

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 seven 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. This statement is ordinarily reviewed and approved on an annual basis.

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 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The discharge of Kiltearn’s stewardship responsibilities is primarily the responsibility of its Investment Group, 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 Clients’ portfolios, Kiltearn looks to protect and grow its Clients’ capital.

As part of its ongoing stewardship efforts, Kiltearn has constructive dialogue and correspondence with management teams and boards of portfolio companies. Further, following the investment of Clients’ assets in the shares of company, Kiltearn contacts the company to set out its general expectations in respect of the company’s stewardship and governance practices (these are included in Appendix 2). These expectations include, but are not limited to:

- 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 mergers and acquisitions (“**M&A**”). Any proposed M&A should be able to earn a decent return on equity.
- 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. Kiltearn 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.

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

- A scheme in place that promotes long-term commitment on behalf of executive directors and senior managers, and encourages an “owner manager” culture. Such a scheme should generally result in executive directors and senior managers receiving a significant proportion of their variable remuneration in shares.
- 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. A company’s directors should limit the number of outside positions they hold.
- 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. In addition, shareholders’ voting rights should be proportionate to their economic interest in the company. Kiltearn will not support any “poison pills” or mechanisms that delay or reduce its ability to vote on significant transactions.
- A company’s 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.

Companies held in Kiltearn’s investment programme may not exhibit some of these characteristics. Kiltearn will, however, take them into account when voting proxies and engaging with management.

Kiltearn’s 2019 Annual Engagement Disclosure is included in Appendix 4 below.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

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. Kiltearn has developed a process for managing conflicts of interest associated with voting proxies (please see Kiltearn’s Proxy Voting Policy in Appendix 1 below) and engaging with portfolio companies (please see Kiltearn’s response to Principle 1, 3 and 4 for details of this policy). Kiltearn has outlined additional procedures in its internal compliance procedures detailing with conflicts of interest. Where conflicts of interest arise, Kiltearn endeavours to ensure Clients continue to benefit equally from opportunities.

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.

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

Principle 3 – Institutional investors should monitor their investee companies.

Kiltearn’s investment philosophy relies upon a long-term outlook. As a consequence, monitoring each portfolio company to assess the quality of its business is fundamental to Kiltearn’s investment process.

Kiltearn predominantly monitors each portfolio company by reviewing the company’s annual report and similar information published by the company. Kiltearn also monitors each portfolio 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. Detailed reports on each portfolio company are regularly prepared and discussed by Kiltearn’s Investment

Group. 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 monitoring efforts, Kiltearn considers whether there are any issues of material concern with companies. Such issues may relate to companies' strategic, operational, governance or financial practices. The information gained from such monitoring informs investment decisions and forms the basis for any necessary dialogue with companies' management teams and/or boards.

Portfolio companies may wish to make Kiltearn an insider when a significant event is pending. Being an insider prevents Kiltearn from trading in the shares of the company, affecting the normal activities of Kiltearn's investment programme. Kiltearn consequently looks to avoid becoming an insider unless there is a clear economic benefit for Clients. Inside information should not be communicated to Kiltearn unless the firm provides prior explicit consent to receiving such information.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

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 use of a more formal communication method. Such communication may take the form of a letter setting out Kiltearn's concerns and its preferred course of action for the portfolio company in question to take. Kiltearn may also engage in more public communications and/or proxy activities; this may include voting against the management or board of a portfolio company on a given motion, issuing a press release documenting its opposition on a given issue and recommending to other shareholders that they take a specific action, introducing AGM and/or EGM motions and/or attending meetings in person. Where appropriate, Kiltearn will also consider engaging with proxy research providers – such as ISS and Glass Lewis – to set out the firm's position and seek the provider's support on an issue.

Principle 5 – Institutional investors should be willing to act collectively with other investors, where appropriate.

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. As noted above, Kiltearn looks to avoid situations where it will become an insider unless there is a clear economic benefit to its Clients from it doing so.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

Kiltearn has documented its Proxy Voting Policy and published it in this document (see Appendix 1 below), in its SEC Form ADV Part 2 and its commingled funds' governing documents.

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' portfolios, except where required by law or regulation. This policy extends to the quarterly proxy voting summaries.

Voting Activity

Throughout 2019, Kiltearn voted on motions at approximately 89 company meetings (AGMs, OGMs, SGMs and EGMs). Kiltearn voted against at least one of management's recommendations at 71 (80%) of the meetings. Further, of the 1,356 total balloted items to vote on, Kiltearn voted against management's recommendations on 266 (20%) of the items.

