EgertonCapital

UK Stewardship Code 2020 (the "**Code**")
Report on our stewardship activities and outcomes in 2022

Table of Contents

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

Egerton Capital (UK) LLP ("Egerton") was founded in 1994 and is an independent investment management firm based in London. We have 45 permanent employees, including 14 investment professionals[1]. We are owned and controlled by our partners, all of whom (apart from one of our two co-founders) continue to work in the business.

Egerton manages approximately $14 billion in assets under management (as at 31 March 2023) across two strategies, equity long/short and equity long-only, and for a diversified client base that includes endowments, family offices, foundations, fund of funds, high net worth individuals, pension plans and sovereign wealth funds. Partners and employees of Egerton, collectively, represent one of the largest single investor groups.

Our **objective** is to deliver superior long-term and risk-adjusted performance through investing in a diversified portfolio of primarily liquid, large-cap, publicly traded equities. To illustrate this, data in respect of Egerton's largest fund under management, a long-only fund, is provided below as at 31 March 2023. Individual long positions[2], position sizes, and sector and geographic exposures are substantially similar across all Egerton funds (equity long-only and equity long/short).

Position Detail	
Number Of Positions	38
Number Of Positions > 0.5%	30
Top 10 Positions	54.5 %
Top 20 Positions	77.8 %
Equity Position Beta (MSCI World TR Local)	1.11

Exposure Analysis:	
Equity Positions	85.3 %
Total Exposure	**85.3 %**
Total Exposure (beta adjusted)	85.4 %

Summary Market Cap Breakdown	% of NAV
Large-Cap (>$10bn)	82.6 %
Mid-Cap ($2bn-$10bn)	2.7 %
Small-Cap (<$2bn)	0.0 %
Total	**85.3 %**

[1] As at 1 April 2023.

[2] Egerton is unable to exercise stewardship in respect of short positions or long positions held on swap.

Detailed Geographic Breakdown	% of NAV
Europe	***24.8 %***
Denmark	0.7 %
France	8.7 %
Germany	4.6 %
Ireland	3.2 %
Norway	0.6 %
Switzerland	2.1 %
United Kingdom	5.0 %
North America	***57.6 %***
Bermuda	0.8 %
Canada	20.6 %
United States	36.2 %
Asia	***2.1 %***
India	2.1 %
Australasia	***0.8 %***
Australia	0.8 %
Total	**85.3 %**

Central to our **investment philosophy** is a rigorous process of **fundamental research** which includes meeting with company management, as well as analysis of publicly available information and proprietary and independent research. The Code is therefore relevant to many aspects of our investment process.

Earnings Quality – the overall reasonableness or soundness of a company's reported financial statements – is a particular focus of the Investment Team, both in the case of finding short positions and, in analysing, critiquing and avoiding potentially dangerous long positions. Three members of our investment team have backgrounds in earnings quality analysis and forensic accounting research – Jay Huck, who prior to Egerton, spent five years at the Center for Financial Research & Analysis ("CFRA") where he was responsible for US equity research as well as setting up the firm's European equity business, which he led until joining Egerton; Brad Snyder, also ex CFRA, who joined Egerton in April 2013; and Catherine Giordan, who joined Egerton in 2021 from Exane, where she helped create Exane BNP Paribas' Forensic Accounting service.

Egerton recognises that the world faces growing **environmental, social, and governance-related risks**. As we have a fundamental, research-intensive stock-picking approach to investing, our research process naturally leads us to seek to identify well-governed companies with sustainable, long-term business models and certain ESG factors therefore form an important part of our stock selection process in respect of long and short positions[3].

Egerton endeavours to identify material problems with investee companies at an early stage to minimize any loss to investors. To the extent possible and appropriate, we may attempt to make the appropriate members of the investee company's board aware of them (either directly, or indirectly via the relevant company's investor relations department). Such concerns may include, among other things, corporate governance and/or climate change issues where Egerton believes they have an impact on shareholder value. Alternatively, we may simply sell the relevant position to minimise any loss.

[3] However, ESG factors will not necessarily be the determining factor for an investment. Egerton may permit a Fund to hold investments that have negative ESG factors.

In compliance with the aims of the Code, Egerton seeks to enhance the quality of engagement with companies to help improve long-term returns for our clients. **Stewardship and engagement** are a key part of our investment process, and are a tool which may be used for ESG risk management. Egerton considers access to senior management an important part of investment in core positions and will generally meet with the management of core positions half-yearly in order to discuss issues such as governance, strategy and shareholder value (see *Principle 9* for data in this regard). We believe that our engagement with management on such issues is integral to the discharge of our stewardship responsibility and the interests of our clients, and we are unlikely to invest in companies where it appears that management is not acting in the best interests of shareholders.

Examples of Egerton's stewardship and engagement in 2022 are given later in this report.

Finally, Egerton's **culture** emphasizes collaboration, humility, admitting (and learning from) mistakes, and self-improvement.

As explained in more detailed below in respect of Principle 6, Egerton is planning to undertake UNPRI reporting for the first time in Q2/Q3 2023, which in addition to the disclosure itself will constitute a form of external assessment of Egerton's stewardship activity.

PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship

Governance

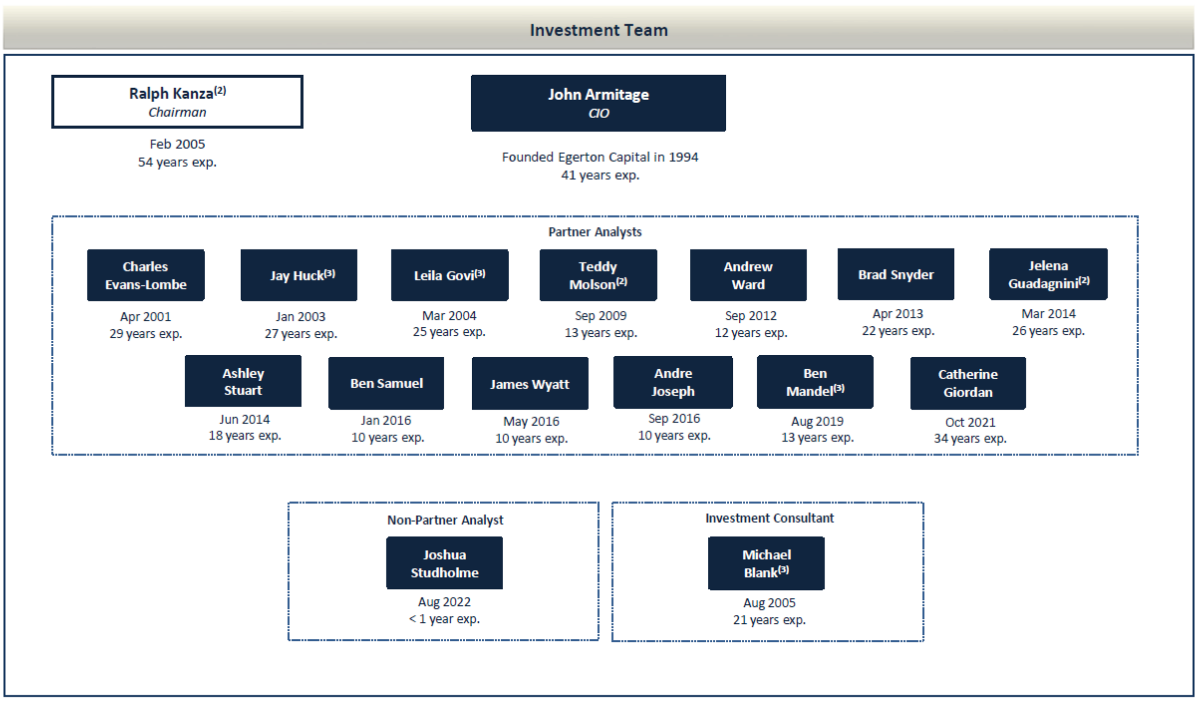
Egerton's Management Committee is ultimately responsible for the firm's policies and procedures in respect of stewardship and ESG risks. It has approved this report and the related policies and procedures, including Egerton's ESG & Sustainability Risks Policy, and our integration of ESG risks into investment decision making.

