How we approach ESG

April 2021

Stewart Investors

St Andrews Partners

Contents

Overview

St Andrews Partners is a team of investors focused on global emerging markets equities.

We have a long history of investing in emerging markets since 1992. Our focus is simply on owning the best companies we can find, where we believe a business is governed effectively and in the interests of all stakeholders and where valuations are acceptable.

For us, ESG (Environmental, Social and Governance) is not a screen added to an investment process, it has always been a core part of our philosophy. Measuring environmental and sometimes social impact has come a long way in the past ten years; measuring 'integrity', (i.e. what the "G" of ESG should truly mean) is just as challenging today as ever but it is the part that is most important to us.

We have no numerical objective – everything is fully embedded within our investment process and our overall approach based on the principle of stewardship.

Stewardship	We have a responsibility as investors to manage our clients' funds to the mututal benefit of all stakeholders and the wider community.
ESG integration	We integrate ESG risks into every decision. ESG risks are investment issues and we identify them and their materiality through our bottom-up approach.
Company engagement	We seek to support company management in making changes which improve the quality of their businesses, reduce risk and enhance long-term returns.
Active ownership	Voting rights are a valuable asset which we believe should be managed with the same care and diligence as any other asset.

Stewardship

'Stewardship' is central to our philosophy – the idea that we treat client money as our own and therefore see risk as losing money over the longer term rather than underperforming a benchmark in the short or medium-term.

This absolute return mindset allows us to spend our time finding the highest quality companies to invest in, rather than tracking an index.

We obsess about the people who own and manage the companies we invest in. Backing the wrong people is a far quicker and certainly more permanent way of losing money than paying the wrong price (although we don't like paying too much either).

We spend a huge amount of time looking at a company's treatment of employees, the environment, and suppliers. We do this not only because strikes, environmental shut-downs and bankrupt supply-chains hurt profits, but also because a company mistreating one stakeholder is likely another day to mistreat others – and eventually us as minority shareholders.

Finally, we see ourselves as owning stakes in companies on behalf of our clients, not as traders watching tickers flash red and green on computer screens. This means we take our voting responsibilities seriously and enjoy meeting and engaging with company management. We feel privileged to have these meetings and use them to improve our understanding of motivations and values as opposed to second-guessing earnings per share for the next quarter. We don't build detailed financial models for any of our investments – we worry that it promotes numerical perfection above qualitative analysis, and it is the latter that we believe reduces the risk of costly mistakes.

Stewardship: what we mean

Good stewards are custodians who understand and carry out their responsibilities with integrity and respect for the people who rely on them and who they rely. To us it means two things:

> Firstly, it is about looking after our clients' savings as much as we'd look after our own – with good judgment and extreme care and consideration. It's also about understanding our rights and responsibilities in respect of the companies we have a share in.

> Secondly, in relation to investee companies, good stewardship relates to owners and managers with the competence, integrity and desire to make good long-term decisions on behalf of their businesses as well as the community and environment around them.

In our view, management transparency, a diversity of views – such as a range of social, cognitive and ethnic backgrounds and good gender representation – a willingness to learn from mistakes, and a keen consideration for customers, their workforce, suppliers, the wider community and the environment are all good omens with regard to the question of stewardship.

Hippocratic Oath

The Hippocratic Oath plays a central role in anchoring the team's philosophy and culture; it is there to remind us of our role in society and in the investment industry.

By signing the Hippocratic Oath, the team pledge to uphold the principle of stewardship through their conduct and work practices.

It also includes a commitment not to pursue returns if doing so will knowingly harm others. Any investments that may have unacceptable adverse impacts will be discounted by the investment team as part of their analysis.

Interactive map

Our interactive map illustrates the types of stewards we look to align ourselves with as well as the reasons we own shares in these companies on behalf of our clients. These range from third generation owner-managed companies, multi-national and local family partnerships to free float companies with an unusually strong cultures of ownership.

We have started with the largest holdings in our Latin America strategy and will build out across our Global Emerging Markets strategies in due course.

ESG integration

We have always found issues presently labelled as "ESG" to be integral to understanding how a company and its management behave.

An environmental weakness or a labour issue is not only a risk to the financial value of the business, in nearly all cases it is a sign that corners are being cut, and that when put under stress, the interests of controlling shareholders will be put above the rights of minority investors.

