Findlay Park

January - December 2022

# Stewardship Report

# Principle 1

## Purpose, Strategy & Culture

Findlay Park Partners LLP ("Findlay Park") is an independent investment partnership based in London. We invest primarily in US equities on behalf of investors in the Findlay Park American Fund ("Fund" or "American Fund"). Our purpose is to generate compelling compound returns for our investors, measured over decades.

We have a clear Investment Philosophy, aligned to our purpose. This helps us identify businesses that should generate sustainable returns. We believe we can achieve this by taking less risk. Increasingly, ESG issues from cyber threats to climate change, present important risks for us to assess in our investment process. Our Investment Philosophy also enables effective stewardship through the inclusion of ESG considerations (see Principle 7). It has long included a question focused on management incentives – which we believe strongly influences both culture and performance. We back management teams who think, act and are incentivised like owners.

In 2020 we expanded one of the questions in our Investment Philosophy checklist (against which each company is scored) "Do we like the corporate culture?" to include both "purpose and culture" and doubled its weighting. This recognised our focus on the purpose of companies in which we invest, the stakeholders they prioritise, and how this links with their culture. In 2021 and 2022 we more specifically linked culture with the theme of diversity and inclusion, which we consider an important lens on culture. In 2022 we undertook a deep-dive on the diversity and inclusion practices of our companies to better understand their cultures, and to help inform ongoing discussion with them on these topics.

Our own culture underpins our endeavour to achieve our purpose. Culture means a number of things to us, including: openness and honesty, pursuit of continuous improvement, and collaboration. The investment process for the Fund is team-based: our experienced Investment team uses a 'co-coverage' model whereby existing and prospective holdings are researched by at least two members of the team. New investment ideas and existing holdings are then reviewed by the entire team. We encourage each other to share views and invite constructive and respectful challenge and feedback. We believe that continual learning and a readiness to evolve are essential to success. We always want to learn from our successes, mistakes, and from each other. We are open and honest with each other and with our investors in the Fund. We continually look to improve the way we do things across our entire business, including our approach to investment.

This team-based culture supports effective stewardship through its focus on collaboration and improvement. Responsible investment is not a silo, it's a key aspect of our approach and one we believe helps mitigate risk and identify companies capable of generating sustainable returns. For instance, the Investment Philosophy checklist assessment outlined above is undertaken by the co-coverage team, rather than our dedicated Responsible Investment Lead ("RI Lead"), emphasising the team-wide importance of responsible investment.

Our structure and strategy also underpin our purpose. Findlay Park is 100% owned by its partners. And we have intentionally kept our business focused: with one team, managing one strategy. We don't manage separate accounts. This creates an environment where the entire Investment team can focus their efforts on research, investment, and engagement - getting to know our companies and their management teams extremely well, and making well-informed investment decisions. We've been entrusted to look after the savings of our investors and have always put their interests first in everything we do. This focused model also enables effective stewardship.

We have one strategy, and we typically invest in forty to sixty companies. Our consistent approach to stewardship is important in addressing a number of principles below; our approach does not vary between asset class or geography. Our focus also means that we actively engage, and take our own voting decisions.

In 2022 we finalised an internal mission statement. This was developed through a series of workshops, involving representatives across the business. It encompasses our purpose, but also speaks to our wider aspirations to positively influence society. For the moment, we have kept this internal. It has strongly helped to shape the goals we set for ourselves as a business, in particular through the Objectives and Key Results (OKR) goal-setting framework which we adopted in 2022. This is a collaborative methodology, to help teams set challenging, ambitious goals with measurable results.

Our objectives cover many aspects of the business, including: our purpose and performance; responsible investment and engagement and our investor-related strategy; one of our five objectives specifically focuses on being a leader in ESG, through our investment and engagement activities. The three key results related to this goal are balanced investment, stewardship and investor considerations. They comprise: one internal score related to the quality of our investments, monitoring of our engagement-focused Net Zero Asset Managers commitment, and tracking our investors' perception of our responsible investment credentials.

In 2022 we engaged or discussed ESG issues with approximately 95% of all companies held in the Fund over the year. We aimed to actively vote at all AGMs where we had a current holding. We achieved this with one exception due to an operational error. This is described in detail under Principle 12.

## OUTCOMES

We aim to serve the best interests of investors and beneficiaries primarily through the long-term returns we generate on their behalf. Our approach to responsible investment supports this goal. The Findlay Park American Fund has delivered 11.8% CAGR since its inception in 1998.[1]

We are transparent about our responsible investment activities, and invite feedback from investors. In 2021 this feedback helped accelerate our decision to transition to an Article 8 fund pursuant to the Sustainable Finance Disclosure Regulation ("SFDR"). In 2022 we started to more systematically map our investors' assessment of our ESG credentials. This is undertaken by our Investor Relations team based on feedback from our investors (in some cases they formally rate us internally, in others they have a more qualitative impression). The number of our top twenty investors which we believe have positive views of our approach to responsible investment has measurably increased over the year. We believe this increasingly positive feedback helps reassure us that we are best serving the interests of clients and beneficiaries.

[1] Past performance is not a reliable indicator of future results. Data as at 31st December 2022. Source: Findlay Park. Fund performance net-of-fees. Past performance for the Fund is calculated using the USD share class, inclusive of any distributions, on a NAV to NAV basis.

# Principle 2

## Governance, Resources and Incentives

As far as possible, we take a 'keep it simple' approach, including to our governance and process.[2] This simplicity supports effective oversight, and helps us identify areas for improvement. We generally embed responsible investment within existing structures and responsibilities rather than numerous parallel frameworks. One exception to this was developed in 2022 through the establishment of a dedicated Responsible Investment Committee. We felt that, given the increased regulation, strategic focus and investor interest in these issues, a dedicated committee was merited at this point in time.

Our governance and management have overseen and undertaken a number of ESG related activities in 2022. These bodies, and their more recent activities, are summarised below.

| FOCUS | BODY | ESG-RELATED ACTIONS |
|---|---|---|
| BUSINESS STRATEGY & OVERSIGHT | **The Findlay Park Board** (the "Board") is responsible for the strategic development of Findlay Park, and the approval of its material policies such as the Responsible Investment & Engagement Policy. The Board's members include our co-Founder James Findlay, two independent non-executive directors, our CIO, CEO, and General Counsel. Details of Board membership in full can be found on our website. | The Board has final approval of our Responsible Investment and Engagement Policy. In 2022 we further elaborated on our approach to climate change from an investment perspective in this policy, and published our plan for transitioning towards net zero through our stewardship efforts. |
| FUND OVERSIGHT | **The Board of Directors of Findlay Park Funds ICAV** (the "Fund Board") is ultimately responsible to shareholders for how the American Fund is managed and for the supervision of the Fund's delegates. The Fund Board approve the Fund's investment objective, policies and updates to the Prospectus or Constitution. There are five Directors on this Board, four of whom are independent non-executive directors. The Fund's management company, Bridge Fund Management Limited, also provides independent oversight of Findlay Park and the Fund's other delegates. | The Fund Board approved the transition of the Fund to an Article 8 fund under the EU's Sustainable Finance Disclosure Regulation ("SFDR") – requiring greater articulation of the approach to climate-related risks and consideration of climate-related impacts. The Fund Board receives quarterly information relating to the oversight of the Fund. ESG and climate-related information has been included as part of the Fund Board's quarterly updates since 2021. |
| BUSINESS STRATEGY | **The Executive Committee** is responsible for implementing the strategy and decisions taken by the Board and supporting the Managing Partners in the day-to-day management of Findlay Park. The RI Lead is a member of this Committee. | This body oversaw the development of our approach to Article 8 along with Responsible Investment and Engagement reporting. The Committee considers all risks and opportunities that could have a potentially material financial impact on the Fund. |

[2] Our governance structures and process are outlined in our Responsible Investment & Engagement policy. Below we detail how we enable oversight and accountability for stewardship, and why we have chosen these. We will continue to review our governance arrangements in 2023. Committee structures and memberships are current at the time of publication.

| FOCUS | BODY | ESG-RELATED ACTIONS |
|---|---|---|
| INVESTMENT STRATEGY | **The CIO and portfolio managers** are responsible for ensuring that the Fund is invested in a manner consistent with its objective and with our Investment Philosophy. | The CIO and portfolio managers oversee the implementation of our investment strategy, of which responsible investment is an integral part. Any key changes to the ESG performance of our companies is formally relayed to them on a monthly basis. |
| RESPONSIBLE INVESTMENT | **The Responsible Investment Committee** ("RIC") oversees RI and ESG-related matters at Findlay Park. | The RIC approves and oversees the implementation of the Responsible Investment policy, monitors portfolio ESG characteristics and reviews and approves ESG-related policies and reporting. It is also the body which monitors our principal adverse impact reports and net zero commitment. |
| RISK & COMPLIANCE | **The Risk and Compliance Committee** ("RCC") is responsible for compliance matters, oversight and risk management relating to Findlay Park. | The RCC monitors developments in sustainable finance regulation, including those related to climate. It helps ensure that related deadlines are met, and that related risks are monitored. |
| PRODUCT GOVERNANCE | **The Product Governance Committee** must approve significant changes to the Fund's status. | The approval of transition to an Article 8 fund was approved by this Committee and then proposed to the Fund Board for approval. Article 8 fund status involves the promotion of environmental and social characteristics, measured by Principal Adverse Impact ("PAI") indicators, many of which are climate-related and are tracked quarterly. |
| CORPORATE SOCIAL RESPONSIBILITY | **The Social Responsibility Committee** co-ordinate Findlay Park's policies and activities related to social impact and the environment. | This Committee recommended carbon neutral accreditation for our operations which was attained in 1Q 2022. |

Responsible investment is aligned with core investment workflows and processes. The RI Lead and Sustainability Lead investigate potential new holdings for the Fund alongside other analysts and portfolio managers, and their analysis is presented within the overall presentation to the Investment team. This helps ensure the relevance of this work, emphasises its importance, and underscores our belief that a collaborative approach enables better decisions.

## RESOURCES

As an active manager, we take an active approach to responsible investment, which includes using external ESG data and research. We believe that a differentiator of our approach is the level of involvement of our Investment team, and senior leadership, in our responsible investment approach. Our Investment team of fourteen people are critical to our ESG process. They undertake Investment Philosophy scoring of companies and regularly monitor companies, through questioning them on ESG and material strategic issues. However five particularly key profiles are described below:

**Simon Pryke, our CEO,** had oversight and accountability for responsible investment in his statement of responsibilities until mid-2021, when this was transferred to the RI Lead. Before joining Findlay Park, Simon was CIO of Newton Investment Management, which has a long history of embedding responsible investment in their investment approach. Simon led development of the responsible investment policy, reporting and communication at Findlay Park. The RI Lead reports directly to Simon.

