



## Shareholder Engagement Policy (the “Policy”)

### Introduction

Since inception in 1958, our primary responsibility to our investors has been long-term alpha generation with strong downside mitigation. To discharge this responsibility, Fayez Sarofim & Co. (“Sarofim & Co.”) has employed a single philosophy: Sustainable Growth. This philosophy dictates that we identify companies capable of compounding growth over our investment horizon. The process to identify those types of businesses involves a deeply researched and differentiated understanding of what we believe to be all factors impacting a company’s ability to compound earnings growth. Those factors have always included environmental, social, and governance (ESG) factors, though this term only has recently permeated mainstream consciousness. Routine discussion of material risk factors with company management is both fundamental to our research process and required by our primary responsibility.

### Purpose of this Policy

Carne Global Fund Managers (Ireland) Limited (the “the Manager”) acts as UCITS management company to the Sarofim ICAV and its sub-funds (the “Fund”). The Manager has adopted its own shareholder engagement policy which outlines the approach it has taken to meet its obligations as prescribed under Directive (EU) 2017/828, amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement (the “SRD II”). In accordance with the Manager’s shareholder engagement policy, this Policy is being put in place to set out Sarofim & Co.’s approach to shareholder engagement in respect of the Fund as a result of the delegation by the Manager to Sarofim & Co. of the portfolio management function in respect of the Fund.

Beyond demonstrating compliance with the relevant regulatory requirements as prescribed under SRD II, this Policy sets forth how Sarofim & Co. promotes effective stewardship and long-term investment decision making when carrying out our duties as an investment manager to the Fund and outlines our firm’s approach to effective shareholder engagement.



## Stewardship and Engagement Principles

### *Sustainable Growth Philosophy Requires Integrated ESG Risk Factor Analysis and Drives Engagement*

Stewardship requires that we effectively perform our primary responsibility to our investors: long-term alpha generation with strong downside mitigation. This responsibility has defined our Sustainable Growth philosophy and shaped our investment approach, which was conceived for multi-generational investors who value long-term capital appreciation. Our investment approach employs a rigorous bottom-up fundamental analysis capable of holistically assessing a company's investment prospects to identify those capable of compounding earnings growth over a long-term investment horizon. This approach also requires screening for factors that could disrupt long-term growth; naturally, many of these factors have been ESG-related such as reputational issues, the behaviour and compensation of company boards, a business's treatment of and impact on the wider community, imprint on the natural world, and working conditions for employees. As a result, our ESG approach organically grew from an analytically intense research process, which includes assessment of material risk factors.

To holistically assess material risk factors, our analysts' research includes an examination of corporate governance issues such as management compensation and board composition. In addition, they evaluate any environmental or social issues likely to have an impact on a company's future earnings power. To the extent those ESG factors have a material impact on a company's ability to sustainably grow earnings, those factors would be explicitly included in our fundamental analysis via adjustments to the analyst's financial projections. In addition to inclusion in our fundamental analysis, we employ an ESG Factor Scoring Methodology, which facilitates investment decision making by clearly enumerating a company's level of exposure and degree of management.

The ESG Factor Scoring Methodology assists in rigorously and consistently evaluating material impacts to a company's future earnings power by accounting for potential risks and benefits arising from a company's exposure to environmental, social, and governance issues, which are likely to affect the company, its industry, and stakeholders including business partners, employees, customers,



shareholders, and society at large. The factor scores reflect management's ability to navigate ESG issues in addition to the company's general exposure to those issues. These scores are updated as material information becomes available but no less frequently than quarterly. The Investment Committee reviews the analyst's fundamental research, which includes financial projections and ESG factor scores, when making investment decisions.

Our bottom-up fundamental analytically-driven research process was created to execute our Sustainable Growth philosophy. Our analysis would be incomplete without routine engagement with a company's management team and stakeholders. Routine engagement helps inform our assessment of key opportunities and risks as well as the degree to which the business is positioned to capture those opportunities or to mitigate those risks.

### **We are Engaged Owners**

As part of the bottom-up research process, Sarofim & Co.'s analysts have always actively and consistently engaged with their companies on factors that are deemed material to the long-term investment thesis. We believe that routine engagement is required to comprehensively understand the investment case and the inherent risks. We engage at different levels throughout the company depending on the nature of a given issue and the desired result. Engagement is apportioned into two distinct interactions: engagement for information and engagement for advocacy, which we rarely undertake given the underlying characteristics of the companies in which we invest and the corresponding strength of their management teams.

Company engagement is an important part of our bottom-up research process. As part of that process, our analysts frequently interact with portfolio and watchlist companies to discuss material risk factors. Generally, these collaborative discussions take place on a quarterly basis and are intended to help our analysts refine their fundamental view of a company. Should we identify an issue during this ongoing due diligence process, the analyst engages with the company to better understand the company's view on the issue, its degree of exposure, and level of management. These interactions also provide an



opportunity for us to share our perspective on an issue, which companies often welcome as we are long-term owners of the business. The analyst is responsible for engaging with the company and monitoring the issue; however, ESG risks and progress towards a resolution of identified issues will be monitored and routinely discussed by the sector teams, Sustainable Investment Committee, and Investment Committee. Depending on the materiality of the issue, members of the sector team, our firm's Investment Committee, and our Sustainable Investment Committee may participate in the engagement process. Ultimately, the path forward for a position is determined by the Investment Committee. In cases where we have continued concerns with management's strategy or company performance, the Investment Committee may determine that continued engagement and/or advocacy is the appropriate path forward, then we will maintain our dialogue with the company until an acceptable resolution is obtained. If a successful resolution cannot be obtained, we would consider exiting the position.