Throughout 2019, Kiltearn voted against management's recommendations in respect of a wide variety of items. These are summarised in the table below:

Rationale for Votes Against Management's Recommendation	No. of Votes
Adopt Share Option Scheme	1
Appointment of Auditor	32
Approval of Dividend	2
Approval of Share Performance Programme	1
Approve Omnibus Stock Plan	1
Authorise Reissuance of Repurchased Shares	3
Compensation/Remuneration	15
Election of Director/Chairman/Compensation Committee Member	136
Issuance of Equity	45
Shareholder Proposals	23
Other	7
Total	266

Kiltearn receives proxy voting research from ISS. ISS is a leading provider of proxy voting services. Kiltearn's reviews - but does not necessarily follow the recommendations in - ISS' proxy voting research. Throughout 2019, Kiltearn voted against at least one of ISS' recommendations at 66 (74%) of the meetings. Further, of the 1,356 total balloted items to vote on, Kiltearn voted against ISS' recommendations on 211 (16%) of the items.

Kiltearn 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, Kiltearn voted against management's or ISS' recommendations where those recommendations were in conflict with the firm's governance principles.

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

Kiltearn provided unsolicited feedback to some companies before or after voting at their meetings. This has been a feature of situations where Kiltearn has supported a management team's recommendation but wanted the management team/board to be aware that its support was qualified and it expects to see progress in a certain direction over the coming year. For example, Kiltearn requested that: (i) US financial

companies make the determination of their executives' compensation more objective and transparent; (ii) a number of French companies 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 chairman/non-executive directors consider stepping down from external positions to concentrate on their roles at portfolio companies.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

Kiltearn communicates with Unitholders and separate account clients through meetings and correspondence. Kiltearn's engagement efforts during 2019 are summarised in 2019 Annual Engagement Disclosure (see Appendix 4 below). As noted above, 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. Kiltearn does not subject its proxy voting systems and/or procedures to review by its auditors or any independent third parties. Kiltearn believes this to be unnecessary given simplicity of the firm's investment programme and business.

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

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 recognize the fiduciary responsibility it assumes in acting as investment manager. Kiltearn also recognizes 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) authorized 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.

Proxies will be reviewed by a member of Kiltearn's Governance Group. The reviewing member will also be an authorized person. The authorized 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. The initial decision and the rationale for the decision will then be reviewed by a second authorized person. The second authorized person will verify and confirm, via email, that the first authorized 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 all shares may be held by one nominee, 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. Kiltearn does not subject its proxy voting systems and/or procedures to review by its auditors or any independent third parties. Kiltearn believes this to be unnecessary given simplicity of the firm's investment program and business.

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 so as 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 "Overboarding"

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' "overboarding" policies.

Chairman and Chief Executive Officer ("CEO")

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 – 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 chairman 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 to be 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 chairman of the board – with appropriate professional qualifications or accounting/financial management experience for the role.

Remuneration Committee

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

Nomination Committee

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

Remuneration

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

- (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, Kiltearn favours remuneration targets and policies to reference attained return on invested capital ("**ROIC**") and achieved return on equity ("**ROE**"). Further, Kiltearn will support remuneration targets and policies that include a level of focus on free cash flow development and financial prudence. Finally, Kiltearn expects a company's remuneration committee to be able to offer reasonable justification for overall levels of, or increases in, remuneration.

Share Ownership

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

Total Shareholder Return (“TSR”) and Non-financial Targets

For the majority of companies, Kiltearn does not believe that TSR or relative TSR are measures on which significant value should be placed 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, Kiltearn expects a company to keep subjective, opaque and non-financial targets to a minimum.

Retention Grants

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

“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 Kiltearn will vote on proposed M&A on a case-by-case basis, Kiltearn will generally support proposed M&A which offer an anticipated ROIC > 12% (pre-tax).

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

Balance Sheet

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

Voting Rights and Takeover Defences

Shareholders should have meaningful rights on structural provisions, such as approval of or amendments to a company's corporate governing documents and a vote on takeover defences. In addition, shareholders' voting rights should be proportionate to their economic interest in the company. Kiltearn will not support any “poison pills” or mechanisms that delay or reduce its ability to vote on significant transactions. Further, Kiltearn will likely oppose director nominees where a company adopts or renews a “poison pill” provision without shareholder approval.

