

KILTEARN PARTNERS LLP | FCA REF: 540470

Stewardship Code Statement



Introduction

Investment managers that are authorised by the Financial Conduct Authority (the FCA) are required under the FCA's Conduct of Business Rules (COBS) to produce a statement of commitment to the Financial Reporting Council's Stewardship Code (the Stewardship Code) or explain why it is not appropriate to their business model. This document describes how Kiltearn Partners LLP (Kiltearn) applies the 12 principles of the Stewardship Code in its role as a discretionary asset manager of publicly traded equities. This statement is also intended to inform the unitholders in Kiltearn's commingled funds, Kiltearn's separate-account clients (if any), portfolio companies and other market participants of Kiltearn's philosophy and practices regarding stewardship.

Kiltearn looks to ensure portfolio companies are run in the best interests of its commingled funds and separate-account clients (if any) (collectively referred to as Clients). To achieve this, Kiltearn actively monitors how its Clients' portfolio companies operate. Kiltearn expect the management teams and boards of portfolio companies to be good stewards of their businesses. Further, Kiltearn expects them to maximise the long-term prosperity of their companies and their companies' shareholders by applying capital in the most effective manner.

Principle 1 –

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Ownership and Structure

Kiltearn is a boutique investment manager. The firm has 21 members of staff, with a nine-member Investment Team. Biographies for all members of the Investment Team are available on the firm's website (www.kiltearnpartners.com). Nine members of staff are partners in the firm, and 19 of 21 members of staff own shares in the firm's holding company.

Kiltearn's Supervisory Group is ultimately responsible for the firm's governance. Kiltearn's Investment Team and Sustainability & Governance Group (described in Kiltearn's response to Principle 2 below) report directly to the Supervisory Group.

Purpose

Since its inception in 2011, Kiltearn has offered a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. The investment objective is to achieve long-term growth by investing in a portfolio of global equity securities.

Business Model, Values and Strategy

Kiltearn's business model is simple and straightforward. The firm has remained focused on one asset class since inception. It looks to maintain a small number of staff, with the non-investment staff in place to ensure that distractions to the Investment Team are kept to a minimum. We believe this best serves our Clients, as our Investment Team can focus its time on investment research and portfolio implementation. All investment professionals, with the exception of the newest member, are also owners of the business. This aligns Kiltearn's long-term interests with those of our Clients.

As more fully described in Kiltearn's response to Principle 6, Kiltearn's separate-account clients (if any) and unitholders in its commingled funds are institutional investors. The majority of these investors are charities, foundations, endowments, corporate pension plans, church plans and state pension plans. As a result, Kiltearn believes that generating investment returns for its Clients and their beneficiaries has sustainable benefits for society.

Culture

Kiltearn's culture is a critical part of our firm. We are, primarily, a research organisation, and everyone on the Investment Team passionately believes in the benefits of value investing. As our business is majority-owned by our staff, everyone has a key role to play in our long-term success.

Investment Beliefs

Kiltearn believes that the greatest opportunities lie with undervalued companies and that stock-market volatility frequently creates opportunities for the patient, long-term investor. Further, Kiltearn believes that securities with low market price-to-earnings ratios, cash flow, asset value, sales ratios or dividends typically, but not necessarily, offer fundamental investment value. Kiltearn identifies investments meeting the above criteria in part by using database screens.

Activity

Kiltearn ensures that its business model, values, strategy, culture and investment beliefs enable effective stewardship through its investment process and governance structures.

Investment Process: The discharge of Kiltearn's stewardship obligations is primarily the responsibility of its Investment Team, supported by other areas of the firm. Through the firm's investment process, which involves in-depth proprietary research into, and formal discussions of, every company considered for inclusion or already included in its Clients' portfolio, Kiltearn looks to protect and grow its Clients' capital. Any material matters – including environmental, social and governance (ESG) concerns – that might affect the valuation of a company are relevant to Kiltearn's investment process. The information gained from such monitoring informs investment decisions and forms the basis for any necessary dialogue with companies' management teams and/or boards.

Engagement: If the Investment Team determines that engagement with a portfolio company is in the best interests of Clients, the Investment Team requests that the Sustainability & Governance Group (discussed in Kiltearn's response to Principle 2) instigate the engagement with the relevant company. The advantage of this approach is that the stewardship message conveyed to the portfolio company is consistent with Kiltearn's investment thesis.

Proxy Voting: Kiltearn's Sustainability & Governance Group is responsible for voting Clients' portfolio-company shares. In addition to reviewing Kiltearn's Proxy Voting and Governance Principles

(see Appendix 2 below), Kiltearn's proxy-voting process involves the Sustainability & Governance Group reviewing a company's meeting materials and Kiltearn's own investment research. The advantage of this approach is that Kiltearn's proxy votes are cast in a manner consistent with Kiltearn's investment perspectives.

Outcome

Influenced by Kiltearn's value investment philosophy, stewardship is a significant component of the firm's investment process and culture. This is evidenced in the firm's responses to Principles 4, 9, 10, 11 and 12 below. It is also demonstrated by the summary of Kiltearn's material engagement and voting activities throughout 2022, included in its Annual Engagement Disclosure (see Appendix 5 below).

This year, the firm continued to increase its focus on the consideration of material environmental and social factors in its investment process. For a discussion of its integration of sustainability factors into its investment process, please see the Kiltearn's response to Principle 7 and the firm's Responsible Investment Policy (Appendix 3 below). For a discussion of its increased level of reporting on such matters, please see Kiltearn's response to Principle 6.

As noted in the last two years, one of the positive features of the turbulent market environment has been the broadening of the value opportunity set and, consequently, the chance to improve the aggregate quality of the portfolio. Specifically, we have been selling some of the lower quality, cyclical areas such as energy and financials. The energy sector performed extremely well this past year. In fact, it was the only sector with a positive return for the year and, as a result, valuations were not as compelling as they had been. The selling in energy and financials helped us establish positions in a number of higher quality names that had previously remained outside of the quartile.

Kiltearn's execution of its disciplined investment process – including its stewardship activities – led to Kiltearn's Clients' portfolio outpacing the MSCI ACWI throughout 2022. The portfolio returned -4.2% on a net of fees basis versus the 18.4% fall in the ACWI. In future years, Kiltearn will continue to implement its investment process while making incremental improvements in areas such as sustainability integration.

Please contact Kiltearn's Head of Marketing and Client Service, Ed Clarke (edclarke@kiltearnpartners.com), if you require more information on Kiltearn's investment programme.

Principle 2 –

Signatories’ governance, resources and incentives support stewardship.

Governance

Kiltearn’s stewardship efforts are and always have been investment-led; however, Kiltearn established a Governance Group in early 2018. The purpose of establishing the Governance Group was to put Kiltearn’s approach to stewardship on a more formal and structured footing than it previously had been.

Over the previous year, Kiltearn has increased its focus on environmental and social factors in its investment process. A member of Kiltearn’s Investment Team, Nell Franklin, has led this development. As noted last year, to ensure that Kiltearn’s stewardship activities fully integrate the Investment Team’s perspective on material environmental and social issues affecting companies in the portfolio, Nell Franklin joined the Governance Group, and its remit was expanded to incorporate consideration of such matters. The Governance Group was subsequently renamed the Sustainability & Governance Group.

The Sustainability & Governance Group includes members of the Investment Team (two Portfolio Managers), a member of the Investment Administration Team and the Head of Sustainability & Corporate Governance. Two of the four members are also Partners in the firm.

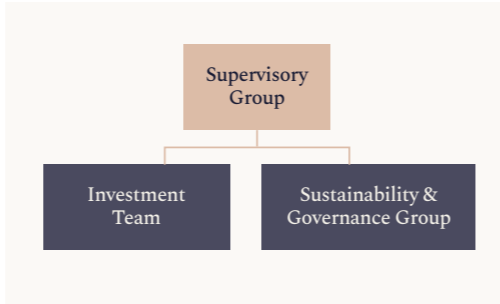
The inclusion of members of the Investment Team ensures that Kiltearn’s stewardship activities are consistent with the firm’s investment perspectives on companies in the portfolio. On the other hand, the inclusion of the members from other areas of the business ensures that those individuals can take on the majority of the stewardship work. Consequently, membership of the Sustainability & Governance Group does not distract our investors from their primary focus: researching companies and managing the portfolio.

The Sustainability & Governance Group took over responsibility for voting and engagement in 2018. This was followed by an uptick in discussions with portfolio companies as the Sustainability & Governance Group began to formalise the process. The Sustainability & Governance Group is also responsible for updating the following firm documents:

- ✓ the UK Stewardship Code Statement;
- ✓ the Proxy Voting Policy (see Appendix 1);
- ✓ the Proxy Voting and Governance Principles (see Appendix 2);
- ✓ the Responsible Investment Policy (see Appendix 3);
- ✓ the Annual Engagement Disclosure (see Appendix 5);
- ✓ the UN Principles for Responsible Investment (UN PRI) report;
- ✓ the six-monthly ESG report for unitholders (discussed below); and
- ✓ the annual Task Force on Climate-related Financial

Disclosure (TCFD) report (discussed below and available on the firm’s website).

The Sustainability & Governance Group meets regularly, and its head, the Head of Sustainability & Corporate Governance, reports directly to, and is a member of, Kiltearn’s Supervisory Group.



The members of the Sustainability & Governance Group are:

Craig Collins

Craig Collins is an Investment Manager, Partner and member of the Supervisory Group at Kiltearn. Craig graduated with a First Class Honours degree in Chemical Physics from Glasgow University and went on to gain his PhD at Robinson College, Cambridge. Craig began his career in investment with Baillie Gifford & Co. in 2000. Craig was an Investment Manager and Analyst for the Long Term Global Growth, Emerging Markets, North American and UK equity departments, and held the post of Global Technology Analyst before joining Kiltearn in 2011. Craig is a CFA Charterholder.

Helen (Nell) Franklin

Nell joined Kiltearn in July 2018 and is an Investment Manager. She graduated from the University of St. Andrews with an MA (Honours) in Arabic and Middle Eastern Studies and then earned her MSc in International Management for the Middle East and North Africa from the School of Oriental and African Studies, University of London. Nell spent her entire career (11 years) at Baillie Gifford, starting in their investment-manager training programme before moving over to the fixed-income team, which culminated in her becoming a Portfolio Manager for the Global Credit Fund and the US High Yield strategy. Nell holds the CFA Certificate in ESG Investing.

Iain McMillan

Iain joined Kiltearn in 2014 and is a member of the Investment Administration Team. Before Kiltearn, Iain spent eight years at Franklin Templeton, latterly as a Supervisor in the Portfolio Administration department. Iain graduated from Heriot Watt University with a degree in Economics and Finance.

Douglas McArthur

Douglas is the Head of Legal, Compliance and Sustainability & Corporate Governance. Douglas is a Partner and member of the Supervisory Group at Kiltearn. He began his career in 2009 at Morgan Stanley in the Transaction Tax and Tax Interpretation teams before joining Kiltearn in 2013 (following a year training with Silchester). Douglas advises all areas of the firm on compliance and legal matters. Douglas graduated from the University of Glasgow with a Bachelor of Law (Honours) degree and holds the CFA Certificate in ESG Investing.

Resourcing

Kiltearn believes having four people in the Sustainability & Governance Group is appropriate, given the size of the firm. This take into account the fact that the wider Investment Team is frequently involved with stewardship, through monitoring of portfolio companies, input into engagements and proxy voting. Furthermore, Kiltearn is effectively managing one portfolio of 50–90 companies. It is consequently reasonable for a relatively small number of people to have knowledge of those companies. This is not a structure that can be easily replicated at larger, multi-product managers.

Seniority

The Sustainability & Governance Group includes two of Kiltearn’s nine Partners. One of the two Partners is a founder of the firm, Portfolio Manager and member of the Supervisory Group; the other is Kiltearn’s Head of Legal, Compliance, Sustainability and Corporate Governance. Two of Kiltearn’s seven Portfolio Managers are members of the Sustainability & Governance Group. We consequently believe that the level of seniority in the Sustainability & Governance Group is appropriate.

Experience

The four members of the Sustainability & Governance Group have in excess of 60 years of industry experience between them and ~30 years of experience with Kiltearn. We consequently believe that the level of experience in the Sustainability & Governance Group is appropriate.

Qualifications and Training

As noted above, both Nell Franklin and Douglas McArthur hold the CFA Certificate in ESG Investing.

Douglas passed the exam in the third quarter of 2020 and Nell passed the exam in the fourth quarter of 2021. Kiltearn considered rolling this out as a training requirement for members of its Investment Team; however, while the CFA Certificate in ESG Investment is widely recognised, the concepts contained within it are high-level and have limited application to our day-to-day investment process. Instead, this year, Kiltearn’s Sustainability & Governance Group began organising tailored six-monthly ESG training for the Investment Team.

While Nell brought experience on the sustainability side, she has since been trained in Kiltearn’s proxy-voting process. Nell voted at a number of companies’ meetings in the year, with Douglas acting as the authoriser of those votes and providing oversight.

Diversity

As noted above, Nell Franklin joined the Sustainability & Governance Group in 2021. Nell joined as Kiltearn deemed that she would add valuable insight and experience, rather than to meet a diversity quota that may be deemed necessary at a larger organisation.

Gender diversity is an area of focus at the firm. Researchers have shown that teams with higher gender diversity display higher levels of collective intelligence. Despite our slightly above-average female representation as a firm,¹ there is room to improve gender diversity at Kiltearn. We rank as average (14%²) in terms of female Portfolio Managers, but that merely reflects a sub-par industry starting point. To widen our applicant pool, Kiltearn’s recruitment process now includes the Women Returners network in the UK, which provides an avenue for return to work following extended career breaks. We have also signed up to the Future Asset initiative, to encourage higher female participation in the investment-management industry in Scotland. These efforts are an important consideration in our longer-term succession planning.

External Resources

Kiltearn uses the external resources listed below in as part of integration of sustainability into its investment process and stewardship activities:

Company Research and Reports	Specialist ESG Research	Sell-side Research	Other
Annual Reports Non-financial Disclosures Company Meetings	MSCI ESG Ratings MSCI Climate MSCI Controversies ISS Governance and Proxy Voting	Industry-level Themes ESG Specific Materiality Matrices	NGOs Press Reports Credit Rating Agency Commentary

¹ Diversity Wins: How Inclusion Matters; McKinsey & Co. 2020. Average female participate within Finance roles was 24%, vs. 25% at Kiltearn.

² Women Get Top Jobs at Funds, Just Not the Ones That Manage Money; Bloomberg May 2021

Kiltearn believes that, given the limited reliance it places on third-party material, these levels of external resource are appropriate for its purposes. For a discussion of the limited role third-party research plays in Kiltearn's investment process, please see our response to Principle 7 below. For a discussion of how Kiltearn determines its external resources are adequate, please see our response to Principle 8 below. As noted under our response to Principle 8, Kiltearn replaced Sustainalytics with MSCI on its list of ESG data and rating providers during 2022.

Systems

Kiltearn's investment process is bottom-up and relies on fundamental analysis. Consequently, the firm's system resourcing is relatively straightforward. Members of the Investment Team all have access to company information and third-party research through FactSet. All members of the Investment Team can access ESG data through MSCI's portal and FactSet. Finally, internet-search portals remain one of the most fundamental elements of information gathering for research and stewardship activities.

Incentives

All Kiltearn's staff are evaluated on their contribution to Kiltearn in a formal written appraisal carried out once each year. This is used as the basis for advancement and remuneration. Kiltearn's goal is to keep base salary and monthly partner drawing levels competitive with industry standards. The total compensation pool is determined by the firm's profitability. Individual bonus and salary levels are reviewed annually. They are based on that individual's contribution, which is an overall assessment of their work quality and commitment rather than any set performance criteria or algorithms. In the case of members of the Investment Team,

this includes an assessment of the quality of their research, which explicitly incorporates consideration of companies' sustainability practices. Similarly, for members of the Sustainability & Governance Group, this includes an assessment of the quality of the execution of the firm's engagement and proxy voting activities.

Outcome

Kiltearn applied its approach to stewardship in a considered and consistent manner throughout the year under review. This is illustrated by the summary of the material engagement and voting activities included in the firm's Annual Engagement Disclosure (see Appendix 5 below) during the year. The firm's relatively flat hierarchy and the fact that two members of the Investment Team were also members of the Sustainability & Governance Group contributed significantly to this outcome.

Although Kiltearn believes its governance structures and processes functioned well in 2022, it is looking to improve on these further in 2023. As noted above, over the previous year, Kiltearn continued to increase its focus on improving the consideration of environmental and social factors in its investment process. As discussed briefly above and in more detail below, we replaced Sustainalytics with MSCI on our list of ESG data and ratings providers during the year. One of the benefits of MSCI's data and ratings is that it considers both the risks and the opportunities that arise from sustainability issues. Further, MSCI's carbon data and TCFD reporting offering appears to be the best on the market. Kiltearn also hired an external female candidate to join the Investment Team in January 2022. Jennifer Reid has brought high-quality experience and improved the gender balance, which we believe will give rise to an increase in collective intelligence.

Principle 3 –

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Controls

Kiltearn recognises the importance of identifying potential material conflicts and the need to have adequate systems and controls to avoid or mitigate their impact on unitholders and Clients. Our approach to conflicts of interest is straightforward. Wherever possible, we will try to remove the potential for conflict. We would far rather eliminate a potential conflict than pursue a complicated policy to address that conflict. For example, partners and employees are not permitted to buy any public listed securities. It is a clear and simple approach. As fiduciaries, we understand we have a responsibility to put the interests of Clients first. Not all

conflicts can be avoided entirely, but given that Kiltearn is a boutique manager with 21 members of staff, with one investment strategy and a small number of Clients, conflicts are likely to be more limited than at larger, more complex industry participants.

Kiltearn's Compliance Manual incorporates the firm's Conflicts of Interest Policy and Inventory. All members of staff are required attest that they will adhere to Kiltearn's Compliance Manual on an annual basis. The Legal and Compliance Group reviews and updates the Conflicts of Interest Policy and Inventory on an annual basis.

Although rare, Conflicts of interest have most often arisen when we held the securities of a company in our Clients' portfolio and the company was also a service provider. As noted last year, Kiltearn reviewed and amended its process for voting proxies in 2020. Previously, when Kiltearn had knowledge that a potential conflict of interest with a company was present, Kiltearn would consider proxy-voting decisions in relation to that company 'material'. Such decisions consequently required authorisation by two individuals with sufficient authority, rather than the usual one. These situations may have arisen:

- (i) if a portfolio's company's retirement-plan assets were invested in one of Kiltearn's commingled funds;
- (ii) if a portfolio company or one of its affiliated entities was also a brokerage counterparty (as was the case with one US investment bank until November 2021); or
- (iii) where the person responsible for overseeing investments at a unitholder was also a director or officer of a portfolio company that would have materially benefited from any executive compensation or incentive scheme subject to a shareholder vote.

The purpose of the process was to demonstrate that two individuals had independently determined that the voting decision made was in the best interests of Clients, in line with all other voting decisions.

Having reviewed its proxy-voting process, Kiltearn determined that to make this process more robust, it would require all proxy-voting decisions – whether material or not – to be reviewed and authorised by two individuals with sufficient authority (see Kiltearn's Proxy Voting Policy in Appendix 1 below).

It is worth noting that if a publicly listed company or its retirement plan is a unitholder or separate-account client, the relationship has no bearing on Kiltearn's investment perspective on the company nor on its engagement with the company's management.

During the year, Kiltearn sought to identify potential conflicts using a number of processes. These included the following:

- The Legal and Compliance Group reviewed all material contracts with service providers.
- The Legal and Compliance Group reviewed all prospective unitholders' subscription agreements.
- The Legal and Compliance Group reviewed all trading activity on a daily basis.

- The Risk Management Group reviewed all material areas of the business as part of the firm's internal audit programme. Through this programme, the Risk Management Group looks to identify any conflicts of interest and their impact.

Material Non-Public Information

Portfolio companies may wish to make Kiltearn an insider when a significant event is pending. Being an insider prevents Kiltearn from trading in the securities of the company, affecting the normal activities of Kiltearn's investment programme. Kiltearn consequently looks to avoid becoming an insider unless there is a clear economic benefit for Clients. Kiltearn makes portfolio companies aware that material non-public information should not be communicated to Kiltearn unless the firm provides prior explicit consent to receiving such information. Further, Kiltearn's Chief Compliance Officer regularly reviews minutes from meetings with portfolio companies and prospective portfolio companies to ensure that no material non-public information was shared during those meetings.

If Kiltearn is made an insider, the firm adheres to its robust policy regarding the treatment of such material non-public information. This policy is set out in the firm's Code of Ethics, which forms part of the firm's Compliance Manual. All members of staff are required to attest that they will adhere to Kiltearn's Compliance Manual on an annual basis. The Legal and Compliance Group reviews and updates the policy on an annual basis.

Outcome

The firm identified no new actual or potential conflicts during the year.

The firm's Conflicts of Interest Policy and Inventory is available on request.

Principle 4 –

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Fundamental research is one of the primary components of Kiltearn’s investment process. Market-wide and systemic risks are directly relevant to the valuation of portfolio companies and, therefore, are considered by the Investment Team in the course of their analysis. Emerging systemic risks and their impact on companies and/or industries are discussed at investment meetings. If a market-wide issue has relevance to Kiltearn itself, the Supervisory Group discusses it, and actions are taken as appropriate.

Actions

Kiltearn identified two primary market-wide risks this year and acted as it deemed appropriate to protect its Clients’ best interests. These risks are discussed below:

Climate Change

In the face of growing concerns about the environment from a multitude of stakeholders, we have seen an increasing number of companies set out plans to align themselves with the goals of the Paris Agreement and/or introduce environmental-based key performance indicators into their executive remuneration policies. We have also seen an increasing number of shareholder proposals that are intended to force companies to reduce their carbon emissions.

Kiltearn is supportive of decarbonisation efforts where it believes those efforts are aligned with portfolio companies’ long-term development and value creation. Kiltearn does not look to dictate the energy transition strategy of any portfolio company, believing that the company’s board and management are best positioned to make such strategic and operational decisions. However, Kiltearn encourages companies to proactively consider the risks and opportunities associated with climate change and, where appropriate, to set sensible targets, with sufficient accountability and oversight. Where companies have net-zero or similar decarbonisation targets, it is important that management and boards are held accountable for meeting those targets.

