# UK Stewardship Code Statement 2021

# Mondrian Investment Partners

April 2022

Mondrian Investment Partners Limited
Fifth Floor, 10 Gresham Street, London EC2V 7JD

# Foreword

We are pleased to share Mondrian's Stewardship Report which provides a detailed overview of our stewardship approach, activities and outcomes over calendar year 2021, covering the principles set forth in the 2020 iteration of the UK Stewardship Code.

The key principles of our culture enable our stewardship practices, and have done so for over 30 years. Mondrian's objective on behalf of our clients is to look after their long-term (and short-term) interests by achieving similarly long-term real returns, whilst being both a good steward and fiduciary of assets. Being long-term shareholders supports our responsible approach to stewardship. To ensure effective stewardship, our investment team is expected to regularly meet with issuers both prior to and after investment, and for equity portfolios, vote all proxies (where possible) in a detailed and considered manner.

As with all stewardship, our approach to being good guardians of our clients' capital does not start and end with this document, but will continue to evolve into the future. This philosophy is in keeping with our view that investing is fundamentally for the long-term.

**Clive Gillmore**
Chief Executive Officer and Group CIO, Founding Partner

# Principle 1

Mondrian

# Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

## Our Purpose

Mondrian is an employee-owned investment management firm with offices in London and Philadelphia. We are value investors across the globe in both equity and fixed income asset classes. Our purpose is to provide a rate of return meaningfully greater than our clients' domestic rate of inflation over the long-term with strategies that seek to preserve capital during protracted market declines. Founded in 1990, we have employed a detailed fundamental research process that includes engagement with the management of companies we invest in, allowing us to leverage our stewardship responsibilities whilst not micromanaging businesses, that is the foundation of our success. Mondrian's well-resourced investment team manages assets on behalf of over 250 institutional clients.


### A Track Record of Success

Stable, consistent leadership with time-tested investment philosophy and process since 1990.

### Independent

Employee owned, directly aligning the firm with clients. Equity ownership plan designed to attract, retain, and motivate highly skilled people. Over half of employees are owners.

### Active, Defensive, Value

All strategies have consistently utilised an income-oriented value discipline. Time-tested investment philosophies, disciplined process, adapted to evolving market dynamics. Emphasis on capital preservation in difficult markets.


### Broadly Diversified

A stable and diverse global client base consisting of corporations, public and private pension plans, endowments, foundations, and individual investors utilising an array of strategies to meet their investment goals.

Mondrian is an independent, employee-owned, global value-oriented investment manager headquartered in the City of London with an office in Philadelphia. We have a diverse global client base, investing on behalf of leading corporations, public and private pension plans, endowments, and foundations in a range of equity and fixed income mandates, and employ a long-term, fundamental approach to research when valuing markets and companies for potential investment. We are dedicated to providing exceptional client service and offer a range of institutional investment vehicles, including separate accounts, limited partnerships, collective funds, mutual funds and UCITS. All operational functions are carried out in-house, using best of breed technology, and our operations staff are located on one floor, alongside the investment team, trading desk and global client service team. We work hard to maintain our entrepreneurial culture and small company feel. Mondrian acts solely as an investment manager and does not engage in any other business activities.

Our scale, long-term investment horizon, and relatively low portfolio turnover allows us to build long-term constructive relationships with investee companies, allowing us to fully leverage our stewardship responsibilities. In this sense, our purpose and investment beliefs have guided our stewardship, investment strategy and decision-making.

In our view, the effectiveness of our ability to serve the best interests of clients and beneficiaries is reflected in delivering the expected long-term value and defensive performance characteristics leading to the long tenure of many of our client relationships, where on average, our clients have been with us for almost a decade*.

## Organisational Objectives

As an asset management firm, Mondrian is committed to our fiduciary responsibility, and with it, consistent performance and alpha generation for given levels of risk. Our culture is based on our value philosophy. We believe that investments need to be evaluated in terms of their fundamental long-term value. We invest in securities, whether equity or fixed income, where our inflation-adjusted discounted income stream analysis identifies value in terms of prospective real returns. We encourage high quality, long-term, valuation-oriented research which, in turn, we believe will lead to attractive long-term real returns.

Mondrian looks to be a career destination, and on average, we have a staff turnover rate of less than 10% annually. We have excellent staff retention and investment staff rarely leave to join competitors. Mondrian is committed to equality for all staff and to developing a workforce which is representative of all sections of society, where each employee feels respected and able to give their best and be themselves.

## Investment Beliefs

Mondrian is an active defensive manager. All of our investment products utilise income-oriented value disciplines that have been successfully applied since our founding in 1990.

### Equity Philosophy

In the management of equity assets, we invest in securities where rigorous dividend discount analysis identifies value in terms of the long-term flow of income. Dividend yield and future real growth play a central role in our decision making process and over time the dividend component is expected to be a meaningful portion of the expected total return. Our methodology is applied consistently to individual securities across all markets and industries. Mondrian's investment approach seeks to generate three specific investment benefits.

- An approach that seeks to provide a rate of return meaningfully greater than the client's domestic rate of inflation
- Client portfolios that aim to preserve capital during protracted global market decline
- Portfolio performance that has been less volatile than the relevant benchmark and most peers in the universe

### Fixed Income Philosophy

We have a disciplined fixed income investment philosophy which has been applied since we were founded in 1990. We invest in global 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 minus Mondrian's inflation forecast minus Mondrian's sovereign credit adjustment. Our approach to currency is based on Purchasing Power Parity (PPP) supplemented by our sovereign credit analysis.

- We have a disciplined investment philosophy that has been in place since we were founded in 1990
- Stable, well-resourced team with expert knowledge of the asset class
- Our inflation forecasting use proprietary quantitative models that drive process and provide structure - the 'relative' inflation forecasts produced are key for our process

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 ("ESG") factors play an important role when valuing markets and companies for potential investment.

* As of 31 December 2021

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 financially material environmental, social and governance factors on our present and potential investments, and their long-term profitability.

We believe it is the responsibility of active investors to be effective stewards of their investments in order to protect the long-term interests of clients. 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 for equity holdings.

In recognition of our continued commitment to the integration of material ESG factors throughout the investment process, Mondrian became a signatory to the United Nations supported Principles for Responsible Investment ("PRI") in September 2016.

## Equity ESG Philosophy

Mondrian takes a value-oriented, risk-based approach to investment management utilising a long-term Dividend Discount Methodology (DDM). Since the firm's inception, Mondrian has aimed to consider all material factors that could influence the cash flows of companies, incorporating the analysis of environmental, social and governance risks and opportunities as a normal part of the valuation process. We believe that the forward–looking, long-term nature of our investment methodology (DDM) lends itself to incorporate ESG factors that are long-term in nature. We have an active engagement process, with regular interaction with companies to help us understand material ESG risks and opportunities. 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. Our aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis.

In addition, Mondrian has developed a proprietary ESG evaluation framework for documenting ESG factors applicable to stocks in all equity products; our analysis of ESG factors is transparent, systematic, and explicit, and the portfolio management team is well informed on ESG concerns in the portfolio.

Our approach to the analysis of ESG risks in the portfolio occurs at the fundamental level, and while we reference third-party ESG research, we are not dependent on third-party ESG scores or ratings.

## Fixed Income ESG Philosophy

As a long-term value manager, Mondrian has always believed in conducting analysis that captures all potential material risks and opportunities; understanding and integrating the impacts of ESG factors has therefore consistently been part of our investment process.

Though the term 'ESG integration' has only become commonplace in recent years, the incorporation of environmental, social and governance factors as part of broader fundamental investment analysis has been embedded in our approach since the firm's inception in 1990.

The willingness of value investors to take positions in a broad range of sovereigns, companies, and industries – including those that typically score very poorly with regards to certain ESG characteristics – has been taken by some to mean that a value investment philosophy is incompatible with the incorporation of ESG factors.

However, this need not be the case. We consider that in an integrated approach, all material factors that could impact an issuers valuation should be rigorously analysed and incorporated as part of an in-depth research process. The result of this integrated approach is that much like any other risk incorporated into a bond valuation, the presence of ESG based risks need not preclude investment, provided they are adequately reflected in the market price.

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.

With the exception of Mondrian's systematic equity portfolios ("Rothko") which are not covered by this Stewardship Code Statement, Mondrian pursues an active stewardship approach. Stewardship considerations are part of the initial purchase decision, subsequent monitoring of an investment and any ongoing dialogue with an investee company or issuer, including active participation through our proxy voting process for equity strategies. Our aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis.

Further details on our integration of material ESG factors are provided in response to Principle 7.

## Our History and Strategy

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| 1990 | Mondrian Investment Partners Limited was founded and SEC-registered under the name Delaware International Advisers Ltd. It was then affiliated with Delaware Investments. |
| 2004 | Members of our senior management team, together with a private equity fund, completed the management buyout of Delaware International Advisers Ltd. Upon closing the transaction, the firm changed its name to Mondrian Investment Partners Limited. |
| 2011 | Our existing employee partnership purchased the remaining minority interest of the private equity firm to raise ownership of Mondrian by the employee partnership to 100%. |
| 2021 | Approximately half of our 174 employees are partners of our firm. |

A successful fund management operation is one that can grow steadily while at the same time retaining its client base by meeting clients' performance and risk objectives. Mondrian is committed to a value focus and intends to continue to grow by offering quality products and by developing new investment products consistent with the company's value focus. As part of its three-to-five-year objective, the firm will focus on its client relationships and develop these relationships in the context of new investment product opportunities. The firm believes that a growing firm creates a dynamic work environment that helps to motivate team members. Growth, however, must be managed and should not be at the expense of the entrepreneurial environment that Mondrian currently enjoys. The firm does not anticipate increasing staffing levels significantly in the next three years and will seek to create efficiencies within the current staffing structure.

Going forward, Mondrian could envisage some practical implementation constraints at certain asset levels. The firm's primary concern is for our existing clients and being able to manage their portfolios in the same way that Mondrian has done over the years.

Effective stewardship in the form of regular meetings with issuers/company management, specific topic engagement where necessary and rigorous proxy voting procedures have been an integral part of our process since inception.

## Our Culture

Mondrian has a strong corporate culture built on a number of key principles developed by the founders and enhanced over the past 30 years.

The key principles behind our culture are investment philosophy belief, professionalism (examinations and qualifications where necessary), long-term thinking, commitment to the firm and our clients, challenge and teamwork.

### Investment Philosophy Belief

As detailed in the Investment Beliefs subsection, Mondrian believes in utilising an investment process based on an income-oriented valuation discipline. As part of that process, Mondrian believes it is important for our investment professionals to discuss investment performance directly with clients so that there is a strong sense of accountability for our investment decision making.

## Professionalism

Staff across the firm are encouraged to take professional qualifications to add to strong university-based educations and this ensures that the additional ethical and practical elements learnt create an underlying environment of integrity with each other and the outside investment community.

## Long-term thinking

Fundamental to our culture is long-term thinking in terms of our investment philosophy, relationships with clients and management of the firm. This is reinforced by our remuneration structure, which aims to achieve long-term rewards and also to encourage staff to feel like equity partners in the future of the firm. Base salaries are a small part of the remuneration package for investment staff where bonuses are expected to be the largest part of cash remuneration. These awards are merit based, looking at a range of factors including investment research, long and short-term performance, client service and teamwork. One of Mondrian's points of difference in maintaining its culture is its link with equity ownership. Close to half of all staff and all portfolio managers, and higher within investment teams, are equity owners in Mondrian. These awards are made separately in the middle of the year and we can recalibrate upside or dilute as necessary to reflect individuals long term value to the company. These awards, like all remuneration, are intended to motivate and retain, and are a key part of our multi-generational privately held company.

## Challenge

All staff regardless of position are encouraged to challenge more senior members of the company. From an investment standpoint this is facilitated by diversity but throughout the organisation such a culture improves risk management. All employees are contributors to our risk framework, with varying degrees of input and responsibility, and the control culture is embedded in Mondrian's corporate ethos.

## Commitment and Teamwork

As a result of our culture, Mondrian has excellent staff retention, with an average staff tenure of over 10 years and investment staff rarely leave to join competitors. At Mondrian, the management of investment portfolios is not and has never been "star manager" based but uses a team system. All portfolio managers, regardless of seniority, have analytical responsibilities.

The Compliance & Risk Committee has identified and oversees the following key areas to ensure that conduct risk and conflicts are properly managed:

- Corporate culture – the right tone is set at the board and is inculcated throughout the organisation
- Remuneration policy – staff's interests are aligned with clients and remuneration arrangements do not encourage excessive risk-taking
- Error policy – all errors are quickly identified, remedied so that any disadvantage to clients is addressed and appropriate steps are taken to ensure that the error cannot recur
- Product design – all new products are designed to meet client requirements, are well researched and all risks are properly understood and ameliorated where possible
- Sales and marketing practices – the activities of all staff engaged in promoting Mondrian's services are monitored by Compliance to ensure they are appropriate, clear, fair and not misleading
- Conflict monitoring – monitoring arrangements are in place to test that all conflicts of interest have been properly managed and clients have been treated fairly

Mondrian adheres to the principles set out in the CFA Institute Asset Manager Code of Professional Conduct. All employees follow a Code of Ethics that reflects Mondrian's fiduciary duties.

At Mondrian, investment professionals are expected to meet with clients on a regular basis to review portfolio performance and discuss engagement activities, developing long-term relationships. We hold ourselves accountable to our clients; this aspect of our culture embeds a considered and diligent approach to stewardship.

## Economic, Social and Environmental Benefits

Our approach to stewardship requires that we hold our investments to high standards. We also demand high standards of ourselves. Mondrian believes that it is important to be a good corporate citizen in the communities where we work and have clients. Carbon offsetting, equity, diversity and inclusion are areas of ongoing discussion, and we continually look at potential programs to improve our firm's efforts both within our organisation and community.

Delivering long-term value for our clients typically involves meeting future pension liabilities enabling plan holders, including large US state plans, to retire with financial security. Clearly this is a positive economic and social outcome of our business model. We also manage money on behalf of endowments, foundations, religious organisations which have charitable purposes.

As a value investor with a long-term investment horizon, Mondrian's forward-looking methodology is also applied internally within our organisation to include a long-term plan for operational climate change mitigation. In 2020, Mondrian partnered with independent third parties to conduct a formal carbon audit, offset and certification process. Mondrian offset 100% of emissions generated across global operations for 2018 and 2019 and as of February 2021, was certified carbon neutral for those years. To further our corporate sustainability practices, we have offset 200% of emissions generated in 2020. In our plan we commit to reducing our operational emissions and will be offsetting 200% of emissions generated across our global operations going forward.

Mondrian actively encourages diversity within its workforce and is an Equal Opportunities Employer. Diversity is important to us as we employ individuals from over 25 nationalities in our London and Philadelphia offices and have a global client base.

To help facilitate our vision and ensure our workplace practices evolve accordingly, we established a Diversity & Inclusion Consultation Group, which advises our CEO. The Group's purpose is to advise senior management and in particular the CEO on the company's strategy relating to internal diversity and inclusion matters. It monitors and reviews Mondrian's diversity and inclusion characteristics and initiatives as well as those of relevant industry peers and evaluates leading thought papers on this topic across different jurisdictions. Additionally, it provides recommendations to help achieve Mondrian's firm-wide diversity and inclusion vision, including how to implement our Equality Policy, covering the key areas of recruitment, equality, retention, and staff training.

To assist us in achieving diversity, we have a formal Equality Policy that incorporates diversity and inclusion, and a clear Behaviour at Work Policy to address issues such as harassment and discrimination. Diversity is regularly measured and recorded across both the London and Philadelphia offices. While recruitment is merit based, the encouragement of diversity is a consideration in our process. Mondrian looks at alternative avenues for recruitment, utilising the Bright Network and partnering with GAIN, whose goal is to increase gender diversity within the investment management community and raise the female application rate for entry-level investment jobs to 50% in ten years.

Mondrian believes that a well-managed policy of diversity can support and enhance decisive, accountable decision-making. This is crucial both in the overall management and operation of the firm, but particularly in our investment decision-making process. Diversity is considered in a range of ways when building teams; the aim is to promote diversity of thought and avoid group think. We have an open culture where we actively encourage all team members to participate in and contribute to all team discussions. We believe that within the investment teams, differing ways of looking at businesses and their potential value is strengthened through diversity.

From a representation perspective, Mondrian is an employee-owned company, and approximately 30% of our partners are minorities and/or females. Our Deputy CEO is female, and of our five CIO's covering different product areas, three are female and were born abroad in different cultures.

Mondrian acknowledges that diversity and inclusion are issues that the asset management industry faces. We have implemented several initiatives to help promote diversity and inclusion to make an impact in the wider community.

## Mondrian UK Initiatives

### Girls are INvestors (GAIN)

Mondrian has partnered with and financially supported Girls are INvestors (GAIN), a UK charity whose objective is to increase gender diversity within the investment management community by tackling the apparent lack of interest in the industry among young women. In particular, they seek to raise the female application rate for entry-level investment jobs to 50% in ten years.

GAIN's studies have shown that young women do not understand what investing means and why it is important to society, and that there is a lack of female industry role models available to young women. Their goal is to help change this to achieve better decision-making and more equitable allocation of invested capital in the future.

To achieve these objectives and goals GAIN provides information about investing and role models for young women in the UK through:

- An Outreach Programme to Sixth Forms across the UK with a simple, compelling, and inspiring presentation about investment careers
- A website with inspirational videos of young women investors, information sources, career tips and a stock picking game
- A University Partnership programme to encourage and support young women through the recruitment process

Elizabeth Desmond, Mondrian's Deputy CEO and CIO – International Equities, has participated in the "Speakers for Schools" event in partnership with GAIN. Other investment, client services and operational staff have spoken directly to UK schools via the GAIN program, introducing the investment industry to a diverse range of students at a diverse range of schools. Additionally, members of Mondrian's staff have been participating in GAIN organised events for university students such as interviews skills workshops.

### BRIGHT Network

Mondrian recently partnered with Bright Network, which is a free membership network designed to help university students and recent graduates across the UK from diverse backgrounds connect with employers and get the support they need to fulfil their potential. In 2021, 80% of our graduate program hires were through the Bright Network.

### Work Experience Program

Mondrian runs an annual Work Experience Program targeted at young adults in the age range of 16-18 years which introduces the various facets of the finance industry, particularly asset management. A mix of students attends; we partner with several schools, including one that is in a relatively under-privileged area of London to ensure that this opportunity reaches those that might not normally be able to access it. Participants are exposed to various aspects of the asset management industry through presentations on topics such as financial markets and institutions, performance and data analysis, equities, fixed income, macroeconomics and ESG. Additionally, they typically complete a project incorporating the knowledge gained during their week with Mondrian. Given the COVID pandemic and lockdown restrictions, the Work Experience Program was paused in 2020, however it has resumed in 2021.

## Mondrian US Initiatives

### Women in Investing Network of Philadelphia (WIN)

Mondrian is a Platinum Level Corporate Sponsor of the local non-profit organisation, Women in Investing Network of Philadelphia (WIN). Founded in 2007, WIN is dedicated to empowering professionals throughout their careers in the investment industry. More than 500 investment and financial service professionals in the Mid-Atlantic region benefit from the monthly educational and social programs WIN offers. They gain opportunities for professional networking, learn from expert women in their field, and find colleagues and mentors who help them grow as professionals. As a WIN sponsor, Mondrian facilitates development of talent that can expand the diversity of experience and thought available to our organisation—and to the investment industry as a whole.