**Anthony Kingsley, our CIO,** is a founding member of Findlay Park. He leads the Investment Committee, which oversees investment decision making and proxy voting. Anthony oversaw the development of how we analyse responsible investment information on companies, and the incorporation of 'purpose' into our Investment Philosophy checklist. The RI Lead is mentored by Anthony.

**Rose Beale, our RI Lead** joined Findlay Park in 2019, previously she worked at Columbia Threadneedle in various roles spanning ESG integration and coverage of social and environmental themes. She has received a certificate in Sustainable Finance from Oxford's Smith School of Enterprise and the Environment, alongside CFA Level 1 and the Investment Management Certificate. In 2021 the formal responsibility for ESG oversight as per the Senior Managers and Certification Regime was transferred from the CEO to the RI Lead. The RI Lead also became a partner in the business, and a member of the Executive Committee. This underlines the firm-wide commitment to this critical area, and the centrality of it to our governance and strategy.

**Enda Doherty, our Sustainability Lead,** joined Findlay Park in 2022, working closely with the Investment team on the firm's responsible investment and engagement efforts. Prior to joining Findlay Park, Enda was a consultant in PwC's Sustainability and Climate Change team. He holds a MSc in Carbon Management from the University of Edinburgh's School of Geosciences, as well as the CFA's Certificate in ESG Investing.

**Sello Lekalakala, an Equity Analyst**, joined Findlay Park in 2021. He has been working closely with Rose on ESG issues, including culture and diversity and inclusion. Previously Sello spent over four years as a global equity research analyst at Ninety One. He began his investment career as a credit analyst at Seaport Global in 2013.

We believe that the diversity of profile, background and experience illustrated above, combining wider investment experience and dedicated ESG expertise, significantly strengthens our approach to responsible investment.

We are particularly focused on diversity of thought and equal opportunity, and this is reflected in recruitment processes. For instance, in the final stages of the recruitment process, each potential member of the Investment team is interviewed to establish their different motivations in decision-making processes and approaches to teamwork, using a system called Movement Pattern Analysis. From an inclusion perspective, we make efforts to ensure that all team members are able to contribute, no matter their experience. For instance, following Investment team stock reviews we undertake a feedback process, where views from all team members are sought on a 1-1 or small group setting. We also monitor gender diversity of candidates in our recruitment process. In terms of gender diversity within our firm, 20% of our Investment team and 43% of employees across our business are female.[3] Diversity and inclusion is an important and multifaceted topic, and this theme has been an active part of Executive Committee discussion in 2022. We are a learning organisation, and hope to continue to evolve our approach to this area in the years to come. In 2022 we engaged with a consultant with specific expertise in diversity and inclusion to raise our understanding of these issues.

We have developed our approach to training staff to include responsible investment sessions for new joiners. The Investment team has been given training on our transition to become an Article 8 fund and team members are kept up to date by the RI Lead on emerging EU regulation via regular meetings of the Responsible Investment Committee and other avenues where appropriate. More widely, our core responsible investment data (compiled in our Responsible Investment Gauge or 'RIG') is updated monthly, and key changes are presented to the PMs and circulated to the entire Investment team.

Although we do not outsource any area of responsible investment, we recognise the value of specific data and expertise. We have continued to invest in ESG data and research over the past few years, and also use free sources of information where these add value on particular metrics. For instance, we use Glassdoor scores for human capital insights. We use a variety of third party and internal metrics to aid our approach. Currently 19 factors are used in our RIG, which combine internal and external sources. Our relationship with two of the providers most critical to market perceptions of ESG and stewardship is noted below.

- **MSCI ESG Research:** We use MSCI's core ESG research and climate-specific research. We do not rely on MSCI's conclusions on final ESG assessments but use it to enhance our own ESG research and monitoring process. We recognise that MSCI is the largest provider of ESG research, and therefore influences market perceptions of ESG quality. This provides us with the ability to sense check our views against a market standard and indicates where our views are differentiated. We explored MSCI's climate offering when this was still part of Carbon Delta, which was subsequently bought by MSCI. We were attracted by the climate related valuation capabilities and the ability to translate emissions into a forward-looking temperature (e.g. 1.5°C) to ease comparison with the Paris Agreement. This implied temperature rise metric is part of our RIG assessment and a key indicator which we use when assessing a firm's climate risk and impact. We also monitor Fund wide MSCI ESG and implied temperature rise metrics.

- **ISS Proxy Research:** We subscribe to ISS's proxy research and voting execution services. Similarly to MSCI, we are not bound by ISS recommendations, and undertake a detailed voting analysis assessment for every AGM. We instead use ISS' voting conclusions as a sense check, and an indication of where we have a differentiated approach. This also forms part of our view as to where we have a controversial or significant vote, which must be signed off by our CIO and reported to our investors in our Responsible Investment and Engagement Report.

[3] Findlay Park, as at 31st December 2022.

A broader overview of core ESG providers is noted below, according to their thematic focus.[4]

| Climate & Environmental | Human Capital | Corporate Governance | Business Ethics & Reputation | Cyber Security & Data Privacy |
|---|---|---|---|---|
| • MSCI<br>• S&P Trucost<br>• CDP | • Glassdoor (free)<br>• InHerSight (free) | • ISS Governance | • ISS norms<br>• RepRisk | • Security Scorecard |

Findlay Park is 100% owned by its partners and our interests are fully aligned with our investors: we're entirely focused on delivering performance and a high level of service to them.

We do not have specific quantitative ESG targets or objectives for staff; however, all Investment team members are incentivised according to three pillars: quality of work, performance, and collaboration. One of the questions we ask under quality of work is, "Have you considered ESG factors in your research?" which leads to discussion around how the team member has incorporated these issues into their research and analysis.

## EFFECTIVENESS & IMPROVEMENT

Evidence of the effectiveness of our governance and processes includes the involvement of our senior leadership in responsible investment issues, and the engagement of the Investment team reviewing responsible investment issues related to the companies which they cover.

We are committed to continuous improvement, which extends to our governance and processes. The establishment of a dedicated Responsible Investment Committee in 2022 reflected the increased internal and external focus on these issues, and was also intended to streamline the approval process of various policies, reports and strategic developments.

Another area of increased effectiveness has been the greater involvement of the data team in producing and checking our responsible investment data. For instance, the explicit ownership of graph production has been transferred to our data analytics team. This was partly the result of an error in a voting statistic chart from our H1 2021 report. An operational incident report was created, and processes put in place to minimise the risk going forward.

As noted above, in 2022 we hired a new Sustainability Lead with environmental experience as a new addition to the Investment team to support the RI Lead in further embedding our responsible investment and stewardship efforts across the company.

[4] We also use Bloomberg, for instance to aggregate data and in some cases for its analytical capabilities, FactSet as an engagement recording system, and we monitor the high level scores of Sustainalytics as a sense check to our conclusions and input to the RIG.

# Principle 3

## Conflicts of Interest

As a small, focused business we believe the potential for conflicts is minimal. We also believe that our partnership structure creates an alignment of our interests with those of our investors.

We aim to further limit the scope for conflicts with appropriate polices – for instance by prohibiting investment in single securities in personal account dealing. We also monitor outside business relationships, given the potential to create conflicts of interest. These are approved by line managers and compliance, and overseen by the Board. The type of activity, time required and nature of any payments is assessed as part of this process.

We manage a single strategy – focused on North American equities. We do not have to manage potential conflicts between equity or bond investors, or those with radically different strategies (for instance differing time horizons, over which certain ESG and sustainability issues may be more or less relevant). We also do not run segregated mandates or separate accounts, and do not do split voting according to different preferences.[5] Split voting has not been an area of focus for our investors.

Following a review of our conflicts of interest policy in 2021, which was undertaken with the Stewardship Code in mind, we enhanced our policy and register to include consideration of Stewardship. We identified the risk that voting, engagement, and other activities may be conducted in the interests of one particular group. In 2021 we newly / formally identified the risk of 'greenwashing' – particularly in light of our Article 8 transition. This has been added to our risk register as well as our conflicts policy; the oversight of the Risk and Compliance Committee is important in reducing this potential conflict. We have now made our conflicts policy public, in line with FRC expectations.[6] The principal conflicts, and the steps we take to prevent or mitigate them, are summarised below:

- Personal Transactions – specific policies around permitted personal account transactions
- Gifts & Entertainment – restrictions and recording.
- Inducements – premise that no monetary / non-monetary benefits will be received.[7]
- Outside Business Interests – written approval required, and annual monitoring undertaken.
- Order Execution, Aggregation and Allocation – best execution policy and regular monitoring.
- Remuneration – incentives to act in the best interest of clients, qualitative and quantitative criteria.
- Responsible Investment – escalations processes, Risk & Compliance Committee oversight of greenwashing risk, remuneration of Investment team which embeds ESG factors.

Given our size and the related infrequency with which we experience conflicts, we do not have an example from the 2022 reporting period. One previous example of a potential conflict we identified in 2020-21 related to voting at the AGM of Fiserv. This example is detailed in our 2021 Stewardship Report.[8] We remain vigilant to potential conflicts and all new team members are made aware of our policy upon joining the firm.

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[5] Split voting is where a portion of votes are cast under the direction of underlying clients of investment managers, proportionate to their AUM in a pooled Fund.

[6] Our Conflicts of Interest Policy is available here: https://www.findlaypark.com/legal-and-regulatory-disclosures/

[7] Unless these qualify as an acceptable minor non-monetary benefit i.e. they are capable of enhancing the quality of service provided to a client and are of a scale and nature that they could not be judged to impair compliance with Findlay Parks duty to act in the best interests of the client.

[8] Our 2021 Stewardship Report is available here: https://www.findlaypark.com/resources/

# Principle 4

## Promoting Well-Functioning Markets

We are an active investor undertaking detailed analysis on specific companies. We aim to create a portfolio we can live with in any environment – because we might get any environment. However, we do aim to be aware of, and responsive to, market wide and systemic risk, as further set out below.

In 2022 we enhanced our investment risk monitoring process, with a particular focus on some market-wide and systemic risks. We incorporated a monthly investment risk update into our weekly PM meeting to further embed awareness of this into our process. Our Risk and Compliance Committee (RCC) also enabled the effective governance of investment risk. Either the CIO or the Deputy CIO attends the RCC, in order to be challenged on investment risk. The Responsible Investment Committee oversaw the development of our 2022 TCFD report, including climate scenario analysis.

Market wide and systemic risks on which we focused this year included:

- Currency
- Geopolitical risks & human rights risks
- Inflation & interest rates risk
- Climate change & nature

Our approach to each is briefly described below.

### CURRENCY

Currency risk became a feature of our enhanced investment risk pack, which was re-developed at the start of 2022. As outlined above, this is presented to the PMs for informational purposes, and then features at the Risk and Compliance Committee meeting to encourage challenge and discussion.

