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2023  
**ESG REPORT**  
Asset Value Investors

[info@assetvalueinvestors.com](mailto:info@assetvalueinvestors.com)  
2 Cavendish Square  
London W1G 0PU

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# Introduction

The adage 'be wary of simple solutions to complex problems' is pertinent in the realm of sustainability and ESG. The allure of condensing and simplifying reality into 280 characters or 20-second videos is increasingly framing the world in which we live. This format does not lend itself to ESG. Sustainability issues are multi-faceted, complexly interlinked, and ever-evolving. They must be approached with careful judgement, nuance, and a comprehensive understanding of many interweaving realities. This leads us to our decision to produce our first ESG report. We want to take the time to explain our approach and share our way of thinking in long-format.

We do not contend that our approach to ESG is the only way, in fact this would undermine our opening remark. There is no one-size-fits-all approach and any suggestion that there is, should be met with extreme caution. Our approach to ESG has evolved out of our specific way of thinking; a natural product of our long-term, bottom-up, deep research-led investment style that seeks to find durable, growing businesses that are misunderstood by the market where there are catalysts to unlock and grow value. AVI has nearly 40 years' experience, and a strong track record, in engaging constructively with boards and management of portfolio companies to promote strong governance practices and suggest remedies for issues we identify. This expertise has stood us in good stead when deepening our approach to ESG.

The collective change required to address systematic sustainability issues such as climate change is far from simple. Indeed, simple solutions often lead to complex problems. We do not believe that an approach to ESG that applies a blanket exclusion on all 'sin stocks' is either realistic or effective. Not realistic because we need a diverse range of industries for the functioning of society and the ability to address global challenges. Whilst removing exposure to such companies may improve sustainability at the portfolio level, the real-world impact is dubious. >>



This leads us to the 'effective' part. Choosing to remove the problem from our direct field of vision does not make it go away and we do not believe that divesting in companies is the best way to drive change. A paper by the Stanford Graduate School of Business highlighted that the impact of ESG divestment on the cost of capital was too small to affect real investment decisions meaningfully; to affect the cost of capital by at least 1%, at least 86% of investors need to choose to hold only clean stocks\*. Moreover, divestment also means passing shares to another investor who may be less scrupulous. Active engagement, to encourage companies to adopt responsible practices and align with a sustainable future, is the most realistic and effective way to drive meaningful change. Engagement is central to our strategy, and this is where we believe our style of investing can have the most real-world impact. We are committed to actively engaging with our portfolio companies to help build resilience to sustainability risks and promote responsible attitudes.

We hope this report will allow our stakeholders to better understand how ESG and sustainability is woven into our process. Of course, actions speak louder than words and we will also offer both quantitative and qualitative insights to illustrate how this works in practice and what we have been up to. The first section of our report will address ESG and Sustainability in AVI's investment process and the second part will provide an overview of how this philosophy forms the foundation of our culture as a company.

## AVI's Membership, Support and Partnerships



\*Study conducted in US, published in 2021.

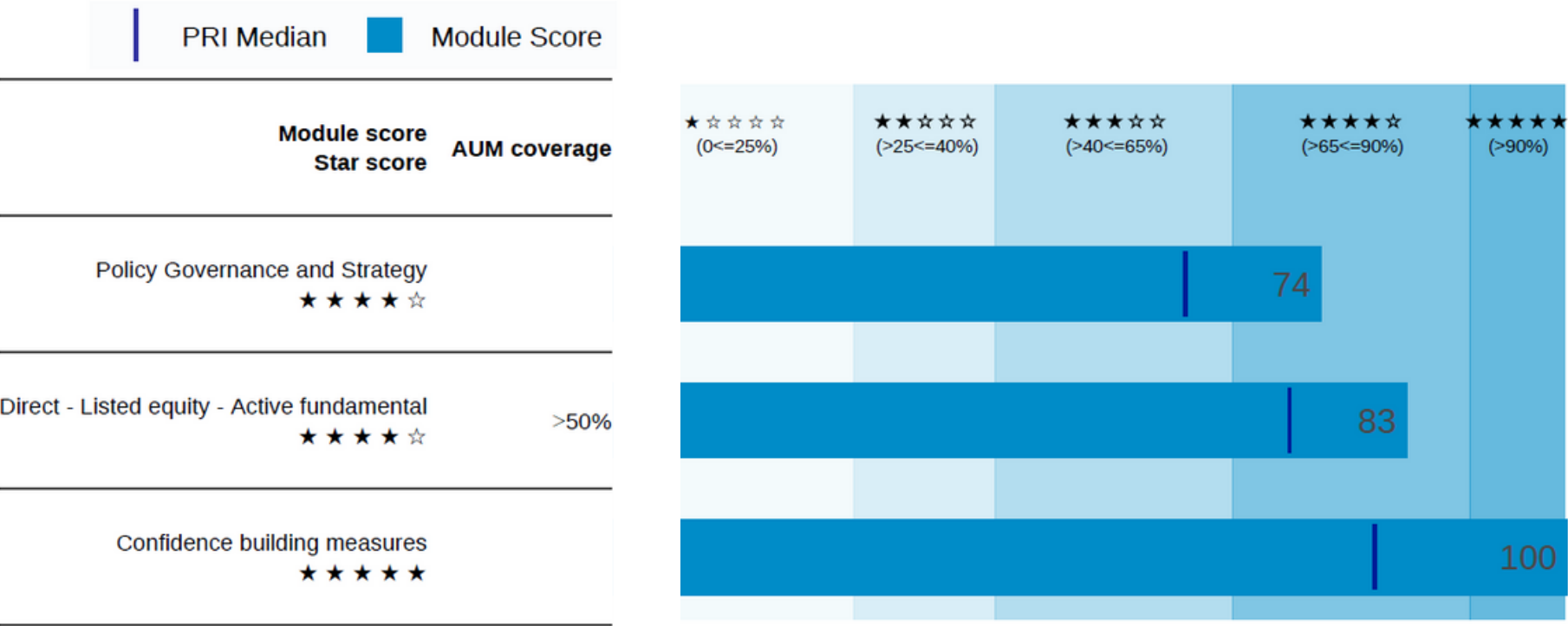


AVI is aligned with the UN-supported Principles for Responsible Investment (PRI)'s belief that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term responsible investment and benefit the environment and society as a whole.

AVI reported through the PRI for the first time in 2023. We scored comfortably above the median PRI score throughout, receiving a four or five star rating in each module.

Despite this being our voluntary reporting year, we have chosen to publish both our **Assessment Report**, where you can find our score breakdown for each module, and our **Transparency Report** where you can find our responses to all questions, on our [website](#).

SUMMARY SCORECARD



AVI became a signatory to the UN-supported Principles for Responsible Investment (PRI) on 09 April 2021.

# Our approach to ESG

## Why did we develop our own ESG monitoring system and proprietary scoring methodology?

We feel that a reliance on third-party ESG data and scores is not appropriate for us for three reasons:

- Coverage doesn't include all the companies in which we invest due to their size.
- Standard methodologies don't complement the specific way we consider the complex structures of the companies in which we invest and our look-through analysis.
- The opacity of ESG ratings is incompatible with our bottom-up approach.

