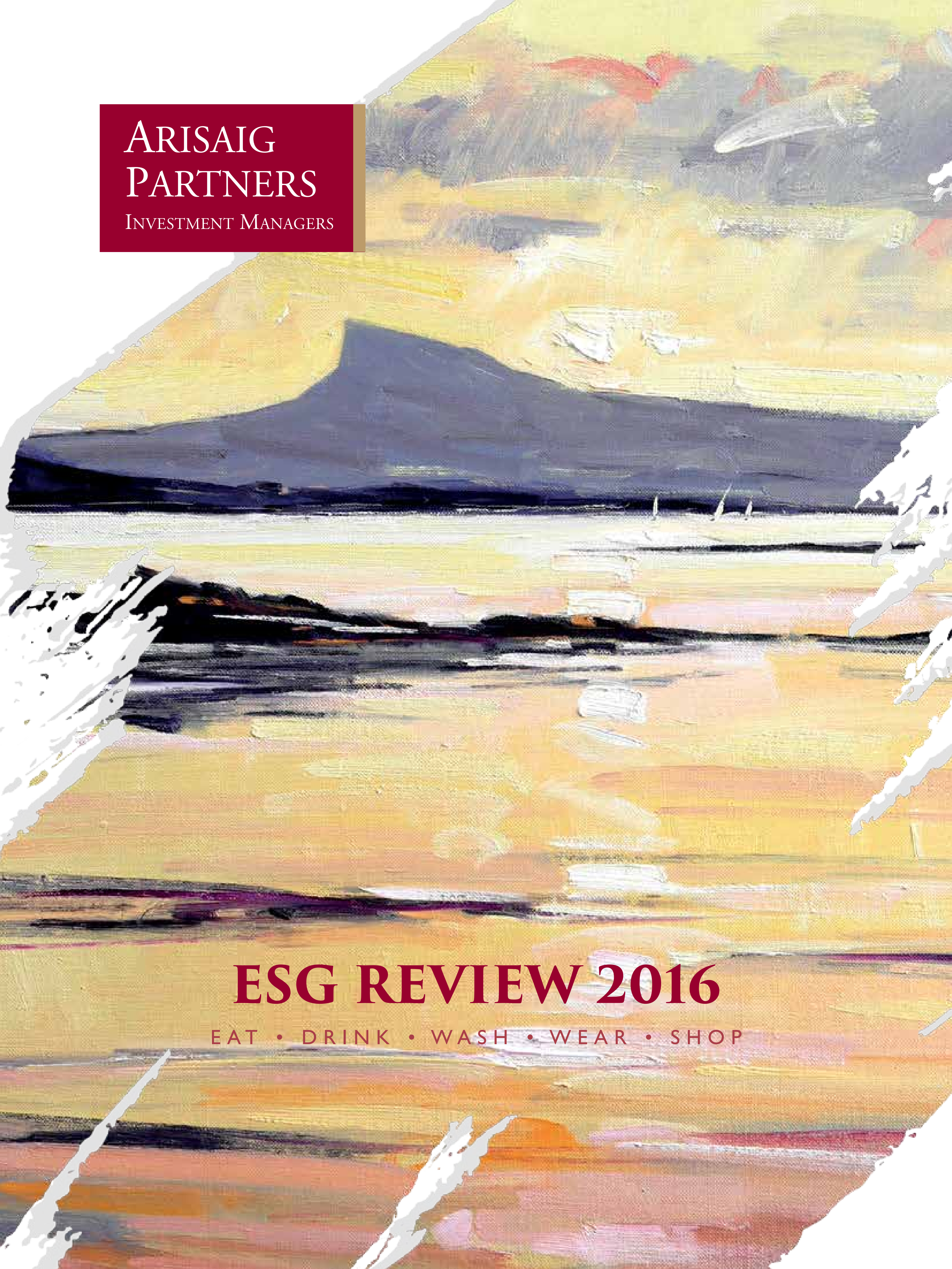
Arisaig Partners
Investment Managers



ESG REVIEW 2016

EAT • DRINK • WASH • WEAR • SHOP

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> "As long-term investors we believe that the consumer companies that effectively address Environmental, Social and Governance issues will be the long-term winners in the emerging markets in which we invest. These companies are able to drive innovation, lower operating costs, improve market access, enhance their reputation and attract the best talent."

Arisaig Partners

WHO **WE ARE**

Arisaig Partners is an independent investment management company founded in 1996. Our focus is on dominant consumer staples businesses in emerging markets. We run an Asia Consumer Fund, an Africa Consumer Fund, a Latin America Consumer Fund and a Global Emerging Markets Consumer Fund. In addition to our head office in Singapore, we have research offices in Hong Kong, Mumbai, Cape Town, Rio de Janeiro and London.

We have always incorporated a strong corporate governance ethos into our buy and hold investment approach. As our investment strategy has evolved - from investing in small and micro caps in the consumer sector, as widely defined, to owning only dominant businesses in the consumer sector, more narrowly defined - so too has our approach. Recognising the environmental constraints under which businesses now find themselves and the increasing public expectations of corporate social performance, we have extended our governance analysis to cover a wider range of environmental and social issues.

Since 2010, Rebecca Lewis, has led the firm's global mandate to develop our ESG strategy and integrate it into the investment process. Our approach has always been to develop understanding of ESG issues throughout our investment teams and we continue to focus on building out our ESG capability in each of the analyst teams rather than growing a separate team of ESG analysts. Today, Rebecca is the Managing Partner of the firm and she continues to oversee the ESG themes of the research team.

OUR APPROACH TO INVESTING

Alignment of interests – capped funds, no segregated portfolios, co-investment;
Transparency – Holdings Booklets, monthly Diary Commentary and Portfolio Summaries, Research Reports;
Coverage – 27 analysts; six research offices; 190 target stocks;
Minimal Trading – active management destroys value;
Focus – consumer companies tend to out perform, so we won't be doing anything else.

OUR APPROACH TO ESG ISSUES

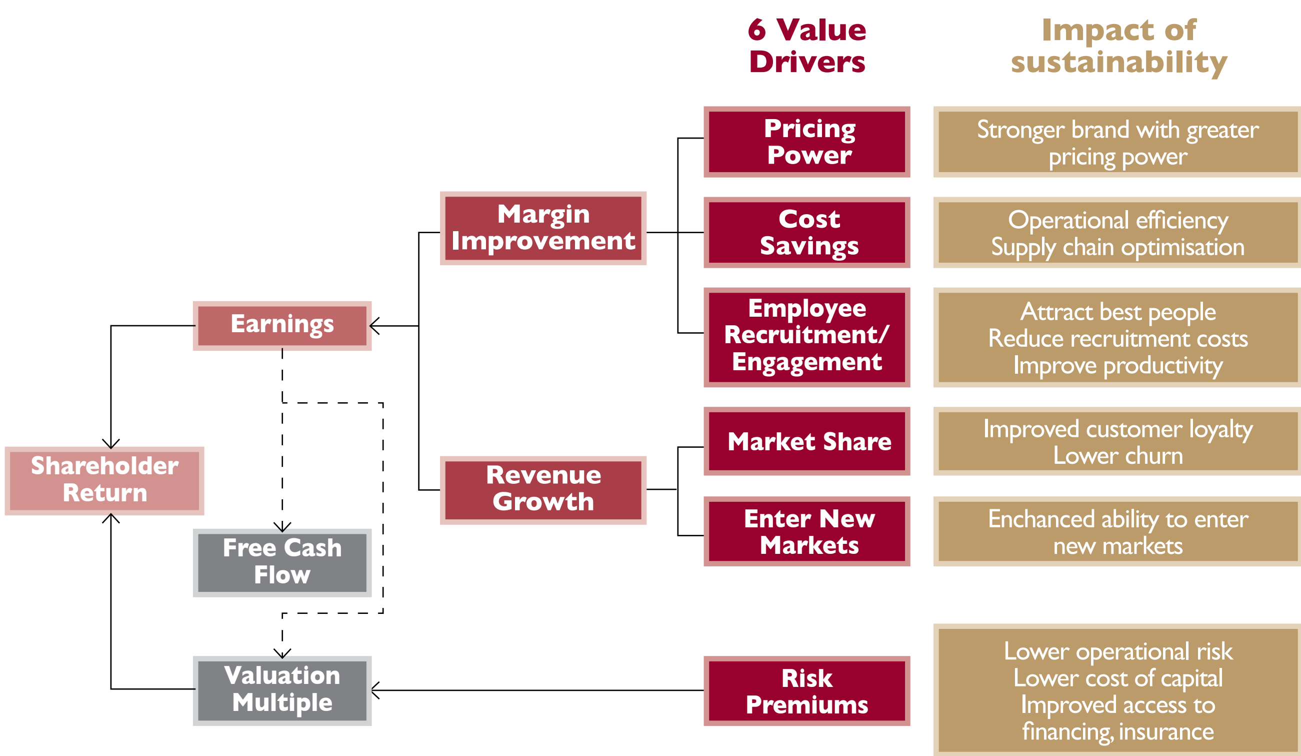
Research driven – ESG research reports on thematic, sector and company specific implications;
Integrated – ESG information integrated in our proprietary financial modelling system;
Engagement focused – material issues discussed with management;
Global Best Practice – signatory to the UN Principles for Responsible Investment (PRI) since January 2010.
Transparency – monthly ESG section in Diary, Holdings Booklets.

