Findlay Park Partners LLP (Findlay Park) is an independent investment partnership based in London. The Investment team manage a single fund: the Findlay Park American Fund (Fund). **Our purpose is to generate compelling compound returns for our investors, measured over decades**. We have a clear Investment Philosophy that is aligned to our purpose and starts with the belief that if we can control the downside risk in each investment, we should be able to produce a compelling risk-adjusted compound rate of return over time. Consideration of ESG issues, thorough engagement, and voting are key to this investment approach.

2020 highlights

- 100% voting record.
- Around 300 one-on-one meetings with over 100 companies.
- Over 100 engagements with portfolio companies where ESG issues were a focus.

Overview

We have long seen culture as a competitive advantage, and asked "Do we like the corporate culture?" of businesses in which we invest. This year we evolved the question to "Do we like the corporate purpose and culture?" This focuses beyond how a business operates, to ask why it exists, and for whom. Many of our holdings have thought deeply about their purpose and culture. One example – a new addition to the Fund this year – is **PayPal**. Later in this report we discuss how we believe PayPal's purpose – to increase financial inclusion – is a significant competitive advantage.

Questions of purpose and culture feel more relevant than ever this year. Companies have been rethinking their role in society and their part in building more sustainable and resilient systems. Despite the disruption caused by COVID-19, climate change has continued to be a global priority amid calls to "build back better". At Findlay Park we have begun systematic climate-related analysis of our holdings. For the first time we share some of this information below in a dedicated **Sustainability Risk** section, which details how we monitor a range of ESG themes.

We have also engaged with a number of companies in our Fund on climate-related issues. These include our two commodities holdings – gold miner **Agnico Eagle**, and oil and gas exploration and production firm **EOG Resources**. We outline related engagement and research in this report.

Style of responsible investment & reporting

Below we outline the style of responsible investment which best characterises our approach, with reference to the Stewardship Code and EU Sustainable Finance regulations.

Style	ESG Integration	Stewardship	Sustainable Investment
Definition	Assessing ESG issues to improve return	Being active owners & good stewards of capital	Targeting specific ESG characteristics or outcomes
Our approach	ESG issues present important risks for us to assess in our investment process	We take active voting decisions and engage heavily with our companies	We do not target specific ESG outcomes or characteristics in their own right– such as 'greener' companies

This report provides some detailed examples of our approach to ESG integration, engagement and voting, including the new **Sustainability Risk** section; later in the year, we plan to add a dedicated Stewardship Section, in line with the 2020 UK Stewardship Code. Investors may also refer to our UN Principles for Responsible Investment (PRI) report.

ESG Integration

Our Investment Philosophy helps us identify businesses that we believe will generate long-term sustainable returns. Our starting point when looking at a company is not 'how much can we make if we get it right?' but 'how much could we lose if we're wrong?' We have a comprehensive checklist of questions that we use to analyse all aspects of a business including its financial and competitive position, management team and valuation. This includes questions which address ESG issues.

This year we further evolved our portfolio-wide responsible investment report, which we use to help monitor all our companies. The report is reviewed on a regular basis by the Investment Committee and at our weekly Investment team meetings. The report focuses on five areas for which we combine internal and external analysis for all companies in the portfolio. Below we show these themes and the main questions from our Investment Philosophy with which they align.

Human Capital	Climate & Environmental	Corporate Governance	Cyber Security & Data Privacy	Business Ethics & Reputation
Rationale				
All businesses are people-driven	These risks are increasing and some are becoming systemic	Robust oversight is key to financial sustainability	Rapid digitalisation poses new challenges	Business conduct is under scrutiny in an age of transparency
Investment Philosophy Questions				
Do we like the corporate purpose and culture? Does it have strong and trusted brands? Will it be a stronger business in 3 to 5 years' time?	Is there a high degree of confidence in the inevitability of the long-term outcome? Does the business/industry face regulatory headwinds? Is the business susceptible to shifting consumer preferences?	Is management compensation aligned with shareholders? Do we like the corporate purpose and culture? Have management demonstrated good capital allocation?	Does it have strong and trusted brands? Will it be a stronger business in 3 to 5 years' time? Is there a high degree of confidence in the inevitability of the long-term outcome?	Does it have strong and trusted brands? Is the business susceptible to shifting consumer preferences? Does the business/industry face regulatory headwinds?

When assessing companies we also review specific issues that are material to a sector or company.

Sources

We make use of a wide range of sources to aid our research. These include the following:

- **Environmental** – MSCI (climate), CDP (water and biodiversity/deforestation).
- **Social** – Glassdoor (human capital), SecurityScorecard (cyber).
- **Governance** – Institutional Shareholder Services (ISS) (governance & norms), RepRisk (controversies).

This year we incorporated data from a female focused employee review site, **InHerSight**, in particular the rating of equality of opportunity.[1] We believe that companies will benefit from attracting and promoting talent in a fair manner.

[1] https://www.inhersight.com.

Sustainability Risks

Below we describe the sustainability risks associated with these ESG themes.[2] These five themes were chosen for their relevancy across our Fund; and we believe all of them to be financially material. We use these in our assessment of companies, and they inform our overall investment thesis; although we do not apply an assessment of the financial impact of these factors at the Fund level, we highlight evidence of the materiality of each issue. As detailed in our policy, we do not consider sustainability impacts in their own right, given our sole purpose to generate compelling compound returns for our investors, measured over decades.[3] We monitor sustainability metrics as indicators of potential investment risk and opportunity, in line with our purpose, as outlined below.

Human Capital

Poor human capital management entails a number of risks, including inferior productivity, customer service, employee retention and attraction of talent. By contrast, strong human capital management is associated with better performance. One study looking at 28 years' worth of data on companies ranked among the "100 Best Companies to Work For in America" found they generated 2.3 - 3.8% higher stock returns per year than their peers.[4]

One of the questions we ask of companies in which we invest is "Do we like the corporate purpose and culture?" Focus on employees is key to this question, and also the subject of engagement. In 2020 we tracked how companies managed COVID-19 related human capital issues. In the case of **Aon,** which cut employee pay by 20% with little rationale, we voted against executive compensation. We subsequently exited our position in part due to this issue. Among other measures, we monitor employee sentiment about companies through their Glassdoor ratings.[5] Glassdoor is a web platform allowing employees to comment on their experiences with employers and to give them a score from 1 - 5. We review these scores for all our companies on a monthly basis. The weighted average rating for companies in the Fund is **3.9**, compared to the site-wide average of **3.5**.[6]

Climate & Environmental

Financial regulators are increasingly concerned with the potential impact of climate change together with other environmental risks. The possible impacts include operational or supply chain interruption, further regulation, increased taxation, and disruption to companies' business models. Fund holdings are vulnerable to such risks, but it is difficult to assess the potential financial impact as this depends on a number of factors, including the extent of global warming. For instance, a 2015 study estimated that warming of around 4°C could result in a present value loss of US$4.2 trillion of financial assets, but that this could rise to as high as US$7 trillion with a 5°C increase.[7]

We monitor each company in the Fund for environmental risk. This includes assessing both the potential of their emissions to contribute to global warming – which we compare with the goal of the Paris Agreement – and the company's exposure to physical climate risk associated with rising temperatures, as well as water usage and deforestation. Where appropriate, we undertake intensive analysis and engagement on these themes; one example related to **EOG Resources** is shown on page 5 below. We are also exposed to investment opportunities arising as a result of environmental concerns, for example, we have exposure to the US' largest producer of wind energy through **Berkshire Hathaway**, and the world's largest green hydrogen project through **Air Products & Chemicals**.[8]

