Edinburgh Partners

UK STEWARDSHIP CODE 2020

STEWARDSHIP CODE FOREWORD

2020 was a year unprecedented in modern times. On the one hand, the COVID-19 induced restrictions both brought economies around the world to a halt and pushed many healthcare systems to breaking point. On the other, the scientific reaction to the virus revealed the extent of scientific progress. This allowed the rapid development of multiple potential vaccines and a shortening of the time to market as Governments funded production in advance of certainty that they would pass through the regulatory trials. The combination of development and shortening the critical path to market appears to be shortening thew duration and potential mortality of the pandemic, even if it does not feel this way for many. Adversity and opportunity are often two sides of the same coin and thoughtful, considered processes are needed to navigate such multifaceted situations. COVID-19 is just one in a string of recent global upheavals – the global financial crisis and the ongoing climate crisis are other examples – which are illustrating the need for stewardship-led programmes to provide effective responses to increasingly complex events and systemic risks.

At Edinburgh Partners, we take our stewardship responsibility to our clients and the global community extremely seriously and we acknowledge the increasingly complex nature of this responsibility. As such, to achieve our stated aim of providing sustainable, long-term return for clients, not only do we consider financial and economic factors affecting the companies in which we invest, but also all relevant environmental, social, and governance factors. This fully rounded picture of the current and future environment in which our investee companies operate is vital in the ongoing monitoring and maintenance of our holdings. We also strive to conduct informed, constructive engagement with companies and other market participants in order to protect and advance the best interests of our clients.

ESG issues affect the value, future opportunity set, and market reputation of all our investee companies as well as impacting the systemic risk framework in which these companies operate. For this reason, ESG considerations have always been integral to our analysis. As with all our efforts, it is important to adapt to changing conditions and seek continuous improvement. We will continue to evolve our investment process as new knowledge and areas of focus push the ESG landscape forward. We also recognise our responsibility to use our influence to promote better, more sustainable working practices at the companies we own – not only to strive for more stable capital markets but also for the betterment of the world we all share.

We recognise that the responsibility for stewardship does not stop at our front door and that we must also work to promote external ESG-related frameworks, compacts, and regulations that match our goal of serving clients sustainably. To this end, Edinburgh Partners is a signatory of the UN's Principles of Responsible Investing (UNPRI). We also endorse the ICGN Global Stewardship Principles; aim to be signatories to the Stewardship Code in the United Kingdom; and are subject to the European Shareholder Rights Directive II.

Robin Weir
Investment Partner

Lauran Halpin
Investment Manager, Co-ordinator

Sandy Nairn
CEO & Investment Partner

PRINCIPLES AT A GLANCE

Purpose and governance
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance
Investment approach
6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
Engagement
9. Engagement
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11. Escalation
Exercising rights and responsibilities
12. Exercising rights and responsibilities

PRINCIPLE 1

Purpose, strategy and culture

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.

FCA Guidelines

REPORTING EXPECTATIONS

Context

Signatories should explain:

- The purpose of the organisation and an outline of its culture, values, business model and strategy.
- Their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

Activity

Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.

Outcome

Signatories should disclose:

- How their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and
- An assessment of how effective they have been in serving the best interests of clients and beneficiaries.

Edinburgh Partners' Position on Principle 1

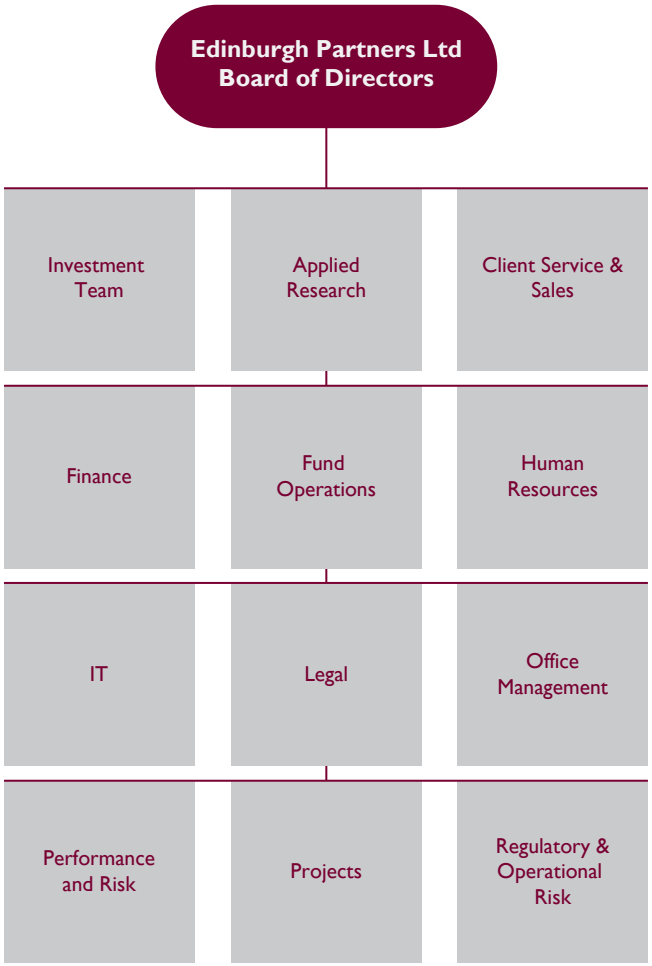
Our Purpose

Edinburgh Partners Limited ("Edinburgh Partners") is an investment management company specialising in managing a range of long-only, unconstrained, concentrated equity strategies. Our clients are global institutional investors.

Our goal is to provide clients with superior long-term returns. In seeking to achieve this goal, we adhere at all times to our firm's investment philosophy, which is long-term and focused on absolute valuation. Our investment philosophy is central to our purpose, business model and strategy and this is reflected in our investment process and in the organisation and culture of our Investment Team.

As of 1 May 2018, Edinburgh Partners became a wholly owned subsidiary of Franklin Resources, Inc. We are one of several Specialist Investment Managers owned by Franklin Resources, Inc., benefitting from the financial backing and resources of the overall group, while operating autonomously according to our own investment philosophy.

As at 31 December 2020, Edinburgh Partners managed £3.5bn in assets under management. The organisational structure of Edinburgh Partners is shown below:



Our Investment Team

Edinburgh Partners has one investment team based in Edinburgh. They are responsible for running all strategies through following a single investment approach.

We believe the creation of value for our clients absolutely depends upon the quality and experience of our Investment Team. Combining a high quality team with the ability to take a long-term view provides the basis for creating superior returns for clients.

The most important element of the Investment Team's role is the analysis of companies. In many organisations the role of analyst is often a relatively junior position and advancement usually entails moving away from this crucial function. Our philosophy and approach are diametrically opposed to this practice and each member of the Investment Team remains responsible for conducting company analysis in different sectors and identifying undervalued stocks within them.

The team is structured so that research is undertaken on a global basis. This is essential for the full understanding of the global industry factors which impact a company's operating environment. This approach enhances the efficiencies and effectiveness of research coverage and helps to avoid the possibility of a geographical bias to portfolio management.

Further details on the Investment Team and the process are explained in Principles 2 and 7.

Our Culture

Our Chief Executive leads the Investment Team and is responsible for promoting a culture of professionalism and integrity, which focuses on creating value for our clients. As outlined above, we have an experienced, committed team of investment professionals all of whom are responsible for conducting company analysis. Not only does this facilitate efficient and effective research coverage, it ensures that company analysis and forecasting remain integral to our investment process.

Our investment process is also designed to promote a culture of openness and debate among the Investment Team. At a weekly meeting, research templates are presented by the relevant analyst to the rest of the Investment Team and all relevant assumptions are scrutinised by the other analysts. All members of the team endorse an environment in which team effort is emphasised and individual contribution both valued and rewarded.

Combining our experienced, committed team of investment professionals with an investment process that facilitates openness and debate is key to creating a supportive collegial environment. In such an environment, we can ensure that we remain faithful to our investment philosophy and beliefs.

Following the acquisition by Franklin Templeton, we have been fortunate to have access to a wealth of information and resources that are helping to promote Diversity and Inclusion within the firm. This directly links with our belief that a more diverse and inclusive working environment can only help generate ideas and practices which will ultimately transfer to increased value for our clients.

Our Beliefs

We believe that time horizon is the key market imperfection. Owing to the structure of the market and the way in which most portfolio managers tend to operate, investors spend too much time focusing on short-term quarterly and annual data. Detailed empirical research on markets undertaken by our Investment Team strongly indicates that company analysis should be concentrated on a longer term, five-year horizon.

Company analysis is the most important activity of our Investment Team. Forecasting a company's prospects on a five-year time horizon is not easy and to be successful, analysts need skill and experience. At Edinburgh Partners, we believe our Investment Team has both.

Our investment approach is long-term (over five years) and focused on absolute valuation. We believe that concentrated portfolios have the highest probability of generating good absolute returns. To follow this approach, we believe portfolios must not only be concentrated, but also contain enough stocks to be adequately diversified.

We aim to identify and buy undervalued companies and have the patience to hold them until share prices reflect their long-term earnings potential. Instead of being pushed off-course by short-term reactions, fear of being different from the crowd or a particular index, our judgments are based purely on long-term analysis of prospective risk and reward. It is a long-term approach, by definition contrarian, but for the patient investor we believe it is the most reliable way to achieve superior returns over the long term.