Rather than an awkward add-on, we wanted to create a bespoke system that is fully integrated into our investment process which complements our way of thinking and our unique portfolio. We have eschewed a box-ticking approach to ESG and invested significant resources into building a bespoke system into our proprietary database. Our ESG monitoring system provides a formalised framework to assess ESG and sustainability, which is naturally contextualised in our deep knowledge of portfolio companies, and strengthens our analytical capabilities and scope.

Aside from our exclusion policy, we do not impose blanket minimum ESG thresholds that companies must comply with to enter the portfolio. Instead, we want to see our companies improve over time and are committed to supporting in this process. We assess companies against defined ESG metrics using a clear scoring methodology. In this way, we produce annual scores for each company which is also aggregated at the portfolio and firm-wide level. Our scoring system is designed so that we can easily assess direction of travel as well as helping to highlight weaknesses and areas where we can effectively engage with companies to promote sustainable attitudes and address material risks.

*“The system we have developed compliments our deep fundamental analysis and readiness to constructively engage with companies in a highly bespoke way to drive positive change, allowing nuance and honed judgment to drive our actions. ESG is complex, interconnected and constantly evolving and we expect our approach to ESG to also continue to develop.”*

*Esme Morter, AVI's ESG analyst*



# 1.1 Summary of key factors underlying the qualitative and quantitative metrics used in our assessments

## ESG

### Environmental

Identifying a company's impacts and dependencies on the environment as well as assessing the extent to which a company is effectively managing these issues and integrating them into business strategy, is key to understanding a company's long-term prospects and preparedness in the face of increasing regulation and the urgency of climate action.



- Environmental Impact
- Tackling Climate Change
- Resource Use
- Sustainable Management

### Social

We believe that long-term value is most effectively created by serving the interests of all stakeholders. A company culture that invests in the wellbeing and development of its employees and actively respects wider stakeholders not only positively impacts society, but the company's long-term sustainability.



- Equality and Diversity
- Responsible Supply Chain Management
- Labour and Human Rights
- Community Engagement
- Human Capital Management

### Governance

We believe that the dynamism and knowledge necessary for strong governance is supported by the presence of diverse perspectives and skills.



- Board Leadership and Independence
- Board Diversity
- Shareholder Rights
- Remuneration
- Ethics and Integrity

# ESG & Sustainability

A stock's journey through AVI's  
investment process

As bottom-up investors, it is our judgement and expertise that sets us apart. Our approach does not rely on a hands-free series of automated screens and controls, but is instead driven by intensive research and analysis, carefully considering each company in its particular context. No two companies' journeys are exactly the same, but we would like to share our guiding framework; the checkpoints that are always considered.



# ESG & Sustainability

A stock's journey through AVI's investment process

Pre-Investment

Investment Period

1. Exclusion Policy

2 - ESG Due Diligence

3 - Investment Team Meetings

4 - ESG Assessments

5 - Tailored Questionnaires

6 - Ongoing Controversy Monitoring

7 - Bespoke Engagement

8 - Proxy Voting



Before considering any company, we check that it is compliant with our exclusion policy.

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We analyse the company's exposure to material ESG/sustainability risks and opportunities as part of our intensive research and fundamental analysis.

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New ideas are discussed in regular team meetings.

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We conduct annual assessments based on in-house research to monitor portfolio companies' performance against defined ESG metrics.

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We send ESG questionnaires, tailored to each company, to better understand their approach to ESG and encourage improved corporate sustainability disclosure.

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We continually monitor company involvement in controversies.

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We identify specific areas for improvement and work closely with companies to enhance sustainable corporate value.

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We view proxy voting as an important lever in our stewardship responsibilities and objectives.

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# How we think about ESG and sustainability in our unique portfolio

ESG and sustainability cannot usefully be universally applied – there is no blueprint that can be replicated for all types of companies. They come in all shapes and sizes and are impacted by and impact the world around us in diverse ways. At AVI, we invest predominantly in three types of companies: family-controlled holding companies, Japanese operating companies, and closed-ended funds. Each has a base logic which acts as our starting point and shapes the lens through which we understand and integrate ESG and sustainability when assessing the long-term prospects of a company.

# Family-controlled holding companies

AVI has invested in family-controlled holding companies for nearly 40 years. We have long contended that the influence of the right kind of controlling shareholder is a benefit – not a burden as is often suggested.

Family-controlled companies seek to preserve and pass wealth on to future generations. They therefore naturally emerge as long-term, active stewards of capital; keenly aware of the global challenges we face and personally invested in addressing systematic risks and ensuring long-term sustainability. Driven by long-term value creation rather than short-term profits, such companies not only evolve with the changing world around them but are motivated and have the capacity to proactively drive innovation and contribute to sustainable development.

Active ownership and a truly long-term time horizon...

We see this across our portfolio; from EXOR, the holding company of the Agnelli family who have pushed electrification at Stellantis and Ferrari, to the Wallenberg's Investor AB who talk of "futureproofing" their portfolio.

Of course, whilst the family's values and track record provide the backdrop to understanding the driving force behind these holding structures, it is the underlying companies that offer real insight into its strategic direction and the extent to which ESG, and sustainability are truly being embraced. We conduct deep research into the family and underlying companies, which together form our thesis on the long-term prospects of the company. We look to invest in holding companies where the quality of the underlying companies confirms our belief in families being long-term, astute capital allocators.

# Aker

## A sustainable future is on the horizon

As is typical of the best run family-controlled companies, Aker ASA (Aker) think in generations not quarters. Aker's in-built long-term time horizon naturally aligns it with the need to address systematic sustainability issues. Perhaps the most urgent of these global challenges is climate change. It may be unsurprising then, that in 2020 Aker announced the creation of Aker Horizons, "a holding company dedicated to developing and operating companies within renewable energy and low-carbon segments". Aker Horizons' companies are active across the whole value chain – from renewable energy production (Aker Offshore Wind and Aker Clean Hydrogen), to transmission, and even the capture and storage of emissions (Aker Carbon Capture). Aker have a long history of adapting and moving with the times, from a manual workshop to shipbuilding; from offshore construction to oilfield services; and now from oil and gas to renewables. At each stage in Aker's history, the knowledge, skills, and capital of the prior step inform the next.

An ESG strategy that seeks to exclude certain companies might well miss out on this accumulated knowledge and technology that is crucial for problem solving and will play a key role in transitioning to a low-carbon economy. We believe such an approach to ESG, that pits 'good' companies against 'bad' companies, is hollow. Aker, who might be sin-binned by ESG screens for its involvement in oil & gas, are in fact natural candidates to be 'ESG reformers'.