LOOKING AT THE LONG-TERM

Our belief that the consumer companies effectively addressing ESG issues will be the long-term winners in emerging markets compels us to consider these factors when we make investment decisions.

It is also important to note that academic research continues to point to the enhanced earnings and shareholder value created by companies that manage sustainability issues well rersus those who do not. There are a number of value drivers that companies cannot ignore.

Value Drivers of Sustainability

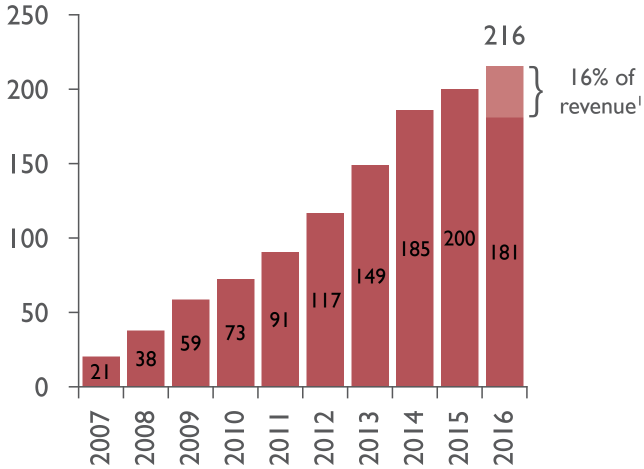


Source: Adapted from Dr. James Gray-Donald (MIT Sloan)

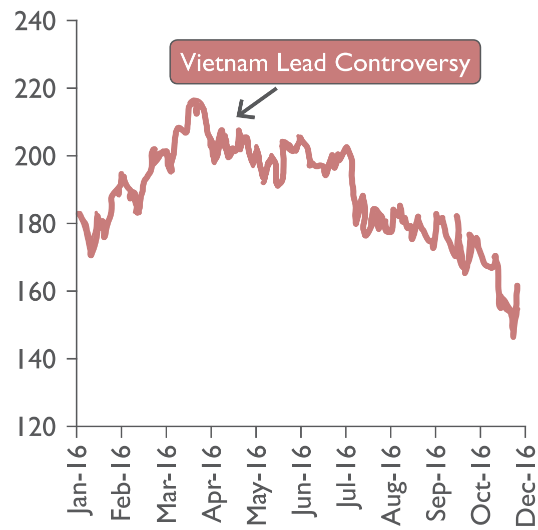
We believe that our investment approach renders us particularly sensitive to ESG issues. Firstly, our **long-term** investment horizon will be impacted by escalating issues such as climate change and water scarcity. Secondly, we invest in **emerging markets** where the enforcement of ESG standards is still evolving. Finally, it is the **dominant branded** consumer companies that have become the focus of negative attention when sustainability issues such as food safety, water use and labour rights have emerged. Indeed, CEOs across all sectors cite 'strengthening brand, trust and reputation' as the strongest motivator for taking action on sustainability issues.

It is clear that ESG issues can have an immediate effect on shareholder returns. Strong management teams are able to address these factors even in cases where the business may not be at fault. In May 2016, our Filipino holding, **Universal Robina**, was falsely accused of producing batches of 'C2' green tea and 'Rong Go' energy drinks continuing excessive levels of lead. The business has since seen the value of engaging with stakeholders in Vietnam in order to build a more resilient 'licence to operate'. Management responded with a pledge to maintain better government relations and to publish their first sustainability report next year. Rather than fighting with local regulators, Universal Robina saw the value in responding promptly and positively, protecting their reputation and helping to build a long-term business in Vietnam.

Sales of RTD Tea Brand 'C2' in Vietnam (USDm)



Share Price Universal Robina (PHP)



Source: Reuters, accessed February 2017

[1]2016 estimates of C2 brand assumes 8% industry growth for FY16

From an environmental perspective, sustainability themes such as climate change and rising water stress could damage business performance in the longer term. Bangladesh is one of the world's most densely populated countries with more than 160 million people. The World Bank projects that 15 million people could be displaced as climate refugees by mid-century with the urban population growing from 35% to 50%. Even today, 400,000 people move to Dhaka each year and the International Organisation for Migration estimates that 70% of residents in slums moved on account of environmental shock. We consider these risks and the impact they would have on Olympic Industries, our one holding in Bangladesh.

Source: Oxfam International

OUR ESG **APPROACH**

Arisaig Partners' approach to the management of these ESG issues is aligned to our research-driven, long-term investment approach and is organised across three pillars: understand, integrate and engage.

Given our investment strategy - on dominant branded consumer staples companies in emerging markets - we are unashamedly engagement-focused. We do not exclude companies based on ESG issues and would much rather work with companies to help them improve their ESG performance. We feel that this is a particularly important strategy when working with companies in emerging markets, where the understanding of sustainability issues is still evolving.

UNDERSTAND

We undertake research in order to develop a broad view of the evolving sustainability landscape that consumer companies face. By focusing on the most material issues for our holdings, our ambition is to understand the potential impact of these issues on investment returns.

INTEGRATE

We incorporate relevant ESG information and analysis into our investment processes. On an annual basis, we assess the ESG performance of all of our holdings using our proprietary, 25 point, ESG benchmarks. The most material ESG issues are discussed during investment calls.

ENGAGE

We discuss ESG issues with our holdings on a regular basis. The objective of this engagement is to inform our investment analysis, and encourage behaviour change.

THE SCOPE OF OUR ANALYSIS

There is no exhaustive list of ESG issues – they are complex, constantly evolving and vary by company and geography – but we broadly consider the following areas when we assess ESG performance:

ENVIRONMENTAL

We do not seek to invest in "green" companies. Instead, we look for evidence that our holdings have the necessary policies and practices in place for the effective management of environmental issues. These include energy and water management, climate change, sustainable sourcing of raw materials, packaging and waste. We also expect our companies, as leaders in their respective sectors, to be actively engaged in the associated public policy debate.

SOCIAL

Companies increasingly have to consider their impacts on a range of stakeholders (employees, consumers and local communities) so that they can maintain a "licence to operate". Social issues that we consider include human capital management, workplace health and safety, product responsibility, responsible marketing, and the management of human rights down the supply chain. We also look to identify solid relationships between our holdings and the communities in which they operate.

GOVERNANCE

We go beyond the standards mandated by regulation to consider management practices and policies that have the long-term interests of investors, particularly minority ones, at heart. Governance issues that we consider include: independence, experience and diversity of the Board; audit standards; executive compensation plans; and the management of corruption and bribery. We also promote the importance of an active dialogue between companies and their various stakeholders, and encourage the disclosure of ESG policies and metrics in public reporting.

