Veritas
— Asset
Management

Real Return
Investing

Sustainable Finance Disclosure Regulation ("SFDR")

Disclosures under Article 3, 4 and 5

In accordance with the requirements of Article 3 of Regulation EU 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"), Veritas Asset Management LLP ("VAM") discloses its policy on the integration of sustainability risks into its investment decision-making processes.

Investment Philosophy

Our investment philosophy at VAM is committed to delivering attractive risk-adjusted returns for its clients over the long-term. Our investment approach to achieve these investment return objectives is characterised by the following investment principles:

- Focus on protecting and growing the value of clients' capital;
- Long term perspective, investments made with 5 year plus time frame;
- Dynamic, research driven approach;
- Disciplined, risk-controlled environment, and
- Active management (both top down and bottom-up inputs).

Integration of Sustainability Risks into the Investment Process

Our investment process revolves around a holistic assessment of a company and the multi-faceted social and economic context in which it operates. Our analysis of risks is highly specific to the business and industry in question and is followed up real time across our holding period. We integrate traditional ESG factors into our analysis at all steps of the process and along multiple dimensions. This includes a sustainability analysis covering the following areas; a) Sustainability of demand and growth i.e., whether the company's basic business proposition is likely to become more or less relevant over time; b) Sustainability of business model. Environmental and social factors have to ultimately make sense from a business perspective to have value for shareholders (or indeed, society – as a weak business with poor cash flows cannot invest for the benefit of society); c) Sustainable capital structure. Some businesses are inherently more stable and can support higher leverage to the benefit of equity holders; d) Sustainability of the board. The key judgment we are trying to form is whether the principal-agent relationship is adequately represented. We are wary of the use of different share classes with unequal voting rights or the presence of stakeholders whose incentives may not be aligned with shareholders; e) Executive remuneration and shareholder alignment. This is a key element as incentives drive behaviours at all levels. We tend to prefer management teams with 'skin in the game' who are aligned with shareholders and likely to think and act like we would in assessing all relevant variables (and risks) that affect the long-term value of the business (including Environmental and Social factors); f) Capital allocation. This is central to value creation and encompasses all aspects of the business including environmental and social forces. 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. We try and judge appropriateness of capital allocation policies relative to the firm's position in the industry and in its own lifecycle; g) disclosure and accounting. We are looking for quality and conservatism of financial accounting policies. We pay attention to off-balance sheet liabilities and risks that are opaque and the quality and transparency of disclosure of key performance indicators for outside investors to judge performance.

Additionally, we consider the regulatory context. It is important to recognise the importance of governments in driving societal change. The role of governments will also come under scrutiny, and businesses are prone to be either helped or hurt by this (e.g., regulation, taxation). This is a direct link between ESG 'policy' and shareholder value creation (or destruction). This context drives some of the trends/ themes in idea generation related to climate change and healthcare provision.

ESG Governance

The responsibility for investment and the integration of ESG practices rests with the Investment teams and ultimately the Portfolio Managers. ESG considerations are fully embedded in the investment process at VAM.

We have an ESG team which consists of Ramesh Narayanaswamy (Global Emerging Markets Portfolio Manager and Analyst), Antony Burgess (Head of Clients and Investment Specialists, and Managing Partner), and 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 client reporting.

Both a Managing Partner and a Portfolio Manager are members of the ESG team considering new developments. Before any initiative is endorsed it will be discussed by the MPB, which includes a member of the ESG team who will present to the Board. Any action agreed upon, for example, the introduction of a new policy, will be communicated to the various teams by the appropriate team leaders. It is vital that both a Managing Partner and an Investment professional are involved throughout. Thus, there is clear accountability and oversight throughout the process.

Use of Data, Tools and Third Parties

Assessment of environmental and social characteristics need to be considered alongside the management to whom shareholders delegate fiduciary duty to run companies on their behalf and in their interest. We do not sidestep this responsibility by appointing third party ESG rating agencies where methodology in assessment is inconsistent and often one dimensional.

- We run concentrated portfolios of high quality, sustainable businesses, derived from a 'universe list' that is less than 10% of the quoted equity market. Unsustainable businesses are excluded from the 'universe list'.

- The investment approach is iterative with dialogue and analysis which considers all aspects of sustainability as outlined above, rather than compartmentalising social and environmental characteristics.

- We seek a higher margin of safety in those companies where there are higher ESG risks. Companies on the 'universe list' are rated, with the higher rated companies requiring a lower rate of return before investment. Rating also affects position sizing within the portfolio.

- We do subscribe to Sustainalytics to provide an independent carbon analysis of the portfolios for reporting purposes in order that we are able to report overall climate positioning to clients and place company activity into context.

Transparency and Reporting

VAM is a signatory to the UN Principles for Responsible Investment ("UN PRI") and fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report which is available on the PRI website (www.unpri.org). VAM endorses the initiatives Task Force on Climate-related Financial Disclosures ("TCFD") and Transition Pathway Initiative ("TPI"). The bodies encourage disclosure on areas related to climate change, in a standardised format, which is comparable across company and sector. The firm is 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.

Within the ESG section of the Fund quarterly investment reports, we provide an update on several areas, including; any engagement activity undertaken during the period, this will include any outcome, both positive and negative. A summary of voting activity, including rationale examples for votes cast that have resulted in a vote contrary to the management or policy vote recommendation. We also include portfolio level carbon analysis reporting, which covers; the portfolio carbon footprint, carbon intensity, exposure to fossil fuels, exposure to carbon solutions, and carbon management.

Principle Adverse Impacts

In accordance with the discretion granted pursuant to Article 4 of SFDR, the Investment Manager in respect of the Funds, does not currently consider the adverse impacts of investment decisions on sustainability factors or issue a statement on its website in relation to the due diligence policies with respect to those impacts, in line with the specific requirements of SFDR. This is pending (a) the adoption of final regulatory technical standards by the European Commission pursuant to Article 4 of SFDR, which shall set out detailed requirements in relation to the content, methodologies and presentation of information sustainability indicators in relation to adverse impacts on the climate and other environment-related adverse impacts and (b) the market developing to the point where appropriate and accurate data becomes more widely available/accessible such that the results of such an assessment would prove meaningful to investors.

Following the adoption and coming into force of such regulatory technical standards, currently expected to be from 1 January 2022, the Investment Manager intends to comply with the SFDR requirements in relation to the publication of adverse impacts in respect of each Fund and the relevant Supplement and the Investment Manager's website shall be updated accordingly.

Remuneration Policy

VAM has reviewed its Remuneration Policy in accordance with the requirements of Article 5 of SFDR to ensure consistency with the Firm's integration of sustainability risks as described above. Central to VAM's remuneration policy is the promotion of sound and effective risk management and this has now been extended beyond financial risks to encompass sustainability risks. In summary, relevant individuals who are involved in implementing and/or overseeing VAM's Sustainability Risks Policy will be assessed in this respect as part of the determination of variable remuneration awards by reference to their risk-adjusted performance. This policy will be reviewed periodically as is required by regulations.

Related Policies

VAM has adopted a number of complementary and related policies which provide an overview of its approach and these include:

- Global Strategy Voting Policy;
- Asian Strategy Voting Policy;
- Global Strategy ESG Policy;
- Asian Strategy ESG Policy;
- Engagement Policy
- UK Stewardship Code Disclosure Statement; and
- Statement on the UK Modern Slavery Act

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