APRIL 2022

Stewardship Report 2021

VERITAS
INVESTMENT PARTNERS

Stewardship Report 2021

We are delighted to share our annual stewardship report with you. Our investment process identifies businesses that are built to last. As shareholders, on behalf of our clients, we seek to promote the long-term success of the companies in which we invest, in the context of the world around them.

We have the opportunity to engage with company management teams on the issues we think are important and the right to vote at company meetings. Engagement and voting are important parts of stewardship, and this report sets out our activities in these areas in 2021.

Our stewardship activities are woven throughout our investment process and are inextricably linked to our efforts to meet our clients' real return targets. They are guided by our four principles, which are set out below.

Stewardship Principles

1 **An aversion to box ticking**
Owning shares in 25 to 40 companies, with a high number of investment professionals to investee companies, enables us to fully understand the material risks to each business

2 **A focus on all stakeholders**
We recognise that businesses exist within society and therefore have a duty to all stakeholders, not just shareholders

3 **A culture of partnership with management teams**
We recognise and value progress in pursuit of long-term sustainability

4 **We are prepared to vote with our feet**
We will not hold shares in companies where we identify a material risk to the long-term viability of the business

We aim to hold shares for five years or more – this makes us long-term shareholders. And means we have a responsibility to ensure that investee companies understand all the long-term opportunities and risks they face and are taking the right steps to manage them. To that end and despite the continued disruption of the Covid-19 pandemic, our stewardship activities continued apace in 2021. We held 109 company meetings, voted on over 500 proposals and sent over 20 letters to investee companies as part of our efforts to engage for long-lasting change. These letters included introductory letters to companies we added to portfolios, such as **Broadridge Financial Solutions**, **Intuit** and **Synopsys**, as well as letters explaining why we chose not to support some Board/management voting recommendations at recent AGMs.

As environmental, social and governance (ESG) factors could have a material impact on companies' financial performance over the long term, they featured heavily in our stewardship work over the last year.

The main topics we covered in our engagements this year included:

- **Environmental and social metrics** – encouraging companies to measure and disclose the metrics which are most material to them, following an internationally-recognised standard[1]
- **Net-zero targets** – encouraging companies to set net-zero targets if they have not done so already, along with short-term/interim targets so that progress can be monitored
- **Supply chains** – understanding what companies are doing to monitor practices throughout their supply chains and how they deal with any issues identified
- **Board composition** – exploring whether companies have the range of expertise they need, including directors who have experience in fields such as cyber-security, environmental sustainability and supply chain management where relevant
- **Director independence** – ensuring board directors have a mix of tenures and that key positions, such as committee chairs, are held by directors who are truly independent
- **Auditor tenure** – working to encourage US companies with long-tenured auditors to consider putting the audit contract to tender

In other news . . .

Signatory of:

STEWARDSHIP CODE | 2021

We were delighted to be included in the 2021 list of signatories to the UK Stewardship Code.

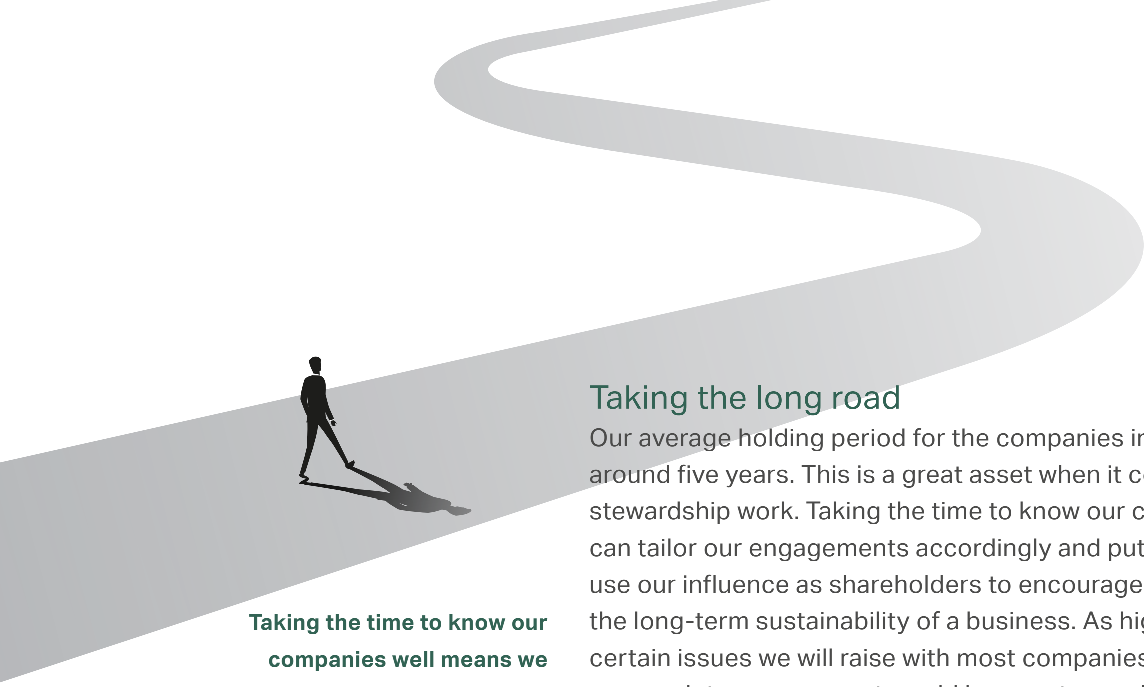
We signed the investor letter to Global Investor Statement to Governments on Climate Change which was delivered to global leaders in the run-up to the COP26 climate conference in Glasgow.