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

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

Stewardship

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

Appendix 3

Environmental, Social and Governance Policy

Kiltearn Partners LLP's ("Kiltearn's") investment decisions are based primarily on business and financial considerations. However, Kiltearn does take into account political, environmental and social issues if these are likely to have a material impact on a company's present or future financial position or cash flows or conflict with Kiltearn's ability to manage and develop investments. This approach enables Kiltearn to take into consideration appropriate risks, to make a balanced judgment on the investment opportunity and act in the best interests of its commingled funds and separate account clients (collectively defined as "Clients").

Part of the investment process at Kiltearn includes a quality assessment of each company. This quality assessment helps inform the price we are willing to pay for a given company. Governance issues identified during the research phase are incorporated into Kiltearn's broader investment analysis and decision-making process. Companies that depend on unsustainable businesses practices are likely to fall outside of our quality criteria. As a result, Kiltearn would see businesses that used enforced labour, child labour, uneconomic wage rates, and/or unsafe or harmful business practices (such as polluting or harming the environment), for example, as not being sustainable in perpetuity. These companies would likely suffer from falling rates of returns, leading to decreased normalised earnings making them unlikely investment candidates.

As an investment manager, Kiltearn needs to be aware of how and where our investee companies operate. However, Kiltearn recognises that ultimately the decision to operate legally, either directly or indirectly, in a controversial jurisdiction or industry, and the reputation risk involved, lies with the management of a company. These are important issues, but important alongside many others; including product positioning, financing, sustainability of cash flows, competitive threats, etc. In the end, these are all the responsibility of management, although they remain of keenest interest to Kiltearn as portfolio managers.

Kiltearn expects that appropriate legal, governmental and other authorities around the world will take responsibility for addressing political, environmental and social matters fairly and wisely on behalf of their citizens. Accordingly, Kiltearn adheres to the laws of the countries in which we do business and follows rules and regulations applied by official agencies in those countries. Kiltearn also expects that the companies in which we invest will do the same – and Kiltearn pay close regard to their record in this respect.

There have been circumstances in the past where Unitholders and separate account clients have expressed a preference for Kiltearn to focus its investment efforts on companies with particular characteristics (e.g., companies they considered to have a low carbon footprint or they deemed to be environmentally responsible) or 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. All Unitholders and separate account clients may not share the same view and some may hold opposing views. Kiltearn has consequently not agreed to any Unitholder specific investment restrictions or criteria in relation to environmental, social and governance matters 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.

Kiltearn recognises that this policy, and the methods employed to integrate environmental, social and governance factors into the investment process, will evolve. Consequently, this policy will be reviewed periodically by Kiltearn.

The Kiltearn Global Equity SRI Strategy (the "SRI Strategy")

Kiltearn launched the SRI Strategy in 2013. The SRI Strategy was established principally to accommodate investments by US investors looking to invest in a manner consistent with the guidelines for ethical investing developed by the United States Conference of Catholic Bishops and with concerns about companies involved in manufacturing, distributing, retailing, licensing and supplying certain products. The SRI Strategy employs substantially the same investment style, investment objectives, philosophy and Proxy Voting Policy used by the Kiltearn's Global Equity Strategy. Kiltearn's Environmental, Social and Governance Policy is consequently substantially relevant to the SRI Strategy. However, it is worth noting that Kiltearn eliminates the securities of certain companies from the SRI Strategy's investment process using an MSCI screening product. Please contact Kiltearn's Head of Marketing and Client Service, Ed Clarke (eclarke@kiltearnpartners.com) if you require more information on the SRI Strategy.

Appendix 4

2019 Annual Engagement Disclosure

The Shareholder Rights Directive II (“SRD II”) is an EU Directive, which 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 June 10, 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.

Please see a summary of Kiltearn’s material engagement activities throughout 2019 below:

Material Holding

Wholesale Food Distributor: Prolonged Underperformance

Kiltearn Partners LLP (“Kiltearn”) had a call with wholesale food distributor ahead of its AGM. On the call Kiltearn and the company discussed the company’s CEO’s compensation package, the CEO’s performance, the continued combination of the role of CEO and chair and a proposed substantial share dilution to cover compensation awards. Kiltearn followed up after the call to note that it would be voting against the CEO’s compensation and the proposed share dilution. Kiltearn also noted that the support of the item relating to the re-election of the CEO/chair was qualified and support was given due to the potentially detrimental impact of Kiltearn voting against his re-election when its clients hold 8% of the company’s outstanding shares, rather than it being a vote of confidence in the face of the company’s pronounced underperformance.

