2021 Semi-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. Kiltearn has determined that it will update its disclosure on a semi-annual basis due to investor demand.

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 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.

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

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

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

The proxy voting process
In addition to reviewing Kiltearn's Proxy Voting and Governance Principles (see Appendix 2 above), Kiltearn's proxy voting process involves the Sustainability & Governance Group reviewing a company's

materials and our own investment research. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS' 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 Sustainability & 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.[1] 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 the first half of 2021 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 at the company's 2020 AGM.

Following on from a call with senior members of the company's management team in the summer of 2020, Kiltearn sent a formal letter to the chairman in mid-October 2020. 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.

Encouragingly, the company did buyback shares during 2020; however, Kiltearn believes that they were not sufficient (~5%) given the magnitude of the overcapitalisation of its balance sheet. As a result, Kiltearn voted against the re-election of the chairman at the company's 2021 AGM.

[1] Dimson, E., Karakaş, O. and Li, X. (2015). "Active ownership". *Review of Financial Studies* (RFS), 28(12).

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.

Japanese Media Conglomerate & Property Company: Letter to the Chairman

Kiltearn sent a formal letter to a Japanese media conglomerate's chairman in early July 2021. In the letter, Kiltearn commended the company for listening to shareholders, acknowledging that its balance sheet is overcapitalised and taking steps to address that overcapitalisation by repurchasing ~JPY 10 billion of shares between July 2020 and the end of March 2021. Kiltearn did note, however, that it did not consider the action taken by the company adequate to address fully the issue, given the magnitude of the overcapitalisation (the company's investment securities equate to 30% of its equity). The company has also allocated significant capital to a capital-intensive low-returning property business in recent years. This is an area of concern for Kiltearn. We consequently asked the company to reduce its holdings in investment securities, improve capital efficiency by focusing on the core media business and further enhance shareholder returns

As noted above, 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 repeatedly missing its ROE target and dropping it entirely in its new medium-term business plan, while having – what Kiltearn considers – an overcapitalised balance sheet.

As noted above, Kiltearn believes that it is in clients' best interests for the company to take action to improve shareholder returns. Kiltearn will continue to monitor the company's progress and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.

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,[2] US financial companies have often been 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 2021 Kiltearn supported a US-based custody bank and asset manager following improved disclosure practices, having voted against the company in 2020. Kiltearn also supported a US-based international investment management company (going against the recommendation of ISS).

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 2021, Kiltearn did not support remuneration and/or the re-election of the remuneration committee chair at two US-based multinational financial services companies and a US-based multinational investment bank and financial services company. Kiltearn will continue to monitor these companies' remuneration practices and disclosures.

UK Builders' Merchant and Home Improvement Retailer

Consistent with conversations Kiltearn had with the company in late 2020, Kiltearn voted against the UK home improvement retailer's latest remuneration policy. Kiltearn voted against the proposal as the company was looking to remove the performance conditions attached to its executives' long-term incentives and replace them with a time-vesting scheme subject to underpins. The relevant resolution passed despite a degree of shareholder opposition (11% of votes were cast against the proposal). Kiltearn voted against similar resolutions at a UK communication services company and UK bank last year.
The relevant resolutions at both companies also passed despite varying degrees of shareholder opposition. Kiltearn may re-engage with the companies in the future on the structure of executive remuneration.

Governance

Combined CEO and Chair

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

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

The separation of the roles has been explicitly stated as best practice for UK companies since the UK Corporate Governance Code was first established in 1992. However, in some markets – notably, the US

[2] 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*.

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-based multinational oil and gas company.

Japanese Companies: Balance of Independent Directors on Boards

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, 2020 and 2021, we have seen a number of the Japanese portfolio companies increase independent representation on their board and/or introduce board committees. Kiltearn commended companies where the level of independence is improving but noted that it believes they should be targeting majority independent boards. Kiltearn consequently supported those companies. Kiltearn will likely only continue to do so, however, where it sees continued improvement. Where Japanese companies did not make any such improvements, Kiltearn voted against the inside directors – other than the person deemed to be key executives and board participants.

Related Parties on Boards

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

Long-serving Non-executives

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

Social

US Financial Companies: Diversity and Inclusion Efforts

A number of US financial companies in Kiltearn's portfolio have introduced policies and initiatives to promote diversity, equity and inclusion, both amongst its internal and external stakeholders. Kiltearn consequently voted against shareholder proposals that would have required those companies to carry out audits or issue reports relating to these issues, given the significant efforts the companies were already making.

