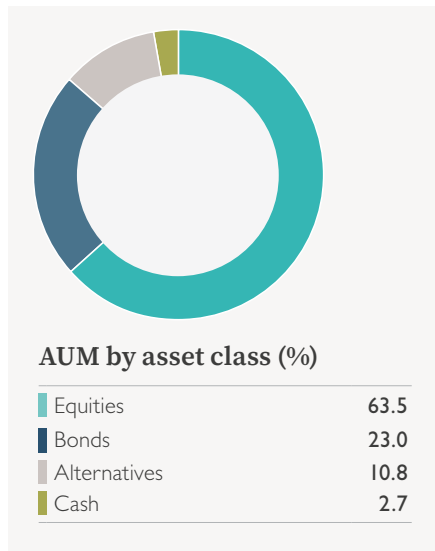
This approach provides us with the flexibility to invest not only in those companies with strong ESG credentials today, but also well-managed businesses that we believe will successfully adapt to and mitigate ESG risks over time, and/or those that form a critical part of the transition solution (please refer to the chart on page 33). This is often where most value is to be found and, importantly, where the contribution to achieving positive sustainability outcomes is often overlooked.

More detail on our engagement and voting policies, as well as case studies from our 2023 interactions, can be found in Principles 9 and 12.

Ethical screens

While Waverton has opted for an integrated rather than exclusionary approach to ESG investment, some clients wish to implement negative screening policies to reflect their personal beliefs and values as a complement to our core process. We have a long history of managing these policies and an appreciation of the degree of trust that clients place in us to achieve their objectives.

Security selection across asset classes



The following sections provide a summary of the investment process within each asset class, and highlight how the integration of ESG factors is adapted to take into account the nuances of specific asset classes.

Equities

Universe

The global equity index (MSCI All Country World Index) includes approximately 3,000 stocks. Our first filter reduces this universe to c.1,500 stocks by eliminating those companies with inadequate levels of daily trading liquidity to be owned widely across client portfolios (<US\$20m ADV over 12 months). It is important that we can liquidate positions quickly if required. In practice, this filter removes the majority of companies in less liquid Emerging Markets where we therefore rarely invest directly.

Approach

Our investment approach is based on Waverton's long-held belief in the advantages to clients/investors of a global, active, direct and high conviction investment approach. We construct equity portfolios of 30-40 stocks and are disciplined in our stock selection.

Our unwillingness to compromise on our selection criteria drives our portfolios to be benchmark agnostic but aware. This aim of our approach is to better protect capital in periods of drawdown and capture the upside as markets rebound, thereby compounding strong risk-adjusted returns (in real terms) ahead of both the benchmark index and ARC Equity Risk peer group over the cycle.

Idea generation

Waverton has a dedicated Equities team with expertise across all major regions, which conducts its own detailed fundamental research and is responsible for stock selection, while also managing all of Waverton's regional and global equity public OEICs.

The team undertakes ~500 company meetings a year (both in London and overseas) as a way to gain useful company and industry insights, and also reviews information from a wide range of different sources to flag potential investment ideas. Quantitative screens are sometimes but rarely used.

Selection criteria

Waverton has clearly defined stock selection criteria based on our assumption that the value of a company is a reflection of the size, growth and longevity of the free cash flow it generates (FCF = cash flow from operations less capital expenditure). Any company which can grow revenue, improve its profit margins and/or use capital more efficiently going forward, is capable of growing FCF and we seek to identify those that are managed to maximise future FCF generation. We view this financial metric as the clearest indicator of a company's financial health and long-term sustainability. It is less susceptible to manipulation than earnings and a more comparable measure on a global basis.

We therefore aim to identify companies with the following criteria:

DURABILITY: A clear and sustainable competitive advantage

OPPORTUNITY: An opportunity to grow future FCF

ALIGNMENT: Efficient capital allocation and aligned management incentives

VALUATION: A fundamentally attractive valuation given the opportunities and risks

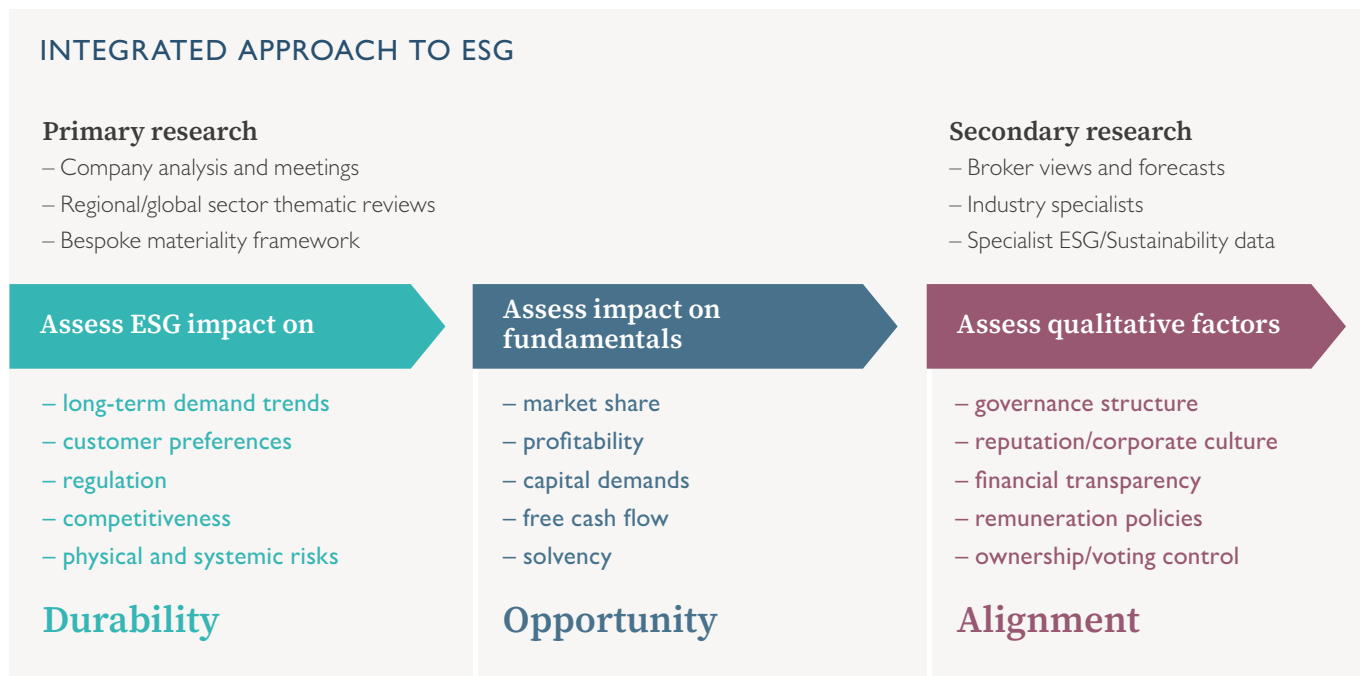
The identification of our four key criteria ensures a thorough review of both quantitative and qualitative factors, including those related to ESG.

We assess environmental and social factors in the same way as any other material factor that could impact a company's financial sustainability and long-term investment performance (positively or negatively), either by enhancing/undermining its competitive position (DURABILITY) and/or ability to grow FCF over the long term (OPPORTUNITY).

Similarly, analysis of a company's fundamental business operations necessarily involves a thorough assessment of its governance structure and standards to ensure effective board level oversight, as well as a review of whether management is incentivised to allocate capital in a way that maximises FCF growth and minimises risk (ALIGNMENT). Ultimately, our investment decisions are based on whether the valuation is sufficiently attractive, taking into account both the long-term opportunities and the implications of any known or potential risks including those related to ESG (VALUATION).

Our materiality framework helps to formalise the identification and assessment of ESG risks/opportunities that are material to specific industries, but the detailed due diligence undertaken by the Equities team will also identify any company-specific risks, all of which we will seek to discuss with company management directly.

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION *CONTINUED*



Responsible allocators of capital

We have always adopted a pragmatic approach to ESG, recognising that informed investment decisions require an in-depth understanding of a company's business model, an acknowledgement of a period of transition and an assessment of its direction of travel. We aim to identify businesses allocating capital in a responsible manner, ensuring resilience in their underlying business model and long-term financial sustainability.

Responsible allocators of capital tend to be those companies with strong governance standards and forward-looking management already meeting or adapting to the increasingly discerning ESG requirements of customers, regulators, shareholders and other stakeholders. These companies are more likely to maintain a competitive advantage over time, supporting their market shares and revenue growth.

Capturing the improvers

Companies with a focus on efficient capital allocation and FCF growth also do not stand still. In reality, technology continually evolves and well-managed businesses

will already be working to mitigate their exposure to ESG risks or to take advantage of ESG opportunities, and on a path to an improved ESG profile over the medium to long term. These companies will also continually strive to be as efficient as possible in regard to both their cost (e.g. energy efficiency) and capital structure.

Our selection criteria seek to capture businesses displaying all these characteristics.

ESG Integration across regions

There are still distinct differences that persist not only between financial transparency and governance standards across regions, but also from the perspective of regulatory frameworks around sustainability standards and reporting.

Supporting the implementation of internationally recognised best practices is an important way of encouraging higher standards and, ultimately, in the interest of all stakeholders. We discuss our ongoing involvement in collaborative CDP initiatives that are focused on improving and standardising corporate disclosures in Principle 10.

It is also important to recognise, however, that holding companies accountable to the same standards globally at this stage, is not necessarily conducive to a positive change in behaviours. Making investment decisions on the basis of a "one size fits all" approach in relation to ED&I, board structure or remuneration policies, for example, can prove counterproductive and a better outcome might be achieved by taking specific industry and local market factors into account. As discussed above, we prefer to identify companies allocating capital responsibly and working towards incremental improvements in ESG standards over time.

Global Recommended List

The Equities team also forms Waverton's Global Stock Selection Committee (GSSC) which meets formally once a month and is responsible for the creation and monitoring of our Global Recommended List (GRL). This consists of 60-80 stocks (rated A/BUY; B/HOLD; C/WATCH LIST; D/SELL) and forms the core of Waverton's direct equity exposure across the global equity and multi-asset portfolio/funds and all business channels.

Stocks included in the GRL have passed through several levels of due diligence (originating within the regional equity teams) and have ultimately been identified by the Committee as leaders within their industry group when looked at from a genuinely global perspective, rather than an amalgamation of regional best ideas. The consistent application of our selection criteria across regions and focus on future FCF growth has also facilitated comparisons on a global basis.

Portfolio construction

The portfolio construction process is equally robust, incorporating careful assessment of overall exposures and specific client requirements. We introduced a proprietary “factor” exposure tool several years ago. Beyond monitoring the risks posed by portfolio deviations from the sector and regional weightings of the benchmark index, this framework has enabled us to study the impact of differing macroeconomic trends on style returns. In turn, we can better assess how our portfolios might perform under different inflationary and growth scenarios,

providing us with a useful layer of additional risk analysis.

Portfolio characteristics

While we are not benchmark constrained, our equity exposure tends to be broadly diversified, avoiding any excessive bias towards a particular sector, region or single macro factor. Our investment criteria lead us to larger, well-capitalised companies with high quality characteristics, irrespective of whether they are cyclical or non-cyclical or classified as Growth, Core or Value within our style framework.

We have always adopted a pragmatic approach, with the flexibility to shift the emphasis within portfolios depending on our economic growth, inflation and discount rate expectations. The low growth/low inflation period that typified the post-GFC decade, favoured a longer duration Growth bias in our stock selection.

Our expectations for a very different inflation/interest rate environment and more permanent shift in market

leadership however, has seen us adopt a more balanced position in our equity exposure since mid-2020, as our focus on future free cash flow growth has also led us to more cyclical businesses set to be beneficiaries of the structural megatrends underway.

ESG quality

The natural outcome of our selection criteria is client portfolios with above-average ESG standards and below-average carbon risk when compared with benchmark indices. Companies which have poor or deteriorating ESG credentials usually fail our selection process on financial sustainability grounds following detailed fundamental analysis. This reinforces our view that an integrated, active and forward-looking approach is an effective and repeatable way to deliver both genuinely responsible outcomes and superior risk-adjusted returns for clients over the long term.

INVESTING ACROSS THE VALUE CHAIN OF THESE MEGATRENDS*

Re-shoring & infrastructure	Decarbonisation & energy efficiency	Electrification	Artificial intelligence
VULCAN MATERIALS Construction Materials	HITACHI Smart Grids & IoT	TOYOTA Hybrid & EVs, Fuel Cell Technology	SHIN-ETSU Semiconductor Silicon Wafers
UNITED RENTALS Construction Equipment	SIEMENS Automation, Smart Buildings	HITACHI Transportation, High-speed Rail Cars	SYNOPSIS Chip Design Software
SANDVIK Mining, rock excavation & processing	GE VERNOVA Renewable Energy Turbines	TE CONNECTIVITY Electronic Sensors & Connectors	ADVANCED MICRO DEVICES Processing Design Chips
SHIN-ETSU Industrial & Building Materials	KEYENCE Automation, Vision Sensors	QUALCOMM Connectivity chips, IoT	ALPHABET / AMAZON / MICROSOFT AI Software/Datacentres
FERGUSON Construction plumbing & HVAC	TSMC Faster, smaller, energy efficient chips	SIEMENS HITACHI GE VERNOVA Grid Infrastructure	HITACHI Digital solutions (Lumada)
CANADIAN PACIFIC KANSAS CITY Transnational Railroad	MICROSOFT Control Software		IBM AI Software/Hybrid Cloud solutions
	TECHNIP ENERGIES CCS and low carbon LNG plants		INTUIT Integrated AI accounting solutions

Stocks included in Waverton's Global Recommend Portfolio, as at 31.12.2023.



