Responsible Investment & Engagement Policy

Introduction

At Longview Partners 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 Partners 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.

As a Tier 1 signatory, Longview Partners fully supports and is committed to the UK Stewardship Code published by the Financial Reporting Council (FRC). For further information on how governance issues are assessed as part of our research process, please refer to our UK Stewardship Code disclosure which is maintained on our website.

Longview Partners' Investment Approach

We seek to consistently generate alpha through investing in a concentrated portfolio of global companies, within an absolute return framework. Our bottom-up research approach aims to ensure we invest 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 particularly 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.

The key market anomaly that Longview captures is the difference between perceived quality and actual quality, as we believe that there are many quality misperceptions when analysing individual companies.

In addition, we believe that capital allocation can create value within or destroy the value of any business. Other than the operations of a business, we focus on the cash generation of the business and the re-deployment of this cash. Inherently we are agnostic as to the method of such re-deployment, whether it is by the payment of dividends, stock buy-backs or else an accretive acquisition. The key thing is that company management is thoughtful about capital allocation and mindful of the fact that they are investing shareholders' money.

ESG Integration

At Longview Partners, we have an integrated approach to evaluating Environmental, Social and Governance (ESG) risks and opportunities. Assessing the significance of ESG-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.

We use the following questions as a starting point for our assessment of ESG for a potential investment. Our in-depth work on potential investments and our on-going work on existing holdings may raise further ESG issues.

Key Questions

1. Is there any reason, ESG or otherwise, to be concerned that the company may not act in the interests of minority shareholders?
2. Has the company experienced material ESG issues in the past?
3. Are there any ESG risks that would affect the company's ability to create long term value for shareholders in the future?
4. Are there material issues raised by Sustainalytics as raised in our engagement selection process?

Environmental

Our consideration of environmental risks, including climate change, is part of our analysis of long-term growth and stability, and analysed during discussions on Quality. Poor management of such issues represents a risk for any company.

Structurally, our portfolio is likely to have low carbon intensity relative to global benchmarks due to our lack of exposure to energy, mining, metals and deeply cyclical businesses. We tend to consider such businesses to be of insufficient predictability to pass our Quality criterion.

Through our disciplined research process, we invest in predictable businesses and view macro trends as more of a risk than an opportunity. However, through our bottom-up work, we can often recognise wider global trends. For example, as governments continue to emphasise renewables in their policy statements, this acts as a drag on traditional energy sources, particularly in Western economies. This feeds into the long-term growth prospects for businesses supplying equipment to coal mines or components for traditional power generation.

On the other hand, we also observe the tailwinds to long-term growth for the beneficiaries of the move towards a low carbon economy such as the electric vehicles ecosystem or manufacturers of energy efficient products.

Social

Social issues such as human rights, labour conditions including slavery and child labour, and other negative health and safety factors are considered in our assessment of quality. As with environmental issues, we would deem a lack of consideration of such social issues to represent an element of risk to a company that could affect its growth, competitiveness and profitability.

Social issues can impact the prospects for a whole industry, tobacco for example, but also for individual companies through reputational damage that can threaten their revenue line (i.e. lost customers) and their ability to attract and retain talent. Companies that operate in a way that benefits all stakeholders and not just investors are likely to benefit from a virtuous circle effect that will benefit their growth and value over time.

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. business. Each company's Remuneration Policy should be clear and understandable and explain how its policy contributes to the sustainability of the business. In addition, an annual Remuneration Report should provide a comprehensive overview of all remuneration and, as with the Remuneration Policy, freely available to all shareholders. 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.

Engagement Policy

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

Longview employs a bottom-up investment process which is transparent, robust and highly disciplined. The process is bound by strict investment criteria, ensuring that only quality companies, with solid fundamentals and attractive cash-based valuations, are purchased. Our primary sources of company information are meetings with company management and financial reports. Our research analysts meet approximately 60 companies a year, including companies we are looking to invest in as well as the management of competitor companies, their suppliers and distributors. During these meetings the emphasis is to understand their strategy, cash deployment and industry dynamics; rather than short-term performance expectations.

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 discuss contentious issues with companies as part of our ongoing dialogue with management. In these meetings, we will discuss strategy and corporate responsibility issues, as we believe that these factors affect a company's ability to create value for their shareholders. Such factors may include deployment of capital, remuneration, finance, reputation and litigation risks, climate change, energy efficiency, human rights, labour rights and other material social issues.

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. We primarily engage through direct dialogue but may 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. Ultimately, if after lengthy discussions we believe management was failing to act in shareholders' interests, we would reduce our Quality rating to Q3 and sell our holding in order to minimise the loss of shareholder value.

Ongoing Monitoring of Investments

During the continual assessment of our investments, we have on-going dialogue with the management of companies, in which we are invested or may be invested. This is to ensure that these businesses continue to perform in line with our expectations and they are meeting reasonable governance hurdles. We will closely review a company's performance, governance, remuneration and approach to risk. Anything likely to cause a material change in the value of the business, or our Quality rating for the business, will be reviewed by the Research team. We keep track of all our engagements in an Engagement Log where we review on an annual basis the progress made on ESG areas of concern previously raised. If, after discussions and monitoring, we believe management is failing to act in shareholders' interests, this will trigger our escalation process.

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.

We are willing to challenge management to protect and enhance the interests of our clients and will exercise our right to vote against management, where appropriate. 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 our client's interests.

Our policy on the exercise of voting rights on behalf of our clients is outlined in our Shareholder Activism Policy which is also made available on our website here. During a company rights issuance, Longview may 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 & Co, a leading independent provider of corporate governance solutions to the financial services industry. 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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