



SANDS CAPITAL

Sands Capital Environmental, Social, and Governance (ESG) Policy

Purpose

As a steward of client capital, Sands Capital Management, LLC (“Sands Capital”) has a fiduciary responsibility to consider the full range of risks and opportunities that have the potential to influence investment outcomes. We believe that ESG factors can play a material role in determining investment risk and return. Therefore, we seek to own exceptional businesses that recognize and thoughtfully manage potential ESG impacts with an aim to maximize value creation for shareowners over the long term.

ESG analysis and active ownership have long been implicit aspects of the deep fundamental research that is ingrained in our culture. We endeavor to evaluate all material financial and non-financial factors that may affect both business and long-term investment results. By establishing a formal ESG policy, we make our commitment explicit to our clients, their stakeholders, and our portfolio businesses.

At Sands Capital, we approach ESG analysis with three primary objectives. 1) We expect ESG analysis to enhance our investment cases, enabling us to build conviction in great businesses and add value for our clients. 2) We expect ESG analysis to inform our clients, enabling them to understand how ESG factors fit into the broader context of our capital allocation decisions. 3) We expect ESG analysis to inform our portfolio businesses, enabling management teams to benefit from our long-term shareowner perspective through active engagement.

Guiding Principles

Our approach to ESG integration is driven by the following principles:

BUSINESS-FOCUSED RESEARCH – The purpose of our proprietary research is to identify high-quality, leading growth franchises with sustainable business models, operating in attractive areas of growth and innovation. We place significant value on companies that embrace a long-term perspective and are thoughtful stewards of financial and non-financial resources, which can include environmental and social aspects of the business. In particular, we believe effective governance and responsible corporate strategy are critical components to long-term growth investing.

MATERIALITY – ESG factors vary in importance and are highly dependent on the region, country, industry, and company. We believe deep domain and company-specific knowledge allows our investment professionals to make appropriate judgments about which ESG factors could have the greatest impact to all stakeholders. Analysis of these factors is integrated into the investment decision-making process to the extent our team believes they may affect the sustainability of a company’s value-creating potential.

OBJECTIVITY -- We seek to maintain independence in the execution of our research. Though we may leverage external frameworks (e.g. SASB materiality topics) and sources (e.g., ESG databases, governance advisory firms, academic researchers) to varying degrees to identify key ESG issues for the businesses we own, we do not rely on third-party opinions when building conviction in our investment views.

ENGAGEMENT – We view engagement as a valuable tool to better understand management’s long-term strategic vision and discuss how they manage ESG risks and opportunities, among other issues. Therefore, we meet regularly with the management teams of portfolio companies. When merited, we proactively express our views regarding business strategy, governance, financial reporting, executive compensation, and other stakeholder considerations.

TRANSPARENCY – We are committed to providing transparency into our ESG initiatives and how we think certain factors may or may not relate to the long-term growth prospects of the companies we own. We welcome client questions about the extent to which we have incorporated our understanding of relevant ESG factors into each investment case. We also offer reporting on our active ownership activities upon request.

How We Execute

ESG research responsibility is horizontally integrated across our analyst team. Typically the assessment of a business is directed by the lead analyst, often with the support of a research associate. Our lead analysts are seasoned professionals who know the business inside and out, often having covered the business and industry landscape for many years. They are responsible for leading field research, engaging with management teams, establishing and revisiting the core investment case, and rendering proxy voting decisions.

Formal ESG assessment begins when an analyst determines that a business may fit with our six investment criteria based on a preliminary review and the portfolio candidate is placed on our new opportunities list. At this juncture, a coverage team is established and the business becomes subject to a deep evaluation of all relevant financial and non-financial factors, including ESG, which may affect business results and investment outcomes.

In our experience, the risks and opportunities posed by ESG factors vary depending on the region, country, industry, and company. Therefore, we thoughtfully consider the context for each business when determining the ESG issues that matter to our long-term investment case. Examples of ESG issues we may consider in our research process include:

- Quality of the management team, including clear mission and focus on long-term value creation
- Executive compensation and alignment of incentive structures with stated long-term objectives
- Board diversity, skills, and experience
- Capital structure, ownership control, and shareholder protections and rights
- Human capital management
- Supply chain management
- Product safety and impact
- Environmental policy and strategy, particularly in energy and water intensive industries, and sensitivity to regulations
- Quality of disclosures and transparency into financial and non-financial matters

After we purchase a business, our analysts continue to build their cumulative knowledge about the business using a long-term lens. This knowledge includes our perspectives on material ESG issues. The building process includes continuously checking in with all stakeholders in the value chain (for example, industry experts and consumers of the company's products and services), monitoring company events, conducting field research to identify new insights, and performing anticipatory, proactive research. An adverse business event or controversy may trigger an analyst to perform a business review in order to determine whether the immediate matter has bearing on the long-term investment case.

Client Requirements

We strive to think critically and objectively about integrating ESG factors into our investment decision making. We neither view ESG analysis as a binary tool to separate good investments from bad nor invest with the intention of casting any moral or ethical judgements. As such, we do not employ any exclusionary screens as a standard practice.

Many of our institutional clients, particularly in the education and healthcare sectors, maintain investment policies that restrict investment in businesses involved in certain industries or products, in sanctioned countries such as Iran and Sudan, or that don't comply with global norms. We can easily accommodate such mandates provided that restrictions do not impede our ability to successfully execute a selected investment strategy for our clients.

Collaborations

We build relationships with select ESG stakeholder groups that enable us to understand evolving best practices and share our perspectives, benchmark our progress at ESG integration, and ultimately create value for our clients. In 2017 we became a signatory to the internationally recognized Principles for Responsible Investment (PRI), which we find offers a useful blueprint for incorporating ESG issues into investment practice. Since ESG analysis had been an implicit aspect of our fundamental, business-focused research for many years, becoming a PRI signatory was a logical next step to make our ESG commitment more explicit to our clients.

In 2018 we entered the Sustainability Accounting Standards Board (SASB) Alliance. We firmly believe in the SASB mission to foster high-quality disclosure of material sustainability information from public companies. We also find SASB's evidence-based approach to determining the materiality of sustainability issues congruent with our fundamental, business-focused research approach. The Alliance affords us opportunities to explore best practices to integrate material sustainability information into long-term decision making and collaborate with other stakeholders to enhance corporate sustainability disclosure practices.

In 2018 we also became a member of the Council of Institutional Investors (CII), which promotes policies intended to enhance long-term value for U.S. institutional asset owners and their beneficiaries. The Council provides us with opportunities to understand asset owners' perspectives on key corporate governance issues, share our own perspectives when merited, and apply learnings to our research analysis and engagements with portfolio businesses.

Oversight

Our ESG policy standards and procedures are administered by the Directing Research Team (DRT). The DRT consists of senior investment staff including the President and Director of Research. Reporting to the DRT is the ESG Steering Team, a cross-functional group of professionals who are responsible for guiding our ESG program execution. The ESG Steering Team sets goals and objectives in consultation with the DRT, monitors and reports progress, and identifies continuing education opportunities for staff.

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