

Edgewood Management LLC

ESG Integration Policy



Introduction

Edgewood has developed this policy for clients, prospective clients, employees and other stakeholders so they may better understand how Edgewood integrates ESG factors into the investment process as well as its corporate strategy. ESG refers to environmental, social and governance considerations that may impact a company's long-term value creation. Edgewood's ESG Committee is composed of members of Edgewood's investment team and legal and compliance department and is dedicated to identifying and analyzing ESG and sustainability risks and integrating that information into the investment process as well as Edgewood's corporate framework.

Philosophy

What does ESG and Sustainability mean to Edgewood?

Edgewood employs comprehensive and robust analysis to identify what it deems to be the highest quality growth companies. Edgewood integrates sustainability risk factors in its fundamental analysis of a company's potential long-term value creation. Edgewood's approach is considered ESG Integration. According to the CFA Institute, ESG Integration refers to systematic and explicit inclusion of ESG risks and opportunities in investment analysis.¹ By applying this integration approach, Edgewood assesses ESG factors to help be aware of and mitigate potential financial impact.

The assessment of a company's governance is a core component of Edgewood's fundamental analysis. Edgewood believes sound corporate governance, the 'G', is the foundation upon which all else is built. It is the mechanism through which Edgewood, as minority shareholders, can ensure the interests of the company's board of directors and the company's management team align with the interests of long-term investors. When assessing corporate governance, Edgewood will consider shareholder rights, management transparency, audit and accounting, board oversight including board member independence, executive compensation including stock-based compensation, and the risk management framework.

Edgewood believes boards of public companies should be effectively administered, provide sufficient disclosure, and consider long-term implications of their decision-making. Notwithstanding initial indications of attractive financial returns, the Investment Committee prioritizes strong governance and ethical conduct. Consequently, companies with weak boards, unclear strategies, or questionable decision-making will not be considered for the Investment Committee's universe.

A corporate focus on relevant environmental and social risks to a more sustainable business model can therefore be viewed as a subset of effective corporate governance. Edgewood considers environmental and social considerations to the extent they may impact long-term financial performance. For instance, how companies manage environmental concerns as well as their social and human capital could materially impact a company's future earnings. A well-constructed approach to sustainability can be one of the strongest indicators of effective long-term governance for a given company. When Edgewood identifies material environmental and social risks that may impact long-term financial performance and long-term growth, the Investment Committee analyzes whether the company has a strategy in place to manage the risks and whether that strategy is suitably ambitious in scope.

¹<https://www.cfainstitute.org/-/media/documents/survey/esg-integration-in-the-americas.pdf>

Edgewood also seeks to learn how clear and effective the company's policy is around the risks and whether the company discloses its approach in sufficient detail. Members of the ESG Committee meet with management teams of portfolio companies to learn how portfolio companies respond strategically to the changing sustainability risk factors.

Why is ESG important to Edgewood?

Edgewood believes systematically considering sustainability issues will likely lead to more complete investment analysis and better-informed investment decisions. While ESG factors are typically non-financial, how a company manages them undoubtedly has measurable financial consequences. As a long-term investor, Edgewood focuses on value creation and integrating sustainability factors in its analysis identifies risks that might impact the value of the portfolio investments over longer term.

Edgewood's consideration of ESG issues is a complement to, not a substitute for, its traditional fundamental analysis that has been shaped over its years of investment experience as a team. Edgewood utilizes a multi-factor, fundamental investment process designed to identify opportunities not fully reflected in market valuations. The Investment Committee spends time studying the industry, industry participants, and the drivers of revenue and expenses. The Investment Committee visits every company that Edgewood invests in and spends time with management teams, customers, suppliers and competitors to understand the business and how it fits in the industry. This approach leads Edgewood to invest in companies the Investment Committee believes have the right teams and products or services to generate long-term, sustainable earnings. In this case, Edgewood uses the term sustainable to refer to earnings potential at a certain level over time.

Over the long-term, a proactive approach to ESG management may enable a company to drive innovation, relate better to its customers and partners, identify risks and opportunities, increase operating costs efficiencies, improve market access, improve resiliency, and attract the best talent. Understanding ESG risk factors may therefore result in high quality return on capital and allow for compounding growth stories. For example, Edgewood may invest in brand-owning consumer franchises which are finding themselves increasingly under the spotlight of consumers whose purchasing decisions are being framed by sustainability considerations. A robust and comprehensive approach to sustainability increasingly represents a material opportunity while the failure to effectively manage these factors could become an increasingly salient risk.

Does Edgewood practice negative exclusions by sector?

