

# Sustainable Investing Policy

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ARISTOTLE  
CAPITAL MANAGEMENT



# Sustainable Investing Policy

## Philosophy

At Aristotle Capital, our philosophy is to invest in what we believe to be high-quality businesses, employing a global perspective and utilizing a long-term investment horizon to build high-conviction portfolios. The fundamental, bottom-up process that we have implemented for over two decades has focused on studying the long-term sustainability of businesses. Through our research, we have found that most sustainable business models make efforts to embrace all their constituents (i.e., customers, employees, suppliers, partners, shareholders and their communities) and incorporate policies to such end. We analyze such corporate policies as part of our work in understanding businesses and their fundamentals. If done in a fair, reasonable and responsible way, we believe that most companies may best be served in the long run by working with all their stakeholders.<sup>1</sup>

We take into account environmental, social and governance (ESG) factors as part of our analysis of the quality and sustainability of a business. We believe that over the long term, sustainability and ESG considerations can be strongly interconnected with and have an impact on returns and potential risks of the companies in which we invest.

We primarily view ESG integration and engagement as important tools in our assessment of a company's quality, which can translate into alpha generation as well as risk mitigation.

## Investment Process

### *Approach to ESG Integration*

ESG considerations are naturally aligned with our investment process, reflecting our focus on identifying high-quality companies with sustainable competitive advantages and forward-thinking, responsible management teams. The team's emphasis on quality tends to favor companies that demonstrate transparency in reporting and disclosures, long-term strategic thinking and strong governance. We believe such companies are better positioned to anticipate and mitigate business risks over the long term. More specifically, the team looks for companies with:



- **Strong Management Teams** that prioritize long-term value creation for all stakeholders, rather than pursuing short-term stock price gains
- **High-Quality Products & Services** differentiated through innovation, superior customer experience and/or user experience, rather than offering the lowest price (which can lead to squeezing suppliers, underpaying employees and/or compromising quality)
- **Social & Environment Considerations** such as employee health & safety, community relations and environmental impacts (e.g., GHG emissions, resource management, biodiversity)
- **Robust Disclosures** including transparent financial statements, corporate policies and reporting on material topics

<sup>1</sup>The Essence entitled "The Factory Owner" (October 2013), Aristotle Capital Publication: [The Factory Owner](#)



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These characteristics are assessed as part of the firm’s fundamental, bottom-up research process, which is grounded in independent thought and a deep understanding of business models, industry dynamics and long-term sustainability. This research is ongoing—beginning with initial due diligence and continuing throughout the life of the investment, and often beyond.

Aristotle Capital believes that by combining this long-term focus on sustainable business models, alongside more traditional financial metrics and analysis, we are better informed to make investment decisions and subsequently better positioned to help our clients achieve their goals. As an investment manager, it is our fiduciary duty to act in the best interest of our clients and believe this holistic framework supports our main objective of successful execution of our investment philosophy and process with the goal of preserving and growing clients’ capital while seeking to mitigate risk.

### *Approach to ESG Scores*

Aristotle Capital’s investment approach is research-centric and grounded in bottom-up fundamental research. As such, our team does not rely on internally generated or third-party ESG scores, screening tools, or aggregated scoring methodologies as inputs into our investment process. We believe that sustainability considerations cannot be meaningfully reduced to composite scores or rankings.

Instead, material ESG risks and opportunities are evaluated through deep, qualitative analysis of each company’s business model, governance practices and long-term strategic positioning, informed by fundamental research and direct engagement with company management. This approach allows our investment team to develop differentiated views that align with the strategy’s long-term investment objectives.



### *Approach to External Data Providers*

While Aristotle Capital does not rely on ESG scores or aggregated ratings, we do utilize selected third-party datasets to support our fundamental research process. These datasets may include product involvement classifications, assessments of adherence to global norms, carbon emissions data and indicators aligned with the SASB Materiality Framework. These data points can help identify areas for deeper analysis and inform potential topics for engagement with company management.

External data is used as a research input rather than a decision-making mechanism. It does not replace independent analysis, nor does it mechanically factor into investment decisions. All sustainability considerations are evaluated within the broader context of our bottom-up research, materiality assessment, and long-term investment objectives, ensuring alignment with our goal of identifying high-quality businesses capable of compounding value over time.