Additionally, Mondrian has an award-winning Charitable Donations Program that is driven by our employees.

Mondrian budgets a portion of our revenue each year to charitable giving and social causes. We realise that there are many worthy organisations that deserve financial support. Mondrian's employees have a long history of generous personal charitable giving and have requested that our corporate charitable contributions program is aligned with their personal choices. Mondrian's charitable contributions program matches employee donations on a dollar for dollar/pound for pound basis up to the charitable contributions amount budgeted for the year.

Mondrian believes that its charitable contributions program commits a meaningful portion of its annual revenues to many worthwhile and deserving organisations, while allowing its employees to determine the causes that are most important to them. We were given the Diamond Giving Quality Award (top award) in 2019, 2020 and 2021 by the Charities Aid Foundation in the United Kingdom for our Give As you Earn scheme. To qualify for the award a certain percentage of employees need to participate in our charitable giving scheme, and we need to have a certain percentage of new joiners throughout a year. This scheme benefits a number of different charities.

## Conclusion

Our objective is to provide a long-term rate of return meaningfully greater than our clients' domestic rate of inflation with investment strategies that seek to preserve capital during protracted market declines. We believe in a fundamental income-oriented approach to investment and have a long-term investment strategy that is supported by our long-tenured investment professionals and resilient client relationships. Our low turnover and long-term holding periods facilitate our responsible approach to stewardship. To ensure effective stewardship, we have an expectation to regularly meet with issuers both prior to and after investment, and for equity portfolios, allocate proxy voting decisions in the context of Mondrian's Proxy Voting Policy to the Portfolio Manager responsible for coverage of the company.

# Principle 2

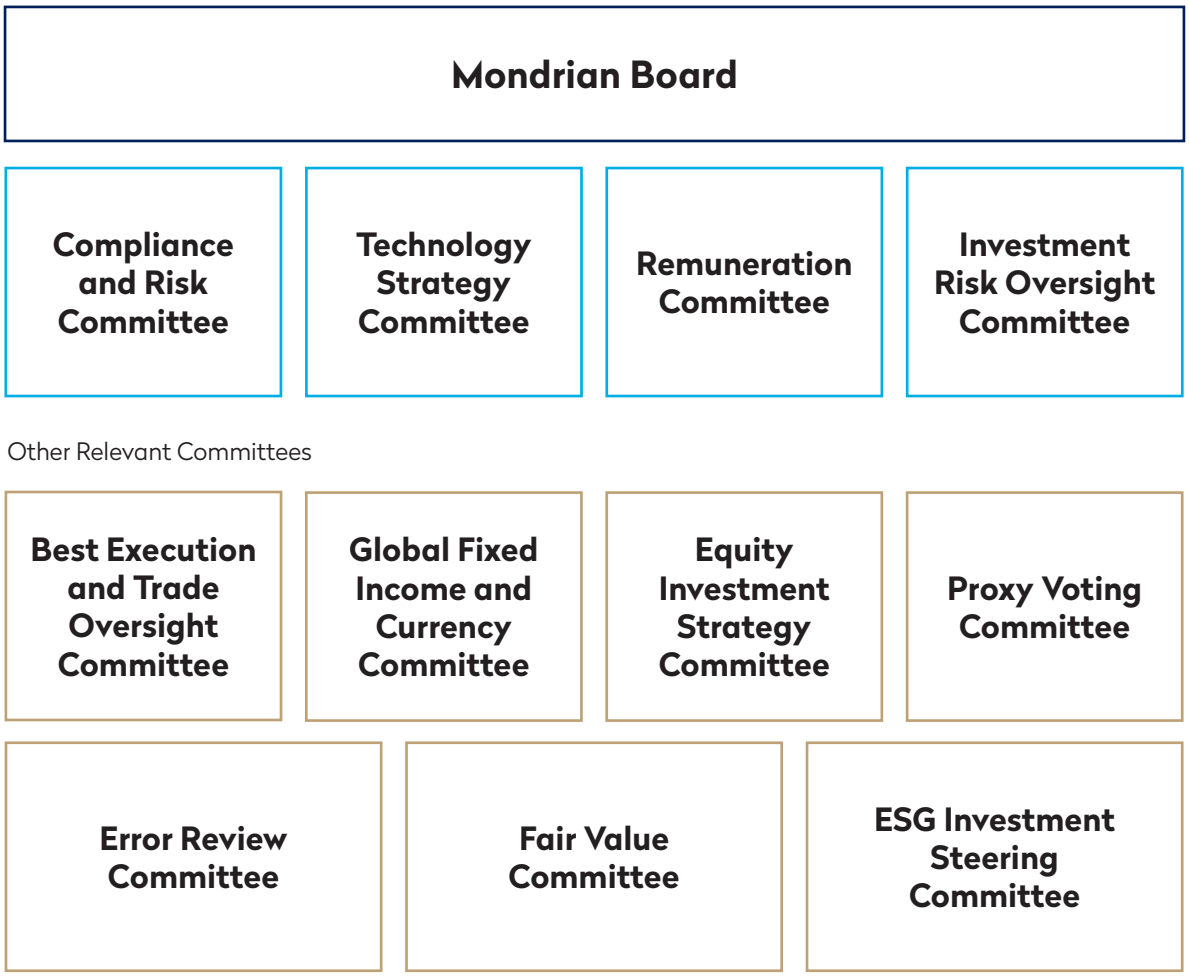
Mondrian

# Principle 2

Signatories' governance, resources and incentives support stewardship

## Governance

Board and Sub Committees




Mondrian's Board of Directors, which has ultimate responsibility for risk oversight, consists of six individuals, of whom two are Non-Executive Directors, two are female and one is an independent Director as of 31 December 2021. Day to day responsibility is delegated to appropriate committees appointed by the Board and to the senior management of each business area. To help prevent conflicts of interest, and in line with recommended best practice, the roles of Chairman and CEO are separated at Mondrian. Additionally, our Internal Audit function reports directly to the Chairman of the Board to provide independent, objective assurance.

Internal ESG and stewardship processes are periodically reviewed as part of our Compliance Monitoring Process, as well as our Internal Audit review.

### Equity

All final equity investment decisions at Mondrian are made by the Equity Strategy Committee for the relevant products. Equity Strategy Committee meetings are attended by specified members of each committee which will include the Chief Investment Officer of the respective products and the Group Chief Investment Officer as required.

To help make sure that Mondrian votes client proxies in accordance with the Proxy Voting Policy and Procedures and in the best interests of clients, it has established a Proxy Voting Committee which is responsible for overseeing the proxy voting process. The Proxy Voting Committee consists of the following Mondrian personnel: (i) two investment staff; (ii) Chief Operating Officer; and (iii) Chief Compliance Officer. The Committee will meet as necessary to help Mondrian fulfil its duties to vote proxies for clients.

### Fixed Income

Mondrian's fixed income strategies are determined by the Global Fixed Income Investment Committee, which consists of the entire team and is chaired by the Chief Investment Officer – Global Fixed Income & Currency. Although the committee meets regularly, the team all sit together and are in constant communication.

## Stewardship in the Investment Strategy

### Equity Stewardship

Across all of Mondrian's equity investment products, the research process is driven by extensive, bottom-up fundamental company analysis and a comprehensive program of meeting with current and prospective holdings.

Mondrian pursues an active investment management approach. As long-term investors, Mondrian considers financially material social, environmental and governance factors when analysing the future sustainability of returns. 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. In the 2021 calendar year, Mondrian equity analysts participated in over 1,350 meetings with companies, discussing topics such as climate change impacts, remuneration, labour, and supply chain, and opined on approximately 6,000 AGM/proxy proposals. Mondrian's aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis.

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 management teams.

As part of Mondrian's research process, our analysts are expected to gain a strong understanding of the quality of management and board-level oversight. We meet regularly with senior management of investee companies, and our scale generally grants us access to company board members. Local practice and governance 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.

Mondrian is typically delegated the authority to vote proxies for securities held in a client's account, and votes proxies on behalf of clients 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.

In order to facilitate the actual process of voting proxies, Mondrian has contracted with an independent company, Institutional Shareholder Services ("ISS").

A portfolio manager will review each voluntary corporate action and proxy voting proposal to decide the best course of action for each client. In making that decision the portfolio manager will take into account Mondrian's internal analysis as well as the analysis of ISS-GS or other third-party proxy provider as appropriate. If the portfolio manager proposes to vote counter to the ISS-GS recommended vote, a Mondrian Proxy Voting Committee is convened to review the proposal and determine how to vote on the issue in a manner consistent with Mondrian's Proxy Voting Policies and Procedures and in the best interests of each client.

Further information on our proxy voting practices and exercising of rights are detailed in Principle 12. Please also refer to Mondrian's Proxy Voting Policy and Procedures available on our website.

### Mondrian Fixed Income Stewardship

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.

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 on green bonds with government debt offices. We collaborate 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 and asset owners. As part of this initiative, we attend round table events covering multiple ESG topics such as engagement. In addition, Mondrian is a member of the Emerging Markets Investors Alliance, 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. The Alliance seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments, and public policy experts.

On the corporate credit side Mondrian benefits from the close relationship with our equity-analyst colleagues, providing good access to company management. Findings from engagement will feed into the ESG rating awarded to each issuer, which in turn directly impacts the valuation we assign to the bonds.

Our process has evolved in recent years to formalise and document the ESG specific aspects of our engagement activities. 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.

Whilst bondholders do not have the voting rights afforded to equity holders, the majority of bond issuers will have a refinancing need and therefore will have to be cognisant of their credit rating and the resultant cost of issuing debt. We believe that if bondholders and rating agencies are raising key issues and questions that are material to credit quality, bond holders will need to respond with an eye on their standing in the debt markets.

## Stewardship Resources and Implementation

Mondrian has a well-resourced team of 57 investment professionals* all located in London. Assets are managed across the public equity and public fixed income spectrum and investment team members are grouped into Non-US Equities, Global Equities, Emerging Market Equities, Small Cap Equities, and Global Fixed Income and Currency, drawing on the breadth and depth of research and investment experience form across the firm. Our members work together in a team-based decision-making environment with clear leadership from our five respective Chief Investment Officers. Historically low staff turnover coupled with a consistently applied investment process for over 30 years are a testament to the overall strength of our firm. The average tenure of Mondrian's investment team is over ten years with the company.

Stewardship is an integral part of Mondrian's equity and fixed income research process. To help ensure effective stewardship practices, Mondrian does not have a separate team responsible for engagement and proxy voting. We believe that the investment team member who has research responsibilities for the particular investment should be responsible for stewardship activities related to that company or country as they would have the best understanding of relevant material issues and be able to fully integrate any engagement or, for equity holdings, proxy voting activities into the overall research process and thus valuation model. In turn, that responsibility extends to the respective product CIO, as well as the Group CIO of our company. Mondrian's investment team has had extensive experience in managing funds in all global markets. Our investment style allows comparisons across both industry and country barriers through its use of consistent criteria, as opposed to looking for different characteristics in each market. Additionally, all employees are encouraged to increase their knowledge and professional skills. This may be gained through experience such as secondments and exposure to other areas of the organisation. This may also be achieved through undertaking sponsored professional qualifications such as the IMC, CFA, ACCA, Securities Institute diploma and CIPD. Personal and professional training and development gained through attendance at industry seminars, conferences, training courses and internal coaching and mentoring is also actively supported.

### Training

At the firm level, Mondrian's ESG Investment Steering Committee sets and reviews firm-wide objectives and establishes initiatives to ensure that our resources and investment staff are capable of meeting ongoing developments associated with ESG-related issues. Chaired by the Head of ESG Investment, 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 ESG Investment Steering Committee arranges ESG and stewardship training sessions for all investment and client service staff as needed and continues to review how we communicate our ESG integration process to external entities to help keep clients and consultants apprised of our approach.

* As of 31 December 2021

Our investment teams have received training on broad ESG issues in the marketplace. Mondrian's in-depth analysis is supplemented by the use of external ESG research resources to provide a 'completeness check' to internal research findings. As such, investment professionals are trained on MSCI's ESG research platform and the scoring methodology used in company and industry MSCI ESG reports to help them better interpret MSCI's findings.

As part of the firm-wide initiative to systematically and explicitly document ESG factors within equity valuation models, our equity investment teams have been trained on the implementation of Mondrian's proprietary ESG Summary Report, which is used to explicitly document ESG opportunities and risks (including valuation impact) within a structured framework for all companies evaluated.

The Global Fixed Income & Currency team attend training and seminars run by both Moody's and S&P, in addition to attending round table discussions and webinars held by the PRI on ESG in Credit Risk and Ratings.

We have recently launched a series of ESG training sessions for all investment staff (portfolio managers/analysts).

### Evolution of Investment Team Training

Mondrian acknowledges that ESG issues are constantly evolving and recognises that training is crucial to stay informed on developments in sustainability, ESG regulations, stewardship, and to reinforce how Mondrian incorporates ESG integration and active ownership into our investment process, shaping how our investment teams engage with present and potential portfolio companies on ESG items. We are in the process of formalising our investment team training program to have more regular sessions hosted internally and externally on topical items and themes.

## Systems

Mondrian developed a systematic method to track engagements across all equity products which was implemented in mid-2017, enabling us to track the number of engagements from that point. Our fixed income engagement process has evolved in recent years to formalise and document the ESG specific aspects of our engagement activities.

Engagements for all investment teams are captured in each team's respective Corporate Access Logs. Information collected for each engagement with current and prospective holdings includes ESG issues discussed, meeting format and location, amongst other meeting details. Corporate Access Logs are updated on a continuous basis and reviewed regularly by the relevant investment team. Outputs of the Corporate Access Logs are provided to Client Services for client and consultant reporting purposes, as well as Mondrian's Compliance Team on a quarterly basis.

For Mondrian's equity strategies, all proxy voting decisions are actioned using Sunrise, an online platform, before being sent to the Proxy Voting Adviser and the client's custodian. This mitigates the risks the pre-population of votes and ensures good record keeping practices.

## Remuneration Programmes to Incentivise the Integration of Stewardship in the Research Process

As previously mentioned, our remuneration is structured in a way to reward staff but equally to encourage staff to feel like equity partners in the future of the firm. Base salaries are a small part of the remuneration package for investment staff where bonuses are expected to be the largest part of cash remuneration. One of Mondrian's points of difference in maintaining its culture is its link with equity ownership. Approximately half of all staff, including all portfolio managers and above within investment teams, are equity owners in Mondrian. These awards are made separately in the middle of the year and we can recalibrate upside or dilute as necessary to reflect individuals long term value to our company. These awards, like all remuneration, are intended to motivate and retain but are a key part of our multi-generational privately held firm.

Specifically, Mondrian has the following programs in place to retain key investment staff:

1. Competitive Salary: All investment professionals are remunerated with a competitive base salary.

2. Profit Sharing Bonus Pool: All Mondrian staff, including portfolio managers and senior officers, qualifies for participation in an annual profit-sharing pool determined by the company's profitability (approximately 30% of profits).
3. Equity Ownership: Mondrian is employee owned. A high proportion of senior Mondrian staff (investment professionals and other support functions) are shareholders in the business. Equity value is built up over many years with long vesting periods and the value of any individual's equity is normally paid out in instalments over a number of years after an agreed retirement from the firm. This is a (very) long term incentive plan directly tied to the long-term equity value of the firm.

In determining the incentives (Bonus and Equity Programs) for investment professionals, Mondrian focuses on the key areas of a) research quality (including ESG analysis), b) long-term and short-term stock performance, c) teamwork, d) client service and marketing.

## Potential Enhancements to Stewardship Processes

While Mondrian has a long history of meeting with companies and voting proxies as an inherent part of its investment process, there are several internal stewardship processes we are reviewing to see if they can be made more efficacious and to ensure they evolve with any newer regulatory initiatives that may occur. With increasing reporting requirements as a result of regulations such as the Shareholder Rights Directive, we note that asset owners and consultants are requesting an ever-changing array of details regarding engagement and proxy voting activities. Mondrian aims to provide transparency into its stewardship practices. We note that asset owners and consultants each request slightly different data across different time periods, with the volume of requests only rising. To accommodate such stewardship requests, we are looking at two significant internal systems enhancements: Engagement Documentation and Reporting, and Proxy Voting Reporting. To help facilitate the enhancement of our internal stewardship documentation systems, we have established an IT Systems Working Group within our ESG Investment Steering Committee. This working group consists of senior members of our investment team, as well as members of our reporting and IT projects teams, the ESG Investment Steering Committee Chair and ESG Manager.

# Principle 3

Mondrian

# Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

## Conflicts of Interest

Mondrian has a fiduciary duty to its clients and as such must identify and take steps to mitigate potential conflicts of interest.

A conflict of interest arises when Mondrian and/or its employees have a competing professional or personal interest which could affect their ability to act in the best interests of Mondrian's clients. A conflict could exist even if no unethical or improper act results from it. Mondrian has a culture which fully recognises the fiduciary duty we owe our clients and promotes the ethos of ensuring that clients' interests are put ahead of the firms. Mondrian has a number of committees which have a key role in ensuring that the management of conflicts of interest is embedded in the business processes. For example:

- Compliance & Risk Committee — ensures that Mondrian has adequate arrangements for complying with regulatory principles and rules.
- Best Execution & Trading Oversight Committee — ensures that Mondrian's trading arrangements provide cost effective, quality trade execution.
- Proxy Voting Committee — ensures that Mondrian's proxy voting policy is operated in the best interests of clients and any conflicts are properly managed.
- Fair Value Pricing Committee — ensures that the client's best interests are paramount in any required pricing adjustments/recommendations.

The UK regulator, the Financial Conduct Authority, requires regulated firms to identify conflicts of interest (both between the firm and its clients and the firm's employees and its clients) and establish, implement, and maintain an effective written conflicts of interest policy. Mondrian is also registered with the SEC which has similar requirements for the identification and management of conflicts of interest. Mondrian maintains and operates various policies and procedures which are designed to prevent conflicts of interest materialising and adversely affecting the interests of our clients. The purpose of our conflicts of interest policy is to outline Mondrian's approach to the identification, management, recording and where relevant, disclosure of conflict of interests.

### Identifying conflicts of interest

For the purpose of identifying conflicts of interest that may arise in the course of providing a service to our clients, we have considered whether Mondrian, its employees or another client, are directly or indirectly, likely to:

- Make a financial gain, or avoid a financial loss, at the expense of the client;
- Have an interest in the outcome of a service provided to a client or in a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- Have a financial or other incentive to favour the interest of one client or group of clients over the interest of another client or group of clients;
- Receive from a person other than the client an inducement in relation to the service provided to the client, in the form of monies, goods or services, other than the standard fee for that service.

Mondrian's senior management is engaged in ensuring that the Conflicts of Interest Policy is up to date and has identified all relevant conflicts, including discussion and agreement of a mitigation plan for any new conflict that arises.

### Monitoring of Compliance with Conflicts of Interest Procedures

Mondrian maintains a Conflicts of Interest Register that lists all potential conflicts of interest that have been identified. Any conflicts arising are logged immediately in the Conflicts of Interest Register.

Mondrian has written policies and procedures addressing each conflict identified in the Register. These policies and procedures are designed to manage the potential conflict so that the interests of clients are always put ahead of Mondrian or its employees.

Where a conflict has arisen, steps are taken to ensure that the conflict either does not arise again or is properly managed so that client interests remain paramount. These details are also recorded in the Register.

Mondrian has a comprehensive Compliance Monitoring Programme which is specifically designed to check that key conflicts have been properly managed. A large number of the different types of tests that are carried out each year include checks to ensure that conflicts have been properly managed.

