Veritas
— Asset
Management

Real Return
Investing

Veritas Asset Management LLP

Environmental, Social and Governance (ESG) Asian Strategies Policy

At Veritas Asset Management LLP ("VAM or Veritas"), our aim is to buy high quality companies at the right price. We define a high-quality company as one that generates an attractive return on its capital, i.e., stable or rising ROC, generates or has the ability to generate significant free cash flow, benefits from distinct growth drivers that ensure future cash generation and has enduring competitive advantages to protect those future cash flows. Predictability of management on how it deploys the capital at its disposal is also key. In short, we seek to invest in businesses that are sustainable over the long term, at an attractive price.

The quality characteristics we seek are synonymous with sustainability and many of the factors labelled under ESG. The Fund is classified as a Light Green Fund (Article 8), in accordance with the EU Sustainable Finance Disclosure Regulation ("SFDR").

ESG Integration

ESG considerations are fully embedded in our assessment of quality and idea generation. We think ESG factors offer the most valuable insight when the framework is fully integrated into fundamental analysis that allows it to be placed in context along with industry, business, company, and financial analysis. We adopt a case-by-case analysis of each company that is suited to its own operating context as well as the stage of its own lifecycle and forward-looking strategy, reforms, and judgment.

Compartmentalising E, S and G into separate considerations offers little value in our view. The E and S factors are dependent on the management of a business, its governance structure ("the G") and whether incentives are aligned with long term shareholders. Well governed businesses will assess and address risks/opportunities that are not only relevant today but also in the future. These will include environmental and social factors.

We assess each company on its individual merits and do not have a pre-determined checklist of ESG criteria into which we force every company. The companies in which we invest, all benefit from long term sustainable trends/ themes, which in some cases are accelerating. For example, two of the themes are titled Green Asia and Healthy Asia. China has budgeted $3trn to combat air pollution and climate related factors by 2030. Coupled with this is greater regulation. This is a massive tailwind for companies like Shenzhen quoted Centre Testing International, the leading third-party agency specialising in testing, inspection, and certification services (TIC services). Government regulation tightening is a crucial external force to push the demand for third party TIC services especially related to both environmental protection and food safety. Another example is the solar energy innovation leader Sungrow Ltd, the rapidly declining cost in production of utility scale photovoltaic energy means solar is becoming cost competitive with fossil fuel, furthermore costs are still falling leading to a clear cost advantage. At the same time China continues to make progress with its commitment to reduce 2005 carbon levels by at least 65% by 2030 and carbon neutrality by 2060, solar power is key to achieving this goal.

Within Healthy Asia, we see opportunities in specific Asian companies where management have positioned the business to benefit from the substantial increase in health spending especially in China and India, which are addressing under resourced health care provision. Conditions such as Myopia (short sightedness) have reached epidemic levels whilst penetration of corrective surgery remains very low. Companies that help in the production of the next line of biologic drugs (as seen with vaccines recently) and preventative/ e-medicine are well positioned to both add value to investors from an accelerating trend and provide a social benefit.

