

Mondrian Fixed Income Engagement Framework

Executive Summary

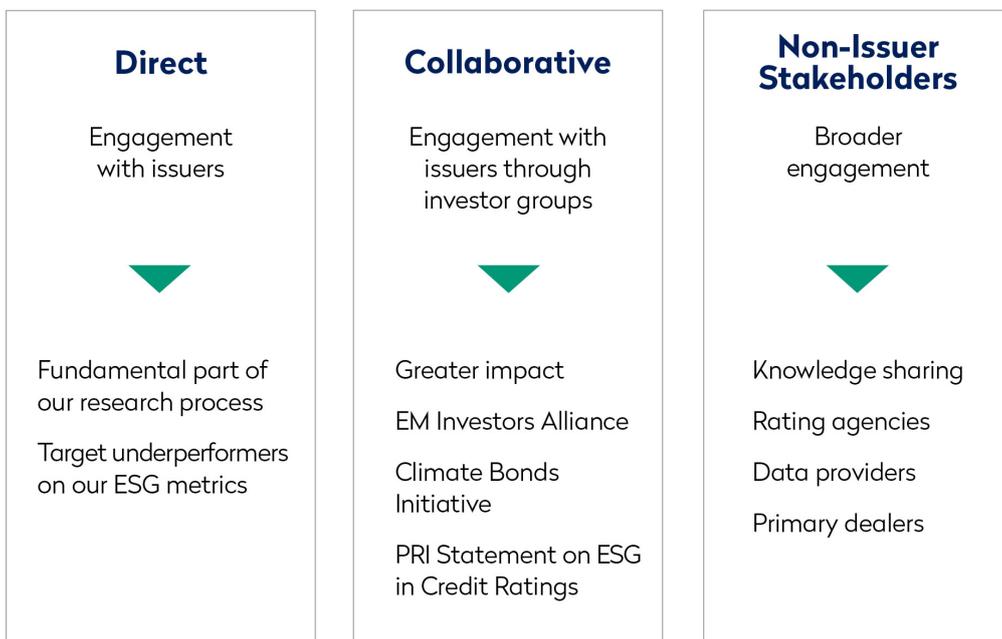
- We engage with both **sovereign** and **corporate** issuers
- We raise **concerns**, gauge **commitments**, monitor and document **actions**
- A **continual dialogue** with the aim of ensuring clients objectives are met
- Our engagement framework covers **Direct, Collaborative and Non-issuer** stakeholder engagement

Fixed Income Stewardship at Mondrian

There is a long-held belief that engagement is the domain and responsibility of equity holders and fixed income investors cannot engage or do not have the tools to engage effectively with issuers. However, Mondrian has always believed that engagement is integral to the investment process on both the corporate and sovereign side as our

analysts meet with debt issuers as a matter of course to further our understanding and highlight issues of importance.

Mondrian utilises a common framework to engage with both sovereign and corporate issuers as summarised in the diagram below.



Direct Engagement

Mondrian engages directly with issuers as an integral part of both our sovereign and corporate research process. Findings from engagement will feed into our ESG rating awarded to each issuer, which in turn directly impacts the valuation we assign to the bonds.

On the sovereign side, members of Mondrian's Global Fixed Income and Currency Team meet with individuals

at central banks and government agencies in the course of their research to raise issues we deem of importance, a recent example being engagement with the Reserve Bank of Australia during which the environmental impacts on inflation forecasting were discussed.

On the corporate credit side, Mondrian benefits from the close relationship with our equity-analyst colleagues,

providing good access to company management. We raise the ESG issues we deem material to a company at the time of each credit review and follow up during subsequent reviews as part of a structured program of ESG engagement.

In addition to direct engagement inherent in the research process, Mondrian carries out a program of targeted engagement for both sovereign and corporate issuers, focussing on a particular ESG metric and engaging with laggards on this metric. Examples of targeted engagement

are highlighted in the box below. We maintain that targeting what we perceive as a concise number of key factors is the most effective way to engage with issuers. This is consistent with our philosophy and process, but has the added benefit of avoiding the fatigue we understand that issuers are experiencing from receiving ever increasing numbers of long form ESG questionnaires, not necessarily tailored to the issuer, as ESG concerns gain in prominence.

Examples of Direct Engagement

Sovereign Engagement

Topic: Environmental Performance

Environmental, social and governance analysis forms an integral part of our sovereign credit analysis which in turn is a fundamental part of our investment process. Across the range of indicators that we look at for Environmental Performance, we have engaged with issuers within our investment universe who are laggards as per the Yale University Environmental Performance Index and The Global Adaptations Index published by the University of Notre Dame. More specifically, we have reached out to Peru explaining how ESG factors are integrated into our investment process and influence portfolio allocations and noted that the country is in the lowest quartile rank of countries for Environmental Performance. In particular, pollution emissions have intensified over the past two years.

Outcome: We continue to engage to understand what efforts are being made to improve Peru's ranking on these indicators and to reduce pollution emissions going forward.