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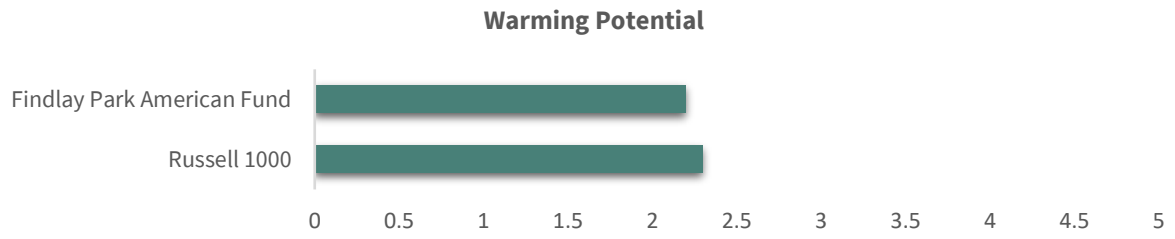
[2] In line with the EU Sustainable Finance Disclosure Regulation. Given our structure, the approach to sustainability risks and impacts outlined herein applies both the entity level and the product level.
[3] Further, information required to assess all adverse sustainability impacts on factors outlined in the above regulation, is not yet available. We also primarily invest in North American companies, which are unlikely to follow EU disclosure standards in the short-term. We will be mindful of future developments.
[4] Alex Edmans, "The Link Between Job Satisfaction and Firm Value", Academy of Management Perspectives, 2016.
[5] Clifton Green, et al. "Crowdsourced employer reviews and stock returns", Journal of Financial Economics, 2019.
[6] As at 31st December 2020, www.Glassdoor.com.
[7] Economist Intelligence Unit, The cost of inaction: Recognising the value at risk from climate change, 2015.
[8] The former relates to Berkshire Hathaway Energy and the latter to Air Products' hydrogen project in Saudi Arabia.

One of the metrics we assess – the 'warming potential' of our companies, as modelled by MSCI - helps us gauge alignment with the Paris Agreement.[i] This metric indicates projected emissions performance of our holdings was representative of the emissions performance of corporates globally, the world would experience **2.2°C** of warming by the end of the century.[9] This compares favourably to the figure for our benchmark at **2.3°C**, but is still above the target set in the Paris Agreement (1.5-2°C). This underlines the need for continued progress on this issue.



Units in degrees of additional warming above pre-industrial levels. This is based on projected Scope 1 emissions, which incorporate firms' carbon reduction targets where available. As at 31st December 2020. Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission

Noting the UK government's roadmap on Taskforce on Climate-Related Financial Disclosure, we will be reporting more information on this theme in the future.

Corporate Governance

Poor corporate governance can impact the long-term value of a business, weakening corporate strategy, risk management, and the alignment of executives' interests with those of other stakeholders. The potential financial impacts include direct costs, associated with excessive executive pay for example, and also opportunity costs through poor decision making. On the other hand, robust governance structures and appropriate incentives can enhance value. For example, a paper analysing the relationship between CEO stock ownership and performance over 23 years found that firms with large CEO stakes outperformed others by 4 - 10% per year.[10]

Four of the questions on our Investment Philosophy checklist relate to management and governance issues. We prefer companies with strong leadership, appropriate governance structures, and management incentives that are aligned with shareholders. We give an overview of our voting and engagement for 2020 on pages 7-11. We made active voting decisions at 100% of company meetings, and engaged with over 85% of companies in the Fund on ESG issues. We voted against at least one management resolution in 35% of annual general meetings over the year.

Cyber Security & Data Privacy

Failures of data security and privacy can result in fines, additional regulation, litigation, and the loss of intellectual property and market share. These risks are emerging for Fund holdings, and escalating in the US market more broadly, particularly as 'Big Tech' becomes an increasingly critical part of it. The impact of these issues can vary. For instance, under EU regulation, failures to protect data security can result in fines of up to 4% of global revenue, but there is not a federal equivalent in the US. We regularly monitor firms' cyber health, and engage on cyber and privacy issues. In 2019, we undertook a Fund-wide engagement on data security, and in 2020 we have spent a significant amount of time monitoring Big Tech firms' regulatory and social risks. At present, we are materially underweight in these firms compared with our benchmark (12% vs 19%).[11]

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[9] As at 31st December 2020. Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission. This assesses future direct emissions (Scope 1) including corporate targets, rounded to the nearest 0.1 degree. Scope 2 and 3 emissions were not included due complexity of estimating and projecting them.
[10] Ulf von Lilienfeld-Toal & Stefan Ruenzi, "CEO Ownership and Stock Market Performance, and Managerial Discretion".
[11] As at 31st December 2020. We define these "Big Tech" companies as: Alphabet, Amazon, Apple, Facebook and Microsoft.

Business Ethics & Reputation

Any major reputational issue can damage a firm's brand, and weaken its relationship with key stakeholders. Research from McKinsey has indicated that 30% of corporate earnings are reliant on effective connection with these external stakeholders.[12] Our Investment Philosophy guides us towards companies with good reputations. We ask whether firms have strong and trusted brands, whether we like the corporate purpose and culture, and whether they face any regulatory headwinds. We also monitor firms' behaviour and any controversies associated with them, especially those which are severe or rapidly escalating.

We often raise related issues through engagement and voting. One tool we use to assess a company's conduct is ISS norms research, which assesses whether a company risks breaching fundamental norms relating to human rights, labour rights, corruption and environmental degradation. At the end of 2020, no company in the Fund was flagged as in breach of these.[13]

ESG Case Studies

EOG Resources

EOG is our only energy holding and we believe a 'best in class' company in this sector. Its unique qualities include a disciplined focus on returns, distinctive culture, drive for innovation and low leverage. This year we undertook a thorough re-review of the stock, from a combined fundamental and ESG perspective. We assessed the medium to long-term outlook for EOG based on both a 'bull' and 'bear' case. We designed both future scenarios as potentially compatible with the goals of the Paris Agreement – albeit that in the bull case this would entail material carbon offsetting. We varied factors including EV penetration, frequency of flying, and plastic recycling, and also considered investor sentiment regarding the Energy Transition. Overall we considered the risk/reward compelling.

We see the highest risk in fossil fuels which are both high carbon and high cost.[14] EOG is keenly focused on low cost oil, and in the past few years has become one of the lowest carbon oil extractors in its areas of operation. It has established targets to reduce greenhouses gases and developed a Sustainable Power Group. The focus of the latter is using technologies such as solar power to reduce operational emissions, but over time this may have wider applications. The CEO is aware of the need to plan for an Energy Transition, and recently confirmed that their discovery of a low carbon gas play was aligned with this.

We are in frequent dialogue with EOG on climate change, among other ESG issues. This year we were interested to see more information on water and biodiversity conservation in their ESG report, and discussed these issues with management. As some of their key operations are in arid environments, their ability to minimise freshwater use is particularly important. In 2019 they were able to decrease their fresh water use by nearly 30%. They have also partnered with communities and authorities to protect biodiversity. For instance, the firm has worked with the US Bureau of Land Management to track local hawk species. The data this produced has enabled the company to better support their breeding, and the Bureau to understand and protect the species.[15]

Overall we believe EOG is the one of the most distinctive and resilient companies in its industry. We remain active in researching, monitoring and engaging with the firm, which we believe can create value for our investors in a changing world.

[12] John Browne, Robin Nuttall &Tommy Stadlen, Connect: How companies succeed by engaging radically with society, 2016, p.x.
[13] No companies were flagged for Failure or Imminent Failure to Respect Established Norms.
[14] The NGO, The Carbon Tracker Initiative has popularized the argument that high cost, high carbon fossil fuels may be 'stranded assets'.
[15] EOG Sustainability Report 2019. https://eogresources-com.s3-us-west-2.amazonaws.com/EOG_2019_Sustainability_Report.pdf.

PayPal

PayPal's business is built on trust, underpinned by the company's focus on security and privacy. In their words: "We have built our reputation on the premise that our Payments Platform offers customers a more secure way to make payments".[16] Correspondingly, the firm goes to great/considerable lengths to protect their brand and the security of their systems. PayPal is certified to a stringent information security standard (ISO 27001). They also make efforts to protect privacy, and customers don't have to share financial information on their platform.

