Veritas
Asset
Management

Real Return
Investing

ESG & Stewardship Report 2022

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The reporting period covered is 12 months to 31 December 2021.

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Principle 1 - Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Veritas Asset Management LLP ("VAM LLP or Veritas") was founded on the core belief of protecting and growing client's capital in real terms. Whilst many clients wish to achieve returns in excess of an index, they primarily do not wish to see the value of their assets depreciate over time. By setting an inflation plus target, we create an investment return objective that is absolute rather than relative. In order to achieve that absolute return, we seek companies with the most predictable cashflows. These companies are those with sustainable characteristics and forward-thinking management that are aligned with shareholders.

The culture of the firm, its structure, the investment process, and the way in which we have developed the business have all evolved from this core belief in real returns.

The context in which a firm operates is critical and at Veritas we have a set of cultural traits which anchor our business. These are often written about by our Founder and Non-Executive Chairman, Charles Richardson, and published on our website. The 10 principles are listed below:

Investment-led: The practice of investment, alongside developing the conditions within which the right degree of thought and analysis takes place, is of paramount importance.

Client orientated: We aim to align ourselves with client interests by only pursuing clients who seek our philosophy, process and core competencies. We invest alongside our clients.

Independence: Independence of thought and action.

Entrepreneurial: We prefer people in the Partnership to take initiatives, find solutions and 'get things done' in the interests of the clients and the Partnership.

Simplicity and Focus: We believe the practice of investment and the business of investment to be complex and demanding – so we concentrate on simplicity and focus to better navigate the demands.

Marathon not a sprint: We concentrate in both investment practice and business development on long term success. We are prepared to make difficult decisions that are right in the long term and we are prepared to be different from the crowd.

Thoughtful, analytical and evidence based: Seek the truth. These traits develop excellence and a meritocracy – vital for a partnership.

Partnership: Influence and authority built in the boutique by excellence and contribution over multiple years. Partnership has an important implicit contract of mutual responsibility amongst the Partners and with the clients.

Integrity: Vital foundation stone in a people business dealing with the management of client capital.

Determination: We want a firm of able people with the right character and personality for long term success which comes from patience and determination.

So What?

The relevance of these cultural traits to Stewardship can be summarised as follows. By being investment-led and independent of thought, we have never proliferated mandates in order to maximise growth in assets. To us, Environmental, Social and Governance ("ESG"), is fundamental to how one looks at a business and assesses future cash flows. It should be applied across all clients and not an opportunity to launch a new range of 'ESG Funds'. We do not apply a box tick mentality to ESG or see it as something to be compartmentalised. As can be seen from the organisation chart on page 5, we offer three equity strategies.

Global Equities (approximately 75% of AUM), Asian Equities (approximately 25% of AUM) and a recently launched Emerging Markets Equites strategy (currently only Partner's seed money as being incubated to build track record). Our approach to stewardship and ESG integration is consistent across all strategies. For example, all strategies are aligned with Article 8 of SFDR.

Governance is central to Environmental and Social risk/opportunities and the assessment of management, its long-term vision, and how it is rewarded is key to an investment thesis. What is a material risk/opportunity for one company may differ from another but will be a critical component in assessing a company's ability to sustainably generate future cash flows. Where a company generates significant levels of carbon, we would expect to see independently verified disclosure, targets, and key performance indicators ("KPIs") in incentives as part of the governance structure. It is unlikely to satisfy our quality/sustainable threshold without these. If more needs to be done, we have a policy to engage.

We ask a lot of the companies in which we invest, and we challenge management where necessary. Increasingly, we have looked at our own business and question how we can lead by example and ensure sustainability. We have a Corporate Social Responsibility ("CSR") Team that tie together the various CSR initiatives and ensures alignment with some of the UN SDG's. This includes the following;

- Working with a designated charity Sponsors for Educational Opportunity ("SEO") which aims at delivering superior educational, training, and mentoring support to young people from underrepresented and underserved backgrounds. The program runs over rolling 7-year periods taking cohorts of 40 students from A Level through University and into careers. One of the aims is to increase the pool of diversified talent in the financial industry.

- Veritas is committed to Net Zero as an organisation. We are signatories of both the Net Zero Asset Managers Initiative and the Science Based Target initiative. The firm appoints a third party to independently verify carbon emissions. During early 2022, these were netted off (based on 2019 levels) by helping fund a small hydro power project in India and a biomass cookstoves project in Malawi.

- We recently moved offices and ensured the build out would be SKA 1 (Gold) compliant.

We have room for improvement in areas such as gender diversity at Board level and within the investment team but have installed a governance structure that ensures opportunity. With the retirement of our COO in 2021 and the proposed retirement of our Non-Executive Chair in 2023, the Board Level diversity statistics have and will continue to improve.

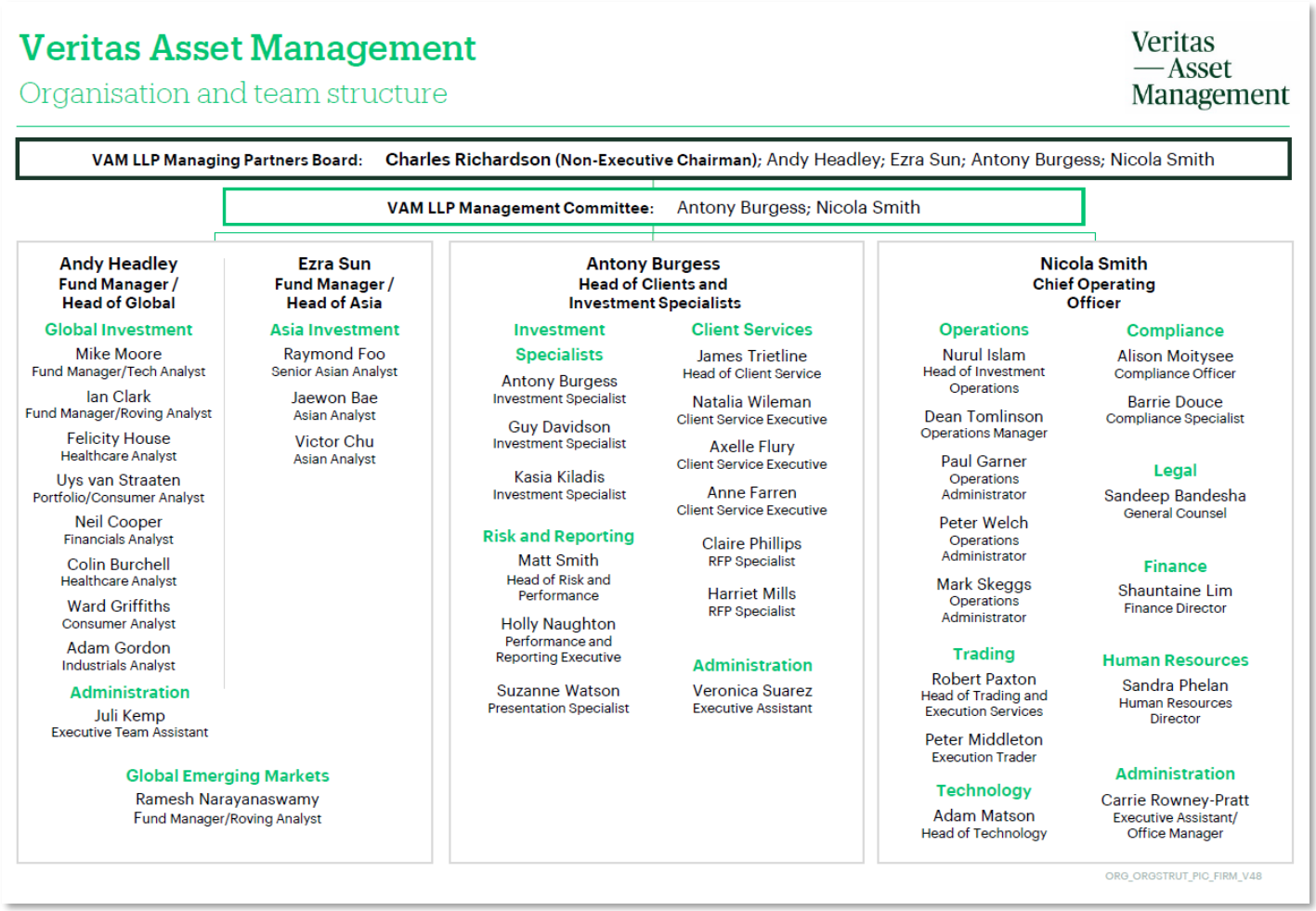
We align ourselves with our clients in other ways, to reinforce partnership and the sustainable growth of the business. We have soft closed the strategies at times where we feel not to do so may impact existing investors. The Global Equity strategy was closed for 3 years prior to 2020, as it became increasingly difficult to deploy cash at the right entry points. The strategies have predictable performance profiles on which our clients depend.

Looking ahead

Under principle 4 of this document, we have listed the initiatives that we support and our rationale for this backing. We believe the most pressing issue is that of climate change and that management of companies can and should be pushed to do more. We have engaged extensively with both clients and consultants and the majority would like to see more evidence of investment managers carrying out fiduciary duty in relation to climate change. We look to add to our commitments made in 2021 by completing a TCFD report in 2022 and seeking to report to clients on alignment of portfolios against UN SDG's. Veritas, as a firm, will publish its first Sustainability Report in 2022.

Reinforcement of cultural traits is important, and this has been maintained through the COVID 19 pandemic, with a e-Magazine, called Truth, published quarterly, with a regular column focussing on culture but also topics such as diversity and Modern Slavery.

Organisation Structure

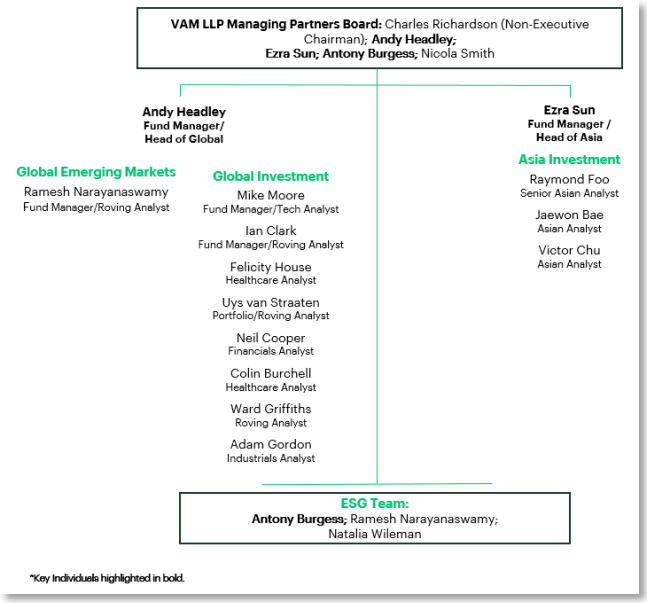


Principle 2 - Signatories' governance, resources and incentives support stewardship

ESG and Stewardship Governance Structure

The organisation has a flat structure which embodies our cultural trait of simplicity and focus. There are three broad areas to the business: investment, clients, and operations. Each is headed by a Managing Partner that sits on the Managing Partners Board ("MPB"). Within the client and operational areas, there are Heads of departments which report into the appropriate Managing Partner. This ensures that no individual within the firm is more than two steps removed from decision making, facilitating the sharing and implementation of ideas. Veritas promotes the concept of 'team of teams' with individuals across the firm involved in initiatives.

The MPB consists of five Managing Partners: Charles Richardson (Non-Executive Chairman), Antony Burgess (Head of Clients and Investment Specialists), Nicola Smith (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. All members of the MPB are senior employees at Veritas, holding a range of financial related qualifications and average of over 25yrs. of industry experience.



Responsibility for investment and the integration of ESG rests with the investment teams and ultimately the Portfolio Managers, with oversight by the MPB.

One example of a 'Team of team' approach is the 'ESG Team'. This team 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 thus clear accountability and oversight from start to conclusion. Both a Managing Partner and a Portfolio Manager are involved within the ESG team considering new developments. 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 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 Global 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 governance structure works well. There are regular meetings of the ESG team to assess new initiatives, attendance of relevant conferences/ webinars and through discussion ideas will be tabled and analysed.

The ESG Team is also responsible for any internal training. This involves presenting the context of any initiative and why it is being introduced and any requirements from the investment team. For example, when we decided to introduce Red Line Voting on ESG issues as part of our voting policy, the rationale behind why the 'comply or explain' element would not only help to explain to clients why we had not voted against management on a sensitive environmental or social issue, it introduced another way by which analysts could encourage management into action i.e. we may vote in favour on the agreement that the business will comply over the next 12 months. During the last 12 months, the Team proposed a Net Zero engagement framework that has been adopted by the investment teams.

Data Resources

Our ESG analysis is conducted in-house with full integration within our investment process. Every 2 years we formerly review the data offerings by third-party providers to assess whether any data would be additive to the investment process and/or whether any improvements to client reporting could be made by using data not previously available.

In 2021 the ESG team undertook such an assessment, and it was proposed that we sign up to receive MSCI ESG data from 2022, that would help supplement ESG activity in several ways:

- provide a bespoke alert to UN Global Compact controversies
- provide screening for controversial weapons, an exclusion that several clients impose on their funds
- provide data that will enhance climate transition work and TCFD engagement policy
- looking ahead, we are assessing mapping the portfolios against UN SDG's

We will use the MSCI data to build on our own reporting models. In addition to MSCI, we currently use the following data providers.

Tools	Summary
Institutional Shareholder Services ("ISS ")	Voting Policy (including Red Line Voting) application and Vote Execution. We have produced a customised ESG Red Line Voting policy that ISS helps apply to all company meetings.
Sustainalytics	Portfolio-level carbon analysis reporting. A third-party report included in quarterly reports to clients.
Carbon Disclosure Project ("CDP")	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. We use the output as part of the climate related engagement with companies.

Remuneration

Each investment analyst is rewarded on the stock ideas and the impact they have had on the fund and within the team. There are both quantitative measures (performance both 1 year and 3-year periods) and qualitative measures (sharing of ideas, new initiatives, impact). Given the types of business we look for, we do not strip out ESG metrics or targets as these are embedded in the stock thesis. During 2021 we sold out of a position in Svenska Handelsbanken on ESG grounds. We perceive the bank to be one of the lowest risk banks by virtue of their long-term bonus scheme. Central to not falling foul of AML scandals or being bailed out of either Global or Swedish financial crisis, has been the alignment with long term shareholders. That alignment is at risk of changing with a move to offer annual cash bonuses. After engaging to protest this move, writing to management with suggestions, voting against management, all to no avail, we exited the position. In this example, we do not split out the ESG element for remuneration purposes as it is integral to discipline behind holding a stock within clients' funds. The same case applies to the purchase of Meta, where (as discussed later) a significant amount of work was undertaken on the policing of the platforms.

Another important aspect of the approach to investing at Veritas, is the concentrated nature of building portfolios and the iterative approach within the investment team. We only look to invest in the most sustainable cash generating businesses and relatively few qualify to be added to the Universe List (currently approx. 250 in the case of Global Equities and 65 for Asian Equities). An idea is deliberated thoroughly throughout the process before it is added to the Universe List and as a result, there is peer oversight on risk factors before a company is approved as sufficient quality to be added to the Universe List. One reason we keep investment teams small, is accountability and impact.