Corporate Engagement

Topic: Organisational Diversity & Inclusion

Bonds issued by a Singapore based telecommunications company have been held in our aggregate fixed income strategies for a number of years. During 2021, Mondrian engaged with the company regarding diversity and inclusion throughout the organisation and received detailed responses to our questions. As a result, we gained a greater understanding over the company's commitment to diversity and inclusion and the developments they are undertaking in this area, and whilst the company is not ranked in the bottom 20% of our holdings on D&I metrics (therefore triggering engagement on the subject annually), they are below median and therefore there is room for improvement. Examples of initiatives discussed that signal increased focus on this area are: the company has recently recruited a head of Talent, Development & DEI (joined on 1 October), who we understand has significant experience in the DEI space; a program of coaching, targeting women in leadership, was rolled out in 2021 and senior management have gender diversity targets in their long-term incentive plans. Whilst the focus was undoubtedly on gender diversity, a broader notion of diversity is also being pursued; there are initiatives in place for people of differing abilities, with the company as one of eight companies that founded the Singapore Business Network on Disability to advance equitable employment opportunities for persons with disabilities.

Outcome: Mondrian will continue to engage with the company as part of our program of targeted engagement and monitor progress using our internal D&I rank, compiled using MSCI data.

Collaborative Engagement

In addition to engaging directly on a one-on-one basis, Mondrian also collaborates within the industry on engagement.

Mondrian is a signatory to the PRI's Statement on ESG in Credit Ratings, an initiative supported by asset managers, the rating agencies, debt issuers and asset owners that facilitates discussions in the context of ESG topics amongst these groups. The Global Fixed Income and Currency Team attends this initiative's round table events which have covered multiple ESG topics such as engagement in the asset class; the varying approaches taken to ESG in credit analysis; the importance of timescales to analysts when considering ESG; and how data can be improved.

In addition, Mondrian is a member of the Emerging Markets Investors Alliance (EMIA), which is a not-for-profit organisation that enables institutional emerging market investors to support good governance, promote sustainable

development, and improve investment performance in the governments and companies in which they invest. EMIA seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments, and public policy experts.

Members of Mondrian's Global Fixed Income and Currency Team are currently participating in the following EMIA Programs:

- Debt and Fiscal Governance - aims to improve fiscal transparency around the budget process for Sovereign issuers
- Sovereign Decarbonization - seeks to improve environmental performance metrics for Sovereign issuers
- Extractives Industries - strives to improve the carbon footprint of Corporate issuers in the Mining, Oil and Gas industries

Examples of Collaborative Engagement

Topic: Fiscal Transparency

As part of the Debt & Fiscal Governance Program at the EMIA, we have established regular periodic engagements with the Ministry of Economy and Finance in Ecuador, with the aim of improving their fiscal transparency around the budget process. We were guided in particular by the work of our policy partners, the International Budget Partnership (IBP), whose global research and advocacy program promotes public access to budget information and the adoption of inclusive and accountable budget systems. In particular, we consulted the IBP to help us in identifying a set of central government budget documents that countries produce but do not publish, as well as identifying if certain published documents are lacking specific details. With regards to Ecuador, we would like to see the production and publication of a Pre-Budget statement, which discloses broad parameters of fiscal policies ahead of the Executive's budget proposal, as well as a more timely publication of a Mid-Year Review. We also encourage the continued publication of the Enacted Budget in a timely manner, and more generally, increased disclosure on broad measures of general government debt, including that of state-owned enterprises.

Outcome: This is a long-term ongoing engagement that is not yet finished. We continue to engage on a regular periodic basis to better understand what efforts are being made to improve Ecuador's fiscal governance and to increase fiscal transparency for bond investors.

Engagement with Non-Issuer Stakeholders

To further our engagement objectives within fixed income, we also regularly engage with non-issuer stakeholders. For example, index advisory committees on the composition of

key benchmarks, the external credit rating agencies on their approach to ESG integration and transparency of information.

Example of Engagement with Non-Issuer Stakeholders

Topic: Green Bond Database

Mondrian engaged with a European clearing house regarding development of a database for green bond issuers and investors. We highlighted what information is important to us as investors in green bonds in assessing the 'green-ness' of a bond prior to investment and the issues that arise as investors in these securities globally with regards to standardisation of data.

Outcome: We continue to compile green bond data in house until we can identify a product that provides the depth of data we require. We continue to speak with market participants and watch developments in this area, ensuring that we inform the development process wherever possible.

Related Research and Information

Mondrian ESG website (<https://www.mondrian.com/esg-at-mondrian/>)

Mondrian Fixed Income ESG white paper (<https://www.mondrian.com/a-value-approach-to-esg-the-mondrian-fixed-income-perspective/>)

Mondrian Green Bonds white paper (<https://www.mondrian.com/the-case-for-investing-in-green-bonds/>)

Website for PRI's Statement on ESG in Credit Ratings (<https://www.unpri.org/credit-risk-and-ratings/statement-on-esg-in-credit-risk-and-ratings-available-in-different-languages/77.article>)

Emerging Markets Investors Alliance website (<https://www.emia.org/>)

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