



SANDERSON

ASSET MANAGEMENT

STEWARDSHIP AND SHAREHOLDER ENGAGEMENT INFORMATION SUMMARY

Sanderson Asset Management LLP (“**Sanderson**”) aims to provide strong investment returns and excellent service to its investors and sees a considered approach to stewardship and shareholder engagement as an integral part of this. We recognise the need to engage with the management and directors of our portfolio companies and to exercise our proxy voting rights with a view to enhancing clients’ long-term investment values. It is our opinion that these objectives support good corporate governance and provide the best operating environment for our portfolio companies to manage competitive commercial pressures.

In accordance with the provisions of Section 2.2 of the COBS Sourcebook of the FCA Handbook, this document describes how we engage with the management of current and potential portfolio companies on governance and related issues by reference to the principles set out in the Financial Reporting Council’s UK Stewardship Code 2020. The Stewardship Code is a voluntary code which sets out a number of principles relating to engagement by investors with UK issuers. Jurisdictional differences and concerns over public disclosure mean that we have opted not to make ourselves a formal signatory to the Code, but we remain broadly supportive of its principles and objectives as set out herein.

Principle 1 – Signatories’ purposes, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Investment Beliefs

We are a long-term value manager and, as such, the core objectives of our investment programme have a strong natural alignment with the positive outcomes which may be achieved through stewardship and good corporate governance.

Investment Research

Our substantive analysis of any current or potential portfolio company includes an assessment of its management. Corporate governance considerations are included within this assessment, if deemed relevant. To this end, governance and related issues form a documented part of our investment process and we recognise the material impact that such issues may have on the companies that we choose to invest in. This flexible approach enables us to give full consideration to stewardship-related risks in respect of any investment opportunity and enables us to act in the best interests of all of our privately offered commingled funds (our “**Clients**”).

Research Monitoring

Our investment approach is based on fundamental analysis, which involves building and maintaining a detailed knowledge of individual companies, including through meetings and calls, analysis of published company reports, announcements and circulars and broader internal and external research and data. As such, our monitoring of investee company strategy, operational, governance and management performance and capital allocation is integral to our investment process. Specifically in relation to corporate governance, we generally seek to satisfy ourselves, to the extent reasonably practicable, that the investee company's board and committee structures are effective, that independent directors provide adequate oversight and that, in general terms, the company has responded appropriately to any identified corporate governance issues. As part of this process and as described below in relation to company meetings, we will, where appropriate, communicate our views to the management and/or boards of these companies when we have concerns.

Principle 2 – Signatories' governance, resources and incentives support stewardship.

Governance and Incentives

We are a privately owned, independent partnership and have specifically structured our business to ensure that our interests and the interests of our staff are aligned as closely as possible with those of our Clients. This is achieved by, for example, staff remuneration practices, which look to the long-term success of the business in accordance with the value approach set out above, and through ownership interests which have historically been controlled via a formal Financial Alignment Policy applicable to all staff and which are currently being re-mapped through a dedicated transfer of ownership project.

Internal Resources and Experience

Our Investment Team has significant experience in the firm's investment style and practice, as well as a variety of governance and engagement issues which have arisen over time and in relation to our portfolio. Our Investment Team members have areas of expertise across a range of different sectors. This breadth of experience helps each member to decide what is appropriate in terms of monitoring and engagement on governance issues for a particular company. The approach taken in any given situation will reflect our view of the current and future prospects of the company, whether there are specific issues to address and the stock's current and likely future position in a portfolio

In accordance with the team approach adopted by our investment function, material issues and developments in relation to portfolio companies will typically be presented to and interrogated by the Investment Team as a whole. This approach ensures that the experience obtained from previous engagement activity can be effectively leveraged.

External Resources

Those external resources which we utilise on a regular basis are described in the Proxy Voting Policy at Appendix 1. These service providers typically supply us with meeting notification and ballot delivery services, agenda summaries, detailed agenda content including original source documents, translation services, power of attorney maintenance, recordkeeping and custom reports, and vote instruction processing services. Please note that we do not outsource any part of our investment research or decision-making process.