Kiltearn did support shareholder proposals that required a US multinational financial services company and a US multinational conglomerate holding company to publish annual reports assessing the companies' diversity and inclusion efforts. Kiltearn did so on the basis that the companies lagged their peers in respect of the level of transparency they offered shareholders. The resolution at the former passed with ~60% of the votes cast. The resolution at the latter did not pass.

Political Contributions and Lobbying Payments

Kiltearn voted in favour of a number shareholder proposals requesting that companies increase disclosure concerning the companies' political contributions or lobbying payments. For example, Kiltearn voted in favour of the political contributions proposals at a US used vehicle retailer and a US-based multinational oil and gas company and in favour of the lobbying payment proposals at a financial services company and a US-based multinational oil and gas company. Kiltearn supported such proposals, as it believed the companies' existing disclosures were insufficient and additional disclosures would allow shareholders to better assess the companies' political or lobbying spending practices and management of the related risks.

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 key performance indicators into their executive remuneration policies.

UK-based Multinational Consumer Goods Company: Net-Zero Target

At its May AGM, Kiltearn supported a climate-change resolution proposed by a UK-based multinational consumer goods company. Under the resolution, the company has set the target of achieving net-zero emissions by 2039. The company has set out the following targets:

(i) reduce in absolute terms operational (Scope 1 & 2) emissions by 70% by 2025;
(ii) reduce in absolute terms operational emissions (Scope 1 & 2) by 100% by 2030;
(iii) achieve net-zero emissions covering Scope 1, 2 and 3 emissions by 2039; &
(iv) reduce the full value chain emissions of products/consumer use basis by 50% by 2030.

Our support for the proposal was based on the view that climate change poses significant risks to the company (reduced demand for products, increases in price of raw material, the threat of government intervention that could raises costs (e.g. carbon tax) and an increase in the frequency of extreme weather events that cause disruption to the supply chain/manufacturing/distribution). The resolution passed with overwhelming support from shareholders.

British-Dutch Multinational Oil and Gas Company: Energy Transition Strategy

At its May AGM, Kiltearn supported an energy transition resolution proposed by a British-Dutch multinational oil and gas company. The company is the first energy major to commit to an annual shareholder vote on its climate reporting (progress towards plans and targets). Every three years until 2050, the company will publish its updated strategy and submit it to a shareholder vote. The company's target is to become a net-zero emissions company by 2050. The company's executive remuneration targets now include consideration of energy transition.

In supporting the proposal, we believed that the company's increased focus on liquefied natural gas, which is considered to have superior environmental tributes to traditional oil, was sensible given its market-leading position in this area. The resolution passed, with ~89% of votes cast in favour of the proposal.

Kiltearn voted against a competing shareholder proposal on the basis that the company, in Kiltearn's view, had taken reasonable action to address shareholders' environmental concerns, taking into account relevant factors that may affect significantly the company's long-term development and value creation. The shareholder resolution did not pass, with ~70% of votes cast against the proposal. Kiltearn voted against comparable shareholder proposals at a UK-based bank and a Japan bank holding and financial services company for similar reasons.

<u>French Multinational Oil and Gas Company: Energy Transition Plan</u>

At its May AGM, Kiltearn supported an energy transition resolution proposed by a French multinational oil and gas company. The company has set the target of achieving net-zero emissions by 2050. To achieve this, the company has set out the following targets:

(i) the company is seeking to invest profitably to become a top five global producer of renewable electricity (wind and solar);
(ii) having a responsible approach to fossil fuels – focusing on value by selecting low-cost developments that are greenhouse gas emissions efficient;
(iii) becoming a top three global local-carbon liquefied natural gas, and a leader in the production of clean hydrogen;
(iv) cutting the average carbon intensity of the products used by its customers by 20% by 2030, 35% by 2040 and 60%+ by 2050; and
(v) 2030 Scope 1, 2 & 3 greenhouse gas emissions target of a decrease of 30% for Europe and an absolute reduction for Scope 3 greenhouse gas emissions worldwide.

In supporting the proposal, we believed that the company is ahead of its peers with its energy transition strategy and its increasing emphasis on gas and renewables. There was some concern that there is potentially value destructive bubble in renewables, given their current valuations; however, the company has shown reasonable discipline in its capital expenditure in this area to date.

<u>US Multinational Conglomerate Holding Company: Annual Climate Change Report</u>

Kiltearn supported a shareholder proposal requesting that the company publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities. Kiltearn supported the proposal on the basis that the company should disclose what it perceives as its physical and transitional climate risks and the board's approach to their management. Such disclosure would allow shareholders to appraise the company's material climate-related risks and opportunities. The shareholder resolution did not pass. The large number of internally held shares means that such resolutions are very unlikely to pass unless supported by management. However, it is hoped that the significant support the proposal did receive will influence management's thinking.

