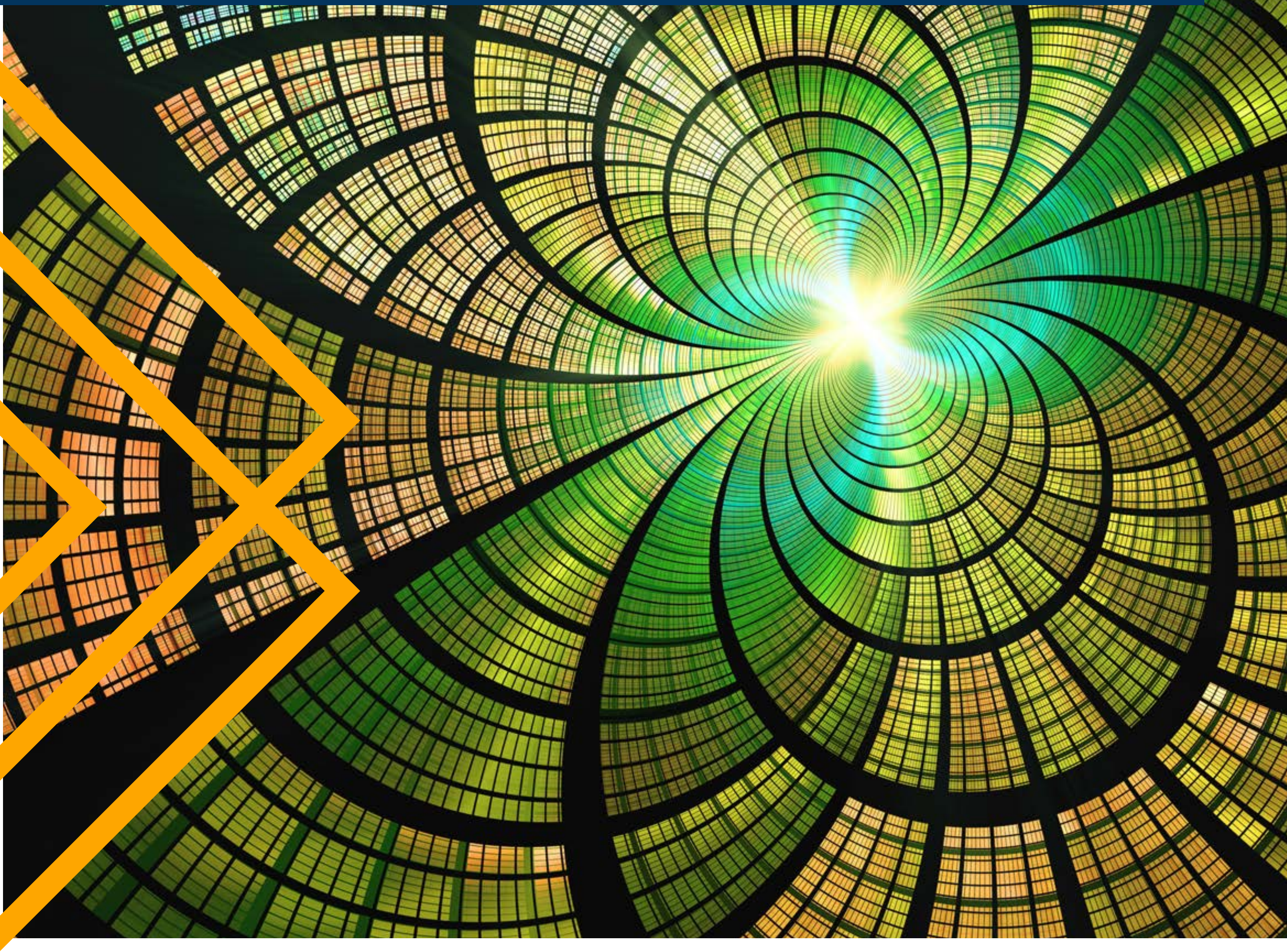
WELLINGTON MANAGEMENT®



Wellington Global Stewards Fund five-year report

FIVE YEARS OF STEWARDSHIP INVESTING

Contents

Foreword

Five years ago, our team launched the Wellington Global Stewards Fund, which has since earned the confidence of a wide range of clients across regions. Thank you for the privilege of managing assets on your behalf. It is a responsibility we take seriously.

Our objective in this Fund is to outperform global equity markets by identifying superior businesses with high financial returns and the stewardship to sustain them. We focus on return on capital as a measure of success, looking for a sustained track record of value-added returns over time and through a variety of market cycles. We believe these returns are further enhanced by management teams and boards that think and act like long-term owners. These leaders aspire to leave the business in better shape for future generations, which we refer to as stewardship. We evaluate a company's stewardship through the lens of five key attributes: strong management teams, engaged boards of directors, disciplined capital allocation, a long-term approach to running the business and a stakeholder mindset.

Collectively, we have found that when businesses prioritise and exhibit strength in these critical attributes, they can build further resilience and adaptability. This can reduce the volatility of their returns, which can then help to lower their cost of capital. We look for companies in profitable businesses that manage their financial, natural and human capital responsibly and strategically. We believe these companies are well positioned to protect and enhance their incremental returns on capital and, in turn, deliver attractive long-term compound investment returns to you as investors.

