



ABERFORTH PARTNERS

Aberforth Partners LLP (Aberforth) – Governance and Corporate Responsibility

INTRODUCTION

This document provides details of Aberforth Partners' approach to governance and corporate responsibility. Parties interested in engaging on these matters should contact the partner responsible, Scott Wallace, on 0131 220 0733.

Aberforth's approach to the stewardship of its investments – including Environmental, Social and Governance (ESG) – on behalf of clients is set out in our response to the UK Stewardship Code 2020, available [HERE](#).

BACKGROUND TO ABERFORTH PARTNERS

The history and background to Aberforth Partners LLP is set out [HERE](#). The firm was founded in 1990 and is based in Edinburgh. Aberforth's aim is to deliver superior long-term investment returns for clients. The firm is simple by design with a focus on one asset class – small UK quoted companies, which are those comprising the lowest 10% by value of the UK stockmarket. Aberforth's investment strategy is defined by a value investment philosophy, which historical evidence suggests can support favourable long-term investment returns. The target client base is institutional and wholesale investors. The firm manages a small number of funds and the investment managers regularly update the numerous underlying investors in those funds.

GOVERNANCE

Aberforth Partners is a Limited Liability Partnership. It is wholly owned by six partners working at the firm and employs 14 staff. The partnership structure is fundamental to aligning the firm's interests with those of its clients. The partners are significant investors in funds that are managed by the firm.

Aberforth's governance is the preserve of the partnership: the partners collectively determine the firm's strategy and policies and are responsible for their implementation. There is no hierarchy within the partnership. Committees help to manage the workload and are listed below. The Operations Partner takes responsibility for monitoring the implementation and effectiveness of the firm's governance on behalf of all partners.

- The Operations Committee oversees matters of business administration.
- The Risk and Compliance Committee oversees legal, risk and compliance matters. It is chaired by the head of Risk and Compliance. Its members include all partners.
- The IT Committee is responsible for the firm's technology strategy and operations.
- The Stewardship Committee manages matters relating to the stewardship of clients' capital, which includes the adoption of relevant external codes. Its consideration of sustainability issues is applied both to investee companies and to the firm itself.



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Risk control and compliance

Risk control and compliance are embedded in the firm's internal policies and practices. Adherence is the responsibility of all partners and staff. Guidance and day-to-day support are provided by the risk and compliance team. Internal controls are subject to independent annual examination by accountants, PwC, as part of the AAF 01/20 reporting framework. This report is shared with clients and prospective clients.

Aberforth's compliance policies and practices support the integrity of the firm. The framework is reviewed annually and is contained within our internal compliance manual. Established procedures cover whistleblowing, anti-bribery and corruption, anti-money laundering and other relevant 'Know Your Customer' practices aligned to FCA regulations. Other elements of the compliance programme support partners and staff in identifying and reporting suspicious transactions, including malpractices such as tax evasion and market abuse. Annual training takes place to identify, understand and manage these risks. This is complemented by adoption of an industry recognised code of conduct from the Chartered Institute for Securities & Investment. Staff provide annual attestation of compliance and understanding of ethics. In addition, industry relevant training and guidance is provided regularly.

Cyber security resilience

Cyber security resilience is supported by Quorum Cyber, the firm's cyber security managed service provider. Cyber risks are assessed against an industry recognised framework from the National Cyber Security Centre – the "10 steps to Cyber Security". Additional cyber security controls include: a Security Operations Centre that monitors the network on a 24/7 basis, an annual Security Maturity Assessment review, regular penetration testing exercises, and vulnerability management scanning. Compliance with the "Cyber Essentials PLUS" certification is independently assessed annually. Partners and staff participate in regular cyber security testing and training. The firm also has a suite of policies covering data protection and privacy. These form part of the firm's broader control framework, which is overseen by the Operations Partner and is the day-to-day responsibility of the Head of Risk and Compliance. As with cyber security, all staff are required to undertake data protection and privacy training on a regular basis.

Finance and regulatory capital

The company publishes its Pillar 3 regulatory capital statement annually. A copy is available [HERE](#). This is produced in conjunction with our internal capital adequacy and risk assessment (ICARA), which determines our risk appetite and corresponding need for regulatory capital and liquidity.

Audit

A review of the provision of external audit services to the firm is undertaken periodically to ensure continued independence and quality of service. The firm's external auditors are PwC who conduct corporate audits of our statutory legal entities and undertake client money audits of the regulated entities.



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SOCIAL

Our culture

Aberforth's purpose is to deliver superior long-term investment returns for our clients. We believe that our investment philosophy and process have been and will continue to be crucial to achieving this aim. It is also essential that our clients are kept informed about investment returns in a timely, accurate and relevant fashion. In both respects, we believe that our clients' interests are best served by simplicity and focus. In practical terms, this means reducing distractions and allowing our people to maximise the time spent on their core roles.

An important means to achieving this is the ceiling that we place on Aberforth's size. Assets under management are limited to 1.5% of the total market capitalisation of the Numis Smaller Companies Index (excluding investment companies). We also seek to sustain a flat organisational structure, which reduces the time required to manage people, and to keep operational support functions within the firm, which affords greater control over the quality of client reporting.

These aspects of our culture require partners and staff who are motivated by how well we do business rather than by how much business is done. This is an important consideration when recruiting and retaining people. Experience and proven expertise are particularly valued in specific roles, along with a flexibility to provide cover for other roles in what, by design, is a small business.

The more formal elements of the firm's culture are embedded in a Staff Handbook, a copy of which is provided to all employees on joining the firm. This sets out the firm's policies covering matters such as holidays, working hours, training & development, diversity & inclusion, prohibitions on harassment, and promotion of equal opportunities.

Reward

The ethos of the partnership means that separate reward structures to incentivise good governance, corporate responsibility, stewardship and environmental results are not necessary. Aberforth's model is for all its people to be rewarded based on the firm's overall performance, rather than being tied to the investment results of individual stockmarket sectors or funds. The firm's approach to remuneration is founded in its aim to attract high quality people and maintain simplicity of operating processes. To achieve this, remuneration is intended to be in the top quartile of a relevant industry peer group. The firm has an annual performance management cycle to agree objectives, support performance of work and provide feedback to each member of staff. To align individuals' objectives, we have introduced a qualitative assessment of each person's contribution to the firm's corporate responsibility and stewardship activities as part of the review cycle. The firm's approach to remuneration is outlined in our remuneration disclosure, which can be found [HERE](#).

Health, Safety & Wellbeing

Whilst Aberforth's personnel work in an office environment that has a low physical risk, health and safety risk assessments are conducted annually and last year had a continued focus on Covid measures. All accidents and incidents are investigated. The firm recognises the importance of flexibility in the workplace as well as the benefits of in person collaboration and coaching on colleague wellbeing and what these interactions can deliver for the Client. Support for the wellbeing of our staff is provided through the provision of high-quality employee benefits, which includes dedicated free access to mental health and well-being services.



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Inclusion

The Staff Handbook details Aberforth's equal opportunities and diversity policy. The policy underlines the firm's commitment to the principles of fairness and mutual respect and recognises that discrimination in the workplace is unacceptable. The policy seeks to ensure that job applicants and employees are treated fairly and without favour or prejudice.

Aberforth's operations team of 14 is diverse by gender, with an equal of female and male representation. The investment team of six is currently entirely male. The Operations Partner is responsible for leading diversity matters across the firm. In 2022 the firm engaged Diversity Scotland to deliver diversity and inclusion training to all personnel.

Learning and development

Aberforth recognises the benefits of learning and development for both its people and the firm. All personnel are required to complete a minimum of 35 hours each year, which is augmented by the continual professional development requirements of any professional qualifications. Aberforth facilitates additional learning by encouraging its people to attend courses, seminars, and events relevant to their roles and career progression.

Suppliers

Several suppliers support the firm's operational activities and are recorded in a supplier register. A risk assessment is conducted to identify those suppliers providing critical services to the firm and its clients. Such suppliers are subject to enhanced annual due diligence and oversight as part of the firm's control framework. Where relevant, the firm supports suppliers' best practice social policies, including paying the national living wage and preventing modern slavery.

Industry participation

Aberforth's staff are active participants in relevant trade associations committees, including the Investment Association (IA) and Association of Investment companies (AIC), as well as local Scottish forums for compliance, operational and corporate matters. More recently the firm has expanded its focus to look at participation in forums with ESG objectives.

Charity, political donations & volunteering

The firm has a policy of leaving decisions about charitable and political donations to individuals. The firm supports staff wishing to undertake dedicated volunteering or contributing to wider community projects.



