

ARISAIG PARTNERS

ESG Policy

January 2020

ARISAIG PARTNERS

Contents

Contents	2
Introduction	3
Our Philosophy	3
What does ESG mean to us?.....	3
Why is ESG important to us?	3
Do we practice negative exclusions by sector?	4
Do we screen stocks based on ESG?	6
Who is responsible for ESG?	6
Do we practice what we preach?.....	6
Approach	7
Understand	7
Integrate.....	8
Engage.....	11
Transparency	14

ARISAIG PARTNERS

Introduction

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. there is insufficient disclosure), poorly conceived (e.g. there is a lack of consideration of long-term implications), ineffectively administered (e.g. a weak board), or even stacked against us (e.g. related-party transactions) 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?

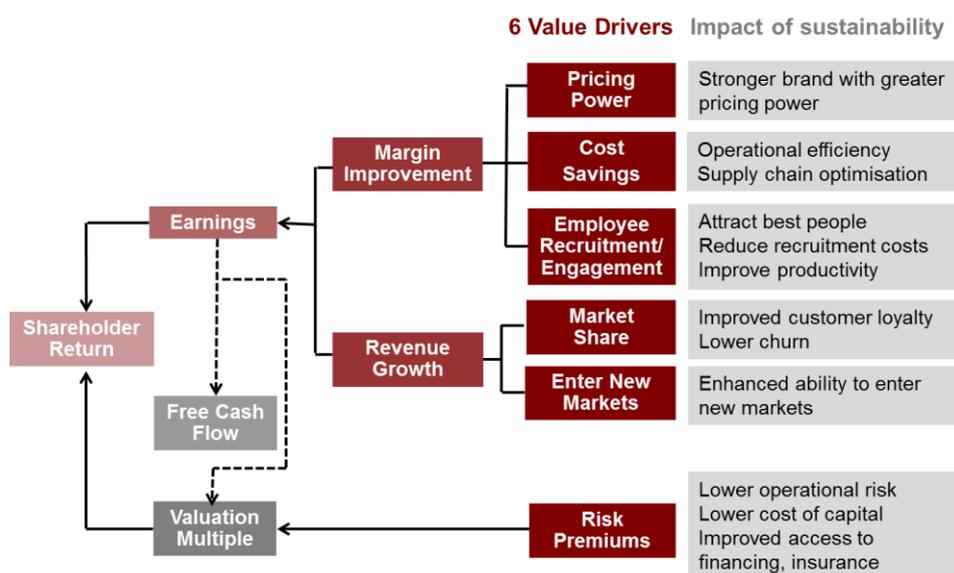
In simple terms, it is because we believe that companies which embrace the best ESG practices will make superior long-term investments. Indeed, there is increasing evidence to support this.

ARISAIG PARTNERS

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 consumer franchises, which are finding themselves increasingly under the spotlight of customers whose purchasing decisions are being framed by environmental and social considerations. Approaching ESG correctly 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?

Over the years we have developed a very tight universe of listed companies meet our core investment objective which is to access emerging market growth through the purest form possible – the highest quality consumer-driven franchises.

With this in mind, we apply the below exclusion list to our universe formation process. It is also worth noting that due to our focus on high-quality consumer businesses, we also do not invest in companies involved in the extraction and sale of unprocessed raw materials, the production and distribution of energy or capital-intensive heavy industry.

This is not borne out of any particular moral or ethical stance but reflects our belief that these businesses are more susceptible to regulatory scrutiny and will therefore struggle to deliver sustainable long-term returns to shareholders.

ARISAIG PARTNERS

Arisaig Partners Sector Exclusion

Sector	Criteria
Tobacco	<i>Any company generating 5% or more consolidated revenue from the production of tobacco products</i>
Firearms	<i>Any company generating 5% or more consolidated revenue from the production of firearms of any kind</i>
Pornography	<i>Any company generating 5% or more consolidated revenue from the production of pornographic material or content</i>
Gambling	<i>Any company generating 5% or more consolidated revenue from the ownership or operation of a gambling-related¹ business</i>

Alcohol-free Share Class

In July 2019, we launched an alcohol-free share class for our Asia Fund. This fund adds an additional exclusion factor around any company producing alcoholic beverages (details below). All other terms and conditions for this fund are the same.