Future Direction

Telecommunications Company: Recruitment of CEO

Kiltearn met with a Korean telecommunications company and followed up on the meeting with a formal letter to the company’s board. In the letter Kiltearn noted the operational and business issues that it believes have adversely impacted on returns to shareholders and expressed Kiltearn’s concerns that the company’s management has not made any significant progress in addressing those issues. Further,

Kiltearn made a number of suggestions in respect of the skills and experience it should look for in its new CEO, notably a strong track record in improving operation efficiency as a telecoms executive.

Remuneration

Energy Services Company: Maximum Awards

Following engagement with an energy services company, the company altered its proposed management remuneration policy. The company had planned to increase the maximum potential long-term investment programme (“LTIP”) award for the CEO and Chief Financial Officer (“CFO”) to 250% and 200% of their salaries, respectively. The company reverted to the previous figures of 200% and 175% after Kiltearn and other investors told the company that they intended to vote against the proposed compensation policy due to the increase in the maximum LTIP awards without reasonable justification.

Groceries Retailer: Lack of Margin Target

In 2018, before supporting a groceries retailer on remuneration at its AGM, Kiltearn noted that it would look for the company to make significant progress towards introducing an explicit margin-based key performance indicator (“KPI”) and returns-based KPI for the executives’ remuneration over the subsequent year. No such progress was made in 2019. During discussions this year the company did not offer anything that would cause Kiltearn to change its position and consequently Kiltearn voted against the company’s remuneration report.

Human Resources Company: Commitment to Improve Disclosure

Kiltearn had originally intended to vote against the remuneration report of a human resources and temporary staffing company due to the quality and level of disclosure on KPIs offered to investors at its AGM. After a call with the head of the remuneration committee – on which he committed to improving disclosure – Kiltearn decided to support the remuneration proposal. However, Kiltearn did note to the individual that if disclosure does not improve in 2020, Kiltearn will vote against the remuneration report and the individual’s re-election.

Support Following Improvement

In relation to a number of companies where we voted against remuneration in 2018, we supported the companies on remuneration in 2019. In the three cases highlighted below, Kiltearn fed its reasons for voting against remuneration back to the company and in all three cases the relevant company made some attempt to address Kiltearn’s/other shareholders’ concerns in 2019.

- A telecommunications company’s remuneration committee exercised its discretion to reduce the annual bonus pay-outs relative to the financial and customer experience targets to 115% of target, down from 146.5%. This was done to reflect “the overall shareholder experience”.

- An investment management company made improvements to its pay programme (the introduction of a relative TSR metric in relation to equity awards) and, to a lesser extent, disclosure. These changes provide some additional clarity for pay-out determinations (although disclosure is still lacking in key aspects and the company has been told – along with other US financial companies – to improve this if it wants Kiltern’s support in the future).
- A financial services company introduced more rigorous relative goals for the CEO’s LTIP following the feedback from Kiltern/other shareholders last year. The new programme appears to be a significant improvement over the prior programme, as it is linked to objective metrics with clearly disclosed goals and targets for above median performance.

Asset Management Company: Support Following Upheaval

Kiltern determined that it was sensible to support an asset management company’s management on remuneration following the company experiencing recent tribulations. Kiltern did this as it believed that variable remuneration payments were necessary for retention purposes following upheaval at the company. Further, leaving the upheaval aside, the company has made changes to its remuneration framework after engaging significantly with large shareholders following a number of shareholder revolts on pay. Disclosure had improved and the importance of financial metrics had increased and these included suitable stretch.

Governance

Japanese Companies: Board Independence

Kiltern’s stance on the level of independence on the boards of Japanese companies is an example of where we have taken a stance and seen some improvements in relation to the companies’ governance structures. Kiltern wrote to all Japanese portfolio companies in 2018 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. Over 2019 we have seen a number of the Japanese portfolio companies increase independent representation on their board and/or introduce board committees. Kiltern 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, Kiltern voted against the inside directors – other than the person deemed to be key executives and board participants.

Pharmaceutical Company: Supporting Continuity

A pharmaceutical company suffered a significant shareholder revolt against the discharge of management board at its most recent AGM. Shareholders revolted on the basis that the management board had insufficiently taken into account the risks of a recent acquisition – specifically, the level of litigation risk. In summary, the shareholders believed that the management board severely misjudged the acquisition, and has done serious damage to the company itself as well as shareholder value.

