

# FISHER INVESTMENTS<sup>TM</sup>

---

## INSTITUTIONAL GROUP



## ENGAGEMENT REPORT

Q3 2019

## OUR ESG PHILOSOPHY STATEMENT

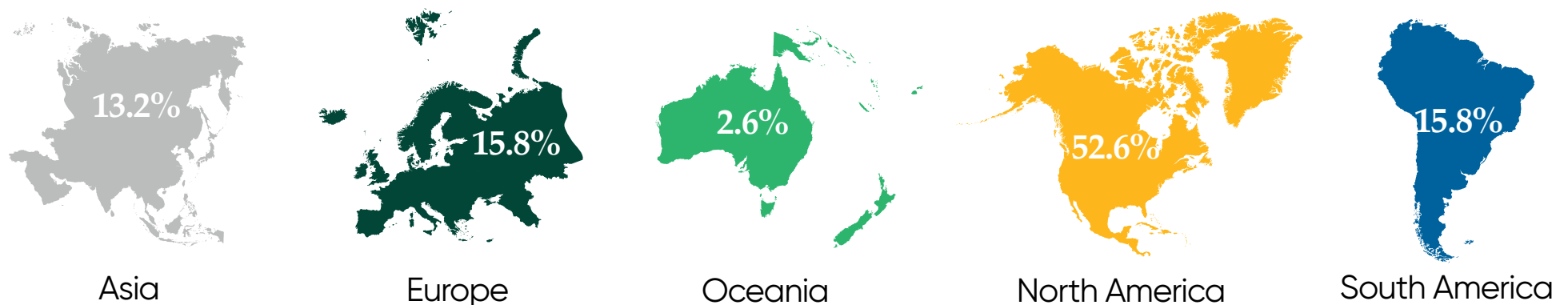
We believe ESG investors are best served by an investment process that considers both top-down and bottom-up factors. We further believe integrating ESG analysis at the country, sector and stock levels consistent with clients' investment goals and ESG policies maximizes the likelihood of achieving desired performance and improving environmental and social conditions worldwide.

## OUR ENGAGEMENT APPROACH

Fisher Investments (FI) engages with companies as part of its fundamental analysis and to clarify or express concerns over potential ESG issues at the firm or industry level. Through engagement, FI holds meetings with management as necessary to discuss pertinent issues we feel are critical to analyzing the company or better understanding peers or relevant industry factors. Information uncovered during engagement as part of our fundamental analysis can impact our investment decisions and stock determinations.

Further details are stated in our Engagement Policy, which is either on our [website](#) or available upon request.

## FISHER GLOBAL ACTIVE ENGAGEMENT 60 CONTINUOUS ENGAGEMENTS GLOBALLY

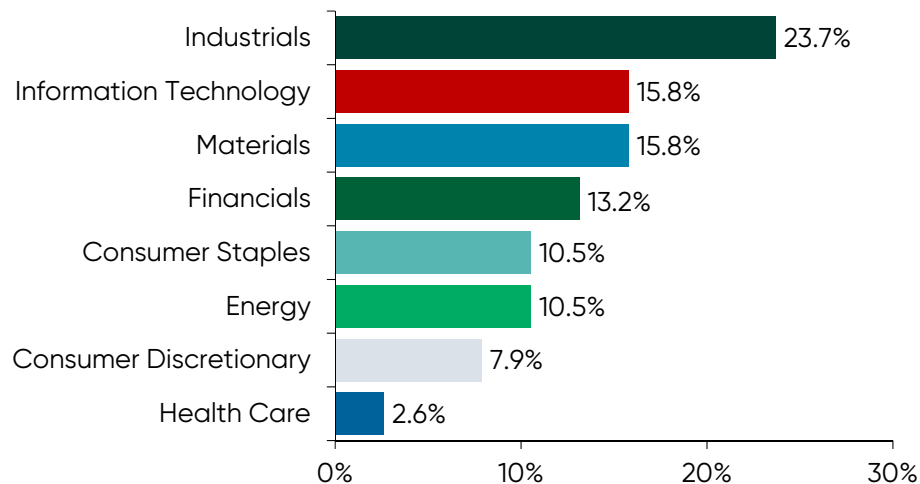


Source: FactSet and Fisher Investments Research. Data from April 2015 to September 2019.