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

We implement just one investment programme for all of our Clients. As described above, we also have a governance structure which is designed to reduce conflicts and increase staff alignment with the business and our investment programme. This in itself reduces the conflicts of interest faced by us, as compared to larger and more complex financial services firms, but we are clear that it does not eliminate the risk of conflicts entirely and further mitigation measures are described below.

Conflicts of Interest

We maintain an inventory of the actual or potential conflicts of interest to which we may be subject. This includes key conflicts which may impact on the ability or motivation for a Portfolio Manager to focus on governance issues for the companies which are in our portfolio or which we are monitoring e.g. staff personal account dealing or outside business interests. We have implemented robust controls and procedures to manage these potential conflicts. These controls and procedures are described in our Compliance Manual and tested at least annually as part of our compliance monitoring programme. Ultimate responsibility for managing and mitigating the business's conflicts of interest rests with our Supervisory Group.

Proxy Voting Policy

Further to the above, we also maintain a formal Proxy Voting Policy, attached at Appendix 1. This policy describes some of the more complex and specific conflict scenarios that might arise in relation to proxy voting. For example, where:

- a portfolio company's retirement plan assets are invested in one of our privately offered commingled funds;
- a portfolio company or one of its affiliated entities is also a security or foreign exchange brokerage counterparty to one of our privately offered commingled funds; or
- where the person responsible for overseeing investments for an investor in one of our commingled funds is also a director or officer of a portfolio company that would materially benefit from any executive compensation or incentive scheme subject to shareholder vote.

Our policy requires that proxy voting matters which are affected by any such potential conflict or which raise particular corporate governance concerns be designated as "material". Material proxy voting actions are subject to additional controls, including review and sign off by two Portfolio Managers. Our policy on proxy voting is also included within our Compliance Manual, which is updated and subject to management approval on at least an annual basis. The policy is also distributed to all our investors on an annual basis and we will provide a copy of our Compliance Manual to any investor upon request.

Inside Information

We do not envisage a scenario in which we would wish to be made an insider or to obtain, without prior consent, any information which may affect our ability to deal in the securities of a company. All our staff are provided with relevant training on this on an annual basis. In the unlikely event that we are made an insider by accident or mistake, we have appropriate internal controls to address this and meet all the relevant regulatory requirements.

Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We employ a bottom-up stock selection process which considers known risk factors within the overall objective of creating long-term value. This is further described in the Responsible Investing Policy (“RI Policy”) included at Appendix 2.

By way of a specific example and in response to the covid-19 pandemic, our Investment Team carried out a detailed balance sheet stress testing exercise for all companies within our portfolio. Our Clients have been informed about this exercise and, where further interest has been expressed or specific details sought, then this has been discussed with them.

Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.

We review and, as necessary, updates our internal Key Operating Procedures, RI Policy and this Summary ordinarily on an annual basis. The team approach followed by our investment function is itself an assurance of these procedures, and the success of our value approach, measured on a long-term basis, supports their effectiveness.

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Description of Client-base

By assets under management (“AUM”), approximately 68% of our client-base is US institutional investors, with approximately 55% being large IRS-registered charitable institutions or ERISA-regulated pension funds. The remaining 32% of our AUM represents US individual investors or private/family trusts (approximately 28%) and non-US investors (approximately 4%). Of the 4% of our programme represented by non-US investors, this is almost entirely represented by EU investors.

AUM Across Asset Classes and Regions

We invest in publicly traded, non-US or non-Canadian equity securities. We primarily invest in developed markets, although we may also invest in “emerging markets” and examples of this have included Taiwan, Thailand, Mexico, South Korea and China.

Investment Time Horizon

As described above, we are a long-term investor and, although the portfolio turnover may vary over time, we typically hold positions in our portfolio for a matter of years.

Specific Investor Restrictions

We recognise that there are many issues about which our investors feel strongly, but we are obliged to act in the overall best interests of all our funds. Further information on specific investor restrictions is included in the RI Policy at Appendix 2.

Reporting

Other than the proxy voting summary and examples provided in this document, we do not issue public reporting on stewardship or related matters.

In accordance with our Proxy Voting Policy, attached hereto as Appendix 1, we provide regular reporting on voting matters to investors on request. We are also happy to provide more detailed information on any particular vote to an investor on request – indeed, queries about voting, including our procedures and specific vote information, are a common topic in investor meetings or due diligence questionnaires.