The Management Committee meets approximately every two weeks to discuss the day-to-day management of non-investment aspects of the firm. Its members are Egerton's Chairman, two senior analysts from the Investment team, the Chief Executive Officer (also the Risk Manager), the Chief Operating Officer, the Finance Director and the General Counsel & Chief Compliance Officer, thereby ensuring cross-firm representation from the investment team, the middle and back office, and legal and compliance.

Egerton provides detailed reporting on proxy voting (especially ESG-related voting), quarterly, to the boards of directors of each of its funds under management, both for their information and for them to challenge Egerton on it. This has only improved Egerton's proxy voting activities. This could be improved further by adding reporting all Egerton's stewardship activities (such as of current engagement with issuers).

Resources

Engagement with investee companies is the responsibility of Egerton's Investment Team, the senior members of which are highly experienced as can be seen from the organization chart of the team below[4]:



The biographies of the Investment Team's most senior members, John Armitage (Chief Investment Officer) and Ralph Kanza (Chairman), are below:

John Armitage (Chief Investment Officer)

John co-founded Egerton in 1994. He is the Chief Investment Officer and portfolio manager for the firm's equity long/ short and equity long-only strategies. John is also a director of Egerton Capital Limited and a partner of Egerton Capital (UK) LLP and Egerton Capital (US), LP. Prior to co-founding Egerton, John worked at Morgan Grenfell Asset Management, where he began his career in 1981, and became a director in 1991. He managed the Morgan Grenfell European Growth Trust from its launch in April 1988 until March 1994; it was the top ranked European mutual fund over this period. John graduated from Cambridge University in 1981 with a degree in Modern History.

Ralph Kanza (Chairman)

Ralph joined Egerton in 2005. He is Chairman and a director of Egerton Capital Limited, a partner, a senior advisor to John Armitage and the investment team, and chair of the Management Committee. Ralph began his career as a research analyst with Cheuvreux de Virieu S.A. and, by 1974, was responsible for research, institutional sales, and fund management. Until 1988 he was the firm's investment manager, managing private and institutional accounts as well as the firm's mutual funds. During this period, he ran employee profit-sharing programs for Pfizer Inc. and Rank Xerox. In 1979, he set up and managed the Vendome line of mutual funds. Subsequent to Cheuvreux de Virieu's affiliation with

[4] Investment Team as at December 2022

Banque Indosuez, Ralph became a managing director (1988) then chief executive (1992). Also in 1992, the Indosuez Group appointed him head of European stock broking. In 1994, Cheuvreux de Virieu elected Ralph as chairman of its board and he assumed overall responsibility for European equity markets for Banque Indosuez until 1997. Ralph then joined SEFI S.A., an investment advisory firm based in Geneva, where he was a managing director and fund manager. In 2000, Ralph co-founded and became chief investment officer of Beaumont, a wealth management and investment advisory group, based in London. Following Beaumont's acquisition by Schroders plc, Ralph became vice chairman and chief investment officer of Schroders Private Bank and chief investment officer of Schroders hedge fund business. Ralph left Schroders in 2005 to join Egerton. He graduated in 1964 from Robert Academy in Istanbul and from University of Paris (DES Economics) in 1970. He has been a CFA charterholder since 1980.

The biographies of Jay Huck, Brad Snyder and Catherine Giordan, the investment analysts with primary responsibility for earnings quality and behavioural analysis work (referred to in more detail under Principle 1 above), are below.

While the engagement theme of climate change is a collective responsibility of Egerton's entire Investment Team, Egerton hired an investment analyst, Joshua Studholme, in August 2022 who has an extensive background in climate science and his biography is further below:

Jay Huck (Investment Analyst)

Jay joined Egerton in 2003 and is a partner of Egerton Capital (US), LP. He is a generalist stock picker focused on North America. Prior to joining Egerton, Jay worked for the Center for Financial Research & Analysis ('CFRA'). CFRA is a forensic accounting firm focused on helping institutional investors identify companies employing aggressive accounting to hide deteriorating operational performance. In his five years at CFRA, Jay was responsible for North American equity research as well as setting up the firm's European equities business, which he led until joining Egerton. While at CFRA, Jay wrote research reports highlighting some of the well-known accounting stories of that time including Calpine, Xerox, Ahold, and Lernout and Hauspie. Jay is a CFA charterholder, and has degrees from the University of Chicago (MBA) and University of Washington (BA).

Brad Snyder (Investment Analyst)

Brad joined Egerton in 2013 and is a partner. He is a generalist although his primary areas of focus are the industrial, technology, consumer, and services sectors, as well as credit analysis. Prior to joining Egerton, Brad spent six years on the buy-side, working most recently as an equity analyst at Shannon River Partners and before this, as a credit analyst and trader at UBS Investment Bank Portfolio Management and an equity analyst and portfolio manager at Ennismore Fund Management. Brad started his investment career at the Centre for Financial Research & Analysis (CFRA), a forensic accounting focused equity research firm, where he spent four years primarily focused on European equities in the industrial, TMT and consumer sectors. Prior to this, Brad worked for five years in the software and networking industry. Brad is a CFA charterholder and has degrees from London Business School (MBA) and Lehigh University (BSc in Mechanical Engineering and BA in History).

Catherine Giordan (Investment Analyst)

Catherine joined Egerton in 2021 and is a partner[5]. Her primary focus is forensic accounting research and analysis. During her 23 years at Exane BNP Paribas, she was in charge of accounting and valuation topics within the Equity Research department. In 2016 she helped create Exane BNP Paribas' Forensic Accounting service which was dedicated to providing forensic accounting research to subscribing clients. Previously, she was an analyst at HSBC James Capel. Catherine has a degree from Institut d'Etudes Politiques de Paris and from Assas University.

[5] As of 01 April 2022

Joshua Studholme (Investment Analyst)

Josh joined Egerton in 2022 and is a generalist. Areas of focus include energy and commodity companies. Prior to joining Egerton, Josh was a fellow in Climate Physics at Yale University. Before this, he studied Physics at Moscow State University, where he completed his MA and PhD. He has published several research articles, including in Nature journals, and was a contributing author on the Intergovernmental Panel on Climate Change Sixth Assessment Report.

In addition to the appropriate resourcing of stewardship activities by means of relevant investment analysts, Egerton has dedicated resources in our Fund Operations team and the systems and processes used by that team in respect of our proxy voting. Our proxy voting procedures and record-keeping are undertaken by the Fund Operations team who, subject to Egerton's policies and procedures designed to manage conflicts of interest, refer to the relevant analyst for voting decisions. Third-party tools like Proxy Edge and Proxy Vote are used to *cast votes* but, crucially, **Egerton does not utilize the services of any other third party such as a proxy voting adviser** and therefore remains able to fulfil our stewardship responsibilities by itself properly and fully.

Incentives / remuneration

Egerton's Remuneration Policy includes information on how it is consistent with the integration of ESG risks. In summary, our objective is to ensure that our remuneration policy and practices are consistent with, and promote, sound and effective risk management (including ESG risks, where applicable). The decision to award any variable remuneration to an employee, and the percentage of profits allocated to a partner, are based on an individual's performance and contribution to the business, in relation to which financial and non-financial criteria are considered such as compliance with risk management and compliance policies (including Egerton's ESG and Sustainability Risks Policy, where applicable).

