

**Kiltearn Partners LLP**  
**FCA Ref: 540470**  
**Stewardship Code Statement**

Investment managers that are authorised by the Financial Conduct Authority (the “FCA”) are required under the FCA’s Conduct of Business Rules (commonly referred to as “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, 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 (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 an eight-member Investment Team. Biographies for all members of the Investment Team are available on the firm’s website ([www.kiltearnpartners.com](http://www.kiltearnpartners.com)). Five members of staff are partners in the firm and all 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 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 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 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. Being 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 stock market volatility frequently creates opportunities for the patient, long-term investor. Further, Kiltearn believes that securities with low market price-to-earnings, cash flow, asset value, sales ratios or dividends typically, but not necessarily, possess fundamental investment value. Kiltearn identifies investments meeting the above criteria in part 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 – 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 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 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 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 2020, included in its Annual Engagement Disclosure (see Appendix 4 below).

This year, the firm increased 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.

Finally, through the execution of its investment process during 2020 - including its stewardship activities - and the opportunities offered by market volatility, Kiltearn believes it has been able to improve the aggregate value and quality of its Clients' portfolio. 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 ([eclarke@kiltearnpartners.com](mailto:eclarke@kiltearnpartners.com)) if you require more information on Kiltearn's investment programme.

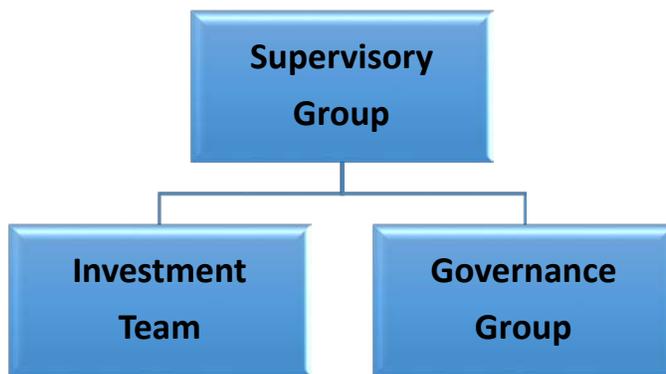
## Principle 2 – Signatories’ governance, resources and incentives support stewardship.

### Governance

As noted above, Kiltearn’s stewardship efforts are and always have been investment-led; however, Kiltearn established a Governance Group in early 2018. The Governance Group includes members of the Investment Team (one Portfolio Manager and one Investment Analyst), a member of the Investment Administration Team and a representative of Legal and Compliance. The purpose in establishing the Governance Group was to put Kiltearn’s approach to stewardship on a more formal and structured footing than it previously had been.

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 Governance Group does not distract our investors from their primary focus: researching companies and managing the portfolio.

The Governance Group took over responsibility for voting and engagement in 2018. This was followed by an uptick in discussions with portfolio companies as the Governance Group began to formalise the process. The Governance Group is also responsible for updating the firm’s UK Stewardship Code Statement, its Proxy Voting Policy (see Appendix 1), its Proxy Voting and Governance Principles (see Appendix 2) and its Annual Engagement Disclosure (see Appendix 4). The Governance Group also reviews updates made by Kiltearn’s Investment Team to the firm’s Responsible Investment Policy (see Appendix 3). The Governance Group meets monthly and its head, the Head of Corporate Governance, reports directly to Kiltearn’s Supervisory Group.



The members of the Governance Group are:

#### **Craig Collins**

Craig Collins is an Investment Manager and a founding partner of Kiltearn. Craig graduated with a First Class Honours degree in Chemical Physics from Glasgow University and went on to gain his Ph.D. 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 prior to joining Kiltearn in 2011. Craig is a CFA Charterholder.

#### **Colin Armstrong**

Colin joined Kiltearn in March 2014 and is an Investment Analyst. Colin previously worked as a corporate lawyer at Dickson Minto W.S. for five years in the Listed Funds and M&A team. Colin graduated from Edinburgh University with a Bachelor of Law (Honours) degree and also gained his Diploma at Edinburgh University. Colin is a CFA Charterholder.

## **Iain McMillan**

Iain joined Kiltearn in 2014 and is a member of the Investment Administration Team. Prior to 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 Corporate Governance. 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.

## **External Resources**

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

<b>Company Research and Reports</b>	<b>Specialist ESG Research</b>	<b>Sell-side Research</b>	<b>Other</b>
Annual Reports Non-financial Disclosures Company Meetings	Sustainalytics Risk Ratings and Controversies ISS Ethixs Reports ISS Governance and Proxy Voting	Industry Level Themes ESG Specific Materiality Matrices	NGOs Press Reports Credit Rating Agency Commentary

## **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 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 4 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 Governance Group contributed significantly to this outcome.

While Kiltearn believes its governance structures and processes functioned well in 2020, it is looking to improve on these further in 2021. As noted above, over the previous year, Kiltearn has increased its focus on environmental and social factors in its investment process. This development has been led by a member of Kiltearn's Investment Team, Nell Franklin. 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 will join the Governance Group and its remit will be expanded to incorporate consideration of such matters.

### **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. As a boutique manager with a small number of staff, Kiltearn believes it is well positioned to mitigate potential conflicts. For example:

- All proxy votes require review and authorisation by two individuals with sufficient authority (discussed further below).
- Kiltearn does not retain any third (3<sup>rd</sup>) parties to market or promote its investment products.
- Kiltearn has a list of approved brokers and monitors “best execution” on a daily basis.
- Kiltearn does not have any affiliated brokers and does not trade as principal.
- Kiltearn does not permit Clients to direct trades to any particular broker.
- Clients do not pay “soft dollar” commissions and Kiltearn does not receive “soft dollar” benefits from brokers. Kiltearn pays for third (3<sup>rd</sup>) party research and research-related services out of its own financial resources.
- Staff and their related parties invest in Kiltearn’s commingled funds on the same terms as unrelated unitholders.
- Staff members are not permitted to buy publicly traded equity securities for their own account and/or the accounts of others. Further, staff members are required to, with the prior permission of Kiltearn’s Compliance Officer in relation to market timing, dispose of publicly traded equity securities they receive by way of gift or inheritance within two years of receipt.
- Staff members are not permitted to make political contributions.
- Staff members require the prior permission of Kiltearn’s Compliance Officer to contribute to charities over a material threshold.
- Kiltearn discloses its Error Correction Policy and its Trade Allocation Policy to all Clients and unitholders.
- Independent third (3<sup>rd</sup>) party administrators value all Clients’ portfolios.
- Independent third (3<sup>rd</sup>) party custodians hold all Clients’ securities.
- Members of staff may only accept gifts and entertainment of immaterial value.
- Staff are required to notify Kiltearn of any external business relationships.