As an investor in North American equities, a high degree of exposure to the US dollar is inevitable. However, we monitor the balance of US and non-US revenue exposure of our companies vs the S&P 500 (although the latter is not our benchmark, it is easier to get higher quality information on US related revenue exposure to these larger companies).

Throughout the year we have been over-exposed to US related revenues vs. the S&P 500, which creates some currency related exposures. However, we are also mindful of geopolitical risks, and believe that this position is warranted given heightened geopolitical tensions, and the US' moves to encourage reshoring and "friend-shoring". This therefore links to our greater monitoring of geopolitical risks this year.

## GEOPOLITICAL & HUMAN RIGHTS RISKS

Particularly from February 2022, given the invasion of Ukraine, it became apparent that geopolitical risk would likely be a feature for the year, and that this would be closely linked with human rights risks.

We monitor this in part though our understanding of underlying companies' revenue exposures to various geographies. Our Fund has been generally more exposed to domestic revenues than the S&P 500, potentially indicating a greater insulation from geopolitical risk. We began monitoring revenue exposures to other key geographies 2022, including China, Russia and Ukraine. In general, we have been underweight revenue exposure to China and Russia vs. the S&P 500.

Over the course of 2022 we also added a fourth theme, of "reshoring" to the three we identified in 2021: climate economics, fairer society, and digital intensity. This theme was developed given our observation of the US' considerable efforts to enhance domestic infrastructure, manufacturing capacity, and clean technology. Three key-stone policy efforts are shown below.

| Infrastructure & Jobs Act 2021 | Inflation Reduction Act 2022 | Chips and Science Act 2022 |
|---|---|---|
| **$1.2tn** funding for infrastructure | **$369bn** supporting energy and climate change investment | **$53bn** to boost research/ manufacturing of semi-conductors |

*Source: (Figures) White House, Briefing Room: Speeches and Releases (24th June 2021, 16th August 2022, 9th August 2022).*

Special projects were undertaken in 2022 to understand the relationship between human rights and geopolitical risks, and in particular exposures to Russia/Ukraine and China.

In particular, in 1Q & 2Q we undertook a deep-dive into human rights, supply chain and geopolitical risks, with a particular focus on China and Russia. This outlined the state of human rights risks, specifically in supply chains, and efforts to enhance oversight of this in the US and elsewhere. For instance, it highlighted the then forthcoming US Uyghur Forced Labor Prevention Act – which creates a rebuttable presumption that goods manufactured even partially in the Xinjiang Uyghur Autonomous Region are the product of forced labour, and not entitled to entry at US ports. The project also featured a deep-dive on corporate supply chain and revenue exposure to Russia and China. Among other things, this drew in estimates of revenue exposures, and corporate announcements in relation to Russia. Supply chain relationships, where known, were also outlined – drawing on analyst commentary, and our discussions with companies.

A number of potential engagement questions were suggested for the investment team, where they had concerns about human rights risk in supply chains, or related to these geopolitical tensions. One area of enquiry which we pursued later in the year related to one of our companies, Analog Devices, and reports that some equipment used by Russian forces in the Ukraine included components manufactured by them. We understand that the company is undertaking a thorough investigation of this issue, and is enhancing the oversight of its products' end use. Given the systemic nature of these risks, we also joined the Investor Alliance for Human Rights to enhance our collective understanding of these issues, and support a collaborative approach to these issues. We have not yet been part of a collaborative engagement though this body, but we have referenced this in our interactions with companies, to signal the wider body of investors focusing on this issue, lending weight to related discussion and engagement.

## INFLATION & INTEREST RATE RISK

At the start of the year we sought to better assess our companies' exposure to inflation and interest rate risk. We looked at the relative sensitives of companies in the Fund, and potential correlations. Equally, we became mindful of our exposure to housing – as an area of particular sensitivity to interest rates and mortgages.

Housing exposure became a topic of consistent monitoring, incorporated in our risk pack updates, which is subject to PM review and challenge by the Risk and Compliance Committee. We began to more closely scrutinise our exposure to housing over the period; for instance, this helped lead to the decision not to invest in another company which would add to our exposure on this front. This company was pitched to the team but – after a follow up PM meeting on housing exposure in particular – ultimately entered our watchlist, for ongoing monitoring, rather than entering inclusion in the Fund.

## CLIMATE CHANGE & NATURE

Climate change has been a key area of focus, in part due to the systemic risk posed by this issue. Our 2022 efforts in this regard built on work undertaken in 2021, and also extended our work on climate into nature more broadly.

In 2021 we became signatories to the Net Zero Asset Managers' Initiative (NZAM) and submitted our first target to them for acceptance in 2022 (our target was formally accepted by them in January 2023). We continued to promote the benefits of NZAM membership among smaller asset managers, and to share our experiences of developing an aligned target (using the Science-Based Targets ("SBT") portfolio coverage approach). We also encouraged all the companies in which we invested to set aligned targets if they had not already committed to do so through the Science-Based Targets initiative (SBTi). Many of the companies which we have owned over the period have set SBTs, including Alphabet, Marsh & McLennan, MSCI, and United Health. Union Pacific increased the ambition of its target to 1.5°C.

Climate disclosure and risk awareness was another area of focus on this topic in 2022. We formally became supporters of TCFD, and published our first TCFD aligned report. This included a provisional scenario analysis, using a Climate Value at Risk approach and highlighting the relative risks of different scenarios. One key outcome of this work was the relative benefit of orderly vs. disorderly transition scenarios. Among other things, this implies the need for early action from governments. Relatedly, ahead COP27, we signed the Global Investor Statement to Governments on the Climate Crisis, calling for governments to develop clear and credible transition plans, which we see as enablers of a more stable market environment.

We took the lead on specific investor follow on letters, to urge non-reporting companies to report to CDP's climate module. We undertook this for all CDP's high priority targets for climate engagement: Berkshire Hathaway, Martin Marietta and Waste Connections.[9] We co-signed specific investor letters asking for CDP climate disclosure for other companies in the Fund which had not been highlighted by CDP as high priority targets. Although we did not see company uptake of the survey, we did see responses highlighting ongoing work on TCFD alignment outside of this framework. In the case of Berkshire Hathaway, we did not receive a direct response, but we have continued to correspond with the firm's utility subsidiary (Berkshire Hathaway Energy) on climate and other matters.

[9] We also undertook this for Arthur J Gallagher which would otherwise not have been engaged through the CDP process.

In 2022 we combined a focus on climate change with a focus on nature. Given emerging evidence of the significance of nature loss to the economy, and relatedly financial systems, we see this as a important addition.[10] Frameworks for assessing nature related risks and impacts are still nascent. In order to enhance our understanding of this area, and to share best practice, we joined the Taskforce on Nature-related Financial Disclosures Forum.

We have also been engaging with companies on nature-related issues such as water, waste and biodiversity. This has been undertaken both bilaterally, and through the CDP program. To formally support the CDP's Water and Forests programs, we co-signed specific investor follow on letters to urge non-reporting companies to report. We undertook this for all companies held by us at the time of the CDP request to investors to support these campaigns, which we highlighted by CDP as high priority targets for water and forests. One company - Sherwin Williams - became a first time CDP water responder, which we see as a positive development.

[10] 'Final Report - The Economics of Biodiversity: The Dasgupta Review', *HM Treasury* (2 February, 2021).

# Principle 5

## Review and Assurance

Above all we aim to provide meaningful information to our investors, mindful of regulatory requirements. Keeping this fair, balanced and understandable aligns well with our 'keep it simple' approach.

The Findlay Park Board, or executive sub-committees acting under delegated authority, reviews and approves all policies related to Findlay Park. Oversight and accountability for responsible investment now resides with the RI Lead. However, the process of responsible investment policy development and reporting is a collaborative one, and includes active review of these documents by a number of stakeholders in the business. The CEO retains ultimate accountability for leading the executive team in implementing Findlay Park's overall commercial strategy, including related sustainability elements, as agreed by the Findlay Park Board.

Input from our CIO helps ensure this best reflects our investment approach, and our Investor Relations team also help to assess their clarity and presentation, while the data and operations teams review the data. Importantly, our Head of Compliance and General Counsel play significant roles in their development, helping to ensure that they meet regulatory requirements, as well as being fair, balanced and understandable.

Due to the size and nature of our firm, external assurance has not been sought. However we have worked with our independent compliance consultants, to ensure that our approach aligns with regulatory requirements. In 2022 these consultants interviewed the RI Lead as part of an ongoing compliance monitoring process.

In 2021 we sought advice from a sustainability focused compliance firm, based in the Netherlands, particularly with respect to our approach to SFDR. This included their review of our Responsible Investment Policy, and approach to principal adverse impacts. The firm was comfortable with our approach, and suggested areas for improvement over time, some of which have been implemented (e.g. clarity around ESG integration in the whole investment process). In 2022 we had a number of calls with legal and industry experts around the interpretation of various elements of SFDR, which helped refine our approach to appropriate disclosures.

Although responsible investment has always been part of our process, our policies and reporting on responsible investment issues were materially enhanced from 2019 onwards. This was further updated in 2020, 2021 and again in 2022. For example, our policy was updated in 2022 to include additional information on our approach to climate change. Our reporting has also evolved to detail our style of responsible investment and our approach to sustainability risk and impacts.

We have also started to address responsible investment in our Fund specific documents. This was first referenced in the Fund's Prospectus in June 2020, updated in 2021 as part of our transition to an Article 8 fund. The Fund's Prospectus is overseen by the Funds' Board of Directors and produced with guidance from the Fund's legal advisers, McCann Fitzgerald. These advisers have also aided us with our ESG disclosures related to SFDR and the EU Taxonomy. The Fund's Prospectus was further updated in November 2022 to provide greater detail on the environmental and social characteristics promoted by the Fund in line with its Article 8 status.

# Principle 6

## Client and Beneficiary Needs

We manage one strategy which invests primarily in North American companies. At the end of 2022, the American Fund's AUM stood at US$10.4bn.[11] We're proud of the long-term partnerships that we've built with our investors since the Fund was launched in 1998. Most of these investors are wealth managers and advisors in the UK, the remainder being in Switzerland, other areas of Europe, or Asia. Together they look after the savings of thousands of individuals.

Our investment horizon is longer term. We look to deliver compelling compound returns, measured over decades. We are mindful that our clients, and their underlying beneficiaries, may be investing across generations, and we look to invest in great companies which are generally well positioned for long-term success. One of the questions we ask of all companies relates to the inevitability of the outcome. That being said, we do not take a 'buy-and-hold' approach. Dynamics evolve and extremely long holding periods do not always lead to the best long-term investment outcomes. Another question in our Investment Philosophy relates to whether a business will be better in the next 3-5 years, and this time horizon is reflected in most of our financial modelling. Our weighted average holding period is 4.6 years.[12]

### ACTIVITY

Responsible investment is a topic of increasing importance to many of our investors. Our CEO and RI Lead liaise closely with our Investor Relations team to understand evolving investor interest, and any potential feedback into policy, reporting or communication.