As part of our efforts to provide transparency to our investors, we also offer, amongst other things, monthly holdings lists, a quarterly newsletter covering both firm and portfolio changes, and quarterly sideletter summaries.

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Stewardship Integration

The manner in which stewardship and material environmental, social and governance issues are integrated into our investment process is described in the RI Policy at Appendix 2.

Impact on Decision-Making

In accordance with the investment approach set out elsewhere in this document, stewardship, including material environmental, social and governance issues, may form part of our investment decision-making process. However, such factors alone will not drive an investment decision if the company is otherwise of sound quality and risk factors are, in our opinion, sufficiently reflected in the price and do not adversely affect the perceived fair value of the security.

Principle 8 – Signatories monitor and hold to account managers and/or service providers.

Proxy Voting

As above and in the Proxy Voting Policy at Appendix 1, whilst we may receive summary information or voting recommendations from specified third party service providers, we do not rely on these and will be guided by our own investment research.

We also utilise the same third-party service providers' vote instruction processing services. As described in the Proxy Voting Policy, inputs into these services for all votes receive multiple levels of verification within the firm.

Company Research

We also use external research provided by sell-side analysts as an input into our research process and subscribe to an ESG database and ratings service provided by Sustainalytics.

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

Company Meetings

We are an active investment manager and, although fundamental research forms the main basis for our investment decision-making, company meetings are also a key input into this process, both before and after investment.

We endeavour to meet regularly (normally at least annually) with all current and potential portfolio companies. Our Portfolio Managers are encouraged to ensure that these meetings are well structured and encompass a constructive exchange of views with a company's senior management and/or investor relations team. In any such meeting, the specific topics for discussion will vary, based on a

host of company-specific factors and the existing research on file, and our Portfolio Managers will not hesitate to include governance questions or issues if they believe that this is relevant in any way. We may arrange extra meetings if there are any specific or follow-up concerns and it is felt that this is the best way to address them.

Prior Engagement

We monitor the effectiveness of our prior engagement with the management and boards of investee companies. Our historic communications, and the success of such communications, will play a part in its proxy voting decisions. In accordance with applicable law and our internal document retention policies, we keep electronic records of material engagements, voting and other governance and corporate responsibility activities, including the rationale for certain voting decisions.

Voting Matters

We vote the vast majority of our investments by proxy. We may, in exceptional circumstances, attend meetings where a problematic issue is being discussed or where we believe that this is reasonably necessary to fulfil our fiduciary responsibility to our clients. As a general rule, where specific issues arise, then we prefer to talk privately with company management, as we believe that this is a much more effective way to monitor a range of issues, including governance. That said, as set out below, we are willing to pursue other courses of action.

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.

Our approach emphasises meeting and talking to company management. But, subject to regulatory restrictions, conflicts of interest and acting in concert restrictions we may (as above) participate in collaborative engagement activities where we feel that this is in the best interests of our clients. Any such activities will be considered on a case-by-case basis and addressed in the context of the economic environment and other relevant business issues. Issues on which we have acted collectively have typically focussed on corporate strategy and its implementation. Specific examples are provided below.

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.

Engagement Methods

We are an active but not ‘activist’ investor. We do not build holdings in companies with the objective of changing the way that they are run or exercising control. However, we will intervene where we feel it necessary. For example, where we have particular concerns about capital allocation, including payment of dividends and acquisitions/disposals, strategy, operational performance or remuneration.

Potential courses of action in relation to concerns, in no particular order of priority, include:

- talk to the company management;
- write to the company to explain our expectations as shareholders;
- collaborate with other shareholders to bring pressure to bear on company management;
- abstain or vote against management resolutions;
- submit resolutions or introduce motions at shareholders’ meetings.

The chosen approach(s) will depend on what we feel is in the best interests of our Clients, as well as what is likely to be the most effective course of action in relation to a specific issue. Note that, to date, we have on various occasions engaged in all of the above courses of action, save for the last one.