Most notably this year, Kiltearn reviewed and amended its process for voting proxies. 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. Such situations may have arisen if: (i) a portfolio’s companies retirement plan assets were invested in one of Kiltearn’s commingled funds; (ii) a portfolio company or one of its affiliated entities was also a brokerage counterparty (as is currently the case with one US investment bank); 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 benefit from any executive compensation or incentive scheme subject to shareholder vote.

Having reviewed its proxy voting process, Kiltearn determine 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). Kiltearn introduced this practice at the beginning of the year.

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 engagement with the company’s management.

During the year, Kiltearn sought to identify potential conflicts using a number of processes, including:

- 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.

### **Outcome**

No new actual or potential conflicts were identified by the firm during the year.

Kiltearn continues to have its Clients' assets invested in a US-based investment bank, the trading arm of which is one of Kiltearn's three approved brokers. In line with its Proxy Voting Policy (see Appendix 1), all proxy votes relating to the company in question were authorised by two individuals with sufficient authority. Further, all broker selection decisions – including the selection of the US-based investment bank's trading arm to execute Clients' transactions – were made by members of Kiltearn's Dealing Group, independently of the Investment Team and Governance Group. The US-based investment bank received the same rate of commission on transactions as Kiltearn's other approved brokers.

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 are identified 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, it is discussed by the Supervisory Group and actions are taken as appropriate.

### **Actions**

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

### **Integrity of Published Information**

Kiltearn believes that in order to maintain the integrity of the market and ensure that participants can effectively discharge their stewardship responsibilities, listed companies must act responsibly, transparently and with integrity when reporting to the market. Furthermore, companies’ annual reports and other published information are a material source of information for market participants and those participants should be able to rely on them in good faith. With the above in mind, Kiltearn caused its Clients to join a group action against a UK-based consumer staples company for an alleged overstatement of profit. The trial was scheduled to take place in 2020.

Kiltearn joined the claimant group’s three-person Claim Committee in the middle of 2019. The Claim Committee was responsible for the oversight and management of the action. In the early part of 2020, Kiltearn, as a member of the Claim Committee, entered into settlement discussions with the consumer staples company. The parties agreed a final settlement in June and claimants, including Kiltearn’s Clients, received their allocation of the settlement sum in September.

As noted above, Kiltearn believes that causing its Clients to join the action and its membership of the Claim Committee was important in protecting one of the principles of a well-functioning market: companies should act appropriately when reporting to the market and when they do not, they should be held accountable for those actions.

### **COVID-19**

Despite being a value manager, Kiltearn has a strong preference for investing its Clients’ assets in well-capitalised companies that are self-financing, as it believes balance sheet risk is rarely rewarded. It is consequently in its Clients’ interests to minimise such risk, to the extent practicable.

The COVID-19 downturn was a good stress test of this conservative approach. Only two of our Clients’ smallest positions, amounting to less than 1% of the portfolio, ran into any serious balance sheet difficulties. Both related primarily to questions of refinancing of bonds coming due in 2021. In the case of an Oceania-based communication services company, our Clients participated in a capital raising which left the company with a very strong balance sheet to navigate COVID-19 unknowns. In the case of a European oil services company, we decided to cause our Clients to exit the position.

One of the positive features of the turbulent environment of 2020 has been the broadening of the value opportunity set to a range of companies and industries that face cyclical COVID-19 headwinds rather than disruptive risks. The market downturn provided Kiltearn the opportunity to add an industry disrupter to the portfolio at an attractive valuation. It also allowed Kiltearn to invest its Clients’ assets in a retailer, which has a proven ability to adapt to disruption, and a number of companies that are likely beneficiaries of the transition to electric vehicles. Whilst the timing and payback of such investments is uncertain, Kiltearn believes they were in its Clients’ best interests, as they will serve to enhance the aggregate quality of its Clients’ portfolio and have the potential to generate long-term returns.

In response to COVID-19, a number of portfolio companies have cut dividends to preserve cash to protect against the downturn. While in some cases these temporary cuts were sensible, Kiltearn has reviewed companies' executive compensation reports prior to AGMs to ensure that management teams' remuneration packages also reflect the recent downturn.

As a value manager, we see opportunity in out-of-favour companies. As a result, during market downturns, such as the downturn in March caused by COVID-19, Kiltearn Clients' portfolio is often a provider of market liquidity. Kiltearn typically causes its Clients to build positions in companies at times when the conventional market sentiment is to dispose of those positions due to short-term pessimism.

### **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 introduce environmental-based key performance indicators into their executive remuneration policies.

At its May AGM, Kiltearn supported a climate-change resolution proposed by a UK-based bank. Under the resolution, the company has set the target of being a net zero bank by 2050. Further, the resolution required the company to set a strategy (including targets) to transition its provision of financial services across all sectors, starting with energy and power, to align with the goals and the timelines of the Paris Agreement. The company states that, over time, it expects its financing to be re-weighted towards renewable, low-carbon activity. The company will report annually on progress from 2021. Our support for the proposal was based on the view that adhering to and exceeding these standards is firmly in the best economic interests of Clients. The resolution passed with overwhelming support from shareholders.

### **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 is demonstrated by the firm's approach to investing during the COVID-19 pandemic and its evolving thinking on environmental considerations. These risks have been considered through the investment process. Further, Kiltearn's involvement in a group action against UK-based company and the firm's membership of the group's three-person Claim Committee evidence that the firm, as part of its stewardship responsibilities, is willing to seek to protect market integrity and its Clients' best interests.

Kiltearn will continue to engage with other stakeholders on market-wide and systemic risks where such action seems likely to improve the investment outcomes of its Clients. In the future, for example, the firm may participate in relevant industry initiatives or forums.

**Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.**

As noted above, the Governance Group is responsible for updating the firm’s UK Stewardship Code Statement, its Proxy Voting Policy (see Appendix 1), its Proxy Voting and Governance Principles (see Appendix 2) and its Annual Engagement Disclosure (see Appendix 4). The Governance Group also reviews updates to the firm’s Responsible Investment Policy (see Appendix 3). The Governance Group meets monthly and its head, the Head of Corporate Governance, reports directly to Kiltern’s Supervisory Group.

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

During the year, while reviewing the Proxy Voting and Governance Principles, it was noted that there is academic evidence suggesting that the presence of females on boards positively correlates with financial performance and compliance with ethical principles.<sup>1</sup> Additionally, a 2018 study concluded that diverse boards reduce stock return volatility and take less financial – but not R&D – risks.<sup>2</sup> With this in mind, Kiltern is looking to engage with companies to encourage them to improve board diversity. This effort would likely focus on Asia, where our portfolio companies’ directors are overwhelmingly male and hail from the companies’ countries of incorporation.

Kiltern’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), Kiltern determine 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 Kiltern’s Proxy Voting Policy in Appendix 1 below).

During the year, Kiltern’s Legal and Compliance Group reviewed all Client reporting – including stewardship reporting – to ensure it was fair, balanced and understandable. As demonstrated in Kiltern’s Annual Engagement Disclosure (see Appendix 4), Kiltern includes reporting on case studies where desired outcomes have and have not been achieved.

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<sup>1</sup> 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.

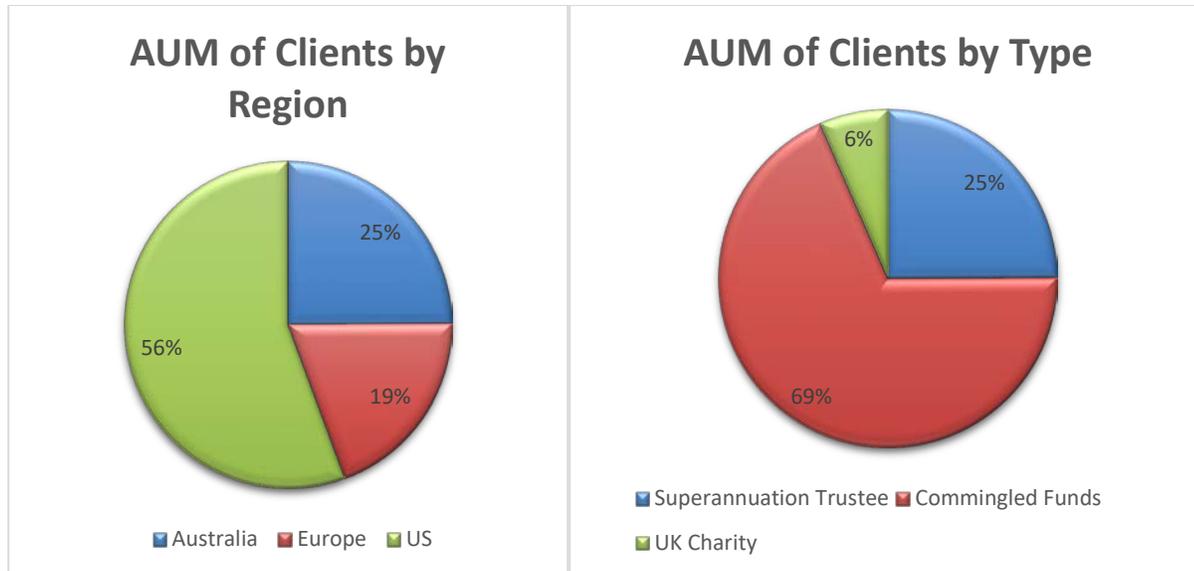
<sup>2</sup> Bernile, G., Bhagwat, V. and Yonker, S. (2018). "Board diversity, firm risk, and corporate policies". *Journal of Financial Economics*, 127(3).

**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 2020, Kiltearn: (i) manages two US-based commingled funds; (ii) acts as the delegated investment manager for a Dublin-based UCITS vehicle; and (iii) manages accounts on behalf of two large institutional clients. Kiltearn currently manages ~USD 5.5 billion of assets on behalf of its Clients.

As of 31 December 2020, the breakdowns by region and client-type of Kiltearn’s Clients by AUM were:



Unitholders in Kiltearn’s commingled funds are themselves institutional investors. 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 Kiltearn’s US-based commingled funds are typically >80% 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 2020, by AUM, unitholders in the Dublin-based UCITS vehicle were ~60% UK-based, 35% were based in other European countries and the residual were based outside Europe. US persons are not permitted to invest in the UCITS vehicle.

**Time Horizon**

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. Several companies have been held in Kiltearn’s Clients’ portfolio since inception, though the typical holding period is shorter. 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 year, Kiltearn met with unitholders, separate account clients, prospects and consultants on 151 occasions. 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 and separate account clients 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 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.

Kiltearn circulates its UK Stewardship Code Statement, its Proxy Voting Policy (see Appendix 1), its Proxy Voting and Governance Principles (see Appendix 2), its Responsible Investment Policy (see Appendix 3) and its Annual Engagement Disclosure (see Appendix 4) to unitholders and separate account clients annually. All five documents are also available on Kiltearn's website ([www.kiltearnpartners.com](http://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, ultimately we 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 corporate governance issues.

Separate account clients may impose their own investment restrictions on the securities that can be held in the separate account's portfolio.

## **Actions**

As noted above, during the year, Kiltearn met with unitholders, separate account clients, prospects and consultants on 151 occasions. These meetings were particularly important in 2020 due to the extreme market volatility caused by COVID-19 and impact of the economic efforts to control its spread, the collapse in the price of oil and unprecedented levels of economic stimulus. 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.

Kiltearn has increased its stewardship reporting in recent years based on feedback from one of its separate account clients and consultants representing UK pension plans. As a result, Kiltearn: (i) chose stewardship as the topic for its August 2020 newsletter; (ii) became a signatory to the UN Principles for Responsible Investing; and (iii) is applying to become a signatory to the UK Stewardship Code for the first time.

## **Outcome**

Kiltearn's approach to taking account of the needs of unitholders, separate account client and their beneficiaries is founded upon regular reporting and contact/dialogue with those parties/their investment consultants. Given the diverse range of unitholders and separate account clients, there is inevitably a range of views on investment

strategy and stewardship. It is not, therefore, possible at all times to accommodate the preferences of all beneficiaries. However, as noted above, Kiltarn has increased its stewardship reporting based on feedback during the year. Further, Kiltarn adhered to its disclosed investment philosophy, policies and processes when managing its Clients' assets throughout 2020. Kiltarn will continue have regular dialogue with unitholders, separate account clients, consultants and prospects throughout 2021 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, amongst 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. Whilst Kiltearn’s investment process is deliberately structured to discourage undue focus on short-term “market noise”, ongoing and vigilant monitoring remains integral to Kiltearn’s 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 may seek 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 an issue has been deemed potentially material, Kiltearn may consider 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 may also consider 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 Kiltearn’s analysis of a company’s historic financial characteristics and performance over cycles, it 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 may be taken into account during the normalisation process where it believes they are likely to be 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 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. 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 the 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**

During the year, Kiltearn decided not to invest its Clients' assets in a South American company in favour of alternative investment opportunities. Kiltearn had concerns about the company's environmental and labour practices, impact on local communities and the effectiveness (or lack thereof) of the board's oversight of these issues. Kiltearn ultimately determined that it was not in its Clients' best interests to invest their assets in the South American company's securities due to the potential impact of these practices on long-term returns.

During the year, Kiltearn decided not to invest its Clients' assets in a Southeast Asian consumer staples company in favour of an African consumer staples company. Kiltearn had concerns about the Southeast Asian company's environmental and labour practices and the effectiveness (or lack thereof) of the board's oversight of these issues. The company's practices have led to the loss of contracts with multinational food, snack and beverage companies. Kiltearn determined that it was not in its Clients' best interests to invest their assets in the Southeast Asian company's securities due to the likely impact on long-term returns. Kiltearn consequently found the case for investment in the African company more compelling.

As a value manager, we see opportunity in out-of-favour companies. As result, our Clients' portfolios currently have an exposure to the Energy sector; however, one of the positive features of the turbulent environment of 2020 has been the broadening of the value opportunity set to a range of companies and industries that face cyclical COVID-19 headwinds. As a result, it has allowed Kiltearn to invest its Clients' assets in a number of companies that are likely beneficiaries of the transition to electric vehicles. Whilst the timing and payback of such investments is uncertain, Kiltearn believes they were in its Clients' best interests, as they will serve to enhance value and have the potential to generate long-term returns.

A summary of Kiltearn's material engagement and voting activities throughout 2020 is included in its Annual Engagement Disclosure (see Appendix 4 below).

## **Principle 8 – Signatories monitor and hold to account managers and/or service providers.**

### **Proxy Voting Research and Platform**

Kiltearn most recently reviewed its proxy voting research provider 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 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 in respect of payments of dividends to unregistered shareholders. Despite ISS' 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 – doing 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' research is of a reasonable quality.

ISS' voting guidelines vary considerably by region. Broadly speaking, ISS' guidelines are driven by ordinary market practice. This, in turn, means there is a lack of consistency in ISS' 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.

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 for ensuring votes are cast correctly.

### **Specialist ESG Research**

While we view third party specialist research as a useful tool, it has its limitations, such as a tendency to be backward looking or purely 'risk' focused, capturing only a partial picture.

Kiltearn most recently reviewed its ESG research providers this year, concluding that Sustainalytics is its preferred provider. As part of the review, Kiltearn reviewed sample reports from the major specialist ESG research providers. Kiltearn chose Sustainalytics on this basis that its research appears to fit best with the incorporation of material ESG factors into Kiltearn's investment process.

It is too early to make meaningful observations about Sustainalytics' research; however, Kiltearn will review Sustainalytics' research next year to determine whether the research continues to complement Kiltearn's own internal research and meet its expectations.

### **Sell-side Research**

Kiltearn reviews its sell-side research requirements annually. The most recent review began in September 2020, with all members of Kiltearn's Investment Team voting on the quality of research and providing feedback on how often they use the research of each provider. Kiltearn's Research Group will make a final proposal based on feedback.

The sell-side research marketplace is highly competitive and consequently where 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 Kiltern's assessment of a company's business quality. As part of the investment process, we seek to align ourselves with boards who 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, consistent with its approaches outlined in its responses to Principles 1 and 7, intervention to protect or enhance a company's long-term development and value creation may be necessary.

Kiltern 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 – Kiltern's proxy voting decisions and engagement priorities. A copy of these principles is sent directly to each company's board following Kiltern's initial investment. Examples of some of the key principles include:

- A sound balance sheet. Kiltern 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.

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

Companies held in Kiltern's portfolio may not always exhibit some of the preferred characteristics enshrined in the principles. Kiltern consequently 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 Governance Group at the request of the Investment Team. However, Kiltern has also engaged with activists at their request and, on one occasion, at the request of a trade union.

Where Kiltern instigates engagement, we have generally arranged a meeting with the company before following up with a formal letter.

**Actions**

A summary of the Governance Group's engagement with portfolio companies during 2020 is included in the table below:

Proxy Voting and Governance Principles	29
Calls with Activists	2
Calls with IR/Company Secretaries	8
Calls with Senior Executives	4
Calls with Chairman/Non-executives	4
Formal Escalation Letters	2

It should be noted that these numbers do not capture *ad hoc* phone calls and e-mail exchanges with portfolio companies by the Governance Group or interactions by members of the Investment Team as part of investment research and/or their monitoring efforts.

**Outcome**

A summary of Kiltern's material engagement activities, including its collaborative efforts and escalated issues, throughout 2020 is included in its Annual Engagement Disclosure (see Appendix 4 below).

**Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.**

It is Kiltearn’s preference 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 4 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 Kiltearn 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 the escalating the issue to influence portfolio companies.

Broadly speaking, 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.