The volatility of the energy market, a shift in focus to energy security, as well as an uncertain political climate have created a challenging environment for the renewable energy sector – and Aker Horizons has not been immune. The chairman, Øyvind Eriksen, noted in his annual letter to shareholders, "one thing is clear: we can't tear down the house before the new house is built." This speaks to the operational complexity of solving the climate crisis. However, Aker ASA remains steadfast in its long-term strategic direction, and we believe it is well placed to address the 'Energy Trilemma' – the need to find balance between energy reliability, affordability, and sustainability. Not only has Aker pre-emptively positioned themselves to play an important role in renewable energy in the years ahead through Aker Horizons, but Aker BP offers a pure play, low-cost, low-emission producer which, we believe, will likely play an important and extended role in the energy transition.



"We are committed to being a part of the solution in a way that faces up to realities and reckons between tomorrow's climate ambitions and today's energy needs."

- Øyvind Eriksen, Chairman.

# Japanese operating companies

A lack of ESG communication is assumed to indicate a lack of awareness or care, and small Japanese companies often fall into this blind spot. The inconsistency-riddled sphere of ESG ratings has been extensively chronicled, but what deserves more attention is that the reliance on corporate disclosure to generate ESG ratings, disproportionately and negatively impacts smaller companies.

We don't believe that poor (or non-existent) ESG ratings necessarily equates to poor practices. Indeed, Shuchu kiyaku – the notion that corporations should think beyond profit and act not solely for the benefit of the business but also for the benefit of society – is well ingrained in Japanese companies, and long predates the current boom in ESG thinking. What represents a pivot for many international companies, sits naturally in the core ethos of Japanese companies.

Don't judge a book by its cover (or its ESG score)

We are not driven by ESG scores, but rather a deep understanding of the company's underlying practices and prospects. We seek to build close relationships and constructive dialogues with companies, indeed, many portfolio companies including Wacom and TSI Holdings have sought out our advice on ESG matters. We think this illustrates not only these companies' understanding of the importance of ESG, but the merits of our constructive and bespoke approach to engagement.

The corporate governance revolution in Japan has created fertile territory to drive positive change through active engagement. Our focus on small-cap companies allows us to work closely with the board and management to embed sustainable practices that will not only deepen as the company expands but strengthen the company's long-term sustainability, making it a compelling opportunity to unearth value and influence enduring real-world impact.



# TSI Holdings

## Weaving sustainable practices into the fabric of the company

If you search for TSI Holdings' ESG score with some of the major sustainability ratings providers, you may find that your search comes up empty. However, we do not believe this is a reflection of the practices of the company, but rather illustrates the limitations and blinkered view of strategies driven by ESG ratings.

AVI first invested in TSI Holdings, which owns a collection of diversified apparel brands including PEARLY GATES, Margaret Howell, HUF and Stüssy, in July 2022, and we are now the largest shareholder with c. 8% stake across all AVI funds. We have built a strong relationship and constructive dialogue with the company, holding 16 meetings, visiting its HQ in Japan, and sending a 43-page presentation, offering detailed suggestions to address its undervaluation and build sustainable corporate value.

Our approach to engagement is highly bespoke, looking at the company as a whole and considering all drivers relevant to its long-term success. Companies operating in the apparel sector are exposed to heightened environmental and social risks. As part of wider analysis on both financial and operational enhancements, our presentation identified a number of ESG-related improvements regarding the visualisation and management of GHG emissions, responsible supply chain management, diversity, employee training and development, and performance-linked pay.

TSI Holdings recognises that the majority of its impact on the environment and society occurs in its value chain and is demonstrating its commitment to managing this. The company has partnered with Boost Technologies to develop a centralised mapping and managing tool, covering the over 50 apparel brands TSI owns, to monitor emissions and drive decarbonisation across the entire supply chain. This commitment was bolstered by TSI Holdings having its emission reduction targets approved by the Science Based Targets Initiative (SBTi) in October 2023. The board and management are receptive to our suggestions, and we are encouraged by their proactive mindset. We continue to engage with the company on a wide range of themes, and we see significant opportunities to unlock further value.

Source: TSI public reports, and AVI (as at 31/12/23)



# Closed-ended funds

Responsible and sustainable companies flow from good governance

We believe strong governance is the bedrock of ESG, without which the effective management of environmental and social issues is not possible. This is particularly the case for closed-ended funds.

A high-quality board can be a key indicator of a potentially attractive closed-ended fund. The board is the oversight function of the fund and the guardian of long-term shareholder interests. It is here that the priorities are set, and the strategic direction is monitored. A strong board should not only be composed of members with appropriate skills and perspectives, but be fully independent of the investment manager, enabling it to challenge decision-making and hold the investment manager to account. The presence of an active and effective board creates a 'tone from the top' that ensures the right questions are being asked and the long-term picture is prioritised.

Of course, the underlying companies also form part of our analysis. Understanding the exposure to, management of, and impact on sustainability issues at this level is vital in assessing the fund's ability to drive long-term returns and the skill of the

investment manager. Should anything be of particular concern, we would not hesitate to raise this, however our ability to have direct dialogue and influence on these underlying companies is limited. Instead, our focus is tilted towards the board and manager level.

Deep knowledge and judgement of both qualitative and quantitative aspects is required to truly understand the effectiveness of governance practices and policies and how these trusts are being managed beyond the marketing spiel. As well as assessing the effectiveness of the board, we consider the robustness of the investment manager's philosophy, including how sustainability considerations are integrated into both corporate activities and the investment process.

AVI has a proven track record and considerable experience in engaging constructively with the boards and management of our portfolio companies to promote strong governance practices and suggest remedies for any issues that we identify.

# Hipgnosis Songs Fund

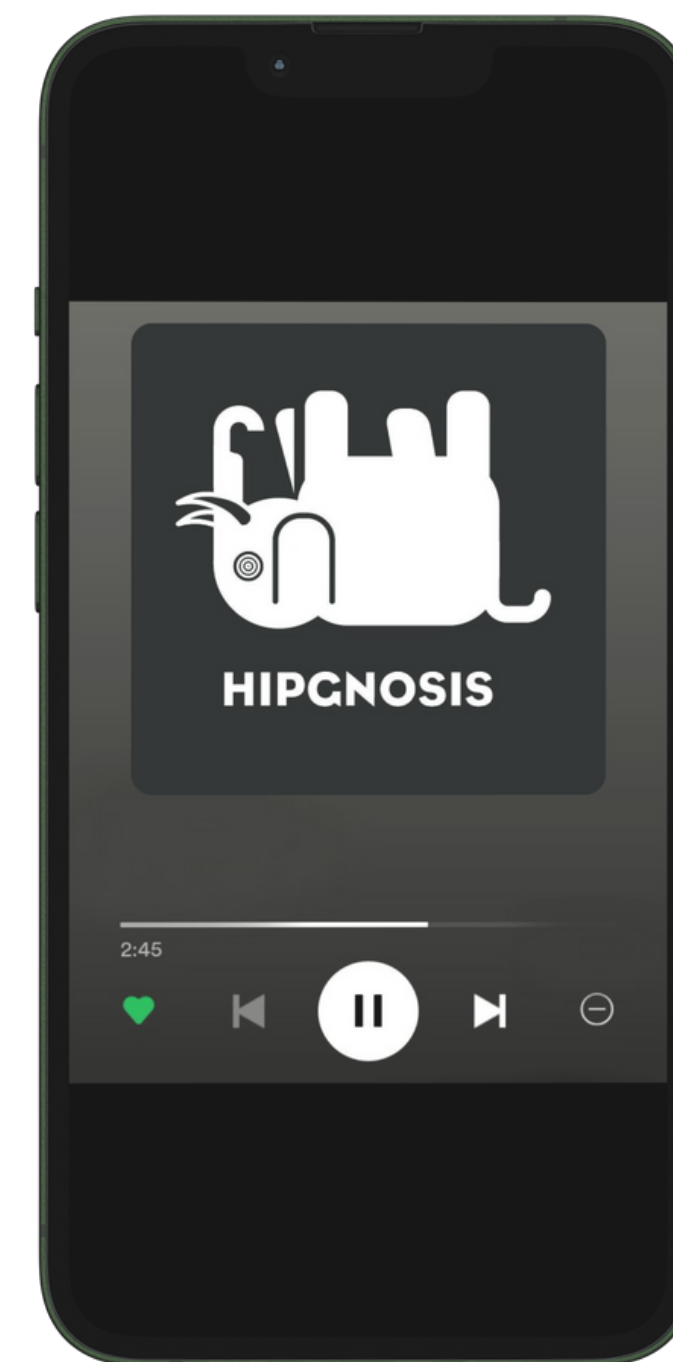
## Singing out of tune with shareholder interests and strong corporate governance practices

