

**Environmental, Social  
& Governance Policy**

**Aristotle Capital  
Boston, LLC**

June 30, 2023



## Environmental, Social & Governance Policy

### Investment Philosophy

At Aristotle Capital Boston (“Aristotle Boston”), our investment philosophy is grounded in the belief that long-term business fundamentals ultimately determine company equity values. However, in the short-term, equity prices may change excessively as investors react to headlines, quarterly earnings reports, industry news or macroeconomic events. As a result, we believe a patient, disciplined investment approach focused on understanding long-term business fundamentals increases our ability to look past market noise and gives us the best opportunity to own what we believe to be great businesses at discounted price levels while seeking to generate long-term alpha for our clients.

We apply a fundamental, bottom-up research approach—focused on companies that we believe can create shareholder value—to identify businesses we believe possess quality management teams, attractive industry dynamics, strong or improving financials, and attractive upside potential and limited downside risk. Additionally, we focus on identifying companies with low current market expectations that we believe have a probability of fundamental improvement. We favor companies that are transparent in their reporting and disclosures and that have shown a pattern of shareholder-friendly behavior due to the alignment of interests of both management and shareholders. In identifying these companies, we consider relevant environmental, social and governance (“ESG”) factors, as we believe they support our on-going analysis of the quality of a business and the investment opportunities and risks over the long term.



## ESG Integration

Our bottom-up approach to stock selection includes an analysis of a company's management team, industry dynamics, financial health and valuation. During this analysis, ESG factors are generally most relevant in our assessment of the quality of the management team as well as various industry considerations for each company. In this fashion, ESG is a valuable input—but not a driver—of our stock selection process.

While our investment decisions are a result of months to even years of thorough, independent investment analysis, we believe that an additional overlay incorporating ESG research can add to our understanding of company-specific risk. To help us gain insight into unique risks from an ESG perspective, we take into account corporate issuer ratings from multiple third party ESG research providers. While these ratings and scores do not drive our security selection process, they help us understand how companies perform on ESG-related controversies, and how they compare versus peers on select ESG factors. They also help us assess the consistency of companies' disclosure and transparency on issues that are increasingly important to the market.

Within ESG, we place a particular emphasis on corporate governance. We tend to favor companies with sound corporate governance practices with long-term business plans that we believe are sufficiently aligned with shareholders. With the continued and growing focus on investor stewardship and engagement, alongside the global convergence of standards and best practices, governance plays an increasingly prominent role in our investment analysis. From an industry/sector perspective, we use ESG research to help assess a company's upside or downside potential to secular ESG trends. Demographic changes and increased focus on areas like climate risk (as well as others) are creating secular tailwinds that present both opportunity and transition risk for certain industries. Awareness of these trends can help us better understand the durability of a company's business model, as well as potential future opportunities that have not yet been priced in markets.

## Risk Monitoring

Throughout our process, we often find that companies with poor ESG characteristics (for example, an egregious polluter in the Energy sector) may have an elevated risk profile compared to a company that has taken steps to ensure it is conducting business in a responsible manner. Our focus on what we believe to be higher quality companies with durable business models and lower risk profiles has historically resulted in a portfolio with stronger ESG characteristics relative to the benchmark.

We monitor our portfolio companies using various third-party research and tools that assess company performance against ESG-specific issues as well as global norms and standards that have been established through the United Nations Global Compact. Applying well-established standards laid out by global, multilateral entities helps ensure an objective framework through which to define and assess ESG performance. We leverage the expertise of our third-party ESG data providers to help us identify companies that are assessed to be involved in an alleged or verified violation of these norms and standards. Our focus is on violations that we believe can materially impact a company's quality, reputation, or valuation, or if they have the potential to serve as negative catalysts within our long-term investment horizon.

At a minimum, we perform such monitoring on a quarterly basis. Additionally, we may perform ad hoc monitoring if a company's ESG profile were to materially change—in which case could trigger a reassessment of the company to make sure the investment thesis still holds. If such a violation is identified among our existing positions, or potential positions, further analysis on the company is conducted. Our analysis may include ongoing engagement with a company until we deem such issues to be successfully addressed. Our company engagement activities provide insight into a company's overall ability, or willingness, to address, manage or mitigate ESG controversies.



## Exclusions and Client-Directed Restrictions

In helping our clients achieve their investment objectives, we will apply client directed restrictions into their investment portfolios. The objective of our approach is to strike a balance between meeting a client's bespoke needs and having an investable universe that seeks to maximize returns. Any removal of certain companies or industries from consideration for investment, as directed by our clients, are generally based on ESG specific criteria, reflecting a client's values and beliefs. While we do not have a standard ESG exclusion list or apply ESG screens across our investment selection process, we may from time to time exclude or purchase companies where our thesis (positive or negative) is influenced by ESG factors.

## Engagement

As long-term investors with an average holding period of more than seven years, our team's ability to understand long-term, company-specific fundamentals and the key drivers of each business' valuation is enhanced through a deep, bottom-up research effort, which typically includes 400 to 600 company meetings annually. These meetings are not only vital to the understanding of business dynamics and company management styles, but are also useful in providing the team with established benchmarks for success that can be referenced in the future. We believe the overall depth and quality of information gathered throughout our process leads to robust and meaningful analysis upon which we can better assess business fundamentals and valuation.