Principle 3 - Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

We believe that as we are an independently run partnership and our only business activity is asset management, we do not encounter some of the conflicts faced by larger financial services companies. Notwithstanding this, we still ensure that we have a robust Conflicts of Interest Policy which clearly sets out how we identify, consider, mitigate, manage, disclose, and record all conflicts ensuring they are dealt with in a manner that is not prejudicial to any of our clients. We seek to create an environment where staff awareness of conflicts of interests and potential conflicts of interests is conducive to identifying and resolving issues as they arise. Our core aim is to always act in the interests of clients.

We endeavour to undertake a risk-based approach to conflicts of interest and consider all conflicts when implementing policies and procedures. Disclosure of actual or potential conflicts forms a central part of the Conflicts of Interest Policy and any conflicts that arise will be disclosed to the relevant parties.

We have put numerous procedures in place to manage and mitigate conflicts, including prior approval of all employees' personal trades, anti-bribery and corruption policy, and an annual disclosure of outside interests, if applicable.

We seek to act in the interests of all our clients when considering engagement and voting. Conflicts of interest may arise from time to time, such as voting on matters affecting an investee company, whose pension scheme may be one of our clients or where our clients are shareholders in two companies involved in both sides of a deal or dispute. In the former we introduced a policy to abstain from voting as this was deemed the fairest option. On a monthly basis, the ESG team at Veritas, reconciles the firm's list of investee companies against its client list in the CRM 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 AGM or EGM for the investee company (if available). Notification of the conflict will also be provided to the Operations team and the Investment team who will be instructed to abstain from voting until informed otherwise.

Conflicts of interest management practices are reviewed periodically by the Compliance Committee. The Conflicts of Interest Policy, procedures, and the conflicts register, are updated, and approved on an annual basis by the Compliance Committee.

The 'conflicts register' of both potential and actual conflicts of interest is available to clients on request. The Conflicts of Interest Policy is available on our website at www.vamllp.com.

As long-term investors, who manage concentrated portfolios, it is rare that we encounter a conflict of interest that relates to stewardship. During the year under review, no issues have arisen in this area.

Single Team Approach

The structure of our organisation helps mitigate conflicts of interest. Each investment team serves one strategy only. The analysts are not conflicted by having to find ideas for more than one team. Any company analysed as suitable quality will be added to a Universe List of stocks. Only these stocks can be purchased for client portfolios and any stock purchased or sold will be done so across all clients (subject to any client restrictions). In the event of onboarding a new client, a trade is stopped for allocations to be reconfigured, so the incoming client is treated fairly.

In the event of being made insiders to a position, either inadvertently or knowingly, there are set proceedings in place to halt trading and add the stock to a restricted list.

Staff undergo annual training involving assessments that need to be passed that cover areas including conflicts of interest.

Specifically related to stewardship, we aim to apply the same holistic approach in order that clients all benefit and there is less chance of conflicts of interest. Where we have introduced an initiative, like carbon analysis reporting, we will formally assess

whether it can and should be introduced across all funds and for all clients. The latest example of this is the alignment to Article 8 of SFDR across all funds within the firm.

Principle 4 - Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Our investment approach involves looking out long term and assessing risks/ opportunities over 10 years. As such systemic risks form part of the discussion and where these are material, may form part of a theme/trend which both helps idea generation but also frames engagement with companies. The output of this approach is to contribute to an improvement in a well-functioning financial system. Governance plays a key role, and its important management are rewarded over the long term with appropriate KPI's that align their interests with shareholders.

1. Climate Change

Climate change is a significant global risk that requires immediate action. Company Management is starting to respond, where previously they have not been focussed, to the extent that is necessary. Some of the oil majors have only now started to reconfigure their business models to align with a transition to a low carbon economy due to global pressure, rather than from forward thinking management. Management needs to be encouraged to adapt faster. We are witnessing a step change in the regulatory environment and government action. More countries are passing legislation on net zero targets. Over 130 countries have made some commitment to net zero. Increasingly this will lead to regulated disclosure with both risk and opportunity for businesses. US regulation lags the EU but that is likely to change with recent SEC proposed rules that require public company disclosure. There are several issues with current environmental literacy. Some companies deliberately blur the truth and others genuinely struggle with understanding the changing ESG landscape in real time. Areas of inconsistency include Scope 3 emissions, net zero pledges without specific trackable goals, and when to use and not use offsets. To be able to set targets at a fund level, it is first necessary to aim for consistent reporting amongst investee companies to better assess the starting point.

Initiatives

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. To make sense of a 1.5-degree world and how companies are positioned, it is necessary to first bring about standardised reporting. Ultimately, we believe that there should be open architecture to carbon disclosure rather than the need to sign up to a third-party provider.

The areas specific to climate change in which we are prompted to engage with management are as follows.

(1) **Climate reporting in line with TCFD guidelines.**

We have assessed all investee companies to identify where they are in their transition to a low carbon economy. We start by using the source data from CDP questionnaires. We are looking for details on Net Zero commitments, targets and whether these are validated by the Science Based Target initiative (SBTi), strategy including scenario testing, Board level oversight etc. The grid below gives a high-level summary of the top 10 holdings within the Global Focus Fund as at 31 Dec 2021. Where there is a shortfall, we will engage with management. If they do not complete the CDP questionnaire, we will encourage them to do so. If the targets are not science based, we want to understand why and future intentions.

Veritas Global Focus Fund (Top 10) - Net Zero & Carbon Management Oversight

Top 10	Security name	Portfolio weighting %	CDP 2021 Submission	CDP 2021 Score	TCFD[1]	Net Zero[2]	Science Based Target Initiative[3]	Absolute emissions reduction targets			Target ambition[4]	Scenario analysis	Board-level oversight of climate-related issues
								Short Term (1 - 4 yrs.)	Medium Term (5-10 yrs.)	Long Term (>10 yrs.)			
1	Alphabet	8.3	✓	A-	✓	×	×	✓	×	✓	×	✓	✓
2	Charter Communications	6.6	✓	-	✓	×	×	×	×	✓	×	✓	✓
3	CVS Health	5.6	✓	A	✓	×	✓	×	✓	✓	1.5°C aligned	✓	✓
4	Microsoft	5.0	✓	A	×	✓	✓	×	✓	✓	1.5°C aligned	✓	✓
5	Canadian Pacific Railway	4.2	✓	A-	✓	×	✓	×	✓	×	Well-below 2°C aligned	✓	✓
6	Baxter International	4.0	✓	B	×	×	×	✓	✓	✓	Well-below 2°C aligned	✓	✓
7	Unilever PLC	4.0	✓	A	✓	✓	✓	✓	✓	✓	1.5°C aligned	✓	✓
8	Meta Platforms Inc.	4.0	✓	-	×	✓	✓	✓	✓	×	1.5°C aligned	✓	×
9	Amazon.com	3.9	✓	-	×	✓	✓	✓	×	✓	1.5°C aligned	×	✓
10	BAE Systems	3.9	✓	B	✓	✓	✓	✓	✓	✓	1.5°C aligned	✓	✓

[1]Task Force on Climate Related Financial Disclosures. The company has either formally committed to the TCFD or disclosed publicly they have adopted the framework. [2]A net-zero target must consist of two main elements; a target to reduce value chain emissions by an amount consistent with net-zero in global scenarios that limit warming to 1.5°C or well-below 2°C ; a target to neutralize the impact of residual emissions (i.e., emissions that are unfeasible for society to abate in 1.5°C scenarios) by permanently removing an equivalent amount of CO2 from the atmosphere. Carbon neutral refers to a policy of not increasing carbon emissions and of achieving carbon reduction through offsets. [3]Science Based Targets Initiative (SBTi) are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of theParis Agreement –limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. Targets are confirmed or Implementation anticipated within the next 2yrs. [4]The temperature pathway is not in reference to a Net Zero or Absolute Emissions reduction targets with a minimum goal of 75%.

During the last 12 months we have engaged with several companies, a summary of which is given below.

Veritas Asset Management

Climate related engagement in the last 12 months

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Company	Engagement topic	Status	
Charter Communications	After pressure company commits to Carbon Neutral by 2035 in 2021 but now need transition plan and Science Based Targets (SBT).	Working on transition plan – details 2022. SBT difficult due to extensive truck fleet needing electrification.	Ongoing
Thermo Fisher Scientific	Committed to Net Zero by 2050 but need shorter term targets, Scope 3 and SBT.	Progress made on targets and Scope 3. Committed to SBT in 3-5 years given breadth of Scope 3 exposure.	Monitor
Sonic Healthcare	Have not completed Carbon Disclosure Project (CDP) / SBT. Have lagged in overall climate action	Disclosing Scope 1 & 2. Working up to Scope 3, transition plan and Net Zero target in 2022. Intention to complete CDP / SBT by 2023.	Ongoing
The Cooper Companies	Had already voted against previous chair for climate inaction. Met with new chair to encourage disclosure / transition plans.	Developed first environmental policy in 2021, Scope 1 & 2 with Key Performance Indicators (KPIs) and working on Scope 3. CDP / SBT expected 2023.	Ongoing
Intercontinental Exchange	Despite benefitting from climate regulation and conducting materiality study, few details on transition plan, intention to become SBT. No CDP completed. Meeting recently followed up in writing to remind of CDP deadline.	Committed to disclosure. Completed Task Force on Climate-Related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) reporting but not yet sufficient. Assessing CDP completion and SBT.	Ongoing

(2) **ESG Red Line Voting.**

The non-profit organisation Association of Member Nominated Trustees ("AMNT") developed 39 Red Lines to be applied to ESG topics. The policy incorporates guidance on the disclosure on GHG emissions from the Carbon Disclosure Project ("CDP") and the UN Global Compact ("UNGC"). We have customized the Red Lines to apply them to Global mandates and review the Red Lines annually, in order to ensure their relevance. Currently we apply 27 Red Lines of which 5 are related to Environmental topics. The Red Lines trigger a 'comply or explain' action which ensures we communicate to client's the action being taken by a company if we vote alongside management. It is often more constructive to work with management than apply a blunt tool.

The 5 Environmental Red Lines are listed below and reviewed at least annually. They form part of the formalised approach to company engagement.

E.1 - If the company does not have an Environmental Sustainability Committee chaired by a board director, or if the company is outside the FTSE 350 and does not have a named board member with responsibility for this area as evidence of appropriate concern, vote against the chair of the board.

E.2 - If the company has failed to disclose quantitative and qualitative environmental information through CDP's climate change, water and forests questionnaires, vote against the re-election of the chair of the Environmental Sustainability Committee or, in the absence of such a committee, against the re-election of the Chair of the main Board. If for the third consecutive year a company has received lower than a C grade in any of CDP's scoring methodologies, vote as above.

E.3 - If the company has answered "No" to the CDP's question on whether it supports an international agreement between governments on climate change, vote against the chair of the Environmental Sustainability Committee.

E.4 - If the company has failed to commit to introduce and disclose science-based emission reduction targets with a coherent strategy and action plan in line with a 2-degree scenario vote against the re-election of the chair of the Environmental Sustainability Committee.

E.5 - If the company has a history of major incidents of environmental damage, or a major incident in the year under report, and the directors' report does not include a substantial account of how it is responding to resulting criticism and of the ways in which it proposes to minimise the risks of repetition, vote against the reappointment of the chair. If the remuneration policy proposes any increase in salary or bonus for directors employed at the time of the incident, vote against the remuneration report.

An example over 2021 was UnitedHealth - *Red Line E4* -The company has failed to commit to introducing and disclosing science-based emission reduction targets with a coherent strategy and action plan in line with a 2-degree scenario.

We voted against the election of the director Gail Wilensky. After raising with the company, they would not commit to developing science-based emissions targets in the next two years, even for scopes 1&2. It is noted there are emissions targets in place that are market based (a 3pc reduction in market based 2017 scope 1&2 emissions by 2023) but the company must be encouraged to work towards SBTi targets.

This provides an example of how Red Lines can be most effective. Some are arguably blunt, and they should not be applied blindly without detailed consideration. We certainly do not use them in that way. We believe working with management is a far more effect way of preserving relationships and instigating change. Indeed, any climate data needs context, and we believe clients should receive reporting that best reflects this. A further example of this is explaining to clients where companies provide products or services that aid climate transition but are not necessarily classified as climate solution providers.

Examples include the following:

Canadian Pacific Railway

Canadian Pacific Railway ("CP") is Class 1 freight railway that runs across Canada and into North America. The company transports everything from food crops, cars, imported finished goods and some oil and metallurgical coal (approximately 9%). Because it transports oil and coal, it has been classified as a Fossil Fuel company by Sustainalytics and seen as 'medium risk'.

The transportation sector accounts for the second most greenhouse gas emissions in both Canada (28%) and the United States (29%). Railways move approximately 70% of all freight on a tonne-kilometre basis in Canada but only account for 3.3% of the greenhouse gas emissions from the transportation sector. Railways are on average 4 times more fuel-efficient than trucks and CP offers shippers an opportunity to move their products with less greenhouse gas emissions. These goods must be moved somehow and CP is educating customers (and exploiting an opportunity) that transporting their goods by rail will help lower their carbon footprint.

Canadian Pacific completed its acquisition of Kansas City Southern in December 2021 (subject to final regulatory approval), creating the first rail network that spans Canada, the U.S. and Mexico. Looking forward, this provides the company with a competitive advantage in terms of market reach in evolving supply chains. Canadian Pacific analysed the freight markets connecting Mexico to the U.S. Midwest. Every day, an armada of trucks sets out to link auto parts and assembly plants spread across the Midwest and Mexico. These are long hauls that are naturally conducive to rail economics, but because no single railroad connects these regions, manufacturers are forced to rely heavily on trucks. A combined Canadian Pacific Kansas City network can convert 64,000 truck shipments to rail shipments that today clog publicly maintained highways and border crossings as they move between Mexico and the Great Lakes region. Canadian Pacific has many routes that provide direct, competitive transportation services, and the proposed combination with KCS will significantly expand the ability to provide seamless links between major freight markets.

Management is focussed on sustainability. Given rail fuel efficiency, the company offers a solution to customers lowering their carbon footprints. However, railroads feel the effects of climate change directly. Wildfires, floods and other natural disasters can and have shut down rail lines. This extreme weather, including droughts seen in western Canada last year was responsible for a 11% decline in Revenue Tonnes per Mile (RTM) due to 8 days lost from weather in British Columbia. CP is thus committed to climate transition pioneering the development of zero-emissions locomotives that use hydrogen fuel cells to power their traction motors.

Alphabet

Alphabet, the owner of Google, are currently carbon neutral by matching 100% of annual electricity use with renewable energy. By 2030, they aim to operate on carbon free energy. How this is achieved will be monitored. Less well known are the solutions Google provide. Google offer Environmental Insights Explorer, a free online tool available to 3,000 cities that uses exclusive data sources and modelling capabilities to help policymakers measure emission sources, run analyses, and identify strategies to reduce emissions. Alphabet are committed to helping 500 cities and local governments reduce 1 gigaton of carbon emissions annually. According to the World Economic Forum, 70% of global emissions come from urban areas, but many communities don't have the data or technology to make meaningful progress on their climate commitments. EIE's offer insights based on actual activity and infrastructure and applying advanced machine learning to create inventories and data analytics that are freely available to cities and local governments. Examples of the data collected include Google Maps data which can estimate how much energy buildings use, along with their emissions. Additionally, anonymized location history can be used to measure annual transit activity and infer traffic modes and high-resolution imagery and AI helps accurately estimate rooftop solar potential at the building level.