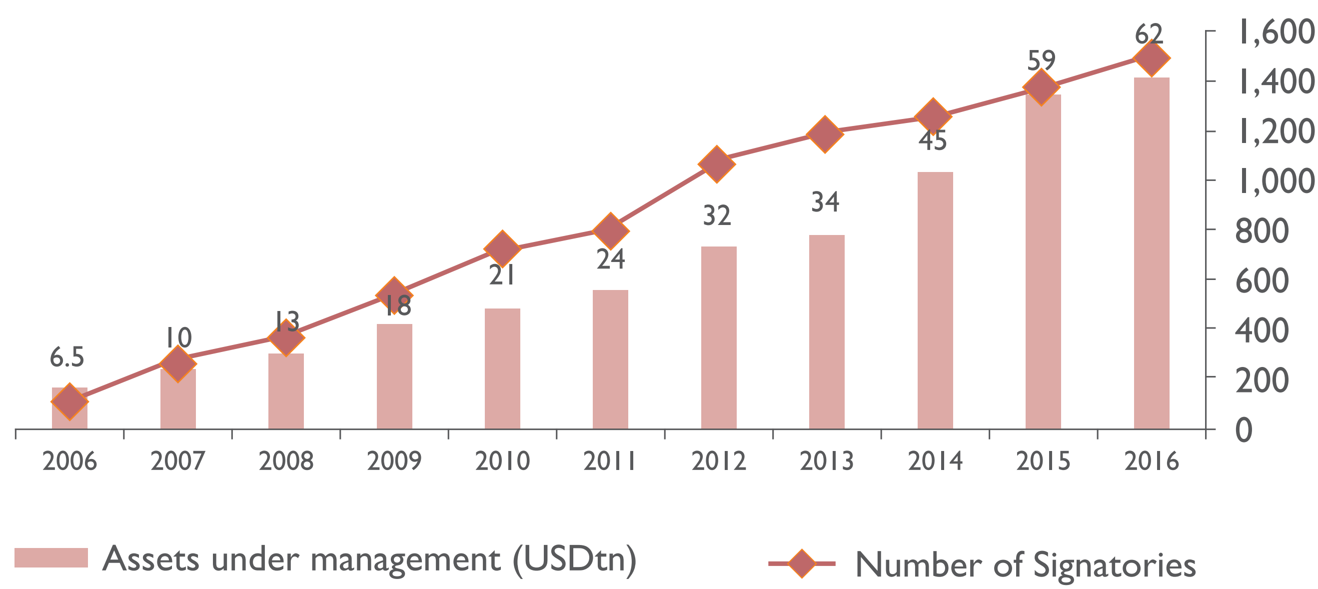
PRINCIPLES FOR RESPONSIBLE INVESTMENT

In January 2010, Arisaig Partners became a signatory to the United Nations' Principles of Responsible Investment ("PRI"). Developed by a United Nations-led working group, the PRI is a voluntary, aspirational scheme that provides a framework for incorporating ESG considerations into investment analysis and ownership practices. We align our work to the six principles for responsible investment:

1. We incorporate ESG issues into investment analysis and decision making processes.
2. We will be active owners and incorporate ESG issues into our ownership practices.
3. We will seek appropriate disclosure on ESG issues from the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will report on our activities and progress towards implementing the Principles.

The PRI has grown in stature since its formation in 2005 and now more than 1,400 signatories, representing over USD62tn of assets under management, have committed to implement the six principles of responsible investment. Due to the rapid growth of the PRI initiative to include some of the world's largest financial institutions, pension funds, and service providers, the scheme continues to drive awareness of ESG integration across the investment community and we continue to support its work where we can.

Growth of the PRI Initiative[1]



Source: PRI

Through the PRI, we have participated in collaborative engagements relating to the sourcing of sustainable palm oil, the management of employee relations in the retail sector, the growing importance of health and wellness to food and beverage companies, and the role that stock exchanges can play in driving ESG analysis in the investment community.

We report on our ESG efforts to the PRI on an annual basis. In our 2016 PRI Assessment Report we received a score of A+, (Overarching Approach), A+ (Listed Equity – Incorporation) and A (Listed Equity – Active Ownership).

[1] www.unpri.org

Understand

We undertake research in order to develop a broad view of the evolving sustainability landscape that consumer companies face. By focusing on the most material issues for our holdings, our ambition is to understand their potential impact on investment returns.

As a research-driven investment management firm, our own in-house research and analysis is the most important source of information on sustainability issues. Relevant ESG issues are considered by our investment analysts in the research reports that they complete. This is supported by bespoke ESG research projects undertaken on specific issues and themes that are most material to our holdings. In 2016, our research focus was on the topic of executive remuneration for multinationals.

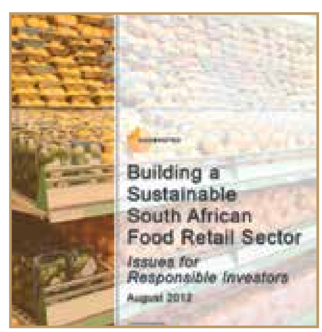
We continue to see value in commissioning research from specialist ESG research houses. This not only reflects our appreciation of the value of independent analysis, but also our view that the investment community has a responsibility to help support the development of insightful ESG research alongside the usual broker coverage. The reports that we commission focus on key thematic areas of interest for us and are often used as tools for engagement as we work to raise awareness of the importance of ESG issues with our holdings.

EXTERNALLY COMMISSIONED RESEARCH

WATER

NUTRITION

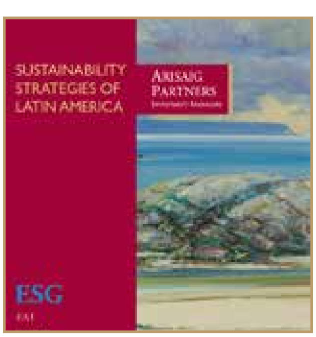
SUPPLY CHAINS



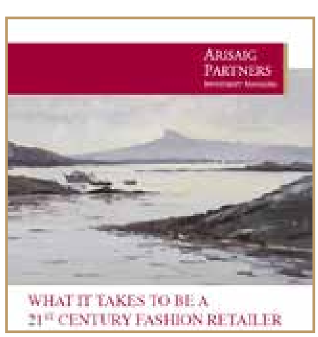
TAX AVOIDANCE

INTERNAL RESEARCH

REGIONAL REPORTS



SECTOR REPORTS



CASE STUDIES

MATERIAL ISSUES REPORTS

EXECUTIVE REMUNERATION POLICIES OF **MULTINATIONAL CORPORATIONS**

Executive remuneration has become an increasingly contentious topic in a world in which awareness of, and animosity towards, income inequality has ballooned in recent years. In order to better understand this issue, the team analysed the available data from the remuneration policies of the multinational corporations ("MNCs") within the Arisaig Global Emerging Markets Consumer Fund ("AGEMCF"). This is focused on CEO pay, which at present is the only broadly disclosed data. Clearly there is a lot more work to be done to unravel how incentivisation trickles down through each organisation. The aim of this exercise was to begin to build an idea of 'best practice' within the leading consumer staples businesses and to draw out lessons for our aspirational indigenous emerging market companies.

REPORTING OF EXECUTIVE REMUNERATION

It is fair to say that the remuneration reports are on the whole, a confusing affair (perhaps by design). To begin with, it is hard to find consistent data, or even terminology across companies. Business are understandably shy about disclosing how they are incentivising managers given the competitive sensitivity of this information. This limited and complex disclosure ensures that remuneration reports often take a great deal of time to decipher; time that many investors can't or won't spare. On average the AGEMCF MNC CEOs were paid USD11.4m in 2015, which was slightly below the average for an S&P500 CEO of USD12.4m. Around 84% of the pay was variable in nature, dependent upon hitting a variety of performance targets.

IS PAY RELATED TO PERFORMANCE?