We seek and receive investor views through meetings, questionnaires, communication of responsible investment materials, requests for feedback and informal dialogue. Responsible investment and ESG matters continued to be the focus of many of the investor due diligence questionnaires that we received during the year.

Responsible investment was the key focus of around 10% of investor meetings. In addition, we ran three investment seminars with responsible investment content over the course of the year.

We track and capture data on queries we receive from investors regarding responsible investment. We see this as a method of understanding what is important and enables us to have a more granular understanding of our investors' needs on this topic. We are always keen to engage on responsible investment topics, and suggestions, and welcome our investors to get in touch.

### OUTCOMES

Our investors' interests and wishes have helped inform our approach to responsible investment.

Our transition to Article 8 was informed by client feedback, for instance indicating that they considered us best suited to this classification. As we reviewed this move, specific comments from clients were quoted in the rationale.

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[11] As at 31st December 2022.

[12] Findlay Park, as at 31st December 2022.

The growing interest from our investors in climate risk and impact has also influenced our approach. For example, we first became aware of the growing traction of Net Zero Asset Managers initiative (NZAM) at the start of the year through engagement with one of our investors. The firm's commitment to this organisation helped raise its profile internally, and contributed to our decision to join this initiative. We also tracked the broader percentage of our investors who had joined NZAM, considering our wider investor base rather than just one investor.

Our exclusions policy was developed mindful of investor current and future needs. For instance we aligned our policy on controversial weapons, which we were in the process of formalising, with that of an investor who had particularly requested such alignment. In 2022 this policy was further refined by adding exclusions on investments in companies involved in nuclear programmes for companies which were not recognised as Nuclear Weapons States under the Nuclear Non-Proliferation Treaty. This was clarified in response to investor questioning around our stance on nuclear weapons.

Our environmental and social exclusions were also inspired by that of another investor, with an underlying client which is a leader in sustainability related education. Wider investor policies and questions were also reviewed and considered in the development of our own policies. In 2022 we also proactively compiled a detailed database containing the exclusionary criteria promoted by our top clients, with a view to informing our own approach and to anticipate client needs.

Work to enhance the clarity of Fund-wide ESG data in our reporting has continued in 2022, to better enable investor scrutiny of our process and comply with SFDR requirements. This has been further enhanced in our Responsible Investment reporting, where we have voluntarily issued detailed disclosure on our approach to Principal Adverse Impacts, ahead of regulatory requirements.

# Principle 7

## Stewardship, Investment and ESG Integration

We prioritise the issues which we believe are most pertinent to our Investment Philosophy. Aligned with this we closely monitor certain ESG topics which we believe to be most material. We also consider broader sustainability issues which can help us understand a company's long-term positioning, and areas of future engagement. We understand that ESG integration may often differ according to asset class, geography and investment time horizon. Given our sole focus on one strategy we do not have differing approaches. This allows for a high degree of specialism, and the approach we have evolved is particular to us.

We have a clear Investment Philosophy that is aligned to our purpose and is rigorously applied through all market conditions. This philosophy has guided our research-intensive process since the Fund's launch in 1998. We implement our philosophy by assessing each stock (both new ideas and existing holdings) against a checklist of twenty-nine questions which analyse key aspects of a business, including its financial and competitive position, management and valuation. This checklist includes several questions which consider ESG issues, including:

- Is the business susceptible to shifting consumer preferences?
- Does the business / industry face regulatory headwinds?
- Is it a net beneficiary of climate economics?
- Will it be a stronger business in 3-5 years' time?
- Does it have trusted brands that are getting stronger?
- Is management compensation aligned with shareholders?
- Do we like the corporate purpose and culture? (a double scored question)

The integration of ESG considerations into our Investment Philosophy checklist means this analysis is applied by each member of the Investment team when researching and engaging with companies, and is included in regular discussion and debate regarding all existing and potential Fund holdings. Our RI Lead and Sustainability Lead are members of the Investment team.

Detailed ESG analysis is conducted for every new company review, led by the RI Lead and in collaboration with the co-coverage team. This helps us address these issues, rigorously and consistently, within a culture of teamwork. Sources underpinning this can include discussions and engagement with companies or expert networks, as well as corporate reporting, government or regulatory data sets, and news articles, as well as more conventional ESG data providers.

One of the outputs of this ESG analysis is an assessment, from an ESG perspective, of the Investment Philosophy questions highlighted above. The ESG factors underlying this assessment will sometimes differ between businesses, and be specific to the company – for instance ESG regulation in information technology and oil and gas are both important, but related to differing underlying issues.

When potential new candidates for the Fund are presented to the Investment team, this is informed by a primer led by the co-coverage team, and an ESG review.

Alongside this detailed analysis of new candidates for investment, we more consistently monitor a range of ESG factors using our proprietary RIG. This combines external data with our voting, engagement and ESG research notes, and helps us simplify complex information to better prioritise, assess and explain relevant ESG issues. The RIG is included in PM meetings and team discussions. It provides detailed information on five areas, relevant to all our companies: Human Capital, Climate & Environmental, Corporate Governance, Cyber Security & Data Privacy and Business Ethics & Reputation. These reflect the realities of the changing world and include issues which we have long considered central to a company's culture and performance. These issues are outlined below, along with some of the sources we use to asses them in the RIG.

| Human capital | Climate & environment | Corporate governance | Cyber Security & Data Privacy | Business ethics & reputation |
|---|---|---|---|---|
| All businesses are people driven | Climate change risks are increasing and potentially systemic | Robust oversight is key to financial sustainability | Rapid digitalisation poses new challenges | Business conduct is under scrutiny in an age of transparency |
| glassdoor | MSCI | ISS | SecurityScorecard | RepRisk Due diligence on ESG and business conduct |

Although third-party sources are highlighted above, it should be emphasised that the RIG also includes proprietary information based on our own analysis and experience. Please see Principles 2 and 8 for a more detailed overview of our relationship with, and monitoring of, data providers.

The RIG helps us to monitor developments on a regular basis. For instance, if a company's external ESG rating changes from average to poor, this is scrutinised by the RI Lead and summarised for the PMs, and the wider Investment team. Most information is updated monthly, but this can change depending on the nature of the information: more dynamic information can be updated weekly (e.g. RepRisk related to live controversies), engagement quarterly, and some change only on an annual basis (e.g. voting outcomes).

Our investment horizon is longer term in nature, and we believe that ESG risks can materialise over a variety of time periods. Issues related to Business Ethics & Reputation can have shorter term impacts on a company, if new issues escalate quickly. By contrast, issues related to Human Capital may be longer term in nature, as motivated employees can give companies a competitive edge, and a greater ability to acquire top talent over time. Climate change and environmental risk are examples of a long-term issue; however there can of course be short-term shocks (e.g. from extreme weather events or rapid policy changes).

To complement the focus of the RIG which primarily focuses on the most material ESG issues, we have also developed tools to help us assess material impacts and sustainability goals.

In 2022 we formalised five impactful engagement priorities. These draw on the principal adverse impacts (PAI) framework, which our Responsible Investment Committee monitors on a quarterly basis. They also draw on the UN Sustainable Development Goals (SDGs). They are outlined below, along with the rationale for focusing on each of them.

| Science-based Climate Targets | Employee Engagement | Nature-related Targets | Supply Chain Responsibility | Economic Solutions |
|---|---|---|---|---|
| Science-based targets help mitigate climate risk & impact | Treatment of employees has significant social and economic impact | Environmental impacts beyond climate are increasingly in focus[13] | Many of the most salient risks & impacts occur in supply chains[14] | Companies can create economic, SDG-aligned products & services |

## OUTCOMES

Tangible examples often provide the best evidence of how information gathered through stewardship has helped inform acquisition, monitoring and exit decisions.

One of the clearest that we have, which developed across 2021 and 2022, was our decision to invest in Royal Gold, and to avoid investing in its competitor which was originally favoured on purely financial grounds.

Gold royalty and streaming is an area which we started exploring in 2021. The business model itself is rather nuanced, and difficult to assess from an ESG perspective – these companies share some issues in common with mining companies, but are more like financial firms.

Royalty and streaming companies do not operate mines, develop projects, or conduct exploration. Instead, the business model is focused on managing and growing a portfolio of royalties and streams. A royalty is the right to receive a percentage of the value of minerals, or a portion of revenue or profit generated from a mining operation (usually provided in exchange for an upfront payment used to fund a project's development). A stream provides an upfront payment in exchange for a share of the value of future metal production.

As we came to learn more about the industry, we decided to focus not only on the practices and processes at the company level, but to also undertake due diligence on the key mines driving revenue. This contrasts sharply with some third-party ESG ratings we saw which assessed them as 'best-in-class' mining companies (essentially as mining companies without mines!). We also engaged extensively with management teams from two firms.

[13] For instance, as highlighted by the new Taskforce on Nature-related Financial Disclosures [accessed: https://tnfd.global/].

[14] These include human rights risks [accessed: https://knowthechain.org/the-issue/].

One of the companies with which we engaged derives significant revenues (the most of any one mine) from a copper mine in Panama called Cobre Panama. We soon identified a number of material ESG risks and impacts associated with this project. This is a coal powered mine in an area proximate to numerous endangered species; the mine has been noted as non-compliant by Panama's Ministry of the Environment. There have also been social issues at the mine, given proximity to indigenous lands and its apparently poor handling of COVID-19. Importantly, the legality of the contract has been debated. When engaging with the royalty and streaming company's management team, we found them to be somewhat dismissive of these risks. We decided not to pursue further research into the royalty and streaming company in question, given the saliency of this and other ESG risks, and due to our poor experience of engaging with the company on ESG matters. In mid-December 2022, Panama ordered the miner to make plans to temporarily suspend operations. A draft new contract with the government was only reached in March 2023 and has yet to be finally approved as at April the 18th 2023. Overall, this has been a period of uncertainty for the mine.

By contrast, we identified a peer called Royal Gold which we believe has less exposure to operational ESG risk and has been highly responsive to engagement. In our earliest engagement with the company, we encouraged it to allocate resources towards its ESG efforts and improve its disclosure on this topic. We then met with the company's ESG consultant to provide feedback on material topics for inclusion. Many of these were incorporated into the firm's first ESG report. More recently, we've seen the firm add a dedicated expert in this area – with a background in ESG for mining related finance. As a result of our interaction with Royal Gold it has also signed up to a new ESG risk-related data platform to better inform its investment decision-making and risk management processes. We believe the firm is taking positive steps to better understand and improve on ESG matters.[15] Overall we see this as an example of how careful ESG analysis and engagement can help improve outcomes for our investors.

