Approach to stewardship and ESG integration

UK Income

Investment approach/philo sophy

- Identify companies that can sustain and grow attractive cashflows.
- Build a focused yet diverse mix of cash flows.
- Secure an attractive long dated dividend stream with focus on total return.
- Construct a well-diversified portfolio of 50 to 70 holdings, not overly exposed to any one industry or company.
- Appropriately size positions by risk-reward and income, not due to weighting in the index.

ESG Integration

- Our approach is founded on the belief that good or improving ESG characteristics can lead to a better financial outcome, a lower cost of capital and long-term value creation.
- Thinking about risks to cash flow from competitive threats and technology has always been at the core of our process and we are increasingly recognising ESG factors in the process.
- The average stock holding period is over six years. This encourages continual long-term engagement with management and also helps us identify stocks where ESG positives enhance prospects.
- To date, we have not sought returns from taking an activist stance for companies with poor social and/or environmental factors.
- We have sold holdings where we regard the ESG issues as insurmountable, not because of a reluctance to engage for change but because the business operations do not allow for meaningful change.
- ESG factors are increasingly part of a company's investment and costs. Given our focus on long term durable cashflows, our process encourages these commitments over and above near-term dividend payments.

Negative screening

In early 2022, following consultation with our clients, we re-named the Artemis Institutional Equity Income Fund. It is now called the Artemis Income (Exclusions) Fund and excludes companies which derive more than 20% of their revenues from tobacco, gambling, weapons and fossil fuels. Further details on this fund and the precise criteria for the exclusions are available in the fund prospectus on our website[1]. Please note we do not have formal exclusions for the Artemis Income Fund.

Engagement and voting

- We do not contract out ESG. We take full responsibility for our engagement and decisions with the support and experience of our in-house Stewardship team.
- Given our long-term focus and benefit of informed and authentic engagement, we can invest where we feel that material change is a realistic possibility.
- We exercise all our voting rights where possible and prefer to take a rounded and practical approach to voting decisions.

While we encourage best practice within our investee companies our preference is to engage where we feel change is required. However, voting can be a powerful tool and we will vote against management when in our view this is most likely to deliver the best outcome.

Voting activity

Meeting overview

Category	Number	Percentage
Votable meetings	56	
Meetings voted	55	98.2%
Meetings with at least 1 vote against management	2	3.6%

Proposal overview

Category	Number	Percentage
Votable items	1,008	
Items voted	970	96.2%
Items against management	3	0.3%

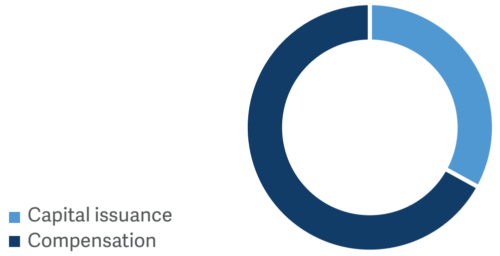
Where we have not voted primarily this was due to local market or regulatory related reasons. One proposal was withdrawn by a company relating to the election of a director. Source: ISS, Artemis for the year to 31 December 2022. Artemis Income Fund

Example votes:

Capital issuance: we voted against a resolution at Corbion which would have potentially reduced our ability to take up additional shares if new shares were issued.

Compensation: we voted against the remuneration policy and report at Ebro Foods due to the lack of disclosure on performance metrics. We will continue to engage for further disclosure of performance measures.

Breakdown of votes against management



Case studies

Rio Tinto
Last year, we sold our position in Rio Tinto in favour of Anglo American and Swedish miner Boliden. The latter two possess strong ESG credentials - not just with respect to the metals mined and their importance to the energy transition, but also with respect to their mining practices – all of which we believe will benefit their long-term cash flows. Rio Tinto is heavily exposed to iron ore which we believe could be structurally challenged over the longer term. Anglo American, conversely, possesses among the best ESG credentials in its industry. It has set ambitious greenhouse gas (GHG) emissions reduction targets, will run its South American operations on 100% renewable electricity by 2023 and aims to have a net positive impact on biodiversity across its mines and sites by 2030.

The company is also acutely aware of the importance of its social licence to operate; a good example of this is at the Quellaveco copper mine in Peru, where Anglo American has committed to hiring local people and paying for a $1bn development fund to be used in the local area. Water is an increasingly scarce resource in South America and needs to be kept free of contaminants to be used for irrigation but is also required for mining operations; Anglo American have therefore diverted the Titire river around the mine to ensure the local farming community does not suffer from scarcity or contamination. Anglo's portfolio is rich in copper and Platinum Group Metals (PGMs), that will be critical to the electrification and decarbonisation of economies.

Boliden possesses a similar portfolio to Anglo American with respect to copper and PGMs. The majority of its mines and smelting facilities operate in close proximity to cheap, green hydroelectric power in Scandinavia. It too has committed to demanding emissions reduction targets and is one of the pre-eminent producers of low carbon copper, emitting less than half of the carbon dioxide per tonne of copper produced compared to industry average. The company is also one of Europe's largest zinc smelters and its low carbon zinc has among the lowest carbon footprint of any refined zinc in the world.

Drax
Drax, a one-time coal fired power station and a longstanding position in the Artemis Income Fund, has successfully converted the majority of its operations to run on biomass, a renewable energy source, generated from burning wood, plants and other organic matter, such as manure or household waste. As such, it seemed a good fit with our search for good or improving environmental characteristics. For a fund such as ours, with a long-term performance lens, weighing up a company's long term sustainability credentials, is key. We had long been in two minds about the credentials of biomass as a renewable energy source. Both sides of the argument were credible: from Drax's perspective, over the long term it seeks to play its part in the UK's journey towards decarbonisation and eventually becoming a net zero economy. However, significant scientific lobbying concerning biomass's true environmental credentials raised some pertinent questions about future value. We felt that, whilst this debate will continue, it could at some point represent a risk to Drax's long term cashflows.

Additionally, Drax has received significant subsidies from the UK government over several years. Were the UK or EU to change their stance on biomass -- currently regarded as carbon neutral energy-- these subsidies could be at risk, implying a further cashflow headwind. Drax is an example of where we regard the ESG issues to be under question and, since the stock had also undergone a period of exceptionally strong performance, we exited the final part of our holding.

ARTEMIS
The Profit Hunter

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