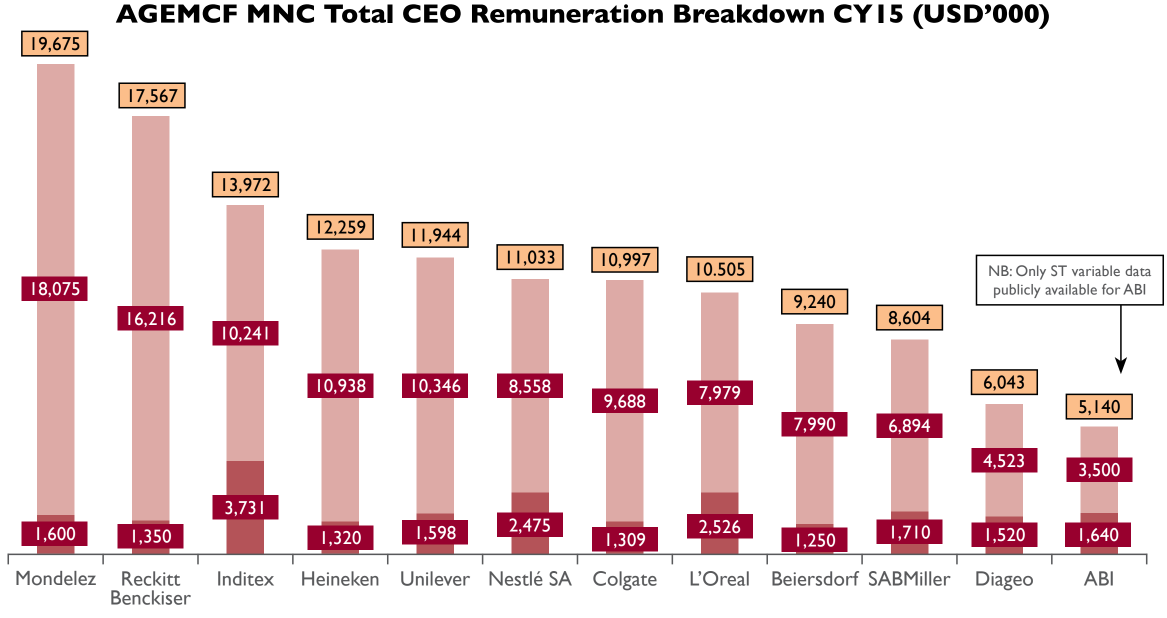
The majority of literature and research suggests a limited (and often negative) relationship between CEO remuneration and total shareholder returns ("TSR"), arguably the most objective measure of a company's performance. However, for the AGEMCF MNCs, the initial data seems to point to a reasonably strong positive correlation between the two, suggesting that the remuneration policies are, at least to some extent, aligning with shareholder interests (alleit in the short-to-medium term).

DESIRABLE POLICY FEATURES

The subjective discussion of what a 'fair' level of pay is, or whether or not CEOs even really matter in the long run are both essays in their own right. It is also almost impossible to suggest an 'optimal' incentive structure, but having looked through the remuneration reports of the AGEMCF MNCs and additional external literature, there are a few features that stand out as being particularly desirable.

- Shareholding requirements and minimum holding periods
- ROCE and ESG targets within the long-term remuneration component
- Claw-back provisions

AGEMCF MNC Total CEO Remuneration Breakdown CY15 (USD'000)



Source: Company financial disclosures

UNDERSTANDING CLIMATE CHANGE: CARBON FOOTPRINTING OUR PORTFOLIO

The world's economies, both developed and emerging, remain fossil fuel dependent. If we burn all the identified reserves of coal, oil and gas we would be contributing to the earth's warming by eight degrees Celsius; an outcome that would be disastrous from an environmental, social and financial standpoint. Arguably, our focus on commodities such as oil can distract attention from the realities of carbon emissions related to consumer businesses. Our exposure here is most pronounced in the dairy sector in which we own several businesses around the world and we continue to engage with our holdings on the issue.

Source: http://cdn2.onegreenplanet.org/

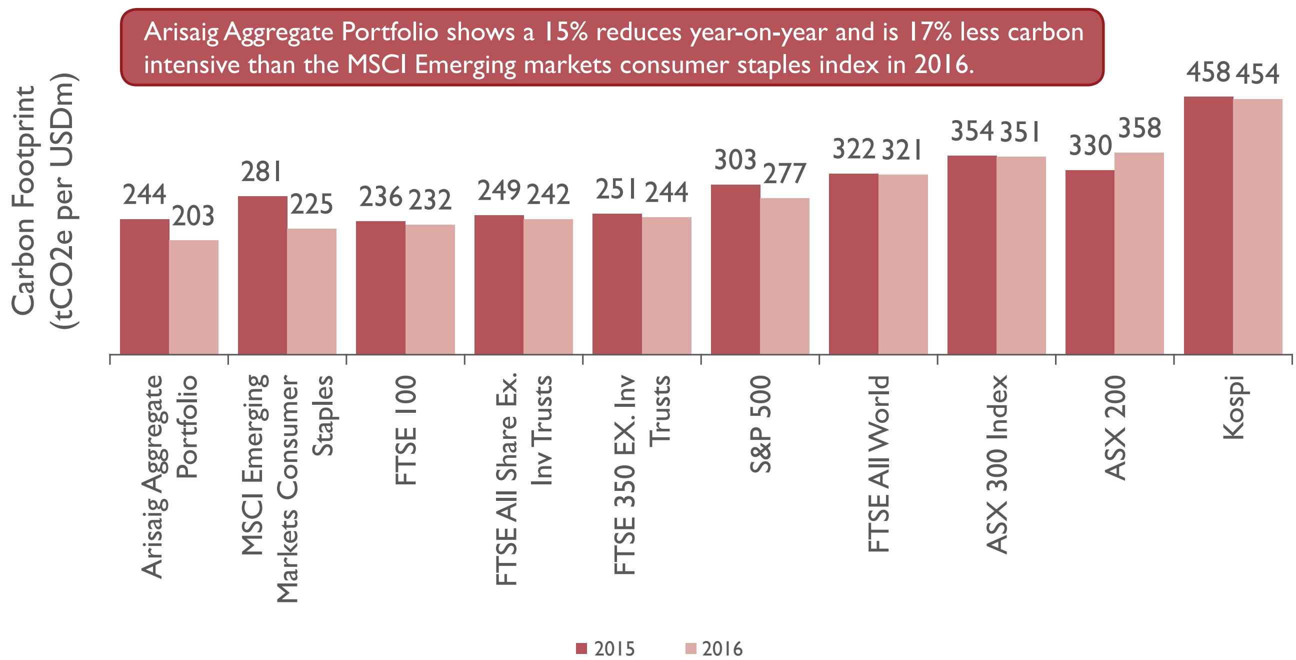
At the successful UN Climate Change Conference the role of investors in financing the transition to a low carbon economy was high on the agenda. Whilst there are no oil rigs or other potential "stranded assets" hidden in our consumer staples portfolios, the international community has made it clear that the private sector has a critical role to play in mitigating and adapting to global environmental challenges.

As an organisation we try to do our bit by offsetting all of our carbon emissions on an annual basis, but we recognise that we can have a much greater impact by encouraging lower emissions from our holdings. On the principle that "you can't manage what you don't measure", in 2016 we completed our second year of carbon footprinting our four consumer portfolios. This project was completed with the help of, a company that provides sustainability data, and has assessed all of the greenhouse gas emissions (as measured by tonnes of carbon dioxide equivalents, "tCO2e") generated by our holdings.

PORTFOLIO FINDINGS:

Our carbon footprinting research has highlighted that our consumer portfolios, when aggregated together, generate 239.7 tonnes carbon dioxide equivalents (CO2e) for every million USD of revenue. To give this some context we compared this figure to some of the world's global benchmarks and we found that our aggregated consumer portfolio is 17% more carbon efficient than the MSCI Emerging Markets Consumer Staples benchmark.