STEWARDSHIP, INVESTMENT AND ESG INTEGRATION *CONTINUED*

CASE STUDY E

Canadian Pacific Kansas City

Meets our selection criteria and part of the energy transition solution

DESCRIPTION	<ul style="list-style-type: none"> – Canadian freight railway linking Canada, Mexico and the US in one network
DURABILITY Sustainable Competitive Advantage	<ul style="list-style-type: none"> – CPKC has unique, strategic land assets (only North American railroad to have 3-country connectivity) – Rail is the most efficient method of transporting bulk goods; only feasible alternative is via truck – Rail one of the most environmentally responsible methods of moving freight (<1% of total US GHG emissions; US Transportation c.28%) – Permitting and capital cost prevent the construction of new railroads – Faster, simpler network than peers allows superior service
OPPORTUNITY To grow FCF over the long term	<ul style="list-style-type: none"> – Rail operators typically price at a 10% discount to trucking alternatives – 75% GHG emissions reduction versus truck is also shifting volumes from truck to rail; rails approximately 4x more fuel efficient – Precision scheduled railroading (PSR) is steadily improving service – Network volume growth combined with PSR supports margin expansion – Merger with Kansas City Southern creates further network improvement opportunities
ALIGNMENT Efficient and responsible allocation of capital, and aligned remuneration policies	<ul style="list-style-type: none"> – Ongoing network performance improvement initiatives (digital PSR) – Delivering Kansas City Southern merger synergies – Sharing PSR know-how with Kansas City Southern to improve service across the combined network – Most respected management team in the industry – Management remuneration policies tied to network performance, EBIT margin, ROIC and TSR
VALUATION Attractive in relation to opportunities and risks	<ul style="list-style-type: none"> – Valuation underestimates the potential merger synergies – Risks include recession, regulation, rail union relations, and weather disrupting network volumes
ESG QUALITY	<ul style="list-style-type: none"> – CPKC is a supply chain leader in sustainability with 17% improvement in fuel efficiency and Scope 1 GHG emissions (c.60% of its total emissions) intensity since 2012 – Committed to reducing well-to-wheel (Scope 1 and 2) GHG locomotive emissions by 37% per gross ton-mile by 2030 vs. 2020 base year – CPKC joined SBTi's Business Ambition for 1.5 global campaign and is committed to developing an aligned reduction target within 2 years – Leads the industry with its climate-related initiatives: Industry-leading hydrogen locomotive programme, localised hydrogen generation capacity, advanced fuel efficiency technology development, alternative fuel source trials, EV charging infrastructure, Calgary solar energy farm investment – Top quartile peer group corporate governance underpinned by board diversity and high level of accounting transparency



Fixed income

Universe

The global universe of bonds includes some 3,000 issuers. In turn, each issuer could potentially issue multiple bonds, so there is vast choice. Our first filter step is to reduce that universe to 600 issuers by eliminating currencies, credit ratings, industries (due to cyclical or ESG reasons) or bonds with inadequate levels of liquidity. This is further filtered by a simple relative value analysis, shaped by the house top-down view, leading to a watch list of 150 issuers which we monitor closely and look for opportunities to invest.

Approach

Like with equities, we take an active approach to fixed income. Specifically, we adjust the portfolio exposure to duration, credit and currency according to our view of the economic cycle. We invest with conviction, preferring more concentrated portfolios to ensure our best ideas have a meaningful impact on returns, although we do not sacrifice diversification, investing across geographies and sectors.

Our primary focus within fixed income is to generate a relatively attractive income and positive returns, whilst outperforming benchmark indices and minimising downside volatility where possible. However, it is also critical to ensure the fixed income allocation provides the overall portfolio with diversification through displaying negative correlations to risk assets in challenging markets. This is achieved by ensuring we hold a sufficient exposure to duration (interest rate risk) and limiting our allocation to speculative grade credit.

Our fixed income strategy is a combination of top-down and bottom-up analysis of markets which help us assess the appropriate decisions to make on the three key drivers of bond returns – duration, credit and currency. The top-down view helps the Fixed Income team to focus its bottom-up approach on the most suitable points of the yield curve, the best industries, regions and, where applicable, the most attractive currencies. Further, relative value analysis is key to finding dislocations between the market value and what we consider to be fair value. Finding such dislocations

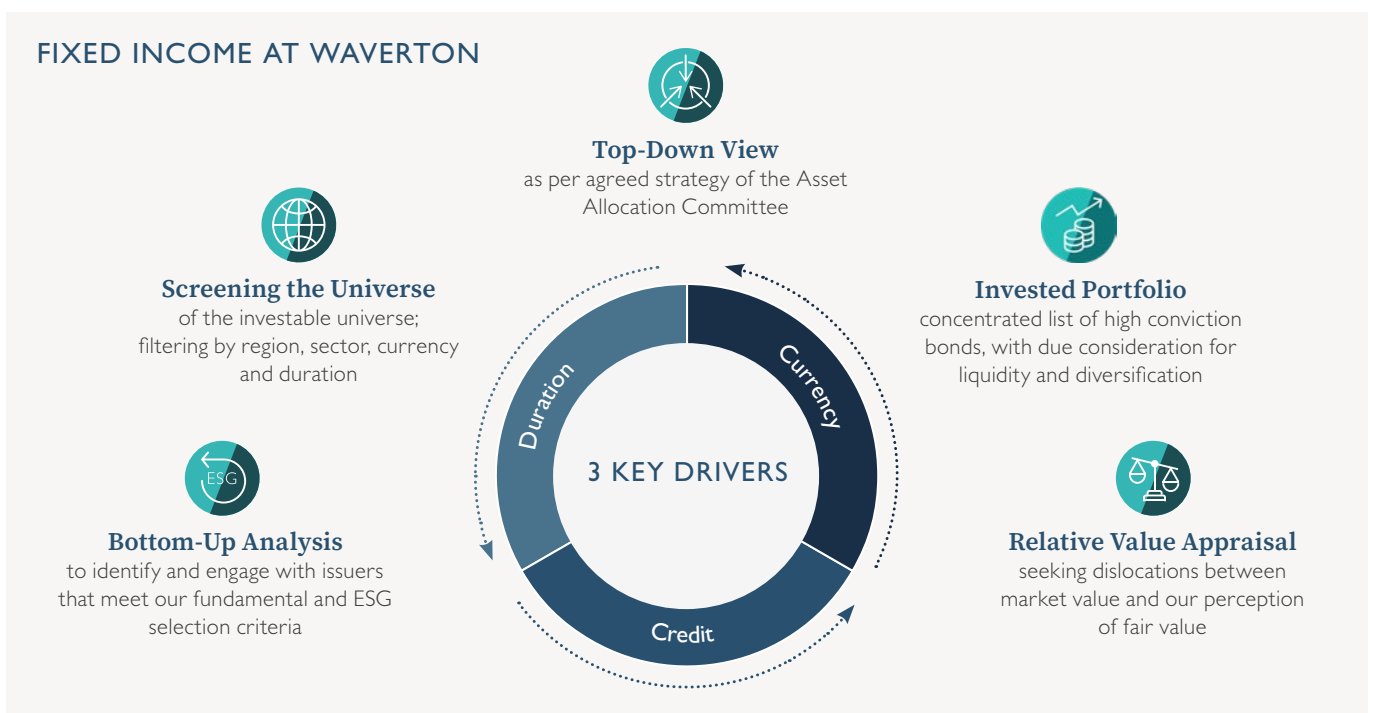
offers the opportunity not only for income from the bonds, but also capital appreciation as spreads narrow.

Selection process

The team employs a mixture of qualitative and quantitative methods to identify and engage with issuers that meet our fundamental ESG selection criteria, aligned with Waverton's materiality framework.

Green bonds

We believe that 'green' or, more broadly, 'sustainability-linked' bonds are a quick-fix solution for investors looking to avoid more rigorous fundamental ESG analysis of issuing entities. While we do invest in a number of bonds issued under sustainability frameworks, we prefer to take a more holistic approach to our assessments by performing our own thorough ESG analysis on the entity. We see numerous examples of issuers with otherwise very poor ESG credentials issue green bonds that we consider to be unfit for purpose.



STEWARDSHIP, INVESTMENT AND ESG INTEGRATION *CONTINUED*

CASE STUDY E

Ørsted A/S

Ørsted A/S, is the world's leading offshore wind developer. The Denmark based company has 8.2 GW of installed capacity with plans to grow to 30 GW by 2030. Ørsted is fully integrated; involved in the development, construction, ownership and operation of wind farms. The company has projects in the UK, Ireland, Germany, the Netherlands, Taiwan, and the US.

The UK is their largest market, with 5.6 GW of installed capacity – enough to power over 6 million homes.

In 2009, 85% of Ørsted's energy production was based on fossil fuels and 15% on renewables. At that time, the company committed to switching that ratio to 85% renewable energy and only 15% fossil fuels by 2040. Impressively, this goal was achieved by 2019 – within

a decade of setting it and 21 years ahead of schedule. By 2024, the company will be fully divested away from oil and gas production, and coal-based power generation.

Given that Ørsted is a global leader in renewable energy and sustainable business practices, the bonds have in recent years justified a tighter credit spread (a measure of corporate bond valuation) versus similarly rated peers. Despite being a long-time admirer of the credit and ESG profile, this rich valuation prevented us from investing in the bonds. However, recent issues facing wind developers presented a compelling buy opportunity.

Rising input costs, global supply chain disruptions, and more challenging financing conditions from higher interest rates, led to a number of financial challenges for the sector. As a result, many new offshore wind projects have been delayed or cancelled.

As the world's leading developer of offshore wind, Ørsted was not insulated from this challenging economic climate. However, through the team's continued monitoring and research, we have been reassured by actions taken by management in response such as;

1. a dividend holiday
2. asset disposals
3. a reduction in capex by refocusing on core markets
4. strengthening risk management practices
5. increase debt coverage ratios in line with the market recognition that business risk has risen



Multi-asset strategies

Our Multi-Asset strategies benefit from the fundamental analysis, and recommended lists maintained by the specialist Equities and Fixed Income teams when constructing Multi-asset funds and portfolios.

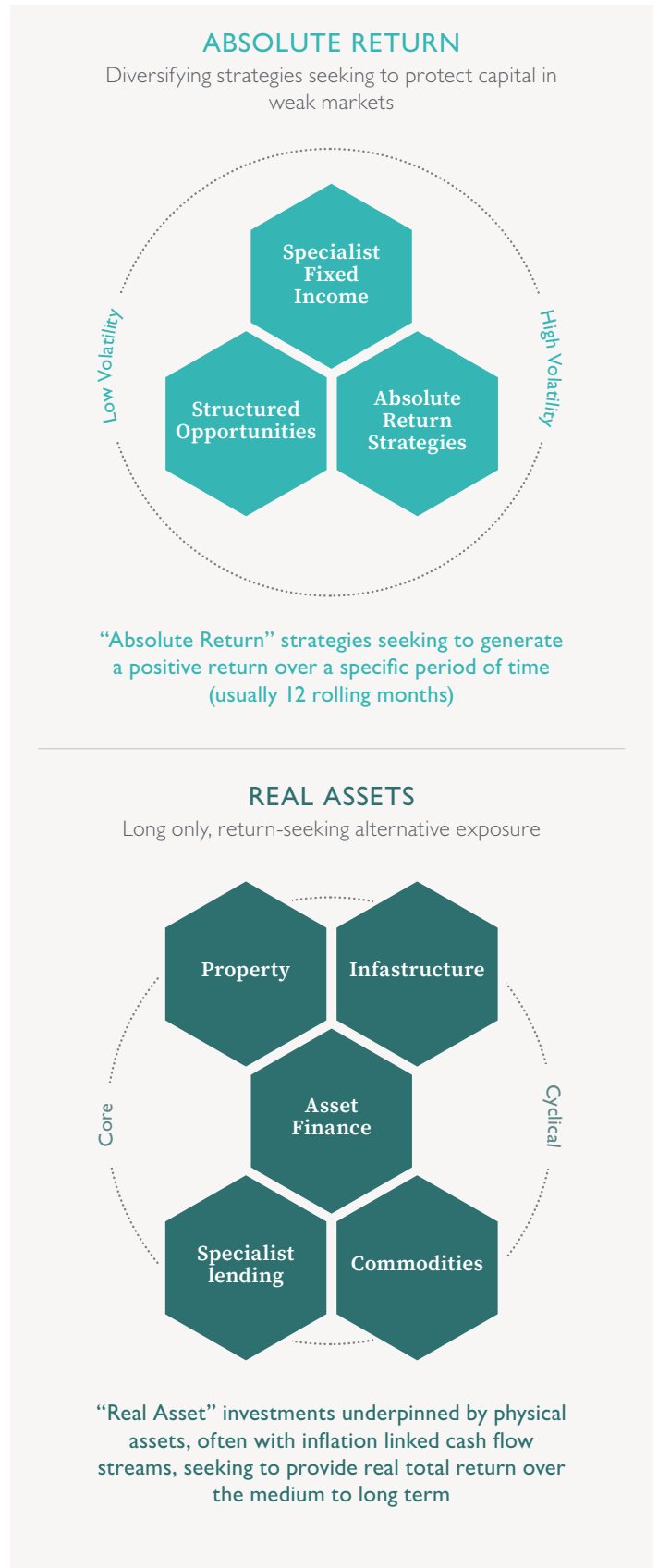
Alternatives selection process

Similar to our equity and fixed income selection process the alternative investment process hinges on bottom-up fundamental research. The initial stage encompasses a split in the classification of any alternative investment between two sub-asset classes: Absolute return and Real assets.