Generally, operational and financial matters, and execution of strategy, are likely to involve meeting with executive management. Concerns about board oversight, governance and risk will normally be discussed with non-executives. We will sell a position if we feel that is the most effective response.

Engagement Examples

Recent examples of where our Investment Team have engaged with portfolio companies include:

- Collaborating with a group of other shareholders to communicate with the management of a portfolio company which was subject to a takeover bid. We, and the other shareholders, felt that the bid underestimated the value of the portfolio company's business.
- Engaging with a portfolio company which was the offeror in a takeover bid. We felt that the bid was overpriced and would result in the portfolio company becoming overleveraged.
- Whilst we do not provide public disclosure on specific proxy votes, the aggregated figures at the end of this Summary demonstrate that there are numerous examples of Sanderson voting against company management, particularly in relation to shareholder dilution.

Whilst our efforts are not always successful, they provide a clear indication of our willingness to engage with its portfolio companies.

Principle 12 – Signatories actively exercise their rights and responsibilities.

We have a formal Proxy Voting Policy, attached hereto as Appendix 1. Subject to the specific considerations set out in the Policy, including country and company-specific issues, we seek to vote all shares held.

Whilst we like to be able to support the management of the companies in which we invest, each proxy motion is considered individually. If a motion is not in the best interests of our clients, we may vote against it or else abstain. Voting is informed by internal research and supplemented with information produced by external firms. As described above, this information is valuable, but it is our Portfolio Managers who make the final voting decision, based on this and multiple other sources of information.

A high level summary of our votes and details of those instances in which we have voted against management are included below:

Sanderson Voting Summary – 1 January 2022 to 31 December 2022		
Sanderson voted on 1,120 resolutions at 66 company meetings		
Number of resolutions where Sanderson voted with management	1,045	93%
Number of resolutions where Sanderson voted against management or else abstained	75	7%
Breakdown of votes cast against management or else abstained		
Remuneration and related matters	8	
Election of directors/auditors	39	
Capital issuances and shareholder rights	20	
Re-organisations and mergers	2	
Routine or other business	6	

Material Voting Actions

Recent material voting actions and themes have included:

- We voted against the re-election of the incumbent board members of a portfolio company. We took the decision to vote in this way as a consequence of observing consistent poor cost control as well as ineffective and detrimental strategic decisions that were not in the best interest of company shareholders
- We voted against the re-election of specific board members of a portfolio company. This was in response to evidence of poor capital discipline and strategic decision-making which included the approval of a large and expensive acquisition.
- Sanderson voted to approve the scheme of arrangement in relation to a portfolio company, under which scheme the company was subsequently bought out. Sanderson voted with approval on this issue because it felt that the price offered represented good value and the cash realised could be put to other uses in Sanderson's investment programme.

- As per the table above, there were several instances where Sanderson voted against potential shareholder dilution, against certain director appointments and also against remuneration reports, predominantly where these were felt to be unduly short-term in nature.

Sanderson would be happy to discuss the above with clients of the firm but does not make detailed information on these votes publicly available.

Sanderson has not sought an independent opinion on its shareholder engagement or voting. However, as above, Sanderson's operational voting procedures and controls are subject to review by Compliance on a regular basis.

Shareholder Rights Directive (SRD II)

Under the provisions of the Shareholder Rights Directive, as set out in COBS 2.2B, we are required to develop and disclose an engagement policy and publicly disclose on an annual basis how our engagement policy has been implemented. We believe that this information summary provides the required detail on our engagement policies. We have chosen not to provide public disclosure of how our policies have been implemented because we generally do not take material positions in the companies in which we invest.

SFDR Principal Adverse Impact Statement

Article 4 of the Sustainable Finance Disclosure Regulation (SFDR) requires us to provide information on the principal adverse impacts of our investment decisions on sustainability risks.

Our programme pursues an equity focused investment strategy that does not explicitly seek to promote any specific environmental or social characteristics and does not have sustainable investment as its objective. Sustainability risk considerations are not the primary consideration for an investment decision and we do not expect that the assessment of likely impacts of sustainability risks will materially impact the expected risk or return characteristics of our programme. We will however evaluate and integrate sustainability risks where relevant throughout the investment process in the process of selection and ongoing monitoring of investments. Therefore, it should be noted that the investments underlying our programme do not take into account the EU criteria for environmentally sustainable economic activities.