As noted in the Annual Engagement Report (Appendix 5), we voted in favour of:

- progress on the execution of an energy transition plan by a British multinational oil and gas company;
- progress on the execution of an energy transition plan by a French multinational oil and gas company;
- a shareholder resolution that would have required

- a US multinational oil and gas company to set a Scope 3 emissions-reduction target if it had been successful;
- a climate change report issued by a UK-based multinational mining company;
- a climate change report issued by a Swiss cement producer; and
- a climate action plan issued by a Swiss investment bank.

Kiltearn also recognises that many emissions-, energy- and water-intensive industries (e.g. energy, cement, semiconductors, metals and mining) are necessary in the modern world – and may even be central to global decarbonisation efforts. While companies in industries such as these are currently meaningful contributors to climate-related challenges, they also have an important role to play in the successful transition to a lower carbon economy, with material investments being made in cleaner, less resource- and emission-intensive products and production. In particular, Kiltearn is supportive of portfolio companies investing in sustainable services or products in areas where they have competitive advantage, as this will ultimately be in the interest of long-term sustainable value generation.

For example, Kiltearn’s Clients’ portfolio is invested in a Nordic producer of mining equipment. The mining industry is relatively highly emissions-intensive and water-intensive, and carries a significant risk of adversely affecting biodiversity. However, under both a scenario where global warming is kept under 1.5 °C and the Stated Policies Scenario of the International Energy Agency (IEA), demand for copper and battery metals will increase as part of a move to renewables and electrification. This will create demand for the mining industry. The company consequently sees opportunity in offering product lines that are emissions- and water-efficient, relative to the industry standard. This should help facilitate the environmental and emission targets of its customers. The company also moved to a 2030 net-zero target for its own operations. The Investment Team’s assessment is that this company’s environmentally superior product offering, demand for which is ultimately linked to growth in renewable energy and electrification, provides a positive skew for the business. This skew does not appear to be reflected in the valuation multiples, which sit in the bottom quartile of global listed equities. Kiltearn made additions to the portfolio’s holding in the company during 2022.

Finally, Kiltearn is wary of the unintended consequences

of some well-meaning stakeholder efforts to bring about decarbonisation, specifically concerning divestment. Pressuring companies to dispose of certain emissions-intensive assets or set aggressive short-term reduction targets may not benefit the planet. This is can be illustrated by two examples – one relating to a company currently held in our Clients’ portfolio and one relating to a non-portfolio company:

- In June 2021, a UK-based multinational mining company demerged its South African-based thermal-coal operations. The demerger was the latest step in the company’s strategy of moving away from thermal-coal production. Kiltearn supported the proposal on the basis that the demerger was consistent with the company’s stated strategy of focusing on products that will enable a low carbon economy to generate shareholder value. The demerger was approved with ~94% of the votes cast.

At the time of the demerger, some institutional investors heralded it as an environmental victory. Such institutions wanted to hold the company but not have exposure to thermal coal. However, the environmental impact now looks, at best, neutral. In fact, the new company seems more likely to try to lengthen the mines’ lives and, as a smaller company, is less able to handle the rehabilitation costs. Further, demand for thermal coal remains strong, particularly in developing markets, with its price being pushed to record levels by the global energy crunch. The new company’s share price is currently up >600% since the demerger.

- It is worth noting that the five public energy majors have typically contributed ~15% of the world’s production of oil and gas.³ The vast majority comes from national oil companies and smaller independent producers.

In September 2019, one of the five energy majors sold its Alaskan oil rights. The move contributed to the company reporting that it had reduced its Scope 1 and 2 emissions by 16% the following year. The rights were sold to a privately held company. The privately held company had a significantly worse record for violations in Alaska during the five-year period leading up to the sale. Unlike the public energy major, the privately held company does not make routine public disclosures about its emissions. A subsequent investigation by Bloomberg Green found that oil production increased following the transfer of the rights

– even as total US crude production fell dramatically in the wake of Covid-19. Finally, unlike the public company, the privately held company intends to look at further exploration in the region. As a result, reporting on the emissions from operations in the area has decreased, production and related emissions have increased, and the time over which the operations will remain active and generate emissions has increased.

Kiltearn believes that ambitious but sensible medium- and long-term decarbonisation targets, increased focus on capital expenditure in lower-carbon solutions in areas of competitive advantage and continuous reassessment in both areas appears to be a more viable solution to the unprecedented challenge facing the world. This also needs to be coupled with significant efforts from governments and society as a whole.⁴

Japanese Companies

Japanese companies are typically laggards on governance by global standards. As noted in our response to Principles 9 and 11, this continues to be an area of focus for Kiltearn’s engagement efforts. Broadly, we are focused on companies with poor capital-discipline practices and non-independent boards. These companies typically have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low returns on equity and may pursue wasteful capital expenditure. At the end of 2022, we begun the process of introducing our first shareholder resolutions at Japanese companies’ annual general meetings (AGMs). The resolutions are aimed at improving shareholder returns. As part of this process, we will have discussions with the companies and may also engage with other stakeholders on the issue.

Industry Initiatives

UN PRI
Kiltearn is a signatory to the UN PRI. The firm became a signatory in late 2020; it filed its first voluntary report in early 2021. The organisation suspended signatory reporting in 2022. Nevertheless, completing the reporting in 2021 was useful as it led to improved processes around stewardship data capture and highlighted the shifting reporting expectations in the market (most notably, investment managers reporting under TCFD).

The UN PRI requires Kiltearn to incorporate ESG issues into investment analysis and decision-making processes. For a discussion of its integration of these factors into its investment process, please see Kiltearn’s response to

³ Why Shaking Up Big Oil Could Be a Pyrrhic Victory; Jason Bordoff, Columbia Climate School, Founding Director of the Center on Global Energy Policy, and Professor of Professional Practice in International and Public Relations at Columbia University SIPA.

⁴ Net Zero by 2050: A Roadmap for the Global Energy Sector; International Energy Agency, The International Energy Agency estimates that around 55% of the cumulative emissions reductions required are linked to consumer choices (for example, purchasing EVs and installing heat pumps) and behavioural changes account for a further 4% (for example, a reduction in the use of cars and replacing short-haul flights with high speed train journeys).

Principle 7 and the firm's Responsible Investment Policy (Appendix 3 below). Further, the UN PRI requires Kiltearn to incorporate ESG issues into ownership policies and practice. For a discussion of its integration of these factors into its ownership practices, please see Kiltearn's response to Principles 5, 9, 10, 11 and 12, its Proxy Voting and Governance Principles (see Appendix 2) and its Annual Engagement Disclosure (see Appendix 5).

UK Stewardship Code 2020

Kiltearn is a signatory to the UK Stewardship Code 2020. Reporting to the FRC in response to the Code, in Kiltearn's view, ensures a degree of accountability for its stewardship efforts. Some unitholders and separate-account clients may rely on Kiltearn's signatory status when assessing whether they are meeting their own requirements to hold asset managers accountable. The Code also encourages continuous improvement, which is sensible in an area that is quickly evolving.

Independent Investment Management Initiative (IIMI)

Kiltearn is a member of the IIMI. The IIMI is a think tank that offers an independent voice in the debate over the future of financial regulation. The IIMI's stated aims include (i) restoring society's trust in the financial sector; (ii) promoting the values and practices of owner-managed firms that align their interests with those of their clients; and (iii) raising awareness of the positive, stabilising contribution small entrepreneurial firms make to the economy and society as a whole. The IIMI publishes policy papers, issues regular updates and contributes evidence to relevant political and regulatory commissions. One of the aspects of membership that Kiltearn finds most helpful is the access it provides to speakers from organisations such as the Intergovernmental Panel on Climate Change and the FRC.

Women Returners and Future Asset Initiatives

As noted above, in order to widen our applicant pool for recruitment, Kiltearn's process now includes the Women Returners network in the UK, which provides an avenue for return to work following extended career breaks. We have also signed up to the Future Asset initiative, to encourage higher female participation in the investment-management industry in Scotland. These efforts are an important consideration in our longer-term succession planning.

Silchester Group

Kiltearn is one of nine boutique asset managers that form the Silchester Group. As part of its membership of the Silchester Group, Kiltearn regularly shares information on non-investment issues such as operational best practices and challenges facing the industry. Information on investment is not shared as a matter of policy. The sharing of information allows Kiltearn to leverage the resources of managers of a similar size and mind-set. Similarly, Kiltearn will, on

occasion, participate in forums or share information on best practices with other Edinburgh-based investment managers.

Future Participation in Initiatives and Aligning Investments

As a boutique manager, we have limited resources to participate in initiatives, so we are highly selective about which initiatives we join. Furthermore, Kiltearn offers a single product with a financial-returns-based objective. We are continually looking to improve the intrinsic value of our Clients' portfolio. Kiltearn would not participate in any initiative that would require us to align the Clients' portfolio with a non-financial objective. We do not have a mandate to do so, and such a requirement risks cutting across the investment objective. Therefore, we believe that our current participation in initiatives is appropriate for our size and investment objective.

Outcome

Kiltearn's approach to investment, based on fundamental analysis, puts it in a good position to identify and assess systemic and market-wide risks. This was demonstrated during 2022 by the firm's evolving thinking on environmental considerations and its consistent messaging to, and escalating engagement with, Japanese portfolio companies. The risks – and opportunities – associated with these areas were also integrated into our investment process, as part of our quality and valuation analysis.

As noted above, Kiltearn believes its current participation in initiatives is sensible, accounting for its size and single product's investment objective. Kiltearn will continue to engage with other stakeholders on market-wide and systemic risks where such action seems likely to improve the investment outcomes for its Clients. As discussed further below, in 2022, the firm published its first TCFD report (without targets).

Principle 5 –

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

As noted above, the Sustainability & Governance Group is responsible for updating the following firm documents:

- ✓ the UK Stewardship Code Statement;
- ✓ the Proxy Voting Policy (see Appendix 1);
- ✓ the Proxy Voting and Governance Principles (see Appendix 2);
- ✓ the Responsible Investment Policy (see Appendix 3);
- ✓ the Annual Engagement Disclosure (see Appendix 5);
- ✓ the UN Principles for Responsible Investment (UN PRI) report;
- ✓ the six-monthly ESG report for unitholders (discussed below); and
- ✓ the annual Task Force on Climate-related Financial Disclosure (TCFD) report (discussed below and available on the firm's website).

The Sustainability & Governance Group meets regularly, and its head, the Head of Sustainability & Corporate Governance, reports directly to, and is a member of, Kiltearn's Supervisory Group.

Members of Kiltearn's Risk Management Group reviews all firm policies on an annual basis. Periodically, an external compliance consultant also reviews Kiltearn's policies.

Kiltearn's Risk Management Group reviews the firm's proxy-voting process on an annual basis as part of the firm's internal audit programme. As noted above (Principle 3), Kiltearn determined in 2020 that to make its proxy-voting process more robust, it would require all proxy voting decisions – whether material or not – to be reviewed and authorised by two individuals with sufficient authority (see Kiltearn's Proxy Voting Policy in Appendix 1 below).

During the year, Kiltearn's Legal and Compliance Group reviewed all Client reporting – including stewardship reporting – to ensure it was fair, balanced and understandable. As demonstrated in Kiltearn's Annual Engagement Disclosure (see Appendix 5), Kiltearn includes reporting on case studies where desired outcomes have and have not been achieved.

As noted last year, while reviewing the Proxy Voting and Governance Principles, we observed that there is academic evidence suggesting that the presence of female members on boards positively correlates with financial performance and compliance with ethical principles.⁵ Additionally, a 2018 study concluded that

diverse boards reduce stock-return volatility and take fewer financial – but not R&D – risks.⁶ With this in mind, as more fully described in Kiltearn's Response to Principle 9, in letters sent to portfolio companies after an initial investment in 2021, we included language setting out our expectations that boards are suitably diverse – in terms of each director's professional and educational background, gender, race, age, life experience and personal attitudes. We think of a company's board – much like an investment team – as one organism. Diversity in a board's members can help to minimise the risk of 'groupthink', offer suitable challenge to management and improve risk management.

We also decided to update the Proxy Voting and Governance Principles to reflect the continued need for transparency and uniformity of reporting from our Clients' portfolio companies. The updated document consequently requests that companies report certain data on their environmental impact and policies (including TCFD reporting), certain social factors, worker safety and governance practices. Kiltearn hopes that an increase in the uniformity and transparency of reporting will further highlight the material issues that companies need to focus on and on which we may need to engage to grow our Clients' portfolio companies' intrinsic value.

The Proxy Voting and Governance Principles are due to be updated again in early 2023. As part of the review, we intend to refine the sustainability information that we request companies publish for use as part of our own research. For example, requesting information on carbon emissions intensity, forward-looking targets, recognised third-party verification of targets and investment into sustainable products/solutions.

As discussed in our response to Principle 6, Kiltearn is continuously looking to improve its reporting to unitholders and Clients. Kiltearn consequently retained MSCI, in part, due to its carbon-data offering during the year. This data was included in our inaugural TCFD report (without targets), which we published in 2022.

Finally, in line with the updated version of the Proxy Voting and Governance Principles, Kiltearn now considers the gender balance of portfolio companies' boards. To date, we have focused on recording the data and companies' direction of travel, rather than imposing absolute targets (something we previously considered).

⁵ Isidro, H., and Sobral, M. (2015). 'The effects of women on corporate boards on firm value, financial performance, and ethical and social compliance,' *Journal of Business Ethics*, Springer, 132(1), November.

⁶ Bernile, G., Bhagwat, V. and Yonker, S. (2018). 'Board diversity, firm risk, and corporate policies', *Journal of Financial Economics*, 127(3).

Principle 6 –

Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.

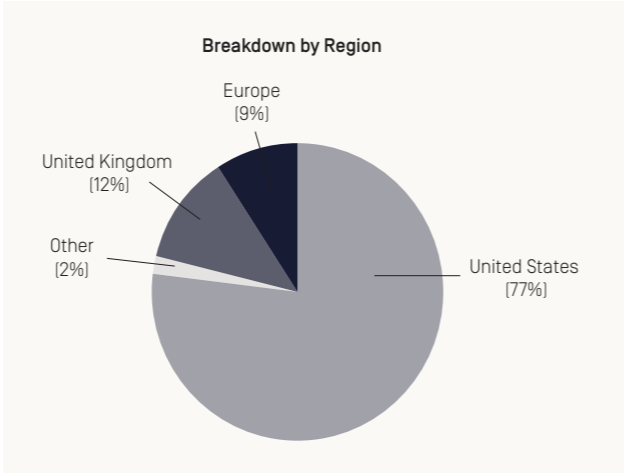
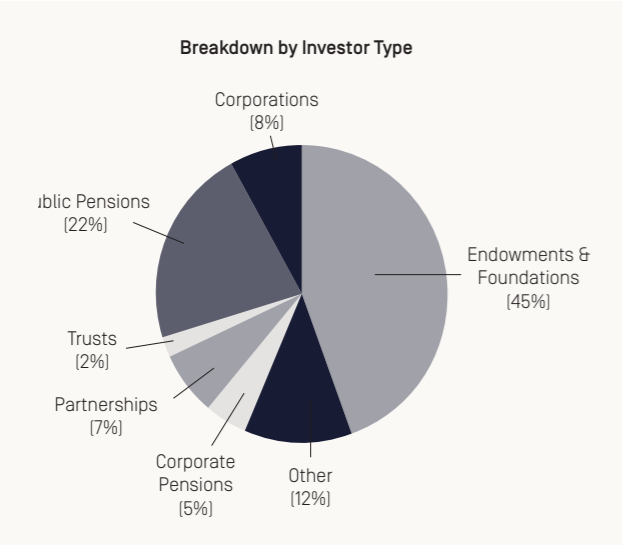
As noted above, Kiltearn offers a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Kiltearn does not manage any other asset class on behalf of its Clients.

Kiltearn has a small number of Clients. As of 31 December 2022, Kiltearn manages two US-based commingled funds and acts as the delegated investment manager for a Dublin-based UCITS vehicle. Kiltearn currently manages ~US\$3.3 billion of assets on behalf of its Clients.

As of 31 December 2022, the breakdowns by region and investor type of the unitholders by AUM were as follows:

Unitholders in Kiltearn’s US-based commingled funds are required to be Accredited Investors and Qualified Purchasers as defined by the US Securities and Exchange Commission. By AUM, unitholders in both Kiltearn’s US-based commingled funds were >85% tax-exempt organisations: foundations, endowments, corporate pension plans, church plans and state pension plans. All unitholders in the US-based commingled funds are US persons.

As of 31 December 2022, by AUM, unitholders in the Dublin-based UCITS vehicle were ~53% UK-based, ~39% based in other European countries and the rest based outside Europe. US persons are not permitted to invest in the UCITS vehicle.



Time Horizon

There are three relevant but distinct time horizons at Kiltearn: (i) the period appropriate to meet the needs of its Clients and their underlying beneficiaries; (ii) the period over which potential investments are assessed; and (iii) holding periods due to portfolio management considerations.

Kiltearn considers that a long time horizon, of at least three to five years, is appropriate to meet the needs of its Clients and their underlying beneficiaries. Over a shorter period, there would be a greater risk of volatility from economic and stock market cycles. The value investment philosophy followed by the firm can have relatively prolonged periods out of favour. A longer time horizon also accords with how Kiltearn assesses the prospects of the companies in which its Clients invest.

The period over which potential investments are assessed tends to be longer than 10 years, both in terms of understanding the company’s historic performance and its potential future risks and opportunities. In particular, Kiltearn seeks to understand whether historic operating performance provides a sensible guide to the future or whether there is a risk of material discontinuity.

The time horizon for assessing underlying business quality is distinct from time horizons related to portfolio management, because factors such as holding period for any given investment are a function of valuation opportunity and portfolio construction considerations. Our value investment philosophy requires us to stick to a disciplined valuation-support requirement; rapid share-price appreciation can mean that some companies are held for relatively short periods. This reflects opportunities presented by the stock market to realise profits and recycle the proceeds into more attractively valued companies.

Reporting

Kiltearn communicates with unitholders, separate-account clients and consultants through meetings and correspondence. During the past year, Kiltearn engaged with unitholders, separate-account clients, prospects and consultants on 235 occasions, including 125 face-to-face meetings. The primary purpose of these meetings was to discuss performance against stated investment objectives, portfolio decisions and Kiltearn’s investment process. However, these meetings also gave unitholders, separate-account clients and consultants the opportunity to provide feedback to Kiltearn and for Kiltearn to understand their requirements.

Kiltearn regularly completes questionnaires from consultants, unitholders and separate-account clients. These typically include questions on Kiltearn’s investment process and its approach to stewardship.

Unitholders receive a monthly newsletter from Kiltearn discussing items such as the firm’s investment

philosophy and process, holdings and performance. Separate-account clients (if any) receive quarterly investment commentary.

Unitholders and separate-account clients can receive a quarterly summary of proxies voted by contacting Kiltearn’s Client Services representatives and asking to be included on the quarterly proxy-voting-summary distribution list.

From 2021, unitholders and separate-account clients have been able to receive a semi-annual engagement report and a six-monthly ESG-dedicated report by contacting Kiltearn’s Client Services representatives. Finally, beginning 2022, unitholders and separate-account clients have been able to receive Kiltearn’s TCFD report. The semi-annual engagement reports and TCFD report are also available on the firm’s website (www.kiltearnpartners.com).

Kiltearn circulates its:

- ✓ UK Stewardship Code Statement;
- ✓ Proxy Voting Policy (see Appendix 1);
- ✓ Proxy Voting and Governance Principles (see Appendix 2);
- ✓ Responsible Investment Policy (see Appendix 3); and
- ✓ Annual Engagement Disclosure (see Appendix 5) to unitholders and separate-account clients (if any) annually.

All five documents are also available on Kiltearn’s website (www.kiltearnpartners.com).

Unitholders’ and Clients’ Views

There have been circumstances in the past where unitholders and separate-account clients have expressed a preference for Kiltearn to cause its Clients to disinvest from companies involved in certain practices or manufacturing and supplying certain products. While Kiltearn recognises these concerns, we ultimately have an overriding duty to act in the best interests of all Clients when making investment decisions. Not all unitholders and separate-account clients may share the same view, and some may hold opposing views. Kiltearn has consequently not agreed to any unitholder-specific investment restrictions or caused its Clients to dispose of any existing holdings that meet our valuation and quality criteria. Further, Kiltearn does not accept unitholder or separate-account client direction on proxy voting or ESG issues.

For prospective investors with exclusion policies based on religious beliefs, we have steered them to our commingled fund that has Catholic-focused exclusions in its investment guidelines.

Separate-account clients (if any) may impose their own investment restrictions on the securities that can be

held in the separate account's portfolio. In recent years, one separate-account client asked to exclude tobacco companies from its account. Securities of tobacco companies have not been held in any Client's portfolio since the inception of the firm. Nevertheless, Kiltearn subsequently setup the exclusion for the separate-account client's account as part of its operational processes. The client also expressed a preference for a higher weighting in US securities to more closely replicate the benchmark. Kiltearn increased the weighting of US securities in the separate-account client's account by pro-rating cash across the existing US securities. No such requests were made in 2022.

Actions

As noted above, during the year, Kiltearn engaged with unitholders, separate-account clients, prospects and consultants on 235 occasions, including 125 face-to-face meetings. The meetings gave unitholders and separate-account clients the opportunity to challenge Kiltearn's investment philosophy and decisions or seek assurances from Kiltearn regarding the same during a period of pronounced uncertainty. However, these meetings also gave unitholders, separate-account clients and consultants the opportunity to provide feedback to Kiltearn and for Kiltearn to understand their requirements.

Kiltearn has increased its stewardship reporting in recent years based on feedback from separate-account clients and unitholders. As a result, Kiltearn has:

- committed to writing at least one monthly newsletter on responsible investing each year;
- become a signatory to the UN PRI;
- become a signatory to the UK Stewardship Code;
- produced semi-annual engagement reports;
- produced six-monthly ESG-dedicated reports; and
- produced its first TCFD report.

