As long-term active investors, we engage...

- We believe active managers running concentrated portfolios are best positioned to identify potentially material ESG risks as well as opportunities and to engage directly with companies as they arise.

- Investors with longer holding periods are better equipped to analyse long-term ESG factors than short-term market participants.

- Below are some real-life examples of our ESG engagement and ESG-influenced portfolio activity from the first half of 2018.

ESG is fully integrated into all our team’s strategies

- Our investment process focuses on the sustainability and direction of future returns on operating capital because we believe that companies with sustained high long-term returns should outperform.

- Material ESG risks and opportunities are more important than ever to companies’ future returns. ESG is an integral part of our assessment of long-term sustainability of returns.

- We have engaged directly with companies on issues of sustainability and governance for over 20 years, rather than outsourcing the process.

**Our Engagement Record**

1,397 Resolutions voted on across all of our strategies

174 Management engagements on ESG issues

103 The number of times that we voted against management, including 12 times on executive compensation

65 The number of times we disagreed with ISS proposals

1. The International Equity Team defines an engagement as an interaction with senior management or non-executive board members.
2. Data shown is for the 12 month period to 30 June 2018
3. Any remuneration-related proposals.

Picture reproduced with the kind permission of Keep Calm Studio
An easier life for management? No, thank you.

In the first half of 2018 we engaged several times with one of our holdings, a large consumer staples multinational. We became concerned about its plans to lower the incentive bar for the management team, by simultaneously increasing potential compensation and effectively lowering some of the operating targets. We met the CFO and the head of the remuneration committee several times to express our strong views against these moves and ultimately voted against the new remuneration policy. We believe our stance as a large shareholder contributed to the company’s decision to make subsequent amendments to it. We have also been discussing proposed changes to their corporate structure with the CEO, CFO and Chairman to determine whether it may potentially lead to dilution of shareholder rights.

How many one-offs make a trend?

Another of our consumer staples holdings has recently gone through a series of operational issues involving product safety and data security. This impacted its sales and raised concerns for us about management controls. They also considered making a large acquisition, which in our view would have been expensive and saddled the company with excessive debt. We met the CEO and a number of board members several times to make our views known. We believe our engagement influenced the company’s eventual decision to pull out of the bidding. They have also made improvements to their organisational structure, elevating product safety management to board level and committing to incremental investments to protect the business from similar operational problems in the future.

When management gets strategic

We recently sold one of our holdings, a specialist ingredients manufacturer, on concerns about management’s capital allocation. They had made a large acquisition that will significantly dilute their returns on capital, distract management and threaten the balance sheet. While we like the quality of the underlying business, this event again highlights the governance risk faced by shareholders of cash-generative, high-quality companies — management becoming bad stewards of capital.

Staying away

We considered a large leisure company as a candidate for one of our portfolios. While the company has a number of strengths, is a leader in its industry and its valuation is potentially attractive, we decided not to invest, in part because we were concerned about its poor environmental and safety track record. This, in our view, represents a risk to their brand perception and could potentially have negative cost implications if the company is forced by regulators or the public to improve their practices.

Elsewhere, we had been following a large internet company for some time. Over time, we became concerned about data privacy and abuse as an industry-wide issue. This could lead to increased regulatory scrutiny and may negatively impact relevant company business models. In this particular case, the red flag that stopped us from investing was a relative lack of effort to address the problem, compared to peers. We found management’s attitude worrying given monetising their users’ data is at the heart of their business model.

On the right track

Engagement is not always triggered by emerging concerns. We regularly engage with companies to monitor improvement in their behaviour and to check things are on the right track. An example is a large beverage company we bought in several of our strategies some time ago. One of the catalysts was the arrival of a new CEO. We were encouraged by his focus on improving remuneration incentives and the innovation culture, especially in a company that in our view had been badly run for decades owing to flawed key performance indicators (KPI’s) for management. Such radical change normally takes time to bear fruit in large companies. We met him again in the first half of the year to take stock of progress, discuss the practicalities of embedding the new incentives into the business, reaction to changes, as well as any further improvement actions being planned. We think the medicine is starting to work, evidenced by the company’s operating performance improving relative to its peers.
Proxy Voting Overview (12 months to June 2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Meetings Voted</td>
<td>87</td>
</tr>
<tr>
<td>Total Proposals Voted</td>
<td>1,397</td>
</tr>
<tr>
<td>Votes Against Management</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Source: ISS Proxy Exchange; MSIM

Remuneration

MSIM reviews all remuneration proposals and votes on a case-by-case basis. Our team voted on 59 say-on-pay management proposals during the 12 months to 30 June 2018:

- 85% of the votes were cast in favor of the proposal
- 15% of the votes were cast against the proposal
- Reasons the team voted against say-on-pay proposals include: excessive compensation relative to company performance and poor pay practices

The following chart illustrates the percentage of votes for and against management-sponsored say-on-pay proposals the team voted on during the period from 2014 – 2018.

Votes on Management Say-on-Pay Proposals Voted 2014 – 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Vote For (%)</th>
<th>Vote Against (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>89%</td>
<td>11%</td>
</tr>
<tr>
<td>2015</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>2016</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>2017</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>12 months to 30 June 2018</td>
<td>85%</td>
<td></td>
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</table>

Source: ISS Proxy Exchange; MSIM

Proxy Voting Policy

MSIM votes proxies in a prudent and diligent manner and in the best interest of our clients, including beneficiaries of, and participants in a client’s benefit plan(s) for which the subadvisor manages assets, consistent with the objective of maximizing long-term investment returns. MSIM has retained research providers to analyze proxy issues and to make vote recommendations on those issues. While we are aware of the recommendations of one or more research providers, we are in no way obligated to follow such recommendations. The investment teams vote all proxies based on MSIM’s proxy voting policies in the best interests of each client.

RISK CONSIDERATIONS

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market value of securities owned by the portfolio will decline. Accordingly, you can lose money investing in this strategy. Please be aware that this strategy may be subject to certain additional risks. Changes in the worldwide economy, consumer spending, competition, demographics and consumer preferences, government regulation and economic conditions may adversely affect global franchise companies and may negatively impact the strategy to a greater extent than if the strategy’s assets were invested in a wider variety of companies. In general, equity securities’ values also fluctuate in response to activities specific to a company.

Investments in foreign markets entail special risks such as currency, political, economic, and market risks. Stocks of small-capitalization companies carry special risks, such as limited product lines, markets and financial resources, and greater market volatility than securities of larger, more established companies. The risks of investing in emerging market countries are greater than risks associated with investments in foreign developed markets. Non-diversified portfolios often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility.

4. Includes only advisory votes to ratify/approve executive officers’ compensation and remuneration reports.
**Any questions or comments? Please contact:**

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<tr>
<th>EMEA</th>
<th>North America</th>
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The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the international equity market performance of developed markets, excluding the U.S. and Canada. The term “free float” represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The MSCI EAFE Index currently consists of 21 developed market country indices. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends.