

Edinburgh Partners – Corporate Governance & SRI Guidelines

Our assessment of the quality of investee companies in the areas of corporate governance and SRI is an integral part of the investment recommendation process. Corporate governance & SRI “scores” for the Edinburgh Partners’ template are factors to be considered in the recommendation, in addition to the central and supporting valuation metrics. The exception is obviously where a client mandate precludes certain types of investment on either corporate governance or SRI grounds. At the portfolio construction stage we are able to screen our database to achieve “best in class” corporate governance / SRI funds.

Corporate Governance

Please also refer to attached Corporate Governance Summary.

Criteria considered include, but are not limited to:

- Independent checks on the board structure (eg more than half board consisting of genuinely independent directors)
- Genuinely independent auditors
- Performance links to executive remuneration
- Separation of Chairman and CEO
- Compliance with local or international best practice
- Level of disclosure- integrity, transparency etc of company reporting and communication
- Shareholder structure, e.g .dual structures with different voting rights, clarity of ownership, existence of poison pills etc
- Macroeconomic or country level “control environment”, eg existence of exchange controls, lack of basic property rights etc

Rank	Description
1	Where there company could reasonably be described as “best in class” in majority of above criteria.
2	Where the company has clearly gone out of its way to exceed the basic criteria but still has aspects, which could not be described as “best in class”.
3	Where the company meets, but does not significantly exceed the above criteria
4	Where a weakness in corporate governance has been identified. This need not preclude an investment but there must be a strong case as to why not, e.g. extreme valuation or a company in the process of rectifying weaknesses.
5	Where unacceptable levels of corporate governance practice has been established, be this from non-existence of property rights, complete lack of transparency etc. Regardless of valuation, stock should not be purchased.

SRI

Here the criteria are less specific than corporate governance, but consideration is given to Social, Environmental & Ethical issues (SE&E) and cognisance taken inter alia of;

- The nature of a company's operations
- An assessment of significant risks to the company's value arising from SE&E considerations
- Efforts made by company to be socially responsible in the widest context
- Existence of company systems to identify SE&E risks.
- Stated policy regarding SE&E matters

Rank	Description
1	By the nature and conduct of its business, the company is clearly a top ranking SE&E investment.
2	Although not necessarily operating in an obviously SE&E industry, the company takes its responsibilities seriously and long term value will be added to the business because of this strategy.
3	The company is performing adequately as regards its SE&E responsibilities.
4	Due to the nature of its operations, the company will always score poorly in its SE&E responsibilities. Tobacco stocks would fit in this category.
5	Unacceptable levels of SE&E practice, either due to the extreme nature of its operations or its disregard for minimum levels of compliance. Regardless of valuation, stock should not be purchased.