This Policy should be read in conjunction with our Proxy Voting Policy, Engagement Letters and ESG Annual Review.
Contents

Introduction ................................................................................................................................. 3

Our Philosophy .......................................................................................................................... 3
  What does ESG mean to us?
  Why is ESG important to us?
  Do you practice negative exclusions by sector?
  Do we screen stocks based on ESG?
  Do we practice what we preach?

Approach .................................................................................................................................. 5
  Understand
  Integrate
  Engage

Transparency .............................................................................................................................. 10
Arisaig Partners invests in the aspirations of the emerging market consumer. We believe that, in that context, businesses which effectively address environmental, social and governance (ESG) risks and opportunities will be the long-term winners. We are dedicated to developing our understanding of the material ESG issues, integrating relevant information into our investment processes and engaging with our holdings management teams and owners to respond strategically to the changing sustainability landscape.

Our Philosophy

What does ESG mean to us?

ESG at Arisaig is the process of identifying and reviewing the long-term drivers of financial returns that are not found within the financial accounts of a company. These can also be referred to as material externalities. These issues are sometimes reported on, but most ‘extra financial’ disclosure in our markets is poor and lacking consistency.

We believe that sound corporate governance, the ‘G’, is the foundation upon which all else is built. It is the mechanism through which we, as minority shareholders can be sure that interests are aligned between fellow shareholders, management and other stakeholders of a company.

In simple terms we see governance as the ‘rules of the game’. If these rules are ambiguous (e.g. insufficient disclosure), poorly conceived (e.g. lack of consideration of long-term implications), ineffectively administered (e.g. weak boards), or even stacked against us (e.g. related-party transactions, dual-class shares) then we would rather not have that company in our universe, even if the financial returns look attractive at first glance.

We also like to refer to the ‘sleep safe at night’ principle. We like to be able to rest each night with as few anxieties as possible related to our portfolios. Any company whose propriety is called into question and gives us undue cause for concern is unlikely to make it through our due diligence process.

A corporate focus on material environmental and social risks, essentially, a trend to a more sustainable business model, can therefore be viewed as a critical subset of progressive corporate governance. Our view on suitability here revolves around how companies manage their use of scarce natural and human resources, as well as their relationships with all key stakeholders. Indeed, a well-constructed approach to sustainability can be one of the strongest indicators of effective long-term governance for a given company.

Why is ESG important to us?

In simple terms, it is because we believe that companies which embrace the best ESG practices will make superior long-term investments. Indeed, there is increasing evidence to support this.
A proactive approach to ESG management enables a company to drive innovation, relate better to its customers and partners, identify risks and opportunities, lower operating costs, improve market access, and attract the best talent. In essence it is the fuel which powers high quality return on capital (ROCE) and allows for compounding growth stories.

CEOs across all sectors cite ‘strengthening brand, trust and reputation’ as the strongest motivator for taking action on sustainability issues. This is particularly relevant for our brand-owning companies, which are finding themselves increasingly under the spotlight of consumers whose purchasing decisions are being framed by environmental and social considerations. Getting ESG right is becoming as much of an opportunity for our companies as ignoring it is a threat.

**Value Drivers of Sustainability**

*Adapted from Dr. James Gray-Donald (MIT Sloan)*

**Do we practice negative exclusions by sector?**

We do not, and will not invest in tobacco, firearms, pornography, extractive industries or utilities, although this has never been explicit or mandatory. This is not borne out of any particular moral or ethical stance but reflects our belief that the best way to benefit from the most powerful trend in emerging markets – the rise of the middle-class consumer - is to focus exclusively on the highest quality brand franchises. Not coincidentally, these companies tend to have a relatively low ‘external’ footprint – they typically run light fixed asset models and avoid invasive regulatory scrutiny.