More broadly, as one of the largest providers of working capital to small businesses in the US, PayPal aims to "democratize financial services". A study the company conducted in 2018 suggests that they provide a significantly higher proportion of financing to businesses in traditionally African American communities compared with traditional SME financing, and double the amount to female-owned businesses. This is something the company has highlighted as not just the 'right thing to do' but a significant commercial advantage. In line with the firm's focus on financial inclusion, management also recognise the benefits of financially secure workforce. In 2019, PayPal surveyed 9,000 lower-waged employees and found that 60% struggled to make ends meet at the end of the month. They announced four changes in October 2019: increased basic wages, lower cost of benefits, an employee wide stock programme, and financial education. The company sees this as an investment with a return: "investing in our employees will help us better serve our customers and ultimately drive long-term value".[17]

Overall, the firm demonstrate how a focus on stakeholders can benefit shareholders, and is an example of a firm innovating to better align the interests of the two. In the words of PayPal's CEO, Dan Schulman: "Capitalism is the best system that I know. But like any great product in the world, there needs to be upgrades."[18]

UnitedHealth

Healthcare can be a heated topic in the US. We have never invested in a pharmaceuticals company due to their poor fit with our philosophy; this also insulates our Fund from debates surrounding drug pricing. Instead we have tended to invest in life sciences companies who serve the whole sector: the 'picks and shovels' of healthcare.

More recently, we invested in health insurer and services provider, UnitedHealth. We think this is an exceptional business, not least as management have recognised the potential to improve healthcare outcomes whilst reducing cost. On the traditional health insurance side, the firm is the market leader in government-backed Medicare. Much of the company is explicitly focused on helping the system reduce cost, fraud, and waste – particularly through its non-insurance arm, Optum. United are also leaders in digital healthcare, and behavioural health, both of which have been critical this year. The company are also pioneers in the US in outcomes-focused care and incentivisation, so that healthcare providers are encouraged to focus on patient results, instead of maximising the use of services.

UnitedHealth has also made important efforts to act responsibly in the context of the COVID-19 pandemic. Among other changes, they have waived cost sharing for COVID-19 related issues for members, and provided free access to emotional support. The company has also accelerated nearly US$2 billion in payments and financial support to healthcare partners struggling during lockdown. In addition, United has donated substantial amounts to vulnerable populations, including through assisting the U.S. Department of Health and Human Services with a US$6 billion initiative for uninsured individuals affected by COVID-19. Similarly, the CEO of Optum, who was formerly the CEO of GlaxoSmithKline, was seconded to the WHO to help with vaccine development. In short, we see the firm as a leader in its industry, helping to pioneer creative solutions as well as thinking more broadly about the social responsibility of business at this time.

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[16] PayPal Annual Report 2019 p14. https://s1.q4cdn.com/633035571/files/doc_financials/2019/ar/COMBINATION-ANNUAL-REPORT-PROXY-4.8.2020.pdf.
[17] PayPal Proxy Statement 2020, p. i. https://s1.q4cdn.com/633035571/files/doc_financials/2019/ar/PROXY-FINAL-WEB-4.8.2020.pdf.
[18] '5 Insights from Our Quarterly JUST Call with PayPal', Just Capital. Original call on 13th November 2019. https://justcapital.com/reports/5-insights-from-our-quarterly-just-call-with-paypal/.

Engagement

Engagement is essential to our investment strategy. ESG considerations are embedded in our Investment Philosophy, and our frequent interactions with companies on a wide range of topics means that isolating purely 'ESG engagements' is not always simple. However, we have identified over 100 engagements this year where specific ESG issues formed all or part of the discussion. For most of these meetings, this was alongside engagement on more traditional financial topics, but for around a quarter of these meetings, ESG issues were the core focus.

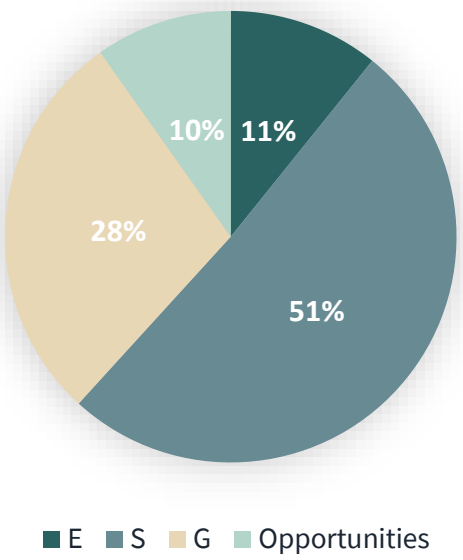
Below we list key ESG topics discussed in meetings with our companies so far this year. These are shown in order of frequency, highlighting that the social impact of COVID-19 was the most commonly featured area of discussion. This increased the weighting towards social areas compared to last year. Another change from last year is that we expanded our voting process to include more formalised engagement with companies prior to making our decision; as such, the governance element has also increased.

We also show the type of topic we addressed in tracked discussions where ESG issues featured. These are divided into Environmental, Social and Governance topics, as well as revenue opportunities from sustainable products, services and innovation (Innovation & Sustainable Opportunities).

Key ESG topics

- **Environmental Issues:** Climate was the most frequently discussed environmental issue, followed by water
- **Social Issues:** The Social Implications of COVID-19 was the topic theme most discussed. Purpose & culture, and human capital, were also frequent areas of discussion
- **Governance Issues**: Compensation featured most frequently in governance-related discussion, followed by Management Quality & Succession Planning
- **Innovation & Sustainability Opportunities:** These discussions covered a range of sustainability related opportunities, from Innovations in Health Care to Low Carbon Solutions

Topic type



Engagement Case Studies

Agnico Eagle

In 2H 2020 we had an in depth conversation with Agnico Eagle's Chief Sustainability Officer. Mining companies have long talked about the need for a 'social license to operate' but she emphasised their ambition to go further in having a positive impact on the communities in which they operate.

To help achieve this, the firm have a Stakeholder Advisory Committee, with members including representatives from indigenous communities and academics with experience in social impact. As far as possible, they employ people from areas local to their operations; indeed three of their mines are almost 100% operated by persons living locally or in the region. This year their commitment to indigenous communities has been particularly evident in Nunavut, in Northern Canada. The Nunavummiut were designated as particularly vulnerable to COVID-19, and Agnico Eagle have been operating in isolation from the community this year. They have continued to pay Nunavummiut employees 75% of their wage, but up to 100% if they undertake charitable projects.

Environmental risks were also discussed. As some of their mines experienced flooding issues in 2019 and 2020, we were eager to learn more about their approach going forward. They outlined that water stewardship was now a priority for them across their sites.

Agnico have drawn on indigenous knowledge to help them understand biodiversity issues, particularly caribou migration patterns, and also seek to use this in helping them better understand their exposure to physical climate risk in Northern Canada. In terms of transition risk – for instance, the potential for public policy to increasingly target high carbon industries – we note that 68% of the energy Agnico consumes is renewable. Nevertheless, we've encourage the company to provide more analysis and disclosure on this topic. Next year they aim to report in line with the recommendations of the Taskforce on Climate related Financial Disclosure.

Berkshire Hathaway

Berkshire has always been an interesting case for ESG engagement, as senior management at the parent organisation are generally difficult to reach, because Warren Buffett has always believed in running his portfolio with a small, close-knit team. However, this year we found ways to engage on certain issues, and contact relevant experts and former employees. For instance, as we prepared to review the stock to the team, we spoke with former leaders in Berkshire Hathaway's subsidiaries, and an academic who has studied the firm intensively over many years. These conversations confirmed our view of Berkshire Hathaway's culture as a competitive advantage. The firm is decentralised, and runs on trust. CEOs of businesses are vetted for their intelligence, energy and, above all, integrity. Indeed, one of Warren Buffet's most quoted sayings, which we often cite internally when thinking about our own culture, is "It takes 20 years to build a reputation and five minutes to ruin it".[19]

We were also able to discuss more specific ESG issues with Berkshire Hathaway Energy (BHE). We learned more about the Sustainability Leadership Council formed by Berkshire companies. The Council meets monthly to discuss best practices on sustainability issues as well as to plan for an annual sustainability summit which brings together Berkshire companies to share insights.