We then run initial screens to rank and filter investments based on consistency of performance across a range of absolute, relative and risk adjusted performance metrics. Investments which pass this initial screen are then analysed more formally through a fundamental quantitative and qualitative research process, incorporating Waverton’s ESG integration and materiality framework where appropriate.

This includes assets which clearly map to a GICS sub-industry sector such as infrastructure, utilities, shipping or property. Work by our IT development team to embed the materiality framework into our Real Assets research template was completed during 2023, so that this now automatically uploads onto our internal research portal, as it does for the other asset classes.

However, we recognise that many of our managers operate in more complex investment areas, such as the derivatives space, and/or do not interact with management of public/private companies e.g. trend following futures. Waverton has undertaken a review of best practice for these non-traditional investments and, for now, we expect firms to maintain high levels of governance and responsible investment practices at firm level. We encourage our specialist managers to adopt ESG policies which are applicable to complex asset classes, while recognising the challenges to achieving this.



STEWARDSHIP, INVESTMENT AND ESG INTEGRATION *CONTINUED*

CASE STUDY **E**



Greencoat UK Wind

Greencoat UK Wind plays an active role in reducing the UK’s greenhouse gas emissions and accelerating a move towards net zero. It is the leading listed renewable infrastructure fund, invested in around 50 operating UK wind farms. Since listing, the Group’s operating wind farms have produced 18.8TWh of clean energy, saving 7.4 million tonnes of CO₂. Greencoat UK Wind also contributes to local communities, for example, by providing £4.4m of funding in 2023 and generating around 1,000 jobs in rural communities.

In 2023 Waverton increased its holding in Greencoat UK Wind not just for its continued sustainability credentials, but its strong investment characteristics.

“
It generates roughly £200m of cash per year from their wind farms, which allows them to pay an RPI inflation-linked dividend, as well as reinvest proceeds into new assets.

Further, management are conservative and have delivered 9-10% annual returns since IPO in 2013, from a mix of capital growth and income.

Greencoat UK Wind is one of our top holdings in Waverton’s Real Assets Fund, which we have held since 2019. It is also included on our Alternatives recommended buy list for the private client team.

Third-party funds

The Waverton fund selection process aims to identify genuinely active, differentiated funds, managed by experienced fund managers with a sound investment philosophy.

Our process utilises a range of quantitative and qualitative criteria to define, analyse and select the most appropriate investment strategies from within the available investment universe. The initial stage of the bottom-up process defines the investment universe across three broad asset classes' equity, fixed income and alternatives. We include the full spectrum of open-ended funds, closed-ended investment trusts and passive strategies, both index funds and Exchange Traded Funds (ETFs), creating a universe of collective investment vehicles available for selection.

When assessing investment strategies, we seek to identify, where possible, whether the investment strategy is managed with an ESG focus. We use Morningstar data to evaluate whether the fund invests based on certain non-economic principles, such as environmental focus, social responsibility or human rights. A socially conscious fund may take a proactive stance by selectively investing in, for example, environmentally responsible companies, or firms with good employee relations. Equally this subset of investment strategies may avoid investing in companies involved in promoting alcohol, tobacco, gambling, or in the defence industry.

We also assess the ethical and responsible investment approach of third party funds using the Spectrum of Capital, which is a widely adopted responsible investing framework. It provides a tool for fund selection and determines what we can expect of a fund's stewardship activities, outcomes, and guidance for ongoing monitoring. This allows us to assess the overarching fund approach towards ESG and responsible investment before undertaking further analysis.

MONITORING MANAGERS AND SERVICE PROVIDERS

Service providers

We assess and rate all service providers that support our corporate and investment activities according to their contribution to our processes and client service.

Our Risk Committee identifies critical providers who may hold or process our client data. We have a risk-based monitoring approach and carry out additional due diligence for critical providers, including quarterly reviews with any concerns escalated to the Risk Committee. We also carry out annual due diligence and cyber security assessments, and screen critical providers annually against sanctions or regulatory fines.

Third-party research and data providers

The Investment team uses third-party research providers to complement their own fundamental analysis, enhance their knowledge and understanding, and to provide an important diversity of opinion through discussions with industry/regional/asset class specialists. The expansion of the Investment team over the last decade has reduced our reliance on external research, and we maintain a more concentrated number of third-party relationships, avoiding unnecessary duplication of content while also ensuring sufficient breadth and differentiation of published research, direct access to valued analysts/industry experts, as well as entry to conferences, thematic events and company meetings. This includes access to information provided by specialist ESG data providers.

The availability of good quality, transparent, reliable and consistent ESG data still remains an issue for anyone in the investment industry attempting to accurately assess a fund/portfolio's ESG credentials, especially on a global basis. We were involved in the FCA's consultation process regarding the introduction of a voluntary Code of

Conduct for ESG data and ratings providers in late 2022/early 2023, which was subsequently introduced late last year. The Treasury is currently considering whether ESG data and ratings providers should be brought within the FCA's regulatory remit.

In the meantime, members of our Investment team continue to maintain constructive two-way relationships with MSCI, our ESG data provider, so that when we identify anomalies or inconsistencies in information, we feed this back to them with the aim of helping to improve data quality.

Review process

We monitor and review our existing third-party research providers to assess the quality of their offering alongside the evolving requirements of the Investment team and the services of alternative or new research providers. Senior members of the Investment team meet twice a year to assess performance and our usage of their services, with a detailed annual review carried out in November to determine external research requirements for the following year.

This involves discussions with each of our providers and can lead to the renegotiation of fees or termination of the relationship. The latter would reflect a deterioration in research quality, departure of key contacts, loss of differentiation and/or value. By contrast, we will also increase our fee payments if we see additional value and the team has meaningfully increased its consumption of the provider's research and/or has benefited from increased analyst/event access.

Our assessment of value incorporates both quantitative and qualitative inputs and the Investment team logs all analyst, industry specialist and corporate interactions via Waverton's internal research portal to track the level and type of activity throughout

the year. This data is checked, collated and circulated at least twice a year. Each asset class team also adds a qualitative overlay to ensure the level of fee payment remains appropriate for both the amount, type and quality of research consumed.

Proxy voting provider

We partner with Glass Lewis, a leading independent voting advisory service provider for our proxy voting. In Spring 2023, Waverton went through the process of outsourcing its operations to SEI, which has resulted in some modifications to our previous voting process, whereby their strategic partner - Broadridge Financial Solutions - now casts our votes. The process remains based on Glass Lewis' proxy voting reports and its recommendations, subject to our Investment team's review.

With our current proxy voting policy having been in place for five years, this has been an opportune time for us to review both our voting policy and the assets on which we vote, which we will report on next year.

Third-party funds

Our fund selection process involves ongoing research, evaluation, and monitoring. For those funds in which we invest, we maintain a close and regular dialogue with the management team, seeking to meet them at least every 12 months but more frequently if there is an important event, such as unusual levels of volatility or an identified change in investment style.

We monitor our asset managers' activity via formal and informal processes against the selection criteria. On a weekly basis, portfolio and fund performance is reviewed and discussed by the Multi-Asset Strategies team. The team scrutinise the collective's performance, delving into style biases, sector biases and peer group performance. Attribution reports are analysed

and look-through analysis is provided where available.

Where funds are not meeting our performance expectations, the team will escalate by assigning additional analysis and follow-up to the relevant analyst. More informally, we actively monitor existing holdings' daily performance via a watch list and utilise a weekly fund chart pack to review performance on an ongoing basis. Performance monitoring is supported via internal teams, FactSet data and Morningstar inputs.

CASE STUDY

Brook Absolute Return Fund

Issue

Waverton has been a long-term investor in the Brook Absolute Return Fund, one of the few “Absolute return” funds to deliver genuine market beating returns. In 2023, due to the affiliation as a subsidiary to Odey Asset Management and the extensive negative coverage surrounding Odey AM's founder Crispin Odey, the fund ACD, Link Fund Solutions, decided to gate the Brook Absolute Return Fund in June 2023. The Brook Absolute Return Fund was a 3.73% holding within the Waverton Absolute Return Fund, one of the building blocks of our Management Portfolio Service. This was a disappointing situation for Waverton.

Action

We spoke extensively to the Brook management team since the original FT article. We made it very clear that we would redeem our holding unless there was a clear change in ownership at the firm level. This built on our active engagement with the Brook team, where we have met them frequently since the beginning of 2022. The rebranding of Brook AM from Odey Asset Management in November 2020 was the first step in a full separation of the businesses. The managers, investment team, approach and portfolio are all separate from Odey and Brook was increasingly seen as a separate entity and business. However, they still remained a subsidiary of Odey AM and therefore by association several service providers, including prime brokers and custodians were seeking to sever ties with Brook, and as a result a number of investors have redeemed from the Fund, with the fund size falling by c.£60m since the original FT article and before the fund was gated.

Outcome

While we recognised that the Odey governance was lower quality than peer firms, we also knew that the Brook team were seeking to separate from Odey as soon as practically possible when assessing the fund's merits. The long-term track record and the attributes the fund brings to wider portfolios resulted in us maintaining a holding in the fund.

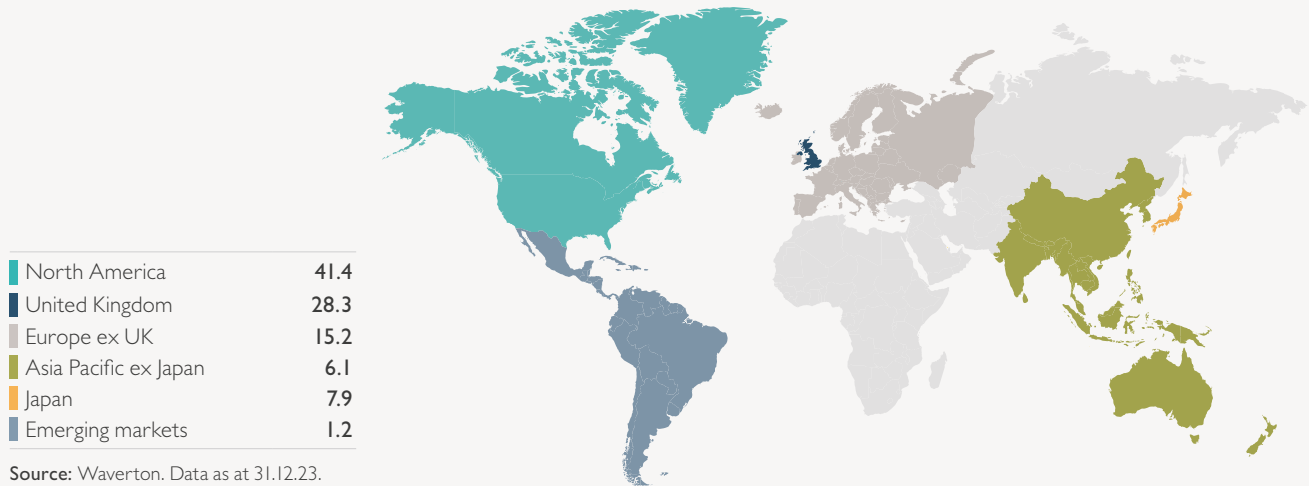
Link reopened the fund for subscriptions and redemptions on 21 July 2023. We met with lead manager James Hanbury and James Kostoris given the announced transition of the fund team to a new home at Lancaster Investment Management. We remain invested in the strategy within the Waverton Absolute Return Fund, believing both the opportunity set and operational structure appear attractive from this juncture.

Engagement

9	Engagement	43 – 52
10	Collaboration	53 – 54
11	Escalation	55

9 ENGAGEMENT

Waverton AUM by region (%)



Introduction

The investment philosophy underpinning Waverton's stewardship of client capital is based on our long-held belief in the advantages of a global, active, direct and high conviction investment approach. We are long-term fundamental investors and, as such, have always preferred to build constructive relationships with company management and engage with them on a regular basis.

A key advantage of managing more concentrated portfolios/funds is that it enables us to have detailed knowledge and understanding of each individual holding, to monitor them closely on an ongoing basis and, in turn, to manage risk more effectively.