[15] This is not an isolated example for the year. We have many examples where we have avoided or delayed investing in businesses for ESG reasons. For instance, we also delayed investing in Steris until we had greater clarity on the outcome of a health and safety, regulatory issue. In the meantime, this issue materialised at a key competitor, creating a legal claim which weighed on the share price of that company. We delayed investing until after the competitors case was settled.

# Principle 8

## Monitoring Managers and Service Providers

As emphasised throughout, we undertake our own research, voting, and engagement. We draw our own conclusions and use multiple sources as inputs, meaning we are not overly reliant on any one provider.

Our data and research providers have been chosen with a number of considerations in mind – notably their potential to enhance our investment and stewardship processes. When we significantly increased our spend on ESG data and research in 2H 2019, we built a detailed business case outlining the value of each proposed provider, alternative options, and cost considerations. The RI lead also regularly evaluates the appropriateness of data providers, for instance when assessing those used in RIG inputs.

We take time to understand providers' methodology and practices, and discuss our own requirements and expectations with their representatives. A significant amount of time was spent by the RI team in 2022 reviewing the methodologies of impact data providers, and we arranged multiple workshops with the selected provider to gain a fuller understanding of their methodology. This partner was chosen for their experience in placing a dollar value on both positive and negative impacts, underpinned by credible economic, environmental and social research. We found this engagement to be beneficial not only to ourselves, but also to the data provider, who were able to listen to investor questions and incorporate product updates accordingly.

Before renewing a contract, we pause to consider whether they remain additive to the process, or whether better options are available. At our most recent review of data providers conducted in late 2022, we decided against renewing our subscription to one provider on the basis that it was no longer additive to our responsible investment efforts. In addition, we have provided clarification to providers on specific points, and suggested wider enhancements. This type of engagement is important for improving market information, which may impact future prices or investor sentiment about the companies which we hold in our Fund.

We are sometimes asked by investors about how we help improve the quality of ESG data and understanding in the market. One example of our due diligence and monitoring of service providers in this regard relates to our engagement with MSCI in 2022.

We first contacted MSCI in June in relation to two of our holdings that we felt were getting insufficient recognition for their contribution to energy efficiency. The companies in question were largely distributors and installers of building insulation. When we explained their business model to MSCI, they noted they would consider this during their next scoring update. Following our engagement, both companies were reclassified in a more appropriate category more closely linked to green building. This also resulted in a ratings upgrade for both companies, which we more fully recognised for the role they place in enabling climate transition and adaptation.

As well as engaging in specific cases, we also provide feedback on wider issues. For instance, we responded to MSCI's consultation on climate related assessments. In February 2022 the firm announced it would be introducing many of the elements that we asked for including an assessment of carbon target relative to a 1.5-degree pathway, and the incorporation of Scope 3 emissions assessments into their core Carbon Emissions theme.

One area of focus for us in 2022 was on data related to biodiversity. An emerging body of research highlights the economic importance of this topic, and we saw increased societal and investor interest in it galvanised by COP15 in Montreal in December. We enhanced our engagement on biodiversity with both companies and data providers, as we sought to assess which offerings could complement our own internal efforts on the topic. Over the course of the year we engaged with five providers, trialled various products and participated in workshops to understand their capabilities. One of our frustrations is that we have not yet seen data which covers both value-chain and operational risks and impacts. The latter requires: good corporate location data; an understanding of the nature of the company and its site-specific activities; an overlay of sites which are important from a biodiversity perspective.

Given the lack of high-quality third-party data, we have not on boarded any new provider. We instead undertake some biodiversity risk and impact assessment in-house. Overall, we have found the process to be a useful one for our understanding of what is a complex topic, and complementary to our engagement and stewardship efforts. We will continue to monitor developments in this space in 2023, and look to share best-practice, including through our participation in the Taskforce on Nature-related Financial Disclosures' Forum.

# Principle 9

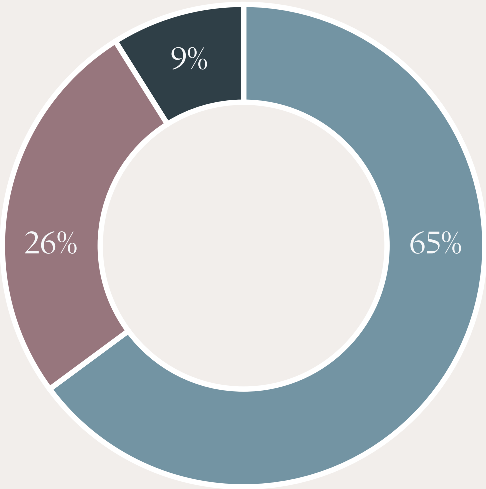
## Engagement

Engagement is essential to our investment process. ESG considerations are embedded in our Investment Philosophy, and our frequent interactions with companies on a wide range of topics means that isolating purely 'ESG engagements' is not always simple. In our efforts to increase our transparency in this area, and in line with FRC recommendations, we have attempted to be more specific in outlining the types of discussions we have with companies with respect to ESG and sustainability issues.

In 2022 we held over 120 recorded interactions with companies where ESG content was discussed. Around 40% of these entailed more specific engagement asks – for instance the recommendation to adopt a science-based climate target. This figure excludes a CEO letter we sent to all companies as a general encouragement of continued progress on ESG issues. If these were included, the figures would be around 160 interactions, 55% of which entailed engagement-related asks.

In addition to the above, there were other interactions related to ESG monitoring and questioning, for instance to inform our own decision making. This is a critical part of stewardship, but less specifically focused on corporate improvement.[16]

Below we list key ESG topics discussed across our company engagements, which have been divided by theme – Environmental, Social, and Governance. In most meetings multiple ESG themes and topics were raised for engagement. We have also further categorised our engagements against the UN Sustainable Development Goals (SDGs) and Principal Adverse Impact (PAI) indicators under SFDR where relevant. These visualisations help to give a sense of the spread of the issues discussed.



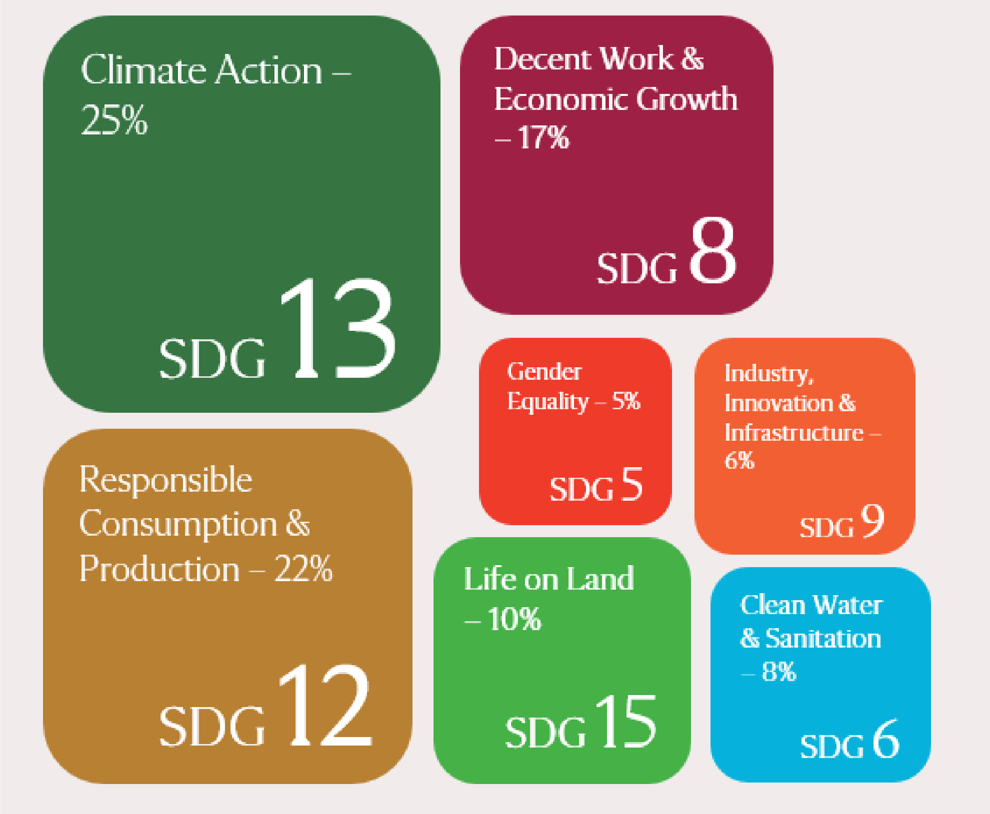

**Environmental Issues:** Climate related matters were the issue on which our companies were most frequently engaged. Other topics include biodiversity, water, waste, plastic, and sustainable opportunities.

**Social Issues:** Human capital was the most popular topic for engagements, followed by supply chain issues, and diversity and inclusion.

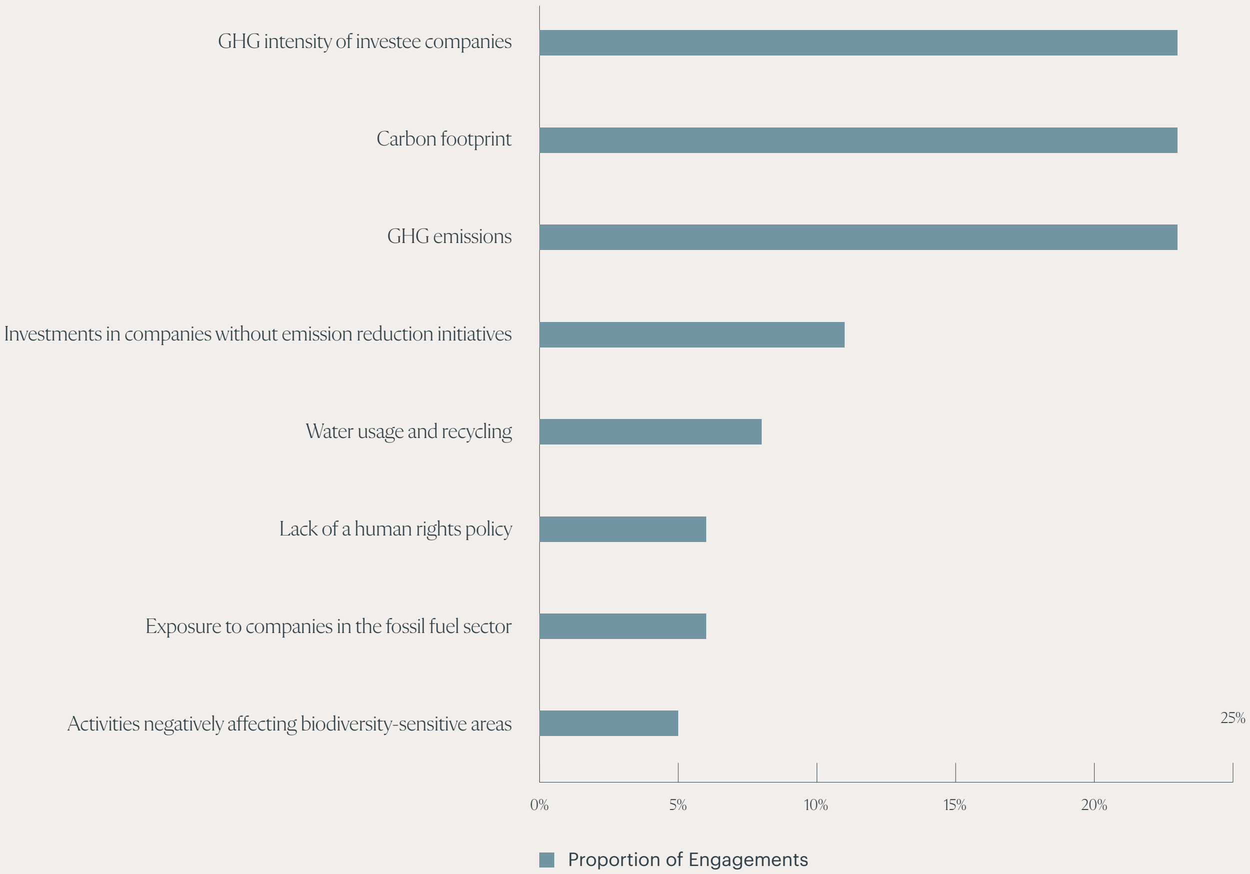
**Governance Issues:** Reputation and business ethics featured most frequently in governance-related engagements, along with management-related issues, compensation, and tax.