The long-term nature of our approach raises the importance of continuous engagement with our portfolio companies to hold them to account. This includes gauging how they proactively adapt and respond to changes in their marketplace and the broader economy. Through engagement, we have sought to understand how companies are facing a wide range of longer-term challenges including evergreen issues like culture, talent attraction and innovation. In recent years, we have undertaken important engagements with both short- and long-term impacts on financial returns in areas such as:

- **The evolving nature of supply chains** in an ever more fractured and deglobalised world;
- **Environmental stewardship**, from engaging with resource-intensive companies with sizeable direct carbon footprints to assessing the broader impact of climate change and the energy transition on our holdings;
- **Talent and culture**, as we recognise the intangible benefits that accrue from attracting and retaining high-performing employees and enabling them to thrive in an engaging work environment; and
- **Leadership transitions** With more than 50% of our investee companies changing chief executive officers (CEOs) in the past five years, we have spent significant time engaging with incoming and outgoing CEOs to ensure that businesses impacted by leadership transitions remained set up for success.

By way of illustration, we share some of these engagements below. As fiduciaries, we seek to hold a high bar in the pursuit of superior long-term returns and responsible outcomes that balance the needs of all stakeholders. As we look out over 2024, our engagement agenda will emphasise topics such as the continued stewardship of supply chains in the face of strained geopolitics, the growing importance of data privacy and security in an AI-led world and the ongoing progress against net-zero ambitions as the energy transition marches forward.

We thank you for your support over the last five years and look forward to the next five! We remain steadfast in our fiduciary duty to invest your assets responsibly in the pursuit of rewarding long-term returns.

YOLANDA COURTINES

Portfolio Manager

MARK MANDEL

Portfolio Manager

SAM COX

Portfolio Manager

Engagement highlights

We believe engagement with investee companies — supporting long-term positive behaviour and holding accountable those in charge — is part of our fiduciary duty to protect and enhance the capital we invest on behalf of our clients. Regular conversations with management teams and board directors also offer a meaningful opportunity to improve our knowledge of companies and exert our influence on their long-term success by enabling a genuine two-way dialogue. Our exchanges help us assess companies for their corporate culture, adaptability, responsiveness and alignment of incentives with sustainable long-term targets.

Any companies listed within "Engagement highlights" are included in the context of engagement only. Commentary provided is for illustrative purposes only and should not be viewed as a current or past recommendation and is not intended to constitute investment advice or an offer or solicitation to buy or sell securities.

SPOTLIGHT ON SUPPLY CHAINS AND RESPONSIBLE SOURCING

Today, global supply chains are incredibly long, complex and opaque. And, with no standards for disclosure, they constitute a blind spot for the market. We are struck by how few companies really know and take accountability for their entire supply chain. However, disruptions over recent years demonstrate how extracting maximum efficiencies from sourcing and inventory management has created unintended vulnerabilities. Building more sustainable supply chains involves companies having dependable logistics, ample availability of stock and a reliable stream of production inputs. Poor supply chain oversight can result in higher resource scarcity — consider, for instance, how deforestation can introduce price volatility and supply disruption to raw materials and result in reputational damage for the company. Without knowing their supply chains, companies also expose themselves to a higher risk of human rights violations, including modern slavery. Meanwhile, greater supply chain awareness empowers companies to help reduce the large proportion of their total emissions found in the supply chain, known as Scope 3 emissions.

Through our stewardship lens, we look for evidence that portfolio companies are proactively addressing these risks and are making progress in building more resilient and sustainable supply chains. We highlight several of these recent engagements below:

- We engaged with tyre manufacturer **Michelin** on how it managed the key sourcing risks associated with natural rubber. Our conversation provided us with the reassurance that the company goes to great lengths to mitigate the risks associated with rubber farming, including Michelin and its joint venture partners training over 90,000 farmers in 2023[1] to actively seek to reduce deforestation and control the impact of rubber cultivation on biodiversity and ecosystems. Michelin traces its highly complex rubber value chain using Rubberway, a mobile application that aggregates stakeholder information about its practices. That visibility is key to Michelin's ability to manage its inputs and seek enhanced resilience.
- We also approached **Inditex**, owner of fast-fashion retailer Zara, to discuss bulk cotton sourcing that might include cotton from the Xinjiang region in China, where concerns of modern slavery have been raised. We came away comfortable that Inditex has the oversight, engagement and remediation in place to responsibly manage this risk. Inditex demonstrated that it has implemented a zero-tolerance policy for modern slavery in its supply chain and that it has strong visibility across the chain, down to the raw material level. The retailer continues to strengthen traceability and monitoring of its supply chain and pursues best-in-class wage efforts, working with organisations such as the international union confederation IndustriALL to support improvements in living wages. It also undertakes regular audits to verify workers' pay. We have encouraged Inditex to provide more supply chain transparency and accountability to the market.

SPOTLIGHT ON ENVIRONMENTAL PRACTICES

In our view, the investment risks associated with accelerating climate change will increasingly be harder to ignore and we believe companies must adapt to a greener economy to protect shareholder value. Specifically, by 2050 we would like all portfolio companies to achieve net zero, thus reaching a state where they add no incremental greenhouse gases to the atmosphere. As strong corporate stewards, many of our holdings have already established a clear and transparent plan to prepare for the energy transition, reduce emissions and address physical climate risk, but there is plenty more to do. While our early work on climate change focused almost exclusively on resource-heavy companies with sizeable carbon footprints in their direct control, we have come to appreciate that the climate challenge is broader and that businesses will be held responsible for carbon costs outside of their direct control, and natural resource intensity more broadly.

