

Dundas Partners LLP: Sustainable Investment Policy

1. Overview

Dundas Partners LLP (Dundas) invests in global equities for dividend and capital growth with an investment horizon of five years or more.

The power of rising dividends and reinvestment has been shown to provide excellent long-term returns, well ahead of inflation. To deliver sustainable investment returns, we embed robust analysis of environmental, social and governance (ESG) factors into our investment process.

Ultimately our goal is to protect our clients' best interests by advocating for sustainable practices in the companies we own and committing to support resilient financial systems. To achieve this goal, we believe company leaders must grow their businesses with all stakeholders – customers, employees, suppliers, and shareholders – in mind.

2. Purpose & Governance

An appreciation of good corporate governance is the key to success for any long-term investor, our firm included. This principle is applied throughout everything we do. While team members have designated responsibilities, we work collaboratively.

Investment team members have a particular role to play in the research and monitoring of the businesses considered for our portfolios. The Investment Committee, reporting to the Board, reviews ESG activity and sets objectives for the firm's sustainable investment process.

Dundas is associated with various initiatives to be able to learn from others' experiences and contribute to the wider discussion globally. The firm has been signatories to the Principles for Responsible Investment (PRI) and UK Stewardship Code since 2012 and 2021, respectively. A member of the team co-ordinates our efforts in this area to ensure we stay abreast of developing best practice.

3. Approach to Sustainability

3.1 Investment process

Dundas offers one investment strategy, global equity portfolios pursuing dividend growth. The investment team works together as generalists – hunting as a pack – to find the best dividend growth stocks for our portfolios. ESG analysis is included in each investment thesis, addressing any material risks to long-term business sustainability.

Sifting rather than screening is the key to our research process. We apply the same criteria to all the stocks that we research, allowing us to gather insights from the businesses we invest in and those we avoid.

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Our first objective is to sift out weaker companies with poor financials, excess debt, and unconvincing prospects. Stocks which make it through the initial sift are subject to more rigorous analysis and form the Dundas Mosaic – a research library of over 1,000 stocks.

3.2 Portfolio tools

We utilise publicly available information to conduct our in-house investment research, avoiding sell-side analysis. Any additional resources are paid for by the firm through our Profit & Loss account.

In our investment research and portfolio management, we employ FactSet, Bloomberg, and a proprietary financial analysis system. We take input on company- and portfolio-level ESG analysis from MSCI ESG Research & Ratings to support our assessments of companies' resilience to long-term, industry-specific ESG risks and opportunities.

3.3 Exclusions

We forecast growth rates and an implied return over five years or more. The financial implications of ESG issues can impact companies' long-term prospects and either enhance or detract from this predicted growth rate.

Our analysis has identified industries that are growing sustainably and those that are not, bringing us to the decision to exclude tobacco and munitions stocks from our investment universe in 2014.

4. Approach to Stewardship

4.1 Monitoring

Dundas invests in around 150 stocks across its portfolios. Turnover averages less than 20 percent per annum. Holdings are monitored continuously, with the investment case reviewed at least annually.

The monitoring programme assesses each stock's continuing ability to deliver dividend growth. We conduct in-depth analysis of:

- Company financials, such as accounting policies, key sensitivities, and risks.
- Products, customers, and competitive position.
- Long-term growth drivers and demand trends for the industry.
- Management's strategy and corporate governance, comparing it to past policy and outcomes.
- Environmental and social practice.
- ESG risks and opportunities.

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Members of the investment team are in regular contact with the management and IR teams of investments and prospects, sharing insights with the rest of the team. All company interactions are logged and reviewed by the Investment Committee.

4.2 Escalation

Our investment process sifts out 98 percent of the investable universe. For the two percent that make up our portfolios, we maintain contact over the term of the investment. Dialogue with the companies in which we are invested is a key component of the investment process.

We aim to engage with portfolio companies first before deciding to escalate our stewardship activities. Concerns relating to ESG issues are typically raised with the Chair of the Board and/or chairs of the relevant sub-committees. Issues on company strategy or financials are typically raised with the executive team.

Methods of escalation come down to whether the issue is something that we are simply nudging the company to improve on or one which is considered a deal breaker. These inputs are used by the investment team in deciding which stocks are bought, held, or sold.

4.3 Collaboration

Collaboration with like-minded investors can amplify the impact of engagement and voting. Examples include where we lack sufficient shareholding to be heard or prompt change; following multiple unsuccessful engagement attempts; or to raise awareness of ESG issues broader than at the company-level.

It boils down to actions that will benefit our clients. Dundas will initiate or support collaborations relevant to our portfolio and investment philosophy.

4.4 Proxy voting

Ownership carries rights and responsibilities. Dundas endeavours to vote all proxies, aided by our proxy advisor.

Final decisions rest with the Investment Committee, responsible for monitoring voting activity and developing our voting policy. Our Proxy Voting & Engagement Policy is made available on the firm's website (www.dundasglobal.com).

5. Disclosure & Reporting

As a member of the PRI, Dundas reports annually on progress in upholding its six principles and discloses this publicly. Similarly, Dundas fulfils reporting requirements of the UK Stewardship Code and the EU's Shareholder Rights Directive II through an annual Stewardship Report, also published on our website.

Dundas is accountable to clients on stewardship. Updates are provided in client reporting, including the outcomes of stock monitoring and engagement. Reporting on voting activity is provided on request and summarised in an annual disclosure available on our website.

This policy is reviewed annually, or when there is a material change, and sits alongside:

- Dundas Stewardship Report
- Dundas PRI Report
- Proxy Voting and Engagement Policy
- Conflicts of Interest Policy

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