We also posed a set of questions covering the future of coal in their portfolio, potential targets for future emissions intensity, and the company's commitment to the Paris Agreement. Whilst management did not have specific goals regarding coal, they did highlight BHE's positive commitments to renewable energy. For example, approximately

[19] 'Three Essential Warren Buffet Quotes to Live By', James Berman, *Forbes,* 20th April 2014. https://www.forbes.com/sites/jamesberman/2014/04/20/the-three-essential-warren-buffett-quotes-to-live-by/?sh=7040f4946543.

43% of their owned and contracted generation capacity comes from renewable and non-carbon sources. In addition, management noted their engagement with states to create tailored emission reduction strategies, including transitioning coal-fired power plants over time to renewable and non-carbon sources when economic. They also emphasised their long-standing commitment, made in 2014, to invest US$30 billion in renewable energy and related infrastructure, as well as more widely to support the global Paris Agreement.

FIS Global

We engaged with FIS as part of their shareholder consultation. Last year they did not gain majority shareholder support for their approach to executive compensation. As explained in our 1H 2020 report, we understood the rationale for their approach to compensation, which reflected their acquisition of Worldpay in 2019. Nevertheless we wanted to understand how the firm's approach was evolving, not just on compensation, but on wider ESG issues.

A Board member, who sits on their governance and remuneration Board committees, contributed to our discussion. This is rare for US firms and signals the importance they place on these issues. He demonstrated significant awareness of their approach, and is involved in overseeing the development of their new ESG report. We found that FIS have taken a number of steps to incorporate feedback to their compensation programme. For instance, they will now limit payouts related to long-term performance if absolute total shareholder return (TSR) is negative. They are also removing the ability for equity, which is usually paid out to the management over the course of many years as a reward, to vest unconditionally if the company is sold.

We were also interested in their experience of integrating Worldpay. They emphasised that there were cultural similarities between Worldpay and FIS, and that the firm moved quickly to integrate the two. They also took the opportunity to refresh the purpose of the business, incorporating Worldpay's ambitions to connect commerce worldwide. Their new purpose is defined as lifting "economies and communities by advancing the way the world pays, banks and invests"[20]. Similarly, we learned that they had created a new set of values when the companies came together, co-created with leaders across the businesses. These focus on three themes: teamwork, integrity and change. By working together to refresh their purpose and values, they found enhanced buy-in across the business.

Thermo Fisher

We contacted Thermo Fisher, seeking an update on social issues. In particular we were interested in their response to a human rights controversy, and an update on their internal approach to COVID-19.

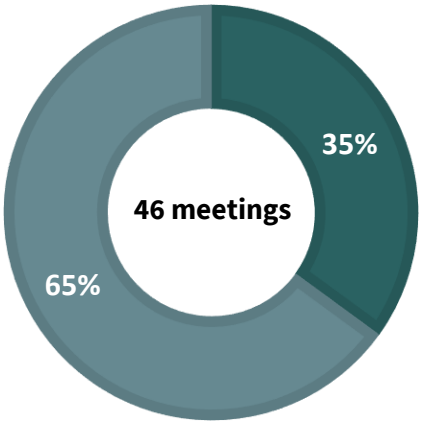
The human rights issue pertained to allegations that their DNA testing had being used to discriminate against Uyghur minorities in Xinjiang province. In response, the company decided to stop selling to this province at the start of 2019.This issue also led to the creation of a formal Bioethics Committee, led by Thermo's COO, with other members including the head of R&D. The company want to become more proactive, rather than reactive, as they deal with sensitive issues and human rights risks.

We were also able to speak to Thermo's management team about the company's approach to COVID-19, from the perspective of their business model, and within their business. While a small employee salary reduction was implemented over spring, this ended earlier than expected. Employees were not only reimbursed, but also paid a pandemic related bonus. They also underlined the pride their employees had in the firm and their response to COVID-19, including the rapid development of a COVID-19 test, which has become one of the market leading tests of its kind. This is corroborated by external reviews of the firm; one Glassdoor review written in June stated that "If you want to help fight coronavirus, the Applied Biosystems location of Thermo Fisher is a great place to be".[21]

[20] https://www.fisglobal.com/en/about-us
[21] Glassdoor, review from 29th June 2020. https://www.glassdoor.com/Reviews/Thermo-Fisher-Scientific-Reviews-E658.htm.

Voting

We have opposed management on at least one resolution at over one in three annual meetings. In 2H 2020 there were 50 meetings where we were eligible to vote as shareholders: 46 annual and 4 special.

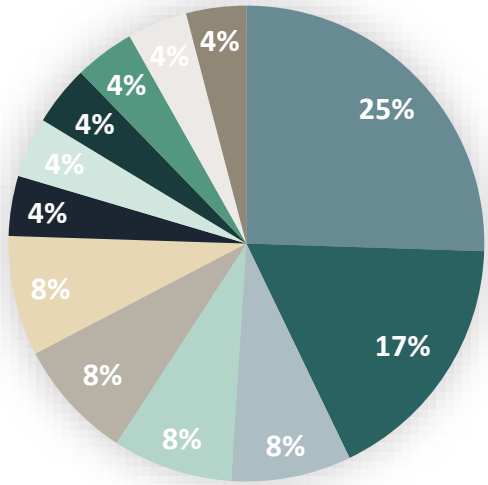


Voted against management on one or more resolutions
Voted in favour of management on all resolutions

Our policy is to abstain only in exceptional circumstances, and accordingly we voted on all resolutions at all meetings this year. In line with our wider voting principles – which focus on remuneration, risk and culture – we voted to secure:

- Executive compensation aligned with shareholders' interests
- Effective boards with appropriate independent representation
- Transparency on material ESG issues including lobbying and political contributions

Below we show how we have voted against management over the year by issue. Votes related to lobbying/political contribution were most common, followed by director independence.



- Lobbying/political contributions disclosure
- Director independence
- Executive pay
- Human rights
- Meeting adjournment/other business
- Special meeting threshold
- Capital authorisation
- Climate change
- Committee decision
- Diversity
- Employees on board
- Say on pay

In our 1H 2020 report we provide detail on significant votes across both management and shareholder resolutions in the first half of the year. This includes a summary of all votes against management or the Board as well as those where we did not vote in line with the recommendations of our proxy service provider, ISS. In accordance with the principles of the UK Stewardship Code, we also include a summary of our votes across all shareholder resolutions. Throughout 2020 we did not abstain or withhold votes on any items (unless there was no option to vote against, in which case this is the equivalent). We also voted in line with our formal policy commitments, which relate to lobbying/political contribution transparency, and on thresholds to call a special meeting which do not overly

advantage one shareholder. We undertook thorough assessments of each company against our voting principles to aid our decision making.

There were only three annual or special meetings in 2H 2020, detailed below.

Analog Devices

This special meeting related to the proposed acquisition of competitor Maxim in an all-stock transaction. Maxim has particular strengths in automotive and data centre markets, complementing Analog Devices' leadership in industrial, communications and healthcare. We expressed some reservations to management regarding the funding and price. But overall we were convinced of the strategic rationale and the potential to add value in the long-term. We voted in favour.

Cintas

Cintas's business has its roots in an early form of circular economy thinking. It started in the 1920s as a family business collecting and cleaning dirty rags from factories. The founding family remains involved in the ownership and leadership of the company, and the culture is still entrepreneurial. We engaged with Cintas on a broad range of ESG topics this year, noting some poorer scores from external rating agencies. Overall we think this is primarily due to their lack of thorough ESG reporting – the company is in the process of developing the first report of this kind. This is one of several instances where external ratings have differed from the conclusions we've formed through our own in-depth research.