We do not currently consider the principal adverse impacts of our investment decisions on "Sustainability Factors" (meaning environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters). We have opted against doing so, primarily because of the limited availability and coverage of accurate data across underlying companies and/or issuers. We intend to keep this position under review and may reassess our position at such time we feel we have the necessary data and framework to be able to make these considerations and report on them accurately and clearly.

APPENDIX 1

PROXY VOTING POLICY

Sanderson Asset Management LLP (“Sanderson”) considers it to be of paramount importance when assessing proxy voting responsibilities on behalf of its privately offered commingled funds and separate account clients (collectively defined as “Clients”) to recognize the fiduciary responsibility it assumes in acting as investment manager. Sanderson also recognizes the need to exercise its proxy voting obligations with a view to enhancing the Client’s long term investment values. Sanderson believes that both are generally compatible with good corporate governance as this generally provides the best operating environment for each underlying portfolio company to cope with competitive commercial pressures. It is Sanderson’s policy, subject to the considerations described below, to use its best efforts to vote proxies arising on all shares held on behalf of its Clients.

Standard issues typically arise at Annual General Meetings (“AGMs”) or Ordinary General Meetings (“OGMs”). Standard issues may include items of a routine nature such as the presentation of financial statements to shareholders, approval of routine executive compensation or incentive plans, approval of financial statements by shareholders, election of directors and approval of directors’ fees, election of auditors and approval of audit fees and declaration of dividends.

Material issues may arise at Extraordinary General Meetings (“EGMs”), Special General Meetings (“SGMs”), OGMs or AGMs. Material issues may include items that relate to corporate governance matters; changes in a company’s country of incorporation; mergers and other corporate restructurings; anti-takeover provisions such as staggered boards, poison pills, or supermajority provisions; changes to capital structures including increases and decreases of capital and preferred stock issuance; material stock options, management compensation or incentive plan issues; and social and corporate responsibility considerations. Sanderson also considers standard issues to be material issues when it has knowledge that a potential conflict of interest with management is present. These situations can arise where a portfolio company’s U.S. retirement plan assets are invested in one of Sanderson’s privately offered commingled funds or accounts, a portfolio company or one of its affiliated entities is also a brokerage counterparty to a Client’s security or foreign currency transactions or where the person responsible for overseeing investments at a client that is invested in one of Sanderson’s privately offered commingled funds is also a director or officer of a portfolio company that would materially benefit from any executive compensation or incentive scheme subject to shareholder vote. Sanderson may not be aware of the roles performed for current and/or potential portfolio companies by investors with similar equity interests in Sanderson’s other privately offered commingled funds and accounts. Investors should notify Sanderson of any known affiliations with publicly traded companies that could fall within Sanderson’s investment universe. Investors should also notify Sanderson if they are actively involved in the financial services industry or affiliated or employed by an investment bank, broker, custodian or asset management firm.

The Client’s custodian (“Custodian”) has outsourced certain of its proxy processing responsibilities to either Institutional Shareholder Services (“ISS”) or Broadridge, leading providers of proxy voting and corporate governance services. ISS / Broadridge provide Sanderson with meeting notification and ballot delivery services, agenda summaries, detailed agenda content including original source documents, translation services, power of attorney maintenance, recordkeeping and custom reports, and vote instruction processing services. Meeting notifications are provided according to an established service level agreement in place between Northern Trust and ISS / Broadridge, and one in place between Northern Trust and Sanderson. Sanderson does not outsource any part of its proxy voting decision-making process.

Following receipt of proxy voting materials from ISS / Broadridge, Sanderson's staff gives a Proxy Voting Summary Form to one of Sanderson's portfolio managers for review. The form includes a summary of the voting issues, details of the number of shares held by a Client and a deadline for the response. If only standard issues are included on the proxy, the portfolio manager will decide on how to vote the proxy and sign the proxy voting summary form. If material issues are included, enhanced procedures apply. The portfolio manager will discuss the issues with a second portfolio manager, assess the potential impact that the issues may have on the portfolio company, and decide on how to vote the proxy in question. Both of the portfolio managers will then sign the Proxy Voting Summary form. Once approved, Sanderson's staff will process the proxy vote electronically using ISS's / Broadridge's proprietary system. A second Sanderson staff member will verify the input.

