EDGBASTON INVESTMENT PARTNERS

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

As value investors, we invest in the cheapest quartile of our universe. We consider environmental, social and governance ("ESG") issues amongst a broader group of factors when making a quality assessment of an investment. These assessments feed into the valuation we are prepared to pay for any business. Higher levels of aggregate risk (lower quality) require a bigger margin of safety. Within the valuation discipline, our approach is to engage with companies to encourage better practices on ESG issues.

We do not utilise ESG screening in our investment process. Exclusionary policies imply that the responsibility for engagement rests elsewhere and we disagree with this premise. Exclusionary screens are also less successful in capturing companies making improvements in their ESG practices. Thoughtful capital can engage on sensitive ESG issues but only if it still has a seat at the table. We believe that multiple investors asking the same hard questions can eventually make a difference in corporate behaviour. Companies in the cheapest quartile are often unfashionable and overlooked but many are still working towards improving their standing in the areas of ESG; if not, management can be encouraged to do so through persistence and cajoling.

We place emphasis on our own, internal research with the assistance of some third-party resources. Each of our investors engages in the research, analysis and assessment of ESG considerations as part of our regular research process. The assessment of ESG factors can be nuanced and complex; our view is that it is best done on a case-by-case basis. We believe that a score-based approach fails to capture both the sheer diversity of ESG factors (many of which are qualitative in nature) and the inconsistent disclosures across regions and even individual countries. An added consideration is that Edgbaston manages an all-cap programme and smaller market capitalisation companies often do not fall under a service providers' coverage.

Our approach is holistic. We believe that balance is required between environmental goals, social consequences and governance considerations. A good illustration is NHPC, an Indian hydroelectric power producer in the Portfolio. Hydroelectric power is considered crucial to the clean energy transition in India as the government aims to increase the country's reliance on renewable generation. However, new dams have been responsible for population displacement as well as increased and repeated risk of severe flooding. How, as investors, should we balance the immediate environmental degradation versus longer-term climate protection and the social impact of giving more Indian citizens access to electricity? The answers are seldom simple.

We have been explicitly considering governance issues for many years and the process is well integrated into our research process. We consider factors such as the Board's track record in terms of management oversight, executive pay and suitability of the management team. It is encouraging when the Board is suitably qualified and diverse with a good understanding of the business, its risks and opportunities. We also consider both the Board and management's long-term track record on topics such as ensuring a sensible capital structure has been maintained, capital allocation, balancing the rights of all shareholders, ensuring the price paid for acquisitions has been reasonable and ensuring that acquisitions have been in the interests of the business.

Perhaps most importantly, we also consider the company's decision in terms of the dividends and the pay-out ratio as a particularly reliable indicator of governance. We believe the pay-out ratio is one of the best ways of measuring, in a single metric, many of the smaller decisions a company makes in terms of the efficiency of its capital allocation. If a company is able to return cash which is excess to its operational and investment requirements, we can then extrapolate that there are other sensible decisions being made within the business.

In assessing environmental issues, we consider how competitive the business is relative to its peer group (whether that is domestic, regional or global). In our experience, the environmental footprints of companies in sectors such as utilities, transportation, extractive, steel and cement tend to be directly correlated with the competitiveness of the business – companies who operate newer facilities with greater economies of scale and those who have invested in their facilities tend to have an advantage against those operators with older, smaller and often more polluting facilities. We are mindful of whether the asset basis is compliant with current regulations or will require further investment to ensure compliance. The latter can raise issues around fines and litigation which have their own financial consequences and would not be indicative of a business being run in a sustainable fashion. We also consider any upcoming changes to environmental regulations and how these future changes are likely to impact the company's position. Understanding whether the company has been a leader or a follower in terms of adherence to regulatory issues, informs us of management's attitude towards corporate citizenship. Finally, we also assess requirements for capital expenditure and whether this relates to growth, maintenance or upgrading of facilities. Necessary and/or pre-emptive expenditures feed into the normalisation process and may impact our estimates of normalised earnings.

Companies' social responsibilities include factors such as providing a safe workplace and contributing to the local economy in the form of employment and taxation. These are very difficult to quantify and can be in direct conflict with the narrowly defined role of generating shareholder returns. In our view, sustainable businesses are not built without participation in the local community – a broader definition of stakeholders is necessary to create sustainable businesses.

In the past, we would engage with management primarily on governance issues. As our thinking has evolved, the framework we have in place is now equally useful when discussing environmental and social issues. Today we engage with companies more broadly. Last year, our investors had over 150 one-to-one discussions with companies. These discussions are a useful way of understanding management's broad approach to ESG, to track changes in this approach over the long term, to explore the assumptions behind disclosures, and also to understand the operational choices management have made and the long dated business impacts of those choices. We find engagement often requires long term dialogue. This allows the investment team to signal and define expectations, and allows corporates to contextualise and explain their decisions. Even when dialogue does not lead to change, at the very least it improves communication and enables a greater understanding of both points of view. Engagement often needs time to be successful, this is why Edgbaston's five-year investment horizon is well suited.

Culturally, we find discussions with Asian companies to be more fruitful in one-on-one meetings (large group settings or situations involving the media tend to be less effective). However, from time to time, we do join forces with other investors to push for change and, occasionally, participate in engagement efforts organised though industry bodies. We also have our proxy voting efforts; Edgbaston aims to vote on every agenda item and this process can also give rise to engagement opportunities. Engagement is a long process that can take many years and even then, success is not guaranteed. However, at least by remaining shareholders, we are able to exert influence and cajole companies to improve themselves.

We are aware that many investors such as colleges, universities and/or private charities may maintain a list of securities of restricted companies operating in certain industries or economic sectors from which they would like their investment managers to divest. Our policy is to respond to any enquiries we receive on ESG matters. Unless legally required to do so, we have not, however, agreed to dispose of any existing holdings or refrain from purchasing other securities that may meet our valuation and quality criteria. For more information on this topic, please contact clients@edgbastonip.com or see our Stewardship and Shareholder Engagement Policy, which includes our Proxy Voting Policy, at www.edgbastonip.com.