One shareholder resolution at the AGM called for greater disclosure of lobbying activity. In line with our policy to support such transparency, we voted for the resolution.

Microsoft

Last year ISS recommended a vote against CEO pay, in part because it considered some of the bonus metrics to be too qualitative. We noted, however, that these were well-articulated, and furthermore emphasised the importance of serving stakeholders other than shareholders. These included goals focused on critical issues such as privacy, responsible AI, climate change, employee satisfaction and diversity and inclusion. We voted for CEO pay last year.

This year, ISS recommended a vote in favour of the company's compensation plan, in part because the weight of these metrics will be reduced from accounting for 50% of the target bonus award to 30%. We agreed with their view that pay should be supported this year, and voted accordingly. But we were happy with the previous weighting, and question whether shareholders and broader stakeholders are best served by refocusing incentives on traditional metrics. We have been in discussion with ISS on this topic. They agreed that broader stakeholder issues are increasingly important, and that their stance on tying pay to these areas may evolve over time

As was the case last year, a shareholder resolution at the firm related to employee representation on the Board. We question whether this is necessary or beneficial. Microsoft highlight that 95% of their surveyed employees were found to be proud to work at the company and 91% think those from diverse backgrounds can succeed at the company – indeed, as indicated above, these metrics inform bonus levels. This also chimes with our external monitoring of the firm, which has a high Glassdoor score (4.4/5 at the time of writing).[22] We decided not to support the resolution.

[22] Glassdoor, as at 31st December 2020. https://www.glassdoor.co.uk/Reviews/Microsoft-Reviews-E1651.htm?filter.iso3Language=eng.

2020 Stewardship Report

1. Purpose, Strategy & Culture

Findlay Park Partners LLP (Findlay Park) is an independent investment partnership based in London. We invest primarily in US equities on behalf of investors in the Findlay Park American Fund. Our purpose is to generate compelling compound returns for our investors, measured over decades.

We have a clear Investment Philosophy, aligned to our purpose. This helps us identify businesses that should generate sustainable returns. We believe we can achieve this by taking *less* risk. Increasingly ESG issues, from cyber threats to climate change, present important risks for us to assess in our investment process. Our Investment Philosophy also enables effective stewardship through the inclusion of ESG considerations (see also Principle 7 below). This year we expanded our question "do we like the corporate culture" to include both "purpose *and* culture", and doubled its score. This has helped us focus on the purpose of companies in which we invest, the stakeholders they prioritise, and how this links with their culture.

Our own culture underpins our endeavour to achieve our purpose. Culture means a number of things to us, including: openness and honesty; pursuit of continuous improvement;, and collaboration. The investment process for the Fund is team-based: our experienced Investment team uses a 'co-coverage' model whereby existing and prospective holdings are researched by at least two members of the team. New investment ideas and existing holdings are then reviewed by the entire team. We encourage each other to share views and invite constructive and respectful challenge and feedback. **We believe that continual learning and a readiness to evolve are essential to success.** We always want to learn from our successes, mistakes, and from each other. We are open and honest with each other and with our investors in the Fund. We continually look to improve the way we do things across our entire business.

Our collaborative culture supports effective stewardship through its focus on collaboration and improvement. Responsible investment is not a silo, it's a key aspect of our approach and one we believe helps mitigate risk and identify companies capable of generating sustainable returns. This year we have worked on a number of complex issues, drawing on our collective skills (for instance the Energy Transition, and the importance of Purpose to long-term success). Our focus on continuous improvement also means that we're open to enhancing our approach, as shown in our incorporation of purpose in our Investment Philosophy.

Finally, our partnership structure and strategy also underpin our purpose. Findlay Park is 100% owned by its partners. We have intentionally kept our business focused: with one team, managing one strategy, available through one fund. We don't market the Fund to new investors, and we don't manage separate accounts. This creates an environment where the entire investment team can focus their efforts on research, investment, and engagement: getting to know our companies and their management teams extremely well, and making well-informed investment decisions. We've been entrusted to look after the savings of our investors in the American Fund, and have always put their interests first in everything we do. This focused model also enables effective stewardship.

We have one Fund, and we typically invest in forty to sixty companies which we get to know extremely well. Our consistent approach to stewardship is important in addressing a number of principles below; our approach does not vary between asset class or geography. Our focus also means that we actively engage, and take our own voting decisions. In 2020 we engaged with over 85% of all companies in the Fund on ESG issues, and actively voted at all AGMs where we had a current holding.

Outcomes

We aim to serve the best interests of investors and beneficiaries primarily through the long-term returns we generate on their behalf. Our approach to responsible investment supports this goal. The Fund has delivered 12.9% CAGR since its inception in 1998.[23]

We are transparent about our responsible investment activities, and invite feedback from investors. One question which promoted change this year was around responsible investment training within the firm, which catalysed our development of related training for new joiners.

2. Governance, Resources & Incentives

As far as possible, we take a 'keep it simple' approach, including to our governance and process.[24] This simplicity supports effective oversight, and helps us identify areas for improvement. We generally embed responsible investment within existing structures and responsibilities rather than numerous parallel frameworks. For instance, our Investment Committee oversees matters relating to our investment process and our proxy voting process; our Risk and Compliance Committee oversees matters of regulatory change and potential business risk; our Board monitors our overall approach, which is embedded in our CEO's statement of responsibilities.

Likewise, responsible investment is generally aligned with existing workflows and processes. For instance, the Responsible Investment Lead (RI Lead) investigates new candidates for the Fund alongside other analysts and portfolio managers, and her analysis is presented within the overall presentation to the Investment team. This helps ensure the relevance of this work, emphasises its importance, and underscores our belief that a collaborative approach enables better decisions. There have been a few areas where we have created new structures and processes. For instance, in September 2020 we established an ESG working group to guide our implementation of new responsible investment regulation.

Resources

As an active manager, we take an active approach to responsible investment, although informed by external ESG data and research. We believe that a differentiator of our approach is the level of involvement of senior leadership in our responsible investment approach. Three profiles are described below:

- **Simon Pryke**, our CEO, has oversight and accountability for responsible investment in his statement of responsibilities. Before joining Findlay Park, Simon was CIO of Newton Investment Management, which has a long history of embedding responsible investment in their investment approach. Simon has led the development of responsible investment policy, reporting and communication at Findlay Park. The RI Lead reports directly to Simon.

- **Anthony Kingsley**, our CIO, is a founding member of Findlay Park Partners. He leads the Investment Committee, which oversees investment decision making and proxy voting. This year Anthony oversaw the development of an improved way to view responsible investment information on companies, and the incorporation of 'purpose' into our investment philosophy checklist. The RI Lead is mentored by Anthony.

- **Rose Beale**, our RI Lead, has six years' experience in responsible investment. Before joining Findlay Park she worked at Columbia Threadneedle in various roles spanning ESG integration and coverage of social and

[23] Source: Findlay Park. Fund performance net-of-fees. Past performance for the Fund is calculated using the USD share class, inclusive of any distributions, on a NAV to NAV basis. Past performance is not a reliable indicator of future results. Data as at 31st December 2020.
[24] Our governance structures and process are outlined in our responsible investment policy. Below we detail how we these enable oversight and accountability for stewardship, and why we have chosen these.

environmental themes. She has received a certificate in Sustainable Finance from Oxford's Smith School of Enterprise and the Environment, alongside CFA Level 1 and the Investment Management Certificate.