2. Coronavirus (COVID-19)

The COVID pandemic is having far reaching consequences which are impossible to ignore when investing client's capital. Some of these may have long term beneficial effects on society but, as with climate change, create both risk and opportunity. These include:

(a) **Affordable health**

Companies that help take cost out of the healthcare system will be better positioned than those that rely on hiking prices.

(b) **Public Health**

The development of the drugs for unmet medical conditions will accelerate as the cost of genetics is reduced. COVID vaccine development illustrated what is achievable. This relies on companies that help produce the drugs and deal with the logistics, testing, trials etc.

(c) **Preventative medicine**

With improvements in diagnostics, health systems will increasingly focus on outcomes e.g., companies that incorporate machine learning to enable health plan sponsors to take remedial action before a health event occurs. The company Grail (owned by Illumina) is trialing a multi-cancer early detection test for the over 50's with the NHS in the UK.

(d) **Healthcare anywhere**

Patients increasingly want access to healthcare wherever they are. During COVID, those companies that provide solutions to enable patients to be monitored remotely or that could be treated more locally, outperformed, and are well positioned.

The portfolios have become more aligned to a post COVID world. For example, the Global unconstrained product has 30% invested in healthcare companies which include holdings such as Catalent (a contract manufacturing company that is helping the likes of AstraZeneca produce and distribute its vaccine) and Illumina (genetic sequencing company behind identifying covid variants and at the forefront of other preventative initiatives like cancer biopsies). Within the Asian equity franchise, the theme Healthy Asia seeks companies that provide solutions to lifestyle diseases, affordable health and preventative medicine.

3. Geopolitical Risk

The implications of the war in Ukraine from a financial perspective, while clearly nowhere near as important as the humanitarian issues, are substantial and widespread. Energy, food and raw material prices have increased as supply of these has been curtailed either due to sanctions or as a consequence of Ukraine being a major supplier. This has caused havoc in supply chains in Europe in particular, and the earnings effect of this has yet to feed through into forecasts. Secondary effects are increasingly likely too - with inflation in Europe running at 5.9% and in the US at 7.9% at the time of writing we are starting to see demands for substantial wage increases which could keep inflation uncomfortably high for a much longer period as they feed through into product and service prices, leading to further demands for wage rises as the cost of living spirals up. This brings us to interest rates. With elevated inflation, long term bond yields are as negative as they have ever been. The US 10 year yields 2.34% and US inflation is at 7.9%. Unless investors in these US Treasuries are anticipating deflation, an investor in the 10 Year is guaranteeing a loss in real purchasing power by buying and owning these securities to maturity. The implication for investors in equities is profound: all asset values are based on the notion of a risk-free rate with the required return being at some premium to that rate. Today's high asset valuations all rest on the pin-head of tiny interest rates. Should these rates normalise (i.e., for the risk-free rate to be at a small premium to expected inflation over the investment term) then all asset valuations would have to readjust (downwards!) to reflect this. This is the paradox in investing today - everybody knows that interest rates are being suppressed at abnormally low levels which supports very high asset valuations yet not many investors are prepared to step off the dance floor while the music is still playing.

The role as investment managers is to navigate such an environment as best as possible on behalf of clients. The events, however, also highlight another issue relevant to sustainability where the current system falls down and that's ESG = negative screening. Many funds have been too 'scared' to invest in defence or oil companies without being asked how they can comply with SFDR or ESG generally and hold a company like BAE Systems or BP. We must move away from moral judgement as the driver rather than engagement. Positive screening, rather than negative. This is fundamental to ESG integration and covered in Principle 7.

Principle 5 - Signatories review their policies, assure their processes and assess the effectiveness of their activities

We actively consider our obligations of ownership and stewardship of our client's capital. We aim to preserve and enhance the real value of client's capital but to also report on how we fulfil our stewardship responsibilities. Behind each of our stewardship policies is an output which will be reported to clients in a detailed quarterly report. Each of these policies is assessed on an annual basis for effectiveness. This includes receiving feedback from clients and consultants on an ongoing basis. Should any alterations be recommended, this would need to follow the governance structure described under Principle 1.

Engagement Policy

The engagement policy includes 2-tiers; the first tier includes the traditional reasons for engaging with management – to elicit a change in behaviour on a specific risk which may affect the value of client's capital. The second tier aims to promote good business practice which helps assess risk e.g. carbon disclosure. As a result of second tier engagement, we had a policy in place to engage with companies to encourage greater disclosure of carbon emissions and to assess the implementation of targets aligned with the Paris Climate accord.

Whilst this was successful in encouraging some companies to disclose, it did not go far enough in overcoming the inconsistency of that disclosure. During the last year, we introduced the TCFD aligned engagement policy summarised above in Principle 4. Engagement is more focussed on specific shortcomings related to strategy behind climate transition.

Red Line Voting

Having followed the AMNT's Red Line voting for several years, we annually assess their application and suggest any modifications. The rationale is to ensure that a trigger is effective in prompting an action and not ignored by virtue of always being triggered because of some geographical factor e.g. the number of years a company has had the same Auditors is likely to exceed 10 years in the US. During the first half of 2021, we completed a review of the ESG Red Line voting policy. The aim of the exercise was to automate the application of policy guidance, assess the meaningfulness of each Red Line, and review the policy's global application. The result of the review was we removed 8 Red Lines from the original 37. These are summarised below. The majority of eliminations is due to the inability of ISS to capture data. Where material, we will monitor directly.

Social Red Lines ("RL")			
RL 5.	Market testing of all board and senior management positions	Vote against the chair of the nomination committee if the company does not have a policy of market testing of all board and senior management positions through an open appointments process for all vacancies.	This RL was removed.
RL 6.	Living Wage and zero hours contracts	In furtherance of Principle One of the United Nations Global Compact, vote against the board's remuneration proposals if any members of staff, including subcontracted staff employed in the UK,	ISS does not collect data on this RL.
RL 8.	UN Global Compact standards on freedom of association and recognition of trade unions	• are paid below the Living Wage or where applicable the London Living Wage and the company has no plans to address this:	This RL was removed.

RL 10.	History of serious breaches	• do not have employment contracts specifying the number of working hours per week, or (aside from overtime with increased pay) allow more than a 25% increase or decrease on that figure to meet business needs.	ISS does not collect data on the second point; therefore, we are removing this item. We automated the guidance relating to the living wage and removed the references to "London Living Wage". This RL is related to the UNGC 10 principles, we are going to monitor this area separately. On this basis, we are removing the RL.

Governance Red Lines ("RL")			
RL 3.	Directors and the Nomination Committee (1-6)	If it is not clear which of the existing directors of a company, and which of any current candidates for election to the board, are independent vote against the adoption of the report and accounts.	Rarely occurs in developed markets and cannot be automated. Therefore, we are deleting this RL.
RL 7.	Auditors and the Audit Committee (7-11)	If competition for appointment as statutory auditor has been restricted to the "big four" accounting firms, vote against the re-election of the chair of the audit committee.	This RL was deleted. ISS does not collect this data.
RL 8.		If the appointment of the company's statutory auditor or auditors has not been the subject of a formal tender process within the past 10 years, vote against the re-election of the chair of the audit committee.	This RL was deleted. Generally covered by legalisation in the relevant country.
RL 12.	Requirement for a tax policy	If the directors' reports do not indicate how one may readily access policy of the company in relation to the management of its tax affairs, vote against the re-election of the chair of the committee responsible for corporate social responsibility.	This RL was deleted. ISS does not collect this data.

Carbon Analysis

Our reporting includes a portfolio level carbon analysis, the aim of this report is to better explain to clients the overall position of the portfolio in relation to climate change and in order that the direction of travel can be monitored over time by clients. Any companies with a higher-than-average carbon emissions footprint are discussed, and a description of what the company is doing to reduce those emissions. We have focussed on those companies in the portfolio with higher carbon emissions to report on first.

Sustainability

Given the focus on sustainability, examples of how companies are aligned in terms of SDG's or equivalent are reported so that over time clients obtain a better understanding of the positions in the portfolio. We provide examples of Cooper Companies and Meta in Principle 7. Given the concentrated approach and low turnover, clients should be able to obtain a good grounding of the stewardship position of the portfolio relatively quickly. Each year, we assess how we may be able to further improve reporting to clients.

During 2022, we will introduce specific UN Global Compact reporting. Any controversial issue flagged will be reported in quarterly reports with any engagement discussed. Additionally, mapping the portfolios against UN SDG's is being considered for the second half of 2022.

Stewardship Reporting

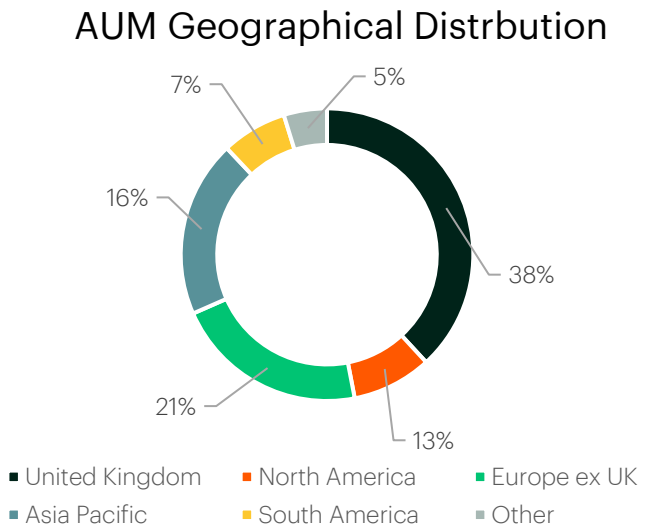
Within the ESG section of our quarterly investment reports, we provide an update on the areas highlighted above, including any engagement activity undertaken during the period, this will include any outcome, both positive and negative. A summary of our voting activity, including rationale examples for votes cast that have resulted in a vote contrary to the management or the policy vote recommendation. We also include portfolio level carbon analysis reporting, which covers, the portfolio carbon footprint, carbon intensity, exposure to fossil fuels, exposure to carbon solution, and carbon management. We provide a case study on the sustainability of a company held and how it is addressing an ESG issue.

Reporting is reviewed periodically following engagement with asset owners. Over the last 12 months, we have spoken to clients that represent more than 60% of the firms AUM to better understand what clients wish to see in their reports. This will result in further environmental reporting during 2022.

Principle 6 - Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

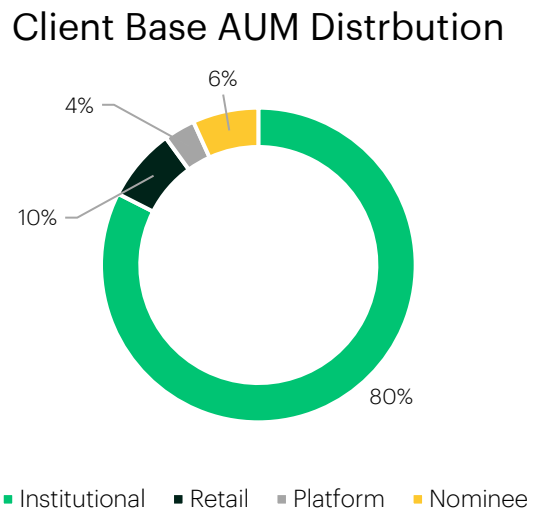
Veritas is run with a partnership culture and owners' interests are aligned with those of its clients. Veritas' partners and employees are invested alongside clients. Clients are largely institutional, with retail clients investing via wealth managers and platforms. The business is broadly split geographically with approx. 60% of clients domiciled outside of the UK. Veritas currently has GBP 22bn of assets under management ("AUM"). We have two core investment strategies, Global and Asia, both strategies have an investment horizon of 5 years. As long-term investors, we think of ourselves as 'engaged owners' of the businesses we invest in (not just shareholders who buy and sell shares every day). Therefore, stewardship of investee companies is key to our investment approach, and a prerequisite expected by investors.

The onboarding of new clients includes a rigorous process to not only comply with all relevant regulation but to ascertain the level of reporting a client wishes to receive. Whilst we produce



detailed quarterly reports which include an extensive section on ESG as described below, we understand that some clients wish to be more interactive when it comes to stewardship of their assets.

Veritas operates an investment specialist model. Clients are offered a quarterly call/meeting with an assigned Investment Specialist to cover offer the management and stewardship of their assets over the previous quarter. Some clients will elect to have less frequent meetings and others may designate their consultant, where relevant, to undertake the task. Over 80% of our segregated clients have such calls/meetings and this provides the feedback loop from which we can further improve processes/reporting. Increasingly, we are hosting specialist calls/meetings purely focussed on ESG, Stewardship and increasingly Climate specific. Given the Head of Investment Specialists is also a member of the ESG team and a Managing Partner on the MPB, any new initiative that is discussed can be fast tracked for consideration and implementation.



Our reporting is available to all our clients, irrespective of investment size and jurisdiction. We can also accommodate custom reporting where required. Some clients prefer to send a template that covers specific questions. Where reporting can be enhanced, we look to introduce, where we can, reporting for the benefit of all clients.

Within the ESG section of our quarterly investment reports, we provide an update on several areas, including;

(i) **A summary of our voting activity**. This is divided into two parts. The first is overall voting on all resolutions with rationale given for where we vote against management and any likely engagement/ action that may result. Secondly, ESG specific voting in relation to the 37 Red Lines. Here we implement a 'comply or explain' approach and will provide rationale for not voting against management where a Red Line is breached.

(ii) **Any engagement activity undertaken during the period**, this will include any outcome, both positive and negative. Engagement can be ongoing and updates on progress will be given.

(iii) **Carbon analysis of the portfolio**. A detailed report is run once a year (or on request) and a summary shown each quarter (as below) in order that context can be given to any specific company example or activity.

The Carbon Analysis Report provides a deeper understanding of the portfolio's position with regards to the transition towards a low carbon economy. It compares the portfolio with a benchmark across five carbon assessments: Carbon Risk Rating, Carbon Intensity, Fossil Fuel Involvement, Stranded Assets Exposure, and Carbon Solutions Involvement. The combination of these assessments provides a multi-dimensional view of the portfolio's performance versus the benchmark and provides a platform from which to further educate clients on underlying positions. For example, Sustainalytics classify companies that transport coal and/or oil as fossil fuel companies even if a small part of the business. Whilst the Global Strategy does have a holding in Canadian Pacific Railway (covered in Principle 4), it is not what many would consider a fossil fuel company and is well placed for a transition to a low carbon economy by proving solutions to help companies using their service lower their own carbon footprint.

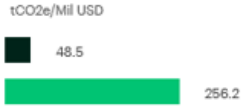
Please see below an overview of our portfolio carbon analysis reporting for the Veritas Global Focus Fund:

Carbon Risk Rating

The Carbon Risk Rating quantifies the company's exposure and management of material carbon issues in its own operations as well as its products and services. Overall, the portfolio falls into the Low carbon risk category, and has 48% lower carbon risk than the benchmark.

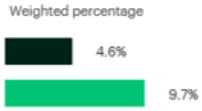
Carbon Intensity

Carbon intensity is a relative metric used to compare company emissions across industries. Sustainalytics divides the absolute emissions by total revenue, meaning the figure is expressed in tonnes of carbon dioxide equivalent per million USD of total revenue. Overall, the portfolio is 81% less carbon intensive than the benchmark.