[1] Source: natural-rubber.michelin.com

We believe stewardship is central to helping companies adapt to a lower-carbon world. Boards and management need to drive the adoption of more environmentally sustainable practices at every level of their companies' activities. This includes tackling direct energy consumption and production practices as well as indirect emissions from upstream and downstream activities, ranging from the carbon costs of goods they purchase to the transport, energy and waste costs from the use of products sold. We also expect strong stewards to anticipate changing regulation, adapt and take advantage of evolving incentives, encourage energy-efficient innovation and engage with changing customer preferences. Companies will need to influence supplier practices, co-invest in change and encourage more carbon-smart customer choices.

- Technology leader **Microsoft**, as one example, incorporates carbon pricing in its assessment of suppliers and uses an internal carbon tax to measure business-line profitability and inform investment decisions. We believe the company to be a leader in supply chain and energy-transition management. We engaged with Microsoft to learn more about the deep dives it undertook to ensure that its environmental and sustainability strategies incorporated the latest science and stakeholder feedback. These efforts included outreach to customers, partners and suppliers. While acknowledging the challenge of addressing Scope 3 emissions, the company leans into measurement and cost allocation to incentivise change.
- We have had numerous engagements with consumer products company **Colgate Palmolive's** chief sustainability officer. Colgate sets a high standard for sustainability. The company formalised science-based targets in mid-2020 and commits to reducing Scope 1 and 2 emissions by 50% by 2030 (from a 2018 base) and to actively address Scope 3. Colgate is targeting supply chain emissions. It plans to reduce by more than 30% the greenhouse gas emissions its suppliers caused between 2018 to 2025, building lower emissions requirements into supplier negotiations and evolving auditing and monitoring practices. Colgate encourages suppliers to measure, externally validate and disclose emissions. The company is also engaged in industry-wide efforts to better map sustainable palm-oil efforts, working closely to share data with other consumer goods leaders. Efforts are equally robust on shifting consumer preferences. Colgate leads with product and packaging innovation, including collaborating across the industry to launch recyclable toothpaste tubes and introduce longer-life toothbrush handles and replacement toothbrush heads.

SPOTLIGHT ON TALENT AND CULTURE

The vast majority of today's stock market value can be explained by intangible assets, including intellectual property rights, brands and patents, proprietary technologies and processes, and, importantly, people. We find more and more companies are differentiated by the quality of their workforces: those employers with an ability to attract, develop and retain talent are highly advantaged. The benefits may evidence themselves in a wide range of areas including, increased innovation, a lower cost to train/retrain employees or a closer connection to customers. These points of differentiation are persistent across all sectors, from financials to consumers, and from technology to industrials and health care.

The best companies do more than recruit and keep talented employees. They create an environment in which talent can thrive. As a starting point, these companies pay competitive wages. They offer generous benefits programmes that have evolved to recognise changing worker needs in areas like maternity and paternity leave, flexible work and elder care. Leading employers invest heavily in their workforces through advanced training and continuous education. And they constantly survey their workforces to measure engagement and areas for improvement. We find corporate structure matters too; talent tends to thrive in decentralised cultures built around trust and autonomy.

- The American home improvement retailer **Home Depot**, in our view, exemplifies the value of investing in employees. The company employs more than 400,000 workers and recognises that the shopping experience is greatly enhanced by employees in customer-facing roles. The company made dramatic investments in its workforce in 2020 when stores remained open as essential businesses, putting employees on the "front lines" of the pandemic. That year, Home Depot reinvested close to 10% of its total annual sales growth into wages and benefits, reflecting the valuable contribution made by in-store personnel.[2] Home Depot made a similar sized investment a few years later, this time focused on recruitment, new employee training and retention, and flexible and dependable scheduling. By catering to the evolving needs of in-demand labour, we believe these investments differentiated Home Depot, giving the company an advantage over competitors that only narrowly focused on wages.
- We divested of coffeehouse chain **Starbucks** due to our concerns about labour. The barista job has become more difficult and complex in the last few years, while behind-counter technology has not kept up. Volumes have soared as customers now order increasingly customised hot and cold drinks directly, both in person and via the drive-throughs as well as through apps and third-party platforms. Baristas have been overwhelmed and increasingly unhappy. Employee turnover has skyrocketed, increasing recruiting and training costs and diminishing the customer experience. Deteriorating working conditions have also prompted unionised labour efforts in hundreds of locations. Starbucks is still struggling to adapt the business model for higher volumes and increased complexity. We fear stakeholder disappointment will eventually

[2] Source: Home Depot Annual Report 2020

translate into lower financial returns and, consequently, lower stock returns.

SPOTLIGHT ON LEADERSHIP TRANSITIONS

Leadership transitions seldom raise immediate concern, but they introduce a risk that companies may backtrack on the commitment to the stewardship criteria we value: strong management, engaged boards, a long-term approach to running the business, skilled allocation of resources and a consideration of all stakeholders in the pursuit of profit. Our engagement agenda with each company includes consideration of leadership transitions, how talent is nurtured and prepared for management roles and whether robust succession plans are in place. With shorter tenures for CEOs increasingly the norm, we believe it is more important than ever that companies actively prepare for successful leadership transitions. This includes building a bench of talented leadership (rather than relying on one person), having robust succession planning and ensuring that the board can provide the necessary continuity. We actively discuss succession planning in our board engagements.