Egerton's annual compliance training, which all staff are required to attend, includes ESG and shareholder engagement[6].

PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Egerton maintains a robust policy on *managing* conflicts of interest, which ensures our decisions are taken wholly in the interests of our clients. All potential and actual conflicts are identified, evaluated, and categorised as follows:

1) Potential and actual conflicts of interest considered material, which require active monitoring. These relate to:
   - Trading activity by Egerton on behalf of its clients.
   - Business/personal interests of the directors of its funds under management and relevant

[6] Since June 2021.

entities.

- Business interests of clients and service providers.
- Business/personal interests of Egerton directors, partners and members of staff..

2) Potential and actual conflicts of interests that are not considered to impose any risk of damage.
3) Inducements are addressed by Egerton's Gifts & Inducements Policy which, amongst other things, requires any gifts or hospitality accepted above £1,000 to be disclosed to Egerton's clients and for any gifts or hospitality offered more than £250 to be approved by the compliance team.

Egerton's register of potential and actual conflicts of interest is reviewed quarterly by the firm's Management Committee[7]. Material potential conflicts of interest (including, but not limited to, policies with respect to fair trade allocation, personal account dealing and external business interests) are disclosed to clients and potential clients in Egerton's Form ADV Part 2 and due diligence questionnaires.

All reasonable steps are taken to *prevent* conflicts of interest, and staff are trained to notify Egerton's Chief Compliance Officer ("CCO") if they become aware of any conflict of interest, including in relation to proxy voting. Where such a conflict of interest is identified, voting instructions will be subject to assessment and approval by the CCO. When considering matters such as engagement and voting, Egerton always aims to act in the best interest of its clients and to treat them fairly.

Egerton does not consider that it has *any* conflicts of interests that affect its stewardship activities. Egerton is privately owned by its partners, none of whom are directors or executives of, or have any external role with, any public company, and it is not fettered by the stewardship policies of any of our clients or investors. Moreover, our personal account dealing policies are designed to avoid any conflicts of interest arising from the personal account dealing activities of our personnel by, as a general rule, discouraging personnel to transact personal trades in listed equities, derivatives of listed equities or listed corporate bonds.

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Egerton recognises that the world faces growing environmental, social, and governance-related risks. As a natural result of this evolution, Egerton became a signatory to the UN Principles for Responsible Investment (**UNPRI**) in April 2021.

As we have a fundamental, research-intensive stock-picking approach to investing, our research process naturally leads us to seek to identify well-governed companies with sustainable, long-term business models and certain ESG factors therefore form an important part of our stock selection process in

[7] See ante for further information on the Management Committee.

respect of long and short positions. However, ESG factors will not necessarily be the determining factor for an investment and we may permit a fund to hold investments that have negative sustainability factors.

The Code requires signatories to disclose an assessment of their *effectiveness* in identifying and responding to market-wide and systemic risk and promoting well-functioning markets. Egerton's bottom-up approach does not lend itself to a universal, top-down view on market-wide or systemic risks. However, systemic risks are discussed within the Investment Team and may be factored into overall investment decision making, with the aim that systemic risks are considered within investment decisions. Such market-wide, or macro, risks were more prevalent than ever in 2022. Examples include **the rise of inflation (a dominant influence on markets in 2022), with strong central bank responses leading to a risk in discount rates and shrinking US Dollar money supply, the impact of rising interest rates on corporate profitability, the impact of Russia's invasion of Ukraine and the impact of continuing semi-conductor shortages on global manufacturing**.

Egerton's answer to these uncertainties has been to focus on resilient businesses with strong cash-flows, and good earnings quality and, latterly, to diversify portfolios away from the deflation winners of the last decade. For example, we reduced the sizes of our positions in Alphabet and Microsoft, and invested more in perceived beneficiaries of inflation, such as North American railroads (e.g., Canadian Pacific, Canadian National and CSX) and payment card networks (Visa and MasterCard).

Egerton also carefully monitors public disclosures and seeks to regularly meet with company management, to better understand the business and the broader industry, proactively giving feedback as part of assessing a company's ability to deliver our long-term strategy.

Our **risk management** function also undertakes ongoing monitoring using a range of risk measures to understand the risk exposure and resilience of our investments to systemic market shocks, including liquidity stress testing and market risk monitoring (single position concentration, sector concentration and geography concentration).

In terms of **working with other stakeholders**, our preferred approach is to assess industry initiatives and engage through them, primarily via our membership of the Alternative Investment Management Association ("**AIMA**"). In 2022, examples of this included:

- Contributing to AIMA's response to the U.S. Securities and Exchange Commission ("**SEC**") regarding the SEC's intention to withdraw a temporary position set out in a 2017 "no action letter", in which the SEC staff stated that it would not consider a broker-dealer that accepted compensation through certain arrangements required by MiFiD II to be an investment adviser during a temporary period specified in that letter (i.e. allowing them to accept "hard dollar payments"). The withdrawal of the no action letter could mean UK- and EU-based investment managers (such as Egerton) are unable to purchase research from the relevant US broker-dealers, which would ultimately be detrimental to those investment managers' clients. https://on.ft.com/3Ur69pJ

- Contributing to AIMA's response to ESMA regarding changes to the EU short selling disclosure regime, including participating in a video call with ESMA to advocate changes to the regime, which resulted in changes to the regime that will contribute to well-functioning equity markets.

- Contributing to AIMA's response to HM Treasury's Call for Evidence regarding its review of the UK Short Selling Regulation, advocating for certain changes to the Regulation for the overall benefit of the UK's financial market.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

All of Egerton's compliance policies, including those related to its stewardship activities, are reviewed at least annually. In addition, Egerton's compliance program is reviewed annually by Egerton's Legal & Compliance team, which submits a report to the directors of Egerton's governing body, Egerton Capital Limited (a board which includes a non-executive director), for its review.

Egerton's "Stewardship and Shareholder Engagement" disclosure includes a **public disclosure of shareholder voting activity**, in compliance with the EU Shareholder Rights Directive. This is copied into this report under section/Principle 12.

In relation to **proxy voting**:

- In 2020, Egerton took steps to eradicate *any* instances of non-voting by it on shareholder resolutions (regardless of whether the relevant resolution is considered material to shareholder value), which it achieved by way of greater training of the Investment Team and Fund Operations team. These steps were successful, as there were no instances of non-voting in 2022 (other than the three justifiable exceptions explained beneath the table in section/Principle 12 – see post).

- Egerton's proxy voting activity is reported to and, where appropriate, challenged by, the board of directors of each fund under management at each of their quarterly board meetings.

Egerton's ESG & Sustainability Risks Policy, which is also available publicly on Egerton's website, was materially updated in March 2021 to comply with the EU Sustainable Finance Disclosure Regulation, and at that time it was discussed, and ultimately approved, by Egerton's Management Committee. The ESG & Sustainability Risks Policy was subsequently discussed with the independent board of directors of each of Egerton's funds under management.

Egerton became a signatory to the UN Principles for Responsible Investment (**UNPRI**) in April 2021 to enhance its commitment to the incorporation of ESG issues into its investment process. Annual UNPRI reporting, which Egerton anticipates undertaking for the first time in 2023, will constitute a form of external assessment of Egerton's stewardship activity.

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship

As explained in this section, all Egerton investors invest via collective investment schemes (i.e., funds) that have appointed Egerton as their investment manager, rather than via individual segregated accounts. In such collective investment structures, it is not appropriate or practicable for Egerton to take account of the needs of individual investors, but nevertheless Egerton endeavours to provide investors with a high level of transparency regarding its stewardship activities and outcomes.