CDP INVESTOR SIGNATORY

For the second year running, we took part in the CDP[2] Non-Disclosure campaign which aims to encourage companies to measure and disclose environmental data.

We stepped up our efforts to engage with regulators, responding to the FCA consultation on TCFD[3] reporting and the discussion paper on the Sustainable Disclosure Regulations and investment labels.

1. These include the Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI) and Taskforce for Climate-related Financial Disclosures (TCFD)
2. CDP was formerly the Carbon Disclosure Project and it runs a global disclosure system for companies, cities, states and regions to manage environmental risks https://www.cdp.net/en
3. Taskforce for Climate-related Financial Disclosures https://www.fsb-tcfd.org/



Taking the time to know our companies well means we can tailor our engagements accordingly.

Taking the long road

Our average holding period for the companies in our portfolios is around five years. This is a great asset when it comes to carrying out our stewardship work. Taking the time to know our companies well means we can tailor our engagements accordingly and puts us in a strong position to use our influence as shareholders to encourage change that will enhance the long-term sustainability of a business. As highlighted above, there are certain issues we will raise with most companies but a one-size-fits-all approach to engagement would be counterproductive, even for companies within the same sector. Among our healthcare holdings, the focus of our recent conservations with **UnitedHealth** was board composition and director independence whereas our engagements with clear-aligner manufacturer **Align Technology** focused on efforts to integrate sustainability throughout the business strategy and improve disclosure. As set out below, our relationship with Align has developed over several years and has focused on making a good company better.

Early July 2019

Call with Align Investor Relations (IR). Focus to improve disclosure.

Mid July 2019

Initiated research on company.

September 2019

ESG-focused call with the company during which we discussed plastic content of clear aligners, board composition and executive compensation.

October 2019

Bought first positions in Align. Wrote introductory letter to company Chair and CEO.

December 2019

Call with the CFO to discuss business strategy.

May 2020 AGM

ISS recommended voting against the whole Compensation Committee because they had concerns around some issues to do with pay awards. We spoke to the company before voting (including General Counsel and SVP of Human Resources) to better understand company perspective. We decided not to follow ISS recommendations and voted to support the company. ISS ultimately changed voting recommendations to support the company However, we abstained on the vote to reappoint the auditor and wrote to the company explaining our reasons.

May 2021 AGM

We abstained on the vote to reappoint the auditor and again wrote to the company on the issue. In our letter, we also expressed support for the new CSR section on the company website and management's consideration of reporting against SASB standards. We also asked them to consider disclosing to CDP.

June 2021

Our post-AGM letter led to a call with the CFO, Chief Legal Officer and General Counsel. We discussed progress being made on ESG issues, such as the expansion to legal department to help with ESG reporting, change to the charter of the Nominating and Governance Committee to cover ESG issues, and the use of consultants to help embed ESG throughout the business strategy.

A long-term investment approach also gives us an opportunity to build partnerships with companies.