Because we are genuinely bottom-up investors and do not need to own a company just because it is in a benchmark we are able to ignore corporate "greenwash". if we don't believe a company is as ethical as it claims, we shall not own it for clients regardless.

When we consider the quality of management, financials and franchise, we think about the impact sustainability could have on the business and how management is addressing risks and opportunities. Management's approach to sustainability risks is often a proxy for its quality in other areas, for example, franchise quality is impacted by operational efficiency and the environmental efficiency provided by its products. We are unable to form a view about a company's cashflow growth for example without assessing its relationships with communities, customers and suppliers.
We are particularly interested in companies which embrace the underlying spirit of sustainability, rather than simply taking a box-ticking approach.

Sustainability risks are investment issues

ESG is not a screen added to an investment process, it is a core part of our philosophy. We spend a huge amount of time looking at a company's treatment of employees, the environment, and suppliers.

We do this not only because strikes, environmental shut-downs and bankrupt supply-chains hurt profits, but also because a company mistreating one stakeholder is likely another day to mistreat others – and eventually us as minority shareholders.

Analysing sustainability risks is an integral part of the investment process and is carried out by the team. Interacting with company management on sustainability issues becomes a powerful tool in driving shareholder value and protecting and enhancing the long-term value of portfolios.

Our approach:

> Embraces the spirit of sustainability, rather than screening or box ticking

> Factors sustainability in to all aspects of our analysis

> Captures the less tangible elements of quality, opportunities and risk

> Helps in highlighting good stewards who do not cut corners

> Means that we avoid investing in harmful companies, such as tobacco, armaments, or gambling

Given where we invest, insisting on robust governance is crucial to risk mitigation.

Sustainability is a key part of our thought process in, firstly, trying to avoid risks and, secondly, in taking advantage of opportunities. All stock decisions are impacted by sustainability assessments within our overall company analysis. We focus heavily on subjective analysis and common sense, rather than screens or ESG scoring systems. We have no magic formulae, instead we analyse as broad a range of factors as possible. Here are some of the company specific criteria we look at during our ongoing analysis of companies (page 7).

Environmental	> Environmental risks > Energy efficiency	> Pollution > Recycling & waste
Social	> Health & safety > Diversity & equal opportunities > Supply chain standards	> Labour standards > Human rights > Impact on local communities
Governance	> Strong sense of integrity > Track-record of treatment of minorities > (Simple) corporate ownership structures	> Attitude towards debt > Transparent financials > Strong licence to operate accumulated over years

Sustainability risks are part of our quality assessment

Our quality focus brings us back to people every time, the quality of management, followed by the quality of the franchise and financials. In order to form a view on a company we need to be able to assess, not just how it generates cash flows, but also how management or the owners interact and behave with all their stakeholders. We believe meeting companies is central to assessing their quality and would usually meet a company at least once before investing clients' money in it. In practice we meet companies repeatedly to reassess quality from different perspectives. We feel privileged to have these meetings and use them to improve our understanding of motivations and values as opposed to second-guessing earnings per share for the next quarter. We don't build detailed financial models for any of our investments – we worry that it promotes numerical perfection above qualitative analysis, and it is the latter that we believe reduces the risk of costly mistakes. If a company does have sustainability issues then we would factor that into our valuation methodology for the company and this in turn would determine our conviction in the overall quality of the company and the weighting we may or may not apply in terms of portfolio construction.

We rule out the majority of companies

Poor governance, a lack of integrity, a willingness to take shortcuts, a failure to take responsibility for social or environmental impacts and a company culture which reflect this are reasons we rule out a huge number of companies.

We are all prisoners of recent history which often has very dangerous consequences. Both for companies and for investment managers. As stewards of capital we should extend our historical perspective as far as we can so as to prevent us from becoming too enthusiastic or depressed.