Any apparent violations of the procedures designed to manage conflicts are investigated and reported to the Chief Compliance Officer, who will determine any action necessary. Any material matters would be reported to senior management and the Mondrian Compliance & Risk Committee and, where required, any relevant regulator.

Please refer to Mondrian's Conflicts of Interest Policy, available at www.mondrian.com, for further details.

## Potential conflicts of interest that can arise during normal investment management business activities

| | | |
|---|---|---|
| Access to non-public information | Allocation of aggregated trades | Allocation of investment opportunities |
| Allocation of new issue opportunities | Client order priority – trading across mandates | Dealing in investments as agent for more than one party |
| Employee personal account dealing | Error resolution | Employee personal political giving |
| Proxy voting and shareholder activism | Placement agents and pay to play | Execution Related Services |
| Gifts and entertainment | Relationships with consultants | Management of investment capacity |
| Marketing materials | Personal conflicts of interest | Product allocation |

### Sample of Mondrian Conflict of Interest Management Process

#### Management of investment capacity

Where there is limited capacity in Mondrian's investment products, there is a potential for a conflict of interest in relation to how that capacity is allocated when there is strong demand. With regard to a closing policy, Mondrian recognises the importance and the challenge of managing the growth of assets under management without compromising the interests of existing clients. To this end, the company has a track record of closing products early. For example, in recent years Mondrian has soft closed its core EAFE and all-cap Emerging Markets equity products. These closures have been carried out early to give existing clients some further, albeit limited, scope for contribution to funds invested. Also, capacity in these styles has been reserved for Mondrian's co-mingled vehicles.

#### Proxy voting

Mondrian has a potential conflict of interest with its underlying clients when it has discretion to exercise voting authority in respect to client securities. Mondrian has implemented Proxy Voting policies and procedures that are designed to ensure that it votes client securities in the best interest of clients. In order to facilitate the actual process of voting proxies, Mondrian has contracted with an independent company, ISS to analyse proxy statements on behalf of its clients and vote proxies in accordance with its procedures.

#### Differing Client Stewardship Policies

Where there are differences between the stewardship policies of Mondrian and our clients or amongst clients, our clients' stewardship policies take precedence for their specific portfolio. For example, with the introduction of the Shareholder Rights Directive in the UK and Europe, we have experienced some divergent client interests. Mondrian has a globally diverse client base and serves a variety of different client types. We appreciate that our clients each have their own ESG and stewardship priorities and seek to accommodate client interests for their specific portfolios. Our clients have different interpretations of fiduciary duty – some consider it to be purely focused on economic interests, while others may believe it extends to societal interests as well. We continue to engage with our clients to understand their ESG and stewardship priorities, and monitor potential divergences, noting that while the divergence has not been significant yet, it may potentially evolve as our clients continue to formalise their own stewardship policies and ESG priorities.

# Principle 4

Mondrian

# Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

## Market-wide and Systemic Risks

Mondrian has a responsibility to address both risks to our business and investment performance risk to our clients.

### Operational Risk Management

Mondrian's Board of Directors has ultimate responsibility and accountability for risk management as set out in each of their Statements of Responsibility under SMCR. Day to day responsibility is delegated to appropriate committees appointed by the Board and to the senior management of each business area with oversight by the relevant Senior Manager. Mondrian's Board meets on a quarterly basis, during which they review the overall risk profile of the business. Each of the Board's appointed Committees and functions that have specific responsibility for risk assessment (Compliance & Risk Committee, Internal Audit and Chief Investment Officers) provide reports to the Board to allow them to assess the overall risk profile of the business. The Board reviews the following reports:

- Investment Risk Reports from the Chief Investment Officers (on a rotating basis)
- Management Risk Report output from the Risk Framework presented by the Chief Executive Officer
- Compliance & Risk Report which summarises the key matters arising at the Compliance & Risk Committee
- Internal Audit Report on the activities of the Internal Audit function

The board will consider all significant risks in the decision making and strategic planning process and focus resources on any areas where substantial risk mitigation is required.

Mondrian believes that risk management should be embedded in Mondrian's corporate ethos and that all employees are responsible for maintaining a control culture throughout the business.

As referenced in the Principle 2 section, the Board has several sub-committees that report to it regularly, including the following:

#### Compliance & Risk Committee

The Compliance & Risk Committee meets quarterly and acts on behalf of the Board in monitoring the adequacy of the firm's regulatory compliance arrangements and ensures that all investors receive the appropriate level of protection in accordance with relevant regulations, laws and contractual obligations.

The Committee also reviews the updated Mondrian Risk Framework. The Risk Framework is used to plot the risk profile of all of the key functions performed at Mondrian and takes account of regulatory risks and other risks including, but not limited to, operational risk and counterparty (credit) risk.

The Compliance & Risk Committee is chaired by Mondrian's Executive Chairman and includes the Chief Executive Officer and the Chief Operating Officer. Meetings are also attended by the Chief Compliance Officer, Internal Audit Manager and General Counsel.

### Example of Risks Considered in Mondrian Risk Management Framework

Business, operational and control environment risk management is achieved through a three-pillar approach consisting of Compliance (Regulatory Risk), Internal Audit (Oversight) and Risk (Business Process). Mondrian's Compliance, Internal Audit and Risk functions operate independently and maintain a good working relationship via frequent joint oversight meetings. Each of these functions report either directly, or via a formal committee structure to Mondrian's Board.

### Best Execution & Trade Oversight Committee

The Best Execution & Trade Oversight Committee meets formally to oversee Mondrian's trading operations for client funds, focusing on counterparty relationships, best execution and trading costs. The Committee is chaired by a Chief Investment Officer and members include the Chief Operating Officer, Trading Desk, senior Investment representatives and the Chief Compliance Officer. The Committee is responsible for identifying any enhancements or correcting potential weaknesses in Mondrian's trading arrangements.

## Examples of Risks Considered in Best Execution and Trade Oversight Committee

### Execution Quality

All trade executions will initially be reviewed by the Trading Desk to see that they meet the requirements of best execution.

Mondrian's Compliance & Risk Team performs a number of periodic reviews of trading activity to test execution quality and to review broker/dealer due diligence and broker/dealer allocation procedures. These reviews cover trades in all asset classes.

Mondrian's Investment Support Services Team performs a daily check on execution prices comparing market data against the actual execution rate obtained. Prices varying by more than a set tolerance level are identified and investigated with the Trading Desk.

Mondrian has commissioned a third party to complete security post trade execution analysis on a quarterly basis. The report and details of this analysis are used by Mondrian to assess the effectiveness of its security trade execution arrangements. It is Mondrian's policy to not share the details of the trade cost analysis reports with clients as we believe that the aggregate, firm-wide trading data are not necessarily representative of individual client trading patterns and would consequently not provide useful data to clients. That said, as an indication of the quality of execution of trades we can confirm that Mondrian has outperformed the Arrival Price Universe of our current third-party TCA provider over the reporting period.

We have specific thresholds using a variety of benchmarks to analyse and scrutinise trade execution quarterly. Over the 2021 period, no material exceptions were identified.

## Investment Approach

Mondrian manages market-wide and systemic risks by having well diversified portfolios across geographies and sectors, implementing minimums and maximums on market allocations, and limits on individual security weights where necessary.

### CIO Forum

Mondrian's CIO Forum meets formally at least monthly (but also on ad hoc occasions and between individuals when required) to discuss global valuations within the construct of our investment process, research from the portfolio management teams, current macro themes around the world, as well as country and sector positioning within our strategies. Clive Gillmore, CEO and Group CIO, chairs this collaborative meeting with our five other CIOs. The purpose of this dialog is to share ideas and ensure the consistency of our investment process across the firm.

Individual CIOs are responsible for managing investment risk on respective portfolios. Each product has its own strategy committee where regular internal challenges take place. In addition, we subscribe to independent risk analysis tools such as Barra, Style Analytics and FactSet which are used to provide a check and balance, although we caution that measures used here are mostly backward looking. It is forward looking risk we aim to manage, and we believe we have a number of internal controls to help. All CIOs have to present annually to the Board of Directors on their portfolios and how risk is being managed and controlled. The Board challenges CIOs as necessary.

Mondrian takes risk control extremely seriously across the whole chain of the investment process and provides sufficient independent oversight where required.

## Investment Risk Oversight Committee

Mondrian's Investment Risk Oversight Committee provides independent investment risk oversight and challenge. The Committee meets quarterly and is supported by reports from Mondrian's external risk reporting provider Barra and is assisted by reports from our Compliance and Risk Team, Performance Team, and Product CIOs as required to ensure adherence with stated objectives and risk guidelines. The Investment Risk Oversight Committee is chaired by Mondrian's CEO & Group CIO and includes the Chief Compliance Officer and Head of Performance. The Board meets quarterly to review Investment Risk Reports.

## Equity Investment Process

Mondrian builds long-term dividend discount models to analyse company valuations. We typically use a four-stage model that forecasts dividends for years 1-5 in detail, modelling, in a dynamically integrated way, the income statement, balance sheet and cash flow of the company. Years 6-10 are forecast as a normalisation period which also usually requires dynamically integrated financial modelling. We then calculate a long-term growth rate for years 11-50 followed by a zero real terminal growth rate.

We use scenario analysis and stress testing to ascertain a range of outcomes utilising top-down information such as politics, macroeconomics, currencies, and inflation as well as industry dynamics and bottom-up stock related information including ESG factors. Our emphasis on worst case scenarios and owning companies with a favourable skew has enabled us to achieve a track record of providing consistent performance with minimised volatility.

While tracking error is monitored, it is not a primary driver of our investment process. We believe that the most important risk for our clients would be that of failing to achieve their target returns, so we place more emphasis in our research process on examining the gap between the most likely return and the worst case return for each investment. It is this detailed downside scenario analysis for all markets and stocks, which we believe, has been a key factor in achieving very low volatility of our returns.

## Fixed Income Investment Process

Managing portfolio risk is an integral part of our investment process from the initial setting of investment strategy.

The process controls for the following risks:

- Inflation Risk is mitigated by our inflation forecasting approach and preference for markets that compensate for inflation risk.
- Sovereign Credit Risk is mitigated via our analysis of factors that affect sovereign creditworthiness. This serves as an additional risk control, ensuring the portfolio limits exposure to countries with deteriorating risk profiles.
- Currency Risk is controlled via our hedging strategy. If we believe that a currency is extremely overvalued, we will pare back exposure to that currency.
- Corporate Credit Risk is controlled through our rigorous credit process that acknowledges asymmetric risk/reward profile of credit.
- Interest Rate Risk is controlled through our duration/maturity strategy. We will employ a high duration/maturity strategy in markets that have relatively high Prospective Real Yields, to maximise the advantage. Similarly, we will adopt a low duration/maturity stance where Prospective Real Yields are relatively low, as a defensive move.
- Liquidity Risk is mitigated by keeping turnover low and having a prudent approach to capacity management so that we can remain nimble.
- Environmental, Social & Governance Risk is mitigated by full integration of these factors into our investment process. Responsibility for ESG analysis rests with the investment team, with ESG analysis carried out in-house. ESG factors are explicitly incorporated into both Mondrian's corporate and sovereign issuer credit ratings, providing a framework for integration of these factors into the consideration of an issuer's valuation.

Portfolio construction is both top-down and bottom-up in nature. It starts from the top-down by determining the relative value of all markets and currencies in the investment opportunity set through our PRY and PPP processes. Once this is determined, an optimal allocation to those countries and currencies is generated. From the bottom-up, specific sectors and securities are then selected within the given top-down allocation through our relative value credit approach.

An optimiser is used to guide portfolio position. It selects those countries with the highest PRYs while at the same time ensuring diversification by minimising the deviations from the benchmark. By doing this, the optimiser generates a portfolio that maximises PRYs across the selected countries, subject to constraints on the degree of dispersion around the benchmark index. Subsequently, Mondrian buys the attractive markets and sells those that are relatively unattractive.

Tracking error risk (deviation from index) is controlled at the portfolio optimisation stage by seeking a country allocation that minimises the dispersion around the benchmark for a given prospective real yield target taking into account the correlation between markets. This will ensure that sufficient diversification of the portfolio is achieved whilst maintaining the objective of investing in markets with high Prospective Real Yields. We estimate ex-ante tracking error using historic covariance matrix of bond returns and currencies.

## Industry Initiatives

Mondrian participates in various industry initiatives to help support our firm-wide practices. In addition to the below, the majority of our investment staff are CFA Charterholders and Mondrian has a representative on the CFA UK's Advisory Council, which facilitates staff knowledge of market and systemic risk, and in turn allows us to positively influence market practices. We are currently considering a range of other external initiatives.

### Principles for Responsible Investment

In recognition of our continued commitment to the integration of material ESG factors throughout the investment process, Mondrian is a signatory to the United Nations supported Principles for Responsible Investment (PRI). As a signatory, we produce regular reporting on our ESG practices which gets assessed by the PRI. In our most recent PRI Assessment Report, Mondrian received the following ratings:

- Strategy and Governance: A+
- Listed Equity – Incorporation: A+
- Listed Equity – Active Ownership: A
- Fixed Income – SSA: A+
- Fixed Income – Corporate Financial: A+
- Fixed Income – Corporate Non-Financial: A+

### PRI Statement on ESG in Credit Risk and Ratings

This initiative is supported by asset managers, the rating agencies and asset owners and aims to enhance the transparent and systematic integration of ESG factors in credit risk analysis. As part of this initiative, we attend round table events covering multiple ESG topics such as engagement.

### Emerging Markets Investors Alliance

This not-for-profit organisation 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. The Alliance seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments, and public policy experts. Mondrian actively participates in several collaborative engagements organised by the Alliance, which facilitates our ability to engage with emerging markets sovereigns.

### Climate Bonds Initiative

An international, investor-focused not-for-profit, this organisation works solely on mobilising the USD100 trillion bond market for climate change solutions. Mondrian launched a Global Green Bonds strategy in 2020 and the Global Fixed Income & Currency Team participates in CBI events and references its resources.

### Investment Association

Over the course of 2021 Mondrian was a member of The Investment Association ("IA"), which is a trade body that represents investment managers & asset management firms in the UK and engages directly with the Financial Conduct Authority ("FCA") and the Financial Reporting Council ("FRC"). More specifically, Mondrian was a participant in the IA's Stewardship Reporting Framework Working Group, which has engaged the FCA and FRC

regarding the Shareholder Rights Directive and the UK Stewardship Code. Mondrian joined this working group in 2019. Mondrian was also a participant in the IA's Sustainability Disclosures Implementation Forum, which has engaged with EU policy makers as well as UK policy makers. Please note that we are no longer IA members.

## Case Studies

The following case studies aim to provide insight into Mondrian's identification and response to market-wide and systemic risks. Mondrian has had discussions with asset owners, consultants, and issuers regarding these risks, and has published various insights available publicly on our website.

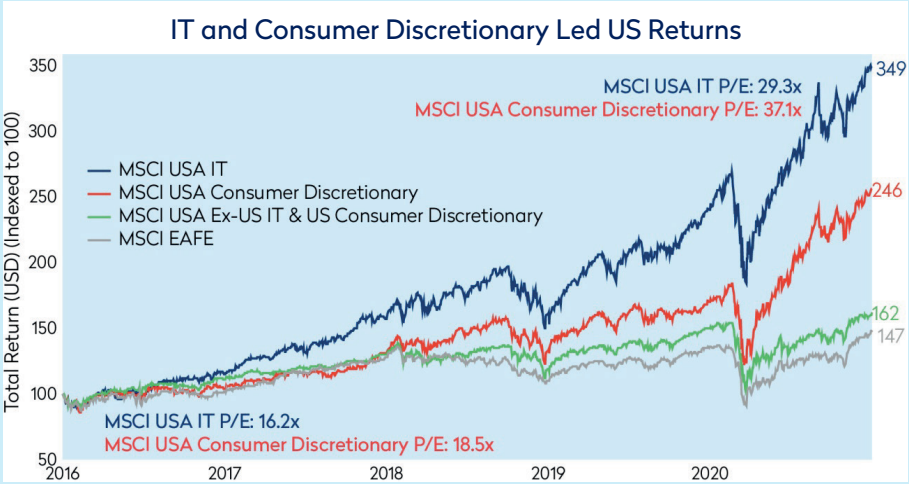
### COVID-19 Longer-term Challenges: superpower geopolitics, stabilising economic, fiscal and political systems, inflation risks and opportunities

The extreme devastation that COVID-19 has wrought is likely to subside, but the political and economic uncertainty that preceded it will remain. The fight for global economic pre-eminence continues. The US relationship with China has only worsened through COVID-19. The relationship between the current and the emerging superpowers will remain subject to much speculation and uncertainty even with the change of administration in the US.

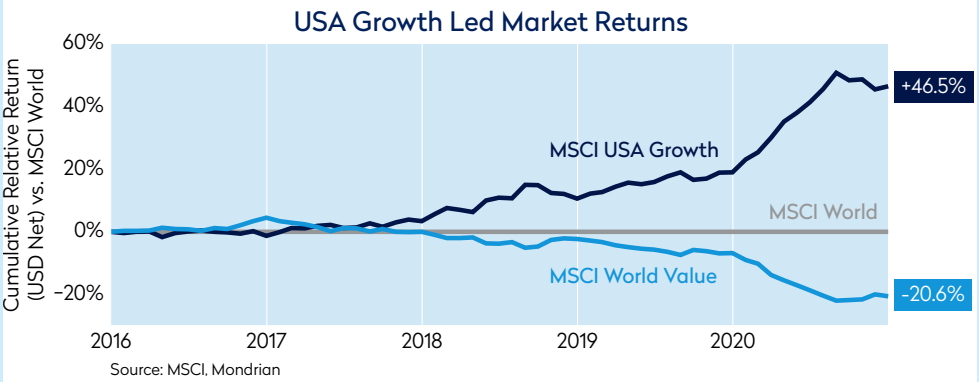
When COVID-19 first struck, we noted how important the quantity and quality of the fiscal and institutional response would be to the eventual resolution. The response in developed economies, while challenging, has so far demonstrated both monetary and fiscal commitment. Particular success has been evident in Asia which has had previous recent epidemic experience, while Germany has so far been able to use their deep financial resources to maintain substantial capacity in its health care system and to offer fiscal support to its population, and to some extent to Europe more broadly.

The accumulation of fiscal debt coupled with substantial monetary stimulus has also caused commentators to begin to countenance the prospect of inflation. While recent money supply indicators might cause investors to anticipate an inflationary boom, more likely in the near-term, the large output gap created by the pandemic in most economies will make anything other than temporary supply-side driven inflation still a remote possibility. The economic history of Japan in the last twenty years illustrates how challenging it can be to try to create inflation. However, the sharp rise in M2 in the US, the change in the Fed's mission and, in certain circles, the enthusiasm for Modern Monetary Theory are changing the dialogue. Can/will inflation help us "build back better" out of the devastation of the pandemic?