Engagement policy

We are committed to contributing to an improvement in corporate practices, public disclosures and outcomes across the ESG spectrum. Our approach to engagement focuses on aspects where we believe we can be most effective in influencing or encouraging better behaviours, while also fulfilling our fiduciary duty to clients to enhance or protect shareholder value.

Direct engagement

Direct communication with companies not only facilitates a deeper understanding of their business model and strategic direction, but also a fuller assessment of management quality, corporate culture and governance standards, all of which are difficult to gauge from corporate reports alone. We believe positive real-world outcomes require not only detailed fundamental analysis and active two-way discussions with company management, but also (crucially) a forward-looking approach that acknowledges a period of transition that passive managers and/or those reliant on screening struggle to achieve.

These meetings provide a forum for us to advocate for the strong governance standards and efficient allocation of capital that ensures resilience in a company's business model and its long-term financial sustainability.

Our long-term investment horizon, detailed due diligence and experience of our Investment team have helped create strong relationships with companies across the major regions, providing us with good access to and discussions with senior management. We undertake

hundreds of meetings a year both in London and overseas, believing that meeting companies in their domestic territory often provides valuable anecdotal insights, as well as highlighting important regional differences.

During 2023, we participated in 504 meetings with companies worldwide, with our Japanese and Asia-Pacific equity specialists travelling to conferences in Tokyo and Hong Kong for the first time since early 2020, as the last Covid-related travel restrictions were finally lifted.

504
Company meetings
(2022: 567)

57%
of meetings 1-1 or
with small groups
(2022: 52%)

84%
of meetings with
senior management
(2022: 76%)



ENGAGEMENT *CONTINUED*

Consistent with previous years, approximately 50% of our meetings in 2023 were with companies in which we are invested. We meet with many others, not only as part of a continuous review of potential investments, but also because these conversations provide valuable insights into the health of the real economy and the competitive dynamics of an industry (including private companies developing potentially disruptive new technologies/products/services). They can also highlight the relationship with and practices of those that may be suppliers or customers of our investee companies, which is particularly important given the greater scrutiny now given to ESG standards throughout a company’s supply chain.

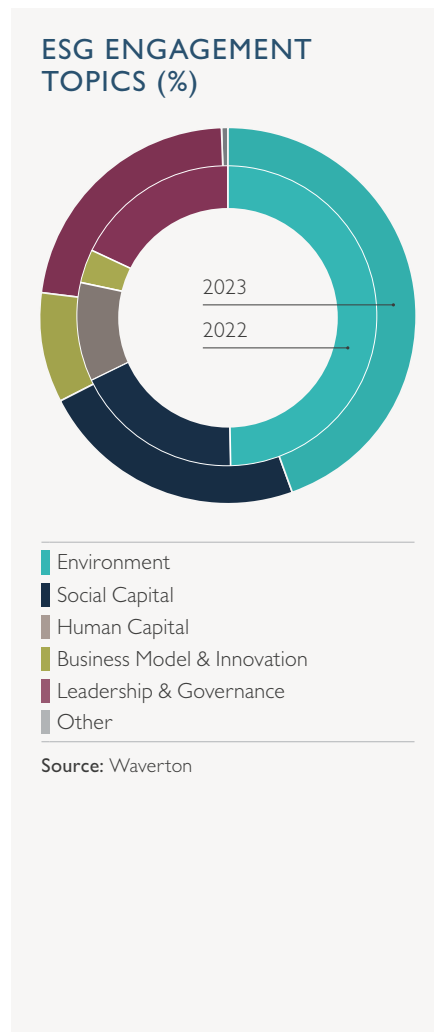
Identifying engagement topics

We have always believed that the consideration of ESG factors is an integral part of good fundamental research, rather than something new to assess or part of a separate process. Governance is central to delivering a sustainable business in all its forms (durability, returns for shareholders, improving ESG standards) and is a key part of our analysis. Similarly, when considering other relevant factors that could impact a company’s ability to generate free cash flow (FCF) over the long-term, it is impossible to ignore material environmental and social factors that could have significant operational and financial consequences for its business.

ESG factors are, therefore, intrinsically linked to the long-term returns of an asset and we use a bespoke framework that helps identify, prioritise and assess the most material issues impacting the companies in which we place our clients’ capital. While much of this is intuitive from a fundamental research perspective, the framework ensures relevant material issues within specific industries are identified and investigated in a more consistent manner across the Investment team, and provides a formal foundation for our engagement activities.

As we reported last year, we aim to capture these engagements within our research templates, which are uploaded onto our internal portal and the data automatically collated for annual reporting purposes. Over the course of 2023, we captured more interactions than the prior year, with our materiality framework now integrated into the investment process of all asset class teams, where applicable.

The first chart below highlights the greater emphasis on Governance-related topics in 2023 versus the previous year, which ties into the case studies included on the next few pages. The second chart highlights the mix of specific ESG engagement topics discussed with companies last year.



Materiality framework

As discussed in Principle 7, we completed the integration of our bespoke materiality framework across our Multi-asset strategies team by the end of 2023. This excludes the more complex Alternatives sub-asset classes that require a different approach, but now captures all three of Waverton's asset classes: Equities, Fixed Income and Alternatives.

The importance of materiality

We believe focusing on material ESG issues when evaluating a company's performance with regard to ESG factors, is the most effective way to assess real-world environmental and social outcomes.

During 2023, for example, the Equities team continued to engage with investee company Asahi Group, the world's third largest brewing company. Topics of discussion included its use of water, one of the main ingredients in beer, given not only the operational and financial

implications to the company of improving its water efficiency over time, but also the environmental implications relating to water scarcity. Other topics included its social responsibilities with respect to the consumption of alcohol and what actions it takes to help prevent excessive and/or under-age drinking, given potential regulatory and financial consequences for its business.

Our attention when meeting with Shell, however, is currently better focused on the company's energy management and GHG emissions, both of which have direct implications for the efficiency of its operations but, if mis-managed, could also carry serious environmental risks with potential reputational and financial consequences lasting many years. As highlighted in the chart on the following page, our shareholding in Shell is the largest single contributor to Waverton's financed emissions. At the time of writing, Waverton's UK Fund Manager had just attended a meeting

for a small group of investors invited by Shell's Remuneration Committee Chair, to discuss and provide feedback on proposed resolutions on their "Energy Transition Targets" and "Safety Metrics". An important point here is that being a shareholder gives us a seat at the table.

The chart below illustrates a cross-industry sample of material ESG factors.

	Environment			Social capital				Human capital	Business model & innovation		Leadership & governance		Other
	Energy Management/ GHG Emissions	Waste & Hazardous Materials Management	Water & Wastewater Management	Product Quality & Safety	Customer Welfare	Human Rights & Community Relations	Selling Practices & Product Labeling	Labour Practices/ Health & Safety	Material Sourcing/Supply Chain Management	Product Design & Lifecycle Management	Critical Incident Management	Business Ethics & Behaviour	Ad hoc
Amazon.com (Broadline retail)				✓			✓	✓		✓		✓	✓
Asahi Group (Beverages)	✓		✓		✓		✓					✓	✓
Sandvik AB (Machinery)	✓			✓					✓	✓		✓	✓
Shell plc (Oil & gas)	✓	✓				✓					✓	✓	✓



ENGAGEMENT *CONTINUED*

CASE STUDY E

Climate Transition Plans Issue

We recognise our responsibility to help drive positive environmental change. Part of that responsibility incorporates obligations under the TCFD regulations to measure, understand and report on the share of financed emissions from the investments managed by Waverton.

Building on their previous work to measure the carbon emissions of our Global Recommended Portfolio, members of the Equities team embarked on a follow-up project in 2023 to assimilate investee company Climate Transition Plans (CTP), and provide guidance information to the team to facilitate engagement with management teams on the topic. This project is a significant development emanating from our involvement in the CDP Transition Plan Campaign (March 2023), for which we were a lead signatory for a number of companies included in our Global Recommended List.

The guidance contains information from many sources including CDP submissions scores, MSCI ESG ratings and SBTi GHG emission reduction targets. The detailed CTP analysis focuses on a number of topics which should help us understand investee company pathways to net zero, and in due course enable Waverton to devise its own GHG reduction aspirations. These topics include:

- Governance – are the organisation’s structures and incentives aligned to deliver climate transition
- Strategy – understand the CTP, strategic positioning and links to overall business performance

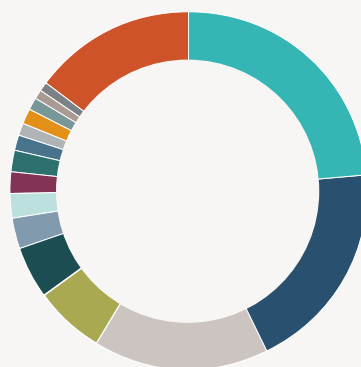
- Targets – are targets SBTi verified, how ambitious are they, are supplementary goals in place (e.g. for renewables)
- Risk and Opportunities – what are the potential positive and negative impacts and how are these being mitigated
- Value Chain Actions – collaboration with suppliers and customers to help achieve climate change goals

Action

In 2023, we initiated direct engagement with companies on their specific climate transition plans, recognising that climate change is a journey for all of us and the purpose of engagement is to build a symbiotic relationship (between investors and company management). We do not expect instant results, but over time we hope to gain confidence in investee company plans, encourage better disclosure and help influence strategies, where appropriate. We believe this will also enhance the integration of environmental considerations into our investment process.

While CTPs are relevant for all investee companies, the primary focus of our engagement is with those companies that contribute the most to financed emissions. We have calculated that the top 15 companies account for 85% of total financed emissions from all equity holdings across the firm and 90% for a number of Waverton funds.

DISTRIBUTION OF FINANCED EMISSIONS IN 2023



- Shell
- Hitachi
- Cummins
- Siemens
- Anglo American
- Toyota Motor
- Costco
- Rio Tinto
- Autoliv
- GEA
- UPM
- Linde
- Asahi
- Taylor Maritime Investments
- Schlumberger
- Other

Source: Waverton

Outcome – ongoing

We have provided three case studies highlighting our CTP engagement to date. It is expanding and evolving to cover more companies. In future, we plan to cover holdings across all asset classes and engagement is likely to become more frequent and in depth, as we monitor progress and report under TCFD.

CASE STUDY **E**

Hitachi Ltd (Japan)

As we covered in last year's report, Hitachi has some of the longest standing and most ambitious GHG emissions reduction targets of all the companies in the Waverton Global Recommended Portfolio:

- In 2009, Hitachi signed the United Nations Global Compact
- In 2010, it formulated its 5-year CSR Roadmap
- From a 2005 base-year, Hitachi set a target to reduce GHG emissions by 100m tCO₂e by 2025
- Since then, it has updated and revised targets (certified by SBTi), with an ambition to cut Scope 1 & 2 emissions by 100% by 2030, from a 2010 base-year
- Over the same time frame, the Scope 3 reduction goal is 40%

We continued to engage regularly with Hitachi senior management, investor relations and its sustainability specialists during 2023. We also engaged with CDP about Hitachi's climate change submissions.



Understanding the targets and how they are going to be achieved starts with emissions data and energy consumption statistics. What are the various sources of energy being used now and how they are going to change e.g. fossil fuels, types of electricity generation, steam, solar, wind etc. During the carbon project we undertook in 2022, it became apparent that there are regional differences for measuring, calculating and presenting energy consumption and emissions. Our interactions with Hitachi highlighted some anomalies in their approach, which resulted in revisions to its disclosures to be more in line with international norms.

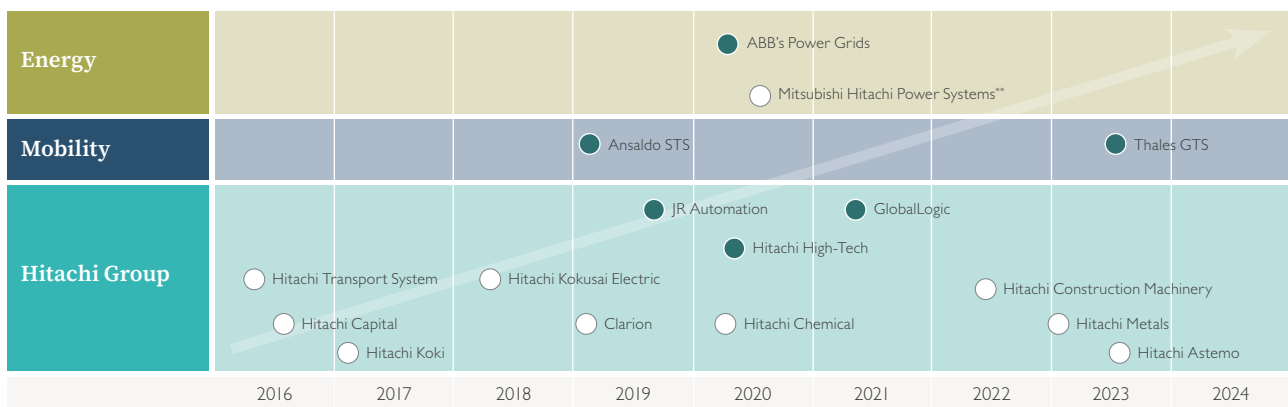
Understanding the changing structure of Hitachi's business and consequences of this on base-line emissions and

targets is also crucial. Hitachi has made numerous acquisitions over the last 10 to 20 years, as well as undertaking a significant restructuring of its business portfolio, including the deconsolidation of non-core operations. As a result, it is more complicated to separate emissions changes into their component parts – real underlying emissions reduction (with real world benefits) versus reductions due to changes in the "accounting" of emissions.