Edgewood's Investment Committee has developed a universe of predominantly large cap growth companies that meet Edgewood's core investment objective – to invest in companies distinguished by their financial strength, levels of profitability, strong management teams and the potential to deliver long-term earnings power. Edgewood's "working list" of securities is determined through a focus on companies with strong cash generation capabilities, consistent earnings power, superior revenue growth, return on equity, low debt, solid business models, good unit volume growth, recurring revenues, and fee-based businesses. Through this process the Investment Committee has typically excluded companies that derive significant revenue from producing alcohol. For the Large Cap Growth portfolio, Edgewood will not invest in companies where a significant amount of revenues are derived from manufacturing tobacco products, producing pornography, or operating gambling establishments² and will not invest in companies that manufacture cluster munitions and landmines. Edgewood will not invest in companies that derive more than 25% of revenues from the production of energy generated by coal. These exclusions are decided by the Investment Committee to lessen exposure to investment risks as these sectors present heightened potential risk factors such as litigation and/or remediation associated risks. Edgewood leverages a third-party service provider's screening services to monitor this screening criteria.

² Edgewood applies an up to 5% revenue threshold for screening purposes.

Does Edgewood use ESG ratings?

Edgewood does not make investment decisions based solely on ESG criteria, however, Edgewood's success depends on identifying and properly evaluating investment risks, including ESG risks. Edgewood integrates ESG risk factors by incorporating material, non-financial factors into its portfolio construction process to reduce risk and enhance return. For example, if ESG factors pose additional risk to a company's future cash flow, Edgewood's Investment Committee may assign the company a higher discount rate to offset that risk or account for the risk to future cash flows. Edgewood's Investment Committee produces in-depth research reports for Edgewood portfolio holdings and potential portfolio holdings. These reports take advantage of the Investment Committee's insights across sectors and access to industry experts to cover the full breadth of Edgewood's relatively narrow investment universe. Analysis of sustainability issues is captured in these reports and when the Investment Committee deems it appropriate, Edgewood quantitatively factors ESG risks into its financial models.

Edgewood has engaged a third-party servicer provider to assist with the identification and analysis of ESG risks on an individual security level and applies an ESG modifier to its valuation model as reflected below.

Risk Rating 0-19.99	Low ESG Risk	0 – No adjustment
Risk Rating 20-29.99	Medium ESG Risk	50 bps adjustment
Risk Rating 30+	High ESG Risk	100 bps adjustment

Edgewood compares the portfolio's ESG risk rating against the S&P 500 Total Return Index's ESG risk rating as assessed by an independent third party ESG risk rating service provider.

Proxy Voting

Edgewood votes proxies in accordance with its Proxy Voting Guidelines as defined by the Investment Committee and reviewed annually in conjunction with the Proxy Voting Officer. As a fundamental investor investing in companies that it believes in, it follows that Edgewood would naturally be inclined to vote in support of management. However, members of Edgewood's Investment Committee will review shareholder proposals and will vote according to the best interests of long-term shareholders. In certain cases where Edgewood has voted against management on material governance-related proposals, the Investment Committee has subsequently divested from the security.

Principles for Responsible Investing

Edgewood is a signatory to the United Nations-supported Principles for Responsible Investment (PRI). The PRI is an international global network of asset managers, owners, and service providers. The voluntary principles provide a framework for integrating environment, social, and governance considerations into investment decision-making and ownership practices. Edgewood's implementation of the six principles includes:

Principle 1: Edgewood incorporates ESG risk factors into investment analysis and decision-making processes by maintaining a dynamic ESG Integration policy, integrating ESG risk factors into its proprietary valuation model and utilizing external ESG resources to identify ESG risks impacting potential investment decisions. Additionally, members of Edgewood's ESG Committee attend ESG-related conferences and webinars.

Principle 2: As long-term investors, Edgewood sees it as its duty to engage with portfolio companies on all issues in which the Investment Committee believes could be a risk to long-term value creation. Edgewood's investment strategy and investment experience provide the Investment Committee with a privileged vantage point from which to conduct this. Edgewood views its engagement style as "constructivist." Edgewood is not an activist manager