CATEGORY	PERCENTAGE OF ENGAGEMENTS (%)	ENGAGEMENT TOPICS
ENVIRONMENTAL	35%	CLIMATE CHANGE, ENVIRONMENTAL OPPORTUNITIES, NATURAL CAPITAL, POLLUTION & WASTE
SOCIAL	30%	HUMAN CAPITAL, PRODUCT LIABILITY, STAKEHOLDER OPPOSITION, SOCIAL OPPORTUNITIES
GOVERNANCE	35%	ANTI-TAKEOVER MATTERS, EXECUTIVE COMPENSATION, REORGANIZATION/MERGERS, CAPITALISATION

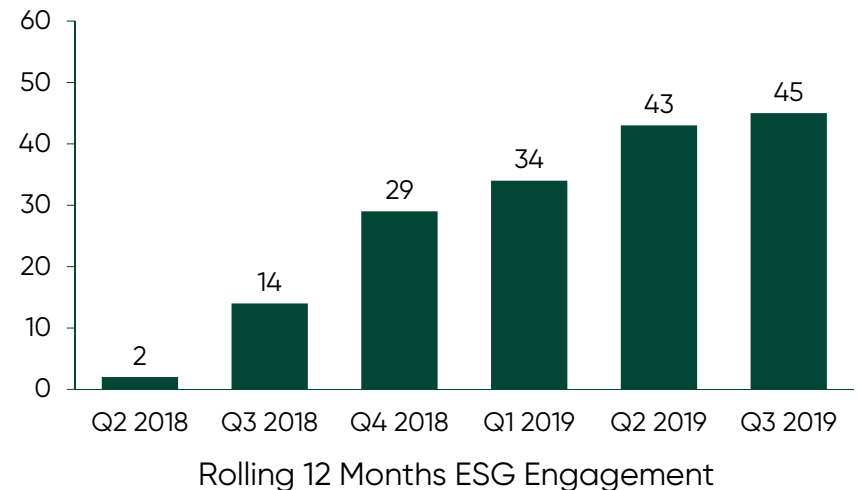
Source: Fisher Investments Research. As of date September 2019.

## SECTOR ENGAGEMENT



Source: FactSet and Fisher Investments Research. As of date September 2019.

## HISTORICAL ESG ENGAGEMENTS





REGION:	EM LATIN AMERICA
SECTOR:	MATERIALS
ENGAGEMENT DATES:	DEC 2018
ISSUE:	MINE OPERATION
STATUS:	ONGOING

## Thesis to Own:

A large materials company was purchased to increase exposure to the sector. Metals & Mining industry typically does well in the latter stages of bull markets and currently features balanced fundamentals, but weaker sentiment. In addition, the company is well positioned to benefit from robust copper demand amid healthy global construction and industrial activity.

## Company's Mine Concerns

The mine has faced strong opposition from local communities, particularly regarding its negative environmental impact. The mine has seen several violent protests over the years, with at least four casualties reported in 2015. The company recently received a ratification of construction permit from the local government but announced a postponement of construction due to the violent protests.

## Engagement Analysis:

While we acknowledge the ESG risks associated with the company's mine, we do not view these risks as material factors impeding share price performance. We engaged with the company regarding its mine in December 2018 and discussed concerns related to it. We believe the company has shown significant progress in managing the mine, and has received the approval of its environmental impact assessment from the local government agreement. The company has also engaged with the local community and expects to create approximately 3600 jobs during the construction phase of the mine. As a result, according to the company, the majority of the local population is currently in favor of the project. In addition, the mining operations will take place in the desert – not in the valley – which should help limit any negative environmental impact on the local communities. While we are encouraged by the progress, we continue to carefully monitor the situation and will follow up with the company as needed.

We purchased the company to gain thematic exposure to rising copper demand. The prospective list of securities with similar favorable Copper exposure within Emerging Markets remains severely limited and skewed towards similarly low-rated ESG peers. As a result, we view the company as the best thematic fit to our forward looking top-down views.



REGION:	EM ASIA
SECTOR	INFORMATION TECHNOLOGY
ENGAGEMENT DATES:	FEB 2018, JULY 2018, AUG 2018
ISSUE:	PRODUCT SAFETY, BRIBERY AND LABOUR
STATUS:	ONGOING

## Thesis to Own:

This company is one of the largest technology conglomerates in the world with exposure to mobile devices, semiconductors, and consumer electronics. With its leading market position in smartphones, the firm should benefit as consumers adopt mobile computing. In addition, the company's wide economies of scale in semiconductors and televisions should allow it to benefit from increases in both corporate and consumer technology spending. Furthermore, the company is ideally located to capitalize on surging demand in emerging markets.

## MSCI ESG Rating Summary:

The company is assigned a BBB rating by MSCI ESG research. Its environmental practices are highly rated tied to its Electronic Waste practices and exposure to Opportunities in Clean Tech (LED and energy efficient electronics). The company's social rating reflects strong practices related to Controversial Sourcing and Human Capital Development. However, this was recently weighed down by product safety issues tied to a recall. Further, increasing supply chain labor issues has negatively impacted the company's supply chain labor standards. Lastly, the company's governance rating is low from the bribery charges against company's Vice Chairman.