What we struggle to own for clients

- Complex ownership structures
- Limited social utility
- Fashion and fads
- Unrealistic businesses
- Opaque and obscure accounts
- Political links

Climate change and fossil fuels

We consider any risks or opportunities related to climate change with each company on an individual basis within our bottom-up company analysis, research and engagement. We not only need to understand the environmental risk for each company, we also find management attitudes to carbon emissions and other environmental externalities are often a clear indicator of the overall management quality of companies. Better management teams tend to be early adopters or originators of best practice and try to anticipate and plan for future changes; weaker management teams tend to be reactive and reluctant to take steps to reduce their environmental impacts which might put into question their franchise and potentially even their going concern longer term. The vast majority of companies fail our quality criteria and climate change aside, most fossil fuel companies in the GEM universe have ownership and governance failures so severe that a debate on oil prices, climate change, or stranded assets is almost not worth entering into. Some fossil fuel companies do have acceptable ownership and governance, and here we are very interested in ESG risks including climate change. In terms of a company's future success and especially the translation of this to gains for minority shareholders such as our clients, we believe environmental conduct and labour relations are better leading indicators than any trend in market share or margins, and we spend a great deal of our time looking into these and none of our time building convoluted models guessing oil prices, currencies or interest rates. Where we face grave uncertainty, we demand far higher returns in making investments.

Governance in China

It is difficult for us to allocate substantial client capital to the Chinese stock market because we struggle to identify companies with acceptable corporate governance. Where we do find companies of acceptable quality, valuations are often prohibitively optimistic. The result of this is that we currently have extremely low direct exposure in our portfolios to China.

We have never enjoyed investing in companies close to the commanding heights of any economy, especially in autocratic regimes where the dominance of the state often puts national interests first, after that of minority shareholders.

There are very few businesses with transparent histories showing how family owners have behaved over extended periods. Companies and families often show their true colours only under economic stress which China has not, officially, faced for two decades. We are also particularly uncomfortable with the involvement of listed companies in the well-documented curtailment of human rights, not least of the Uighur population of Xinjiang province.

No negative screening

While we do not implement an automatic negative screening system we can say with confidence that we have no intention to hold any high risk companies. Companies operating in high risk sectors are not natural candidates for our portfolios.

There is a company policy which prohibits investments in the manufacturers of landmines, cluster munitions, cigarettes and other tobacco products.

No company is perfect and so we are looking to invest in businesses that operate with a sufficient time horizon, have a similar appetite for risk as our own, and recognise their implicit social licence to operate. All controversial issues are analysed for each individual company within our bottom-up company research and engagement.

Company engagement

Our engagement philosophy

Our engagement with companies is very important to our approach and we devote a significant amount of time to engaging with the management teams of the companies in which we invest.

Engagement is fully integrated into each investment analyst's role and contributes invaluable insights into our understanding of each company. We believe this differentiates us from many of our peers who often outsource this function to a third-party or separate team within the same firm. We consider every interaction with a company to be an opportunity for engagement. We are active (not activist) managers and seek to support management in making changes which improve the quality of their businesses, reduce risk and enhance long-term returns. We engage on a wide range of issues including strategy, governance, alignment of interests and reputation.

It is very difficult to quantify the contribution such engagement makes to returns, but the more questions asked of management the better our understanding of the company, which should allow for better decision making. We believe our engagement process provides an additional layer of governance.

All company engagement is carried out by the investment team.

Why engage

1. First, the belief that the purchase of a share in a business comes with both rights and responsibilities. Should one of the companies fail to meet international best practices on the environment, human rights or social issues, we believe that we have a responsibility to engage with senior management to persuade them to address the issue, rather than to walk away from the problem.

2. Second, sustainability risks are investment issues. Positive engagement on sustainability risks becomes a powerful tool in driving shareholder value and protecting and enhancing the long-term value of portfolios. Engagement takes place through face-to-face meetings, informal emails and formal written correspondence. In order to facilitate effective engagement the team spend a great deal of time building relationships with company management.

How we engage

We believe that the purchase of a share in a business comes with both rights and responsibilities. Should one of the companies fail to meet international best practices on the environment, human rights or social issues, we believe that we have a responsibility to engage with senior management to persuade them to address the issue, rather than to walk away from the problem.

We engage in a manner appropriate to each individual circumstance; and where such engagement does not produce the desired result, to consider other forms of engagement. We will generally look to engage with companies initially in a private and confidential manner, conducive to achieving a suitable outcome, and only if such activities fail to produce results would we consider more public forms of engagement. Our active ownership activities seek to support changes which improve the quality of our investee companies' businesses, reduce risk and enhance long-term returns for clients.

We see engagement as a continuous process which takes place against a backdrop of a long-term relationship with the company and open dialogue, not just voting at Annual General Meetings.

