

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 LLP ("Longview"), 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 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 contribute 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 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.

We aim 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 believe in:

- Quality – 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 Environmental, Social and Governance (ESG) factors. We avoid investing in companies that are

overly sensitive to external forces and exogenous factors beyond management control, such as commodity prices.

- **Valuation** – We apply a margin of safety in all of our investments in an effort to avoid overpaying for the shares of a company. We have strict buy and sell criteria based on each company's valuation estimate, which is set using a discounted cash flow approach.
- **Stock Selection** – We believe that stock selection drives portfolio returns, not incremental portfolio management. We dedicate our time to understanding companies and ascribing a fair market value to each company. We do not spend time predicting macro trends or trading around positions. Portfolio construction follows a rules-based philosophy founded upon new positions entering the portfolio at equal weight.
- **Concentration** – We believe that owning a concentrated portfolio of companies, whilst ensuring the portfolio remains diversified, offers the best opportunity to deliver strong investment returns with acceptable volatility over the long-term. The portfolio is typically composed of 30-35 names with high active share.
- **Long-Term** – We believe that investing in companies that can compound value over the long-term will lead to superior investment returns. We believe in acting as owners of businesses rather than short-term stock speculators and that investment success should be measured over years and not quarters. The portfolio has low turnover and long average holding periods.
- **Objectivity** – We believe that a collaborative team-based approach implementing a disciplined investment process drives objectivity and ensures consistency in decision making.

A perceived inherent risk is the concentration of the portfolio, which typically invests in 30-35 stocks. We incorporate risk management principles within the whole investment process, rather than just as an adjunct. The process is disciplined and structured.

Philosophically, we believe that diversification offers the best tool for control of absolute risk in the portfolio. We do not believe that sectors, industries or geographies provide a good framework for analysing risk and instead focus on identifying 'risk clusters'. Risk clusters are the portfolio's aggregate exposure to real business risks. Diversification is ensured by recognising, identifying and setting limits on any concentration in risk clusters across the portfolio.

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.

As mentioned under Quality above, 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.

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 and Engagement and our Shareholder Activism (Proxy Voting and Class Actions) policies can be found on our website [here](#). In addition, our Shareholder Rights Directive Annual Disclosure is also available on our website. These documents detail voting behaviour, significant votes and use of proxy advisors.

We carry out proxy voting for all institutional clients who request that Longview take responsibility for the implementation of their voting rights. Longview's voting decisions are made by our Research Team. Our research analysts use proprietary research, in-depth discussions with company management and external research and recommendations from Glass, Lewis & Co. ("Glass Lewis"), an external provider of proxy voting research and advice, to inform their decisions. Glass Lewis fulfils two functions. Firstly, as a purely operational process, they ensure the voting instructions provided by Longview are implemented across client accounts. Secondly, Glass Lewis provides research and analysis and makes voting recommendations using publicly available information from sources such as stock exchanges, regulators, and company filings. Glass Lewis's research team also engages extensively with public companies, investors, regulators, and other industry stakeholders to gain relevant context into the realities surrounding companies, sectors, and the market in general. We believe that Glass Lewis's 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. Glass Lewis provides structured reports which detail their research and recommendations on each resolution to be voted on. Longview's Research Team uses the Glass Lewis research to inform their decisions. 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. Where the decision has been taken to vote against management, we contact the company to engage with them when possible. 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 and sell our holding in order to minimise the risk of loss of shareholder value and protect clients' interests.

On a quarterly basis, all clients, on whose behalf Longview provides, through Glass Lewis (proxy voting service provider), 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 Shareholder Rights Directive Annual Disclosure. This includes a general description of voting behaviour, an explanation of significant votes and the use of the services 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) Policy covers the use of proxy advisors and management of any conflicts of interest.

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

Disclaimer

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Longview Partners LLP • SavoyStrand • 105 Strand • London WC2R 0AA • Tel: +44 (0)20 7809 4100

Longview Partners (Guernsey) Ltd • PO Box 559 • Mill Court, La Charroterie • St. Peter Port • Guernsey GY1 6JG • Tel: +44 (0)1481 712414

For further information, please contact: info@longview-partners.com

www.longview-partners.com