At Edinburgh Partners, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios and consideration of these issues should therefore be integral to our investment process and decision-making. As long-term investors, when we invest, we may hold a stock for many years, so understanding a company's strategic direction, governance structure and how these impact on social and environmental considerations is key.

Further information on our approach to ESG is detailed in our response to Principle 7.

Validating our Beliefs

Over a number of years, our Chief Executive and, more recently, the Applied Research Team, have worked on analysing the relationship between the valuation of companies and the returns their shares produce. The results represent the empirical underpinning for our investment philosophy and the way we manage money at Edinburgh Partners.

The Study involved the analysis of over 40 years of data from over 25,000 companies, covering all major markets. The hypothesis was that a stable relationship between the long-term profits of a company and its valuation existed. Hence, the key to selecting stocks and building portfolios is forecasting long-term earnings.

The Study also shows clearly that there is no relationship between share price performance and profits or earnings on periods of less than three years. In fact, it is the market concentration on these shorter periods that creates the opportunities for those willing and able to take a long-term view.

Further information on this can be found in a number or research papers on our website: click here.

Assessment of Effectiveness

Our sophisticated client base continually assesses our effectiveness through a regular cycle of face-to-face meetings and calls. Our segregated clients have bespoke IMAs against which we are measured, with many of these relationships exceeding 10 years.

Various metrics are also indicative that Edinburgh Partners provides the investment approach our clients expect. Below are the metrics for a long-standing global equity mandate as at 31 December 2020:

- Turnover was low at 37%. Edinburgh Partners does not churn portfolios. This demonstrates our long-term approach.
- Active Share was 95.5%. This demonstrates how different the portfolio is to the index. Edinburgh Partners does not follow the index.
- Number of holdings was 41. Our concentrated portfolios only contain stocks we have conviction in.

PRINCIPLE 2

Governance, resources and incentives

Signatories' governance, resources and incentives support stewardship.

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should explain how:

- Their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach.
- They have appropriately resourced stewardship activities, including:
  - Their chosen organisational and workforce structures;
  - Their seniority, experience, qualifications, training and diversity;
  - Their investment in systems, processes, research and analysis;
  - The extent to which service providers were used and the services they provided.
- Performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making.

Outcome

Signatories should disclose:

- How effective their chosen governance structures and processes have been in supporting stewardship.
- How they may be improved.

Edinburgh Partners' Position on Principle 2

Our Governance Structure and Resources

Edinburgh Partners has one Investment Team responsible for managing all strategies. The team operates within a flat structure and as such we do not expect the number of analysts to grow beyond the mid-teens.

Company analysis is the most important activity of our Investment Team; global sectors are allocated to each member, so they all contribute research ideas into our client portfolios. Before a stock can be purchased, the analyst responsible for that company produces a template which details all the assumptions behind their recommendation. The template is then presented at the weekly research meeting to the rest of the team and the assumptions discussed. All stocks must go through this process before they can be purchased. Should the recommendation be accepted, a senior member of the Investment Team informs our Fund Operations department, who implement the necessary system changes to allow the stock to be purchased.

A copy of the template is saved within our research database and is available for future review. The database is proprietary, which has allowed us to build it to meet our exact needs. Our considerations of the ESG characteristics of the stocks we research, are contained within the database and are exported into our client reports.

Within the template, the analyst will express their views on ESG considerations. This has been an integral part of the process for many years. However, we are aware that its importance has increased for many of our clients. To assist in our approach in this area, in 2020 we appointed an ESG Co-ordinator within the Investment Team. Their role is to:

- Be the primary point of contact for ESG-related initiatives and questions, sharing ESG best practices, research and dialogue across Edinburgh Partners functions and with the teams within Franklin Templeton.
- Facilitate proactive discussions with the Investment Team to collectively ensure the effective and systematic integration of Environmental, Social and Governance in the research process. The Co-ordinator oversees the appropriate ESG output.
- In conjunction with the Compliance Department, ensure Edinburgh Partners remains up-to-date and compliant with ESG regulation and legislation.

Forecasting a company's prospects on a five-year time horizon is not easy. We aim to hire people with the right mindset and provide them with the appropriate environment and structure to work in. Members of the Investment Team have a range of backgrounds and experience, but they all relish the rigour of analysing companies. They understand that forecasts will be wrong and accept the scrutiny on their decisions. To ensure we retain a flat structure, the Investment Team will always remain relatively small. The Investment Team has an average of 23 years investment experience. Biographies of the individuals can be found on our website: click here.

The Investment Team's working environment is structured to allow for serious study, for example market data screens are kept separate to avoid distraction. We also limit the time they spend on areas outside investment, and here rely on colleagues in other departments. Even within investment we will limit the number of clients each member of the team is responsible for. At Edinburgh Partners, capacity controls are determined by the size of the team and the number of clients we service.

Over the last few years, Edinburgh Partners has focused on improving the gender balance within the Investment Team. The recruitment process has actively targeted a greater number of female candidates with three out of the last five positions being filled by women.

Edinburgh Partners is committed to an environment of continued professional development. All of our employees are encouraged to engage in further learning and development, much of this is delivered internally through a number of mediums such as mandatory online regulatory training, LinkedIn learning and relationships with external providers.

Edinburgh Partners has an obligation to ensure all of its Certificated employees are competent to undertake the role they are employed to do. This includes ensuring that they have the necessary qualifications such as CFA or IMC, coupled with a focus on ensuring our staff demonstrate that they conduct themselves in a manner that encapsulates the core principle of Treating Customers Fairly whilst maintaining a higher standard as set out by Senior Managers and Certification Regime. This is achieved through regular vetting and assessment of competence.

Edinburgh Partners uses the services of an independent service provider to help inform and implement our proxy voting decisions. The provider we use is Institutional Shareholder Services (ISS). Specifically, ISS assists our proxy voting and corporate governance oversight process by developing and updating the ISS proxy voting guidelines and by providing research and analysis, recommendations regarding votes, delivery of proxy instructions and recordkeeping and reporting services. Further details can be found in our response to Principle 12.

Edinburgh Partners purchases research from a number of brokers. We also make use of industry experts; for example in 2020, Professor Gerard Graham, holder of the Gardiner Chair of Immunology at the University of Glasgow, provided valuable insight into COVID-19; while Lord Kerr of Kinlochard has provided political insight, particularly with regards to Brexit. These sources of information feed into the research process, however, all forecasts and assumptions made within our stock templates are those of the analysts.

Governance and Oversight

The following is an overview of the bodies responsible for establishing, implementing and maintaining the organisational systems and controls and risk management within Edinburgh Partners:

- Board of Edinburgh Partners Limited.
  The Board has responsibility for the overall management of the Edinburgh Partners group of companies. It approves the group's long-term objectives, commercial strategy and annual operating and capital expenditure. The Board has delegated decision-making in certain areas of the group to two sponsored committees:

  Executive Management Committee (EMC)
  Operations Management Committee (OMC)

  Other Committees within the Group with oversight of particular activities are:

  Broker Review Committee
  Product Governance Committee
  Disaster Recovery Committee

- Executive Management Committee (EMC).
  Develops and implements operational plans, policies, procedures and budgets. Is responsible for the assessment and control of risk across the Edinburgh Partners group of companies. It is also responsible for overseeing the work of the Operations Management Committee, Broker Review Committee and the Product Governance Committee. The Committee considers reports from Heads of Departments as illustrated in the organisation chart contained within our response to Principle 1.

- Operations Management Committee (OMC).
  Coordinates the day-to-day operational activities of the Group in accordance with strategy and policy as developed by the Board of Edinburgh Partners Limited and the EMC. The Committee monitors operational performance of the group, manages the implementation of business projects and is responsible for the oversight of the group's risk framework.

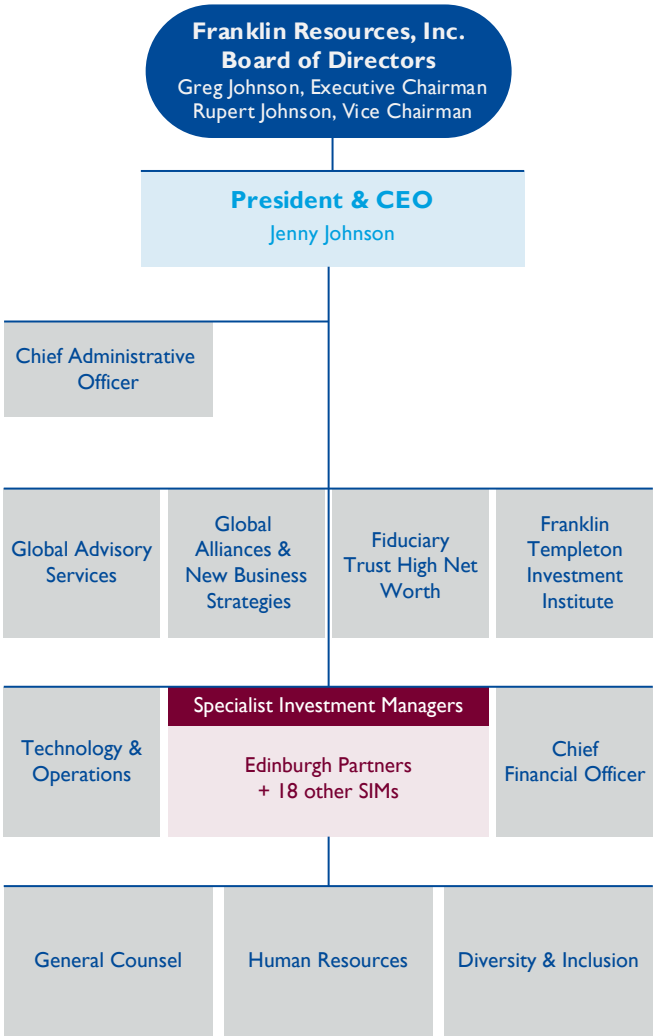
- Broker Review Committee.
  Is responsible for the oversight of Edinburgh Partners' use of brokers and the payment for research. The committee is also responsible for approving the Official Broker list and for any additions or removals.