Kiltearn determined that, while it is difficult to assess from an outside perspective whether the management board adequately considered all legal and other risks at it related to the acquisition, legal advice sought by the management board and the supervisory board supported the position that it had. Further, the company is undergoing a significant restructuring. The company has provided a detailed restructuring plan. Kiltearn determined that giving the management board time to implement that plan will ensure continuity at a critical point and is consequently likely in the best interests of shareholders. A lack of willingness to discharge would likely be construed as a lack of support for the management board at an important time in the company's evolution. As a result, Kiltearn voted to discharge the management board at the company's AGM.

Kiltearn was specifically able to invest its clients' assets in the company because of the recent share price depreciation caused by the turbulence recently encountered by the company.

Kiltearn continues to have its clients' assets invested in the company on the basis that it is an average quality business with reliable cash generation but a levered balance sheet.

Social

Financial Services Company: Gender Pay Disclosure

Kiltearn supported (but not did engage on) shareholder proposals regarding a 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

Oil and Gas Company: Shareholder Engagement on Environmental Practices

An oil and gas 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 and had it struck out by the US Securities and Exchange Commission.

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

- Kiltern voted in favour of a shareholder proposal requesting that the company adopts a policy that the chair of the board be an independent director. Kiltern 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 Kiltern's view, may inhibit objectivity and raises concerns about effective oversight. It is consequently reasonable to determine that the roles should be separated to ensure that both roles can be carried out effectively.
- Kiltern voted in favour of a shareholder proposal requesting that the company adopts 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.
- Kiltern voted in favour of a shareholder proposal requesting that the company increases disclosure concerning the company's political contributions.
- Kiltern voted in favour of a shareholder proposal requesting that the company increases disclosure concerning the company's lobbying payments.

Kiltern did not support the shareholder proposal requesting that the company charter a new board committee on climate change. The public issues and contributions committee has oversight over the company's environmental performance, including climate-related risks and opportunities. Given that it is not standard market practice for such companies to have climate change committees (Shell, Chevron and Total do not have dedicated committees), Kiltern determined that decisions about how the board should organise itself are best left to the company in this regard.

Kiltern believes that 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. Kiltern 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.

While its environmental practices and shareholder engagement could be improved, Kiltern continues to have its clients' assets invested in the company on the basis that it is an average quality business with a good balance sheet and history of cash generation.

Collective Engagement

Japanese Television Company: Dividend Policy and 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 television 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.

During 2018 Kiltern had several interactions, by way of a call and formal follow-up letter, with the company to outline Kiltern'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 a proxy research provider to set out the firm's position on the same issue and to seek its support. Despite the research provider's initial resistance to changing its stance, it was willing to discuss the issue with Kiltearn. Following the discussion, the proxy research provider 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.

The proxy research provider specific recommendation was to vote against the re-election of the company's president at the company's 2018 AGM, 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 the president's re-election. Kiltearn voted against the re-election of the president and all other members of the board.

Despite the level of discontent amongst investors, the company did not change its policy. As a result, the proxy service provider recommended voting against the president (now chairman) at the company's 2019 AGM. Again, Kiltearn voted against the individual and all other members of the board. We await to see whether this will be sufficient to cause the company to change its approach.

Kiltearn does not believe that the company's dividend payment practices warrant disinvestment of its clients' assets from the company as the investment was not made on the basis of D/Y support.

Activist Campaigns

Kiltearn supported two major activist campaigns this year: (i) one of the largest activist in the world's campaign against a car parts company regarding the level of independent representation on its board/the level of cash on its balance sheet; and (ii) an investment manager's campaign against an investment bank and financial services company regarding the downscaling of its investment bank. Both were ultimately unsuccessful; however, the pressure exerted by these campaigns appears to have brought about some improvements in governance/strategy.

The car parts company replaced two of its "independent" domestic directors with limited industry experience with two experienced internationally-based independent directors. The company is also committed to introducing one more independent director.

Earlier this year, in the lead up to its AGM at which the investment manager's representative was looking to get onto the board, the investment bank and financial services company: (i) removed the head of its investment bank and gave its CEO more control over the day-to-day running of the investment bank; (ii) cut back the bonuses of investment bank staff part as a cost-cutting measure to enhance returns from the division; and (iii) refreshed its board.

Exchange of Views

Finally, we had calls with two other investment firms during the year to exchange views on two companies. One relating to an asset management company and the other relating to a chemical company. In relation

to the chemical company, the investment firm was looking to confirm whether their views resonated with the company's shareholder base. Specifically, that the chemical company needed to improve capital efficiency by increasing the dividend pay-out ratio and buying back 5-10% of shares. The company has subsequently announced a medium-term capital efficiency plan, albeit with significantly more modest goals that was suggested by the investment firm.