and does not invest in companies with the intention of pursuing an overhaul of corporate management or strategy. Edgewood's discussions with companies are aimed at fostering a constructive relationship focused on long-term value creation and Edgewood is not seeking to exercise control or exert pressure to influence management on particular topics. Edgewood's investment objective is to seek attractive risk-adjusted returns based on analysis of the company's long-term value and prospects. Edgewood does not have the intention of acquiring or holding securities for the purposes of or with the effect of changing or influencing the control of a company. Edgewood incorporates ESG issues into its ownership policies and practices by participating in governance calls with portfolio companies, meeting with management teams and investor relations of portfolio companies, and voting proxies in accordance with its Proxy Voting Guidelines rather than outsourcing its proxy voting capabilities. During governance calls, members of Edgewood's legal and compliance department review the company's governance framework including risk management. Furthermore, Edgewood's Investment Committee meets with management teams to discuss a broad range of issues including sustainability risk factors. Edgewood uses these conversations as important tools to understand the risks to a company and how the company is managing those risks. Edgewood is not seeking to exercise control or exert influence on companies during these conversations. As set forth in its Proxy Voting Guidelines, Edgewood votes proxies based on our assessment of what it believes is in the best long-term economic interests of our clients without the primary purpose or effect of changing or influencing controls. Edgewood typically favors suitably skilled and sufficiently independent boards of directors, sensible and long-term oriented remuneration policies, disciplined capital allocation, and a strong corporate culture and citizenship. Edgewood takes into consideration the following principal adverse impact indicators: greenhouse gas emissions, exposure to controversial weapons, water usage and recycling, lack of grievance/ complaints handling mechanisms related to employee matters, and lack of anti-corruption and anti-bribery policies.

Principle 3: Edgewood reviews sustainability and governance reports produced by portfolio companies and analyzes reports to assess which risk factors portfolio companies have identified and understand how the company is managing those risk factors. Edgewood supplements its process by retaining a third party ESG risk rating service provider to identify and analyze ESG risk factors. These include reports on carbon emissions, human capital, cybersecurity and data privacy, and remuneration. While serving to improve understanding of the issue, the primary function of these endeavours is to provide a framework for identifying material sustainability risks to companies as well as how those companies are managing those risks.

Principle 4: Edgewood's long-term investment strategy is ESG integration. Edgewood supports regulatory and policy developments that enable implementation of the Principles which align with Edgewood's sustainable shareholder value creation framework and will be prepared to comply with new initiatives as may be applicable.

Principle 5: Edgewood's ESG Integration Policy is dynamic and may be tailored to address relevant issues as they emerge. Edgewood is open to supporting industry organizations and participating in industry conferences to enhance the effectiveness of ESG-related efforts which align with Edgewood's sustainable shareholder value creation framework.

Principle 6: Edgewood will disclose to clients how ESG risk factors are integrated within the investment process. Members of the Investment Committee host a quarterly conference call for all clients which incorporate sustainability-related developments into conference calls as may be applicable. For example, whenever a new company is added to the portfolio, Edgewood addresses the material sustainability factors the Investment Committee took into consideration during the decision-making process. Edgewood makes available annual proxy voting reports to clients upon request.

The UN Global Compact

In 2000, the United Nations launched the UN Global Compact, a nonbinding principles-based framework to guide businesses in the implementation of fundamental responsibilities in human rights, labor, environment, and anti-

corruption to advance the Sustainable Development Goals (SDGs). The Ten Principles of the UN Global Compact include:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights, and, Principle 2: make sure that they are not complicit in human rights abuses.

Labor

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labor;
Principle 5: the effective abolition of child labor; and,
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and,
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Edgewood monitors for controversies, including breaches of the UN Global Compact. In the event a company is found to be in violation of one of the Ten Principles, Edgewood will engage with the company regarding the allegations and will assess whether adequate steps are being taken to remediate the alleged violation. If Edgewood determines the company is not adequately addressing the issue, Edgewood may apply escalation strategies such as voting against the board of directors, reducing its investment, or divestment.

Who is responsible for ESG?

Edgewood's ESG Committee and Edgewood's Investment Committee are responsible for Edgewood's ESG Integration Policy. The ESG Committee is composed of members from Edgewood's Investment Committee, investment analyst team, and legal and compliance department. Edgewood's Investment Committee is composed of Edgewood's six Portfolio Managers and is responsible for making all investment decisions for the firm. This approach ensures that those who maintain the closest relationships with the companies are also informed on the key ESG risk factors.

Does Edgewood have a corporate sustainability framework?

Edgewood's corporate responsibility policy aims to identify, analyze, and mitigate the key ESG risks to the firm. Edgewood's strong governance supported by a robust risk management infrastructure is a fundamental component to Edgewood's corporate responsibility policy. Furthermore, Edgewood is working to address social and environmental risks to the firm. Edgewood is working to reduce its carbon footprint by reducing energy usage by various means including reducing the use of single-use plastic, replacing lighting with energy efficient LED lighting, and reducing food waste. Human capital and intellectual property are social risks Edgewood aims to address by retaining the best talent by offering professional development and cultivating a workplace culture where talent thrives.

Disclaimer

Edgewood does not market itself as an ESG investment adviser and the funds for which Edgewood is investment manager do not claim to be ESG funds. This statement should not be construed otherwise. This statement should be read in conjunction with Edgewood's Proxy Voting Guidelines.

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