Alongside most investors, we have explained the strong returns from growth stocks as the result of sharply lower interest rates across the yield curve, a hugely uncertain economic environment, and an uncertain outlook for corporate profits undermined by a radical upheaval in traditional working and leisure practices because of the pandemic that has led to an almost total reliance on technology. This reliance has, in part, led to the increasing dominance of the famous FAANG stocks and a significant concentration in global equity benchmarks. The concentration risk of many passive investments may be far too high for most prudent investors. Benchmark concentration has certainly hurt our performance: we took the opportunity to invest in Apple at the beginning of 2019 and have recently exited the position following exceptional returns. Despite this, Apple, which makes up close to 4.3% of the index, has been a negative contributor to relative returns in 2020, given the size of the stock in the benchmark. While Apple, similar to the other FAANGs, is a beneficiary of the COVID-19 pandemic that continues to beat earnings estimates, based on historical observations, it has been precisely the time at which a company can't lose when the investor in common stocks should be most fearful. While growth is a desirable feature of stocks, future returns will depend as much on that growth as on the price that investors must pay to get exposure to it. As the chart below shows, the US IT and consumer discretionary sectors have re-rated significantly over the past five years. However, excluding these sectors, the US market has not outperformed the EAFE benchmark that significantly. While we believe that the overall US market is overvalued, attractive stock picking opportunities exist in the rest of the US market, and in other international markets, which have lagged this remarkable growth rally.




After the broad extent of the pandemic was apparent, our forecasts – as calculated in March 2020 – anticipated that, with a scenario much as has manifested, a COVID-19 loss to underlying value, market-wide, was likely to be the present value of (on average) two years of earnings and dividends. While we acknowledge that a dividend-driven present value calculation could, in the COVID-19 scenario, disproportionately impact higher yielding companies, based on our initial analysis of the pandemic's impacts, and supported by lower portfolio valuations, we did not see the forecast returns for companies in our portfolio being materially damaged or any more impacted than the overall market in terms of underlying valuation-driven expected return. This view was supported by the portfolio's lack of exposure to some of the worst hit sectors including hospitality, aviation, general retail, and tourism. Over the course of the year, the return and valuation gap between value and growth sub-sectors continued to widen as the charts below illustrate. Despite some improvement in returns from the value sub-sector recently, this gap has only closed very slightly in the fourth quarter.




We do not build portfolios based on static valuation metrics and do not necessarily believe that all the stocks in the value benchmark are undervalued or mispriced. As we have written before, some of these stocks are just lowly valued or very risky. Mondrian has a disciplined valuation methodology and our aim is to identify mispriced securities based on our long-term Dividend Discount methodology, within a structured scenario analysis framework. Our aim is to generate strong absolute returns with strong downside protection and low levels of volatility. Our forward-looking approach has helped us to outperform the value benchmark in every calendar year in the past 5 years, avoiding some of the weakest names within the value benchmark. Nevertheless, the chart above clearly illustrates the bifurcation of returns between the two extremes, in particular within the US market. Despite our ability to invest in lower dividend yield stocks or stocks which require higher growth assumptions, we have found that the prices of some of these securities incorporate extremely optimistic assumptions.

Further details are available in the Insights section of our website here.

## Financial Risks have Continued to Accumulate in Equity Markets

Global economies are still beset with unresolved structural and residual effects stemming from the GFC. Slow progress in deleveraging after the GFC has led to a build-up of financial tail risks, which have been exacerbated as central banks and governments focused on fiscal spending to both support businesses and employment during the pandemic and foster a post-COVID-19 recovery. While fiscal support was necessary, elevated global debt levels make the economic system vulnerable to a sudden increase in interest rates, stemming from a rise in risk aversion, inflation or expectations of faster monetary tightening. While a way out of the current global health crisis looks increasingly visible, the longer-term economic challenges remain real, and the recoveries that are underway will be multi-speed, given differences between nations in the pace of vaccine roll-outs and the extent of domestic leverage and economic policy support.

The US appears to be well-positioned on a relative basis. Among advanced economies, it is expected to surpass its pre-COVID-19 GDP level this year; many others will not return to pre-COVID-19 levels until 2022. Nevertheless, the US is unexceptional in relation to its debt overhang. Following the pandemic, the US has seen its combined budget and trade deficits approaching 20% of GDP with indebtedness increasing sharply at both the sovereign and corporate level. Much of the increased corporate leverage in the US has enabled buybacks and driven strong share performance over the past few years. The US Congress is currently weighing whether to make adjustments to the 2017 tax law, which supported corporates and their investors. The positive US tailwinds of recent years could go into reverse as a greater focus on corporate taxation and investments become central.

In a post COVID-19 environment, rising sovereign debt and a potentially greater focus on corporate taxation are by no means just a US problem. However, there are a number of economies within the international markets which were in better fiscal health entering the COVID-19 pandemic, enabling them to push ahead with post-COVID-19 recovery. They are also likely to be insulated from future significant tax rises and fiscal retrenchment, thereby supporting a positive long-term outlook. These top-down factors are incorporated into our bottom-up stock models when identifying attractively valued securities.

| Government Net Debt/Cash as % of GDP | December 2019 (pre-COVID-19) | December 2020 |
|---|---|---|
| Japan | 150% | 169% |
| Italy | 122% | 142% |
| France | 89% | 104% |
| US | 83% | 103% |
| UK | 75% | 94% |
| Germany | 41% | 50% |
| Australia | 26% | 38% |
| Sweden | 4% | 6% |
| Singapore* | 0% | 0% |

Source: IMF, Haver CLSA
*Singapore figures relate to total net debt rather than government net debt

One market which stands out from the table above is Japan. While Japan has high levels of sovereign debt, the ongoing willingness of Japanese savers to hold on to Japanese government bonds combined with the aggressive bond purchasing schedule of the Bank of Japan has meant that government bond yields continue to test new lows. Crucially, and important for equity investors, the private sector's well capitalised balance sheets are the mirror image of the Japanese government's high debt levels, as shown below. As part of our increasing focus on the leverage of companies, the portfolio went overweight the Japanese market over the last few years. Japan was a COVID-19

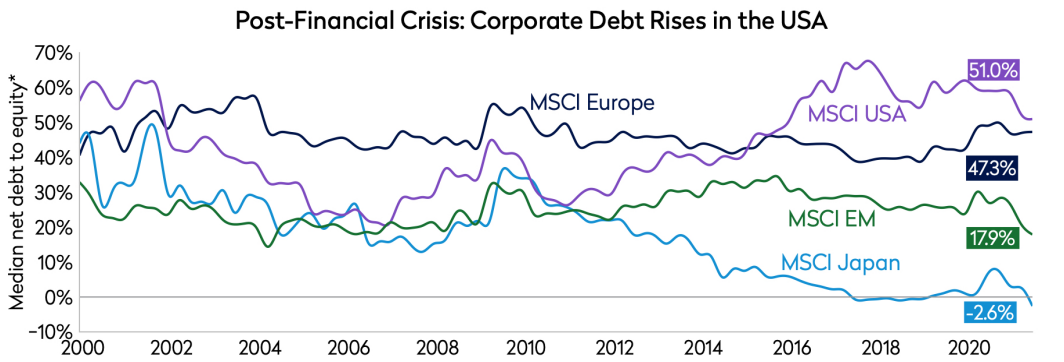
success story in the early months of the pandemic, with mask-wearing and social distancing familiar concepts in the country. However, the slow start to its COVID-19 vaccine rollout has seen the Japanese equity market lag the most recent rebound. Earnings and dividend growth have been strong in Japan in the post-GFC world and are likely to continue to be sensitive to any global economic recovery. We continue to believe that significant value remains in the market. This creates a significant opportunity for long-term investors like Mondrian.

Underpinned by relatively stable dividends, and strong balance sheets, the Japanese equity market stands out as attractive on a risk-adjusted basis. Returns have subsequently benefited from positions in leading Japanese companies with strong balance sheets that support the skew of outcomes. Our exposure to this market helped the portfolio to provide strong downside protection during the depth of the COVID-19 crisis. We believe that Japan is a unique and attractive market, with plenty of stock picking opportunities.

### Dividends Resilient in Japan

| Country/Region | End 2019 Yield | % Change in DPS 2019-2020 | End 2020 Yield |
|---|---|---|---|
| Japan | 2.3% | -3% | 2.0% |
| USA | 1.8% | -5% | 1.5% |
| Germany | 3.0% | -8% | 2.5% |
| Pacific ex Japan | 3.8% | -22% | 2.9% |
| Europe ex UK | 3.1% | -22% | 2.2% |
| France | 3.0% | -35% | 1.9% |
| UK | 4.4% | -36% | 3.3% |

Source: MSCI, Mondrian




Source: Jefferies
* Excluding Financials

Listed companies, having cut their dividends, will both be careful about how they reinstate them, but also cautious about taking on further debt to fund expansion. The steady state debt/equity ratio of companies may have to come down in most developed markets, with the exception of Japanese companies. Given our focus on normalising leverage in our bottom-up stock models over time, we believe that this potential change in corporate behaviour is, for the most part, captured in our long-term assessment of companies' dividend paying capability. It was this focus, together with our downside scenario analysis that helped us to avoid some of the market's weaker investments in the extremely stressed circumstances created by this crisis.

## With Asset Prices High, Market Valuations Are Sensitive to Monetary Policy

Near-term inflation looks manageable and even welcome but given the volatility of the economic data and the uncertain response from markets and central banks, longer-term we have as many views as the market on the likely inflation trajectory. Our challenge is to use this uncertainty to build robust portfolios with sufficient underlying value and confidence intervals to offer attractive potential real returns in a variety of different economic and inflationary environments.

The pandemic has revealed both the resilience and the vulnerabilities of companies, people and economies. Despite the challenge and the trauma of the pandemic, developed economies have fared relatively well so far. Short-term economic assumptions are being upgraded, and markets have rallied strongly. Higher asset prices mean that markets and policy makers are now even more trapped between the loose monetary policy and low interest rates which are supporting high asset prices, and the risks, whether to inflation, bubbles or prices, of a normalisation of monetary policy however tentative.

While market strength and the relative resilience of economies are encouraging, recent fiscal policy announcements in the US and in other developed economies highlight the significant uncertainty that continues to govern the pandemic response. They also demonstrate the inherent weaknesses of the current position. Governments, especially in the US, have become a much larger share of the economy: the fiscal deficits are now running at 10-15% of GDP in the US. Moreover, while all new plans need to work their way through Congress, the scale of the current administration's fiscal policies, with plans for public borrowing and spending not seen since the second world war, have widened the range of outcomes across the market. Meanwhile the zombification of significant sections of the private sector has left these businesses with a difficult future. While developed markets have had an unexpectedly good pandemic in economic terms thanks to prompt actions by economic policy makers, we are now surveying a position where, since the global financial crisis, asset prices have risen ever higher despite the increasing systemic risk within these economies.

Mondrian's focus on achieving relatively stable, long-term real returns means we invest our portfolios based on our assessment of the misvaluation of a company's ability to generate free cash flow and its willingness to return it to investors. We couple that fundamental cash-flow based analysis with an assessment of the range of outcomes between best- and worst-case scenarios. While our valuation discipline has been a challenging investment approach to follow in recent years, over the long-term, this focus on intrinsic value generation should be less dependent on market-level valuations, achieve more stable absolute returns, and be much less sensitive to changes in discount rates and economic conditions. This should support a positive skew of returns when asset prices are high, economic uncertainty is significant, and policy makers look to wean markets off public support.

## ESG Risks

| | |
|---|---|
| Equity Approach | Analysts aim to capture the impact of financially material ESG risks and opportunities within the ESG summary report and scenario analysis within valuation models to reflect and capture these factors.<br><br>Financially material ESG risks and opportunities are reflected in the portfolio in so much as they affect the long-term valuations of the constituent companies and the conviction the team has in the ability of companies to achieve the projections that are embedded in our valuation scenarios. |
| Fixed Income Approach | The four analytical profiles for each sovereign (domestic economy, external sector, ESG and fiscal) contains a number of sub-factors. The sub-factors and weights may evolve over time to reflect data availability and our judgement of relative importance but at any point in time the four pillars of sovereign strength are consistently applied across all countries.<br><br>Environmental, Social and Governance factors are considered separately. Since there is some overlap between environmental and social factors the three factors are weighted as follows in the overall ESG assessment: Environmental (25%), Social (25%) and Governance (50%).<br><br>All corporate bonds in which we might invest are given an ESG rating. We consider the environmental policies, the social impact of the company's activities, the governance of the company, and the strength of the active ESG policies the company is pursuing and adjust our internal rating accordingly. Engagement with issuers forms an integral part of our assessment, raising factors identified in our ESG analysis directly with the company. |

## Climate Change

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. 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. Additionally, as a value investor with a long-term investment horizon, Mondrian's forward-looking methodology is also applied internally within our organisation to include a long-term plan for operational climate change mitigation. In 2020, Mondrian partnered with independent third parties to conduct a formal carbon audit, offset and certification process. Mondrian offset 100% of emissions generated across global operations for 2018 and 2019 and was certified carbon neutral for those years. To further our corporate sustainability practices, we are offsetting 200% of emissions generated in 2020. In our plan we commit to reducing our operational emissions and will be offsetting 200% of emissions generated across our global operations for 2020 and beyond.

Scarred by the effects of the pandemic, a nervous population, while desperate for a return to normality, is likely to be risk averse especially as regards large structural risks like climate change. The current trend towards ESG, particularly environmental awareness and transparency, is likely to continue. Politicians who make sweeping promises to meet significant targets well out into the future may increasingly be held to account for progress in reaching those targets. Listed companies in particular will be forced to disclose and document their progress towards meeting these objectives. These added costs and bureaucracy could potentially act as a drag on their long-term returns, but it will also most likely make them more robust to meet future risks, and consequently less risky, at least on a relative basis, as investments.

## Climate Change Considerations in the Equity Investment Process

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 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.

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 consistent set of core values across all holdings (climate change, human capital and governance) 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.

### Investments in the Electric Grid

With the rising trend towards electrification supported by green energy solutions, electrical transmission and distribution grids across the globe will have to undergo significant capital spending. Such investment will enable the grid to cope with intermittent and decentralised sources of electricity and enable two-way power flow across the grid between energy producers and end users, utilising smart solutions and storage assets. We have invested in this supply chain, including in a Swedish engineering consultant with its exposure to energy, industrial engineering and infrastructure. The company is a beneficiary of industrial automation and energy efficiency upgrades, structural growth in renewables power generation investment, and infrastructure spending in fiscally strong Nordic regions.

We have also invested in a Spanish-listed regulated utility, headquartered in Madrid, which focuses primarily on the domestic electricity transmission infrastructure. With the European Union and national governments in Europe setting ambitious targets related to carbon emissions, the European power generation landscape is expected to change substantially over the coming decades as coal power plants are gradually phased out. This, coupled with an increasing level of electrification, will require a significantly higher pace of renewable capacity additions than in the past to meet the EU's energy demand. The company, given its focus on electricity transmission, is an enabler of this transition and should be a significant beneficiary as electricity grids will require significant investment in order to cope with the intermittency and more decentralised nature of renewable power generation. This is expected to result in robust growth in the group's domestic regulated asset base, which in turn should drive earnings and dividend growth in the medium and long term. Given this opportunity, the company was added to portfolios in 2021.

## Climate Change Considerations in the Fixed Income Investment Process

### Sovereigns: Environmental Risk Factors

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 stocks, such as flooding and storm damage that can place additional burdens on the sovereign balance sheet. In order to assess environmental strengths, we compare countries using the Environmental Protection Index compiled by the Yale Center for Environmental Law & Policy. This ranks countries on twenty-four different environmental performance indicators along two dimensions of sustainability – environment health and ecosystem vitality. Please refer to Principle 7 for more details on how environmental considerations are integrated into the sovereign fixed income investment process.

### Corporates: Environmental Risk Factors

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, and reputational risks. 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.

In September 2020 Mondrian launched a Global Green Bonds strategy which intends to invest primarily in a broad range of fixed and/or floating rate debt securities (such as notes and bonds) of governments, their agencies, instrumentalities or political subdivisions and companies, which Mondrian classifies as green bonds. Mondrian defines green bonds as any type of bond instrument where the proceeds will be applied to finance or refinance in part or in full new and/or existing projects that the Investment Manager believes are beneficial to the environment which include but would not be limited to climate change mitigation and adaption, natural resource and biodiversity conservation and pollution prevention and control. It is intended that in normal market conditions that at least 75% of the portfolio holdings will be invested in green bonds, as defined by Mondrian.

One of the key advantages of investing in green bonds is that they can provide a transparent conduit for positive impact investing. The proceeds of a green bond must be used exclusively for environmentally beneficial projects, contributing to objectives such as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. Investors will have a clear view of how the proceeds of the bond are being used and what projects are being supported. The ability of issuers to deviate from this core principle and not invest the proceeds toward true environmental projects is also significantly restricted. Not only do issuers have to report on how the proceeds are being used but it is also common practice for independent third-party companies to verify that the issuer is upholding this commitment. Finally, investment managers should be undertaking their own analysis to ensure that they are only investing in true green bonds. Mondrian employs a full assessment of any green bond it considers for investment and monitors the portfolio on an ongoing basis to this end.

### Influence of Environmental Considerations in Corporate Credit Analysis

A key credit risk in the analysis of the energy company based in Norway is navigation of the shift to a low carbon economy. For an oil major, the company has been at the forefront of positioning themselves for the energy transition. They were helped to begin with by their large-scale gas operations, low exposure to refining (which is emissions intensive), and initiatives driven forward in Norway such as the carbon capture scheme. Management have recently announced improved targets, including reduction of Scope 1, 2 and 3 emissions by 40% by 2035 and becoming a net zero company by 2050. The company remains one of the few oil companies to include Scope 3 emissions in their targets. Investment in renewables is growing, albeit from a low base, and management's plan is for renewables to account for 50% of capex by 2030 from 5% in 2020 (focusing on offshore wind). In addition, the geographic distribution of the company's activities resulted in lower social risk factors than those faced by peers operating in resource rich areas with higher geopolitical risks such as those encountered by its peer Total. As a result of the inherent risks of investing in this sector, we rate the company relatively low on ESG, driven by environmental factors, which in turn contributes to our internal rating being lower than that of the rating agencies.

Result: Continue to hold the company's bonds whilst they offer value at our internal rating. Engage with management to underscore the importance of a transition plan to Mondrian's investment case.

# Principle 5

Mondrian

# Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

## Stewardship Policies and Processes Review

Mondrian has several policies in place to enable effective stewardship, specifically our Firm-wide ESG Investment Policy, Shareholder Engagement Policy, and Proxy Voting Policy and Procedures. Mondrian acknowledges that ESG and stewardship matters continue to evolve, thus we review our policies annually to ensure they are evolving along with industry standards and regulations. The implementation of ESG processes, including those related to stewardship, are periodically reviewed as part of our Compliance Monitoring Process, as well as our Internal Audit review. Mondrian is a signatory to the Principles for Responsible Investment ("PRI"). We look to the PRI for examples of best practice in the implementation of stewardship initiatives and seek to continuously enhance our practices.

| Stewardship Policy | Review Frequency | Reviewed By | Public Availability |
|---|---|---|---|
| Mondrian Firm-wide ESG Investment Policy | Annual | ESG Investment Steering Committee; Legal; Compliance; CIOs; Group CIO; ESG Manager | Available on Mondrian website |
| Mondrian Shareholder Engagement Policy | Annual | Compliance; CIOs; ESG Manager | Available on Mondrian website |
| Mondrian's Proxy Voting Policy and Procedures | Annual | Proxy Voting Committee; ESG Manager; Manager, Investment Support Services | Available on Mondrian website |

## Assurance

Mondrian's Board is ultimately responsible for overseeing all firm practices, including ESG practices. As previously detailed, the ESG Investment Steering Committee reports to the Board twice a year on ESG-related initiatives. ESG practices are overseen as a regular part of the investment process, Compliance Monitoring Program, and Internal Audit review.

