

Veritas Asset Management LLP

Environmental, Social and Governance Framework

2023

ESG Philosophy

Searching for enduring businesses | The Veritas investment philosophy of identifying good quality companies and investing at the right entry point, has sustainability at its core. In order to value companies in the future based on the cash they generate, it is necessary to focus on two broad areas: a) how sustainable a business is, in terms of the product it sells, its business model, its corporate structure and its management; the more sustainable and predictable a business, the better the quality, and b) any risks or opportunities that arise from a changing landscape and whether management is alert and focused to those changes, as well as being aligned with shareholders. Each company is considered on a case-by-case basis, but themes and long term trends are used to identify ideas, some of which may have links to the UN Sustainable Development Goals. For example, affordable healthcare seeks to identify those companies helping to take cost out of the healthcare system, providing a social benefit whilst increasing its own return on capital.

The E and S factors are undoubtedly dependent on the management of a business, i.e., its governance structure, the G factor. Well governed businesses will address risks and opportunities that are not only relevant today but also in the future and where relevant will include environmental and social factors. The quality characteristics sought when selecting an investment in a company are synonymous with sustainability and many of the factors labelled under ESG. These overall beliefs are embedded throughout the firm and applicable to all products. When introducing an initiative or commitment, the intention will be to ensure it is applicable across all portfolios, for example, the commitment to Net Zero, is done so on 100% of AUM.

The investable 'universe list' of high-quality companies with sustainable business models comprises less than 10% of the total universe of companies, adjusted for size and liquidity – most listed equities simply do not qualify to be added to the universe list. The process is deliberately designed to ensure the universe list is highly selective and 'narrow' which allows a more in-depth understanding of the companies i.e., the approach of applying a positive screen rather than to negatively screen out companies.

ESG risks and opportunities are integrated into company analysis throughout the investment process and across multiple dimensions, as illustrated below:

- i. **Sustainable demand and growth** | The sustainability of the demand for a product or service is vital for a long-term investor. Veritas does not invest in companies that may benefit from a short-term fad and instead look for a growing demand for their products and services over 10+ years. This holistic analysis considers whether the company's primary business proposition will likely become more relevant in creating a sustainable growth tailwind over time. This is a forward-looking judgment and hence does not exclude sectors like defence. Traditional 'environmental' factors fall out of this approach, for example commodity producers or utilities where the sustainability of demand (and/or regulatory backdrop) over a 10-year horizon is questionable, due to the high carbon intensity of the production process. The main reason the portfolio has a low carbon footprint (as measured by third-party independent vendors) is a result of this approach. However, the approach is not dogmatic and investment may be made in utilities, such as renewable energy businesses that meet the criteria.

Sustainable business model | A sustainable growth backdrop for the product is necessary, but more is required for a business to generate shareholder value. A robust business model with demonstrable barriers to entry and the ability to generate cash flows is essential for value creation. Cooper Companies, which manufactures and sells contact lenses has

produced the only FDA approved contact lens specifically to slow down the speed at which myopia develops. Given there is a link with myopia and age-related diseases like glaucoma, there is a clear social benefit.

- ii. **Sustainable earnings and cashflows** | A software company can 'pull forward' earnings by signing long term contracts with up-front payments, but it is taking on a form of 'debt' by borrowing from the future. Similarly, businesses charging unsustainably high prices for products and services will be able to report higher margins, which are unsustainable. A good example is the US Healthcare company, CVS Health. CVS Health had combined a Pharmacy Benefit Manager ("PBM"), which administers prescription drug programs for health plans, with a chain of pharmacies at which prescriptions could be collected, and with the aim of customers buying products like toothpaste while they were there. Given the threat of Amazon's entry and the enduring trend for lower drug prices, the management of CVS Health moved to both protect its business and increasingly become part of the value-based healthcare solution by buying Aetna (insurance) and starting to convert many of its pharmacies into 'health hubs' which helps take pressure off hospitals. More recently it has added primary care and in-home healthcare companies. Becoming a vertically integrated healthcare company puts CVS Health in better place that helps underwrite sustainability of the business, and hence earnings and cash flows by being part of the solution to one of America's key challenges (health care costs).
- iii. **Sustainable capital structure** | Veritas is mindful of being equity holders and are cognizant of being subordinated to debt, off-balance sheet obligations, pensions and other hidden 'liabilities' that must be serviced before common shareholders can access cash flows (for example, dividends or future growth). Some businesses are inherently more stable and can support higher leverage to benefit equity holders (infrastructure assets like airports e.g., Aena or broadband providers e.g., Charter) – other, more cyclical industries with lower entry barriers leave themselves vulnerable if they take on more financial leverage.