Arisaig Aggregate Portfolio Carbon Footprint Compared to Indices 2015-2016



Source: Trucost research for Arisaig Partners (2015, 2016)

Results vary at a regional level. The Asia and Latin America Funds are particularly carbon efficient, with an intensity level less than 50% of their regional benchmark Index, whilst the Africa Fund is much more carbon intensive given its higher exposure to dairy companies. Nevertheless, all four Funds outperformed their benchmark this year.

ENGAGEMENT ON FINDINGS IN YEAR 1

Based on the Trucost findings in 2015, in 2016 we took our first steps to address the emissions impact of our portfolios by engaging with our dairy holdings across the world.

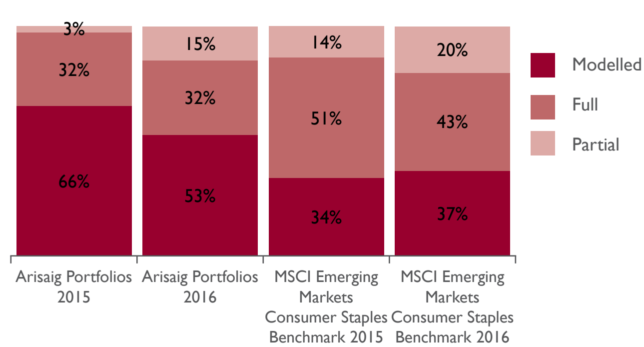
Dairy farming represented seven of the ten most carbon intensive businesses in our portfolio in 2015. Methane produced in cows' stomachs as well as the nitrous oxide in manure and fertilisers, have a material impact on emissions.

Our respective teams sent letters to the management of Vinamilk, Herdez, and Grupo Lala on this topic. Unfortunately, these holdings do not disclose specific carbon emissions data and thus, for the purposes of our analysis, their emissions were modelled by Trucost. We encouraged these businesses to provide transparency in the future. Juhayna, an Egyptian dairy company, vertically integrated cows into their supply chain several years ago and therefore generated a larger carbon emission impact. We also discussed this very issue with Vinamilk who have similar plans in the future – with implications for both on asset intensity and environmental impact.

IMPROVEMENTS IN DISCLOSURE AND NEXT STEPS

Whilst we note improvements in partial disclosure of some of our holdings, more than half of our portfolio companies do not report any emissions information. This is far below the percentage in the related MSCI index. We continue to engage with our dairy holdings and plan to visit the Vinamilk farm in north Vietnam in 2017. We will also engage with Fan Milk Ghana and Clover, our newest dairy holding in Africa.

Disclosure Analysis 2015-2016 vs. Benchmark



Source: Trucost Assessment for Arisaig Partners

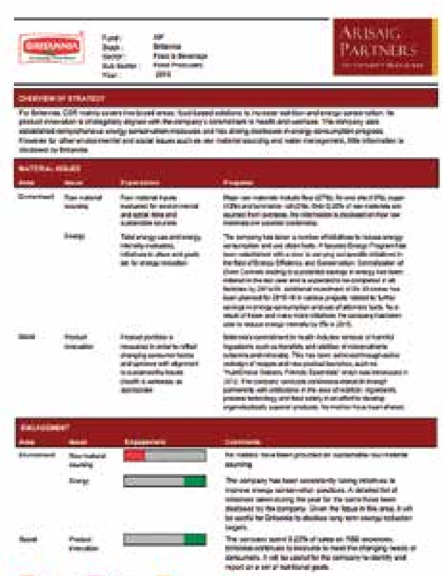
Integrate

We incorporate relevant ESG information and analysis into our investment decision making processes. Given our long-term investment horizon, significant research is undertaken before a decision is made to invest or divest and this includes environmental, social and governance concerns.

HOW ESG INFORMATION IS BUILT INTO OUR INVESTMENT RESEARCH

We assess the ESG performance of all of our holdings against 25 criteria across environmental, social and governance areas:

Environmental	Social	Governance
Raw Material Sourcing	Quality Assurance	Board
Energy	Health & Safety	Strategic Leadership
Water	Supply Chain Standards	Compensation
Waste	Employee Engagement	Stakeholder Engagement
Climate Change	Talent Development	Transparency
Transport	Responsible Marketing	Related Party Transactions
Supply Chain Management	Product Innovation	Tax
Externalities	Community	Corruption
		Auditor



In each of these areas, the company is given a score from 0 to 4 depending upon its management of the issue. Wherever possible the score assigned is not based on publicly disclosed information, but on discussions with company management to reflect a more informed view of activities that are being undertaken on the ground.

HOW WE FOCUS ON THE MATERIAL ISSUES

Following the assessment of a company across the complete range of 25 ESG areas, we then identify the most material issues for that particular business. These reflect not only where an organisation has the most significant economic, environmental, and social impact, but also who we deemed to be most important to the company's key stakeholders. These material issues, along with a "strategy overview" are included in a one-page ESG report for each of our holdings.

Both of these ESG assessment reports are built into our central modelling system called "Kingfisher" and are accessible to all investment analysts. These reports are updated by the analyst who covers the stock based on the continued interaction with management.

ROCE SUSTAINABILITY PROJECT

We continue to assess the critical ESG issues for our holdings. In 2016 we initiated an ongoing study into the durability of a company's 'moats', which we incorporate into our forecasts by way of the 'fade' factor applied to our long term discounted cash flow methodology.

In the first iteration, we had each analyst identify the risks their holdings face, incorporating case studies; ways in which the businesses could mitigate these risks; whether the risks are company, geography or industry-specific; and indicative warning signs. In the second assessment, analysts were asked to name as many risks, moats and capabilities that they could think of applicable to their holdings. These were tallied and will form the base of the study to understand ROCE sustainability. In 2017 we will continue to evaluate these factors to better incorporate our wider sustainability research into our proprietary valuation tools.

Here are some examples of insights that we have integrated into our investment analysis over the course of 2016.

Health and wellness continued to be a major theme in assessing our portfolio. Even in emerging markets such as the Philippines, governments have been considering both sugar and junk food taxes. As one of our MNCs of the future, **Jollibee** hopes to eventually generate half of its sales overseas – the United States and China play significant roles in this goal. We regularly speak with management its ambitions for the fast food portfolio over the long term. In the Philippines, this means healthier options such as the 'Mang Inasal' brand we being prioritised. Management has also learned that tastes in China can change quickly and have a material impact on earnings. We continue to monitor how the company approaches these trends over time, whilst still maintaining an affordable, appetising and safe menu.

Our newest holding in the Asia and Global funds, **Dabur**, is a potential Indian beneficiary of the broader global trend of rising interest in local approaches to well-being rooted in national heritage. Dabur operates in the ayurveda space – encompassing traditional Indian medicines and associated with a healthy yet uniquely Indian lifestyle. These products have been staples in Indian households for over a thousand years, much like traditional Chinese medicine. We find that Dabur is best positioned to capture the formalisation of this sector with products ranging from honey to OTC supplements.

We continue to indirectly own the Mexican Coca-Cola bottler, Coca-Cola FEMSA, through our stake in the Mexican consumer conglomerate **FEMSA**. Despite a sugar tax in 2014, market leaders such as FEMSA have been relatively unaffected, returning sales to pre-tax levels – learing smaller competitors to bear the brunt. However, these policies continue to be pushed worldwide – from specific localities in the US to the looming threat of a nationwide tax in the Philippines. Furthermore, the risk of increased taxation in Latin America is still prevalent. FEMSA's management continues to diversify its product portfolio away from soda this year, purchasing a soy-based beverage brand from Unilever called "AdeS".

The ability to innovate successfully remains one of the key attributes we seek in our emerging market investments. We look to own businesses which exhibit foresight in relation to the direction of consumer trends. In China, these trends have a material effect on demand as well as profitability. Less healthy categories of the past such as instant noodles, flavoured milk, sweet biscuits, and juices have seen declining volumes. Since removing Uni-President China and Want Want from our portfolio (companies which produced instant noodles and flavoured milk), we have added a different Chinese F&B business, **Dali**. Although there is still work to be done to reposition its portfolio towards healthier product categories, Dali has now launched a soy milk brand and we admire the company's agility catering to the changing tastes of the Chinese consumer.