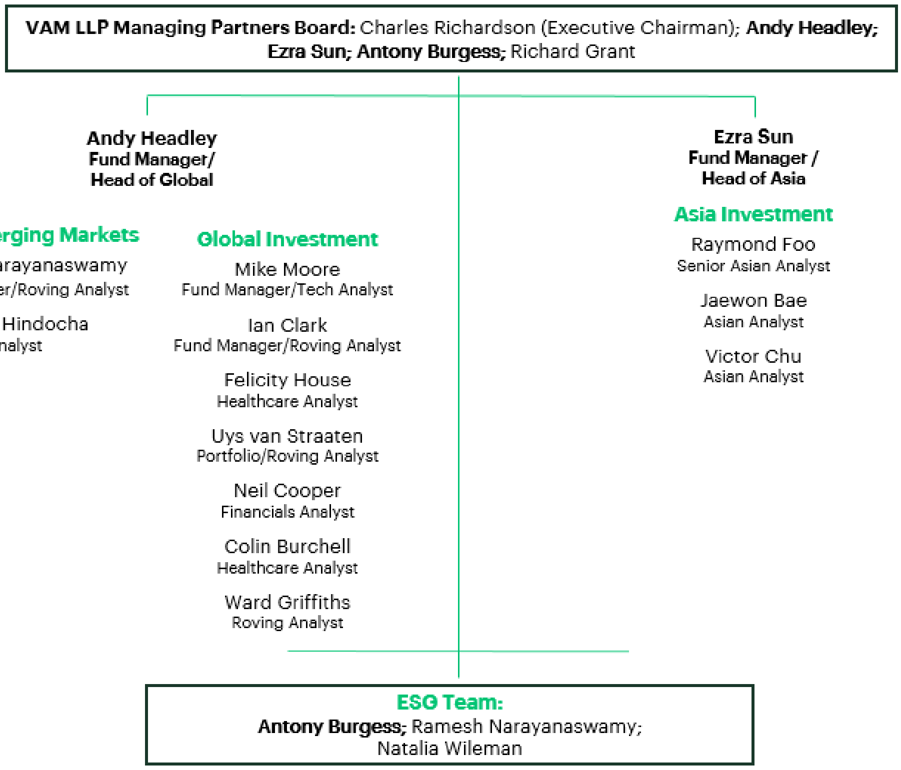
VAM ESG Governance Structure

Responsibility for investment and the integration of ESG rests with the investment teams and ultimately the Portfolio Managers, with oversight by the Managing Partners Board ("MPB"). The MPB consists of five Managing Partners: Charles Richardson (Executive Chairman), Antony Burgess (Head of Clients and Investment Specialists), Richard Grant (Chief Operating Officer, COO), Andy Headley (Fund Manager and Head of Global), and Ezra Sun (Fund Manager and Head of Asia). The MPB have responsibility for the consideration and sign off on key initiatives which affect the business.

VAM has an ESG Team that consists of three individuals across departments - Ramesh Narayanaswamy (Global Emerging Markets Portfolio Manager and Analyst), Antony Burgess (Head Investment Specialists and Managing Partner), Natalia Wileman (Client Services Executive). The team considers new initiatives and how these may be implemented if they are either additive to the investment process or to clients in terms of reporting. Any conclusions derived from initiatives analysed would then be discussed and approved by the MPB.

There is clear accountability and oversight. Both a Managing Partner and a Portfolio Manager sit within the ESG team considering new developments. Before anything is endorsed, it is signed off by the MPB which includes one member of the ESG team who will present to the MPB. Any action that is agreed e.g., introduction of a new policy, will be communicated to the various teams by the appropriate team leaders e.g., Head of Asia will inform the analysts. It is vital that both a Managing Partner and an Investment professional is involved from the beginning to ensure oversight from all business areas. By having a client service executive in the team, any impact on reporting can be assessed.

The ESG Team is also responsible for any internal training. This involves giving the context of any initiative, why it is being introduced and any requirements from the investment team. For example, when we decided to introduce ISS Benchmark Voting Policy as part of our approach, we have a 'comply or explain' element when voting against management, which not only helps to explain to clients why we had not voted with management on a sensitive issue, but it introduced another way by which analysts could encourage management into action.



*Key Individuals highlighted in bold.

Data Resources

ESG analysis is conducted in-house with full integration within our investment process and is conducted by our investment analysts and fund managers. The ESG team carried out a study to assess third party ESG data providers. A paper was produced that summarised our findings; it was concluded that we should not subscribe to any ESG research or ratings provided by third party providers as it was deemed that there was no value add to an asset manager such as Veritas, who conducts in depth proprietary research and manage concentrated portfolios. Additionally, the methodology used by these third-party providers is inconsistent and, in some cases, flawed, largely due to the lack of uniformity of the data currently available.

However, the recommendations included a number of initiatives to further the outcomes and client understanding in relation to climate change. We fundamentally believe governance is key to environmental factors and that climate change is the most pressing risk facing the world today. We appointed Sustainalytics to produce carbon analysis data for client reporting.

Stewardship

Our responsibility as stewards of our client's capital is of paramount importance. Oversight of the investee companies plays a key element in our investment approach. Veritas is rated Tier 1 by the Financial Reporting Council ("FRC") for adherence to the UK Stewardship Code.