Hipgnosis Songs Fund (SONG) is a London-listed closed-ended fund investing in music royalties. The Company's external manager, Hipgnosis Songs Management, was founded by Merck Mercuriadis, a veteran of the music industry. SONG owns the rights to the back catalogues of artists including Justin Bieber, Blondie and Kaiser Chiefs. AVI owns a 6.2% stake in the company and we have been engaging with all stakeholders to protect and unlock value.

The trials and tribulations of SONG have been well reported in the media over the second half of 2023 and into 2024. In the context of long-standing concerns regarding the fund's financial controls, valuation process, the efficacy of the governing body, and the fund's persistent discount, Hipgnosis' announcement proposing the sale of a portion of its music portfolio to a related party at a large discount to carrying value brought the situation to a crescendo. Aside from the obvious conflict of interest in selling the catalogue to a fund managed by Blackstone, the majority owner of Mercuriadis' company, the actual discount of the proposed transaction was also much wider than the headline figures suggested once one accounted for "below the line" costs. Following private dialogue with the company, AVI published a [public letter](#) urging shareholders to vote against the proposals at SONG's upcoming AGM, highlighting the 'misleading narrative' that a failed continuation vote would trigger a fire sale and emphasising that the proposed sale reflected a flawed and uncompetitive process and would be a 'truly dreadful deal for shareholders'.

Shareholders responded emphatically, 83% voting against continuation and 84% voting against the proposed sale, voicing an unequivocal demand for change. At its core, SONG's series of blunders exemplifies how vital the proper functioning of the manager-board dynamic is to ensure robust corporate governance, stakeholder trust based on transparent communication, and the protection of long-term shareholder interests. The future of the manager remains to be seen, but most importantly, the ineffective and asinine board have largely been replaced and the new board has the expertise, vigour and credibility to drive considerable change. AVI remains actively engaged in creating a brighter future for Hipgnosis Songs Fund.

Source: AVI (as at 31/12/23)





# Pre-Investment

## 1. Exclusion Policy

AVI introduced an exclusion policy in 2021.

**Exclusionary screening** is not our guiding framework, however, there are certain exceptions to this.

AVI will not invest in a company with direct involvement\* in:

- Tobacco
- Controversial Weapons
- Pornography

or companies that engage in child labour or human exploitation as defined by the relevant ILO conventions.

### Resources:

- Data from ISS Norms Based Research is fed directly into our database and flags any violation of international norms and standards associated with our universe.
- Our in-house order management system contains an automatic alert system to alert us to any breaches of our exclusion policy.
- Our analysts continually monitor holdings including new acquisitions that may violate our exclusion policy.

\*whereby more than 5% of that company's NAV is derived from these activities



# Pre-Investment

## 2. ESG Due Diligence

Sustainability risks pose direct financial implications to companies as well as contributing to the overall stability of the market in which they operate. As long-term investors, assessing each company's exposure to sustainability risks and opportunities is integral to comprehensively understanding a company's ability to create long-term value and is therefore an inherent part of our process.

Our analysts carefully consider sustainability risks and opportunities in consideration of sector, geography and the company's particular context and structure. This forms part of our deep fundamental analysis and contributes to our overall thesis and view of the company's long-term prospects.

We will also often analyse the shareholder register and other factors to assess the environment in which our engagement efforts will be met, and the likelihood of success in driving positive change. We are likely to avoid companies where we sense intransigence in the board and/or management.

Resources :

- Intensive research and team expertise
- SASB Materiality Map and other tools such as the Transition Pathway Initiative (TPI) may be used as a starting point
- ISS Norms Based Research to aide assessment of any patterns in company involvement in controversies that may indicate unmanaged risk
- Expert networks

# Pre-Investment

## 3. Investment Team Meetings

AVI is a small team with a collaborative approach and ideas are shared regularly in the office. We hold regular monthly meetings, where potential new additions to the portfolio are discussed with the whole team, as well as frequent ad hoc meetings.

Any material ESG issues or specific risks and opportunities identified in analysts' independent research, or raised by team members, are discussed as part of a comprehensive investment case valuation, as well as any prospects for meaningful active engagement.

These meetings are an opportunity for deep and open discussion. This may highlight additional areas to direct research and analysis or lead to conclusion forming and potential investment.

Resources:

- Collaborative dialogue
- Team experience
- AVI's ESG analyst participates in investment meetings

# Investment Period

## 4. ESG Assessments

Once we have invested in a company, we are actively invested in enhancing its long-term prospects.

We believe that a company's ability to create long-term value is underpinned by a responsible approach towards the environment, society, and governance. Such an approach also contributes to overall financial market stability by effectively managing sustainability issues and their associated risks.

Our initial ESG assessments are based on both quantitative and qualitative publicly available information. Corporate disclosure alone does not provide the full picture, but it acts as a foundation.

The nature of the companies in which we invest, mean that it is often on a look-through basis that the impact of our investments on the environment and society, and our exposure to ESG and sustainability risks are most accurately understood. Therefore, we conduct our assessments not only on companies to whom we have direct exposure, but also their major underlying assets.

Resources:

- Clear guidance on how to score companies for each metric is provided in our database when completing assessments.
- Corporate disclosure
- Access to databases such as CDP

Due to delays in developing our reporting system, we have only published 2021 and 2022 data in this report. We expect to supplement this with 2023 data by the end of Q1 2024.