For associate businesses or joint ventures with no controlling parent, MSCI has coined the phrase "orphan emissions". That is, emissions that are no longer directly disclosed due to the deconsolidation of the operations but that still exist in the real world.

Consequently, Hitachi is undertaking a detailed review of its business strategy, base-line emissions and will provide revised future targets in due course.

Hitachi has transformed itself into a more focused, higher margin, less capital intensive, less cyclical business*



● Acquisitions ○ Deconsolidation of non-core operations

*Timeline represents key acquisitions and divestments **Stake sold to Mitsubishi Heavy Industries

Source: Hitachi Investor Day, June 2023.

ENGAGEMENT *CONTINUED*CASE STUDY **E****Halma plc (UK)**

Halma (owned in our Waverton UK Fund) is a global electronic equipment, instrument and software company involved in the manufacture of hazard and life protection products, dominating niche segments in Process Safety, Infrastructure Safety, Environmental & Analysis, and Healthcare.

It was the first company to respond to our CDP Climate Transition Plan Campaign letter and is a good example of a company that is also early in its journey to measure its emissions. It appreciated our engagement, as much as we did, because it helped them to assess investor expectations, as well as glean some information about how other companies are tackling climate change and reporting requirements.

The decentralised nature of its business with 47 autonomous units/brands operating under three reporting segments, does not lend itself to standardised KPIs and GHG emissions collection. Halma is tackling this challenge and grappling with how to align its business strategy and product attributes with GHG emission target setting. It does have ambitions but is also mindful of the paradoxes that arise. For example, Scope 3 Category II – Use of Sold Products – measures the emissions over a product's expected lifetime. A highly efficient product with a very

long life expectancy (15 years) means Scope 3 emissions are high for Halma, with 1% of its sales contributing 60% of emissions.

When setting targets, therefore, would it be a better for Halma (but not necessarily the real world) to produce and sell less efficient products with shorter lives in order to reduce reported Scope 3 Category II emissions?

Investors need to be aware of these issues when comparing companies like Halma with peer groups, and we should be wary of using snapshots of absolute emissions or emissions intensity in isolation, as a simple judgement of performance.

We will continue to monitor Halma's progress as we share their belief that it faces significantly more opportunities than risks from the climate change transition.

Linde plc (US)

Linde, included in our Global Recommended List, is one of the largest contributors to our financed emissions and is unusual in that its Scope 1 & 2 emissions are larger than its Scope 3, which have been on an upward trajectory recently. This is a consequence of its industrial gases business that requires a lot of energy to split air into its component molecular parts. The recovery in demand for industrial gases, supported by secular growth in electronics and the requirements of the energy transition (e.g. hydrogen), is the reason behind the growth of its emissions.

The purpose of the engagement with Linde was to better understand these factors, its plans to mitigate them and how it will achieve its emissions reduction targets. Currently, it does not have Scope 3 targets which it plans to set in 2025/2026. Disclosure of

its own low carbon energy usage ambitions could also be improved. There are a number of carbon capture projects being developed, however, and Linde is also helping customers by co-investing in renewable projects, but the positive impact of these projects is not yet known and unlikely to make an impact for several years.

Another area of discussion was the company's remuneration policies and ESG-related incentives to reward faster achievement of climate goals. ESG factors currently have a 15% weight in their short-term incentive plans, of which 5% is for absolute GHG emissions. Linde believes that these short-term incentives are the best way to encourage cultural change. For other companies, however, ESG incentives are included in LTIPs with performance periods that aren't long (typically 3 years), compared to GHG emission reduction targets over a typical 2030-2050 timeframe. We also question whether a 5% weight for emissions reduction is sufficient, and whether schemes with ESG incentives included in both STI and LTI plans and with climate related metrics accounting for 25% of total weight, will prove more effective.

We continue to monitor and encourage improvement.



CASE STUDY 

Corporate governance reform in Japan

We have had above-average exposure to Japan within our equity exposure for a number of years, benefiting from long-standing and strong relationships with many of Japan's largest companies, but also recognising the potential value to be unlocked from a series of corporate governance initiatives that started a decade ago. It was only

earlier this year that Japan's main equity index (Topix) recaptured its 1989 peak.

The history

One of the main pillars of late prime minister Abe Shinzo's "Three Arrows" strategy (also known as "Abenomics") after he came into power in 2012, was to improve Japan's corporate governance standards. At that time,

these were still lagging best practice standards in other parts of the world, evident in the prevalence of inefficient capital allocation including cross-shareholdings that were typical of corporate Japan in the 1980s. Below we highlight key developments implemented over the last 10 years, and provide some examples of ongoing engagement on this topic with some of Japan's largest companies.



THE STEWARDSHIP CODE

2014: Introduced by the Financial Services Agency (FSA), based on the UK's Stewardship Code and the FSA's first formal attempt to encourage institutional investors to take their ownership responsibilities seriously. It emphasised the importance of constructive engagement with corporate management and a clear policy on voting and voting activity disclosure.

2020: A third version introduced, requiring signatories to not only vote on every share held, but to also publicly disclose how those votes were cast and to explain the reasons for their voting decisions.

THE GOVERNANCE CODE

2015: Focused on improving board independence, diversity and effectiveness. Companies were encouraged to have multiple independent directors, introduce greater diversity, a nomination and compensation committee, and to engage with their shareholders.

2018: This revision required companies to (1) adopt "targets for profitability and capital efficiency after accurately evaluating their cost of capital", and (2) analyse each cross-shareholding based on their cost of capital calculations and disclose the results. It recommended a majority of independent non-executive directors (INEDs) and encouraged company pension plans to become a signatory to the Stewardship Code.

2021: Further fine-tuning of the Code, requiring Prime listed companies to have at least one third of their board as INEDs, and putting greater emphasis on companies' cost of capital evaluations and their disclosure. It re-emphasises the purpose of the "Comply or Explain" principle and demands a detailed explanation of the objective and rationale behind a company's cross-shareholdings.

TAX-FREE SPIN-OFF LAW

2017: The Japanese government introduced the Tax-free Spin-off Law which for the first time allowed a listed company in Japan to separate a division into a distinct listed entity, and to distribute 100% of the shares to its existing shareholders on a pro-rata basis, all free of tax.

2018: Treasury Stock treatment was redefined. Prior to 2018, there was no difference in the tax treatment of an acquisition funded by cash or by shares, with both considered a taxable realisation of a capital gain for the holder of the acquired company. The law changed in April 2018, however, so that if an acquisition was transacted in shares, CGT only became payable at the point at which those new shares were eventually sold (if ever). Corporate Japan was now able to effectively turn their treasury stock into acquisition arsenals worth north of \$200bn in value.

MINISTRY OF ECONOMY, TRADE AND INDUSTRY (METI)

2022: Reinforcing the above tax changes, METI embarked upon a process to revise the 2019 "Fair" M&A Guidelines and create a takeover code of conduct that would not only be fair and properly understood, but also stimulate greater merger activity and industry consolidation. The revisions sought to prevent the "unreasonable" defence tactics that concerned investors, both domestically and globally, and had reduced the attraction of Japanese firms as attractive acquisition targets.

THE TOKYO STOCK EXCHANGE (TSE)

2022: The TSE was the last major Japanese institution to join the initiatives, re-categorizing its 3,300 members into the Prime, Standard and Growth sections.

2023: In January 2023, the TSE introduced a finite two-year timeframe for companies currently unqualified to sit in their chosen category to comply with their category's listing requirements, with the threat of demotion or indeed delisting if not achieved by March 2025.

ENGAGEMENT *CONTINUED*

CASE STUDY

Japan Exchange Group

We met with TSE executives, including Japan Exchange Group CEO Yamaji Hiromi, several times to discuss existing and future corporate governance initiatives in Japan.

The TSE appears to have finally adopted the role it has failed to embrace to date, which is to be Japan's ultimate umpire and enforcer of listed corporate Japan's corporate governance, efficient capital allocation and cost and return on capital, with consequences for corporate valuations.

The TSE is not necessarily expecting companies to solve issues with a one-off response, but is expecting companies to fundamentally attain profitability in excess of their cost of capital.

Toyota Motor

As highlighted in previous Engagement & Voting reports, we have actively engaged with Toyota Motor for a number of years, not only on environmental issues and its multi-path power train strategy, but also with regard to corporate governance in general and efficient capital allocation in particular.

As one of Japan's oldest companies, it holds cross-shareholdings worth approximately \$70bn, and we have met with management numerous times to exchange views on how these resources could be better deployed to its global electrification strategy and shareholder returns.

Indeed, management has started to adopt a greater focus on capital efficiency in its decision-making process and to sell down holdings deemed excessive or non-core. These include c.\$2bn (c.3% of outstanding shares) in telecommunication company KDDI; c.\$2.5bn (c.4% of outstanding shares)

in Denso, a founding Toyota group company. Our engagement is ongoing and we expect Toyota to formulate a more holistic cross-shareholding unwinding strategy later this year.



Hitachi Ltd

Not only is Japan's largest company, Toyota Motor, embracing the concept of group reorganisation and cross-shareholding unwinding, but other corporate majors are also actively engaged in asset optimisation. This includes Hitachi, a long-standing Waverton holding, where we regularly engage with senior management, who have been at the forefront of selling-off/buying-in all of its listed subsidiaries over the last 10+ years. It is now also disposing idle and non-core real estate to finance future growth initiatives, as well as improving shareholder returns through dividends and share buy-backs.



Other asset classes

Fixed income

Our approach to fundamental research and identifying key material issues on which to engage is in line with the wider Investment team's approach. Pre-issuance engagement is usually part of our research process. These engagements typically consist of 1-1 or small group meetings and provide an opportunity to raise questions and have detailed discussions on a broad range of issues, including those related to specific ESG matters.

In addition, ongoing monitoring of our investments may give rise to queries, ESG or otherwise, which we will raise with the company, as and when appropriate.

Where we see inadequacies or have queries relating to material ESG and sustainability issues, we ensure we raise these during company calls with the CEO/CFO and in writing, usually with the Investor Relations team, until we are reassured that the risks are managed properly. Where we are not satisfied, or have not received a response and believe the risk significantly impedes the investment case, we will divest our position.

Multi-asset strategies

Our Multi-asset strategies team benefits from all engagement activities undertaken by the Equities and Fixed income teams. Additionally, where we identify an issue with management in alternatives or a real estate investment which we feel is to the detriment of the best interests of shareholders (financially or otherwise), we will engage directly with portfolio companies.

In the first instance, we will voice our concerns to both the company's broker and management. Should the issue persist, we start informal conversations with the Board before formally writing to the Board if the issues are not resolved. We engage with

other shareholders on the issues where appropriate and often initiate conversations to voice our concerns.

With regard to collective investment vehicles, we delegate engagement and escalation. Engagement and escalation

policies and records are key to our fund selection process, as are their ESG and sustainability approaches, where appropriate. We undertake detailed due diligence on all collective vehicles prior to investment, also spending time with the managers in person to ensure we

fully understand the strategy and gain better insights into their ability to deliver against their objectives. During 2023, members of our Multi-asset strategies team held 42 meetings with third-party fund managers.

CASE STUDY

FS Agrisolutions (Brazil)

Issue

In 2020, the team purchased a bond issued by FS Agrisolutions, a leading producer of low-carbon ethanol biofuel and animal nutrition product from corn. The company, a regional leader in sustainable business practices, owns and operates three state-of-the-art corn ethanol plants in the State of Mato Grosso, Brazil.

In late 2023, the company sought to gather feedback on a potential refinance of the outstanding bonds, resulting in a proposal that would make those who remained invested materially worse off.

Action

FS Agrisolutions held a series of key investor meetings, including an in-person meeting at our offices. We indicated our support for the idea of extending their debt maturity profile, in principle. Following the successful roadshow, the company announced a new issue combined with a tender offer for the existing bonds – not an uncommon approach to refinancing. However, we were frustrated by one key detail.

The tender offer happened in unison with a consent solicitation. To accept the former, one had to agree to the latter. The purpose of the consent solicitation was a 'covenant sweep' of the terms of the outstanding bond being tendered for. Effectively, this means that the investors opting to exit the outstanding bond (by tendering) were dictating the terms of the investors choosing to remain invested. The latter would have materially worse terms, namely losing a first lien claim against the assets that the bond was secured against. We felt that this was coercive, giving us little choice but to accept the tender.

Outcome

In no uncertain terms, we shared our disappointment with management, while excluding ourselves from the new issue. By speaking to peers, it became apparent that this view was widely shared.