The above indicates some of the diversity of profile, background and experience which we bring to our responsible investment approach. We are particularly focused on diversity of thought and equal opportunity, and this is reflected in recruitment processes. For instance, in the final stages of the interview process, each member of the investment team is profiled according to their different motivations in decision-making processes and approaches to teamwork, using a system called movement pattern analysis (MPA). We also monitor gender diversity in recruitment. In terms of gender diversity, 23% of our investment team and 45% of employees across our business are female.[25]

We have developed our approach to training staff in 2020 to include responsible investment training for all new joiners. More widely, we have a culture of continuous development, including on responsible investment topics. This year our Investment Committee met with a leading academic in the field of responsible investment, and the investment team read and discussed works on responsible business.

Although we do not outsource any area of responsible investment, we recognise the value of specific data and expertise. We more than doubled spend on ESG data and research from 1H 2019 to 2H 2020. Our use of these providers depends on their nature. For instance, we use MSCI ESG ratings as a 'sense check' rather than relying on their overall assessment of ESG quality, and the recommendations of ISS research play a similar role in our voting decisions. By contrast, Energy Transition research specialist Thunder Said, provides detailed modelling and analysis on this topic. We draw on this research in a more substantive manner.

Incentives

Findlay Park is 100% owned by its partners and the Fund has not been marketed to new investors since 2000. Our interests are fully aligned with our investors: we're entirely focused on delivering performance and a high level of service to them. Our partnership model means we are intensively invested in the success of our firm, and its reputation. We do not have specific quantitative ESG targets or objectives for staff; however, all Investment team members are incentivised according to three pillars: quality of work, performance, and collaboration. One of the questions under quality of work is, "Have you considered ESG factors in your research?" which leads to discussion around how the team member has incorporated these issues into their research and analysis.

Effectiveness & Improvement

Evidence of the effectiveness of our governance and processes includes the involvement of our senior leadership in responsible investment issues, and the engagement of the Investment team in issues related to the companies which they cover.

We are committed to continuous improvement, which extends to our governance and processes. Due to an ambiguity in the voting approval process, we mistakenly supported one shareholder resolution in 1H 2020. The motion received minimal support, and was on a subject were we saw arguments on both sides (placing workers on Boards).[26] Nevertheless we always want to learn from our mistakes, and put additional controls in place to prevent this type of error from reoccurring. This involved creating additional clarity on voting intentions.

Another area which we have identified for improvement is in specific environmental expertise. A Sustainability Associate, Emily Menz, joined us in January 2021 having completed a Masters in Environmental Economics and Climate Change from the London School of Economics.

[25] As at 31st December 2020.
[26] This event is detailed in our H1 2020 Responsible Investment & Engagement Report, p. 14, available at www.findlaypark.com.

3. Conflicts of Interest

As a small, focused business we believe the potential for conflicts is minimal. Our conflicts of interest policy covers the following topics: identification, prevention, management, disclosure, monitoring, reporting, external interest of individuals, education and awareness. We aim to limit the scope for conflicts – for instance by implementing a Personal Account Dealing policy which prohibits investments by staff in listed securities.

Following a review of the policy last year, which was undertaken with the Stewardship Code in mind, we enhanced our conflicts of interest policy and register to include consideration of Stewardship issues. We identified the potential for voting, engagement, and other activities to be conducted in the interests of one particular group. But we believe the risk of this occurring to be low.

Again our simple structure aids us in this process: we manage a single fund, and no segregated mandates or separate accounts. Therefore, we do not split voting according to different needs or preferences. Further, we invest with one goal according to a consistent Investment Philosophy with which our ESG and Stewardship practices are fully aligned. The oversight of the Investment Committee, and the requirement of the Chief Investment Officer's personal sign-off for any contentious decisions also enables this process.[27]

This year we identified one potential conflict related to voting at the AGM of **Fiserv**. One of the team members responsible for the stock under our co-coverage model declared an acquaintance with a Board member. The potential conflict was escalated to the CEO, CIO, Investment Committee, Head of Compliance and Risk and Compliance Committee. The team member was not involved in the final decision or related engagement. Initial voting research was undertaken by the RI Lead. Engagement with management was undertaken by the RI Lead, the CIO and the other team member co-covering the stock.

As this conflict was of an individual nature, rather than firm-wide, we did not default to ISS' recommendation to vote against compensation. Following engagement, we decided to vote with management, given the strategic importance we saw in its recent acquisition, including the on-boarding of the acquired company's CEO who was later announced as successor to Fisev's CEO. This is detailed on page 10 of our 1H 2020 Responsible Investment & Engagement Report. This decision was signed off by the CIO and monitored by the Investment Committee.

4. Promoting Well-Functioning Markets

We do not forecast macro factors; however, we do look at macro and global risks in terms of the risks posed to the companies we hold in our portfolio. Similarly, we see a few areas of market-wide and potentially systemic risk related to ESG issues. Climate change and pandemic risk are two areas on which we have focused in 2020.

Climate Change

We are supportive of the Paris Agreement to keep global warming below critical levels, and our status as signatory to CDP (formerly the Carbon Disclosure Project) signals our support for better corporate disclosure and improvement on material environmental issues.

Our assessment, monitoring and engagement related to this issue is detailed on page 3 above. As active owners we engage on these themes, particularly with companies with greater environmental risk, and vote to support better disclosure where lacking – for instance we intensively engaged with our only oil and gas company, EOG Resources,

[27] We use voting against the recommendations of ISS as a proxy for contentious votes, given their influence. We also disclose votes against key management resolutions (e.g. on Board, pay) and our voting on all shareholder resolutions.

on climate issues in 2020. This included detailed feedback on climate disclosure in their sustainability report, and ideas for additional areas of focus, for instance on Scope 3 emissions (those across the firm's whole value chain).

COVID-19

COVID-19 has of course been an area of focus. Prior to 2020 we had not anticipated a pandemic such as COVID-19 in our bear case scenarios. However, we focused on issues of business resilience, including corporate culture, the likelihood of long-term success, and trust in management to take advantage of a downturn.

As a result of COVID-19 we refreshed the questions which we ask of our companies. We framed an additional question to ask of all companies: **"Post COVID-19, do we have greater confidence in the long-term free cash flows and the probability of success?"** We also updated the guidance on our question about 'inevitability of outcome' to reference the top global risks identified by the World Economic Forum (which include infectious disease and climate change).

In parallel, we tracked corporate responses to COVID-19 from an employee, community and business perspective, and assessed the reputational impact of COVID-19 to each company in the Fund. This helped inform engagement and voting priorities. We were also involved in a discussion group helping to inform the UN PRI's response to the long-term impacts of COVID-19, and reflections on the need for systemic reforms. Our collective contributions are being used to help inform future work on this topic.

5. Review & Assurance

Overall we aim to provide meaningful information to our investors, mindful of regulatory requirements. Keeping this fair, balanced and understandable aligns well with our 'keep it simple' approach.

The Findlay Park Partners Board reviews and approves all policies related to Findlay Park. Our CEO has ultimate responsibility for responsible investment, including related policies and reporting, and actively reviews these documents.

Input from our CIO has helped ensure these best reflect our investment approach, our Investor Relations team also helped assess their clarity and presentation, and the Operations team reviews the data. Importantly, our Head of Compliance and General Counsel play significant roles in their development, helping to ensure that they meet regulatory requirements, as well as being fair, balanced and understandable.

Due to the size and nature of our firm, external assurance has not been sought. However we have worked with our compliance consultants, Bovill, to ensure that our approach aligns with regulatory requirements. External legal advice will also be sought, where necessary.

Although responsible investment has always been part of our process, our policies and reporting on responsible investment issues were materially enhanced from 2019. This was further updated in 2020. For instance, our policy included additional information on climate and environmental risk, our style of responsible investment, and approach to sustainability impacts. Our reporting has also evolved to detail our approach to sustainability risk.

Our Fund-specific documents have also begun to address responsible investment. This was first referenced in the Fund's Prospectus in June 2020. This document is overseen by the Funds' Board of Directors and the Fund's legal advisers, McCann Fitzgerald.