Even the best-planned successions involve change and often that change is gradual. We look to measure positive and negative shifts in culture and long-termism and review managements' commitment to capital discipline. We assess transitions both immediately and over time. We welcome new CEOs who are sourced internally, highlighting the depth of talent at the executive management level. These transitions involve less disruption and should be measured over time. External hires and transitions at a time of cyclical or structural challenge can present more immediate risk. Our engagements provide an opportunity to assess continued strong stewardship. Some examples of engagement around leadership transitions include:

- Early conviction in change at agricultural machinery manufacturer **Deere**, where we saw a career insider take over the helm as CEO in 2020. His deep understanding of the business empowered him to launch into an immediate restructuring and reorganisation of Deere that rebuilt margins, leaned into technology to strengthen the company's "moat" and improved customer outcomes in the midst of a COVID overhang.
- Building confidence in the new CEO of Japanese bank **MUFG**. The board placed its digital chief at the helm of the group in 2020 to ensure continued strategic focus on the technological transformation of the bank. With his appointment, we saw further improvements in capital allocation discipline at the group and a commitment to improve the culture of the bank. We supported this evolution, having written a letter to the board early in the incoming CEO's tenure asking for executive compensation to be aligned with more challenging return on equity (ROE) hurdles.
- Our engagement with an independent director of the board of human resources and payroll services provider **ADP** provided evidence of a thoughtful successon plan and sufficient independence and challenge in the boardroom while the outgoing CEO remained on as chair. This transition period lasted for a year as the incoming CEO settled into her new leadership role before a new independent chair was appointed.
- While we divested of our position in **Starbucks** as a result of concerns over labour, it was our engagement on its leadership transition that led us to lose confidence that this stakeholder issue could be resolved. The new CEO of Starbucks, who was brought in to address challenges at the franchise, had no prior retail experience. His mandate was to drive more automation and more global expansion across the business. Our engagement with the board did not present a sufficiently robust case for why the new appointment was the right one for the long-term success of the business and we lost confidence in leadership.

Case studies

Below, we highlight some of our portfolio companies and how what we consider to be superior stewardship sets them apart within their sectors.

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Deere

FIRST BOUGHT

Since Fund inception, January 2019

WHAT IS IT?

A US-based manufacturer and distributor of equipment used in agriculture, construction, forestry and turf care.[3]

WHY DO WE OWN IT?

We view Deere as a high-quality company, with a strong competitive moat driven by an extensive dealer network, best-in-class innovation and a strong brand. Deere has a history of generating high and stable ROE, and we believe its investments in improving its agricultural technology differentiation have the potential to help maintain high returns into the future. We have a positive view of Deere's capital allocation, which has prioritised maintaining an A rated balance sheet, supporting a healthy dividend and share buyback programme and reinvesting in the business to drive both organic and inorganic growth through strategic bolt-on mergers and acquisitions (M&As).

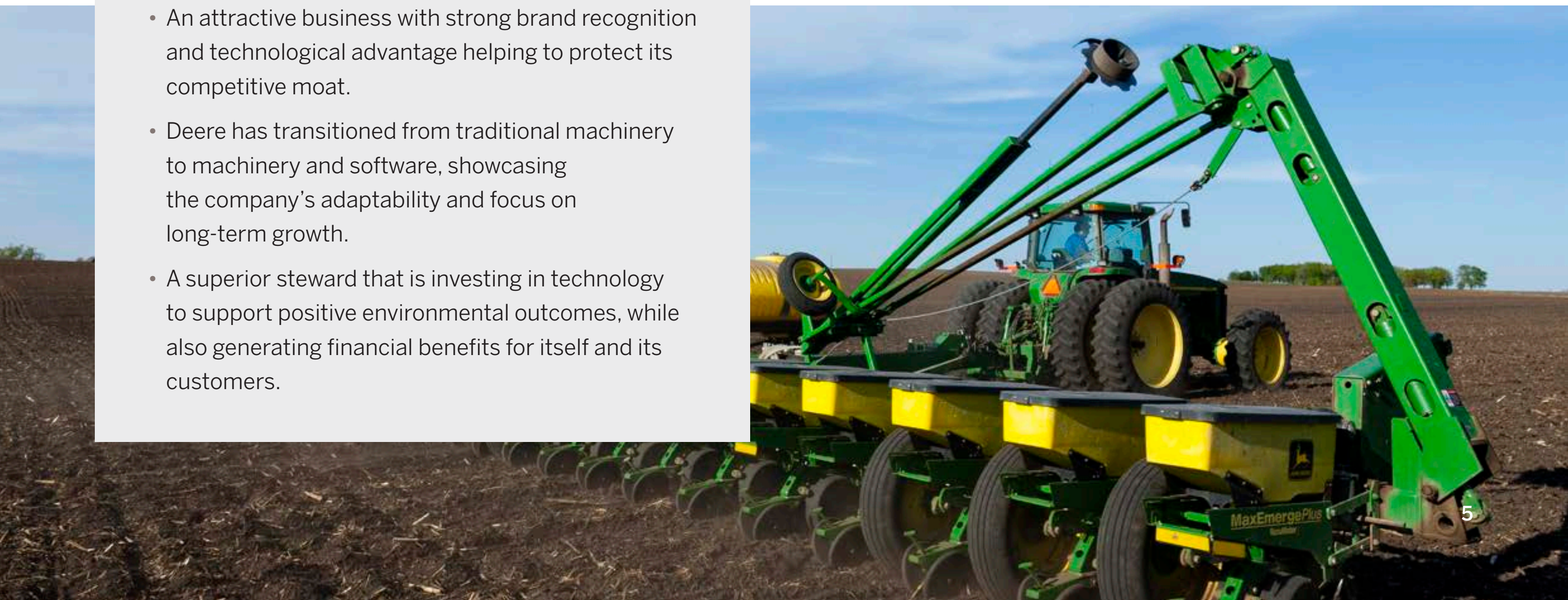
HOW STEWARDSHIP IS A COMPETITIVE ADVANTAGE

In our view, Deere has a strong management team. John May has been part of Deere's senior management team since 2012, its CEO since November 2019 and chair since May 2020. Under his leadership, Deere has reorganised and decentralised operations to become solutions-orientated rather than product-orientated, with a greater focus on what is important to its customers. Deere has reinvested capital wisely into innovation that reduces the environmental impact of its machinery while also benefiting the end client. The company has developed less fuel-intensive machines, more targeted and accurate spraying technology and increased the use of software and AI to improve agricultural yield and reduce pesticide and fertiliser usage. In addition, Deere's "Leap Ambitions" goals — focused on achieving clearly defined financial and sustainable milestones in 2026 and 2030 — illustrate its long-term mindset.

