Sarofim & Co. ESG and Responsible Investing Policy Statement

Sustainable Growth has always been part of our Investment Philosophy

Since inception in 1958, our primary responsibility to our investors has been long-term alpha generation with strong downside mitigation. To discharge this responsibility, Sarofim & Co. has employed a single philosophy: Sustainable Growth. This philosophy dictates that we identify companies capable of compounding growth over years. 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) issues, but we and other market participants have not always articulated them as such. Global financial markets are evolving to explicitly consider the impact of ESG factors. We welcome this evolution as it refocuses market participants and businesses on issues that impact a company's long-term earnings growth potential. We believe it is important that our stakeholders understand that we have always and will always strive to consider all factors that impact a company's long-term earnings growth potential, including ESG factors: our heritage requires this of us.

ESG is organically integrated into our Investment Process

Our research process is focused on identifying companies with a superior ability to compound earnings growth. These companies maintain a dominant position in an attractive industry. Identifying these companies is rooted in a rigorous bottom-up fundamental analysis of a company's strategic positioning, financial strength, growth prospects, profit generation, and overall stability. In addition, our long-term orientation requires us to develop detailed knowledge of and consider factors that could disrupt long-term growth such as reputational issues, the behavior and compensation of company boards, treatment of the wider community, impact on the natural world, and working conditions for employees. As a result, ESG factors have historically been organically incorporated into our bottom up process, but now we formally identify and categorize these risks as either Environmental, Social, or Governance.

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Our ESG factor research process has three components: key issue identification, weighting, and scoring.

Key Issue Identification

The process begins with key issue identification. Key issues are those that are likely to affect a company's profit potential; erode or enhance a company's competitive advantage; or impact the terminal value of the company. Our analysts work together in their respective sector teams to identify key issues for each ESG category. Their work is informed by UN PRI, SASB, TCFD, and GRI frameworks as well as relevant company disclosures. Working in sector teams to identify key issues ensures that our analysts' deep company-specific knowledge is complemented by sector-wide breadth.

Key Issue Weighting

Once key issues have been identified, analysts continue to work within their sector teams to weight the specific issues. The main determinant of weight is an issue's impact to long-term financial performance; issues that are more material to earnings growth are assigned a higher weight. Timing is another determinant that is also considered in the weighting decision. In addition to the dominant position in an attractive industry, we seek out companies that have management teams capable of effectively addressing both near-term and long-term challenges. Near-term issues leave our management teams with less flexibility to mitigate the risk, which could negatively impact the company's current competitive position and subsequent earnings growth. Conversely, long-term issues provide our management teams with an opportunity to enhance their competitive advantage through differentiated positioning. Notably, key issue identification and weighting are performed by the analyst and reviewed at the sector level. As our analysts cover multiple sectors, our approach provides added thoroughness as well as cross-comparability of key issues and ultimately the resultant ESG-factor scores.

ESG Factor Scoring

Once the key issues have been identified and weighted, our analysts score each issue based on a company's exposure and management approach. There are two dimensions to scoring exposure: impact and timing.

Impact is how the company's exposure alone would impact profitability if left unmanaged. Issues with more impact receive a worse exposure score. Timing is a determination of whether the issue will result in a near-term or long-term impact to profitability. Long-term issues receive a better exposure score as they could be effectively mitigated by management. In addition to exposure, our ESG factor ratings consider the degree of management. When scoring a company's management response with respect to an issue, our analysts consider how a company is managing the exposure and whether we can speak to specific examples of management. The final product of this deep and detailed analysis is our internally derived ESG factor score. By formally scoring factors we have always incorporated, the ESG factor score is an organic extension of our existing investment process. The ESG factor scores are updated as material information becomes available but no less frequently than every quarter. The Investment Committee reviews these scores alongside the analyst's fundamental research to inform its investment decisions.

We are Engaged Owners

Company engagement is an important part of our bottom up research process. As part of that process, our analysts frequently engage with portfolio and watchlist companies to discuss material risk factors. Generally, these discussions take place on a quarterly basis and are intended to help our analysts refine their fundamental view of the company. Should we identify an issue during this ongoing due diligence process, the coverage analyst engages with the company to discuss the issue. These interactions help us understand the company's view on an 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 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. If the Investment Committee determines 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.

We believe that engagement is complementary to our bottom-up research process, the depth of which can identify material risk factors. Therefore, we do not maintain an exclusion list, except for cluster munitions. In addition, we do not employ negative screens as we believe our research process identifies and weights the material inputs for each sector, industry, and company to determine sustainable earnings growth. We assess the risk and return from each company and seek to optimize overall portfolio returns while minimizing risk. Over and above portfolio management, we offer managed accounts where our aim is to empower those investors wishing to add screening or exclusions. For those accounts, we discharge our fiduciary responsibility by assessing the impact to portfolio returns of such screening and exclusions.

We are Organized to Succeed

Our history of responsible investing is organically derived from our sustainable growth philosophy, which requires active risk management. This organic integration is reflected in the organization of our SRI committee, which is composed of two members who naturally extended their existing roles and responsibilities to ensure consistent integration of ESG criteria within our research and investment processes. Alan Christensen, President at the firm, leads the committee, which complements his role as Head of Investment Risk. AJ Gracely is a Principal and Research Analyst and the Director of Environmental, Social, and Governance (ESG), where he oversees ESG research, ratings, and integration.

Conclusion

We are owners of businesses; we are not traders of stock. This perspective defines our research process and investment approach. We do not seek a certain SRI positioning; that positioning organically occurs as a result of our orientation as long-term multi-generational globally minded investors. Formalized ESG integration has not required changes to our research process, investment process, or portfolio as we had embraced and embedded these concepts as fundamental manifestations of the quality companies we hold. Our ESG credentials are outwardly acknowledged by Sustainalytics, who have awarded us with four globes, and Barrons, who have included us as part of the Top 200 Barrons Sustainable Funds. We will continue to serve our clients with deep and differentiated fundamental research capable of producing outstanding long-term returns.