Evaluation

As a boutique manager offering a single product to institutional investors – predominantly through commingled funds – with a financial returns-based objective, Kiltearn can find it difficult to determine whether our chosen methods have been effective in understanding the needs of unitholders and separate-account clients. This is because we cannot amend our investment objective or stewardship approach based on the preferences of an individual unitholder's views, as noted above, and we do not offer a suite of investment products.

The decision to invest in Kiltearn's programme will typically be part of a wider asset-allocation plan for

institutional investors. The institutional investor or its consultant, not Kiltearn, will put the plan together. With that said, as noted above, Kiltearn looks to ensure that it services separate accounts (if any) and unitholders to the best of its ability by accommodating requests for meetings and calls from clients, unitholders, consultants and prospects. Furthermore, Kiltearn looks to ensure that these parties have reasonable access to members of the Investment Team. Consultants have been positive about this stance, noting that it is not always the case with investment managers. Finally, while we cannot amend the investment objective or offer alternative products, we can offer increased transparency through increased reporting requested by unitholders and separate-account clients (if any).

Outcome

Kiltearn's approach to taking account of the needs of unitholders, separate-account clients (if any) and their beneficiaries is founded upon regular reporting and contact/dialogue with those parties and their investment consultants. As noted above, Kiltearn is continuously looking to improve its reporting. Kiltearn consequently retained MSCI, in part, due to its carbon-data offering during the year. This data was included in our inaugural TCFD report (without targets), which we published in 2022. Further, Kiltearn adhered to its disclosed investment philosophy, policies and processes when managing its Clients' assets throughout 2022. Kiltearn will continue have regular dialogue with unitholders, separate-account clients (if any), consultants and prospects throughout 2023 and beyond.

Principle 7 –

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate changes, to fulfil their responsibilities.

As noted above, Kiltearn offers a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Kiltearn does not manage any other asset class on behalf of its Clients. As a result, the integration of stewardship and investment discussed in this document applies across the firm.

Researching Companies

Kiltearn's investment philosophy relies upon a long-term outlook. Consequently, researching each portfolio company and prospective portfolio company to assess the quality of its business is fundamental to Kiltearn's investment process. Kiltearn carries out financial and non-financial analysis on current and prospective investments, including reviews of their underlying business strengths and weaknesses, their plans, their practices and their management.

Kiltearn predominantly researches each company by reviewing the company's annual report and similar information published by the company. Kiltearn also monitors each company by, among other things, reviewing third-party research and news-flow. It may also have one-to-one meetings or calls with members of the company's management team, board and/or investor-relations representatives. Kiltearn's Investment Team prepares detailed reports on each portfolio company. Although Kiltearn's investment process is deliberately structured to discourage undue focus on short-term 'market noise', ongoing and vigilant monitoring of portfolio companies remains integral to our process.

As part of its research efforts, Kiltearn considers whether there are any issues of material concern with companies. Such issues may relate to companies' strategic, operational, sustainability or financial practices.

Sustainability Integration

Sustainability considerations may have a material impact on a business's intrinsic value and long-term return potential. Increasingly, sustainability factors like the global transition towards more sustainable energy sources and increasing standards for labour practices are a source of long-term structural change, shaping the capital allocation decisions, regulatory environment and competitive dynamics of the companies in which Kiltearn invests Clients' assets.

Kiltearn employs an evidenced-based approach to assessing business quality. Areas of focus include balance-sheet strength, cash-generation

characteristics, return on invested capital and management's capital-allocation decisions. Within this framework, Kiltearn seeks to consider relevant sustainability issues, which it believes are financially material factors based on a company's industry and business model. Areas of focus include, but are not limited to, (i) energy transition and environmental impact; (ii) product safety and consumer protection; (iii) supply-chain management and oversight; (iv) labour relations and employee welfare; and (v) board structure and executive compensation.

Where issues have been deemed potentially material, Kiltearn considers what type of challenges or opportunities these factors pose (e.g. a change in competitive dynamics, an ongoing investment requirement or an existential threat to the business model). Kiltearn also considers whether a company's existing policies and practices appear sufficient to mitigate potential controversies and position the business on a sustainable path. As with other investment considerations, evidence of strong sustainability credentials can enhance Kiltearn's overall assessment of business quality while evidence of weak practices can detract.

Based on its analysis of a company's historic financial characteristics and performance over cycles, Kiltearn seeks to normalise the earnings, cash flow and balance sheet as appropriate and then consider the valuation relative to the global investment universe, the company's own history or a relevant peer group. Sustainability factors are taken into account during the normalisation process where Kiltearn believes that they are likely to have an ongoing impact (positive or negative) on earnings, cash flow or assets. The overall assessment of business quality, of which sustainability factors are components, may also dictate the margin of safety required for investment.

Time Horizon

As noted above, Kiltearn assesses the prospects of the companies in which its Clients invest over a long time horizon. As long-term investors, Kiltearn's Clients have scope to benefit as these companies better position themselves for sustainable value creation over time. As active stewards, we can support these efforts through engagement and voting. A weak starting point may be acceptable provided there is a credible plan for improvement.

Additional information on Kiltearn's incorporation of sustainability considerations in its investment decision making process can be found in the Responsible Investment Policy (Appendix 3 below).

Sustainability Integration Examples

Decision not to Buy – Indonesian Mining Machinery Manufacturer

During the year, Kiltearn decided against purchasing securities of an Indonesian mining machinery manufacturer for its Clients' portfolio. This was, in part, due to concerns about the company's long-term prospects, given its exposure to the coal industry (~73% of three-year earnings). Kiltearn reflected a fade in demand for coal over a 10- to 40-year-period in its valuation. Kiltearn also took account of the costs of mergers and acquisitions (M&A) that will be required as the company looks to diversify away from coal. Kiltearn ultimately determined that it was not in its Clients' best interests to invest their assets in the Indonesian mining machinery manufacturer's securities due to the potential impact of these risks on long-term returns, which did not appear to be fully reflected in the valuation.

New Buy – Japanese Power Tools & Garden Equipment Company

During the year, Kiltearn decided to invest its Clients' assets in a Japanese power tools and garden equipment company. Kiltearn's Investment Team determined that the company was above average in the environmental and social quality category. The Investment Team came to this view on the basis that the company is well positioned in electric tools (currently, 98% of the company's sales) at a time when there is expected to be growth in demand as the market moves away from more emissions-intensive gas-powered tools. Kiltearn increased the weighting of the company's securities in its Clients' portfolio gradually throughout the year when general market pessimism provided opportunities to invest in an above-average quality business, with reasonable long-term growth prospects for a cyclical company, and valuation support in the bottom quartile of the market.

Monitoring – US Industrial Technology Company

Kiltearn updated its investment research on a US industrial technology company during late 2022. The company specialises in retail and commercial fuelling infrastructure, point-of-sale payment technologies, vehicle diagnostics and repair. As with its previous research on the company, Kiltearn determined that the company was below average in the environmental and social quality category. The Investment Team came to this view on the basis that demand for the company's core business in internal combustion engine (ICE) refuelling infrastructure will gradually fade as the global market moves to electric

vehicles. Further, the Investment Team also took account of the fact that the company will need to allocate capital to M&A in the medium term, as the company looks to diversify away from its ICE exposure. Kiltearn consequently applied an explicit environmental charge as part of its most recent valuation, reflecting the substantial investment needed to reposition the business. Nevertheless, Kiltearn increased the weighting of the company's securities in its Clients' portfolio gradually throughout the year when general market pessimism provided opportunities to invest in a high-quality company with strong quartile valuation support – even after that the environmental charge had been applied. Kiltearn's assessment took account of the company's strong market positions, cash generation and current focus on shareholder returns via share buybacks.

During a subsequent engagement, Kiltearn noted its preference for the company to introduce a returns-focused key performance indicator for the determination of executive remuneration, as the repositioning of the company away from its ICE infrastructure business should be achieved in a manner consistent with value creation.

Monitoring – Energy Companies

As a value manager, we see opportunity in out-of-favour companies. In keeping with this, our Clients' portfolio currently has an overweight exposure to the energy sector. Kiltearn updated its investment research on three energy majors held in the portfolio during 2022, addressing topics such as risks around stranded assets and potential carbon taxes. This assessment resulted in the application an environmental charge for each of the three companies. Specifically, the charge was applied to normalised cash earnings to reflect the financial headwinds associated with the global energy transition. Kiltearn also subjected the companies to climate-related scenario analysis and its impact on oil and gas supply and demand. As part of this analysis, Kiltearn considered transitions scenarios, such as BP's "Accelerated Scenario" (broadly aligned to the IPCC's <2°C scenario) and the current shortfall in spending on renewables that would be required through 2030 under the IEA's scenarios.

While all three of the energy majors are taking different approaches to the energy transition, each will need to make material changes to its business model if it is to transition successfully in a world that is seeking to decarbonise. The two Europe-based companies have net-zero 2050 targets. As noted in Kiltearn's Annual Engagement

Report (see Appendix 5), Kiltearn voted in favour of their energy transition plans at their 2022 AGMs. The third, a US company, has set a net-zero target for emissions from its own operations (Scope 1 and Scope 2) but successfully opposed a shareholder resolution to extend the target to emissions from customers using its products (Scope 3) at its 2022 AGM. Kiltearn voted in favour of the unsuccessful shareholder proposal.

The challenge of transition had led to pronounced negative market sentiment around the energy sector, resulting in valuation multiples that placed these businesses in the lowest-rated decile of the global investment universe, particularly in terms of cash flow and dividend-based metrics. While the Investment Team assessed these businesses as facing significant challenges that demand a meaningful valuation discount, they also acknowledged that under the IEA's Stated Policies Scenario and a net-zero 2050 scenario, oil and gas would remain a significant percentage of the global energy mix in the medium term. Further, all three companies remain profitable, cash-generative businesses with a high level of focus on capital discipline and shareholder returns (at least in part due to external pressure to reduce capital expenditure on upstream hydrocarbons). Kiltearn sold shares from the portfolio's holding in the US company and one of the two European majors (although their portfolio weighting increased due to strong relative price performance), while adding to its position in the other European major, during 2022.

Integration in Stewardship

A summary of Kiltearn's material engagement and voting activities throughout 2022 is included in its Annual Engagement Disclosure (see Appendix 5 below).

Service Providers

Third-party research, such as sell-side research, ESG-rating providers' data and rating and thematic research can be a valuable part of the information-gathering process before Kiltearn's proprietary research is written. Ultimately, however, Kiltearn relies solely on its own proprietary research to make investment decisions. Kiltearn's investment process is not dependent on any particular third-party research provider. Kiltearn consequently does not typically set 'clear and actionable criteria' for those providers. Instead, if Kiltearn's Investment Team deems that such research is no longer valuable – because of its quality, coverage or relevance – Kiltearn will end the relationship.

For further details on Kiltearn's service providers, see our response to Article 8 below.

Principle 8 –

Signatories monitor and hold to account managers and/or service providers.

Proxy Voting Research and Platform

Kiltearn most recently reviewed its provider of proxy-voting research in 2018, concluding that ISS remained its preferred provider. As part of the review, Kiltearn met the major proxy-research providers and reviewed sample reports from the same. Kiltearn will review the providers again in 2023.

Kiltearn notes that ISS does appear willing to listen to its clients and adjust its policies to take account of their concerns. Kiltearn noted to ISS that its research on Japanese companies with foreign ownership limits did not include discussions of payments of dividends to unregistered shareholders. Despite ISS's initial resistance to changing this stance, it was willing to discuss the issue with Kiltearn. Following the discussion, it fully embraced a change in approach – conducting its own investigations on the issue, including discussions on the issue in the research on the relevant Japanese companies and making recommendations in respect of proxy voting that echoed Kiltearn's views on the matter.

Kiltearn believes ISS's research is of a reasonable quality.

On one occasion in 2022, Kiltearn noted a material error in ISS's proxy research on a European energy major. In its assessment of the company's energy transition plan, ISS stated that the company did not have a Scope 3 net-zero target covering its global operations. ISS believed the company's Scope 3 target only covered Europe-based operations. This information was outdated. Kiltearn noted the error to the company. The company told Kiltearn that it had already noted it to ISS.

ISS's voting guidelines vary considerably by region. Broadly speaking, ISS's guidelines are driven by ordinary market practice. This means there is a lack of consistency in ISS's advice in relation to companies resident in different jurisdictions. Kiltearn does not take this approach, preferring to apply a set of globally applicable principles to its proxy-voting decisions, to the extent practicable (for Kiltearn's Proxy Voting and Governance Principles, see Appendix 2 below).

Kiltearn does not provide a standard policy to ISS for casting proxy votes, preferring to vote each ballot individually and rely on Kiltearn's own internal controls to ensure that votes are cast correctly.

Specialist ESG Rating Providers

While we view third-party ESG data and ratings as useful tools, they have their limitations, such as over-simplification. Providers of ESG ratings typically follow a 'one size fits all' approach. This is understandable as they are trying to cover a very broad universe. The problem is that even companies within the same sector differ in terms of processes, markets they operate in and maturity. Therefore, it is not feasible to compare them in a standardised measure, highlighting the risk of focusing on disclosure rather than what companies do in practice.

In 2022, Kiltearn reviewed its ESG-ratings providers. Kiltearn previously used Sustainalytics' Risk Ratings and Controversies reporting and ISS's Ethix reporting. Although both were reasonable for certain purposes, we replaced them with MSCI. One of the benefits of MSCI's data and ratings is that it considers both the risks and the opportunities that arise from sustainability issues. Further, MSCI's carbon-data and TCFD reporting appears to be the best on the market.

Irrespective of the addition of MSCI, such information is a crosscheck of, or an input into, Kiltearn's own proprietary research and quality assessments.

Sell-side Research

Kiltearn reviews its sell-side research requirements annually. The most recent review began in the third quarter of 2022, with all members of Kiltearn's Investment Team providing feedback on the usefulness and quality of each provider's research. In the fourth quarter, Kiltearn's Research Group notified the relevant providers that it was looking to continue or begin relationships in 2023.

The sell-side research marketplace is highly competitive. Therefore, when the quality, coverage or usefulness of a provider's research falls short of Kiltearn's expectations, Kiltearn removes the provider from its approved provider list, and the contract with the provider is not renewed.

Principle 9 –

Signatories engage with issuers to maintain or enhance the value of assets.

Consideration of corporate sustainability forms an important part of Kiltearn's assessment of a company's business quality. As part of the investment process, we seek to align ourselves with boards that act in the long-term interests of public shareholders. As a value manager, we see opportunity in out-of-favour companies, including those facing corporate sustainability challenges. In such instances, in line with the approaches outlined in our responses to Principles 1 and 7, Kiltearn may need to intervene to protect or enhance a company's long-term development and intrinsic value.

Initial Engagement

Kiltearn has established universal principles that set out our general expectations with respect to a company's governance practices. These principles guide – but do not restrict – Kiltearn's proxy-voting decisions and engagement priorities. A copy of these principles is sent directly to each company's board following Kiltearn's initial investment. These are some examples of the key principles:

- A sound balance sheet. Kiltearn expects a company to give due consideration to regulatory capital requirements, business-cycle issues and free-cash-flow characteristics. A company should not excessively leverage its balance sheet. Conversely, a company should not hold excessive net cash or investments on its balance sheet that are potentially dilutive to shareholders.
- A sensible and disciplined approach towards M&A. Any proposed M&A should be able to earn a return above the cost of capital.
- A company's shareholders should not be put at undue risk of dilution. Share issuance should be modest in scale and generally offer pre-emption rights to existing shareholders.
- Executives' remuneration should align their long-term interests with those of shareholders.
- A sufficiently independent and diverse – in terms of each director's professional and educational background, gender, race, age, life experience and personal attitudes – board to ensure that it is capable and motivated to supervise management's performance and remuneration, for the benefit of all shareholders.
- Independent directors should have the necessary knowledge, skills, professional expertise and experience to oversee companies and effectively represent the interests of minority shareholders.
- Shareholders should be afforded meaningful rights in respect of structural provisions, such as approval of, or amendments to, a company's corporate governing

documents and a vote on takeover defences.

- A company's social and environmental practices should meet or exceed the regulatory standards and general practices of the markets in which it operates.
- Finally, in the interests of transparency and uniformity of reporting, companies should report certain data on their environmental impact and policies (including TCFD reporting), certain social factors, worker safety and governance practices.

Kiltearn's Proxy Voting and Governance Principles are included in full in Appendix 2.

Companies held in Kiltearn's portfolio may not always exhibit some of the preferred characteristics enshrined in the Principles. Kiltearn takes each company's facts and circumstances into account when voting proxies and engaging with management.

As noted above, engagements with companies, outside of discussions of matters to be voted on at meetings, are typically instigated by the Sustainability & Governance Group at the request of the Investment Team. However, Kiltearn has also engaged with activists, a trade union and a not-for-profit organisation.

Prioritisation of Engagement

Beyond its standard initial engagement, Kiltearn's priorities for engagement for the year were split across three categories: (i) reactive; (ii) proactive 'run in the interests of public shareholders'; and (iii) proactive 'environmental and social' (E&S).

Reactive

Reactive engagement relates to issues that arise during the year but for which we are not actively planning or setting particular targets. They include issues, for example, that arise before AGMs or extraordinary general meetings (EGMs), or because of a public announcement by a portfolio company.

For example, during the year we engaged with a South Korean telecommunications company on its recent agreement to settle charges, for the value of USD 6.3 million, with the US Securities and Exchange Commission (SEC). The SEC alleged that the company had made improper political contributions between 2009 and 2017. The South Korean courts had issued summary orders against 10 executives in relation to the same conduct. As part of the engagement, we sought information on how the company had addressed the issue to minimise the likelihood of reoccurrence. The company had reformed its compliance system (establishing an anti-corruption code of conduct, introducing an anti-corruption oath for all employees

and conducting compliance training for all employees) during the intervening period. We also asked the company to:

- ✓ add independent directors with relevant industry experience;
- ✓ add female directors in the interests of improving board diversity (currently only one of 11 is female);
- ✓ improve transparency in its financial disclosures;
- ✓ reweight executive remuneration to long-term incentives; and
- ✓ focus its efforts on shareholder value creation.

Proactive 'Run in the Interests of Public Shareholders'

Throughout 2022, we continued to focus on companies in Japan that are governance laggards. Broadly, we are focused on companies with poor capital-discipline practices and non-independent boards. These companies typically have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low returns on equity and may pursue wasteful capital expenditure. As of mid-January 2023, have 11 engagements at various stages with Japanese companies on these issues and a wider thematic strategy to push all Japan portfolio companies to have majority-independent boards.

To date, progress has been made, but it has been limited. This is expected given that we are asking these Japanese companies to accelerate away from an outdated but ingrained culture of holding excess value on balance sheets and putting the best interests of minority shareholders below those of other stakeholders. Kiltearn will continue to engage regularly with these companies and vote against management where little or no progress is made. We are also escalating on this issue. For example, at the end of 2022, we began the process of introducing our first shareholder resolutions at Japanese companies' AGMs.

Proactive E&S

In late 2021, Kiltearn began an E&S engagement project. Although Kiltearn had previously engaged with portfolio companies on E&S issues as part of its regular and ongoing monitoring, this marked the first time that we had focused specifically on the E&S as the means for prioritising its engagements.

To ensure that we could engage in a meaningful manner, with the potential to lead to material improvements in the medium- to long-term, we limited the number of portfolio companies within the scope of the project, using several parameters:

- First, Kiltearn focused on portfolio companies

that it considers below average on E&S.

- Second, Kiltearn limited the in-scope companies to those that had either a 1% + weighting in the portfolio or where Kiltearn's Clients collectively owned 1%+ of the issued share capital. The former was used with a view to targeting the most material to the portfolio's intrinsic value. The latter was a reflection of our experience that engagements are more likely to be successful if you have a meaningful holding in a target company's shares. This is epitomised by the example of Kiltearn's successful engagement with a US consumer-staples company, as described in last year's report. In this example, throughout the engagement, Kiltearn's Clients' aggregated holding in the company fluctuated between 5% and more than 10% of its issued share capital. As both the weightings and percentage of shares owned change over time, Kiltearn will periodically review these to ensure that we capture all in-scope companies.
- Finally, Kiltearn excluded a small number of companies on the basis that E&S risk was inherent in their businesses but we believed that the companies' management of those risks was reasonably satisfactory.

This left Kiltearn with seven companies: three oil majors, a German automobile manufacturer, a Japanese manufacturing company, a Japanese cement company and a Taiwanese manufacturing company. We made progress on these engagements throughout 2022. For details on the progress so far, please see the Annual Engagement Disclosure (Appendix 5).

We reran the parameters across the portfolio in late 2022. This introduced four additional companies: a Dutch multinational chemical company, a Hong Kong-based multinational conglomerate, a US industrial technology company and a US technology conglomerate. We will progress these engagements throughout 2023.

Objectives

The objectives for an engagement are set following a discussion between the member of Investment Team covering the portfolio company and the Head of Sustainability & Corporate Governance. The input from members of the Investment Team ensures that the agreed objectives are informed by the particular profile of the company. The input from the Head of Sustainability & Corporate Governance ensures that the objectives are consistent with those being used by Kiltearn for similar engagements and are precise in nature, to the extent practicable.

'Run in the Interests of Public Shareholders' Example

Kiltearn set objectives and communicated these

to a Japanese security and alarm services company via a formal letter. The objective for the company is, by April 2023, to set out a plan to:

- increase its dividend payout ratio;
- set a repurchase programme target (we believe 10% of outstanding shares in a fiscal year is reasonable);
- cancel all treasury shares;
- disclose all cross-shareholdings and a timeframe over which they will be sold;
- set a return on equity target (we suggest >10%); and
- improve board independence by adding qualified independent directors with no existing ties to the company or reducing the number of executive directors on its board.

E&S Example

Kiltearn set an objective and communicated it to the US industrial technology company. Kiltearn noted its preference for the company to introduce a returns-focused key performance indicator for the determination of executive remuneration, as the repositioning of the company away from its ICE infrastructure business should be achieved in a manner consistent with value creation. We are looking for it to be introduced by the time we vote on executive remuneration at the company's next AGM.

Approach for Different Funds

Kiltearn's approach is consistent across all commingled funds and separate accounts.