[16] Effective Stewardship Reporting: Examples from 2021 and Expectations for 2022', p.58, *Financial Reporting Council* (November, 2021).

## SDGs linked to engagements




## PAIs linked to engagements



We prioritise issues that are either most material from a risk and reward perspective, or from an impact perspective. We believe this can best protect and enhance the value of our investments.

Signals which aid our engagement include changed data points in the RIG (for instance a worsening Glassdoor score, or implied temperature rise score). Another likely catalyst for engagement includes low performance on PAI metrics (for instance the companies producing the most water pollution in the Fund, or with the greatest potential for negative biodiversity impact).

ESG discussions may either be 'bottom up' or thematic in nature. Stock-specific factors which may influence how we prioritise engagement include the size of our position in a company, the extent of the holding in our strategy, and the importance of an issue to the investment thesis. We consider the scope and severity of risk, and negative sustainability impacts, in our engagement. Finally, we respond to short-term events such as upcoming voting decisions, company requests, management changes, and escalation of ESG risks or impacts.

One of the core focuses of our engagement in 2022, related to our commitment under NZAM, was science-based climate targets. Our commitment, which was first submitted in 2022 and finally approved in January 2023, is strongly focused on stewardship. We aim for 60% of the companies in the Fund to have such targets by 2025, rising to 90% in 2030 (weighted by AUM, ex-cash). To support this, we encourage every company in the Fund without a formal science-based targets initiatives (SBTi) commitment or target to set these.

Whilst climate is a core focus of our stewardship efforts, we are also mindful of other long-term themes and impacts which help shape our engagement. As noted under Principle 7 above, in 2022 we adopted five areas of thematic focus to help drive our engagement. These are outlined below.

| Science-based Climate Targets | Employee Engagement | Nature-related Targets | Supply chain Responsibility | Economic Solutions |
|---|---|---|---|---|
| Science-based targets help mitigate climate risk & impact | Treatment of employees has significant social and economic impact | Environmental impacts beyond climate are increasingly in focus | Many of the most salient risks & impacts occur in supply chains | Companies can create economic, SDG-aligned products & services |

Before engaging with companies on ESG issues, we prepare questions. These are usually circulated to relevant portfolio managers, and or analysts, to ask for additional input and feedback. We also record discussions with companies on a centralised system, which all team members can access. One enhancement we made to our engagement process in 2022 was the onboarding of a dedicated system. This helps us to record and monitor engagement with specific objectives, noting progress and alignment with wider goals (such as the UN Sustainable Development Goals). This has also helped improve our engagement related governance and reporting.

Our preferred outcome is typically to positively influence a company's behaviour. Where necessary we engage many times on the same issue to help drive this change. Our objectives and actions may differ dependent on the context. Goals include enhanced corporate disclosure or action on ESG factors, including sustainability impacts. Engagement may also lead to investment outcomes such as improved voting decisions, changes to our investment thesis or portfolio construction. We give examples of engagement, and related outcomes, in our biannual reporting.

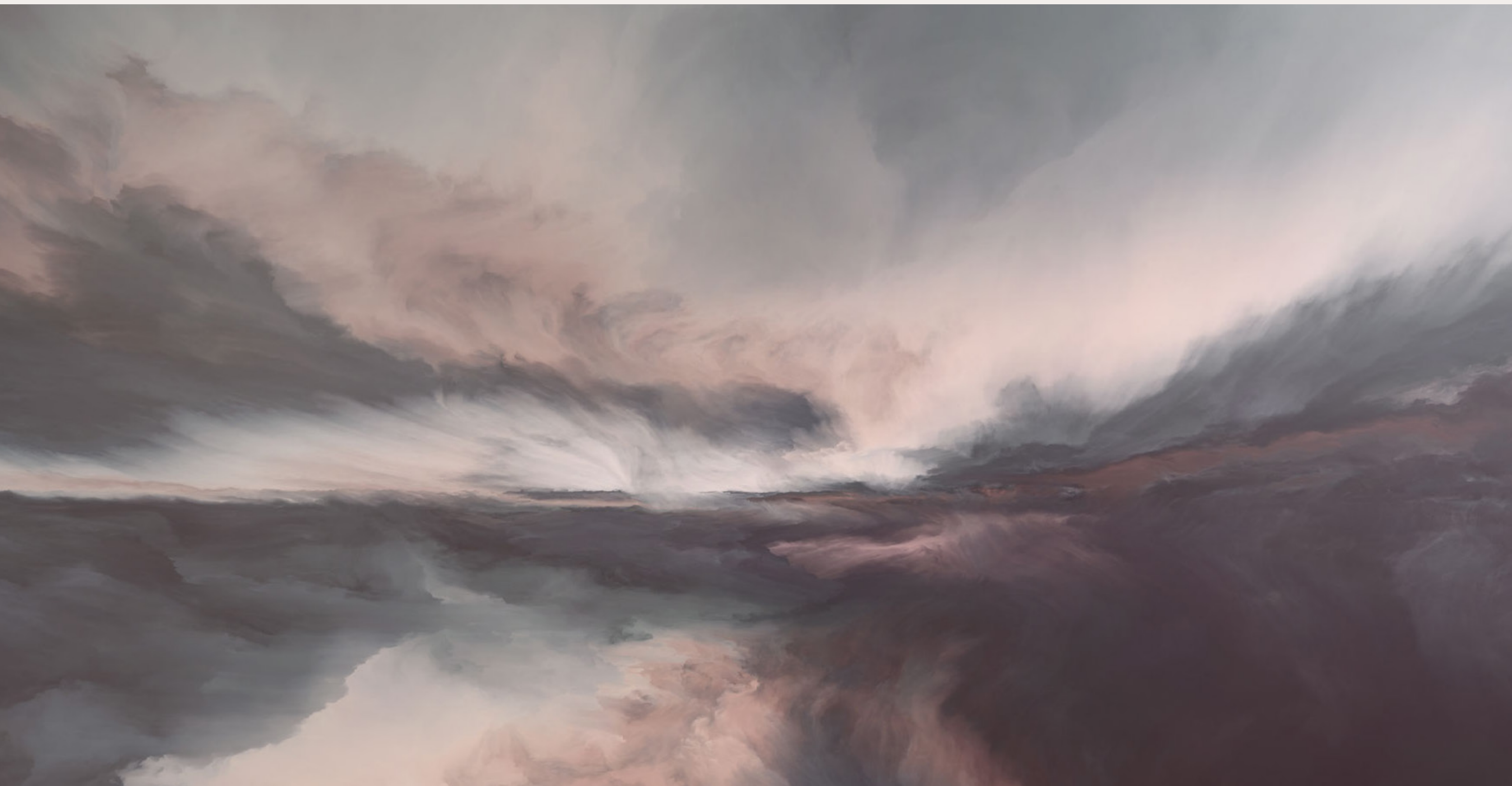
We generally engage bilaterally. This is for a number of reasons, including our ability to act quickly, and focus on particular topics which we see as most material to companies and situations at hand. As active managers invested in relatively few companies, we also often find that none or few of the companies in which we invest are targeted by collaborative engagement initiatives. Finally, we have been conservative in our approach to the legal and regulatory risks associated with formal, collaborative engagement. In 2022 we saw certain collaborative engagement initiatives come under scrutiny in the US (the market in which the majority of the businesses in which we invest are located). We understand that collaborative engagement is more accepted in the UK, and that it is generally agreed to not be in breach of issues regarding competition. However we must also be mindful of the US context in which our companies operate.

That being said, we have acted collaboratively to address systemic issues such as those related to climate, water and deforestation, through co-signing CDP letters (see Principle 4 above and 11 below). We see this is a relatively lower risk mode of collaborative action.

## OUTCOMES

Detailed examples of our engagement and monitoring can be found in our Responsible Investment and Engagement Reports.[17] Below we provide examples of where engagement has resulted in, or been aligned with, specific outcomes. Some of this is ongoing in nature, and additionally we are wary of claiming direct impact on all outcomes – mindful of the fact that we are just one stakeholder for the companies in which we invest.

[17] Our Responsible Investment and Engagement  Reports are available here: https://www.findlaypark.com/resources/.



## TopBuild

**Engagement:** We own a material share of TopBuild, and were invited to deliver a presentation to the Board on climate change and other ESG issues. We took this opportunity to offer some insights and outline a number of areas upon which we believe the company could incrementally improve, for instance related to setting robust climate targets, more specifically focusing on product safety, and working on diversity.

**Outcome:** The Board was highly complimentary about our presentation. We had a follow up from the CEO to emphasise this positive feedback, echoing comments made by the Chairman in the meeting. It is premature to claim any specific outcome but the engagement was successful in furthering our relationship as committed investors in TopBuild, and outlining areas of improvement which we will continue to monitor.

## Union Pacific

**Engagement:** We engaged with Union Pacific's Investor Relations team in advance of the company AGM where we felt some of the company's responses to our queries fell short of what we had hoped for. At the company's 2021 AGM we accordingly voted in favour of the shareholder resolution on broader diversity and inclusion reporting, as well as the 'Say on Climate' reporting resolution.

**Outcome:** Union Pacific released its first Human Capital Report in February 2022. Similarly at the end of 2021 its first comprehensive climate action plan where it outlined its approach to the climate transition and committed to achieving net zero emissions by 2050. It also increased the ambition of its SBTi in 4Q 2022.

