

ESG Policy

Introduction

This policy sets out Cantillon Capital Management's (Cantillon's) approach to the integration of ESG considerations into our investment analysis and decision-making process. It has been adopted by Cantillon Funds plc (the "Fund"). The latter is a 'financial market participant' for the purposes of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 (SFDR) and has delegated the discretionary investment management of its sub-fund - the Cantillon Global Equity Fund - to Cantillon. For the purposes of meeting its requirements under SFDR, the Fund has adopted the ESG policy of Cantillon.

Principles for Responsible Investing (PRI)

Cantillon Capital Management (Cantillon) became a signatory to the PRI in June 2010.

Investment Approach

Cantillon's investment philosophy is predicated on finding high quality companies that can grow and generate strong sustainable returns, and which trade at a discount to their intrinsic value. These companies typically exhibit attributes such as strong barriers to entry, pricing power and resulting strong free cash flows and returns on invested capital. Given our pursuit of companies with sustainable competitive advantages, we have found that our portfolio tends to be populated with companies that we believe have good management and demonstrate sound corporate governance, environmental and social practices. In addition, our investment approach has led us to have a higher exposure to low carbon intensive- industries and very limited exposure to carbon-intensive industries.

Consideration of ESG Factors in the Investment Process

A company's ESG strategy embodies how it interacts with key stakeholders - shareholders, employees, customers, suppliers, and wider society including the environment. ESG considerations have always been an important part of our research process and are increasingly influential in determining a company's sustainable competitive advantages and long-term success (through impacting top-line growth, costs, regulatory and legal intervention, employee productivity and investments). ESG analysis can therefore provide valuable insights into factors that can impact a company's risk profile, long-term returns, and fair value.

Cantillon uses internal and external research to monitor ESG practices in our portfolio companies and integrate ESG considerations into our investment analysis and decision-making process:

- 1) **Detailed, fundamental stock analysis:** Before any stock enters the portfolio, analysts conduct an in-depth assessment of the company's future return and earnings profile. Our initial analysis seeks to incorporate all factors that we believe will affect the company's ability to deliver long term value to shareholders. This many include a range of broad ESG factors including environmental, social and employee matters, governance factors (including remuneration and capital allocation), and any other issues that could impact the sustainability of long-term returns. Any significant ESG issues that could have a material impact on the company's financial performance or risk profile are typically identified at this stage and captured within our assessment of sustainable returns and earnings potential.
- 2) **Annual ESG audit of the portfolio:** In collaboration with MSCI ESG Research, Cantillon conducts an annual ESG review of the portfolio to ensure companies are complying with international laws, regulations and / or commonly accepted ESG standards. Companies are evaluated against over a hundred widely accepted global conventions and international standards such as the UN Global

Compact, the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

- 3) **Engaging in a constructive dialogue with company management:** An integral part of our investment process is regularly meeting the management of companies in which we invest. If any material ESG issues have been identified, we will look to actively engage with the company to determine the materiality of the incident and assess whether it will have an impact on the company's intrinsic value. If there are issues of concern that have not been adequately answered during these meetings, and which we feel warrant escalation, we would discuss internally the most appropriate form of escalation. This escalation may involve a further meeting with the company, or, if the issue has already been discussed at length and not satisfactorily resolved, we would typically write to the Chairman or CEO of the company. Escalation does not always lead to the desired outcome. If this is the case, we will consider whether our investment thesis has been undermined, in which case we will sell the stock.

Carbon Characteristics of the Portfolio

The environmental (E) dimension of ESG measures a company's impact on the natural ecosystem, which comprises its emissions, the efficient use of natural resources in the product process, pollution and waste. Given the types of companies and industries we invest in, our hypothesis has always been that our portfolio would measure favourably on this dimension; however, up until this year, we have not had access to reliable metrics. Working in collaboration with S&P Global, we are now able to quantify and track the carbon characteristics of our portfolio, compare our performance to the MSCI World, and drill down to company level data to understand which stocks most are impacting our performance.

Our portfolio performs extremely well relative to the MSCI World across the most commonly reported environmental indicators. This is due not only to sector exposures (e.g., our lack of exposure to energy and utilities, which is an outcome of our bottom-up approach) but also due to company selection decisions (e.g., our companies are typically more carbon efficient than their peers). In addition, the portfolio's lack of exposure to extraction-related activities or fossil fuel reserves serves as a further differentiator relative to the MSCI World.