### Compliance Monitoring Program and Internal Audit Oversight

Compliance reviews of ESG practices, including stewardship practices such as engagement and proxy voting, form part of the Compliance Monitoring Program, which is reviewed by the Compliance and Risk Committee. Internal Audit reviews of ESG practices form part of general reviews of investment team practices. Internal Audit reports directly to the Executive Chairman and presents to the Board on a quarterly basis. Material control issues and audit findings are reported at this point, along with a general update of Internal Audit activities. The Board also approves the annual Internal Audit Plan.

Mondrian conducts periodic reviews of the firm's ESG policies, procedures, implementation, and framework to ensure the control environment is adequate. Compliance will conduct walk throughs of the implementation process and on a regular basis will review holdings to ensure they are in compliance with Mondrian's policies and procedures. This includes a review of Mondrian's engagement process and supporting evidence. Internal Audit reviews of ESG practices form part of general reviews of investment team practices. The audit work includes meetings and walkthroughs with key staff, review of information (e.g., policies, procedures, models, system data and reports), and sample testing.

## Stewardship Reporting

To ensure stewardship reporting is fair, balanced, and understandable, engagement and proxy voting data is aggregated across the firm and for each team specifically to provide stewardship reporting as required by regulations, as well as by clients, consultants, and prospects, and third-party databases and initiatives such as the PRI. We encourage feedback on our stewardship reporting to ensure the reporting is clear and understandable.

Please see Principle 6 for more details on stewardship reporting and its evolution.

# Principle 6

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# Principle 6

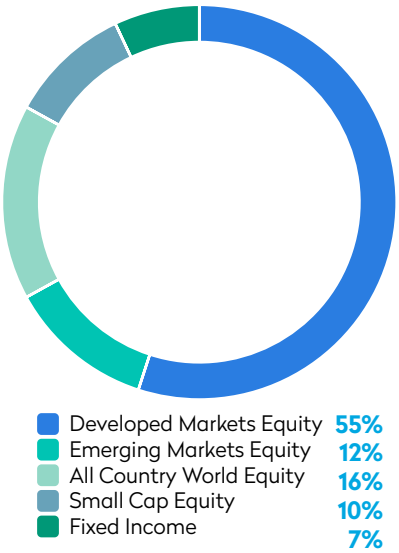
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

## Mondrian's Client Base

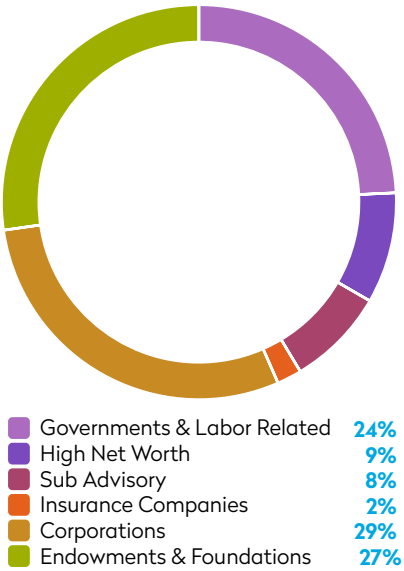
Mondrian has a diverse global client base, investing on behalf of leading corporations, public and private pension plans, endowments, and foundations in a range of equity and fixed income mandates. We are dedicated to providing exceptional client service and offer a range of institutional investment vehicles, including separate accounts, limited partnerships, collective funds, mutual funds and UCITS. Mondrian's clients are institutional in nature.

Please see below for a breakdown of clients and assets by region as of 31 December 2021:

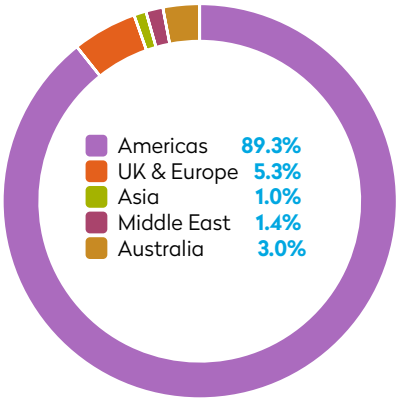
### Types of Assets Managed
(Assets Under Management)



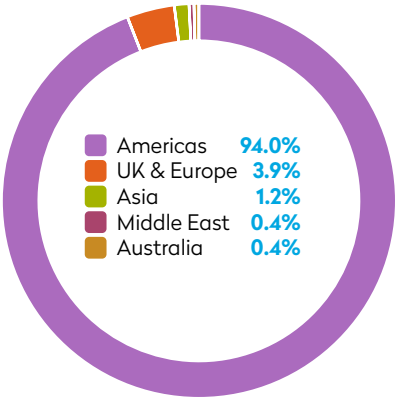

### Types of Clients Served
(Number of Relationships)




### Assets by Region
(Assets Under Management)




### Clients by Region
(Number of Accounts)



## Investment Time Horizon

The majority of our client base is institutional, and our exposure to retail clients is typically via sub-advisory relationships, as such, Mondrian's investment time horizon is long-term (5-10 years) in line with the perceived long-term liabilities/time horizons of our clients. 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.

| | |
|---|---|
| Equity Approach | The principal focus of our equity investment professionals is constructing long-term forecasts for future cash flows to the investor, which are primarily dividends, utilising our dividend discount methodology, which analyses securities over the short (1-5 Years), medium (6-10 Years), and long-term (11-50 Years). Our aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis. |
| Fixed Income Approach | Our disciplined value approach aims to exploit pricing inefficiencies in global capital markets. The approach aims to offer clients higher long-term real returns with attractive risk characteristics. We are constantly monitoring individual securities, markets and asset classes to compare their valuations and highlight any important pricing discrepancies. In particular, our long-term horizon enables us to identify value which many of our shorter-term competitors would ignore. |

## Client Alignment

Before establishing a client relationship, there are typically multiple highly detailed communications to establish the suitability of our investment philosophy and process to the needs of the prospect. Typically, we would complete granular Requests for Proposals prior to presenting our strategy for the mandate opportunity. Only asset owners with aligned time horizons would ultimately become clients. During the on-boarding process, these parameters are articulated in investment guidelines and programmed into our compliance monitoring system.

To help evaluate the continued alignment of our stewardship practices with our clients' needs, our periodic performance reviews typically include a discussion on any evolution of client requirements. We have regular dialogue with clients and encourage communication of any changing needs.

## Bespoke Stewardship Policies

As detailed in Principle 3 – Conflicts of Interest, to the extent that separate account clients have bespoke stewardship policies, we are able to incorporate that within our process specifically for the client's portfolio.

Where there are differences between the stewardship policies of Mondrian and our clients, or amongst clients, our clients' stewardship policies take precedence for their specific portfolio. Mondrian has a globally diverse client base and serves a variety of different client types. We appreciate that our clients each have their own ESG and stewardship priorities and seek to accommodate client interests for their specific portfolios. Our clients have different interpretations of fiduciary duty – some consider it to be purely focused on economic interests, while others may believe it extends to societal interests as well. We continue to engage with our clients to understand their ESG and stewardship priorities.

We have several separate account clients with bespoke proxy voting and engagement programs, which we have implemented.

# Stewardship Reporting

## Clients, Third-Party Databases, Principles for Responsible Investment

To ensure stewardship reporting is fair, balanced, and understandable, engagement and proxy voting data is aggregated across the firm and for each team specifically to provide stewardship reporting as required by regulations, as well as by clients, consultants, and prospects, and third-party databases and initiatives such as the PRI. We encourage feedback on our stewardship reporting to ensure the reporting is clear and understandable.

Depending on the specific client's reporting needs, stewardship information provided may include proxy voting statistics, details on votes considered to be significant by the client and/or Mondrian, ESG topics discussed, and engagement examples for the relevant reporting period. The frequency and structure of reporting is determined by our clients, and where a reporting template has not been provided, Mondrian works with the client to determine the information needed to ensure the client is able to fulfil their stewardship reporting requirements for their underlying beneficiaries.

We report to clients monthly or quarterly with results of investment performance and any other preferred portfolio metrics and meet with clients at their preferred frequency – typically quarterly or annually. Ultimately, we are always available to our clients, and they have access to the investment professionals making the decisions for their portfolios.

Mondrian offers a range of institutional investment vehicles, including separate accounts, limited partnerships, collective funds, mutual funds and UCITS. As our pooled vehicle investors are subject to the guidelines of the pooled vehicle, Mondrian does not manage pooled vehicle client assets in alignment with the underlying clients' stewardship and investment policies.

Mondrian aims to provide up to date information for third-party databases such as eVestment and will include stewardship reporting as part of its regular update process. The stewardship data requested varies by database, but often includes proxy voting statistics and engagement details. As a PRI signatory, Mondrian publicly reports on its stewardship activities, including proxy voting and engagement statistics and examples on an annual basis through the PRI reporting platform.

## Regulatory Requirements

Mondrian, as a U.K. domiciled investment manager, is subject to the Shareholder Rights Directive II (SRDII). Our disclosure document seeks to provide transparency to investors in relation to Mondrian's voting behaviour and the impacts of engagements with companies on our voting behaviour as well as meeting our regulatory requirements to disclose to investors on an annual basis how Mondrian's engagement policy has been implemented.

Please refer to Principle 12 for proxy voting reporting examples.

# Principle 7

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# Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

## ESG Integration

As mentioned previously, 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 ESG factors play an important role when valuing markets and companies for potential investment.

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.

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 for equity strategies. Our aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis.

## Equity Approach to ESG Integration

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 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 equity investment professionals is constructing long-term forecasts for future cash flows to the investor, which are primarily dividends, utilising our dividend discount methodology, which analyses securities over the short (1-5 Years), medium (6-10 Years), and long-term (11-50 Years). Our aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis.

To better analyse the underlying risks in an investment, Mondrian utilises scenario analysis to enable us to capture the potential range of expected outcomes for each investment. Every valuation consists of a base case expected return, as well as best- and worst-case returns. Since Mondrian's inception, we have aimed to consider all material factors that could influence a firm's cash flows, incorporating the analysis of environmental, social and governance risks as a normal part of the valuation process.

The analysis of ESG factors in the equity valuation process is summarised in our proprietary ESG Summary Report and describes the quantitative impacts of ESG factors in our valuation models. This report is structured in three parts:

1. Summary: This section provides a high-level overview of the most significant ESG risks and opportunities for the company being evaluated, which includes commentary regarding key ESG concerns as well as category scores derived from the ESG Issue Evaluation section.
2. ESG Issue Evaluation: This section is split in two; companies are analysed against a consistent set of core values (climate change, human capital, and corporate governance) that apply to all stocks across Mondrian, as well as a changing group of company-specific concerns, generally determined by the company's sub-industry. This two-part approach ensures a level of comparability across companies regardless of their business, and also emphasises the importance of looking at the risks and opportunities that are more specific to the company. The findings of this analysis are summarised using numerical scores. By appraising these issues systematically and using third party research to give an understanding of the more peripheral issues and a company's positioning relative to its peers, this section helps constitute a 'completeness check' of ESG issues affecting the company.
3. Valuation Impact: This section explicitly articulates the ESG risks and opportunities that have influenced the valuation, drawing out material findings from the ESG Issue Evaluation section. ESG risks and opportunities are expressed across the three scenarios we simulate for each stock in our valuation models: the base, best and worst cases. This section also outlines whether the ESG factor would play out over the short, medium or long-term, mirroring the first three stages of Mondrian's dividend discount model.

ESG risks and opportunities are reflected in the portfolio in so much as they affect the long-term valuations of the constituent companies and the conviction the team has in the ability of companies to achieve the projections that are embedded in our valuation scenarios.

As a long-term value manager Mondrian has always believed in carrying out analysis which captures all potential material risks and opportunities; understanding and integrating the impacts of ESG factors has therefore consistently been part of our long-term modelling. The majority of our client base is institutional, and our exposure to retail clients is typically via sub-advisory relationships, as such, Mondrian's investment time horizon is long-term (5-10 years) in line with the perceived long-term liabilities/time horizons of our clients. 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.

Though ESG concerns can manifest over short-term time horizons, it is clear that many increase in their impact on a company and its performance over much longer periods, perhaps extending years, even decades into the future. Such long-term effects can only be effectively captured in valuation analysis when the investment horizon and valuation methodology itself is sufficiently long enough to cover the relevant duration in question.

### ESG Factors and How They Are Considered in the Valuation Process

Mondrian's long-term valuation approach, as well as the use of scenario analysis, enables us to capture a wide range of ESG risks and opportunities within valuations. Some examples of ESG factors evaluated and how they are considered in the valuation process are provided below.

- Energy: We often use lower long-term growth rates when modelling companies involved with fossil fuels to reflect the risks of the transition to a lower carbon economy.
- Utilities: Explicitly forecast an estimated carbon price with lower emission power generation technologies benefitting over time as a result. The power mix also impacts the long-term growth rates applied, with higher longer-term growth expected for companies with a higher weighting towards cleaner power generation technologies notwithstanding the worst-case incorporating policy errors resulting in demand/supply mismatch.
- Industrials: Emissions and waste management present environmental risks, but increased energy efficiency and recycling can present cost saving opportunities.
- IT & Telecommunications: Data privacy presents a risk. Conversely, data centres can provide an opportunity to reduce the environmental costs of document storage.
- Consumer: Customers may pay a premium for products seen to be sustainably and ethically sourced. Conversely, issues in the supply chain can cause reputational damage.
- Financials: There is risk of reputational damage and regulatory fines from questionable ethical practice.
- Health Care: There is reputational risk to pharmaceutical companies around product safety, business ethics and product testing. Conversely, there may be opportunities in this sector for companies with strong and differentiated reputations for internal controls and ethical conduct.

## Stewardship in Equity

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. Our aim is to ensure that management are focused on enhancing shareholder value on a medium to long-term basis.

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.

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.

Where clients have adopted specific proxy voting policies, Mondrian will assess the extent to which they are consistent with its adopted guidelines. Where a client's own proxy voting policy diverges significantly from Mondrian's own guidelines, that client's policy will be considered separately in order to vote those client's proxies pursuant to their individual guidelines. This requires clear and actionable instructions to be given by Mondrian to the proxy adviser, along with a list of client accounts and security holdings to make the adviser aware of which proxies it will vote on. This list covers only a small minority of clients and is regularly updated.

More details on engagement and proxy voting are provided in Principles 9 and 12.

## Examples of ESG Impacting an Investment Decision

Over the course of 2021, Mondrian equity analysts held over 1,350 meetings with current and prospective investment companies. ESG items were discussed in approximately three-quarters of meetings.

### Environmental

The company is a top ten IT-services vendor in Japan. There were a number of ESG factors that contributed positively to our view of the company and the decision to add it to portfolios in 2021. Not only does the company itself have a relatively low impact on the environment, but it also has opportunities to help customers reduce their environmental impact by providing them with IT systems and infrastructure that support efficient working processes. One example is in the development of clean technology such as the smart grid in Japan, improving the efficiency of energy supply to the right places at the right time.

The company has also rolled out smart work challenges, promoting efficient, flexible working styles with an emphasis on health improvement initiatives, to create a pleasant and rewarding workplace. By ensuring employees are mentally and physically healthy, take pride in their work, and deliver their best performance, they create a virtuous cycle that can boost both the growth of the company and returns to stakeholders.

More broadly, the company has a strong track record of following and contributing to international standards on ESG. It has been participating in the U.N. Global Compact since 2007, supporting the 10 core principles relating to human rights, labour, the environment, and anti-corruption. The company also contributes to the accomplishment of the U.N.'s Sustainable Development Goals set forth in 2015 through initiatives such as using AI to resolve personnel shortages.

### Social and Environmental

The company is a provider of IT hardware, software and services to organisations around the world. As part of our detailed research on the company, a number of ESG factors contributed positively to our investment decision to add it to portfolios in 2021. We think that overall, the company has a positive impact on the environment, since its products allow companies to digitise and automate previously manual processes, saving energy costs. Also, it has robust policies on supply chain standards, ensuring that suppliers uphold human rights, labour standards and responsible sourcing of minerals.

Additionally, the company has a number of "moonshot goals" for 2030 that show a commitment to continuing to improve its impact on the world. First, on the environment, it aims that by 2030 it will reuse or recycle an equivalent product for every new product shipped to customers. Furthermore, 100% of packaging will be made from recycled or renewable material, and at least half of product content will be made from recycled or renewable material. Second, on inclusion, it aims for 50% of its

global workforce and 40% of global people leaders to be women. Third, on wider positive impact, it wants to reach 1 billion people with its health, education and economic opportunity initiatives. Finally, on ethics, it will automate data control processes, so that it is easier for customers to control their own personal data.

### Governance

The company is a Brazilian generic pharmaceutical manufacturer with exposure to biosimilar drugs. We met the company several times during the 2021 IPO roadshow and considered participating in the listing due to its attractive growth, return and cash-flow characteristics. We decided not to participate in the deal due to material concern over corporate governance.

Significant key man risk is core to our negative view on governance. The CEO and controlling shareholder is vital to the company's long-term strategic direction and execution of the business plan. Further, our due diligence identified that the CEO has been involved in 76 registered court cases, of which at least two were deemed significant. The CEO was not convicted on either of those cases; however, the incident raised concerns.

We continued to follow the company since its listing. Incremental news flow over the last year further contributed to our initial cautious view on the company's governance.

- September 2021 - the company faced judicial questioning regarding improper disclosure of a generic drug (representing 1% of sales).
- October 2021 – the company was referenced by a local newspaper concerning a possible investigation into the purchasing process of immunoglobulin by the Ministry of Health.
- December 2021 - the CFO resigned effective immediately.

We continue to believe the company could successfully execute their business plan and growth strategy. However, we are currently unwilling to invest in the company due to our concerns over corporate governance.

## Fixed Income Approach to ESG Integration

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.

Our approach to integration of ESG considerations in the fixed income investment process is consistent for both sovereigns and corporate credits in the explicit incorporation of ESG factors into an issuer's proprietary credit rating.

### Sovereign Credit Approach

Sovereign credit analysis is an integral part of our top-down investment process. This 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.

ESG considerations are an important part of our assessment of sovereign creditworthiness which feeds into our valuation process. Good governance, the rule of law, unambiguous property rights and the control of corruption are fundamental pre-requisites for sustainable growth and development which support a government's ability to service its financial obligations. In order to quantify these factors, we primarily reference Haver Analytics' ESG module, which provides ESG data from a number of national, intergovernmental and other sources, which are principally used in our assessment of sovereign credit adjustments.

The four analytical profiles for each sovereign (domestic economy, external sector, ESG and fiscal) contains a number of sub-factors. The sub-factors and weights may evolve over time to reflect data availability and our

judgement of relative importance but at any point in time the four pillars of sovereign strength are consistently applied across all countries. Please see below regarding ESG sovereign credit adjustments.

## Environmental, Social and Governance (ESG) Profile

Environmental, Social and Governance factors are considered separately. Since there is some overlap between environmental and social factors the three factors are weighted as follows in the overall ESG assessment: Environmental (25%), Social (25%) and Governance (50%).

### Environmental Factors:

Environmental risks are both long term and short term in nature and encompass both sustainability and adaptability:

- Sustainability: protection and maintenance of the environment for the wellbeing of future generations is essential for the long run viability of the economy activity that supports the sovereign.
- Adaptability: 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.

In order to assess sustainability, we use an Environmental Performance Index, produced by the Yale Center for Environmental Law & Policy. This is used to ascertain how close a country is to established environmental policy goals by considering 24 indicators within 10 issue categories that are closely aligned to the UN Sustainable Development Goals. These are outcomes that are amenable to policy inputs.