A long-term investment approach also gives us an opportunity to build partnerships with companies so we can become an ally and provide support during periods of change, offering both our perspective as shareholders and constructive challenge where needed. For example, we have been building a relationship with dialysis company **Fresenius Medical Care** since 2019 to encourage the company to improve governance and disclosure practices. Recent engagements have shown us that progress is being made. We had previously expressed our support for appointing a Lead Independent Director and had discussed the benefits of doing so with members of the Supervisory Board. Though common elsewhere, it is rare to find such a position on the boards of German companies. We were therefore delighted to vote in favour of the creation of this position at the company's AGM and to speak to the new LID on a call later in the year when we were impressed by her candour and enthusiasm.

Similarly, when an activist investor took a stake in **LabCorp** earlier this year, we reached out to company management to express our support for the existing business structure and strategy. We also discussed what they could do to enhance shareholder value: our suggestions included introducing a dividend (something we have been requesting since 2017) and improving disclosure around the long-term opportunities for the business following the pandemic. We were later pleased to see management announce no change to the company structure, the introduction of a dividend and the first publication of mid-term guidance.

Should any meetings lead us to believe that the investment case for a company has changed, then we would vote with our feet and sell the shares.

Of course, building these long-term relationships is all well and good, but our fundamental aim remains to deliver real returns for our clients. Should any 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.

Spotlight on sustainability

The latest World Economic Forum Risk Report considers the ten most severe risks on a global scale over the next ten years: five are environmental risks and three are social.

Increasingly, the long-term risks all companies face include environmental and social risks. Multiple factors, such as disruptive extreme weather events, have shone a spotlight on the potential for non-financial issues to have enormous financial implications. The latest World Economic Forum Risk Report considers the ten most severe risks on a global scale over the next ten years: five are environmental risks and three are social[4]. During the last year, we have stepped up engagements with companies on ESG issues and over 20% of all meetings we held focused on issues such as net-zero targets, supply chain management and employee wellbeing. We spoke to companies across different sectors and geographies, to satisfy ourselves that they are on top of these areas. This is called engaging for information and is often the precursor to engaging for change *if* we discover an issue or lack of appropriate governance. Some examples are included below.

4. The environmental risks are Climate Action Failure, Extreme Weather, Biodiversity Loss, Human Environmental Damage and Natural Resource Crises. The social risks are Social Cohesion Erosion, Livelihood Crises and Infectious Diseases https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf

Spotlight on engaging for information

accenture	Franco ★ Nevada	infineon	intuit	MasterCard	NOVARTIS
Sustainability is a significant business opportunity for Accenture. Its partnership with Salesforce will allow clients to track, measure and act on a range of sustainability indicators, including reporting on carbon usage.	Franco's share in carbon sequestration at Weyburn, Canada (the world's largest geological carbon dioxide storage projects) makes their total energy portfolio net carbon negative from well-to-pump.	Sustainability is embedded throughout the culture and business model. Infineon recently ran a campaign in which all employees could submit ideas to help the company reach its sustainability targets and the company planted a tree for each idea submitted (successful or not).	Having hit all its environmental targets 5-10 years early, Intuit is focusing on helping customers reduce their environmental footprint, for example, by using QuickBooks to offer its customers across the UK an opportunity to commit to reducing their carbon footprint.	85% of adults are willing to take action to fight environmental challenges and the Mastercard Carbon Calculator will allow card holders to measure and manage the carbon dioxide emissions associated with their spending.	African Americans represent 13% of the US population but only 5% of clinical trial participants. Novartis have launched a programme to ensure that all Phase 3 trials conducted reflect the diversity of the national population.

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We encourage companies to measure and disclose information around environmental and social risks as this is the first step in being able to manage these risks. After all, it's difficult to manage what you can't measure. We believe staying focused on materiality is key. We want companies to 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. In our 2020 Stewardship Report, we discussed our engagement with healthcare technology company **Cerner** to encourage better disclosure on its most material sustainability risks, such as energy management, consumer privacy and data security. We were therefore delighted to see this reporting enhanced in the latest annual report, followed by the publication of benchmark environmental data later in the financial year.