Proxy Voting: We commit to voting on all resolutions tabled. When casting our vote, whilst we take third party views into consideration, such as vote recommendations provided based on the ISS Benchmark Policy, and questions raised by clients who use external proxy advisors, it is important that where mandated, the final decision rests with the investment team. There have been cases where resolutions brought against management by shareholders for good reason have failed simply because third party proxy firms have recommended voting against the resolution and with management instead. Veritas maintains independence of decision based on detailed knowledge of the company.

Voting on key issues is rarely done in isolation and is often a follow up post engaging with management. A decision to vote in favour of management could be conditional to implementing a course of action, e.g., introducing more Non-Executive Directors within a set time period or adjusting a Long-Term Incentive Plan. Common practice is for shareholders to rely on their investment manager to vote and Veritas takes this responsibility seriously. Some segregated clients will choose to indicate how to vote and, in these instances, Veritas will vote in line with a client's wishes, even if this is contrary to our "house view" but will offer an explanation as to why the house view differs.

Engagement: We view ourselves as engaged owners rather than buyers of tickers on a screen and believe Veritas has a part to play in encouraging constructive behaviour. We have two tiers of engagement. Tier one is defined as significant engagement which is a specific attempt to influence governance/business practices that have a material impact on long-term sustainable value creation. Tier two engagement is classified as interactions with a company to promote good business practice.

As long-term custodians of quality companies focused on management's sustainable stewardship of those companies, we actively engage with our investee companies, where we perceive there to be a potential risk to shareholder value and where we believe action taken by management could avert those risks. Engagement often takes place where there is potential poor deployment of capital (e.g., a company buying an unsuitable business rather than reinvesting or paying dividends), lack of transparency in some part of the business (this may relate to incentives or company structure), reputational risk (e.g., data protection in Healthcare IT businesses) or working conditions (e.g., factory standards in clothes outsourcing). In other instances, we will engage where we believe the management have not demonstrated the long-term vision to ensure future success. The investment team will be responsible for any company engagement with the portfolio managers and the analyst involved in the dialogue with the company. We believe it is necessary to treat management with respect and will endeavor to work with management to find a solution. To retain a strong long-term relationship, we hold our discussions with companies in a confidential manner but will include engagement summaries for client reporting purposes. Discussions can often be ongoing, and we will make it clear where there are key thresholds we expect to be met. Occasionally we may vote with management on an issue but set a deadline for change to take place i.e., introduction of more Non-Executive Directors (NED's) or the introduction of fairer long-term incentive plans. If engagement fails, we may vote against management if relevant and ultimately sell the stock if risk still prevails. We maintain a log to record the details of our engagement.

Global Initiatives

Veritas is a signatory of the UN Principles for Responsible Investment ("UNPRI"). We endorse the initiatives Task Force on Climate-related Financial Disclosures ("TCFD") and Transition Pathway Initiative ("TPI"). These bodies encourage disclosure on areas related to climate change, in a standardised format, which is comparable across company and sector. We are rated Tier 1 by the Financial Reporting Council ("FRC") for adherence to the UK Stewardship Code and we also have a seat on the UK Investment Association Sustainability and Responsible Investment Committee.

Client Reporting

It is becoming increasingly important to produce more comprehensive reporting on ESG related areas to clients. Whilst we currently have reservations on the validity of third party ESG ratings, we strongly believe in addressing the areas of interest to our clients and educating on the rationale behind some of the positions.

Our quarterly investment reports contain the following ESG related reporting;

i. Proxy Voting

A summary of our voting activity, including rationale examples for votes cast that have resulted in a vote contrary to the management or the policy vote recommendation.

ii. Engagement reports

Any material engagement with management over the quarter will be documented. A follow up to the engagement efforts will be given in future reports if the engagement is ongoing.

iii. Carbon Analysis

Portfolio level carbon analysis reporting, which covers; the portfolio carbon footprint, carbon intensity, exposure to fossil fuels, exposure to carbon solution, and carbon management.

For further information please contact:

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