# Environmental

## 4.1 ESG Assessments

We monitor emissions at the individual company level and assess the extent to which companies have made commitments to reduce emissions and negative environmental impacts from their operations. We assess the direction of travel, year on year, and together these metrics give us a better insight into the credibility and effectiveness of environmental commitments and strategies implemented by our portfolio companies. Currently, emissions-related data that we capture is only used for internal analysis, however, we will consider publicly disclosing our carbon footprint and weighted average GHG emissions at the portfolio level in the future.

Emission Disclosure

AVI		2021		2022	
		#	%	#	%
Companies publicly disclosing emissions	Parent	27	49%	35	65%
	Look-Through	19	66%	14	58%
Emissions privately disclosed to us upon request	Parent	0	0%	3	6%
	Look-Through	0	0%	0	0%

Source: AVI, data includes all portfolio companies held across any AVI fund as at end of stated year, excluding companies with <0.5% weight.

# Environmental

## 4.2 ESG Assessments

Emission Disclosure

AGT		2021		2022		AJOT		2021		2022	
		#	%	#	%			#	%	#	%
Companies publicly disclosing emissions	Parent	19	56%	27	77%	Companies publicly disclosing emissions	Parent	11	41%	11	48%
	Look-Through	15	68%	9	50%		Look-Through	0	0%	1	33%
Emissions privately disclosed to us upon request	Parent	0	0%	1	3%	Emissions privately disclosed to us upon request	Parent	0	0%	2	9%
	Look-Through	0	0%	0	0%		Look-Through	0	0%	0	0%

Source: AVI, data includes portfolio companies held in AGT/AJOT portfolio as at end of stated year, excluding companies with <0.5% weight.

# Environmental

## 4.3 ESG Assessments

Environmental Commitment

AVI		2021		2022	
		#	%	#	%
Defined environmental strategy and set clear targets	Parent	16	29%	22	41%
	Look-Through	14	48%	11	46%
Formally committed to having targets approved by SBTi	Parent	4	7%	4	7%
	Look-Through	4	14%	6	25%
Had targets validated by SBTi	Parent	1	2%	5	9%
	Look-Through	3	10%	2	8%

Source: AVI, data includes all portfolio companies held across any AVI fund as at end of stated year, excluding companies with <0.5% weight.

# Environmental

## 4.4 ESG Assessments

Environmental Commitment

AGT		2021		2022	
		#	%	#	%
Defined environmental strategy and set clear targets	Parent	10	29%	16	46%
	Look-Through	14	64%	8	44%
Formally committed to having targets approved by SBTi	Parent	4	12%	2	6%
	Look-Through	4	18%	5	28%
Had targets validated by SBTi	Parent	1	3%	3	9%
	Look-Through	3	14%	1	6%

Source: AVI, data includes portfolio companies held in AGT's portfolio as at end of stated year, excluding companies with <0.5% weight.



# Environmental

## 4.5 ESG Assessments

Environmental Commitment

AJOT		2021		2022	
		#	%	#	%
Defined environmental strategy and set clear targets	Parent	6	22%	9	39%
	Look-Through	1	25%	1	33%
Formally committed to having targets approved by SBTi	Parent	0	0%	2	9%
	Look-Through	0	0%	0	0%
Had targets validated by SBTi	Parent	0	0%	0	0%
	Look-Through	0	0%	1	33%

Source: AVI, data includes portfolio companies held in AJOT's portfolio as at end of stated year, excluding companies with <0.5% weight.

# Social

## 4.6 ESG Assessments

We assess the measures that our portfolio companies have in place to foster a work environment that is inclusive, safe, and rewarding. Moreover, we track the company's approach to community engagement and steps taken to ensure responsible conduct throughout their supply chain.

### Labour and Human Rights Policy

AVI		#	%
2021	Parent	28	51%
	Look-Through	14	48%
2022	Parent	35	65%
	Look-Through	13	54%

### Policies and Practices for Responsible Supply Chain Management

AVI		#	%
2021	Parent	15	27%
	Look-Through	12	41%
2022	Parent	20	37%
	Look-Through	7	29%

Source: AVI, data includes all portfolio companies held across any AVI fund as at end of stated year, excluding companies with <0.5% weight.

# Social

## 4.7 ESG Assessments

### Labour and Human Rights Policy

AGT		#	%
2021	Parent	17	50%
	Look-Through	14	64%
2022	Parent	27	77%
	Look-Through	10	56%

### Policies and Practices for Responsible Supply Chain Management

AGT		#	%
2021	Parent	12	35%
	Look-Through	10	45%
2022	Parent	17	49%
	Look-Through	6	33%

Source: AVI, data includes portfolio companies held in AGT's portfolio as at end of stated year, excluding companies with <0.5% weight.

# Social

## 4.8 ESG Assessments

### Labour and Human Rights Policy

AJOT		#	%
2021	Parent	9	33%
	Look-Through	1	25%
2022	Parent	14	61%
	Look-Through	1	33%

### Policies and Practices for Responsible Supply Chain Management

AJOT		#	%
2021	Parent	0	0%
	Look-Through	0	0%
2022	Parent	2	9%
	Look-Through	0	0%

Source: AVI, data includes portfolio companies held in AJOT's portfolio as at end of stated year, excluding companies with <0.5% weight.

# Governance

## 4.9 ESG Assessments

We examine the composition, representation and independence of the governing body, its integration of sustainability, and the policies and procedures in place to ensure corporate integrity. We also assess the mechanisms available to ensure misconduct can be reported and remedied.

### Average Board Independence

AVI	Board Independence
2021	49%
2022	54%

### Average Board Diversity

AVI	Board Diversity
2021	18%
2022	22%

### Whistleblowing Policy and Anonymous Reporting Mechanism

AVI		#	%
2021	Parent	19	35%
	Look-Through	11	38%
2022	Parent	25	46%
	Look-Through	11	46%

Source: AVI, data includes all portfolio companies held across any AVI fund as at end of stated year, excluding companies with <0.5% weight.

# Governance

## 4.1.0 ESG Assessments

Average Board Independence

AGT	Board Independence
2021	52%
2022	58%

Average Board Diversity

AGT	Board Diversity
2021	21%
2022	25%

Whistleblowing Policy and Anonymous Reporting Mechanism

AGT		#	%
2021	Parent	12	35%
	Look-Through	11	50%
2022	Parent	16	46%
	Look-Through	8	44%

Source: AVI, data includes portfolio companies held in AGT's portfolio as at end of stated year, excluding companies with <0.5% weight.

# Governance

## 4.1.1 ESG Assessments

Average Board Independence

AJOT	Board Independence
2021	41%
2022	42%

Average Board Diversity

AJOT	Board Diversity
2021	7%
2022	1%

Whistleblowing Policy and Anonymous Reporting Mechanism

AJOT		#	%
2021	Parent	6	22%
	Look-Through	0	0%
2022	Parent	10	43%
	Look-Through	0	0%

Source: AVI, data includes portfolio companies held in AJOT's portfolio as at end of stated year, excluding companies with <0.5% weight.