One company that is further along this journey is label maker **Avery Dennison**. In our recent engagement call, it was reassuring to hear that some of the points we had raised previously about disclosure had been addressed. For example, the company's greenhouse gas emissions reduction targets have been approved by the Science-Based Targets initiative (SBTi). The fact that the enhanced focus on sustainability is also providing long-term opportunities for Avery also came across strongly. Providing labelling materials that are sustainable and enable a shift to a more circular economy is an opportunity to gain market share with consumer goods companies, such as Adidas and H&M, and potentially increase the recyclability of products. The company is still facing some challenges in this area though: the Lead Independent Director discussed the difficulties of finding potential board directors with in-depth knowledge of sustainability issues. We were also staggered to hear that of all the shareholders contacted as part of the company's outreach programme, only 35% responded to the request for engagement. This increases our determination to use our platform to push for positive change in the interests of our clients.

Tackling complex sustainability problems takes time which again highlights the need to adopt a long-term approach.

Tackling complex sustainability problems takes time which again highlights the need to adopt a long-term approach. While we track our engagement efforts with our engagement milestones (on the left), we acknowledge that, as best practice and global standards evolve, some issues will need continuous attention and may take many years to address.

Engagement milestones
We monitor the progress of our engagements by setting ourselves clear objectives at the outset and measuring progress against four milestones:

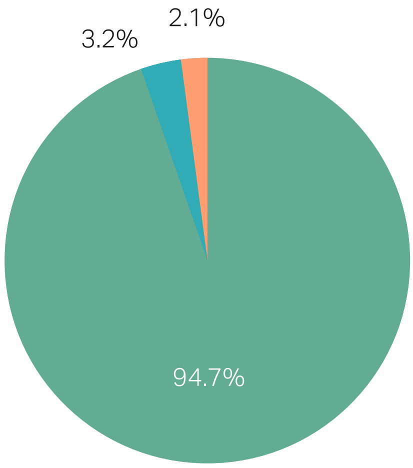
1. Raising the issue with the company;
2. Receiving acknowledgement from the company that our concerns are valid;
3. Receiving confirmation from the company that it is developing a plan to address the issue; and,
4. Receiving confirmation from the company that the plan is implemented and the objective is delivered.

We first discussed sustainability with clothing company **Next** when we met the CEO in Leicester in 2017. While the company's commitment to sustainability was clear even then, the sense of urgency around the need for change has increased: the clothing industry faces a myriad of challenges, from the water use in the manufacturing process to potential human rights issues and high levels of waste as clothing is discarded. Our conversation with Next's Company Secretary and Head of Corporate Responsibility in August, and subsequent written correspondence, reassured us that Next is working hard to manage the environmental and social risks it faces. Its 2025 strategy includes ambitious plans for sustainable sourcing and its Code of Practice team, which works with suppliers to ensure high standards for workers throughout the supply chain, is industry leading. Furthermore, Next recognises that these issues cannot be tackled by one company alone and is involved in numerous industry collaborations and technology investments, such as using blockchain and isotope testing to enhance supply chain transparency.

It is unlikely that these issues will be "fixed" in the short or medium term. We have challenged Next on their target for responsible sourcing of polyester, given that the technology needed to achieve this is still in its infancy and not widely available, and as shareholders will continue to hold them accountable. So rather than focusing on being able to tick issues off the list, our engagements efforts with Next are centred around ensuring the company maintains its high standards and continues to evolve its processes to meet industry best practice.

Voting activities

We believe shareholder voting is an important way of communicating with companies and helps in our efforts to build long-term partnerships.



Overall voting record to 31 December 2021

- Votes with management
- Votes against management
- Abstentions

In line with our principle of focusing on materiality, our investment managers continue to take each voting decision on a case-by-case basis, based on independent judgement, analysis, and the outcome of engagements with companies. As we aim to invest only in well-run companies which have strong management teams and governance structures, we typically expect to vote with board recommendations. That said, there have been cases this year when we felt it necessary to vote against certain management proposals and for some shareholder proposals.

A summary of our voting activity is shown in the pie charts and a full breakdown of the votes cast on behalf of our clients is included with the appendix.

We firmly believe voting is not an isolated act and therefore goes hand-in-hand with our broader engagement work. When we vote against a company, we always write to explain our decision, aiming to start a constructive dialogue. For example, we wrote to payments and software provider **Fiserv** following its AGM to explain why we abstained on two proposals and also took the opportunity to encourage the company to improve disclosure around environmental issues. We received a detailed response to our letter from the Chair of the Board and subsequently had the opportunity to speak to the head of corporate sustainability.

