VERITAS
INVESTMENT MANAGEMENT

STEWARDSHIP REPORT 2019

This report aims to bring our stewardship activities to life by offering a window into our company engagement and voting activities over the past year.

Our stewardship activities are constantly evolving. While some aspects, such as this report, may be recent developments others, such as the continuous monitoring of investee companies, have long been a crucial part of our investment process. Just as we acknowledge that the companies in which we invest are continuously improving, so too are we and we look forward to sharing more details of our stewardship work as it develops over the months and years ahead.

For more information on our stewardship processes, please read our Engagement and Voting policies which are available on our website, alongside our statement of compliance to the UK Stewardship Code.

COMPANY ENGAGEMENT

During 2019, we had over 125 meetings with companies. The majority of these were with companies in which we invest but some were part of our broader investment research.

We communicate with companies whenever opportunities arise, in good times and in bad. We view our engagement with companies as a chance to build and sustain long-term relationships. With any interaction, our goal is always to work with companies for the long-term benefit of the companies themselves and shareholders, including our clients.

Of course, building relationships is all well and good, but our fundamental aim remains to deliver real returns for our clients. Should any of these meetings lead us to believe that the investment case for a company has changed so that our clients' capital is at risk, then we would vote with our feet and sell the shares. During this year, none of our engagements led us to take such action.

As is always the case, the reasons for our meetings with companies this year have been varied. Sometimes they occur before we buy a single share. Prior to our investment in **Align Technology** this year, we spoke to the company about disclosure around environmental, social and governance risks, such as plastic waste and conditions for its global workforce. Despite a strong investment case, we were concerned that during our initial research process we had been unable to find evidence that management fully understood and were addressing these risks. However, our conversation was reassuring: management is tackling ESG issues but the different regulatory requirements and investor interest in the US mean that disclosure has been less of a priority. It turns out that the plastic content of their core aligner products has already been reduced by 50%, while Align offers employees packages above local standards and norms. And although progress on improving disclosure is slow, there are signs that this is changing.

Other engagements have been in response to one-off issues. In January, we had a call with US diagnostics provider **LabCorp** following a cyber-attack on the company's systems. We spoke to a number of executives, including the Chief Information Officer and Chief Information Security Officer, proof that while we will never be the biggest shareholders, we can still gain access to senior management. Attended by our resident healthcare and technology experts, the call covered multiple issues, such as board oversight, internal resources and regulatory responsibilities. It was clear to our team that the company has a very robust security system: it detected and closed down the breach rapidly and has taken further steps to

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VOTING ACTIVITIES

enhance its protection against further attacks. With millions of patient records under its control, cyber-crime is a huge risk for the company, so we were surprised to hear that few investors had investigated this area in the same level of detail.

Most of our meetings have been part of our ongoing monitoring work. Quarterly results may move share prices, but we believe it's the long-term picture that matters and have used meetings over the last year to discuss issues such as long-term strategy, governance and board structures, capital allocation, the competitive environment and culture. In October, members of the investment team met with **Unilever** to discuss sustainability and the company's approach to tackling environmental and social risks, such as plastic pollution and deforestation. While the scale of the challenge is enormous, so is the company's response. We were impressed by the extent to which addressing these issues is embedded in the long-term business plans and forms part of management compensation. There are no easy solutions but the many initiatives the company has introduced across its supply chain and production processes are all steps in the right direction.

Occasionally, roles can be reversed and meetings take place at the request of the companies themselves. The Investor Relations team at **Avery Dennison** contacted us towards the end of the year to ask our opinion on director commitments and proposed changes to executive pay. As well as giving us the chance to help the Board with their enquiries, we used the meeting to engage on four further issues: the independence of the Lead Independent Director (who was also on the call), sustainability governance, the living wage and auditor tenure. We were reassured on each of the issues we raised and were delighted to have the opportunity to share our views and examples of industry best practice with the company.

We believe shareholder voting is an important way of communicating with companies and we therefore exercise our right to vote on behalf of our clients wherever possible. Each voting decision is taken on a case-by-case basis by our investment managers, based on independent judgement, analysis and the outcome of engagements with companies. While we have voting guidelines, we believe taking a one-size-fits-all approach is not always in the best interest of companies and shareholders. As Tim Martin (the founder of Wetherspoon) noted, if all banks adhered to the 9-year tenure rule for directors, there would currently be no-one on bank boards who saw the same bank through the global financial crisis in 2008![1] As we aim to only invest in well-run companies which have strong management teams and governance structures, we typically expect to vote with the board recommendations. Further, we consider ourselves active, rather than activist, shareholders and hope there will never be a time when we need to report multiple examples of voting against companies. That said, there have been cases this year when we felt it necessary to vote against certain proposals. When we do vote against proposals, we always write to the company to explain our decision.

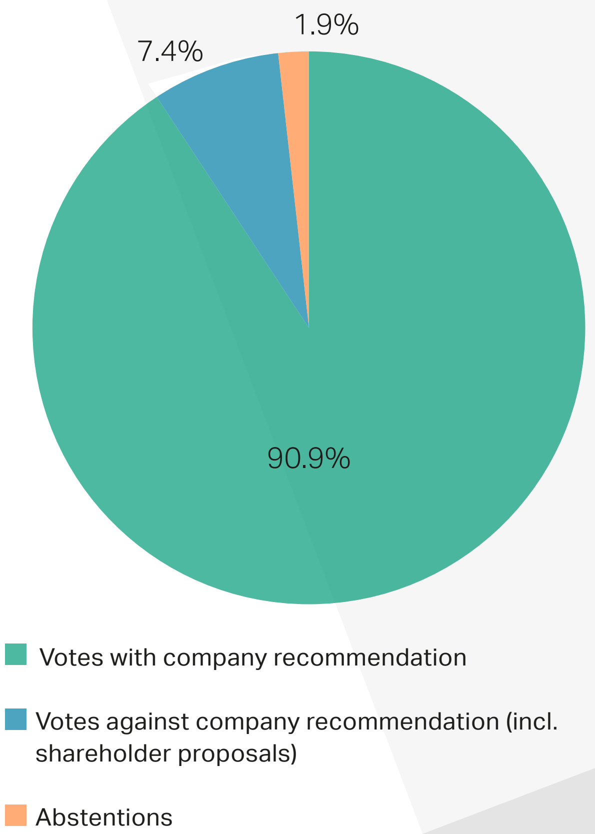
Company case study – Fresenius Medical Care