Category	Risk Category		
	Low	Medium	High
<b>Auditor</b>	Excessive tenure Replacement without explanation Excessive fees	Reputational damage	
<b>Dividends</b>			Excessive pay-out Low pay-out
<b>Board</b>	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
<b>Remuneration</b>	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	
<b>Capital Structure</b>	Issuance with pre-emptive rights	Issuance without pre-emptive rights Price of issued shares Dilution Market repurchases	
<b>Capital Allocation</b>	Simple majority voting	Voting rights Takeover defences	Inadequate ROE M&A Excessive leverage Excessive net cash/investments Poison Pills
<b>Sustainability</b>			Practice below market standard Practice below regulatory standard
<b>Activists</b>			Proposal plan
<b>Investment Issues</b>			Performance Strategy Operational practices Financial practices

**“Low” Risk**

Issues categorised as “Low” risk will typically be raised during routine calls/meetings/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/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 or executive management. 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.

Finally, at this stage, it would be reasonable for Kiltearn to have a call/meeting with the company's chairman 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.

### **"High" Risk**

Issues categorised as "*High*" risk will typically be raised during issue-specific calls with relevant member of the board or executive management. 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/meeting with the company's chairman 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 less likely to be effective where Kiltearn's Clients' collective ownership of the company's outstanding shares is not significant (<5%/not a top 20 shareholder) and therefore may not be deemed appropriate.

Finally, where Kiltearn's other efforts have failed to gain traction with the company and 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* fact and circumstance dependent. Kiltearn's approach will take into account a multitude of factors including, but not limited to: (i) 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.

### **Escalation Examples**

Examples of Kiltearn's escalation during the period are included in the sections of its Annual Engagement Disclosure entitled "*Japanese Materials Company: Letter to the Chairman*", "*US Financial Companies: Transparency*" and "*Collective Engagement*" (see Appendix 4 below).

## **Principle 12 – Signatories actively exercise their rights and responsibilities.**

As noted above, In addition to reviewing Kiltern’s Proxy Voting and Governance Principles (see Appendix 2 below), Kiltern’s proxy voting process involves the Governance Group reviewing a company’s materials and our own investment research. Kiltern also reviews, but does not necessarily follow, the recommendations of ISS’ 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 Kiltern. These usually follow one of the proxy voting research providers making a recommendation to vote against an executive’s pay or where Kiltern’s Clients hold a material stake in the company.

### **Voting Activity**

A summary of Kiltern’s material voting activities throughout 2020 is included in its 2020 Annual Engagement Disclosure (see Appendix 4 below).

Throughout 2020, Kiltern voted on motions at 93 company meetings (AGMs, OGMs, SGMs and EGMs). Kiltern voted against at least one of management’s recommendations at 77 (83%) of the meetings. Further, of the 1,489 total balloted items to vote on, Kiltern voted against management’s recommendations on 256 (17%) of the items.

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

<b>Rationale for Votes Against Management's Recommendations</b>	<b>No. of Votes</b>
Appointment of Auditor	29
Election of Director/Chairman/Remuneration Committee Member	130
Issuance of Equity	51
Remuneration	17
Shareholder Proposals	18
Other	11
<b>Total</b>	<b>256</b>

Throughout 2020, Kiltern voted against at least one of ISS’ recommendations at 69 (74%) of the meetings. Further, of the 1,489 total balloted items to vote on, Kiltern voted against ISS’ recommendations on 205 (14%) of the items.

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’ recommendations where those recommendations were in conflict with the firm’s Proxy Voting and Governance Principles (see Appendix 2).

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

Kiltern provided unsolicited feedback to some companies before or after voting at their meetings. For example, Kiltern requested that: (i) US financial companies make the determination of their executives’ compensation more objective and transparent; (ii) a French company make its executive compensation determination processes more transparent (irrelevant of the fact such compensation tends to be

relatively modest by global standards); and (iii) a number of chairs/non-executive directors consider stepping down from external positions to concentrate on their roles at portfolio companies.

Unitholders and separate account clients can receive quarterly summaries 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. In order to protect the integrity of Kiltearn's investment programme and value of its Clients' portfolios, 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 does not engage in any securities 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 securities 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 securities lending portfolios. All such activities are undertaken by separate account clients at their own risk. Kiltearn accepts no responsibility and has no liability in relation to such arrangements.

Please contact Kiltearn's Governance Group with any questions concerning this document or the disclosures contained within it ([Governance@kiltearnpartners.com](mailto:Governance@kiltearnpartners.com)).

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



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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 Client’s long-term investment values. 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. More material issues 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) social and corporate responsibility considerations.

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 U.S. 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. In order 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’ 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 prepares a "Proxy Voting Summary File" and a simplified voting ballot. The file includes the details of the number of securities held by a Client, the deadline for the response and other information that may be of interest.

A member of Kiltearn's 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 shall 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) because Northern Trust or its agent, in error, does not process a proxy or provide sufficient notice of a vote; or (iii) because 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) where the costs of voting a specific proxy outweigh the economic benefit that Kiltearn believes would be derived by the Client; (iv) where 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) where 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 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, where appropriate, challenge the assertions of management and 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:

- (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 nineteen 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 pay-out 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:

- (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 sufficiently independent to ensure that the board is capable and motivated, to supervise management's performance and remuneration, for the benefit of all shareholders. Where a company's board does not include, what Kiltearn considers, a meaningful number of independent directors, Kiltearn expects the company's board to explain and justify its composition.

## ***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.

## ***Chair and Chief Executive Officer ("CEO")***

A primary obligation of a board is to provide independent oversight of executives' capital allocation decisions. A Chairperson's primary duty is to lead the board. A combined Chairperson and CEO position – in Kiltearn's view – inhibits objectivity and raises concerns about effective oversight. Added to which, emerging academic studies supports 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 Chairperson of the board.

## ***Tenure of Non-executive Directors***

The objectivity of non-executive directors serving excessively long tenures may become compromised. As a result, where a non-executive director serves on a board for a period longer than fifteen years, Kiltearn will generally determine that the director lacks the desired level of objectivity and consequently will no longer consider the director independent.

## ***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, Kiltarn would generally expect the company's board to comprise of a majority of independent directors.

#### **Remuneration**

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

- (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 shareholder value creation. Specifically, for the majority of companies, Kiltarn favours remuneration targets and policies to reference attained return on invested capital ("**ROIC**") and achieved return on equity ("**ROE**"). Further, Kiltarn will support remuneration targets and policies that include a level of focus on free cash flow development and financial prudence. Finally, Kiltarn 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, Kiltarn does not believe that TSR or relative TSR are measures on which significant value should be placed and consequently, if a company has TSR-based targets in place, generally, such targets should be eliminated or their importance reduced at the next opportunity. Further, Kiltarn 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.