- Product Governance Committee.
  Is responsible for reviewing the appropriateness of existing and any proposed new products and services for the current and potential client base.

As of 1 May 2018, Edinburgh Partners became a wholly owned subsidiary of Franklin Resources, Inc. We are one of a number of Specialist Investment Managers owned by Franklin Resources, Inc., benefitting from the financial backing and resources of the overall group, while operating autonomously according to our own investment philosophy.

The following chart highlights Edinburgh Partners place within the overall structure:

Franklin Resources Organisation Chart



Performance Management

As Edinburgh Partners treats stewardship as an integral element of investment, the same is true when the Investment Team's performance is evaluated. Currently, we do not separate the appraisal of stewardship from the overall review of the quality of an analyst's work. However, we take a long-term approach, with bonuses being deferred over a three-year period.

Outcomes

We believe Edinburgh Partners has effective structures and processes in place to support our stewardship efforts. This is demonstrated by many of our client relationships going back over a decade.

However, we are not complacent and are always considering how to improve our approach. The appointment of an ESG Co-ordinator, the use of our ESG RFP (detailed in our response to Principle 7), and the completion of ESG-related exams and qualifications offered by organisations like UNPRI and CFA Society are three examples of how we have improved our processes in the last 12 months.

We also expect to benefit as we continue to work more closely with the companies within the Franklin Templeton Group from an operational perspective. In the second half of 2020:

- Staff at Edinburgh Partners gained access to a vast library of training and educational information held by Franklin Templeton.
- Edinburgh Partners began quarterly ESG calls with the Franklin Templeton Group to ensure ideas and approaches to ESG are more widely shared.
- Franklin Templeton appointed a high profile, Head of Diversity & Inclusion. We expect to see the benefit of her output in 2021.

PRINCIPLE 3

Conflicts of interest

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

FCA Guidelines

REPORTING EXPECTATIONS

Context

Signatories should disclose their conflicts policy and how this has been applied to stewardship.

Activity

Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

Edinburgh Partners' Position on Principle 3

Edinburgh Partners has a duty to take all appropriate steps to identify and to prevent or manage conflicts of interest which can arise between a firm, its employees and its clients as well as those conflicts which exist between different clients of a firm. Employees must at all times place the interests of clients first. In other words, as a fiduciary, staff must scrupulously avoid serving their own personal interests ahead of the interests of the clients. Edinburgh Partners' Conflicts of Interest Policy is designed to meet our regulatory requirements in relation to the identification, prevention and management of conflicts of interest and to ensure Edinburgh Partners always acts in the best interests of its clients.

Investment managers with the discretionary authority to vote proxies relating to securities held by their clients, may have the ability to affect the outcome of shareholder votes and influence the governance of corporations. In this way, investment managers are in a position to significantly affect the future of corporations and, as a result, the future value of securities held by their clients. Therefore, conflicts of interest could arise in situations where the company is a client of Edinburgh Partners, or the company is a vendor whose products or services are material or significant to our business.

The FCA sets out areas where conflicts may arise. Where a firm or any employee:

- Is likely to make a financial gain, or avoid a loss, at the expense of the client;
- Has an interest in the outcome of a service or transaction conducted on behalf of a client which is distinct from the client's interest;
- Has an incentive to favour one client over another;
- Carries on the same business as a client; or
- Receives an inducement from a person other than the client

A further area where conflicts may arise include those caused by the receipt of inducements from third parties or by the firm's own remuneration and other incentive structures.

Edinburgh Partners' primary objective is to identify and prevent conflicts before they are realised within the organisation. In order to support this it has identified a number of possible areas for conflicts to arise. These are documented in the conflicts matrix and reviewed annually by the Operations Management Committee. In addition, the Regulatory and Operational Risk team conducts monitoring activity over a number of potential conflicts and their controls.

All conflicts of interest will be resolved in the best interest of the client. Edinburgh Partners is a wholly owned subsidiary of a large, diverse financial services firm with many affiliates and makes its best efforts to avoid conflicts of interest.

As a Specialist Investment Manager within the wider group, Edinburgh Partners operates autonomously according to one investment philosophy which invests in long-only equities. The nature, scale and complexity of our business model and investment philosophy helps to mitigate against conflicts of interest and allows these to be resolved in the best interest of the client.

In the context of stewardship, Edinburgh Partners also addresses potential conflicts of interest by its adoption of and reliance on the ISS proxy voting guidelines and the day-to-day implementation of those guidelines by ISS. The procedures provide that, where a portfolio manager decides to instruct a vote in a manner other than in line with an ISS recommendation, the rationale behind their decision is fully documented and retained as well as being reported to the relevant client.

An example of a potential conflict would be where a client had certain religious beliefs, or specific corporate requirements, that restrict them from investing in certain stocks, including shares issued by the client. Any such restrictions would be written into their IMA and a checklist produced at the client take-on stage to ensure the portfolio limits and reporting requirements had been correctly captured and reflected within our order management system, thinkFolio, and our procedures. Each section of the take-on checklist is reviewed by the relevant areas (Operations, Compliance, Client Services, Performance and the client's Portfolio Manager) and signed off by a Fund Operations Manager.

Our Conflicts of Interest Policy is commensurate with the nature, scale and complexity of our business. Further information on our Conflicts of Interest Policy can be found here: click here.

PRINCIPLE 4

Promoting well-functioning markets

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

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- How they have identified and responded to market-wide and systemic risk(s), as appropriate.
- How they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.
- The role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples.
- How they have aligned their investments accordingly.

Outcome

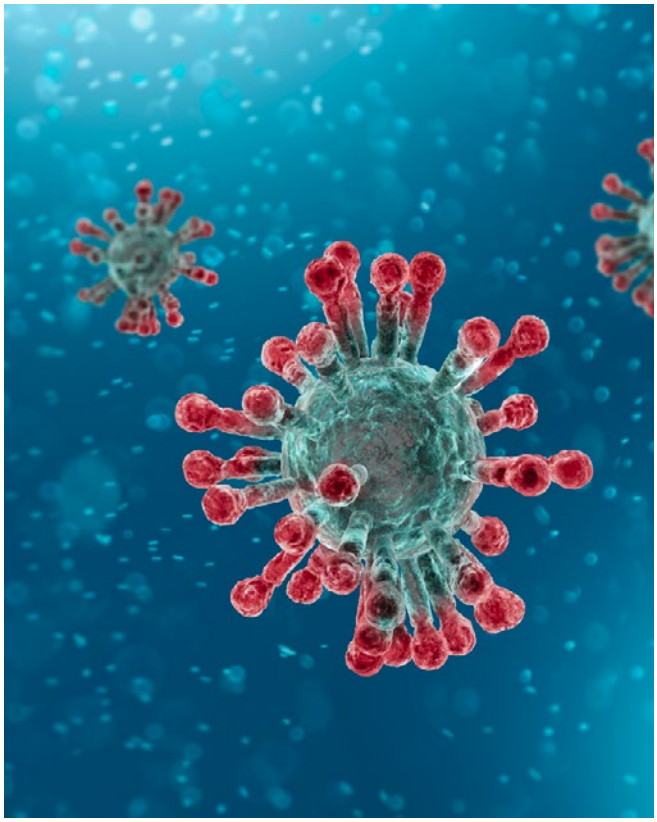
Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

Edinburgh Partners' Position on Principle 4

Identifying and Responding to Market-Wide and Systemic Risks

As a Specialist Investment Manager operating autonomously within a larger financial group, Edinburgh Partners benefits from being nimble while also being able to rely on the resources of one of the world's largest financial institutions.

Market-wide risks can be constant (e.g. cyber crime) or unexpected (e.g. COVID-19). The responsibility for responding to these risks is overseen by various committees within Edinburgh Partners.



Each Head of Department is responsible for identifying and managing operational risks impacting their respective departments, with oversight and challenge provided by the Regulatory and Operational Risk department. Risks and controls are captured in departmental risk matrices and assessed on an inherent and residual basis. Risk matrices are reviewed by business owners and Regulatory and Operational Risk on at least an annual basis and presented to the Operations Management Committee for approval. Key risks are incorporated into the Internal Capital Adequacy Assessment Process (ICAAP); the 2020 version took COVID-19 into consideration as part of the annual ICAAP risk assessment.

In 2020, the most significant risk faced was the impact of COVID-19. Our specific response mitigation to COVID-19 has been to reduce the risk to our employees through home working, social distancing, travel restrictions and increased cleanliness. Employees are supported by a number of measures and have taken home equipment to enhance their remote working experience. The Edinburgh Partners Disaster Recovery Team, in collaboration with the Emergency Management Team at our parent company Franklin Templeton, continues to drive the response, and the return to office is being carefully planned to ensure employees and the business are protected. There was no detrimental impact on the management of our client portfolios. Lockdown came into force just prior to quarter end, yet all client Quarter and Month End Reports were delivered on time.

The most noticeable difference for our clients has been the lack of face-to-face meetings, but the use of video technology has ensured we continue to communicate.