Approach for Different Asset Types

This not applicable. Kiltearn only manages equities on behalf of Clients.

Approach in Different Geographies

In markets such the UK, the US and the EU, Kiltearn typically instigates engagement via a meeting with the company. For less material issues, companies in these markets tend to be relatively open to informal engagement and making incremental improves to their practices. For material issues, Kiltearn is likely to follow up with a formal letter to the company's board. Evidence suggests that it takes one and a half years, on average, and two to three engagements before such interventions are successful. We therefore accept that patience and appropriate escalation are required before we see tangible success in this area. As discussed in Kiltearn's response to Principle 10 and Principle 11, collaboration or escalation may be necessary.

In markets such as Japan and South Korea, companies tend to be governance laggards, and the quality of their engagement is poor. As a result, Kiltearn tends to have a more formal and structured approach to engagement with these companies. Once an issue has been identified, Kiltearn will write to the relevant company's board and set out:

- ✓ its concerns;
- ✓ where the company sits relative to its peers;
- ✓ Kiltearn's suggested action to address the issue;
- ✓ a timeline for putting a publicly disclosed action plan in place; and
- ✓ Kiltearn's future actions if the issue is not adequately addressed.

If the company fails to address these concerns, Kiltearn will escalate the issue. For details of escalation in relation to Asian companies, please see Kiltearn's response to Principle 11 below.

Actions

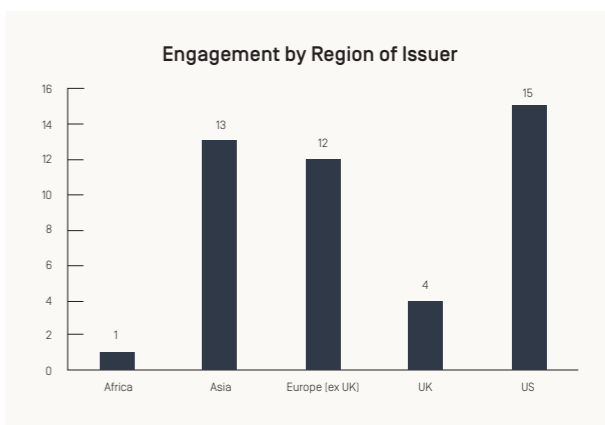
A summary of the Sustainability & Governance Group's engagement and monitoring activities with portfolio companies during 2022 is included in the tables and graph below:

Engagement Types*	Number of Votes
Proxy Voting and Governance Principles	15
Email Exchanges	11
Calls with Chair/Non-Executives	3
Call with Not-for-profits	1
Calls with IR/Company Secretaries	15
Formal Escalation Letters	1

*These numbers do not include interactions by members of the Investment Team as part of investment research and/or their monitoring efforts.

Engagement by Kiltearn Categories*	
RIPS (Governance)	41
E&S	29

*-61% of engagements included elements from both of Kiltearn's categories.



Outcome

A summary of Kiltearn's material engagement activities throughout 2022, including its collaborative efforts and escalated issues, is included in its Annual Engagement Disclosure (see Appendix 5 below).

Principle 10 –

Signatories, where necessary, participate in collaborative engagement to influence issuers. .

Kiltearn prefers to engage with portfolio companies on an individual basis; however, subject to regulatory restrictions, conflicts of interest and acting-in-concert restrictions – and where it is in the best interests of our Clients to do so – Kiltearn will participate in collaborative engagement activities. These are considered on a case-by-case basis and addressed in the context of the economic environment and other business issues.

Outcome

Examples of Kiltearn’s collaborative engagement are included in the section of its Annual Engagement Disclosure entitled ‘Collective Engagement’ (see Appendix 5 below).

Principle 11 –

Signatories, where necessary, escalate stewardship activities to influence issuers.

Meetings and other communications with portfolio companies provides Kiltearn the opportunity to discuss matters of a material nature. Kiltearn prefers to keep these discussions private and confidential as this enables it to build effective relationships with management teams and boards. However, if any concerns Kiltearn has are not suitably addressed during these discussions – and where it is necessary to protect its Clients’ investments – Kiltearn will consider escalating the issue to influence portfolio companies.

Broadly speaking, for escalation purposes, Kiltearn categorises potential issues into three risk categories based on the likelihood of the potential for the material depreciation of Clients’ capital or reputational damage.

Low Risk

Issues categorised as ‘low risk’ will typically be raised during routine calls, meetings or correspondence with the company. Kiltearn will vote accordingly at AGMs. No further escalation is required in ordinary circumstances. If the company continuously and consistently fails to address the issue, Kiltearn may wish to have a call or meeting with the head of the relevant board committee.

Medium Risk

Issues categorised as ‘medium risk’ will typically be raised during issue-specific calls with relevant member of the board, executive management or investor relations. Kiltearn will typically follow up with a formal letter addressed to the company’s board. Any formal request should include a sensible timeframe for addressing the issue and note that perceptible progression towards the long-term goal will be looked upon favourably and reflected in our votes at the company’s AGMs. Further, if the company does not adequately address the concerns, Kiltearn may vote against relevant board members when they are up for re-election.

Finally, at this stage, it would be reasonable for Kiltearn to have a call or meeting with the company’s chair and/or senior non-executive director specifically to discuss the issue. Kiltearn may also look to express its concerns to the proxy-research providers with the intention of influencing their discussions with the company.

Category	Risk Category		
	Low	Medium	High
Auditor	Excessive tenure Replacement without explanation Excessive fees	Reputational damage	
Dividends			Excessive pay-out Low pay-out
Board	No annual elections Inadequate information on composition Attendance Over boarding Excessive tenure of non-executives	Inadequate mechanism for removal Inadequate response to material votes Insufficient independence	Combined CEO and Chairman
Remuneration	Use of TSR as a measure	Structure Correlation to value creation Justification for levels and increases Executive share awards and ownership Remuneration targets Retention grants “Claw-back” provisions	
Capital Structure	Issuance with pre-emptive rights	Issuance without pre-emptive rights Price of issued shares Dilution Market repurchases	
Capital Allocation	Simple majority voting	Voting rights Takeover defences	Inadequate ROE M&A Excessive leverage Excessive net cash/investments Poison Pills
Sustainability			Practice below market standard Practice below regulatory standard
Activists			Proposal plan
Investment Issues			Performance Strategy Operational practices Financial practices

High Risk

Issues categorised as 'high risk' will typically be raised during issue-specific calls with relevant member of the board, executive management or investor relations. Kiltearn will typically follow up with a formal letter addressed to the company's board. Any formal request should include a sensible timeframe for addressing the issue and note that perceptible progression towards the long-term goal will be looked upon favourably/ will be reflected in our votes at the company's AGMs. Further, if the company does not adequately address the concerns, Kiltearn may vote against relevant board members when they are up for re-election.

At this stage, it would be reasonable for Kiltearn to have a call or meeting with the company's chair and/or senior non-executive director specifically to discuss the issue. Kiltearn may also look to express its concerns to the proxy-research providers with the intention of influencing their discussions with the company.

If the company's response continues to fall below an acceptable standard, it would be reasonable for Kiltearn to consider engaging with other investors – either through a private 'exchange of views' or, where appropriate, publicly through an open letter to the company and/or press release. If other investors are supportive of Kiltearn's position, it would likely increase pressure on the company to put plans in place to address the issue. Additionally, if another stakeholder makes a public statement, Kiltearn may consider it reasonable to support the statement publicly. It is worth noting that it is unlikely to be appropriate to make a public statement if such a statement may increase the market's concern about the company and, consequently, potentially accelerate its decline. Further, a public statement is more likely to be effective where Kiltearn's Clients' collective ownership of the company's outstanding shares is significant (>5%/a top 20 shareholder).

Finally, where Kiltearn's other efforts have failed to gain traction with the company and/or Kiltearn Clients' holding in the company is 'material' (>10%), Kiltearn may consider looking into the process for submitting an AGM/ EGM resolution proposing the introduction of a formal plan to address the issue.

It is worth noting that the correct means of escalation in any given situation will be highly dependent on the facts and circumstances. Kiltearn's approach will take into account a multitude of factors, including, but not limited to, (i) the percentage of a company owned; (ii) previous interactions; (iii) company performance; (iv) holding period; (v) weighting in the portfolio; and (vi) the jurisdiction of the company.

Where a portfolio company does not address 'medium risk' or 'high risk' issues to Kiltearn's satisfaction following sustained engagement efforts including escalation, Kiltearn may determine that it is in the best interest of Clients to allocate their capital elsewhere.

Approach for Different Funds

Kiltearn's approach is consistent across all commingled funds and separate accounts.

Approach for Different Asset Types

This not applicable. Kiltearn only manages equities on behalf of Clients.

Approach in Different Geographies

As noted in its response to Principle 9, Kiltearn's approach to engagement does vary based on the jurisdiction of portfolio companies. In Kiltearn's experience, companies in the UK, the US and the EU tend to be more open to meaningful engagement. Companies in Japan and South Korea do not tend to be as open to engagement and, when they do engage, it is often of low quality. This means that Kiltearn's approach to escalation is different for Japanese and South Korean companies. In particular, issues tend to be escalated quicker. For example, we are more likely to vote against senior executives and, in some cases, entire boards at these companies at an earlier stage in the engagement process. Further, as noted above, we have moved our Clients' shares into the account type necessary to allow Kiltearn to bring AGM resolutions in Japan. We put several Japanese companies on notice that we did this so we can target their AGMs in the future. We did this despite the fact that our Clients' collective holding in Japanese companies are well below the 10% threshold used in other markets. We believe this approach is becoming more common across the industry as asset managers seek to force Japanese companies to put certain issues on their board agendas and, if they persist in shareholder-unfriendly practices, risk the embarrassment of significant votes in favour of such proposals.

Escalation Examples

Examples of Kiltearn's escalation during the period are included in the sections of its Annual Engagement Disclosure entitled 'Japanese Cement Company', 'Japanese Manufacturing Company', 'Japanese Securities and Alarm Company' and 'Japanese Communication-Services Company' (see Appendix 5 below). Finally, as discussed under Principle 4 above and in the section of its Annual Engagement Disclosure entitled 'Japanese Materials Company' (see Appendix 5 below), at the end of 2022, we begun the process of introducing our first shareholder resolutions at the company's AGM. The resolutions are aimed at improving shareholder returns. As part of this process, we will have discussions with the company and may engage with other stakeholders on the issue.

Principle 12 –

Signatories actively exercise their rights and responsibilities.

Approach for Different Funds

Kiltearn's approach is consistent across all commingled funds and separate accounts.

Approach for Different Asset Types

This not applicable. Kiltearn only manages equities on behalf of Clients.

Approach in Different Geographies

As noted in our response to Principle 8 above, Kiltearn uses set of globally applicable principles for its proxy-voting decisions (see Kiltearn's Proxy Voting and Governance Principles in Appendix 2 below). However, Kiltearn's Clients' assets are invested in companies in a wide range of jurisdictions. These various jurisdictions have their own market standards, as in the following examples:

- In the US, executive remuneration is high, targets attached to those incentives are not always challenging, and companies tend to have long-serving non-executive directors. US companies also tend to lag behind their European and Asian peers in setting stretching sustainability targets. The roles of CEO and chairperson are frequently combined.
- Nordic companies tend to have progressive sustainability practices. However, their pay practices can be opaque, and their non-executives often sit on a high number of outside boards.
- Our French companies tend to be majority owned by founder families. Boards usually include several members of the family – sometimes in key positions – and may not be majority independent. The roles of CEO and chairperson are frequently combined. Executive remuneration tends to be relatively modest by global standards, but disclosure practices around the determination of the level of remuneration is frequently poor. French companies generally do not have clawbacks in place relating to executive bonuses.
- German companies have a dual-board structure, with a management board and supervisory board. Workers can hold a significant number of seats on the supervisory board. Positively, this can ensure workers' rights are suitably protected. Negatively, it can lead to significant resistance to changes that management deems necessary to compete in evolving markets.
- Hong Kong companies tend to have a large number of long-serving non-executives,

and they favour political influence over independence. Board diversity is frequently poor for similar reasons.

- Japan companies tend to have majority non-independent boards. In fact, only ~15% of Japanese listed companies have majority independent boards. Board diversity is frequently poor due to a small pool of female candidates in Japan. Directors considered independent by the companies often have existing business relationships with the companies or similar conflicts. Independent directors are frequently government officials or academics rather than individuals with relevant experience. Companies often continue to maintain archaic practices such as 'poison pills' and excess cross-shareholdings. Company disclosures tend to be poor, although executive remuneration is typically modest and sustainability practices are often progressive.

Kiltearn frequently votes against managements' proposals if they relate to practices that Kiltearn deems unacceptable in the context of its globally applicable standards, irrespective of the standards in companies' home jurisdictions. However, Kiltearn will also take a more pragmatic view where companies are making incremental improvements relative to global best practice or where companies actively engage with Kiltearn on the issues and provide reasonable justifications for existing practices. For example, Kiltearn will support a non-majority independent board at a Japanese company – all other things being equal – if the board's independence has improved year-over-year. Equally, Kiltearn may support the re-election of a chairperson that it would consider over-boarded on quantitative metrics if the chairperson or company engages on the matter and provides sufficient assurance that the individual can dedicate sufficient time to the role – both in ordinary and stressed situations.

Share Monitoring

Kiltearn's Administration Group monitor the firm's shares and voting rights through ISS's platform. The platform details information such as:

- the nature of the meeting;
- the number of votable shares both by Client and in aggregate;
- meeting dates;
- the electronic cut-off dates for voting;
- whether share blocking is relevant;
- the proposer of each balloted item;

- management's recommendation for each balloted item; and
- whether Kiltearn has entered its voting instructions.

Once Kiltearn's votes have been determined internally, in accordance with the process described in Proxy Voting Policy (appendix 1), the votes are instructed and approved in ISS's platform. The votes are instructed by one member of Kiltearn's Administration Group and approved by a second member.

Kiltearn's Administration Group sends regular updates to the Sustainability & Governance Group on upcoming votes periodically and weekly during busy periods (typically April through June).

Decision-making Process

As noted above, in addition to reviewing Kiltearn's Proxy Voting and Governance Principles (see Appendix 2 below), Kiltearn's proxy-voting process involves the Sustainability & Governance Group reviewing a company's materials and our own investment research. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS's proxy-voting research. ISS is one of the two leading providers of proxy-voting research. Following the review, if we determine that there is a concern of a material nature, we request a call with the company in question. There are also occasions where companies request calls with Kiltearn. These usually follow a recommendation by one of the proxy-voting research providers to vote against an executive's pay or where Kiltearn's Clients hold a material stake in the company.

Voting Activity

A summary of Kiltearn's material voting activities throughout 2022 is included in its Annual Engagement Disclosure (see Appendix 5 below).

A summary of Kiltearn's 2022 voting activity is included in the table below:

Meetings Kiltearn was eligible to vote at	81
Resolutions Kiltearn was eligible to vote on	1315
% of resolutions Kiltearn voted on for which Kiltearn was eligible	100%
% of resolutions where Kiltearn voted with management	82%
% where Kiltearn abstained	0%
% of meetings where Kiltearn voted against management at least once	81%
% of resolutions where Kiltearn voted contrary to the recommendation of ISS	15%
% of meetings where Kiltearn voted contrary to the recommendation of ISS at least once	79%

On each occasion, Kiltearn deemed that voting against the recommendation of management or ISS was the best course of action to protect its Clients' interests. In general, Kiltearn voted against management's or ISS's recommendations where it believed those recommendations were in conflict with the firm's Proxy Voting and Governance Principles (see Appendix 2).

A summary of Kiltearn's votes against management's recommendations on management's proposals is included in the table below:

Votes against Management on Management Proposals	Number of Votes
Appointment of Auditor	28
Election of Director/Chairman/Comp Committee Members	109
Issuance of Equity/Capital	29
Vesting of Awards	0
Compensation/Remuneration Policy	9
Other	33
Total	208

A summary of Kiltearn's votes in favour of shareholder proposals and against management's recommendations is included in the table below:

Votes against Management on Shareholder Proposals	
Environmental	3
Social	6
Governance	21
Total	30

Following their AGMs, a number of companies enquired why Kiltearn voted against certain proposals. Other companies enquired how Kiltearn intended to vote and why before their meetings. Kiltearn provided responses to these companies.

Kiltearn provided unsolicited feedback to some companies before or after voting at their meetings. For example, Kiltearn asked:

- ✓ a US bank to make its executive-compensation determination processes more objective;
- ✓ a Swedish company to separate the roles of CEO and chair;
- ✓ a Swiss company to reduce the number of overboarded directors on its board; and
- ✓ a South Korean company to add independent directors with relevant industry experience, add female directors, improve transparency in its financial disclosures, reweight executive

remuneration to long-term incentives and focus its efforts on shareholder value creation.

Voting Records

Unitholders and separate-account clients (if any) can receive quarterly summaries of proxies voted by contacting Kiltearn's Client Services representatives and asking to be included on the quarterly proxy-voting-summary distribution list. Further, Kiltearn retains the detailed rationale for every voting decision it makes for its internal records. An example is included in Appendix 4. These documents are retained and are an input into Kiltearn's investment research. Further, detailed rationale for Kiltearn's votes is available to unitholders and separate-account clients (if any) on request.

We are aware that the FRC would prefer signatories to publicly disclose all proxies and marked it as an area that 'needs improvement' in Kiltearn's 2020 and 2021 reports. However, as Kiltearn runs a concentrated portfolio on behalf of Clients, in order to protect the integrity of Kiltearn's investment programme and its Clients' best interests; it is Kiltearn's general policy not to publicly disclose information about securities held in its Clients' portfolio, except where required by law or regulation. This policy extends to the quarterly proxy-voting summaries. Kiltearn has no impending plans to change this policy.

Security Lending

Kiltearn does not engage in any security-lending transactions on behalf of its Client. It is worth noting, however, that separate-account clients themselves may cause their accounts' custodians to lend securities held in their accounts or engage in any security-lending transactions on their behalf. In such circumstances, the separate accounts may suffer losses or a diminution in value of the assets held in the accounts because of defaults or collateral investment losses on custodian security-lending portfolios. Separate-account clients at their own risk undertake all such activities. Kiltearn accepts no responsibility and has no liability in relation to such arrangements.]

Fixed-Income Assets

Kiltearn does not invest in fixed-income assets on behalf of Clients.

Client Overrides

Kiltearn has an overriding duty to act in the best interests of Clients when voting proxies. Not all unitholders in Kiltearn's commingled fund may share the same view, and some may hold opposing views. As a result, Kiltearn does not

permit unitholders to override its voting decisions or policies. Kiltearn managed assets on behalf of two separate-account clients until 2022. Both separate-account clients redeemed during 2022. One of the two clients voted its own shares. Kiltearn was obligated to vote the other separate-account client's shares (other than shares of companies in its home jurisdiction). Under the investment-management agreement with the client, if the client had directed Kiltearn how to vote its shares at a portfolio-company meeting (effectively having the potential to override Kiltearn's voting decisions and policies), Kiltearn would have been required to use its reasonable endeavours to implement that direction. The separate-account client never directed Kiltearn how to vote its shares during the relationship.

Please contact Kiltearn's Sustainability & Governance Group with any questions concerning this document or the disclosures contained within it (SustainabilityandGovernance@kiltearnpartners.com).

This document has been reviewed and approved by Kiltearn's Supervisory Group.



Murdoch Murchison
Chairman and Chief Investment Officer

Appendix 1

Proxy Voting Policy and Procedures

Kiltearn Partners LLP (Kiltearn) consider it to be of paramount importance when assessing proxy-voting responsibilities on behalf of its privately offered commingled funds and separate-account clients (collectively defined as Clients) to recognise the fiduciary responsibility it assumes in acting as investment manager. Kiltearn also recognises the need to exercise its proxy-voting obligations with a view to enhancing its Clients' long-term investment value. Kiltearn believes that both are generally compatible with good corporate governance as they provide the best operating environment for each underlying portfolio company to cope with competitive commercial pressures. It is Kiltearn's policy, subject to the considerations described below, to use its best efforts to vote proxies arising on all shares held on behalf of its Clients.

Issues to be voted on at annual general meetings (AGMs) or ordinary general meetings (OGMs), include items of a routine nature, such as the (i) approval of financial statements by shareholders; (ii) approval of routine executive-compensation or incentive plans; (iii) election of directors; (iv) approval of directors' fees; (v) election of auditors; (vi) approval of audit fees; and (vii) approval of the declaration of dividends. Issues that are more material may arise at extraordinary general meetings (EGMs), special general meetings (SGMs), OGMs or AGMs. Such issues may include items that relate to: (i) corporate governance matters; (ii) changes in a company's country of incorporation; (iii) mergers and other corporate restructurings; (iv) anti-takeover provisions such as staggered boards (v) poison pills, or supermajority provisions; (vi) changes to capital structures, including increases and decreases of capital and preferred stock issuance; (vii) material stock-option, management-compensation or incentive-plan issues; and (viii) considerations of social and corporate responsibility.

As part of Kiltearn's proxy-voting process, there may be circumstances where potential conflicts of interest with management are present. These situations can arise where (i) a portfolio company's

US retirement-plan assets are invested in one of Kiltearn's privately offered commingled funds; (ii) a portfolio company or one of its affiliated entities is also a brokerage counterparty to a Client's security or foreign-currency transactions; or (iii) where the person responsible for overseeing investments at an investor in one of Kiltearn's privately offered commingled funds (a unitholder) is also a director or officer of a portfolio company that would materially benefit from any executive compensation or incentive scheme subject to shareholder vote. To mitigate the risks of such potential conflicts, as described below, all proxy votes are reviewed and signed off by two (2) authorised persons.

The Northern Trust Company (Northern Trust) acts as the custodial trustee/global sub-custodian for Kiltearn's privately offered commingled funds and holds all securities owned by these commingled funds for the benefit of their unitholders. Northern Trust has outsourced certain of its proxy-processing responsibilities to Broadridge, a leading provider of proxy-voting services. Broadridge provides ballot information to ISS's Proxy Exchange platform. ISS is also a leading provider of proxy-voting services. ISS provides Kiltearn with (i) meeting-notification and ballot-delivery services; (ii) agenda summaries; (iii) detailed agenda content including original source documents, translation services, recordkeeping and custom reports; and (iv) vote-instruction-processing services. Meeting notifications are provided according to an established service-level agreement in place between the Northern Trust and ISS and one in place between Northern Trust and Kiltearn. Kiltearn does not outsource any part of its proxy-voting decision-making process to ISS, Broadridge or Northern Trust.