### ***“Claw-back” Provisions***

A company should have suitable “claw-back” provisions in place that provide for the recovery of executives’ variable compensation in certain circumstances. Kiltearn generally expects a company to have “claw-back” provisions in place that allow for recovery in the case of:

- (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 annual general meetings 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 provided that:

- (i) the shares will be cancelled once they have been purchased or they will be 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 Kiltarn will vote on proposed M&A on a case-by-case basis, Kiltarn will generally support proposed M&A which offer an anticipated ROIC > 12% (pre-tax).

Kiltarn places strong emphasis on ROE performance. Kiltarn 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. Kiltarn 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 Kiltarn 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 will likely be reflected in Kiltarn’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. Kiltarn will not support any “poison pills” or mechanisms that delay or reduce its ability to vote on significant transactions. Further, Kiltarn will likely oppose director nominees where a company adopts or renews a “poison pill” provision without shareholder approval.

Kiltarn is generally in favour of a company maintaining a simple equity structure based on the one share, one vote principle. Kiltarn will generally vote against proposals to create or maintain dual-class capital structures.

In general, Kiltarn believes that a simple majority vote should be required to change a company’s governance provisions or to approve transactions.

### ***Stewardship***

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. Kiltarn 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 under-valued stocks, the long-term intrinsic value of the portfolio is compounded.

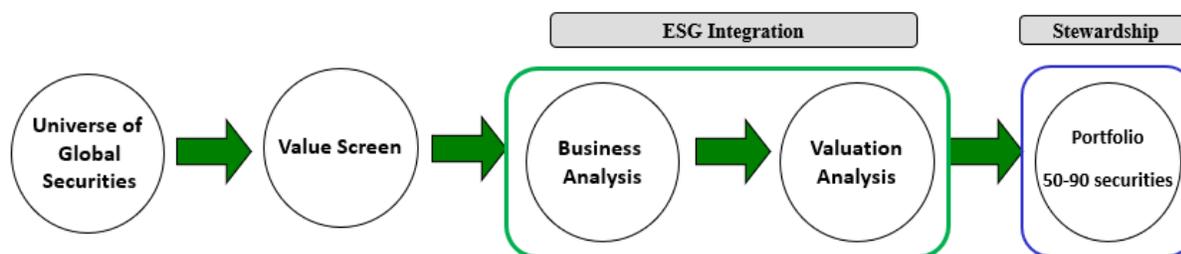
Kiltearn believes that the relevant time period for assessing our abilities is three to five years. Individual stocks are purchased in the portfolio with this holding period in mind, as it frequently takes time for the value opportunity to be realised.

#### 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 Environmental, Social and Governance factors in our investment process.
- **Stewardship:** active stewardship of clients’ capital through voting and company 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	Social	Governance
Exposure to energy transition	Employee diversity and welfare	Board structure and independence
Greenhouse gas emissions	Product and operational safety	Incentive structures
Energy and resource usage	Supply chain oversight	Shareholder rights
Waste and water management	Relations with local society	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:

- *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 how a company treats various stakeholders (e.g. customers, employees and the local community).

- *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. As such, 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 impacting 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, return on invested capital, 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:

- 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:

- 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 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. ESG factors are taken 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 Kiltarn, 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 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. Examples of some of the key principles include:

- 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 so as 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.

Companies held in Kiltearn's portfolio may not always exhibit some of the preferred characteristics enshrined in the principles. Kiltearn consequently 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 governance team 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 Kiltearn's 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' proxy voting research. ISS is one of the two leading providers of proxy voting research.

## **Internal Structures**

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

*Governance Group:* As noted above, Kiltearn has a Governance Group that sets out our governance principles, is responsible for proxy voting and spearheads company engagement. This group consists of the Head of 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.

## **ESG Resources**

- Company research and reports:
  - Annual reports and non-financial disclosures
  - Company meetings (investment-led and governance-specific)
- Specialist ESG research:
  - Sustainalytics risk ratings and controversies research (>7000 companies covered)
  - ISS Ethix reports-norms based assessment
  - ISS governance and proxy voting research- informs but does not dictate Kiltearn's voting
- Sell-side research (industry level themes, ESG specific reports and materiality matrices)
- Other: NGOs, press reports, credit rating agency commentary

## Appendix 4

### 2020 Annual Engagement Disclosure

The Shareholder Rights Directive II (“SRD II”) is an EU Directive that sets out to strengthen the position of shareholders and to reduce short termism and excessive risk taking by companies. It amends SRD I, which came into effect in 2007, with the aim of promoting effective stewardship and long-term investment decision making. It sets requirements in several areas, including transparency of engagement policies and investment strategies across the institutional investment community. SRD II became effective in EU Member States on 10 June 2019.

The FCA has published a Policy Statement (PS19/13) implementing SRD II in the UK. The UK Shareholder Rights Directive (Asset Managers and Insurers) Instrument 2019 and amended SYSC and COBS sections of the FCA Handbook formally reflect the adoption of the SRD Directive, applying its remit not only to equities listed in the EEA (as required by SRD II), but also to comparable equities listed outside of the EEA.

#### Annual Disclosure Requirements

SRD 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.

#### *Establishment of a Governance Group*

Kiltearn’s stewardship efforts are and always have been investment-led; however, Kiltearn established a Governance Group in early 2018. The Governance Group includes members of the Investment Team (one Portfolio Manager and one Investment Analyst), a member of the Investment Administration Team and a representative of Legal and Compliance. The purpose in establishing the Governance Group was to put Kiltearn’s approach to stewardship on a more formal and structured footing than it previously had been.

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 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 (see Appendix 2 above), Kiltearn’s proxy voting process involves the Governance Group reviewing a company’s materials and our own investment research. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS’ 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 clients hold a material stake in the company.

For high-level statistics on Kiltearn’s proxy voting patterns, please see the firm’s response to Principle 12 of the UK Stewardship Code above.

#### *The Engagement Process*

Engagements with companies, outside of discussions of matters to be voted on at meetings, are typically instigated by the Governance Group at the request of the Investment Team. However, Kiltearn has also engaged with activists at their request and, on one occasion, at the request of a trade union.

