

Sustainable Investing Policy



ARISTOTLE
CAPITAL MANAGEMENT



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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 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 stakeholders¹.

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 and can have an impact on returns and potential risks of the companies in which we invest.

Investment Process

Our investment process begins with our Investment Team identifying companies that meet our quality criteria, including sustainable competitive advantages and experienced, forward-thinking management teams who we believe to be responsible stewards of capital. Our focus on quality has led us to favor companies that are transparent in their reporting and disclosures. We believe these companies are also better positioned to anticipate and mitigate business risks over the long term. More specifically, we look for companies with:



- **Strong Management Teams** with a focus on long-term value creation for all stakeholders, instead of a focus on achieving short-term financial targets to increase the stock price
- **High-Quality Products & Services** differentiated through innovation, superior customer service 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

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



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Aristotle Capital's investment team seeks to identify companies that meet our quality criteria through fundamental, bottom-up analysis and the appreciation of independent thought. Investment decisions are the result of years (sometimes decades) of our team's work understanding the long-term sustainability of business models and the impact on future investment risks and returns. This work goes from initial due diligence through the life of the investment, and oftentimes, beyond our investment holding period.

We believe 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 we believe this holistic framework supports our main objective of successful execution of our investment philosophy and process with the goal of preserving and growing our clients' capital while seeking to mitigate risk.



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.

Approach to External Data, ESG Scores and Exclusions

Our team has access to data provided by third-party vendors, including research on product involvement, ESG-related risks, emissions-data, adherence to global norms and more. Access to third-party research, data and rankings may help us understand how companies are perceived from various lenses, and we can use such data to prioritize companies to engage with, as well as to prioritize topics to engage on. Nevertheless, screens and the use of scores generated by others are not part of our investment process. We believe deeply in the importance of independent thought and refuse to outsource our judgement in any aspect of our investment process. While we do not employ general exclusions, client-directed exclusion lists are assessed on a case-by-case basis.



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General Guidelines on Sustainability Factors

Our bottom-up security selection process begins with our team discerning companies that meet our quality criteria. Such quality criteria include environmental, social and governance (ESG) considerations as highlighted below:



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 company management. Relevant issues are also shared with the 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



Engagement

Meeting regularly with management teams has always been an important part of our research process. We engage with company management, which can include the CEO, Chairman, General Counsel and/or board members.

Aside from the regular meetings on strategic long-term goals, risks and financial performance, members of our Sustainability and Investment Teams engage directly with companies to discuss material sustainability topics. We follow the company's progress on setting and reaching goals (including portfolio-wide emissions tracking), aim to promote appropriate disclosure on material ESG issues and establish dialogue around notable controversies.

Our firm's Engagement Policy contains additional information on our engagement practices.

Proxy Voting

We seek to leverage our proxy voting rights in promoting issues that are relevant to the economic interest of our clients' capital and long-term sustainability of our investments.

While we have access to third-party proxy voting recommendations, all ballots are reviewed and voted by our Investment Team. Voting rationales for ESG-related proposals may be documented by our Sustainability Team on a case-by-case basis.

For clients who feel strongly about exercising their voting rights on particular issues, we encourage them to vote proxies directly or through a designated third party. We can provide assistance to put this voting authority in place.

Our firm's Proxy Voting Policy contains additional information on our proxy voting guidelines.

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*.





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Resources

Aristotle Capital's Investment Team and Sustainability Team use several customized tools to monitor and mitigate sustainability-related risks and to identify sustainability-related opportunities across our portfolios. These internal tools include the:

- **Sustainability Materiality Framework**, which was created to help identify material ESG risks and opportunities for companies being researched
- **ESG Database**, which houses all externally provided quantitative and qualitative ESG datasets—including overall ESG risk, relative ESG risk exposure, management of ESG issues, GHG emissions and UNGC Watchlist status—at the company and the strategy levels in one complete view
- **Sustainability Dashboard**, which provides user friendly access to third-party company data relative to the overall universe and sub-industry peers as well as a summary of the company's most material issues and status with the UNGC Watchlist
- **Strategy Sustainability Tracker**, which surfaces the top ten companies with the highest overall ESG risk, as well as the top ten carbon emitters and any companies on the UNGC Watchlist

Transparency and Reporting

We report on our sustainability initiatives and progress to clients that request such updates, either by completing their specific reports, or by 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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