STEWARDSHIP REPORT 2020

We are delighted to share our latest annual stewardship report with you. We hope that the engagement and voting examples below will bring our stewardship activities to life and show our four stewardship principles in action.

Engaging with companies has long been an integral part of our investment process and has continued despite the restrictions imposed as a result of the pandemic. In fact, we would argue that during these turbulent times, building long-term and constructive partnerships with our investee companies has become even more important. During 2020, we had over 100 meetings with companies. The majority of these were with companies in which we invest but some were part of our broader investment research.

For more information on our stewardship processes, please read our Engagement and Voting policies which are available on our website, alongside our statement of compliance to the UK Stewardship code and our latest Assessment Report from the Principles of Responsible Investing (PRI).

COMPANY ENGAGEMENT

Principle 1 *– An aversion to box ticking: our focused investment approach enables us to fully understand the material risks to each business.*

Much of our engagement work this year has focused on encouraging broader and clearer disclosure, particularly on environmental and social factors. Despite all the attention given to climate-related issues, many companies, particularly those based in the US, are still not publishing transparent data. Recent analysis by Bloomberg found that over 100 of America's largest public companies on the S&P 500 did not disclose adequate environmental data this year[19].

However, we fully acknowledge that navigating this territory is tricky. There are many ESG reporting frameworks and standards and without armies of reporting staff, no company can possibly respond to them all. We therefore encourage our investee companies to focus on identifying and managing the most material sustainability risks they face. This means that companies can concentrate on what is relevant to them, rather than on issues that may not have as much impact on the long-term durability of their business.

For example, this year we began a dialogue with healthcare technology company Cerner about the most appropriate metrics for the company to disclose. For a healthcare technology company, the most material sustainability risks include energy management, consumer privacy, data security, and employee engagement, diversity and inclusion. We believe this will provide a solid framework, not only for disclosure, but for **Cerner**'s on-going work on establishing long-term objective targets.

Taking a case-by-case approach also informed our conversation with **Microsoft**. As a very large technology company, Microsoft's environmental impact could be significant. But with the launch of its ambitious climate targets earlier in the year[20], we chose to focus on issues that could represent a material risk to the company but are less widely reported: its approach to data security and privacy, and its policies on employee rights throughout its supply chain. During the call we were reassured on all issues and were reminded that when it comes to protecting customer data, Microsoft has an advantage over some of its "big tech" peers: because customers pay for its products, it does not need to rely on monetising customer data to the same extent as other tech companies do.

Continued overleaf.

19. https://www.bloomberg.com/graphics/2020-company-emissions-pledges/?srnd=premium-europe

20. Microsoft has pledged to be carbon negative by 2030, and by 2050 to remove from the environment all the carbon the company has emitted either directly or by electrical consumption since it was founded in 1975 https://blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/

***Principle 2** - A focus on all stakeholders: we recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders.*

We have long believed that companies do not have to choose between doing good and doing well and this has been demonstrated by many companies, including Unilever, over the past decade.

During the last year, we have been actively encouraging companies to include non-financial/sustainability goals in their remuneration packages to ensure management is as committed to delivering these targets as typical financial ones. This, of course, fits well with our preference for management teams with appropriate long-term incentives, recognising that financial and non-financial performance are closely linked, and it is an issue in which regulators are increasingly interested. For example, in France, it is already a requirement for companies to include environmental and social factors in remuneration schemes. Several companies in our portfolios[21] already include non-financial goals in remuneration packages, in some cases at both executive level and throughout the business.

When we have raised the issue with companies, several have asked for our input on metrics to include, including **Align Technology** and **Hasbro**.

***Principle 3** – A culture of partnership with management teams: we recognise and value progress in pursuit of long-term sustainability.*

With any interaction, our goal is always to work with companies and to encourage improvement over the long term. This starts with the introductory letter we send to companies when we first become shareholders and extends throughout our relationship with them, from how we vote to how we engage with management. We recognise that companies are on a journey and that it can take time for our engagement work to yield results.

In January, **Experian** asked for our views on its non-financial reporting. Some of Experian's ESG characteristics are excellent: improving social inclusion by enabling access to finance (important pillars of the UN Sustainable Development Goals) is at the heart of its business. However, while the company has long been aware of the environmental challenges it faces, reporting of these issues and the setting of clear targets was falling short of best practice. Because of our long-term relationship with the company, we were able to have an open and honest discussion explaining which parts of the company's disclosure we liked, where we thought there was room for expansion and, importantly, why the management and disclosure of these issues is integral to the long-term success of the business. In September, the company told us it had taken on board investor recommendations and has introduced a new goal to reach net zero emissions by 2030, and is reporting carbon emissions in line with TCFD recommendations[22]. While there are still improvements to be made, we are delighted with this progress.

***Principle 4** – We are prepared to vote with our feet: if we identify a risk to a business's long-term viability, we will sell.*

Of course, building relationships is all well and good, but our fundamental aim remains to deliver real returns for our clients. Should any of these meetings lead us to believe that the investment case for a company has changed, such that our clients' capital is at risk, then we would vote with our feet and sell the shares. During this year, none of our engagements led us to take such action.

21. These include Avery Dennison, Fresenius Medical Care, Microsoft, Novartis and Unilever

22. TCFD stands for Taskforce for Climate-related Financial Disclosures https://www.fsb-tcfd.org/

VOTING ACTIVITIES

We continue to believe shareholder voting is an important way of communicating with companies.

