

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.

Becoming a signatory to the Stewardship Code is voluntary. Given the firm’s size, structure, the straightforward nature of its investment programme and in order to keep its business simple, Kiltearn has determined that it should not become a signatory to the Stewardship Code. Kiltearn has, however, deemed that this disclosure is sufficient from the perspective of complying with COBS 2.2.3.

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.

This policy meets the requirements of an ‘engagement policy’ under the amended EU Shareholders’ Rights Directive (SRDII). This document will be reviewed when the outcome of the UK Financial Reporting Council’s consultation on revisions to the Stewardship Code is known.

- 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.
- 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.

Kiltearn’s Environmental, Social and Governance Policy is included in Appendix 3 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

From 1 January 2018 to 30 November 2018, Kiltearn voted on motions at approximately 95 company meetings (AGMs, OGMs, SGMs and EGMs). Kiltearn voted against at least one of management's recommendations in 73 (77%) of the meetings. Further, of the 1,334 total ballots voted on, Kiltearn voted against management's recommendations on 229 (17%) of the ballots.

Throughout 2018, Kiltearn voted against management's recommendations in respect of a wide variety of items. These are summarised in the table below:

Rationale for votes not in line with management's recommendation	No of votes
Appointment of Auditor	23
Approve Acquisition	1
Approve Deep Discount Stock Option Plan	2
Approve Discharge of Board and Senior Management	1
Approve Final Dividend - Over Distribution	1
Authorise Reissuance of Repurchased Shares	9
Compensation/Remuneration	25
Election of Director/Chairman	83
Issuance of Capital With Preemptive Rights	23
Issuance of Capital Without Preemptive Rights	25
Other	18
Shareholder Proposals	15
Vesting of Awards	3
Total	229

Kiltearn deemed, on each occasion, that voting against the recommendation of management was the best course of action to protect its Clients' interests. In general, Kiltearn voted against management's 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 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) all Japanese companies move to having majority independent boards (ii) a UK supermarket introduces a margin-based key performance indicator for executive compensation; (iii) a US investment bank makes the determination of its executives' compensation more objective; and (iv) a US investment manager makes its executive compensation determination process more transparent and ensures its key performance indicators are suitable and stretching.

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 2018 are summarised in Kiltearn’s Environmental, Social and Governance Policy (this is included in Appendix 3 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.

Standard issues typically arise at Annual General Meetings (“**AGMs**”) or Ordinary General Meetings (“**OGMs**”). Standard issues may 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.

Material issues may arise at Extraordinary General Meetings (“**EGMs**”), Special General Meetings (“**SGMs**”), OGMs or AGMs. Material 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. Kiltearn also considers standard issues to be material issues when it has knowledge that a potential conflict of interest with management is 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. Kiltearn may not be aware of the roles performed for current and/or potential portfolio companies by Unitholders and separate account clients. Unitholders and separate account clients should notify Kiltearn of any known affiliations with publicly-traded companies that could fall within Kiltearn’s investment universe. Unitholders and separate account clients should also notify Kiltearn if they are actively involved in the financial services industry or affiliated with, or employed by, an investment bank, broker, custodian or asset management firm.

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.

If only standard issues are included on the proxy, the proxy will be reviewed by a member of Kiltearn's Governance Group. The reviewing member will provide a summary of the issues covered in the proxy to an authorised person. The authorised person will review the summary and decide how to vote the proxy. The authorised person will notify Kiltearn's Administration Group of their decision, ordinarily via email. The proxy voting ballot will then be approved and the proxy vote processed.

Where a potentially material issue is identified, in accordance with this policy, the proxy will be reviewed by a member of Kiltearn's Governance Group. The reviewing member will provide a summary of the issues covered in the proxy to an authorised person. The authorised person will review the summary and make an initial decision as to how to vote the proxy. The initial decision and the rationale for the decision will then be reviewed by a second authorised person. The second authorised person will verify and confirm, via email, that the first authorised person's voting instructions are in line with this voting policy. The proxy voting ballot will then be approved and the proxy vote processed.

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

Separate accounts clients generally name their own custodians who may have different proxy voting processes and limitations in relation to those processes.