Our engagement is not always about trying to be an agent of change, but rather communicating to company management that they will not suffer share price weakness for addressing issues.

Collaborative engagement

In line with our collective commitment as signatories to the Principles of Responsible Investment, a number of leading global investment management companies and asset owners, in partnership with the Marine Conservation Society, we are currently in the early stages of a collaborative initiative to address the specific and growing problem of micro plastic pollution from synthetic microfibers. Our intention as a group is to achieve a tangible reduction in the amount of micro plastics entering the water ecosystem through active and constructive engagement with the manufacturing industry.

Engagement examples

To us, each company interaction we have is an engagement, where we could be discussing many different topics from strategy, to labour issues, to pollution, to supply chains. No company is perfect and as long term-investors our engagement focus with companies is always ongoing. Below are some examples:

Large paper producer and exporter – Brazil - engagement ongoing

The business is owned by two families who have demonstrated themselves to be both competent and long-term over the company's history.

Following a period of significant investment, the company's debt levels are above the levels we would prefer given the cyclical nature the business. Whilst this debt is personally guaranteed by the family we have spoken with the company about their decision to continue to pay dividends out of EBITDA given the non-discretionary nature and significant costs relating to interest service, tax and maintenance capex. We have written to the Board to encourage them to consider a reduction to the dividend, which would allow the company to bring down to debt to a more reasonable level providing greater financial flexibility.

Large fabric manufacturer and supplier – Hong Kong - engagement unsuccessful

The company is one of the world's largest manufacturers of fabrics supplying to a variety of global brands. The calibre of these brands helps to ensure a strong awareness and compliance of ethical business practise.

We have known the business and the founder/Chairman for a number of years having owned it in client portfolios dating back to the early 2000s. Whilst the core franchise remains largely unchanged; highly cash generative with a net cash balance sheet we became increasingly concerned about the company's poor capital allocation and increased reliance on tax credits, the latter of which receives poor financial disclosure in their annual reports.

Having tried to engage with the company on these issues, we felt our views as minority shareholders were not being listened to. We were mindful that opaque financial practises can often reflect more general weaknesses within a company's franchises and therefore took the decision to sell the shares.

Industrial group – India - engagement successful and ongoing

As a long-standing holding in many of our portfolios, we have been engaging with the company's management for a number of years on a wide-variety of issues. The group's core business is farm equipment, which we believe has very positive sustainability positioning; however past strategic decisions to invest in some non-core assets such as automobiles and two wheelers have been more disappointing.

We continue to speak with the company on the above and met with the incumbent Chairman of the group during which we discussed simplifying the group operating structure to focus on a handful of areas which have clear social utility and play to the group's strength and move away from businesses with clear environmental, reputation and social risks.

We are encouraged by their decision to contribute no further capital to a non-core investment they have in South Korea as well as some of the changes taking place at board level which has seen the appointment of some new talent to the group. We believe there is still significant scope for improvement such as the divestment of the company's defence assets (miniscule contribution) and the cancellation of treasury shares in one of their subsidiaries all of which we will continue to engage on with the company in the future.

Active ownership & proxy voting

We see ourselves as owning stakes in companies on behalf of our clients, not as traders watching tickers flash red and green on computer screens.

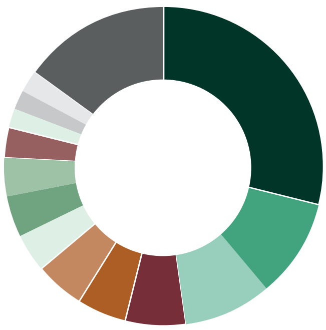
This means we take our voting responsibilities seriously and enjoy meeting and engaging with company management.

Voting rights are a valuable asset which we believe should be managed with the same care and diligence as any other asset. We vote on all issues at company meetings where we have the authority to do so. Our voting decisions are not outsourced. We do look at the advice from third-party sources but we come to our decisions independently on the merits of the issues. Each Portfolio Manager has ultimate discretion on voting decisions for their portfolios, ensuring that all company resolutions are reviewed and an appropriate and consistent recommendation is made in line with the corporate governance guidelines and principles.