We voted not to approve the General Partner and the Supervisory Board at the AGM this year because of the company's violations of the US Foreign Corrupt Practices Act. This was certainly not an easy decision, especially given that the company self-reported the violations, worked closely with the US authorities to resolve them, and that those directly involved in the bribery practices are no longer with the company. However, given the long time period over which questionable business practice occurred and the fact that it was unclear whether relevant senior executives had been held accountable, we wanted to highlight our concerns over Board and management oversight by voting against these resolutions.

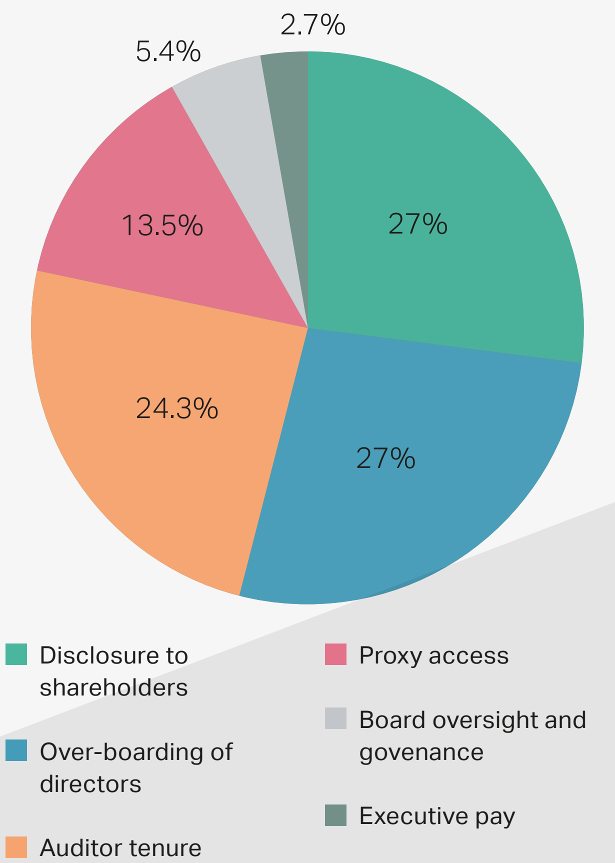
Writing to the company to explain our decision paid dividends in this instance as it led to two meetings

1. Source: thetimes.co.uk 14.11.19

Overall voting record[2]



Votes against companies & abstentions by theme[3]



to discuss the issues, the first with the Head of Investor Relations and the second with the Chair of the Supervisory Board. Both occasions gave us the opportunity to share our concerns and our experience of best practice across other companies and industries, whilst improving our own understanding of German governance structures (complicated at the best of times). Through this dialogue, we were reassured that the specific issues which led to the fine had been addressed and the risk of a repeat occurrence had been reduced. Our investment case therefore remains intact.

Issue case study – Over-boarding of directors
We encourage board diversity in all forms and believe it is particularly important for directors to have a wide range of skills and experience. However, directors sitting on too many boards are unlikely to be able to dedicate sufficient time to perform the role effectively, limiting their ability to hold executive teams to account and provide the necessary perspectives, creativity and insights. We therefore voted against the re-election of certain board directors who we believe to be "over-boarded".

But as we often say, investment management is an art, not a science. At the Avery Dennison AGM, we voted for the appointment of a new director, Mark Barrenechea, even though he is the CEO of a technology company and already holds another non-executive position. On paper, this list of responsibilities might warrant a vote against his appointment. However, we accepted Avery's argument that his skills and current experience with new technology will be extremely valuable to the company and that he has proved he has the time to commit fully to the role. This demonstrates the importance of not having red lines, of taking each decision on a case-by-case basis and, wherever possible, of talking through these issues with companies.

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2. Source: Veritas Investment Management
3. Source: Veritas Investment Management

Issue case study – auditor tenure

Several of our abstentions and votes against company proposals from US companies have centred on the issue of auditor tenure. We take our responsibility as shareholders for auditor appointment seriously, especially given several recent high-profile failures.

Best practice in Europe is to re-tender after 10 years and change auditor firm every 20 years, with the UK Government considering more stringent regulations to ensure auditor independence. However, in the US indefinite tenure is common (in fact, changing auditors can be seen as a sign that something is wrong) and we found that some of our investee companies have had the same audit firm since the 1950s or even earlier. Of course, the quality of a company's financial statements is ultimately the responsibility of the Directors but having truly independent auditors, who can thoroughly review statements with fresh eyes and open minds, is a crucial safeguard. Auditor rotation also reduces the cost of the audit and shortens the time taken to uncover financial misreporting.

On each occasion, we wrote to the company concerned to explain our rationale. We received several responses but it will take time for practices in the US to catch up with Europe, so we will continue to pursue this with companies.

Shareholder proposals

When it comes to shareholder proposals, we take the same approach as we do to company proposals: decisions are taken on a case-by-case basis. Proposals we have supported this year include those requesting reports on gender pay gaps and supply chain practices at US technology firms, and greater disclosure around spending on political lobbying.

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