Stewardship Report

Sands Capital Management, LLC
2023

SANDS CAPITAL

Contents

1 Who We Are 6
Our Mission and Purpose 7
Culture and Values 7
Business Model and Strategy 8
Investment Philosophy and Approach 9
Enabling Effective Stewardship 9
How Our Beliefs Have Guided Stewardship Decision-making 10
Assessing Our Efficacy in Serving Clients' Best Interests 11

2 Who We Serve 12
Helping Institutional Investors Achieve Their Long-term Objectives 13
Nurturing a Strong, Direct Relationship With Our Clients 15
Commitment to Transparency 15
Seeking Client Views and Assessing the Effectiveness of Client Communication 16

3 Oversight 17
Governance 18
The Stewardship Team 19
Equipping Our Analysts with an Internal Stewardship Consulting Team 19
Additional Stewardship Workforce Structures 20
Training 21
Diversity, Equity, and Inclusion 22
Encouraging Effective Stewardship Through Incentives 23

4 Approach to ESG Integration 24

Incorporating Material ESG Issues Into Investment Analysis 26
Research Implementation 26
Regional and Industry Considerations 27
Case Studies 28

5 Promoting Well-functioning Markets 32

Promoting Well-functioning Markets Through a Long-term Approach 34
Identifying and Addressing Marketwide Risks 35
Six Criteria 35
Case Study: Inflation and Interest Rates 36
Macroeconomic Risk Framework 37
Case Study: Our Risk Assessment of China 38
Portfolio Construction 39
Identifying and Addressing Systemic Risks 40
Climate Change 40
Climate Change Engagement Case Study 42
Transition Risk Case Study 46
Modern Slavery Case Studies 54
Responsible Technology Innovation and Implementation 58
Responsible Technology Innovation and Implementation Case Study 60
Industry Partnerships, Affiliations, and Memberships 62
Building Partnerships that Foster Innovation 62
Our Partnerships, Collaborations, and Reporting Frameworks 63
Events and Conference Participation 66
Assessing Our Effectiveness in Addressing Risks 67

6 Active Ownership 68

Active Ownership for Effective Risk Management and Value Creation 69

Multiyear Engagement Case Study 70

Enagagement 74

Methods and Prioritization of Engagement 74

Tailored Engagement Approach to Reflect Market Conditions 75

Tracking Engagement Progress 76

2023 Engagement Statistics 76

Engagement Case Studies 78

Escalation 83

Escalation Case Study 84

Proxy Voting 87

Leveraging Domain Expertise to Make Informed Voting Decisions 87

Account Processing and Voting Process 88

Share Blocking 89

Securities Lending 89

Voting Statistics 89

Board of Directors 91

Proxy Voting Case Study 92

Executive Compensation 94

Executive Compensation Case Study 95

7 Accountability 98

Reviewing Our Policies and Procedures 99

Fair, Balanced, and Understandable Stewardship Reporting 99

Conflicts of Interest Management 101

Policies and Processes Concerning Potential Conflicts of Interest 101

Potential Conflicts of Interest Scenarios 102

8 Tools and Service Providers 103

Complementing Domain Knowledge with Appropriate Tools and Service Providers 104

Tools and Service Providers Case Studies 106

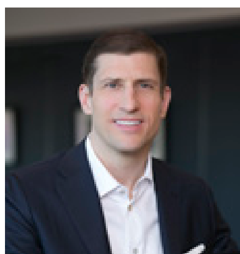
9 Appendix 110

UK Stewardship Code Principles Content Map 111

Policies 112

Core Stewardship Team 113

Navigating Change Through Stewardship



In a dynamic global economy, in which the pace of change is accelerating and uncertainty prevails, we remain steadfast in our commitment to stewardship and the pursuit of sustainable growth. As an investment firm serving institutions around the world, we recognize the impact of our capital allocation decisions on their beneficiaries and broader society. With each investment, we embrace the responsibility entrusted to us by our clients, striving to not only generate strong investment results for them but also to contribute positively to our portfolio companies and the communities they serve.

Stewardship is most effective when it is inextricably linked to the core investment philosophy, in our view. With this in mind, we have crafted an approach to stewardship that is authentic to who we are and helps us achieve our mission of adding value and enhancing the wealth of our clients with prudence over time.

First, our approach is **value driven**. Our philosophy is rooted in the belief that, over time, stock prices will reflect the earnings power and growth of the underlying businesses. For us, stewardship means identifying and assessing any factor that can affect a company's capacity to sustain earnings growth. Where appropriate, we may use our "seat at the table" to address any such factor, which may include environmental, social, and governance (ESG) factors.

Second, our approach is **long-term oriented**. As investors in business enterprises—as opposed to stock traders—we focus on understanding the strength and durability of the long-term growth drivers for each portfolio company. Establishing such a deep understanding of each business typically affords us a degree of credibility with its management team, providing a constructive basis for engagement. In our experience, influencing positive change takes time and is done most effectively when we are able to foster mutual patience and trust.

Finally, our stewardship approach is **horizontally integrated**. This means all our investment professionals play an active role in implementing our stewardship approach, with lead analysts driving the ESG assessment, engagement, and proxy voting to pinpoint any issues that affect a business and its stakeholders. We do not practice stewardship in isolation or as a distinct function.

To illustrate all the intricacies of our approach, we are proud to share our stewardship report for 2023. In its pages, we provide examples of our practices and their tangible outcomes. Much like we derive the strength of our investment analysis from qualitative insights, we believe that stewardship issues are inherently qualitative, demanding a nuanced understanding of context. Our aim is to help clients understand the rationale behind our capital allocation decisions so they, in turn, can communicate our thinking to their stakeholders with confidence.

Ultimately, the purpose of stewardship is to generate value for our clients—value that can endure. We look forward to continuing this endeavor.

Sincerely,

Frank M. Sands, CFA
Chief Investment Officer
Chief Executive Officer

Karin Riechenberg
Director of Stewardship

Who We Are

At Sands Capital, we are active, long-term investors in leading innovative businesses, globally. Our approach combines analytical rigor and creative thinking with an aim to identify high-quality growth businesses that are creating the future.

Our Mission and Purpose

Sands Capital was established as an independent investment management firm in 1992 with a clear and simple mission. We exist to add value and enhance the wealth of our clients with prudence over time. More than 30 years later, we remain steadfastly committed to this founding mission.

We strive to achieve our mission to provide positive outcomes for our stakeholders. We help clients fulfill their objectives, which can include providing sustainable and better retirements, improving healthcare, funding innovative research, and supporting charitable works to help create a better world. For society, we perform the important function of selectively allocating capital to many businesses that innovate and solve problems. These are among the special businesses that can improve billions of people's lives by offering essential products and services to the global economy, creating jobs, and supporting institutions that enhance civil society. For our staff, we focus on creating a dynamic work environment that challenges them to channel their creativity, fulfill their personal goals, and grow in a culture that supports their individual interests and expertise.

Culture and Values

What we believe, and what we value, as an investment organization matters greatly to our clients and other stakeholders. We embrace a culture in which every staff member is responsible for upholding Sands Capital's values and fulfilling the firm's mission. We believe three core values are especially critical for high-performing teams if they are to add value over the long term:

- **Integrity and trust:** Do what is right, not what is popular. Deliver on commitments.
- **Client-centered:** Always act in the best interest of our clients.
- **Commitment to excellence:** Strive to learn and improve. Implement best practices.

In addition, we believe that it is important to focus on what matters most, to maintain a long-term perspective, and to work collaboratively as we gather facts and build conviction.

We also strive to work with a positive attitude, with grace and kindness, and to achieve a healthy work-life balance. Ultimately, we let meritocracy be our guide, understanding that talent and achievement drive success at Sands Capital.

Business Model and Strategy

Sands Capital is a specialist investment manager that focuses exclusively on active, long-term growth investing. We employ deep, fundamental, business-focused research to identify high-quality, leading growth companies with sustainable business models that typically operate in attractive areas of innovation. We primarily serve institutional asset owners through a range of investment strategies distinguished by geographical focus. Our investment vehicles include separate-account and pooled-fund portfolios designed to concentrate investments in a relatively small, select group of businesses in which we have a high level of conviction.

As an independent, private partnership that is wholly owned and managed by the partners of the firm, we are fortunate to control our own destiny. We focus on long-term investment and business outcomes, and we seek to avoid the distractions of outside, short-term interests. We believe this approach has enabled us to effectively perpetuate the mission and a culture that bonds our staff. Consequently, we enjoy strong internal alignment as evidenced by staff engagement survey results. That coordination prioritizes exceptionally strong attunement to our clients' interests. Hence, we believe we are well suited to be active, long-term stewards of their capital.

Our foremost business priority is to serve current clients well and fulfill our mission. We aim to do this by creating a high-quality, differentiated client experience. We seek to deliver strong absolute and relative investment results, efficient and effective administration, and value-added service and support. To be successful, we aim to create and nourish a positive culture based on our values, while ensuring all staff members have the resources and support they need to execute with excellence. Recruiting, identifying, supporting, and developing top talent and future leaders is also of primary importance. Internally, we look for opportunities to optimize our processes and systems by innovating and challenging the status quo to build a successful, sustainable, and profitable business.

We have no business development targets, which we believe could lead to misalignment with the interests of current clients. Instead, we take a thoughtful and measured approach to identify prospective clients with whom our mission, investment philosophy, and approach are a strong fit. We seek long-term partnerships that we believe add to our current client base and enhance the sustainability of our firm.

Investment Philosophy and Approach

We apply a single philosophy across all investment strategies. That philosophy is rooted in the belief that, over time, stock price appreciation follows the earnings power and growth potential of the underlying business. To achieve this, we seek to identify exceptional businesses with the capacity to generate sustainable, above-average growth over time. This is done by constructing concentrated and conviction-weighted portfolios of these special growth businesses and maintaining a long-term investment horizon. By doing so, we accept short-term market volatility in exchange for long-term growth potential.

The cornerstone of our investment strategy is our proprietary global research. The differentiated insights we generate tend to guide our predictions for the magnitude and/or durability of growth of businesses relative to market expectations. In our experience, markets often underappreciate the compounded impact of nonlinear, exponential rates of growth and durability of growth that select leading businesses can produce.

By maintaining a long-term investment horizon, we seek to enable our clients to benefit from the compounding of business growth over time. It is this compounding of growth over time that tends to be the most powerful driver of wealth creation. Because of this long-term focus, we examine a wide range of factors we think could affect the sustainability of the businesses based on their materiality. These factors include environmental, social, and governance (ESG) practices. We believe such factors may shape brand perception, operational efficiency, cost of capital, talent retention, and social license to operate, which in turn shape how the market values the firm. Consequently, we wish to own exceptional businesses that recognize and thoughtfully manage ESG practices, among other material factors. As a steward of long-term client capital, we believe it's an integral part of our fiduciary responsibility to consider all such matters that have the potential to influence investment outcomes. We do so with an aim to maximize shareowner value creation over the long term.

Enabling Effective Stewardship

Sands Capital's commitment to stewardship is rooted in our culture, philosophy, and approach to managing concentrated, conviction-weighted portfolios of leading growth businesses. Our conviction comes from developing an intimate knowledge of a small number of companies—28 to 40 in a typical client portfolio—which we believe is far more valuable in identifying opportunities and mitigating risks than a superficial knowledge of a broader group of companies.

We act on our commitment by building our cumulative knowledge about each business' practices that we believe have the greatest potential to affect long-term shareowner value. We embrace active ownership, seeking to use our knowledge and credibility with company management teams to positively influence the long-term trajectory of our businesses through focused, robust engagement and voting. Finally, we strive to make our investment process transparent and accountable in an effort to keep stakeholders aware about how ESG business practices inform our capital allocation decisions.

ESG research integration and active ownership are horizontally integrated at our firm, meaning every investment professional contributes to our stewardship program. This approach is consistent with our intent to operate as one team with one mission and one philosophy. We do not operate in silos. To enable such an integrated approach, we have invested substantially in the requisite people, processes, data, tools, and training. Our core stewardship team, comprising four stewardship investment professionals, collaborates with our broader investment team to help ensure our research analysts address the full scope of relevant opportunities and potential risks. Through our stewardship analyst council, we share best practices, case studies, and views on how to continuously improve our program.

How Our Beliefs Have Guided Stewardship Decision-making

Our approach to investment management may best be described as applying a private business owner's mindset to public equity investing. As long-term investors, we seek to buy leading growth businesses and do not trade stocks. It is this ownership mindset—thinking like long-term business owners—that guides how we practice stewardship across our investment strategies.

As of the end of 2023, we allocated the approximately $50 billion in client capital under our management to a select group of only 129 listed companies. We believe these businesses represent the very best long-term growth opportunities available. Our decision to invest in them reflects their strong fit with our investment criteria, and our assessment of their current ESG practices and opportunities for progress. Our decisions about where not to invest are equally important and may reflect our view of untenable risks resulting from subpar governance practices, or other sustainability concerns.

With many portfolio businesses, our engagements begin with early due diligence, well before our initial investment. Such engagements enable us to evaluate the management team's quality and vision. They also provide us with a view into management's intentions in addressing environmental externalities, human and social capital, and governance matters, among other factors. Management's intentions play into our calculus about our ability to build an effective working relationship.

More than half of our client capital is invested in companies we have owned for five years or more; more than one-third in companies held for more than seven years. Our alignment with long-term shareowner interests is critical to establishing credibility and trust with management teams and other stakeholders, in our experience. As long-term partners, we seek to help businesses not only to grow and mature but also to evolve their ESG practices to navigate emerging economic and societal complexities. Through constructive relationships with management teams, we are able to help influence the journey of these companies, which we believe can contribute to positive long-term outcomes for their shareowners and society.

As stated previously, our objective is to identify exceptional businesses with the capacity to generate sustainable, above-average growth over time, and we concentrate our client ownership in these businesses over a long investment time horizon. We believe that a company's growth sustainability may be impaired when it fails to meet society's expectations for responsible business practices. We have observed such failures adversely affect brand equity and consumer trust, which are inextricably linked to a company's ability to create long-term shareowner value. For this reason, authentic and active stewardship of client capital will remain central to all we do.

Assessing Our Efficacy in Serving Clients' Best Interests

We exist to add value and enhance the wealth of our clients with prudence over time.

Most of our strategies' trailing three- and five-year results as of December 31, 2023 were marred by their performance in 2021 and 2022. Importantly, we believe that the combination of events that depressed performance is highly unlikely to repeat and that the businesses we invest in—and the approach we take to investing—remain well positioned.

From late 2021 to late 2022, our portfolios suffered large drawdowns. Growth stocks—which had become expensive relative to history—suffered a severe valuation reset as the U.S. Federal Reserve embarked on its fastest and largest tightening cycle in over 30 years to combat inflation. Long-duration assets, such as growth stocks, bore the brunt of the pain. The market was largely indiscriminate in its selloff. In addition to the valuation shock, earnings expectations also reset for many businesses, as the pandemic's dynamics distorted typical supply and demand signals for businesses. These distortions—of sales, inventories, guidance, and comparisons—in turn, sowed doubt in the business models of many of the types of companies we invest in, keeping pressure on their equity valuations.

In 2023, all of our strategies produced solid absolute investment results—and most outperformed their respective benchmarks—as fundamentals began to reconnect with our businesses' underlying secular growth potential. Many businesses saw their fundamental prospects improve from waning competitive intensity as higher rates forced rationalization and operational choices, resulting in higher profitability. We view recent signals as cues that many of the pandemic's dynamics are subsiding.

This fundamental improvement, however, remains underappreciated for many of our businesses, with many trading at lower multiples of next-12-month price-earnings ratios at the end of 2023 than at the end of 2022. While we rarely model multiple expansion in our investment cases, we believe that the market still doesn't fully appreciate the size of many of our businesses' addressable markets and/or our businesses' abilities to execute on those secular opportunities.

Meanwhile, we continue to seek businesses with high degrees of financial strength, including robust cash balances, strong unit economics, and less debt than the average benchmark constituent. While a global recession didn't materialize in 2023, financial strength could become a competitive advantage if the economic environment worsens.

Earnings growth has been the primary driver of our investment results over the long run, and it continues to underpin our investment cases. While our trailing three- and five-year results have been pressured by the challenges of 2021 and 2022, we have strong conviction in the businesses we own today and in those businesses' ability to capitalize on the secular opportunities ahead. Innovation is accelerating across industries and around the world, creating exciting opportunities for consumers, patients, and enterprises. We're optimistic about our ability to identify the businesses best positioned to extract commercial value—in the form of above-average, long-term earnings growth—from these opportunities. Our ability to create value for our clients is not in anticipating the day-to-day and quarter-to-quarter price moves but in predicting the direction and magnitude of the possibilities. Throughout our 30-year-plus history, this is what has—and will always—matter to us as long-term business owners.

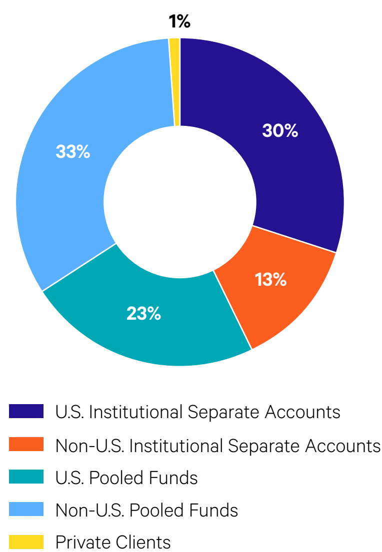
2 Who We Serve

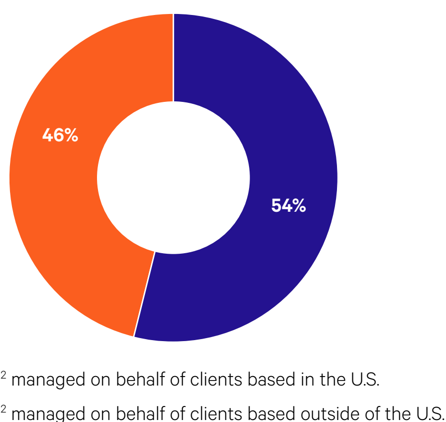
Serving a global, diverse client base requires direct communication to identify needs and articulate expectations. We are committed to nurturing these relationships and managing assets as effective stewards of capital.

99%

of AUM managed on behalf of institutional clients

ASSETS BY TYPE





Helping Institutional Investors Achieve Their Long-term Objectives

Sands Capital primarily serves institutional investors comprising corporations, public funds, foundations, endowments, sovereign institutions, and fund sponsors in more than 40 countries. Institutions represent the vast majority (99 percent) of client assets under management; private clients represent a small portion (1 percent). U.S. clients represent approximately 60 percent of assets under management, and clients outside the United States represent 40 percent. As of December 31, 2023, we managed $52.1 billion in assets.[1]

Our investment strategies seek to outperform their applicable passive market benchmarks over rolling three- and five-year periods, or what is generally considered to be a full market cycle. Therefore, our approach is best suited for clients who seek long-term capital growth with an investment time horizon of five years or more and who do not anticipate short-term liquidity needs. Such a long time horizon is highly consistent with the expectations of our institutional clients who are responsible for pension and other long-term funding goals.

Client assets are invested exclusively in long-only portfolios of public growth equities and are fully invested at all times. The portfolios may include a residual cash position, generally of 5 percent or less. These portfolios are differentiated by geography and the growth rate of the underlying portfolio businesses. In aggregate, our geographic exposure was 55 percent U.S. equities, 17 percent developed markets ex-U.S., and 25 percent emerging markets.

A substantial portion of client assets is managed in separate accounts. We enable clients to customize separate-account mandates to their investment policies and objectives, provided that we can successfully execute the strategy. One of the most common forms of customization is the exclusion from the portfolio of securities tied to certain industries or business involvement. The most common exclusion implemented by clients is tobacco.

1. AUM includes the discretionary and non-discretionary assets of Sands Capital Management, LLC as of December 31, 2023, and the gross assets of all funds (not including uncalled capital) for Sands Capital Ventures, LLC. Figures for Sands Capital Ventures, LLC are updated 45-60 days after quarter-end.
2. Based on discretionary assets under management as of December 31, 2023.

CLIENT BASE BY REGION

In the United States, we manage pooled-fund assets primarily through subadvisory relationships with independent fund sponsors and wealth managers. As our clients, these fund sponsors conduct due diligence on us like many other institutional clients. As the fund underwriter and distributor, they are responsible for preparing the fund offering documents that set forth the investment objective and strategy and managing all communications with their clients, who are the fund shareholders. We support fund sponsors by providing our analysis of investment strategy results and offering our perspectives on the opportunities and risks attributed to the portfolio businesses.

Outside the United States, in addition to funds managed through conventional advisory relationships, we make many of our investment strategies available to qualified investors through certain pooled funds. These pooled funds primarily serve the needs of institutional investors for whom establishing a separate account with us is not feasible. Domiciled in Ireland as undertakings for collective investment in transferable securities (UCITS), the majority of these open-end investment funds are classified under Article 8 of the European Union Sustainable Finance Disclosure Regulation. Their investment policies promote certain environmental or social characteristics and include certain binding elements, including business-involvement exclusions. These exclusions pertain to controversial weapons, tobacco, human rights issues, and additional items based on certain revenue thresholds.

Nurturing a Strong, Direct Relationship With Our Clients

We focus on building long-term relationships with clients and feel that individual attention is appropriate for our relatively small and focused institutional client base. Nurturing a strong, direct relationship with our clients is central to how we manage assets and act as effective stewards of capital.

More important than industry recognition is our actual experience with our clients. We believe the strength of client partnerships we endeavor to build is well reflected in our three-year average rolling retention rate of 94 percent.[3] Furthermore, as of December 31, 2023, more than 69 percent of our current clients have entrusted us with their investment capital for 10 years or longer.

Commitment to Transparency

We are committed to providing transparency into our ESG integration and other stewardship initiatives. That includes how we think certain ESG factors may relate to the long-term growth prospects of the companies we own. Our commitment to transparency is reflected in our client reporting and our public disclosures.

Client Reporting

For current clients, we publish quarterly strategy reports incorporating stewardship-related content that includes:

- Portfolio carbon metrics according to the Task Force on Climate-Related Financial Disclosures (TCFD) reporting recommendations.
- A summary of engagement activity for the trailing 12 months.
- An engagement case study from the most recent quarter.
- A summary of voting activity for the trailing 12 months.

This information is also incorporated into quarterly review books produced for client meetings.

Public Disclosures

- In addition to our stewardship policy statements and ESG principles, our publicly available annual Stewardship Report provides details on the overall engagement strategy, the number of engagements by type and topic, examples of engagement cases, and outcomes.
- We disclose our voting record for all strategies for the trailing 12 months as of the most recent month-end on our public website.
- Additionally, we publish a stewardship page on our public website in which we feature thought leadership articles on stewardship topics, pertinent policy statements, and more.

3. As of September, 30 2023. The three-year average rolling retention rate is calculated on a fiscal year basis.

Seeking Client Views and Assessing the Effectiveness of Client Communication

Our communications and stewardship practices exist to add value to our clients. Our client relations team serves as a conduit between our clients and our stewardship and executive management teams. In addition, members of the stewardship team meet with clients to receive their thoughts and feedback on our approach. We continually solicit clients' feedback regarding the evolving landscape in which we invest and welcome their questions about the extent to which we have incorporated our understanding of relevant ESG factors into each investment case.

Our institutional clients, which make up the majority of our client base, expect to meet us directly at regular intervals, often quarterly or semiannually. We report on the progress of our investment strategies and seek to learn about our clients' views through these engagements. Many clients are represented by investment consultants who frequently conduct diligence on our investment strategies. During these discussions, we share details on our philosophy, approach, and the execution of our strategies, and we solicit perspectives on industry standards.

Looking ahead, we are developing a research platform that measures our performance on various dimensions of client experience. By collecting impressions of our program and identifying client priorities, the survey may help inform our agenda and enable us to identify opportunities for potential collaboration on shared priorities. We will continue to focus on authentic and transparent reporting on our stewardship practices, which are evolving during this time of enormous change that is reshaping business, society, and the planet.

Responding to Clients' Needs

We will occasionally solicit feedback from our clients and, when appropriate, will implement changes based on these suggestions. For example, over the last two years we have received several client questionnaires inquiring about Sands Capital's operational carbon footprint. This led to our firm working with a carbon accountant to measure our Scope 2 and several Scope 3 categories. We discuss this further and how several of our governance structures were involved throughout this project in Section 3.

