

## RESPONSIBLE INVESTMENT POLICY

### INVESTMENT MANAGEMENT

AJO believes the stock market is reasonably efficient but emotional enough to provide opportunities for the disciplined investor. Because the market is complex, it is our view that opportunities are best exploited with a systematic, quantitative approach. We apply this same philosophy to our consideration of environmental, social, and governance (ESG) issues.

With the goal of providing our clients with additional opportunities to outperform in the markets where we invest, responsible investing at AJO currently takes the form of integration and exclusionary screening and covers the majority of our assets.

### INTEGRATION

Our work as bottom-up stock-pickers leads us to favor well-managed companies with quality cash profits, relatively low market valuations, positive price and earnings momentum, and favorable market sentiment. We prefer companies with stable stock prices, balance sheet growth, and profitability. As a result, our portfolios are naturally biased toward companies that exhibit better corporate governance. We formalized this preference in 2018 with the integration of measures of governance in our assessment of the future operating profitability of each company in our universe.

### EXCLUSIONARY SCREENS

AJO has a long history of employing client-directed exclusionary screens in our portfolios. Our perspective on risk and portfolio management minimizes the variance of these portfolios relative to similarly managed portfolios, and the breadth of our universe provides ample alternatives with similar risk and alpha prospects.

The exclusionary screens we implement are almost entirely ESG-related. Clients may provide their own restricted list, or we can provide assistance. Implementation is integrated into our quantitative process and is overseen and monitored by our investment and compliance teams using third-party and internally built compliance-management systems.

### ENGAGEMENT

AJO's primary means of engagement with corporate issuers is through proxy voting. AJO understands its fiduciary duty in voting proxies and that proxy voting decisions may affect the value of shareholdings. For detailed analysis of proxy issues, we rely primarily on one or more independent third-party proxy voting services, and client proxies are voted in accordance with the recommendations of these services. Where a client has a particular focus on ESG issues, proxies can be voted using proxy voting guidelines targeted to address ESG issues.

AJO will generally attempt to process every proxy it receives for all domestic and foreign securities. However, there may be situations in which AJO may be unable to vote a proxy or may choose not to vote a proxy, such as where the costs of voting outweigh the benefit of voting. Each proxy voted by AJO for a client account is disclosed to our clients quarterly. To receive a copy of AJO's *Proxy Voting Policy*, please contact us at 215.546.7500 or at [data@ajopartners.com](mailto:data@ajopartners.com).

#### FUTURE RESEARCH

Our research team will continue to seek additional ESG-specific variables to improve our forecasts for expected returns. Through our own and independent third-party research, we are committed to exploring sources of additional alpha for our clients in this regard.

We are also investigating the implementation of ESG factors as an expression of risk vis-à-vis our view of expected returns. In the realm of unrewarded risks, we find that understanding a portfolio's exposure to governance-related factors may help in avoiding extreme negative outlier events. A company with poor corporate policies may be more likely to experience fraud or to avoid productive change. If we can "smooth the ride" of overall portfolio returns by evaluating these characteristics, we have an opportunity to provide better risk-adjusted returns to our clients.

While AJO is committed to investigating the strength of ESG considerations in both an alpha and risk framework, clients will ultimately determine the extent to which an investment manager employs ESG within a portfolio. Our task is to implement those principles in a manner consistent with sound investment insights.

#### UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT ("UNPRI")

By becoming a signatory to the UNPRI on October 12, 2016, AJO commits to adopt and implement the following principles where consistent with its fiduciary duty to clients.

- **Principle 1:** AJO will incorporate ESG issues into its investment analysis and decision-making processes.
- **Principle 2:** AJO will incorporate ESG issues into relevant policies and practices.
- **Principle 3:** AJO will seek appropriate disclosure on ESG issues from relevant portfolio companies.
- **Principle 4:** AJO will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** AJO will work to enhance its effectiveness in implementing the Principles.
- **Principle 6:** AJO will report on its activities and progress toward implementing the Principles.