Where Kiltearn instigates engagement, we have generally arranged a meeting with the company before following up with a formal letter.

Evidence suggests that it takes one and a half years, on average, and two to three engagements before such interventions are successful.<sup>3</sup> We consequently accept that patience and appropriate escalation are required before we see tangible success in this realm.

A summary of Kiltearn's material voting and engagement activities throughout 2020 is included below:

## **Capital Discipline**

### **Japanese Materials Company: Letter to the Chairman**

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 - what Kiltearn considered - the company's poor capital allocation record and overcapitalised balance sheet.

Following on from a call with senior members of the company's management team in the summer, Kiltearn sent a formal letter to the chairman in mid-October. The letter requested that the company: (i) reduce its cross-shareholdings, as prescribed by the Japanese Corporate Governance Code; (ii) buyback its shares with the proceeds and cancel the repurchased shares; (iii) set an ROE target of >10%; and (iv) improve its working capital efficiency. Kiltearn believes that it is in clients' best interests for the company to take these actions 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.

### **Japanese Manufacturing Company: Vote against the Chairman**

Kiltearn also voted against the re-election of a chairman of a manufacturing company as the person ultimately responsible for the company missing its ROE target, while having – what Kiltearn considers – an overcapitalised balance sheet. 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.

### **US-based International Investment Management Company**

In late Q1 2020, the investment management company asked for Kiltearn's views on buybacks versus dividends. Kiltearn noted its preference for the former, in the best interests of its clients, when valuations are suppressed. Buybacks improve financial metrics such as EPS, CFS and ROE. The company repurchased ~USD 135 million of shares in Q2 and Q3 of 2020

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<sup>3</sup> Dimson, E., Karakaş, O. and Li, X. (2015). "Active ownership". *Review of Financial Studies* (RFS), 28(12).

## Remuneration

### **US Financial Companies: Transparency**

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.

Perhaps unsurprising given that a study has shown that remuneration policy is the area with the lowest successful rates for engagement,<sup>4</sup> US financial companies have been largely resistant to meaningful change. 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 2020 Kiltearn supported a US-based multinational financial services company and a US-based international investment management company. Where there have been no improvements or 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 2020 Kiltearn did not support remuneration and/or the re-election of the remuneration committee chair at a US-based bank, a bulge-bracket investment bank or a US-based custody bank and asset manager. The US-based custody bank and asset manager has subsequently engaged with Kiltearn on the issue and committed to improving transparency in relation to the determination of its executives' remuneration in future years. Kiltearn will continue to monitor the company's disclosures.

One US asset manager asked for Kiltearn's views of which companies it should consider if it is looking to improve transparency around remuneration. Kiltearn pointed to a number of Europe-based institutions.

### **US-based International Investment Management Company: CEO's One-time Award**

Kiltearn supported a material one-time alignment award to a CEO at a US-based international investment management company. Kiltearn supported the award on the basis that it is 100% at risk, is suitably long term in its nature and is subject to a sensible ROE measure and reasonable targets. During discussions, the company confirmed that the CEO's future awards would be reduced for at least three years to offset the award. The resolution passed. Following Kiltearn's feedback, the company is also considering increasing the weighting of financial measures for executives' short-term incentive awards.

### **UK Consumer Staples Company: Lack of Margin Target**

In 2018, before supporting a UK-based consumer staples company on remuneration at its AGM, Kiltearn noted that it would look for the company to make significant progress towards introducing an explicit

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<sup>4</sup> Becht, M., and Franks, J.R., Mayer, C. and Rossi, S. (2008). "Returns to shareholder activism: evidence from a clinical study of the Hermes UK Focus Fund". *ECGI – Finance Work Paper No 138/2006*.

margin-based key performance indicator (“KPI”) and returns-based KPI for the executives’ remuneration over the subsequent year. Kilearn believed such changes would be in the best interests of clients, as these KPIs would have more fully aligned the executives’ remuneration targets with the company’s overall targets and shareholder returns. No such progress was made in 2019 or 2020. Kilearn consequently voted against the resolution relating to the company’s remuneration report for a second year in a row. The resolution did not pass due to shareholder opposition. The company has since stated it will engage with shareholders on the issue prior to the next update to its remuneration policy.

### **UK Communication Services Company: Potential Misalignment**

Kilearn voted against a UK-based communication services company’s remuneration report and remuneration policy. Kilearn has concerns over alignment between executive remuneration and performance. Deteriorating financials were the backdrop to remuneration that was at its highest since 2016. The personal performance element of the KPIs for the short-term incentives appeared to be a cushion for award determinations. Finally, the company was proposing moving from performance-based long-term incentive plan to a time-vesting scheme subject to underpins; noting that nothing has vested under the plan for four years due to performance targets being missed. Kilearn also voted against a UK bank’s remuneration policy due to its proposal to move from performance-based long-term incentive plan to a time-vesting scheme subject to underpins. The relevant resolutions at both companies passed despite varying degrees of shareholder opposition. Kilearn may engage with the companies in the future on the structure of executive remuneration.

### **Support Following Improvement**

In relation to a number of companies where we voted against remuneration in 2019, we supported the companies on remuneration in 2020. In the two cases highlighted below, Kilearn fed its reasons for voting against remuneration back to the company and in both cases the relevant company made some attempt to address Kilearn’s/other shareholders’ concerns in 2020.

- A UK-based energy services company’s remuneration committee exercised its discretion to reduce the annual bonus pay-outs and long-term incentive programme opportunities. This was done to reflect, “share price performance”.
- A US-based medical equipment manufacturer stopped making interim payments under its long-term incentive programme and the inducement award made to the company’s new CFO is entirely performance-based (previously, the company made time-based awards).

## **Governance**

### **Combined CEO and Chair**

Companies held in Kilearn’s portfolio may not always exhibit some of the preferred characteristics enshrined in Kilearn’s Proxy Voting and Governance Principles (see Appendix 2 above). Kilearn consequently takes each company’s facts and circumstances into account when voting proxies and engaging with management.

For example, Kilearn sets out its expectation that the roles of CEO and chairman are separated in the interests of accountability and 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 chairman or express concern about the combination of the roles.