From an investment perspective, it is the responsibility of the Investment Team to consider the ramifications of any systemic risk on the stocks they cover. As mentioned previously, our portfolios hold a total of 90–100 stocks across all strategies, so a review of the impact of any risk can be implemented quickly. In addition, Our ESG Co-ordinator will assist her colleagues with considering risks linked to ESG. Again, the most significant risk to stocks within the portfolios in 2020 is the ongoing impact from COVID-19. In March and April 2020, the Investment Team undertook a comprehensive examination of the stocks within our portfolios in order to attempt to quantify the impact of COVID-19 on short and long-term revenues and earnings and make holding adjustments where necessary. As a result of this examination, cash balances were augmented and more cyclically exposed positions such as Financials and Energy were reduced.

We also sought advice from beyond the financial markets, with Professor Gerard Graham consulting on COVID-19. Professor Graham is holder of the Gardiner Chair of Immunology at the University of Glasgow and is a world expert in immunology with a particular focus on the study of chemokines and their receptors. He has over 30 years' experience working in this area and publishes widely in the top international journals.

Edinburgh Partners will comply with regulatory directives that promote the continued improvement of the functioning of financial markets. In addition, we are signatories of the PRI and ICGN. Edinburgh Partners continues to assess other industry initiatives focused on stewardship and expects to join further groups and organisations in 2021.

We use the completion of our annual response to the PRI to assess how we are progressing with regards to ESG and Stewardship and identify where there is room for improvement. A previous assessment led to the production of our annual ESG RFP that is sent to all our holdings. While providing useful information on our holdings, it also helps to highlight to these companies how important these considerations are to Edinburgh Partners and its investment decisions. Climate Risk is an example of one area of questioning, with the RFP asking companies to explain their approach to emissions targets and whether they would be signing up to the Task Force on Climate-Related Disclosures (TCFD) guidelines, and if not, why not.

In the second half of 2020, Legg Mason was acquired by Franklin Templeton, creating a US$1.4trn financial group. In Quarter 4, Edinburgh Partners began the process of improving communication on ESG with Franklin Templeton and the wider group.

Franklin Templeton, is a Carbon Disclosure Project (CDP) investor signatory and has been reporting since 2007. Franklin Templeton has also signed up to the TCFD and Edinburgh Partners will support any subsequent initiatives that are rolled out across the organisation.

Due to the scale of Edinburgh Partners, we have not ventured beyond the management of our clients' assets with regards to the promotion of continued improvement of the functioning of financial markets. Franklin Templeton has the resources to better address this area and an example of this is the work they have done in partnering Gallup on the new Franklin Templeton-Gallup Economic of Recovery Study (available here).

PRINCIPLE 5

Review and assurance

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- How they have reviewed their policies to ensure they enable effective stewardship.
- What internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach.
- How they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

Edinburgh Partners' Position on Principle 5

All policies and procedures, including those relating to engagement and proxy voting, are subject to periodic review and approval by the Operations Management Committee. These policies are reviewed annually or in line with any regulatory changes.

In compiling and updating these polices, those responsible for each policy will consult as appropriate across the immediate company and beyond, for example with other Franklin Templeton Group companies, industry groups, external peer firms and service and assurance providers. This process will take account of any relevant changes such as regulatory developments or industry group-led initiatives, as well as client expectations and our own experience of operating within that particular area.

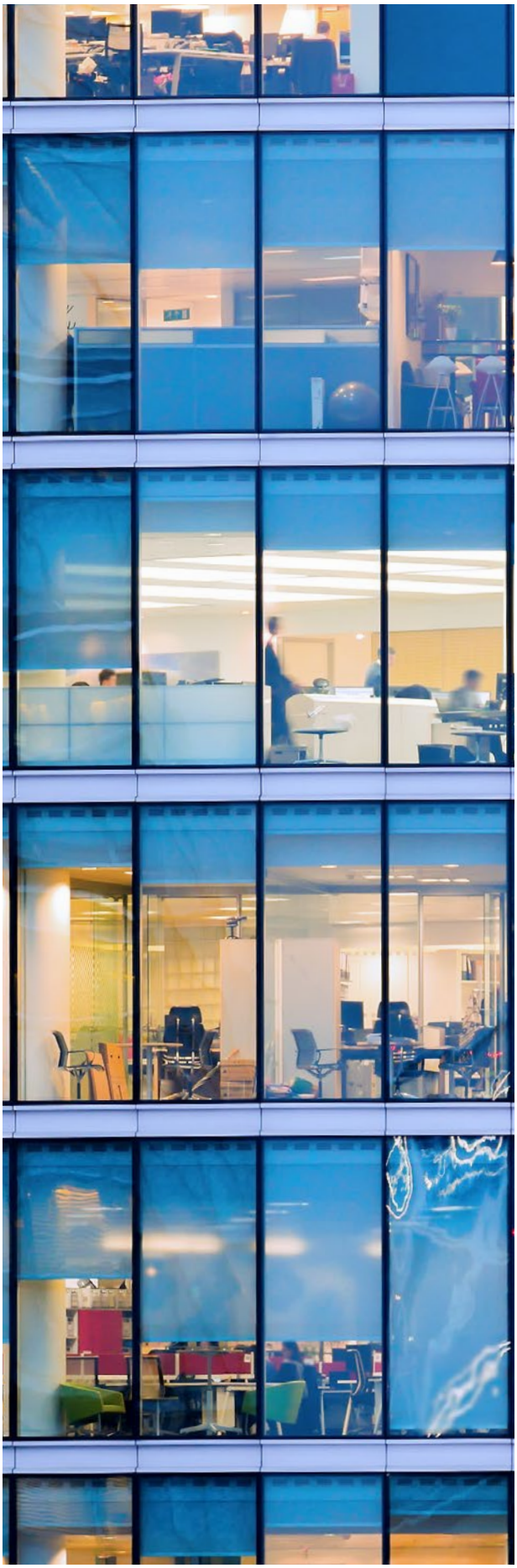
It was a recent review of Edinburgh Partners' Engagement Policy in line with our annual PRI submission which led to the production of our ESG RFP. This is produced annually and sent to all holdings. As well as providing invaluable research to the investment team, it helps to reinforce to the companies we hold the importance of ESG and stewardship to Edinburgh Partners. The RFP is also reviewed annually and updated in line with developments in stewardship.

Prior to submission to the Operations Management Committee, individual policies may be subject to peer review from within Edinburgh Partners or other Franklin Templeton Group companies.

Edinburgh Partners aims to provide a flexible approach to reporting including in relation to stewardship. As well as our standard reports, wherever possible, we will tailor our reporting to individual client needs. Any client requirements to report on specific aspects of the investment process or activity within portfolios managed on their behalf are initially captured during the take-on process and adapted in line with any subsequent requests or updates.

Periodically, a compliance monitoring review, covering stewardship activities and adherence to the principles of the Stewardship Code, will be performed by the Regulatory and Operational Risk department; the results of which will be reviewed by the Operations Management Committee.

This Stewardship Report has been compiled and reviewed by representatives from all business areas of Edinburgh Partners, with the final draft reviewed by the Board and approved by the Chief Executive Officer. We believe external assurance is not proportionate due to the nature, scale and complexity of our business.



PRINCIPLE 6

Client and beneficiary needs

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

FCA Guidelines

REPORTING EXPECTATIONS

Context

Signatories should disclose:

- The approximate breakdown of:
  - Their client base, for example, institutional versus retail, and geographic distribution;
  - Assets under management across asset classes and geographies;
  - The length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why.

Activity

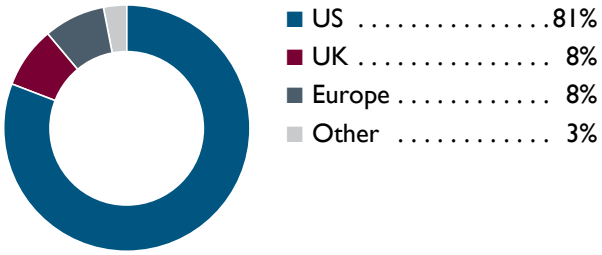
Signatories should explain:

- How they have sought and received clients' views and the reason for their chosen approach.
- How assets have been managed in alignment with clients' stewardship and investment policies.
- What they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.

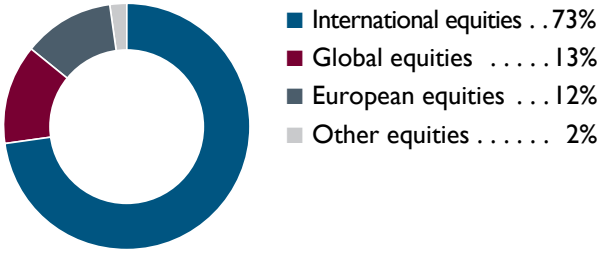
Edinburgh Partners' Position on Principle 6

Edinburgh Partners focuses on institutional investors. We run money for clients globally but our client base is predominately based in North America, Europe and the United Kingdom. As at the 31 December 2020, Edinburgh Partners managed £3.5bn in assets. The graphs below detail our client base and assets under management:

Client Assets by Domicile



Clients by Product



All mandates managed were invested in long-only equities and are managed on an unconstrained basis. Our investment time horizon is focused on forecasting over five years. Further information on why we consider this time horizon appropriate is detailed in "Validating our Beliefs," in our response to Principle 1.