VALUING A LONG TERM CONSUMPTION OPPORTUNITY: **AN ART NOT A SCIENCE**

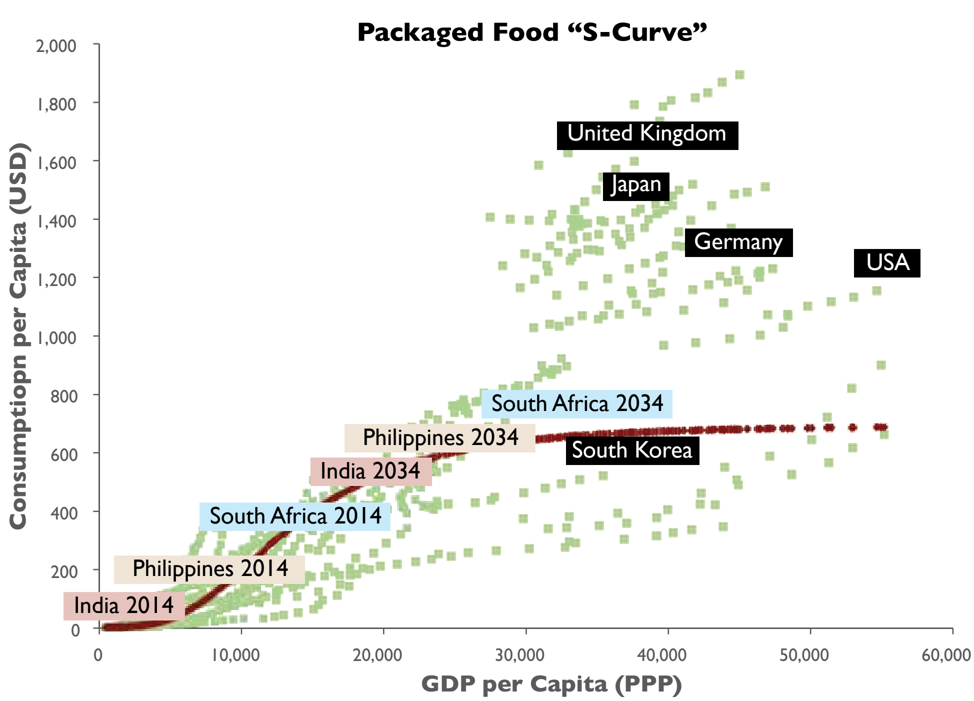
As long term investors, we prefer not to focus on short term valuation metrics such as price to earnings ratios. Instead, we have developed a proprietary valuation model called the Arisaig Crystal Ball ("ACB") to evaluate each company's ability to generate investment returns over 20 years. The due diligence process that informs the creation of an ACB model for all of our holdings provides an opportunity to consider how non-financial factors could impact shareholder returns. Given the multitude of factors, including ESG issues, which could determine the long term success of our consumer businesses, we consider this process to be an art rather than a science.

There are three important questions we need to answer when creating an ACB model for each of our holdings:

(i) How big will this business be in 20 years?
(ii) How will the operating cost structure evolve over time?
(iii) How durable are the competitive advantages of the business?

HOW BIG WILL THIS BUSINESS BE IN 20 YEARS?

Like any discounted cash flow model the ACB projects the residual cash flow of a company over the investment horizon. We begin this process by creating the revenue profile for the business over 20 years by forecasting expected consumption of the consumer categories in which a company competes. To do this we plot an "S-Curve" to evaluate how consumption levels (measured by consumption per capita) rise as wealth levels increase (measured by GDP per capita). Consistently, we observe that there will be an inflection point when the level of consumption for a particular consumer product "takes off" before a plateau is later reached – hence forming an "S" shape.



As we are focused on emerging markets, the companies we invest in are situated in the bottom-left quadrant of the S-Curve today. Thus, their future value will be primarily driven by the projected movement to the upper-right quadrant of the S-Curve over the next 20 years. Given the time horizon, it is critical for us to consider the range of factors that could prevent a category from moving in this direction. The factors could be environmental (resource scarcity due to climate change), social (evolving attitudes to health and wellness) as well as or involve technological advancements (impact of e-commerce). Detailed research by our analysts around the globe supports our S-Curve assumptions.

HOW WILL THE OPERATING COST STRUCTURE EVOLVE OVER TIME?

While the value of companies will be driven largely by the scale factor, we also need to understand how the operating structure of the company will change in the future. This helps us project the level of investment required to fund the growth that we have forecast. We consider non-financial factors that could impact profitability (EBITDA margin), asset utilisation and working capital, and use peer analysis to understand discrepancies between our holdings.

One theme of particular interest is the impact of climate change on agricultural productivity and therefore the price of commodity inputs. We are also conscious of the implementation of excise taxes by governments in both developed and emerging countries to attempt to reduce the healthcare burden of obesity, diabetes and other non-communicable diseases.

Again, it is the iterative process of assessing and reassessing the validity of our long-term assumptions that improves our understanding of the viability of investment returns over the long term.

HOW DURABLE ARE THE COMPETITIVE ADVANTAGES OF THE BUSINESS?

Lastly, a conservatism that differentiates us from a typical discounted cash flow model is our inclusion of a 'fade factor'. This makes the assumption that despite the long heritage and strong brands of our consumer franchises, the durability of their competitive advantage will diminish over time. We mandate that all companies will begin to fade away excess returns from year 15 onwards.

We assign one of three fade rates to the returns of our holdings depending on our view of the company's competitive moats. This decision is based on extensive research into non-financial factors such as management quality, innovation capability, corporate culture, distribution capability and sustainability strategy.

In conclusion, we recognise that valuing businesses on a 20-year time horizon involves the analysis of both qualitative and quantitative factors. What we hope to achieve with the ACB is to enable our analysts to be able to paint a picture of the potential of all of our holdings. While the final output is a quantifiable fair value or annualised returns figure, the iterative process of arriving at that number gives us insight into the factors that could impact a company's success. This naturally includes Environment at Social and Governance issues.

Engage

We discuss ESG issues with our holdings on a regular basis. The objective of our engagement is to garner information to inform our investment analysis and to encourage behaviour change in the management of our businesses. We make a virtue of transparency and discuss notable engagements in an ESG commentary in our monthly Diary.

In 2016, our 27 strong analyst team undertook 363 meetings with our holdings. We used these interactions with management, as well as operational site visits, to build an investment case for all of our holdings. As long term investors, this naturally includes discussions as to how a company is positioned to mitigate and respond to the changing landscape of ESG issues.

363 MEETINGS:
161 ASIA
95 AFRICA
73 LATAM
45 GLOBAL*

**The Global Emerging Markets Consumer Fund includes stocks within the regional funds and these meetings are captured at a regional level although Global analysts often attend.*

Although the holistic goal of our engagement is to positively influence companies towards ESG best practice, we group our ESG engagement into two main categories, depending on whether its key objective is to provide information that we incorporate into our own investment analysis, or whether it is to drive change in company behaviour.

ENGAGEMENT TO INFORM INVESTMENT ANALYSIS

Engagements involve discussions with management and operational site visits, in both of which are incorporated into our decision to invest, divest or re-weight a position. Investment decisions are usually made over many months and follow a detailed due diligence process. Hence, it is important to note that ESG factors are just part of a series of considerations that would affect an investment case or our outlook for a company's future. This approach is particularly important for us as emerging market investors as it helps to overcome the poor corporate disclosure that we often encounter.

Following the Danone takeover of our holding **Fan Milk Ghana**, the team questioned the corporate governance checks regarding where the intellectual property of locally developed innovation resided. The fear was that management focus may shift towards Nigeria where the dairy market is less developed rather than Having encountered governance concerns with Centrale Danone in Morocco, which the Africa Fund divested in March 2016, the team raised their concerns with management, but were reassured that the company's focus on harnessing the huge consumption growth potential in Ghana remained intact.