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ENVIRONMENTAL

As a small investment management firm of around 20 people working from a single office, Aberforth's direct environmental impact is not significant. Similarly, the potential impact on our business from climate change is low. The firm is well capitalised, and our capital planning scenario analysis includes climate change among potential risks. Nonetheless, Aberforth recognises the challenge of climate change and has adopted a series of policies and initiatives, which are listed below along with relevant disclosures. These policies will continue to develop, in response to scientific progress, the evolution of regulation, industry recommended practices and our own thinking.

Environmental issues are more influential on companies in which Aberforth invests its clients' capital. On behalf of its clients, the firm takes meaningful stakes in businesses that may have a substantial environmental impact or may be at risk from climate change. Consideration of such risks is integrated into the investment process, which acknowledges their potential effect on company valuations. The firm's policies and approach to engagement, along with investee company examples, are set out in our response to the UK Stewardship Code 2021, which is available [HERE](#).

Progress and development

Aberforth continues to work with a local environmental consulting firm, ECO3 Partnership, on a 'Sustainability as a Service' arrangement. Work in the last year has focused on continuing to develop Aberforth's approach as a firm to sustainability matters. In addition, there has been considerable focus on the investment approach, outlined in the Aberforth Stewardship policy [HERE](#).

Notwithstanding the firm's small size, measuring and understanding its environmental impact is important. Over the last year there has been a reduction in our Scope 2 emissions, as a result of the procurement of renewable electricity. Further details are set out in table 1, below. Importantly, the firm has begun the consideration of Scope 3 emissions, also reporting in table 1.

Task Force on Climate-related Financial Disclosures (TCFD)

Whilst there is no mandatory requirement for Aberforth to implement TCFD at present, the firm recognises the importance of the disclosures for the environment, society and the economy. Consequently, we have embarked on a pathway to develop and implement them.



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Streamlined Energy and Carbon Reporting emissions

Table 1

Reporting period 1st May 2021 to 30th April 2022
 Reporting entity Aberforth Partners LLP (Company Registration no. OC313353)

Scope	Emissions Type	Scope 3 category	Indicator name	Unit	2022	2021
Total direct GHG emissions - Scope 1			Scope 1 - Total	t CO₂ eq.	15.33	14.97
Scope 1	Direct	n/a	Company facilities - Stationary Combustion (gas)	t CO ₂ eq.	15.30	14.94
Scope 1	Direct	n/a	Company vehicles	t CO ₂ eq.	0.00	0.00
Scope 1	Direct	n/a	Fugitive Emissions	t CO ₂ eq.	0.03	0.03
Indirect energy related emissions - Scope 2			Scope 2 - Market based Total	t CO₂ eq.	0.00	5.06
Scope 2	Indirect	n/a	Purchased electricity for own use - location based	t CO ₂ eq.	3.28	5.06
Scope 2	Indirect	n/a	Purchased electricity for own use - market based	t CO ₂ eq.	0.00	5.06
Other indirect GHG emissions - Scope 3			Scope 3 - Total	t CO₂ eq.	66.91	n/a
Scope 3	Indirect	1	Purchased goods and services *	t CO ₂ eq.	40.07	n/a
Scope 3	Indirect	3	Fuel & energy related activities (not included in scope 1 and scope 2)	t CO ₂ eq.	1.05	n/a
Scope 3	Indirect	5	Water & waste generated in operations	t CO ₂ eq.	0.16	n/a
Scope 3	Indirect	6	Business travel *	t CO ₂ eq.	13.19	n/a
Scope 3	Indirect	7	Employee commuting & homeworking *	t CO ₂ eq.	12.45	n/a

* denotes estimate - see below for explanation on methodology

	Scope 1 and 2 Intensity ratio	2022	2021
Total Scope 1 and 2		15.33	20.03
FTE		22	21
t CO ₂ e/FTE		0.70	0.95

*The methodologies used are the Greenhouse Gas Protocol and the UK Government conversion factors produced by the Department for Business, Energy & Industrial Strategy (BEIS). Data sources such as the firm's annual operational costs, UK standard industry classification (SIC) codes, ONS data, BEIS emission factors and Aberforth personnel data are used in relevant calculations.

Scope 3 category 1, purchased goods and services, is an estimate determined through analysing the firm's spend on goods and services and categorising them into SIC codes. Supplier specific emissions data was sourced where practicable and available and scenario analysis was undertaken to determine a range of values to attempt to address data quality and availability issues. 91% of the operational spend was assessed of which c37% of emissions data was sourced for the supply chain (company scope 1 and 2). The most conservative estimate of the valid scenarios was used, determining emissions of 40.07 tCO₂e for 2022.

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