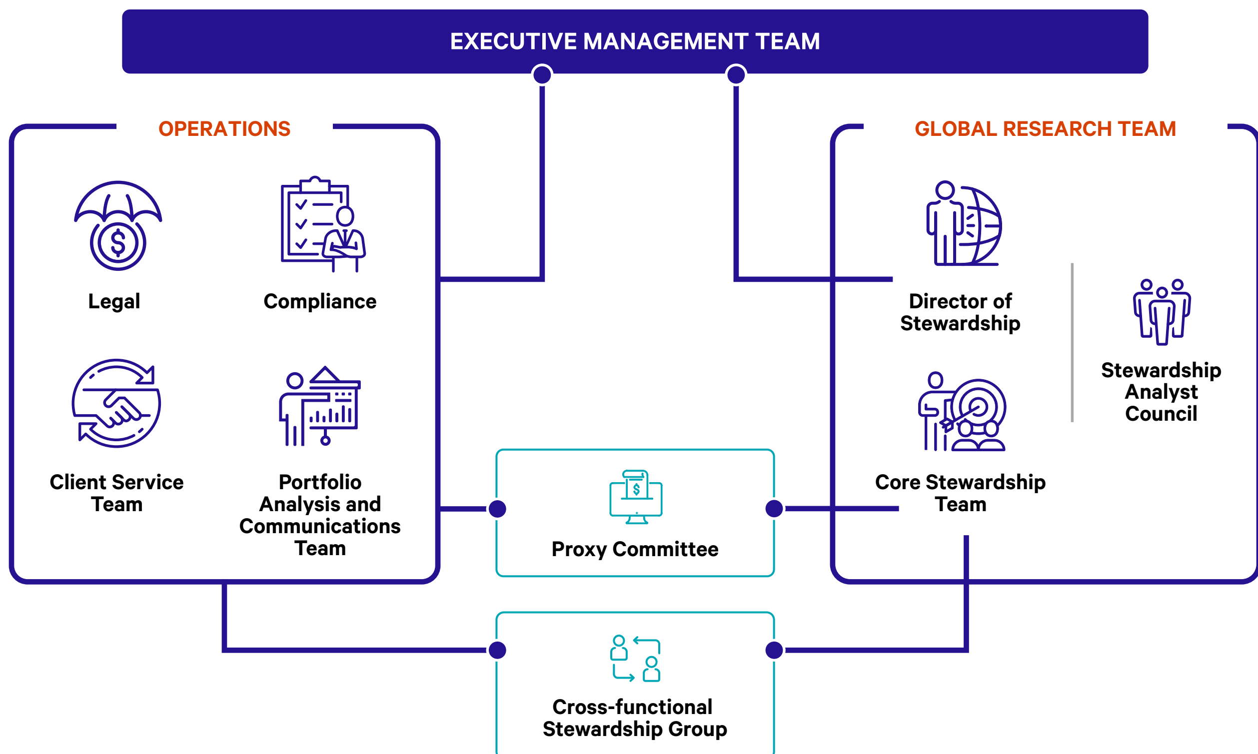
3 Oversight

Our governance framework is designed to leverage our cultural strengths and provide our staff with the resources and incentives necessary to enable effective stewardship of client capital.

Governance

We believe robust oversight of stewardship policies, processes, and practices is essential to executing a highly effective stewardship program. We have made significant progress on governance structures that support the in-depth integration of ESG practices into active ownership, seeking to ensure long-term benefits to clients.

GOVERNANCE STRUCTURE



The Stewardship Team

The core stewardship team meets regularly to establish priorities, assess resource requirements, and prepare recommendations for stewardship-related meetings with clients and portfolio companies. The team also drives process improvements related to the sourcing and integration of data into our investment research and client reporting systems. The team is made up of five employees who dedicate their time to stewardship-related matters. Four of these associates are investment professionals who act as consultants to our global research team. The remaining team member supports the development and production of marketing and client reporting for the stewardship program.

The director of stewardship leads the core stewardship team and reports to our executive management team, which consists of the chief investment officer/chief executive officer, president, and additional senior leaders who represent our primary business areas. This reporting relationship helps to support our organizational alignment with our stewardship policies and processes and keeps senior leaders informed about our program developments.

Equipping Our Analysts with an Internal Stewardship Consulting Team

ESG research and active ownership responsibilities are horizontally integrated across our global research team. We believe keeping ESG research, engagement, and proxy voting in the hands of our research analysts emphasizes our deep understanding of our portfolio companies and yields positive outcomes.

The core stewardship team supports the global research team on ESG research and active ownership. Members of this team act as internal consultants and are well-versed with deep industry knowledge on various stewardship topics.

Our core stewardship team comprises four dedicated stewardship investment professionals whose primary function is to support the implementation of ESG integration, engagement, and proxy voting on a day-to-day basis. The core stewardship team supports our research analysts by contributing domain knowledge on specific ESG topics. The team also helps structure strategic engagements with target companies and ensures that we effectively fulfil our proxy voting obligations.

DEDICATED STEWARDSHIP INVESTMENT PROFESSIONALS

	Karin Riechenberg Director of Stewardship	**Ashley Patton** ESG Analyst	**Christopher Jenkins** Senior Proxy Specialist	**Dylan Mibu** Senior Research Associate
Primary Responsibilities and Sample Projects	• Strategy and oversight • Liaison with executive management team and other departments • ESG generalist	• Modern slavery mitigation project • Engagements coordination • Regulatory research and reporting • Firmwide stewardship updates	• Proxy voting process • Proxy data integration and dashboards • Corporate governance research • Artificial intelligence (AI) governance and digital ethics research	• Portfolio climate analysis • ESG data initiatives • Regulatory research and reporting • Green technology research
Certifications	• CFA Institute Certificate in ESG Investing • SASB Fundamentals of Sustainability Accounting Credential • GRI Standards Exam	• CFA Institute Certificate in ESG Investing		• CFA Institute Certificate in ESG Investing • SASB Fundamentals of Sustainability Accounting Credential
Education	• MA, international economics and international relations, Johns Hopkins University School of Advanced International Studies • BA, international relations and Russian, University of Exeter	• MA, international economics and international relations, Johns Hopkins University School of Advanced International Studies • BA, political science and global studies, University of North Carolina at Chapel Hill	• MBA, George Mason University • BS, finance, George Mason University	• BA, environmental studies, University of California, Santa Barbara

Additional Stewardship Workforce Structures

In addition to the core stewardship team, our cross-functional stewardship group includes staff with diverse functional knowledge who are committed to implementing ESG research integration, active ownership, and stakeholder communications. The team meets every other month to discuss progress in areas such as:

- Policy and strategy formulation.
- Education and training.
- Tools and infrastructure development.
- Legal and regulatory compliance.
- Collaboration with external partners.

In 2021, we also established a stewardship analyst council as a platform for our research professionals to meet quarterly to share best practices and identify opportunities for improvement. This platform has proven to be a powerful way to elevate the knowledge of our professionals and enhance consistency in our research approach.

Governance Structures Supporting Stewardship

In 2023, we completed a comprehensive firmwide operational emissions assessment for 2022. The assessment was spurred by client requests to our client relations team, which helped us understand the importance of determining the main sources of our operational emissions.

We used the services of the carbon accounting consultant Persefoni for this project. In addition, several internal groups were involved and consulted during this undertaking, including members of the core stewardship team. In the completed assessment, we confirmed that a significant portion of our emissions come from multiple Scope 3 categories, including investments, purchased goods and services, and business travel. We plan to conduct this assessment annually, which we anticipate will lead to better estimates with higher data quality.

We hope this exercise will inform members of our stewardship analyst council, and thus our global research team, of the process involved in carbon accounting. We believe this will lead to more effective engagement with our portfolio companies on the topic.

Training

At Sands Capital, we embrace a culture of continuous learning and development, understanding that there are always ways we can improve. Our commitment to ongoing learning enables us to stay current with industry developments and encourages creative thinking and problem-solving.

New hires at Sands Capital undergo a series of orientations from human resources, compliance, and other teams to help integrate them efficiently into the firm. After integration, staff members engage in ongoing training throughout their tenure on topics from new policies being implemented by the U.S. Securities and Exchange Commission (SEC) and how to maintain Equal Employment Opportunity (EEO) compliance and uphold a respectful workplace for all.

Aside from the training held at Sands Capital, staff members also have access to a wide variety of external training and development opportunities, which are discussed during frequent and ongoing personal development conversations between them and management. Staff is encouraged to pursue certifications or ongoing education in their field as well as to attend conferences, seminars, or professional coaching.

Several teams conduct annual off-site events to build professional relationships among the team. We host a variety of speakers throughout the year, sometimes for the entire firm and sometimes for specific teams. Training is focused not only on developing hard and soft skills but also on our staff members' well-being.

Training and Ongoing Education Events from the Past Year Include:

Modern slavery training with Slave-Free Alliance (January 2023)

Participants: Members of the investment team

Stewardship 101 training presentation by our director of stewardship, general counsel, and chief compliance officer (May 2023)

Participants: Entire firm

Training session on the state of responsible AI and the need for AI governance hosted by Credo AI (July 2023)

Participants: Entire firm

Council of Institutional Investors corporate governance bootcamp (November 2023)

Participants: ESG analyst and portfolio specialist

Scope 3 Emissions deep dive teaching session by Karin Riechenberg and Dylan Mibu (December 2023)

Participants: Members of the investment team

Modern slavery training with Slave-Free Alliance (December 2023)

Participants: Entire firm

Diversity, Equity, and Inclusion

We believe that diversity brings value to our investment research and our overall culture. We operate as a meritocracy and strive to foster a culture that is inclusive of many backgrounds, perspectives, and experiences.

Each member of the investment team brings a different background and perspective when vetting new ideas or changes to the portfolio. Our tightly integrated team-based approach to conducting research provides a global context through which ideas are sourced and openly challenged. Importantly, the research team is constantly learning, not only from its research efforts but also from one another through rigorous and honest debate.

At the firm level, we engage in several efforts to promote diversity and inclusion. Examples of these efforts include, but are not limited to:

- Creating an annual affirmative action plan to track our hiring, promotions, and terminations across gender and race—the results of which are used to raise awareness of the areas in which further review is warranted.
- Requiring all staff members to participate in EEO compliance and respectful workplace training, which includes educating our staff members about professional conduct relative to equal employment as well as an education section for managers.
- Providing medical and dental benefits that support domestic partnerships and implementing a parental leave policy (removing the previous gender-focused maternity and paternity leave policy).
- Engaging in several events to improve inclusion—including several small-group events with members of our executive management team, in which staff members participate in off-site events with a member (or members) of our executive management team to encourage more interaction between different levels of staff.
- Hosting team-building events to develop relationships between staff at all levels and roles.
- Widening our recruiting funnel to promote more inclusion of underrepresented demographic groups by partnering with strategic recruiting partners.
- Preparing and communicating best practices for recruiting and interviewing in an effort to improve our search, selection, and onboarding processes.
- Implementing a mentorship program for our junior and mid-level analysts on the investment team.

Diversity, Equity, and Inclusion Firmwide Representation

42%

Female

58%

Male

31

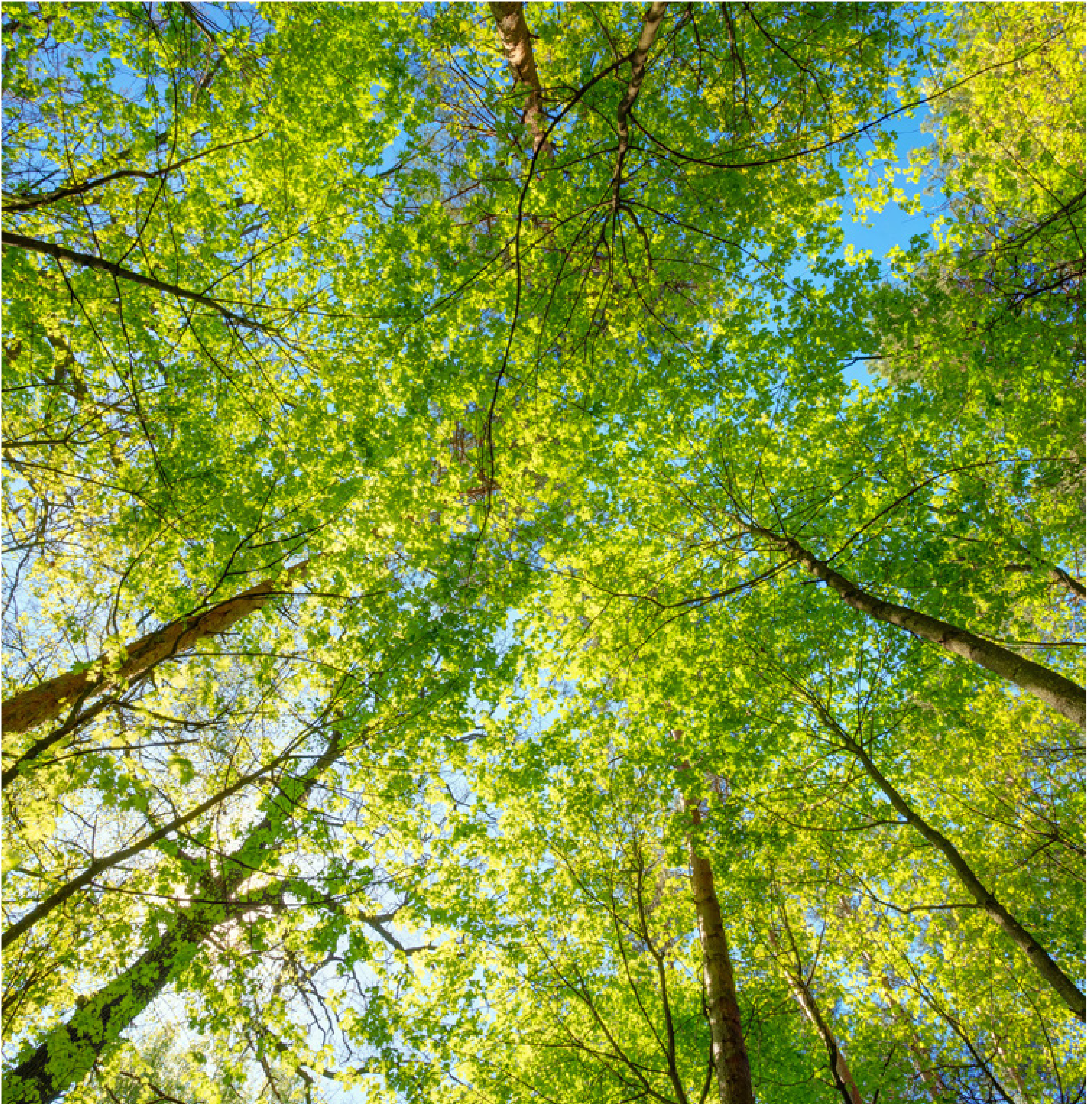
Number of countries associates were born in

32

Number of languages spoken

Encouraging Effective Stewardship Through Incentives

Our investment staff is incentivized to positively influence the trajectory of our portfolio businesses by engaging with management teams on issues that we believe are material to the investment case and by voting against management recommendations that do not serve the best interests of long-term investors, including our clients. We explicitly include a focus on stewardship, including ESG integration, in analyst and portfolio manager compensation by evaluating annually the effectiveness of each investment professional's stewardship efforts.



4 Approach to ESG Integration

In their fundamental research process, our analysts assess the material ESG factors and practices of our businesses, which we believe are integral to our analysis of a company's long-term risks and opportunities.

By leveraging their deep-domain expertise, these analysts, we believe, are best able to understand the context of these ESG factors at the various stages of a company's growth curve.

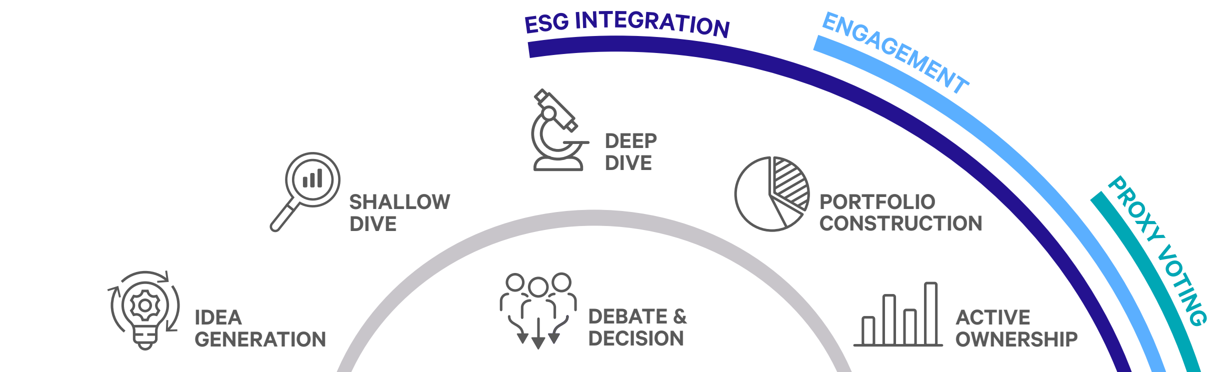
As active, long-term growth investors, we focus primarily on the sustainability of growth over time. Therefore, it's only logical that we consider ESG business practices both as matters of risk that could impair growth and as opportunities that could enhance growth. We believe this balanced perspective enables us to make investment decisions that both align with our investment beliefs and provide greater value to our clients and other stakeholders.

To gain a thorough and comprehensive understanding of a company's risks and opportunities, we believe it is essential to integrate our analysis of ESG practices directly into the fundamental research process. Leveraging their deep domain knowledge, our research analysts are best able to put into context the ESG risks and opportunities that are materially relevant to our portfolio companies. We find this context-setting especially important when looking at innovative growth companies, which in their early stages, may present different investment considerations, compared with mature businesses.

At Sands Capital, we approach ESG analysis with three primary objectives. We expect ESG analysis to:

- **Enhance our investment cases,** enabling us to build conviction in businesses and add value for our clients.
- **Inform our clients,** enabling them to understand how ESG factors fit into the broader context of our capital allocation decisions.
- **Inform our portfolio businesses,** enabling management teams to benefit from our long-term shareowner perspective through active engagement.

THE INTEGRATION OF ESG IN OUR RESEARCH



IDEA GENERATION

Our ideas spring organically from our deep domain experience and extensive networks in public and private markets. Some of our ideas are linked to sustainability trends, such as the electrification of automobiles.

SHALLOW DIVE

We evaluate a business' fit with our six investment criteria and develop a preliminary hypothesis. Only our highest-conviction ideas continue. As we begin to build our mosaic for each business, we may identify material ESG opportunities and risks that require greater understanding in the next stage of research.

DEEP DIVE

We conduct extensive, bespoke research to understand innovation, addressable markets, and competitive advantages that can enable businesses to grow shareowner value for many years into the future. The lead analyst is expected to prepare an ESG report, including a materiality assessment and opportunities for engagement, on each business recommended for investment.

PORTFOLIO CONSTRUCTION

Businesses are conviction-weighted with the goal of maintaining a concentrated, unconstrained portfolio of our best ideas. Analysts closely monitor the companies under their coverage on an ongoing basis, noting any material changes in the ESG profile or significant controversies.

ACTIVE OWNERSHIP

We purchase most businesses with the intent to own them for five years or more. As part of our ongoing research, we proactively engage management on issues relevant to long-term value creation. We exercise our voting responsibility by thoughtfully evaluating each company proxy and by using engagements to inform our voting decisions.

DEBATE & DECISION

Analysts and portfolio managers collaborate to develop key questions and conduct on-the-ground research throughout our process. Teams work collaboratively to ensure that we've evaluated every material concern and validated our investment criteria. Decisions are made by portfolio-management teams over many rounds of debate, in a consensus-driven approach that relies heavily on analyst expertise.

Incorporating Material ESG Issues Into Investment Analysis

The potential of material ESG factors to affect the sustainability of a company's value-creating capacity is considered during the investment decision-making process. Sands Capital uses a systematic, teamwide approach to analyze ESG issues in investments. Our approach contrasts starkly with the more formulaic system of box-checking used in much of the industry. That approach is often viewed as backward-looking and may not factor in the nuances associated with actual companies.

While we use third-party research, such as MSCI ESG Research and Sustainalytics, to flag areas of concern, we believe third-party research often lacks context and is constructed to measure a set of standardized attributes. We think our analysts are best able to judge how we should evaluate our portfolio businesses in the present and as they evolve during what is often our longtime partnership. We believe it is far more important to understand the intentions behind practices and actions. These intentions can only be measured by fundamental research and actual engagement, not simply metrics.

Research Implementation

We believe that ESG factors are implicit in the six investment criteria we use to select businesses. Our research analysts prepare proprietary ESG reports on the relevant factors affecting the businesses they cover. Based on the materiality assessment, they identify opportunity and risk topics that will be addressed during our engagements with management teams. Research analysts are expected to update these reports regularly or in response to a significant controversy or ESG-related impairment to the business. Analysts may leverage the expertise of our internal ESG consulting group in this process.

In 2023, we continued to integrate our data streams into centralized stewardship dashboards, finalizing a company-level ESG dashboard that aggregates material information about our portfolio companies. Our engagement dashboard, proxy dashboards, ESG dashboard, and principal adverse impacts (PAI) dashboard support our analysts and portfolio management teams in addition to enabling better client reporting.

The Six Investment Criteria

We use a fundamental, bottom-up, business-focused research process that relies on our six investment criteria to identify businesses for investment:

1
Sustainable above-average earnings growth

2
Leadership position in a promising business space

3
Significant competitive advantages/unique business franchise

4
Clear mission and value-added focus

5
Financial strength

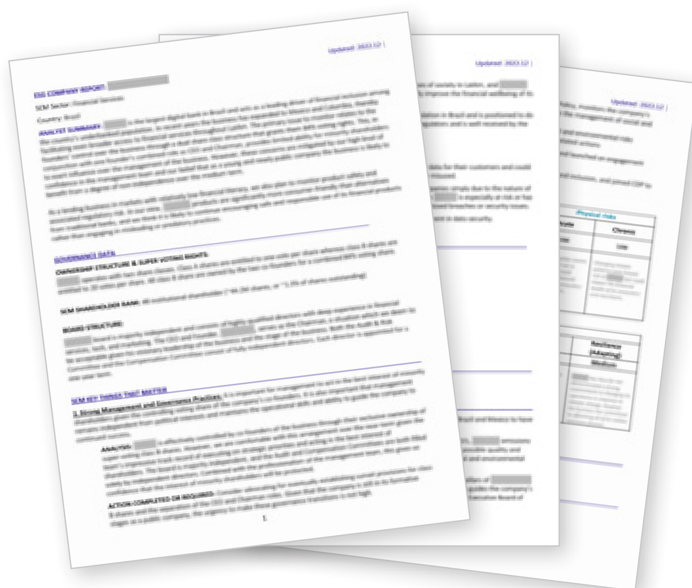
6
Rational valuation relative to the market and business prospects

Regional and Industry Considerations

Consistent with our fundamental research approach, we consider the context for each business when determining the ESG issues that matter to our investment case. We also look at these ESG factors' relative importance in expected business outcomes and long-term investment results. In our experience, the risks and opportunities posed by ESG factors vary depending on the region, country, industry, and company.

We do not employ top-down ESG ratings or rankings in our approach. We believe deep domain expertise and company-specific knowledge allow our investment professionals to make appropriate judgments about which ESG factors could have the greatest impact.

Research analysts are responsible for identifying the materiality of each issue for the businesses they cover. While this judgment is mostly informed by the analyst's domain knowledge, analysts are also encouraged to incorporate the relevant Sustainability Accounting Standards Board (SASB) framework in their analysis for a comprehensive review.



Our Proprietary Analyst ESG Reports for Portfolio Businesses Address:

- Analyst Summary.
- Company and Board Data.
- Key Things That Matter to Us.
- Engagement Opportunities.
- MSCI Key Risk Responses.*
- Proxy Voting History.

Case Study:**

In the case of a digital financial services platform that possesses a large customer base in Latin America, our assessment includes:

Key Things That Matter to Us

- Strong management and governance practices.
- Financial inclusion.
- Privacy & data security.

Engagement Opportunities

- Board structure and composition.
- Shareholder rights.
- Data security.