Aside from the engagement on strategy, risk, and financials, we also engage directly with companies on ESG issues that can be of material concern to the long-term sustainability of our investment. Relevant ESG topics and issues deemed appropriate for engagement are identified using third party resources to monitor ESG risks and potential violations of international norms at the company level.

## Voting

Aristotle Boston has adopted proxy voting policies and procedures to determine voting decisions. Ballots are cast for the exclusive benefit, and in the best economic interest of those clients and their beneficiaries, as determined in good faith, subject to any restrictions or directions from a client. Such voting responsibilities will be exercised in a manner that is consistent with the general antifraud provisions of the Advisers Act, as well as with the firm's fiduciary duties under federal and state laws to act in the best interests of its clients.

While we do take into consideration the voting recommendations provided by our third-party provider, we also make decisions based on our bottom-up fundamental research process in order to vote in the best economic interest of our clients. For proposals concerning environmental and social issues, often brought forward by shareholders, we examine the issue more closely and consider the benefits of supporting such issue, disclosure for example, in promoting good governance practices but at the same time not compromising the best interests of our clients. Examples of such proposals include corporate reporting on sustainability, board diversity, and calling for board independence. ESG proposals are tracked and documented accordingly with the assistance of our proxy voting administrator. In addition, for clients who feel strongly about exercising their voting rights to promote ESG (or other) 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.



## Conclusion

We believe understanding a company's ESG performance is important in identifying investment financial and reputational risks and opportunities. Our process is generally focused on companies that spend ample time and resources to ensure their products are safe and that business is being conducted in a responsible manner, taking into account the impact they have on their employees, customers, shareholders, the environment and the community. We apply a number of factors into our integration of ESG in the investment process, including the ongoing monitoring of risk associated from these elements. Combined with our ESG engagement activities, and where deemed to be applicable, our proxy voting decisions, we believe we are well positioned in identifying both risk and value-add to our clients' investment portfolios. To the best extent possible, we also incorporate client-driven ESG interests into the investment process, where applicable. Through this approach, our integration of ESG is complete across the investment chain: from the selection of investments, to the monitoring and stewardship of the assets we hold on behalf of our clients.

*Signatory of:*



PRI Signatory since  
August 2019



Supporter



# APPENDIX



## Responsible Investment Governance Structure

Portfolio managers maintain ultimate responsibility for the development and implementation of responsible investing processes and procedures at Aristotle Boston. At the investment level, ESG analysis is integrated (or embedded) into the investment process, meaning the responsibility for integrating ESG factors into investment process lies with our analysts and portfolio managers. In order to support our investment professionals' capacity to incorporate ESG factors, the team's client portfolio manager and portfolio specialist along with supporting staff from our shared services group at affiliate<sup>1</sup> Aristotle Capital Management also monitor and track ongoing risks, opportunities and trends related to responsible investing matters.

## Defining Responsible Investment

We believe it is important to identify what we mean by "responsible investment" and how we approach it, as the umbrella term (ESG) has given rise to a variety of interpretations throughout the investment industry. As a signatory of the United Nations-supported Principles for Responsible Investment (PRI) since 2019, we subscribe to their definition of responsible investment as the strategy and practice to incorporate environmental, social and governance (ESG) factors into our investment and active ownership activities. By considering ESG factors alongside more traditional financial metrics and fundamental analysis, we believe we are better positioned to identify both risk and value-add to our clients' investment portfolios and subsequently better positioned to help them reach their long-term financial goals. While we believe analysis and awareness of ESG factors allow our investment team to make better informed decisions regarding a company's risk-reward opportunity, the materiality of ESG factors can vary company to company. Therefore, the importance of ESG factors may vary by investment case. 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.

## How Does Aristotle Boston Approach Stewardship?

We view our ESG and stewardship initiatives as a long journey that will continue to evolve over time. Through conversations with our clients, we realized the need to formalize our approach to stewardship and created our Stewardship Policy. Our stewardship activities include but are not limited to: (i) incorporating ESG investing risks and opportunities into our investment philosophy and process (ii) engaging, as appropriate, with the companies we are invested in (iii) 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 and (iv) working with like-minded peers to further our organization's understanding of stewardship by increasing our involvement in organizations with fellow asset managers, asset owners and other industry experts to stay current with the latest standards and best practices as our approach to stewardship evolves over time.

## External Reporting

We have the ability to provide ESG reporting to clients that request such updates, either by completing specific reports, providing ESG-related data from our third-party vendors, or by conducting meetings with them. Our goal is to be a partner to our clients and work with them to provide them with information they deem most relevant.

## Conflicts of Interest

Throughout our investment process we recognize that conflicts of interest may arise in connection with responsible investment matters. At Aristotle Boston, 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.

<sup>1</sup> Aristotle Boston and Aristotle Capital are independent investment advisers registered under the Investment Advisers Act of 1940, as amended.

## Disclosures

This policy is published by the investment management team at Aristotle Capital Boston, LLC (Aristotle Boston). The opinions expressed herein are those of Aristotle Boston and are subject to change without notice. This material is not financial advice or an offer to purchase or sell any product. Aristotle Boston reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs.

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