Fossil Fuels

Fossil Fuel Involvement measures the percentage of revenue that companies derive from thermal coal extraction, coal-based power generation, oil & gas production, oil & gas-based power generation, and oil & gas related products and services. Overall, the portfolio has 52% less exposure to Fossil Fuels than the benchmark.



Stranded Assets

The Stranded Assets Exposure Score assesses the financial risk associated with fossil fuel production and reserves, and any specific involvement in high-cost fossil fuel projects. Overall, the portfolio has 100% less exposure to Stranded Asset Risk than the benchmark.

Carbon Solutions

Carbon Solutions Involvement measures the percentage of revenue that companies derive from green transportation and renewable energy. Overall, the portfolio has 100% less exposure to Carbon Solutions than the benchmark.

(iv) **Sustainability examples**. Here we cover those companies that are aligning themselves with the UN SDG's or equivalent and highlight which are material for the company in question. In the case of the Asian Equity strategy, 2 of the 5 investment themes relate to sustainable goals. For over 8 years we have had the themes, Green Asia and Healthy Asia. The focus in these areas has sharpened and as regulation tightens and opportunities emerge, we have explained to clients how and why we hold the positions on their behalf.

In short, as long-term investors, we focus on long term reporting to clients. Any attribution will place the quarter into context and the same is true of other ESG related stewardship. Snapshots can be misleading.

Principle 7 - Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

ESG Integration

Our clients have long term investment horizons. We aim, as a boutique with a distinctive approach, to only onboard those clients that have an alignment in terms of investment horizon. The majority have 5+ years' time horizon. This is important as our

investment process revolves around a holistic assessment of a company and the multi-faceted social and economic context in which it operates. This is not possible if time horizons are too short term. Each company is analysed on a case-by-case basis, and we make no attempt to force a common framework across time for all companies operating in a myriad of industries. Our analysis of risks is highly specific to the business and industry in question and is followed up real time across our holding period. Our investable 'universe list'[1] of high-quality companies with sustainable business models comprises less than 10% of the total addressable universe of companies (adjusted for size and liquidity) – most listed equities simply do not qualify for investment into the universe list. In other words, our process is deliberately designed to keep the universe list highly selective and 'narrow' which allows us to have a deeper understanding of the companies we follow and invest in.

To make the cut into our universe list, we need to believe that the company being analysed is distinctive and possesses a sustainable competitive advantage, attractive growth prospects and stewardship by able and honest management teams who are aligned with shareholders. Though we do not have a pre-determined checklist of ESG criteria that we force every company into, we have found that our process naturally excludes large swathes of companies that score poorly on traditional ESG criteria. We do not exclude high quality businesses in sectors like defence simply by virtue of them being in a particular industry but judge each on a case-by-case basis. Companies like BAE Systems are being considered in a new light post the Russian invasion of Ukraine.

We integrate traditional ESG factors into our analysis at all steps and along multiple dimensions:

(i) **Sustainable demand and growth.** Sustainability of the demand for a product of service is vital for a long-term investor. We do not like to invest in companies that may benefit from a short-term fad and instead look for a growing need and want for their products and services over 10+ years. This is a holistic analysis and considers whether the company's basic business proposition is likely to become more relevant over time in creating a sustainable growth tailwind. This is a forward-looking judgment and hence does not exclude sectors like defence for example. Traditional 'environmental' factors fall out of this approach if we consider for example commodity producers or utilities where the sustainability of demand (and/or regulatory backdrop) over 10+ years is often questionable. The main reason for the portfolio having a low carbon footprint (as measured by third-party independent vendors) relates to this. We are, however, not dogmatic, and have been willing to invest in utilities – for instance, Orsted. Orsted is a Danish renewable energy company and one of the world's largest windfarm developers. The investment in the company, that we have since exited due to valuation, was made on the assessment the company would generate a significant uplift in its return on invested capital ("ROIC") from a combination of UK government subsidies and a larger than expected fall in the cost of development from advances in technology and know-how. The investment was not made just on a 'green energy' basis, we sought alignment on all fronts; a sustainable demand backdrop, a sound business model, good management as well as financial and valuation analysis that supported the investment proposition.

(ii) **Sustainable business model**. Having a sustainable growth backdrop for the product is necessary, but hardly sufficient, for a business to generate shareholder value. A strong business model that has demonstrable entry barriers and ability to generate cash flows is essential for value creation. An example of this has been the success at Microsoft. Microsoft has taken the enduring demand for its Office 365 and Cloud services and coupled this with a subscription-based model. Clients pay an annual subscription fee which can increase as Microsoft cross sells other products. The company has extremely high barriers to competition as its products are difficult to replicate and so well entrenched into the workflows of their customers around the world. In the last 12 months, the company has raised prices after demonstrating the indispensability of their products through the COVID pandemic. What price do you place on the return on investment of Microsoft Teams? Another example is Cooper companies, which manufactures and sells contact lenses, they have 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. ESG must also make sense from a business perspective for it to have value for shareholders (or indeed, society – as a weak business with poor cash flows cannot invest for the benefit of society). No amount of ESG window-dressing will save a business model that is vulnerable to competition and generates poor free cash flow!

[1] Self-defined list of businesses we would invest in (disregarding price and valuation). We would deploy capital only into companies within this list (when they become attractively priced).

(iii) **Sustainable earnings and cash flows**. Businesses are ultimately only as valuable as the amount of distributable free cash flow they generate over the long term, so the last link is the sustainability of earnings, cash flows and the capital structure. Earnings sustainability is an important judgment. 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 that are charging unsustainably high prices for the 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. With the aim of consumers making additional purchases, such as toothpaste, whilst in store. 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 purchasing Aetna, a healthcare insurance provider, and starting to convert many of its pharmacies into 'health hubs', which helps take pressure off hospitals. Becoming a vertically integrated healthcare company puts CVS Health in a 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, the cost of healthcare.

(iv) **Sustainable capital structure.** We are also mindful of being equity holders and are cognizant of being subordinated to debt, off-balance sheet obligations, pensions and other hidden 'liabilities' that need to be serviced before common shareholders can access cash flows (for say, dividends or future growth). Some businesses are inherently more stable and can support higher leverage to the benefit of 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.

Sustainability in Governance

Governance is in itself a very large and very important topic and we often find that ultimately all ESG is about 'G'. Governance is multi-faceted, and we consider it from a variety of standpoints in each case, these include the following areas:

(i) **Board of directors:** At root, good and sustainable governance structures require the 'principal/agent' problem to be addressed at companies – a well-functioning Board provides oversight and challenge to operating management ("agent") and represents risk capital of minority shareholders ("principal" or "owners"). 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.g., state owned Chinese companies). We view the composition of the Board in terms of experience and quality as it relates to the lifecycle of the firm and the corporate strategy it is pursuing (as well as appropriateness of functional aggregation of key roles like Chairman/CEO) – unlike superficial ESG scoring, we don't necessarily value Board 'diversity' just for its own sake and instead look for whether the Board is competent and able to represent shareholder risk capital and provide oversight of operating management.

(ii) **Executive remuneration and shareholder alignment:** A key element of governance as incentives drive behaviours at all levels. We tend to prefer management teams with 'skin in the game' who are aligned with shareholders and are likely to think as well as act like we would in assessing all relevant variables (and risks) that affect the long-term value of the business (ESG or otherwise). We also look for appropriateness and disclosure of KPIs that form part of incentive compensation and remuneration structures and convexity/symmetry of payoffs that does not encourage excessive short-term risk taking to the detriment of long-term value creation. For instance, our US cable company holdings (Charter Communications and Altice) both have owner-oriented management teams with significant skin in the game. Charter's management remuneration in shares is linked to a rising share price (which embeds a c15% cost of equity capital – a rarity in publicly listed companies). These are tangible structures provide significant shareholder alignment with minority shareholders.

(iii) **Capital allocation:** is central to value creation and encompasses all aspects of the business including environmental and social forces. 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. We try and judge appropriateness of capital allocation policies relative to the firm's position in the industry and in its own lifecycle. We also 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). Vinci, which has an energies business, has increasingly allocated capital to renewables. According to independent agencies' forecasts, meeting Paris targets would require 3-4x the current installation pace of solar and wind, sustained until 2050. French infrastructure giant Vinci made a big move into renewables with a €5bn ($5.9bn) deal to acquire the energy business of Spain's ACS, including a potential 15GW of onshore wind and solar development and an early position in the UK offshore wind sector. This acquisition is an opportunity for Vinci to create a global player in energy contracting and to develop renewables projects, something which in light of the geopolitical developments will serve the company well.

(iv) **Engagement with management:** We think of ourselves as 'engaged owners' of the businesses we invest in (not just shareholders who buy and sell 'tickers' every day). We are hence willing and able to engage with companies to influence governance. We engage actively and regularly with the companies and maintain a constant dialogue on all key issues. An example of a company we engaged with was Black Knight. Black Knight is a 'fin-tech' company that provides software/SaaS that enables banks to originate and service mortgages. Whilst the company enjoys high barriers to entry and recurring revenues by virtue of being a provider of mission-critical services, we took issue with the company buying a stake in analytics company Dun & Bradstreet from a consortium of investors in which the CEO had a potential conflict of interest. In addition to this, the CEO of Black Knight was given an additional role as the CEO of Dun & Bradstreet (despite only having a minority stake) which also raised concerns about distraction and focus. We judged the rationale for the deal (including high leverage) and the management changes difficult to support and sold the position on the basis that good governance was breached.

(v) **Disclosure and accounting:** We are looking for quality (and conservatism) of financial accounting policies especially when there is significant management discretion involved in preparing accounts. 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. We have engaged with the management and Board at Sonic Healthcare by pushing for better disclosure and KPIs to measure performance including a number of suggestions in writing which were taken up. Contrast this with the sale in 2021 of Svenska Handelsbanken as they moved away from close shareholder alignment in their remuneration policy and did not respond to engagement.

Sustainability Examples

In Principle 5, several healthcare trends were highlighted which are likely to accelerate as a consequence of COVID. Management with vision to apply capital to meet some of these challenges and in so doing enhance their competitive advantage make good long-term investments.

CVS Health: Affordable health

CVS Health is a US retail pharmacy and healthcare company which, having acquired Aetna, also provides health insurance. The scale of its pharmacy network enables CVS to negotiate discounts on drug prices on behalf of their subscribers, a scheme known as Pharmacy Benefit Management. Their company structure makes them one of only a few businesses that are fully aligned in trying to reduce healthcare costs, in line with both patients and regulators. CVS has a vested interest in containing and reducing the cost of healthcare as the company's insurance branch are incentivised to ensure their clients stay in good health. This in turn benefits their customers who, not only remain healthy but also receive the pharmaceutical price reductions that CVS is able to pass on.

The management have demonstrated vision in detailing an ESG roadmap entitled Healthy 2030, with measurable targets. One point of focus is ensuring health is more accessible and affordable. COVID has led many people to pay greater attention to their health and CVS aims to deliver health wherever the individual wants it. This includes converting pharmacy stores into Health Hubs, of which there are now over 960, with 320 converted during 2021. Approximately 80% of the US population lives within 10 miles of a CVS store. The Health Hubs can cater to deal with many of the ailments that clog up hospital waiting rooms but are increasingly offering health services traditionally found in primary care settings, like chronic care management and behavioural health. Primary care is one of the least expensive aspects of health care and plays an outsized role in avoiding serious health issues that require more costly treatment. In essence, the company is further monetising an asset which relied on filling out prescriptions and selling household goods like toothpaste whilst the individual was in store. Whilst this is incremental to CVS, it helps reduce overall healthcare costs. The company administered over 32m COVID tests and 59m vaccines which had the secondary benefit of bringing individuals to CVS stores for the first time.

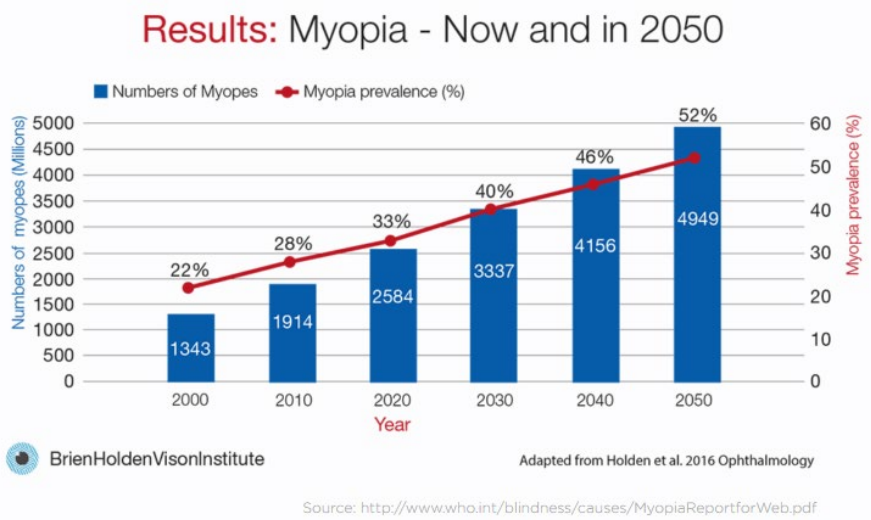
CVS is also investing in its digital and virtual capabilities. A patient can book an appointment and check in online and fill out any paperwork without having to wait for hours at a hospital out-patients. 70% of CVS pharmacy customers have signed up to text message program which helps remind them when to take medications and advise on other preventative solutions. The company also offers 24/7 video visits to 49 US states for those without transportation or time constrained.

CVS has also been one of the first companies globally to have their Net Zero targets validated by the SBTi. They are looking to reduce their environmental impact by at least 50% by 2030.

The Cooper Companies: Lifestyle diseases (myopia)

Myopia is reaching epidemic proportions, with up to 80% of young adults in parts of Asia with the condition and according to the Investigative Ophthalmology and Visual Science journal, 32% of the world population. They estimate this will rise to 60% by 2050. Myopia is the rapid elongation of the eyeball, which, at best, leads to blurred vision when viewing objects that are far away. It tends to develop in childhood, with most myopic children being diagnosed between ages three to 12, according to the American Optometric Association. It appears to develop in children that spend less than 3-4 hours a day outside focussing long distance. This is backed up by the condition being much more prevalent among students than in unskilled workers. Students are engaged in more near work in the form of reading and studying.

The impact is most dramatic in Asia where the number of hours studying is highest. What has compounded the problem is the proliferation of smartphones and tablets which will be used for gaming and social activity, again at close quarters. Studies show that Genetics do play a role but the probability of becoming myopic falls as the number of hours spent outside increases. The social impact of an increase in myopia is that it is directly linked to many of the age-related eye diseases including retinal detachments, Glaucoma and cataracts. These conditions are particularly high in countries with severe cases of myopia such as China.



The Cooper Companies has developed the first and only FDA-approved soft contact lens to slow the progression of myopia in children aged 8 -12. The lens called MiSight's value proposition is twofold: The contact lenses act like any other vision correction, though offer children more freedom to play sports and do other activities than they might have with glasses. But the act of wearing them also helps to prevent their near-sightedness from worsening. During 2021 the Chinese National Medical Products Administration (NMPA), which regulates medical devices and pharmaceuticals in China, also approved MiSight Since contact lenses are medical

devices with reasonably high fixed costs and low tolerance to error the barrier to new entrants is high. Cooper further benefit by having the greatest breadth of lenses and the ability to 'white label' a customised offering to large clients (e.g., Specsavers). This can include packaging the lenses as if produced by the client and dealing with logistics like mailing disposable lenses. In return they sign long term contracts with many of its clients giving a predictable subscription-based element to cash flow. None of its competitors have the breath of offering to compete in the white label market.