**Do we screen stocks based on ESG?**

We do not passively screen on ESG criteria or rely on third-party rating agencies to assess a company’s approach to this area. We tend to find that categorisation of ESG risks at a high level can be misleading and is therefore not a sound mechanism for stock selection. Instead, we focus first on finding the
handful of top quality consumer businesses within emerging markets, applying a bottom-up investment filtering process that has been shaped over our twenty years of experience investing in this space. Corporate governance and environmental sustainability do feature within this, but it is only when we dive further into the due diligence process that we truly get a sense of how a company is set up in this regard.

Do we practice what we preach?

We believe in ‘eating our own cooking’. This includes committing to staff welfare, providing equal employment opportunities and minimising our environmental footprint. We have been carbon neutral since 2010 and have installed paper and plastic recycling across all our offices.

Approach

We approach ESG in three stages:

- **Understand** by conducting focused research to understand the key issues that face our (potential) holdings
- **Integrate** the outputs into our research approach following analysis of these issues at a company level
- **Engage** with our holdings on the most pertinent issues and attempt to steer them towards both improved disclosure and practice.

This last stage of company interaction in turn delivers new insights that help improve our understanding and thus complete the circle. Our long-term investment horizons provide us with the opportunity (and we believe, our fiduciary duty) to use this iterative process to make a positive change to the practices of the companies in which we invest, to our mutual benefit.
**Understand**

We are continuously trying to improve our understanding and knowledge of ESG issues. This includes attending specialist conferences, talking to experts in the field, writing internal thematic research pieces (e.g. plastics usage, gender equality, remuneration and tax avoidance) and commissioning third-party research on important issues. The reports that we commission focus on key thematic areas of interest for us and are often used as tools for engagement as we work to raise awareness of the importance of ESG issues with our holdings in emerging markets.

We also partner with a number of external organisations to help in this process, including the Principles for Responsible investment (PRI), the Sustainable Accounting Standards Board (SASB), the Carbon Disclosure Project (CDP) and Trucost. These third-party resources are useful allies in our engagement efforts with companies. They provide a level of domain expertise and independence that is difficult for us to match internally.

**Integrate**

ESG is a core part of our due diligence process for both existing and prospective investments, making it a daily responsibility for each of our 20 analysts. To support this, we have developed two in-house frameworks, one which addresses corporate governance and another that looks at environmental and social sustainability.

![Arisaig ESG Integration Process Diagram]

**Arisaig ESG Integration Process**

**Stage 1**

**Governance**

Corporate Governance Checklist

*All companies are run through our internally-developed 66-item checklist that covers shareholders rights, transparency and related parties, audit and accounting, board oversight, and executive oversight and compensation.*

**Process**

- Score out of 100;
- Identification of red-flag governance issues;

**Engagement**

Engagement focused around issues where company is not performing in line with global best practice.

**Stage 2**

**Environment**

**Social**

Sustainability Risk Management Framework

*All companies are measured and scored against an internally-developed framework that identifies the 5-10 most material ‘E’ and ‘S’ risk issues, the best practice in risk management and the supporting metrics at a sub-sector level.*

- Sustainability Rating from A-E for risk management approach. This is determined by scores across 3 equally-weighted dimensions:
  - Strategy
  - Policy and disclosure
  - Performance

**Engagement**

Engagement focused around issues where company is not disclosing satisfactorily and/or where policy fails to meet expectations.
**Corporate Governance**

We first address corporate governance. We approach this through an internally-developed global best-practice checklist, identifying the most important issues that our companies should be addressing. In many cases these criteria are over and above what is mandated by local regulation and therefore company disclosure may be minimal.

The checklist currently covers 68 items spread across shareholders rights, transparency and related parties, audit and accounting, board oversight, and executive oversight and compensation.

Each issue is weighted between one (desired) and three (critical/red flag), based on a consensus amongst the research team. They are then scored in a binary fashion by the covering analyst (i.e. a yes/no answer). If a red flag issue (e.g. sizeable related-party transactions) is identified within a company, the team will conduct careful additional research and require a high level of conviction for it to even be considered as an investment candidate.