*MSCI Key Risk Reponses are included only for companies scoring BB or lower.

**The views expressed are the opinion of Sands Capital and are not intended as a forecast, a guarantee of future results, investment recommendations, or an offer to buy or sell any securities. The views expressed were current as of the date indicated and are subject to change. You should not assume that any investment is or will be profitable. profitable. Past performance is not indicative of future results.

Case Studies

The case studies in the following pages demonstrate how integration of stewardship and investment is different for companies in various regions and industries.

Dexcom
CONTINUOUS GLUCOSE MONITORING

Business: Dexcom is a leading manufacturer of innovative devices to monitor diabetes based on market share. We expect the company's next-generation continuous glucose monitoring (CGM) platform to reshape the diabetes treatment paradigm as the standard of care.

Strategies: Global Focus, Global Growth, Global Shariah, and Select Growth.

Material Issues

Maintain High Product Quality Standards: Dexcom's products are used to inform potentially life-or-death treatment decisions. A serious product quality issue would likely harm patients, cause reputational damage, and have a negative impact on the financial outlook for the business.

Data Security and Privacy: Using data from continuous glucose monitors through remote platforms and apps helps achieve better patient outcomes. However, privacy or data breaches could undermine customer trust and result in significant fines and other legal penalties.

Affordability and Pricing: Patient affordability is a critical consideration for any product that wishes to become the standard of care. We believe the low production cost and easy distribution systems for the company's CGM platform can make it the most consumer-friendly CGM on the market.

Engagement Opportunities and Result

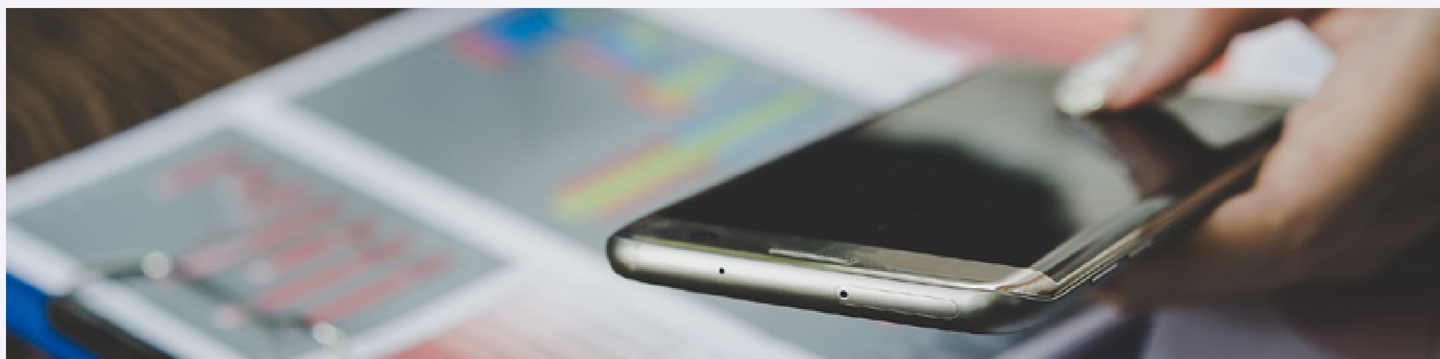
Succession Planning: While happy with the performance of Dexcom's board/CEO, we believe some of its longer-tenured members will retire from their roles over our investment horizon, so we would like to discuss with them how replacements will be selected.

Climate-related Risks and Opportunities: Dexcom has taken initiative on climate-related risk through implementing ESG steering committees and other cross-functional workgroups to begin considering specific and measurable targets. We plan to engage the company to help it establish baseline metrics or help set science-based targets.

Engagement for Change on Increased Transparency for Its Long-term Incentives Metrics: Dexcom has listened to our feedback and disclosed the metrics that go towards long-term key performance indicators: revenue growth and total shareholder return. We believe these metrics and targets are well aligned with shareholders.

Business: MercadoLibre operates the largest ecommerce and payments platforms in Latin America, based on market share. We expect the company to be the primary beneficiary of ecommerce growth in the region.

Strategies: Emerging Markets Growth, Global Focus, Global Growth, International Growth, and Technology Innovators.



Material Issues

Employee Recruitment, Inclusion, and Performance: There is a shortage of programmers in the region due to global migration trends. MercadoLibre is tackling this issue partly by increasing access to technology education and by partnering with notable universities in the United States. The company remains one of the most desirable employers in Latin America.

Product Packaging and Distribution: As MercadoLibre continues to scale across Latin America, it becomes more important that its operations are environmentally responsible and energy efficient. The company's efforts include managing its carbon footprint and developing environmentally friendly packaging.

Data Privacy and Security: MercadoLibre handles substantial quantities of sensitive consumer information, given its scale. The company has created an internal process that evaluates security risks at all stages and an incident team that continuously reviews security events to optimize its processes.

Engagement Opportunities

Board Diversity: The company is aware of a lack of gender diversity on its board and in the technology industry in general. It has signaled its commitment to helping reduce this gap. We will continue to encourage the company to improve female representation on its board.

Climate Change: MercadoLibre has not committed to a specific carbon neutral timeline, as it is considering the proper metrics around carbon neutrality. We will continue to encourage the business to disclose timelines around its emission reduction targets.

Legal and Regulatory: Ecommerce and fintech are nascent fields in Latin America, and many countries in the region are still developing regulations. We have engaged with MercadoLibre's government relations director to better understand the company's regulatory framework, and we will continue to monitor this topic.

Business: Sika is the leading global producer of construction chemicals by market share. The Swiss company provides value-added solutions to improve infrastructure durability, strength, and safety.

Strategies: Global Focus, Global Growth, Global Leaders, Global Shariah, and International Growth.

Material Issues

Management of the Legal and Regulatory Environment: Sika operates in markets with stringent chemical regulations, including Europe and China. This places demands on chemical safety compliance, and the company may incur related risks, including potential reformulation costs.

Water and Wastewater Management: Sika's business is water-intensive. As a result, the company is vulnerable to acute water stress because it could limit production capacity in water-stressed areas.

Product Design and Lifecycle Management: Because it operates from a position of strength, the company can pursue product formulations using alternative raw materials, which would have a lower environmental impact.

Engagement Opportunities

Antitrust Investigation: In 2023, the European Commission initiated an antitrust inspection of the construction chemicals sector, focusing on several companies, including Sika. We have spoken with representatives at Sika who believe the investigation will not find any major wrongdoing. However, we will continue to engage with the company on this topic.

Net-zero Targets: The company has committed to having net-zero emissions by 2050. We intend to engage the company on progress toward this target.

Sustainable Product Development: Sustainability is an integral part of the innovation process and development of new products at Sika. We will continue to monitor the company's progress toward creating products that promote sustainability.

5

Promoting Well-functioning Markets

As active, long-term investors in innovative growth businesses, our strategies and tools aim to effectively identify and address marketwide risks. These practices help us to protect client capital, navigate challenging market environments, and contribute to the promotion of well-functioning markets.

In our view, a well-functioning market enables participants to allocate capital efficiently, facilitates sustainable economic growth, and creates opportunities for wealth creation and risk management. Factors that might disrupt the proper functioning of markets include:

- **Short-termism and misaligned incentives:** These are market distortions that arise from misaligned incentives at the level of an individual or business that, in aggregate, can cause a misallocation of capital. Examples include, at a business level, an overemphasis on quarterly results, or at an individual level, poorly designed executive compensation.
- **Marketwide risks:** These are dislocations that the market may eventually correct for but that can cause volatility and misallocation of capital in the short term. Examples include interest rate, inflation, and currency fluctuations; geopolitics; and trade disruptions.
- **Systemic risks:** These are risks that markets might not automatically correct for, either because of a misalignment in cost incentives (so-called externalities), because of their long-term nature, or because of a lack of understanding and transparency around the issue. Many of these risks are particularly relevant for our clients who are universal asset owners, meaning that these risks have implications for their entire portfolio and, in some cases, their beneficiaries directly. Examples include climate change, modern slavery, and digital ethics.

We believe that we promote well-functioning markets through our active management style and deep, fundamental investment analysis, as well as our stewardship practices.

Threats to a Well-functioning Market	How We Address Them
Short-termism and misaligned incentives	• Our selective, fundamental investment style. • Our active ownership, including engagement and proxy voting.
Marketwide risks	Our risk assessment framework, including: • Six criteria. • Macroeconomic framework. • Portfolio construction.
Systemic risks	Our stewardship approach, including: • Thematic focus areas. • Industry collaborations.

Promoting Well-functioning Markets Through a Long-term Approach

We believe our active investment approach, characterized by deep, business-focused research and active ownership, promotes well-functioning markets in two key ways.

First, we leverage our fundamental research capability as we aim to identify the best growth businesses globally. Conducting thorough research and analysis of investment opportunities enables us to identify mispriced assets and contribute to price discovery in the market. Because earnings growth tends to be a predominant driver of stock returns over time, our six investment criteria are designed to steer us toward the few businesses capable of sustaining above-average growth over periods of five or more years.

As business owners—as opposed to stock traders—we focus on understanding the potential magnitude and durability of growth drivers for each business. We are willing to accept short-term stock price volatility in exchange for the potential to generate significant wealth over the long term. While price-to-earnings multiples can help or hurt in any given year or environment, over the long run, fundamentals tend to drive the bulk of our investment results. In our experience, attempting to time the market typically does not add value to our investment process.

Second, we hold companies accountable to investors by engaging with them, promoting transparency, and advocating good governance practices. We do this over a multiyear period, thereby encouraging companies to prioritize matters that contribute to long-term shareowner value creation over short-term interests. We also advocate for strong executive compensation practices that include long-term incentives, thereby helping align the interests of management with long-term shareholders.

Active Ownership Case Study: Dexcom

In 2022, we engaged with Dexcom on executive compensation. We relayed to the board representative that its executive compensation structure had improved from previous meetings. However, we felt it could improve even further with the disclosure of the company's long-term incentive key performance indicators. While Dexcom preferred not to disclose this information for competitive reasons, the company said it would consider this feedback. When the company announced the incentive structure ahead of its 2023 annual shareholder meeting, we were satisfied that the company chose to disclose the metrics considered for the long-term incentive executive compensation. We believe that revenue growth and total shareholder return are metrics that will keep management aligned with its shareholders.

Identifying and Addressing Marketwide Risks

As an essential part of our fundamental research-driven investment approach and active ownership, we aim to address marketwide risks through our risk evaluation process, which includes our six criteria, our macroeconomic framework, and our portfolio construction process.

We believe that market risks can be broken down into three key sources of risk:

1. **Business risk**—Addressed through our six investment criteria and deep proprietary research.
2. **Macroeconomic risk**—Addressed through our macroeconomic framework.
3. **Portfolio-level risk**—Addressed through our diversification by geography, industry, etc.; monitoring of overlapping growth drivers; awareness of implied macroeconomic exposures, liquidity, and valuation through our expected returns frameworks.

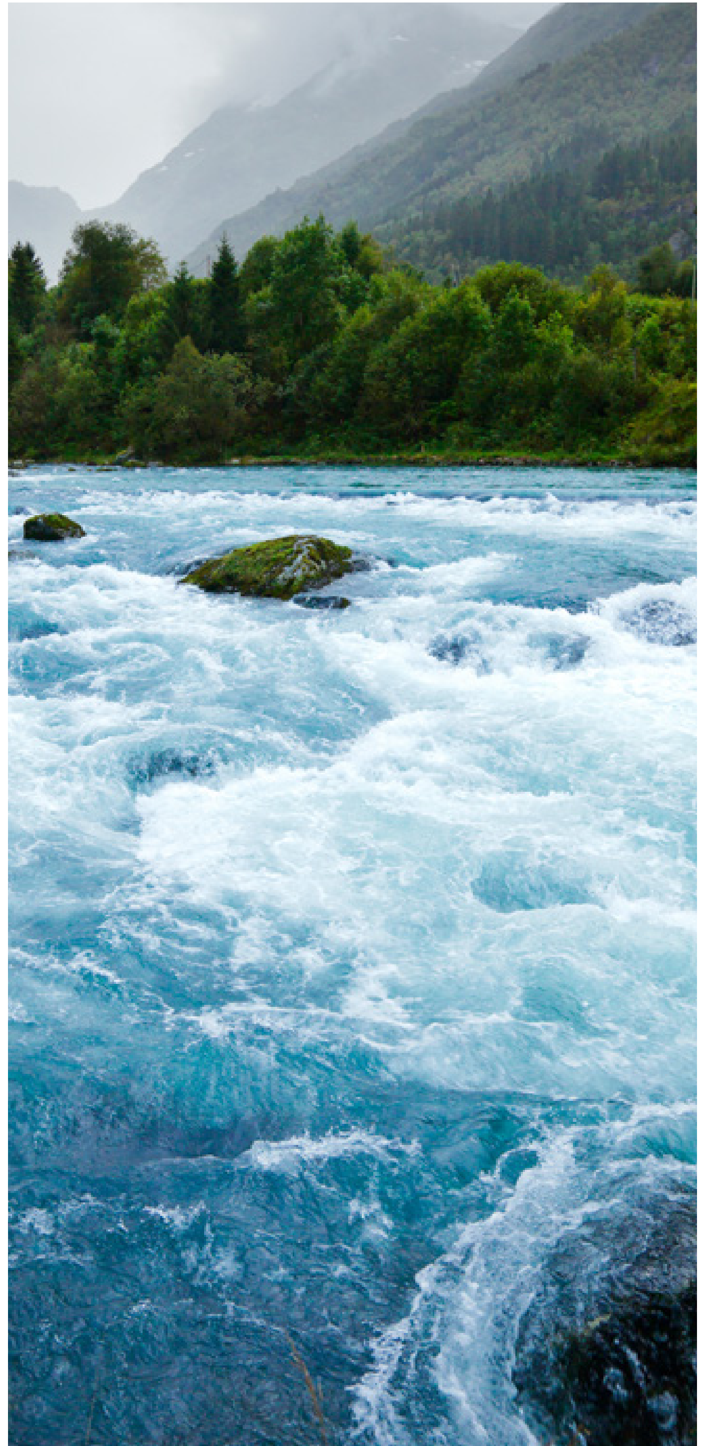
Six Criteria

Risk management is integrated throughout our entire research and portfolio construction process. We define and mitigate risk from a business owner's perspective. The primary risk we seek to mitigate is the risk of a permanent loss of capital resulting from a negative business or investment outcome. Importantly, we think our six investment criteria are our most important risk management tool.

The companies we seek to own have:

- Sustainable above-average earnings growth.
- Leadership position in a promising business space.
- Significant competitive advantages.
- Clear mission and value-added focus.
- Financial strength.
- Rational valuation relative to the market and business prospects.

Over our long-term investment horizon, we will inevitably face some macroeconomic challenges. We aim to identify the businesses that have the financial strength not only to survive these periods but also to thrive and become stronger by expanding their addressable markets and taking market share from their competitors.



Case Study: Inflation and Interest Rates

Over the past three years, inflation has accelerated, driven by various factors, including labor shortages, higher energy prices, geopolitical tensions, and supply chain disruptions. In 2022, equity markets tumbled when the Federal Reserve started raising rates to combat inflation. In 2023, markets and the economy continued to manage the fallout. Around the globe, inflation rates have fallen from 2022 highs but remain elevated.

Many of our portfolio businesses experienced meaningful price volatility as the Fed raised interest rate targets. As we evaluate the risk for our clients, our primary focus is to gauge how high-growth businesses will perform when price pressures persist. Companies best positioned to withstand difficult macroeconomic environments share key characteristics. They have financial strength, competitive advantages in promising business spaces, and established economies of scale with potent pricing power.

Technology innovations have also helped many businesses keep inflationary pressures in check by reducing the cost of goods and labor and increasing output. We find that these innovators fall into a few categories: price setters (businesses that can use their competitive advantage to pass along prices to customers), automators (which develop the automation equipment to help companies contend with rising labor costs), and cost cutters (which deliver goods and services at scale).

As rates and inflation return to more normalized levels, we believe once-panicked markets will return their focus to underlying business fundamentals. It is within those fundamentals that the best long-term investment opportunities can be found.

Macroeconomic Risk Framework

Our macroeconomic risk frameworks complement our fundamental, business-focused research. They often add value to portfolio construction, enhancing our ability to identify exceptional businesses while mitigating risk.

By measuring a country's relative attractiveness, we seek insight into the economic context in which a business operates. Our individual country frameworks draw on research into the key macroeconomic drivers and trends that tend to determine the sustainability of the country's economic growth rate, its fiscal and monetary health, and its political governance. They help us zero in on the factors that affect a country's long-term economic outlook and the ways those factors change over time.

We then classify countries as attractive, stable, or vulnerable. All else being equal, we prefer companies that operate against what we view as attractive or stable macroeconomic backdrops, in addition to fitting well with our six investment criteria. In our experience, these businesses are better equipped to sustain long-term fundamental growth.

Our frameworks aren't precise forecasts. They aren't designed to help time the market or to dictate our investment decisions. Rather, they provide insights that help us gauge risks, opportunities, and the direction of change in a market over our investment horizon. They help us identify multiyear structural trends that can potentially support above-average earnings growth and stable-to-strengthening local currencies, which in turn can help lay the groundwork for special businesses to create wealth over long periods.

Case Study: Our Risk Assessment of China

China is a strong example of how we use macroeconomic data to set the backdrop for our bottom-up analysis. Several members of our investment team visited China in 2023, holding more than 80 meetings with companies, experts, sell-side analysts, and buy-side contacts in numerous industries.

China is a core part of the emerging markets opportunity set. It remains a large and flourishing economy, benefiting from the growing aspirations of an increasingly affluent urban middle class with significant spending power. Infrastructure remains a source of competitive advantage for China, and China continues to produce world-class businesses that meet our investment criteria.

However, our questions about the viability of investing in the country have grown over the past two to three years. A convergence of several headwinds has negatively affected investor sentiment and contributed to a period of relative underperformance by the Chinese stock market.

Our research suggests that foreign investors in China have grown increasingly concerned by the centralization of political authority and a rising tide of regulatory scrutiny. Moreover, China faces structural problems, such as high unemployment, an aging population, and a low birth rate. China's deteriorating relationship with the United States has heightened its national security concerns, which could complicate long-term economic and business priorities.

China is increasingly less attractive relative to India, Indonesia, and other emerging market regions. China's economy is transitioning from a middle-income to an advanced economy, which requires substantive changes to its economic model. Changing domestic politics and worsening geopolitics complicate China's path forward.

China's GDP growth will likely slow over the next few years compared with the pre-pandemic period. In part, this reflects a change in priorities. The government's goal has shifted to "quality growth" driven mainly by consumption, services, and higher-skilled industrial/manufacturing instead of the investment-heavy and debt-fueled growth of the past.

While we believe the opportunity set for growth investors in China has narrowed, we continue to see attractive businesses across sectors, and we are more constructive on areas such as renewable energy and industrial automation that are more aligned with the future policy and economic direction of the country. Overall, we believe that a nimbler and more selective approach to investing in China is required.

Portfolio Construction

Our portfolios are intentionally structured to be concentrated and conviction-weighted. We believe owning concentrated portfolios allows us to provide clients with magnified exposure to our highest-conviction businesses.

We also seek to diversify our portfolios across growth stages and end markets to mitigate the risk stemming from shocks that have outsized effects on any particular industry or geography. Finally, we employ an expected returns framework, which helps us monitor valuation and avoid overpaying.

Throughout this process, our decisions are informed by our risk analytics team. Through quarterly meetings and ongoing monitoring, the team works in conjunction with the portfolio managers to monitor correlations between stocks, crowding, factor exposure, and macroeconomic sensitivities via data from MSCI Barra. The risk team continues to build dashboards to monitor both fundamental (multiples, proprietary estimates, etc.) and risk data. We are continually evaluating how best to apply these analytics to inform our decision-making process, with a current focus on awareness of extremes and identifying businesses that may incrementally reduce or increase portfolio-level risk.

Finally, we view benchmark-relative risk, which is often defined as tracking error, as a secondary consideration. Our decision-making process emphasizes absolute, business-level conviction rather than allowing active weights relative to the benchmark to determine position sizing. However, an awareness of diversification across growth stages (i.e., durable growth versus emerging growth), end markets, and geographies helps constrain tracking error.

Identifying and Addressing Systemic Risks

Systemic risks are those that markets might not automatically correct for—because of a misalignment in cost incentives (so-called externalities), because of their long-term nature, or because of a lack of understanding and transparency of the issue. Many of these risks are particularly relevant for our clients who are universal asset owners, meaning that these risks have implications for their entire portfolio and, in some cases, their beneficiaries directly.

Over the past three years, we have identified three systemic risk areas in our stewardship work: climate change, modern slavery, and digital ethics.

We identified these risk areas because one or more of the following applied:

- They represent a systemic risk as defined above (externality, time horizon challenge, or poorly understood).
- They affect companies across all our portfolios, although in different ways.
- They are of particular interest to many of our clients, often including those who are universal asset owners.

We aim to address these systemic risks by:

- Building internal capacity through research, tools, data, and training.
- Engaging with our portfolio companies.
- Collaborating with other investors to build knowledge, participating in conferences, and contributing to the conversation with our thought leadership.

Climate Change

At Sands Capital, we recognize climate change as a systemic risk that may affect us as active, long-term investors. Climate-related physical and transition risks can manifest over many years. These risks may fundamentally alter economies and present threats and/or opportunities to portfolio companies' capacity to create long-term value for shareowners. Therefore, we aim to integrate the analysis of these risks and opportunities into our company research. We may also act on the conclusions of our analysis by engaging our portfolio companies when relevant.

During the reporting period, we continued our efforts to learn more about climate change, train our employees, and incorporate climate change analyses into our investment process. This included expanding our research into investment opportunities driven by the global transition to a lower carbon economy.

Qualitative Company-level Analysis

Climate change and the transition to a lower-carbon economy will likely affect many of the companies in our investment universe. In 2021, we made our company-level climate analysis explicit by incorporating a dedicated climate change section into our internal company ESG reports. The section is modeled on the TCFD framework and includes an analysis of both climate risks and opportunities, as well as company strategy and target setting. We continued this model for 2023, the aggregate output of which can be seen in Exhibit A on page 49.

Tools, Metrics, and Assessments

- **Portfolio mapping:** We regularly map our four flagship strategies' climate targets against three categories: approved science-based targets (SBTs), non-SBT emissions reduction targets, and no targets. Categorizing portfolio companies based on their emissions targets, in part, helps us prioritize engagement with companies.
- **Climate Value-at-Risk (CVaR) tool:** The MSCI CVaR tool measures climate-related risks and opportunities based on the TCFD recommendations. The MSCI ESG research assesses a company's Scopes 1, 2, and 3 emissions data as well as physical risks and opportunities. The research overlays it with climate policy outlooks and future emission reduction price estimates to create a financial impact model. The stewardship team leverages CVaR modeling to flag portfolio companies for engagement and to better understand a sector's overall climate-related challenges.

- **Carbon Footprint Metrics tool:** This MSCI tool provides metrics for companies based on their carbon emissions, carbon intensity, and weighted-average carbon intensity. The core stewardship team uses these carbon intensities to distinguish which companies to target for engagement and advocacy. We also report portfolio carbon metrics in the quarterly reports we distribute to our clients.
- **Engagement:** Using both company-level qualitative analysis and quantitative portfolio-level data on carbon and targets, we identify companies that are most exposed to climate-related risks and seek to engage with them. Through these engagements, we aim to understand management's intentions about how it assesses climate-related risks, whether it plans to disclose carbon emissions, and, where material, how it might approach decarbonization.

We understand that companies are at different stages, depending on their size, industry, geography, and corporate governance. Our company engagements will generally be guided by key considerations, to the extent they are financially material, including:

- **Decision-useful information disclosure:** We typically encourage companies to disclose material climate-related risks, as well as emissions, in line with global best practices. The TCFD disclosures, now incorporated into the International Sustainability Standards Board (ISSB) reporting standards, provide a robust framework for climate disclosures, and we encourage companies to use them.
- **Governance, awareness, and management of climate risk:** We may engage with companies to assess and understand their overall governance, awareness, and management of climate risks and potential opportunities.
- **Emissions reduction strategy:** We may engage with companies to understand and assess the effectiveness and progress of their emissions reduction strategies, including the development and implementation of science-based targets.