Meta Platforms, Inc. – Investment Case Study

It's often reported that Meta's products have been associated with a range of serious human rights abuses in the last 5 years, ranging from fomenting hate speech and violence, spreading misinformation, discriminatory advertising, and creating harmful effects on minors. Considering such factors alongside financial metrics is essential in considering long term value creation for clients.

We believe that Meta has strong network effects in its business and provide a compelling service to consumers whilst at the same time allowing advertisers, many of which are small businesses, the opportunity to engage with this base. Whilst some of the negatives of social media have been widely articulated, we believe that Meta is making progress in improving privacy, safety whilst providing a platform for free speech and utility to many users. Whilst this is not an easy balance, we do believe that the outcomes are not binary either. The chief aspects of the investment thesis are outlined below.

(a) **Unrivalled network efforts:** Huge consumer base: 3.6bn monthly active users across Meta properties: Facebook, Instagram, Messenger and WhatsApp. There is significant utility from connecting people and communities. This has been highly evident recently with regard to COVID, for example. WhatsApp is an end-to-end encrypted service that is free to users. This provides significant benefits from users, and privacy is protected. It is difficult to argue the service provides negative rather than positive utility overall.

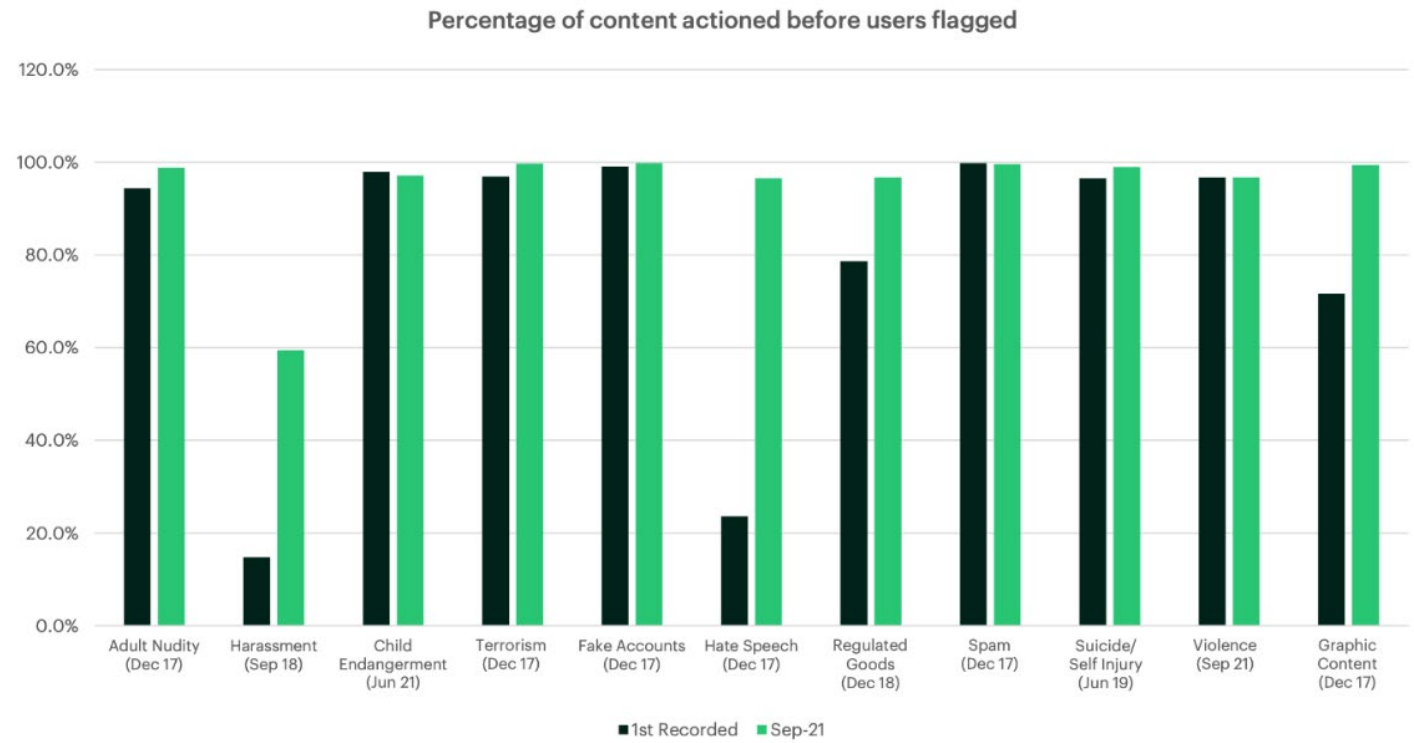
(b) **Supply constrained:** 10m businesses advertise on Meta properties, but 200m in total create compelling Return on Investment by posting (but not yet advertising) on the various platforms. Or put another way, small businesses have a way to connect with consumers but currently only 5% of the total number of businesses utilise Meta advertising to reach their respective audiences.

(c) **Best advertising technology**: R&D/investment significantly ahead of other players in the industry ($23bn vs $4bn for Pinterest, Snap and Twitter combined)

(d) **Safety/privacy increases entry barriers:** Meta has more content moderators than Pinterest, Snap and Twitter have total employees combined.

Many issues do not solely pertain to Meta but are comments on social media more broadly: it is important to note that it is unlikely that social media goes away. Many people get positives from their use of social media and the fact that 3bn+ people use Meta services monthly is a testament to the utility it provides users. Therefore, the most likely outcome is that there is greater scrutiny and regulation of the negative issues, which Meta welcomes, whilst still allowing platforms and users to garner the benefits that it brings. We believe Meta is making strides towards this outcome.

Issues do exist but they are taking action to mitigate impacts: The company provides a Community Standards Enforcement Report, and the figures are provided on a quarterly basis. The chart below shows how much content is removed before it is seen by a human (i.e., artificial intelligence blocks dissemination). As can be seen below that whilst not perfect, the company has made significant strides in reducing the amount of questionable content on the platform.



The above does not constitute a recommendation or endorsement to buy or sell any referenced security or other financial instrument.
Data as at 26 November 2021. Source: Meta Platforms Inc Q3 Community Standards Enforcement Report

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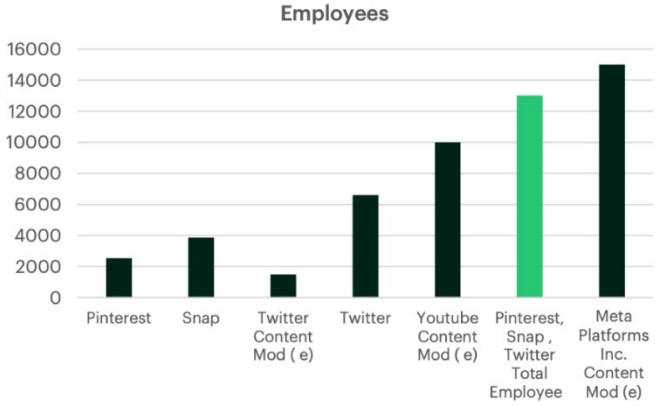
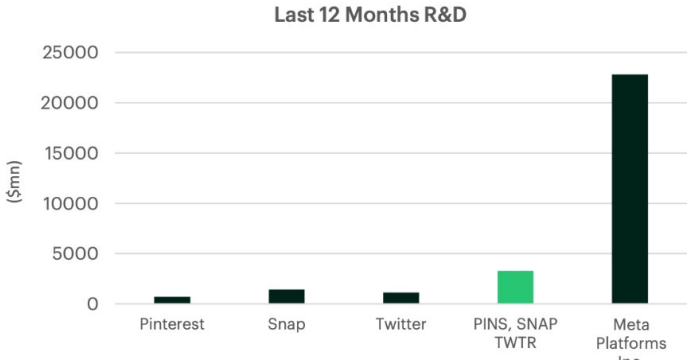
They are doing more than the industry in terms of reporting/disclosure: The amount of information that the Meta shares in terms of its Community Standards Enforcement Report is higher than that of peers, including YouTube and Twitter. The company has also sought to get independent auditing of these reports by Ernst and Young. Finally, Meta has also undertaken studies in other areas to help address its policies, for example, commissioning an Independent Civil Rights Audit in 2021.

They invest orders of magnitude more than peers in safety: As can be seen from the charts to the right, the number of Meta content moderators is higher than total employees of other main platforms combined. Secondly, the amount the company spends on R&D, which will partly go into platform safety, is significantly higher (5x) than the cumulative amounts spent by peers. We believe that as regulatory scrutiny increases for all parties that scale gives Meta an inherent advantage in dealing with these issues better than competitors.

Human Rights issues are concerning but analysis needs to be fact based: Whilst many of these issues grab headlines, and for good reason, it is important for researchers to dig into whether these claims are all truly representative. Taking the comment around teen harm, the press reporting was heavily distorted. Information from below graphic/slide from Meta was used in some of these

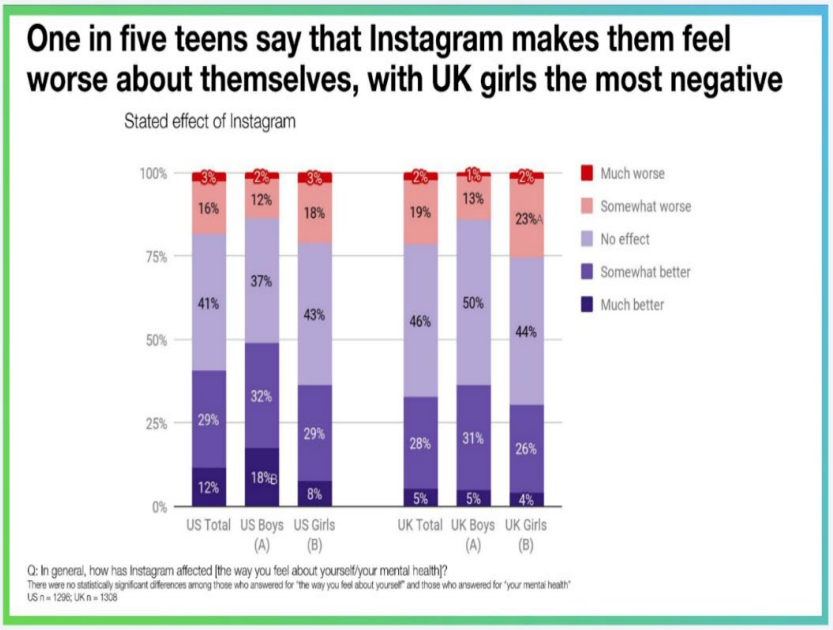




articles. The Wall Street Journal, citing Facebook's own internal research, was stating that 1/5 teens say Instagram negatively affects them. However, this neglected to mention several important factors. Notably it misrepresented the following:

(1) The study asked subjects how they 'felt' which is open to significant interpretation and there is also no control for likely preconditioned inherent bias surrounding social media. Finally, in some of the studies the focus was on people experiencing the specific issue, meaning that some of the sampling was biased at outset.

(2) Part of the report found that 19-21% of subjects suggested that Instagram made them feel worse about themselves. This is obviously an unfortunately negative outcome for the users who felt this way. However, what was not reported was that 31-33% found that social media had a positive effect on their well-being. The study is arguably inconclusive and is skewed to it having a positive, not negative outcome on balance (albeit we would argue even then there are flaws) - this is not how it was characterised.



Positive social campaigns have begun on Facebook as well as often reported negative ones. Events such as the Arab Spring would not have happened without social media. Russia has recently banned social media platforms because they can provide access to information for users who cannot necessarily get it elsewhere.

Meta should not self-regulate - whilst there have been issues in some areas, in many cases it is not for Meta to make these rules. This needs to be done at a governmental level. Whilst it continues to make headway in improving aspects of the platform, a well-constructed regulatory environment is also key, not just for Meta but more broadly. Over time the regulatory burden will inevitably rise, however, this will raise, rather than reduce, barriers to entry within the industry. As privacy initiatives increase, the utilisation of user data and importance of first party data will become increasingly important.

Regulatory concerns are manageable in our view and business model likely adapts. The FTC antitrust case is difficult to prove: market definitions that the FTC have stipulated are inappropriate (TikTok, iMessage) and break-up of the company does not aid the situation and is difficult to achieve legally. It reduces resources and economics of scale and likely does not have the required effect. Instagram was bought for $1bn. It had no revenues, and 50m users. This is no different to Android. The valuation has been driven largely by Meta organically post purchase. It would have large ramifications for any historic deal. WhatsApp is a free product. It is also encrypted. How can consumer harm be demonstrated?

Principle 8 - Signatories will monitor and hold to account managers and/or service providers

Veritas currently work with two main service providers in relation to ESG, Institutional Shareholder Services ("ISS") and Sustainalytics. In 2022, we have added MSCI to the list of ESG data providers that we utilise. We appointed ISS to execute proxy voting on behalf of clients. We have also mandated ISS to construct a customised screen for our ESG Red Lines which incorporates the Association of the Member Nominated Trustees ("AMNT") Red Lines but applied on a Global basis. The AMNT Red Line Voting Policy contains 29 guidelines covering topics associated with ESG. Should any of the 29 red lines be breached, the instruction is to either vote against management or explain why not. Given this Red Line Voting Policy was developed principally for pooled fund investors (who have been unable to direct votes) and for UK stocks only, we have instructed ISS to apply the guidelines globally or an agreed, more applicable substitute, and apply the policy across all Global Equity clients. The investment analysts will consider the vote recommendations and any research when making their decision. In the case where a vote goes against a Red Line an explanation will be provided in the reporting.

Since Red Lines were initiated, we have held meetings with both AMNT and ISS to review both the Red Lines themselves and the execution of instructions by ISS. Given it is important for us to apply the Red Lines globally, it is likely there will need to be adjustments to take into consideration different jurisdictions. During 2021, some of the Red Lines were adjusted and others eliminated as summarised in Principle 5.

We appointed Sustainalytics as a third-party provider to conduct independent carbon analysis reporting on our investment portfolios. The ESG team analysed many third-party providers for both ESG ratings and carbon analysis reporting. Whilst it was decided that the ESG ratings would add little to our process, the carbon analysis, whilst not perfect, demonstrates a higher degree of consistency, and usually has a higher level of external verifiability. Where there is some inconsistency, it is on methodology for calculating an assumed carbon output for those companies that do not disclose. The final decision was based on the willingness of Sustainalytics to engage, if necessary, for example, on assumptions we felt may be flawed.

Prior to the appointment of the ISS and Sustainalytics, we conducted extensive interviews and a thorough due diligence process was undertaken; assessing research, reporting and operational capabilities. All service providers are monitored using Key Performance Indicators ("KPIs"). These are monitored on a quarterly and an annual basis; if at any point the service provider does not meet the criteria governed in the legally binding Service Level Agreement, a full review is carried out to ascertain why standards have not been met. To date, the service levels provided, have met with the required KPIs/expectations. We also review competing service providers periodically, to ensure the service providers appointed are the best in the market and suit the needs of our business.

Such a review was undertaken in 2021. We assessed 6 providers in light of tightening regulations and the requirement for more data to aid with both engagement policies and client/ regulatory reporting. It was decided to appoint MSCI and currently a project is under way to assess how best to utilise the data.