In certain circumstances and in accordance with the process described above, an analyst or the Investment Committee might determine that a material risk factor requires engagement that is beyond the scope of our routine engagements. Where we consider more substantial engagement appropriate, Sarofim & Co. pursues a direct dialogue with company management and will consider discussions with members of the Board, if and where appropriate. This dialogue seeks to clarify our position and to gather additional information on the company's response. We do not have a history of collaborating with other institutional investors or other relevant stakeholders as we believe our value added is in investing alongside likeminded long-term orientated management teams who strategically orientate those businesses to achieve their potential sustainable growth; we are not activist shareholders and do not aim to transform a company.

### **Proxy Voting and Conflicts of Interest**

Proxies are assets of our clients that must be voted with diligence, care, and loyalty. To that end, we will vote each proxy in accordance with our fiduciary duty and in a way that maximizes the value of the Fund's investments and gives due consideration to the investment objective and policy of the Fund. We



use our proxy voting rights to complement our engagement process. Because of the types of companies in which we invest, we often vote with management. However, there are rare times when our research process and related engagements have not produced the desired result. In these circumstances we consider voting against management or exiting the position.

We have adopted the following proxy voting procedures designed to ensure that proxies are properly identified and voted, and that any conflicts of interest are addressed appropriately.

The voting process is managed by the Proxy Coordinator, who coordinates Sarofim & Co.'s proxy voting process and ensures that Sarofim & Co. complies with all applicable recordkeeping requirements associated with proxy voting. Sarofim & Co. has retained Glass Lewis & Co. ("Glass") to assist in the proxy voting process. The Chairman of the Proxy Committee manages Sarofim & Co.'s relationship with Glass. Glass provides the following in connection with the voting of proxies by Sarofim & Co.: (i) analyses of proposals, (ii) vote recommendations, (iii) vote execution services and (iv) record keeping services. Glass provides its analyses of proposals and vote recommendations pursuant to and in accordance with the proxy voting guidelines furnished to it by Sarofim & Co. The Proxy Coordinator ensures that Glass votes all proxies according to Sarofim & Co.'s general guidance, and retains all required documentation associated with proxy voting.

The voting process starts when the Proxy Coordinator receives the paper ballots or notification through Glass Lewis & Co. ("Glass") for specific opportunities to vote proxies. The Proxy Coordinator then downloads the recommendations from Glass for each proxy vote and forwards them to the coverage analyst for voting direction. The research analysts review the proxy statement; their review includes consideration of the Glass analyses and the Glass vote recommendations in addition to fundamental company and industry research. Upon completion of the review, the analyst determines how the proxy vote should be cast.

In deciding how to vote proxies, Sarofim & Co. relies, for the most part, on (i) the business judgment of the management and directors and (ii) the fiduciary responsibilities of the company's directors. However,



there are cases where Sarofim & Co. determines, based upon the information available to it, that management's recommendations do not appear to be in the best interests of the shareholders. In those cases, management's recommendations will not be followed in voting the proxies.

In cases where the analyst's vote recommendation differs from the Glass vote recommendation, the analyst must provide a written explanation to support the desire to deviate from the Glass vote recommendation. This written explanation must be reviewed and accepted by the Chairman of the Proxy Committee. If Chairman of the Proxy Committee and the analyst agree on the vote recommended by the analyst, the analyst's vote recommendation shall be final and binding. If the Chairman of the Proxy Committee and the analyst cannot reach agreement on the vote recommended by the analyst, the matter is then considered by the Proxy Committee as a whole, and the decision of such group with respect to the vote becomes final and binding.

#### *Conflicts of Interest*

Sarofim & Co. has a strong culture of compliance and all of our employees are expected to act with honesty and integrity. To that end, we maintain a robust compliance policies intended to avoid conflicts of interest where possible. As part of these policies, neither the analyst nor any member of the Proxy Committee involved in the consideration of the vote may be a person who is (i) an officer or director of the company, (ii) a shareholder beneficially owning 5% or more of the outstanding securities of any class, or (iii) otherwise interested in any way in the outcome of the vote to be held with respect to that security.

When making any voting recommendation, the analyst must certify that he or she complies with this policy. If the analyst cannot comply, the Proxy Committee shall appoint another analyst to conduct the review. In the event that all investment members of the Proxy Committee are conflicted, the Board of Directors of Sarofim & Co. shall appoint an individual who is not conflicted to participate in the required review of an analyst's vote recommendation. The individual making the voting recommendation must certify that he or she complies with this policy.



## Sarofim & Co.'s Annual Engagement Disclosure

Sarofim & Co. will on an annual basis, publicly disclose how its engagement policy has been implemented, including:

- (a) a general description of voting behaviour,
- (b) an explanation of the most significant votes taken,
- (c) information on the use, if any, of the services of proxy advisors, and
- (d) information on how it has cast votes in the general meetings of companies in which the Fund holds shares noting that such disclosure may exclude votes that are insignificant due to the subject matter of the vote or the size of the holding in the company.

This information will be made available free of charge on <https://www.carnegroup.com/sarofim> and will be reviewed annually by Sarofim & Co., and more frequently, where required.

Date: October 2020

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