In 2016, we continued our discussions on water management in Africa and Asia. In 2015, the team spoke with **Bralirwa**, **Tanzania Breweries**, **United Spirits** and **United Breweries.** This year, our team met with the Global Sustainability Development Director of **Diageo** as well as the President of Asia Pacific. We learned that the business is ensuring the localisation of sustainability efforts when it came to water management at a global level, water security and stewardship was second only to non-communicable disease as material issue to stakeholders and the level of business risk and opportunity. At a local level, we hope to see more disclosure on water efficiency for subsidiaries **Guinness Ghana**, **Guinness Nigeria**, and **East African Breweries**.

ENGAGEMENT TO CHANGE BEHAVIOUR

Given that the understanding of the materiality of ESG issues is still nascent in emerging markets, some of our conversations might simply focus on raising awareness of particular issues with company management. However, often we attempt to leverage our insight into the consumer sector to propose to a company a particular course of action to improve its competitive position; or to side-step a difficult issue. We recognise that our companies know their businesses better than anyone, and so we often support our request with research (either internal or commissioned from external agencies) that backs up our viewpoint.

In 2016, we continued to engage with **Universal Robina** on their strategy regarding nutrition. Since we invested in 2013, the business has performed well in the snacks, RTD tea, and confectionery categories. We initially raised the issue of health and wellness in a letter in 2014. However, with the threat of a possible sugar tax in the Philippines, this year our team aimed to make URC aware of the impact the soda tax in Mexico had on volumes in the soft drinks industry. If the proposed tax were to be implemented in the Philippines, nearly a quarter of sales would be affected with RTD tea prices rising by 30-40% to compensate. We also shared our thoughts on the "Access to Nutrition" Index; as well as outlining which parts of URC's product portfolio we believe are most vulnerable to health and wellness trends. We offered a model developed by Pepsi Co. grouping products into "Fun for You, "Better for You", and "Good for You" to capture the consumer spectrum. In 2017, the company plans to launch plant based beverages through a JV with **Vitasoy** as a step towards the future.

We also wrote to one of our long-time holdings, Korean confectionery player, **Orion Corp,** regarding sustainable capital allocation and the effects on ROCE. After poor 2Q16 results related to China, the share price collapsed by 19% in one week. We understood this to be related to A&P expenses, but had been given no guidance on the issue – a result of poor corporate communication. Whilst we do not focus on the quarter-to-quarter figures, we spoke about the long-term plan for managing the China business. The ROCE for Orion is much lower than its peers (9-11% versus. an average of 32%). We found that asset intensity was quite high and recommended disclosure of core assets by geography, splitting operating/non-operating assets, disclosing the book and market value of such assets, and the capacity utilisation rate. We hope this additional clarity might precipitate the divestment of non-core assets, to improve the efficiency of the business and ensure proper alignment of interests with minority shareholders such as ourselves.

The Global Fund also reached out directly to the management learns of several MNCs following a research project on taxation. Most notably, the team spoke with the CFO of **Reckitt Benckiser**. The company stood out during our research for three reasons: the "tax gap" between its effective rate and estimated statutory tax weighted by sales was about 7%; there was a rateable lack of tax discussion or stated policy in their ESG disclosures; and there was evidence of the existence of a tax "deal" in Luxembourg. By engaging with management, we learned that the "tax gap" was due to relative profitability region-to-region. Additionally, value added parts of the supply chain occurred in lower tax jurisdictions. Overall, we found the answers sufficient, but stressed the need to address these points in forthcoming ESG disclosures.

MAKING AN IMPACT IN **EMERGING MARKETS**

Arisaig Partners frequently works closely with portfolio businesses to help develop their ESG plans and agenda. Our long-term investment horizon means that we are able to engage with companies who are at an early stage of exploring sustainability and its impact on operations and practicability. This year, Vatsal, our analyst in Mumbai, collaborated with one of our most recent investments, Olympic Industries, a Bangladeshi biscuits company with sales of less than USD200m. Vatsal worked closely with management throughout 2016 on issues such as nutrition and responsible capital allocation. Upon our recommendation, Olympic has installed a dedicated Head of Sustainability and is in the process of implementing a sustainability plan and report.

Marion Champoux-Pellegrin
Corporate Responsibility Lead

Olympic Industries is the leading biscuit manufacturer in Bangladesh. Originally founded as a battery manufacturer, Olympic diversified into food in 1987 and commenced biscuit and confectionary production in 1996. After an extensive research process, many meetings with management (including a tour of the production facilities in Dhaka), we took our first position in June 2015. We admired the quality of production and see a promising long-term horizon in the Bangladeshi packaged food space.

Following our investment and in accordance with our recommendation we were pleased to hear that Marion Champoux-Pellegrin was appointed as a dedicated 'Corporate Responsibility' lead. Whilst management have addressed ESG topics on an ad hoc basis in the past, the appointment of Marion was a forward-looking step in the company's path towards sustainability.

June 2015
Investment in Olympic Industries

March 2016
Olympic hires dedicated resource for CSR seeking feedback from Arisaing Partners. Materials are shared with Olympic

April 2016
Meeting with Olympic in Dhaka - discuss steps to implement strategy, our assessment, and to introduce role of "Access to Nutrition"

August 2016
Olympic requests help with responsible capital expenditure allocation

September 2016
Arisaig responds to Olympic request and provides feedback on allocation and introductions to Sustainability Heads at Godrej and Marico

October 2016
Olympic speaks to sustainability teams at Godrej and Marico

"At Olympic, we believe that we have several key responsibilities towards our stakeholders, one of which is Corporate Social Responsibility. These activities are primarily intended to minimize the impacts our operations may have on our stakeholders. We are committed to achieving these goals by engaging in ethical and sustainable business practices, as well as tending to the needs of those who work so hard to make us a better company. To us, CSR means treating employees with respect and dignity and being a good neighbour to the people next door as well as those halfway across the world."

Olympic Industries factory outside of Dhaka, Bangladesh

Biscuit production line at the Olympic factory

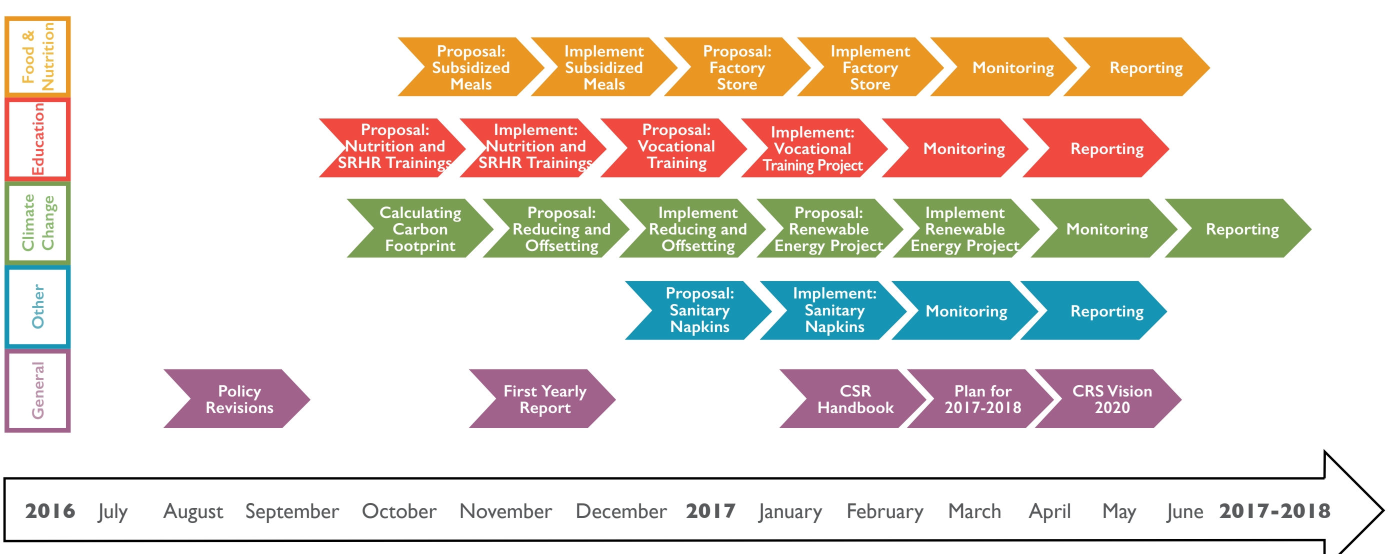
Marion contacted us shortly after her appointment in April 2016. We provided examples of our holding companies which have implemented a sustainability framework in the past, shared our ESG assessment, and provided an introduction to the "Access to Nutrition Index". In our written response, we also referenced the approach by multinational leaders, namely Unilever and Mondelez. Additionally, our team identified three material issues for Olympic Industries: Quality Assurance, Health and Safety, and Product Innovation.