Principle 9 - Signatories will engage with issuers to maintain or enhance the value of assets

Veritas Asset Management LLP ("Veritas") seeks to buy high quality businesses at the right price. Amongst the characteristics sought when assessing the quality of a business, we would include attractive returns on invested capital ("ROIC"), the generation of significant free cash flow, high barriers to entry to protect future cash generation and predictability in the deployment of the cash generated. In short, we seek to invest in businesses that are sustainable over the long-term at an attractive price.

Governance of a business is therefore central to the investment case. The management and board are accountable for the company's long-term strategy and should be cognisant of the risks and opportunities over a 10-year time horizon and deploy capital accordingly.

Strong management will incorporate sustainability into their strategy and be aware of environmental and social risks and opportunities. These risks and opportunities include Environmental and Social factors. Addressing data protection, developing greater fuel efficiency/ electrification of air travel, or positioning for the transition of healthcare to a value-based system are all examples that are relevant to research into social media, aerospace or healthcare companies respectively. Weak management will find their businesses displaced or become uncompetitive.

Positive not negative screening

Veritas runs a concentrated strategy of 25-40 stocks. No company is eliminated simply because of the sector in which it is quoted but assessed on its own merits. Most companies within the index do not satisfy the quality characteristics sought and the Universe List of approximately 250 companies, from which the portfolio is built, is less than 10% of the MSCI ACW Index. The level of research is extensive, and a significant element of the research effort is centred on company management evaluating the following.

- Management's long-term objectives and how they intend to deploy cash. Have they a good understanding of target markets, competitive advantages, barriers to entry, any environmental/ social factors relevant to their business that may pose a risk or reward.
- Whether management incentives are aligned with shareholders and Key Performance Indicators (KPIs) are reasonable and not too short term.
- The rating of management after a meeting. Each Veritas attendee will independently rate management before they are given an overall rating based on assessment of vision and capability. Rating drift results in a review and potential engagement.
- Where there is a question on sustainability/ predictability, we seek a higher margin of safety before we invest.

Two Tiers

We seek to engage with management for two broad reasons.

- **Tier 1** – if we deem there to be financially material sustainability issues, we will engage. Material issues differ from company to company. We only focus on material issues relevant to a particular company. We will have an assessment from the original research as to what is material for a particular business. These are the issues that have the most potential to affect the company's ability to create value for shareholders or to destroy value. If the company engages in an activity that challenges the sustainability of its operation or demonstrates lack of vision to adapt, we will have cause to engage.

- **Tier 2** – these are interactions with a company to promote good business practice and market efficiency. An example would be engaging with a low GHG emitting company that does not disclose its climate related data as it deems it less material than other risk.

Engagement Triggers

Engagement can be triggered in several ways

- Action that is not aligned with shareholder interest and/ or deterioration in quality of management
- Breach of an ESG Red Line
- Controversy flagged that breaches UN Global Compact
- TCFD shortfalls

Process of Engagement

(1) We will usually start by writing to the company explaining the issue which we believe is both material and has a bearing on sustainability, we will include our suggestions on actions that should be taken.

(2) If the issue is not addressed, we 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, we may have already spoken to third party professionals via our networks.

(4) Post meeting with management, where relevant, we will follow up again in writing.

(5) Should any activity be put to a vote, we may choose to vote against management and notify them of our intentions to do so.

(6) If engagement and voting fail, we may choose to exit the position and the company will be removed from the Universe List. The activity will be recorded in the engagement log.

Constructive Dialogue

We believe in treating management with respect and conduct our engagement activity away from press/media. On occasion we work with management to give them time to implement a strategy e.g., introducing more Non-Executive Directors ("NED's") to the board. Where one of the Red Lines within our Environmental, Social and Governance ("ESG") Voting policy is breached but we do not deem it to be material for full engagement, we may inform management that we will not vote against them but suggest they may wish to consider a cause of action.

We apply the principles behind engagement across the funds within the firm. Given the long-term nature of our approach, we generally have good access to management. Access may be limited in the case of very large companies, where VAM represents a small percentage of the market capitalisation. In these cases, we may look to collaborate with other investment managers.

Engagement Examples

Company: Svenska Handelsbanken
Sector: Financials
Country: Sweden
ESG Category: Governance
Topic: Remuneration
Communication Type: Conference Call

Rationale for the engagement: Governance is central to Environmental and Social risks and opportunities. Forward thinking management that is incentivised in the right way, is more likely to adjust a business to Environmental and Social risks and opportunities. The only bank held by the portfolio, Svenska Handlesbanken, have not handed out bonuses for over 40 years. Instead, they have a profit-sharing scheme, which only distributes the proceeds when the individual turns 60. This can be a generous pay-out to those that have served with the company for many years. All employees receive the same allocation based on the bank's performance against its rivals but there are no sales targets or budgets. Whilst each branch has autonomy to lend, the bank has a culture of looking over the long term and not taking big risks. The consequence of this has been a bank with an enviable ROC and one of the lowest bad loan books of any European bank. They have not had to be bailed out by any financial crisis or suffered AML scandals. The rationale for engaging was the introduction of a cash bonus which we felt makes the bank a riskier investment.

What we have done: Engagement started two years ago on the initial announcement of the intention to introduce a cash bonus. We met with management to table our objection to the move and followed this in writing with suggestions including employees being offered stock in Svenska rather than cash that vests over a period of time to ensure the alignment with shareholders is maintained.

They refused to entertain the ideas and we sought another meeting. The arguments made surrounded attracting talent but did not address the alignment with shareholders.

Outcomes and next steps: In this case the engagement failed, and we sold the in 2021. Given the thesis was largely predicated on the low risk/ predictable nature of the bank (we generally do not invest in spread financials), the predictability of future cash flows becomes opaquer and risks suffered by other banks increased.

Company: Fiserv
Sector: Information Technology
Country: United States
ESG Category: Governance
Topic: Capital Allocation
Communication Type: Conference Call

Rationale for the engagement: Fiserv is a fintech company with three main division in account processing, merchant acquiring and payments/ networks. The thesis is based on best in class integrated customer solutions. They have demonstrated continued high quality resilience growth and market share gains. A prime beneficiary of digitalisation including payments with improving margins/ strong cash conversion/ share buy backs etc. The rationale for engagement was a de-rating in the company (share price flat despite improving earnings etc) brought about by a lack of disclosure by the company on core assets (i.e., more look through).

The aim was to have Fiserv disclose the data on Clover, part of the merchant acquiring business. Clover competes with Square. Square is smaller than Clover and not growing as fast and yet commands a value in excess of the whole of Fiserv where Clover accounts for 20% of revenue.

What we have done: We have had meetings and calls with senior management to encourage further disclosure on an underappreciated asset.

Outcomes and next steps: There has been a successful outcome in that the company has agreed in a capital markets day to give more granularity to the Clover business. Clover has had a 45% annual growth over the past 5 years, only somewhat slowing down during the pandemic. There is no doubt Clover is a massively growing, market leading franchise within Fiserv that currently gets somewhat lost in the overall Acceptance segment.

Company: Charter Communications
Sector: Communication Services
Country: United States
ESG Category: Environmental
Topic: Climate
Communication Type: Conference call and email communication

Rationale for the engagement: Charter has been a laggard in climate. Prior to 2021 Charter had never responded to CDP, whereas peers such as AT&T, Comcast, Liberty Global, Sky PLC, and Verizon did respond to the annual CDP climate change survey. These peers also provided more extensive ESG information. We had initially engaged with senior management to publish GHG emission data and the company did so in 2021 and completed the CDP submission. In 2021, we wanted to push the company further on intentions to publish a climate strategy behind its targets and to sign up to SBTi.

What we have done: During the second half of 2021, we engaged with Charter Communications. The company intends to drive efficiency by achieving carbon neutrality across operations by 2035 (Scope 1+2). They have also adopted the Taskforce on Climate related Financial Disclosures (TCFD) framework. The company confirmed they would consider SBTi, however, the logistics of implementing these targets is challenging, as one of the key carbon "hot spots" relates to the bucket trucks used by the company which at present, cannot be electrified. For the moment, the route to reducing emissions is to work towards achieving fewer truck rolls, and to assess how they can lower emissions as they replace their fleet of trucks. In the meantime, they are exploring how they can reduce their emissions over a short to medium timeframe. They will account for standard delivery renewable energy, as well as acquire renewable energy certificates ("RECs") via renewable power purchase agreements, utility green energy programs, and/or direct purchase. They are evaluating and optimizing renewable energy opportunities to pilot where they will have the most impact. Sensibly, the renewable energy strategy takes into account the geographic concentration of electricity consumption to support operations, the availability of renewable energy within the regional electricity grid, as well as local and state renewable initiatives such as Renewable Portfolio Standards.

Outcomes and next steps: Charter are making progress. They have received pressure from a number of managers and are starting to respond. We will continue to monitor progress particularly on EV roll out. Charter has committed to a pilot scheme, whereby the end of 2022, they will have launched a pilot utilizing a number of light duty electric vehicles in one of their market areas.

Company: Thermo Fisher Scientific
Sector: Health Care
Country: United States
ESG Category: Social
Topic: Human Rights
Communication Type: Conference call and email communication

Rationale for the engagement: Thermo Fisher's solutions improves the lives of patients, help protect the planet and keep people safe. One such product is DNA testing kits used to help identify criminals. The rationale for engaging with the company was news that the company's DNA sequencing kits were being used in the Xinjiang region of China for surveillance of the population and hence playing a role in human rights abuse in the region. This engagement is aligned with SDG 8 and whilst in the scheme of Thermo Fisher business of modest materiality (China equates to 8% of revenue), potential significant reputational damage to a company with an excellent reputation. We also spoke to the same company in relation introducing SBTi Targets.

What we have done: We initially wrote to the company to obtain a response to the accusations. The company had responded in writing to tell us they no longer sold such kits in the region (since 2018) and had strict terms in place with distributors. We decided to escalate the matter by asking for a meeting to discuss. It was asserted that the kits in question did not have the implied utility - that they alone would not be able to identify the ethnic origin of an individual as the article had implied. This technology in conjunction with other methods, such as facial recognition technology, would be able to with high probability but the Thermo Fisher kits alone could not.

Outcomes and next steps: We will continue to monitor the situation, but we understand there has been a retraction in the accusation made. It was an opportunity to understand better the procurement process of such kits. Thermo Fisher have been very responsive to engagement, having now committed to Scope 3 reporting and signing up to SBTi.

Company: Goodman group
Sector: Real Estate
Country: Australia
ESG Category: Environmental
Topic: Climate
Communication Type: Conference call and email communication

Rationale for the engagement: We expect all companies, where possible, to have Net Zero targets and for these to be Science Based. We monitor all companies held to determine if their climate strategy address these key factors. If a company is not signed up to the Science Based Target Initiative and we believe it should be we will engage with the company to encourage them to do so.

What we have done: From our research we noted that Goodman Group had not submitted a 2021 CDP submission, they do not have science-based targets approved by SBTi and they do not publish reporting aligned with the TCFD framework. For these reasons we engaged with the company to better understand the reasons they had not addressed the key items that we were monitoring.

Outcomes and next steps: The company has produced a report aligned the TCFD guidelines. They intend to release their first TCFD statement in 2022. At which point, we would like to see this reflected in the official TCFD supporter's webpage. In 2021 Goodman Group achieved Carbon Neutrality, four years ahead of the 2025 target. They Obtained certification as a Carbon Neutral Organisation under the Climate Active scheme. Carbon Neutrality differs from Net Zero, although we commend the company for achieving this milestone, we will continue to monitor their progress towards Net Zero. Although the company does not report to CDP, it does report to the Global Real Estate Sustainability Benchmark (GRESB), which is relevant given the business sector.

Principle 10 - Signatories, where necessary, participate in collaborative engagement to influence issuers

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Ordinarily, we would choose to engage with management on an individual basis to rectify an issue. In cases where management is unresponsive or we hold a small percentage of the float, we may choose to collaborate with other interested parties. Given our concentrated approach to investment, all holdings are important irrespective of the significance of our holding in terms of the issued share capital. Thus, if the issue is material and we need to collaborate to elicit a response, we will do so. Veritas manage concentrated portfolios and the focus is on quality, sustainable characteristics. We will typically engage on 3-4 holdings over the

course of the year which represents 10% of the portfolio. The number of times we have needed to collaborate with another investment manager are few, with two main examples in the last 4years being the London Stock Exchange and Allergan plc.

Given both the concentration of the portfolio and duration of holdings, we often elicit a response from management by having dialogue privately with the indication that a more collaborative approach may result if no action is taken. This year we have reminded those companies not submitting answers to the CDP questionnaire to do so. Should this fail, next year we may collaborate through the CDP and other shareholders in the stocks.

Collaborative Engagement Case Study - London Stock Exchange ("LSE")

Topic of Engagement – Remove Chairman
Method of Engagement – In person meetings and email correspondence
Current Status – Exited Position

LSE has been a very successful investment for shareholders and much credit has to be given to Xavier Rolet who had presided as Chief Executive Officer (CEO) of the company for almost 9 years. Over that time period, the market capitalisation of LSE increased from approx. £800m to £13bn. The news that Rolet had decided to retire was thus greeted with some sadness. However, TCI, another significant shareholder, wrote an open letter to the LSE accusing it of forcing Rolet out of his position. In light of what Rolet had help achieve, they suggested that the Chairman, Donald Brydon, should resign immediately and the search for a new CEO be suspended. This led to a catalogue of events including a number of open letters and much press speculation which resulted in Rolet ruling himself out of ever working as CEO for LSE again and ultimately an Extraordinary General Meeting (EGM) calling for the removal of Brydon as Chairman. Over the course of events we engaged with management a number of times. This included two separate meetings with Donald Brydon, a single and separate meeting with the interim CEO, David Warren, and a letter requesting that restrictions be lifted so we could hear both parties speak freely.

After significant time and effort, our conclusion was to vote FOR the resolution to remove Brydon and AGAINST management (and ISS recommendation). We believed that Brydon has presided over poor corporate governance. Shareholders were not treated equally (he tried to appease TCI to save his position) and the separation agreements he agreed to exacerbated the disorderly CEO succession that became so public. Given that Brydon was due to step down in 2019, he would depart soon after the new CEO was likely to start, so he should not be responsible for the CEO recruitment. Additionally, he stretched in holding the Chairmanship not only at LSE but also Sage and the Medical Research Council. The resolution in this case was not successful with 21% voting in favour of removing Donald Brydon.

Collaborative Engagement Case Study - Allergan plc

Topic of Engagement – Joint Chairman/CEO
Method of Engagement – In person meeting, conference calls and email correspondence
Current Status – Exited Position

Throughout 2019 we continued to engage with Allergan management who had not executed well on behalf of shareholders. There had been several issues that had brought into question the ability to steer the company under the joint Chairman/CEO Brent Saunders. This included the company's unorthodox bid to shield patents from a federal administrative court's review by exploiting a loophole and transferring the patents to a Native American tribe based in New York at a time when drug companies are under the spotlight of rising healthcare costs . We had felt strongly that the role of Chairman and CEO should be split. We collaborated with Appaloosa who ultimately tabled a resolution to split the role of chairman and CEO with immediate effect which we supported. Despite the logic of the split in this instance and the argument made by many third party ESG providers on why the role of CEO/Chairman in general should be split, the proxy houses ISS and Glass Lewis, recommended shareholders vote with management and against the resolution. The majority duly obliged. We sold the position and made it clear to management why we were selling. Whilst the engagement failed, it demonstrates that Veritas will collaborate where it makes sense to do so. It also demonstrates we do not simply follow the proxy firms' recommendations.