Sector	Criteria
Alcohol	<i>Any company generating 5% or more consolidated revenue from the production of alcoholic products (those with ABV of 0.5% and above)</i>

Approach on Retailers

Our funds invest selectively in retailers across emerging markets, typically focusing on those involved in more value-added practices such as convenience stores, specialty stores and drug stores. In most cases, these retailers are providing a regulated, formal alternative to the often dangerous traditional or illicit trading channel that exists in all of our markets. This is particularly true for potentially harmful products such as alcohol and tobacco, where informal trading practices can directly result in serious health issues and even mortalities.

As such, we prefer not to apply any explicit threshold to revenues derived from controversial products such as alcohol, tobacco or pornography. Instead, we prefer to adopt an engagement-centric 'comply or explain' approach to any retail candidate in order to understand exactly what they are selling and how. This latter point refers to the current responsible retailing policy (e.g. are they following the Guiding Principles of Retailing of Beverage Alcohol from the IARD) and the commitment to tighten this going forward.

¹ We apply the Cambridge Business English Dictionary definition of gambling as: "the activity of risking money on the result of something, such as a game or horse race, hoping to make money". This is commonly manifested in casino operations, betting agencies and lotteries. Computer gaming in which participants purchase in-game rewards technically falls outside of this (as there is no direct monetary reward from the initial money staked), but we maintain a cautious view of the sustainability of this business model.

ARISAIG PARTNERS

Implementation

The exclusion list is overseen by the entire investment committee. Responsibility for maintaining and updating the list sits with the Heads of Research. Before any investment is made, the investment team assess whether a company is compliant with the above exclusion list. If there is any doubt over disclosure, we will follow up directly with the company.

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. Before conducting any in-depth research on a company, we apply a corporate governance checklist which helps identify areas of weakness, including any potential red flags that might jettison the research process. Finally, we conduct a compressive in-house sustainability risk assessment to understand what potential environmental and social disruption might be in store. We cover this in more detail below.

Who is responsible for ESG?

The ESG approach at Arisaig is executed by the whole team of 15 investment analysts who are supported by four investment engineers. We believe this is the most effective way of ensuring that ESG is fully integrated into our research process. It also ensures that those that have the closest relationships with the companies are also informed on the key ESG issues and empowered to engage with company leadership to understand how these issues are being managed and, if necessary, to push for change. ESG work is shared across our regional teams such that a learning or successful engagement in one geography can be quickly transposed across to others. ESG integration is a key component within all investment team employees' semi-annual reviews.

Charlie Carnegie, Head of Sustainability Research, took over responsibility for co-ordinating our ESG approach in 2018. He now reports directly to Rebecca Lewis, the Managing Partner.

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.

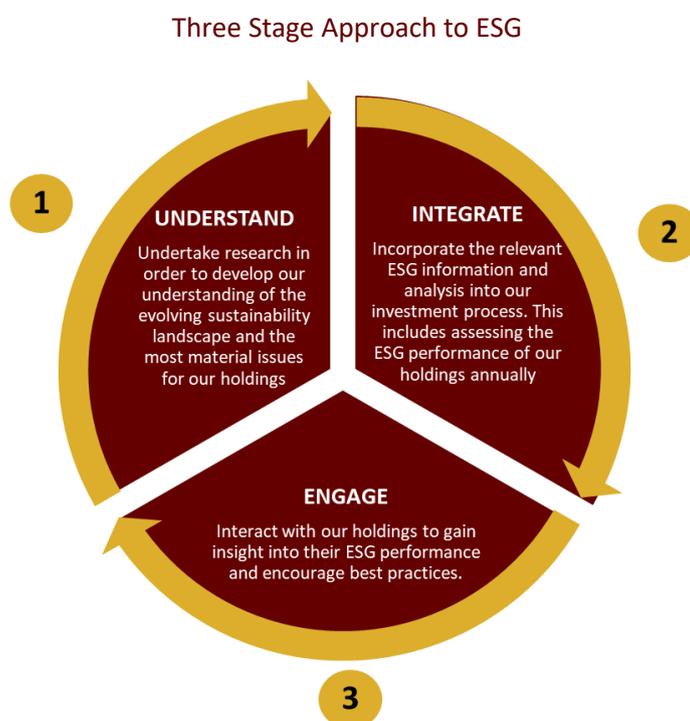
ARISAIG PARTNERS

Approach

We approach ESG in three stages:

- **Understand**: conducting focused research to understand the key issues that face our (potential) holdings;
- Analyse these issues at a company level and **integrate** the outputs into our research approach;
- **Engage** with our holdings on the most pertinent issues in an 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.