**Sample Summary Output of Corporate Governance Checklist**

<table>
<thead>
<tr>
<th>Raw Score</th>
<th>Out of</th>
<th>%</th>
<th>Weighed Raw Score</th>
<th>Out of</th>
<th>Final Score (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall CG Score</td>
<td>60</td>
<td>68</td>
<td>74%</td>
<td>102</td>
<td>140</td>
</tr>
<tr>
<td>Shareholder Rights</td>
<td>11</td>
<td>11</td>
<td>100%</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Transparency &amp; Related Parties</td>
<td>9</td>
<td>13</td>
<td>69%</td>
<td>18</td>
<td>31</td>
</tr>
<tr>
<td>Audit &amp; Accounting</td>
<td>11</td>
<td>13</td>
<td>85%</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>Board Oversight</td>
<td>10</td>
<td>15</td>
<td>67%</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Executive Oversight/Compensation</td>
<td>10</td>
<td>16</td>
<td>63%</td>
<td>19</td>
<td>31</td>
</tr>
</tbody>
</table>

We review this checklist annually and include the inputs of independent governance ‘experts’ to help ensure we are keeping on top of the key issues. We can never expect to catch every corporate governance discretion ahead of time, but we believe that our checklist approach helps ensure that we are asking the key questions of every company in which we invest, which should go some way to reducing this risk.

**Environmental and Social Sustainability**

For the environmental and social issues, we have created a Sustainability Risk Management Framework that attempts to identify the most ‘material’ risks that affect each company. We break our universe down into 11 ‘Arisaig Sectors’ (see below) and map out the 5-10 most important sustainability risks and value drivers that affect each. This is based on a myriad of inputs, including the Sustainability Accounting Standards Board (SASB) industry standards, materiality risk maps of leading developed market players and our own internal assessments.
Using the same resources, we define our internal expectations (or ‘guidelines’) for companies in managing each of these material risks, including proposals for reporting metrics within each. We then rate a company’s management of each risk across three equally-weighted dimensions:

- **Strategy** – does the company have a strategy in place to manage this risk and is it suitably ambitious in its scope i.e. turning the risk into an opportunity?
- **Policy & disclosure** – how clear and effective is the company’s policy around this issue and are they disclosing their approach in sufficient detail?
- **Performance** – how well is the company performing against its objectives to manage this risk?

The scores across these three dimensions feed into a consolidated ‘Sustainability Rating’ of each company.

Of course, this will not capture all of the potential environmental and social risks and shortcomings of a business. However, by focussing on the issues that are most important to value creation within each sector and company, we hope to remove the friction in the process described above: by understanding the key issues better, we should be able to both measure their impact more effectively and target our engagement efforts to where we can have the greatest effect.

**Integration with Company Due Diligence**

The outputs of both the Corporate Governance Checklist and the Sustainability Framework are then integrated, alongside commentary from the covering analyst, into the Compendium Chapter of the corresponding company. These chapters are a structured research report that underpin the due diligence of every company on our watchlist. This contains all the key qualitative and quantitative assessments that we wish to apply to any investment.
Engage

As long-term, semi-permanent capital in the businesses in which we invest, we see it as our duty to engage with our companies on all issues in which we believe we can add a valuable external perspective. Our targeted investment strategy – we focus only on the strongest consumer franchises in emerging markets – and boot-on-the-ground experience provides us with a privileged vantage point from which to conduct this. It is worth noting that, over the past 20 years, we have undertaken over 15,000 visits to companies in this sector in Asia alone.

There are several principles that underpin our engagement efforts:

‘Constructivism’

We view our engagement style as being that of a ‘constructivist’. Over time, we hope to become increasingly trusted partners of our investee companies, helping them to become better versions of themselves. This as a very different approach to the traditional ‘activist’ who seeks to unlock value overnight before disappearing off with their gains (with all due respect to our peers in this space).

