Shareholder Rights Directive II

Introduction

The aim of the Shareholder Rights Directive II (SRD II) is to promote the long-term engagement of shareholders, to improve active ownership practices and exercising of shareholder rights and to facilitate cross-border information. SRD II affects 'institutional investors' (life insurers, reinsurers with life-assurance obligations and occupational pension schemes) and places transparency obligations on asset managers, such as Longview Partners, to the extent that investments are made in shares traded on certain regulated markets. The requirements of the European Directive are also reflected in the FCA Handbook under COBS 2.2B.

Longview Partners believes that shareholder rights are a key tool for institutional investors to achieve effective stewardship of their assets and it is this that the Directive aims to facilitate. Effectively implemented, the Directive can improve the quality of stewardship as it raises the awareness and expectations of investors and beneficiaries. There are several ways in which the Directive seeks to do this, principally driven by its focus on improving transparency through disclosure and the facilitation of that disclosure amongst asset owners and asset managers. This transparency, an extended set of rights and the removal of barriers to the exercise of those rights is increasingly considered an effective tool to improving returns, reducing risk and improving outcomes for beneficiaries.

The key aims are:

- To contribute to sustainability – investors need to describe how the main elements of their strategy contributes to the long-term performance of their clients' assets
- To enhance transparency – identification of shareholders, improving the transmission of information on engagement, voting and manager reward and alignment between investment strategy and client liability
- To encourage shareholder engagement – provide policies and reporting on engagement with investee companies regarding strategy, governance, environmental and social issues and provide a vote on company remuneration policy and reports

Investment Strategy and its Implementation

Longview Partners seeks to work with clients that are philosophically aligned to what we seek to achieve on their behalf, have a clear understanding of our strategy and a long-term horizon and be of sufficient size.

Longview Partners seeks to consistently generate alpha through investing in a concentrated portfolio of global companies, within an absolute return framework. Our bottom-up approach invests in high quality companies with strong business fundamentals and attractive cash-based valuations. We strive to invest in predictable companies and to avoid investing in companies that are sensitive to external forces beyond their control, such as macroeconomic factors. Within our investment process, we are focused on diversification therefore avoiding concentrated exposure to common business drivers. Longview's transparent and robust investment process is highly disciplined and implemented consistently at all times.

A perceived inherent risk is the concentration of the portfolio, which typically invests in 30-35 stocks. From a philosophical perspective, we believe that one of the greatest tools for the management and control of risk in the portfolio is adequate diversification. Our risk philosophy is to incorporate risk management principles within the whole investment process, rather than just as an adjunct. The process is extremely disciplined and well structured.

Although we do not target a specific tracking error, we anticipate tracking error for our Global Equity strategy to be in the range of 4% - 6%. We believe that this level of tracking error is reasonable and justified for an unconstrained global equity strategy, which has a high level of active management and a concentrated number of positions.

Longview Partners has an integrated approach to evaluating Environmental, Social and Governance (ESG) risks and opportunities. Assessing the significance of environmental, social and governance related risks and opportunities is part of our bottom-up research process and considered as part of our Quality rating. If an investment does not meet our Quality criteria, we will not invest. Similarly, if we perceive that the Quality of an existing holding has fallen below our Quality threshold, we will sell our position.

Engagement Policy and Reporting

Under SRD II, Longview is required to disclose our shareholder engagement policy on a 'comply or explain' basis. Our Responsible Investment & Engagement Policy can be found on our website https://www.longview-partners.com/wp-content/uploads/2020/07/Responsible-Investment-and-Engagement-Policy-2020.pdf and our Shareholder Activism (Proxy Voting and Class Actions) can be found https://www.longview-partners.com/wp-content/uploads/2020/07/Shareholder-Activism-2020.pdf. In addition, our SRD II Implementation of Engagement Policy disclosure is also available. These documents detail voting behaviour, significant votes and use of proxy advisors.

Longview Partners employs the services of the voting agency Glass, Lewis & Co, a leading independent provider of corporate governance solutions to the financial services industry, to assist the Firm in carrying out proxy voting activity for all institutional clients who request that Longview Partners take responsibility for the implementation of their voting rights. There is no charge levied on any client of Longview Partners for the provision of this service. To inform their research, Glass Lewis uses publicly available sources of information such as stock exchanges, regulators and company filings. Glass Lewis votes on our clients' behalf at all relevant company meetings. We believe Glass Lewis' expert and independent analysis complements Longview's stock selection process.

All voting recommendations are made on a case-by-case basis by Glass Lewis's specialist research analysts, in line with their detailed regional policies, which are approved by Longview on an annual basis. However, Longview would advocate the exercising of votes, contrary to Glass Lewis policy, where necessary. The decision to vote contrary to Glass Lewis's recommendation is made collectively by the Research team and CIO and will often follow engagement between our Research team and the company. Any decision to vote contrary to Glass Lewis's recommendation is communicated to Glass Lewis for implementation.

On a quarterly basis, all clients, on whose behalf Longview provides, through Glass Lewis, proxy voting service, will receive a report on all votes cast during that period. This is part of the quarterly reporting package and should be received by each client no later than the 15th business day after the end of the quarter.

Glass Lewis is evaluated on an annual basis on the quality of its governance research and alignment of voting recommendations and policy.

Annual Disclosure Obligations

On an annual basis Longview discloses how our engagement policies have been implemented as well as how votes have been cast. This is included in the SRD II Implementation of Engagement Policy disclosure. This description includes a general description of voting behaviour, an explanation of significant votes and the use of the service of our proxy voting provider.

In addition, Longview shall confirm the key aspects of our long-term strategy in the Annual Disclosure Statement of Investment Strategy and Implementation to applicable SRD Institutional Investors. The MiFID II client report already covers portfolio composition, turnover and turnover costs and the Shareholder Activism (Proxy voting and Class Actions) covers the use of proxy advisors and management of any conflicts of interest on our behalf.

Longview Partners does not engage in stock lending on our clients' behalf, however we do facilitate stock lending at our client's discretion.