

APPROACH TO STEWARDSHIP AND ESG INTEGRATION

Artemis Positive Future

Investment approach/philosophy

Our purpose is to accelerate the transition to a positive future and create wealth for our clients by investing in companies that can disrupt established industries and transform the world.

Our belief is that the best long-term growth opportunities come through investing in innovative companies that are addressing the most significant sustainability challenges.

ESG Integration

- Our approach is founded on the belief that carefully integrating ESG into our investment process provides us with important investment insights.
- We firmly believe that ESG is more than simply a risk to be managed. A focus on just ESG as a risk falls well short of connecting positive impact with competitive strategy. It is therefore our belief that investing for positive impact requires a dynamic strategy. One which is built around carefully considering the ‘what’ and the ‘how’; the sustainability or otherwise of a company’s products and a company’s practices including aspects of a company’s corporate social responsibility that are not easily measured (e.g. culture) and captured in simple exclusions or scores.
- We prefer to invest in (operationally) immature companies which bring a more sustainable future about than traditional incumbents, which may be well-run from a traditional ESG perspective, but which are more likely to embark on only marginal incremental improvements or are on the wrong side of structural change in their respective industries.

Negative screening is just the first step in our investment process

Our investment process has a number of quantitative and qualitative steps to arrive at a portfolio of what we believe are positively impactful stocks.

The first step we take is the exclusion of companies whose products and services are widely regarded as being detrimental to the environment or to society at large. However, it is important to note that while this process helps define what we can’t invest in, it by no means defines what we will invest in. The exclusions we currently apply relate to alcohol, tobacco, weapons, nuclear power, gambling, animal testing, adult entertainment, genetic modification and fossil fuels.

Investing for positive impact

But not doing bad things is not the same as doing good. Our investment process therefore further refines our list of potential investments in the following way.

- We apply a positive-growth filter - transformational change typically occurs where there is disruptive innovation and disruptive innovation is often the preserve of high-growth businesses. We use a series of quantitative filters to identify companies whose revenues are growing at above-market rates, while simultaneously removing companies that have

yet to generate revenues: we don’t invest in pre-revenue or private companies.

- Positive focus - we want to identify innovative companies that are engaging with the most critical sustainability challenges. As such, we focus on key societal frictions and track the emerging technologies that intersect with them.
- Analysis - to meet our threshold for investment, we ask six key questions which define a successful, transformative, positive-impact investment. Each question must be answered positively before we will invest in a company:
 - Does it have a positive impact?
 - Is it radical enough?
 - Is the leadership authentic?
 - Will it capture value?
 - Can we earn a return?
 - Are we prepared to be wrong?
- Invest with impact - we aim for every investment decision to have 1. Positive impact – We must satisfy ourselves that the company has positive impact. 2. Conviction – We must satisfy ourselves that this opportunity has a higher long-term return than the stock it will replace in the portfolio. 3. Influence – The position size is big enough to meaningfully influence aggregate portfolio performance.

Engagement and voting

Engagement with the companies in which we invest forms an important part of our investment process as active impact investors. Whilst a company’s products and services have the biggest impact on the world and are key to its strategic positioning, its leadership, culture and operational quality are also important determinants of its ability to deliver on a positive impact strategy. We expect investee companies to set ambitious goals and seek to continuously improve. Engagement allows us to identify and monitor strategic and operational change and ensures the progressive management philosophy we seek at the companies we invest in.

Voting

Voting is one mechanism through which we can seek to effect positive change.

Voting activity

Meeting overview

Category	Number	Percentage
Votable meetings	36	
Meetings voted	34	94.4%
Meetings with at least 1 vote against management	17	50.0%

Proposal overview

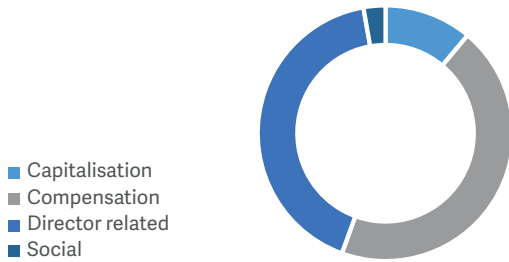
Category	Number	Percentage
Votable items	310	
Items voted	267	86.1%
Items against management	36	13.5%

Where we have not voted primarily this was due to local market or regulatory related reason. Source: ISS, Artemis for the year to 31 December 2022. Artemis Positive Future Fund

Example votes:

Compensation: We voted against an advisory vote to ratify named executive officers’ compensation at environmental services company, Montrose Environmental Group. As a relatively recently listed public company, there had not previously been a ‘say-on-pay’ opportunity for shareholders. Prior to the 2022 AGM, we had had some concerns regarding Montrose’s executive compensation practices e.g. annual bonuses partly determined by ‘acquired EBITDA’ targets which may have incentivised executives to make acquisitions for their own sake. These concerns were compounded by a ‘one-time’ grant to the executive team in December 2021. We viewed this grant as potentially exceedingly overly generous and also dilutive to existing shareholders. For these reasons, we voted against an advisory vote to ratify named executive officers’ compensation. This is an ongoing topic of discussion in our meetings with Montrose’s management team.

Breakdown of votes against management



Case studies

Cochlear

For those with severe hearing loss, a cochlear implant can be profoundly beneficial. With a 60% market share, Cochlear devised the first ear implant and is the global leader in cochlear treatments for the moderately to profoundly deaf, thanks to its innovative ability.

Cochlear meets our investment criteria because its strategic positioning is clear, its leadership is experienced and well-regarded, with a clear mandate to deliver long-term goals. It also helps to meet our positive impact assessment by improving health and education outcomes and advancing sustainable development goals.

Its business model shows scale economics and high switching costs. Clearly, cochlear surgery, which entails hours of brain surgery, is a major decision and inspires anxiety, so trust in Cochlear’s product and brand plays a critical role in reassuring patients. Once surgically implanted, the processor is upgraded every three-to-seven years over the course of patient’s lifetime.

In recent years the company has leveraged new technologies, such as smartphones and big data, to enhance its product offering. Its implants deliver huge economic and personal positive impact, as follows:

- children with cochlear implants have better speech skills, a greater likelihood of acquiring oral language and more success in integrating at school. This boosts educational outcomes and overall quality of life.

- in recent years, the use of cochlear implants has been expanded to adults with severe-to-profound sensorineural hearing loss from damage to the inner ear nerves. Their recipients show improved speech perception and better health-related quality of life.

All financial investments involve taking risk which means investors may not get back the amount initially invested. Past performance is no guarantee of future returns.

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