Set out below are breakdowns of Egerton's investor base (as at 31 March 2023) by (i) geography, and (ii) type in respect of all funds managed by Egerton apart from Schroder GAIA Egerton Equity ("SGEE") [8]:

INVESTOR BREAKDOWN (BY GEOGRAPHY)
(EXCL. SGEE[9])

Firm (ex SGEE)	% NAV
USA (inc Canada)	44.4%
UK	22.9%
Europe	21.6%
South Africa	4.2%
Middle East	3.2%
Latin America	1.9%
Asia/ Australasia	1.2%
Other	0.7%

INVESTOR BREAKDOWN (BY TYPE)
(EXCL. SGEE[10])

Firm (ex SGEE)	% NAV
Endowment/ Foundation	21.9%
Fund of Funds	19.3%
HNW/ Family Office	18.0%
Pension Plan/ Insurance Company	15.3%
Egerton Partners & Employees	11.2%
Wealth Management	10.6%
Sovereign Wealth Fund	2.9%
Other	0.7%

[8] All marketing and investor relations activity in relation to SGEE is handled by Schroders rather than Egerton and, as a result, Egerton does not have, and is unable to provide, investor data relating to SGEE in this report.
[9] See footnote above.
[10] See footnote above.

Egerton does not use a proxy voting adviser. We cast our votes through third-party proxy agents or systems, as described herein.

We routinely disclose to each “client”, meaning the governing body of our funds under management and to their underlying investors (upon request), the manner in which we exercised voting rights on behalf of the relevant fund. Egerton maintains records of votes cast and of reasons for voting against the investee company’s management’s recommendations or for abstaining. We will not normally disclose our voting intentions.

In recent years, heightened investor interest and new regulation has spurred the development of better communication and reporting of our stewardship activities. For example:

- One of the largest consultant relationships in Egerton’s history (a consultant to a number of the UK corporate pension funds previously invested with Egerton) encouraged us to become a Tier 1 signatory of the 2012 version of the UK Stewardship Code;

- A large Canadian institutional investor (a university endowment) asked us to report on the carbon intensity of our long positions, and this reporting is now available to all investors, upon request. **Egerton ingests 117 ESG data fields daily from Sustainalytics** and summary ESG ratings have been added into our daily portfolio monitoring.; and

- Numerous requests from investors for more detail on our proxy voting, over and above regulatory requirements, has led to Egerton improving the granularity of our record-keeping in this regard.

Please refer to Principle 12 below for information about Egerton’s annual public disclosure of its shareholder voting activity. We continue to seek to improve the quality and content of the information we make available to enhance our investors’ understanding of the stewardship activities we undertake on their behalf.

Egerton offers full position-level transparency to all investors (subject to a non-disclosure agreement), thereby enabling investors to raise queries about our stewardship activities.

In addition, Egerton may, upon request, provide other details of its engagement approach, such as number of company meetings held or examples of any concerns raised to clients or underlying investors.

Egerton believes that this is an appropriate level of transparency designed to promote effective stewardship and assist evaluation by investors, whilst recognizing that disclosure of confidential or sensitive portfolio information may, in some circumstances, be inappropriate and/or detrimental to the investment process.

Egerton has engaged with certain investors regarding their ESG concerns and reported on ESG issues, such as the extent of consideration of ESG factors in relation to specific positions. Egerton is also happy to discuss ESG issues with investors on update calls.

Despite all of the reporting to and/or engagement with investors as summarized above, we are conscious that not all investors receive the same amount of information regarding the outcomes of our stewardship, especially those that invest through intermediaries such as consultants or other platforms. This is due in large part to the different levels of access we have to these investors, which also precludes us from the type of face-to-face dialogue we have with institutional investors. Although all of our reporting is available to all investors (whether direct or indirect) upon request, we intend to include more detail in our standardized reporting so that it may be more easily disseminated to indirect investors.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environment, social and governance issues, and climate change, to fulfil their responsibilities

As Egerton has a fundamental, research-intensive stock-picking approach to investing, its research process naturally leads us to seek to identify well-governed companies with sustainable, long-term business models and certain ESG factors therefore form an important part of its stock selection process in respect of long and short positions. However, ESG factors will not necessarily be the determining factor for an investment and we may permit a fund to hold investments that have negative ESG factors.

Egerton endeavours to identify material problems with investee companies at an early stage to minimize any loss to investors. To the extent possible and appropriate, we may attempt to make the relevant members of the investee company's board aware of them (either directly, or indirectly via the company's investor relations department). **We prioritize corporate governance issues and climate change issues**, in each case where Egerton believes they have an impact on shareholder value.

Engagement is also a key part of Egerton's investment process, and is a tool that is used for sustainability risk management. Egerton considers access to senior management an important part of investment in core positions and will generally meet with the management of core positions half-yearly in order to discuss issues such as governance, strategy and shareholder value. Egerton believes that its engagement with management on such issues is integral to the discharge of its stewardship responsibility and the interests of its clients, and is unlikely to invest in companies where it appears that management is not acting in the best interests of shareholders.

Egerton's approach to the integration of ESG factors does not differ across geographies.

Detailed examples of ESG considerations or engagement in respect of Egerton's investments in 2022 are set out in the Appendix.

Finally, **Egerton has been carbon neutral in respect of its own (management company) operations since 2019**, by offsetting the carbon emissions caused by all of its activities (including, but not limited to, air travel) with the funding of an equivalent amount of carbon savings elsewhere in the world.

PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers

Egerton does not use proxy advisers in respect of our stewardship activities - all proxy voting decisions are made in-house, as described above, as **Egerton is a direct investor** in respect of all its assets under management.

Since June 2021, Egerton has incorporated ESG data from **Sustainalytics** into our daily internal portfolio reporting to enable it to monitor and hold to account our investee companies. We review Sustainalytics at least annually to ensure we are getting the best and most appropriate service.

Investment research is obtained from a wide range of third-party investment brokers, independent boutique research providers and experts, and forms an integral part of Egerton's investment process: Egerton's investment analysts use this material, in combination with their own research, as part of the overall decision-making process. This type of research is subject to continuous on-going oversight and review. A formal assessment is undertaken quarterly in Egerton's quarterly research provider vote process, in which Egerton assesses the value of the research used to its investment process and allocates its research budget accordingly.

The only other service providers that Egerton uses in respect its stewardship activity are third-party tools to cast votes, such as **Proxy Edge and Proxy Vote**.

PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets

As explained under Principles 1 and 7 above, engagement is key to Egerton's investment strategy.

Egerton typically invests (in terms of long positions) in only thirty to fifty companies and gets to know each one extremely well. **Egerton hold hundreds of meetings with them each year (c.100 one-to-one meetings in 2022, not including group meetings), and votes at every shareholder meeting (1,849 votes at 28 different shareholder meetings)**. Egerton challenges companies where it sees scope for improvement that delivers long-term value, and pays close attention to corporate strategy, earnings quality and accounting risk, capital structure, as well as focusing on specific ESG issues.

Engagement is prioritized to best protect and enhance the value of our investments. Relevant factors include the size of our position in a company, the extent of the holding in our funds under management, management changes and escalation of ESG risks.

Examples of Egerton's engagement in 2022 are set out in the Appendix, in respect of our investments in **Canadian Pacific, Teck Resources** and **Norsk Hydro** in particular.