In certain circumstances, Sanderson may be unable to vote a specific proxy including (but not limited to) when a Custodian or ISS / Broadridge does not provide a voting service in a given market, because the custodian or its agent, in error, does not process a proxy or provide sufficient notice of a vote, or because an error is committed by any party involved in the proxy voting or registration process. Sanderson may also refrain from voting if, for example, it is considering liquidating a position (as shares may be blocked when proxies are submitted), where the costs of voting a specific proxy outweigh the economic benefit that Sanderson believes would be derived by the Client, where a specific class of shares does not carry voting rights with respect to a given issue subject to shareholder vote, or where re-registration of the shares into the Client's (rather than the Custodian nominee's) name may (or may reasonably be expected to) result in a violation of local privacy laws or adversely impact the Client's economic interests.

Clients are advised that when voting proxies in certain markets, Sanderson may be constrained by certain country or portfolio company specific issues. For example, some companies in the portfolio impose voting caps on the maximum number of proxy votes that any single outside shareholder may control. Others require all board issues to be resolved by a show of hands, rather than a poll. As the majority of Sanderson's client shares may be held by one nominee, these restrictions have the effect of substantially limiting the impact of any proxies cast. Furthermore, some companies in the portfolio may restrict Sanderson from voting proxies where disclosures of Client holdings or securities under Sanderson's control have not been made on a timely basis or in a format required under their articles of incorporation.

Additional information on Sanderson's proxy voting and corporate governance policies can be found in the Stewardship and Shareholder Engagement Information Summary on Sanderson's website (www.sandersonam.com). Clients may receive a quarterly summary of proxies voted or not voted and issues raised at meetings held by portfolio companies by contacting Sanderson's client services representatives and asking to be included on the quarterly proxy voting distribution list.

Sanderson will regularly, and at least annually, review this Policy. Sanderson will provide a copy of this Policy to all its investors on at least an annual basis. Additional copies can be provided to investors at any time on request.

APPENDIX 2

RESPONSIBLE INVESTING POLICY

Introduction

This policy has been written to set out the approach to responsible investing taken by Sanderson Asset Management LLP. Whilst we are not currently a UN PRI signatory, we are broadly supportive of its principles and objectives, and this policy is structured accordingly.

Since inception, our investment process has included a management quality assessment and we have always taken a long-term view and sought out businesses with resilient earnings. However, in light of the increased awareness of environmental challenges, social injustice and the impact of poor governance, we think it is appropriate to further elaborate on our thinking in relation to responsible investing and ESG considerations.

Definitions

“Responsible investment” is broadly defined as the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices, in the belief that these factors can have an impact on financial performance.

ESG considerations that can be material to financial performance include, but are by no means limited to, the following: air and water pollution, resource depletion, work place practices, product safety and liability, shareholder rights and remuneration targets and incentives.

In addition to considering ESG factors as a means to limit risks to a business, we are also positively considering the business opportunities highlighted through the “ESG lens”. For example, businesses exposed to the solutions that are required as companies and countries reduce their emissions or other forms of pollution.

Responsible Investment Guidelines

How does the integration of ESG considerations fit within our philosophy? Our overriding objective as a firm is to achieve a positive return on investment for our clients over the long-term. We think that this can be achieved by following an active value investing approach with a quality bias. Other attributes of our approach include our low turnover and our goal to think like business owners.

Quality

In our view, company quality can be defined as having the attributes required to grow intrinsic value over the long term. Such attributes often include good management, a strong balance sheet, reliable profits and a superior competitive position. We observe that higher quality business managers tend to have a long-term strategic vision that includes consideration of the repercussions of material ESG risks and opportunities. Poor management of ESG risks can result in negative consequences such as regulatory fines, legal action, difficulties hiring and retaining talented staff or the loss of customers. In extremis, this can erode profits and ultimately the intrinsic value of a business. Companies that are the beneficiary of stronger than average fundamentals, such as reliable profits or strong balance sheets, are often more capable than average of responding to regulatory changes, shifting consumer demands and societal trends. Responding to these changes can thus further entrench a company’s competitive advantage. For these reasons, it is consistent with our quality bias and our goal to create value for our clients, to include ESG factor analysis in our work.

Long-term

ESG factors are frequently issues that impact companies beyond the time horizon of the average holding period. As we typically invest in companies for long holding periods, ESG factors that may not be so critical today, can constitute material financial issues longer term and are thus worthy of our consideration.

Thinking like owners

We are bottom up stock pickers performing our own in-depth research. Our analysts are sector specialists who have built up detailed knowledge over years of experience. We aim to understand businesses thoroughly before we invest and maintain our knowledge and dialogue with the company throughout the holding period. The consideration of ESG risks is part of this process. Furthermore, the consideration of ESG factors can also highlight interesting business opportunities, the knowledge of which can enhance our understanding of the changing nature of the corporate landscape in which we invest.

Valuation

Positive and well publicised ESG credentials can, on occasion, result in a company being overvalued by the market. When this occurs we may not be able to invest in such companies and simultaneously adhere to our value approach. On the other hand, a business that is especially challenged by certain environmental or social issues might be trading at an attractive level. Our strategy might invest in such businesses, provided that the ESG risks are sufficiently discounted in the share price and we determine that the management team are deemed to be capable of dealing with any problems identified.

Responsible Investment Incorporation Procedures / Approaches

Screening

Our process starts with the screening of our universe of international stocks to seek out undervalued opportunities. However, we do not screen using ESG criteria or use negative screens to exclude certain sectors. The reasons for this are as follows:-

1. We need to operate a process that allows for a high degree of flexibility and as wide a universe as possible, in order to access undervalued yet good quality opportunities.
2. We take the view that environmental factors are complex, often systemic in nature and subject to change. Social and governance issues are typically specific to the country in which a business is based, where they need to be viewed in the context of local regulations and cultural norms. For these reasons, a granular assessment on a case-by-case basis is, for us, a more effective approach to integrating ESG factors within our investment process.

We appreciate that clients may have specific business areas they prefer to avoid for ethical reasons. Whilst we respect those preferences, we are unable to address them given the commingled nature of our funds. The one exception to this is the provision of our tobacco-free fund.

Fundamental analysis

Our fundamental analysis includes a separate environmental and social focus section, which is covered in our written company research piece for both existing and new ideas. Governance considerations are addressed within our assessment of company management. As such, ESG risks and opportunities are set out by each portfolio manager for consideration and debate by the rest of the team.

Our investment process includes scoring and also voting on a range of fundamental and valuation criteria. We score and vote on governance issues within our “management” section. Financially material environmental and social factors are relevant to our process and these will be encapsulated in the assessment of “reliable profits” or “competitive position”.

Valuation

In certain situations environmental and social factors are financially material to businesses we are invested in, for example, in the case where the primary product revenue growth is likely impacted by regulatory changes on the horizon. In these instances, ESG factors will have a direct impact on the assumptions behind our financial forecasting and therefore our valuation models.

Portfolio Management

We select companies for investment based on a range of quality and valuation criteria. Quality assessment is a multi-factorial exercise, where no single aspect determines investment. Thus, whilst ESG considerations can be an important part of this overall assessment, it is unlikely that we would reject or invest in a company based on ESG factors alone.

Engagement and Active Ownership Procedures / Approaches

Our process involves meeting with company management or investor relations in almost all cases prior to making an investment. We will then continue to meet and contact the company after we are invested. Our ongoing interaction with portfolio companies and new investment ideas provides a suitable forum for raising any concerns about material ESG issues.

As we operate on the basis that we prefer to stay within our circle of competence, we do not ordinarily propose alternative ESG strategies. However, our engagements are a means of establishing whether a company is following best practise and taking a long-term view on material ESG business risks and opportunities.

In addition to company meetings and other direct communications, we also vote the vast majority of our investments by proxy and follow other approaches to engagement. A full overview of our approach is included within our Stewardship and Shareholder Engagement Summary, which is available on our website (www.sandersonam.com) or can be obtained by contacting our Client Services Team (clientservices@sandersonam.com).