Climate Change Engagement Case Study

ATLASSIAN

Business: Atlassian is a leading software application vendor that creates tools to enhance team collaboration and productivity.

Key Issues: Greenhouse gas (GHG) emissions.

Strategies: Global Growth, Global Shariah, International Growth, Select Growth, and Technology Innovators.

Atlassian is a U.S.-domiciled enterprise software company that many software developers favor due to its Jira product set, which allows users to plan, track, and release software efficiently. Atlassian is also viewed as a leader among its peers in terms of ESG initiatives. In 2023, we had our first opportunity to speak with the company's head of sustainability. We discussed several topics, including the firm's greenhouse gas emissions.

As a software company, the firm has a relatively small direct carbon footprint when compared to businesses in other industries. A material amount of its greenhouse gas emissions is the result of Atlassian's upstream and downstream activities, such as the company's purchased goods and services or the use of the firm's products. Atlassian seems focused on managing its Scope 3 emissions, and it disclosed to us that it engages with its largest suppliers around this issue. Instead of simply requesting its suppliers decrease their own absolute emissions, Atlassian provides frameworks on how companies may understand their baseline emissions and set science-based targets. We are in favor of this approach and believe these resources demonstrate the emphasis Atlassian places on this topic.

As a result of our meeting with Atlassian, we reaffirmed our stance that the company remains a leader in ESG matters. We believe that Atlassian leads by example on these topics that may have a material impact on the company's financial performance. We look forward to future engagements with this company as it continues to demonstrate strong ESG practices.

Training and Events

To continuously improve our understanding of how climate-related issues affect our portfolio companies, we are committed to training and education.

- A member of the core stewardship team attended several events during New York Climate Week and engaged with peer practitioners in these events relevant to asset owners and managers.
- Members of Sands Capital's public investment team attended the MIT Energy Conference in Boston, in April 2023; Intersolar Europe in June 2023; and the U.S. Department of Energy's Hydrogen Program Annual Merit Review in June 2023.
- We conducted training sessions and distributed educational materials to ensure our team stays updated on evolving trends related to climate change. In particular, we conducted a firmwide training to demystify Scope 3 emissions and to help our investment team better assess the materiality of Scope 3 in investments, as well as to address the topic in engagements with companies.

Gauging the Potential Climate-related Financial Impacts on Our Portfolio

Exhibit A on page 49 showcases how our analysts have assigned portfolio companies within the flagship strategies a low, medium, or high assessment across a set of predefined categories of climate-related risks and opportunities. The categories are based on the TCFD recommendations. This overall representation allows the stewardship team to gauge the potential financial impacts of climate change on our portfolio for that year and to compare them with impacts over the previous years.

Transition Risk

As asset managers, we understand the risks and opportunities associated with the transition to a lower-carbon economy. Our investment approach tends to lead us to own companies that are comparatively asset-light and, by extension, have lower carbon emissions. The weighted-average carbon intensity (WACI) of our strategies is substantially lower than the benchmark,[4] as seen in Exhibit B on page 49. Our strategies are at low risk of value loss due to stranded assets.[5] Despite low carbon intensities within our portfolio, we do have outliers, which are highlighted in Exhibit D on page 50. We continue to seek to understand the nature of these outlier businesses and engage with management to lower emissions and adapt to climate change.

While we value tools and data for gauging the impacts of climate change on our portfolio and vice versa, we also recognize that metrics alone cannot explain the full effect that one business may have overall. Even the most carbon-intensive companies may be a part of the decarbonization solution by virtue of their products, research, and market position. For example, Taiwan Semiconductor, one of our most carbon-intensive businesses, offers products that support the transition

4. The MSCI ACWI Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 24 emerging markets. As of May 2022, it covers more than 2,933 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market. Source: "ACWI IMI's Complete Geographic Breakdown," MSCI, https://www.msci.com/our-solutions/indexes/acwi
5. Stranded assets: The potential to experience "stranding" of physical or natural assets due to regulatory, market, or technological forces, arising from low-carbon transition. Examples include coal mining and coal-based power generation and oil sands exploration or production. Source: MSCI.

to a lower-carbon economy by enabling other actors to lower their carbon footprint through digitalization and electrification. We believe Sika, a Swiss industrial company with a robust carbon mitigation strategy and ambitious carbon reduction targets, can help make construction and urbanization more ESG-friendly. Another example is Reliance Industries, a multinational conglomerate company with businesses in the energy sector that has set ambitious goals to achieve net-zero carbon by 2035. These examples of decarbonization efforts by carbon-intensive companies are why we believe that a holistic approach to evaluating climate risks and opportunities in a portfolio goes beyond simply aggregating carbon metrics.[6]

It's also important to consider the scopes on which climate metrics are based. The most reliable emissions data currently covers Scopes 1 and 2. However, given the nature of the industries in which we invest, the largest part of our companies' GHG emissions will likely be in Scope 3.[7]

6. The businesses mentioned were selected because they are the most carbon-intensive businesses as set forth in Exhibit D: "Top 10 Carbon-intensive Holdings."
7. Scope 1 level emissions are direct emissions from owned or controlled sources. Scope 2 level emissions are indirect emissions from the generation of purchased energy. Scope 3 level emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (as defined by the Greenhouse Gas Protocol Corporate Standard). Source: The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition, World Business Council for Sustainable Development and World Resources Institute, https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf.

Transition Risk Case Study

Reliance
Industries Limited

Business: Reliance Industries is a leading enabler of digitalization in India.

Key Issues: Environmental policy and strategy and energy use and efficiency.

Strategies: Emerging Markets Growth and Global Shariah.

Reliance Industries is one of the most energy-intensive businesses we own, so we have dedicated significant time to understanding its environmental policies and business practices. The company's ongoing shift toward new business lines is material to our investment case.

We updated our thinking on Reliance following the release of its 2023 Annual Report. Our views were also informed by engagements we held with the company during the year, meeting with the firm in October 2023 and again in November during a research trip to India.

Through this work, we have gained a deeper understanding of the company's "New Energy" strategy, making us more confident that management is taking prudent and effective steps to build a strong foundation for profitable growth that should benefit from India's clean energy infrastructure buildout, especially in solar energy. After years of evaluating the available alternatives, the company has chosen a key solar photovoltaic technology on which to base its initial gigafactories.

Elsewhere in clean energy (e.g., hydrogen, wind, power electronics, and biofuels), Reliance is still figuring out what technologies will work best for India over the long term. It is, therefore, seeding a number of internal and external initiatives with capital. Given the rate at which the renewable energy industry is evolving and the high level of uncertainty about the applicability and scalability of its constituent technologies, we find it encouraging the company is guided and supported on a foundational level by a dedicated New Energy Council including some of the world's foremost thinkers in the space.

Most importantly, the business case for New Energy appears compelling. Reliance has a solar energy target of 20 gigawatt-hours (GWh) to 100 GWh capacity by 2026 to 2030. The initial goal of Reliance's solar program is to meet Reliance's significant captive demand before selling products externally. Reliance currently consumes about 144,000 GWh of energy in any given year across its business units, around 40 percent (or 58,000 GWh) of which is electricity. Current tariffs of approximately $0.11/kilowatt-hour (kWh) imply an annual electricity bill on the order of $6 billion (or approximately 5 percent of sales). Reliance thinks its New Energy strategy can ultimately get these costs down to $0.06 to $0.07/kWh, a 40 percent to 50 percent savings that would translate into more than $2 billion in annualized savings. Over the longer term—once its internal demands have been satisfied—Reliance intends to open its manufacturing capabilities to the world as a component supplier, which is a potentially large new stream of earnings and cash flow.

The company has set a net-zero target and has disclosed target milestones over the medium to longer term. Given the nature of its business, management noted that emissions could spike from one year to the next. However, the medium- to long-term trajectory is toward lower carbon intensity. As a result, Reliance hopes its carbon emissions peak by 2026 and decline after that.

Physical Risks

The physical risks associated with climate change can have financial effects such as damage to assets or supply chain disruptions. Our portfolio companies have overall low physical risks as noted in Exhibit A on page 49, with only three companies at high risk: Contemporary Amperex Technology, Dino Polska, and Sika. Across our portfolios, the most pertinent physical climate risks to our companies are extreme heat, coastal flooding, and extreme precipitation. When appropriate, we encourage our companies to take stock of the potential physical climate risks to their operations and to devise risk mitigation strategies.

Initiatives and Commitments

Sands Capital supports the TCFD standards, which have been taken over by the International Financial Reporting Standards (IFRS) Foundation and incorporated into the ISSB framework. We believe that these guidelines provide investors with high-quality, consistent, and comparable information about climate-related business risks and opportunities. By providing Exhibits A to F on pages 49 to 51, we aim to be fully transparent about how our four flagship portfolios' carbon metrics change yearly. As shown in Exhibit E on page 50, we believe it's important to highlight a weighted carbon intensity as well as financed emissions, especially as environmental regulations and technological advancements continue to change.

Exhibit F on page 51 shows how we track our flagship strategy companies based on their climate targets. Setting science-based targets is important because it provides a scientifically grounded framework for companies to work toward reducing their emissions.

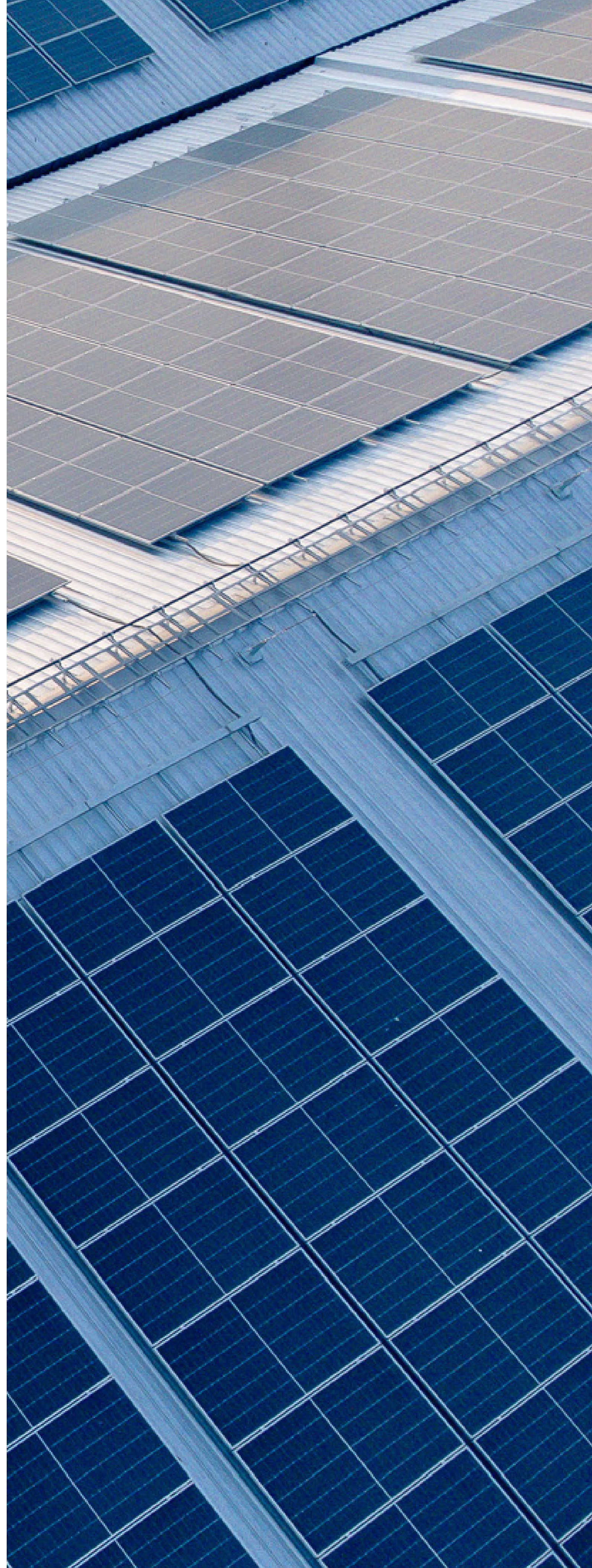


EXHIBIT A: 2023 TCFD Mapping for Sands Capital Flagship Strategies[8]

		Percentage of High	Percentage of Medium	Percentage of Low
Transition Risks	Policy & Legal	1	21	78
	Technology	2	7	91
	Reputation	1	20	79
	Market	2	11	88
Physical Risks	Acute	3	27	71
	Chronic	0	27	73
Climate Opportunities	Resource Efficiency	2	78	21
	Energy Source	3	69	27
	Products and Services	15	58	27
	New Markets	1	13	86
	Resilience (Adapting)	9	57	34

EXHIBIT B: Sands Capital Flagship Strategies Aggregate Carbon Metrics[9,10]

Weighted-average Carbon Intensity	Portfolio	MSCI ACWI
WACI 2023	20.0	128.9
WACI 2022	23.7	162.4
WACI 2021	20.6	151.2
Carbon Intensity	**Portfolio**	**MSCI ACWI**
Carbon Intensity 2023	26.9	173.3
Carbon Intensity 2022	28.3	184.7
Carbon Intensity 2021	27.3	203.0
REMIND | 2°C | NGFS | DISORDERLY	**Portfolio**	**MSCI ACWI**
Policy Climate Value-at-Risk	-0.5%	-7.2%
Technology Opportunities Climate Value-at-Risk	0.1%	0.5%
Physical Climate Value-at-Risk—Average	-3.3%	-8.9%
Aggregated Climate Value-at-Risk	**-3.8%**	**-15.6%**
REMIND | 2°C | NGFS | ORDERLY	**Portfolio**	**MSCI ACWI**
Policy Climate Value-at-Risk	-0.3%	-3.1%
Technology Opportunities Climate Value-at-Risk	0.0%	0.3%
Physical Climate Value-at-Risk—Average	-3.3%	-8.9%
Aggregated Climate Value-at-Risk	**-3.5%**	**-11.6%**
REMIND | 3°C | NGFS | NDC	**Portfolio**	**MSCI ACWI**
Policy Climate Value-at-Risk	-0.1%	-2.1%
Technology Opportunities Climate Value-at-Risk	0.0%	0.2%
Physical Climate Value-at-Risk—Average	-3.3%	-8.9%
Aggregated Climate Value-at-Risk	**-3.4%**	**-10.7%**

8. Rounding may cause figures to vary from 100.0%.
9. Portfolio carbon emissions are calculated as Scope 1 and Scope 2 carbon emissions per $1 million invested. Portfolio carbon intensity measures the carbon efficiency of a portfolio and is defined as the portfolio carbon emissions per $1 million of portfolio sales; At a business level, carbon intensity is calculated as carbon emissions per unit of sales (tons/$ 1 million sales) while financed emissions are defined as carbon emissions per million dollar of enterprise value (tons/$M EV incl. cash). Aggregated Climate VaR measures the financial impacts of warming using the Regional Model of Investment and Development (REMIND) model, which analyzes the future implications of interactions between energy, land-use, economy and climate systems. The Disorderly scenario assumes higher transition risk due to delayed policies and divergence across countries and sectors. The Orderly scenario assumes climate policies are introduced early and become gradually more stringent. Weighted averages are computed as the sum product of the portfolio companies' respective carbon values and portfolio weights. Source: MSCI, FactSet.
10. As of December 31, 2023. Businesses held in the four flagship strategies: Select Growth, Global Growth, Global Leaders, and Emerging Markets Growth. Collectively these strategies made up 94% of public equity assets.

EXHIBIT C: Top 10 Most Carbon-intensive Holdings Across Four Flagship Strategies[11,12]

Company	Aggregate Portfolio Weight (%)	Carbon Intensity (Scope 1 + 2)	Contribution to Weighted-average Carbon Intensity (%)
Reliance Industries	0.61	488.75	3.04
Haidilao	0.21	182.04	0.40
Taiwan Semiconductor	1.27	175.22	2.28
Texas Instruments	0.27	124.71	0.34
Samsung SDI	0.17	104.35	0.18
Lonza	0.19	81.92	0.16
Foshan Haitian Flavoring	0.35	80.90	0.29
Wuxi Biologics	0.22	77.32	0.18
Dino Polska	0.47	73.38	0.35
Contemporary Amperex Technology	0.17	72.11	0.13

EXHIBIT D: Top 10 Contributors to Weighted-average Carbon Intensity Across Four Flagship Strategies[11,12]

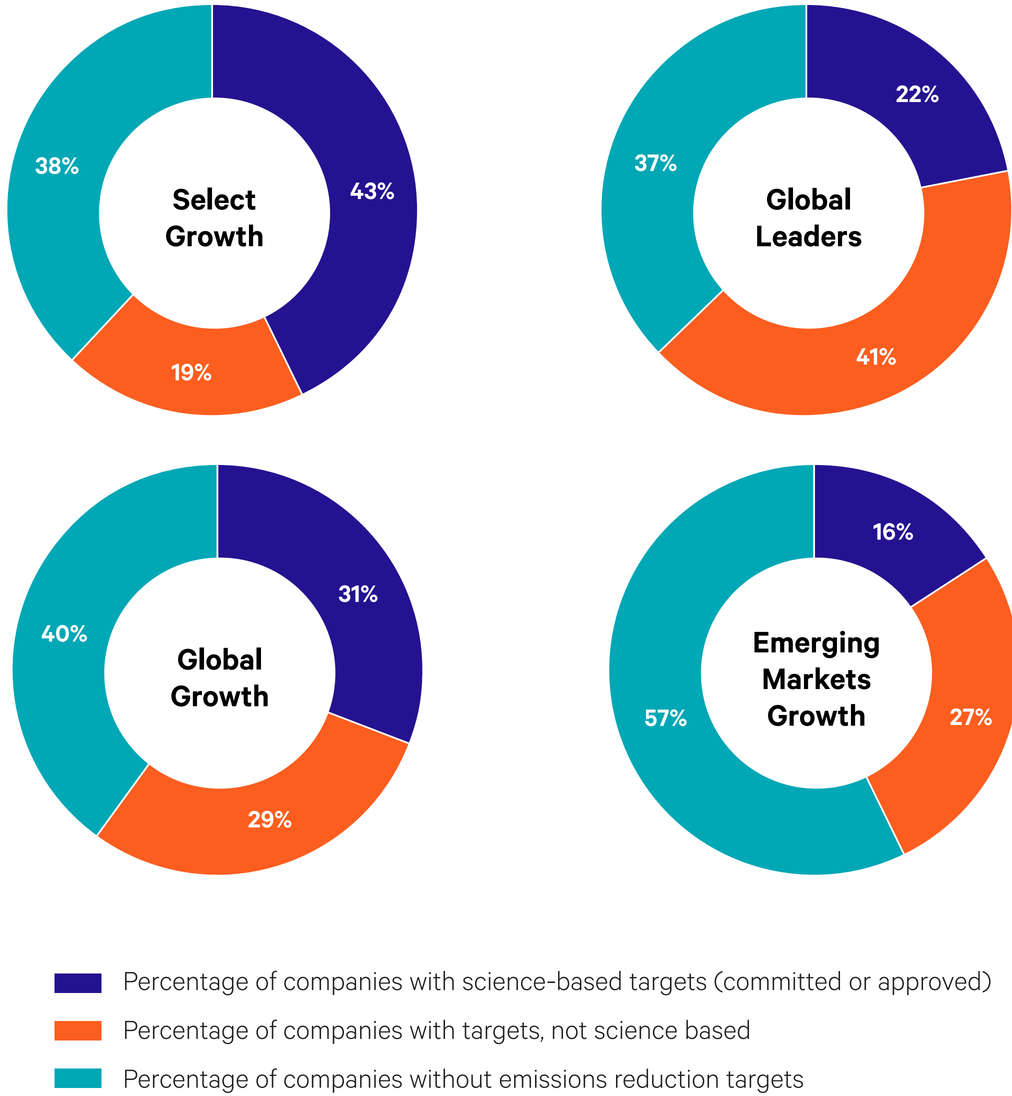
Company	Aggregate Portfolio Weight (%)	Carbon Intensity (Scope 1 + 2)	Contribution to Weighted-average Carbon Intensity (%)
Reliance Industries	0.61	488.75	3.04
Taiwan Semiconductor	1.27	175.22	2.28
MercadoLibre	3.55	46.26	1.69
Amazon	4.22	31.69	1.38
Entegris	2.40	35.66	0.88
Microsoft	2.31	32.89	0.78
Britannia	0.83	63.56	0.54
Sika	1.88	27.91	0.54
Cloudflare	2.07	23.80	0.51
Haidilao	0.21	182.04	0.40

EXHIBIT E: Sands Capital Flagship Strategies Carbon Metrics[11,13]

	Carbon Emissions	Carbon Intensity	Weighted-average Carbon Intensity	Data Availability
Select Growth	1.9	14.9	12.1	97.6%
Russell 1000 Growth index	10.3	48.6	30.6	99.7%
Global Growth	2.1	12.6	11.9	100.0%
Global Leaders	4.4	17.0	18.7	97.8%
MSCI All Country World Index	90.0	175.1	126.4	99.9%
Emerging Markets Growth	14.9	63.8	54.1	90.3%
MSCI Emerging Markets Index	299.0	374.2	321.8	100.0%
	tCO2e/$1M invested	tCO2e/$1M Sales	tCO2e/$1M Sales	Market Value

11. Portfolio carbon emissions are calculated as Scope 1 and Scope 2 carbon emissions per $1 million invested. Portfolio carbon intensity measures the carbon efficiency of a portfolio and is defined as the portfolio carbon emissions per $1 million of portfolio sales; At a business level, carbon intensity is calculated as carbon emissions per unit of sales (tons/$ 1 million sales) while financed emissions are defined as carbon emissions per million dollar of enterprise value (tons/$M EV incl. cash). Aggregated Climate VaR measures the financial impacts of warming using the Regional Model of Investment and Development (REMIND) model, which analyzes the future implications of interactions between energy, land-use, economy and climate systems. The Disorderly scenario assumes higher transition risk due to delayed policies and divergence across countries and sectors. The Orderly scenario assumes climate policies are introduced early and become gradually more stringent. Weighted averages are computed as the sum product of the portfolio companies' respective carbon values and portfolio weights. Source: MSCI, FactSet.
12. As of December 31, 2023. Businesses held in the four flagship strategies: Select Growth, Global Growth, Global Leaders, and Emerging Markets Growth. Collectively these strategies made up 94% of public equity assets.
13. As of December 31, 2023. The four flagship strategies—Select Growth, Global Growth, Global Leaders, and Emerging Markets Growth—collectively made up 94% of public equity assets under management.

EXHIBIT F: Portfolio-level Climate Targets[14]



14. Source: Data from MSCI and Sands Capital research.

Modern Slavery

For global estimates, forced labor and forced marriage are the components that constitute modern slavery. More than 49 million people are subject to these extreme violations of human rights, including almost 28 million in forced labor. Modern slavery presents not only ethical challenges but also operational, reputational, legal, and regulatory risks to companies. Whether hidden in supply chains, in financial transactions, or on internet platforms, modern slavery can be found across a variety of industries ranging from apparel to financial technology. However, many companies may be unaware of forced labor in their supply chains.

The 2021 Global Slavery Index (GSI) estimates that "nearly two-thirds of all forced labour cases are linked to global supply chains, with workers exploited across a wide range of sectors and at every stage of the supply chain. Most forced labour occurs in the lowest tiers of supply chains; that is, in the extraction of raw materials and in production stages." The 2021 GSI estimates that the G20 group of leading rich and developing countries imports over U.S. $468 billion in products "at risk of being produced with forced labour." This 2021 estimate is an inflation-adjusted increase of $61 billion since the 2018 GSI's estimate of $354 billion. Electronics, garments, palm oil, solar panels, and textiles are the import categories estimated to be the top five products at risk.[15]

Given the complexity of the supply chains in many of our portfolio companies, this data underscores the importance of enhancing our strategies to perform due diligence and minimize the risk of modern slavery within our portfolio companies.

Conflict Minerals

Thematic Focus

In late 2021, we signed an investor letter through the Principles for Responsible Investment (PRI) Collaborative Engagement Platform that seeks to address the issue of conflict mineral content in the semiconductor supply chain. The letter—which was shared with multiple semiconductor companies—requests leadership in developing supply chains free of conflict minerals through several actions, including better traceability, increased transparency, and greater sanctions on noncompliance.