The index recognises that there is a fundamental trade-off between:

- Environmental health - measures threats to human health; improves with prosperity
- Ecosystem vitality - measures natural resources and ecosystem services; comes under strain as countries strive for prosperity

Good environmental policy is the critical element that balances the two.

Within environmental health, air quality remains the leading threat. In 2016 the Institute for Health Metrics and Evaluation estimated that diseases related to airborne pollutants (particulate matter < 2.5 micrometers in diameter or PM2.5) contributed to two-thirds of all life-years lost to environmentally related deaths and disabilities. Pollution is particularly severe in places such as India and China, where greater levels of economic development contribute to higher pollution levels.

For adaptability, we use the ND-Global Adaptation Index (ND-Gain), produced annually by Notre-Dame Global Adaptation Initiative. This index reflects a country's vulnerability to climate change and other environmental challenges in combination with its readiness to improve resilience.

### Social Factors:

Here, we use the Social Progress Indicator published annually by the Social Progress Imperative. The Social Progress Indicator covers:

- Basic Human Needs: nutrition; water; shelter; safety
- Foundations of Wellbeing: health; environmental quality
- Opportunity: personal freedom; inclusivity

There is some overlap here with environmental factors – environmental factors such as water and sanitation are basic needs of society. We also consider the Corruption Perceptions Index produced by Transparency International. In addition, we consider income inequality using a country's Gini Coefficient.

### Governance Factors:

Good institutions - e.g. the rule of law, unambiguous property rights, efficient tax collection, public good provision and control of corruption - are fundamental prerequisites for sustained productivity-driven economic growth and development.

Historically, many sovereign defaults can be attributed to weak institutional and political arrangements which affect a country's willingness to service debt and can occur even at low debt/GDP levels.

Institutional and Political development is measured along three dimensions:

- Strength of the state
- Rule of law
- Accountability and corruption

Corruption is a particularly invidious problem that inhibits the productive allocation of resources, depletes social capital ('trust') and tends to exacerbate inequality.

To quantify these, we use the World Bank Governance measures. We also consider the World Banks' "Ease of Doing Business" rankings which rank economies according to their business environment.

### Corporate Credit Approach

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.

All corporate bond issuers undergo a corporate credit analysis before being placed on our buy list. Following on from that, they also undergo additional corporate credit analyses on a periodic basis as part of our ongoing monitoring process. We assign an ESG rating, based on a scale similar to that of S&P's (i.e. AAA is 'well above average', BBB is 'average' and BB and below is 'well below average').

A credit must achieve a satisfactory ESG rating during our internal ESG review before it will be considered to be included on our buy list as Mondrian believes that these factors could materially impact a business, its credit rating, and in extreme cases, its ability to repay lenders. The criteria for the rating are as follows:

- We consider the social impact of the individual company's activities and the strength of the active ESG policies the company is pursuing.
- We consider the governance of a particular company. Where we have concerns around a company, particularly regarding board or corporate structure, we will not invest in that company.
- We consider the environmental policies of a particular company and adjust our internal rating accordingly.

Meeting with company management is an integral part of Mondrian's due diligence and ongoing monitoring process. This is an ideal forum for direct engagement on areas where Mondrian has identified specific concerns, including those related to ESG factors. The close working relationship with Mondrian's equity teams is a direct benefit as they meet regularly with company representatives.

## Stewardship in Fixed Income

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.

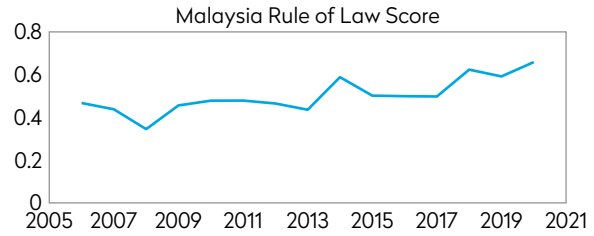
More details on engagement are provided in Principle 9.

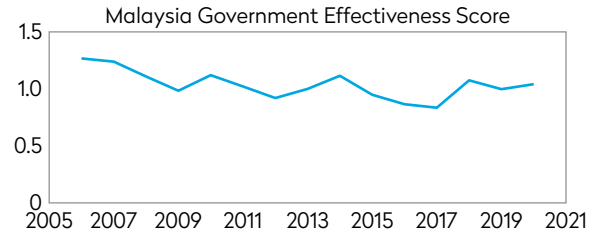
# Examples of ESG Impacting an Investment Decision

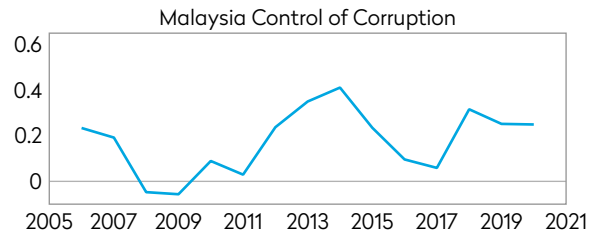
## Sovereign Bonds

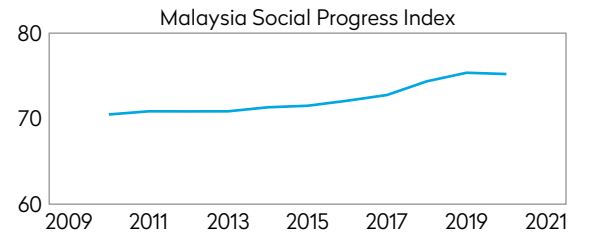
Mondrian's integration of ESG factors in our sovereign bond investment process, one of the key elements of our sovereign credit adjustment, is demonstrated in the following case study, which provides the ESG assessments for Malaysia (good – overweight in our fixed income strategies) and the Philippines (poor – we have no exposure). It sets out a summary of some of key underlying data that feeds in to our overall ESG assessment for each country.

| Mondrian Soverign ESG Profile Summary | | | Malaysia |
|---|---|---|---|
| **Overall ESG Assessment** | | | **Good** |
| S&P | A/Neg | Mondrian Rating | A- |
| Moody's | A3/Stable | | |
| Fitch | BBB+/Stable | | |
| *where there is a difference, hard currency rating shown in brackets | | | |
| **Environmental Profile** | | | **Moderate** |
| Environmental Performance Index | 47.9 | | |
| Environmental Health | 55.4 | | |
| Ecosystem Health | 42.9 | | |
| Notre Dame - Global Adaptation Index | 57.11 | | |
| **Social Profile** | | | **Moderate** |
| | Malaysia | A Average | |
| UN Human Development Index | 0.81 | 0.87 | |
| Social Progress Index | 75.22 | 81.06 | |
| Transparency International Corruption Perceptions | 51.0 | 57.08 | |
| Political Rights (1= High; 7 = Low) | 4.0 | 2.4 | |
| Civil Liberties (1 = High' 7 = Low) | 4.0 | 2.4 | |
| Gini Coefficient (Income inequality) | 41.1 | 34.3 | |
| **Governance Profile** | | | **Good** |
| World Wide Governance Indicators: | | A Average | |
| Government Effectiveness | 1.04 | 0.94 | |
| Rule of Law | 0.66 | 0.91 | |
| Control of Corruption | 0.25 | 0.69 | |
| Political Stability | 0.12 | 0.52 | |




Source: Mondrian Investment Partners, Yale Center for Environmental Law & Policy, Notre-Dame Global Adaptation Initiative, United Nations Development Program, Social Progress Imperative, Transparency International, World Bank

## Mondrian Sovereign ESG Profile Summary — Philippines

### Overall ESG Assessment — Poor

| | | | |
|---|---|---|---|
| S&P | BBB+/Stable | **Mondrian Rating** | BBB |
| Moody's | Baa2/Stable | | |
| Fitch | BBB/Neg | | |

*where there is a difference, hard currency rating shown in brackets

### Environmental Profile — Poor

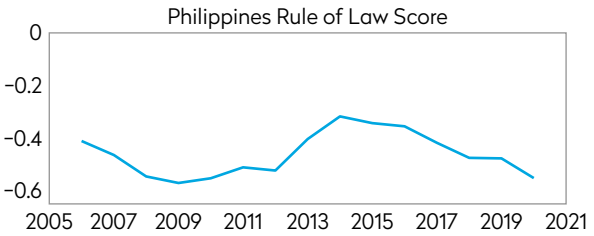
| | |
|---|---|
| Environmental Performance Index | 38.4 |
| Environmental Health | 34.1 |
| Ecosystem Health | 41.4 |
| Notre Dame - Global Adaptation Index | 43.60 |

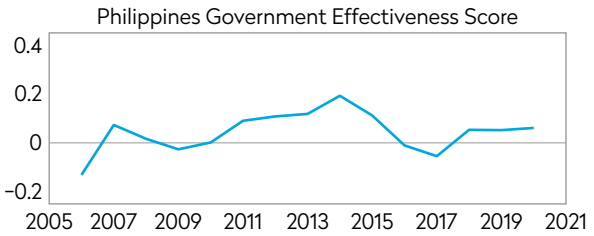
### Social Profile — Poor

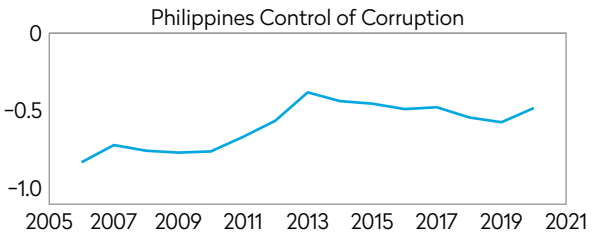
| | Philippines | BBB Average |
|---|---|---|
| UN Human Development Index | 0.72 | 0.80 |
| Social Progress Index | 65.73 | 74.99 |
| Transparency International Corruption Perceptions | 34.0 | 44.16 |
| Political Rights (1= High; 7 = Low) | 3.0 | 2.8 |
| Civil Liberties (1 = High' 7 = Low) | 4.0 | 2.9 |
| Gini Coefficient (Income inequality) | 42.3 | 38.7 |

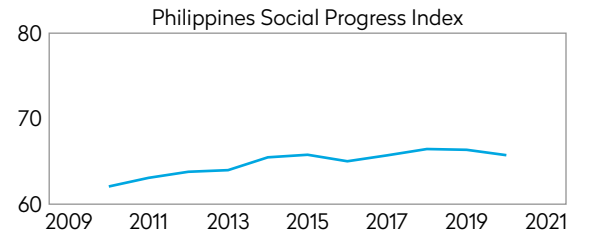
### Governance Profile — Poor

| World Wide Governance Indicators: | | BBB Average |
|---|---|---|
| Government Effectiveness | 0.06 | 0.26 |
| Rule of Law | -0.55 | -0.02 |
| Control of Corruption | -0.48 | -0.24 |
| Political Stability | -0.79 | |




Source: Mondrian Investment Partners, Yale Center for Environmental Law & Policy, Notre-Dame Global Adaptation Initiative, United Nations Development Program, Social Progress Imperative, Transparency International, World Bank

## Corporate Bonds

Credit risk – Litigation Expense and Reputational Damage

We have been holders of the US pharmaceutical company's bonds across fixed income funds for a number of years. Potential litigation costs and reputational factors have consistently been identified as a risk factor, as whilst litigation is common within the pharma industry, the company does not compare well to peers in terms of the level of product recalls/class action lawsuits in recent years and as a result litigation expenses are in the bottom quartile for the pharma peer group. Although the company is financially strong and lawsuits will take many years to resolve, current high-profile litigation around talc and the company's role in the opioid epidemic in the US pose both financial and reputational risks. The recent management approach to these potential risks; hiving off talc liabilities into a newco and filing for bankruptcy protection served to decrease Mondrian's ESG rating to such an extent that the overall credit rating ultimately decreased. As a result, the company's bonds were no longer offering value at this new lower rating, triggering a sell decision in our models.

Result: Divest the company's bonds across all fixed income funds

# Principle 8

Mondrian

For Internal Use Only

# Principle 8

Signatories monitor and hold to account managers and/or service providers

## Vendor Management

Mondrian has adopted a decentralised approach to vendor management whereby the first-line users primarily own the oversight of the relationship. Involving end-users in the vendor management process allows Mondrian to better assess the impact of service quality issues. This is particularly important for specific vendors whose risk profile can change as the business or operating environment evolves.

## Service Provider Use

Mondrian utilises external service providers to perform various operational functions and performs certain procedures to verify that activities performed by such service providers are carried out properly and correctly. In cases where activities performed by such service providers include executing or processing client transactions, Mondrian may request service providers to provide a description of their control structure features.

The following are some of the services provided by third parties:

- Transaction processing and settlement activities – Mondrian utilises Application Service Providers (ASPs) to assist in the confirmation and settlement of security and FX trades and the receipt and instruction of corporate action event information. In the normal course of performing its contractual obligations, Mondrian also affirms trades for settlement through various depository and clearing house organisations.
- Market information – pricing, corporate actions and other information are provided by various vendors.
- Alternate processing facility – alternate processing facilities are outsourced to provide reasonable assurance that Mondrian will be able to continue operations in the event that it is necessary to recover from a processing interruption.
- Record retention – archive storage is outsourced to ensure that materials required to resume operations are stored at an off-site location subject to industry standard controls.
- Telecommunication services – Mondrian utilises various telecommunication vendors to support its global communications network.
- Information Security - Mondrian operates a multi-layer, multi-vendor security strategy. This ensures protection through the use of various security products and services, alongside operations procedures and controls, to detect, contain and ultimately stop an attack.

## Service Provider Oversight

Each Business Manager is tasked with monitoring vendors delivery of service. Mondrian also maintains a Vendor Oversight Matrix as part of its Risk Management process. Third-party vendors are risk-rated and significant relationships are reviewed on a regular basis based on this matrix. Part of this review generally includes a review of the vendor's internal controls and financial position and in some cases a visit to the vendor with discussions held with management. Examples of this include (but are not limited to) custodians or vendors of hosted software.

Due diligence may be prompted as a result of a vendor:

- Disposing of part of the business, whether through a carve-out of business units or by the sale of existing entities.
- Is in the process of restructuring/re-focusing its activities.
- A core business product is being repositioned by the vendor resulting in reduced support or lack of further investment.
- The financial position had deteriorated.

## Modern Slavery Monitoring

As a financial services entity providing services to institutional clients, the risk of encountering modern slavery through Mondrian's business operations is low. Nevertheless, Mondrian is fully committed to preventing slavery and human trafficking in its corporate activities, and to ensure that its supply chain is free from slavery and human trafficking. Mondrian is committed to respecting human rights in all aspects of its operations and external business interactions.

### Addressing Modern Slavery and Human Trafficking – Supply Chain

As stated, Mondrian is committed to respecting human rights in all aspects of its operations and external business interactions. Mondrian prohibits, and expects all suppliers, to prohibit the use of forced, compulsory or trafficked labour of adults or children, held in slavery and/or servitude. Whilst we acknowledge the potential risk due to increasingly complex and multifaceted globalised supply chains, Mondrian does not act as a producer, manufacturer, or retailer of any physical goods and, has a straightforward supply chain. Mondrian's primary suppliers include information and data technology specialists, professional services firms (tax, accounting, law), custodians and fund administrators. Mondrian does not outsource any of its core services (including, but not limited to, asset selection, trading, settlement, administration).

Suppliers that are engaged by Mondrian are professional service organisations, having minimal contact with countries and sectors that are generally considered to have a risk of modern slavery. Mondrian's choses suppliers who are leaders in their industry and aims to create long-standing relationships. Mondrian aims to work in collaboration with suppliers to ensure that their business actions align with Mondrian's Modern Slavery Act Statement. Accordingly, Mondrian provides its Statement to its suppliers to ensure that they are made aware of Mondrian's commitment to preventing modern slavery and human trafficking in its own business and through it supply chain.

As a result of the nature of Mondrian's business, the locations in which it operates, the limited range of Mondrian's supply chain and the choice of suppliers, Mondrian faces a low risk of involvement with modern slavery through its business and supply chains.

As part of Mondrian's supplier due diligence:

- Requires suppliers to supply their Modern Slavery Act Statement or equivalent information during Mondrian's due diligence process.
- Reviews the information provided by the supplier, taking into consideration the region of operation and the goods and services to be provided by the supplier to assess risk of modern slavery and to ensure it conforms to fair employment practices.
- Provides Mondrian's Modern Slavery Act Statement to ensure that the supplier is aware of Mondrian's requirements with regard to modern slavery and human trafficking.
- Oversees all suppliers continuously, with updated due diligence reviews and annual risk assessments of core and critical suppliers.

Mondrian would re-evaluate whether to continue an engagement with any supplier that does not carry out its business in alignment with Mondrian's Modern Slavery Act Statement.

More details regarding our vendor management practices and oversight are available in Mondrian's Vendor Management Policy.

## Examples of Service Provider Monitoring Related to Investment and Stewardship

### Proxy Advisors

Mondrian contracts with a Proxy Voting Adviser for the provision of voting advice and to facilitate the process of voting proxies. Proxy Voting Advisers commonly produce guidelines for proxy voting ("the Guidelines") that summarise their approach to voting on commonly occurring issues. Mondrian's Proxy Voting Committee reviews these Guidelines annually to determine whether voting proxies pursuant to the Guidelines is in the best interests its clients. If the Guidelines remain consistent with Mondrian's fiduciary duty and expectations for good corporate governance, Mondrian will adopt the Guidelines as the basis for its own proxy voting policy. Mondrian may vote certain issues counter to the Guidelines if, after a thorough review, it determines that a client's best interests would be served by such a vote. In situations where the Guidelines do not cover a specific voting issue, Mondrian will vote on such issues in a manner consistent with the spirit of the Guidelines and that promotes the best interests of the client. Mondrian has appointed ISS as its Proxy Voting Adviser in 2021. Details of the Proxy Adviser's voting guidelines are published on their website (www.issgovernance.com/policy-gateway/voting-policies/). Mondrian has procedures to monitor and evaluate the performance of its Proxy Voting Adviser to ensure Mondrian's ongoing ability to casts votes in the best interest of its clients.

#### Oversight

Mondrian utilises a third-party firm to provide proxy voting advice and facilitate the proxy voting process. Mondrian conducts a due diligence process review prior to appointing and renewing contracts with a Proxy Adviser. Mondrian will continuously assess the Proxy Adviser in their capacity to provide proxy voting services, addressing any concerns as they arise and where necessary, escalating these concerns to the Proxy Voting Committee.

Mondrian's due diligence procedures considers factors including, but not limited to, the adviser's capacity and competency to adequately discharge contracted services, disclosure on methods for formulating voting recommendations, procedures to identify and correct material deficiencies and provide updates regarding its methodologies, guidelines, and voting recommendations on an ongoing basis, including relevant business changes.

Mondrian maintains a Vendor Oversight Matrix as part of its Risk Management process. This is included as part of the Risk Management reporting that is assessed by the Compliance and Risk Committee and the Board of Directors. Proxy Advisers are risk rated and ongoing due diligence is based on this risk rating.

Please refer to Principle 12 and Mondrian's Proxy Voting Policy and Procedures for further details.

### Broker Research

Mondrian does not use client commissions to pay for any broker research services, including those services permitted by MiFID under research payment accounts. Client commissions are solely used to compensate the broker/dealer for the cost of executing the trade.

Mondrian therefore pays for broker research from its own P&L as per MIFID2. Mondrian allocates a budget towards broker research costs each year and our CIO Emerging Market Equities has been tasked with overseeing the broker research review process.

