Responsible Investment & Engagement Policy

Introduction

At Longview Partners ("Longview"), we, as institutional investors, believe that companies need to be managed in the interests of shareholders. On behalf of our clients, we have a duty to ensure that we invest in companies where directors run companies in line with shareholder interests and that these directors are fully accountable to the shareholders. We believe that companies with good corporate governance are more likely to be successful companies that deliver sustainable, long-term value to their shareholders and it is in these companies that our investments are concentrated.

Longview is a signatory to the United Nations Principles for Responsible Investment (UNPRI), a voluntary and aspirational framework for incorporating Environmental, Social and Corporate Governance (ESG) issues into mainstream investment decision-making and ownership practices. Also, as a signatory, Longview fully supports and is committed to the UK Stewardship Code 2020 published by the Financial Reporting Council (FRC). For further information on how ESG considerations are embedded within our research process, please refer to our UK Stewardship Code 2020 Report which is maintained on our website here.

Longview is a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC is the European membership body for investor collaboration on climate change which is a systemic risk across the global economy. The IIGCC has developed several workstreams to collaborate with stakeholders, represent members on the global stage, produce reports and guides for best practice initiatives, and strengthen the contribution investors make in helping to realise a low carbon future.

Longview Partners' Investment Approach

Longview seeks to consistently generate long-term alpha by investing in a concentrated portfolio of global equities. Our bottom-up approach invests in high quality companies with strong business fundamentals and attractive cash-based valuations. We take a long-term approach to investment and seek to invest in companies that can create long-term sustainable value for shareholders. ESG considerations are embedded within our research analysis and have been since inception.

Longview believes in the value creation of investing in predictable and sustainable business models. Companies that are overly sensitive to external forces and exogenous factors beyond management control would not be part of our universe due to the unpredictability of their return profile. Companies exposed to fossil fuels, metals and mining companies and deep cyclical industrials, which are heavy users of energy and significant emitters of greenhouse gases, are unlikely to be part of the portfolio. As a result, the carbon intensity of our portfolio is low, a by-product of the investment philosophy that we have had in place since inception.

We seek to own high quality companies which can earn sustainably high returns on capital supported by demonstrable and enduring competitive advantages. Other Quality factors include identifiable growth, predictable cash flows, well-considered allocation of capital and ESG factors.

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ESG Analysis

Assessing the significance of ESG-related risks and opportunities is embedded within our bottom-up research process and considered as part of our Quality rating. When analysing the quality of the companies in which Longview invests, ESG considerations are not Longview's sole focus and the impact of ESG factors on performance is not separately measured.

One key aspect of our approach to embedding ESG is that we do so through a lens of materiality. Materiality is the relevance of a sustainability factor, principally on a company's financial performance: on the ability of a business to create value in the short-, medium-, and long-term. Financial materiality is a key aspect; however, Longview also considers reputational, regulatory, legal and environmental impacts. Materiality also influences how we prioritise engagement with companies.

We consider a wide variety of information when analysing companies. Analysts will generally start by reviewing primary sources of information released by both the company being analysed and its competitors. This includes annual and quarterly reports, presentations, conference call transcripts and a wide range of regulatory filings. In general, we will also meet with company management as part of initial due diligence and portfolio company monitoring.

Our Research Team meets with company management during the process to understand their strategy, cash deployment, industry dynamics and approach to ESG factors rather than short-term performance expectations. Analysts also access other external information from providers such as, but not limited to:

- Sustainalytics – an external provider of ESG information and ratings.
- Glass Lewis – an external provider of proxy voting research and advice.
- FactSet – wide-ranging data aggregation.
- Data providers – from time to time we purchase data sets from third-party providers to supplement our understanding of a company or industry.
- Sell Side Research Providers – we subscribe to read-only research services from several sell side brokerage houses.
- Industry conferences.