## EOG Resources

**Engagement:** We engaged with members of the company's Senior Management team on biodiversity over a sustained period of time between 2021 and 2022. During our engagement in 4Q 2022, the company confirmed that its approach and disclosure around biodiversity has been helped by the previous engagements we have had on the topic. It is now more explicitly referencing the mitigation hierarchy and aims to continue to enhance its processes and share best practice across the company.

**Outcome:** It is now more explicitly referencing the mitigation hierarchy, and aims to continue to enhance its processes and share best practice across the company.

## Waste Connections

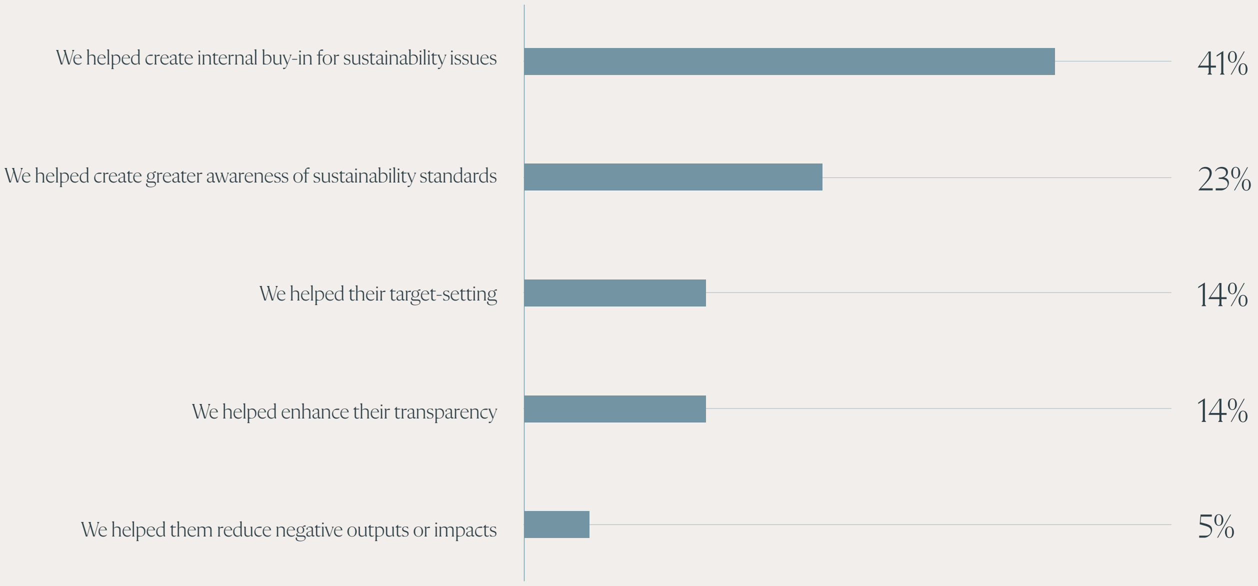
**Engagement:** We have engaged multiple times with Waste Connections on its progress towards setting a science-based emissions reduction target, most recently in Q4 2022.

**Outcome:** The company confirmed that it is investigating the feasibility of setting a science-based target and would seek to make progress in this area in 2023.

As active investors we are keen to understand how best we can support our companies, help make an impact, and improve our own stewardship efforts. So, for the first time, we issued a survey to our investee companies asking about the impact of our engagement efforts over the course of 2022. The survey was designed to be concise, and anonymised. The management of it was handled by our Data Analytics team, and not the Investment team, so as to encourage frank and honest feedback. We received a response rate from our investee companies of just under 50% and the results and some feedback are shown below.

Overall we see the results as a positive endorsement of our approach to engagement, and the influence we can have on companies. Areas of potential improvement for next year include efforts to increase the response rate (although this must be done in a way which maintains anonymity, and does not encourage inflated results). We are also hoping to see more evidence of a link between our engagement and ultimate impacts across different themes (i.e. changes in outcomes for society and the environment).

**83%** of respondents said we have a moderate or significant impact on their efforts on sustainability



70% said we helped improve their focus on climate commitments

35% said we helped accelerate the pace of change related to sustainability

"Findlay Park's questions and commentary helped us frame additional discussions with senior management and our Board of Directors... [their] perspective on continued improvement and willingness to make connection is a differentiator."

# Principle 10

## Collaboration

We are open to collaboration and collective action on responsible investment issues and recognise that collaboration can often lead to greater investor influence and engagement success. However, given our size and focused nature, direct involvement in collaborative engagement is rare. Targets of collaborative engagement are often businesses in higher risk sectors, which typically fit poorly with our Investment Philosophy. We also invest in a relatively small number of companies, so engagements across broad themes or sectors have little overlap with our holdings. To illustrate this, of the 166 companies targeted by the collaborative investor initiative Climate Action 100+, we only have positions in three, and engaged directly with each of these on the topic of climate change in 2022.

Given the growing materiality of ESG issues, we are also mindful of potential legal implications related to collaborative engagement. We welcome efforts in the UK and Europe to ease competition rules related to climate, and the encouragement of investor collaboration on such issues. Conversely, in the US – where the large majority of the companies in which we invest are headquartered – there has been recent debate around the legality of formal investor collaboration on climate change in particular. We would note that the legal and regulatory framework in the US is less clear, and that we must be cognisant of this dynamic.

That being said, we have been exploring appropriate avenues for collaboration. In 2021 we first became involved in CDP's non-disclosure campaign and continued our participation in 2022. We were previously a lead investor, asking Berkshire Hathaway for greater climate related disclosure. We received a response, noting the importance of climate change for various underlying businesses within the company, although this did not amount to a commitment to firm-wide climate reporting. We built on this in 2022 by acting again in the role of lead investor. We also took lead investor roles for other companies in our Fund listed as high priority on climate change by CDP, and supporting roles for investee companies across CDP's Climate, Water and Forest Campaigns. Although we did not see specific successes for most of our companies, we were encouraged by CDP's overall results, and are pleased to play a role in this more general effort. Across all three themes (Climate, Water, Forests), 388 out of the 1,466 companies targeted through the campaign responded, a response rate 2.3 times greater than those companies not engaged by financial institutions. This underscores the value of this initiative, which achieves more transparency, as a step towards ultimate corporate improvement on these important issues.[18]

We are also members of the Investment Association, and our RI Lead is the Deputy Chair of the Independent Investment Management Initiative (IIMI). These bodies provide resources on responsible investment, related events, networking and, in some cases, training. They also give us access to informal responsible investment networks, and facilitate engagement with governments and other bodies on responsible investment issues. We have led the development of an ESG forum within IIMI to discuss responsible investment topics and share best practice. Our significant involvement in IIMI means that we can guide such activities, ensuring alignment with the interests of members and our end investors; throughout which we remain mindful of our commitment to promote responsible investment. During 2022 for example we led engagement within IIMI on shaping the future of the PRI, and used the initiative as a channel to encourage the FCA to conduct greater engagement with independent investment managers.

[18] '2022 CDP Non-Disclosure Campaign: Results Report', *CDP Disclosure Insight Action* (18 January 2023).

We are members of select organisations which offer opportunities for collaboration. For instance, we are participants in the UN PRI's shareholder collaboration programme, through which we may join collective engagement and working groups. During 2022 we also became members of the Investor Alliance for Human Rights (IAHR), which facilitates collaborative engagement with companies on the topic of human rights. We will continue to explore appropriate avenues for collaborative future collaboration in 2023 should any opportunities arise for companies in which we have invested.

# Principle 11

## Escalation

We engage on issues of concern with a positive, constructive mindset, hoping to clarify management's intentions or change behaviour. Should this not be possible, we will:

- Raise the issue further up the management/governance hierarchy, (if there is further to go, and we think this will help clarify or highlight the issue at hand).[19]
- Where appropriate, take necessary voting action (which may include voting against Board members, supporting ESG resolutions, voting against management pay).
- Determine whether the failure to resolve the issue compromises our investment thesis, or poses an unacceptable level of risk, including reputational risk, to the underlying company or our strategy.
- If we conclude that it does, exit the position.
- If not, make any appropriate adjustments to current and/or maximum position sizes, and note the issue for high-priority monitoring.

Material issues are reviewed in portfolio manager meetings on at least a monthly basis, and may be escalated to the Responsible Investment Committee where appropriate.

There are a number of occasions where we have divested from a position due to responsible investment issues. This typically occurs when issues are severe in terms of risk or impact, and we see insufficient willingness to change.

One company which we had long been monitoring in the payment space, was the subject of continued discussion and engagement throughout 2021 and 2022. The company's poor employee Glassdoor reviews were notable, reflecting a stressful environment and some dissatisfaction with the new CEO. We had a number of discussions with the company around its culture and pay practices (narrowly supporting CEO pay in our voting), and in particular asked them to focus on employee wellbeing. We noted specific areas of concern which we saw in reviews (down to the level of a system which employees felt was being used to spy on them). In tandem, we undertook regular 'channel checks' with customers to understand their perspective on the company. Towards the end of 2022 we had less conviction in the company, and came to feel that its culture, and headcount reduction efforts that it had made, were leading to poor outcomes for customers. We decided to fully exit the position at the start of 1Q 2023.

[19] Although rare, in some cases we may determine that the issue is so severe, and/or entails such significant risk that we should act before engaging with a company. Similarly in some cases where we engage once with an individual at a company, we may decide that this individual is sufficiently representative of the organisation that escalating it to a more senior executive or board member is not worthwhile.

# Principle 12

## Exercising Rights and Responsibilities

We conduct voting in light of our purpose, and wider mission. This focuses us on delivering compelling compound returns for investors, measured over decades. But our mission also outlines the aspiration for us to help create positive change through our stewardship activities.

Voting rights, and with them responsibilities, are typically attached to our investment in the Fund. We manage one strategy, in one asset class. We do not have differing voting policies, and take time to think through the nuances of each annual or special meeting. We see voting as an opportunity to either signal support for companies, or to challenge them, acting in the long-term interest of our investors. We do not participate in stock lending arrangements and retain voting rights across all holdings. We aim to achieve a 100% voting record, abstaining only in exceptional cases. There was only one such instance in 2022, where we failed to vote due to an operational error, resulting from the fact that we physically attended the AGM Berkshire Hathaway (which we hoped would be additive to our stewardship efforts).

Due to travel-related delays and extreme weather, we became concerned en route to the meeting that we might miss it and decided to vote via proxy instead. We had thought it would be possible to do this and it appeared that the vote was submitted. We only became aware that is was not possible, and therefore that our votes were not counted, after the meeting.