Governance is a broad important topic and ultimately all ESG is about 'G'. After all it is senior management that determines whether a company has a climate policy in place. Governance is multi-faceted and it is considered from a variety of standpoints in each case. These include the following:

- i. **Board of directors** | At the core, sustainable governance structures require the 'principal/agent' problem to be addressed by companies. A well-functioning Board provides oversight and challenge to operating management ("agent") and represents the risk capital of minority shareholders ("principal" or "owners"). The key judgment to form is whether the principal-agent relationship is adequately represented. This may be evident by a company using different share classes with unequal voting rights or the presence of stakeholders whose incentives may not be aligned with shareholders (e.g., state owned Chinese companies).
- ii. **Executive remuneration and shareholder alignment** | A key element of governance is incentives that drive behaviours at all levels. Veritas prefers management teams with 'skin in the game' which are aligned with shareholders and are likely to think as well as act like shareholders would in assessing all relevant variables (and risks) that affect the long-term value of the business, ESG or otherwise. The appropriateness and disclosure of KPIs that form part of incentive compensation, remuneration structures and convexity/symmetry of payoffs that do not encourage excessive short-term risk taking to the detriment of long-term value creation is vital.
- iii. **Capital allocation** | Capital allocation is central to value creation and encompasses all aspects of the business, including environmental and social factors. This is a key tenet to the link between 'ESG' and 'value creation' – businesses that allocate capital wisely in innovation, in treating stakeholders fairly, and for future growth and opportunities will be able to drive healthy cash flows, returns on capital and hence shareholder value. It's important to judge the appropriateness of capital allocation policies relative to the firm's position in the industry and its own lifecycle. The investment teams look for discipline and restraint in pursuing M&A (and avoiding value destructive deals), appropriateness of dividend coverage and willingness to do stock buybacks (at the appropriate time and at the appropriate price).
- iv. **Engagement with management** | Veritas are 'engaged owners' and are hence willing to engage with companies to influence governance. A constant dialogue on all key issues will be maintained.