CASE STUDY

PRS REIT (UK)

Issue

PRS REIT has been delivering on a key social purpose through building c.5,500 purpose-built, affordable homes across the UK to meet the distinct housing shortage. Whilst they have been executing effectively, the shares traded at a significant discount to asset value throughout 2023.

Action

We proactively engaged both PRS management and the Board in Q3 and Q4 2023. We made clear our views on closing the discount and gave recommendations to the Board. Most importantly, we were looking for reassurance that the Chair was acting in shareholders' best interests, ensuring management was adhering to the stated investment strategy and on track to achieve a completed operational portfolio by mid-2024.

Outcome

Our discussions reaffirmed our view that cash available to the company was committed to build and complete sites, with a clear path to dividend coverage in 2024. It also provided greater confidence in the company's fundamental outlook given PRS REIT's low cost of debt and strong rental growth.

This reinforced our conviction in the investment thesis, with the heavily discounted valuation offering an attractive opportunity. We increased our position across Waverton funds, and are now a top 3 shareholder of the company. Should the discount persist for a prolonged period, we are confident that the Chair and Board will act in shareholder's interests to seek other methods of realising value, such as M&A or asset disposals.

ENGAGEMENT *CONTINUED*CASE STUDY 

Investment Companies (UK)

2023 was an extremely challenging period for many London listed investment companies. The overall sector came under immense pressure due to the change in the interest rate environment, the UK LDI crisis sparking a sudden surge in Gilt yields and many global investors leaving the UK market or going outright short the domestic-focused FTSE 250.

We have always sought to invest in high quality management teams, owning and managing attractive underlying assets for the long term. Given the dislocation in the market, we spoke with the chairs and boards of all the investment companies of which we are shareholders, to effectively understand two main areas of focus:

- What evidence and action have the board undertaken to ensure the investment manager is following due process and adhering to the investment process as defined in the prospectus
- The roadmap the board have laid out and timeframe for narrowing the discount

The importance of an effective board was evident in the bid we received for portfolio holding Round Hill Music Royalty in September 2023.

This is a holding where we saw a considerable dislocation between the share price and underlying value in the assets. We met with management numerous times, engaged with the new Chair of the Board on how to realise value and kept the position at a full weight in Waverton's Real Assets Fund, never selling any shares and increasing our position on share price weakness.

This speaks to one of the catalysts we have highlighted, namely that high quality assets trading at significant discounts to NAV will be bid for by private market investors who have capital to put to work. We expect more of this should discounts persist.

Robert Naylor, the new chair who was appointed in November 2022, put in place an action plan for resolution, which worked effectively and we believe our engagement with the company and board helped bring to fruition an excellent outcome for investors.

The bid represented a substantial premium to the share price (67% to the last closing price), but a small

discount of 11.5% to the latest NAV. The offer of \$1.15 a share was an all-time high for the share price since IPO on 13 November 2020 and was realised on 1 November 2023. This represented a c.9% annualised return (once dividends included) in USD or c.11% in GBP since our original purchase at IPO.

We have encouraged boards to be clear, effective and transparent with investors, following a simple check list (shown below) designed to resolve the ongoing discount issues across the sector:

- Articulating what steps the board are following in order to narrow any share price discount to NAV
- Ensure this is enacted. For example, all board members agree and sign an action and agenda point at each board meeting
- This is then articulated by the board to investors in a regular update
- If this does not have the desired share price response, it is the board's responsibility to seek more fundamental changes, for example consolidation or update prospectus to include more shareholder friendly policies
- It is imperative the chair and board members, in conjunction with their advisors, ensure regular dialogue with investors and act on feedback
- Emphasise the importance of the independent nature of the board and how improvement in transparency and communication is vital
- Capital recycling, debt repayment, NAV validation through secondary valuation, and the 'shrink to grow' mentality are vital for the health of the sector

10 COLLABORATION

Collaborative engagement

We continue to participate in a number of different collaborative engagements, focusing our attention on those where we believe we can help influence positive outcomes with real-world benefits.

Climate collaborations

Action

We have participated in two leading collaborative initiatives on climate change since 2021 – CDP and Climate Action 100+ – both of which focus on encouraging the adoption of global standards and improving the quality of corporate disclosures on environmental impact. Data quality, while improving, remains relatively poor but is the prerequisite for anyone in our industry attempting to provide an accurate assessment of companies' current performance, and their progress against targets.

In 2023, we supported three CDP campaigns:

- **Non-Disclosure Campaign (NDC)**
Engages with companies that have not previously responded to requests to disclose data through CDP's climate change, forests and/or water security questionnaires
- **Climate Transition Plan (CTP)**
To encourage companies to improve their disclosure of climate transition plans; and
- **Science-Based Targets (SBTi)**
Aimed at encouraging more companies to set 1.5°C science-based emissions reduction targets



Outcomes

Non-disclosure campaign

Waverton were one of the 57% of the Financial Institution signatory supporters who led on engagement in the 2023 NDC – and were selected to lead on three non-disclosing companies (seven requested). We were particularly pleased that our lead role in communications with Japanese company, Shimano, a global leader in the manufacture and sale of bicycle components and fishing equipment, led to a positive outcome. Shimano submitted a response for the first time and received a B rating for its first climate change disclosure.

CDP reported that throughout the 2023 campaign, Japan had the highest disclosure rate across all regions at 39% (and higher for climate change in isolation at 47%).

CTP campaign

Waverton's support for the CTP campaign, for which we were lead signatory for a number of companies included in our Global Recommended List, resulted in several positive engagements with investee companies. This also formed the basis of an internal research project to assimilate investee company climate transition plans, and provide guidance information to our

Investment team to support engagement with management on this specific topic. This research also included questions regarding a company's commitment to a science-based reduction target. See page 46 for further details.

As part of Climate Action 100+, we remain part of an ongoing collaborative engagement group focused on industrials in Asia, including Japan. This particular group's remit has been expanded from its former focus on the region's auto industry.

Focus for 2024

Our priority continues to be our focus on encouraging companies to provide and/or enhance their climate disclosures through ongoing research and engagement (both direct and collaborative). In addition, while some progress has been made in encouraging water and forestry disclosures amongst our investee companies, we will seek more widespread disclosure during 2024. This will build on the initial work of members of the Investment team through the CDP Forestry champions initiative in 2023.



COLLABORATION *CONTINUED*

Regulatory consultations

The regulatory landscape around sustainability continues to evolve and, during the year, members of the Investment team worked closely with consultants, contributed to industry conferences, and participated in or led industry roundtables on regulatory topics.

We continued to be involved in the consultation process relating to the FCA's **Sustainability Disclosure Requirements (SDR)**, including our firm-wide response and our collective contribution through a Discretionary Fund Manager forum, especially where further consultation on the Model Portfolio Solutions (MPS) services were initially left largely unaddressed. We also contributed to the wider debate and discussion on the new regulation, including a panel discussion at the Sustainable Investment Festival in June 2023.

For a second year, we continued to play an active role in the **Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation review**, which is calling for a change to the way investment trust cost disclosure rules are interpreted. This follows guidance issued by the Investment Association in July 2020 regarding two separate, but linked pieces of EU regulation (AIFMD and PRIIPs), which has created significant regulatory uncertainty between the UK and EU member states, as well as other capital markets across the world. HM Treasury opened a consultation in 2022 and we have provided detailed responses to numerous, subsequent consultation papers during 2023.

We strongly believe that the cost disclosure requirements in their current form are misleading to investors. Along with industry peers, we are encouraging adoption of proposals in the Private Members Bill introduced by Baroness Altmann and supported by Baroness Bowles and other industry experts, which excludes investment companies from AIFMD, PRIIPs and

MiFID. In effect, this will level the playing field between UK and non-UK listed companies, ensuring that UK investment companies are treated the same as their peers in other countries.

Work is ongoing and we continue to monitor progress closely. At the time of writing, a second reading of Baroness Altmann's Alternative Investment Fund Designation Bill was presented on 1 March 2024 in the House of Lords. Waverton continues to support these recommendations.

Industry collaborations

We continue to seek opportunities to contribute to topics and discussions around governance and wider responsible stewardship activities from the perspective of a smaller, independent investment firm.

We are active members of the **Independent Investment Management Initiative (IIMI)**, a membership body and think tank representing independent owner-manager investment firms. A Waverton Management Committee member sat on the Board of IIMI until June 2023, but has since stepped down, remaining an adviser to the Board. We attend events and webinars hosted by IIMI, particularly in relation to sustainability and ESG considerations at smaller firms. This is a topic where the voices of the larger asset managers

are more dominant, and we have found that IIMI effectively brings together the voice of smaller firms in a coherent and clear fashion.

We have been a long-term supporter of the **Charity Investors Group (CIG)**. The CIG was formed to create a forum for investment debate. Its objectives are to promote good governance in, and understanding of, charity investment. Waverton's Head of Charities is a member of the CIG Management Committee. In addition, members of the Charity team frequently offer their insights and experience to boards and committees where they might be of use within our community.

Future initiatives

Our approach to participating in additional industry initiatives remains highly selective. We continue to review opportunities for collaboration carefully, ensuring we fully understand the implications of what we are signing up to from an investment perspective, taking into account alignment with our investment approach and an engagement style that is complementary to our own. We are mindful of the limits on our time and resources but, as ever, strive to avoid pure box-ticking exercises, preferring to support those collaborations where we feel we can contribute to positive outcomes with real-world impact.



II ESCALATION

Escalation policy

Direct equities

As long-term investors we aim to build constructive relationships with companies in which we invest. The Equities team undertake detailed fundamental analysis prior to making a new investment and aim to meet with the company at least once prior to making the final decision.

Companies are exposed to industry-specific risks which our materiality framework seeks to highlight, as well as company-specific and/or systemic risks. Any of these have the potential to represent a thesis break, whereby a company's ability to grow free cash flow and long-term financial sustainability could be meaningfully and potentially permanently impaired.

The benefit of managing concentrated portfolios is that it facilitates a more detailed understanding of each investment, helps us to identify risks/opportunities and to closely monitor each company's progress over time.

Where we identify concerns with an investee holding, members of the Equities team will aim to discuss these with their contacts at the company and with senior management if the escalation evolves. We do not implement a specific comply-or-sell policy for engagement issues, but consider each on a case-by-case basis. Divestment is our ultimate recourse should we feel there is a thesis break with the potential to significantly undermine the creation of shareholder value over the long term, and/or the response to our engagement efforts have not mitigated our concerns.

Escalation across other asset classes

Fixed income

We use engagement as our first method for escalation should the need arise. Where our engagement efforts have not been able to achieve the desired impact and changes, the primary method

of escalation for a bond investor is divestment. In line with the broader approach within the Investment team, we will review the impact of the issues on the investment case and whether there is a thesis break. Depending on the outcome of our evaluation, we either choose to accept that the risk is priced into the valuation, or we divest if we believe the risk materially impedes the investment case.

Read our case study on page 64 for more detail on the outcome of our escalation activity with Medical Properties Trust.



Multi-asset strategies

Waverton's Multi-asset strategies follow the company-wide process in place for escalation. We escalate through engagement in the first instance, targeting more senior management as the escalation process evolves. This includes meeting with relevant employees, writing letters and even working collaboratively with other investors to ensure our voice is heard. As above, divestment is our ultimate recourse if the response to our engagement efforts have not mitigated our concerns.

The direct (stock/bond) escalation process in relation to **third-party funds** is delegated to external managers. In line with our own approach, however, we expect all our funds (and their respective investment teams) to actively monitor their investments and escalate appropriately as per their engagement process. We are comfortable for this to be done via voting, consortium, face-to-face meetings and other engagement projects such as campaigns.

We regularly review our third-party funds holdings to ensure managers are monitoring their underlying holdings accordingly. We do this via ongoing reviews, ad hoc discussions, and regular reporting. We expect all asset managers to escalate governance concerns via their agreed investment processes, which we scrutinise upon investment and on an ongoing basis. This includes ensuring our asset managers directly engage with their portfolio companies (and escalate where appropriate), and meet with management on relevant issues. Providing us with updates, sharing progress and delivering suitable reports is required for this oversight which is documented within our research system. Where a fund manager is unable to provide this service, they do not meet our thresholds for continued investment.

It should be noted we have an even higher threshold of escalation and engagement for ESG-specific funds. For these funds, we require detailed engagement processes to be in place as well as effective client reporting such as annual engagement reports, so that we can monitor and challenge their actions. Specifically, we expect these asset managers to vote on issues ranging from board structures through to executive compensation, and undertake collaborative engagements with other investors to help encourage progress and expand their reach. These asset managers must provide us with detailed information on their engagement journeys including in-depth information on the engagement (what, how and why), expected milestones to be met, as well as the outcome they are aiming to achieve.

Exercising rights and responsibilities

12

Exercising rights and responsibilities

57 – 64

12 EXERCISING RIGHTS AND RESPONSIBILITIES

Exercising voting rights

Waverton is a discretionary investment manager and clients entrust us with making investment decisions on their behalf, including exercising voting rights. Given the predominantly segregated nature of our Private Client and Charities' portfolios, we aggregate holdings across the business (Private Clients; Charities; Adviser Solutions; Institutional Solutions).