Our engagements have had three key themes in the past year:

1. **Governance**

Governance has always been a key attribute that Egerton looks for in the companies it owns. As Egerton has a fundamental, research-intensive stock-picking approach to investing, its research process naturally leads it to seek to identify well-governed companies with sustainable, long-term business models. Engagement is a key part of Egerton's investment process, and is a tool which may be used for sustainability risk management as well as a means to improve the long-term returns of its clients, with good corporate governance being needed for both.

Egerton has been engaging with companies with regards to good governance since the inception of its strategy. Given the importance that governance plays in sustainability risk management and long-term returns, it will form a key part of many of the engagements that Egerton has with the companies it owns. Egerton considers access to senior management an important part of investment in core positions and will generally meet with the management of core positions half-yearly. In most cases, engagement will be with a variety of touch points at each firm, including the C-Suite and Investor Relations. Engagement with the underlying company is led by the investment analyst who is responsible for the position in the portfolio.

Governance is often a core driver of many of Egerton's voting decisions. Egerton always considers the recommendation of management, but will not support the recommendation of a company's management if Egerton determines that such recommendation is not in the best interests of the company's shareholders. Egerton will also typically vote against proposals that make it more difficult to replace board members. Governance is also a key factor that is considered by Egerton when voting for the election of company directors. For instance, in the case of **Herbalife**, Egerton recently voted not to re-elect the existing directors (as well as voting not to approve the compensation of the company's executive directors) given we felt the company and its directors had done a poor job in governance and execution.

Egerton is continually engaging with its portfolio companies on governance matters in an iterative manner and will continue to do so in order to meet its objectives of improving long-term shareholder returns and managing sustainability risks. Please see the example given of **Porsche** below, for one example of Egerton's engagement on governance issues. Other examples include **Canadian National**, where we often discussed with management the need for stronger corporate governance and improved margins. Canadian National's previous CEO resigned at the end of 2021, and we have found the new CEO, who was appointed in 2022, to be much more receptive to our suggestions, and we are confident in her ability to manage the business better.

Governance plays a key role in portfolio allocation decisions. Egerton's largest sized positions are those that it has significant confidence in the strength of the company's corporate governance. There are also examples of where Egerton has found corporate governance to be lacking and has, as a result, chosen to close a position, such as in the case of Herbalife.

2. Climate Change

Egerton engages with companies on climate change issues where it believes this has the potential to be a driver of shareholder value, in line with Egerton's aim to use engagement as a driver of long-term returns to its clients as well as a means of managing sustainability risks.

Engagement on climate change issues has become an increasingly prominent part of Egerton's investment strategy over the last few years as it has become increasingly apparent that certain companies with cleaner business models (e.g., the rails) or those that will play a key role in the decarbonisation of the economy (e.g., the aluminium producers, Linde) stand to benefit from a rising focus on climate change. As with other engagement topics, engagement generally takes place with various different touch points at the company and is led by Egerton's investment analyst who is responsible for covering the position.

Egerton has previously voted in favour of climate assessment reports for companies it holds, including most recently **Canadian Pacific** (please see more detail in the examples below).

Egerton's increased focus on climate change related issues has been beneficial to its aim to deliver improved long-term returns to its clients as it has assisted in the identification of several positions currently in the portfolio where the nature of the company's business model means it stands to be a relative beneficiary of the decarbonisation of the economy and bring about clear benefits to the environment. These have included the railroad positions (**Canadian Pacific**, **Canadian National**, **CSX**) as well as **Linde** and the Aluminium producers (**Norsk Hydro** and **Alcoa**). Egerton will continue to engage regularly with these companies going forward on their long-term business strategies as well as shorter-term initiatives to reduce the carbon emissions of their businesses (see examples included for Canadian Pacific in the Appendix).

3. Earnings Quality

Earnings Quality – the overall reasonableness or soundness of a company’s reported financial statements – is a particular focus of the Investment Team, as it aids in avoiding companies that may employ aggressive accounting policies. This is not only an important part of improving the long-term returns that Egerton delivers to its clients, but is also key in sustainability risk management, as it means that Egerton avoids investment in companies that have poor governance, and unsustainable and potentially damaging business models.

Egerton has been engaging with companies with regards to earnings quality since the inception of its strategy. Given the importance that earnings quality plays in sustainability risk management and long-term returns, it will often form a key part of company engagement early on in Egerton's interactions with a company, particularly as Egerton is growing its confidence and corresponding position size. As with other engagement topics, engagement generally takes place with various different touch points at the company, although given the financial and technical nature of the topic, engagement on earnings quality is more likely to be directed to the company CFO/ finance team. Engagement with the underlying company is led by the investment analyst who is responsible for the position in the portfolio, however, earnings quality work is supported by members of the investment team of have significant experience in earnings quality analysis and forensic accounting research. This includes three members: Jay Huck, who prior to Egerton, spent five years at the Center for Financial Research &

Analysis (“CFRA”) where he was responsible for US equity research as well as setting up the firm’s European equity business, which he led until joining Egerton; Brad Snyder, also ex CFRA, who joined Egerton in April 2013; and Catherine Giordan, who joined Egerton in 2021 from Exane, where she helped create Exane BNP Paribas’ Forensic Accounting service.

Egerton's focus on earnings quality has so far enabled the team to avoid significant accounting-related blow-ups in large long positions that could have been detrimental to the long-term returns delivered to clients, and has been key to the strategy's sustainability risk management in avoiding investment in companies with potentially unsustainable and poor quality business models. Earnings quality will continue to be central to the Investment Team's process going forward and will be a key consideration for all positions in the portfolio. Earnings quality is factored into all portfolio allocation decisions, and typically a company that had poor earnings quality would not be one that Egerton invests in in the first place, or would be quickly removed from the portfolio as any issue was discovered in the initial phases of growing a position. Furthermore, institutional biases may discourage Wall Street analysts from focusing on earnings quality. This can provide us with a competitive advantage, which can serve as a fertile source for generating long and short investment ideas. For instance, in 2022, we identified two short positions - Sinch AB and Ball Corp, as well as our largest long position - Canadian Pacific Railway. We believe that the true economic earnings power of Canadian Pacific Railway surpasses the company's reported GAAP profits.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

Egerton will consider whether it would be more effective to intervene collectively with other shareholders, but will only do so where this is considered appropriate. Egerton may communicate with other shareholders regarding a specific proposal but will not agree to vote in concert with another shareholder without approval from Egerton’s Chief Compliance Officer (to ensure compliance with market abuse rules).

Egerton’s preferred approach is to assess industry initiatives and engage through them, collaboratively via its membership of the Alternative Investment Management Association (“AIMA”). See Principle 4 above for several examples of this.

In 2022, Egerton engaged collaboratively with its then largest investor, a **US university endowment** and one of the world’s largest allocators of capital with approx. $160bn in assets under management. As explained in more detail in the Appendix, the engagement requested that **Richemont**, a luxury goods business, divested its ownership of a British gun and rifle manufacturer known as Purdey. This engagement was ultimately unsuccessful.

There were no other examples of collaborative engagement in 2022, but Egerton has liaised with other shareholders in prior years to understand their concerns about issues affecting investee companies (such as the replacement of a CEO, or regarding an acquisition) to inform Egerton’s position on the matter.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers

As part of Egerton's investment strategy, Egerton seeks to build effective relationships with boards and management at the companies in which it invests. Egerton will generally look to invest in companies that it believes are well managed. As part of the research process and monitoring process, Egerton may look to intervene by holding meetings with management and/or directors to express Egerton's concerns or express its view through other channels. These concerns will often be motivated by the failure of management to act in the best interests of shareholders, and are likely to be when Egerton has concerns about the company's corporate governance, lawfulness/corruption or strategy.