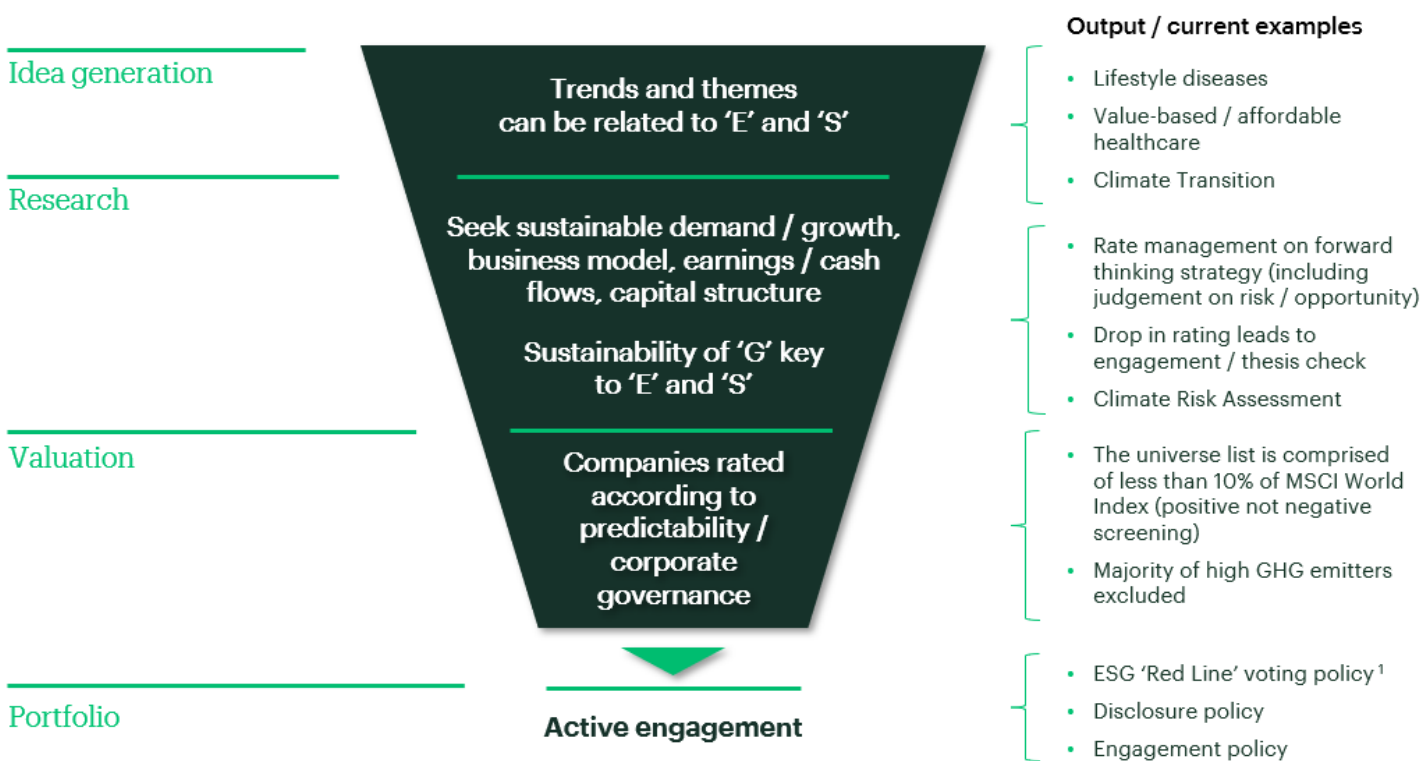
- v. **Disclosure and Accounting** | Quality and conservatism of financial accounting policies, especially when significant management discretion is involved in preparing accounts is highly important. Attention is paid to off-balance sheet liabilities, opaque risks, and the quality and transparency of disclosures of key performance indicators for outside investors to judge performance.
- vi. **Governments and regulatory context** | It is essential to recognize the importance of governments in driving societal change. While 'ESG' factors continue to drive changes (mostly for the better), the role of governments will also come under scrutiny, and businesses are prone to be either helped or harmed by this (through say, regulation or taxation). This is a direct link between ESG 'policy' and shareholder value creation (or destruction). Capitalism and private investors cannot affect all changes on their own. Regulation affects many fixed asset industries directly (such as infrastructure or utilities) but an example of regulation being used in a traditionally un-regulated sector is the Chinese gaming regulator restricting new game licenses amid concerns over children's health. Whilst education plays a role, the use of mobile phones and gaming has undoubtedly exacerbated the mental health problems of the younger generation which has consequently proved to be a huge risk for some companies. Regulation, in other instances, can in fact benefit companies by raising the barrier to entry to new entrants.

ESG Integration

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. The diagram below illustrates the integration of ESG throughout the investment process:

Investment Process

ESG Integration



¹ The Red Lines are a set of tightly drawn voting instructions covering a wide range of environmental, social and governance issues, developed by the Association of the Member Nominated Trustees (AMNT) to enable pension schemes to take a more active asset ownership role and to become more responsible investors. For further information on sustainability related aspects please visit <https://www.vamllp.com/sustainability/>

The aim is to look for high quality companies and remain patient to buy these companies at the right entry point. The more predictable a company, the easier it is to model, and the higher the likelihood of making the desired return. ESG integration can be demonstrated throughout the investment process.