The Research Team uses primary source material in analysing businesses and uses ESG information and independent assessments from Sustainalytics and Glass Lewis to supplement our own ESG work. Both provide company-level data, research and analysis which cover a variety of ESG themes.

M.O.R.E. ESG Analysis

To ensure consistency in our approach when analysing ESG matters, Longview's Research Team has developed an analysis framework which is used during initial company research and throughout the holding period. The framework considers matters of Materiality, Risk and Opportunity as well as Engagement (M.O.R.E).

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M = Materiality

Materiality considers the significance of the impact of a sustainability matter. Sustainability matters differ from one sector to another, but all our ESG analysis is conducted through the lens of materiality. Financial materiality is a key aspect as most issues will ultimately impact the financials of a company. However, Longview also considers reputational, regulatory, and legal impacts amongst others. Materiality is also a key determinant of our approach to, and prioritisation of, engagements.

O = Opportunities

Initial company research should consider whether there are any identifiable, material E, S or G opportunities arising for the company.

R = Risks

Initial company research should answer the following four questions:

1. Minority Shareholders - Is there any reason, ESG or otherwise, to be concerned that the company may not be acting in the interests of minority shareholders?

2. Historic ESG Issues - Has the company experienced material ESG issues in the past and what action was taken in response?

3. Long Term Value Creation – do we perceive any ESG risks that would affect the company's ability to create long term value for shareholders in the future?

4. Sustainalytics - Are there any material issues raised by Sustainalytics and/or stakeholders?

E = Engagement

If any issues are raised and deemed material, either prior to or during the holding period, Longview may choose to engage with the company to seek comfort or clarity around a particular issue before confirming the Quality rating. All engagements are recorded in our Engagement Log and where necessary discussed in a quarterly ESG engagement prioritisation meeting.

Examples of ESG Considerations

Environmental

Poor management of environmental issues, including climate change, represents a risk for any company.

Structurally, our portfolio is likely to have low carbon risk relative to global benchmarks due to our lack of exposure to oil and gas, mining, metals and deeply cyclical businesses. We are also aware of the potential compromise of the long-term growth prospects for businesses supplying equipment to these companies and other heavy emitters of carbon gases. However, clearly there is also the potential to identify beneficiaries of the move towards a low carbon economy such as the electric vehicles ecosystem or manufacturers of energy efficient products.

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Social

The S in ESG is a broad category. Not only does it encompass human rights, labour conditions including slavery and child labour, and other negative health and safety factors, but also Diversity and Inclusion. This is in terms of the overall workforce and across the management suite as well as a company's community impact, political views and approach to conflict.

Much of the analysis of workforce management at the company and within their supply chains is considered during our Quality discussions. In addition, Sustainalytics may highlight further issues on which we would engage with company management. Our Diversity & Inclusion (D&I) Committee also has the ability to engage with companies in the portfolio, as appropriate, to understand their approach to D&I and clarify our expectations as shareholders.

Equally for Longview, attracting and retaining talent is fundamental to the sustainability of the firm and the hiring process is detailed and rigorous. By working with various specialist search firms, Longview is committed to ensuring that we source the best quality candidates with the appropriate skill sets for each of the roles we seek. We aim to ensure our access to a broad and diverse pool of quality candidates.

Governance

Governance is a key component of our Quality rating and encompasses, amongst other things, governance structures, remuneration and management's framework for capital allocation. We expect governance structures to ensure high standards of management oversight and to protect the interests of minority shareholders. We expect remuneration to be proportionate and fair, and for management incentives to be well-aligned with shareholders and focused on the long-term health of the business. We expect management to give due consideration to all capital allocation options with a view to maximising long-term shareholder value.

Governance forms a significant part of our regular interactions with companies through a combination of management and board level discussions, proxy voting and, where necessary, escalation through private correspondence, calls and meetings.

Engagement Policy

At Longview, we recognise our responsibility to act as a fiduciary on behalf of our clients and their beneficiaries.