Since signing on to this collaboration, we have gone beyond the mandate of the original collaborative engagement to expand our knowledge of human rights risks within the mining of critical minerals more broadly and their relevance for the semiconductor industry in particular. Throughout 2023, we held several expert calls to learn more about the risks in mining critical minerals generally and also potential ways to mitigate these risks. We anticipate completing this research on conflict mineral risk within the semiconductor industry over the course of 2024. Next, we aim to turn our focus to understanding critical mineral risks within other future-oriented sectors in which we invest, such as electric vehicles and the energy transition.

15. "GLOBAL SLAVERY INDEX IMPORTING RISK," Walk Free, https://www.walkfree.org/global-slavery-index/findings/importing-risk/

Risk Assessment, Management, Training, and Reporting

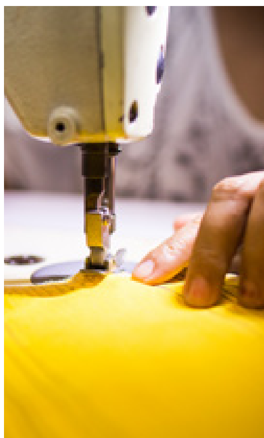
With a global portfolio across many industries, Sands Capital recognizes the importance of managing modern slavery risks through each tier of the supply chain. To address these risks in our portfolios, we undertook several initiatives, including internal training, engagement with companies on material human rights risks, and partnership for independent expertise and support with a third-party organization focused on modern slavery.

In 2021, we began the Modern Slavery Mitigation Project to prepare and implement policies, practices, and staff training. Our work on this important topic has developed over the last few years.

In 2022, Sands Capital established a partnership with an outside organization, Slave-Free Alliance (SFA), which specializes in anti-trafficking and the elimination of modern slavery, to further our work to better understand and mitigate modern slavery risks at both the portfolio and operational levels at Sands Capital. In the early stages of our partnership, we commissioned a gap analysis of our operations and investment practices. This gap analysis was an independent review of our organization's understanding and response to our modern slavery and labor exploitation risks, conducted in view of relevant legislation and industry best practices. The key output was a detailed, evidence-based report that identified risks and best practices and provided a set of recommendations, as well as a customized action plan that prioritized the recommendations based on risk and leverage.

Throughout 2023, we continued our progress on the priority areas from the SFA Gap Analysis:

- **Training:** In January 2023, we held a targeted modern slavery and human trafficking training session for the investment team, focusing on hands-on work related to due diligence on investments. We held an additional firmwide training in December, which aimed to raise general awareness of the issue and to understand how it can affect our work at Sands Capital.
- **Investment due diligence:** In collaboration with SFA, we initiated the development of an advanced due diligence framework and engagement guide on modern slavery for our investment professionals. This guide will aid in researching and interacting with portfolio companies. Additionally, we maintained a thematic emphasis on engaging with portfolio companies regarding the risk of modern slavery.
- **Operational due diligence:** Senior members of our operations team met with SFA to discuss best practices around operational due diligence, both within our processes at Sands Capital and also with our external service providers. For instance, in 2023, we introduced a specific reporting category for human rights violations, encompassing modern slavery and labor exploitation, to the types of reports that can be made within our internal ethics reporting system. This addition aims to facilitate staff reporting any suspected violations linked to the firm's operations.
- **Reporting:** In June 2023, we released our 2022 Modern Slavery Act Annual Transparency Statement, an extensive upgrade in transparency from our 2021 statement. This improved statement elaborates on our strategies to mitigate the risk of facilitating modern slavery through both our business operations and the investments we make on behalf of our clients. It includes specific actions taken in 2022 and outlines key focus areas for the upcoming year.



Collaboration With and Through the Slave-Free Alliance (SFA)

SFA is an international social enterprise wholly owned by the global anti-slavery charity Hope for Justice. The alliance helps organizations protect their operations, supply chains, and people from modern slavery and labor exploitation. SFA partners with organizations to provide gap analyses, modern slavery site assessments, crisis response formulations, proactive investigations, and training. The team at SFA has played pivotal roles in Operation Fort and the Kozee Sleep case, two of the biggest modern slavery prosecutions in U.K. history. The successful outcomes of these cases brought lasting improvements to police and commercial responses to modern slavery.*

* "WHO WE ARE: About Slave-Free Alliance," Slave-Free Alliance, https://www.slavefreealliance.org/about-us/

Modern Slavery Case Studies

APTIV

Business: Aptiv delivers technology solutions for car companies and other mobility providers.

Key Issues: Human capital management and supply chain management.

Strategy: Global Shariah.

In 1999, Aptiv changed the driving experience by introducing radar for adaptive cruise control on a vehicle. The company is a market leader in electrical architecture, as well as in electronics and active safety, which serve as a car's nervous systems and brains. For companies within this industry, supply chain management is a material topic we strive to understand. Engaging with these firms around their supply chain transparency and traceability is key to our fundamental research process. We believe enterprises that do not have systems in place to avoid human rights violations subject themselves to operational, reputational, legal, and regulatory risks. One component we screen for is modern slavery risk.

As part of our research initiative focused on modern slavery, we looked into a child labor issue uncovered through an investigative journalist report in 2022 at a leading auto manufacturer that Aptiv partners with. The issue was unrelated to the joint venture Aptiv shared with the company. However, we decided to engage the company on this topic to ensure the company was not exposed to any reputational risk.

During a dialogue with Aptiv's chief executive officer and chief financial officer, management shared that the company takes the issue of modern slavery seriously. Aptiv's leaders detailed its business practices to avoid supply chain risk. The company has policies such as a 60-person supplier audit team and labor initiatives such as auditing employee age to help ensure a safe work environment. In addition, we prefer the companies we invest in to regularly conduct third-party auditing of their supply chains. Aptiv informed us that it has dedicated external resources, including third-party monitoring tools, to reviewing its supply chain.

The engagement with Aptiv allowed us to determine that it complies with industry supply-chain management standards. This commitment to ethical business practices led to the Ethisphere Institute, a for-profit company that defines and advances the standards of ethical business practices, naming Aptiv one of the "World's Most Ethical Companies" in 2022.[16]

16. Ethisphere Announces the 2022 World's Most Ethical Companies, Ethisphere, https://ethisphere.com/2022-worldsmostethical-news/

Business: Anta Sports Products is the largest domestic sportswear company in China by market share.

Key Issue: Human rights, labor rights, ESG strategy and oversight.

Strategies: Emerging Markets Growth and International Growth.

Background

Supply chain management has been one of our top ongoing engagement topics with Anta. As one of China's largest apparel companies, Anta sources large amounts of material and requires a significant amount of labor. We view Anta's exposure to potential production disruptions and brand damage tied to alleged violations of labor or safety standards as moderate, with Anta's greatest risk being brand and reputational loss from bad press.

Activity and Outcome

Since our engagements with Anta on this topic began in 2021, we have been following up with management on ESG developments at every engagement, at least semiannually. We have learned that Anta has been making steady progress on supply chain management and on its ESG framework and disclosure. Its progress included the 2021 launch of an ESG committee—dedicated to addressing ESG matters full-time—at the board level that is led by the co-CEO and management's incorporation of ESG key performance indicators at each business unit level.

Furthermore, the company has taken steps to improve its supply chain management capabilities through initiatives including adopting a supplier code of conduct, conducting a comprehensive audit on new suppliers with distinct ESG considerations, prioritizing child and forced labor as its top "zero tolerance items" that

result in contract termination, encouraging suppliers to reach various certified quality and environmental management standards, and promoting a whistleblowing policy that allows informers to raise issues and concerns anonymously. Anta has also joined the Sustainable Apparel Coalition, an independent organization of 280 entities across the global supply chain that seeks to lead the industry toward a shared vision of sustainability based on a joint multistakeholder approach.

Previously, Anta conducted infrequent third-party supply chain inspections. Since early 2021, we have recommended the company run regular independent audits for all its supply chain partners. Anta's management team expressed concern about the robustness of the service independent auditors provided relative to Anta's in-house supply chain inspections after working earlier with independent auditors. However, our persistent engagements with the management team have led to an increase in the adoption of third-party supply chain audits at Anta. During 2022, over 50 Anta suppliers—accounting for roughly 10% of the supplier base—received third-party audits on social and labor convergence programs, business social compliance initiatives, workplace conditions assessments, and other programs. We anticipate this number will increase when Anta reports its 2023 data, and we plan to continue monitoring the company's improvement in supply chain management.

We visited one of Anta's manufacturing facilities in May 2023 to better understand the company's supply chain and to continue building context for the company's efforts to mitigate modern slavery risk. Before the trip, we engaged with Slave-Free Alliance to conduct a training session with the visiting analyst. The representative from Slave-Free Alliance advised us to be aware of general indicators of trafficking victims, specific indicators of forced labor, as well as the overall workplace atmosphere to sense if workers were generally well-treated. SFA also suggested impromptu requests to see the cafeteria and use the restroom on-site as effective ways to assess employees' actual work environment. During the visit, our team did not notice any ESG concerns. Workers were dressed in factory uniforms and appeared to have a decent working environment. Welfare benefits include an on-site cafeteria and gym, regular team outings, and sports tournaments for basketball and badminton.

These engagements give us confidence in Anta's supply chain management practice, and we believe its ESG rating will be raised to reflect its improving ESG practices.

Responsible Technology Innovation and Implementation

The world is rapidly shifting from an industrial society to one of technology-driven innovation, and our investment criteria tend to lead us to high-growth companies that are typically aligned with our view of long-term technological changes in their business spaces. As technology continues to permeate all aspects of society, it is important to consider the impact it has on individuals, organizations, and the world at large. The use of algorithms, big data, and AI is becoming more common in all sectors of the economy. These tools can provide significant benefits like individualized healthcare, greater financial inclusion, increased access to information, and environmental solutions. Digitalization also has the capability for great risks, such as algorithmic bias, unethical use of AI, technology addiction, violations of data privacy, and job displacement. Digital ethics refers to the ethical principles and values that guide the design, development, and use of digital technology.

In 2022, with other forward-thinking asset managers, we launched Investors for a Sustainable Digital Economy (ISDE), a network of institutional investment managers and asset owners seeking to pool resources to generate research on digital governance best practices for its members, as well as broader investor audiences. The work of this group includes hosting expert roundtables, producing white papers on digital ethics topics relevant to investors, creating due diligence questionnaires and engagement roadmaps, and participating in speaking engagements.

The group had previously released two additional public reports:

- *Considerations of Data Use for Global Investors in a Digital Age*, which extensively reviews research across data use, as well as emerging best practices within this critical area. It also underscores material investment-related issues, offering strategies that can improve corporate data use practices.
- *Addiction by Design: A New Frontier of Social Risk in Tech*, a white paper analyzing the material impacts of technology addiction within six sectors and key areas for investor engagement.

2023 Update

Additional actions we took this year included:

- We continued our work with ISDE. In spring 2023, ISDE hosted an experts roundtable on the Future of Work.
- ISDE authored a report that is available to members on the future of work. This piece focuses on how digitalization and automation are reshaping labor and workflows across all economic sectors.
- In July 2023, Credo AI hosted a firmwide training session at Sands Capital on the state of responsible AI and the need for AI governance. Credo AI is an AI governance platform that streamlines responsible AI adoption by automating AI oversight, risk mitigation, and regulatory compliance.
- In November 2023, we attended Credo AI's invitation-only Responsible AI Leadership Summit. This forum featured researchers, policymakers, and innovators who are considered thought leaders in the field of responsible AI.

Engagement

Mishandling of data, algorithmic bias, unethical AI practices, and technology addiction are some of the potential unintended consequences of digitalization. As forward-looking investors in leading innovative global growth businesses, we recognize the opportunity to guide corporations in setting clear guidelines for appropriate digital governance.

Our work with ISDE has enabled us to build internal capacity and expertise on how to assess the risks and opportunities related to responsible technology in our own portfolios and to engage our companies on this topic. In light of this, we have focused on engagements with companies regarding their AI governance, as we believe it will be a material consideration for many of our portfolio companies moving forward.

In 2023, we engaged with 23 businesses on digital ethics, including such topics as their responsible AI use.

Responsible Technology Innovation and Implementation Case Study

Business: Okta is the leading independent provider of enterprise identity and access management software, based on revenue and integrations.

Key Issue: Artificial intelligence governance.

Strategies: Global Growth, Global Shariah, Select Growth, and Technology Innovators.

Okta is a provider of next-generation identity and access management software in the cloud. The company has historically made its ESG team available for us to connect on topics we feel are material to its business. Recently, we had a chance to cover a broad array of ESG topics, including those pertaining to artificial intelligence governance.

Companies' use of AI models is an emerging theme in which Okta has participated. The company has acknowledged the potential privacy, confidentiality, and open-source issues related to the use of AI models. As an enterprise identity and access management platform provider, Okta is the gatekeeper for large volumes of customer information. This gatekeeper role exposes Okta to operational and reputational risks in the event of any security breach. As a result, we wanted to know what the company has done to mitigate these risks.

The ESG team at Okta told us that it is committed to the ethical use of AI. The company has adopted an acceptable-use policy for AI at Okta and has rolled out stakeholder guidance across teams for deploying and developing AI products. Additionally, the company conducts AI training for its associates to enhance awareness of the risks associated with AI use.

Industry Partnerships, Affiliations, and Memberships

Building Partnerships That Foster Innovation

To support the promotion of well-functioning financial markets, we also take part in various industry initiatives. Through our involvement and contribution to these collaborative initiatives, we aim to improve market resiliency over the long term.

Sands Capital builds relationships with select organizations that enable us to understand stakeholder perspectives on sustainability issues, apply lessons to our research analysis and engagements with portfolio businesses, and collaborate with stakeholders to enhance corporate disclosure practices. Because we work with such dynamic companies in evolving industries, we view these partnerships as an indispensable way to share best practices and gain insights into effectively managing ever-changing externalities. Our partnerships focus on areas most relevant to our portfolios, such as institutional investing, climate reporting, digital ethics, and corporate governance.

This list of partnerships is not exhaustive, and we will continue to find and pursue options to collaborate to achieve positive long-term outcomes for our clients and society.

Our Partnerships, Collaborations, and Reporting Frameworks

	Organization	Involvement and Leadership
	The Carbon Disclosure Project (CDP) is a not-for-profit charity that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.	As an investor signatory, Sands Capital joins nearly 600 institutional investors globally to require environmental information from companies, in line with the TCFD recommendations, to create the most consistent, comprehensive, and measurable global environmental dataset for investors.
	Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of U.S. public, corporate, and employee benefit plans; state and local entities charged with investing public assets; and foundations and endowments with combined assets under management of approximately $5 trillion. CII is a leading voice for effective corporate governance, strong shareowner rights, and sensible financial regulations that foster fair, vibrant capital markets.	Sands Capital is an associate member of CII. Sands Capital has contributed domain knowledge to CII's conference programming by hosting breakout education sessions on topics including corporate governance in emerging markets and executive compensation. Our senior proxy specialist also sits on the Corporate Governance Advisory Council providing input to the board of CII that promotes effective corporate governance.
	The Financial Reporting Council (FRC) is the U.K.'s independent regulator serving the public interest by setting high standards of corporate governance, reporting, and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes as well as U.K. standards for accounting, auditing, and actuarial work. It represents U.K. interests in international standard-setting. The FRC also monitors and takes action to promote the quality of corporate reporting and auditing. It operates independent disciplinary arrangements for accountants and actuaries and oversees the regulatory activities of the accountancy and actuarial professional bodies.	The UK Stewardship Code is a voluntary framework to which investors can apply to gain signatory status. By doing so, signatories demonstrate a high stewardship standard, as well as active and engaged monitoring of corporate governance in the interests of beneficiaries. The Code contains 12 principles related to stewardship activities, such as purpose and governance, investment approach, engagement, and exercising rights and responsibilities. It also requires signatories to apply these principles to their stewardship programs and explain how they do so in a publicly available report. This report is submitted to FRC for their review and approval of signatory status.
	The International Corporate Governance Network (ICGN) promotes effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. Its policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles.	Sands Capital previously served as a primary sponsor of the Governance of Big Tech virtual summit hosted by ICGN and NASDAQ. Additionally, several members of the investment team participated in ICGN's intimate and interactive Governance, Stewardship, and Sustainability Course.

Our Partnerships, Collaborations, and Reporting Frameworks (cont.)

	Organization	Involvement and Leadership
	Investors for a Sustainable Digital Economy (ISDE) is a network of like-minded investment managers and asset owners seeking to pool resources to generate research on digital governance best practices for its members, as well as broader investor audiences. The forum harnesses deep expertise across the digital economy, developing research and stewardship tools focused on understanding and addressing the impacts of areas such as data use, machine learning algorithms, robotics, the future of work, and bioethics.	Sands Capital is a founding member of this organization, which was formally launched in February 2022. We have participated in several small roundtables and the development of reports focused on data use and technology addiction.
	Principles for Responsible Investment (PRI) promotes sustainable investment through the incorporation of ESG issues into investment decision-making. In implementing six aspirational principles, signatories contribute to the development of a more sustainable global financial system.	Sands Capital became a signatory in 2017. Our partnership with PRI has served as a useful blueprint for us in building our stewardship program and understanding how our program compares with those of our peers. It has also provided a forum in which to exchange best practices around stewardship efforts. We have also participated in PRI-led collaborative thematic engagements.
	The IFRS Sustainability Alliance combines the SASB Alliance and Integrated Reporting Business Network into a global network that explores and develops best practices related to sustainability standards and integrated reporting.	Having joined the SASB Alliance in 2017, Sands Capital continues to support the industry-based standards-setting process through the consolidated alliance. Through this role, Sands Capital regularly engages with IFRS to offer guidance on a variety of topics. These have included consultations on topics such as greenhouse gas emissions, stock-based compensation, board of director governance, and supply chain best practices. Conversely, Sands Capital leans on IFRS to ensure its own portfolio companies are in sync with the most up-to-date ESG practices.

Our Partnerships, Collaborations, and Reporting Frameworks (cont.)

	Organization	Involvement and Leadership
	The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.	In 2020, Sands Capital became a public supporter of the TCFD, which has been taken over by the IFRS Foundation and incorporated into the International Sustainability Standards Board's (ISSB) framework. We incorporate the TCFD's disclosure recommendations, including its weighted-average carbon intensity recommendation, into our reporting. We also model our company-level climate analysis in our internal company ESG reports on the TCFD framework. In our engagements with companies that are beginning to measure and disclose emissions, we recommend they use the TCFD framework as a base.
	The U.K. Sustainable Investment and Finance Association (UKSIF) brings together the U.K.'s sustainable finance and investment community and supports its members to promote a sustainable financial system that works for the benefit of people and drives positive change.	Sands Capital joined UKSIF in June 2022. We look forward to contributing to the organization by participating in member sessions and learning from the knowledge of forward-thinking investors. We attended the UKSIF's Autumn Conference 2022 and participated in a panel on our work with ISDE. As we learn more about UKSIF and its future initiatives, we will look to engage further in initiatives appropriate to our investment process and portfolio companies.
	Slave-Free Alliance is an international social enterprise wholly owned by the global anti-slavery charity Hope for Justice. The alliance helps organizations protect their operations, supply chains, and people from modern slavery and labor exploitation. SFA partners with organizations to provide gap analyses, modern slavery site assessments, crisis response formulations, proactive investigations, and training.	Sands Capital became an SFA member in 2022. Sands Capital was one of the inaugural members within the United States and one of only a few members within the financial services industry. Since joining SFA, we have participated on panels at the 2022 and 2023 SFA Conferences and have held collaborative conversations with other SFA members within the financial services industry. We look to continue these engagements throughout our partnership with SFA to enhance our own investment due diligence and company engagement.

Events and Conference Participation

Throughout the year, we convened and participated in a number of events and conferences. For example, we participated in the Slave-Free Alliance 2023 Conference: A Global Forum for Change Panel on Responsible Business Strategies Amidst Global Compounding Crises and Exploitation Trends. There, we discussed how we proactively engage our portfolio companies on modern slavery risk, sharing how we aim to align ourselves as partners when engaging companies and the internal knowledge-building around modern slavery to better inform our engagements. In addition, we attended the events and conferences in the table below.

Convenings and Public Speaking Engagements in 2023

- March 6 to March 8: Attended panels at the Council of Institutional Investors (CII) 2023 Spring Conference: Governance as the Linchpin, along with the private Proxy Voting Group, to discuss various proxy topics covered by Chatham House rules.
- March 29: ISDE hosted an Experts Roundtable on the Future of Work.
- March 14: Attended keynotes and panels related to academic research on ESG and sustainability at the NYU Center for Sustainability Business Annual Practice Forum.
- April 11 to April 12: Attended panels related to energy transition and climate technology startup showcase at the MIT Energy Conference.
- June 5 to June 8: Attended panels on the Department of Energy's (DoE) hydrogen strategy as well as peer review sessions on hydrogen projects during the DoE Hydrogen Program Annual Merit Review.
- June 19 to June 21: Attended a range of panels related to proxy and stewardship at the International Corporate Governance Network (ICGN) Annual Conference.
- September 11 to September 13: Attended panels at the CII 2023 Fall Conference: Next Frontiers in Governance, along with the private Proxy Voting Group to discuss various proxy topics covered by Chatham House rules.
- September 17 to September 24: Attended various events relevant to asset managers during New York Climate Week. Discussions included climate risk, sustainability reporting, climate finance, energy transition, climate technology, and food system innovation.
- September 20 to September 21: Attended panels on various proxy dynamics panels discussing the best practices for company engagement and focus on the regulatory environment at the 2023 ICGN Policy Forum & Proxy Season Review.
- September 26: Attended panel discussions and company exhibitions as part of the London Climate Technology Show.
- September 27: Attended and spoke on the "Responsible Business Strategies Amidst Global Compounding Crises and Exploitation Trends" panel at Slave-Free Alliance 2023 Conference.
- October 3 to October 5: Attended the annual PRI in Person, the largest investor conference on stewardship, ESG, and sustainability.
- November 7 to November 8: Participated in sessions and networking events as part of CII-NYU School of Law's Corporate Governance Bootcamp.
- November 9: Attended Credo AI's invitation-only Responsible AI Leadership Summit.
- November 15 to November 16: Attended panel sessions and held several small-group dialogues with other investors, service providers, and relevant industry stakeholders at Responsible Investor USA 2024.

Assessing Our Effectiveness in Addressing Risks

Managing concentrated portfolios of high-conviction businesses is not only a matter of where you choose to allocate capital but also what you choose to avoid. Focusing on high-growth equities helps us avoid the risks associated with excessive diversification and with not having a thorough understanding of the businesses we are invested in and how they may respond to marketwide and systemic risks. Understanding how systemic risks like climate change could affect businesses is essential to acquiring the conviction necessary to allocate capital in highly concentrated portfolios. We believe the methods and processes we have established for assessing risk and obtaining the conviction required for our investment strategies are critical to our success as responsible stewards of capital.

6 Active Ownership

Through engagement, proxy voting, and the cultivation of direct relationships with management and directors, we seek to help our businesses overcome challenges and capitalize on opportunities, ensuring they remain attuned to the shifts influencing their industries.

Active Ownership for Effective Risk Management and Value Creation

Active ownership is an integral component of our stewardship efforts. Our investment strategies are designed to concentrate investments in exceptional growth businesses. This means we are frequently among companies' largest shareholders across all our investment strategies. As of December 31, 2023, we were a top 20 shareholder in 57 public companies. This level of ownership gives us access to management teams and directors, which enables us to engage constructively on ESG and other issues that can affect a company's long-term strategy.[17] It also means that our proxy vote often holds considerable weight.

Because our portfolio businesses recognize our long-term investment orientation and focus on value creation, they tend to welcome our engagement. We understand that thoughtful business improvements take time, which is why many of our engagements span years. Through ongoing conversations, we seek incremental change and adjust our approach as circumstances change, often using a combination of engagement and proxy voting and escalating where necessary. One such example is our multiyear engagement with Align Technologies, where we applied a combination of constructive engagement and targeted escalation of our voting actions. The company eventually implemented most of our recommendations.

17. Sands Capital regularly engages with the management teams and, if appropriate, board members of portfolio businesses to better understand each business's long-term strategic vision and management of risks and opportunities, including those pertaining to ESG matters. More information is available in the Sands Capital Engagement Policy at https://sandscapital.com/media/Sands-Capital-Engagement-Policy-Statement.pdf.

Multiyear Engagement Case Study

align

Business: Align is the market leader for 3D digital scanners and Invisalign clear aligners used in orthodontics, with over 70% market share.