The first part of the process, idea generation, is identifying high quality companies to add to the Universe List. The analysts focus on a list of stocks that have been identified in several ways. These include 'themes', some of the themes/trends focus on a clear environmental and social impact which have been recognized by the management teams of investee companies. Examples include affordable healthcare and climate transition.

The resulting short list of companies are those that at first sight look as if they may be attractive long-term investments and warrant further analysis. The appropriate analyst(s) will analyse the company in further depth and at this stage, include any consideration that may affect the sustainability of the business. Since management is core to this, the management team is scored based on criteria that includes past/ present stewardship, management of expectations and crucially, vision. How a company intends to deploy cash given its expectations over the next 10 years as to the direction of travel of their industry is key. Each member of the investment team attending a meeting will score management independently and an average score is assigned. If the score falls over time, the investment is reconsidered, and the thesis is tested.

All companies are formally monitored pre-investment (and also post on an ongoing basis) for compliance with relevant international frameworks published by intergovernmental organisations, such as the United Nations, which set out expected behaviours regarding business practices. The relevant frameworks include the United Nations Global Compact ("UNGC") and the United Nations Guiding Principles on Business and Human Rights ("UNGP"). Additionally, companies are assessed on climate transition positioning aligned with the TCFD framework.

Once a stock qualifies to be added to the Universe List, the investment team will rate companies based on corporate governance and the sustainability of their cash flows¹. A '1' rated company has the greatest predictability. For these businesses, a 12% IRR is sought, i.e., accepting a lower margin of safety due to lower risk factors. For those companies rated '2', a 15% IRR is sought and companies with a '3' rating are those whose corporate governance may leave some concerns, e.g., a Chinese internet company, which results in seeking a 20% IRR. Furthermore, the Universe List has positively screened out high GHG emitting companies. Very few high Greenhouse gas (GHG) emitting companies are present on the Universe Lists as they have not satisfied the quality criteria sought.

Post-investment, all companies held are subject to the Investment Manager's ESG Red Lines under the Voting Policy². If the voting policy guidance is breached, the Investment Manager will engage and /or vote against management to the extent required. A third-party screen is run monthly on companies within the portfolio and target list. The Investment Manager will identify any companies listed that are identified as having "Failed" the screen for non-compliance with the principles. The Investment Manager will assess the materiality of the violation and engage with the relevant issuer if necessary. Additionally, all investee companies are monitored for compliance with Taskforce on Climate related Financial Disclosures ("TCFD") guidelines with voting and engagement used as tools to encourage compliance.

Research and Third-Party Data Providers

ESG research information is integrated into proprietary research conducted in-house with full integration within the investment process. Veritas does not rely on third party ESG scores but prefers to conduct analysis in-house utilizing some data from third party providers. Third-party provider data is also used to assist with generating specific reports for clients. Every two years, the ESG Team formerly reviews third-party providers' data offerings.

¹ Applicable to Global Investment Strategies.

² Applicable to Global Investment Strategies. The Red Lines will be introduced to the Asian Investment Strategies during the second half of 2023.

Veritas uses the following third-party ESG data providers:

Data provider	Description
MSCI ESG Research LLC	<p>MSCI ESG data is used to supplement ESG activity in several ways:</p> <ul style="list-style-type: none"> - Provide a bespoke alerts for breaches of global norms frameworks - Provide screening for controversial weapons. - Provide data that will enhance climate transition work - Provide data to aid thematic engagement initiatives
Carbon Trust	<p>Carbon Trust was appointed to assist with calculating the firm’s decarbonisation targets, which is compliant with the firm’s Net Zero Asset Managers signatory status. The target is recognised by the Science Based Targets initiative (SBTi) and complements the TCFD engagement policy.</p>
Institutional Shareholder Services (“ISS”)	<p>Voting policy application and execution. Veritas applies a custom ESG Voting policy which incorporates the ESG Red Lines.</p>
Carbon Disclosure Project (“CDP”)	<p>Data from the CDP is used to assess the progress made by investee companies in their transition to a low carbon economy in line with TCFD guidelines. The output is used as part of the climate related engagements with companies.</p>

Active Ownership

Active ownership through the tools of engagement and voting are the most effective approaches to influence management. An assessment from the original research will be formed which identifies material risks for a particular business. These are risks that have the most potential to affect the company's ability to create value for shareholders. Material issues differ from company to company and sector to sector. Companies may engage in an activity that challenges its operation's sustainability or through inactivity may demonstrate a lack of vision to adapt and in these cases, will trigger engagement. Furthermore, thematic engagement initiatives are conducted that relate to environmental and social topics that encourage good business practices aligned with global societal goals.