Unitholders and separate account clients are advised that when voting proxies in certain markets, Kiltearn may be constrained by certain country or portfolio company-specific issues. For example, some companies in the portfolio impose voting caps on the maximum number of proxy votes that any single outside shareholder may control. Others require all board issues to be resolved by a show of hands, rather than a poll. As 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, Kiltarn would generally expect the company's board to comprise of a majority of independent directors.

Remuneration

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

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

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

Share Ownership

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

Total Shareholder Return ("TSR") and Non-financial Targets

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

Retention Grants

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

“Claw-back” Provisions

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

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

Capital Structure

Share Issuance

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

Market Purchases

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

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

Other Items

Capital Allocation

A company should have a sensible and disciplined approach towards mergers and acquisitions (“M&A”). While 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 process at Kiltearn includes a quality assessment of the business. This quality assessment helps inform the price we are willing to pay for a given company. Companies that depend on unsustainable business 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.

Kiltearn is not a signatory to the United Nations-supported Principles for Responsible Investment ("**PRI**") or similar initiatives. This is not in any way a judgement on the PRI; Kiltearn simply looks to avoid signing up to voluntary initiatives as doing so increases the amount of internal monitoring and administration that is required to be done by the firm. This could, in turn, serve to distract Kiltearn from its core purpose: to generate investment returns for its Clients.

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.

Engagement with Companies in 2018

Kiltearn had in excess of 30 calls and meetings with companies to discuss governance issues during 2018.

Calls prior to Annual General Meetings ("AGMs")

The majority of calls took place prior to companies' AGMs. Often, following the review of meeting materials, if Kiltearn determined that it had a concern of a material nature, it requested a call with the relevant representatives from the company in question.

There were also occasions where companies requested a call with Kiltearn. This usually followed one of the proxy voting research providers making a recommendation to vote against the re-election of a member of management or executives' compensation proposals or where Clients held a material stake in the relevant company at the time.

The issues discussed on these calls included, but were not limited to:

- named executives' compensation – frequently in the context of company performance;
- the treatment, by a company, of a former CEO as a "good leaver" following the individual's resignation;
- the effectiveness of a company's board's actions during a period in which the company suffered significant fines due to failures in its compliance practices;
- board structures;
- the tenure of non-executive directors;
- the outside interests of non-executive directors;
- the tenure of auditors;
- proposals seeking authority to be able to issue securities with and without pre-emptive rights;
- buybacks and treatment of treasury shares; and
- dividends – and whether companies had sufficient net cash to cover them.

Other Engagement

Kiltearn had dialogue with some companies on issues unrelated to upcoming AGMs. Most commonly these involved "off-season" discussions about changes companies intend to make in respect of their approach to named executives' compensation and/or governance practices in the future. In some cases, companies were looking for specific suggestions; in other cases, they were looking for feedback on specific plans they were looking to put in place.

Kiltearn also had dialogue with a number of companies regarding material governance issues, as and when they arose.

During the year, Kiltern had a number of calls with a European asset manager to discuss: (i) an issue that caused the manager significant reputational damage; (ii) the manager's efforts to restore its reputation; and (iii) its short, medium and long-term strategic direction.

In October, Kiltern had two calls with a UK utility company to discuss a contractual dispute between the company and a US-based union. Following the calls, Kiltern appealed to both sides to reach an amicable solution to the dispute, in the interests of all the company's stakeholders.

Kiltern had several interactions, by way of a call and formal follow-up letter, with a Japanese broadcaster to outline the firm'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. Kiltern voted accordingly at the company's AGM.

Kiltern 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 Kiltern. 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 relevant Japanese company; and (iii) making a proxy voting recommendation reflecting its stance on the issue.

Finally, in mid-December Kiltern wrote to a US company and asked it to separate the roles of CEO and chairman and reduce its debt. Kiltern took this action as it had concerns about the company's governance structure, its balance sheet structure and its substantial stock price underperformance following a material acquisition by the company.

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

Kiltern 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 Kiltern's Global Equity Strategy. Kiltern's Environmental, Social and Governance Policy is consequently substantially relevant to the SRI Strategy. However, it is worth noting that Kiltern eliminates the securities of certain companies from the SRI Strategy's investment process using an MSCI screening product. Please contact Kiltern's Head of Marketing and Client Service, Ed Clarke (ec Clarke@kilternpartners.com) if you require more information on the SRI Strategy.