The client engagement process will allow the client to assess the suitability of Edinburgh Partners' investment philosophy and approach with their own criteria employed in appointing an external investment adviser. Engagement with prospective clients and the client take-on process will identify any specific requirements they may have in relation to stewardship and investment parameters dictated by the likes of a statement of investment principles, governance code or fund prospectus. This will include the capture of any requirement for Edinburgh Partners to secure and exercise voting rights relating to the client portfolio.

Having established that any such requirements can be accommodated within our investment process and wider operations, we will capture them through codified investment restrictions within our order management system supplemented by specific operational procedures. These are scheduled out during the take-on process and circulated amongst the relevant departments for their agreement and approval. The same process takes place in the event of any change to the requirements once the client has been on-boarded.

Historically, Edinburgh Partners has managed funds where consideration was made for individual client investment restrictions based on investment principles or related to ESG requirements and sanctions lists. This has included a client with an active exclusions list where we received a quarterly update of companies to be excluded. These exclusions were input to our systems to ensure none were purchased. Another example would be the dis-investment from China Mobile in advance of the effective date for US Executive Order 13959.

For any segregated clients, which forms the majority of our business, bespoke IMAs are agreed prior to the relationship beginning. Individual client requirements and any specific investment restrictions are loaded onto our systems. Similarly, any voting guidelines or principles are taken into account and adhered to.

Quarterly investment reports are issued, detailing the client's portfolio and providing an oversight of the ESG issues under consideration within the portfolio.

As a Specialist Investment Manager operating autonomously within a larger financial group, we know all our clients well. Regular dialogue (in most cases at least quarterly) ensures we remain aware of their requirements. As well as relaying portfolio evolution they provide an opportunity to address stewardship and ensure we continue to deliver to the client's requirements. In several instances this has led to bespoke reports being produced to meet individual requirements.

In assessing the effectiveness of our response to client requirements, we review all breaches of investment restrictions (in 2020 there were none). We also validate the investment restrictions on an annual basis with the client.

At the heart of our philosophy as equity investors lies a simple proposition: we believe that the stock market is rational and logical, but only – a crucial distinction – in the long run, not in the short term. By this we mean that companies are ultimately valued on the basis of their ability to generate after-tax profits over a period of years and this period of years extends to cover the full economic cycle. If you can buy shares in companies which are cheap relative to the profits they are destined to deliver over the long term, it is systematically possible to generate exceptional returns. That is what our investment process is designed to enable us to achieve.

The important caveat however is that over periods of less than three years, share prices move in ways which are, to all intents and purposes, random. You cannot consistently make money by picking stocks you think are going to outperform over such a short time horizon. Most professional fund managers are paid to attempt just that, which is why the majority of actively managed funds underperform their benchmarks, as scores of academic studies have demonstrated.

Edinburgh Partners has undertaken research that underpins our long-term investment philosophy, and explain why, given sufficient time, we are confident of achieving above average and consistent risk-adjusted returns from our equity portfolios. The analysis is based on an exhaustive study of the relationship between valuations and subsequent share price performance over a wide range of different time periods. Our proprietary data set covers all the world's leading stock markets and all time periods since 1970, the year when the relevant global market data first became available.

Further information on this can be found in a number or research papers on our website: click here.

PRINCIPLE 7

Stewardship, investment and ESG integration

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

FCA Guidelines

REPORTING EXPECTATIONS

Context

Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

Activity

Signatories should explain:

- How integration of stewardship and investment has differed for funds, asset classes and geographies.

The processes they have used to:

- Integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries.
- Ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Outcome

Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

Edinburgh Partners' Position on Principle 7

At Edinburgh Partners, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios and consideration of these issues should therefore be integral to our investment process and decision-making. As long-term investors, when we invest we may hold a stock for many years, so understanding a company's strategic direction, governance structure and how these impact on social and environmental considerations is key.

At Edinburgh Partners, each member of the Investment Team is primarily an analyst. They have global sectors of responsibility and analyse and monitor the companies within them. For every company formally researched, their approach to ESG issues is reviewed and rated. This impacts which companies we invest in. Edinburgh Partners has just one investment team, based in Edinburgh, managing all our clients' funds in accordance with one philosophy. This ensures our approach to stewardship is consistent across all funds.

We are active rather than activist owners. We will engage with a company's management to ensure adequate reporting and disclosure of ESG issues and will actively engage to discuss matters of concern. If a serious matter arises, and we fail to achieve a satisfactory resolution our ultimate sanction is to sell the shares.

While we only run long-only equity portfolios, the level of research and engagement will vary depending on where a company is domiciled and that country's regulatory environment. We take each country or region's standards, practices and local customs into account when making investment decisions.

For every company formally researched, their approach to ESG is reviewed and rated. This impacts which companies we invest in. Each of the Investment Team is responsible for allocating this rating as part of the research process. We will engage with all companies we own, through our regular communication with them.

A 1–5 ranking is applied to each factor as defined below:

1 – Best in class

2 – A number of positive attributes

3 – Neutral

4 – Factors for concern

5 – Sell / do not purchase

These scores are another facet of the research we undertake and will potentially impact our central earnings forecast together with the scenario ranges around that central forecast. If after taking account of relevant research and factors we rate a stock as a "5" on any of the ESG factors, we will not purchase it and may not even continue the research or produce a template.

There is no prescribed model in terms of ratings. Instead, we rely on the analysts' experience when assessing ESG factors, the significance of which will vary between sectors and geographies, e.g. environmental factors will in general be of more significance to an energy or mining company compare to a pharmaceutical company, which in turn may have more emphasis placed on social factors, like the availability of drugs. While not a complete list, examples of some of the factors we consider and the questions we ask companies are highlighted in the following table.

Environmental Factors

Climate Change
Q: What targets have you set your business? How will you work to improve your energy efficiency across your organisation over time? Will you be adopting the TCFD recommendations?

Pollution of Air, Water, and Land
Q: What are your strategies to mitigate pollution of the local environment around plants / production sites? Do you liaise with local populations on this topic?

Resource / Water Management
Q: How are you working towards lowering your natural resource (including land use) and / or water usage over time? Do you liaise with local populations on this topic?

Employee Education
Q: Do you educate employees about ways they can reduce their individual environmental impact both in and out of the workplace?

Social Factors

Approach to Diversity
Q: What is your organisation doing to allow for greater representation of minorities, individuals who identify as LGBTQ, and those with disabilities within the business?

Gender Equality
Q: What is the current ratio of female to male employees? Female to male senior managers? Female to male board members?
Q: What are you doing to improve gender equality in your organisation?
Q: Is there a gender pay gap?

Human Rights / Labour Relations
Q: What have you done to address modern slavery in your business and supply chain?

Privacy & Data Protection / Cybersecurity
Q: What is your company's policy on the protection of your clients' / customers' data? Have you recently had a cybersecurity breach? If so, did you make any changes to your cybersecurity policy?

Product / Service Quality Control
Q: What is your Quality Control process to ensure customers receive high quality products and are treated fairly if there are issues with quality?

Governance Factors

Board Independence and Succession
Q: Percentage of independent board members? Do the Audit and Renumeration committees contain independent board members? How many?
Q: Are the CEO and Chairman positions split?

Renumeration Policy
Q: Renumeration policy for senior executives? On which metrics are they incentivised?

Shareholder Structure and Rights
Q: Significant ownership – is this aligned with shareholders? Concentration of voting shares?

Financial Transparency
Q: How do you work to ensure that the public information regarding your company's performance and financials is correct and transparent?

Edinburgh Partners uses engagement with companies to learn more about ESG or stewardship-related issues and topics which may influence investment decisions. What follows are several recent examples of this engagement-for-learning process:

Roche

At a recent meeting with Roche, we asked management how it justifies the high price of many of its innovative medicines given the debate being waged over drug prices in the US and the high cost of care compared to much of the rest of the world. Roche management answered that its job is to develop drugs which truly change the lives of the patients being treated. This type of drug development requires a tremendous amount of time and resource and thereby Roche has to balance the cost necessary to earn a return on the time and money invested with the need to provide access to patients.

Roche also stated that many of its drugs help reduce healthcare costs further down the line for patients by improving their conditions and thereby preventing or reducing the need for future treatment and that many healthcare systems around the world were incorporating elements of such evidence-based pricing into their models. The company also mentioned its large-scale program to offer its drugs at a reduced rate to people living on very low incomes and participated in rebate schemes.

Whilst opportunity for cost cutting remains a risk in the US, the conversation gave us a better understanding that a pharmaceutical company which can provide truly innovative products is likely to earn a return on its investment whereas the sales a company providing older, less differentiated, or less innovative medicines may be more at risk. Programmes, such as evidence-based pricing, may also help protect innovators given the second-and-third degree cost savings such products can provide to the system.

Japanese Banks

Edinburgh Partners had meetings with management at Sumitomo Trust and SMFG in the early part of the COVID-19 pandemic, a major systematic risk event, which provided further insight into the differences between shareholder return targets in Japan versus Europe and suggested that Japanese banks were less likely to cut their dividends in response to the pandemic than their European counterparts. The engagement also provided information as to how Japanese banks might operate in a post-COVID-19 world with a particular focus on accelerating the digitisation of banking as well as prioritising cost cuts. Both meetings gave us better insight into how the Japanese banking sector is responding to systematic risks like a global pandemic and gave us more comfort as to the level of shareholder returns expected from Japanese banks over our investment time horizon.