Egerton will continue to meet or correspond with the company and monitor developments to assess changes in the company's approach and, if concerns persist, Egerton may intervene more formally by writing to the appropriate company board or committee members. Egerton will also consider whether it would be more effective to intervene collectively with other shareholders, but will only do so where this is considered appropriate.

Egerton considers that each situation is unique, and therefore believes it is not possible to establish prescriptive guidelines regarding escalation.

Where Egerton believes that it is no longer in the best interests of its clients to continue to hold the shares of a company, it will reduce or sell the position.

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

Egerton votes proxies in a manner intended to maximise the value of the investments for its clients. Egerton does not use a proxy voting adviser.

It should be noted that Egerton only manages collective (i.e., pooled) investment schemes, and no segregated accounts, and therefore it is not possible for investors in the funds under management to direct voting, override Egerton's "house policy"

None of the funds managed by Egerton engage in stock lending, and therefore Egerton retains the voting rights in respect of all cash equity positions. The only positions for which Egerton does not have the ability to vote are (a) long positions held on swap (rather than in cash) and (b) short positions.

There is no guarantee that all votes will be cast, but Egerton seeks to vote in most situations. It is not Egerton's usual policy to attend General Meetings, but on occasions may do so. When voting proxies, Egerton will consider the recommendation of management but will not support the position of a company's management if Egerton determines that such a position is not in the best interests of the company's shareholders.

Egerton provides an annual public disclosure of its shareholder voting activity, which is available here: https://www.egertoncapital.com/legal/stewardship-and-shareholder-engagement.

During the calendar year 2022, **Egerton exercised votes at 28 different shareholder meetings** of companies in which Egerton's funds under management held shares, **participating in a total of 1,849 votes**.

Egerton cast votes (on behalf of its funds' positions) in the above shareholder meetings as follows:

Vote Instruction	Total
For	1,415
Against	168
Abstain	27
Do Not Vote	239*
Total votes	1,849

*all of these "*do not votes*" relate to three shareholder meetings, in relation to which Egerton was in the process of selling the relevant investments and for which voting (or abstaining) at that time would have locked the shares and prevented such sales

Egerton cast votes in a manner intended to maximise the value of the investments for its clients. When casting votes, Egerton considered the recommendation of management but did not support the recommendation of a company's management if Egerton determined that such recommendation was not in the best interests of the company's shareholders. Egerton typically voted in favour of routine housekeeping proposals, including election of directors (where no corporate governance issues appeared relevant), and typically voted against proposals that made it more difficult to replace board members. For other proposals, Egerton assessed what was in the best interests of its clients and, in doing so, took into account a variety of factors, including:

- whether the proposal was recommended by management and Egerton's opinion of management;
- whether the proposal served to entrench management; and
- whether the proposal fairly compensated management for past and expected future performance.

The following votes were some of Egerton's most significant votes in 2022, and are representative of the key themes of our voting behaviour outlined above[11]:

- **Applied Materials**: voted with a shareholder proposal (and against management

[11] Also see the three key themes for Egerton's 2022 engagement (governance, climate change and earnings quality) explained in relation to in Principle 9 above.

recommendation) to improve the executive compensation program and policy, such as to include the CEO pay ratio factor and voices from employees. Unfortunately, the resolution was not passed.

- **Microsoft**: voted with a shareholder proposal (and against management recommendation) for cost-benefit analysis of diversity and inclusion. Unfortunately, the resolution was not passed.

- **Canadian National Railway**: voted to accept Canadian National Railway's climate action plan. This resolution was passed, with 98.54% of votes.

- **Charter**: voted against the reappointment of a director because the individual invested privately in competing cable companies, which Egerton viewed as a conflict of interests. Unfortunately, this resolution was not passed.

- **Herbalife:** voted not to re-elect the existing directors (as well as not to approve the compensation of the company's executive directors) as Egerton considered the company and its directors had done a poor job in governance and execution. Unfortunately, neither resolution was passed, and Egerton subsequently sold the position.

- **Alcoa:** voted with a shareholder proposal to reduce the ownership threshold for shareholders to call special meetings. Unfortunately, the resolution narrowly failed with 55.12% of shareholders voting "against".

APPENDIX

Examples of ESG considerations or engagement in relation to Egerton's investments in 2022

1. Railroads

Egerton has been invested in **Canadian Pacific Railway ("CP")**, **Canadian National Railway** and **CSX**[12] since July 2016, July 2014 (on and off) and March 2010, respectively.

(a) ESG Investment Considerations

- Railroads have attractive ESG characteristics and, more importantly, should see revenue growth from shipper's demand for more sustainable supply chain solutions.
- They have and continue to achieve better environmental outcomes by markedly improving fuel efficiency over the last 25 years. Class I railroads have made 1-2% annual gains in fuel efficiency compounding over 15 years, with CSX claiming the throne for having improved its fuel efficiency the most over the period at 27%, with Canadian Pacific following close behind at 23%. Additional gains of 30-40% are possible through even longer trains and the introduction of alternative fuel technologies (hydrogen scores better than battery, although diesel will likely remain in use for some time given sunk infrastructure costs).
- The North American railroad industry more broadly should benefit from the growing environmental focus of many of their customers. Transport by rail is far better for the environment than by truck – rails are over 4x more fuel-efficient, with each unit train removing 300 trucks from public roads. Railroads are elevating their ESG edge as a core value proposition to their customers while at the same time improving their service. Over 80% of freight in North America moves by truck, so this could have profound implications for long-term volume growth.
- Canadian Pacific's acquisition of Kansas City Southern is largely driven by the potential to drive highway conversions.
- In July 2020, Canadian Pacific published its first Climate Strategy outlining how it intends to reduce its greenhouse gas emissions and integrate climate risks across the business. It targets reduction of locomotive emissions and non-locomotive emissions by 38% and 27% respectively by 2030. In addition, the company has already established a solar farm capable of generating more power than is required by its headquarters, and is working on a pioneering hydrogen locomotive program looking to use fuel cells and batteries to power the locomotives' electric traction motors.

(b) Engagement

- Egerton's engagement efforts have been channelled in two directions: current company initiatives, including improving governance, diversity, and sustainability, as well as CP's acquisition and the subsequent improved management of Kansas City Southern (KCS).

[12] The CSX investment was closed in February 2022.

- Egerton frequently engages with CP on topics across governance and sustainability as it believes improvements in these areas have the ability to drive shareholder value as well as bring about benefits to various stakeholders. In addition to discussing board structure and CP's diversity initiatives, Egerton has provided feedback on CP's suggested board and CEO compensation packages, with the aim of improving alignment with shareholders and the company's strategic goals. Additionally, Egerton has continued to support and push for CP's sustainability goals, including voting with a shareholder proposal for the company's board of directors to produce a greenhouse gas emission levels reduction plan, and to report annually on the progress made towards such plan. Other environmental initiatives Egerton continues to support are CP's build out of solar farms to reduce its carbon emissions, and a longer-term project to design and develop North America's first hydrogen-powered freight locomotive.

- Egerton's engagement with CP is ongoing and there are frequent meetings with the company. For example, in November 2021, Egerton met with three members of CP's board of directors, including Isabelle Courville (Board Chair), Gordon Trafton (Risk & Sustainability Committee Chair) and Matthew Paull (Compensation Committee Chair). In this meeting, board composition, diversity, CP's carbon reduction strategy, and a proposed compensation/incentive package for CEO Keith Creel, were discussed, amongst other topics.