#### Oversight

The research provider list is reviewed annually with the budget agreed per calendar year. Each investment team is met with to understand their requirements and to assess and evaluate the providers Mondrian works with. Each provider is also met with at least annually to monitor usage and overall service levels.

Post discussion with the investment teams, the CIOs, and the providers, any changes are decided and agreed upon for the year ahead. For a new provider to be added, a 3-month trial must be undertaken first, and then a review of their services thereafter, to evaluate if the respective provider will add value to our existing provider list. Further details are included in Mondrian's Inducement Policy.

## Data Providers

Mondrian uses FactSet's Portfolio Analytics for portfolio analysis and the SimCorp Coric application for client reporting. These systems are vendor maintained and supported by Mondrian's internal Business Applications team. Reporting data is signed off by the Investment Administration team and loaded directly from Mondrian's accounting system, SS&C's Portia, to the performance applications. Report writing tools within the Coric application then use the audited accounting and performance data to generate client reports in the final format.

### Oversight

Mondrian utilises Curium for oversight and validation of data received from data providers. Curium is a third-party developed application which provides the business users a view on data transformation rules and processes. So far at Mondrian, this has been implemented within the security and pricing data realm, with the intention to increase coverage in other data areas at a later stage.

The application is combined with in-house built integration components to obtain data from Mondrian's primary data providers – Bloomberg and ICE. The data (security details, security prices, FX exchange rates) is passed through a series of validation and transformation rules and exceptions are highlighted for business review. When the data has passed validation, it is passed through into Portia and beyond to Longview, FactSet and other downstream systems.

## ESG Research Service Providers

### Equity

The majority of ESG 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 broker 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 (ISS) provides governance research and services to support the voting of proxies.

### Fixed Income

Mondrian uses a number of external research sources to inform ESG analysis, however, ultimately ESG analysis is carried out in house.

Mondrian utilises Haver Analytics' ESG module which provides ESG data from a number of national, intergovernmental and other sources, which are principally used in our assessment of sovereign credit strength.

Mondrian also utilises S&P research which considers ESG factors in their current ratings framework, and they are continuing to develop their capabilities in this space. As full subscribers to S&P Research, we will have access to their additional resources going forward.

Additionally, Mondrian subscribes to MSCI ESG Research, which provides company-level ESG research and ratings, industry-level ESG research, and screening tools.

In addition to the above, our analysis of ESG factors may also reference company accounts, sustainability and corporate governance reports, management interviews and news flow monitoring.

### Oversight

Analysts/portfolio managers are expected to use external reports, including MSCI ESG research, to supplement their own findings and understanding of a company and are agnostic of MSCI's applied grades. To challenge or disagree with MSCI's ESG conclusions and gradings is part of Mondrian's value-add in the investment process.

Mondrian is a signatory to the PRI's Statement on ESG in Credit Risk and Ratings, indicating our shared common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness. Participation in this initiative's regular meetings provides an additional forum for engagement with credit ratings agencies on their ESG data and the inclusion of such data in credit ratings. Most major global credit ratings agencies are signatories to this initiative.

We periodically review marketplace offerings for ESG research and data service providers to ensure our needs are being well met.

# Principle 9

Mondrian

# Principle 9 - Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

## Mondrian Equity Engagement

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 said management team.

As part of Mondrian's research process, our analysts are expected to gain a strong understanding of the quality of management and board-level oversight. We meet regularly with senior management of investee companies, and our scale generally grants us access to company board members. Typically, our engagements happen directly with companies via one-to-one meetings, we also use written communication such as emails and letters where necessary. Local practice and governance 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. We prioritise engagement where we feel there is a material misalignment between company practice and long-term shareholder value. Should engagement continue to prove unsuccessful in fulfilling the required objectives, Mondrian may choose to divest the shares.

An important element of our process is actively meeting and engaging with management and the board of current and prospective investments. In order to support their analysis, at meetings with management our analysts will discuss the following objectives:

1. The current and long-term outlook for the business
2. The risks to that outlook and the company's business
3. The company's future business strategy
4. Governance policies and structures that support or hinder our confidence in the future outlook
5. Short-term and long-term ESG targets

The latter will potentially include a discussion of governance policies, corporate structure, management and board experience and composition, remuneration policies, board oversight policies and procedures as well as policies on shareholder returns. To the extent that issues such as climate change, carbon emissions, human capital concerns 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. Our engagement practices across equity strategies are consistent. Please refer to the engagement examples provided for more information.

Over the course of 2021, Mondrian equity analysts held over 1,350 meetings with current and prospective investment companies. ESG items were discussed in approximately three-quarters of meetings.

## Escalation

Where we feel that long-term shareholder interests are not being protected, we will typically engage the company formally at the senior management or board level to communicate our concerns and recommend remedial actions. 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 investee company's management team or vote proxies against management. Should engagement continue to prove unsuccessful in fulfilling the required objectives, Mondrian may choose to divest the shares.

## Equity Engagement Examples

### Environmental and Social

#### Topic: Natural Capital, Raw Material Sourcing, Health and Safety

The company is a leading global mining company based in Brazil. The company's key product is iron ore, but it also has some exposure to base metals and coal. It has had two major mining disasters in the past ten years, most recently in 2019 when the Brumadinho tailings storage facility suddenly collapsed, creating a mudslide that resulted in the death of over 200 employees and significant environmental, social and economic harm to the region. This led to the resignation of the CEO and other management and the instigation of several legal cases for compensation against the company, These controversies provided strong evidence that the company is subject to material ESG risks that it demonstrated poor ability to manage, with clear and substantial financial consequences. The company's stock price declined significantly as investors reflected these risks through a material valuation de-rating. In our engagement with the company in 2019, it's new management indicated that the company had responded to this crisis by recognising and taking responsibility for the company's failings and developing a comprehensive plan to improve its ESG performance, firstly by increasing the importance accorded to ESG factors. This commitment was reiterated in our engagement with the company in late 2019.

Outcome: Moving forward to 2021, the company has undertaken work to repair the damage caused and prioritised the crystallisation and settlement of liabilities pertaining to the disaster. It has provided for the great majority of these already, thereby retaining its social licence to operate in Brazil and reducing the risk of future costs. The company has also made significant progress in improving mine safety through measures including moving structures out of at-risk areas, monitoring tailings storage facilities more carefully and mitigating risks through improved dam designs and making historic dams safe. These measures have substantially reduced the risk that such an event could recur in the future. The company has also undertaken governance reforms that have corporatised the structure and improved accountability, while concurrently providing a clear framework for capital allocation that prioritises the return of excess capital to shareholders via dividends. In our assessment, the company's actions since 2019 are consistent with the priorities laid out at that time and that these have led to tangible and meaningful improvements in ESG performance and risk management, causing us to assess that company is a viable candidate for investment by Mondrian. Recent engagement with the company shows that it intends to continue to make progress on improving ESG performance, and has recently concluded a deal to sell its coal mining business as part of its carbon-reduction strategy. Despite its improved ESG profile, the company continued to trade at a substantial discount to global mining groups, indicating that this improvement in risk profile may not be fully appreciated by the market. In November 2021, with the company's share price having fallen on sharp declines in the iron ore price, we believed that the balance between risk and reward had become very favourable and we initiated a position in the company.

### Social

#### Topic: Labour and Culture

Mondrian held a call with the CFO of a French video game developer in early November. The call covered multiple areas of interest, but we spent most time investigating operational issues including the high-profile claims the company has faced in relation to its alleged toxic work culture. Social factors represent a significant risk for the company given that video-game development is a labour-intensive business; c.60% of operating costs at the company relate to staff. There have been meaningful changes to senior personnel in the organisation since the claims first appear, but we were assured that they had not seen a major impact on operations. The CFO instead pointed to the increase in working-from-home as the main issue behind recent delays in game launches, particularly those with major innovations. Staff turnover has not increased and is actually below the industry average for key talent. Competition for staff is more intense today, but they have been aggressively hiring and investing here in recent years. Their size and global nature means they have been able to focus recruitment in lower-cost regions to control costs.

Outcome: Cultural changes are slow and will take time to filter through the organisation, but we came away reassured by management's increased focus on social risks. We believe there is the opportunity for the company to emerge a leader in transforming the video-gaming industry's culture and continue to monitor this.

## Governance

### Topic: Board, Audit, Remuneration, Nomination Committee Independence

The company, based in Japan, has excellent environmental and social credentials, exemplified by the fact that 90% of homes sold by the company are zero emissions homes with solar panels and film-type lithium-ion batteries for energy storage – these homes typically generate more power than they use. The company has one of the lowest employee accident rates in the industry. Furthermore, the company has been selected as one of the top 100 most sustainable companies in the world by Canadian consultant group Corporate Knights for the fourth year running and features in many ESG / ethical indices e.g. FTSE4Good, MSCI Global Sustainability Index, Morningstar SRI index, Dow Jones Sustainability Index.

However, when it comes to corporate governance, in line with many Japanese companies, the company does not have a majority independent Board, and the Audit, Remuneration and Nomination committees are not fully independent. When we met with management in November 2021, we communicated our dissatisfaction that the number of independent Board members had decreased from 3 to 2 (out of 10) and we advocated for a fully independent Board to align with best practice.

Outcome: The company will look to increase the number of independent directors to 4 in the course of 2022 and will also look to appoint a female director to the Board. The corporate governance trajectory looks to be improving but we will continue to engage on this topic until the Board has achieved an independent majority.

### Topic: Corporate Governance

The company, listed in Japan, is a world leader in fine/advanced ceramics with a diversified portfolio of businesses based around electronic components and equipment. Despite some good global-leading businesses earning double-digit margins, the company has generated a persistently low ROE due to a failure to exit more commoditised business areas and an inefficient and highly overcapitalised balance sheet. The company cut its dividend unnecessarily in 2020 despite having more than 60% market cap in net cash and investments which should have offered ample cushion to at least maintain shareholder returns. We have engaged regularly with company management at board level to try to encourage positive changes to corporate governance, capital allocation, and to align management remuneration more closely with shareholder interests. After some positive changes in 2019 (e.g. share buyback, adding another independent director), the company has again become too passive. There is clear value in the company which could be unlocked with better operational or capital efficiency, but a lack of evidence of urgency from management in any progress towards this.

### Escalation:

Mondrian conducted further engagements with the company to encourage better corporate governance, capital allocation and shareholder returns. We had warned the company that we would struggle to support management without more tangible and meaningful positive changes (e.g. at least meeting their 8% ROE target, moving to a majority independent board).

As a result, we voted against re-election of the Chairman, President and CFO at the June 2021 AGM, against the recommendation of management and our proxy voting advisers. We explained our rationale to the company who acknowledged our concerns and say they will work to improve both corporate governance and capital allocation.

Outcome: Although there is more to do, the company has since added a further independent director; restructured to fewer, more focused divisions; raised its dividend and commenced a share buy-back. We continue to engage with company management and believe that corporate governance improvements can help to unlock significant further value.

## Mondrian Fixed Income Engagement

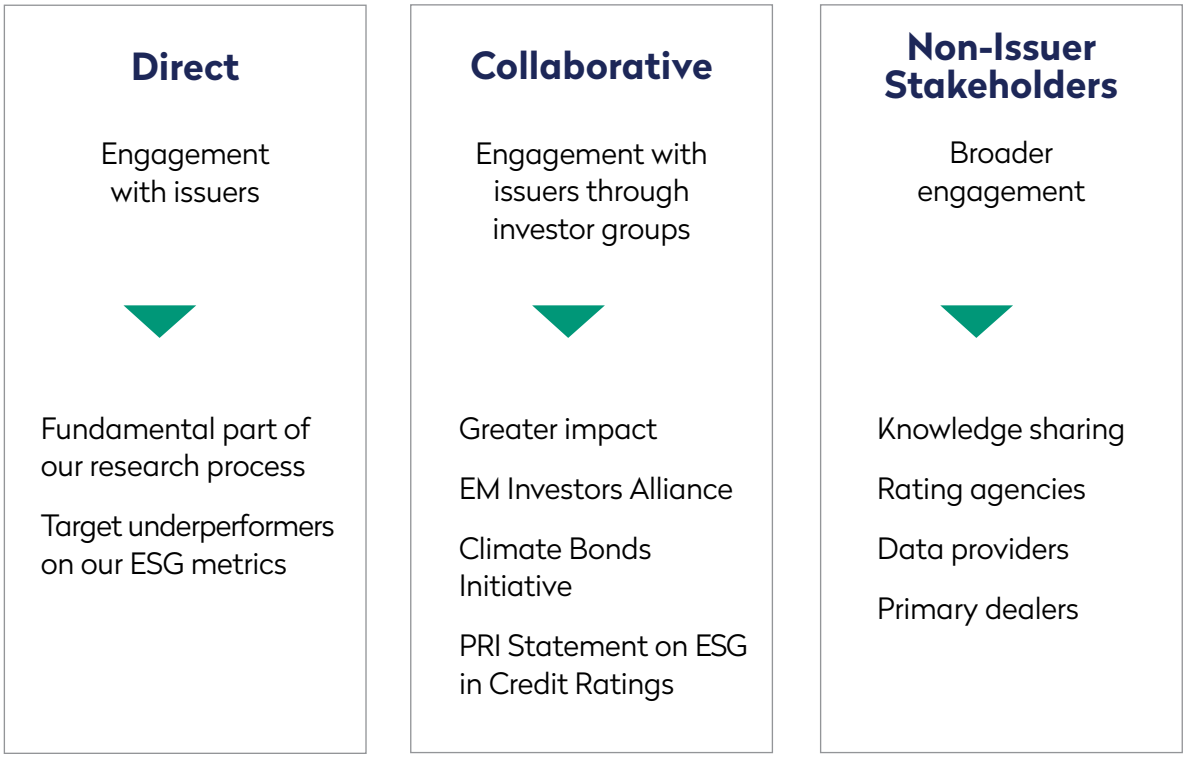
Mondrian has always believed that engagement is integral to the investment process on both the corporate and sovereign side as our analysts meet with debt issuers as a matter of course to further our understanding and highlight issues of importance.

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 on green bonds with government debt offices. We collaborate 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 and asset owners. As part of this initiative, we attend round table events covering multiple ESG topics such as engagement. In addition, Mondrian is a member of the Emerging Markets Investors Alliance, 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. A number of the countries covered in this forum are eligible for investment for the Global Fixed Income Strategy. The Alliance seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments, and public policy experts.

On the corporate credit side Mondrian benefits from the close relationship with our equity-analyst colleagues, providing good access to company management. Findings from engagement will feed into the ESG rating awarded to each issuer, which in turn directly impacts the valuation we assign to the bonds.

Our process has evolved in recent years to formalise and document the ESG specific aspects of our engagement activities. 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.

Whilst bondholders do not have the voting rights afforded to equity holders, the majority of bond issuers will have a refinancing need and therefore will have to be cognisant of their credit rating and the resultant cost of issuing debt. We believe that if bondholders and rating agencies are raising key issues and questions that are material to credit quality, bond holders will need to respond with an eye on their standing in the debt markets.



## Mondrian Fixed Income Engagement Examples

### 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 the Singapore based telecommunications company have been held in our aggregate fixed income strategies for a number of years. During 2021, Mondrian's Credit team engaged with the company regarding diversity and inclusion throughout the organisation and received detailed responses to our questions. As a result, our Credit team gained a greater understanding over the company's commitment to diversity and inclusion and the developments they are undertaking in this area, as 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 have 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.

# Principle 10

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# Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

## Collaborative Engagements - Equity Approach

Although Mondrian may act collectively with other shareholders and governance organisations, most of Mondrian's engagements are conducted directly with investee companies.

Where we find that the approach of direct engagement with the management and board of a company is ineffectual in dealing with Mondrian's concerns, subject to any regulatory restrictions and where it is in our clients' best interests to do so, Mondrian may act collectively with other shareholders and governance organisations. While Mondrian recognises the benefits of working alongside other likeminded investors and the likelihood that such engagement may be the most effective means of securing the required change, Mondrian would generally only participate in collective engagement on critical issues which may have a material impact on shareholder value. Any engagement would be reviewed on a case-by-case basis and would require the knowledge of the product CIO and the Compliance Officer.

Any conflict of interest would be managed in accordance with Mondrian's Conflicts of Interest Policy. Similarly, the receipt of inside information would be managed through the procedures outlined in Mondrian's Market Abuse Policy.

### Equity Collaborative Engagements

Issues where we have previously engaged in informal collective action include circumstances where we held serious concerns about the capability or independence of senior management, concerns about specific social or environmental risks, concerns on the price level of a proposed transaction, management remuneration, and circumstances where we felt the management was not acting in the interest of minority shareholders. Collective action has included speaking to the press, attending and speaking at an AGM or EGM and joining other shareholders to press management for changes to leadership, transaction prices or specific risk operations.

Where activist investors are engaging portfolio companies for change, we may meet with the activist investor to understand their perspective and may then engage directly with the company on the issue ourselves.

#### Example: Activist Investor Engagement Related to a British Utilities Company

We spoke to an activist investor to better understand its argument that a full separation of the company's renewables business would add value for shareholders partly because it would enable the company to be more aggressive in expanding its capacity in renewables energy production which would facilitate a higher valuation multiple. We later spoke to the company's management again to discuss some of the points raised around the depth of the board and the calculation of the loss of synergies that would come as a consequence of the separation. The company will see earnings growth accelerate as new projects complete. They have an exciting and lengthy pipeline of potential new investments. A full separation of the renewables business is also possible in a few years as that division's scale and resources increases and there is greater regulatory clarity around hydrogen, pumped storage and carbon capture.

## Collaborative Engagements – Fixed Income Approach

Mondrian's Global Fixed Income and Currency Team participates in collaborative engagements through being a signatory to the PRI's Statement on ESG in Credit Ratings and a member of the Emerging Markets Investors Alliance. These initiatives help facilitate collaborative engagements with issuers, credit ratings agencies and other non-issuer stakeholders including index and ESG data providers, supranational organisations and business associations.

The Emerging Markets Investors Alliance 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. A number of the countries covered in this forum are eligible for investment for the Global Fixed Income Strategy. The Alliance seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments, and public policy experts.

The PRI Statement on ESG in Credit Ratings is 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.

### Collaborative Engagements via the Emerging Markets Investors Alliance

Through the Emerging Markets Investors Alliance members of Mondrian's Global Fixed Income and Currency Team are currently participating in the Debt and Fiscal Governance, Environmental, and Sovereign Decarbonisation working groups which have engaged with EM sovereigns on coal use, decarbonisation and other environmental issues such as pollution, and the Extractives Industries Group, which has engaged with Vale, Anglo American and PEMEX on environmental and governance issues. These engagements are still ongoing.

# Principle 11

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# Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

## Escalation of Equity Stewardship

Where we feel that long-term shareholder interests are not being protected, we will typically engage the company formally at the senior management or board level to communicate our concerns and recommend remedial actions. 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 investee company's management team or vote proxies against management. Should engagement continue to prove unsuccessful in fulfilling the required objectives, Mondrian may choose to divest the shares.