6. Client & Beneficiary Needs

We are the Investment Manager of just one Fund, the Findlay Park American Fund, which invests primarily in North American companies. At the end of 2020, the American Fund's AUM stood at US$15.5 bn.[28] We're proud of the long-term partnerships that we've built with our investors since the Fund was launched in 1998. Most of these investors are wealth managers and advisors in the UK, the remainder being in Switzerland, other areas of Europe, or Asia. Together they look after the savings of thousands of individuals.

Investment in the Fund may be suitable for investors with a long-term investment horizon. We look to deliver compelling compound returns, measured over decades. Our investment philosophy checklist includes related questions such as: "Is there a high degree of confidence in the inevitability of the long term outcome / terminal value of the business?". It also asks: "Will it be a stronger business in 3 to 5 years' time?". Our average holding period is over four years.[29]

Activity

Responsible investment is a topic of increasing importance to many of our investors. Our CEO and RI Lead liaise closely with our Investor Relations team to understand evolving investor interest, and any potential feedback into policy, reporting or communication.

We seek and receive investor views through meetings, questionnaires, communication of responsible investment materials, requests for feedback and informal dialogue. This year around 30% of the due diligence questionnaires which we completed were heavily or solely focused on responsible investment, representing around 40% of the Fund's total assets. Responsible investment was also a key or sole focus in over 20% of investor meetings. We also spoke in a webinar on the impact of COVID-19 on ESG for one of our investors, in order to inform their underlying clients and beneficiaries.

Outcomes

Our investors' interests help inform our approach. For example, growing interest from a number of our investors in climate risk has helped inform our focus on this area. One related example this year was a commitment to engage with **Berkshire Hathaway Energy** (to which we have exposure through our holding of Berkshire Hathaway) on their approach to climate change. This was also requested by a client of our investor, informed by the wishes of their ultimate beneficiaries. Our engagement with Berkshire Hathaway Energy is outlined on page 8 above. Another discussion prompted by an investor related to **Thermo Fisher**. This pertained to the allegation that their DNA testing had being used to discriminate against Uyghur minorities in Xinjiang province; our discussion with them is outlined on page 9 above.

Finally, with the aim of providing as much disclosure as possible to our investors, we reported to the PRI this year, which was in our voluntary reporting period. Our report was made available on PRI's website in July, and its assessment of us is summarised in the following scores: A for overall strategy and governance, A for ESG integration, B for active ownership activities such as engagement and voting. Within the latter, it assessed our proxy voting to merit an A rating. Given this is our first assessment, we are pleased with the result, as well as recognising opportunities for improvement. Our full assessment report is available on request.

[28] As at 31st December 2020.
[29] Findlay Park, as at 31st December 2020.

7. Stewardship, Investment & ESG Integration

We have a clear Investment Philosophy that is aligned to our purpose and is rigorously applied through all market conditions. This philosophy was written by our founder, James Findlay, and has guided our research intensive process since the Fund's launch in 1998. We implement our philosophy by assessing each stock (both new ideas and existing holdings) against a checklist of twenty-nine questions which analyse key aspects of a business, including its financial and competitive position, management and valuation. This checklist includes several questions which address ESG issues, among other areas. Our overall approach to ESG integration, covering these questions and ESG themes, is detailed in our ESG Integration section, on page 2 above.

Alignment with our Investment Philosophy checklist is established before investing in any company. We undertake a thorough review of companies before they enter the Fund, including an ESG review.[30] Companies are then presented to the Investment team as a whole, and each individual member is asked for one-on-one feedback.

Our portfolio wide responsible investment reporting aggregates related internal information and external signals, and helps us to monitor developments on a regular basis. For instance, if a company's external ESG rating changes from average to poor, this is scrutinised by the RI Lead and summarised for the Investment team. Most information is updated monthly, but this can change depending on the nature of the information: more dynamic information is updated weekly (e.g. RepRisk related to live controversies), and some change only on an annual basis (e.g. voting outcomes).

Activity

As discussed in Principle 5 above, our weighted average holding period is over four years[31]. It is important that our ESG analysis has relevancy over this time horizon. Issues such as Business Ethics & Reputation can have shorter term impacts, if new issues escalate quickly. By contrast, issues such as Human Capital may be longer term in nature, as motivated employees give companies an edge, and ability to acquire top talent over time.

Climate change and environmental risk is another example of a long-term issue; there are of course short-term related shocks (e.g. from wildfires), but we expect material impacts from policy or consumer action to be longer term in nature. This also aligns with our expectations of evolving investor interest in this area, especially as younger generations have more influence over underlying assets.

As an active fund with an active approach to responsible investment, we do not outsource responsibilities to providers. However we do maintain active dialogue with them and offer suggestions where we see potential for enhancements to their methodology (see Principle 8 for further details).

Outcomes

Our monitoring of ESG issues has helped contribute to some changes in the Fund. In some cases we've not progressed investment ideas have failed to reach the presentation stage based on ESG issues identified. The case of **Aon** is described on page 3 above. This year we also decided to move a stock off our Watch List (of immediate candidates for the Fund) due to poor ESG signals on a number of fronts: our experience with engaging with the firm corroborated these signals of indifference towards ESG issues.

Such decisions serve the best interest of investors by focusing us on businesses best positioned for success, managing not only direct financial and business issues, but also indirect issues.

[30] In one case in 2020, we placed a stock in the Fund as we were completing our reviews. This was due to the circumstances of COVID-19 and the need to act quickly, married with our existing knowledge of the company from both a fundamental and ESG perspective.
[31] Findlay Park, based on weighted average holding period as at end-December 2020.

8. Monitoring Managers & Service Providers

As emphasised throughout, we undertake our own research, voting, and engagement. We draw our own conclusions and use multiple sources as inputs, meaning we are not overly reliant on any one provider.

Our data and research providers have been chosen with a number of considerations in mind – notably their potential to be additive to our investment and stewardship processes. We significantly increased our spend on ESG data and research in 2H 2019, we built a detailed business case outlining the value of each proposed provider, alternative options, and cost considerations. Each year the RI Lead comments on whether ESG specific services remain of value.

We take time to understand providers' methodology and practices, and discuss our own requirements and expectations with their representatives. Before renewing a contract, we also pause to consider whether they remain additive to the process, or whether better options are available. In addition, we have provided clarification to them on specific points, and suggested wider enhancements. This type of engagement is important for improving market information, which may impact future prices or investor sentiment about the companies which we hold in our Fund.

There are occasions where we have seen material changes from our engagement. Early in 2020 MSCI rated ICU Medical as a laggard among peers. This was partly based on a low score on the theme of Corruption and Bribery, but they had not captured details in the firm's updated policy. MSCI rectified this, following our prompt, leading to a better score on this theme. In MSCI's next annual update, ICU was also upgraded to an average overall rating.[32]

There have also been cases where we have engaged on important points of process or methodology. For instance, we had a call with the Head of US research at ISS in June 2020. This followed two instances that we had seen where companies had responded to their recommending a vote against pay, by providing further clarity as to their approach. In both cases we were alerted to this by the company, not ISS. We suggested that such additional proxy materials be either included in the core proxy voting research, or displayed prominently to clients for reference, for instance on the ISS platform. This contrasts with ISS' current process, where information is only clearly signalled to clients where they consider this to be material to a decision.

Our aim is was to ensure that both we and the wider market have access to all relevant information before finalising a decision. We now understand that, following some aligned guidance from the SEC, ISS propose to alert clients whenever there are such responses.

9. Engagement

As detailed on page 7 above, engagement is essential to our investment strategy. We typically invest in only forty to sixty companies, and get to know them extremely well. We hold hundreds of meetings with them each year, and vote at every shareholders' meeting. We challenge companies where we see scope for improvement that delivers long-term value. We pay careful attention to corporate strategy, financial risk, and capital structure, as well as focusing on a range of specific ESG issues.