During the year, Kiltearn supported shareholder proposals to separate the roles of CEO and chairman at a US biopharmaceutical company, a US-based energy company (discussed further below) and a US healthcare conglomerate.

Kiltearn had a number of calls with a US manufacturer to discuss the combination of the roles of chairman and CEO following the resignation of the previous CEO and the new CEO’s view of the company’s future strategy. Kiltearn deemed that it was in the best interests of clients to support the election of the new combined CEO/chairman based on the individual’s track record and the need for strong and focused leadership following a number of years of cyclical decline. The relevant resolution passed. The company’s performance improved considerably throughout the remainder of 2020 following the individual’s appointment.

#### **Japanese Companies: Board Independence**

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. Over 2019 and 2020, 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 but will likely only continue to do so where it sees continued improvement. Where Japanese companies did not make any such improvements, Kiltearn voted against the inside directors – other than the person deemed to be key executives and board participants.

### **Social**

#### **Financial Services Company: Gender Pay Disclosure**

Kiltearn supported shareholders’ proposals regarding a US financial services company’s previous behaviour and its approach to the gender pay gap:

- Kiltearn supported a shareholder proposal requesting that the company report on the extent to which employees’ incentive compensation may be tied to metrics that expose the company to further risks. Given the company’s recent controversies, there is a reasonable basis to believe that shareholders would benefit from additional meaningful disclosure regarding potential risks inherent in the broad-based employee compensation schemes.
- Kiltearn supported a shareholder proposal requesting that the company report its global median gender pay gap and its risks related to compensation disparities based on gender. The company

does not publish the same gender pay gap statistics for its US or global workforce as it publishes in the UK. At least one of its competitors does report these. Given the recent pay gap scandals and accompanying litigation, forcing the company to publish such statistics may, in turn, ensure that the company maintains suitable focus on such issues and mitigate the risk of future gender pay-based litigation.

## **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 introduce environmental-based KPIs into their executive remuneration policies.

### **UK-based Bank: Net Zero Target**

At its May AGM, Kiltarn supported a climate-change resolution proposed by a UK-based bank. Under the resolution, the company has set the target of being a net zero bank by 2050. Further, the resolution required the company to set a strategy (including targets) to transition its provision of financial services across all sectors, starting with energy and power, to align with the goals and the timelines of the Paris Agreement. The company states that, over time, it expects its financing to be re-weighted towards renewable, low-carbon activity. The company will report annually on progress from 2021. Our support for the proposal was based on the view that adhering to and exceeding these standards is firmly in the best economic interests of clients. The resolution passed with overwhelming support from shareholders.

### **Energy Company: Shareholder Engagement on Environmental Practices**

A US-based energy company has been subject to an ongoing campaign by shareholders due to the company's perceived inadequate response to climate change. The company challenged a shareholder proposal regarding CHG emissions reduction targets at its 2019 AGM and had it struck out by the US Securities and Exchange Commission.

Kiltarn subsequently supported a number of the shareholders' proposals at the company's 2020 AGM:

- Kiltarn voted in favour of a shareholder proposal requesting that the company adopt a policy that the chair of the board be an independent director. Kiltarn believes that a primary obligation of a board is to provide independent oversight of executives' capital allocation decisions. A chairman's primary duty is to lead the board. A combined chairman and CEO position, in Kiltarn's view, may inhibit objectivity and raises concerns about effective oversight. As noted above, there are circumstances where Kiltarn is supportive of the combination of the roles; however, in this case it was deemed reasonable that the roles should be separated to ensure that both roles could be carried out effectively.
- Kiltarn voted in favour of a shareholder proposal requesting that the company adopt a policy requesting that the company take the necessary steps to give 10% of shareholders the right to call a special meeting without the need to first petition the state court.
- Kiltarn voted in favour of a shareholder proposal requesting that the company increase disclosure concerning the company's political contributions.
- Kiltarn voted in favour of a shareholder proposal requesting that the company increase disclosure concerning the company's lobbying payments.

The shareholders' proposals garnered significant support but were ultimately unsuccessful. The company subsequently announced that it would look to cut its emissions per barrel of oil by 15-20% by 2025. The company also published its Scope 3 emissions for the first time in early 2021.

Kiltearn believes that in the best interests of shareholders, including Kiltearn's clients, a company's 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. Further, 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.

## **Collective Engagement**

### **Japanese Communication Services Company: Engagement with a Proxy Research Provider**

This case exemplifies our efforts on governance, while also illustrating the limits on shareholder power where there is no legal avenue to enforce shareholder rights against the company.

The Japanese communication services company is required to limit the number of its voting rights held by foreign entities to 20% and 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.

Kiltearn's clients own shares in the company, including unregistered shares, and consequently receive reduced dividend payments due to the company's unequal treatment of foreign investors. Further, the policy makes the company potentially less attractive to foreign investors and consequently 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.

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' 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.

ISS' specific recommendation was to vote against the re-election of the company's chairman 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, ~22% of the company's shareholders voted against his re-election. Kiltearn voted against the re-election of the chairman and all other members of the board.

The company currently refuses to change its policy. It has not given an adequate explanation for its stance. It is hoped that the continued pressure exerted on the company will see it rethink its stance.

### **US Consumer Staples Company: Discussion with an Activist**

Kiltearn a number of calls with an activist to exchange views on the composition of a US consumer staples company's board, its governance structure and its executive management team. Kiltearn subsequently had a call with the company. On the call, Kiltearn suggested that the company might have found it useful to discuss potential independent director candidates with the activist.

Kiltearn originally wrote to the company in late 2018 asking it to separate the roles of CEO and chairman following a seemingly value destructive acquisition. Kiltearn has reiterated this stance on two subsequent occasions. Most recently, this summer. The company has subsequently announced that the current CEO will step down from the role no later than the middle of next year. However, the current CEO will stay on as executive chairman. The activist noted to Kiltearn that it has concerns about this structure and the repercussions for the process for recruiting a new CEO. It is Kiltearn's policy generally not to support a former CEO for the role of chairman due to concerns about independence. Kiltearn subsequently voted against the chairman's and the lead independent director's re-election in early 2021. The results of the AGM are yet to be announced.

### **Japanese Materials Company: Exchange of Views**

Finally, 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).

On 30 January, 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 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 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.

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.