As active managers, we use voting where we feel there is an opportunity to enhance or protect shareholder value. An integral part of this is to help influence corporate behaviours in a way that will contribute to positive environmental, social and governance outcomes.

In order to facilitate our voting activities, we have partnered with Glass Lewis, a leading independent voting advisory service provider, for almost five years. Glass Lewis assesses and makes recommendations on meeting proposals (from management and shareholders).

Voting universe

In Spring 2023, Waverton outsourced its operations services to SEI which resulted in some modifications to our voting process, whereby their strategic partner – Broadridge Financial Solutions – now casts our votes. The process remains based on Glass Lewis' proxy voting reports and its recommendations, subject to our review as described below. In principle, we voted on our 100 largest direct equity positions and all other holdings owned within our regional and global equity funds.

Subsequent to the change in operational regime, we undertook a review of our voting protocols and the equity universe on which we vote. Given the evolution of our business over the last 10 years, it was also an opportune time to review our approach.

The revised equity universe is now determined by all stocks owned in our Dublin-listed Waverton OEICs (both equity and multi-asset funds), which amounts to over 200 stocks and equates

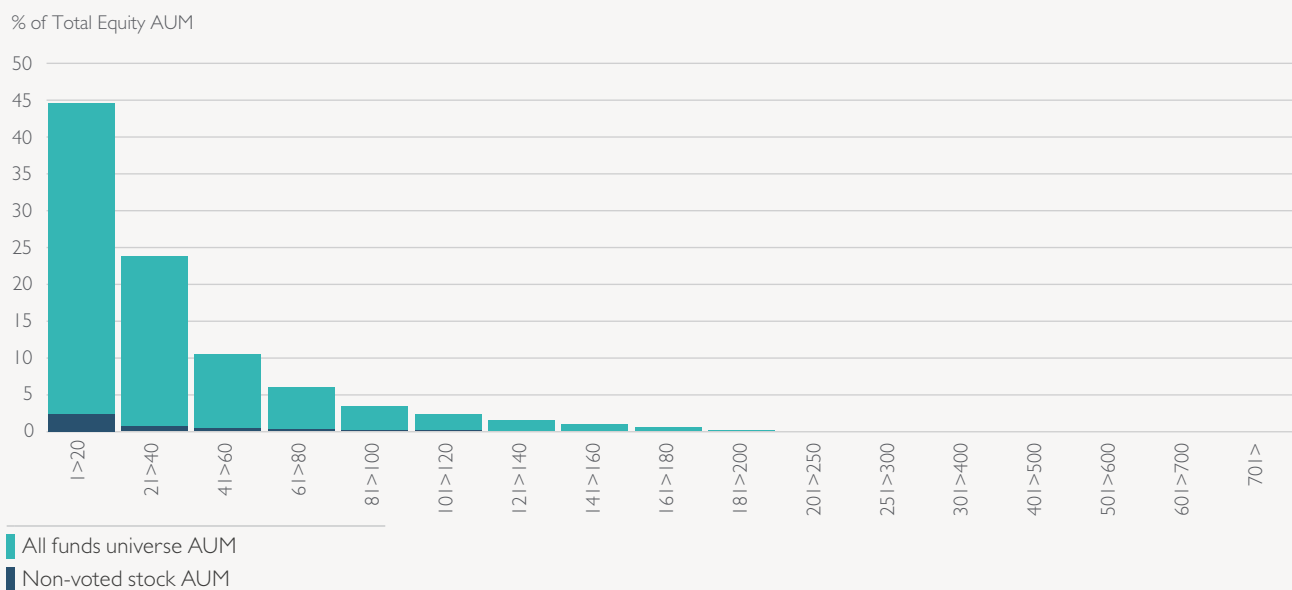
to slightly higher coverage of 93% of total equity AUM (we vote on all holdings of these 200+ stocks across the firm). Importantly, these are all companies that have been analysed in detail, meet our selection criteria and are actively monitored by the Investment team.

The remaining 7% consists of non-discretionary holdings (0.3% of equity AUM), external custody accounts (1.3% of equity AUM) and a very long tail of 760 stocks of which 60% have a value of £100,000 or less. Many of these are single holdings as we transition portfolios over from other investment managers, or holdings with unusually large capital gains where the client has requested no sale.

Figure 1 is an illustration of how the new voting profile looks across the range of c.200 holdings based on current equity AUM (i.e. our top 20 holdings account for c.45% of total equity AUM, our top 40 holdings c.70% of total equity AUM).

Figure 1

Waverton equity holdings – Profile of proxy voting universe by range of holding rank (%)



Source: Waverton.

EXERCISING RIGHTS AND RESPONSIBILITIES *CONTINUED*

Voting policy

We have a responsibility as investors in business equity to vote on important issues at the companies in which we invest. We firmly believe that a company’s governance standards are usually indicative of its management of other issues, including those that are environmental and social in nature. Much of our voting activity, therefore, focuses on promoting transparency, better disclosure of relevant risk factors, robust governance structures, responsible and efficient allocation of capital, appropriate executive remuneration policies and management engagement with shareholders.

The responsibility for voting decisions sits with the Investment team, who undertake all the fundamental analysis and are responsible for building and maintaining relationships with investee companies around the world. This is an essential part of a genuinely integrated approach to ESG. Decisions are proposed by a specialist within the relevant team and approved by the regional and/or global equity fund managers. Voting decisions for investment companies are made by the Multi-asset team.

Again, an advantage of our investment approach is that, unlike passive and/or funded investment solutions, it enables us to have more detailed understanding of our individual holdings and to monitor them effectively on an ongoing basis.

While most of our proxy voting aligns with Glass Lewis recommendations, we review each proposal on a case-by-case basis when voting events occur, paying particular attention to recommendations that are against management or relate to contentious issues on which we may have strong views (For or Against). On occasion, this results in voting actions that are contrary to Glass Lewis’ recommendation.

Voting activity 2023

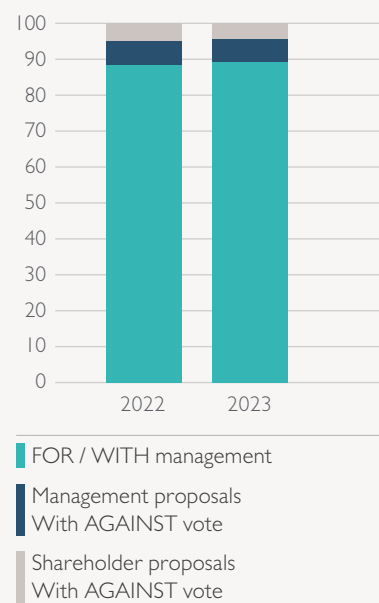
This is the third year we have provided details on our proxy voting activity, which overall was very similar to voting patterns in 2022. Again, the focus of our analysis are those proposals which feature recommendations, or vote decisions, with an Against element. That is: Glass Lewis recommendations Against management proposals or Against shareholder proposals, or where the vote decision is Against our default policy of voting in line with the Glass Lewis recommendations.

The analysis of Against (contrary to proponent or policy) is of particular interest because most votes conducted at AGMs are to formally ratify legal administrative proposals, financial accounts, management boards etc and few are contested. This has not changed much in the last few years and voting For (i.e. in line with Glass Lewis and management proposals) remains around 90% of all our votes cast (see **Figure 2**).

In 2023, the number of companies for which we cast proxy votes was relatively stable at 226 versus 232 in 2022 (-2.6% YoY). The number of proposals increased, however, and consequently the number of Against votes in absolute terms. Our votes Against were relatively evenly split between votes Against management (shown in dark blue 45%) or votes Against shareholders (shown in grey 55%).

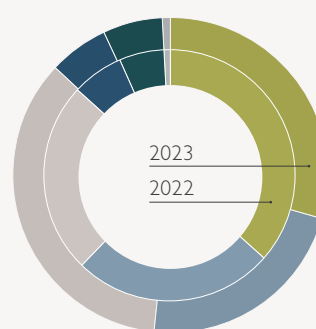
Figure 3 illustrates the geographic distribution of proposals versus 2022, demonstrating the global nature of our direct equity assets. The higher number of proposals put forward by UK-based companies was particularly pronounced (+75%), driving an increase in their proportion from 24% in 2022 to 35% in 2023. This not only reflects an increase in the number of UK equities within our Real Assets/Alternatives exposure, but also the increase in shareholder and management proposals put forward year-on-year, especially in the investment company space (please refer to the case study on page 52).

Figure 2
Total proposals FOR and AGAINST (%)



Source: Broadridge/Glass Lewis/Waverton.

Figure 3
Geographic distribution of proposals (%)



Number of proposals	2022	2023
US and Canada	847	831
Europe ex UK	586	621
UK	563	986
Japan	159	166
Asia ex Japan	135	176
Other	13	16

Source: Broadridge/Glass Lewis/Waverton.

Shareholder proposals

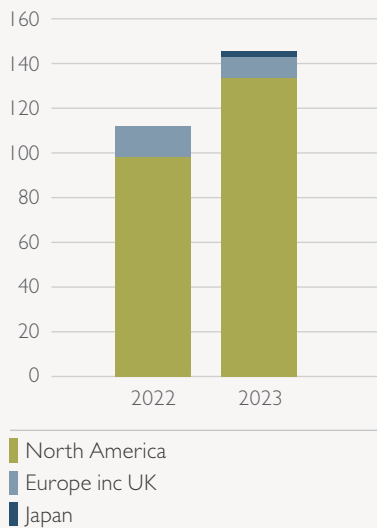
Within our voting universe, while the number of shareholder proposals remains low as a proportion of the total (5% versus 3.4% in 2022), they increased by 30% in 2023 (building on an increase of 74% in 2022), driven predominantly by an increase in proposals put forward by the shareholders of large US companies (see **Figure 4**).

Votes Against shareholder proposals increased more than the votes For shareholder proposals (see **Figure 5**). Evidence suggests that the increase may be due to some shareholders (or shareholder groups) submitting the same or very similar proposals at multiple company AGMs. The rationale for many of the Against recommendations put forward by Glass Lewis, and consequently our Against vote decisions (99% compliance with Glass Lewis policy, 98% in 2022), were that:

- proposals were deemed to be unnecessary reporting requests
- unnecessary use of resources with questionable benefits for shareholders
- proposals were encroaching on management responsibilities

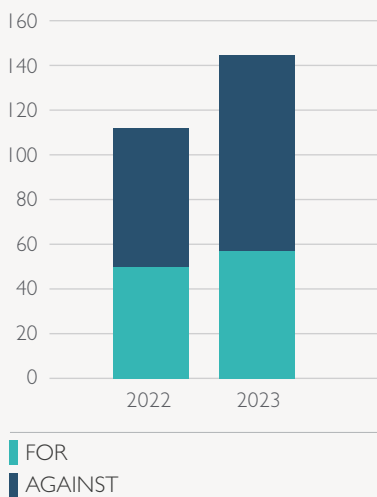
Figure 6 shows the proportion of voting For and Against on shareholder proposals by ESG category.

Figure 4
Shareholder proposals



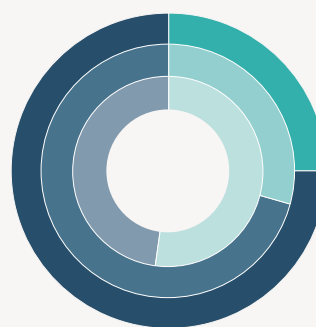
Source: Broadridge/Glass Lewis/Waverton.

Figure 5
Shareholder proposals



Source: Broadridge/Glass Lewis/Waverton.

Figure 6
Voting on shareholder proposals by ESG pillar (%)



FOR (including abstain)

- Environmental
- Social
- Governance

AGAINST

- Environmental
- Social
- Governance

Source: Broadridge/Glass Lewis/Waverton.

EXERCISING RIGHTS AND RESPONSIBILITIES *CONTINUED*

Management proposals

When it came to voting Against management proposals, our compliance with Glass Lewis policy was 89% in 2023 (see **Figure 7**) up from 81% in 2022.

Many of the management proposals on which we voted Against relate to two main sub-categories of the Governance ESG pillar (see **Figure 8**):

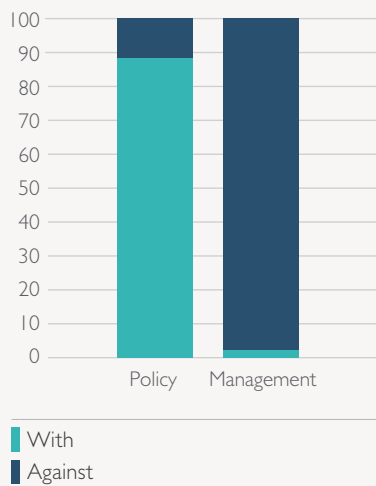
1. Board-related (election of directors)
2. Compensation (incentive plan structures and pay-for-performance)

Overall, board-related voting Against increased by 30% and accounted for nearly 50% of all votes against management proposals. Board-related Governance issues were again prominent for Asian companies as they were in the previous two years (see **Figure 9**). Including Japan, Asia's share of board-related votes Against management was 35% in 2023, only slightly below European ex UK levels (38%).

