

Firm-Wide Environmental, Social and Governance (ESG) Investment Policy

2019

Executive Summary

Mondrian's ESG Approach

Mondrian Investment Partners Limited's ("Mondrian") long-term, fundamental research process has always demanded that analysts strive to consider all material risks that could influence a security's valuation, including those factors rooted in environmental, social and governance concerns. Recognising that these factors are continually evolving, Mondrian's ESG Steering Committee sets and reviews firm-wide objectives and initiatives to ensure that our resources and investment staff are capable of meeting ongoing developments associated with these issues. In recognition of our continued commitment to the integration of material ESG factors, Mondrian is a signatory of the Principles for Responsible Investment.

Mondrian has a history of integrating ESG factors at the fundamental level over the long term

Background

Mondrian is a global, long-term value-oriented investment manager. Our focus is on providing a rate of return meaningfully greater than our clients' domestic rate of inflation with strategies that seek to preserve capital during protracted market declines. In pursuit of these investment benefits, Mondrian employs a long-term, fundamental approach to research in which environmental, social and governance factors play an important role when valuing markets and companies for potential investment.

The analysis of ESG factors is embedded in the daily work of all investment professionals

Mondrian's Investment Approach

Our equity and fixed income teams share an investment philosophy that recognises the importance of ESG issues in the long-term valuation of a company's equity and credit. Mondrian has always believed it is the responsibility of all investment professionals to understand and incorporate the impact of environmental, social and governance factors on our present and potential investments, and their sustainable profitability.

Mondrian's Equity investment philosophy is aligned with the incorporation of ESG factors

Equity

Across all of Mondrian's equity investment products, the research process is driven by extensive, bottom-up fundamental company analysis which includes a comprehensive program of meeting with representatives from current and prospective holdings. We believe that the value of any equity security is equal to the present value of its future cash flows to the investor, which are primarily dividends. The principal focus of our investment professionals is constructing long-term forecasts for these cash flows utilising our dividend discount methodology. Since the inception of the firm, Mondrian has aimed to consider all material factors that could influence these cash flows, incorporating the analysis of environmental, social and governance risks as a normal part of the valuation process.

Mondrian's proprietary ESG evaluation framework captures ESG impacts on valuations

Mondrian's proprietary ESG Summary Report explicitly documents the influence of ESG risks and opportunities on our valuation assessments and is to be completed for all current and prospective equity holdings. By systematically considering both a set of core values alongside company-specific factors, we aim to capture and quantify material factors that could impact the base, best and worst case scenario risk analysis over the short, medium and long term. Documenting these factors helps Mondrian quantify the impact of ESG risks on a company's valuation and sustainability.

Stewardship considerations Mondrian pursues an active investment management approach. Stewardship considerations are part of the initial purchase decision, subsequent monitoring of an investment and any ongoing dialogue with an investee company, including active participation through our proxy voting process. Please see [Mondrian's Stewardship Policy](#) for more information. Mondrian also has a [Shareholder Engagement Policy](#) which complies with European legislation and Shareholder Rights Directive II.

Engagement process Mondrian engages with company management. When our views, particularly regarding governance, differ with that of the company or where there is a failure to achieve our reasonable expectations for shareholder return, we will more actively discuss this with the management team. Local practice and governance standards are taken into account when voting shares or engaging with the management of companies particularly in less developed markets, and actions are taken on a case-by-case basis. Should engagement continue to prove unsuccessful in fulfilling the required objectives, Mondrian may choose to divest the shares.

Proxy Voting summary Our clients typically delegate Mondrian the authority to vote proxies for the securities held in their accounts; Mondrian votes proxies pursuant to its Proxy Voting Policy and Procedures. The aim is not to micro-manage but to ensure that each company is run in the best interests of the shareholders. Please see [Mondrian's Proxy Voting Policy](#) for more information.

Fixed Income

Mondrian's Fixed Income investment philosophy Mondrian invests in bond markets that best compensate for inflation and sovereign credit risks, measured by a market's Prospective Real Yield (PRY). We define PRY as the 10-year government bond yield less Mondrian's inflation forecast and sovereign credit adjustment.

Sovereign credit analysis incorporates ESG factors Sovereign credit analysis is an integral part of our top-down investment process. That analysis includes environmental, social and governance factors, which ultimately inform our sovereign credit adjustment. The weaker the overall credit assessment, the higher the sovereign credit adjustment, resulting in a greater PRY premium required to drive an allocation.

Corporate credit analysis incorporates ESG factors Corporate credit analysis explicitly incorporates a proprietary environmental, social and governance rating. This contributes to our corporate credit rating for each issuer, which in turn directly impacts how much of that issuer's debt can be held across our portfolios according to our issuer diversification limits.

Engagement process Engagement is integral to the investment process on both the corporate and sovereign side as we meet with debt issuers as a matter of course to further our understanding and highlight issues of importance. We raise the ESG issues we deem material to a company at the time of each credit review and follow up on at least an annual basis as part of a structured program of ESG engagement.

External Tools and Resources

Mondrian utilises third party research and tools to assist in our fundamental research process The majority of inputs for Mondrian's fundamental research process are obtained by the portfolio managers and analysts themselves through proprietary research and meetings with company management and boards. Alongside quantitative data sources, company produced documents such as annual reports and external investment research, Mondrian uses the following third party providers to assist in our evaluation of ESG factors:

- MSCI ESG Research provides ESG company research and ratings, industry ESG research and screening tools.
- ISS Governance Services provides governance research and services to support the voting of proxies.
- S&P Capital IQ research provides data that integrates ESG factors in S&P's current credit ratings framework.
- Haver Analytics' ESG module provides ESG data from a number of national, intergovernmental and other sources, which are principally used in our assessment of sovereign credit adjustments.

Climate Risk

Mondrian recognises that climate change must be considered as a risk to the long-term future of economies and individual businesses, and addresses these concerns through its bottom-up analysis.

Equity

Climate risk in equity analysis

Mondrian uses long-term investment models to evaluate the operating environment of each investment over an extended time horizon. By applying these models, Mondrian uses a forward-looking dividend discount methodology to estimate the future dividend stream (both current levels and future growth rates) for each company. To the extent that issues such as climate change, carbon emissions, water usage and energy usage have been identified as potential risk factors to consider in evaluating the investment case of a particular company, our analysts will conduct further investigation into the extent of these risks as well as risk mitigation. The findings from this questioning and disclosure will be incorporated into our overall investment evaluation of the company and highlighted in the ESG Summary Report.

Fixed Income

Climate risk in sovereign credit analysis

Protection and maintenance of the environment for the wellbeing of future generations is essential for the long run viability of the economic activity that supports the sovereign. In the shorter term, undiversified economies based on commodities, agriculture or tourism are prone to environment-related shocks, such as flooding and storm damage that can place additional burdens on the sovereign balance sheet. Environmental factors inform our sovereign credit adjustment; higher sovereign credit adjustments result in a greater PRY premium required to drive an allocation.

Climate risk in corporate credit analysis

The impact on credit quality from environmental risk factors varies greatly by industry. Environmental factors can present both fundamental business risks, for example that posed by the shift to renewable energy on the oil & gas industry, as well as reputational risks. In order to assess environmental risks to credit quality we reference MSCI ESG research in addition to information collated through credit analysis from sources such as annual reports, rating agencies, discussions with management and industry research reports. Our environmental assessment contributes to our corporate credit rating for each issuer, which directly impacts portfolio allocation.