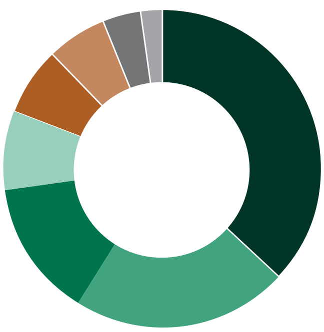
In principle we prefer to engage companies outside the Annual General Meeting season and if our engagement is effective we should not have to vote against companies. However, no company is perfect so from time-to-time we will vote against. The types of things we find ourselves voting against most frequently include:

- Executive remuneration packages where there is a lack of alignment or the incentives are too short-term.
- Directors' elections when we do not think the candidate has the right character or skills for the board, or they have not been turning up to Board meetings!
- Resolutions that give the Board totally unfettered rights.

Proxy voting by country of origin - 2020 (%)



Proxy voting by proposal categories - 2020 (%)



During 2020 the team voted on all 1579 resolutions proposed

(1576 Management Proposals and 3 Shareholder Proposals)

1407 votes were with management

26 votes were against management

Full voting reports for client strategies are available on request.

Source: Stewart Investors as at 31 December 2020. *SHP means Shareholder Proposal

Investment terms

View our list of investment terms to help you understand the terminology within this document

Contact us

If you have any questions or would like further information on our approach please visit www.stewartinvestors.com or email us at clientengagement@stewartinvestors.com

Important information

European Economic Area ("EEA")
In the EEA, this document is issued by First Sentier Investors (Ireland) Limited which is authorised and regulated in Ireland by the Central Bank of Ireland (registered number C182306) in connection with the activity of receiving and transmitting orders. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland, number 629188.

Middle East
In certain jurisdictions the distribution of this material may be restricted. The recipient is required to inform themselves about any such restrictions and observe them. By having requested this document and by not deleting this email and attachment, you warrant and represent that you qualify under any applicable financial promotion rules that may be applicable to you to receive and consider this document, failing which you should return and delete this e-mail and all attachments pertaining thereto.

In the Middle East, this material is communicated by First Sentier Investors (Singapore).

Kuwait
If in doubt, you are recommended to consult a party licensed by the Capital Markets Authority ("CMA") pursuant to Law No. 7/2010 and the Executive Regulations to give you the appropriate advice. Neither this document nor any of the information contained herein is intended to and shall not lead to the conclusion of any contract whatsoever within Kuwait.

UAE - Dubai International Financial Centre (DIFC)
Within the DIFC this material is directed solely at Professional Clients as defined by the DFSA's COB Rulebook.

UAE (ex-DIFC)
By having requested this document and / or by not deleting this email and attachment, you warrant and represent that you qualify under the exemptions contained in Article 2 of the Emirates Securities and Commodities Authority Board Resolution No 37 of 2012, as amended by decision No 13 of 2012 (the "Mutual Fund Regulations"). By receiving this material you acknowledge and confirm that you fall within one or more of the exemptions contained in Article 2 of the Mutual Fund Regulations.

United States of America
In the United States, this document is issued by First Sentier Investors International IM Limited, as SEC registered investment adviser. Stewart Investors is the trading name of First Sentier Investors International IM Limited. This material is solely for the attention of institutional, professional, qualified or sophisticated investors and distributors who qualify as qualified purchasers under the Investment Company Act of 1940 (hereafter the "1940 Act"), as accredited investors under Rule 501 of SEC Regulation D under the US Securities Act of 1933 ("1933 Act), and as qualified eligible persons as defined under CFTC Regulation 4.7. It is not to be distributed to the general public, private customers or retail investors.

Other jurisdictions
In other jurisdictions where this document may lawfully be issued, this document is issued by First Sentier Investors International IM Limited which is authorised and regulated in the UK by the Financial Conduct Authority (registration number 122512). Registered office 23 St. Andrew Square, Edinburgh, EH2 1BB number SC079063.

Contact details

Edinburgh
23 St Andrew Square
Edinburgh EH2 1BB
United Kingdom

t. +44 131 473 2900

London
Finsbury Circus House
15 Finsbury Circus
London EC2M 7EB
United Kingdom

t. +44 207 332 6500

Singapore
58 Duxton Road
2nd & 3rd Floor
Singapore 089522

t. +65 680 59670

Sydney
Suite 10, Level 3
13 Hickson Road
Dawes Point
Sydney NSW
Australia 2000

t. +61 2 8274 8000

info@stewartinvestors.com

stewartinvestors.com

StAP-ESG-0421