Away from specific stock collaboration, we are signatories to the climate related entities, the Transition Pathway Initiative ("TPI") and the Task Force of Climate-related Financial Disclosures ("TCFD"). As described elsewhere, we actively engage with management to disclose climate related data and communicate their pathway to transition. This is an area which is constantly under review, and we will consider further ways to encourage compliance.

Likewise, we collaborate with asset owners. We spend considerable time engaged with clients, increasingly on climate related issues. This helps as part of the feedback loop that over time has resulted in the implementation of new policy.

Principle 11 - Signatories, where necessary, escalate stewardship activities to influence issuers

Where we perceive there to be a potential risk to shareholder value and where we believe action taken by management could avert those risks we will engage. Engagement often takes place where there is potential poor deployment of cash (e.g., a company buying an unsuitable business rather than paying dividends), lack of transparency in some part of business (this may relate to incentives or company structure), reputational risk (e.g., data protection in social media businesses) or working conditions (e.g., factory standards in clothes outsourcing). The investment team will be responsible for any company engagement, with a portfolio manager and an analyst involved in the dialogue with the company. Engagement is a fundamental part of the process and can play a significant role in ensuring the sustainability of a business.

Escalation Approach

Placing escalation into context, we would start by saying we believe in treating management with respect and will endeavour to work with management in order to find a solution. To retain a strong long-term relationship, we hold our discussions with companies in a confidential manner subject to the engagement summaries provided for client reporting purposes. The objective behind escalation is to ensure a company is working towards a solution particularly in an area that questions whether the holding remains appropriate for client portfolios.

Usually, we initially write to management and an issue will either be escalated if there is no response or an unsatisfactory response. As long-term holders, in many cases management are willing to discuss the issues raised.

Meetings will follow, after which we will write again with recommendations. These will often lay out key thresholds we expect to be met. Depending on the materiality of the issue, an expected time for response will be highlighted. 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.

Should the change not take place, the issue will be escalated again.

If we engage with a company and the engagement is unsuccessful, we will either.

(i) vote against the company if applicable and inform company management of our intentions.

(ii) continue to hold the investment and engage with the company but lower the intrinsic value.

(iii) sell the investment.

Escalation Examples

We have engaged with **Sonic Healthcare** in two areas. One was incentive plans and the second was sustainability reporting. On incentives, we are always keen to see realistic but challenging Long Term Incentives plans ("LTIs") that are aligned with shareholders. This includes the underlying mechanism behind thresholds being achieved. In the case of Sonic, earnings per share ("EPS") growth targets were in line with averages and we challenged the contribution that could be attributed from acquisitions. We have suggested a number of targets over time but escalated the issue last year where little progress had been made on specific targets. Following meetings and a further written suggestion, the company has agreed to implement all targets suggested in 2021.

In terms of the sustainability reporting, we wrote to the Chairman in 2020 to inform we would be voting with management (and against the Red Line recommendation) for the election of Mark Compton as Director. The recommendation to vote against management was based on the following Red Line within our ESG policy being breached.

"The company does not have an Environmental Sustainability Committee chaired by a board director, or named board member, with responsibility for this area as evidence of appropriate concern."

There is evidence of appropriate concern for Environmental Sustainability in our opinion evidenced by the following:

(i) The Risk Management Committee, comprising 3 board members, has environmental, social and governance risks within its responsibilities.

(ii) FTSE4Good Index inclusion since 2008. Sonic's standing as a socially responsible company continues to be evidenced by ongoing inclusion (since March 2008) in the FTSE4Good Index Series. To be included in the Series, Sonic has been independently assessed to have met stringent environmental, social and governance criteria.

Despite this, we made clear that we expected to see further disclosure commitments in 2021 and escalated engagement during the year. The company is committed to disclosing Scope 3 emissions and detailing their net zero transition pathway by end 2022.

Principle 12 - Signatories actively exercise their rights and responsibilities

Given the concentrated, focussed nature of our investment approach, we believe our investment teams understand the businesses we invest in on behalf of our clients and take stewardship responsibility seriously, including our proxy voting responsibilities. To request a copy of our proxy voting policy, please contact esg@vamllp.com.

We commit to voting on all resolutions tabled. With this in mind, our firm approach is to not engage in stock lending, in order to mitigate empty voting. We are also philosophically opposed to lending out stock in a company of which we are long term shareholders. When casting our vote, whilst we take third party views into consideration, such as ISS, AMNT Red Lines, 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. We gave the example of Sonic Healthcare in Principle 11.

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.

The proxy voting policies can be found under the sustainability section of website: https://www.vamllp.com/sustainability/

A summary of all votes cast for pooled vehicles under the Veritas Funds Plc umbrella, is available on the following webpage: https://vds.issgovernance.com/vds/#/NzgyMA==

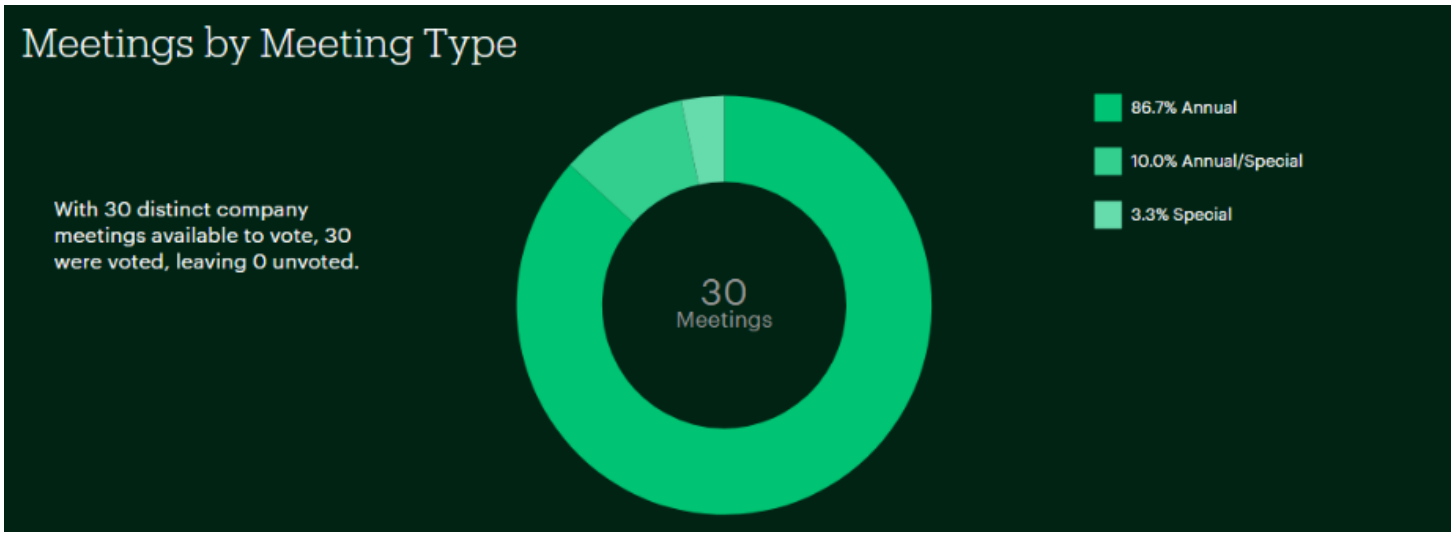
During the period under review, Veritas has instructed 19,624 votes across all portfolios managed. Please see below a summary of our voting approach and the votes cast during the period for our largest UCITS vehicles.

Veritas Global Focus Fund

Our Voting Policy is made up of two parts, one of which is ESG specific. We vote on all resolutions and ISS provide vote recommendations and vote execution services. We also follow a customised ESG Red Line policy. The Red Lines contain 29 guidelines covering topics associated with ESG. For example, the 5 red lines that relate to climate related factors include a red line to vote against senior management if the business has no climate change committee with board oversight. Should any of the 29 red lines be breached, the instruction is to either vote against management or explain why not. This enables us to effectively communicate to clients and put into context the status of a company on the transition pathway. The same approach is applied to the following Funds; Veritas Global Equity Income Fund, Veritas Global Real Return Fund, Veritas Izoard Fund, and the Veritas Third Eye Emerging Markets Fund.

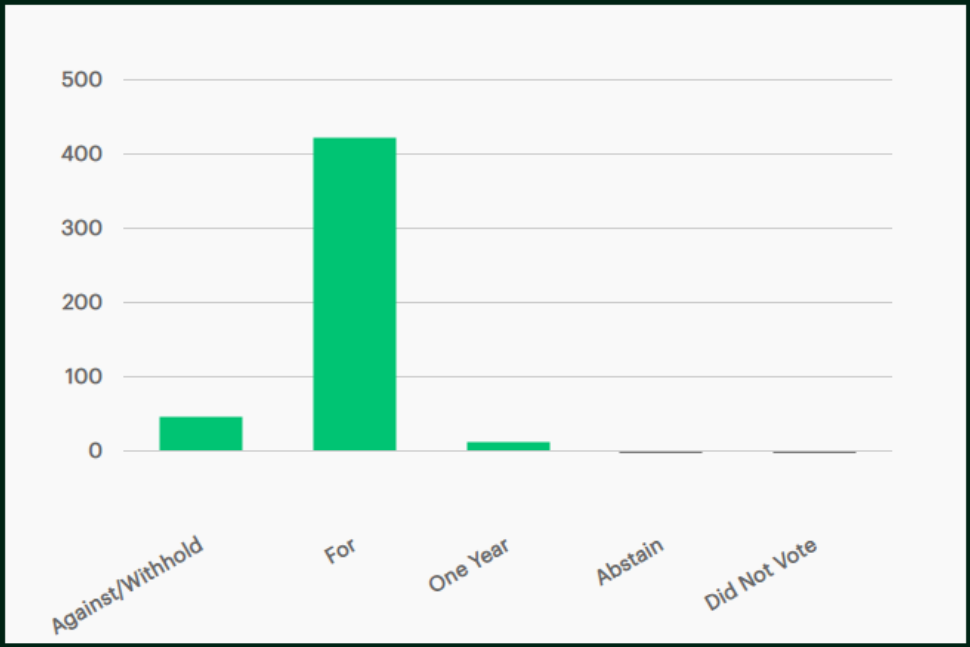
The first section of this report details the overall votes cast for the Veritas Global Focus Fund and the breakdown of these votes. In cases where we voted "AGAINST" management, rationale is provided.

During the period there were 30 company meetings and 486 voteable resolutions. Votes cast by VAM LLP resulted in 443 votes "FOR" management and 43 votes "AGAINST".



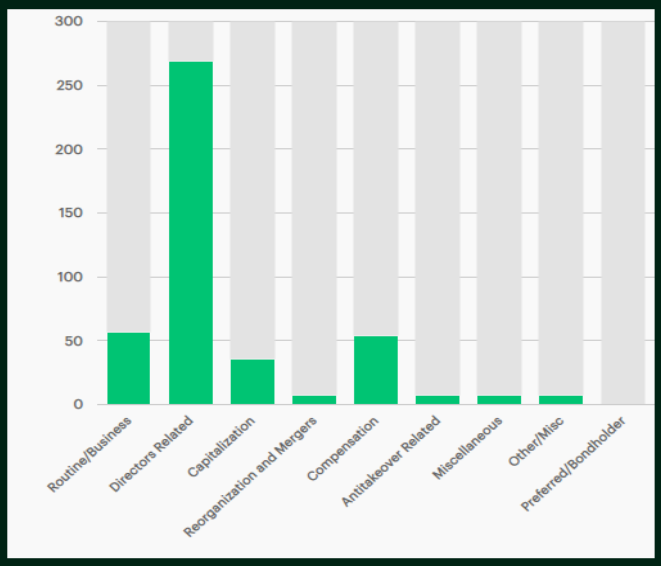
Voting Statistics

Across 470 unique proposals available to vote, we voted 470 for which 0 proposals were voted in varying ways for the same meeting agenda item.

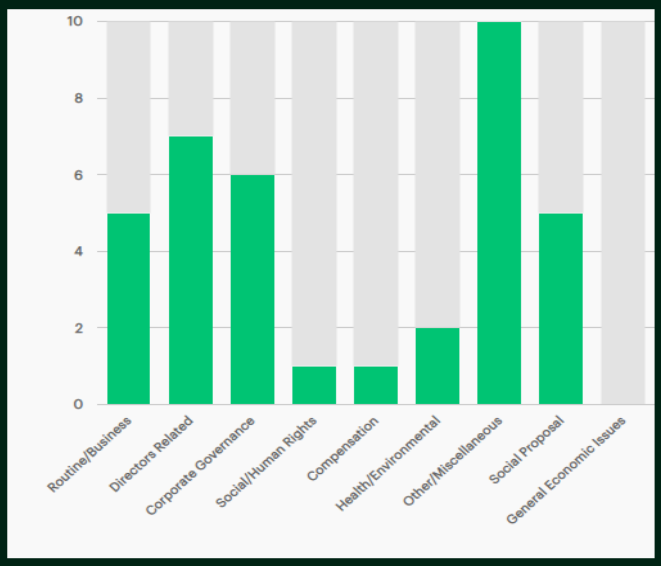


Votes Cast by Proposal Category

Management

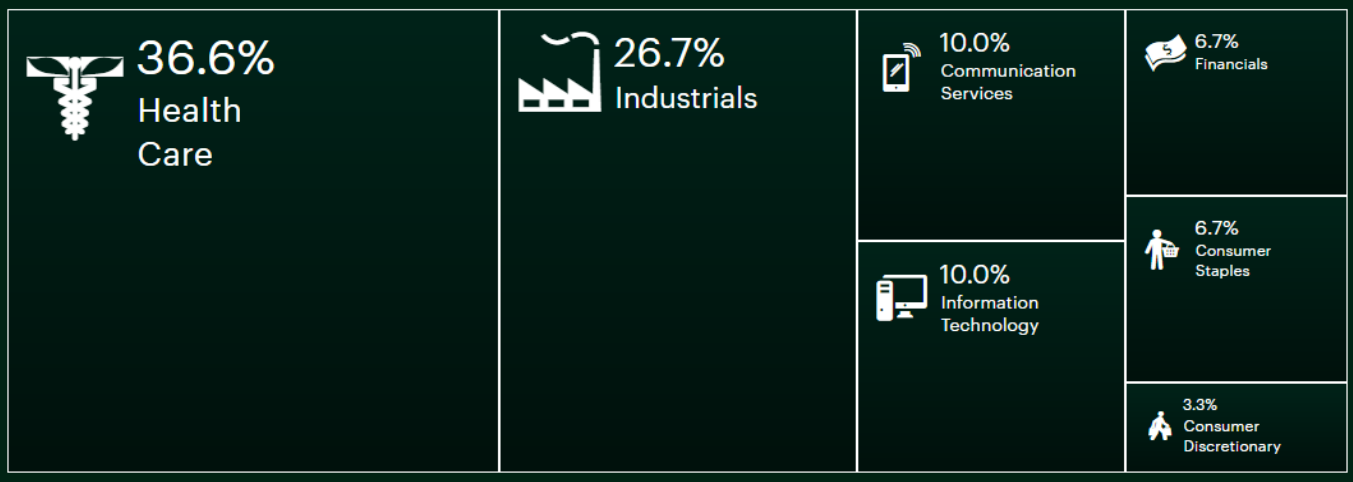


Shareholder



Management sponsored 433 proposals during the period, where shareholders sponsored 37 proposals, with Directors Related and Other/Miscellaneous representing the categories with the most proposals, respectively.