Antofagasta

Copper mining is an industry that faces a variety of environmental challenges. One of the main issues impacting Antofagasta is water usage – we have engaged with the company to discuss how they are addressing this. Antofagasta operates in a region with a stressed water supply and the mining process uses significant volumes of water. The company has implemented a variety of measures in order to reduce fresh water consumption including using seawater in the mining process and increasing water recycling rates. They are in the process of building a desalination plant which will reduce the consumption of local fresh water supplies in the future. Our discussions with the company have given us a better understanding of the issues and the steps that Antofagasta has taken to mitigate the associated risks. Following the discussions, we categorised Antofagasta as a company with environmental risks that we believe are manageable.

In 2020, there were no examples where Edinburgh Partners exited a stock due to stewardship reasons.

Edinburgh Partners has a standard investment approach employed with the aim of identifying and buying undervalued companies and having the patience to hold them until share prices reflect their long-term earnings potential. That same fundamental approach including the integration of stewardship is used across the various mandates and strategies which we manage.

In the case of client requirements which dictate the way in which proxy voting is managed by Edinburgh Partners on their behalf, we will work with our service provider ISS to transpose those requirements into a bespoke voting policy. ISS will assess all meeting resolutions against that client-specific policy and arrive at a voting recommendation. Edinburgh Partners will typically vote that client's ballot in line with the ISS recommendation by standing instruction without exercising any discretion of our own. Where that client's requirements do not cover a particular area being voted on, we will agree an appropriate response which may be to refer that item back to the client for their direction or to vote in line with Edinburgh Partners' own Proxy Voting Policy.

PRINCIPLE 8

Monitoring managers and service providers

Signatories monitor and hold to account managers and/or service providers.

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Outcome

Signatories should explain:

- How the services have been delivered to meet their needs; OR
- The action they have taken where signatories' expectations of their managers and/or service providers have not been met.

Edinburgh Partners' Position on Principle 8

The service providers Edinburgh Partners uses fall into two categories. ISS which provides services related to proxy voting, and a variety of research providers.

Edinburgh Partners uses the services of an independent provider to help inform and implement its proxy voting decisions. The provider Edinburgh Partners uses is ISS. Specifically, ISS assists Edinburgh Partners in the proxy voting and corporate governance oversight process by developing and updating the ISS proxy voting guidelines and by providing research and analysis, recommendations regarding votes, delivery of proxy instructions and recordkeeping and reporting services.

Edinburgh Partners' decision to retain ISS is based principally on the view that the services ISS provides, subject to Edinburgh Partners' oversight, will generally result in proxy voting decisions which are favourable to shareholders' interests. Edinburgh Partners' oversight of ISS primarily involves periodic service reviews covering the quality of the service provision including: the review of relevant metrics and any issues recorded during the period under review; any feedback on the research from Edinburgh Partners analysts; and updates on the ISS business and the scope of their services. We also participate in ISS-hosted roundtable meetings involving specialists from across ISS and other users of their services.

ISS have appropriate coverage of our investment universe and have assisted in implementing bespoke voting arrangements for certain clients.

The Investment Team within Edinburgh Partners reviews research quality at an annual review and as it is received. At the annual review, we solicit opinion from the entire Investment Team on the quality and efficacy of our research providers on our approved list over the year and whether any changes to providers should be considered. We also review the quality of research as it is received and tag onto our database any research we consider to be particularly 'insightful and value-adding.' We can then use the compiled value-added research data to rank quality per provider. This information is used in conjunction with the Investment Team's annually-solicited deliberations. In addition, any 'issues' relating to the service provided by brokers can be raised and discussed at quarterly Broker Review Committee meetings. The Committee also reviews broker usage statistics against costs charged to ensure payment for research is reasonable.

PRINCIPLE 9

Engagement

Signatories engage with issuers to maintain or enhance the value of assets.

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- How they have selected and prioritised engagement (for example, key issues and/or size of holding).
- How they have developed well-informed and precise objectives for engagement with examples.
- What methods of engagement and the extent to which they have been used.
- The reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6.
- How engagement has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.

Edinburgh Partners' Position on Principle 9

Approach to Engagement

Edinburgh Partners has one investment team, based in Edinburgh, managing all our clients' assets in accordance with one philosophy. This ensures our approach to engagement is consistent across all funds. Due to our size, most engagement occurs with the Investor Relations departments of our holding companies, though we often have the opportunity to meet management during road shows and conferences. We consider two types of engagement

Engagement for information – this forms part of company monitoring and is value additive in communicating what is important to us, building relationships and achieving a more complete understanding of a company's strategy and practices.

Engagement for change – this is a dialogue to influence change when there are specific issues we wish to be addressed. Edinburgh Partners' policy is to engage directly in discussions with investee companies where we believe this engagement is necessary to improve, protect or promote shareholders' interests.

Edinburgh Partners' process for engagement with a company's board or management on ESG factors, corporate transactions, management issues, executive/board remuneration, etc. is based upon the idea that each situation is potentially quite different. As such, the process avoids a rigid set of rules on how to proceed in favour of guidelines which help frame the conversation in an effort to make the engagement as efficient and productive as possible. The investment professional responsible for the analysis of the stock under consideration is most likely the one who will lead the engagement and set priorities for discussions, potentially aided by other investors or stakeholders, our compliance department, and external resources like ISS. The size and scope of the issue to be engaged upon, the ability of the issue to impact the value of the investment, the size of our holding in the company, the size of the position within our portfolios, and the speed with which the issue is progressing all determine the scale and how we prioritise the engagement. We will also engage based on client specific issues or concerns.

Engagement with investee company management, investor relations, or other relevant parties can occur in several ways with the most common being face-to-face meetings, phone/conference calls, and emails. Depending on the scope of the issue, the willingness of the investee company to engage, and specific client requests, company engagement can be based on a single communication or could be ongoing in nature. Throughout the engagement process, the Investment Team and relevant parties will discuss emerging information and further steps until a conclusion is reached. The nature of the conclusion will be assessed and could result in a variety of outcomes, which may include, but are not limited to, maintaining the holding in the security, changing the size of the holding, or selling the holding.

Collaborative Engagement

Our collaborative engagement process is not strictly defined given that we have a diverse group of clients and products. As such, collaborative engagement, with other investors or stakeholders in the company, occurs on a case-by-case basis driven by the investment professionals involved with the strategy in which the security is held. General considerations for deciding whether to collaboratively engage are much the same as those considered for individual engagement: namely, the scope and severity of the issue under consideration, the size of our holding in the company (and, in particular, whether this lends itself to collaborative engagement), the size of the positions within our portfolios, the speed with which the issue is progressing and the extent to which we have previously engaged with the company.

In addition to this, collaboration is only carried out after an assessment is made in order to determine:

1) Whether collaboration could afford better results for our clients than individual engagement;
2) Whether the other investors with whom we are planning collaboration share our interests and values; and
3) Whether such collaboration adheres to both Edinburgh Partners' rules and applicable laws and regulations.

Exercising Voting Rights

Edinburgh Partners aims to vote all shares where possible and where we have been given discretion by our clients. In exercising voting authority provided to us by clients, we follow the relevant applicable regulatory and legislative requirements, both in the UK and other jurisdictions in which we are regulated. The guiding principle in performing this service is to make proxy voting decisions which favour proposals designed to maximise a company's shareholder value and are free from the influence of conflicts of interest.

Edinburgh Partners uses the services of an independent service provider to help inform and implement our proxy voting decisions. The provider we use is ISS. Specifically, ISS assists our proxy voting and corporate governance oversight process by developing and updating the ISS proxy voting guidelines and by providing research and analysis, recommendations regarding votes, delivery of proxy instructions and recordkeeping and reporting services.

Edinburgh Partners does not consider voting recommendations from ISS to be determinative of its ultimate decision. Edinburgh Partners exercises its independent judgement in making voting decisions. If, after assessing all relevant information and having engaged with the company in question where appropriate, the investment professional responsible for analysing the stock determines that we should vote our clients' positions in a manner other than in line with the ISS recommendation, then the investment professional responsible for analysing the stock will provide a rationale for that decision which is captured and reported to each client impacted within our quarterly reporting.

This voting policy does not apply in any instance where a client has not granted Edinburgh Partners discretionary voting authority either because the client has retained voting discretion, granted voting discretion to a third party or directed us to vote proxies in a particular manner.

Evaluation of Engagement

All information on an engagement is retained within our proprietary database, Epicentre. It is the responsibility of each company's analyst to evaluate the outcome of any engagement and its impact. In some instances this may involve discussion with the wider team.

Reporting on Engagement

We report quarterly to clients on ESG and proxy voting, with respect to their portfolio. Within the ESG Report, we will detail any engagement activity relating to the stocks within their portfolio.

We also report annually on our stewardship activity, in line with the European Shareholder Rights Directive II. Public disclosures will be made on our website: www.edinburghpartners.com.

Below are several recent examples of Edinburgh Partners' engagement with a variety of companies on a diverse set of issues.

AstraZeneca	
Objective	To understand the pricing model AstraZeneca was proposing on their potential COVID-19 vaccine.
Actions Taken	After the news emerged that AstraZeneca was working with Oxford University to develop a potential vaccine for COVID-19 and would be offering the vaccine if approved 'at cost', we engaged with the company to discuss pricing and whether the company anticipated making a profit on the vaccine after the initial acute phase of the pandemic.
Outcome	AstraZeneca answered that most of the doses provided would be priced such that no profit was made in the initial stages of the pandemic – this was later backed up with several large contracts providing the vaccine 'at cost' such as the 400m dose agreement with Europe that was signed in June 2020 – but that it would revisit vaccine pricing as and when the pandemic was under control and a shift occurred in focus to maintenance treatment against the virus.
Next Steps	Given the level of impact COVID-19 has thus far had on global health and the world economy, we were pleased to hear that AstraZeneca had no intention of making a large profit on its vaccine. We will continue to monitor the global vaccine program and may raise further questions depending on how successful the fight against COVID-19 is.
Planned Escalation	Not applicable.