Separate-accounts clients generally name their own custodians, who may use a different provider of proxy-processing services.

Following receipt of proxy-voting materials from ISS, Kiltearn's Administration Group forwards the

materials to Kiltearn's Sustainability & Governance Group.

A member of Kiltearn's Sustainability & Governance Group will review proxies. The reviewing member will also be an authorised person. The authorised person will make initial decisions as to how to vote the balloted items. For investment-specific issues (for example, mergers and other corporate restructurings), input will be sought from Kiltearn's Investment Group. A second authorised person will then review the initial decision and the rationale for the decision. The second authorised person will verify and confirm, via email, that the first authorised person's voting instructions are in line with this voting policy. The proxy-voting ballot will then be approved and the proxy vote processed.

In certain circumstances, Kiltearn may be unable to vote a specific proxy including, but not limited to, (i) when Northern Trust or ISS does not provide a voting service in a given market; (ii) when Northern Trust or its agent, in error, does not process a proxy or provide sufficient notice of a vote; or (iii) when an error is committed by any party involved in the proxy-voting or registration process. Kiltearn may also refrain from voting if, for example, (i) it is considering liquidating a position; (ii) share blocking is a consideration; (iii) the costs of voting a specific proxy outweigh the economic benefit that Kiltearn believes would be derived by the Client; (iv) a specific class of securities or equity instrument does not carry voting rights with respect to a given issue subject to shareholder vote; or (v) re-registration of the securities into the Client's – rather than Northern Trust's nominee's – name may, or may reasonably be expected to, result in a violation of local privacy laws or adversely impact the Client's economic interests.

Separate-accounts clients (if any) generally name their own custodians, who may have different proxy-voting processes and limitations in relation to those processes.

Unitholders and separate-account clients are advised that when voting proxies in certain markets, Kiltearn may be constrained by certain country or portfolio company-specific issues. For example, some companies in the portfolio impose voting caps on the maximum number of proxy votes that any single outside shareholder may control. Others require all board issues to be resolved by a show of hands rather than a poll. As one nominee may hold all shares, these restrictions have the effect of substantially limiting the impact of any proxies cast. Furthermore, some companies in the portfolio may restrict Kiltearn from voting proxies where disclosures of holdings or securities under their control have not been made on a timely basis or in a format required under their articles of incorporation.

Unitholders and separate-account clients can receive a quarterly summary of proxies voted or not voted by contacting Kiltearn's Client Services representatives and asking to be included on the quarterly proxy-voting-summary distribution list. Kiltearn does not provide other third parties with information on how it has voted proxies.

Appendix 2

Kiltearn Partners LLP's Proxy Voting and Governance Principles

Operational Items

External Auditor

A company's auditor should possess the necessary level of objectivity, independence, integrity and resource to challenge the assertions of management where appropriate and to ensure that the company's financial statements give a true and accurate picture of the company's financial position.

When determining whether it will vote in favour of a proposal to ratify a company's auditor, Kiltearn will consider whether the following apply:

- (i) there is evidence that the proposed auditor is not independent – where the proposed auditor has served as the company's auditor for a period longer than 19 years, Kiltearn will generally determine that the proposed auditor lacks the desired level of objectivity to be considered independent;
- (ii) the current auditor is being replaced without explanation;
- (iii) the proposed auditor has suffered recent reputational damage – Kiltearn will consider this both in the context of the company and the market as a whole; and
- (iv) the fees that will be charged to the company by the proposed auditor for non-audit services will be excessive relative to the fees that will be charged to the company for the audit services.

Final Dividend

Kiltearn will generally vote in favour of a proposal to approve a company's final dividend; however, Kiltearn may vote against such a proposal and/or take any action it deems appropriate if Kiltearn determines that the intended payout ratio is excessive or, conversely, is too low in the context of the company's publicly disclosed financial position.

Board of Directors

Accountability and Transparency

A board should be accountable to the company's shareholders. As a result, Kiltearn expects a company's board to do the following:

- (i) hold annual elections in respect of all board positions;
- (ii) provide sufficient information to shareholders on its composition;
- (iii) provide external shareholders with the ability to remove directors;
- (iv) address issues brought up during the course of communications with shareholders or as part of shareholder meeting proposals; and
- (v) proactively address related issues where a material number of votes have been exercised against the recommendation(s) of management at a recent meeting of the company.

Independence

Kiltearn expects a company's board to be majority independent to ensure that the board is capable and motivated, to supervise management's performance and remuneration, for the benefit of all shareholders.

Definition of Independence

Kiltearn notes that related parties, such as controlling shareholders (including individuals related to or a representative of a parent company), individuals with previous or current business relationships with a company and family members of officers or employees, are not impartial. They cannot be considered independent and are unlikely to protect the interests of minority shareholders. These parties are unsuitable candidates for independent directors. Kiltearn also believes that the independence and impartiality of a director is put at risk when they have served on a board for a long period. As a

result, where a non-executive director serves on a board for a period longer than 15 years, Kiltearn will generally determine that the director lacks the desired level of objectivity and consequently will no longer consider the director independent.

Independent Directors' Experience and Backgrounds

Kiltearn believes that independent directors should have the necessary knowledge, skills, professional expertise and experience to oversee companies and effectively represent the interests of shareholders. Further, Kiltearn believes that a company's board functions best when it is suitably diverse – in terms of each director's professional and educational background, gender, race, age, life experience and personal attitudes. Such diversity can help to minimise the risk of 'groupthink', offer suitable challenge to management, improve risk management and represent the interests of minority shareholders.

Kiltearn believes that initiatives to promote diversity throughout organisations will, in time, increase the depth of the pool of high-quality candidates for independent director roles at listed companies.

Attendance and 'Over-boarding'

Kiltearn expects each of the company's directors to attend 75% of the board and relevant committee meetings each year and limit the number of positions they hold on the boards of other companies. Kiltearn will not support the election or re-election of a director where Kiltearn determines that the individual holds too many positions on boards. When making such a determination, Kiltearn may consider the complexity and regulatory environment of the company and the other companies, the positions held by the individual on the respective boards – Kiltearn would not expect an executive or chairman to hold more than one external non-executive directorship, without providing significant justification for holding the external position – and external proxy voting

service providers' 'over-boarding' policies.

Chairman and Chief Executive Officer (CEO)

A primary obligation of a board is to provide independent oversight of executives' capital allocation decisions. A chair's primary duty is to lead the board. A combined chair and CEO position – in Kiltearn's view – inhibits objectivity and raises concerns about effective oversight. Meanwhile, emerging academic studies support a view that the separation of the roles at an underachieving company improves performance. If a company with a combined chairman and CEO suffers from a periods of acute or prolonged underperformance and there is evidence that such underperformance was caused, at least in part, by low-quality decision-making on the part of the company's executives – for example, a material capital-allocation decision – Kiltearn would expect the company to consider separating the roles of chairman and CEO. Further, in ordinary circumstances, Kiltearn will not support a proposal to elect a company's former CEO to the position of chair of the board.

Committees

A board should establish independent committees that focus on key governance concerns such as audit, executive remuneration and the selection and evaluation of directors.

Audit Committee

A company's audit committee should be composed of a majority of independent directors to ensure there is suitable separation between the individuals responsible for running the company's business and those responsible for the oversight of the company's financial reporting and disclosure process. Kiltearn expects an audit committee to be chaired by an independent director – other than the chair of the board – with appropriate professional qualifications or accounting/financial management experience for the role.

Remuneration Committee

A company's remuneration committee should be composed of a majority of independent directors to ensure there is suitable separation between the individuals responsible for running the company's business and those responsible for setting the remuneration of the individuals responsible for running the company's business.

Nomination Committee

A company's nomination committee should be composed of a majority of independent directors to ensure there is suitable separation between the individuals responsible for running the company's business and those responsible for evaluating the performance of the individuals responsible for running the company's business and assessing the skills and characteristics required in board candidates. Further, if a company does not have a nomination committee, Kiltearn would generally expect the company's board to consist of a majority of independent directors.

Remuneration

Executives' remuneration should align their long-term interests with those of shareholders. Kiltearn expects remuneration policies and targets for executives to do the following:

- (i) be clearly articulated and understandable;
- (ii) be objective;
- (iii) cover appropriate time periods; and
- (iv) be based on valid measures of business performance and development.

The policies and targets should be suitably tied to the company's strategy and the creation of shareholder value. Specifically, for the majority of companies, Kiltearn favours remuneration targets and policies to reference attained return on invested capital (ROIC) and achieved return on equity (ROE). Further, Kiltearn will support remuneration targets and policies that include a level of focus on free-cash-flow development and financial prudence. Finally, Kiltearn expects a company's remuneration committee to be able to offer reasonable justification for overall

levels of, or increases in, remuneration.

Share Ownership

A company should have a scheme or schemes in place that promote long-term commitment on behalf of executive directors and senior managers, and encourage an 'owner-manager' culture. Such schemes should generally result in executive directors and senior managers receiving a significant proportion of their variable remuneration in shares purchased in the market – rather than in options.

Total Shareholder Return (TSR) and Non-financial Targets

For the majority of companies, Kiltearn does not believe that TSR or relative TSR are measures on which significant value should be placed. Consequently, if a company has TSR-based targets in place, Kiltearn generally believes that such targets should be eliminated or their importance reduced at the next opportunity. Further, Kiltearn expects a company to keep subjective, opaque and non-financial targets to a minimum.

Retention Grants

In ordinary circumstances, Kiltearn will not support the payment of retention grants to executives, as Kiltearn does not believe that such grants are effective or in the long-term interests of shareholders.

Clawback Provisions

A company should have suitable clawback provisions in place that provide for the recovery of executives' variable compensation in certain circumstances. Kiltearn generally expects a company to have clawback provisions in place that allow for recovery in these cases:

- (i) the misstatement of results which requires the restatement of the company's accounts;
- (ii) gross misconduct or other behaviour that results in significant reputational damage to the company; and
- (iii) corporate failure.

Capital Structure

Share Issuance

A company's shareholders should not be put

at undue risk of dilution. A company's general authority to issue shares between AGMs should be limited to 10% of the company's existing issued share capital. Where a company intends to issue a number of shares at any time that equates to a percentage that is larger than 10% of its issued share capital, Kiltearn expects the company to seek express prior approval from its shareholders. Any issuance above 5% of a company's issued share capital in a year, or above 7.5% of a company's issued share capital in a rolling three-year period, should have pre-emption rights attached in favour of existing shareholders. Further, new shares should not be issued at a discount of more than 5% to the prevailing market price unless they have pre-emption rights attached in favour of the existing shareholders. Finally, Kiltearn prefers scrip dividends issued, or shares awarded as part of remuneration packages, to be covered by purchases in the market to minimise the risk of dilution for existing shareholders.

Market Purchases

In certain circumstances, where a company has excessive net cash or investment reserves, it may be in the long-term interests of its shareholders for a company to purchase its own shares in the market. Kiltearn will generally support proposals to grant authority to purchase its shares in the market if the following apply:

- (i) the shares will be cancelled once they have been purchased, or they will used for a specific purpose – such as covering a scrip dividend or remuneration packages;
- (ii) the company will exercise the authority at times when there is valuation support for the purchases; and
- (iii) the purchases will not be used for anti-takeover purposes, except with shareholders' explicit approval.

Other Items

Capital Allocation

A company should have a sensible and disciplined approach towards mergers and acquisitions (M&A). While Kiltearn will vote on proposed M&A on a case-by-case basis, Kiltearn will generally support proposed M&A which offer an anticipated ROIC > 12% (pre-tax). Kiltearn places strong emphasis on ROE

performance. Kiltearn generally expects a company to be able to generate an ROE > 10% (post tax) over the long term. Any proposed M&A should be able to earn a return consistent with this target.

Balance Sheet

A company should maintain a sound balance sheet. Kiltearn expects a company to give due consideration to regulatory capital requirements, business-cycle issues and free-cash-flow characteristics. A company should not excessively leverage its balance sheet. Conversely, a company should not hold excessive net cash or investments on its balance sheet that are potentially dilutive to shareholders. If Kiltearn determines that a company has excessively leveraged its balance sheet, is looking to leverage its balance sheet unnecessarily or holds excessive net cash or investments on its balance sheet, this is likely to be reflected in Kiltearn's votes at the company's meetings.

Voting Rights and Takeover Defences

Shareholders should have meaningful rights on structural provisions, such as approval of or amendments to a company's corporate governing documents and a vote on takeover defences. In addition, shareholders' voting rights should be proportionate to their economic interest in the company. Kiltearn will not support any 'poison pills' or mechanisms that delay or reduce its ability to vote on significant transactions. Further, Kiltearn will likely oppose director nominees where a company adopts or renews a poison-pill provision without shareholder approval. Kiltearn is generally in favour of a company maintaining a simple equity structure based on the 'one share, one vote' principle. Kiltearn will generally vote against proposals to create or maintain dual-class capital structures. In general, Kiltearn believes that a simple majority vote should be required to change a company's governance provisions or to approve transactions.

Stewardship

Kiltearn believes that the sustainability (or otherwise) of a company's business model, products and practices has material implications for its intrinsic value and long-term return potential. As a result, Kiltearn believes that a company's governance, social, and environmental practices should meet or

exceed the regulatory standards and general practices of the markets in which it operates, taking into account relevant factors that may impact significantly the company's long-term development and value creation. To support shareholders' assessments in this regard, Kiltearn requests that each portfolio company publishes, and regularly updates (where applicable), the following:

- (i) a report that is consistent with recommendations of the TCFD – including scenario analysis, emissions and similar climate-change data and targets used to manage climate-related risks and opportunities (if any);
- (ii) data on non-renewable energy consumed and/or produced;
- (iii) data on its general energy consumption;
- (iv) information on sites/operations located in or near to biodiversity-sensitive areas where its activities negatively affect those areas;
- (v) data on pollutants produced;
- (vi) its water-management policy;
- (vii) data on its water consumption;
- (viii) data on its production of hazardous waste;
- (ix) information on the company's policy for monitoring its compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises and its grievance/complaints handling mechanisms relating to the same;
- (x) information on any violations the UNGC principles or OECD Guidelines for Multinational

Enterprises involving the company;

- (xi) data on its unadjusted gender pay gap;
- (xii) its rate of accidents among employees and workers;
- (xiii) a supplier code of conduct;
- (xiv) its rate of incidents of discrimination reported;
- (xv) its human-rights policy and its processes to monitor and reduce the risk of forced labour or child labour in its operations/supply chain;
- (xvi) a report on its lobbying and political expenditure;
- (xvii) its anti-corruption and anti-bribery policies; and
- (xviii) any other information regarding its governance, social and environmental practices that is likely to be of interest to its shareholders.

Finally, Kiltearn expects a company's board to recognise that it has a responsibility to enter into constructive engagement with the company's shareholders on all material matters.

Appendix 3

Responsible Investment Policy

Responsible Investment Approach

At Kiltearn Partners LLP (Kiltearn), our approach to responsible investment is rooted in our broader investment philosophy and process. This document sets out the core beliefs that underpin our approach to ESG integration and stewardship, and places these elements within the wider context of our investment approach.

Our Investment Philosophy

Kiltearn offers a single global equity programme, managed with a disciplined value investment philosophy.

Kiltearn's value philosophy is focused on fundamental business valuation. Stock-market values tend to fluctuate to a greater degree than underlying business values. Kiltearn's focus is on business values and, in particular, intrinsic value, which it defines as the assets, earnings and dividends that a company delivers to the investor over time. Kiltearn seeks to maximise intrinsic value by focusing on the price paid to own a piece of a business and the quality of that business.

Kiltearn focuses its resources on fundamental analysis of individual companies that are valued within the bottom quartile of the market. Through disciplined and methodical research, and regular and methodical rebalancing of the portfolio

towards undervalued stocks, the long-term intrinsic value of the portfolio is compounded.

Kiltearn believes that the relevant period for assessing our abilities is three to five years. Individual stocks are purchased in the portfolio with this holding period in mind, as it frequently takes time for the value opportunity to be realised.

Responsible Investment at Kiltearn

At Kiltearn, we view responsible investment as the practice of systematically assessing issues of companies' sustainability within our investment process and encouraging those companies to improve their practices over time, with the aim of delivering attractive returns for clients over the long term. The sustainability (or otherwise) of a company's business model, products and practices has material implications for its intrinsic value and long-term return potential.

Our approach has two pillars:

- **ESG integration:** the explicit and systematic assessment of material ESG factors in our investment process.
- **Stewardship:** active stewardship of clients' capital through voting and company engagement. engagement.

ESG Integration

What is 'ESG'?

Environmental, social and governance considerations are collectively referred to as ESG factors. Combined, these factors can paint a picture of how a company interacts with a broad range of stakeholders, including its customers, suppliers, employees, lenders and equity holders, as well as the natural environment and society in which it operates. Common considerations are outlined below, but the relevance varies between regions, industries and business models.

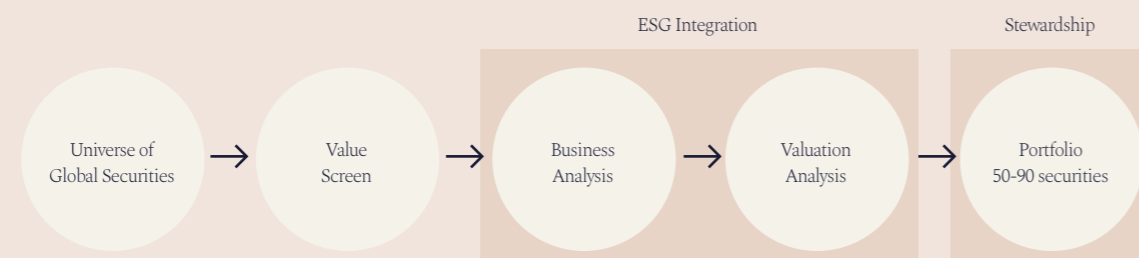
Environmental
Exposure to energy transition Greenhouse-gas emissions Energy and resource usage Waste and water management
Social
Employee diversity and welfare Product and operational safety Supply-chain oversight Relations with local society
Governance
Board structure and independence Incentive structures Shareholder rights Disclosure practices

ESG data is typically considered 'non-financial' information and is often disclosed separately from accounting data because there are no uniform and enforceable reporting standards in most regions. While there are some quantifiable metrics, ESG data can also be highly qualitative and hard to measure consistently across companies.

Why do we integrate ESG factors into the investment process?

ESG considerations can have a material impact on a business's intrinsic value. Increasingly ESG factors such as the global transition towards more sustainable energy sources and improving labour-practice requirements are a source of long-term structural change. These considerations are shaping the capital-allocation decisions, regulatory environment and competitive dynamics of the companies in which we invest. Systematically exploring these considerations provides a more comprehensive assessment of factors including, but not limited to, the following:

- **Investment risk:** Preservation of capital is an important component in delivering a superior long-term return. Inadequate ESG practices and policies can lead to inefficiencies, operational disruption, litigation and reputational damage for companies. Robust ESG practices can mitigate these risks and enhance business quality.
- **Asset quality:** Assessing ESG factors can also provide a more comprehensive lens through which to assess the quality of intangible assets, which have reached record-high levels (~70% of book values for the S&P 500) in recent years. The value of intangible assets is often tied to brands or reputation, which tend to be closely linked to the perception of
- **Cost of capital:** A company's exposure to and management of ESG risks can affect its formal credit rating, a key factor that influences the company's cost of and access to capital, which in turn has implications for underlying intrinsic value.



Our Approach to ESG Integration

Our approach to ESG integration is based on the following principles:

- *We consider ESG factors from a returns-focused perspective:* At Kiltearn, our focus is on generating returns for our clients over the long term. Therefore, our approach to ESG integration is also returns-focused. Our investment process is based on rigorous fundamental analysis, which is designed to assess each investment's ability to protect and grow intrinsic value over the long term in order to drive returns. We view material ESG issues as investment factors like any other, with the scope to impact business quality and intrinsic value over time.
- *We focus on materiality:* We consider ESG factors from a financial and economic perspective, focusing on areas that have a high probability of materially affecting a company's intrinsic value. The impact of material ESG factors can be positive or negative, reflecting risks or opportunities.
- *ESG considerations are not necessarily investment constraints:* We do not view ESG factors as investment constraints. As value investors, we see opportunity in out-of-favour companies, including those facing ESG challenges. As long-term investors, we have scope to benefit as these companies better position themselves for sustainable value creation over time. As active stewards, we can support these efforts through engagement and voting. A weak starting point may be acceptable provided there is a credible plan for improvement.
- *ESG factors can be opportunities for intrinsic value growth.* Where companies have robust ESG practices and/or are positioned to benefit from changing ESG dynamics such as rising environmental standards or labour practices, this can contribute a positive skew to business quality and intrinsic-value growth.

Our ESG Integration Process



- In keeping with our view that ESG considerations should not be viewed as constraints, we do not apply exclusionary filters at the screening stage of our process.
- ESG factors are instead integrated into both our assessment of business quality and valuation.

Business Analysis: We employ an evidenced-based approach to assessing business quality. Areas of focus include balance-sheet strength, cash-generation characteristics, ROIC and management's capital-allocation decisions. Within this framework, we seek to consider ESG factors: identifying relevant and financially material considerations based on a company's industry and business model. Areas of focus include, but are not limited to, the following:

- Energy transition and environmental impact
- Product safety and consumer protection
- Supply-chain management and oversight
- Labour relations and employee welfare
- Board structure and executive compensation

Where an issue has been deemed potentially material, we consider these questions:

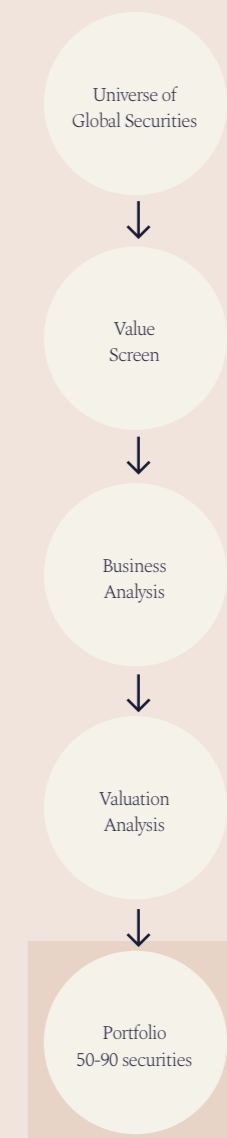
- What type of challenge or opportunity these factors pose (e.g. a change in competitive dynamics, an ongoing investment requirement or an existential threat to the business model).
- Whether existing policies and practices seem sufficient to mitigate potential controversies and position the business on a sustainable path.