Once the initial sustainability assessment has been made, it is important for a company to identify and measure where there is room for improvement. We find that tangible, measureable goals help guide the sustainability process. This can often be achieved through benchmarking against best practices from the developed world. We also like to see sustainable practices permeate through all levels of the firm. We value the Paul Polman model of integrating and communicating Unilever's sustainability pillars to every member of the organisation.

After our meeting in Dhaka in April 2016, Olympic reached out once again to discuss resource allocation and responsible capital expenditures. In the most recent disclosures, we were pleased to see a specific line-item breakdown of where the budget would be allocated. The 2016 budget focused on the well-being of factory workers – this translated into a 22% allocation to a factory convenience store and 13% going towards subsidised meals.

Our final recommendation was to create an ongoing dialogue with other business in South Asia. We introduced Olympic's management to the Sustainability Heads at our holdings, Godrej and Marico. We look forward to Olympic's inaugural sustainability report in 2017 and hope to see the programme develop in coming years.

Olympic Industries Sustainability Roadmap



Proxy **Voting**

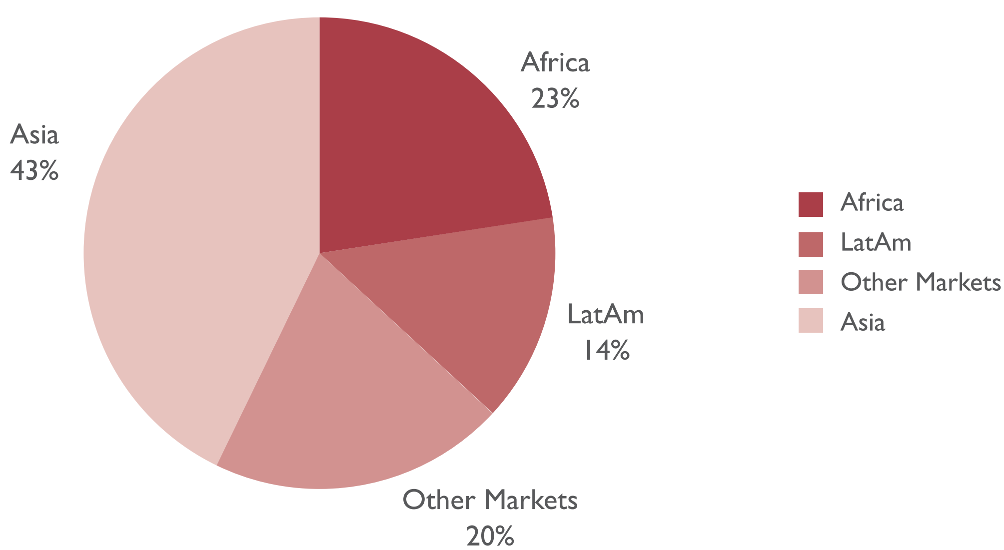
Proxy voting is a fundamental part of our portfolio management process and we seek to vote on all possible resolutions at annual and special general meetings. We see it as not only our fiduciary responsibility as a shareholder, but also an important means by which to convey our views to the Board of Directors and senior management.

We voted at 119 meetings: 51 meetings in Asia, 27 meetings in Africa and 17 meetings in Latin America with 24 meetings falling in other jurisdictions.

We voted on 1,122 agenda items and in total we cast over 3.1 billion votes.

3.0% of votes were "abstain" or "against"

Meetings By Region in 2016

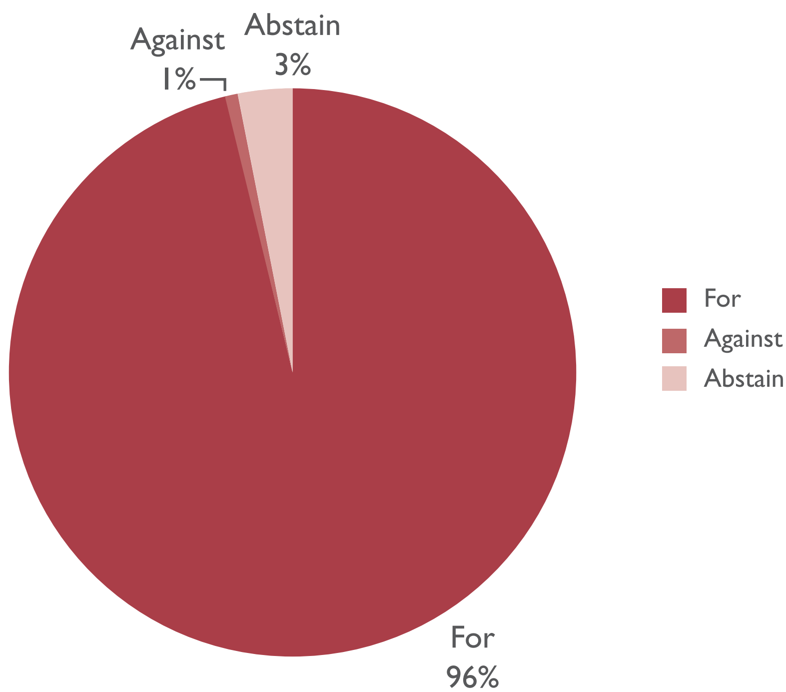


The long-term aim of our approach to proxy voting is to assist in the improvement of corporate governance standards at the companies in which we invest. Hence, our process is very much engagement focused.

In terms of process, prior to casting our votes, the relevant investment analyst reviews each resolution. Decisions can be taken quickly for non-contentious items, such as the approval of financial statements. For more strategic decisions, such as whether to support the election of new board members; or where the resolution impacts minority shareholders, such as the issue of new shares; the resolution would be discussed during an investment call before casting our vote.

If we are unhappy with the resolution that has been proposed or believe that insufficient information has been provided by the company, we will seek further information in advance of casting our vote. This engagement can be used to highlight concerns that we may have and is an opportunity to convey to management the rationale behind a decision not to support a particular resolution. In addition, given that we are usually one of the largest minority shareholders, we might be contacted by the company to seek our opinion in advance of a resolution being tabled.

2016 Voting Decisions



Our ESG research continues to inform our decision-making and thought process on key items on the voting agenda. The issue of remuneration was one such item for which we did not vote with management in the case of an American owned by the Global Fund. When comparing the proposed revenue and TSR targets for management compensation, we found modest hurdles which were very likely to be met and were well below recent historical figures.

In India, we continue to use our vote in defence of the revised Companies Act which puts forth a resolution to rotate company auditors every ten years. Compliance has become mandatory in 2017, although we have continued to encourage our holdings to adopt best practice in past years. In two such instances this year, we voted to abstain from the appointment of auditors which did not comply with this policy.

We continue to publish research to emphasise the importance of strong corporate governance in emerging markets. This research, available through our website, includes reports on "Minority Shareholder Rights in Indian MNC Subsidiaries" and "Corporate Governance from the Perspective of Institutional Investors in Emerging Markets".

ESG REVIEW 2016

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