- CP continues to make significant progress on the governance and sustainability initiatives that Egerton has been supportive of. This has included approving new board and CEO compensation packages that Egerton is satisfied have strong alignment with shareholders as they appropriately incentivise management to prioritise long-term company performance and also the successful integration and improved management of KCS. With regards to sustainability, the changes being implemented by the company have results in improved ratings from each of the major sustainability rating firms. In 2021, CP published its first Climate Strategy including its emissions reduction targets. CP continues to work towards making its head-quarters fully solar powered (having already built a solar farm at its Calgary campus that provides 5MW of renewable electricity), and progress continues to be made on its hydrogen locomotive project, with CP being awarded a $15m grant in 2021 which has dramatically increased the project's scope to now include plans to build two hydrogen production and fuelling facilities at its railyards in Alberta.

- Egerton often meets with CP to discuss progress made in the acquisition KCS and give feedback on CP's plans for integration and improved management of the company thereafter. This has also included publicly supporting the acquisition, releasing the following statement, published in Canada's national newspaper, The Globe and Mail on 30 March 2021:

  > "*Edward Molson, a senior partner at London-based Egerton Capital, which is CP's eighth-largest investor with a US$1.15-billion stake, said the deal will create value for shareholders while fostering competition and shifting truck-borne freight to trains, a benefit to the environment*."

- CP's acquisition of KCS has since moved ahead, fending off rival bids from Canadian National and successfully placing KCS into voting trust having received STB approval to do so. Final regulatory approval for the deal came through in March 2023. The synergies created by the merger will result in an improved offering in terms of capability and efficiency for the combined network's client base, which should in turn drive a shift to rail over its largest competitor, trucking, which is less 4-5x less carbon efficient than rail.

2. Richemont

Egerton has been a significant investor in Richemont for a number of the last ten years.

(a) Engagement

In June 2022, Egerton felt compelled to write to forward Richemont the view of Egerton’s then largest investor regarding Richemont’s ownership of James Purdey & Sons Ltd (“Purdey”). Our view was that Purdey is a non-core, non-scalable, business investment that might pose a distraction from the management of Richemont’s other businesses. Separately, as could be seen from the letter from the relevant American investor, some investors are becoming increasingly sensitive to owning companies that manufacture guns, even if the particular guns manufactured (hand-crafted shot guns and rifles produced in the UK in highly limited quantities as in the case of Purdey) are not relevant to gun violence in America. The fact that Richemont may be considered uninvestible in the future by an increasing number of investors prohibited from owning any company that manufactures guns, no matter what the circumstance, is a further reason, in our view, for Richemont to consider selling Purdey.

3. Linde

Egerton first invested in Linde since December 2018 and, previously, in Praxair (before it merged with Linde) since September 2016.

(a) ESG Investment Considerations

- Egerton anticipates that new “green hydrogen” projects may start to drive Linde’s project capex in the second half of the decade.
- Hydrogen has historically been used in the refining and chemical industries and produced via an energy-intensive process, which breaks down methane. “Green” hydrogen however (i.e. hydrogen made from water via an electrolysis process powered by renewable energy) is, by its very nature, an efficient way of storing and transporting renewable power, which can then be converted into renewable fuel. It is therefore attracting huge policy support and will likely be used to power a wide variety of transportation modes and as an important part of the de-carbonisation strategy of many industries.
- Linde is already the largest (grey) hydrogen producer and has commissioned the largest PEM (Proton Exchange Membrane) electrolyser project to date, and is expected to be a leader in this new industry.
  Carbon capture and sequestration represents another vast potential long-term market for industrial gas companies, because of their expertise in purifying and handling CO2, and their pipeline and storage networks.

4. Aluminium Producers

Egerton first invested in **Norsk Hydro** in January 2015 (briefly) and on a longer-term basis since March 2022, and in **Alcoa** in March 2022.

(a) ESG Investment Considerations

- Aluminium will play a key role in the transition to a greener economy given it is light weight and recyclable.
- Its lightweight quality means it is favoured for use in electric vehicles, wind energy and solar energy.
    - It is estimated that demand for aluminium from these industries will increase by 60% from 2020 to 2025.
    - The scale of infrastructure required to decarbonise the economy will support aluminium demand longer-term.
- Its recyclability means it has clear advantages over plastics for the use of packaging, and there are positive long-term growth trends e.g., as aluminium cans take share from plastics.
- Because of how energy intensive the smelting process is, new smelters are now only being built where there is a reliable long-term source of renewable power. This has prevented new capacity coming online and has led to the closure of capacity, especially in Europe, where pants were relying on expensive high carbon intensive power sources.
- Egerton holds positions in **Norsk Hydro** and **Alcoa**. Both get the significant of majority of energy from renewable power sources (mostly hydro).
    - 78% of Alcoa's smelting portfolio ran on renewable power in 2020.
    - 70-75% of Norsk Hydro's energy supply comes from renewable sources. The company has one of the lowest carbon emissions per tonne of aluminium produced ratios.
    - Both companies are pursuing strategies to further reduce emissions and increase the use of renewable power in their smelters.
- It is expected that aluminium could be the first base metal where carbon content is reflected in the price of the commodity, whereby end users will value 'green' aluminium at a higher price given their emissions requirements.
    - Alcoa has been one of the early movers in offering lower carbon aluminium products via its Sustana line.
    - Alcoa is supplying low-carbon aluminium to Audi for its e-tron GT, which will mark the first time a vehicle has used zero-carbon aluminium.
    - Norsk Hydro's plant at Karmoy utilises the most energy efficient aluminium production technology (per the company).

(b) Engagement

- Egerton spoke to Norsk Hydro in January 2023 to discuss the compensation structure and level of both the management team and board.
- Due to government pressure (the Norwegian government are a significant shareholder with a 34% ownership stake, and the Norwegian Government Pension Fund own another 6% stake), compensation of both the management team and board is below the international norm, making it more difficult for the company to compete for top-level talent internationally.
- The Norwegian government has also expressed its preference for the main element of remuneration to executive management to be a fixed salary (as opposed to a compensation with a high degree of variable elements such as bonuses and other

incentive programs and measures). This is contrary to our view as shareholders as believe it is best that the management team's incentives are aligned as much as possible with shareholders.

- Egerton believes that Norsk Hydro should raise its compensation for its management team and board to international market rates and align its compensation structure so it may attract and retain top-tier executive talent.
- A higher quality management team is in the best interests of the company and, therefore, shareholders.
- In May, Egerton plans to support a resolution proposed by management to align compensation for the management team and board to what is typically seen internationally.

5. Teck Resources

Egerton has been invested in Teck Resources since March 2022.

- Teck is a producer of copper (currently approximately one-third EBITDA) and met coal (approximately two-thirds EBITDA).
    - Copper will play a key role in the transition to a greener economy given it is needed for electrification hence renewable energy sources and electric vehicles etc.
    - Met coal is essential for use in blast furnaces as part of the manufacture of steel. It is more efficient and cleaner than thermal coal.
- The supply-demand dynamics in copper and met coal should be supportive elevated pricing (although we are not relying on higher pricing, given we assume the longer-term cost curve average price in our models).
    - In the short-term, the prices of both copper and met coal are being supported by disruption to supply chains and the sanctions resulting from the Russian invasion of Ukraine.
    - Longer-term, supply of both commodities will be restricted given lack of investment in production and the long-lead times in getting a copper mine online (this takes over a decade, with no planned supply coming online post 2024).
    - Longer-term demand for copper should benefit from the structural shift towards increased electrification, whereas demand for met coal should rise given its vital role in steel manufacture.
- Teck will be opening an additional copper mine in Chile, the Quebrada Blanca Phase 2 mine, later in 2022.
    - This will see its earnings shift to be biased towards copper (will be approximately two-thirds of EBITDA) rather than coal (around one-third of EBITDA) at normalised prices.
    - There is a compelling case to be made, should the company's portfolio be predominantly copper, for Teck to become valued more like a copper company (5x-8x EBITDA) vs. a coal company (2x-3x EBITDA) longer-term.
    - We have discussed with management the benefits that the spin out of the coal business could bring.
- Teck has made a clear commitment to cash return through share buybacks and is highly cash generative at current elevated price levels (approximately 40% FCF yield).
- In April 2023, Egerton stated publicly (to Bloomberg and other news outlets) that it will support company plans to separate its base metals and coal businesses and simplify its share structure:

> "*The reason why this separation makes so much sense is because it will make Teck Metals a vastly more attractive acquisition target than Teck Resources, because so many investors today just can't buy coal," he said. "When Teck Resources becomes Teck Metals, the universe of candidates who could buy them, I think, expands quite dramatically." [Edward Molson, Egerton, as quoted on Bloomberg News]*

6. Mastercard & Visa

Egerton first invested in Mastercard in August 2011 until October 2021, and then re-invested in December 2021; and in Visa in February 2013 until June 2017, and then re-invested in 2020.