Our assessment of ESG factors is aided, but not dictated, by specialist third-party ESG research. We use this research as one input into our analysis, which also draws on sources such as company disclosures, traditional sell-side analysis and the investment team's judgement and experience.

As with other investment consideration, evidence of strong ESG credentials can enhance our overall assessment of business quality while evidence of weak practices can detract.

Valuation Analysis: Based on our analysis of a company's historic financial characteristics and performance over cycles, we seek to normalise the earnings, cash flow and balance sheet as appropriate and then consider the valuation relative to the global investment universe, the stock's own history or a relevant peer group. We take ESG factors into account during the normalisation process where there is likely to be an ongoing impact (positive or negative) on earnings, cash flow or assets. The overall assessment of business quality, of which ESG factors are explicit components, also dictates the margin of safety required for investment.

Stewardship: Our Approach



At Kiltearn, we view ourselves as long-term stewards of our clients' capital. Stewardship involve regular engagement with management and the board of our portfolio companies, as well as thoughtful execution of voting rights.

Engagement: We seek to engage with companies in which we invest to support sustainability and governance practices that ultimately drive value accretion for shareholders.

Kiltearn has established universal principles that set out our general expectations with respect to a company's governance practices. These principles guide – but do not restrict – Kiltearn's proxy-voting decisions and engagement priorities. These principles are sent directly to each company's board following Kiltearn's initial investment. This framework provides companies with additional

context around the drivers of our votes and lays the foundation for future engagement. These are some examples of the key principles:

- A sound balance sheet. Kiltearn expects a company to give due consideration to regulatory capital requirements, business-cycle issues and free-cash-flow characteristics. A company should not excessively leverage its balance sheet. Conversely, a company should not hold excessive net cash or investments on its balance sheet that are potentially dilutive to shareholders.
- A sensible and disciplined approach towards M&A. Any proposed M&A should be able to earn a return above the cost of capital.
- A company's shareholders should not be put at undue risk of dilution. Share issuance should be modest in scale and generally offer pre-emption rights to existing shareholders.
- Executives' remuneration should align their long-term interests with those of shareholders.
- A sufficiently independent board to ensure that it is capable and motivated to supervise management's performance and remuneration, for the benefit of all shareholders.
- Shareholders should be afforded meaningful rights in respect of structural provisions, such as approval of, or amendments to, a company's corporate governing documents and a vote on takeover defences.
- A company's social and environmental practices should meet or exceed the regulatory standards and general practices of the markets in which it operates.
- Finally, in the interests of transparency and uniformity of reporting, companies should report certain data on their environmental impact and policies (including TCFD reporting), certain social factors, worker safety and governance practices.

Companies held in Kiltearn's portfolio may not always exhibit some of the preferred characteristics enshrined in the principles. Consequently, Kiltearn takes each company's facts and circumstances into account when voting proxies and engaging with management.

Engagements with companies, outside of discussions of matters to be voted on at meetings, are typically instigated by the Sustainability and

Governance Group at the request of the Investment Team. However, Kiltearn also engages with other stakeholders at their request.

We accept that patience and appropriate escalation are required before we see tangible success in this realm.

Voting: Kiltearn recognises proxy voting as both its fiduciary responsibility as an investment manager and an opportunity enhance the value of its clients' investments over the long term. Kiltearn has a robust process for evaluating and executing proxy votes. In addition to our governance principles, Kiltearn's proxy-voting process involves our Sustainability and Governance Group reviewing a company's materials and our own investment research – with a particular focus on the 'able and honest management', 'run in the interests of public shareholders' and E&S categories. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS's proxy-voting research. ISS is one of the two leading providers of proxy-voting research.

Internal Structures

There are two areas that combine to provide internal leadership and resource for Kiltearn's Responsible Investment approach: the Sustainability & Governance Group and the ESG Integration Spearhead.

Sustainability & Governance Group: As noted above, Kiltearn has a Sustainability & Governance Group that sets out our governance principles, is responsible for proxy voting and lead company engagement. This group consists of the Head of Sustainability & Corporate Governance/CCO, two members of the Investment Team and a member of Investment Administration.

ESG Integration Spearhead: Kiltearn believes it is essential for the investment process to be 100% investor-led. ESG integration is therefore spearheaded by a member of the investment team to ensure that ESG factors are evaluated and assessed within the same framework as traditional financial and economic considerations. All investors engage in research, analysis and assessment of ESG factors as part of the wider investment framework and decision-making process.

See below for ESG Resources.

ESG Resources:

Company Research and Reports	Specialist ESG Research	Sell-side Research	Other
Annual Reports Non-financial Disclosures Company Meetings	MSCI ESG Ratings MSCI Climate MSCI Controversies ISS Governance and Proxy Voting	Industry-level Themes ESG Specific Materiality Matrices	NGOs Press Reports Credit Rating Agency Commentary

Appendix 4

Proxy-Voting Example

French Multinational Oil & Gas Company – Deadline: 18 May

Please vote in line with the below.

Vote against Item A, B, C of Item 9 (with management and ISS) Item A, B, C relate to alternative employee representatives to [Redacted Name 1] (Item 9). [Redacted Name 1] is supported by the board and represents the largest number of shares.

Vote against Item 17, 18, 19, 20 and 21 (against management and ISS) The company is looking for authority to issue shares with and without pre-emptive rights above Kiltearn's permitted limits.

Vote all other items in favour.

Notes:

- The board is 43% female (6/14).
- Item 4 relates to the authority to repurchase up to 10% of the company's ISC. As of 31 March 2022, the company held 0.74% of its ISC in treasury.
- Item 10 relates to the approval of remuneration report of corporate officers. This is covered in Item 12.
- Item 13 relates to the remuneration policy of the chair/CEO. The weighting to measurable metrics will remain the same for the CEO's STI (78%, which is 140%/180%). The structure of the STI and LTI will remain the same.
- **Item 16 relates to the approval of the company's sustainability and climate transition plan.** The company has set ambitious plans relative to other majors. It is targeting: (i) net-zero across Scope 1, 2 and 3 emissions by 2050; (ii) a 30% reduction in Scope 3 emissions from the petroleum products it sells by 2030 (vs. 2015); and (iii) hydrocarbons only constituting 25% of its energy mix by 2050 – with 50% in renewables. Gas will be the biggest percentage of the 2030 energy

mix at 50%, as a transition energy. ISS notes that the continued near investment in oil (through 2030) is inconsistent with the IEA's net-zero scenario, which would require no new investment in oil fields.

Finally, in response to a now-dropped shareholder proposal, the company has committed to publish:

- The absolute and relative reduction targets for greenhouse gas (GHG) emissions on Scope 1, 2, 3 in the short- (2025) and medium-term (2030), covering all activities.
- The evolution of the energy mix and targeted production volumes for these periods.
- Short- and medium-term investment plans broken down by sector and by orientation between maintenance and growth of the company's assets.
- The potential contribution of captured GHG emissions to achieving the company's GHG emission reduction targets.
- The works carried out by the company with third parties assess the relevance of these targets with regard to the implementation of the Paris Agreement.

Compensation Notes: Item 12 relates to the CEO's remuneration.

On balance: support. Financial and operational measures improved y/y. The CEO's STI award was ~61% based on financial metrics and disclosure in relation to the STI is good. The CEO's 2021 LTIP is 70% determined by financial and returns metrics.

Positives:

- Financial and operational measures improved y/y, including revenue; net income; EBITDA; EPS, ROE and ROA.

- The CEO's STI was 61% based on financial metrics (110%/180% of base salary). The metrics were ROE (30%/180%); gearing ratio (30%/180%); pre-dividend organic cash breakeven (30%/180%) and relative ROACE (20%/180%)
- Disclosure in relation to the financial metrics and the safety metric (20%/180%) and evolution of GHG (10%/180%) - the other measurable criteria - for the CEO's STI is good.
- The CEO's 2021 LTI is majority based on financial and returns metrics: relative TSR (25%); relative net cash flow (25%); and pre-dividend organic cash breakeven (20%). The balancing 30% is reduction of Scope 1, 2 and 3 emissions.

Neutrals:

- The CEO's total remuneration was up ~43% y/y.
- The CEO's pay was 0.05% of net income.
- The peer group used for the relative figures is the same peer group used by [Redacted Company Name 1] (the five energy majors).
- The 2018-2020 LTIP, which was split between relative TSR and net cash flow/share, vested at 70%.
- The 2019-2021 LTIP, which was split between relative TSR, net cash flow/share and pre-dividend organic cash breakeven, vested at 99%.
- TSR was up and positive. It outpaced the index/ one-year but trailed it/three- and five-year periods. It trailed the sub-index/one year but outpaced it/ three- and five-year periods.

Negatives:

- The CEO's pay was 2.22x of the median of ISS' selected peers.
- For the relative metrics under the LTIs, the vesting rates are high: for placing third out of the five peers, the vesting rate is 80%; for placing second out of the five peers, the vesting rate is 130%; and for placing first out of the five peers, the vesting rate is 180%. The company would likely argue - as [Redacted Company Name 1] does - that the vesting rate for placing third is high because of the quality of the peers that the company is being measured against (the other four energy majors); placing third means that the company has finished above two high quality companies.

Appendix 5

2021 Annual Engagement Disclosure

The Shareholder Rights Directive II requires Kiltearn Partners LLP (Kiltearn) to publish an annual disclosure on engagement, including a general description of proxy-voting behaviour and details of any significant votes, as well as use of proxy advisers. Kiltearn has determined that it will update its disclosure on a semi-annual basis in response to investor demand.

Establishment of a Sustainability and Governance Group

Kiltearn's stewardship efforts are and always have been investment-led; however, Kiltearn established a Governance Group in early 2018. The purpose in establishing the Governance Group was to put Kiltearn's approach to stewardship on a more formal and structured footing than it had previously been.

Over the previous years, Kiltearn has increased its focus on environmental and social factors in its investment process. A member of Kiltearn's Investment Team, Nell Franklin, has led this development. To ensure that Kiltearn's stewardship activities fully integrate the Investment Team's perspective on material environmental and social issues affecting companies in the portfolio, Nell Franklin joined the Governance Group, and its remit was expanded to incorporate consideration of such matters. The Governance Group was subsequently renamed the Sustainability & Governance Group.

The Sustainability & Governance Group includes members of the Investment Team (two Portfolio Managers), a member of the Investment Administration Team and a representative of Legal and Compliance.

The inclusion of members of the Investment Team ensures that Kiltearn's stewardship activities are consistent with the firm's investment perspectives on companies in the portfolio. The inclusion of the members from other areas of the business, on the other hand, ensures that those individuals

can take on the majority of the stewardship work. Consequently, membership of the Sustainability & Governance Group does not distract our investors from their primary focus: researching companies and managing the portfolio.

The proxy-voting process

In addition to reviewing Kiltearn's Proxy Voting and Governance Principles (available on the firm's website), Kiltearn's proxy-voting process involves the Sustainability & Governance Group reviewing a company's materials and our own investment research. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS's proxy-voting research. ISS is one of the two leading providers of proxy-voting research. Following the review, if we determine that there is a concern of a material nature, we request a call with the company in question. There are also occasions where companies request calls with Kiltearn. These usually follow one of the proxy-voting-research providers making a recommendation to vote against an executive's pay or where Kiltearn's commingled funds and separate-account clients (collectively, Clients) hold a material stake in the company.

High-level Voting Statistics

A summary of Kiltern's 2021 voting activity is included in the table below:

Meetings Kiltern was eligible to vote at	81
Resolutions Kiltern was eligible to vote on	1315
% of resolutions where Kiltern voted with management	82%
% of resolutions where Kiltern voted against management	16%
% where Kiltern abstained	0%
% of meetings where Kiltern voted against management at least once	81%
% of resolutions where Kiltern voted contrary to the recommendation of ISS	15%
% of meetings where Kiltern voted contrary to the recommendation of ISS at least once	79%

Kiltern deemed, on each occasion, that voting against the recommendation of management or ISS was the best course of action to protect its Clients' interests. In general, Kiltern voted against management's or ISS's recommendations where it believed those recommendations were in conflict with the firm's Proxy Voting and Governance Principles.

A summary of Kiltern's votes against management's recommendations on management's proposals is included in the table below:

Votes against Management on Management Proposals	Number of Votes
Appointment of Auditor	28
Election of Director/Chairman/Comp Committee Members	109
Issuance of Equity/Capital	29
Vesting of Awards	0
Compensation/Remuneration Policy	9
Other	33
Total	208

A summary of Kiltern's votes in favour of shareholder proposals and against management's recommendations is included in the table below:

Votes against Management on Shareholder Proposals	Number of Votes
Environmental	3
Social	6
Governance	21
Total	30

Material Votes

A summary of Kiltern's 'material' votes throughout 2022 is included below.

Environment

In the face of growing concerns about the environment from a multitude of stakeholders, we have seen an increasing number of companies set out plans to align themselves with the goals of the Paris Agreement and/or introduce environmental-based key performance indicators into their executive-remuneration policies. We have also seen an increasing number of shareholder proposals that are intended to force companies to reduce their carbon emissions.

Issuer	UK-based Multinational Mining Company	At its April AGM, Kiltern supported a climate change report published by a mining company.
Quarter	Q2	The company is targeting: (i) 30% reduction in Scope 1 and 2 emissions by 2030; (ii) 30% improvement in energy efficiency by 2030; (iii) net-zero for Scope 1 and 2 emissions by 2040; and (iv) a 50% reduction in Scope 3 emissions by 2040.
Category	E	To meet its Scope 1 and 2 targets, it will rely on renewable electricity, low carbon power (including hydrogen fuel cells), methane capture and energy-efficient processes. To meet its Scope 3 target (which account for the majority of the company's emissions), the company is focusing on the use of hydrogen in the process of converting iron to steel, providing high-quality products that can be used in more efficient and less carbon-intensive processes, recycling (notably scrap initiatives) and carbon neutrality in its controlled ocean freight.
Proposer	Issuer	
Subject	Climate Change Report	85% of the company's product portfolio is positioned to benefit from the global transition to low carbon products/services (copper, platinum, nickel & high-quality iron ore). The company noted that its primary physical risks relating to climate change are water shortages and extreme weather. In 2019, the company tested the resilience of its business using two climate change scenarios: the International Energy Agency's (IEA's) new policies scenario (3 degrees) and its sustainable development scenario (2 degrees). The company noted that its business is expected to be resilient across all scenarios given its exposure to transitional metals. 90% of growth capex is "earmarked for projects in future enabling and consumer-facing metals and minerals."
Kiltern Vote	For	
Outcome	Passed	
Votes in favour	94.24%	As with all portfolio companies' emission-reduction targets, it will be necessary for the company to report its progress against its targets.

Issuer	Swiss Cement Producer	At its April AGM, Kiltern supported a climate change report published by a cement company. The company is the first cement producer to give shareholders a vote on its climate plans.
Quarter	Q2	The company has a net-zero by 2050 target (across Scope 1, 2 and 3). The company has targets for 2030 and 2050 approved by the Science Based Target initiative (SBTi) and in line with a 1.5-degree ambition.
Category	E	2025 targets include: (i) 25% of the sale of ready-mix to come from its low-carbon product (30-100% lower carbon footprint); (ii) 75 million tonnes of waste to be recycled; (iii) 10 million tonnes/annum construction/demolition recycled waste to be used in products; and (iv) green capex to be increased to CHF 500 million/annum (CHF 223 million was invested in 2021).
Proposer	Issuer	2030 targets include reducing: (i) Scope 1 emissions by 17.5%/tonne of cement materials (vs 2018 baseline); (ii) Scope 2 emissions by 65%/tonne of cement materials (vs 2018 baseline); (iii) Scope 3 emissions by 20%/tonne of purchased clinker and cement for its purchased goods/services; (iv) Scope 3 emissions by 20%/tonne of purchased fuel for fuel and energy-related activities; and (v) Scope 3 emissions by 24%/tonne of materials transported.
Subject	Climate Change Report	2050 targets include reducing Scope 1 and 2 emissions by 95%/tonne of cement (vs 2018 baseline) and absolute Scope 3 emissions by 90% (vs 2020 baseline).
Kiltern Vote	For	The company has used two scenarios to test its climate change/decarbonisation resilience (one assumes that the world will meet the 1.5-degree target, the other assumes action taken will not be effective leading to a 2.7- to 4.4-degree rise).
Outcome	Passed	
Votes in favour	89.85%	As with all portfolio companies' emission-reduction targets, it will be necessary for the company to report its progress against its targets.

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII).

Issuer	Swiss Investment Bank	At its April AGM, Kiltarn supported a climate action plan published by a Swiss investment bank.
Quarter	Q2	The company was seeking approval for its "climate roadmap". The "roadmap" has specific milestones and an overall net-zero 2050 target across Scope 1, 2 and 3 emissions. The company has set up a net-zero taskforce to support the achievement of this goal. The company's lending exposure to carbon-related assets was already fairly low at 9.9% (USD 45.6 billion) through the end of 2021.
Category	E	The company has committed to not providing any:
Proposer	Issuer	(i) project-level financing to new coal-fired power plants; (ii) financing if the stated use of proceeds is for greenfield thermal coal mines; (iii) financing for new offshore oil projects in the Arctic; or (iv) financing for greenfield oil sands projects.
Subject	Climate Action Plan	The company has also introduced some restrictions for the financing of coal-fired operators, thermal coal-mining companies and to companies involved in Arctic oil, oil sands, LNG, and ultra-deep-water drilling. By 2025, the company has committed to: (i) achieving net-zero Scope 1 and 2 emissions; (ii) reducing energy consumption by 15% (vs. 2020 levels); and (iii) offset historic emissions going back to 2000. By 2030, the company has committed to reducing:
Kiltarn Vote	For	(i) absolute financed emissions associated with its loans to fossil fuel companies by 71%; (ii) emissions intensity associated with its loans to power generation companies by 49%; (iii) emissions intensity of its commercial real estate lending portfolio by 44%; and (iv) emissions intensity of its residential real estate lending portfolio by 42%.
Outcome	Passed	The company's asset management division also has an interim target, committing to align USD 235 billion of AUM (~35% of eligible assets/20% of total AUM) with a 50% carbon emission reduction (Scope 1 and 2) target by 2030.
Votes in favour	77.74%	In supporting the proposal, Kiltarn concluded that the plan appears like a positive step, with the company looking to address its "transition risk", which will account for the majority of the company's climate change-related financial risks.

Issuer	US Multinational Conglomerate Holding Company	Kiltarn voted against a shareholder proposal requesting that the company publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities.
Quarter	Q2	Supporting the proposal, the shareholder noted that all companies should recognise and appraise physical and transitional climate risks. These risks and the board's approach to their management, including any plans to achieve net-zero emissions, should be disclosed to enable these to be appraised by investors. The shareholder considered the company's current level of disclosure to be insufficient for investors to appraise fully its material climate-related risks and opportunities. The shareholder also referenced the climate disclosure rule recently proposal (disclosure of emissions).
Category	E	
Proposer	Shareholder	Opposing the proposal, the board asserted that disclosure is appropriate at the subsidiary level. It suggested that these risks should be contextualised by their contribution to net income. It noted that two subsidiaries account for 90% of the portfolio's direct emissions. The first is "striving to achieve" net-zero by 2050. It has a 50% Scope 1 and Scope 2 reduction target for 2030 (vs 2005 baseline). The second has committed to the SBTi and has a 30% Scope 1 and Scope 2 reduction target for 2030 (vs 2018 baseline).
Subject	Annual Climate Assessment	
Kiltarn Vote	Against	In opposing the proposal, Kiltarn concluded that it was reasonable to determine that the company should be considering climate-related risks and opportunities in its capital allocation decisions; however, as the company pointed out, the two subsidiaries that account for the overwhelming majority of the company's emissions disclose their own emissions and are engaging with the process of decarbonising their businesses. Given that the company is a conglomerate with the responsibility for managing risks decentralised and the steps being taken by the largest emitting subsidiaries, support was not warranted on this occasion. Note that this is a change in perspective since last year.
Outcome	Failed	
Votes in favour	26.47%	The shareholder resolution did not pass.