# Investment Period

## 5. Tailored Questionnaires

Based on our annual ESG assessments of portfolio companies, we send tailored questionnaires to each portfolio company to request ESG information that we were not able to find from publicly available sources. As well as encouraging increased transparency and corporate reporting on these issues, these questionnaires have helped us to better understand companies' approach to ESG issues and have proven to be a useful starting point for wider engagement with our companies on sustainability themes. Information we receive from companies is fed back into our system to supplement our initial analysis.

### AVI -

Number of companies sent questionnaires:	43*
Response rate:	77%

\*80% of companies held across any AVI fund with >0.5% weight as at end of 2022.

### AGT -

Number of companies sent questionnaires:	29*
Response rate:	76%

\*85% of AGT's portfolio companies with >0.5% weight as at end of 2022.

### AJOT -

Number of companies sent questionnaires:	20*
Response rate:	80%

\*83% of AJOT's portfolio companies with >0.5% weight as at end of 2022.

### Resources:

- Questionnaires are translated to company's local language when appropriate.
- We send ESG glossaries to companies along with our questionnaires to ensure comprehension and provide a guiding tool when improving disclosure.

\*Questionnaires were not sent to some companies due to being in the process of selling the position or the status of engagement activities.



# Investment Period

## 6. Ongoing Controversy Monitoring

We closely monitor any controversies associated with our portfolio companies and the wider universe. To support this, we use data from ISS Norms Based Research which continually monitors a wide range of sources for controversies, mapping them to international norms and standards. A traffic light system is used so that we are alerted to new cases whilst evidence is still emerging, allowing us to monitor developments and giving us time to engage with the companies and share our views or call for action when this is appropriate.

Whilst we hope that controversies do not occur, they can be a marker of how well a company's policies are integrated into business operations and culture, highlighting vulnerabilities or structural problems, and indicating where improvements can be made. Company involvement in controversies forms part of our ongoing risk management and may impact investment decisions.

Resources:

- Media sources and corporate announcements are continually monitored by analysts.
- NGO and industry reports
- ISS Norms Based Research data is fed directly into our database

# Investment Period

## 7. Bespoke Engagement

Active engagement is at the core of our investment strategy. Successful engagement requires a deep understanding of the company, and this is always our starting point. Our ESG monitoring system also plays an important role in helping us to identify weaknesses and potential areas for engagement, where we can promote sustainable attitudes and build resilience to ESG risks.

No two engagements are the same; we do not believe that a 'one-size-fits-all' approach is the optimal way to achieve results. We do not have a prescriptive escalation process, however there is a natural evolution to our engagement. As long-term investors, we seek to be constructive partners with the board and management of our portfolio companies and the majority of our engagement takes place behind the scenes. Where we feel our concerns are understood and credible action is being taken, we are willing to be patient and supportive in this process. However, if necessary, we will take our concerns public to raise awareness and compel change.

Engagement activities are undertaken by the analyst responsible for each company, working closely with the portfolio manager. Our dedicated ESG analyst works alongside the investment team to highlight potential areas for ESG engagement and provide support in this process.

Resources:

- Expert networks
- Industry reports facilitating deep analysis
- Investment research
- Team expertise, experience and collaboration

# Investment Period

## 7.1 Bespoke Engagement

In 2022 we built a centralised engagement log into our proprietary database which enables all engagements with companies to be logged and tagged according to the topics addressed. We also monitor progress made by companies against our engagement objectives.

Our engagement is highly bespoke and takes a holistic approach, covering a wide range of topics including ESG themes. AVI has traditionally focused on the 'G' in ESG, however we do not take a hands-off approach to the 'E' or 'S'. We identify ESG engagement topics on a case-by-case basis and avoid generic guidance, instead carefully analysing the issue within the company's particular context and offering detailed analysis and specific suggestions. We are committed to actively engaging with our portfolio companies to address ESG risks and promote sustainable attitudes for the long-term benefit of the company, its wider stakeholders, and our clients.

During 2022, only engagement data for Japanese operating companies was captured in our database. These companies represented 44% of portfolio companies across AVI funds, excluding companies with <0.5% weight. Going forward, engagement data will encompass all companies across AVI funds.

AVI's ESG Engagement Breakdown 2022

Theme	Topic Breakdown	No. of engagements	No. of companies
<b>Environmental</b> 9 companies engaged on this theme	Improving Disclosure	18	7
	Greenhouse Gas Emissions	8	4
	Eco Products & Services	2	2
	Energy Management	1	1
	Low-Carbon Transition	1	1
<b>Social</b> 9 companies engaged on this theme	Human Capital Management	16	5
	Diversity, Equity & Inclusion	9	5
	Employee Wellbeing	6	2
	Human Rights	2	1
	Responsible Supply Chain	1	1
	Improving Disclosure	1	1
<b>Governance</b> 20 companies engaged on this theme	Board Independance	52	18
	Board Diversity	20	8
	Committee Structure	22	8
	Remuneration	26	11
	Board Tenure	9	4
	Anti-Takeover Provisions	1	1

# Investment Period

## 7.2 Bespoke Engagement

The depth and bespoke nature of our engagement requires significant resources. We identify and prioritise companies for focused engagement by considering:

- The size of our stake in the company and the size of its position in our portfolio(s).
- The environment in which our engagement efforts will be met and the likelihood of driving change.
- The effectiveness of the company's governance and leadership.
- The urgency and scale of any ESG issues identified.
- The materiality of ESG factors on financial and/or operational performance and the extent to which it contributes to systematic sustainability issues.
- ESG performance and track record, considering the extent to which improvement is being demonstrated and the adequacy of ESG-related public disclosures.

### Collaborative Engagement

We recognise the value of collaborative engagement in addressing collective issues.

In January 2023, we joined CCLA's global initiative seeking to improve the corporate approach to workplace mental health. LVMH, one of our portfolio companies in the initiative's scope, have since taken significant steps to demonstrate their commitment.



[Visit website >](#)

# DTS

## 7.3 Bespoke Engagement - Case Study

Our engagement with DTS, which provides IT-related services to Japanese companies, is a prime example of the power of private engagement.

At AVI, we seek out investment opportunities with identifiable catalysts for long-term value and the scope to unlock greater value through active engagement. DTS exemplifies this approach: it is well placed to benefit from Japan's digital revolution, and the board and management has been open to our engagement, taking action to enact real change.

We first invested in DTS in January 2020 and are now the largest shareholder with a c. 8% stake across all AVI funds. We have been working closely with management and the board behind the scenes to rectify its undervaluation and to build sustainable corporate value. Our approach to engagement is highly bespoke, looking at the company as a whole and considering all drivers relevant to its long-term success. We have sent 12 presentations or letters to management and held numerous meetings, offering detailed suggestions covering corporate governance, employee remuneration, diversity, environmental management, balance sheet efficiency and growth strategy.

DTS' response to our engagement has been exemplary – bar a few minor points, all our suggestions were accepted and included in a comprehensive mid-term 2025 plan and long-term 2030 vision announced in May 2022, in which they set out a strategy to double EBITDA by 2030, increase ROE to 16% and focus on high-value-added IT services. The careful management of both people and the planet are important considerations for the long-term sustainability of companies in the IT industry. DTS has shown proactiveness in this regard. Recognising that it operates in an industry traditionally skewed towards low female representation, DTS doubled its diversity targets and also set ambitious environmental targets, formally committing to having them validated by the Science Based Targets Initiative in January 2023.