Panasonic	
Objective	To understand Panasonic's general approach to cross-shareholdings with other businesses – a practice which has been common in Japan for some time as a way of cementing business relationships. We specifically wanted to understand Panasonic's plan to reduce cross-shareholdings and find better uses for its capital. From a stewardship perspective, we also specifically asked about Panasonic's cross-holding in Tokyo Broadcasting System which merited conversation, because it owns shares in listed companies that exceed its own market capitalisation.
Actions Taken	Edinburgh Partners has come to the opinion that these cross-shareholdings do not represent good uses of capital and we therefore agree with Panasonic management that the company should continue to reduce cross-shareholdings and have made our opinion known to their Osaka headquarters.
Outcome	Our opinion on the need to continue to reduce cross-shareholdings and use capital more effectively was noted by Panasonic.
Next Steps	Panasonic's efforts to reduce its cross-shareholdings will be monitored through the review of the company which occurs every six months and, if progress is not being made, further engagement will be undertaken.
Planned Escalation	If, after several attempts at engagement with the company, progress in this area either slows or halts, Panasonic's place within our portfolio could come under review and either result in a decreased position size or a sale of the holding.

Telefonica	
Objective	To understand the reasons for implementing a scrip dividend following the impact of COVID-19.
Actions Taken	The company was asked for comment on this issue and we presented our opinion that a dividend cut would have been preferable in this case in order to avoid dilutive share issuance.
Outcome	The company provided more information that the scrip element of the dividend was voluntary, which reduces dilution but also maintains the absolute level of payout for income-conscious small shareholders. Thus, Telefonica is working to achieve a balanced outcome for all shareholders. Whilst we understood Telefonica's rationale for attempting to appease the whole shareholder base with a voluntary scrip dividend, when we coupled this development with the weakness in several emerging market currencies, which was putting significant pressure on Telefonica's leverage position, we decided to sell the shares.
Next Steps	Not applicable.
Planned Escalation	Not applicable.

Volkswagen	
Objective	To understand the way in which the company intends to handle the switch in manufacturing from internal combustion engines automobiles to electric vehicles and whether this might involve write downs of existing manufacturing facilities.
Actions Taken	Edinburgh Partners is communicating with the company to better understand the costs associated with its plan to build new electric vehicle manufacturing sites and how this will affect the profitability and leverage of the company going forward. A list of questions was presented to the company, which included estimations of CapEx requirements over the next five years as well as the scope of any write downs to existing manufacturing that may have to be made.
Outcome	We are now clear that CapEx requirements will be sizeable and write-downs likely as the company's strategy appears to solely focus on building new manufacturing capacity rather than re-tooling existing capacity. This has aided us in our investment decision-making in that it decided that Volkswagen shares would not be bought at present until we gain more confidence of the size and scope of the necessary investment.
Next Steps	This is an open and ongoing engagement, so next steps include further engagement with the company in an attempt to obtain a better picture of what the company will look like over the longer term in terms of margin profile and leverage metrics. There will also be further discussions within the investment team to determine if the opportunity presented by electric vehicle volume growth makes up for the large investment necessary to achieve this volume.
Planned Escalation	Not at present.

Edinburgh Partners also issues an annual ESG questionnaire to all companies held within our portfolios. In 2020, 129 questionnaires were issued and 59 responses received.

PRINCIPLE 10

Collaboration

Signatories, where necessary, participate in collaborative engagement to influence issuers.

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

- For example: collaborating with other investors to engage an issuer to achieve a specific change; or working as part of a coalition of wider stakeholders to engage on a thematic issue.

Signatories should provide examples, including:

- The issue(s) covered.
- The method or forum.
- Their role and contribution.

Outcome

Signatories should describe the outcomes of collaborative engagement.

Edinburgh Partners' Position on Principle 10

Engagement Policy

Our collaborative engagement process is not strictly defined given that we have a diverse group of clients and products. As such, collaborative engagement, with other investors or stakeholders in the company, occurs on a case-by-case basis driven by the investment professionals involved with the strategy in which the security is held. General considerations for deciding whether to collaboratively engage are much the same as those considered for individual engagement: namely, the scope and severity of the issue under consideration, the size of our holding in the company (and, in particular, whether this lends itself to collaborative engagement), the size of the positions within our portfolios, the speed with which the issue is progressing and the extent to which we have previously engaged with the company.

In addition to this, collaboration is only carried out after an assessment is made in order to determine:

- Whether collaboration could afford better results for our clients than individual engagement;
- Whether the other investors with whom we are planning collaboration share our interests and values; and
- Whether such collaboration adheres to both Edinburgh Partners' rules and applicable laws and regulations.

In 2020, there were no instances of collaboration engagement. Below is an example of a historic collaborative engagement with one of the companies which we invest in. Over a period of six months we engaged on 12 separate occasions, including calls, emails, letters, and involved four different organisations.

PostNL

PostNL had been in talks with bpost earlier in the year and at the end of October it emerged that bpost was planning to put forward a formal proposal to combine the companies. When the proposal was published, we quickly engaged with the PostNL boards (Management and Supervisory).

Our view was that the proposed combination made strategic sense and that the offer terms were attractive. We also reached out to two major shareholders to see whether a collaborative approach could have merit. One of the shareholders declined the invitation, but the other said it was willing to share its views and collaborate in applying pressure.

After an initial rejection, bpost improved the terms of its proposal with a slightly higher cash component and a number of corporate governance concessions, describing this proposal as "final." After a short period of deliberation, PostNL rejected the proposal, citing the differing interests of the various stakeholder groups and specifically highlighting regulatory risks. Our view was that the regulatory risks, which appeared to flow from political pressure related to the Belgian state shareholding in bpost, were not consistent with European law and were being overstated. Accordingly, we wrote to the PostNL boards asking them to convene a shareholder meeting to allow shareholders to accept the bpost proposal.

Collaborative engagement is an area of the general engagement process which offers Edinburgh Partners the opportunity to improve upon and implement more frequently. Collaborative engagement offers the chance to learn from other investment professionals' experiences and could be used as a tool on a more regular basis rather than being viewed as a method of last resort. In this regard, Edinburgh Partners has joined the International Corporate Governance Network to both expand our knowledge of and identify more opportunities for collaborative engagement. We look forward to discussing our growth and development in this key area in future Stewardship Code submissions.

PRINCIPLE 11

Escalation

Signatories, where necessary, escalate stewardship activities to influence issuers.

FCA Guidelines

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- How they have selected and prioritised issues, and developed well-informed objectives for escalation.
- When they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples.
- How escalation has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

Edinburgh Partners' Position on Principle 11

Edinburgh Partners' process for engagement with a company's board or management on ESG factors, corporate transactions, management issues, executive/board remuneration, etc. is based upon the idea that each situation is potentially quite different. As such, the process avoids a rigid set of rules on how to proceed in favour of guidelines which help frame the conversation in an effort to make the engagement as efficient and productive as possible. Our approach is consistent across all our clients' funds as we have one investment team implementing one investment process.

The investment professional responsible for the analysis of the stock under consideration is most likely the one who will lead the engagement and set priorities for discussions, potentially aided by other investors or stakeholders, our compliance department, and external resources like ISS. The size and scope of the issue to be engaged upon, the ability of the issue to impact the value of the investment, the size of our holding in the company, the size of the position within our portfolios, and the speed with which the issue is progressing all determine the scale and how we prioritise the engagement. We will also engage based on client specific issues or concerns.

What follows are examples of occasions when Edinburgh Partners undertook escalation in the engagement process. This is a relatively infrequent occurrence for the firm because we spend a great deal of time before we purchase a stock researching the company and industry which reduces the occasions for which we escalate engagement. We tend to be able to exclude companies and industries with ongoing ESG or financial issues before they are purchased. Most of the escalation undertaken by Edinburgh Partners relates to disagreeing with company management decisions.

Bayer

Edinburgh Partners went through a formal engagement process with Bayer in 2016 when it was announced the company was going to purchase Monsanto, the US-based seeds company. The engagement consisted of a series of emails and phone calls with the company, with the dual aim of both gathering information as to the thinking and strategy behind the deal and registering our preference that the deal not be done so Bayer could continue to focus its attention on its higher returning healthcare business.

The outcome of the engagement was not as we wished – Bayer eventually closed the deal with Monsanto in 2018. We maintained the holding in Bayer after becoming comfortable with the cross-selling and synergy savings available in the crop business and the de-leveraging possible due to planned non-core business divestments. This meant sales should continue to grow and the balance sheet could support small, bolt-on deals or licensing agreements in the healthcare business.

Although the formal engagement ended, Edinburgh Partners has spent the intervening years using ad hoc engagement through company meetings and emails to learn more about the new company that emerged from the acquisition – with a particular focus on Bayer's environmental impact and strategy given how much of both revenue and profits is derived from herbicides and genetically-modified seeds.

Bayer has been working hard over the last few years to incorporate ESG elements into their day-to-day running of the business. They do not have a stand-alone framework for ESG, these factors and metrics are woven into normal business-as-usual procedures. The UN Sustainability Goals are used as Bayer's guiding principles on climate change and the company is going so far as to create a Sustainability Council with 12 external advisors to help meet – and exceed – targets though it has still not decided how, if at all, to incorporate Climate-Related Financial Disclosure at this time.

Bayer clearly recognises its impact on global pollution and carbon levels, given its agriculture business. They have been working on initiatives to reduce their footprint through measures like training 100m small-hold farmers worldwide to use more modern and sustainable farming methods. To achieve this, they have been supplying Bayer products for at least one growing season to the farmers in the program. Bayer does point out regularly that they are not a charity and there will be a payback for the company when these farmers are able to purchase Bayer products after improving their practices. The company feels it is a win-win situation for all stakeholders – including the environment. On the corporate governance front, senior leadership compensation measures have recently been changed to include free cash-flow as a short-term metric, return-on-capital-employed and sustainability targets as longer term metrics, to better align managers with the ethics of the business.

Adecco

At the 2020 AGM, the company was seeking approval for the appointment of Rachel Duan. She is currently a senior executive at GE (Head of Global Emerging Markets) though not on the main board. She is a non-executive director at AXA, and is due to be appointed a non-executive director at Sanofi. As a Chinese national with international experience, she is in high demand; however, ISS recommended voting against Ms Duan's appointment due to "overboarding." Edinburgh Partners had a call with Adecco Investor Relations on this matter as the ISS recommendation had been discussed internally and it was decided we needed to escalate the situation to a full engagement.

Adecco IR manager, Nick de la Grense, explained that Ms Duan has served notice on GE and will leave before the end of June, although he pointed out that GE have not announced her departure as they are still seeking a replacement. Therefore, Adecco believed that the 'overboarding' issue would disappear in June. We told him that we agreed with the ISS recommendation as it is not credible to be an executive with a multi-national business and hold non-executive positions at three large cap European listed businesses. Ultimately, after consultation with shareholders and in conjunction with Proxy Voters' recommendations, Adecco decided not to appoint Ms Duan to either the Board or the Compensation Committee. The company listened to concerns about 'overboarding' and the engagement process undertaken by Edinburgh Partners and others resulted in a positive outcome for shareholders.

PRINCIPLE 12

Exercising rights and responsibilities

Signatories actively exercise their rights and responsibilities.

FCA Guidelines

REPORTING EXPECTATIONS

Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6.

Context

Signatories should:

- Explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies.

In addition, for listed equity assets, signatories should:

- Disclose their voting policy, including any house policies and the extent to which funds set their own policies.
- State the extent to which they use default recommendations of proxy advisors.
- Report the extent to which clients may override a house policy.
- Disclose their policy on allowing clients to direct voting in segregated accounts.
- State what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting.'

Activity

For listed equity assets, signatories should:

- Disclose the proportion of shares that were voted in the past year and why.
- Provide a link to their voting records, including votes withheld if applicable.

Explain their rationale for some or all voting decisions, particularly where:

- There was a vote against the board.
- There were votes against shareholder resolution.
- A vote was withheld.
- The vote was not in line with voting policy.
- Explain the extent to which voting decisions were executed by another entity, and how they have monitored.
- Any voting on their behalf.
- Explain how they have monitored what shares and voting rights they have.

Outcome

For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months.

Edinburgh Partners' Position on Principle 12

Edinburgh Partners aims to vote all shares where possible and where we have been given discretion by our clients. In exercising voting authority provided to us by clients we follow the relevant applicable regulatory and legislative requirements, both in the UK and other jurisdictions in which we are regulated. The guiding principle in performing this service is to make proxy voting decisions which favour proposals designed to maximise a company's shareholder value and are free from the influence of conflicts of interest.

Edinburgh Partners uses the services of an independent service provider to help inform and implement our proxy voting decisions. The provider Edinburgh Partners uses is ISS. Specifically, ISS assists Edinburgh Partners in the proxy voting and corporate governance oversight process by developing and updating the ISS proxy voting guidelines and by providing research and analysis, recommendations regarding votes, delivery of proxy instructions and recordkeeping and reporting services.

Edinburgh Partners does not consider voting recommendations from ISS to be determinative of its ultimate decision. Edinburgh Partners exercises its independent judgement in making voting decisions. If, after assessing all relevant information and having engaged with the company in question where appropriate, a Portfolio Manager determines that we should vote our clients' positions in a manner other than in line with the ISS recommendation, then the Portfolio Manager will provide a rationale for that decision which is captured and reported to each client impacted within our quarterly reporting.

ISS generates details of eligible voting positions based on ballots received from clients' custodians. Edinburgh Partners reconciles the available voting position in relation to each meeting with our own holding records and follows up with ISS or the custodian as appropriate in the event of any discrepancies.

This voting policy does not apply in any instance where a client has not granted Edinburgh Partners discretionary voting authority either because the client has retained voting discretion, granted voting discretion to a third party or directed us to vote proxies in a particular manner.

After arriving at a voting decision, Edinburgh Partners will instruct on all ballots in respect of which it has discretionary voting authority in a consistent manner.

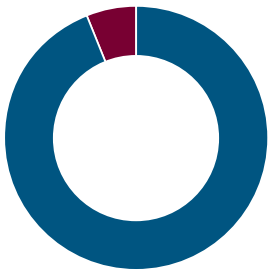
In addition to supplying detailed voting reports to our clients, Edinburgh Partners reports quarterly on our discretionary voting activity via our website: click here.

This reporting includes periodic case studies explaining how we voted in relation to instances such as:

- Where we voted against management;
- Where we voted against shareholder resolutions;
- Where a vote was withheld; or
- Where we voted in a manner outwith the ISS standard voting recommendation.

In 2020, Edinburgh Partners considered 1,880 proposals. 1,855 proposals were voted, plus 25 abstentions.

Of the votes cast, 5% of votes were against management.



In line with SRD II, Edinburgh Partners defines "most significant votes" as votes against management; votes against shareholder resolutions; votes withheld; and votes against the ISS recommendation.

Below are some examples of most significant votes taken from the full list available on our website: click here.

Adecco Group	
Meeting	Adecco Group AG, Annual General Meeting, 16th April 2020
Resolution	5.1.9: "Elect Rachel Duan as Director"
Board recommendation	The board recommended a vote FOR this resolution
Voted	A vote AGAINST this resolution was instructed
Rationale	Edinburgh Partners agreed with the ISS view that Rachel Duan held an excessive number of mandates at listed companies. Therefore, her elections to the board and compensation committee did not warrant support.
Outcome	Between our vote being instructed and the actual meeting taking place, the company withdrew the nomination of Rachel Duan as a director.

Tesco Plc	
Meeting	Tesco Plc, Annual General Meeting, 26th June 2020
Resolution	2: "Approve Remuneration Report"
Board recommendation	The board recommended a vote FOR this resolution
Voted	A vote AGAINST this resolution was instructed
Rationale	With respect to the Long-Term Incentive Plan award, adjustments to the comparator group were made retrospectively to the benefit of executives providing a vesting outcome where awards would otherwise lapse. This is considered a matter of poor practice.
Outcome	Whilst the vote was advisory and not binding, 67% of votes were cast against the resolution with the company promising to "continue to engage with shareholders to fully understand their concerns."

Verizon	
Meeting	Verizon Communications Inc., Annual General Meeting, 7th May 2020
Resolution	12: "Reduce Ownership Threshold for Shareholders to Call Special Meeting"
Board recommendation	The board recommended a vote AGAINST this resolution
Voted	A vote FOR this resolution was instructed
Rationale	A vote FOR this proposal was warranted as lowering the ownership threshold for shareholders to call a special meeting from 25 percent to 10 percent would enhance shareholders' rights.
Outcome	The resolution was passed with 52% support from shareholders.

The following chart breaks down the votes against management:

Further details on the categories are as follows:

Capitalisation: resolutions related to the increase, reduction or reorganisation of capital

Director Related: resolutions related to director appointment/election/re-election, board composition and remuneration

Non-Salary Compensation: resolutions related to other management compensation and associated policies

Reorganisation and Mergers: resolutions relating to business combination activity

Routine Business: resolutions related to items such as financial statements, voting, articles of association, auditor appointment, dividends etc.

Shareholder: resolutions put forward by shareholders covering subjects such as corporate governance, director nominations, environmental matters etc.

Securities Lending

Edinburgh Partners does not undertake stock lending directly, but certain clients do participate in programmes under which shares held within their portfolio managed by Edinburgh Partners may be loaned out. Where some or all shares of a portfolio company are on loan at the record date in relation to a meeting of that company, those shares cannot be voted. Edinburgh Partners is generally not advised of what shares are on loan and may not have an opportunity to recall the shares prior to the record date. As a result, in most cases, those shares will not be voted.

Important Notes

This document does not constitute or form part of, and should not be construed as, a recommendation, offer, invitation or inducement to purchase or subscribe for securities mentioned herein. The information and opinions contained in this document are subject to change without notice. Client accounts of Edinburgh Partners Limited and their respective directors, officers and employees may have positions in the securities referred to in this document and may deal in them from time to time. Any information on investments does not constitute independent research and is therefore not subject to the protections afforded to independent research.

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Edinburgh Partners

Edinburgh Partners Limited
27-31 Melville Street
Edinburgh
EH3 7JF

Telephone: +44 131 270 3800
Facsimile: +44 131 270 3801
Website: www.edinburghpartners.com