It was in Europe (ex UK), however, where we voted Against most frequently (44% of all Against management proposals), with Compensation a point of contention again in 2023, (see **Figure 10**). It is noteworthy, however, that compensation also became a more significant issue in North America in 2023, with votes Against increasing 73%, an indication of much greater scrutiny of excessive awards and the mismatch between pay and performance.

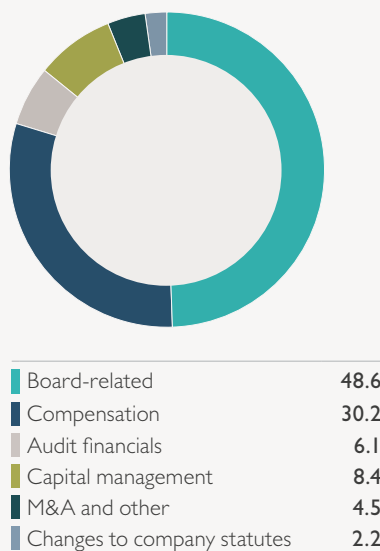
Similar to last year, there were common factors prompting voting Against decisions. Our compliance with policy of 87% (versus 81% in 2022) is an indication that Glass Lewis is becoming more stringent in its assessment of pay-for-performance, although we continue to believe further improvements are needed in some regions (e.g. Nordics – please refer to the case study in our 2022 Engagement & Voting report).

Figure 7
AGAINST voting on management proposals (%)



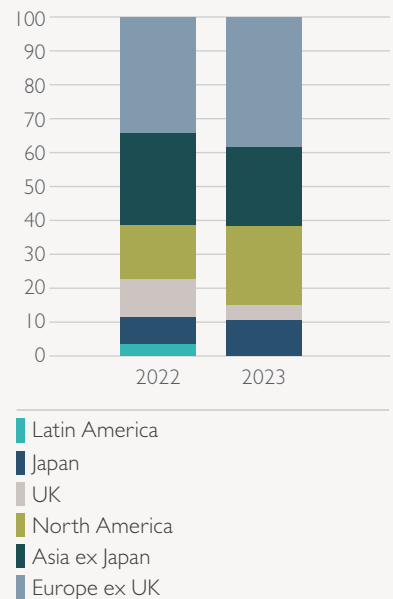
Source: Broadridge/Glass Lewis/Waverton.

Figure 8
AGAINST management proposals by governance sub-category 2023 (%)



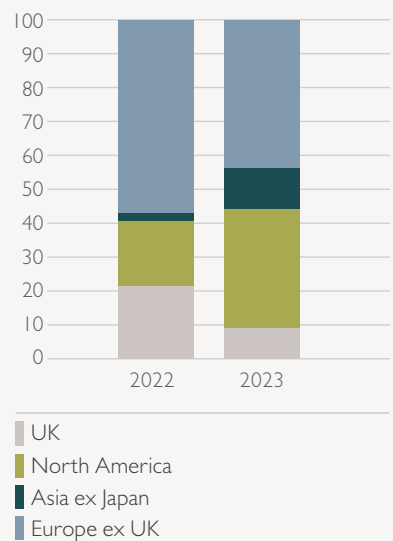
Source: Broadridge/Glass Lewis/Waverton.

Figure 9
Geographic profile of AGAINST board-related management proposals 2023 vs 2022 (%)



Source: Broadridge/Glass Lewis/Waverton.

Figure 10
Geographic profile of AGAINST compensation management proposals 2023 vs 2022 (%)



Source: Broadridge/Glass Lewis/Waverton.

Compensation policies

Across all regions, the common factors for vote Against recommendations and our Against actions on Compensation were:

- Pay and performance disconnect
- Poor overall design of STIP/LTIPs
- Poor disclosure of metrics and vesting hurdles
- Lack of TSR or relative TSR
- Poor response to shareholder dissent
- Excessive or extraordinary payouts

Board-related proposals

For those Board-related management proposals for which there were Against decisions, our policy compliance was 92% in 2023, up from 80% in 2022.

Across all regions, the common factors for vote Against recommendations and our Against actions on the Election of Directors were:

- Insufficient independence
- Overcommitment/serve on too many company boards
- Insufficient board diversity/
no diversity policy
- Compensation concerns
- Insufficient response to shareholder dissent

Ongoing

We will continue to engage with companies regarding these specific topics, and will increasingly include a particular focus on Climate Transition Plans (see case study on page 46). We will also endeavour to review, improve and evolve our own voting policies and vote decision-logic across all regions. Supporting the implementation of internationally recognised best practices is an important way of encouraging higher standards and is in the interest of all shareholders.

As a genuinely global investor, however, we also acknowledge that a “one size fits all” approach across all regions at this stage is neither realistic nor necessarily the best way to encourage a positive change in behaviours.

Anecdotal experience indicates that management teams appear more accepting of feedback from investors concerning contentious issues, value the direct feedback and rationale behind shareholder decisions to vote against. We hope that, in time, this will lead to improvements in governance and disclosure across the whole ESG spectrum.

EXERCISING RIGHTS AND RESPONSIBILITIES *CONTINUED*CASE STUDY **G****Melrose Industries (UK)****Issue**

Waverton's UK Fund has held a position in Melrose Industries for over 10 years. Since it was founded, the company has had a good track record of at least doubling shareholder equity and returning proceeds to shareholders after divisions were sold. Management were well rewarded, as were shareholders. However, the last round of their 'Buy-Improve-Sell' operating model was not as successful.

Melrose bought aerospace and automotive company GKN in 2018 and the shares subsequently underperformed, mostly due to challenging external factors such as strained automotive end-markets and supply chains, the Covid pandemic and the Russian/Ukraine war. Internally, they made good progress on operational efficiency and reallocating capital towards growth areas.

The environment to sell industrial assets remained poor during the whole period, and so management decided to demerge the GKN Automotive and Powder Metallurgy operations into a company called Dowlais. The proposed deal was first announced in September 2022, but would take place in the first half of 2023 after a vote by shareholders. The GKN Aerospace business would be retained by Melrose as management believed the short-term outlook for demand and margin improvement for this division was very good, warranting a re-rating of the shares.



The proposed demerger was put to a shareholder vote at a General Meeting on 30 March 2023, but implicit in a vote For this strategic decision was a vote For an extension and lowering of hurdles in the LTIPs for both new companies. Glass Lewis recommended that shareholders vote For the demerger.

Action

We had reservations about supporting the demerger on a number of fronts, but primarily that the timing of the demerger of Dowlais and the LTIP changes appeared to have been devised with a greater focus on creating value for management rather than shareholders. The demerger itself did not appear to materially affect the combined value of the two entities, with shareholders left holding shares in both companies. However, Dowlais would be burdened with higher costs, more debt and more pension liabilities, while Melrose would retain the tax assets from tax loss carry forwards.

Our points of contention were the proposed changes to the Melrose Employee Share Plan (MESP) and the Melrose Automotive Share Plan (MASP). Two important adjustments were made to MESP, for the benefit of existing Melrose management. The invested capital threshold was reduced from £7.1bn to £3.1bn and crystallisation date extended from 31 May 2023 to 31 May 2024. This was the second time that the LTIP had been extended, the first one related to Covid disruption, so the 3-year LTIP turned into a 5-year LTIP.

For Dowlais management the MASP was created with an equity value minimum threshold of £3.5bn and a performance period up to 31 May 2025, one year longer than the extended MESP and this was in addition to an existing 3-year automotive LTIP. Hurdle rates for these newly proposed LTIPs were very low, already below

book value as per their demerger circular and therefore not aligned with shareholder expectations (doubling of equity on GKN acquisition in 2018).

Glass Lewis raised concerns about these long-term incentives plan arrangements with theoretically unlimited payouts, which could result from markets forces outside management's control driving value more than management's own actions and exceptional performance. Despite these reservations, the Glass Lewis recommendation was to support the demerger. We disputed this conclusion and raised the issue with them, but were not able to persuade Glass Lewis to alter its stance.

We did not support the proposals as we believed they were not aligned with shareholder interests. It was questionable governance (certainly not best practice) to devise a demerger plan that extended the incentive plan a second time for another year, especially given the probability was high that the existing LTIP would expire worthless. The demerger timing was very close to the crystallisation time for the 'old' LTIP in May 2023. Moreover, it was much more skewed in favour of management benefits without inherently compensating shareholders for the previous five years of underperformance and negative shareholder returns.

In our view, best practice would have been to demerge Dowlais (if this could be justified on its own merits) after the crystallisation event, let the MESP lapse and start afresh. If LTIP targets are not met during the agreed time period, the schemes should not pay-out, which ensures management remains aligned with shareholders. Unexpected events, such as Covid and the war in the Ukraine have not been used by other companies as a reason to extend LTIPs.

We voted Against at the General Meeting.



Outcome

The demerger was voted through at the 30 March 2023 General Meeting with 99.6 % of votes cast in favour. We were part of the 0.31% who voted Against and 0.27% of votes were withheld.

To our surprise, our Against vote was noted by management and the CEO called the fund manager of Waverton's UK Fund to understand our logic. We explained our stance on governance as well as doubts about total value delivery from the two component parts. The CEO reiterated his confidence in the latter and did not respond to the former.

Identifying good and/or improving governance standards is an important part of Waverton's investment process and we continue to strive to encourage best practice, of which remuneration policy is an important element.

We chose to divest Dowlais, which has continued to decline, down 22% since demerger. We retained our position in Melrose, which performed well, up 41% since demerger, helped by the improving outlook for the aerospace business, as well as the early commencement of the share buy-back programme. As Dowlais was the larger part of the demerged group, it remains unclear if the demerger decision has added value. What is clear is that the new May 2024 crystallisation period looks set to reap large rewards for Melrose management. Dowlais management is still underwater on their LTIP, but they have until May 2025.

The final legacy for investors is that the old management will step down earlier than expected in March 2024. They leave behind a business with a different industry profile (predominantly

aerospace) and different business model, not the Buy-Improve-Sell model for which they were renowned.

At the time of writing in March 2024, Melrose had recently been downgraded and removed from Waverton's Global Recommended List. Having rallied strongly post demerger, the stock's valuation premium reached a level that was hard to justify on fundamentals. We took the opportunity, therefore, to take profits in a long-standing holding where the original investment thesis was no longer valid.

EXERCISING RIGHTS AND RESPONSIBILITIES *CONTINUED***Exercising influence across other asset classes****Fixed income**

As fixed income investors, we do not have the ability to engage during AGMs for publicly listed companies. This means that engagement opportunities through voting are minimal. We are, however, meaningful capital providers to companies reliant on credit markets for their financing.

Therefore, direct engagement, whether part of our fundamental research process or as part of ongoing monitoring, provides us with the opportunity to raise questions and have detailed discussions with issuers on a broad range of issues, including those related to specific ESG matters.

In addition, when the opportunity arises, we cast our vote on corporate actions from our bond holdings. These may vary from administrative to ESG-related.

Where issuers are not willing to engage and address ESG concerns, our most effective tool can be divestment.

Multi-asset strategies

Our team is able to provide advice as to best practice and management of shareholder expectations in public markets. Where appropriate, we provide guidance to companies looking to IPO to advocate good corporate governance standards and best practice.

As part of our selection process, we explicitly review a third-party fund's policy on exercising rights and responsibilities, and monitor activity on an ongoing basis.

We expect all our third-party funds to meet our voting standards, including voting on relevant stewardship issues. Additionally, publishing and/or providing information on how the fund managers have voted is essential. We require full transparency around their processes to allow us to monitor them and ensure their actions are in line with their and our investment approach.

CASE STUDY**Medical Properties Trust (US)**

Medical Properties Trust ("MPT") is a healthcare real estate investment trust (REIT) based in the US. The company owns 441 facilities across the US, Europe, and South America, which are leased to healthcare operators under long-term contracts.

Issue

In February 2023, the company suffered a short-sale attack which both highlighted a number of existing concerns among investors and unearthed several new ones.

Action

Waverton held MPT bonds and, following the event, took a precautionary decision to reduce our holding while we waited for the company's investor relations to respond to questions relating to the allegations.

This engagement led to a face-to-face follow-up meeting with the company CFO where, among other topics, we questioned the company's valuation policy which we believed was opaque. We also highlighted concern over the company's association with operator Steward Healthcare which was under scrutiny in Malta for a government related contract there.

Outcome

Following the meeting, our conviction had grown that it was the correct decision to exit the long-dated bond positions. This was because (1) we found the CFO tight-lipped and guarded when discussing the Malta accusations, which made us uncomfortable, (2) a growing number of the lessors were in financial distress which would impact future cash flows, and (3) we downgraded our quality assessment. We did, however, hold onto a short-dated bond which we deemed to be well covered by liquidity. These short-dated bonds matured as expected in December 2023.

In our view, this decision was vindicated as the bonds continued to perform poorly and the equity price followed a steady trend downward over the course of 2023. Our strategy is to invest actively and with high conviction. As part of this, we have very low tolerance for companies who we perceive to have subpar corporate governance. Hence, if our assessment changes as part of our ongoing monitoring, we tend to move quickly in rotating into higher quality ideas elsewhere.



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