KEY POINTS THAT INFORM OUR INVESTMENT THESIS

- An attractive business with strong brand recognition and technological advantage helping to protect its competitive moat.
- Deere has transitioned from traditional machinery to machinery and software, showcasing the company's adaptability and focus on long-term growth.
- A superior steward that is investing in technology to support positive environmental outcomes, while also generating financial benefits for itself and its customers.

[3] Sources: All figures mentioned in this case study have been taken from "Deere & Company at a glance", 2023.



Case studies (cont'd)

ASML

FIRST BOUGHT

October 2022

WHAT IS IT?

A leader in photolithography for semiconductor manufacturers.

WHY DO WE OWN IT?

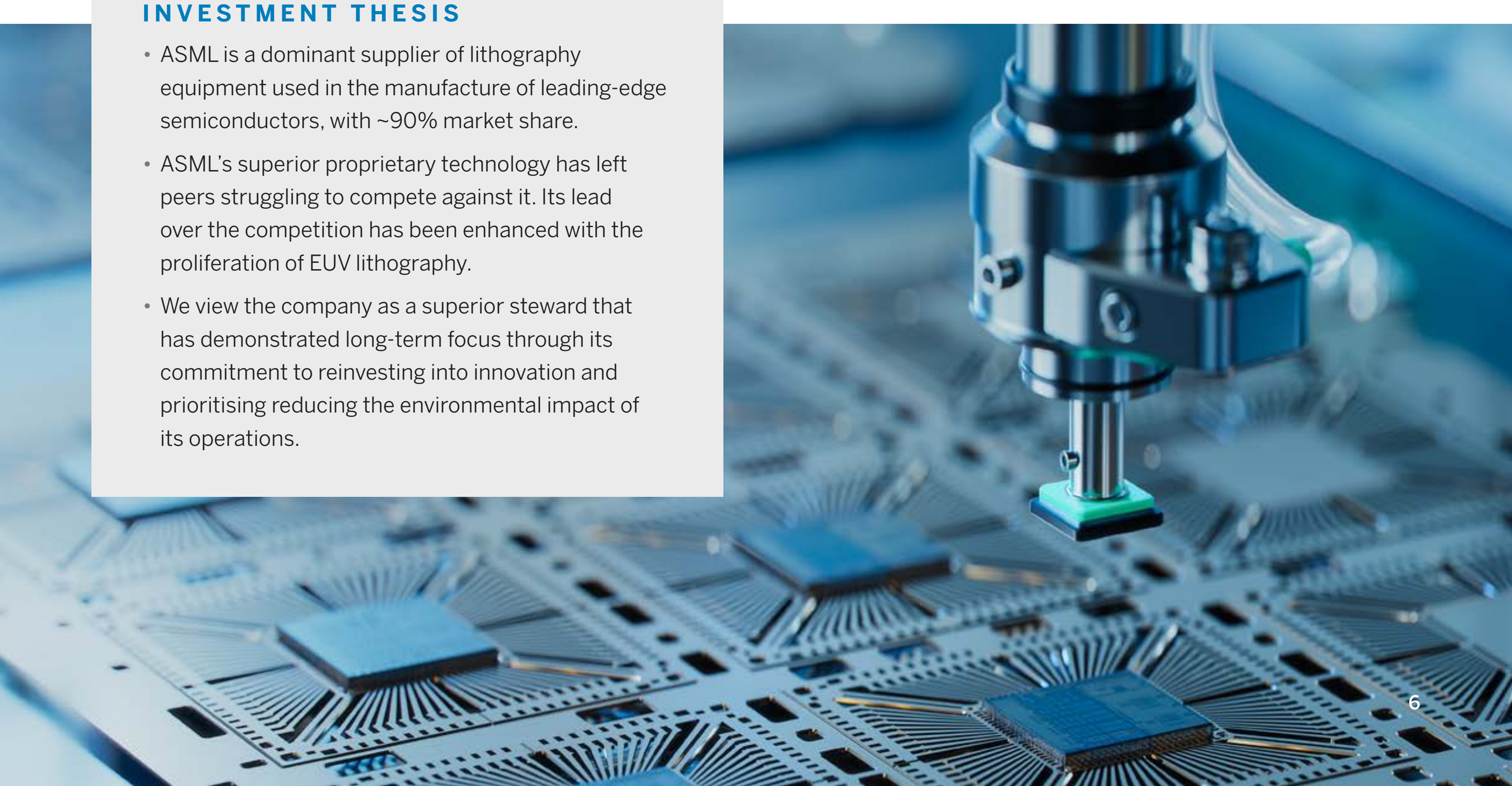
We view ASML's competitive position as very well protected due to its proprietary technology. ASML has a strong history of delivering high ROE over the last decade, despite significant reinvestment of sales revenue into innovation. We think the company should materially benefit from the proliferation of extreme ultraviolet (EUV) lithography. This development allows for efficiency gains. Specifically, fabricators producing chips with transistor gates below 10 nanometres continually increase the number of transistors on the same area of silicon.

