

FINDLAY PARK PARTNERS LLP

Responsible Investment Policy

Investment Approach

We aim to control the downside risk in each investment we make and to produce a compelling risk-adjusted compound rate of return over time. We believe that we can generate higher compound returns for clients by taking less risk.

This investment philosophy has guided our research intensive process since the American Fund's launch in 1998 and manifests itself in a comprehensive list of questions that we ask ourselves about every company that we invest in.

We aim to invest in businesses that generate strong free cash flows with management teams that are effective allocators of capital. We back companies that deliver value for their customers through great products and services. We look to support corporate cultures that create an environment for employees to flourish and grow.

Before we make an investment we need to have a high degree of confidence in the terminal value of the business and an awareness of the risk of permanent capital impairment if we are wrong about our assumptions.

Environmental, Social and Governance Integration

We find it hard to imagine how anyone can conduct serious research into companies without integrating ESG factors into the investment process. We are committed to being active stewards of our clients' assets and we strongly believe that investing responsibly can make a positive impact on society and enhance investment performance. Our experience is that responsibly managed companies are best placed to achieve a sustainable competitive advantage and should provide superior long-term investment opportunities.

The Findlay Park investment philosophy checklist helps us identify businesses that should generate sustainable returns while advancing the interests of their customers, employees and shareholders. We challenge companies – through engagement with management and the exercise of our voting rights – where we see scope for improvement that will deliver long-term value to shareholders.

Findlay Park is a signatory of the United Nations Principles of Responsible Investing ("UNPRI") and is committed to reporting annually in accordance with these Principles. We also comply with the principles of the UK Stewardship Code.

Definition of Terms

When considering ESG factors it's important to recognise that there is considerable confusion about the terms and definitions that asset managers and investors apply. While Findlay Park subscribes to third party ESG research providers we believe it's essential to carry out our own in depth research 'in-house' and not rely on external parties whose definitions and interpretations may differ from our own.

When reviewing ESG factors Findlay Park relies on the following guidance:

Stewardship and *responsible investing* are mandatory requirements, entailing engagement with the companies that we invest in and challenging them when they fall short of our standards for managing ESG risks.

Sustainability is the term perhaps most open to misinterpretation. Findlay Park has always been focused on identifying companies with the financial attributes to deliver performance over the long-term. This is captured in our investment philosophy by a number of questions, including:

- Does the company have sustainable cost, scale or network advantages?
- Does it have stable and predictable cash flows?
- Are returns sustainable?

However, sustainability has become increasingly associated with the exclusion of fossil fuel dependent companies from investment consideration. While many of these companies do not fit well with our investment philosophy, with poor records for sustainable returns and capital allocation, we have not excluded the sector from consideration.

Ethical investing entails the exclusion of specific stocks or sectors on the basis of ethical preferences. Findlay Park does not apply ethical exclusions in our investment process.

ESG and the Findlay Park Investment Philosophy

Our approach to integrating ESG factors into our investment process is guided by our investment philosophy, written by our founder James Findlay in 1988, and now codified in twenty-nine questions that we use to scrutinise companies under consideration for investment. These questions cover business, financial, management and cultural aspects of an organisation.

Environmental factors are of increasing concern to both governments and investors. One of the questions that our investment philosophy prompts us to ask about a potential investment is:

- Does the business face regulatory headwinds?

We pay close attention to incidents where a company has been penalised for the environmental impact that its operational processes have made. This is particularly relevant when considering industrial and healthcare businesses for inclusion in the Fund's portfolio.

We have been paying increasing attention to **social** factors that might undermine an investment case. We believe companies that pay appropriate attention to the interests of both their customers and their employees will ultimately deliver superior returns for their shareholders over the long-term. Two questions from our investment philosophy with particular relevance are:

- Does it have strong and trusted brands?
- Is there a strong customer value proposition?

A social factor of rising concern is cyber security and digital privacy. We have developed a specific list of questions to interrogate management to understand how they are managing these issues.

We believe that good **governance** is an essential quality for a successful business and pay close attention to management teams' performance. Four questions of our investment philosophy apply specifically to management:

- Do we like the corporate culture?
- Have management demonstrated good capital allocation?
- Is management compensation aligned with shareholders?
- Would you back management to take advantage of a downturn?

Our approach to assessing governance factors is not prescriptive: when a company does not comply with a particular convention (e.g. separating the roles of Chairman and CEO) our first step is to engage with the company in order to form a view about whether the factor concerned should be regarded as material.

With a portfolio typically consisting of just fifty holdings, we meet with management teams many times through the year both in the UK and the US; **this presents plenty of opportunity for us to challenge and raise issues of concern**. We aim for a 100% voting record at EGM/AGMs, and in a typical year will vote against one or more management resolutions at one in three meetings.

ESG and the Findlay Park Investment Process

New stock ideas for the Fund are pitched to the whole investment team, while existing holdings are regularly re-pitched in a similar process. Each stock is marked against the twenty-nine point investment philosophy; debate and challenge will be focused on those points where the company falls short of our expectations. Any ESG factors identified during the pitch will be specifically addressed.

The integration of ESG factors into the investment process is overseen by the Findlay Park Investment Committee ("IC"). The IC meets on a weekly basis, membership consisting of the Chief Investment Officer ("CIO"), two portfolio managers and the Chief Executive Officer. The IC reviews key ESG concerns related to specific companies and, through engagement with company management teams, monitors progress made in resolving or mitigating any concerns. The IC regularly reviews upcoming AGM/EGM proxy votes, paying particular attention to contentious issues. The CIO's countersignature is required to vote with management in the event of a contentious issue raised by either a third party research source or by a member of the investment team.

ESG and Reporting

Findlay Park produces a Voting and Engagement Report, on a semi-annual basis, which details voting decisions and provides examples of engagement undertaken by the investment team. The report is available to clients upon request.

Findlay Park is a signatory of the United Nations Principles of Responsible Investing (“UNPRI”) and is committed to reporting annually in accordance with these Principles. Our first report explaining how we have complied with UNPRI will be published March 2020 during the voluntary reporting period.

Approved by the Board of Findlay Park Partners LLP

February 2019

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