



Mondrian  
INVESTMENT PARTNERS

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

2021

## Mondrian's ESG Approach

### Executive Summary

Mondrian Investment Partners Limited's ("Mondrian") long-term, fundamental research process has always demanded that analysts strive to consider all material risks and opportunities 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 Investment Steering Committee sets and reviews firm-wide ESG objectives and initiatives to ensure that our resources and investment staff are capable of meeting ongoing developments associated with these issues. There are ten committee members including senior members from each investment team, General Counsel, Chief Compliance Officer, and Head of Global Client Services, and the committee reports to the Board twice a year. Mondrian's Board is ultimately responsible for overseeing all firm practices, including ESG practices. In recognition of our continued commitment to the integration of material ESG factors, Mondrian is a signatory of the Principles for Responsible Investment.

## Background

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

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 financially material environmental, social and governance factors play an important role when valuing markets and companies for potential investment.

## Mondrian's Investment Approach

### The analysis of ESG factors is embedded in the daily work of all investment professionals; additionally each investment team has a senior representative on the ESG Investment Steering Committee

Our equity and fixed income teams share an investment philosophy that recognises the importance of financially material 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 long-term profitability.

## Equity

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

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 and opportunities 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 financially material 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 and opportunities on a company's valuation.

### 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 **Shareholder Engagement Policy**.

### Engagement process

Mondrian's engagement process encompasses discussions on key material ESG factors and includes a focus on accountability which involves tracking a corporate's progress in meeting its business plan targets, including ESG related ambitions such as short- and long-term emissions reduction targets. Should a company held in our portfolio consistently disappoint in its deliverables, with implications to its long-term valuation, we will typically engage with its management and the board for both understanding as well as to steer change. 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 and proxy voting 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 discuss the ESG issues we deem material to an issuer at the time of each credit review and aim to follow up on at least an annual basis as part of a structured program of ESG engagement.

## Climate Risk

Climate change mitigation efforts and the decarbonisation journey with its accompanying policies, regulations, subsidies, incentives, levies and disclosure requirements – pose both investment challenges and opportunities, with implications to risk appetite, access to capital and valuations.

### Climate risk in equity analysis

We believe Mondrian is well placed to adapt to the evolving investment environment in terms of pricing risks and opportunities. Mondrian utilises a disciplined valuation framework to analyse companies based on their fundamentals, together with a long-term investment horizon, and scenario analysis to understand the skew in returns of base against best- and worst-case outcomes. To the extent that issues such as climate change, carbon emissions, water usage and energy usage have been identified as potential risks or opportunities to consider in evaluating the investment case of a particular company, our analysts will conduct further investigation into the extent of these exposures as well as any 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.

### 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 and 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.

## External Tools

### 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.

## Investment Strategy Oversight

### Mondrian takes a structured approach to ESG integration and oversight

Investment professionals are responsible for understanding the financial impact of material environmental, social and governance factors in our present and potential investments.

Final equity investment decisions at Mondrian are made by the Equity Strategy Committee for the relevant products. Equity Strategy Committee meetings are led by the Chief Investment Officer of the respective product. Representatives consist of specified team members including one who also sits on the ESG Investment Steering Committee. The Group Chief Investment Officer will attend these meetings as required.

Mondrian's fixed income strategies are set by the Global Fixed Income Investment Committee, which consists of the entire team and is chaired by the Chief Investment Officer – Global Fixed Income and Currency.

## Investment Implementation Oversight

### ESG investment practices are monitored by Compliance and Internal Audit

As part of our Compliance Monitoring and Internal Audit processes, Mondrian conducts periodic reviews of the firm's ESG policies, procedures, implementation, and framework to ensure the control environment is adequate.

To ensure that Mondrian votes client proxies in accordance with its Proxy Voting Policy and Procedures and in the best interests of clients, Mondrian has a Proxy Voting Committee which is responsible for overseeing the proxy voting process.



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authorised and regulated by the Financial  
Conduct Authority