



Edinburgh Partners Environmental, SRI and Corporate Governance (ESG) Policy Statement

January 2018

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Edinburgh Partners is an independent asset manager, focused upon long-term company analysis and equity portfolio management for our institutional and professional clients. Forecasting companies' prospects on a five-year time horizon and the identification of cheap stocks is a key activity of our investment team. ESG issues and their management can have a significant impact upon company earnings and long-term valuations and consideration of these issues is an integral part of our investment process. Likewise, reporting to clients on our assessment of these issues, engagement with investee companies and our voting decisions is also central to our approach.

Our policy on ESG issues is fully consistent with the guidance and principles set out by the Financial Reporting Council within the UK Stewardship Code and the UNPRI.

Fulfilling Responsibilities

Edinburgh Partners recognises that it has a fiduciary duty¹ to act in the best interests of its clients. Part of this responsibility involves ensuring that assets under our stewardship are managed in a way which maximises shareholder value.

Our approach is pragmatic and necessarily flexible given differences between countries in terms of regulation and also the individual circumstances of the company involved. Our assessment of the quality of investee companies in the areas of environmental considerations, socially responsible investment and corporate governance is embedded in our investment process. In practice, discharging these responsibilities includes analysis of financial statements and careful consideration of all proposals and resolutions requiring a shareholder vote. We will also seek to engage with board members or senior management on various issues where appropriate.

All of these actions are used to derive scores for corporate governance, socially responsible investment and environmental factors which feed into the ultimate investment decision. As our investment process is driven primarily by long-term valuation, all our analysis of ESG factors is undertaken with a view to their potential impact on valuation. These scores and any supporting discussion are retained as part of our proprietary database and are made available to clients as part of the reporting process. Details of the scoring system are provided at the end of this document under Principle 7 on Reporting.

In August 2014 Edinburgh Partners signed up to the 2014 Global Investor Statement on Climate Change, and is reviewing other similar initiatives and potential membership of other bodies relating to ESG issues. At the end of 2014 Edinburgh Partners Limited became a signatory to the United Nations-backed Principles for Responsible Investment, known as UNPRI. This initiative requires signatories to be active, responsible shareholders and to report annually on their efforts. Edinburgh Partners' commitment to the UNPRI reinforces the approach to ESG issues in our investment process noted above and builds on Edinburgh Partners' ongoing compliance with the guidance and principles of the UK Stewardship Code.

Further details on The Principles of Responsible Investment, including Edinburgh Partners' Transparency Report, can be found at www.unpri.org.

¹ Edinburgh Partners Ltd is registered as an investment adviser in the US and thus has a duty to comply to Rule 206(4)-6 of the Investment Advisers Act 1940. This document is intended to comply with this rule.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

This ESG policy statement is available on our website www.edinburghpartners.com along with a statement as to our compliance with the guidance and principles of the UK Stewardship Code. This document is also made available to new clients of the firm as part of the take-on procedures and to existing clients on any updates.

We recognise we need to take a pragmatic approach in assessing environmental factors, SRI and corporate governance standards, since companies operate under differing conditions and in different markets. This document describes how we assess a company's environmental, social and governance practices and how this assessment is incorporated into our investment process and reported to clients. It also describes our voting policy and implementation.

Should you have any questions regarding our approach then please contact our Client Services team.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

In the evaluation of corporate governance and voting issues, our focus is the fiduciary duty we have to our clients. Our policies as described apply, irrespective of any potential conflicts of interests.

Our proxy voting policy addresses potential conflicts of interest by its adoption of and reliance on the proxy voting guidelines of a specialist third party (Institutional Shareholder Services ("ISS")) and the day to day implementation of those guidelines by ISS. The procedures provide that, where a portfolio manager decides to vote out of line with an ISS recommendation, any potential conflicts of interest are considered, the rationale behind the decision is fully documented and retained as well as being reported to the relevant clients.

Principle 3

Institutional investors should monitor their investee companies.

As part of our ongoing analysis of companies, we monitor their performance on ESG factors. The starting point for such monitoring will be statutory financial or other statements, but also includes a consideration of detailed analysis undertaken by ISS. We will also engage directly with management where we feel it is necessary.

Key areas which we monitor include:

Company Information

We expect financial statements, reports, other publications and briefings to meet legal and accounting standards and to be timely, transparent and objective. Such information should enable us to evaluate the performance of management as well as of the company in relation to stated objectives and to understand future strategy. It will also support a consideration of the impact of company performance in the areas of social and environmental responsibility on future sales, margins and valuations.

Board and Management

We believe in effective boards, comprising individuals sufficiently experienced in the business and other relevant matters, with a balance between executive and independent non-executive members. Boards must take responsibility for corporate performance and be accountable to shareholders. Our starting point is that the Chairman should be responsible for running the board and the Chief Executive should be responsible for running the business and, accordingly, that these roles generally be split. A successful and open working relationship between the board and executive management is vital.