Issuer	US Multinational Conglomerate Holding Company	Kiltarn voted against a shareholder proposal requesting that the company issue a report disclosing how it intends to measure, disclose and reduce emissions associated with its underwriting, insuring and investment activities, in alignment with Paris, requiring net-zero emissions.
Quarter	Q2	The shareholder noted that the company faces risks by not making sufficient reductions in the climate footprint of its operations. The filer noted that the company made a pre-tax underwriting loss due to catastrophe claims.
Category	E	Opposing, the company noted that the risks from climate change to its insurance operations are assessed through the enterprise risk management framework and by adopting climate-specific risk management procedures (stress testing, consideration of the frequency and severity of weather events and regulatory adjustments that may impact underwriting decisions or adversely impact future operations' results). The board gets regular reports on the risks and opportunities from the company's businesses. The CEO has previously noted that if the occurrence of catastrophic events increases, premiums will also rise. While the insurance businesses do not have decarbonisation targets, as noted above, the largest contributing subsidiaries do have targets.
Proposer	Shareholder	In opposing the proposal, Kiltarn concluded that requiring the insurance businesses to set exclusions/targets against the board's judgement could have a detrimental impact on returns.
Subject	Emissions Target Report	The shareholder resolution did not pass.
Kiltarn Vote	Against	
Outcome	Failed	
Votes in favour	25.78%	

Issuer	US-based Financial Services company	A shareholder brought a proposal requesting that the company adopt a policy, by the end of 2022, committing to introducing proactive measures to ensure that the company's lending and underwriting do not contribute to new fossil fuel development.
Quarter	Q2	The proponent stated that the company has no policy to stop financing new oil and gas exploration and development, despite climate science reports that state that investment in new fossil fuel development is not aligned with a 1.5-degree scenario. The proponent noted that this give rise to reputational risk and transition risk (financing stranded assets). It also noted that the European Central Bank and Bank of England have considered tying capital requirements to loan-to-book climate risk.
Category	E	Opposing, the company notes that it has a net-zero 2050 target, including those related to financing. It has committed to disclose emissions and disclose interim reduction targets for "select carbon intensive portfolios" – including the oil and gas sector and the power sector – no later than the end of 2022. In 2021, it announced a commitment to lend or invest USD 500 billion to environmentally sustainable businesses by 2030. Regarding fossil fuel financing exclusions, the bank has said that it will not finance new coal-fired power plants or new or expanded coal mines. The company discloses its climate risk strategy in its Task Force on Climate-related Financial Disclosures (TCFD) report. The company joined the Net-Zero Banking Alliance in October 2021. As part of that commitment, it has 18 months to set 2030 targets.
Proposer	Shareholder	In opposing the proposal, Kiltarn concluded that it is not market practice for banks to agree to exclude new fossil fuel supplies from financing and it could adversely affect shareholder returns.
Subject	Lending to Fossil Fuel Projects	Kiltarn voted against the same proposal at another US financial services company for the same reason. That proposal also failed, gaining ~13% of votes.
Kiltarn Vote	Against	
Outcome	Failed	
Votes in favour	~11%	

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII).

Issuer	US Multinational Oil and Gas Company	<p>A shareholder brought a proposal requesting that the company set and publish medium- and long-term targets to reduced GHG from the company's operations and energy products (Scope 1, 2 and 3), in a manner consistent with the Paris Agreement.</p> <p>Opposing the proposal, the company pointed out that it has net-zero targets for its own operations by 2050 (Scope 1 and 2) and a 2030 target to cut emissions by 20%. It pointed out that it will spend USD 15 billion on low-carbon technologies through 2030. In respect of cutting Scope 3 emissions, the company pointed out that without a decrease in demand, consumers would just shift their demand elsewhere. The company pointed out that its operations are more efficient than the global industry average (energy intensity is 15% lower). The company also pointed out that its Scope 3 emissions may increase, while overall emissions are reduced. For example, if its gas displaces coal. At its most recent investor day, the company emphasised its strategy of remaining flexible and being able to move in line with changing policy.</p> <p>While the company made some fair points, Kiltarn determined that it would have been reasonable for it to set aspirational targets, in line with society (as the two European oil majors in the portfolio have done), for the reduction of its Scope 3 emissions. This need not have been an absolute target. For example, it could have been an intensity target (Chevron introduced a similar target last year) or a "striving to achieve" target, similar to Berkshire Hathaway Energy.</p> <p>The proposal failed, gaining ~28% of the vote. This suggests a significant changes in sentiment from a year ago when a similar proposal at a competitor's AGM gained enough support to pass.</p>
Quarter	Q2	
Category	E	
Proposer	Shareholder	
Subject	Emission Targets	
Kiltarn Vote	For	
Outcome	Failed	
Votes in favour	~28%	
Issuer	US Multinational Oil and Gas Company	
Quarter	Q2	
Category	E	
Proposer	Shareholder	
Subject	Emission Targets	
Kiltarn Vote	Against	
Outcome	Passed	
Votes in favour	~52%	

Social

Kiltarn saw a large number of social issue-focused shareholder proposals in 2022. The vast majority of these were proposals were brought at US companies' AGMs, where the divisive political landscape has pushed these issues up the agenda of some stakeholders. Kiltarn voted each of these proposals on a case-by-case basis. Notable examples where we supported the proposals are included below.

Issuer	US-based Financial Services Company	<p>A shareholder brought a proposal requesting that the company provides a report to shareholders outlining how effective the company's policies, practices, and performance indicators are in respecting internationally recognised human rights standards for indigenous peoples' rights in its existing and proposed general corporate and project financing.</p> <p>The shareholder noted that the violation of indigenous peoples' rights could lead to reputational damage, litigation, criminal charges and project delays/disruption. The shareholder stated that the company is still providing USD 3.86 billion for the Enbridge Line 3 tar sands pipeline expansion, which poses significant risks to the land, water and cultural rights of several tribes. Specifically, the proponent stated that the project violates the concept of free, prior and informed consent, threatens access to a wild rice species and will contribute to climate change. According to the proponent, the project has a history of ruptures and spills and has been the subject of lawsuits, including challenges to the Clean Water Act permit.</p> <p>Opposing, the company noted that it is "the leading provider of capital and financial services to tribes and tribal-owned enterprises". Further, the company has donated more than USD 50 million since 2018 to non-profits serving indigenous communities. The board stated that the company has "developed robust due diligence practices and procedures," which help the company review and assess environmental and social risks, including potential impacts to indigenous communities.</p> <p>The company's response on this item seemed somewhat weak. It relied on the fact that it has disclosed policies. The shareholder was not debating the existence of policies. It was asking the company to report on their effectiveness. Kiltarn consequently deemed that the request seemed reasonable in the context of the company holding itself out as requiring customers to get free, prior and informed consent from affected indigenous people.</p> <p>The proposal was unsuccessful, gaining ~26% of the vote. Kiltarn supported the same proposal at another US financial services company. It was also unsuccessful.</p> <p>Kiltarn also supported a shareholder proposal requesting a racial equity audit. The company commissioned a Human Rights Impact Assessment in 2021. Kiltarn opposed an equivalent proposal last year because of the commissioning of the report. However, the report's findings appeared to be much narrower in scope than the proposal by focusing solely on diversity and inclusion. The company's philanthropy efforts do frequently focus on non-white communities. With that said, the company has been involved in a number of controversies in recent years. For example, settling with the Department of Labour for alleged discriminatory practices in its hiring and rejecting a disproportionate number of refinancing applications from black applicants relative to peers. Peers are conducting equivalent audits.</p> <p>Kiltarn supported the proposal on the basis that the report could have highlighted issues with policies and practices that need addressed, thus minimising the risk of future controversies/litigation.</p> <p>The proposal was unsuccessful, gaining ~36% of the vote. Kiltarn voted against a similar proposal at a telecommunications conglomerate due to the efforts it is making in this area.</p>
Quarter	Q2	
Category	S	
Proposer	Shareholder	
Subject	Indigenous People's Rights and Racial Equity Audit	
Kiltarn Vote	For	
Outcome	Fail	
Votes in favour	25.62% and 35.73%	
Issuer	US Health Care Conglomerate	
Quarter	Q2	
Category	S	
Proposer	Shareholder	
Subject	Paid Sick Leave	
Kiltarn Vote	For	
Outcome	Fail	
Votes in favour	25.88%	

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII).

Political Contributions and Lobbying Payments

Kiltearn voted in favour of a number shareholder proposals requesting that companies increase disclosure concerning the companies' political contributions or lobbying payments. Kiltearn supported such proposals, as it believed the companies' existing disclosures were insufficient and additional disclosures would allow shareholders to better assess the companies' political or lobbying spending practices and management of the related risks.

Remuneration

Kiltearn voted against remuneration reports or policies at nine companies during the year. An example is included below.

Issuer	UK Pharmaceuticals and Health Care Company	<p>The company amended the maximum opportunity that the CEO has under the short-term incentive from 200% to 300% of base salary. The increased opportunity put the company third in the list of FTSE 10 companies for CEO remuneration opportunities at a time when the company was falling out of the FTSE 10 due to a spin off. This coupled with the fact that the weighting of the non-financial metrics element of short-term incentives will increase from 30% to 40%, and Kiltearn's pre-existing concerns around their rigour, meant that Kiltearn determined it would oppose the remuneration policy.</p> <p>As the remuneration policy proposal passed, it will determine the CEO's remuneration in the future. Kiltearn will have the opportunity to vote on such remuneration and will engage with the company on the issue if necessary.</p>
Quarter	Q2	
Category	G	
Proposer	Issuer	
Subject	Remuneration Policy	
Kiltearn Vote	Against	
Outcome	Passed	
Votes in favour	61.76%	

Kiltearn also voted in favour of some remuneration reports – going against the recommendations of ISS – during the period. An example is included below.

Issuer	US Financial Services Company	<p>Kiltearn determined that it would support the advisory item on executives' remuneration on the basis that the company's remuneration practices improved against a backdrop of improving financial performance. The company's determination of the named executives' total incentive pay remained discretionary (albeit with improved disclosure), guided by performance assessments. The CEO's long-term incentive awards moved from being 50% performance-based to 65% performance-based. This change was made based on shareholder feedback.</p> <p>Kiltearn felt that ISS did not give sufficient weight to the improvements in making its recommendation to vote against the proposal.</p>
Quarter	Q2	
Category	G	
Proposer	Issuer	
Subject	Executives' Remuneration	
Kiltearn Vote	For	
Outcome	Passed	
Votes in favour	72.86%	

Governance

Capital Discipline

Issuer	Japanese Bank	<p>Japanese companies continue to be laggards in respect of capital-discipline practices. Many have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low returns on equity and may pursue wasteful capital expenditure.</p> <p>Kiltearn supported a shareholder proposal that requested that the company pay a special dividend of ¥132/share. The shareholder proposed that the company pay out 100% of dividend income received on its equity holdings and 50% of net income from its lending activities. The shareholder noted that the move would improve return on equity (ROE), which has been less than 2% in the last two year and less than 5% in each of the last five years.</p> <p>Management did not offer a reasonable rationale against the proposal. Kiltearn believed that the proposal was sensible given the overcapitalisation of the balance sheet. Kiltearn consequently decided to support the proposal. The proposal was unsuccessful, illustrating the entrenched nature of the Japanese financial system. Kiltearn subsequently wrote to the company on the issue in early 2023 as part of its ongoing engagement efforts.</p>
Quarter	Q2	
Category	G	
Proposer	Issuer	
Subject	Special Dividend	
Kiltearn Vote	For	
Outcome	Failed	
Votes in favour	~25%	

Issuer	Japanese Cement Company	<p>ISS recommended voting against the re-election of the company's president and chair as executive directors. ISS did so on the basis that cross-shareholdings constituted in excess of 20% of the company's net assets (25%). However, after discussions with the company, Kiltearn supported their re-election on the basis that the company does have a plan to reduce cross-shareholdings to 20% of net assets in the next two years and 10% of net assets in the next five years.</p> <p>Kiltearn supported the re-election of the president of a Japanese regional bank – despite ISS's recommendation – on a similar basis.</p>
Quarter	Q2	
Category	G	
Proposer	Issuer	
Subject	Re-election of Chair and President	
Kiltearn Vote	For	
Outcome	Passed	
Votes in favour	Currently Unknown	

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII).

Combined CEO and Chair

Companies held in Kiltearn's portfolio may not always exhibit some of the preferred characteristics enshrined in Kiltearn's Proxy Voting and Governance Principles. Kiltearn consequently takes each company's facts and circumstances into account when voting proxies and engaging with management.

For example, Kiltearn sets out its expectation that the roles of CEO and chair are separated in the interests of accountability and effective oversight. Kiltearn believes that a primary obligation of a board is to provide independent oversight of executives' capital-allocation decisions. A chair's primary duty is to lead the board. A combined chair and CEO position, in Kiltearn's view, may inhibit objectivity and raises concerns about effective oversight.

The separation of the roles has been explicitly stated as best practice for UK companies since the UK Corporate Governance Code was first established in 1992. However, in some markets – notably, the US and France – the combining of the roles is still commonplace under the guise of strong and focused leadership. In fact, roughly 47% of S&P 500 companies and >50% of CAC 40 companies still combine these roles. Based on company performance or an individual's track record, Kiltearn may support a combined CEO and chair or express concern about the combination of the roles.

Issuer	US Biopharmaceutical Company	<p>Kiltearn voted against the separation of the roles at a US biopharmaceutical company. Going against ISS's recommendation, Kiltearn opposed the separation on the basis that the current structure is reasonable. Kiltearn also took into account the fact that the company has a lead independent director.</p> <p>The proposal failed, gathering ~45% of votes.</p> <p>Kiltearn voted against the same proposal at a US card payment services company and US multinational conglomerate holding company based on similar rationales. Both these proposals were also unsuccessful.</p>
Quarter	Q2	
Category	G	
Proposer	Shareholder	
Subject	Separation of roles of CEO and chair, appoint independent chair	
Kiltearn Vote	Against	
Outcome	Failed	
Votes in favour	~45%	

Issuer	US Freight and Courier Company	<p>Kiltearn voted in favour of the separation of the roles at the company. Kiltearn supported the separation on the basis that the current structure is suboptimal. At the time Kiltearn wrote its last investment research on the company, Kiltearn noted the dominant CEO (now chair) as a negative factor. The company argued that the founder/former CEO moving to the position of chair allows the CEO to leverage his knowledge during the transition. However, the founder/former CEO could remain on the board without holding the position of chair. It is also not clear how long the founder/former CEO intends to stay as executive chair.</p> <p>The proposal failed, gathering ~37.5% of votes.</p>
Quarter	Q3	
Category	G	
Proposer	Shareholder	
Subject	Separation of roles of CEO and chair, appoint independent chair	
Kiltearn Vote	For	
Outcome	Failed	
Votes in favour	~37.5%	

The Engagement Process

Consideration of corporate sustainability forms an important part of Kiltearn's assessment of a company's business quality. As part of the investment process, we seek to align ourselves with boards that act in the long-term interests of public shareholders. As a value manager, we see opportunity in out-of-favour companies, including those facing corporate sustainability challenges. In such instances, intervention to protect or enhance a company's long-term development and intrinsic value may be necessary.

If the Investment Team determines that engagement with a portfolio company is in the best interests of Clients, the Investment Team requests that the Sustainability & Governance Group engage with the relevant company. The advantage of this approach is that the stewardship message conveyed to the portfolio company is consistent with Kiltearn's investment thesis. However, Kiltearn has also engaged with activists, a trade union and a not-for-profit organisation.

In markets such the UK, the US and the EU, Kiltearn typically instigates engagement via a meeting with the company. For less material issues, companies in these markets tend to be relatively open to informal engagement and making incremental improves to their practices. For material issues, Kiltearn is likely to follow up with a formal letter to the company's board. Evidence suggests that it takes one and a half years, on average, and two to three engagements before such interventions are successful. We therefore accept that patience and appropriate escalation are required before we see tangible success in this area.

In markets such as Japan and South Korea, companies tend to be governance laggards, and the quality of their engagement is poor. As a result, Kiltearn tends to have a more formal and structured approach to engagement with these companies. Once an issued has been identified, Kiltearn will write to the relevant company's board and set out:

- (i) its concerns;
- (ii) where the company sits relative to its peers;
- (iii) Kiltearn's suggested action to address the issue;
- (iv) a timeline for putting a publicly disclosed action plan in place; and
- (v) Kiltearn's future actions if the issue is not adequately addressed.

If the company fails to address the issues, Kiltearn will escalate the issue.

High-Level Engagement Statistics

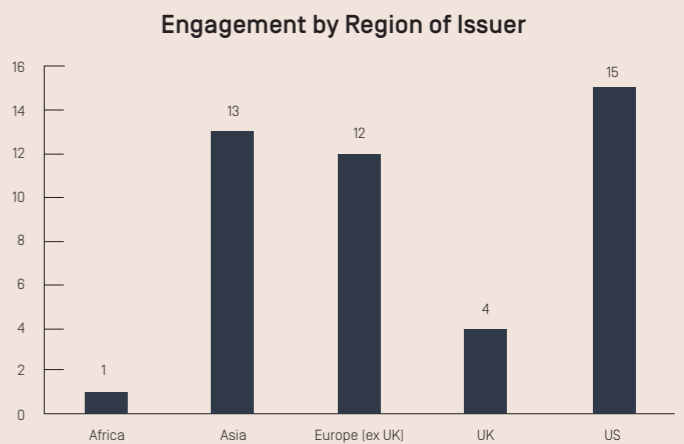
A summary of the Sustainability & Governance Group's engagement and monitoring activities with portfolio companies during the 2022 is included in the tables and graph below:

Engagement Types*	Number of Votes
Proxy Voting and Governance Principles	15
Email Exchanges	11
Calls with Chair/Non-Executives	3
Calls with IR/Company Secretaries	15
Formal Escalation Letters	1

* These numbers do not include interactions by members of the Investment Team as part of investment research and/or their monitoring efforts.

Engagement by Kiltearn Categories*	
RIPS (Governance)	41
E&S	29

*~61% of engagements included elements from both of Kiltearn's categories.



Material Engagements

A summary of Kiltern's 'material' engagement activities in 2022, including its collaborative efforts and escalated issues, is included below:

Environmental

See table to the right

Issuer	British Multinational Oil and Gas Company	<p>In February, Kiltern had a call with a British multinational oil and gas company to discuss its energy transition plan and its execution of the strategy. Notably, the company pointed out its deliberate underinvestment in oil production and the potential growth it sees in liquefied natural gas, chemicals and biofuels as part of the transition.</p> <p>The shareholder proposal for the upcoming AGM that would have required the company to cut Scope 1, 2 and 3 emissions was discussed. The company outlined its stance that the proposal did not serve the best interests of shareholders or the energy transition (at it distracts from the real issue, which is demand).</p>
Quarter	Q2 (vote)	<p>The Dutch court case was also discussed. In 2021, a Dutch court ordered the company to reduce its worldwide emissions (Scope 1, 2 and 3) by 45% by 2030. The company is appealing the decision. The company's position is that the court case – which will drag on for two to three years – is a distraction and, again, because it is about supply, will not help in the battle against climate change. If the company loses the appeal and needs to cut its Scope 3 emissions more aggressively, it could do so by selling its aviation fuel business. It holds the largest market share at 8%. It is not material in terms of profits (USD 100-200 million/year). However, it wants to keep the business as biofuels offers opportunity as part of transition.</p>
Category	E	<p>We also discussed the IEA's net-zero emissions by 2050 scenario. The company has said that it will reduce annual spending on exploration from around USD 2.2 billion in 2015 to around USD 1.5 billion between 2021 and 2025. Kiltern enquired how the company squares this position with the IEA's stance that investors should halt funding for new oil, gas and coal supply projects if the world wants to reach net-zero emissions by 2050. The company stated that it did not see the additional four years of exploration as materially different from the scenario. It also noted that the IEA report is not the only net-zero model and it is not a blueprint for setting business strategy.</p> <p>Finally, the company committed to increased disclosure on carbon pricing in its annual report.</p>
Proposer	Issuer	<p>At its May AGM, Kiltern supported an item relating to the energy-transition progress by the British multinational oil and gas company.</p> <p>Every three years until 2050, the company will publish its updated strategy and submit it to a shareholder vote. The company's target is to become a net-zero emissions company by 2050. The company's executive remuneration targets include consideration of energy transition.</p>
Subject	Energy Transition Plan Progress	<p>We believe that the company's increased focus on liquefied natural gas, which is considered to have superior environmental attributes to traditional oil, is sensible given its market-leading position in this area.</p> <p>The resolution passed, with ~80% of votes cast in favour of the proposal.</p> <p>The British-Dutch multinational oil and gas company has set a target of reducing its Scope 1 and Scope 2 emissions by 50% by 2030, compared with 2016 levels. Its target was previous a reduction of 20%. It will continue to face pressure to set emission-reductions targets that are more ambitious.</p>
Kiltern Vote	For	<p>The company intends to reduce its Scope 1 and 2 emissions by:</p> <ul style="list-style-type: none"> (i) developing carbon capture and storage (CCS); (ii) using nature-based solutions as offsets (if necessary); (iii) using more renewable electricity; (iv) transforming its remaining five refineries into low-carbon energy and chemical parks; (v) improving the energy efficiency of operations; and (vi) changing its portfolio by investing in low-carbon projects and divesting/natural decline of oil fields.
Outcome	Passed	<p>It intends to reduce Scope 3 emissions by working with customers to change their energy needs/demands (renewables, biofuels and natural gas).</p> <p>As at the end of 2021, the company reduced its Scope 1 and 2 emissions by 18%, Scope 3 emissions by 16% and the net-carbon intensity of energy products by 2.5%. By 2025, it expects half of its total expenditure to be on low- and zero-carbon products and services including biofuels, hydrogen, electric-vehicle chargers, CCS, nature-based solutions, chemicals and lubricants.</p>
Votes in Favour	79.71%	<p>Kiltern voted against a competing shareholder proposal on the basis that the company, in Kiltern's view, had taken reasonable action to address shareholders' environmental concerns, taking into account relevant factors that may affect significantly the company's long-term development and value creation. The shareholder resolution did not pass, with ~80% of votes cast against the proposal.</p> <p>As with all portfolio companies' emission-reduction targets, it will be necessary for the company to continue to report its progress against its targets.</p>

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII).