Key Issues: Board structure or composition and executive compensation.

Strategies: Global Growth, Global Shariah, and Select Growth.

Background

Align is a global medical device company that has developed its own specialized software to create customized orthodontics products. Founded in 1997, Align pioneered the invisible orthodontics market with the introduction of the Invisalign system. Since then, it has driven evolution in digital dentistry.

Align is an example of the benefits of Sands Capital's long-term, partnership-oriented investment approach. As an innovative company with a disruptive product, Align has enjoyed long-term success under the leadership of CEO Joseph M. Hogan. However, it has historically opted for executive-compensation structures that were unusual within its industry and potentially misaligned with shareholder interests.

As a long-term shareholder, we engaged repeatedly with the board of directors from 2019 through 2023, sharing our concerns over the compensation structure and recommending alternatives. The board moved slowly in response, and eventually, we felt that we should advocate for changes to the board to properly represent the interests of our clients.

Activity and Outcome

Executive Compensation

One aspect of the CEO's compensation package has been repeated three-year cliff vesting grants—grants that were not offered to other executives. From our perspective, such grants are an unusual way to compensate the CEO for performance. We were concerned that similar incentives were not available to other key personnel. In addition, we felt the grants' structure encouraged too much focus on short-term stock considerations and did nothing to disincentivize selling the stock and leaving the company.

Starting in 2019, we spoke with the board of directors about its use of this structure. At the time, we advocated adding specific nonstock-related key performance indicators to the program, as well as some rules around how fast the CEO could liquidate. But we saw no meaningful response and sensed a limited desire to change. As a result, we voted against the executive-compensation proposal in the 2019 proxy.

In 2020 and 2021, we had what we believed were productive conversations with the board's compensation committee. Although the effort to change its compensation approach took time, by 2021, the committee had revamped its scheme to eliminate one-time grants while also improving transparency around financial metrics. The shift was enough to secure support from us for its executive-compensation plans in the 2021 proxy.

However, ongoing monitoring of executive compensation has been warranted. The level of CEO compensation has remained at the top end of industry ranges despite increased volatility in stock performance. In our view, the board has not made a strong case for maintaining pay at this level, and in 2023, we once again voted against the executive-compensation package. We plan to continue our push for a structure that's more aligned with shareholder interests.

Board of Directors Structure

Early in our relationship with Align, we felt its board was progressive and had a good mix of independent directors with backgrounds in medical devices and consumer products. Over time, however, our experience with executive compensation gave us insight into potential board limitations.

While the board was willing to listen to our concerns, we sensed that its response was unenthusiastic, and it was slow to act. In 2021, we began to see improvements to the compensation approach, but by that time, we felt it appropriate to raise concerns about board entrenchment.

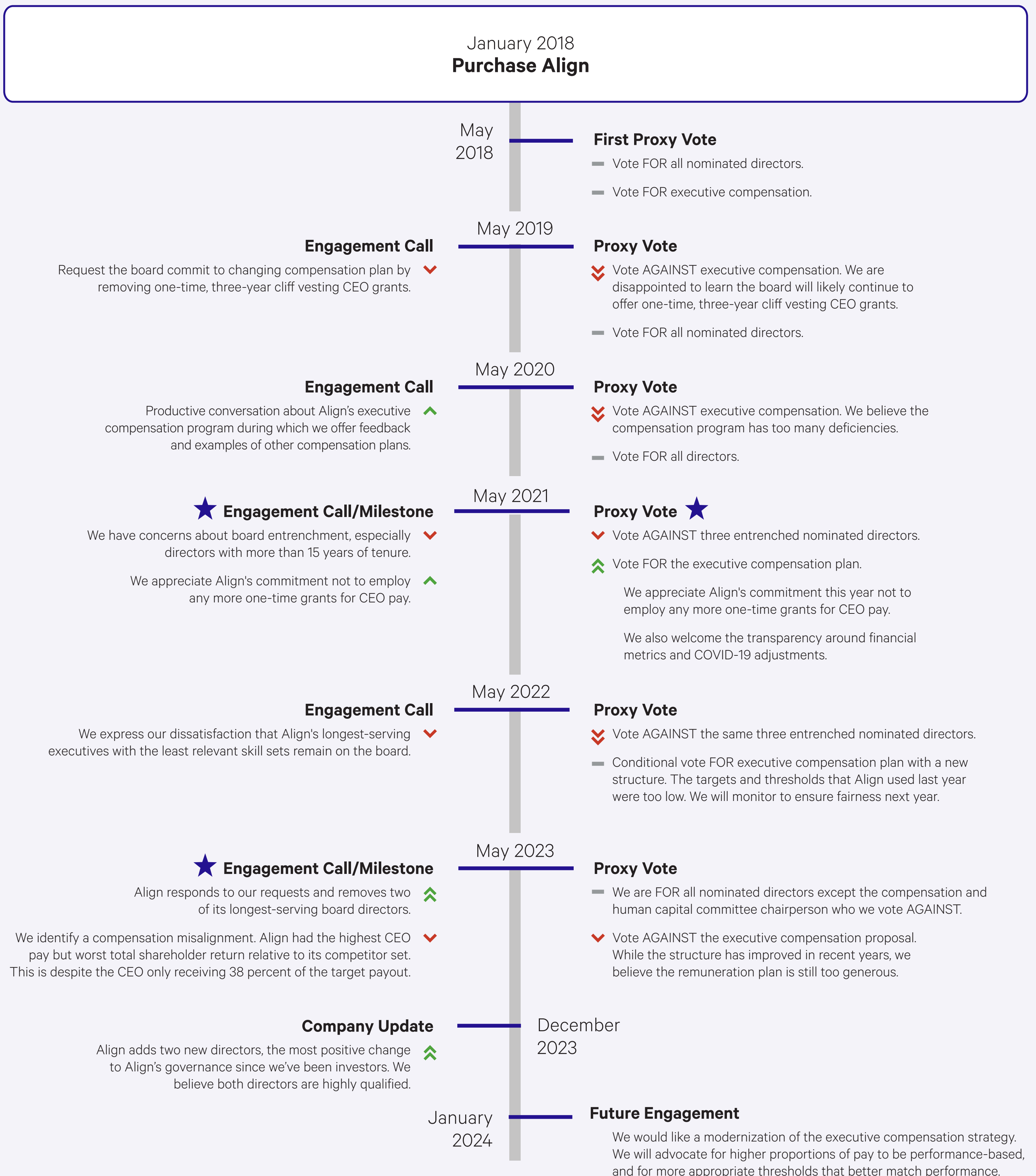
Five out of the 10 directors in 2022 had been on the board for more than 15 years, and three directors were over 70 years old and were at or nearing retirement. We did not see evidence that the board was preparing to bring in new directors who could help bring fresh perspectives, skill sets, and accountability. As a result, in 2021, we began to vote against three board members with long tenures on the board and/or limited industry experience. We repeated that vote in 2022.

In early 2023, the firm finally responded to our recommendations by removing two of the three board members we had voted against. However, instead of nominating new members, Align shrunk the size of the board. The firm had only elected one new member in the previous five years.

Finally, by December 2023, Align added two new directors—Mojdeh Poul and Kevin Conroy. We see this as the most positive change to Align's governance structure since we've been investors. Both directors are highly qualified, very experienced, and knowledgeable about the industry. We think the skills and experience the new board members bring will not only be valuable to Align but also give us more confidence that the accountability threshold will be raised with a less entrenched board.

align

Align Technology Active Ownership Timeline



Enagagement

We primarily engage with the management teams and board members of portfolio companies through one-on-one meetings. When merited, we proactively express our views about business strategy, governance, financial reporting, executive compensation, ESG, and other considerations relevant to our investment case. If management is unable or unwilling to address our concerns, it could reduce our conviction in the company's fit with our investment criteria. In such cases, we reserve the option to reduce our position or sell our shares.

We have one or more of the following objectives when we engage with a company:

- Inform our investment cases, enabling us to help build conviction in businesses and add value for our clients.
- Exchange perspectives on matters that are relevant to the interests of long-term shareholders.
- Advocate for corporate change when we believe it is in the best interest of our clients .
- Discuss ballot proposals and inform our voting decisions.

Methods and Prioritization of Engagement

We approach active ownership of our portfolio businesses with a partnership mindset. We strive to support our businesses and develop constructive, trusted relationships with their management teams. Business knowledge and context are critical to earning trust, in our experience. An advantage of our concentrated, high-conviction approach is that our investment professionals focus on a select handful of businesses, enabling them to get to know each one intimately and build context around a business' ESG circumstances.

We conduct each company engagement with a clear purpose. The lead research analyst has primary responsibility for setting the agenda and will commonly involve relevant portfolio managers and internal ESG specialists. The discussion topics are typically identified and prioritized based on our materiality assessment tied to the investment case or our thematic focus areas. We try to marry our bottom-up, company-specific priorities with our top-down focus on modern slavery, digital ethics, and climate change. At the start of the year, we endeavor to map engagement priorities across our portfolio companies, taking into account the material issues each company faces along with the relevant thematic focus areas. These priorities are typically informed by the topics identified in our proprietary ESG reports developed in collaboration with the lead analyst. This mapped strategy aims to serve as a guide, providing us with a structured approach to engagements. However, it's important to note that our engagement strategy and priorities are dynamic and may evolve throughout the year. As new issues, risks, or opportunities emerge, we are prepared to adapt and respond, ensuring our approach remains relevant and effective in addressing the changing landscape of ESG-related matters in our portfolio businesses.

Tailored Engagement Approach to Reflect Market Conditions

We adjust our approach as appropriate for each company's circumstances. In our experience, ESG factors vary in importance and are highly dependent on factors such as region, country, industry, and company. Therefore, we try to understand the context of each portfolio business when determining the issues that matter to our long-term investment case.

For example, in a knowledge economy, attracting and retaining talent and having a diverse workforce may be critical determinants of the long-term success of a business offering software-as-a-service solutions.

In such a business case, we might identify human capital management as a priority issue, define specific objectives, and design a pathway to address these objectives with the management team.

Our primary strategies are organized across different markets facing diverse risks and opportunities. In our experience, management teams in certain countries may be less inclined to engage with investment managers. We seek to recognize regional cultural norms, adjust our approach accordingly, and factor these norms into our thinking about influencing progress over time.

Examples of these engagements are presented as case studies at the end of this section.

Making Governance an Engagement Priority

In an information-rich world, nontraditional financial factors are increasingly relevant to a wider range of investable companies, and they are an important consideration in the evaluation and stewardship roles that Sands Capital plays. Typically, these factors are summarized under the heading ESG, which attempts to capture environmental, social, and governance metrics. Of these three domains, the one we focus on most consistently is governance.

Governance is not necessarily the most important of the three ESG domains, but in our view, it is the area that has the most universal application and an area in which we most commonly find material issues to discuss with portfolio companies. It is an area in which we believe we can offer valuable insight based on our long history of engaging extensively with portfolio companies. We also believe that governance is the best space in which to apply pressure because good governance tends to be a precursor to good environmental and social decision-making.

We put particular emphasis on evaluating company boards of directors. Boards can vary considerably, but there are several qualities we look for in board members:

- Independence—Are they willing to act independently of company leadership?
- Insight—Do they have the relevant skill and experience to provide effective direction?
- Diversity—Are there differing perspectives?
- Capacity—Are board members overcommitted?

Because board members are voted on annually, Sands Capital puts considerable effort into proxy-voting decisions. More broadly, many governance matters are commonly included in proxy voting, providing us with a meaningful mechanism to advocate for better practices.

As a global investment firm, we are also prepared to evaluate governance issues relevant to specific types of companies or regions with different regulatory and financial systems. Engagement in the Select Growth strategy, which focuses primarily on U.S.-domiciled growth businesses, may look different than engagement in the Emerging Markets Growth strategy, due to the disparate environments in which these businesses operate.

For example, capital structure decisions are a critical leadership issue, particularly for our holdings in emerging markets. In some cases, we might identify capital structure as a priority issue, define specific objectives, and design a pathway to address these objectives with the management team. Developing our understanding of these concerns is critical for our success as investment managers; it is only natural for us to discuss them with the company leaders we have entrusted client assets with.

Tracking Engagement Progress

The investment team uses a custom function in FactSet's Internal Research Notes to record engagements, monitor progress, and inform future engagements. Our system allows members of the investment team to record and track the qualitative details of individual engagements. The records include the topic of engagement, any requested change we ask the portfolio company to make, the corporate response, dates for follow-up, and outcomes. We have developed an engagement dashboard that not only allows easy tracking and display of metrics for our investment team but also can be used by our client and broader teams for overall engagement tracking and reporting.

2023 Engagement Statistics[18]

During engagements with our businesses, we try to integrate discussion of ESG issues into the conversation when relevant. In 2023, we engaged with 98 companies domiciled in 19 countries. In the following exhibits, we detail the range of topics covered in our discussions.

The engagement case studies in the following pages demonstrate our approach to building constructive relationships with management teams through exchanging information and perspectives and influencing positive change in their businesses.

Engagement Statistics

131
ESG-related Engagements Conducted

19
Markets Covered in Engagements

98
Unique Companies Engaged

323
Engagements Conducted

ENGAGEMENTS BY CATEGORY

Non-ESG
190

Governance
110

Social
81

Environment 81

18. Information contained in this document has been compiled from multiple internal sources. The information is current as of the date of this document or an earlier specified date or as the context may require. It may be subject to updating, completion, revision, and amendment. There will be no obligation to update any of the information or correct any inaccuracies contained in this document. These figures, and those represented in the two exhibits in this section, include engagements made in our Select Growth, Global Growth, Emerging Markets Growth, International Growth, Global Leaders, Global Shariah, Technology Innovators, Global Focus, and Focus strategies.

Category	Topic	Number of Engagements in Period	Percentage of Engagements	Percentage of Topics	Number of Businesses	Percentage of Businesses
Non-ESG	Non-ESG	190	58.8%	59.5%	70	54.3%
Social	Human Capital Management	59	18.3%	5.3%	39	30.2%
Governance	Board Structure or Composition	41	12.7%	4.0%	31	24.0%
Governance	Capital Structure	40	12.4%	3.5%	23	17.8%
Governance	Executive Compensation	35	10.8%	2.9%	30	23.3%
Governance	Increasing Transparency and Disclosure	33	10.2%	1.9%	27	20.9%
Governance	ESG Strategy and Oversight	30	9.3%	2.1%	26	20.2%
Governance	Management Accountability	29	9.0%	2.0%	21	16.3%
Governance	Regulation	26	8.0%	2.4%	15	11.6%
Social	Regulation	26	8.0%	1.6%	16	12.4%
Governance	Shareholder Protection and Rights	25	7.7%	1.8%	21	16.3%
Environment	Environmental Policy and Strategy	23	7.1%	1.3%	19	14.7%
Governance	Other Governance	23	7.1%	1.7%	19	14.7%
Social	Data Security and Privacy	22	6.8%	1.8%	19	14.7%
Social	Product Safety and Impact	21	6.5%	1.2%	18	14.0%
Social	Diversity and Inclusion	20	6.2%	0.8%	16	12.4%
Environment	GHG Emissions or Climate Change Strategy	20	6.2%	0.8%	18	14.0%
Environment	Energy Use and Efficiency	15	4.6%	0.8%	14	10.9%
Social	Labor Rights	11	3.4%	0.6%	10	7.8%
Environment	Materials Use and Sourcing	10	3.1%	0.7%	8	6.2%
Social	Other Social	10	3.1%	0.6%	7	5.4%
Environment	Other Environmental	9	2.8%	0.5%	6	4.7%
Environment	Pollution and Waste Management	9	2.8%	0.4%	9	7.0%
Social	Health and Safety	8	2.5%	0.2%	8	6.2%
Environment	Regulation	8	2.5%	0.4%	7	5.4%
Environment	Water Use and Efficiency	8	2.5%	0.6%	7	5.4%
Social	Human Rights	5	1.5%	0.3%	5	3.9%
Governance	Related-Party Transactions	4	1.2%	0.3%	4	3.1%
Governance	Audit and Accounting	3	0.9%	0.2%	3	2.3%
Total		**323**	**100.0%**	**100.0%**	**98**	**76.0%**

Engagement Case Studies

The engagement case studies in the following pages demonstrate our approach to building constructive relationships with management teams, through both exchanging information and perspectives and influencing positive change in their businesses.

Uber

Business: Uber Technologies is a technology provider that matches riders with drivers, hungry people with restaurants and food delivery service providers, and shippers with carriers.

Key Issues: Climate change strategy, data security and privacy, and executive compensation.

Strategy: Select Growth.

Background

Uber has become the global leader in the ride-hailing and food delivery businesses in terms of gross bookings. Given the widespread use of Uber's services, we believed it was important to engage with Uber on environmental and social issues. We did so in April 2023 when we met with Uber's head of ESG. During this conversation, we also discussed the executive-compensation targets currently in place. The discussions set the stage for future engagements on the topic.

Activity and Outcome

Carbon Emissions

The investment criteria we use to review a business tend to lead us toward companies that operate in low-carbon-intensity industries. Nevertheless, there are always outliers in the portfolio. Uber is a low-carbon emitter, in direct terms, as it generates revenue by matching consumers with drivers and restaurants. However, there are meaningful indirect emissions as a result of these matches. Uber believes that it has an opportunity to drive positive change here, so it is focusing on reducing emissions per trip. One example is the company's commitment to increasing the number of electric vehicles on its platform. Zero-emissions vehicles will be a key component of the

company meeting its ambitious public commitments and science-based targets, including a goal of net-zero climate emissions by 2040 across its value chain.

Cybersecurity

Illustrating our level of commitment to this issue, Sands Capital is one of the founding members of Investors for a Sustainable Digital Economy. In part, this group analyzes and reviews best practices regarding corporate data use. During this engagement, our team advocated for Uber to devote more resources to its cybersecurity. Protecting the data of its consumers is material to companies operating technology platforms. We identified Uber's practices as an opportunity for the company to improve. It responded by indicating that it took internal measures and made safety enhancements to systems to limit the risk of a data breach. Our lead analyst suggested that the company also add a board member with a cybersecurity background as a way to instill confidence among consumers and investors on the topic.

Executive Compensation

We also touched on the governance issue of executive compensation. Uber is relatively young as a public company, so it is improving its financial forecasting as shown by its 2022 executive-compensation targets that proved to be low relative to the company's realized performance. When we questioned Uber on the topic, the company pointed to the uncertainty around business results before the start of 2022, during which the world was still emerging from COVID-19. The company indicated that it believes its compensation targets for 2023 are more appropriate for the current environment. Uber acknowledged the balanced approach it must take to encourage its executives not to make compensation targets too aggressive or too conservative. Compensation targets should be ambitious enough to enhance management's ability to execute yet obtainable enough to recruit and retain talent. Accordingly, we agree with Uber's assessment. We have indicated to the company that we will monitor its compensation targets moving forward.

Overall, we are pleased by the commitments Uber has made to its emissions profile, cybersecurity, and executive compensation. We commend the company on its ability to be thoughtful in these areas, and we look forward to future engagements on environmental, social, and corporate governance issues.

dino
najbliżej Ciebie

Business: Dino Polska is a leading Polish supermarket chain.

Key Issues: Environmental policy and strategy and energy use and efficiency.

Strategies: Emerging Markets Growth, Global Leaders, and International Growth.

Dino Polska is the third-largest food retailer in Poland by market share, and it sets itself apart by its rural store footprint, vertical integration, and focus on fresh and locally sourced food. We expect Dino to benefit from the continued consolidation and formalization of Poland's retail food industry. Given the company's physical store presence and distribution of meat, which is a carbon-intensive product, we believe it is important to keep abreast of Dino's environmental strategy. Historically, we have engaged with management on this topic and more recently met with the company's head of investor relations. During this meeting, we discovered the company has plans to implement a change we requested.

Dino's vertically integrated business model has enabled the business to scale to 2,000 stores across rural Poland while maintaining a consistent customer experience and product quality. While customer welfare and product quality and safety are material components of Dino's business, its large physical store presence makes it important that Dino act to mitigate its carbon footprint.

During our due diligence meeting with Dino, we had an opportunity to visit a local store and a distribution center. We learned that clean energy is a key component of Dino's environmental strategy. More than 80 percent of stores have rooftop solar panels, and over one-third of the distribution centers have solar panels. Furthermore, during the summer months, some of Dino's stores have all their electricity demand met by solar installations. In addition to its efforts in renewable energy, the company focuses on reducing waste to offset its overall environmental impact. Dino partners with its suppliers to employ multiuse packaging for select produce to minimize the amount of waste generated from disposable bulk packaging. The company has also begun testing the use of electronic labels in its attempt to shrink waste to mitigate its environmental footprint.

During this meeting, we also reengaged Dino on disclosing some of the company's environmental policies. In light of the European Union's Corporate Sustainability Reporting Directive regulations to which the company will be subject; we believe it is imperative that the company improve its environmental disclosures. We previously advocated for Dino to be more transparent on this topic and decided to reinitiate this conversation with the company. The representatives from Dino agreed with our assessment. The company indicated that it plans to provide more transparency into its environmental impact and sustainability practices around store construction and food packaging and transportation in 2024. Dino previously established a team to monitor its environmental impacts and climate risks. We anticipate this group will be instrumental in the company's efforts to satisfy our request and the company's regulatory requirements more broadly.

We appreciate Dino's willingness to incorporate our feedback on the level of disclosures it will provide moving forward. On the whole, we believe that Dino has thoughtfully developed an environmental strategy as demonstrated by the company's focus on using solar energy and reducing waste. We plan to continue engagements with the company regarding its environmental policy and strategy.

Escalation

Portfolio companies can and do disagree with issues Sands Capital raises during our engagements. Because of our long-term investment horizon, however, we can be both patient and persistent in discussing our concerns with management or, if need be, with the board.

If both company leadership and its board are unresponsive, we will look for opportunities to address concerns via annual proxy votes. We are sizable minority shareholders in many of the companies we invest in, which gives us meaningful influence via proxies.

Ultimately, if management is unable or unwilling to address our concerns, it could reduce our conviction in the company's fit with our investment criteria. In such cases, we reserve the option to reduce our position or sell our shares.

In the event the company is unwilling to engage in discussions, we may escalate the issues through any one of the following channels:

- Escalating the conversation from management to board level.
- Speaking only to independent board members.
- Writing letters to the board of directors.
- Voting on the issue.
- Voting against the relevant board members
- Potentially reducing our stake or selling the business if we feel the identified issue has impaired the company's fit with our investment criteria.

Escalation Case Study

CPALL

Business: CP All is Thailand's dominant convenience store operator by store footprint.

Key Issues: Management accountability and capital allocation.

Background

CP All is the exclusive franchisee of the 7-Eleven brand in Thailand. The company has a dominant market share in formal convenience stores. Convenience retail is often an attractive business space for long-term growth investors. The format is insulated from ecommerce; there are sustainable competitive advantages that come with scale; and convenience retail benefits from secular tailwinds, such as urbanization and an aging population. CP All was positioned to be the disproportionate beneficiary of rising retail formalization and urbanization in Thailand while benefiting from Thailand's aging population. As a result, we held CP All in our Global Growth strategy from 2012—and from 2013 in Emerging Markets Growth—until 2023. We forecast the business' future growth would be driven by growing stores, increasing the sales mix of higher-margin fresh and ready-to-eat foods, and reducing selling, general, and administrative costs as a percentage of sales as the business scaled. This forecast relied on management executing well in Thailand's competitive retail industry and effectively deploying capital to meet our goals for the company.

Activity and Outcome

Since 2017, we engaged multiple times with representatives at CP All on improving its governance practices. Specifically, we were concerned about the lack of board independence and the effective control of

the board by the CP Group, which owned approximately one-third of the company. Although management board nominees were considered insiders, we continued to vote in favor of all management board nominees because of repeated management commitments to increase board independence over time.

Finally, in 2021, we voted against management's board nominees. We communicated to management that we would no longer support board nominees unless they were independent. In the following year, we again engaged with management and investor relations at CP All to discuss our ongoing concerns regarding the company's governance practices. These conversations were particularly important in light of several large acquisitions and attempted acquisitions that appeared to have destroyed value for minority shareholders. Through its nonindependent board of directors, we believed CP All's parent company, the CP Group, misallocated capital in what we viewed as empire-building ventures that added little to no value to shareholders of CP All.