- The structural shift from cash to card payments is a core driver of the thesis underpinning our positions in Visa and Mastercard.
    - This is beneficial for society as it drives a higher level of financial inclusion, and allows for individuals who are underbanked/ those who are un-banked to access financial services.
    - Both Visa and Mastercard have partnered with governments on initiatives to increase financial inclusion. Visa helped to deliver pre-paid cards as part of US government stimulus during the pandemic. Mastercard has initiatives that allow individuals to access their federal benefits without needing a bank account. Mastercard has also partnered with the World Bank to create a methodology to estimate the impact of their core products on un/under-banked populations.
    - It also increases transparency and traceability of payments helping to reduce crime and tax evasion.
    - Cash digitisation benefits merchants as it can lead to better security and check out conversions.
    - It can also help governments to reduce costs associated with large scale payments, for example the distribution of pandemic stimulus payments.

7. Cenovus

Egerton has been invested in Cenovus since May 2022.

- Cenovus is an oil and natural gas company, largely focused on extracting oil from tar sands in Alberta, Canada. Extraction from tar sands emits more greenhouse gases than more conventional forms of oil extraction due to the energy intensity of the process. However, Cenovus (along with a group of other oil sands companies called the Pathways Alliance) has launched one of the most ambitious greenhouse gas reduction initiatives in the oil and gas sector, aiming to reduce greenhouse gas emissions to net zero by 2050 (and by 35% by 2035). This could make these companies preferred suppliers of lower emission oil to meet the world's needs for use in the manufacturer of products/ as a transportation fuel.

- A major component of this plan involves the development of one the most ambitious carbon capture and storage (CCS) facilities in the world, where carbon is captured at multiple sites and then stored under Cold Lake in Alberta. Cenovus is already successfully implementing similar CCS technology itself today, having captured 90k tonnes of carbon dioxide equivalent at two of its sites. Its currently evaluating the feasibility of implementing similar technologies at various other sites, as well as investigating ways to advance this technology.

- In addition to CCS, Cenovus, along with the other companies that form the Pathways Alliance, is looking at other ways they can reduce their emissions, through developing and investing in newer technologies such as direct air capture, investigating the feasibility of using small modular nuclear reactors for power, and monitoring the advancements in non-combustion uses of bitumen. Cenovus is also successfully implementing and advancing technologies that help it to quantify and reduce its methane emissions, including aerial screening, low-bleed instrument conversions and zero vent well pads.

- Furthermore, Cenovus is also making progress in switching to lower carbon fuels such as clean hydrogen to power operations and improving the efficiencies of its processes. Cenovus also looks to offset emissions through the use of power purchase agreements (PPA).

- We remain alert to the risk that Cenovus' emissions could have a negative impact on our investment, should investors increasingly look to move away from investing in fossil fuels. However, with regards to Cenovus, this is not something we have seen to date - the company's shares are up over 50% YTD, helped by the rising oil price and the company's commitment to returning capital to shareholders as opposed to investing in new oil production sites.

- In addition, Cenovus reduces the world's reliance on fossil fuels from autocratic nations such as Russia, in and of itself an ESG consideration.

8. **Semiconductors**

Egerton has been invested in **Taiwan Semiconductor Manufacturing Company (TSMC) since July 2020**, first invested in **Applied Materials** in January 2017 and in **Analogue Devices** in December 2020.

(a) ESG Investment Considerations

- A number of revenue drivers for these companies are aligned with ESG themes:
  - EVs and Autonomous vehicles are a big growth area.
  - Renewable energy sources will also require increasing volumes of semiconductors.
  - Industrial automation will benefit employee safety.
  - Digital health management will lead to improving healthcare outcomes.
  - 5G mobile will enable more efficient communications.
- In 2020, Applied Materials completed its first full value-chain carbon footprint assessment. The company aims to transition to 100% renewable power by 2030, and is investing in solar and wind projects to achieve this.

9. Airbus

Egerton first invested in Airbus in January 2013.

ESG Investment Considerations

- Only 12% of the global narrow body fleet, an area of the aerospace market in which Airbus dominates, is next generation technology, so there is a lot of potential for new planes on better fuels, driven by a possible surge in retirements/ permanently parked aircraft.

10. L Brands

Egerton first invested in L Brands in February 2020, and continued to hold its successor companies, Bath & Body Works and Victoria's Secret, until August 2022 and March 2022, respectively.

(a) ESG Investment Considerations

- Bath & Body Works (which represents 80% of L Brand's equity value) sources most of its product from the US and, within this, the majority sourced from Ohio Beauty Park (a base which incorporates numerous suppliers including product, packaging, fragrances etc).
- This sourcing arrangement is a notable competitive advantage in terms of speed to market, but also ensure the company has a superior environmental footprint when compared to peers who, from ESG pressure over time, may see increased costs or pressure to onshore, which in turn would increase costs; this would not apply to Bath & Body Works.

11. Ryanair

Egerton has been invested in Ryanair since April 2009.

ESG Investment Considerations

- The airline industry, particularly in Europe, was one of the sectors hardest hit by the Covid pandemic.
- While the rest of the industry focused on cash preservation and survival, this unique circumstance gave Ryanair the opportunity to enlarge its existing order for new planes by more than 50% at a further significant discount to an already industry-low price; the deal also gives Ryanair the option of an additional plane order at the same discount. In total, this order represents c.45% of Ryanair's pre-Covid fleet and ca.75% of the entire capacity of its closest peer.
- This order will take the most fuel-efficient generation of planes to c.35% of Ryanair's fleet, compared to c.8% for the European fleet overall, further widening Ryanair's cost leadership position in tandem with its position as a lower emissions airline.
- European aviation, the cheapest airline is also the greenest.

The following is a list of other investments for which ESG factors have been less material to the investment thesis but which, nevertheless, have noteworthy ESG considerations:

12. Alphabet

- In January 2022, Google adopted an ESG bonus for members of its senior executive team, providing individual participants up to a maximum of $2m annual cash bonus based on performance against social and environmental goals for 2022. Actual bonus payouts will be reduced if target performance is not met.

13. **Microsoft**

- 10% of Microsoft's CEO's annual cash bonus and 15% of other named executive officers' compensation is linked to "Customers and Stakeholders", which includes, amongst other things, progress on ESG goals.

14. Taylor Wimpey

- Launched new environmental strategy in Feb 2021:
- Includes ambitious science-based targets approved by the Science Based Target Initiative to reduce operational carbon emissions intensity by 36% by 2025 from a 2019 baseline, and to reduce the carbon emissions intensity from our supply chain and customer homes by 24% by 2030 from a 2019 baseline.
- Actively invest in apprentices.