Issue case study – auditor tenure

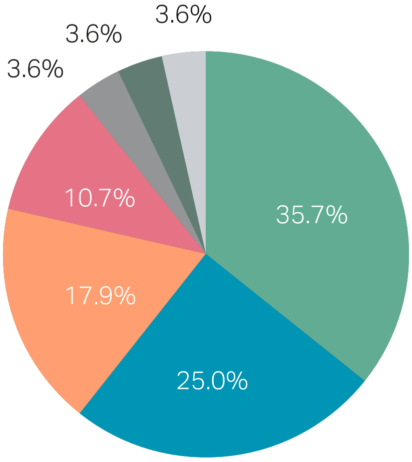
Once again, several of our abstentions have centred on the issue of auditor tenure. We take our responsibility for auditor appointment seriously, especially as multiple high-profile failures over the past two decades have highlighted the importance of this issue. Most notable among them is the Enron scandal which cost shareholders over $70 billion when the company collapsed and resulted in employees losing billions in pension benefits[5]. And more recently, Carillion collapsed in 2018 with over £1 billion of debt and a £600 million pension deficit, despite an unqualified audit report from KPMG who had audited the accounts for 19 years[6].

Changing audit firm can help to highlight any issues before they get this extreme. Best practice in Europe is to re-tender audit contracts after 10 years and change auditor firm every 20 years. However, in the US indefinite tenure is common and we have been raising this issue with several of our US-based companies. While there will always be some exceptions, we have updated our voting policy in this area: for companies with auditor tenure over 20 years, we will abstain and engage for two years. But if there is still no change, we will start to vote against proposals to reappoint auditors.

Our efforts on this issue have yielded some results. For example, following our decision to abstain again on the reappointment of the auditors at **LabCorp**'s 2020 AGM, we wrote to the company to explain our reasons. Our

5. https://www.investopedia.com/updates/enron-scandal-summary/
6. https://www.bbc.co.uk/news/business-42666275

letter led to a call with the Chief Legal Officer to discuss the issue in more detail and at this year's AGM, we were delighted to see that the company has appointed a new audit firm. However, we acknowledge that we are unlikely to win over all companies on the issue, so we remain focused on getting reassurance from our US companies that, where the same auditor has been in place for several decades, there is sufficient challenge. This year, we raised the issue with a number of companies including **Align Technology**, **Avery Dennison**, **Hasbro**, **Intuit** and **Thermo Fisher Scientific**.



Votes against companies & abstentions by theme

- Auditor tenure
- Shareholder proposals - proxy access
- Director - overboarding
- Stock plan
- Shareholder proposal - disclosure
- Remuneration
- Director - lack of independence

Issue case study – shareholder proposals on disclosure
When it comes to shareholder proposals, we take the same approach as we do for company proposals: decisions are made on a case-by-case basis particularly as voting for shareholder proposals often means voting against company management.

In 2021, we voted for a number of shareholder proposals aimed at improving disclosure, including at **Alphabet** and **Microsoft**'s AGMs. With Microsoft, we chose to support shareholder proposals calling for reports on the gender pay gap and racial pay gap, the effectiveness of workplace sexual harassment policies and the alignment of lobbying activities with company policy. Following the AGM, we wrote to the Lead Independent Director setting out why we chose to support the proposals. Our letter highlighted our belief that companies which show leadership by adopting best practices and increasing relevant disclosures in these areas are likely to achieve better results for all stakeholders in the long term.

Looking ahead

We expect to continue engaging with companies on the topics highlighted above in the coming months. In line with our engagement policy, we will escalate our engagement activities with companies who have made little progress. We will continue to tailor our engagement efforts to each company, and this will depend on a range of factors including progress made on ESG issues so far, the nature of the business and geographic exposure.

We are also exploring further options for collaborative engagement, particularly on supply chain management, as we recognise we can have greater impact when working with others. We hope to be able to provide an update on this next year.

More information on our Engagement and Voting policies can be found on our website, alongside our UK Stewardship Code report and our latest Assessment Report from the Principles of Responsible Investing (PRI).