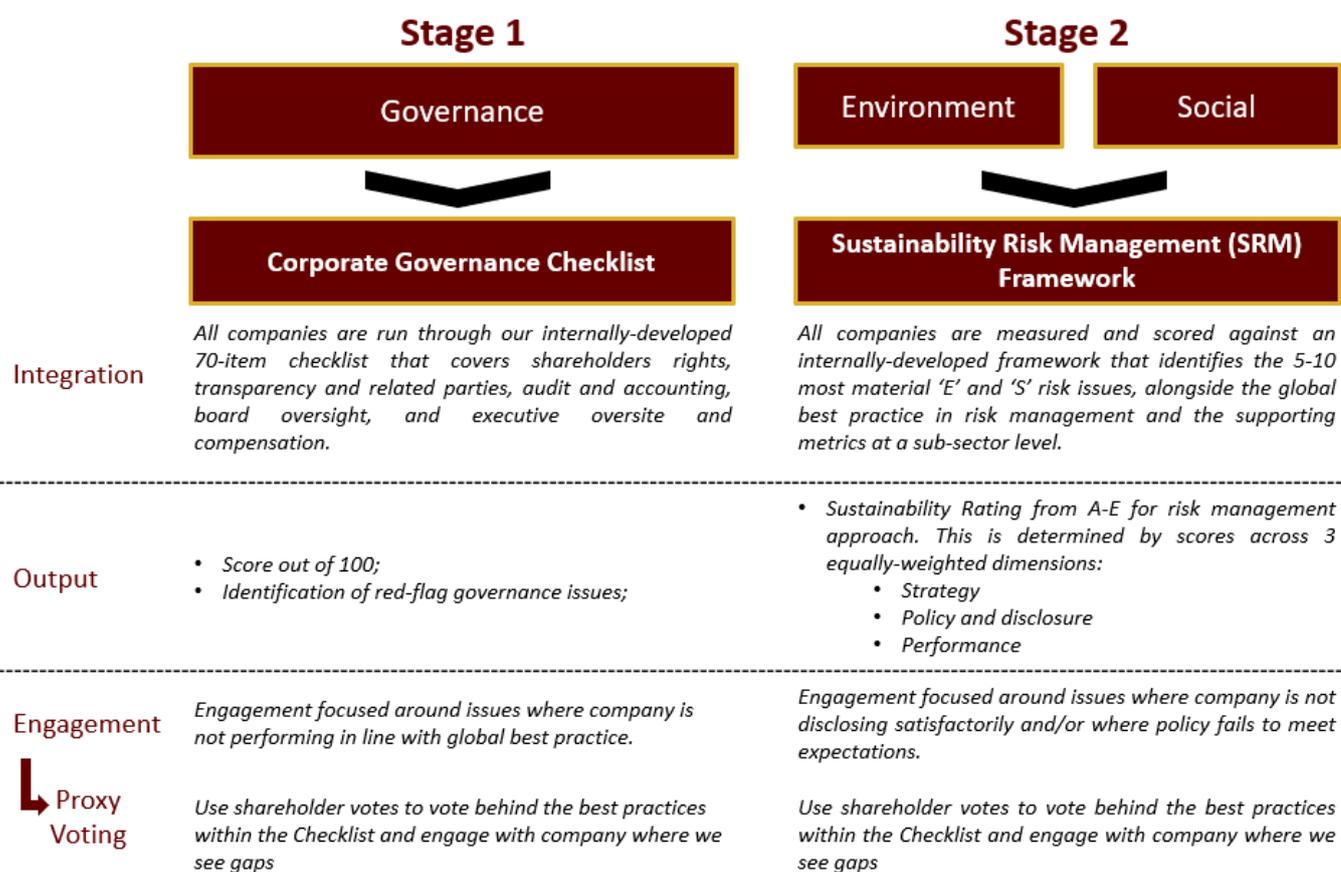
ARISAIG PARTNERS

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), Institutional Investors Group on Climate Change (IIGCC), the Carbon Disclosure Project (CDP) and Trucost. These third-party resources are also useful allies in our engagement efforts with companies, providing 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



ARISAIG PARTNERS

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 70 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

	Raw Score	Out of	%	Weighted Raw Score	Out of	Final Score (%)
Overall CG Score	51	70	73%	103	141	73%
Shareholder Rights	11	12	92%	25	26	96%
Transparency & Related Parties	9	13	69%	20	31	65%
Audit & Accounting	11	14	79%	22	26	85%
Board Oversight	10	15	67%	18	28	64%
Executive Oversight & Incentivisation	10	16	63%	18	30	60%

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 (SRM) Framework that attempts to identify the most ‘material’ risks that affect each company. We break our universe down into 15 ‘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.