Voting

We also incorporate ESG issues into our ownership policies and practices through our proxy voting activity.

We take our voting responsibilities seriously and fully review every vote. We expect our investment professionals to be aware of the corporate structure, governance, and key strategic and operational considerations of our holdings. For example, excessive compensation schemes, significant changes to board structure or compliance functions, and mergers and acquisitions are all issues that need to be monitored carefully. We believe it is important for our investment professionals to review every item on every proxy, ensuring that we are aware of all the issues arising in ballots, and helping us use the influence we have to impact the direction of the companies held in the portfolios. Our investment professionals, as opposed to a proxy voting department or other operational group, are also best placed to judge whether proposals are in the best interests of shareholders.

We subscribe to research and proxy-related services provided by Institutional Shareholder Services (ISS) to assist us with the mechanics of voting. We also have access to ISS's research, and we review their voting recommendations and rationale for proxies relevant to us. ISS uses a shareholder maximisation philosophy for most of their clients (including Cantillon), which means they recommend the vote most likely to create value for equity holders in the long term. They also analyse the corporate governance implications of each proxy vote. While we find ISS's broad-based data resources and analytical frameworks to be useful, we do not outsource the final voting of proxies to them. The role of proxy advisers is controversial, particularly with corporate issuers, some of whom object to the outsized influence wielded by proxy advisers and also argue that they have conflicts of interest.

Cantillon's view is that our own investment professionals are best positioned to make the sometimes subjective judgements regarding what is in the best interests of shareholders. In cases where ISS recommends a vote against management, we typically engage with the company directly to better understand their position on the issue. After considering the various arguments and conducting our own analysis, we make the final decision and record our voting rationale, if it differs from that of ISS.

We abstain from voting if we are in the process of selling the stock during the period between the record date and the AGM/EGM meeting date.

Engagement

Dialogue with investee companies is an essential part of our investment process and we meet regularly with investee companies. Our long-term investment horizon means we have been able to develop long standing relationships with many investee companies. We seek open and constructive dialogue with management and board members, and on occasion, companies may seek out our views on specific issues.

We meet no less than once per year and more frequently if there is an issue of concern or if we need further information. In the examples below, we have expressed a view and tried to influence an investee company.

Primerica (US, financial services)

In April 2020 we met with Primerica and suggested that they enhance their corporate governance practices by adding a right for shareholders to be able to convene a special meeting (with a minimum threshold of 25%).

Applied Materials (US, semiconductor capital equipment manufacturer)

In November 2020 we met with Applied Materials and suggested they include a returns-based metric (e.g. ROCE / ROIC) in their compensation to ensure efficient capital deployment.

Wolters Kluwer (Netherlands, professional information services)

In December 2020 we met with Wolters Kluwer and expressed our preference for Wolters Kluwer to have a more US centric pay peer group to reflect the fact that > 60% of their revenue and employees are based in the US. Furthermore, as Wolters Kluwer increases its SaaS sales, the company is more similar to a US company and needs to compete for the best talent and therefore needs competitive remuneration.

Equifax (US, consumer credit reporting)

In April 2020 we had a call with Equifax's (EFX) 'governance' team to talk about their upcoming proxy vote and other compensation, legal, and regulatory matters. We noted that ISS scored EFX very poorly on "Carbon and Climate" in their ESG matrix, mainly because of insufficient data and disclosure. The governance team told us that they have been trying to calculate more information on emissions, etc. but this requires time and resources. We asked the governance team to report to the CEO that we think improving Equifax's ESG disclosure would be worthwhile and said we would reinforce that advice in our next direct conversation with the CEO. EFX has since begun to devote more resources to ESG disclosure.

Principal Adverse Impact Reporting

The Fund is not required to currently consider adverse impacts of investment decisions on sustainability factors on the basis that it does not have on its balance sheet an average number of employees exceeding 500. The Fund may choose at a later date to publish and report on PAI indicators. Notwithstanding this decision not to comply with the PAI regime, the Fund has, nonetheless, adopted the ESG policy of Cantillon as described above, and which clearly integrates the consideration of ESG factors into the investment process.