<u>UK-based Multinational Mining Company: Thermal Coal Business Demerger</u>

Kiltearn supported the resolution to demerge the company's South African-based thermal coal operations. The demerger was the latest step in the company's strategy of moving away from thermal coal production. Kiltearn supported the proposal on the basis that the demerger was consistent with the company's stated strategy of focusing on products that will enable a low carbon economy to generate shareholder value. The demerger was approved with ~94% of the votes cast.

Collective Engagement

<u>Japanese Communication Services Company: Engagement with a Proxy Research Provider</u>

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, ~25% of the company's shareholders voted against his re-election at the 2020 AGM. Kiltearn voted against the re-election of the chairman and all other members of the board at the 2021 AGM.

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. Kiltearn may seek to re-engage the company on the issue later in the year.

US Multinational Oil and Gas Company: Discussion with an Activist

Kiltearn had discussions with an activist regarding a US multinational oil and gas company ahead of the company's AGM. The activist had nominated an alternative slate of directors and Kiltearn was looking to understand the rationale for their nominations. The activist stated that it had made the nominations because the four individuals would increase the industry and energy transition experience on the company's board. The activist was clear during the discussions that it did not have a specific long-term agenda in terms of exactly how the company should manage the energy transition. Further, the activist noted that the individuals it had nominated would be acting independently, without support or direction from the activist.

Kiltearn also met with representatives from the company to understand its opposition to the alternative slate of directors. The representatives stated that the activist had not put forward a coherent strategy for the future of the company. Further, the company's argument against the specific nominees was based on its policy of only appointing directors with experience as the head of complex multinationals.

Ultimately, Kiltearn felt the decision as to which slate to vote on rested on the relative strength and experience of the activist's four nominees versus the targeted nominees put forward by management. While Kiltearn has no view on how exactly the company should manage the energy transition, the industry-specific experience of the activist's nominees seemed like it would add more value to the board than the experience of the targeted nominees, which was largely gained at businesses in other sectors. Kiltearn consequently voted in favour of the activist's nominees. The activist was successful in getting three of its four nominees elected to the company's board.

US Consumer Staples Company: Discussion with an Activist

In 2020, 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, last summer. The company has subsequently announced that the current CEO will step down from the role no later than the middle of this 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. Both individuals were re-elected at the AGM; however, a significant percentage of votes (~15%) were cast against the re-election of the chairman.

Kiltearn voted against a Swedish-American automotive safety supplier's chairman in May this year for the same reason. In contrast, Kiltearn supported a pre-merger company founder CEO becoming an executive chair due the level of alignment between his and minority shareholders' interests.

In respect of the US consumer staples company, Kiltearn also voted against executives' remuneration and the re-election of the remuneration committee due to concerns that the magnitude of the CEO's remuneration was egregious in the context of the company's performance. Finally, for the second year in a row, Kiltearn voted against the approval of the omnibus stock plan due to the potential level of dilution to shareholders. The proposals relating to executive remuneration and the omnibus stock plan both passed, despite significant shareholder opposition (~40% and ~42% of votes cast, respectively).

Kiltearn will continue to monitor the company's progress, executive remuneration practices and its CEO recruitment process.

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 2020, following sustained efforts from Kiltearn and the other investment firm to encourage the company to address its overcapitalisation, the company announced a medium-term capital efficiency plan. Kiltearn subsequently wrote to the company in late February 2020 commending it for listening to shareholders, acknowledging that its balance sheet is overcapitalised and taking steps to address that overcapitalisation. Kiltearn also confirmed that it would support the balloted items relating to the implementation of the 30 January 2020 announcement and the re-election of the company's directors at the upcoming AGM based on the positive steps being taken. Kiltearn did, however, note that the steps set out by the company were not considered adequate by Kiltearn to fully address the issue, given the magnitude of the overcapitalisation (the company's net cash plus investment securities/sales ratio is 45%; this compares to just 6% for the TOPIX 500). We consequently asked the company to formulate a more ambitious plan to improve capital efficiency and further enhance shareholder returns.

The company did not commit to a more ambitious plan to improve capital efficiency throughout 2020, as request by Kiltearn. As a result, Kiltearn voted against the re-election of the chairman at the company's 2021 AGM. An explanation for this decision was provided to this company on its request.

As noted above, Kiltearn believes that it is in clients' best interests for the company to take action to improve shareholder returns. Kiltearn will continue to monitor the company's progress and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.