Compensation

The board's responsibilities should include control of service contracts and remuneration. The structure of these arrangements should balance the business need to attract and incentivise the required quality of individual and the need to avoid excess, which is judged in the context of the company's performance and market standards. We are generally in favour of share and share option elements in compensation packages for executives provided these do not significantly dilute shareholders and are properly linked to performance against meaningful individual and corporate targets. Share and option awards should be phased over at least three years to encourage loyalty and on-going performance.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

We seek to engage with investee companies when we feel it is necessary and where we believe we can be effective. Our primary concern will always be the potential impact of any issues on a company's long-term valuation. We believe that a company's management should be best placed to manage the company's affairs effectively, but we may seek to discuss certain issues where we have concerns or where we require greater clarity. Examples of such issues might be:

- Operational performance
- Company strategy
- Strategy regarding acquisitions or disposals
- Inappropriate remuneration, incentive or severance packages
- Shareholder structure
- Environmental issues
- Social issues

If we subsequently believe we have received an unsatisfactory response from a company and we believe that the issue is likely to have a detrimental impact on shareholder return and thus on our clients' interests, then there are a number of courses of action available. These might include:

- Entering into a more active dialogue with company management
- Writing to the company management to explain our concerns and action proposed
- Voting against company management
- Selling our holding
- Collaborative action

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Our usual policy is to engage directly in discussions with investee companies where we believe this engagement is in shareholders' interests. If appropriate, these activities and discussions may be undertaken through collective engagement in collaboration with other investors holding similar views and those representative bodies when they are aligned with our clients' interests. We take into account the following in deciding whether or not to act collectively:

1. whether it will be more effective than independent engagement;
2. the similarity of the objectives of the other investors; and
3. confidentiality.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

Edinburgh Partners aims to vote all shares where possible and where we have been given discretion by our clients. In exercising voting authority provided to us by clients we follow the relevant applicable regulatory and legislative requirements, both in the UK and other jurisdictions in which we are regulated. The guiding principle in performing this service is to make proxy voting decisions which favour proposals designed to maximise a company's shareholder value and are free from the influence of conflicts of interest.

We use an independent service provider to assist us in determining Edinburgh Partners Proxy Voting Policy and in implementing our proxy voting decisions. The provider Edinburgh Partners uses is ISS. Specifically, ISS assists us in the proxy voting and corporate governance oversight process by developing and updating their own proxy voting guidelines and by providing research and analysis, recommendations regarding votes, delivery of proxy instructions, recordkeeping and reporting services. Our decision to retain ISS is based principally on the view that the services ISS provides, subject to Edinburgh Partners' oversight, will generally result in proxy voting decisions which are favourable to shareholders' interests. In addition, portfolio managers will review the ISS recommendations and may elect to cast votes in a manner other than in line with those recommendations, where they have good reason to believe it is in the best interests of shareholders to do so. In these instances full documentation is maintained of any variation from the recommended course of action and reported to the relevant clients.

This policy does not apply in any instance where a client has not granted Edinburgh Partners discretionary voting authority either because the client has retained voting discretion, granted voting discretion to a third party or directed us to vote proxies in a particular manner. For investors in the Edinburgh Partners Opportunities Fund plc ("EPOF") the proxy voting policy detailed above is exercised in respect of the pooled fund in a manner consistent with other segregated portfolios where Edinburgh Partners has been given discretion to vote.

Edinburgh Partners retains the following records in relation to our exercise of discretionary voting authority for our clients:

- Proxy voting policies and procedures as amended from time to time
- ISS proxy voting recommendations
- Client requests for proxy voting information
- Documentation material to the voting decision for a client proxy or that reflects the basis for that decision

Edinburgh Partners does not itself participate in any securities lending programs. However, certain of our clients engage in securities lending programs directly with their custodians. We do not seek to recall any stock that is out on loan in order to vote (as participation in such programs is a matter for the client).

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

We report quarterly to all clients on ESG and voting, with respect to their portfolio.

ESG Reporting

Our assessment of the profile of potential portfolio holdings in the areas of environmental, SRI and corporate governance issues, forms an integral part of the stock analysis and investment recommendation formation process. Environmental, SRI and corporate governance “scores” are assessed for each company and completed as part of the production of the Edinburgh Partners company research template. These scores are considered alongside Year 5 price/earnings ratios (Year five P/Es) and other valuation metrics in deciding the recommendations for stocks

Our scores (1-5) are as follows:

1. Exceptional - Where the company could reasonably be described as “best in class” in the majority of relevant criteria
2. Above Average - 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. Average - Where the company meets, but does not significantly exceed the relevant criteria
4. Poor - Where a weakness in ESG has been identified. This need not necessarily exclude a company from consideration but there must be a strong case for its inclusion
5. Unacceptable - Where unacceptable levels of ESG practice have been established. Regardless of valuation, this stock should not be purchased

An exception report is generated for clients listing every stock in their portfolio which is not scored 3 (average) by our analyst. The reasons underlying the score attributed are detailed for environmental, SRI and corporate governance factors. We also document the stocks on which there has been engagement with company management, with a description of the matters discussed. Further discussion of our views with clients is available on request.

Proxy Voting Reporting

Our Proxy Voting Report supplied to clients details all company meetings, date, type of meeting and number of resolutions on which we voted. The number voted in line with, or against ISS recommendations is also shown and in the instances where we voted against the ISS recommendation, an explanation is included. We also highlight where we have voted against management.

We also publish on our website a summary of our voting activity on a quarterly basis. This reflects voting at meetings where we have exercised full discretion.

Independent Opinion

In common with other asset managers, we have not obtained an independent audit opinion on our engagement and voting processes. This decision was taken after discussions between Edinburgh Partners and our Auditors and will be kept under review.

This Policy describes how we assess a company's environmental, social and governance practices and how this assessment is incorporated into our investment process and reported to clients. It also describes our voting policy and implementation. In addition, our Proxy Voting Policy addresses potential conflicts of interest by its adoption of and reliance on the proxy voting guidelines of a specialist third party (Institutional Shareholder Services ("ISS")).

Our assessment of the quality of investee companies is embedded within our investment strategy. Our ISAE 3402/SSAE 16 currently provides details of how we implement our investment strategy and how we execute our proxy voting responsibilities. These are tested by our auditors as part of the audit process.

Further Information

For further information on this Policy please contact:

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