Of course, the responsible management of both environmental and social issues flows from good governance. DTS has strengthened its corporate governance, adopting an Audit and Supervisory Committee structure, improving board diversity and establishing a Sustainability Committee. This 'tone from the top' will stand it in good stead for future sustainable growth. DTS' positive share price performance, and significant outperformance vs the market is, we believe, a testament to our efforts and clearly demonstrates the real value of AVI's constructive activism. DTS is well positioned for Japan's digital revolution and is making great strides in living up to its slogan: 'Delivering Tomorrow's Solutions'.

Source: DTS public reports, and AVI (as at 31/12/23)

# Investment Period

## 8. Proxy Voting

We consider proxy voting to be an important lever in engaging with the portfolio companies, ensuring that our perspectives on environmental, social and governance issues are represented, and reinforcing views that have been shared through private engagement. AVI has a duty to vote carefully and thoughtfully in the best interest of its clients and takes this duty seriously. AVI aims to vote at every meeting when eligible.

AVI published ESG voting guidelines in September 2023 which can be viewed here: [AVI-Stewardship-Policy-2023-1.pdf \(assetvalueinvestors.com\)](#)  
We carefully assess each vote on its own merit, contextualised within our deep knowledge of the company. If instances occur where AVI decides to vote against ESG-related proposals at portfolio companies' AGMs, we will transparently disclose our voting rationale going forward.

AVI Proxy Voting Record

AVI	2022	2023
Total Voted	100%	100%
Voted Against Management	15%	25%
Voted With Management	85%	75%
Voted Against ISS	17%	25%
Voted With ISS	83%	75%

AGT Proxy Voting Record

AGT	2022	2023
Total Voted	100%	100%
Voted Against Management	13%	23%
Voted With Management	87%	77%
Voted Against ISS	15%	22%
Voted With ISS	85%	78%

AJOT Proxy Voting Record

AJOT	2022	2023
Total Voted	100%	100%
Voted Against Management	30%	45%
Voted With Management	70%	55%
Voted Against ISS	18%	26%
Voted With ISS	82%	74%

Source: AVI (as at 31/12/23)





# TCFD REPORT

**Introduction**

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. We believe the TCFD recommendations provide a useful framework to increase transparency on climate-related risks and opportunities within financial markets, enabling organisations to make informed decisions and help to encourage sustainable business attitudes and practices.

AVI recognises the importance of considering climate-related risks and opportunities within its investment process to better understand the long-term prospects of investments and protect and enhance shareholder value.

Asset Value Investors became supporters of TCFD in May 2021.

**Governance**

AVI has established a strong governance framework to oversee climate-related issues. The board is ultimately responsible for the oversight of climate-related risks and opportunities. AVI has established a Stewardship and Sustainability Committee which monitors climate-related risks and opportunities, assessing impacts of evolving trends and the climate-related performance of portfolio companies. This information and any material climate-related considerations and changes are regularly reported to the board. AVI has a dedicated ESG analyst is responsible for implementing AVI's ESG, Sustainability and Responsible Investment Policy and all employees carry out activities in line with this.

**Strategy**

AVI acknowledges the importance of incorporating climate-related considerations into its investment strategy. Climate change poses direct financial implications to companies as well as contributing to the overall stability of the market in which companies operate. Understanding our exposure to climate-related risks and opportunities and how material risks manifest in the context of each investment forms part of our extensive and ongoing bottom-up analysis of our portfolio companies and contributes to our assessment of long-term value. Once invested, as part of our ESG and sustainability monitoring system, we systematically track and assess both the environmental impact and dependencies of portfolio companies on an annual basis, as well as the extent to which credible strategies have been implemented and targets have been set to effectively manage this. As well as monitoring portfolio companies' progress and exposure to unmanaged risk, we engage with investee companies on climate-related matters to enhance long-term sustainability.

**Risk Management**

AVI has implemented a robust risk management framework that incorporates climate-related risks into our investment process and oversight. The company regularly assesses exposure to new and evolving risks, considering both transition risks (related to policy changes, technological advancements, etc.) and physical risks (such as extreme weather events). A formal annual risk analysis is conducted, mapping the likelihood and scale of a wide range of risks into a matrix and implementing mitigation strategies where necessary. In addition, supported by ISS Norms Based Research, we also continuously monitor controversies including climate-related controversies, which can be a marker of unmanaged risks in our portfolios. AVI also monitors regulatory developments and industry best practices to ensure its risk management processes remain up to date.



TCFD REPORT con'd

Metrics and Targets

As an investment management company, we seek to actively reduce our environmental impact wherever possible, and have begun mapping emissions from our operations, starting with business travel and employee commuting, to help inform reduction strategies. Please see AVI's Corporate ESG Report for more details.

Currently, emissions and climate-related data that we capture on our portfolio companies is only used for internal analysis, however, we will consider publicly disclosing our carbon footprint and weighted average GHG emissions at the portfolio level in the future.

In our investment process, we systematically monitor climate-related metrics, including emissions, of our portfolio companies, however, we have not yet set climate-related targets at the portfolio level.

Our approach is based on encouraging companies to improve, rather than setting climate-related thresholds that companies must adhere to before we consider investment. Portfolio emissions may therefore be significantly affected by exits and entries to the portfolio.



# ESG & Sustainability at AVI

It is our view that a responsible approach to the environment, society and governance is key to long-term sustainable businesses. This guiding principle is embedded not only in our investment philosophy but in how we manage Asset Value Investors as a company.

# ESG at AVI

## 1. Environment and Resources

Climate change is perhaps the biggest global challenge we face. AVI supports the Paris Agreement and recognises that urgent action is needed to curb the worst effects of climate change. As a small investment management company, with one office in London, our direct operations have minimal environmental impact. However, there is a collective responsibility to act, and we believe it is important to lead by example.

During 2022, we began tracking business travel and sent questionnaires to all AVI employees to gather information on employee commuting habits.

**AVI's 2023 Emissions**

Scope 3	
Category 6: Business Travel (tonnes CO2e)	83.2
Category 7: Employee Commuting (tonnes CO2e)	2.8
Total	86 tonnes CO2e

We actively consider the need for in-person meetings and opt for virtual meetings or modes of transport with lower emissions wherever possible.

AVI's offices are part of a managed building, making it difficult to measure individual electricity and gas consumption. We will endeavour to expand our reporting on AVI's direct emissions as soon as is feasible.

Emission reduction is, and must always be, the priority. However, we are also researching methods to offset the unavoidable emissions incurred from travel.

The voluntary carbon market is currently an unregulated market and there is much speculation on the real impact of carbon offsets. We want to get it right and we haven't yet found a project that we believe is suitable.

We are conscious of our environmental footprint and have made a number of decisions to ensure sustainability is at the forefront in our office and daily lives.

AVI offers various schemes to its employees to promote more environmentally sustainable commuting. Our offices have showers, lockers, and bike storage to facilitate this.