One example was the acquisition of Siam Makro in 2013. Siam Makro was a cash-and-carry food retailer that primarily sold food at wholesale prices. This business was slower growing, with lower margins and lower returns than CP All's 7-Eleven business, and seemed to offer few, if any, synergies with the core business. This acquisition also added a significant amount of debt to CP All's balance sheet, which depressed cash returned to shareholders for several years and affected the company's ability to generate sustainable long-term growth.

Another example of misallocation of capital was the acquisition of the Tesco Lotus hypermarket chain in 2020. This business had few prospects for building on its earlier growth, and it hovered between unprofitability and low profitability in a competitive industry, which was getting disrupted by rising ecommerce penetration in Thailand. The Tesco Lotus acquisition materially reduced CP All's overall margins while adding even more debt to its balance sheet. Through our engagement with the chief financial officer following the announcement of the acquisition, we learned that the driving force behind the deal was the board, which was controlled by the CP Group. These substantial capital allocation issues led to us losing confidence in management's ability to generate shareholder value.

Before the 2022 annual general meeting, we met with the company's investor relations team to discuss our concerns and subsequently voted again against management's board of director nominees, all of whom were long-term insiders. No meaningful changes materialized. As a result, we believed CP All no longer fit our fourth investment criteria, which requires a company to demonstrate a clear mission and value-added focus, so we exited the position in 2023.

Proxy Voting

We consider the proxy an asset of the client, which must be treated with the same care, diligence, and loyalty as any asset belonging to the client.

Leveraging Domain Expertise to Make Informed Voting Decisions

We are among the largest institutional shareowners of many of our portfolio companies. The management teams of many of these companies often consult with us on their proposals before their general meetings. We use these engagements, along with others that we initiate, to gain context and understand the intentions of management's recommendations. When we disagree with a proposal, we may offer constructive suggestions that we believe are better aligned with long-term shareholder interests.

Voting decisions are typically directed by the lead research analyst and often informed by supporting members of our investment research team and internal ESG specialists. We believe our lead analysts are the most knowledgeable about the company and, hence, best suited to evaluate each proposal in the context of our long-term investment case. They carefully consider the short- and long-term implications of each proposal and seek to vote shares in the best interest of our clients and other long-term shareowners.

To form our voting decisions, we typically consider company proxy documents, our proprietary research on the business, recent discussions with management, and third-party analysis. We receive reports from several independent proxy advisors—including Institutional Shareholder Services (ISS), Glass Lewis (GL), and Stakeholder Empowerment Services (SES)—that may help us summarize information from the companies' proxy documents. While we do consider proxy advisors' guidance, we do not delegate our voting or default to their recommendations in our voting decisions. Instead, we make decisions based on our research and our proxy-voting policy.

We also develop internal reports to assist in prioritizing proxy topics. We begin each year by collating the significant and contentious proposals of the previous year, using previous records and shareholder advocacy information. These issues are cross-referenced with information from the Council of Institutional Investors (CII) to flag potential contentious proposals. This report is shared with analysts covering their respective companies and with portfolio managers to review on a strategic level. It aims to inform analysts and portfolio managers of potentially significant and/or contentious upcoming proxy votes, allowing us time to assess every situation. We are aware of our position as a top shareholder in many of our businesses, which could potentially make our votes pivotal.

We publish our voting policy on our website at sandscapital.com/stewardship. The policy is applied uniformly across all our investment strategies, vehicles, account types, and geographies. A proxy committee exists to oversee the proxy-voting process and is responsible for maintaining our voting guidelines. It reviews and updates our voting policy annually.

As active, fundamental research-driven, business-focused investors, we strongly prefer to assume direct

responsibility for voting on our clients' behalf. By aggregating such responsibility, we seek to be more effective at influencing positive outcomes for the companies owned across our client portfolios. We also retain the voting authority for all the pooled funds we manage. However, segregated account clients who maintain their own general or specific proxy voting and governance policies may choose to assume voting rights and have their proxies voted by an independent third party or another named fiduciary or agent. These accounts make up about 21 percent of our client base. Such cases are increasingly uncommon, and approximately 79 percent of our clients follow our house voting policy.[19]

79%

of our clients follow our house voting policy

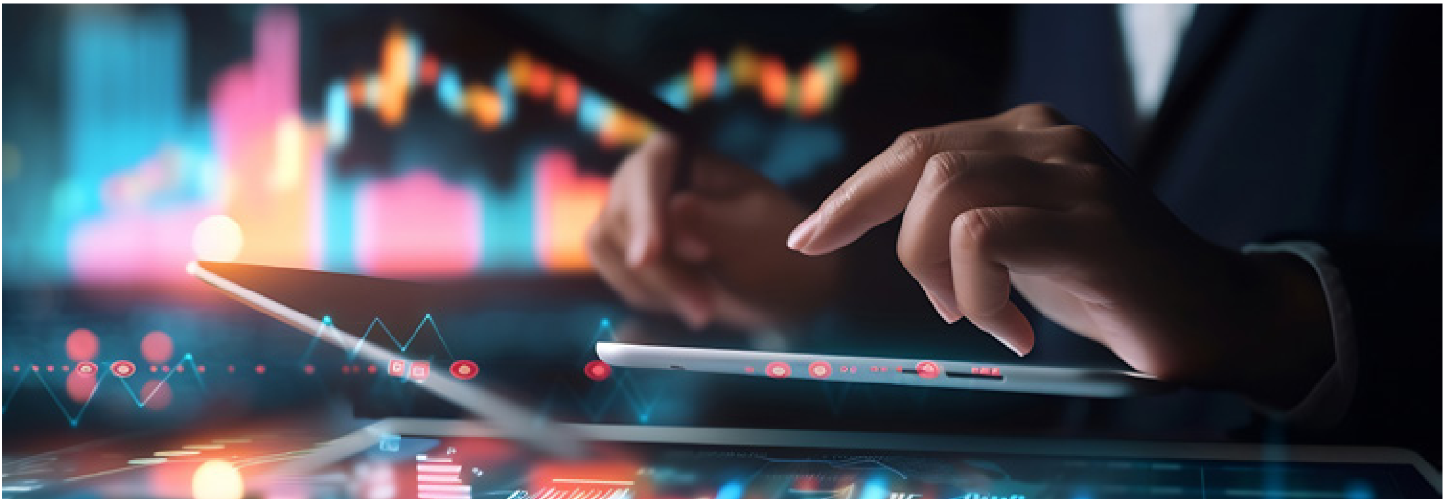
We generally vote all shares electronically, except for rare instances in which ballots have time constraints, or there is a lack of custodian functionality with the ISS voting platform. In these cases, the paper ballot must be filled out by hand and faxed to the custodian to be processed. In the past, we had one account that needed this treatment due to functionality issues with the custodian for international meetings. However, at the beginning of 2021, the custodian functionality was corrected, and we are now able to vote 100 percent of our ballots electronically. Under rare circumstances, we may attend the annual shareholder meeting. The reasons for this could be as simple as being invited and relatively close to the venue where the meeting is being held or it being a contentious proxy contest in which we hold a substantial percentage and want to attend to hear the board's responses to other shareholders' dissent on the floor.[20]

Account Processing and Voting Process

When a new client has designated voting authority to Sands Capital, the account is set up in APX (our portfolio accounting system) and on our proxy-voting platform. The proxy administrator ensures that letters of authorization are sent to the client's custodian so that their ballots are forwarded to the proxy-voting platform. Once the client is set up on the proxy-voting platform, the proxy administrator reconciles the ballots of upcoming proxy meetings. Reconciling is done manually with an APX report as of the record date and the proxy-voting platform ballots. If there are any missing ballots, the proxy administrator contacts the client's custodian for the control number(s). Upon receiving the control number(s), the proxy administrator sends them to the proxy-voting platform to be uploaded on the platform.

The analyst responsible for voting at a company's proxy meeting is contacted via email through the ISS Communicator tool. This communication includes the meeting information and a link to submit their vote and rationale. The analyst, after determining how they intend to vote, contacts another analyst, portfolio manager, or the proxy specialist for a peer review of their votes and rationale. After the peer review has been completed, the vote is submitted. ISS Communicator notifies the proxy administrator that the meeting has been voted on. The proxy administrator applies the analyst votes and rationale to all the ballots on the proxy-voting platform and checks for peer review. Once the proxy administrator has reviewed the entire ballot, the vote is processed and approved. The proxy administrator saves all materials for the meeting (e.g., audit, proxy research, vote confirmation, etc.).

19. Sands Capital may process certain proxies without voting them or may systematically vote with management. Examples include, without limitation, proxies issued by companies Sands Capital has decided to sell, proxies issued for securities that Sands Capital did not select for a client portfolio, such as securities that were selected by a previous advisor, unsupervised or nonmanaged securities held in a client's account (such as ETFs), money market securities, or other securities selected by clients or their representatives other than Sands Capital.
20. Ibid.



Share Blocking

We strive to vote on every company ballot in every geography. While share blocking—in which shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares are returned to the client's custodian banks—has become less common, there may be cases in which it occurs. In such cases, shareholders wishing to vote their proxies must deposit their shares with a designated depositary shortly before the date of the meeting. If there are no compelling reasons to the contrary, we believe that the benefit to the client of exercising the vote is outweighed by the cost of voting (i.e., not being able to sell the shares during this period). Accordingly, if share blocking is required, we will typically elect not to vote for those shares. The investment team, in conjunction with the proxy committee, retains the final authority to determine whether to block the shares in the client's portfolio or to pass on voting the meeting.

Securities Lending

If a client participates in a securities lending program, we will not be able to vote the proxy of the shares out on loan. We generally do not seek to recall securities to vote the client shares on loan. However, under rare circumstances, if we determine that the benefit of voting outweighs the costs and lost revenue to the client and the administrative burden of retrieving the securities for voting issues that may have a particularly significant impact on the investment, we may ask a client to recall securities that are on loan. The investment research team member who is responsible for voting for the proxy will notify the proxy committee in the event they believe a recall of loaned securities is necessary.

Voting Statistics

We voted on 100 percent of all eligible items during the reference period.[21] Of those votes, we cast 96 percent in line with management recommendations and about 4 percent in opposition to management's recommendations. We voted in line with ISS recommendations 89 percent of the time and against ISS 11 percent of the time.

We Voted Against ISS

11%

of the Time in 2023

21. Sands Capital may process certain proxies without voting them or may systematically vote with management. Examples include, without limitation, proxies issued by companies Sands Capital has decided to sell, proxies issued for securities that Sands Capital did not select for a client portfolio, such as securities that were selected by a previous advisor, unsupervised or nonmanaged securities held in a client's account (such as ETFs), money market securities, or other securities selected by clients or their representatives other than Sands Capital.

All our proxy-voting activity for the trailing 12 months is updated and published monthly on our website at sandscapital.com/stewardship. Our voting decisions are reported for our aggregate universe of companies owned, as well as for each of our flagship investment strategies. In addition, we publish a summary of proxy-voting key indicators in our quarterly investment strategy reports, which are emailed directly to clients and their consultants and are available to other stakeholders via our public website or upon request.

Votes Against Management

One of our investment criteria is a clear mission and value-added focus, which includes our assessment of the overall quality of the management team. Because of our extensive research and diligence before investing in a business, we have a high degree of trust in the management of the companies we own. When voting proxies, we, therefore, place a lot of emphasis on management recommendations and tend to vote in line with the company. We prefer to use votes against management as a last resort or escalatory measure and will always seek to engage a company first.

Our votes against management during the reporting period most frequently pertained to proposals on electing directors, compensation, capitalization, and other business "blank check" items, as well as shareholder proposals. The graph to the right provides a full category breakdown of our votes against management.

SANDS CAPITAL VOTES AGAINST MANAGEMENT IN 2023

Proposal Type	No. of Proposals	Percentage
Compensation	17	31%
Director Election	15	27%
Routine Business	5	9%
Director-related	3	5%
Strategic Transactions	3	5%
Social	3	5%
Capitalization	3	5%
Corporate Governance	2	4%
Company Articles	2	4%
Takeover-related	1	2%
Non-routine Business	1	2%
Total	55	100%

Rounding may cause figures to vary from 100.0%.

Votes in Favor of Shareholder Proposals

Shareholder proposals that we voted in favor of in 2023 include the following:

- Approve recapitalization plan for dual-class share structure.
- Amend articles/bylaws/charter to call special meetings.
- Report on due diligence efforts to trace end-user misuse of company products.
- Commission third-party report assessing human rights due diligence process.
- Commission third-party audit on working conditions.
- Appoint alternate internal statutory auditor(s) and approve auditor's/auditors' remuneration.
- Submit severance agreement (change-in-control) to a shareholder vote.
- Elect minority representative under majority fiscal council election.
- Elect director (cumulative voting or more nominees than board seats).

Board of Directors

We may vote against directors for a variety of reasons:

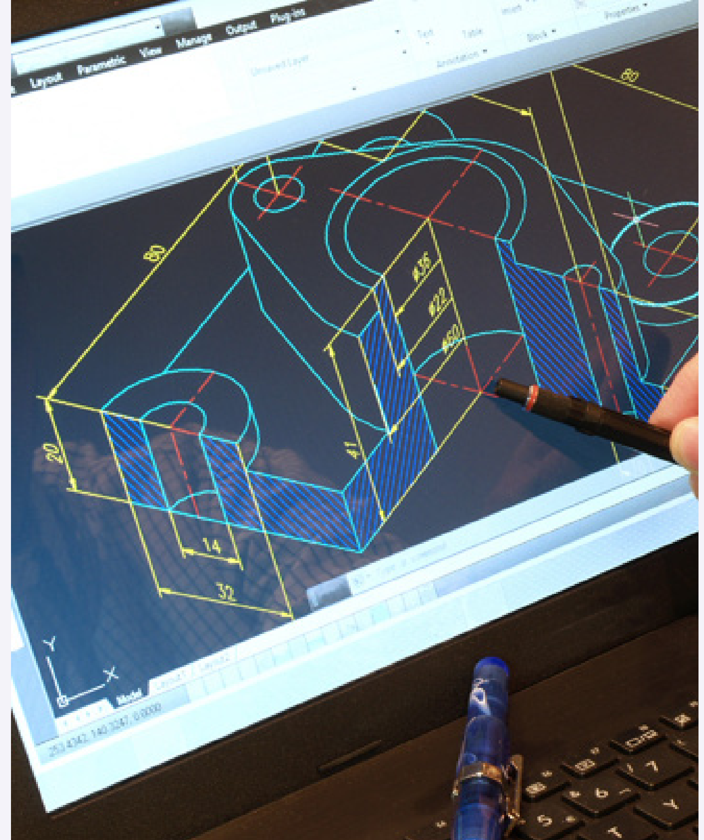
- Director qualifications are insufficient and not aligned with the firm's industry or strategy.
- The board is not majority independent.
- There are issues with attendance.
- The director is over-boarded.
- The company lacks formal and/or independent audit, compensation, or nominating committees.
- The director is the chair of a committee, e.g., compensation, and we want to voice dissatisfaction with the committee's work.

We typically avoid voting against all nominees unless the circumstances are extreme and we need to escalate an issue. One example of such escalation is CP All (see page 85).

Sometimes, we face tradeoffs in our engagement and proxy-voting goals. One example is Hexagon, where, in the past year, we had to choose between promoting greater board independence or preserving gender diversity on the board. We believe that such cases are the reason why a case-by-case approach to engagement and proxy voting works best and why we are hesitant to apply a rigid rules-based approach to proxy voting decisions.

Proxy Voting Case Study

HEXAGON



Business: Hexagon is an integrated hardware and software provider for industrial applications, including reality capture, intelligent positioning, situational intelligence, and industrial design.

Key Issues: Board structure and composition.

Strategy: International Growth.

Hexagon is a Swedish company that specializes in sensor, software, and autonomous solutions. The company's solutions create a connected ecosystem that enables productivity and quality improvements across a number of industrial applications. The business has an acceptable ESG profile, as demonstrated by its MSCI ESG rating of A as of December 31, 2023.[22] However, Hexagon is viewed by MSCI as a laggard in corporate governance. MSCI's concerns focus on Hexagon's lack of fully independent remuneration and audit committees.

We share MSCI's views on Hexagon's board composition. We believe that there is undue risk in having the remuneration and audit committees consist of representatives of the controlling shareholder that holds supervoting rights. Additionally, its board consists mostly of family members or affiliates of the firm, limiting the number of independent board members. While the company made progress in improving its board independence over the past year, three members of its board have long tenures, compromising their independence. During a meeting in March 2023, we expressed dissatisfaction that the company lagged behind its peers in board independence. Representatives from the firm acknowledged these issues but did not commit to improving them.

During communication with the company in April 2023, we shared that we voted against two tenured female board members who were no longer considered independent. We did not take this decision lightly. Gender diversity on corporate boards is a key metric because it can encourage diversity of thought at the highest levels of the organizations we invest in. Hexagon's board currently has a gender balance, which we would like it to maintain. However, in this case, we preferred to advocate for fully independent remuneration and audit committees. From our experience as global investors, we can appreciate how independent board committees can enhance risk oversight.

Although we are not a major shareholder of the company, we are hopeful this engagement will influence Hexagon's approach to its board composition. Moving forward, we prefer that the firm is not forced to compromise board diversity to achieve board independence. Nevertheless, we felt the need for key committees to be independent outweighed the diversity brought by the two board members up for a vote.

We plan to continue engagements with Hexagon on this topic. Our firm remains hopeful that we will see progress from this company in its governance practices.

22. To arrive at a final ESG rating, MSCI calculates the weighted average of the 35 "Key Issue" scores, which are aggregated. Companies are ranked from best (AAA) to worst (CCC) in their respective universes. Key Issues are weighted according to the expected impact and time horizon of the risk or opportunity.

Dual-class Share Structures

We understand and acknowledge the value that dual-class structures may provide newly public companies as a way to mitigate against short-termism and adversarial initiatives by acquirers or speculators. However, such structures also have the potential to introduce risks and can create misalignment if used inappropriately. These potential risks include a culture of entrenchment that diminishes the company's ability to adapt to changing market environments. For that reason, we believe there should be a thoughtful mechanism for the expiration of supervoting rights (so-called sunset provisions) at a specified point in the future or upon a triggering event (e.g., the founder is no longer involved in the day-to-day of the business or their economic stake falls below a certain threshold, etc.) that makes the most sense for the longevity of the business.

We also support proposals that seek recapitalization to one vote per share, and we are equally supportive of management when sunset provisions are in place. In 2023, we voted in favor of a shareholder proposal with recapitalization plans seeking to eliminate dual-class voting structures at Alphabet. Alphabet was the only company for which we had the option to vote on a shareholder proposal regarding dual-class share structures.

Executive Compensation

A well-structured compensation plan should align the interests of management with those of the company and its shareholders. It should consider a company's unique strategy, competitive position, industry, geography, and stage of growth. We may vote against a company's compensation plan if it does not foster a long-term focus among its executive officers and if the compensation package seems excessive, opaque, or inconsistent with the stated trajectory of the business. We vote against management say-on-pay proposals due to several factors, such as a lack of performance targets for new hires and promotions or an excessive amount of restricted stock units compared to peers.

Say-on-pay proposals are less common in markets outside the United States. In these cases, we rely on engagement with companies to seek to ensure compensation structures are properly aligned with shareholder interests.

Executive Compensation Case Study

servicenow

Business: ServiceNow provides software solutions to structure and automate various business processes via a software-as-a-service (SaaS) delivery model.

Key Issues: Executive compensation.

Strategies: Global Growth, Global Shariah, Select Growth, and Technology Innovators.

While executive compensation is the topic on which we most frequently vote against management, we sometimes also vote against ISS. One such example is our ownership experience in the area of executive compensation with ServiceNow, the leading provider of enterprise workflow automation software, based on market share. We have been investors in the company for seven years (since 2016) and regularly engage the company on ESG topics.

ServiceNow has been responsive to our feedback and willing to incorporate changes we have advocated for, including changing the long-term incentive plan for executives to reflect metrics within management's control in 2023. As a result, we have voted in favor of ServiceNow's say-on-pay proposal every year since we've owned the company while ISS has been recommending a vote against the say-on-pay proposal since 2018, with the exception of 2021. We believe this is an example of our differentiated thinking and of how we do not necessarily always agree with the proxy advisors. Through our engagements with the company, we have come to believe that ServiceNow has designed an executive-compensation package that appropriately incentivizes management to perform, and we frequently cite this package to younger companies developing their own compensation plans.

servicenow

ServiceNow's industry is competitive for talent, so compensating management appropriately is important. Recently, ServiceNow's executive compensation has been affected by monetary policy changes. Like many technology companies, ServiceNow shares benefited from easy monetary policy in the period leading up to 2022. However, as the Federal Reserve enacted a series of increases in the federal funds rate, longer-duration assets such as growth equities—including ServiceNow shares—were hurt because rising rates put pressure on valuation multiples across the sector. Beyond the obvious effect on ServiceNow shareholders, the market selloff also affected management's performance-based stock options. Generally, we view ServiceNow's compensation practices as among the best in the software industry, with adequate compensation at risk via its performance units based on management delivering upon key metrics, like annual recurring revenue and margins, that ultimately drive stock performance. The most recent grant had a multiyear vesting schedule with the ultimate value accrued to management determined by the stock reaching various strike prices. When ServiceNow put this plan in place, we viewed it as both an effective incentive to drive management retention and as well aligned with delivering shareholder value.

However, the retention value of the grant fell with a decline in the company's stock during the market selloff of 2022. During a meeting in 2023 with ServiceNow, we acknowledged the complexity of this issue. We relayed our view that management should have equity risk just as shareholders do. However, in this unusual situation, we agreed with the company's board that this part of the plan was not acting as intended to incentivize a management team that was mostly meeting its performance targets but losing out due primarily to market forces. This is a conundrum that ServiceNow and many of its peers have faced. Given the difficult circumstances, we like the board's response of taking time to consider what to do and committing to getting shareholder approval before making any changes. The board also committed to not issuing any more special grants while the current grant is in place. We view this as a much more shareholder-friendly strategy than what other companies have done, making executives "whole" on their expected compensation despite significant share price declines that have hurt shareholders.

7 Accountability

We are taking measures to monitor and strengthen policies, processes, and practices that enable effective stewardship on an ongoing basis.

Reviewing Our Policies and Procedures

At Sands Capital, we have numerous policies that govern our responsible investment and stewardship activities. Policy review is critical to ensuring that we are fully aligned with our values and that our policies enable active stewardship. To evaluate their effectiveness, we use:

- Internal reviews conducted by our own investment and compliance teams and relevant internal stakeholders. All changes and the creation of new policies are approved by the relevant oversight body within Sands Capital.
- Reviews by third-party consultants, such as Slave Free Alliance (SFA).

Our policies are reviewed regularly, and the methods we employ for review vary depending on the policy. The table on the following page outlines the key policies related to our ESG integration and active ownership activities and lays out the related review processes.

Fair, Balanced, and Understandable Stewardship Reporting

In addition to our commitments laid out in our policies, we work to provide fair, balanced, and understandable reporting on stewardship matters on a regular basis. Our stewardship reporting is subject to the same standards as all other public communications, according to U.S. Securities and Exchange Commission regulations. All our disclosures and marketing materials are reviewed internally by our compliance team. Additionally, we engage third-party consultants to review and provide feedback on specific disclosures. Examples of this reporting include:

- Our annual stewardship report, which is designed to be transparent, publicly accessible, and relevant. We have made a concerted effort to provide context and real-world examples that give our stakeholders a complete story. The report goes through various levels of approval by the director of stewardship, head of marketing and communications, and chief executive officer.
- In-depth quarterly reports, which we provide our clients. These reports include investment performance, ongoing stewardship efforts, and engagement case studies — for our flagship investment strategies, comprising 94 percent of client capital under management.

In addition to internal and consultant reviews, our stewardship reporting also continues to evolve in response to client feedback.

Example of Improving Stewardship and Transparency through Regular Review

Our stewardship reviews have allowed us to continually improve our process. For example, as a U.S.-domiciled investment management firm doing business in the United Kingdom (U.K.) and Australia, we are legally required to comply with the U.K. Modern Slavery Act 2015 and the Australian Modern Slavery Act of 2018, so we publish a Modern Slavery Act Annual Transparency Statement, which has led us to further develop the modern slavery risk management process associated with our investments and corporate operations.