Issuer	French Multinational Oil and Gas Company	In January, Kiltern had a call with a French multinational oil and gas company to discuss its energy transition plan and its execution of the strategy.
Quarter	Q2 (vote)	The company has set more aggressive emissions' reduction targets than its competitors. Notably, the company pointed out that oil will only account for 30% of its sales mix by 2030, while liquefied natural gas will account for 50% and renewables will account for 15%. The potential renewables bubble was discussed. The company noted that it is a risk but the company is looking to build out capacity organically and is targeting an internal rate of return in excess of 10% from renewables projects. We also discussed the IEA's net-zero emissions by 2050 scenario. Kiltern enquired how the company squares its continued exploration with the IEA's stance that investors should halt funding for new oil, gas and coal supply projects if the world wants to reach net zero emissions by 2050. The company stated that while it agrees with the IEA's long-term trajectory, the scenario presumes demand of 70 million barrels/day will be needed by 2030. This would constitute a 30% fall from today, when demand is actually continuing to grow.
Category	E	The company believes that demand for oil will fall 1-2% year from its peak. However, oil fields see a 4-5% natural decrease/year. As a result, exploration is still required. The company requires all new projects to have lower CO2 emissions than its portfolio average, consistent with the company's ambition of more energy but lower emissions. The company's decision to exit Venezuela last year was based on this ethos. We discussed whether the company was pivoting from short-cycle projects to frontier basins. The company stated that it is more about the combination of cost and emissions. If the world gets to a level where it only needs 25 million barrels of oil/day in 2050, those with the lowest production costs will benefit. The company believes it is well positioned due to its presence in the Middle East. The company stated that the cost of production and emissions are lowest from that region.
Proposer	Issuer	The company used Iraq as an example. The company collects the gas from its own and other participants' oil fields and uses it for a new power plant. The plant produces electricity for the region (Iraq was previously an exporter of oil but an importer of electricity). The company also built solar capability of one gigawatt at the plant. Finally, the company is also constructing a large-scale seawater treatment unit to increase water injection capacities in the southern Iraqi fields without increasing water withdrawals as the country is currently facing a water-stress situation.
Subject	Energy Transition Plan Progress	We discussed the need for a just transition in the context of global population that will grow to 10 billion. The company noted that this is why it is focusing on gas – which will displace coal in countries such as India, China and Vietnam – and reducing energy intensity. Finally, we discussed the company's internal carbon pricing and the company's lobbying efforts.
Kiltern Vote	For	At its May AGM, Kiltern supported the energy-transition resolution proposed by a French multinational oil and gas company. The company has set ambitious plans relative to other majors. It is targeting: (i) net-zero across Scope 1, 2 and 3 emissions by 2050; (ii) a 30% reduction in Scope 3 emissions from the petroleum products it sells by 2030 (vs. 2015); and (iii) hydrocarbons only constituting 25% of its energy mix by 2050 – with 50% in renewables. Finally, in response to a now-dropped shareholder proposal, the company has committed to publish:
Outcome	Passed	(i) the absolute and relative reduction targets for greenhouse gas emissions on Scope 1, 2, 3 in the short (2025) and medium term (2030), covering all activities; (ii) the evolution of the energy mix and targeted production volumes for these time frames; (iii) short- and medium-term investment plans broken down by sector and by orientation between maintenance and growth of the company's assets; (iv) the potential contribution of captured emissions to achieving the company's emission-reduction targets; and (v) details of the work carried out by the company with third parties to assess the relevance of these targets with regard to the implementation of the Paris Agreement.
Votes in Favour	91.88%	In supporting the proposal, we noted that we believe that the company is ahead of its peers with its energy-transition strategy and its increasing emphasis on gas and renewables. There was some concern that there is a potentially value-destructive bubble in renewables, given their current valuations; however, the company has shown reasonable discipline in its capital expenditure in this area to date. As with all portfolio companies' emission-reduction targets, it will be necessary for the company to report its progress against its targets.

Issuer	Japanese Cement Company	In March, Kiltern contacted a Japanese cement company to get a better understanding how the company intends to meet its 2050 net-zero target.
Quarter	A1	We enquired whether the company is looking to obtain certification from the SBTi. The company confirmed that this is a long-term ambition but it has already introduced an LCA system based on ISO14040 to be used as the basis for third-party certification.
Category	E	We enquired about the company's use of CCS and low-carbon products to meet its net-zero target and the capital expenditure associated with the target. The company confirmed that CCS and low-carbon products will be used to meet the target but they are excluded from capital expenditure figures as they are subsidised by the Japanese government. The company confirmed that it intends to spend ~JPY 30 billion on the project across the period of 2020-2030. This spending will go on making processes more energy-efficient and replacing coal with alternative fuels.
Objective(s)	Third party verification of emissions' targets, ensuring board accountability for targets	The company confirmed that it has a committee that is accountable for the company delivering against its emission-reduction targets and the committee reports to the board. However, there is currently no link between the targets and executives' variable remuneration.
Status	Open	Kiltern will continue to monitor the company's progress. We will continue to push the company to obtain SBTi certification and push for a link between emission-reduction targets and executive remuneration.
Outcome	Improved understanding of how the company intends to meet its target	

Issuer	Japanese Manufacturing Company	In March, Kiltern contacted a manufacturing company to get a better understanding how the company intends to reduce emissions by 46% by 2030.
Quarter	Q1	We enquired about the company's planned capital expenditure associated with the target. The company confirmed that it is largely looking to meet its target by sourcing low-carbon energy and improving energy efficiency. The company confirmed that it does not currently disclose the planned capital expenditure to meet its 2030 target.
Category	E	We enquired whether the company is looking to obtain certification from the SBTi. The company confirmed that it is likely to obtain a certificate issued by the Japan Audit and Certification Organization for Environment and Quality (JACO) in respect of 13 domestic production bases. The company confirmed it does intend to report in a manner consistent with TCFD.
Objective(s)	Third party verification of emissions' targets, ensuring board accountability for targets	The company does not currently have an internal carbon price but confirmed it is looking at introducing one.
Status	Open	The company confirmed that it has a committee that is accountable for delivering against the company's emission-reduction targets. However, there is currently no link between the targets and executives' variable remuneration.
Outcome	Improved understanding of how the company intends to meet its target	Kiltern will continue to monitor the company's progress. We will continue to push the company to obtain SBTi certification, disclose planned capital expenditure associated with the target and push for a link between emission-reduction targets and executive remuneration.

Issuer	German Motor Vehicle Manufacturer	In late 2021, Kiltern had a call with the company to discuss various issues, including 'Dieselgate', electric-vehicle transition, supply-chain issues, employee relations, EU emissions targets and the COP26 automotive-emissions deal. Following the call, Kiltern wrote to the company's supervisory board encouraging it to add further electric-vehicle experience and independent directors to the board. Kiltern also supported the company's strategy of focusing its certification efforts on the highest-risk suppliers in its supply chain, notably in the cobalt industry and Xinjiang.
Quarter	Q4	
Category	E/S/G	
Objective(s)	Environmental board experience	Kiltern followed on the engagement in late 2022. No meaningful had been made in improving the make-up of the company's supervisory board by that time.
Status	Ongoing	If the company fails to act on Kiltern's suggestions, Kiltern will consider how to escalate the issue. Noting that our avenues for redress are limited as we hold a non-voting line of shares. We hold the non-voting line because the voting line is less liquid and trades at a premium.
Outcome	No change to date	

Social

Issuer	Taiwanese Manufacturing Company	In March, Kiltearn had a call with a manufacturing company to get a better understanding of the labour relations facing the company. Kiltearn believes that labour relations is the most important and financially material E&S issue for the company's business.
Quarter	Q1	
Category	S	The company is the first athletic shoe manufacturer to be certified by the Fair Labour Association. This involves annual audits and the company participating in a fair labour compensation programme. The company views this accreditation as lowering client risk of forced labour allegations. Ironically, it was exactly this 'good' social practice that caused material financial headwinds for its parent company in 2021 (publicly shunning poor labour practices triggered the nationalist boycott of the footwear designers that the company supplies in China). This illustrates how complex and political social factors can be.
Objective(s)	Improvement of labour relations	The ambitions of its top clients are the driving force behind the company's emission-reduction targets (reducing emissions by 49% by 2030 vs. 2019). The company claims costs associated with this are small (not quantified) because the government sponsors the relevant initiatives, such as solar panel installation. The company also plans to purchase offsets in order to meet its target.
Status	Open	
Outcome	Improved understanding of how the company intends to meet its target	Executives' remuneration is not directly linked to E&S targets. However, executives are incentivised on order flow and the scores given annually by key customers (all manufacturing suppliers are graded and order flow goes to those with strong ratings). ESG factors feature heavily in the scorecards of key customers, so falling behind on carbon emissions will affect the score.

Capital Discipline

Throughout 2022, we continued to focus on companies in Japan that are governance laggards. Broadly, we are focused on companies with poor capital-discipline practices and non-independent boards. These companies typically have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low returns on equity and may pursue wasteful capital expenditure. As of mid-January 2023, have 11 engagements at various stages with Japanese companies on these issues and a wider thematic strategy to push all Japan portfolio companies to have majority-independent boards.

To date, progress has been made, but it has been limited. This is expected given that we are asking these Japanese companies to accelerate away from an outdated but ingrained culture of holding excess value on balance sheets and putting the best interests of minority shareholders below those of other stakeholders. Kiltearn will continue to engage regularly with these companies and vote against management where little or no progress is made. We are also escalating on this issue. For example, at the end of 2022, we begun the process of introducing our first shareholder resolutions at Japanese companies' AGMs.

Issuer	Japanese Securities and Alarm Company	In December 2022, Kiltearn sent a formal letter to the company's chair. The letter requested that the company set out a plan to:
Quarter	Q4	
Category	G	<ul style="list-style-type: none"> increase its dividend payout ratio; set a repurchase programme target (we believe 10% of outstanding shares in a fiscal year is reasonable); cancel all treasury shares; disclose all cross-shareholdings and a timeframe over which they will be sold; set a return on equity target (we suggest >10%); and improve board independence by adding qualified independent directors with no existing ties to the company or reducing the number of executive directors on its board.
Objective(s)	Improve shareholder returns and board independence	
Status	Open	
Outcome	No progress to date (recent engagement)	

Issuer	Japanese Materials Company	While commending a Japanese materials company for improving the overall independence of its board, Kiltearn voted against the re-election of its chairman as the person ultimately responsible for (in Kiltearn's view) the company's poor capital-allocation record and overcapitalised balance sheet at the company's 2020 AGM.
Quarter	Q2 (Vote)	
Category	G	Following on from a call with senior members of the company's management team in the summer of 2020, Kiltearn sent a formal letter to the chair in mid-October 2020. The letter requested that the company (i) reduce its cross-shareholdings, as prescribed by the Japanese Corporate Governance Code; (ii) buy back its shares with the proceeds and cancel the repurchased shares; (iii) set an ROE target of >10%; and (iv) improve its working-capital efficiency.
Objective(s)	Improve shareholder returns	Encouragingly, the company did buy back shares during 2020; however, Kiltearn believes that they were not sufficient (~5%) given the magnitude of the overcapitalisation of its balance sheet. As a result, Kiltearn voted against the re-election of the president at the company's 2021 and 2022 AGM.
Status	Closed	
Outcome	Some buyback activity	Kiltearn sold out of the company in June 2022 despite having some valuation support due to better opportunities being available elsewhere.

Issuer	Japanese Media Conglomerate & Property Company	Kiltearn sent a formal letter to a Japanese media conglomerate's chair in early July 2021. In the letter, Kiltearn commended the company for listening to shareholders, acknowledging that its balance sheet is overcapitalised and taking steps to address that overcapitalisation by repurchasing ~JPY 10 billion of shares between July 2020 and the end of March 2021. Kiltearn did note, however, that it did not consider the action taken by the company adequate to address fully the issue, given the magnitude of the overcapitalisation (the company's investment securities equate to 30% of its equity). In recent years, the company has also allocated significant capital to a capital-intensive low-returning property business. This is an area of concern for Kiltearn. We consequently asked the company to reduce its holdings in investment securities, improve capital efficiency by focusing on the core media business and further enhance shareholder returns. We also asked the company to improve its level of board independence.
Quarter	Q2	
Category	G	The company had not made any material improvement in its level of cross-shareholdings or level of board independence by its 2022 AGM. As a result, Kiltearn voted against the re-election of the chair, president and all other executive directors on the board. Kiltearn voted similarly at a Japanese food product company's and a Japanese pharmaceutical wholesaler's AGMs for the same reasons.
Objective(s)	Improve shareholder returns, board independence	
Status	Open	
Outcome	No change to date	As noted above, Kiltearn believes that it is in Clients' best interests for the company to take action to improve shareholder returns. Kiltearn will continue to monitor the company's progress, and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.

Issuer	Japanese Manufacturing Company	<p>Kiltearn sent a formal letter to the company's chair in November 2021. The letter requested that the company:</p> <ul style="list-style-type: none"> (i) reduce its cross-shareholdings, as prescribed by the Japanese Corporate Governance Code; (ii) buy back its shares with the proceeds and cancel the repurchased shares; (iii) set an ROE target of >10%; (iv) increase its dividend payout ratio; and (v) improve the level of independence on the company's board by adding independent directors with relevant industry experience. <p>Kiltearn voted against the re-election of the chairman of the manufacturing company as the person ultimately responsible for the company repeatedly missing its ROE target and dropping it entirely in its new medium-term business plan, while having what Kiltearn considers to be an overcapitalised balance sheet. The company had not made any material improvement in its level of cross-shareholdings or level of board independence by its 2022 AGM.</p> <p>As noted above, Kiltearn believes that it is in Clients' best interests for the company to take action to improve shareholder returns. Kiltearn will continue to monitor the company's progress, and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue. For example, we have moved our Clients' shares into the account type necessary to allow Kiltearn to bring AGM resolutions in Japan.</p>
Quarter	Q2	
Category	G	
Objective(s)	Improve shareholder returns, board independence	
Status	Open	
Outcome	No change to date	

Remuneration

Issuer	US Financial Companies	<p>The US is a very high compensation market relative to global standards. As a result, Kiltearn's expectation is that US companies follow best practice when making remuneration decisions. The determination of executives' remuneration at US financial companies, however, typically lack two elements that Kiltearn looks for: objectivity and transparency. US financial companies' remuneration committees typically use a high level of discretion to determine executives' annual bonuses, rather than disclosed objective financial targets. Kiltearn is sceptical about such arrangements, believing that they do not adequately address the need for accountability and alignment on behalf of management. Kiltearn has consequently sought to engage directly, by way of correspondence and discussion, with US financial companies to see an improvement in their executive-remuneration practices.</p> <p>Perhaps unsurprising given that a study has shown that remuneration policy is the area with the lowest successful rates for engagement, US financial companies have often been resistant to meaningful change.</p> <p>Where there have been incremental improvements in US financial companies' executive-remuneration-determination practices, such as improvement in disclosure, Kiltearn has supported the relevant companies. For example, in 2022 Kiltearn supported a US financial services company following improved disclosure practices, having voted against the company in 2021.</p> <p>Following Kiltearn's feedback, the highest-weighted holding in its Clients' portfolio, a US-based international investment-management company, increased the weighting of financial measures for executives' annual bonuses. Kiltearn subsequently supported the company.</p> <p>Where there have been no improvements or where incremental improvements have stalled, Kiltearn has had additional discussions with the relevant companies and, in some cases, voted against remuneration and the re-election of the remuneration-committee chairs. For example, in 2022, Kiltearn did not support remuneration and/or the re-election of the remuneration-committee chair at a US-based multinational financial services company. Kiltearn will continue to monitor the company's remuneration practices and disclosures.</p>
Category	G	
Objective(s)	Improve executive remuneration practices	
Status	Ongoing	
Outcome	Companies are generally improving disclosure	

Board Independence

Issuer	Japan Companies	<p>Kiltearn previously wrote to all Japanese portfolio companies asking them to increase the number of independent directors on their boards – with the end-goal of having majority-independent boards – and introduce board committees that are made up of a majority of independent directors. Kiltearn believes that it is ordinarily in the best interests of its Clients for portfolio companies to have majority-independent boards, as they can look to ensure that there is effective oversight of and challenge to the executive management teams.</p> <p>Since 2019, we have seen a number of the Japanese portfolio companies increase independent representation on their board and/or introduce board committees. Kiltearn commended companies where the level of independence is improving but noted that it believes they should be targeting majority-independent boards. Kiltearn consequently supported those companies. Kiltearn will likely only continue to do so, however, where it sees continued improvement. Where Japanese companies did not make any such improvements, Kiltearn voted against the inside directors – other than those deemed to be key executives and board participants.</p>
Category	G	
Objective(s)	Improve board independence	
Status	Ongoing	
Outcome	Some companies have made incremental improvements to the balance of independent directors on their boards	

Related Parties on Boards

We note that related parties are not impartial. Related parties include controlling shareholders (including individuals related to or representative of a parent company), individuals with previous or current business relationships with a company, and family members of officers or employees. They cannot be considered independent and are unlikely to protect the interests of minority shareholders. These parties are unsuitable candidates for non-executive positions. As a result, Kiltearn voted against the election or re-election of related parties as non-executives, where the boards were not otherwise majority independent, at a number of companies including a Canadian financial holding company and a US multinational conglomerate holding company.

These situations often arise in the case of family-controlled public companies. The founder's family typically retains a large ownership stake and voting rights. Kiltearn will vote in line with its policy and engage companies on the issue; however, the likelihood of these interactions successfully bringing about change in the composition of these companies' boards is low. Kiltearn factors this into its investment analysis.

Long-Serving Non-Executives

We also believe that the independence and impartiality of a non-executive director is put at risk when they have served on a board for a long period. As a result, Kiltearn voted against the re-election of long-serving non-executives, where the boards were not otherwise majority-independent or, in some cases, where they held senior board positions at a number of companies. These companies were predominantly based in the US and Asia, where long-serving non-executives are commonplace.

Kiltearn will typically vote in line with its policy and engage companies on the issue; however, the likelihood of these interactions successfully bringing about change in the composition of these companies' boards is highly variable. Often, other shareholders – particularly domestic shareholders – will take the position that a high weighting to long-serving non-executives on boards is favourable as it increases experience (US) or ensures that political influence can be exerted (Asia).

Collective Engagement

Issuer	Japanese Communication-Services Company	<p>The Japanese communication-services company is required to limit the number of its voting rights held by foreign entities to 20%. Consequently, the company does not register foreign-owned shares that would cause this threshold to be exceeded. However, the company does not pay dividends in respect of the unregistered shares despite the fact that there is no law or rule that prohibits it from doing so.</p>
Quarter	Q1	<p>Kiltearn's Clients own shares in the company, including unregistered shares, and consequently receive reduced dividend payments because of the company's unequal treatment of foreign investors. Further, the policy makes the company potentially less attractive to foreign investors and so may be suppressing the share price. As a result, Kiltearn believes it is in its Clients' best interests for the company to change its policy.</p>
Category	G	<p>Kiltearn has interacted, by way of a call and formal follow-up letter, with the company to outline Kiltearn's concerns about, and requesting the company make changes to, its dividend-distribution policy. The company refused to change its policy and did not give an adequate explanation for its stance. Kiltearn also engaged with ISS to set out the firm's position on the same issue and to seek its support. Despite ISS's initial resistance to changing its stance, it was willing to discuss the issue with Kiltearn. Following the discussion, ISS changed its approach: (i) conducting its own investigations on the issue; (ii) including a discussion of the issue in its proxy research on the company; and (iii) making a proxy-voting recommendation reflecting its stance on the issue.</p>
Objective(s)	Improve shareholder returns, improve board independence	<p>ISS's specific recommendation was to vote against the re-election of the company's chair at the company's recent AGMs, as he was deemed the individual with the greatest responsibility for the company's continued refusal to pay dividends to non-registered foreign shareholders. Based on the recommendation, ~26% of the company's shareholders voted against his re-election at the 2021 AGM. Kiltearn voted against the re-election of the chair and all other members of the board at the 2021 AGM.</p>
Status	Ongoing	<p>Kiltearn contacted the company in the second half of 2021 to obtain a copy of its procedures for bringing shareholder resolutions. The company subsequently asked for a call to discuss the proposals. During the call, Kiltearn suggested that if company puts a publicly disclosed plan in place to deal with Kiltearn's concerns, with meaningful targets.</p>
Outcome	Cross-shareholdings being reduced, majority independent board	<p>Kiltearn had a follow-up in early 2022 with the company. The company confirmed that, while it would not change its policy regarding the payments of dividends in respect of unregistered shares, it would continue to wind down its cross-shareholdings. Based on public disclosures, cross-shareholdings have been reduced to ~21% of net assets. Further, the company now has a majority independent board, which remains rare in Japan.</p> <p>Despite the improvements, Kiltearn voted against the re-election of the chair and president at the 2022 AGM due to the dividend policy.</p> <p>Kiltearn will continue to monitor the company's progress and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.</p>

Issuer	Japanese Materials Company	<p>We had calls with an investment firm towards the end of 2019 and early in 2020 to exchange views on a materials company's capital efficiency and shareholder returns. The company is one of several Japanese portfolio companies that we consider to have an overcapitalised balance sheet (see other examples above).</p>
Quarter	Q1 (vote)	<p>On 30 January 2020, following sustained efforts from Kiltearn and the other investment firm to encourage the company to address its overcapitalisation, the company announced a medium-term capital efficiency plan. Kiltearn subsequently wrote to the company in late February 2020 commending it for listening to shareholders, acknowledging that its balance sheet is overcapitalised and taking steps to address that overcapitalisation. Kiltearn also confirmed that it would support the balloted items relating to the implementation of the 30 January 2020 announcement and the re-election of the company's directors at the upcoming AGM based on the positive steps being taken. Kiltearn did, however, note that the steps set out by the company were not considered adequate by Kiltearn to fully address the issue, given the magnitude of the overcapitalisation (the company's net cash plus investment securities/sales ratio is 45%; this compares to just 6% for the TOPIX 500). We consequently asked the company to formulate a more ambitious plan to improve capital efficiency and further enhance shareholder returns.</p>
Category	G	<p>The company did not commit to a more ambitious plan to improve capital efficiency throughout 2020, as request by Kiltearn. As a result, Kiltearn voted against the re-election of the chair at the company's 2021 AGM. An explanation for this decision was provided to this company on its request.</p>
Objective(s)	Improve shareholder returns, improve board independence	<p>Kiltearn had a call with the same investment firm to exchange views on the company. On the call, we discussed the overcapitalised balance sheet, the lack of progression on the dividend payout ratio and the slowing unwinding of cross-shareholdings.</p>
Status	Ongoing	<p>Kiltearn had a call with the company itself in March of this year. On the call, Kiltearn discussed the company's next medium-term plan and the need for the company to set a more ambitious ROE and buyback targets.</p>
Outcome	Some buyback activity	<p>Kiltearn voted against the re-election of the president at the 2022 AGM to keep the pressure on it to improve shareholder returns.</p> <p>As noted above, Kiltearn believes that it is in Clients' best interests for the company to take action to improve shareholder returns. Kiltearn will continue to monitor the company's progress and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue. For example, at the end of 2022, we begun the process of introducing our first shareholder resolutions at the company's AGM. The resolutions are aimed at improving shareholder returns. As part of this process, we will have discussions with the company and may engage with other stakeholders on the issue.</p>

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII).