HOW STEWARDSHIP IS A COMPETITIVE ADVANTAGE

We admire the seriousness with which ASML takes its responsibility to a broader society. The company is committed to net-zero emissions by 2040. It has linked goals to reduce waste and increase recyclability. And it is focused on improving diversity throughout the enterprise, notable in an industry that lacks broad representation. We view the management team as detail-orientated, long-term, strategic thinkers who have kept ASML on the leading edge of lithography equipment, resulting in the company's dominant market position.

KEY POINTS THAT INFORM OUR INVESTMENT THESIS

- ASML is a dominant supplier of lithography equipment used in the manufacture of leading-edge semiconductors, with ~90% market share.
- ASML's superior proprietary technology has left peers struggling to compete against it. Its lead over the competition has been enhanced with the proliferation of EUV lithography.
- We view the company as a superior steward that has demonstrated long-term focus through its commitment to reinvesting into innovation and prioritising reducing the environmental impact of its operations.



Key developments in the Fund

Over the past five years, we have seen recurring themes challenge our investment universe. In response, we have built frameworks to help bring clarity and nuance to our decision making and enable us to apply a consistent and methodical lens to qualitative assessments. Our frameworks are based on principles rather than rules, to enable both rigour in our process and flexibility in our decision making. A key objective of our frameworks is to mitigate behavioural biases and, in doing so, improve the quality of our decision making. Below, we illustrate how these frameworks are used in practice with two important themes.

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Capital allocation

We are attracted to companies with high returns, "fortress" balance sheets and abundant cash generation. How this cash is both reinvested and distributed is essential for maintaining and expanding those returns. Good capital allocation inherently incorporates the needs of all stakeholders and prioritises long-term value creation. As a globally diversified and core fund, there is no one size fits all when it comes to how companies across different sectors allocate capital.

We are agnostic about the specific method of capital deployment — internal capital expenditure, M&A, buybacks or dividends. We observe that thoughtful managers and boards demonstrate flexibility in assessing the appropriateness of each method through a cycle. For this reason, we have sought to frame capital allocation discipline in a consistent and repeatable way without being prescriptive. Our goal is to understand a company's capital allocation philosophy and strategy, building conviction through the review of key decisions over time and the extent to which these decisions align with the company's stated strategy. Finally, we look for evidence that in totality, capital allocation decisions have had a favourable impact on long-term returns by making various adjustments to account for financial leverage, intangibles, accumulated depreciation and R&D as well as the aggregate change in invested capital.

THE STEPS WE TAKE INCLUDE:

- Evaluating a company's capital allocation plans for **transparency and consistency**. This includes understanding ownership of capital allocation decisions, transparency on commitments and consistency between messages from the board and management teams, including clear rationales for changes in strategy.
- Ensuring that a company's capital allocation plans are **fit for purpose**. We ask if capital plans match growth prospects, are dynamic and whether they ramp proactively to meet stakeholder needs. We assess whether a dividend is set from a level where it can be maintained and grown. We look for share repurchases to minimise dilution and not stress the balance sheet. We assess decisions relative to peers, especially for investment in research and development, and marketing, and look for strategic and financial discipline around M&As.
- Assessing **evidence of skill**. We believe capital allocation discipline should help **protect and enhance returns on capital**. We guard against rising leverage to support returns and lean into long-term decision making around talent and innovation. We listen for scrutiny around internal investment decisions and guard against poor incentive structures. Questions we might ask ourselves include:
  - Is there evidence the company is earning an adequate return on internally invested capital?
  - Do we know enough to conclude the company is skilled at M&As?
  - Are there examples of opportunistic/countercyclical/early capital allocation decisions that created meaningful value?
  - Has the company been willing to reverse course and divest when appropriate?
  - Has the company been willing to make difficult capital allocation decisions to protect the business (e.g., cut dividends, reinvest in wages, slow hiring/lay people off, make necessary maintenance capex, raise equity)?
  - Has the company been a good steward of share count?

Examples of where our capital allocation framework has informed our investment decisions include:

- We have a preference for businesses that maintain capital flexibility throughout an investment cycle. We lost this confidence with medical supply company **Baxter** after its 2021 acquisition of competitor Hillrom. The transaction's industrial logic was sound, with both businesses serving a common set of hospital customers and the opportunity to build out a network of digitally connected capital and consumable products. The forecast returns on capital were favourable and in line with management's historic discipline around deployment. Yet, the impact on Baxter's balance sheet was significant according to our research, notably, bringing total financial leverage above 4x and causing a downgrade of its debt to BBB- by the rating agencies. Notable supply chain disruption in 2022 put pressure on the operating business and slowed the pace of free cash-flow growth and deleveraging. It was at that point that we felt the company was going to be forced to make trade-offs on organic product and employee investment that could compromise the long-term returns of the business. We chose to exit the business at that time.

- In contrast, **Texas Instruments** has struck an appropriate balance between investment and capital flexibility. The business is undergoing a substantial investment cycle currently, with the company planning a total of US$20 billion of capex over the next three years. In advance of this programme, the company took steps to strengthen its balance sheet by pausing buybacks and accumulating cash, ensuring minimal financial leverage and a favourable maturity profile throughout this period of heavy investment. Our analysis suggests that returns on capital of the organic capex have historically been greater than 20% and, in this case, are enhanced by subsidies associated with the CHIPS act. The company also seeks to invest countercyclically, while competitors to cut capex. In its approach, Texas Instruments has prioritised long-term returns, a supply chain that is geopolitically resilient, while also maintaining balance sheet resilience.
- We guard against companies that prioritise growth over returns on capital. **Ecolab** is a speciality chemical company that historically served a variety of hospitality businesses with its leading cleaning and sanitation products. The business generated exceptional returns in adding new products to its platform and generally benefited from the long-term trend of travel and eating out. It diversified the business over time into water treatment, oilfield services and, most recently, into bioproduction. While the prices paid for these assets implied underwhelming discrete near-term returns, the ROE for the business in total remained in the high teens through this period. In our engagement with management, we grew increasingly concerned that in its pursuit of growth, it was moving into areas where it did not possess an obvious competitive advantage. In combination, these concerns led us to eliminate our holdings in the company.