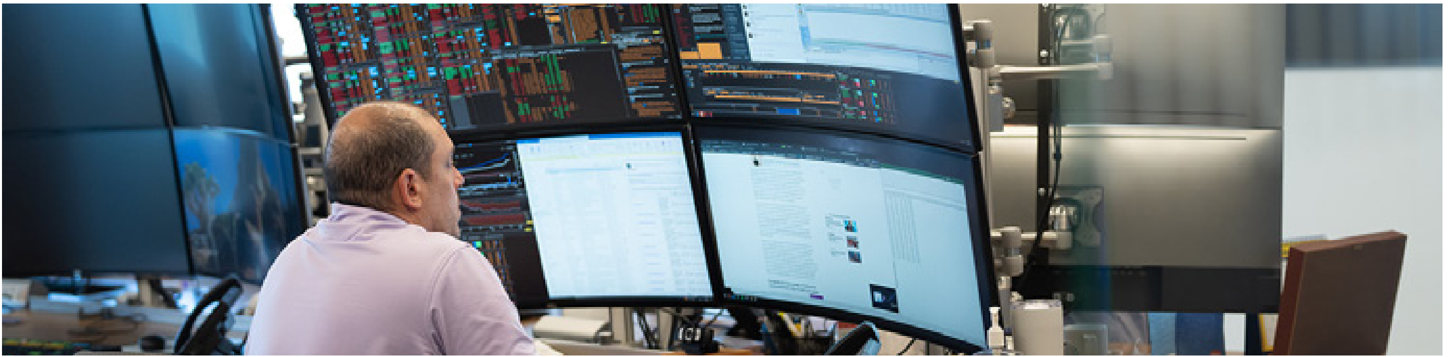
This statement is reviewed annually, and we believe it has enabled us to better mitigate modern slavery risks on portfolio and operational levels, considering the ethical concerns, increasing regulations, and reporting requirements surrounding modern slavery.

In June 2023, we released our 2022 Modern Slavery Act Annual Transparency Statement, an extensive upgrade in transparency from our 2021 statement. Implementing updates from a review by SFA and several internal discussions, this improved statement elaborates on our strategies to mitigate the risk of facilitating modern slavery through both our business operations and the investments we make on behalf of our clients. It includes specific actions taken in 2022 and outlines key focus areas for 2023.

We believe this represents a continuous improvement in our stewardship process, and the enhanced transparency provides stakeholders with greater insight into our holistic focus on this important topic.

KEY POLICIES THAT RELATE TO OUR ESG INTEGRATION AND ACTIVE OWNERSHIP ACTIVITIES AND THE RELATED REVIEW PROCESSES

Policy Description	Review Process
ESG Policy Statement This overarching policy details our ESG integration process and the guiding principles behind it.	**Cross-functional Stewardship Group** This policy is overseen and administered by the cross-functional stewardship group, professionals who are responsible for guiding our stewardship program execution. The cross-functional stewardship group sets goals and objectives, monitors and reports progress, and identifies continuing education opportunities for staff.
Proxy Voting Policy and Procedures The policy specifies internal processes for our proxy voting activities. Additionally, all voted shareholder meetings are recorded and publicly shared on our website under our stewardship documents.	**Proxy Voting Committee** This policy is overseen by our proxy committee, which consists of five permanent members: the chief administrative officer, the chief compliance officer, a director of client relations, the director of stewardship, and a member of the research team. The proxy committee meets at least annually and as necessary to fulfill its responsibilities. A majority of the members of the proxy committee must be present for the transaction of business. The chief administrative officer or designee acts as secretary of the proxy committee and maintains a record of proxy committee meetings and actions. As part of a broader annual internal controls examination conducted by an external party, our procedures are tested to verify that our proxy voting is conducted as outlined in our Proxy Voting Policy.
Engagement Policy The policy details our approach to engagement.	**Cross-functional Stewardship Group** The policy is administered by the cross-functional stewardship group, which is a group of professionals who are responsible for guiding the execution of our stewardship program, including engagement activities.
Modern Slavery Act Annual Transparency Statement This statement introduces us, our business, and our efforts to address modern slavery through our business operations, investment activities, and training.	**Core Stewardship Team** The statement was published on June 28, 2023. It is reviewed annually.
Service Provider Due Diligence Policy The policy outlines our approach to conducting due diligence on unaffiliated service providers and vendors.	**Chief Administrative Officer** The chief administrative officer reviews the policy as needed. The most recent review was conducted in June 2022. The head of each functional team is responsible for the implementation and monitoring of this policy and its embedded procedures for service providers engaged by the functional team. A third-party risk management firm (TPRM) and a software application help the team to implement this policy and the related procedures. The head of each team is responsible for ensuring that all applicable service providers are evaluated for risk and, if necessary, using the TPRM to conduct and review assessments.
Vendor Code of Conduct We maintain a vendor code of conduct embedded within our service provider due diligence policy. This code sets forth our expectations for current and future vendors.	**Chief Administrative Officer** This code is reviewed as needed for any updates or changes needed as part of the service provider due diligence policy review. The code was most recently revised in June 2021.



Conflicts of Interest Management

Sands Capital believes effective management of conflicts of interest—a key aspect of global and regulatory risk management—is critical for ensuring good client outcomes. As a fiduciary and an investment advisor to a variety of clients, we understand the actual or potential conflicts of interest that are inherent in our activities.

Policies and Processes Concerning Potential Conflicts of Interest

To address conflicts of interest, Sands Capital has established a conflict of interest board made up of senior executives and led by the general counsel and chief compliance officer. The board assesses and makes recommendations with respect to conflicts of interest and related policies and procedures with the best interests of clients and beneficiaries in mind.

Sands Capital also maintains numerous policies that address potential conflicts of interest in the investment process:

- The *Code of Ethics* sets forth standards of conduct, including compliance with federal securities laws, reporting of personal securities transactions, and prompt reporting of violations of this code.
- The *Research, Portfolio Management, and Portfolio Implementation Policy* addresses manipulative trading practices.
- The *Trading Policy and Procedures* sets forth Sands Capital's policy for placing client trades and disclosing its procedures for seeking to obtain the best execution on client trades.
- The *Insider Trading Policy* implements reasonable procedures, considering the nature of Sands Capital's business, designed to prevent the actual or apparent misuse of material nonpublic information by Sands Capital staff members.
- The *Sands Capital Proxy Voting Policy and Procedures* lays out procedures for the identification and voting of proxies, as well as procedures for resolving material conflicts of interest before voting client proxies.

As set forth in Sands Capital's conflicts of interest policy and related policies, it is the responsibility of each staff member to identify potential conflicts. To ensure that the policies are implemented at the core of our practices and are adhered to, all employees are required to confirm the review of the Code of Ethics annually. All employees also receive training on an ad hoc basis when a policy is updated. These trainings are designed to:

- Provide employees with an awareness and understanding of potential conflicts of interest.
- Provide employees with an understanding of their responsibilities.
- Drive continuous improvement in the management of any conflicts.

Sands Capital requires all staff to disclose potential conflicts of interest in regular quarterly and annual compliance attestations. We provide supplementary training to all investment staff, equipping them to effectively address risks specific to corporate engagements and related stewardship activities. This includes training on situations in which staff may come into possession of material nonpublic information.

Potential Conflicts of Interest Scenarios

While it is rare for conflicts of interest to arise at Sands Capital, we remain highly committed to identifying any potential conflicts that might occur in the course of investment management. Specific to active ownership activities, we have identified a few potential conflict scenarios that are addressed by our policies and processes, which appear in the table below.

	Management and Actions
Scenario 1 Sands Capital votes on behalf of a segregated client that is affiliated (parent or subsidiary) with a listed company that is owned in the client's account(s).	In cases in which we have full voting discretion for the client, we would vote in line with our proxy voting policy in accordance with the client's investment management agreement. As conflicts of interest that may impair our ability to vote proxies objectively are identified, the proxy voting policy requires staff to escalate the conflicts to the chief administrative officer and/or chief compliance officer. Upon notification, the chief administrative officer and/or chief compliance officer will notify the proxy committee, which will determine whether the conflict is material. If it is determined to be a material conflict with the proxy proposal, we will vote on the proposal in accordance with the determination of the proxy committee. Guidance from independent third parties may be used for recommendations on how to vote on the proposal.
Scenario 2 Sands Capital votes on behalf of a client that owns a listed company in its account and that is affiliated with the investment advisor of a fund vehicle that is subadvised by Sands Capital.	In cases in which Sands Capital is a subadvisor of a fund in which a company owned by our client is held, we would vote in line with our proxy voting policy in accordance with the client investment management agreement. As conflicts of interest that may impair our ability to vote proxies objectively are identified, the proxy voting policy requires staff to escalate the conflicts to the chief administrative officer and/or chief compliance officer. Upon notification, the chief administrative officer and/or chief compliance officer will notify the proxy committee, which will determine whether the conflict is material. If it is determined to be a material conflict with the proxy proposal, we will vote on the proposal in accordance with the determination of the proxy committee. Guidance from independent third parties may be used for recommendations on how to vote on the proposal.
Scenario 3 Sands Capital votes on behalf of a client who is an officer or director of a listed company that is owned in the client's account.	In cases in which a client is also an officer or director of a company owned in their portfolio, we would vote in line with our proxy voting policy in accordance with the client investment management agreement. As conflicts of interest that may impair our ability to vote proxies objectively are identified, the proxy voting policy requires staff to escalate the conflicts to the chief administrative officer and/or chief compliance officer. Upon notification, the chief administrative officer and/or chief compliance officer will notify the proxy committee, which will determine whether the conflict is material. If it is determined to be a material conflict with the proxy proposal, we will vote on the proposal in accordance with the determination of the proxy committee. Guidance from independent third parties may be used for recommendations on how to vote on the proposal.
Scenario 4 Sands Capital votes on behalf of a segregated client on a proposal that has been put forth by the client.	In cases in which a client has submitted a proposal to a company we hold in any strategy, we would vote in line with our proxy voting policy in accordance with the client investment management agreement. As conflicts of interest that may impair our ability to vote proxies objectively are identified, the proxy voting policy requires staff to escalate the conflicts to the chief administrative officer and/or chief compliance officer. Upon notification, the chief administrative officer and/or chief compliance officer will notify the proxy committee, which will determine whether the conflict is material. If it is determined to be a material conflict with the proxy proposal, we will vote on the proposal in accordance with the determination of the proxy committee. Guidance from independent third parties may be used for recommendations on how to vote on the proposal.
Scenario 5 Sands Capital votes on behalf of clients in a listed company with which a Sands Capital staff member—who has influence over the voting decisions, presumably the lead research analyst and/or a portfolio manager—has an affiliation.	In cases in which a Sands Capital staff member is affiliated with a company and has influence over voting decisions, we would vote in line with our proxy voting policy in accordance with the client investment management agreement. We also implement a two-person policy (i.e., peer review) to ensure proper voting decisions. In addition to peer review, we must attest quarterly about any directorships or influential roles with public and private companies to avoid this situation. As conflicts of interest that may impair our ability to vote proxies objectively are identified, the proxy voting policy requires staff to escalate the conflicts to the chief administrative officer and/or chief compliance officer. Upon notification, the chief administrative officer and/or chief compliance officer will notify the proxy committee, which will determine whether the conflict is material. If it is determined to be a material conflict with the proxy proposal, we will vote on the proposal in accordance with the determination of the proxy committee. Guidance from independent third parties may be used for recommendations on how to vote on the proposal.

8 Tools and Service Providers

Tools and service providers enable us to better fulfill our client and stakeholder needs. We believe responsible use and management of our providers is integral to ensuring thoughtful stewardship.

Complementing Domain Knowledge With Appropriate Tools and Service Providers

Executing a successful stewardship program is resource-intensive, in our experience. Therefore, we strive to responsibly use and manage our tools and service providers. These providers offer us access to aggregated datasets, tools, frameworks, and more that, in many cases, would be difficult for us to create on our own. Managed well, these providers enable us to accomplish more for our clients and other stakeholders.

Our Tool Stack lists the service providers we use in our stewardship program.

It includes independent third-party research providers that assist our analysts' decisions. The reports generated by these providers often include helpful assessments of our portfolio companies' performance and governance practices. However, we do not rely solely on third-party reports as we highlight in the case studies at the end of this section.

To support the development of our stewardship program, we also engage with third-party consultants and specialists that offer comprehensive assessments of

OUR TOOL STACK

ESG Research	MSCI ESG Research	MSCI Carbon Metrics/ Climate Value at-Risk	Sustainalytics
Proxy Voting Research	Institutional Shareholder Services	Glass Lewis	Stakeholders Empowerment Services
Business Involvement Screening	MSCI ESG Research	Sustainalytics	
Standards and Frameworks	SASB Standards—IFRS Foundation	Task Force on Climate-related Financial Disclosures	U.N. Global Compact
Technology Platforms	FactSet	Microsoft Power BI	

Sustainalytics, a Morningstar company, is a company that rates the sustainability of listed companies based on their environmental, social, and corporate governance performance. Institutional Shareholder Services' group of companies empowers investors and companies to build for long-term and sustainable growth by providing high-quality data, analytics, and insight. SASB Alliance Standards guide the disclosure of financially material sustainability information by companies to their investors. The U.N. Global Compact is a nonbinding U.N. pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. FactSet Research Systems Inc., trading as FactSet, is an U.S. financial data and software company. Glass Lewis is a provider of global governance solutions. Stakeholders Empowerment Services is a corporate governance research and advisory firm. Microsoft Power BI is a unified, scalable platform for self-service and enterprise business intelligence. Microsoft is a Sands Capital holding.

our ESG practices, in-depth research that complements our domain expertise, and tools, such as carbon accounting software.

Sands Capital's policy is to conduct due diligence on its service providers using a risk-based approach. Our business managers are responsible for assessing the suitability, performance, and commercial value of service providers to the firm and our clients. Our legal, operations, and technical professionals contribute to ongoing due diligence that we deem appropriate based on our risk assessments. Furthermore, service providers that deliver mission-critical services, as determined by our risk assessments, are an important component of our business continuity plan because a service disruption could affect the firm's operations and, ultimately, our clients.

We use a third-party risk management (TPRM) specialist to administer our vendor due diligence process under the direction of the office of our chief administrative officer. The TPRM specialist contacts new and existing vendors (when applicable) on our behalf to complete due diligence questionnaires and obtain system and organizational control audits, assessments, policies and procedures, and other required documentation based on the risk profile of the service provider. Furthermore, the specialist reviews all materials submitted by the service provider and flags areas of concern to the business relationship owner at Sands Capital. While the TPRM specialist conducts the due diligence on our service providers, the business relationship owner focuses on assessing the performance and commercial value of the service provider to the firm and our clients.

Through our due diligence questionnaire, we seek to evaluate the service provider's internal controls, its audit report (if applicable), information security policy and/or privacy policy, data breaches, business continuity plan, conflicts of interest, significant personnel changes, pending litigation, and any material changes to its business, operations, and financial stability, among other factors. Our vendor risk assessment addresses the potential for an adverse event attributed to a service provider to affect our firm. It also addresses the mitigating factors in terms of our controls and processes.

In the case of an unsatisfactory due diligence review, risk assessment, or performance not meeting our expectations, we may choose to engage with the service provider at our discretion in an effort to resolve our concerns. If we determine the service provider is unable to effectively address our concerns, we will terminate our contract with the provider. We did not terminate contracts with any service providers that supported our stewardship program in 2023.

Generally, the service providers supporting our stewardship program meet our performance expectations. With regard to ESG data research providers, we believe in supporting active feedback loops in an effort to increase data quality. When we find an inaccuracy in data or incomplete information on a business under our research coverage, we may flag the concern to the service provider and also inform company management of our findings.

Missing data can have an adverse impact on a company's ESG rating. To assist our portfolio businesses, we will occasionally work with them to help effectively disclose the data sought by the research providers. In our experience, emerging market companies are more prone to what we consider to be subpar ESG ratings that can be attributed to incomplete data disclosure. In some cases, these companies need guidance on the most effective formats and channels to convey information to the ESG research providers.

Tools and Service Providers Case Studies

CLOUDFLARE

Business:
Cloudflare is an emerging network-as-a-service leader.

Key Issue:
Greenhouse gas emissions.

Strategies:
Global Focus, Global Growth, Global Leaders, Global Shariah and, Select Growth.

Outcome:
A correction issued by an external data provider.

Background

In 2023, we found that Cloudflare was listed by MSCI as a relatively carbon-intensive business in two of our portfolios. This finding was surprising, given that we perceive Cloudflare as an asset-light business because it rents space in third-party data centers. Moreover, in our engagements, the company had reported how efficient its network was compared to those of other major cloud companies.

Activity and Outcome

To understand the discrepancy, we delved deeper into the MSCI data and found that Cloudflare's 2021 emissions were estimated using MSCI's methodology. However, in September 2022, Cloudflare released its own emissions inventory, which reported significantly lower emissions than MSCI's estimate. We contacted MSCI about this inconsistency, and it subsequently updated its system to reflect Cloudflare's reported 2021 emissions, which were notably lower than MSCI's initial estimates.

This example underscores the value of our deep, fundamental research approach. Our independent investigation revealed a significant discrepancy between MSCI's estimates and Cloudflare's self-reported emissions. This investigation resulted in a prompt data correction by MSCI. Our engagement demonstrates the importance of not relying solely on external data providers. It also highlights the significance of maintaining an active dialogue with our service providers.

Business:
Axon is a leading provider of public safety technology, including body cameras, software, and the Taser electroshock device.

Key Issues:
Product safety and impact.

Strategies:
Global Growth, Global Leaders and, Global Shariah.

Outcome:
After a constructive engagement with the company, we found a discrepancy between a rating agency's report and Axon's practices.

Background

Axon's mission is to "protect life, capture truth, and accelerate justice." The company is the sole manufacturer of the Taser and is the world's leading provider of body cameras by market share. Axon benefits from the secular shift toward safer and more accountable policing, and demand is likely to be durable in recessionary periods. While its hardware and software can be purchased separately, they are increasingly sold as a bundle, resulting in highly visible, recurring revenue with long-duration contracts. This bundled ecosystem works together to automate, record, and store tamperproof evidence in the cloud.

Before initiating a position in the company, we held several calls with management and conducted extensive due diligence to ensure we understood how the company approached product safety and risk. In 2023, we revisited this topic with Axon to clarify a discrepancy between our findings and a rating agency's claims.

Although we are not activist investors, we engage with management teams of our portfolio companies on ESG issues that we deem material to our investment case. Such a scenario occurred in 2023, leading to an engagement with Axon regarding its programs to manage product and mitigate safety risks. We noticed that a rating agency report indicated Axon lacked certifications or processes to assess product quality or safety risks.

From previous engagements with management, we believed that the report wasn't consistent with the company's policies. Through preliminary meetings with Axon, we learned about Axon's internal tests to measure product quality. We believed there might be some misunderstanding between the rating agency and Axon,

due to lack of disclosure. In such cases, we typically encourage the management teams of our portfolio companies to engage with these agencies to ensure they receive credit for the processes and policies they have in place. Our team contacted Axon's investor relations team to determine how the company was addressing this material topic.

Activity and Outcome

A prompt response from our contacts at Axon allowed us to confirm that the report regarding Axon's deficiency was due to a lack of disclosure to this rating agency. Axon has its International Organization for Standardization 9001 certification, which is a standard for a quality management system. It was able to obtain this due to its trackable processes to oversee product quality and manufacturing. Some of these procedures include safety training for all manufacturing employees, equipment testing to confirm product performance, and the assurance that safety is the primary daily metric displayed and monitored for its core product lines.

Additionally, the company reiterated that it follows Federal Communications Commission guidelines related to product safety testing. Axon ensures that extensive supplier assessments are conducted regularly and that inspections are conducted throughout the assembly process. The company also provided metrics specifically concerning the safety of its products, including the number of people who avoided serious harm due to Axon's less-lethal technology and the materially lower bodily injury rate from its Taser devices relative to a firearm, baton strike, or punch. The company highlighted that it conducts medical testing on human volunteers to further inform the safety of its products before releasing them.

Representatives at Axon acknowledged the need to engage with the rating agency to help ensure accurate representation in future reports. Thanks to the strong relationship we established with management, owing to our long-term ownership orientation, we were able to quickly obtain the information to disprove an alleged product deficiency. The ability to quickly access management and conduct our own research—instead of relying solely on a third-party assessment—is a benefit of our active investment approach. We look forward to this continued partnership with Axon as we seek to remain diligent about its product safety and quality.

Appendix

UK Stewardship Code Principles Content Map

Section	UK Stewardship Code Principle
Who We Are	**Principle 1**: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Who We Serve	**Principle 6**: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
Oversight	**Principle 2**: Signatories' governance, resources and incentives support stewardship.
Approach to ESG Integration	**Principle 7**: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
Promoting Well-functioning Markets	**Principle 4**: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system. **Principle 10**: Signatories, where necessary, participate in collaborative engagement to influence issuers.
Active Ownership	**Principle 9**: Signatories engage with issuers to maintain or enhance the value of assets. **Principle 11**: Signatories, where necessary, escalate stewardship activities to influence issuers. **Principle 12**: Signatories actively exercise their rights and responsibilities.
Accountability	**Principle 3**: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first. **Principle 5**: Signatories review their policies, assure their processes and assess the effectiveness of their activities.
Tools and Service Providers	**Principle 8**: Signatories monitor and hold to account managers and/or service providers.

Policies

ESG Policy Statement

Proxy Voting Policy and Procedures

Engagement Policy

Modern Slavery Act Annual Transparency Statement

Vendor Code of Conduct

ESG Principles

Core Stewardship Team

Karin Riechenberg, Director of Stewardship

Ashley Patton, ESG Analyst

Christopher Jenkins, Sr. Proxy Specialist

Dylan Mibu, Sr. ESG Research Associate

Amir Reda, Portfolio Specialist

Our core stewardship team with our 2023 stewardship intern, Sala McCawley.

Disclosures

The views expressed are the opinion of Sands Capital and are not intended as a forecast, a guarantee of future results, investment recommendations, or an offer to buy or sell any securities. The views expressed were current as of the date indicated and are subject to change. This material may contain forward-looking statements, which are subject to uncertainty and contingencies outside of Sands Capital's control. All investments are subject to market risk, including the possible loss of principal. Readers should not place undue reliance upon these forward-looking statements. There is no guarantee that Sands Capital will meet its stated goals. Past performance is not indicative of future results. A company's fundamentals or earnings growth is no guarantee that its share price will increase. The specific securities identified and described do not represent all the securities purchased, sold, or recommended for advisory clients. There is no assurance that any securities discussed will remain in the portfolio or that securities sold have not been repurchased. You should not assume that any investment is or will be profitable. Company logos and website images are used for illustrative purposes only and were obtained directly from the company websites. Company logos and website images are trademarks or registered trademarks of their respective owners and use of a logo does not imply any connection between Sands Capital and the company.

Sands Capital regularly engages with the management teams and, if appropriate, board members of portfolio businesses to better understand each business's long-term strategic vision and management of risks and opportunities, including those pertaining to environmental, social, and governance (ESG) matters. More information is available in the Sands Capital Engagement Policy at https://sandscapital.com/media/Sands-Capital-Engagement-Policy-Statement.pdf. The companies illustrated represent a subset of current holdings in Sands Capital's portfolios and were selected by the author on an objective basis to illustrate the views expressed in the Commentary. These examples were selected based on the recent date of the engagements and topics discussed. The assessment of each business is based on factors that we believe are material to the long-term investment case. To receive a complete list of company engagements for the prior 12 months please contact a member of the Client Relations Team at 703-562-4000.

As of December 31, 2023, Align Technology, Alphabet, Amazon, Anta Sports Products, Aptiv, Atlassian, Axon, Britannia, Cloudflare, Contemporary Amperex Technology, Dexcom, Dino Polska, Entegris, Foshan Haitian Flavoring, Haidilao, Hexagon, Lonza, MercadoLibre, Microsoft, Okta, Reliance, Samsung SDI, ServiceNow, Sika, Taiwan Semiconductor, Texas Instruments, Uber Technologies, and Wuxi Biologics were holdings in Sands Capital strategies. As of December 31, 2023, Sands Capital had closed all positions in CP All.

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SANDS CAPITAL

Sands Capital
1000 Wilson Boulevard, Suite 3000
Arlington, VA 22209, USA
+1.703.562.4000
www.sandscapital.com