This was of course a deep disappointment. We would, however, highlight a few mitigating factors. Firstly, and most importantly, we wrote to Warren Buffet ahead of the AGM signalling our voting intentions. On this occasion we did not receive a response. However, during the AGM, Warren Buffet did mention the practice of 'European investors' writing to him on ESG matters. We feel that having a presence at the front of the AGM and applauding some of the ESG resolutions also showed support (especially given the negative reaction on some of these matters from the audience). Similarly, we'd note our ongoing commitment to engage with Berkshire Hathaway on ESG matters. This included being the lead investor on the 2022 CDP climate engagement with the firm (we were also the lead investor in 2021). There we highlighted the urgent need for disclosure around - and action on – climate related issues, particularly given the SEC's proposal to start requiring comprehensive climate risk disclosure. In terms of impact on the votes themselves, we'd also note that our class B shares have very limited voting rights, and that the resolutions we supported would have needed around twice the voting power behind them to pass. We have since updated our procedures to clarify the process that needs to be followed should the decision be made to vote in person and the contingency plan in the event this is not possible.

Importantly, we consider the specific circumstances of each company in which we invest and the detail of the individual resolutions. Although we subscribe to the services of a third-party proxy voting provider, ISS, we make independent decisions based on our own research and engagement with management teams. We also seek to engage with management when we intend to vote against them.

Our voting approach draws on our Investment Philosophy, forming principles which inform our voting decisions:

- Remuneration should align management with shareholder interests.
- Our philosophy is focused on less risk for reward: we want companies with strong risk oversight.
- Culture and purpose are key to long-term success.

Further details of factors we assess under each component are discussed in our Responsible Investment & Engagement Policy, which contains our voting policy.[20]

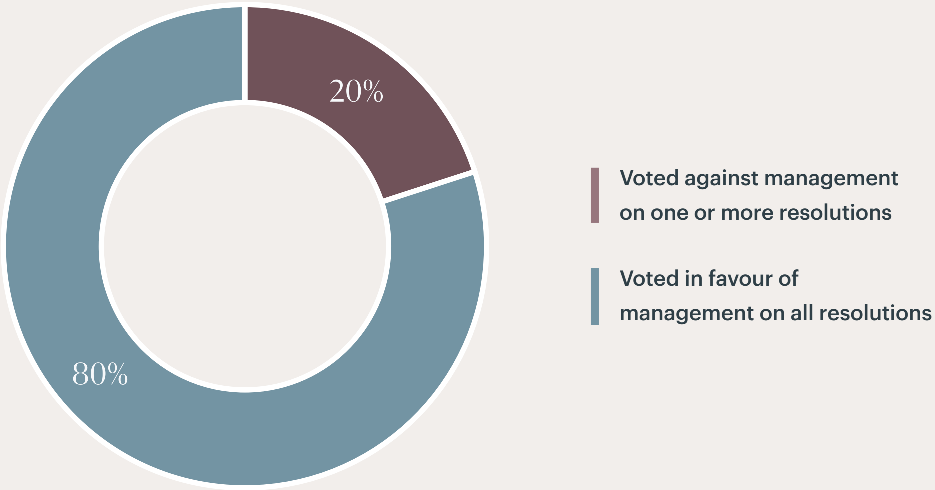
We believe that stewardship is a core part of our value proposition as an active manager with a strong focus on responsible investment. We see stewardship and investment decision making as complementary, and often overlapping, activities. We also think that companies receive the clearest messaging on how to prioritise ESG and sustainability issues when given clear voting signals by investment managers. This is consistent with our position on not abstaining on resolutions. As a result of all the above, we have elected not to pursue split voting.

Our collaborative voting process is described below:

- The Operations team monitors upcoming meetings, and the issuance of ISS research.
- The meeting details, our votes last year and the ISS research are sent to the RI Lead, and the co-coverage team.
- The RI Lead issues a detailed voting report, answering a long list of questions drawn from our voting principles, and making initial recommendations (including for further engagement where necessary) to the relevant PMs.
- Further research or engagement with the company is undertaken where necessary (we always seek to engage when we are intending to vote against management).
- A final decision is made, typically the RI Lead and co-coverage team come to an agreement. Further guidance from the CIO or PMs may be sought where the right outcome is unclear.
- In cases where our voting is against the recommendation of ISS, CIO sign-off is required.
- The RI Lead sends final instructions to the Operations team, in a clear table, to reduce errors.
- The Operations team implements the voting decisions, and monitors ISS' execution.

[20] These policies are available here: https://www.findlaypark.com/resources/.

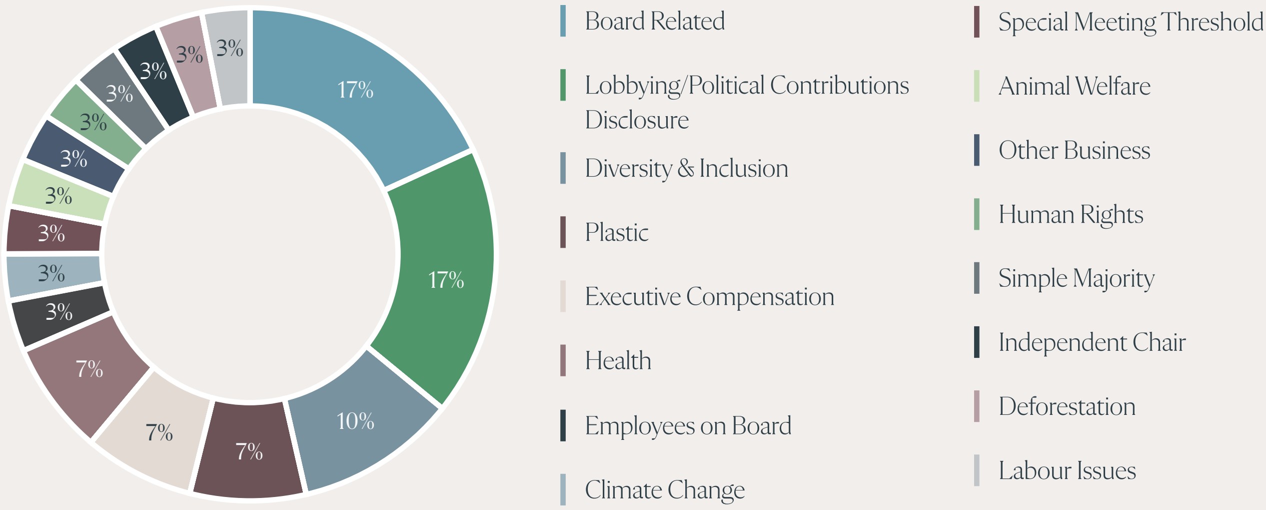
In 2022 we voted at 41 meetings: 40 annual meetings and 1 special meeting. We opposed management on at least one resolution at 20% of annual meetings.[21] We point to an operational error at Berkshire Hathaway, leading to us not voting in a meeting where we would have supported a number of ESG resolutions on climate and diversity matters. This is outlined on page 32. This year we have also incorporated more statistics related to our voting, to better align with market standards around vote disclosure.[22]




| METRIC | OUTCOME |
|---|---|
| MEETINGS ELIGIBLE TO VOTE | 41 (OF WHICH 1 SPECIAL) |
| MEETINGS VOTED | 98% |
| MEETINGS VOTED AGAINST MANAGEMENT | 20% |
| RESOLUTIONS VOTED AGAINST MANAGEMENT | 5% |
| RESOLUTIONS VOTED AGAINST ISS RECOMMENDATIONS | 6% |

[21] ISS ProxyExchange and Findlay Park analysis.
[22] For instance the information requested under the Pensions and Lifetime Savings Association (PLSA) has Vote Reporting Template.

Below we show how we voted against management over the year by issue.[23] Votes against Board members, and on lobbying / political contributions, were the most common category.[24] Other topics included diversity and inclusion, and environmental issues such as plastic and deforestation.




Figures may not add to 100% due to rounding.

Voting activities and outcomes for 2H 2022 are detailed in our Responsible Investment & Engagement Report. Rationale is given for all cases where there was a vote against management, shareholder resolutions, or a vote was made against the recommendations of ISS.[25]

A summary of some of the key outcomes from our voting in 2022 is noted on the following pages. In line with FRC recommendations we have also included our full vote disclosure on our website.[26]

[23] Ibid.
[24] An example includes voting against a Board member due to both independence and compensation concerns.
[25] Our voting policy does not lead to prejudged outcomes as we generally take a case-by-case approach (e.g. we have not asked ISS to implement recommendations tailored to our approach). ISS house recommendations have significant market influence and we use these as a benchmark, against which to justify how our views have differed.
[26] Our full voting disclosure is available here: https://www.findlaypark.com/resources/

# Amazon

**Voting Issue:** We voted for two resolutions; one on warehouse safety and one for a report on unionisation and Amazon's current human rights policy.

**Outcome:** Although neither resolution passed, both received over 1/3 support. The company recently indicated to us that there will be an update on firm-wide health and safety in Spring 2023, including a focus on warehouses.

# Fortive

**Voting Issue:** We voted against executive pay at Fortive, due to the around three-fold increase in total CEO pay from 2020 to 2021.

**Outcome:** The vote passed with around 90% support. ISS recommended in favour, hence the relatively low level of dissent. We will continue to monitor pay, and its alignment to shareholder and wider stakeholder interests.

# Mastercard

**Voting Issue:** This was a resolution that requested the Board of Directors conduct an evaluation and issue a report within the next year surrounding how Mastercard intends to reduce the risk associated with the processing of payments involving its cards and/or its electronic payment system services for the sale and purchase of untraceable firearms, including "Buy, Build, Shoot" firearm kits, components, and/or accessories used to assemble privately made firearms known as "Ghost Guns". Overall, we decided not to support this resolution, given the company's promise of increased transparency on its approach to this issue.

**Outcome:** The vote failed with only around 10% support. We will continue to monitor Mastercard's approach to this issue, and other complex issue of ethical and legal import

# McDonald's

**Voting Issue:** We voted for a resolution on gestation crates and alternative Board candidates. We decided to support the election of the two alternative candidates, reflecting not only the delayed animal welfare commitment, but our belief that there was room for improvement in the scope and speed of other ESG targets (for instance related to health and nutrition). We also agreed that the existing Board had insufficient sustainability expertise while the proposed new members would bring ESG, sustainable investment, supply chain, and customer expertise.

**Outcome:** ISS did not support the alternative candidates, and these resolutions failed by a wide margin. We see our voting in this case as highly differentiated. We have since sold our position in McDonalds.

**Voting Issue:** We supported a resolution encouraging the firm to take more accountability for the impact that use of antibiotics important to human health in its supply chain may have to society. Antimicrobial resistance is a serious issue, and potentially systemic risk, and the company has unambitious targets in its approach to phasing them out of certain products (e.g. pork).

**Outcome:** We followed up with ISS to suggest that they reconsider their recommendation should the issue be raised in future meetings, given the seriousness of the issue at hand.

Approved by the Board of Findlay Park Partners LLP.

Simon Pryke, Chief Executive Officer

Findlay Park Partners LLP

Date: 27th April 2023

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