## Engagement Analysis:

The company's involvement in the ESG controversies related to product safety, bribery and supply chain labor issues are widely known and unlikely to be material drivers of share price performance moving forward. While these issues had minimal impact on share performance, we have reached out to engage with the company about them. We were encouraged to find that the company has strengthened its review process for donations, and any donation over \$1m is reviewed by the board and legal teams (was previously 0.5% net assets, approximately 650x larger limit).

Also, the company delayed a key product launch following the safety issues, putting product safety ahead of profit. They also acknowledged issues managing a supply chain of 2,700+ global suppliers. The company has been implicated in multiple incidents involving substandard working conditions but recently has adopted many Supply Chain Labor Standard best practices from the Electronics Industry Citizenship Coalition (EICC), including Codes of Conduct that cover working conditions, regular audits of its Tier 1 suppliers and disclosure of violations. Further, the company notes supply chain management is increasingly important to its investors, including Fisher Investments, as investors are increasingly interested in issues such as child labor and working conditions. We look forward to further dialogue on these issues.



REGION:	EM LATIN AMERICA
SECTOR	MATERIALS
ENGAGEMENT DATES:	MAY 2018
ISSUE:	DISCLOSURES & COMPANY PRACTICE
STATUS:	ONGOING

## Thesis to Own:

This company is a long steel producer with operations locally and in the US. Its decentralized mini-mill technology and significant iron ore and scrap recycling assets make it a low cost producer, which should position it to benefit from rising loan growth, construction, and industrial production in the US and improving economic conditions locally.

## MSCI ESG Rating Summary:

The company is assigned a CCC rating by MSCI ESG research. Primary concerns identified by MSCI ESG research include environmental and governance issues. The company has also been accused of bribery & tax evasion (which the company denies), and has a controlling shareholder with an outsized portion of voting rights. Additionally, the company provides minimal information on executive pay. Its low environmental score is primarily tied to the company's lack of carbon, toxic emissions and waste data disclosure.

## Engagement Analysis:

The company alleged involvement in controversies related to bribery, fraud, governance policies and environmental risk is widely understood. We view them as long standing issues and unlikely to be a material driver of share price performance moving forward. Materiality centers on reducing future governance risk, improving corporate stewardship and increasing transparency of the business to stakeholders.

Fisher Research Analysts engaged with the company to gain a better understanding of the company's environmental disclosures and corporate governance practices. We believe the company takes these matters seriously and is taking positive steps towards improving its environmental and governance policies. They appointed a new CEO in the beginning of 2018 – the first outside chief executive in the firm's 100 year history, with its founding family relinquishing executive management roles. Independent board members currently comprise 60% of the company's board, allowing for more effective management oversight, including the formation of an outside independent audit team to uncover any wrongdoings surrounding bribery allegations.

Additionally, the company performs regular internal audits and introduced an anonymous whistleblower hotline to try and better identify potential compliance issues. We view these developments as material and signs of positive corporate stewardship momentum. From an environmental standpoint, the new management appears aware and committed to improving its emissions and waste disclosures. The management believes its carbon emissions data is favorable compared to its industry peers as the majority of company's steel production uses scrap steel. However, they cite a lack of internal expertise on environmental disclosures as the main roadblock towards developing industry-level emissions reporting. To resolve this issue, the company is currently working with outside experts and expects to have a more robust emissions reporting framework within the next two years.

Fisher looks forward to further dialogue and encourages the company to continue making corporate governance improvements, which should further unlock shareholder value over time as well as improve its transparency and reporting practices.



Source: Fisher Investments Research, as of September 2019.

Data indicated above are based on engagement meetings for all of Fisher Investments Institutional clients. For Professional Client Use Only. Past performance is never a guarantee of future returns. Investments in securities involve the risk of loss. Any investment programme will always involve the risk of loss. Global investing can involve additional risks, such as the risk of currency fluctuations.

As an asset management firm, Fisher Investments (FI) manages investments in shares of a wide range of companies on behalf of our clients. These shares entitle the holders to vote on various issues put forth by the company and its shareholders at the company's annual meeting or at a special meeting.

The report above demonstrates how FI engages with company management on ESG issues: environmental issues include but not limited to: climate change, toxic emissions & waste, vulnerability to legislation and impact on local communities; social issues include but not limited to: animal rights, human rights, labor relations, controversial countries and controversial weapons and governance issues include but not limited to: routine business, corporate governance, board independence, executive compensation, corporate stewardship and bribery & corruption.

FI engages according to Fisher Investments Engagement Policy and identifying engagement opportunities is a part of FI's fundamental analysis and to clarify or express concerns over potential ESG issues at the firm or industry level.