Engagement can be triggered in several ways:

- Action that is not aligned with shareholder interest. This can include buying/ or attempting to buy a company that adds no value to shareholders (i.e., poor deployment of cash).
- Breach of the ESG Red Lines under the Voting Policy. One of 29 Red Lines related to ESG factors that if breached will lead to a vote against management but potentially engagement before doing so.³
- Controversy that is flagged that breaches UN Global Compact (“UNGC”) or United Nations Business and Human Rights Principles (“UNGP”).
- Task Force on Climate-related Financial Disclosures (“TCFD”) shortfalls. Specific to climate transition and reducing the overall temperature on the portfolio.
- Deterioration in the rating of management

³ Applicable to Global Investment Strategies. The Red Lines will be introduced to the Asian Investment Strategies during the second half of 2023.
June 2023

Engagement process

1. Once the engagement objective has been identified, in the first instance the Investment Team will usually write to company management explaining the issue and what action should be taken,
2. If the issue is not addressed, the Team will seek to speak with senior management (CEO, CFO, COO etc.) to address the issue.
3. In cases where there is a regulatory or political angle, the Team may have already spoken to third party professionals through an expert network.
4. Post meeting with management, where relevant, the Team will follow up again in writing. At this juncture, the expected timeframe for any suggested actions to be achieved will be determined, in conjunction with how they will be monitored/measured.
5. If the Team believes that company management are not addressing the matter efficiently or the timeframe to action any changes is not being met, the Team may choose to vote against management at the next opportunity and notify them of the intention to do so.
6. If engagement and voting fail, the Team may choose to exit the position, and the company will be removed from the Universe List. All activity and milestones are recorded in the engagement log.

Systemic Risks (Thematic Engagement)

Climate change poses a key systemic risk. Therefore, Veritas is committed to achieving Net Zero by 2050 and the percentage of AUM managed in line with Net Zero is 100% of invested assets. The emissions targets set are for the entire organisation, which includes 100% of financed emissions, as that is the requirement under the Net Zero Asset Managers initiative (NZAM). Given that the firm has also signed up to the Science Based Targets initiative (SBTi), the business is obliged to set interim targets for both SBTi, which needs to be five years from the base year (2021 is base, so 2026) and for NZAM, which is the 2030 target.

Veritas appointed the company Carbon Trust to assist with calculating the implied temperature rating of all assets to determine an overall pathway to net zero which is assumed to be linear. Carbon Trust are respected advisors to organisations and governments on climate transition pathways and use SBTi approved methodology.

The implied temperature rise (ITR) model assembled by Carbon Trust only incorporates companies with targets set that have been verified by SBTi. Companies that have committed to SBTi but are yet to have their targets approved or have no targets set, receive a default score of 3.2°C. For example, Catalent is “committed” to SBTi, but Carbon Trust still assigns the business 3.2°C. Canadian Pacific Railway has a “verified” near-term target of well below 2°C (meaning 1.75°C), which is considered in the Carbon Trust model, i.e., they score 1.75°C.

Whilst the model uses the weighted average approach (the respective weighting is the invested value in a company divided by the total value of all portfolios), this hard-line default approach impacts the overall implied temperature rating, which is the key takeaway. The ITR will reduce quickly by encouraging companies to commit to having their targets verified by SBTi, which aligns with the TCFD engagement policy.