ARISAIG PARTNERS

Arisaig Internal Sector List

Sector Number	Sector List
1	Food & Beverage
2	Alcoholic Beverage
3	Home and Personal Care
4	Consumer Healthcare
5	Grocery Retail
6	Specialty Retail
7	Apparel and Footwear
8	Digital Platform
9	Foodservice
10	Home Improvement
11	General Retail
12	Education
13	Insurance
14	Financial Services
15	Other Services

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 (between 'A' and 'E').

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

ARISAIG PARTNERS

integrated, alongside commentary from the covering analyst, into the Investment Case report 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 have a strong aligned interest to engage with our companies on all issues in which we believe we can add a valuable external perspective. Our targeted investment strategy and boots-on-the-ground experience provides us with a privileged vantage point from which to conduct this - 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 is 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.

ARISAIG PARTNERS

Objectives

Ahead of each engagement we make, it is important that we establish objectives so as to be able to determine the subsequent effectiveness and thus refine our approach over time. Although these objectives can take numerous forms, we can categorise them into two main areas:

1) Information exchange

Given the dearth of disclosure in most emerging markets, this is a key tool for bridging the information gap that exists between the company and the public domain. Using this engagement form allows us to get a much better insight into what is going on 'under the hood'. As such, we make a lot of information requests from our companies – examples including requesting details of the company's approach to employee rights, supply chain management or governance policy.

These exchanges are rarely unilateral demands, and we strive to share the learnings from our experience investing across emerging markets over many years back with our companies. This might take the shape of explaining what the leading players globally within a target company's sector are doing to address a certain issue; sharing the results of internal studies that we have conducted; passing on relevant third-party research; or introducing the company to solutions providers (e.g. marketing agencies, ERP solutions providers or sustainability reporting software providers).

These information exchanges originate from a variety of sources. Occasionally they are simply ad-hoc, but more often than not they arise from internal (e.g. a refresh of our due diligence reports on a company, the updating of our ESG assessments, or the writing of a thematic research piece such as our recent gender diversity study) or external (e.g. company disclosures or the publication of news) events. They can also take a variety of forms – calls, emails, meetings and letters.

In many cases, this exchange of information can provide us with enough comfort that a certain risk or opportunity is being suitably managed by the company. In these cases, we can conclude our engagement and report the learnings. In other cases, we may not be so successful, which forces us to either drop the issue, or to push for a behavioural change within the company.

2) Behavioural change

Following our research on a company, on or an information exchange engagement we will occasionally uncover concerns about how they are managing a certain aspect of their business. In such cases, we will engage with them in order to steer them towards better practices in the future – i.e. a change in behaviour.

This involves setting clear expectations with the management team, Board of Directors or promoters of a company about what we believe the company should be doing differently

ARISAIG PARTNERS

and why. Consequently, these engagements are almost always accompanied with a written piece (a letter or email) wherein we outline the justification for our request.

Progress here is typically much slower than for information exchanges, and given the greater demands upon a management team, the success rate is also lower. However, where we are successful here there is significantly more impact upon the business, which we hope at least is for the better!

Monitoring and Communication

Once an engagement issue and objective has been set for a given company, the covering analyst sets out their own approach on how best to interact with the company. This is all logged within our internal engagement tracking module inside our internal IT system. Each subsequent 'interaction' (i.e. individual contact with the company on a certain issue) is then registered within the system, prompting a re-appraisal of the progress versus the original objective.

We interact 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 to keep them informed of how we have been stewarding our capital.

All of these engagement efforts are reported on within our annual ESG Review, which is made available on our website, as well as the individual Portfolio Reviews.

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 Portfolio Review, which is sent out to each investor.

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

ARISAIG PARTNERS

Escalation

We take a pragmatic approach to each engagement we make with companies, which considers the circumstances surrounding each situation. Through clear communication with the relevant agents at each company, we hope to be able to resolve any differences of opinion in a 'constructive' manner (see above). If this is unsuccessful, we will look for potential collaboration opportunities with fellow shareholders in order to improve the negotiating position. This can include a discourse with other stakeholders such as the exchanges. Finally, if we feel the company is still unwilling to respond on what we feel is a material business risk, we will look to sell out of the position. Throughout this, we strive to avoid any antagonistic exchanges as this rarely works from our experience.

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 'Diaries'. The newsletter typically includes an ESG section that discusses a topical issue we have been addressing alongside engagement activities that we have been undertaking with our holdings. In addition, we send our clients a Portfolio Review every year, 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, at the start of 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.