Written by **Philippa Bliss**
on behalf of the Investment Team

Voting Data Table 1 January 2021 - 31 December 2021

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Kerry Group Special Meeting, 28 January	3	0	0	As a result of the UK's withdrawal from the EU, Irish companies were required to migrate their central securities depositary from CREST to Euroclear Bank
Accenture AGM, 03 February	17	0	0	
Tesco Special Meeting, 06 February	6	0	0	In line with previous communication to shareholders, the Board proposed to return a portion of the proceeds from a recent disposal to shareholders by way of a special dividend
Infineon Technologies AGM, 25 February	32	0	1	We abstained on the vote to reappoint KPMG as the audit firm as it was first appointed in 2000
Bunzl AGM, 21 April	23	0	0	
Avery Dennison AGM, 22 April	10	0	1	We abstained on the vote to reappoint PwC as the audit firm as it was first appointed in 1960
British American Tobacco AGM, 28 April	18	1	0	We voted against the remuneration report given the significant pay increases for the CEO and CFO on top of increases received last year
Kerry Group AGM, 29 April	22	0	0	
Franco-Nevada AGM, 05 May	12	0	0	
Unilever AGM, 05 May	26	0	0	
Tractor Supply AGM, 06 May	12	0	0	We voted against the shareholder proposal asking the company to become a Public Benefit Corporation. Given the way the business is run and the sustainability measures it already has in place, we felt this was unnecessary
LabCorp AGM, 12 May	13	0	0	We voted against the shareholder proposal to amend access to the proxy. LabCorp already meets US standards, has a relatively consolidated investor base and management is already dealing with an activist investor
Derwent London AGM, 14 May	23	0	0	

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
Align Technology AGM, 19 May	13	0	1	We abstained on the vote to reappoint PwC as the audit firm as it was first appointed in 1997
Amphenol AGM, 19 May	13	0	1	We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1997
Cerner AGM, 19 May	5	1	1	We supported a shareholder proposal to eliminate super-majority voting. We abstained on the vote to reappoint KPMG as audit firm as it was first appointed in 1983
Fiserv AGM, 19 May	10	0	2	We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1985. We also chose to abstain on the proposal on executive compensation
Thermo Fisher Scientific AGM, 19 May	14	1	0	We voted for the shareholder proposal to reduce the ownership threshold required to call a special meeting
Fresenius Medical Care AGM, 20 May	12	0	0	
Hasbro AGM, 20 May	12	0	1	We abstained on the vote to reappoint KPMG as audit firm as it was first appointed in 1968
Marsh & McLennan AGM, 20 May	15	0	0	
Next Plc AGM, 20 May	20	0	0	
Alphabet AGM, 02 June	13	8	0	We voted to support a number of shareholder proposals including the proposal to introduce one-vote-per-share. We also voted against the reappointment of Ann Mather to the Board as she is over-boarded
UnitedHealth AGM, 07 June	11	1	1	We abstained on the reappointment of the Lead Independent Director as he has been on the board for 44 years. We voted for the shareholder proposal to reduce the ownership threshold to call a special meeting
TSMC AGM, 08 June	13	0	0	

Company and Meeting details	Votes cast			Additional details
	With company management	Against company management	Abstentions	
MasterCard AGM, 22 June	17	0	2	We abstained on the vote to reappoint PwC as audit firm as it was first appointed in 1989. We also chose to abstain on the proposal on executive compensation. While we generally do not support companies adjusting targets because the economy is weak, management did a really good job leading the business through very difficult circumstances and provided significant support to governments, businesses and the wider community.
Tesco AGM, 25 June	26	0	0	
Pacific Assets Trust AGM, 29 June	16	0	0	
Biotech Growth Trust AGM, 14 July	14	0	0	
Experian AGM, 21 July	20	0	0	
ADP (Automatic Data Processing) AGM, 10 November	12	0	1	We abstained on the vote to reappoint Deloitte as audit firm as it was first appointed in 1968
Broadridge Financial Solutions AGM, 18 November	13	0	0	
Sonic Healthcare AGM, 05 November	5	0	0	
Microsoft AGM, 30 November	16	4	0	We voted to support shareholder proposals calling for reports on the gender pay gap and racial pay gap, the effectiveness of workplace sexual harassment policies and the alignment of lobbying activities with company policy
Totals	**507**	**17**	**11**	

Please note that the table above sets out the voting activities of VIP (UK) Ltd. from 01 January to 31 December 2021. It may therefore include details for companies that are not held in your portfolio.

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If you no longer wish to receive, please contact us on the above number.

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