As long-term investors, we engage with companies through a robust engagement selection process on matters of stewardship and ESG as part of our overall investment research and our assessment of a company's Quality rating. Where appropriate, we contact a company seeking clarity or to discuss contentious issues as part of our ongoing dialogue with management. If we are meeting with management, we will discuss strategy and general corporate responsibility as well as specific issues including ESG, as we believe that these factors may affect a company's ability to create sustainable value for their shareholders. Such factors may include allocation of capital, remuneration, finance, reputation and litigation risks, climate change, energy efficiency, human rights, labour rights and other material issues.

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We pay particular attention to Remuneration Policy, in the light of the Shareholder Rights Directive II (SRD II). Companies need to have a remuneration policy for Directors (under the expanded definition which includes the CEO and Deputy CEOs) approved every four years and a clear Remuneration Report publicly available. Related party transactions are also keenly reviewed.

We evaluate the effectiveness of company management on these issues and if past, current or anticipated future behaviour is judged to be a risk, our concern will be reflected in our Quality rating.

Engagement is an important mechanism for providing feedback on company practices, policies and disclosures, particularly where we believe they could be enhanced. The CIO, Head of Research, Head of Sustainability and the Relationship Management Team meet quarterly to discuss and prioritise engagements. We focus our ESG engagement efforts on companies where we have identified significant ESG related issues in our proprietary research process. A key part of the selection process is materiality. This can be in terms of the potential impact on the value or reputation of the business, the potential to impact our assessment of Quality, or in the eyes of our clients.

We primarily engage through direct dialogue but also use other tools such as written correspondence to share our perspectives. In general, we prefer to maintain confidentiality in our discussions with management, however where appropriate we will reach out to other significant shareholders and possibly join forces. Whilst we put our views forward strongly, we do not consider ourselves activist.

Ongoing Monitoring of Investments

During the continual assessment of our investments, we have ongoing dialogue with the management of companies in which we are invested or may be invested when appropriate. Research on portfolio holdings is regularly updated by the Research Team and we keep track of progress updates made on any ESG-related engagements in a systematic way via an Engagement Log.

We keep track of all engagements in an Engagement Log where we periodically review the progress made and prioritise as necessary. The Relationship Management Team assists the Research Team by creating an entry in the Log for the engagement. The outcome for each engagement is clearly documented in the Log. We strive to be clear about the progress made against each objective and identify next steps or monitoring, where appropriate, which triggers the escalation process when issues are not being addressed.

If the monitoring process highlights that progress on a specific engagement objective is not being made within a reasonable timeframe, as determined by reference to the nature of the issue and at discretion of the Research Team, and it is material to our Quality rating, the Research Team will contact the company to discuss the matter further. The Research Team will make clear our concerns, as well as our expected outcome. In most circumstances, this dialogue will be with the Chairman, Lead Independent Director, CEO or CFO of the company.

Longview is willing to challenge management to protect and enhance the interests of clients and will exercise the right to vote against management, where appropriate. We share the details of significant votes made as per SRD II regulation within our Implementation of Engagement Policy disclosure which is made available on our website here. Longview defines a significant vote as any of the following:

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1. One where we have voted against management.
2. Where >15% of total votes have been cast against management.
3. Where we have voted against our proxy adviser's recommendation.

As part of our escalation process, if after discussions, we believe that management is failing to act in shareholders' interests, we may reduce our Quality rating to Q3 and sell our holding in order to minimise the risk of loss of shareholder value and protect clients' interests.

Our policy on the exercise of voting rights on behalf of our clients is outlined in our Shareholder Activism Policy which is made available on our website here. During a company rights issuance, Longview can exercise rights attached to shares if deemed to benefit the portfolio. On behalf of our Institutional clients, we employ the services of the voting agency, Glass Lewis. To inform their research, Glass Lewis uses publicly available sources of information such as stock exchanges, regulators, companies directly or other forms of direct procurement. Glass Lewis votes on our clients' behalf at all relevant company meetings.

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