Family ownership

Companies with family or other forms of closely held ownership require more careful consideration from us when determining whether to buy or hold them in our Fund. We start with the first principle that family ownership models can have merits, including long-termism and a stakeholder orientation. The challenge is that with significant family ownership and (often higher) voting interests, business decisions may not be aligned with minority shareholders and our engagement and proxy impact may be diluted or negated. We worry about generational transitions and dual share classes.

In order to ensure a robust and consistent approach to the strengths and vulnerabilities of closely owned firms, we evolved a framework that has helped us identify those closely held or family-owned names that may be more accessible and responsive to shareholder engagement and stakeholder needs. We place a higher value on companies with independent management and board challenge and have sought out those companies that clearly manage capital for all shareholders.

THE STEPS WE TAKE INCLUDE:

- Applying an extra lens to companies with family ownership, dual share classes or tightly held stakes, with greater scrutiny in cases of over 50% voting control, majority board or disproportionate core shareholder influence. We look at generational transition risk, professionalisation of management, family board stakes and philosophy around capital allocation to assess risk and alignment. We also ask additional questions if a government is a core shareholder to verify alignment of economic interest, rationale for government involvement and the potential for interference.
- Overcoming our limited ability to hold management to account through our vote, by committing to send a letter at the time of an annual general meeting if we want to challenge management on directors, compensation or other proxy topics.

Examples of where our family ownership framework has informed our investment decisions include:

- Our decision to divest of luxury retailer **LVMH** was driven by concerns over capital allocation discipline following the acquisition of the Tiffany's franchise, as the company appears increasingly to be undertaking large deals to underpin growth, combined with the rising uncertainty over generational leadership transition. While current chair, CEO and founder Bernard Arnault has led LVMH from strength to strength, there are important concerns over succession planning. While the next generation of the Arnault family are all active in the business, it is less clear whether they have the required leadership skills to drive future success. We question the board's independence and ability to provide challenge given the strength of Mr. Arnault as founder.
- Meanwhile, our family ownership framework helped build our conviction to remain invested in fashion retailer **Inditex**. Here, family ownership is structured through a holding company, generational change has already taken place, leadership is professionalised and the company has a strong history of capital allocation discipline.

Understanding the essence of Global Stewards

The Fund's fifth anniversary offers a good opportunity to take stock and ask Portfolio Managers Mark Mandel, Yolanda Courtines and Sam Cox to share what constitutes the essence of their approach and how they keep evolving for success.

HOW DO YOU DEFINE STEWARDSHIP?

Y.C. Stewardship is about building the future value of a company through strong leadership and the responsible and strategic management of natural, human and financial resources. For us, good corporate stewardship means balancing the needs of all stakeholders in the pursuit of long-term returns. This entails investing in people, protecting the planet and increasing the resilience of future profits through innovation.

ANY REFLECTIONS ON PERFORMANCE OVER THE LAST FIVE YEARS?

Y.C. Our goal is to align with the needs of our beneficiaries, delivering stable compounding of investment returns over the long term. The Fund has navigated a wide range of market regimes, with growth- and value-led markets and risk-on and risk-off environments. We think this underscores the importance of prioritising stock selection as the key driver of risk and return in the portfolio. Our core footprint is the result of our focus on diversification, risk management and our emphasis on stock selection to help deliver in line with this goal.

WHAT SETS THIS FUND APART?

M.M. The Fund aims to be a core global equity allocation for portfolios across cycles by seeking to identify those high-quality companies with a history of high returns on capital, with the stewardship to sustain those returns into the future. As fiduciaries, we are committed to identifying long-term holdings that meet the above requirements and ensuring a high level of engagement to hold the underlying companies to a superior standard.

WHAT IS THE LINK BETWEEN STEWARDSHIP AND RETURNS?

S.C. We believe a company with a strong management team and an empowered board is better placed to deliver sustained value and mitigate risk. By being a good steward of its capital and respecting the interests of all its stakeholders, a company can create a flywheel effect strengthening its competitive position and profit margins, along with its resilience and ability to attract and retain customers, incentivise staff and strengthen its supply chain.

WHAT IS THE ROLE OF ENGAGEMENT?

Y.C. Engagement is an important consideration for every active manager, but it is critical to our approach given our desire to hold names for at least a decade and to place a high value on more qualitative investment drivers. Stewardship focuses on inputs to future returns before they appear in the income statement or balance sheet. Engagement helps us get comfortable that the leading stewardship is present and that companies continue to meet our high expectations around resource allocation and long-termism. Engagement builds trust and leads to respectful two-way dialogue with boards and management teams that empowers us to drive positive long-term change.

WHAT MAKES A GOOD CANDIDATE FOR INCLUSION?

M.M. We want to see evidence of strength and persistence of returns coupled with rigorous capital discipline and a leading market position with innovative products or services. We look for companies with strong management teams and a robust governance culture, with checks and balances and an open culture where views can be challenged. Boards need to be independent and diverse. Overall, we want to see tangible evidence that management and boards consider the interests of all stakeholders.