2030 target

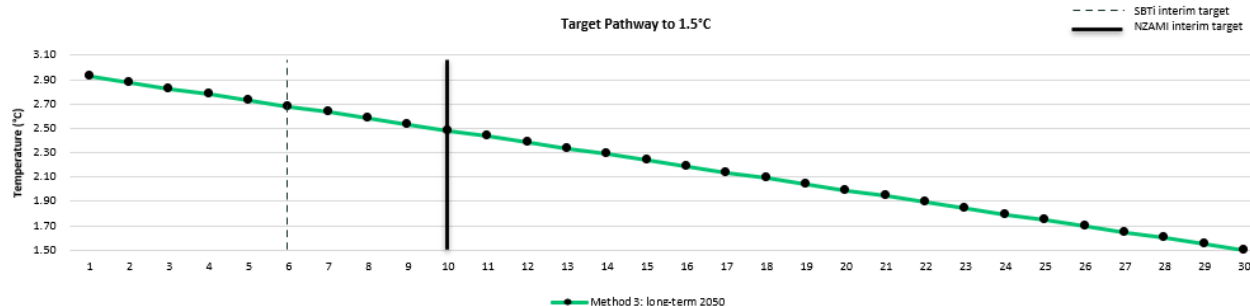
The decarbonisation framework is consistent with the SBTi Financial Institutions Target Methodology, which incorporates the IPCC pathway to 1.5°C. The Temperature Rating methodology is used to determine the firm’s targets for financed emissions. The baseline year set was 2021, at which point the firm-level metrics were 2.76°C (Scopes 1+2) and 2.93°C (Scopes 1+2+3). The interim targets for 2030 are 2.37°C (Scopes 1+2) and 2.48°C (Scopes 1+2+3). The main target set is to achieve 1.5°C by 2050 by aiming for an annual temperature reduction of 0.04°C (Scopes 1+2) and 0.05°C (Scopes 1+2+3).

An assessment of all investee companies to identify where they are in their transition to a low-carbon economy has been conducted. The Carbon Disclosure Project (“CDP”) reports and the company sustainability reports are the foundation of climate analysis. The assessment is aligned with the Taskforce on Climate-Related Financial Disclosures (“TCFD”) framework, including Strategy, Governance, Risks, Metrics & Targets.



Scope 1,2&3 target trajectory 1.5DS

Method 3: Portfolio weighting



Target setting	Long-term target 2050
Baseline Year (t1)	2021
Longer-term target	2050
Interim Target (NZAMI)	2030
Interim Target (SBTi)	2026
Current Temp Scoring S1&2	2.93
Target Temp Scoring S1&2	1.50
Δ Temp reduction t1 + n	0.05

Interim Target	Year	Long-term target 2050
The Net Zero Asset Managers	2030	NZAMI interim target is 2030 so time frame is 9 years so [2.93°C - (9 x 0.05)] = 2.48°C temperature score by 2030
Science-based target	2026	SBTi interim target is 2026 so time frame is 5 years so [2.93°C - (5 x 0.05)] = 2.68°C temperature score by 2026

NGO ESG Organisations

Veritas is a signatory of several globally recognised Non-Governmental Organizations (“NGOs”), demonstrating the firm’s commitment to integrating ESG within the investment process and considering the needs of the global society. For example, the firm is a signatory of the Net Zero Asset Managers initiative (“NZAM”) and Science Based Targets initiative (“SBTi”). To achieve the goal of a low carbon economy and halt the global rise in average temperature, there needs to be consistent and measurable company disclosure. In addition, all companies need to identify Science Based Targets that consider the Global Carbon Budget as they transition to a low-carbon economy.

ESG Organisations	Year Joined
UN Principles for Responsible Investment (UNPRI)	2017
Financial Reporting Council’s (FRC) UK Stewardship Code	2014
Task Force on Climate-related Financial Disclosures (TCFD)	2019
Transition Pathway Initiative (TPI)	2020
Net Zero Asset Managers Initiative (NZAM)	2021
Science Based Targets Initiative (SBTi)	2021