Engagement is prioritised to best protect and enhance the value of our investments. Relevant factors include the size of our position in a company, the extent of the holding in our Fund, and the importance of an issue to the investment thesis. We also respond to short-term events such as upcoming voting decisions, company requests, management changes, and escalation of ESG risks.

Our preferred outcome is typically to positively influence a company's behaviour. Where necessary we engage many times on the same issue to help drive this change. Our objectives and actions may differ dependent on the context.

[32] As at 31st December 2020. Certain information ©2020 MSCI ESG Research LLC. Reproduced by permission.

These could include enhanced corporate disclosure, improved voting decisions, changes to our investment thesis or portfolio construction.

In 2020 we held around 300 one-to-one meetings with companies. We also had over 100 engagements with companies were ESG issues were a focus.[33] Around one quarter of these were dedicated to ESG topics.

We generally engage bilaterally, and indeed have exclusively done so this year. This is partly due to our size, and also Investment Philosophy which generally guides us away from businesses in higher risk sectors with which other investors typically seek to engage. We also prefer to engage in a spirit of partnership, rather than confrontation, believing this to be the best way to positively influence a company. We are more likely to prompt companies to think about how they are approaching an issue, than to demand a particular result. Before engaging with companies on ESG issues, we prepare questions. These are usually circulated to relevant portfolio managers, and or analysts, to ask for additional input and feedback. Examples of our engagement can be found on pages 8-9 above.

Outcomes

We give examples of the outcomes of our engagement on pages 8-9 above. Often our engagement is ongoing – for instance we continually speak with **EOG** about their approach to climate risk, or more generally asking companies about updates to their ESG strategy. One exception relates to **Aon**, where we exited the position, having reflected on our experience with the company. The firm reduced employee pay in the midst of the pandemic, whilst in the processes of acquiring a large competitor – a deal we doubt will be in the interests of shareholders. We have engaged with them on both topics. Although Aon did reverse the cut to employee pay, we felt that our experience of the firm made us less confident in the long-term sustainability of the investment.

10. Collaboration

We are open to collaboration and collective action on responsible investment issues. However, given our size and focused nature, direct involvement in collaborative engagement is rare, and has not occurred this year. Targets of collaborative engagement are often businesses in higher risk sectors, which typically fit poorly with our Investment Philosophy. We also invest in a relatively small number of companies, so engagements across broad themes or sectors have little overlap with our holdings. We would only engage collaboratively with a company which we held, and on a theme which we deemed important (such as one our five core themes, outlined on page 2 above).

As described in Principle 9, we engage in a spirit of partnership, rather than confrontation, and seek to build bilateral trust with companies. We are also very mindful of our own reputation. The simplest way to ensure that engagement is conducted as we would wish is through bilateral engagement. We would need to be comfortable with the approach of fellow investors, and likely engage through an established platform such as the PRI, to enter into collaborative engagement.

We are members of select organisations which offer opportunities for collaboration. For instance, we are participants in the UN PRI's shareholder collaboration programme, through which we may join collective engagement and working groups. As described in Principle 4, this year were also involved in a discussion group helping to inform the UN PRI's response to the long-term impacts of COVID-19, and reflections on the need to develop systemic reforms. Our collective contributions are being used to help inform future work on this topic.

We are also members of the New City Initiative, which gives voice to independent, owner-managed firms. Our CEO sits on their Advisory Board. NCI have held events and published on responsible investment, including those with

[33] Especially in the context of a year when the vast majority of engagement was conducted remotely, we have included meaningful, dedicated ESG email exchanges as a form of engagement.

attended with the FRC and UN PRI. We expect this are to be an increasing focus of the organisation. Finally, we are signatories to CDP which, among other activities, asks corporates to report on environmental matters on behalf of signatories.

11. Escalation

We engage on issues of concern with a positive mindset, hoping to clarify management's intentions or change behaviour. Should this not be possible, we will:

- Raise the issue further up the management/governance hierarchy (if there is further to go).
- Determine whether the failure to resolve the issue compromises our investment thesis.
- If we conclude that it does, exit the position.
- If not, make any appropriate adjustments to current and/or maximum position sizes, and note the issue for high priority monitoring.

Material issues are reviewed by the Investment Committee, which meets weekly and consists of the CIO, the CEO, and two portfolio managers.

Below we outline how two engagements followed some of the steps in the escalation process outlined above. In the case of **Aon**, we requested to speak to a member of the Remuneration Committee, given our concerns with their decision to reduce employee pay in light of COVID-19, and in the context of an upcoming AGM. The company did not allow us such access. This inflexibility cemented our decision to vote against executive pay. Overall this was one of the factors that we thought compromised our confidence in the company, and led to us exiting a position.

In the case of **Charles Schwab**, we discovered an inaccuracy during due diligence for our voting research relating to a shareholder request for diversity disclosure. We learned from an organisation listed by Charles Schwab as a partner in the company's efforts to foster diversity and inclusion, that they were not working with the firm and had not done so for a number of years. When discussing these issues with the company, they were ambiguous about the current state of the partnership, and only admitted this was out of date when pressed. Whilst we did not see this as fundamentally undermining the investment thesis, we did see it as reason to vote for greater disclosure on diversity. We followed up with an email to investor relations relaying our concerns with the way in which this was handled.

12. Exercising Rights & Responsibilities

Our purpose outlines our primary responsibility, to generate compelling compound returns for investors, measured over decades. This guides all our responsible investment activity, including ESG integration, engagement and voting.

Voting rights, and with them responsibilities, are typically attached to our investment in the Fund. We see voting as an opportunity to either signal support for companies, or to challenge them, acting in the long-term interest of our investors**. We do not participate in stock lending arrangements and retain voting rights across all holdings.** We aim to achieve a 100% voting record, abstaining only in exceptional cases. There were no such cases in 2020.

Importantly, we consider the specific circumstances of each company in which we invest and the detail of the individual resolutions. Although we subscribe to the services of a third-party proxy voting provider, ISS, we make independent decisions based on our own research and engagement with management teams. We also seek to engage with management when we intend to vote against them.

Our voting approach draws on our Investment Philosophy, forming principles which inform our voting decisions:

- Remuneration should align management with shareholder interests.
- Our philosophy is focused on less risk for reward: we want companies with strong risk oversight.
- Culture and purpose are key to long-term success.

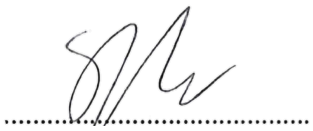
Further details of factors we assess under each component are discussed in our Responsible Investment & Engagement Policy.[34]

As emphasised in Principle 1 above, a distinguishing feature for us is our consistency of approach – with one team collaboratively managing one Fund. We have not provided the ability for investors to override our policies, or implement their own voting approach. We are a small company, with a 'keep it simple' approach. Furthermore, we see value in sending clear signals to management teams on behalf of all our investors.

Voting activities and outcomes for 2H 2020 are outlined on pages 11 above, and from page 8 of our 1H 2020 report. Rationale is given for all cases where there was a vote against the Board, shareholder resolutions, or a vote was made against the recommendations of ISS.[35]

The Operations team monitors upcoming meetings, our voting rights, and that meetings have been voted. The RI Lead reviews whether all votes have been made in line with voting intentions as part of our reporting process – for instance after voting season in Spring/Summer 2020. This provides opportunities to spot residual errors, and help identify improvements (for instance that described in relation to Principle 2 above).

Approved by the Board of Findlay Park Partners LLP.



Simon Pryke, Chief Executive Officer
Findlay Park Partners LLP

Date - 25 February 2021

[34] Available at www.findlaypark.com.
[35] Our voting policy does not lead to prejudged outcomes as we generally take a case-by-case approach (e.g. we have not asked ISS to implement recommendations tailored to our approach). ISS house recommendations have significant market influence and we use these as a benchmark, against which to justify how our views have differed.

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