### *Approach to Portfolio Construction*

ESG considerations inform portfolio construction indirectly through their role in assessing business quality, management effectiveness and long-term risk. Material ESG issues may influence our decision not to initiate or to exit a position. ESG insights may also inform discussions around portfolio-level risk, particularly when sustainability issues affect our long-term view of a company’s durability or risk profile.



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## *Approach to Exclusions*

Aristotle Capital's investment process is grounded in bottom-up fundamental research and independent judgment rather than exclusionary frameworks. We do not apply firmwide minimum standards, norms-based screens or revenue-based thresholds as part of our core investment process. Investment decisions, including whether to purchase, hold, or sell a company, are made on a case-by-case basis when material ESG factors are relevant to the investment thesis and are evaluated within the context of the strategy's long-term objectives, diversification, and risk management considerations.

As mentioned, as part of our research and due diligence process, we have access to third-party data covering global norms, product involvement and ESG-related risks. These resources may provide additional perspective on how companies are viewed across various lenses, but they do not impose formal investment restrictions or replace our internal analysis. Client-directed exclusion requests, when applicable, are assessed on a case-by-case basis.



## *Approach to Materiality*

In the context of our investment philosophy and process, material sustainability factors are those that we believe may have a significant impact, either positive (as it pertains to opportunities) or negative (as it pertains to risks) on the companies in which we invest. We deem a sustainability factor as material when it has the potential to influence an investment's risk/return profile such that it significantly alters our view of the attractiveness of a business. This can include potential environmental impacts, relationships with stakeholders, quality of management and organizational transparency. We believe this is an integral part of our assessment of the quality characteristics of any business.

Aristotle Capital's Sustainability Materiality Framework was developed to help identify and track ESG risks and opportunities that could be material to companies in different industries. The framework was built using publicly available sources, incorporating topics from several established standards.

## **General Guidelines on Sustainability Factors**

Sustainability factors are incorporated into our fundamental research when they are material to a company's long-term durability and risk/return profile. Analysts evaluate how relevant environmental, social and governance considerations may influence competitive advantages, operational risks, management quality, and the sustainability of a business model.

Rather than relying on scoring systems or mechanical valuation adjustments, sustainability insights are assessed qualitatively within our research process and, when relevant, reflected in financial analysis. Material ESG considerations may shape an investment thesis, inform engagement priorities, influence conviction levels and, in certain cases, contribute to decisions not to initiate or to exit a position.

The following guidelines illustrate how we typically assess key environmental, social, and governance factors as part of our bottom-up research process.



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## Implementation and Oversight

All members of our **Investment Team** are dedicated to research and are responsible for incorporating relevant sustainability factors into their work. The team uses multiple research sources, including company visits, public filings, meetings with competitors/suppliers, discussions with external analysts and industry conferences. In addition, the team may draw on multiple data providers, including Bloomberg, FactSet, third-party ESG research and sell-side ESG research, to obtain as much information as possible on current and potential investments.

In addition, Aristotle Capital has a **Sustainability Team**. The team is led by our firm's Co-Chief Investment Officer and includes several members of the Investment Team (Portfolio Managers and Client Portfolio Managers). Our Sustainability Team identifies issues that could materially impact on the companies' fundamentals and future viability and sustainability of the company. If determined relevant, with all materials company findings, these issues are discussed in more depth with the Investment Team, and then possibly with members of the company's Management Team or Board of Directors. Relevant issues are also shared with Aristotle Capital's Board of Managers, when necessary.

Throughout the year, Aristotle Capital's **Investment Risk Committee** reviews a summary created by the Sustainability Team, which highlights ESG-related information, including companies with the highest GHG emissions and companies on the UN Global Compact watchlist.