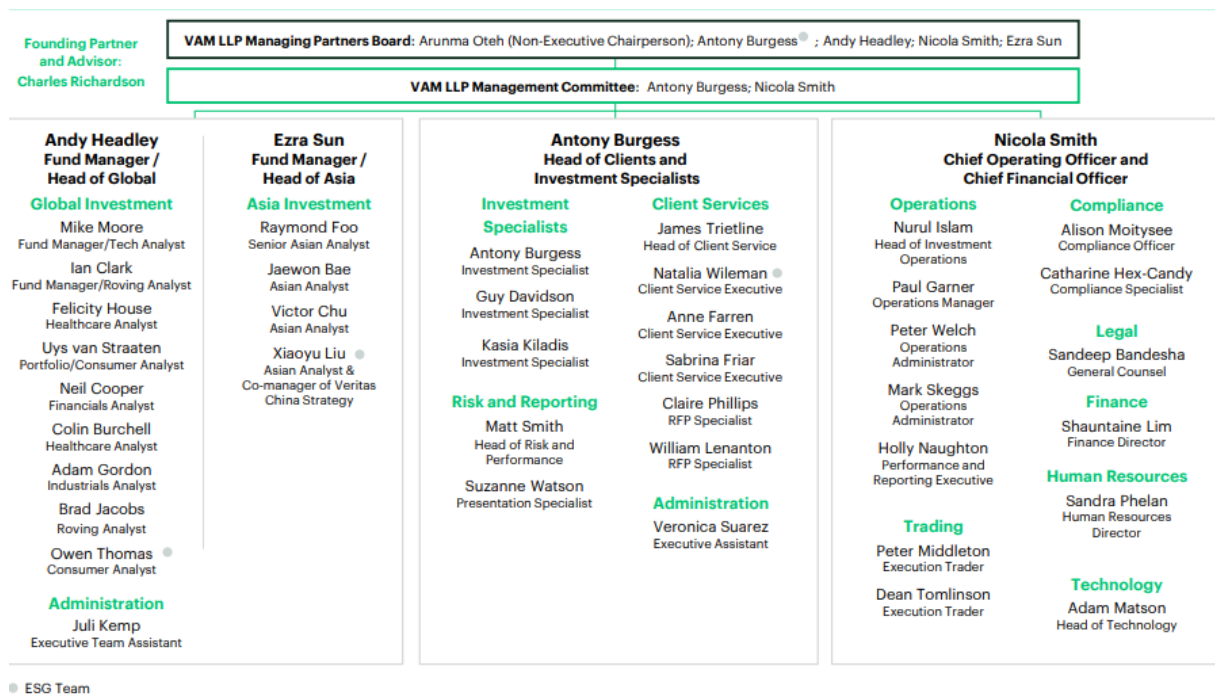
ESG Resources

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”). This approach has been consistent since the inception of all investment strategies.

Veritas has an ESG Team that oversees specific processes and infrastructure ensuring compliance with regulation and education within teams throughout the firm.

The ESG team currently consists of four individuals across departments:

- Antony Burgess (Head of Clients and Investment Specialists, and Managing Partner)
- Owen Thomas (Analyst - Global Team)
- Xiaoyu Liu (Co-Manager, Veritas China strategy, and Analyst - Asian Team)
- Natalia Wileman (Client Services Executive)



The ESG Team considers new initiatives that may be additive to the investment process, specifically related to stewardship or client reporting. There is clear accountability and oversight from start to conclusion. Before anything is endorsed, it will be signed off by the MPB, which includes one member of the ESG team who will present to the MPB. Any agreed action, such as the introduction of a new policy, will be communicated to the various teams by the appropriate team leaders, e.g., the Head of Global Investments will inform the analysts. It is vital that both a Managing Partner and Investment professionals are involved from the beginning to ensure oversight of all business areas. The ESG team has representation from both Global and Asian investment teams. Owen and Xiaoyu have experience implementing ESG, specifically assessing ESG risks or opportunities and factoring analysis into financial models and valuations, where appropriate. By having a client service executive in the team, any impact on reporting can be assessed. There are regular meetings for the ESG team to evaluate new initiatives, attendance of relevant conferences/ webinars and conduct thorough discussions on new ideas that will be tabled and analysed.