We do not seek to pursue a dramatic overhaul of corporate management or strategy – this rarely works in emerging markets. If the management and Board of a company are not responsive to our approaches, then divestment (and the associated internal acceptance that we have got this one wrong) is usually the most effective recourse.

Prioritisation

We engage with our companies on a broad range of issues that we deem to be material to the business’s performance. ESG features heavily within this as it is often the area that is most overlooked by boards, management and fellow shareholders in their pursuit of shorter-term returns (which we understand is sometimes inevitable given the typical tenancy of each of these agents).

We use our annual corporate governance and sustainability assessments as important signalling tools to help steer proactive engagement efforts, prioritising issues where we see a particular company under-performing against our expectations. The covering analysts are then responsible for driving the requisite engagement with their companies, under the stewardship of the Heads of Research.

Stimulus for proactive engagement also comes through our commissioning of both internal and external cross-geography and cross-sectoral thematic research on topical ESG issues. These include reports on carbon footprint, gender equality, tax accounting and remuneration. The purpose of these, as much as it is to improve our understanding of the issue, is to steer and inform engagement with the companies identified as being most at risk.

Communication

We engage with our companies through various means, but more often than not it is accompanied with a written letter. These letters state our position on a given issue, allowing us to have a more effective follow-up meeting with the management or Board of a target company. We share these
letters with our investors annually, or on an ad hoc basis, to keep them informed of how we have been stewarding our capital.

Through a similar mechanism, we communicate directly with regulators and exchanges to share our views on corporate governance best practices and sustainability reporting.

All of these engagement efforts are summarised in our annual ESG Review, which is made available on our website.

**Monitoring**

A key part of element of a successful engagement process is the effective monitoring of the ongoing progress. To this end, we have recently built an engagement tracking component into the ESG module of our internal IT system. This captures which issues we have raised with each company, the method and the company response (i.e. progress). We also include a commentary section, ensuring everyone is kept abreast of the context of each engagement.

**Proxy Voting**

We see a proactive approach to voting on our shares as an important engagement mechanism through which we can encourage improved corporate governance practices. We vote on all available shareholder resolutions, whether through physical attendance at shareholder meetings or via proxy.

We strive to vote decisively on all items and will typically only abstain if the necessary evidence to make an informed decision is not made available on time. Each vote is cast in line with the ‘best practice’ criteria set out in our Corporate Governance Checklist. This includes the following principles:

- Oversight of a suitably skilled, diverse and independent Board of Directors
- Sensible, long-term orientated remuneration policies
- Disciplined, value accretive capital allocation
- Respect for minority shareholder interests (e.g. use of related-party transactions, royalties and voting rights)
- A strong corporate culture and citizenship, reflecting the interests of wider stakeholders

We disclose all our voting results annually in our Holdings Booklet, which is sent out to each investor.

Please see our Proxy Voting Policy for more details on this.

**Transparency**

When it comes to investing, we take a long-term view. We look for clients who do likewise to ensure that our interests are aligned. Our investors are institutional in nature and include US, European and Asian endowment funds, foundations, pension funds and family offices.

We make a virtue out of communications between ourselves and also with our clients. We write a quarterly newsletter to our clients and send them full details of portfolio holdings each month in our
Diary. The newsletter will frequently include an ESG section that discusses some of the engagement activities that we have been undertaking with our holdings. In addition, we send our clients a Holdings Booklet every six months, which contains a one-page synopsis on each holding, including material ESG risks and opportunities.

We also pride ourselves on in-depth research reports that our analysts prepare on our holdings and sectors. These take advantage of our insights across regions and access to industry experts to cover the full breadth of our narrow investment universe. Analysis of sustainability issues is captured in these reports and we also have a number of bespoke reports on specific ESG issues material to our holdings. Examples of these reports are available upon request.

Finally, early every year we publish an ESG Review to summarise our ESG work from the previous 12 months. This specifically reports on our voting and engagement activities.