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## Stewardship

We view our stewardship initiatives as a journey that will continue to evolve over time. These include but are not limited to:

- Incorporating sustainable investing risks and opportunities into our investment philosophy and process
- Engaging in dialogue with our portfolio companies about material sustainability-related topics
- Voting proxies with the goal of promoting issues that are relevant to the long-term sustainability of our investments and the economic interest of our clients' capital
- Increasing our involvement in organizations with industry peers and experts to stay current with the latest standards and best practices for stewardship

## Industry Involvement

In 2019, Aristotle Capital became a signatory of the Principles for Responsible Investment (PRI), a voluntary framework for institutional investors who commit to integrating environmental, social and governance (ESG) factors into investment analysis and decision-making practices. We have remained an active and engaged signatory. In early 2020, Aristotle Capital became a member of CDP (previously Carbon Disclosure Project), which collects and shares useful company reported environmental time-series datasets on areas including water, forests and climate. In 2020, Aristotle Capital also joined the International Corporate Governance Network (ICGN), which undertakes leading policy research, engagement and advocacy to inspire effective corporate governance and investor stewardship standards and practices worldwide. Aristotle Capital continues to support the *ICGN Global Stewardship Principles*.



## Proxy Voting

We believe proxy voting is an important component of portfolio management, providing shareholders with an opportunity to express their views on matters that may affect the long-term value of our investments.

We seek to exercise proxy voting rights in a manner that supports the economic interests of our clients' capital and the long-term durability of the businesses in which we invest. All proxy proposals are reviewed and voted by our Investment Team on a case-by-case basis. Third-party proxy voting recommendations are used for reference purposes only and do not replace our internal analysis.

We generally believe that most ordinary business matters are the responsibility of company management and the Board. Given the depth of our due diligence prior to investing, we typically vote in line with management, while retaining our discretion to vote against management when appropriate.

Proxy voting is tracked internally. While voting decisions are not systematically disclosed publicly or to portfolio companies, proxy voting statistics and details on individual votes may be provided to clients upon request.

For clients who wish to exercise proxy voting authority directly, or through a designated third party, we can assist in facilitating the appropriate arrangements. Additional information regarding our proxy voting guidelines is available in Aristotle Capital's Proxy Voting Policy.



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## Engagement

Aristotle Capital integrates active company engagement as a core component of its investment and stewardship approach. Through regular, constructive dialogue with portfolio companies, we seek to assess long-term business quality and to better understand material sustainability-related risks and opportunities.

To support this engagement approach, Aristotle Capital maintains a standalone *Engagement Policy* that outlines its approach to active ownership. The policy describes our philosophy and engagement framework, including engagement objectives, participants, and formats. It also outlines company selection, topic prioritization, engagement processes, escalation mechanisms, and where appropriate, considers third-party stewardship resources and relevant client input to inform engagement activities.

Please see the Engagement Policy, available on our website, for additional details.

## Resources

Aristotle Capital's Investment and Sustainability Teams use several internal tools to identify, assess and monitor material ESG risks and opportunities across our portfolios.

- **Materiality Framework:** Supports the identification and prioritization of sustainability topics that are most likely to be financially relevant to a company's long-term performance. The framework draws on widely recognized, industry-based materiality standards and internal research judgment to focus fundamental analysis on ESG risks and opportunities that may influence business resilience over time.
- **Sustainability Dashboard:** Aggregates externally provided quantitative and qualitative ESG datasets into a consolidated view at both the company and strategy levels. These datasets include carbon analytics, product involvement indicators, controversies research (e.g., UN Global Compact Watchlist status) and relative ESG risk measures.
- **Sustainability Database:** Provides a user-friendly, searchable interface to access the ESG datasets included in the Sustainability Database to support efficient company-level sustainability analysis.
- **Strategy Sustainability Tracker:** Highlights holdings within each strategy with the highest relative ESG risks, carbon intensity and controversies (e.g., UN Global Compact Watchlist).

These tools are designed to support fundamental research, help determine engagement priorities and track changes in material sustainability risks and opportunities overtime.



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## Transparency and Reporting

We report on our sustainability initiatives and progress to clients that request such updates, either by completing their specific reports or conducting meetings with them. Our goal is to partner with our clients and provide them with information they deem relevant.

## Conflicts of Interest

Throughout our investment process we recognize that conflicts of interest may arise in connection with responsible investment matters. At Aristotle Capital, we acknowledge our responsibility as a fiduciary to our clients and always seek to act in their best interests. As such, we take all reasonable steps to identify actual or potential conflicts and seek to minimize the possibility of such conflicts which have the potential to result in material risks or damage to our clients' interests. Our firm's Compliance Manual and Code of Ethics have detailed guidelines in place to mitigate potential conflicts of interest. Any potential conflicts of interest must be disclosed to the Chief Compliance Officer.



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