Regulatory Fund Labels

All Veritas Funds are categorised under Article 8 of the EU Sustainable Finance Disclosure Regulation (“SFDR”), meaning they may be regarded as promoting, among other characteristics, environmental characteristics provided that the companies in which the investments are made follow good governance practices. The table below outlines the specific commitments made in terms of managing portfolios to ensure compliance with the Article 8 status.

Regulation	EU Sustainable Finance Disclosure Regulation (“SFDR”)
Proportion of investments	The Investment Manager intends to invest a minimum of 60% of the Fund's NAV in investments which attain the environmental and/or social characteristics promoted by the Fund. The remaining 40% of investments will be in investments which seek to achieve the broader objectives of the Fund, including those which may not match the Fund's ESG criteria in its entirety.
Binding Elements⁴	<ol style="list-style-type: none"> 1. The Fund will ensure that a minimum 30% of net assets are invested in companies committed to achieving Net Zero. Compliance will be measured using verification and commitments aligned with Science-Based Net Zero Target methodologies and/or pledges to the Business Ambition for 1.5 °C campaign, each as promoted by the SBTi. 2. A set of fixed exclusion criteria is in place to exclude companies or issuers from consideration for investment where their revenue is significantly derived from controversial weapons (for example, anti-personnel mines, cluster munitions, chemical weapons, and biological weapons). 3. The Fund will be managed to achieve an overall carbon footprint (calculated with regard to Scopes 1+2) that is a minimum of 50% lower than that of the MSCI World (Net dividends Reinvested) Index.
Blended Methodology	To achieve the minimum 60% threshold of investments in companies that promote environmental and/or social characteristics, a blended methodology is applied that weights the binding elements equally.
Principle Adverse Impacts (PAIS)	VAM has not committed to evaluating the PAIs prior to investment. However, all Funds are deemed to have regard to six of the PAIs which are considered relevant to the Sub-Fund: 1. GHG emissions, 2. Carbon footprint, 3. GHG intensity of investee companies, 4. Exposure to companies active in the fossil fuel sector, 10. Violations of UN Global Compact principles 14. Exposure to controversial weapons (anti- personnel mines, cluster munitions, chemical weapons, and biological weapons).

⁴ The figures stated are in reference to the Veritas Global Focus Fund. Further information on all investment vehicles managed under the Fund umbrellas Veritas Funds plc and Veritas Common Contractual Funds can be located in the prospectus.

Conflicts of Interest

Conflicts of interest may arise from time to time, such as voting on matters affecting an investee company whose pension scheme may be a client or where clients are shareholders in two companies involved in both sides of a deal or dispute. To identify such conflicts, on a monthly basis, the ESG team at Veritas reconciles the firm's list of investee companies against its client list in the customer relationship management system. If no conflicts are identified, the Compliance team will be advised of a nil report. If a conflict is identified, the Compliance team will be notified, and the item will be logged in the conflicts of interest register, along with the date of the next Annual General Meeting or Extraordinary General Meeting for the investee company (if available). Notification of the conflict will also be provided to the Investment team, who will engage with the ESG team to ensure there is no risk of inappropriate influence in the voting process. If required, matters will be escalated to the Management Committee. Where a conflict of interest is identified, Veritas will vote in accordance with standard voting procedures, ensuring votes cast are in the best interests of clients.

Investor Reporting

The Veritas website has a dedicated Sustainability section which provides the following information: policy documents, regulatory disclosures, annual ESG reports, and a summary proxy voting activity through an interactive portal for all pooled Funds. Within the ESG section of the quarterly investment reports, Veritas provides an update on several areas, including; any significant engagement activity undertaken during the period, which includes any positive and negative outcomes; a summary of investee companies' compliance with global norms frameworks, such as the United Nations Global Compact (UNGC); an overview of proxy voting activity, including rationale examples for votes cast that have resulted in a vote contrary to the management or the policy vote recommendation; a Carbon Portfolio Analytics report that covers the Portfolio Carbon Footprint, Attribution Analysis and Key Holdings, Carbon Intensity, Weighted Average Carbon Intensity, Carbon Risk, Exposure to fossil fuels and Exposure to Clean Technology Solutions.

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