In line with our principle of focusing on materiality, each voting decision is taken on a case-by-case basis by our investment managers, based on independent judgement, analysis, and the outcome of engagements with companies. As we aim to only invest in well-run companies which have strong management teams and governance structures, we typically expect to vote with the board recommendations. Further, we consider ourselves active, rather than activist, shareholders and hope there will never be a time when we need to report multiple examples of voting against companies. That said, there have been cases this year when we felt it necessary to vote against certain proposals.

When we do vote against proposals, we always write to the company to explain our decision and hopefully start a dialogue.

Issue case study – auditor tenure

Once again, several of our abstentions have centred on the issue of auditor tenure. We take our responsibility for auditor appointment seriously, especially given several recent high-profile failures, most notably the recent issues with Wirecard in Germany. Best practice in Europe is to re-tender after 10 years and change auditor firm every 20 years. However, in the US indefinite tenure is common and we have been speaking to some of our US companies to understand

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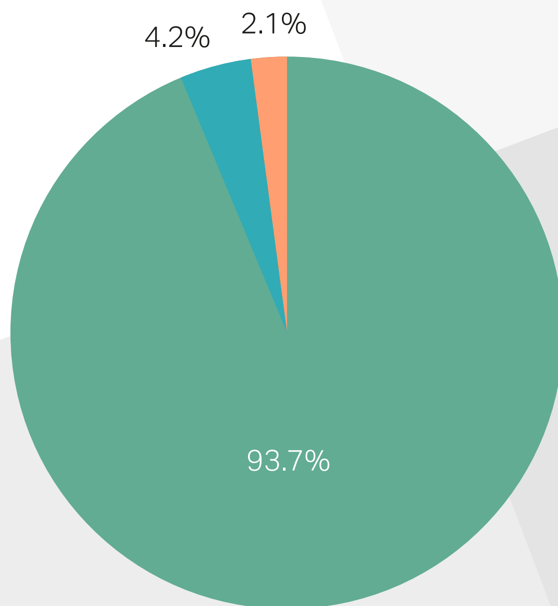
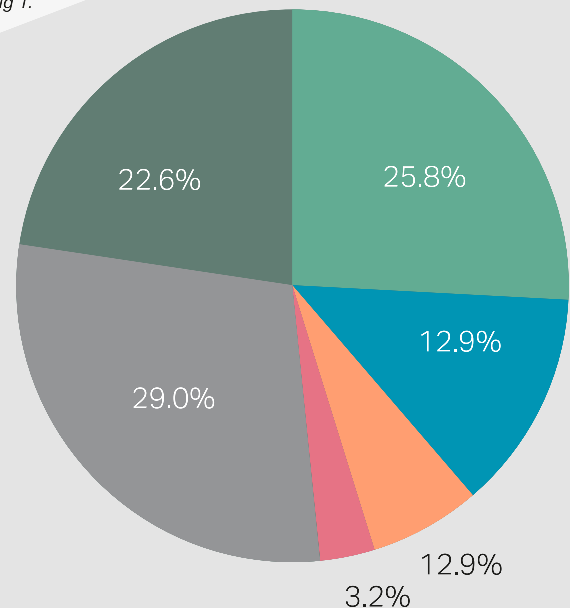
Overall voting record



- Votes in line with company recommendation
- Votes against company recommendation (incl. shareholder proposals)
- Abstentions

Votes against companies & abstentions by theme

Fig 1.



- Auditor tenure
- Election of directors
- Executive compensation
- Shareholder rights
- Shareholder proposal - disclosure to shareholders
- Shareholder proposal - proxy access

Fig 1. Veritas Investment Partners (UK) Limited

their reluctance to change audit firm and to ensure that, as far as possible, other safeguards are in place.

One such company is **ADP (Automatic Data Processing)**. While overall ADP's governance arrangements are strong, long auditor tenure was one of the topics we raised in our introductory letter when we first became shareholders in March. We were pleased that this letter not only led to a call with the Investor Relations team and the Assistant Corporate Secretary but was also discussed by the Audit Committee. The Committee ultimately decided not to put the audit out to tender, but the Chair offered us a call to explain the decision. She ran through the checks and balances they use to ensure the quality of the audit work remains high, such as carrying out an annual appraisal of the audit firm using a detailed scorecard and obtaining independent audit quality oversight by the PCAOB (The Public Company Accounting Oversight Board).

We had a similar meeting with the Chair of the Audit Committee at **Avery Dennison** and discussed the issue with management at several other companies. While in each case, they provided some reassurance that the Audit Committees are very aware of the issues and have appropriate mitigating controls in place, we still disagree on principle with the reappointment of long-tenured auditors and so chose to abstain on these votes.

Issue case study – shareholder proposals on proxy access

When it comes to shareholder proposals, we take the same approach as we do to company proposals: decisions are taken on a case-by-case basis particularly as voting for shareholder proposals often means voting against company management. Shareholder proposals we supported this year at the AGM's of **Amphenol** and **LabCorp** amongst others requested a change in the share ownership threshold needed to call a special meeting. This is another area in which there is a stark difference between practices in Europe and in the US. In Europe, usually only a 5% holding is required to call a special meeting whereas in the US shareholders often cannot call special meetings at all or the ownership threshold is high (usually 25% or more). For some of the largest companies, this means needing to hold billions of dollars-worth of shares to be able to call a meeting. The rights in Europe generally do not result in multiple extra meetings and as the proposals were calling for the threshold to be dropped to 10-15% (still a higher threshold than in Europe), we chose to support measures that potentially give shareholders greater rights.

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