Meetings by Sector



The sector with the highest number of meetings held during the period was Health Care with 11 meetings, while Consumer Discretionary was the lowest with 1 meetings.

Meetings by Market

Of the top five markets with the highest concentration of meetings, the USA had the most with 18 meetings, whereas the Cayman Islands had 1 making it the market with the fewest meetings.

Alignment with Management

Votes cast were in line with management recommendations 90% of the time, with 10% contrary to management recommendations.

VAM LLP Rationale – Votes "AGAINST" Management ("Mgmt") Recommendation

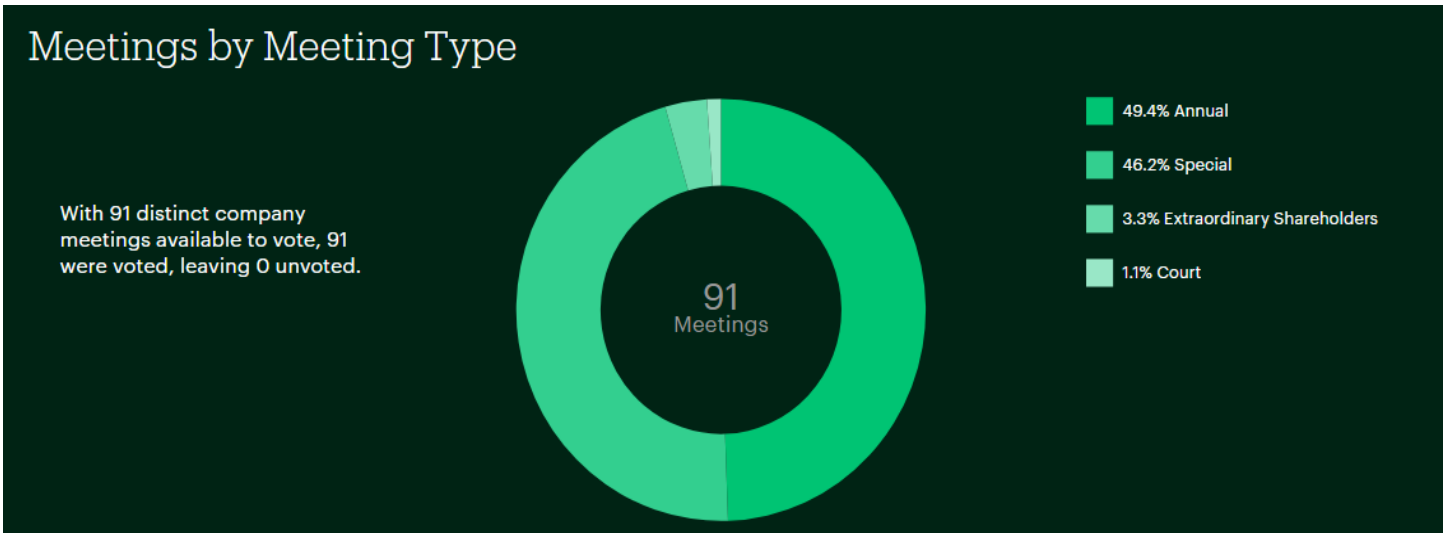
Company	Sector	Proposal	Mgmt. Vote Rec	VAM LLP Vote	Rationale	Voting result
Facebook, Inc.	Communication Services	Require Independent Board Chair	Against	For	A vote "FOR" this proposal was warranted given concerns with the board's governance and the appointment of a non-independent director to serve as lead director. Furthermore, the FTC entered into a settlement agreement with Facebook whereby the company has agreed to pay a $5 billion penalty and to significantly enhance its practices and processes for privacy compliance and oversight. The recent data privacy incidents and subsequent controversies have tarnished Facebook's reputation and put shareholder value at risk. These considerations suggest that shareholders would benefit from the most robust form of independent board oversight, in the form of an independent board chair.	Fail
Microsoft Corporation	Information Technology	Report on Gender/ Racial Pay Gap	Against	For	A vote FOR this proposal was warranted, as shareholders could benefit from the median pay gap statistics that would allow them to compare and measure the progress of the company's diversity and inclusion initiatives.	Fail
Illumina, Inc.	Health Care	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	For	Veritas voted "AGAINST" this item as the adjustments made to management's long-term compensation due to the impact of COVID-19 are asymmetric in management's favour. We believe it is important to retain management, compensate them fairly, and that some adjustment to compensation is in order given the impact of COVID-19. However, we believe that rebasing lower EPS targets for long term compensation for three different plan years near the worst of the pandemic is not 100% aligned with shareholders best interests and skews compensation asymmetrically in favour of management.	Pass

VAM LLP Rationale – Votes "Contrary to" VAM LLP Policy Recommendation						
Company	Sector	Proposal	Red Line Vote Rec	VAM LLP Vote	Rationale	Voting result
Alphabet Inc.	Communication Services	Elect Director Ann Mather	Against	For	Veritas voted contrary to the guidance provided by Red Line E4; The company has failed to commit to introducing and disclosing science-based emission reduction targets with a coherent strategy and action plan with a 2-degree scenario. Alphabet is considered a climate outperformer by ISS in their carbon risk rating and has Scope 1 & 2 emission intensities of 5 tCO2e vs average peer emissions of 27.8 tCO2e. Although the company has not committed to SBTi verification, the carbon reduction framework is based on science-based targets. We are comfortable with the company's approach thus far.	Pass
BAE Systems Plc	Industrials	Re-elect Sir Roger Carr as Director	Against	For	Veritas voted contrary to the guidance provided by the following Red Lines; Red Line S3 - There is no visible minority ethnic representation at board level and Redline S4 - The level of gender diversity on board is below 40 percent and has not improved since the last director elections. Although we did not vote in line with the policy recommendation, we intend to engage with the company on the topic of board diversity over the next 12 months.	Pass
Cochlear Limited	Health Care	Approve Financial Statements and Reports of the Directors and Auditors	Against	For	Veritas voted contrary to the guidance provided by Red Line G15; G15 - There is no separate resolution to approve the final dividend. Our rationale is that Cochlear has a long record in paying dividends (since 1996) and growing the dividend in line with earnings. There was a pause of one half-year payment last year (FY2020) given the exceptional litigation settlement in combination with COVID-19 impacts, however, the company re-introduced the dividend at H1 F2021 with full year pay-out in line with their stated 70% pay-out target. The Board's commitment to the dividend is strong and enduring in our opinion and so a separate resolution regarding the dividend is no reason for us to vote against Item 1.1.	Pass

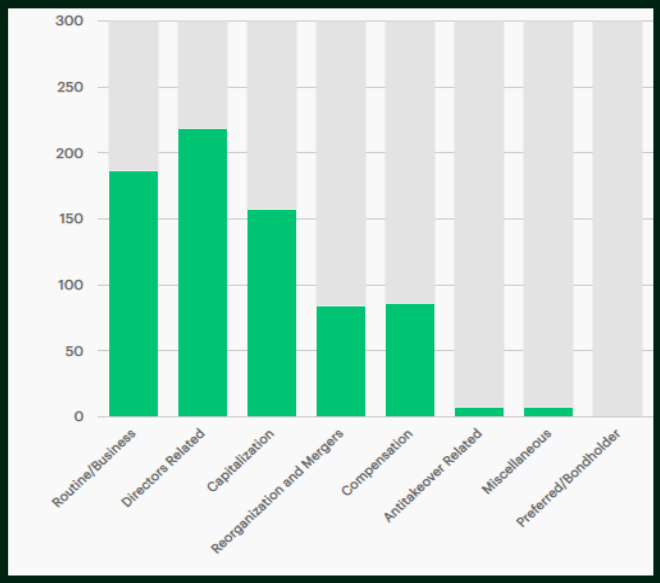
Veritas Asian Fund

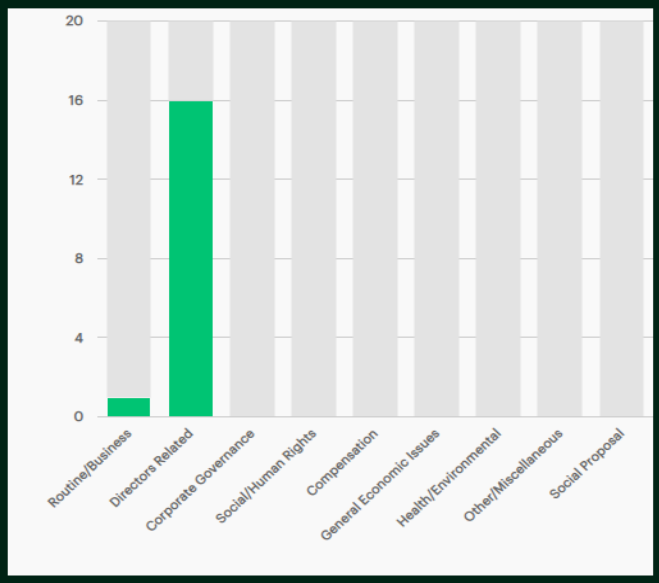
Our third-party proxy advisor, ISS, provide us with company research and vote recommendations for each meeting resolution based on the ISS Benchmark Policy. The Asian investment team will use the research provided alongside their own analysis to determine their vote decision. It is not uncommon for the investment team to have a view which differs to management's vote recommendation. In this scenario we provide rationale to justify our voting decision. The same approach is applied to the Veritas China Fund.

During the period there were 68 meetings and 571 voteable resolutions. Across the 571 resolutions, votes cast by VAM LLP resulted in 503 votes "FOR" management and 68 votes "AGAINST".



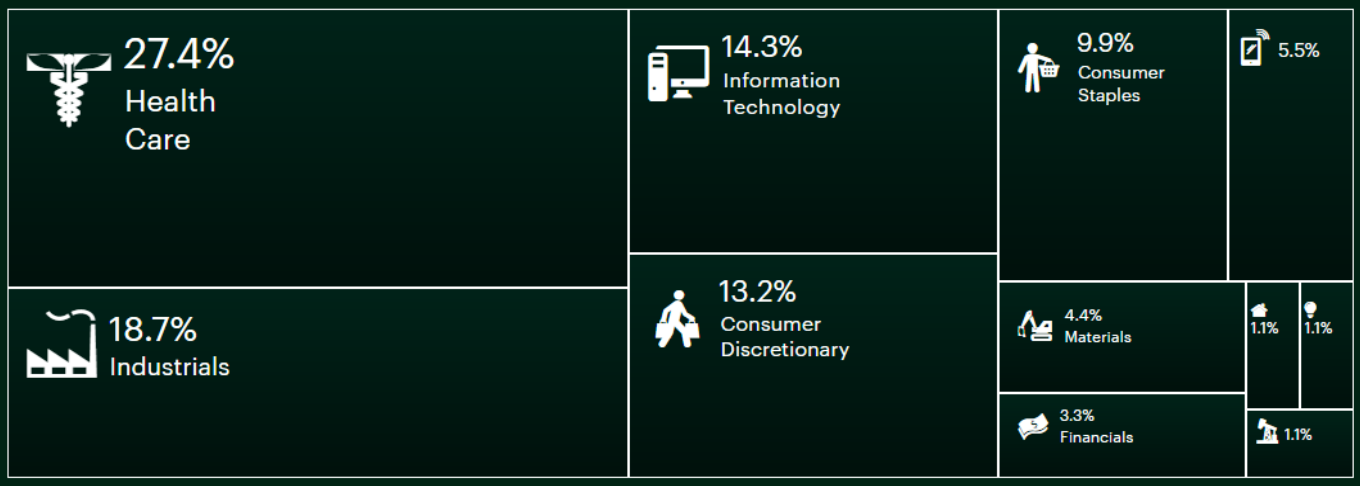
Votes Cast by Proposal Category





Management sponsored 739 proposals during the period, where shareholders sponsored 17 proposals, with Directors Related and Directors Related representing the categories with the most proposals, respectively.

Meetings by Sector



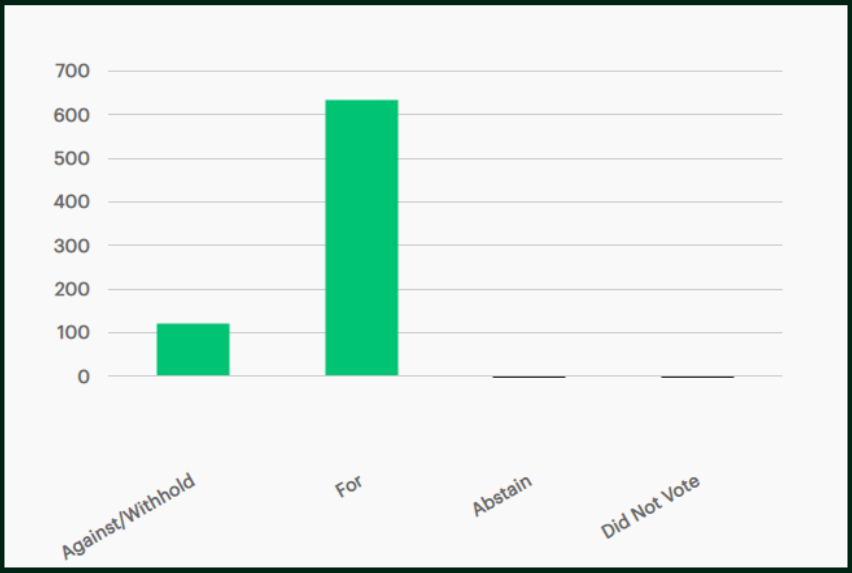
The sector with the highest number of meetings held during the period was Health Care with 25 meetings, while Real Estate was the lowest with 1 meetings.

Meetings by Market

Of the top five markets with the highest concentration of meetings, China had the most with 47 meetings, whereas Taiwan had 1 making it the market with the fewest meetings.

Voting Statistics

Across 756 unique proposals available to vote, we voted 756 for which 0 proposals were voted in varying ways for the same meeting agenda item.



Alignment with Management

Votes cast were in line with management recommendations 84% of the time, with 16% contrary to management recommendations.

VAM LLP Rationale – Votes "AGAINST" Management ("Mgmt") Recommendation

Company	Sector	Proposal	Mgmt. Vote Rec	VAM LLP Vote	Rationale	Vote Result
Alibaba Group	Consumer Discretionary	Elect Director J. Michael Evans	For	Against	A vote "AGAINST" the non-independent director J. Michael Evans was warranted as he is the full-time director of the company and concurrently holds the chair of another public company or is a director of more than one other public company.	Pass
Kweichow Moutai	Consumer Staples	Amend Articles of Association	FOR	AGAINST	A vote "AGAINST" was warranted because the proposed articles amendments are not considered to adequately provide for accountability and transparency to shareholders.	Pass
Apollo Hospitals Enterprise Limited	Health Care	Elect Rama Bijapurkar as Director	FOR	AGAINST	A vote AGAINST this resolution was warranted: Rama Bijapurkar serves on a total of more than six public company boards, which could potentially compromise her ability to commit sufficient time to her role in the company.	Pass

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