WHY WOULD YOU AVOID A POTENTIALLY GOOD CANDIDATE?

Y.C. Over the years, we have faced several instances of companies that appeared to be good candidates on paper but ultimately failed to meet our high bar for stewardship and our long-term horizon. Shortcomings include, for instance, unbalanced governance arrangements, or a prioritisation of short-term financial profitability at the expense of the environment, staff or suppliers. This emphasis can increase potential regulatory or reputational risk.

HOW DO YOU DEAL WITH MARKET CONCENTRATION?

S.C. Market concentration has been a headwind over the past year, but also presents an opportunity to invest in leaders at more attractive relative valuations. Ultimately, we think some of the technology companies currently leading the market face a wide range of return and stewardship challenges that may hamper the sustained long-term value creation we seek.

WHAT ABOUT OVERALL DIVERSIFICATION?

Y.C. We remain firmly committed to running a well-diversified portfolio that emphasises appropriate exposure to stock-specific risk. The narrowness in the markets has been a short-term challenge but remains a largely US phenomenon. We invest across regions and sectors and have access to a wide universe of large, leading companies. We also run a European-focused approach, reflecting the presence of numerous globally orientated quality companies in Europe.

WHAT IS A DEVELOPING AREA OF FOCUS?

Y.C. We are increasingly interested in the impact of biodiversity loss as this may have substantial ramifications for a growing number of sectors, notably food and agriculture but also pharmaceuticals, and we expect good stewards to start preparing for the associated risks and opportunities.

WHICH KEY LESSONS DID YOU LEARN?

M.M. There is no such thing as a perfect company. We invest in a dynamic world, and we expect that a company will always have to adapt to changing external and internal circumstances. As much as we apply an exceedingly high bar to include any stock in our portfolio, there are opportunities for every holding to improve as a steward of capital, resources and people.

Y.C. Engagement is never done. Having continued in-depth conversations with boards and management is so important

to genuinely understand the long-term strategic direction of a company and ensure alignment with our expectations.

S.C. I only recently became a portfolio manager for the Fund, but I would say the importance of stewardship as a lens through which we can seek to understand all aspects of a company and ask the right questions about the future strength of returns.

WHAT KEEPS YOU UP AT NIGHT?

M.M. First and foremost, our team is concerned about being good fiduciaries for the money our clients have entrusted with us, and for delivering on our performance objectives. These are outcomes we can influence by consistently sticking with our investment philosophy and by executing on a strong research and portfolio management process, dedicated to continuous refinement and improvement. Secondarily, I worry that markets will dismiss stewardship considerations in favour of short-termism and an embrace of growth at all costs.. Over time, we believe our balanced approach will prove out as portfolio holdings deliver financial outcomes that reflect the benefits of high returns on capital and strong corporate stewardship.

WHAT ARE YOU EXCITED ABOUT?

Y.C. If I look five years ahead, there is plenty to be excited about within the portfolio as I am convinced that the companies in which we invest on our clients' behalf will play a key role in helping to solve some of the formidable challenges the world faces, whether by contributing to more sustainable agriculture, playing a key role in reducing the use of plastics in consumer goods or supporting the energy transition.

Highlights from past insights

Over the past five years, we have written extensively about the concept of stewardship and how we apply it to construct a portfolio that we believe meets both the return and sustainability objectives of many investors.

Below is a selection of excerpts that we think cover some of the most salient points of stewardship investing.

THE NEED FOR GREATER RESILIENCE AND BALANCE SHEET DISCIPLINE

Excerpt from Building resilience: Key questions equity investors need to ask today

"In a higher-rate world where financing is more expensive, we believe it is even more critical to focus on identifying management teams and boards that are skilled at allocating capital for the longer term. While we see prudent stewardship of shareholder capital as a constant key tenet in the pursuit of sustainable long-term returns, we think the current environment demands even closer scrutiny of balance sheets. Companies with healthy cash reserves and low debt levels have a greater ability to absorb increased borrowing costs without the need to resort to gearing and will also have the financial firepower to take advantage of the opportunities that come with dislocation."

WHY LABOUR STEWARDSHIP IS SO IMPORTANT NOW

Excerpt from The value in valuing employees

"Stewardship is often cited as a driver of long-term, sustainable returns. What makes it a particularly compelling differentiator right now is its power to help companies adapt to and succeed in a new macroeconomic regime. Recently, we have seen growing pressure for managers to adapt and respond to labour. We believe changes in labour market dynamics are the result of secular, rather than cyclical, forces, and that companies will experience upward pressure on wages for some time."

ABOUT THE VALUE OF ENGAGEMENT

Excerpt from Harnessing the power of engagement in stewardship investing

"Companies that are the most adept at balancing their impact on people and the planet with the pursuit of profit can, in our view, build a long-term advantage. As a team, we strive to invest in these "good stewards" because we consider stewardship and investment returns as intertwined. Pursuing high standards for governance and sustainability practices can enhance resilience and profitability over the long term.

We believe that regular conversations with management and boards enable us to assess a company's corporate culture, adaptability and responsiveness and ensure that incentives are aligned with sustainable long-term targets. Above all, regular dialogue allows us to hold management teams and boards accountable for their actions."

Risks

Capital: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. | **Concentration**: Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. | **Currency**: The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. | **Emerging markets**: Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. | **Equities**: Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. | **Hedging**: Any hedging strategy using derivatives may not achieve a perfect hedge. | **Sustainability**: A sustainability risk can be defined as an environmental, social or governance event or condition that, if it occurs, could have an actual or potential material negative impact on the value of an investment.

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