Dundas Partners LLP: Sustainable Investment Policy

1. Overview

Dundas Partners LLP (Dundas) invests in global equities for dividend and capital growth. Our strategy only works if we invest in sustainable businesses – those capable of continued, rising profitability throughout ever-changing economic conditions which, given time and patience, produce excellent long-term returns. We are in it for the long run.

Good corporate governance is the best guarantee of sustainable environmental and social practices. Long-term business success depends upon companies being led by competent boards which appoint and oversee managers whose incentives are tied to appropriate targets to encourage sustainable growth.

2. Purpose & Governance

We invest in companies capable sustained dividend growth. By making good capital allocation decisions, these companies generate cash sufficient to fund the investments required to grow the business with enough left over to distribute a rising dividend to shareholders. Experience confirms that these companies are measurably better than average on the three concepts behind the 'ESG' acronym – environmental management, social responsibilities and, of course, corporate governance.

Everyone within the firm embraces this approach to investment. We are stewards of our clients' investments and our own. A sound grasp of what defines good corporate governance is the key to success for any long-term investor, our firm included. The policy described in this note has been approved by the partnership and is applied throughout everything we do.

With rising interest in sustainable investing we have associated ourselves with various initiatives to be able to learn from others' experience and contribute to the wider discussion globally. A member of the team co-ordinates our efforts in this area to ensure we stay abreast of developing best practice. Efforts in this regard are reviewed by the Investment Committee, chaired by the Managing Partner.

3. Approach to Sustainability

3.1 Investment process

Dundas offers one investment strategy, global equity portfolios pursuing dividend growth. The whole investment team works together as generalists – hunting as a pack – to find the best dividend growth stocks for our portfolios. This single team, single strategy approach applies across the investment process. 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.

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 tool. 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.

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 us. Our voting policy continues to develop as we learn year by year.

The investment team is responsible for reviewing proposals, approving votes, and reporting internally.

5. Disclosure & Reporting

Dundas has been a signatory to the UN-backed Principles for Responsible Investment (PRI) since 2012 and has complied with the UK Stewardship Code over the same period.

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, 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 Global Investors Stewardship Report
- PRI Transparency Report
- Proxy Voting and Engagement Policy
- Conflicts of Interest Policy.

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