**Travel to Work Scheme**

No. of employees using cycle to work scheme	8
No. of employees using EV scheme	2

- We use Nespresso coffee capsules in our office. We participate in its Podback recycling service, sending off our used capsules to a dedicated processing facility so that the aluminium can be recycled, and the coffee grounds can be used to create soil improvers, generate renewable energy or even make shoes!
- We replaced water coolers and kettles with cold and boiling water taps to improve energy efficiency and reduce plastic waste.
- We reduce our resource consumption by recycling our paper, plastic, toner cartridges, electronic equipment, and batteries through [Loop Recycle](#).
- We only use FSC-approved paper and opt for paperless operations wherever possible.

Source: AVI (as at 31/12/23). Emissions calculated in accordance with GHG Protocol Standards (distance-based method)

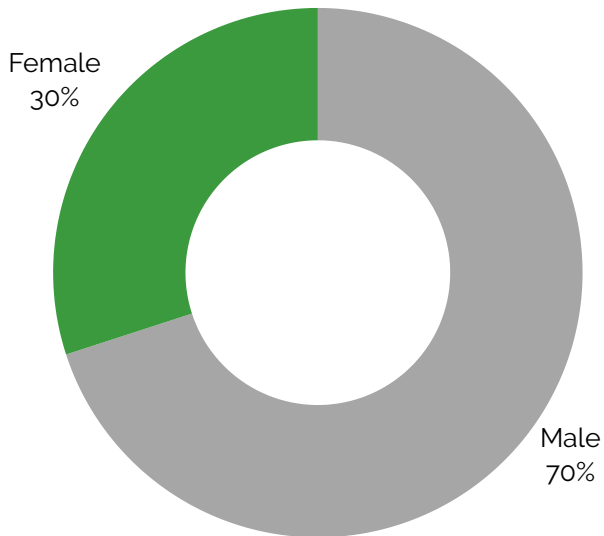
# ESG at AVI

## 1.1 Employees and Community

People are the most important asset at AVI. Our goal is to create a place where colleagues can do their best work within an environment that values everyone's unique contribution. AVI's turnover is very low - 19% of our employees have been with the company for over 15 years and over 43% of the employees have been with the company for over 10 years. We believe this speaks to the culture at AVI.

Diversity and Inclusion

We recognise that our industry is traditionally skewed towards a less diverse workforce. We are actively challenging this. AVI is a small company with 22 employees, which means that as people join and leave at different stages of their careers, this may have a significant impact on diversity statistics. We are working in the direction of a more balanced gender split as well as increasing diversity.



AVI specifically seeks to encourage female and minority applicants for positions when hiring through the wording of the recruitment ad. Our Code of Ethics and Employee Handbook which every employee at AVI confirms on an annual basis supports the fair treatment of all individuals and includes specific policies on diversity, harassment, and anti-bullying.

10,000 Interns Foundation

AVI is proud to be one of the original 200 investment management firms to support the 100BlackInterns Initiative which has now grown to be the 10,000 Interns Foundation. We welcomed our second intern from this programme in the Summer of 2023. We are also participating in the 10000blackinterns Mentors programme and providing financial support.

[Read what Tyreece Ewing had to say about his experience at AVI >](#)

The 10,000 Interns Foundation champions underrepresented talent and promotes equity of opportunity, offering students and graduates paid internship opportunities across a range of UK industries.



Employee well-being and benefits

We offer a comprehensive benefits package to all our employees which includes access to private healthcare including mental health support, as well as flexible maternity/paternity leave.

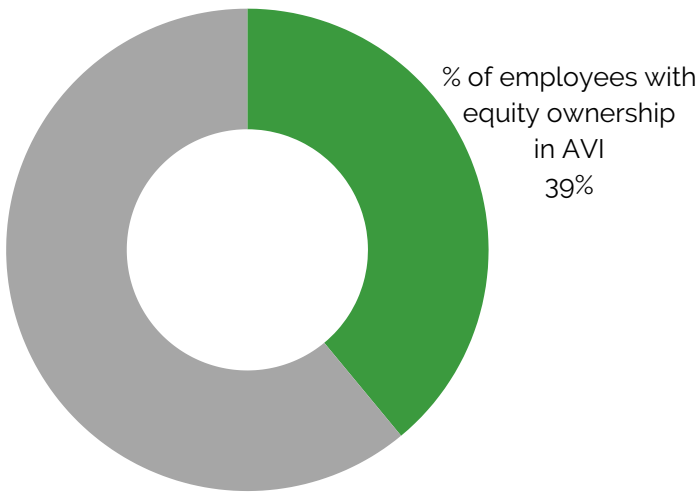
AVI also has a flexible working hours policy to address the individual needs of employees.

Source: AVI (as at 31/12/23)

# ESG at AVI

## 1.2 Governance and Stakeholders

AVI believes that shareholders and stakeholders need not be in conflict and in fact 75% of the shareholders are also employees of the company. We believe the greatest long-term incentive and motivation comes from the alignment of interest created via equity ownership in the business.



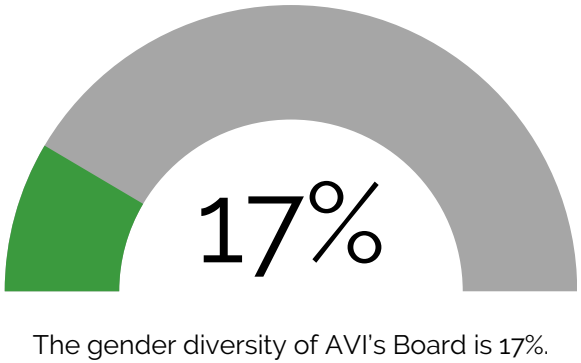
AVI believes in transparency in Executive pay and will cite the total executive pay as a percentage of total company annual pay.



AVI operates with a Code of Ethics which includes Anti-bribery & corruption policies, whistleblowing policy and grievance mechanisms.

AVI as a private company is governed by a set of policies and best practice guidelines that are approved by the Board of Directors. AVI operates in a regulated environment and is subject to the regulations and guidelines of the UK FCA and the US SEC.

AVI's Board consists of six Directors which is comprised of two Non-Executive Directors, one of which is an Independent Non-Executive Director.



AVI has established a Stewardship and Sustainability Committee. As well as helping to provide oversight to ensure sustainability considerations are integrated into our investment process and our stewardship activities align with our long-term objectives and responsible investment commitments, this committee is also responsible for overseeing the implementation of strategies, policies, and practices to foster a culture of environmental and social responsibility in the day-to-day operations at AVI and drive new initiatives.

Source: AVI (as at 31/12/23)

# Contact Us

## Mailing address

2 Cavendish Square, London W1G 0PU

## Email address

kimmberly.lau@assetvalueinvestors.com

esme.morter@assetvalueinvestors.com

Other: info@assetvalueinvestors.com

## Phone number

(+44) 020 7659 4800



Kimmberly Lau, Director responsible for ESG



Esme Morter, ESG Analyst

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