### Equity Stewardship Escalation Examples

#### Topic: Corporate Governance

The company, listed in Japan, is a world leader in fine/advanced ceramics with a diversified portfolio of businesses based around electronic components and equipment. Despite some good global-leading businesses earning double-digit margins, the company has generated a persistently low ROE due to a failure to exit more commoditised business areas and an inefficient and highly overcapitalised balance sheet. The company cut its dividend unnecessarily in 2020 despite having more than 60% market cap in net cash and investments which should have offered ample cushion to at least maintain shareholder returns. We have engaged regularly with company management at board level to try to encourage positive changes to corporate governance, capital allocation, and to align management remuneration more closely with shareholder interests. After some positive changes in 2019 (e.g. share buyback, adding another independent director), the company has again become too passive. There is clear value in the company which could be unlocked with better operational or capital efficiency, but a lack of evidence of urgency from management in any progress towards this.

#### Escalation:

Mondrian conducted further engagements with the company to encourage better corporate governance, capital allocation and shareholder returns. We had warned the company that we would struggle to support management without more tangible and meaningful positive changes (e.g. at least meeting their 8% ROE target, moving to a majority independent board).

As a result, we voted against re-election of the Chairman, President and CFO at the June 2021 AGM, against the recommendation of management and our proxy voting advisers. We explained our rationale to the company who acknowledged our concerns and say they will work to improve both corporate governance and capital allocation.

Outcome: Although there is more to do, the company has since added a further independent director; restructured to fewer, more focused divisions; raised its dividend and commenced a share buy-back. We continue to engage with company management and believe that corporate governance improvements can help to unlock significant further value.

## Escalation of Fixed Income Stewardship

As detailed in Principles 9 and 10, Mondrian's Global Fixed Income & Currency Team engages with issuers directly and collaboratively. In the event that issuers do not respond to our engagements, we will continue to follow up with them. If there is limited improvement in ESG metrics, then our sovereign credit adjustment / corporate credit rating would remain weak and all else equal, a bond with a weak sovereign / corporate ESG score is less attractive than an equivalent. The weaker the overall credit assessment, the higher the sovereign credit adjustment, resulting in a greater PRY premium required to drive an allocation.

### Fixed Income Stewardship Escalation Examples

#### Topic: Board Composition

Governance is a key credit risk identified by Mondrian in the analysis of the Mexican telecommunications company. Voting rights are concentrated in the hands of a single shareholder, in addition the board is entrenched and has a lack of diversity. The family trust currently holds 52% of equity, with the family's investment vehicle owning another 21%. Due to a multiple share class structure (AA and A shares have full voting rights, and L shares have limited voting rights), the family trust has the right to elect the majority of the board. This is reflected in the board composition, with a significant presence of family members on the board. Mondrian's credit team has engaged with the company regarding their concerns but received no response.

#### Escalation:

The absence of mitigating factors through engagement results in a weak Mondrian ESG rating, which in turn makes governance a limiting factor on Mondrian's overall credit rating for the company. This influences the valuation we ascribe to their bonds.

Outcome: We continue to monitor this as the valuation is limited by the company's governance practices and continue efforts to engage with the company.

# Principle 12

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# Principle 12 - Exercising Rights and Responsibilities

Signatories actively exercise their rights and responsibilities.

## Exercising Rights and Responsibilities – Equity: Proxy Voting

Mondrian pursues an active investment management approach. As long-term investors, stewardship considerations are part of the initial purchase decision, subsequent monitoring of an investment and ongoing dialogue with an investee company. All of Mondrian's fundamental equity investment products are driven by extensive, bottom-up fundamental company analysis and comprehensive engagement that includes active participation through the proxy voting process. This is consistent across all equity asset classes and geographies.

Mondrian has developed its Proxy Voting Policies and Procedures to enable it to meet its fiduciary obligation to vote proxies in the best interests of its clients.

## Voting Authority

Mondrian's client agreements define the scope of its authority and responsibilities to vote proxies on behalf of each client.

These typically fall into four categories:

1. Clients that delegate full discretion to Mondrian to vote proxies on their behalf
2. Clients that vary the scope of Mondrian's voting authority by imposing specific guidelines
3. Clients that receive proxy voting advice from Mondrian in specific circumstances but undertake voting themselves
4. Clients that undertake to vote proxies themselves

Mondrian's proxy voting procedures apply to all clients who grant discretion to vote proxies on their behalf. Where clients have adopted specific proxy voting policies, Mondrian will assess the extent to which they are consistent with its adopted guidelines. Where a client's own proxy voting policy diverges significantly from Mondrian's own guidelines, that client's policy will be considered separately in order to vote those client's proxies pursuant to their individual guidelines. Please note that Mondrian has full discretion to vote proxies for pooled vehicles.

### Mondrian Voting Authority

As of 31 December 2021, Mondrian was delegated full discretion to vote proxies on behalf of clients for 72% of equity accounts, clients vote their own proxies for 24% of equity accounts, and Mondrian facilitates the voting of client proxy voting policies for 4% of equity accounts.

## Proxy Voting Committee

Mondrian has established a Proxy Voting Committee ("the Committee") to oversee the proxy voting process and ensure client proxies are voted according to the Procedures. The Committee consists of the following Mondrian personnel (i) two senior investment staff; (ii) Chief Operating Officer; and (iii) Chief Compliance Officer. Other senior investment staff are available to act as alternates in cases where conflicts of interest are identified. The Committee will meet as necessary to enable Mondrian to fulfil its fiduciary duty to vote proxies for clients.

## Determining the Proxy Voting Procedures

The Committee reviews and approves the Procedures on a yearly basis. The Procedures are reviewed during the first quarter of the year and may be reviewed at other times as necessary. When reviewing the Procedures, the Committee seeks to establish if the Procedures are consistent with the goal of voting in the best interests of all clients and maximising the value of the underlying shares. The Committee will also review the Procedures to ensure compliance with rules promulgated by the SEC and other relevant regulatory bodies. After the Procedures are approved by the Committee, Mondrian will vote proxies or give advice on voting proxies in accordance with such Procedures.

## Proxy Voting Guidelines

Mondrian contracts with a Proxy Voting Adviser for the provision of voting advice and to facilitate the process of voting proxies. Proxy Voting Advisers commonly produce guidelines for proxy voting ("the Guidelines") that summarise their approach to voting on commonly occurring issues. The Committee reviews these Guidelines annually to determine whether voting proxies pursuant to the Guidelines is in the best interests its clients. If the Guidelines remain consistent with Mondrian's fiduciary duty and expectations for good corporate governance, Mondrian will adopt the Guidelines as the basis for its own proxy voting policy.

## Exercising Rights and Responsibilities – Equity: A General Description of Mondrian's Voting Behaviour

Mondrian is typically delegated the authority to vote proxies for securities held in a client's account, and votes proxies on behalf of clients 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. As part of our voting process, the portfolio manager responsible for research coverage of a company reviews each proxy voting proposal to decide the best course of action for each client. In making that decision, the portfolio manager takes into account Mondrian's internal analysis as well as the analysis of a proxy advisor or other third-party proxy provider as appropriate. If the portfolio manager proposes to vote counter to the proxy advisor's recommended vote, a Mondrian Proxy Voting Committee is convened to review the proposal and determine how to vote on the issue in a manner consistent with Mondrian's Proxy Voting Policies and Procedures and in the best interests of each client. Mondrian has attempted to vote every proxy which they or their agents receive where we have authority to do so. However, there have been a small number of situations where Mondrian was not able to process a proxy. For example, in a number of countries in which Mondrian invests client assets, local laws require the imposition of a trading block on shareholders once they have voted their proxies in relation to companies registered in that country. These trading blocks are usually for a defined period and can be for a number of weeks. Mondrian believes that in certain circumstances it is in the client's greater interest to retain the ability to sell the shares rather than to participate in the proxy vote. Clients may request information on how their proxies were voted from Mondrian at any time.

## Stock Lending

Mondrian does not participate in any securities lending activities other than to provide support for any programs that clients may independently arrange with their appointed custodians or third-party lending agents.

Please refer to Mondrian's Proxy Voting Policies and Procedures, available at www.mondrian.com/ESG-at-Mondrian for more details.

## Summary of Mondrian's Voting Behaviour for 1 January 2021 through 31 December 2021

| Description | 1 Jan 2021 to 31 Dec 2021 |
|---|---|
| Number of Votable Meetings | 532 |
| Number of Meetings Voted In* | 531 |
| Number of Votable Proposals | 5,943 |
| Number of Proposals Voted** | 5,878 |
| Number of Meetings with At Least One Vote Against Management Recommendations | 201 |
| Number of Meetings with At Least One Vote Withheld or Abstained Against Management Recommendations | 19 |
| Number of Votes with Management | 5,263 |
| Number of Votes Against Management | 615 |
| Number of Abstentions/Withheld Votes | 120 |

| Region | Number of Votable Proposals | % of Votable Meetings |
|---|---|---|
| Africa | 64 | 1% |
| Asia | 1756 | 29% |
| Australia | 48 | 1% |
| Europe | 2240 | 38% |
| Middle East | 132 | 2% |
| North America | 1578 | 26% |
| South America | 125 | 2% |

| Proposal Category | Number of Votable Proposals | % of Votable Meetings |
|---|---|---|
| Antitakeover Related | 50 | 0.8% |
| Capitalisation | 587 | 9.8% |
| Directors Related | 3041 | 50.6% |
| Directors Related II | 2 | 0.0% |
| Miscellaneous | 30 | 0.5% |
| Non-Salary Comp. | 558 | 9.3% |
| Other/Misc | 5 | 0.1% |
| Preferred/Bondholder | 5 | 0.1% |
| Reorg. and Mergers | 192 | 3.2% |
| Routine/Business | 1334 | 23.3% |
| SH-Compensation | 14 | 0.2% |
| SH-Corp Governance | 9 | 0.1% |
| SH-Dirs' Related | 57 | 0.9% |
| SH-Health/Environ. | 15 | 0.2% |
| SH-Other/misc. | 20 | 0.3% |
| SH-Routine/Business | 17 | 0.3% |
| SH-Soc./Human Rights | 1 | 0.0% |
| Social Proposal | 6 | 0.1% |

* During 2021, there was one bondholder meeting which was not relevant to Mondrian's equity holding.

** Instances where Mondrian elected to not vote proposals at meetings include situations where companies were listed in countries where shareblocking laws were in place, holdings were sold post the record date but prior to the AGM, or meetings had two sets of voting cards where shareholders voted one card but not the other. In summary, where it was possible to vote on a proposal, Mondrian voted on the proposal.

Please see www.mondrian.com/ESG-at-Mondrian for our most recent voting records.

## Summary of How Mondrian has Cast Votes in General Meetings of Investee Companies

Below are examples of our voting rationale for voting against management, voting against a shareholder resolution, a vote withheld/abstained and vote not in line with the recommendation of our proxy voting advisor.

### Vote Against Management

**Company: Kyocera**

Item:

2.1 Elect Director Yamaguchi, Goro (Chairman)

2.2 Elect Director Tanimoto, Hideo (President)

2.6 Elect Director Aoki, Shoichi (CFO)

**Background:**

Kyocera, listed in Japan, is a world leader in fine/advanced ceramics with a diversified portfolio of businesses based around electronic components and equipment. Despite some good global-leading businesses earning double-digit margins, the company has generated a persistently low ROE due to a failure to exit more commoditised business areas and an inefficient and highly overcapitalised balance sheet. The company cut its dividend unnecessarily in 2020 despite having more than 60% market cap in net cash and investments which should have offered ample cushion to at least maintain shareholder returns. We have engaged regularly with company management at board level to try to encourage positive changes to corporate governance, capital allocation, and to align management remuneration more closely with shareholder interests. After some positive changes in 2019 (e.g. share buyback, adding another independent director), the company has again become too passive. There is clear value in Kyocera which could be unlocked with better operational or capital efficiency, but a lack of evidence of urgency from management in any progress towards this. We had warned the company that we would struggle to support management without more tangible and meaningful positive changes (e.g. at least meeting their 8% ROE target, moving to a majority independent board).

As a result, we voted against re-election of the Chairman, President and CFO at the June 2021 AGM, against the recommendation of management and our proxy voting advisers. We explained our rationale to the company who company acknowledged our concerns and say they will work to improve both corporate governance and capital allocation. We will continue to engage with the company in an effort to help to realise more of the value in Kyocera.

Resolution Outcome: Items 2.1, 2.2, 2.6 all passed

### Vote Against Shareholder Resolutions

**Company: Royal Dutch Shell**

Item:

21 Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions

**Background:**

Resolution 21 was filed by a consortium of shareholders, coordinated by Follow This, requesting the Company to set and publish targets that are aligned with the goal of the Paris Climate Agreement. Follow This is a single-issue Dutch campaign group that has filed shareholder resolutions at oil majors over a number of years, including at Shell.

Mondrian voted against this shareholder proposal as we agreed with our proxy advisor's recommendation which noted that although the company will be expected to deliver on its stated climate ambitions in the future, its current climate reporting, which includes short, medium and long-term objectives and targets, is considered to be a sufficient and appropriate response to the matters raised in the resolution at this time. The company's progress will continue to be kept under review. Shell is one of the first companies globally to commit to an annual shareholder advisory vote on its climate reporting and will also provide shareholders with a triennial vote on its energy transition strategy. In view of this commitment to ongoing transparency and accountability – and in recognising the risk of uncertainty were this binding special resolution to be approved – this item is not considered to represent the best interests of shareholders at this time.

Resolution Outcome: Item 21 did not pass

## Vote Withheld / Abstained

Company: ASE Technology

### Items:

- 6.2 Elect RICHARD H.P.CHANG, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.3 Elect CHI-WEN TSAI, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.4 Elect YEN-CHUN CHANG, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.5 Elect TIEN WU, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.6 Elect JOSEPH TUNG, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.7 Elect RAYMOND LO, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.8 Elect TS CHEN, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.9 Elect JEFFERY CHEN, a Representative of ASE ENTERPRISES LTD., as Non-independent Director
- 6.10 Elect RUTHERFORD CHANG, as Non-independent Director

### Background:

The current level of board independence of 23.08% falls short of our proxy advisor's definition of independence (a minimum of one third). The background to this is that ASE went through a significant merger in 2018 with its key competitor (SPIL, now a major subsidiary of ASE), and one condition of the merger was that SPIL executive management were retained and also given ASE board representation for a certain number of years. Given that these individuals stayed on in an executive capacity, they are not independent, and thus skew the independent director ratio downwards. The term of this condition is due to expire in 2021, and in fact Proposal item 4 of this AGM also contains a proposal to reduce the board size accordingly from 2022. Once these individuals are removed next year the independence threshold will be met. We note that our proxy adviser have two different recommendations on this proposal: to local Taiwan line shareholders they have recommended to vote against 9/13 directors, while to ADR holders they have recommended to simply abstain. While there was a case to vote against proxy adviser recommendation for both local and ADR holdings, in favour of all directors given the above points, we noted that this would involve making a positive statement on all nine directors for which we have very limited information. As such, we decided to abstain for these director-related proposals, which involved voting in line with our proxy adviser on the ADR, but contrary to them on the local line.

Resolution Outcome: Items 6.2-6.10 passed

### Vote Not in Line with Recommendation of Proxy Voting Advisor

Mondrian will review all voting items against our proxy voting advisor's recommendations, but from time to time may deviate from the recommendation. Mondrian does not have a default voting position. Each motion is reviewed by a portfolio manager from the investment team responsible for research coverage of that stock.

**Company: Glanbia**

Item:

- 12 Approve Rule 37 Waiver Resolution in Respect of Market Purchases of the Company's Own Shares

**Background:**

We voted to approve Rule 37 waiver in respect of market purchases of the company's own shares. Our proxy adviser recommended voting against the proposal on concerns that it could result in creeping control of largest shareholder, the Glanbia Co-Operative Society, allowing its ownership to rise from 32.17% to 37.71% if the full buyback of 10% was exercised.

Without approval of the waiver, any buyback conducted by the company which results in an increase in share ownership of more than 0.05% would result in a mandatory offer by the largest shareholder, Glanbia Co-operative Society. We had very little concern over creeping control as the society has confirmed it is not its intention to change the way the business is run, and over the last 10 years, the Co-operative has actually reduced its shareholding in Glanbia and reduced the number of board members, with an agreement to further reduce these from 2021-2023. Glanbia announced a share buyback of €50m in 2020 which is still ongoing. The benefits of the buyback to shareholders far outweigh any concerns over creeping control.

Resolution Outcome: Item 12 passed

## Service Provider Monitoring - Oversight of Proxy Voting Advisers

Mondrian utilises a third-party firm to provide proxy voting advice and facilitate the proxy voting process. Mondrian conducts a due diligence process review prior to appointing and renewing contracts with a Proxy Adviser. Mondrian will continuously assess the Proxy Adviser in their capacity to provide proxy voting services, addressing any concerns as they arise and where necessary, escalating these concerns to the Proxy Voting Committee.

Mondrian's due diligence procedures considers factors including, but not limited to, the adviser's capacity and competency to adequately discharge contracted services, disclosure on methods for formulating voting recommendations, procedures to identify and correct material deficiencies and provide updates regarding its methodologies, guidelines, and voting recommendations on an ongoing basis, including relevant business changes.

Mondrian maintains a Vendor Oversight Matrix as part of its Risk Management process. This is included as part of the Risk Management reporting that is assessed by the Compliance and Risk Committee and the Board of Directors. Proxy Advisers are risk rated and ongoing due diligence is based on this risk rating.

## Monitoring of Shares and Voting Rights

Mondrian reviews its shareholdings (shares held on behalf of clients in Mondrian's role as a noncustodial discretionary investment manager) regularly regarding its reporting obligations and will make holdings disclosures as required by the relevant exchange or regulatory body. The Compliance Monitoring Program incorporates periodic reviews of Mondrian's shareholding disclosure requirements, and an annual review of Director and Officer affiliations.

Mondrian authorises and instructs client custodians to forward proxy materials to Mondrian's Proxy Voting Adviser to enable it to facilitate the voting of proxies. Mondrian provides the Proxy Adviser with a list of client accounts and security holdings to make the adviser aware of which proxies it will vote on. This list of clients and client holdings is regularly updated.

## Exercising Rights and Responsibilities – Fixed Income

Mondrian's Fixed Incomes strategies are typically comprised of sovereign and supranational issues. Investment grade credit is considered at times of extreme value using our relative value credit approach, and mortgage-backed securities are also utilised, with allocations varying depending on the strategy and client restrictions. As such, the team generally does not seek amendments to terms and conditions in bond indentures or contracts, or access to information provided in trust deeds and impairment rights. Also, given our relatively small size compared to our larger fixed income peers, it's not part of our investment model. With respect to reviewing prospectus and transaction documents, when our Global Fixed Income & Currency Team reviews bond documents, it is to inform themselves on risks. For example, if a subordinated bank bond is eligible to be converted into equity, what the triggers may be, etc. Additionally, in determining if a bond is eligible for investment on Mondrian's Green Bond Portfolio, Mondrian will review prospectus and transaction documents and engage with the issuer on any points of concern or to encourage more detailed disclosure if relevant.

## Conclusion

In summary, Mondrian takes its stewardship responsibility incredibly seriously. Our objective on behalf of our clients is to look after their long-term (and short-term) interests by achieving similarly long-term real returns, whilst being both a good steward and fiduciary of assets.

## Important Information

- Views expressed were current as of the date indicated, are subject to change, and may not reflect current views.
- Views should not be considered a recommendation to buy, hold or sell any security and should not be relied on as research or investment advice.
- The information was obtained from sources we believe to be reliable, but its accuracy is not guaranteed, and it may be incomplete or condensed. All information is subject to change without notice.
- This document may include forward-looking statements. All statements other than statements of historical facts are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those reflected in such forward-looking statements.
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- Rothko Investment Strategies is a trading name of Mondrian Investment Partners Limited.
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