KILTEARN PARTNERS LLP

A Task Force on Climate-related Financial Disclosures Report

October 2023

About Kiltearn

Since its inception in 2011, Kiltearn has offered a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. The investment objective is to achieve long-term growth by investing in a portfolio of global equity securities.

Kiltearn believes that the greatest opportunities lie with undervalued companies and that stock-market volatility frequently creates opportunities for the patient, long-term investor.

Introduction

Kiltearn's value philosophy is focused on fundamental business valuation. Stock-market values tend to fluctuate to a greater degree than underlying business values. Kiltearn's focus is on business values and, in particular, intrinsic value, which it defines as the assets, earnings and dividends that a company delivers to the investor over time. Kiltearn seeks to maximise intrinsic value by focusing on the price paid to own a piece of a business and the quality of that business.

Kiltearn focuses its resources on fundamental analysis of individual companies that are valued within the bottom quartile of the market. Through disciplined and methodical research, and regular and methodical rebalancing of the portfolio towards undervalued stocks, the long-term intrinsic value of the portfolio is compounded.

Within this, environmental considerations have the potential to impact on a business's intrinsic value and long-term return potential. Concerns over climate change, and in particular, the global transition towards more sustainable energy sources are driving long-term structural trends, shaping the capital allocation decisions, regulatory environment and competitive dynamics of the companies in which Kiltearn invests clients' assets.

This is Kiltearn' second annual TCFD Report. It is designed to provide a response to the recommendations of the TCFD, providing an insight into how our understanding of the risks and opportunities facing our investee companies is evolving.

Kiltearn's TCFD Report

Given the complexity of the issues, the ambitiousness of certain recommendations and the methodological difficulties that accompany them, the TCFD reporting framework provides for a gradual implementation through an iterative process of continuous improvement and learning.

This report is divided into two sections:

The first section presents Kiltearn's thinking around climate change with regard to risk, integration, stewardship and opportunities. Kiltearn's sole investment objective is preserving and growing our clients' capital. As such, Kiltearn has and will continue make investments in line with this mandate, which may include in investing in companies or sectors with currently high-emission profiles or energy-intensive business models. We manage these climate-related risks through the integration of ESG considerations into our assessment of business quality and valuation support needed for investment, as well as our proactive stewardship approach.

The second section responds to the recommendations of the Financial Stability Board's TCFD in detail, including climate metrics on The Kiltearn Global Equity Fund.

1.1 Integration: Managing Risks and Opportunities

Kiltearn's value-based philosophy is anchored by a focus the bottom quartile of the market in terms of valuation metrics, which has (in aggregate) been shown to deliver excess returns over the longer term. In practice, this approach involves investing clients' assets in companies where there is often pronounced short-term market pessimism. Kiltearn is looking to generate returns for clients by investing in companies where it believes that pessimism is undue or excessive.

Sources of such pessimism are varied: from operational challenges, to concerns over poor capital allocation or an overstretched balance sheet. Kiltearn's approach is to assess a company's underlying fundamentals to understand whether such challenges are adequately captured in the valuation and identify opportunities, where the level of the pessimism reflected in the valuation is not warranted.

Pessimism may also stem from concerns over a company's ability to navigate climate-related challenges, such as transitioning to a lower-carbon economy or mitigating the physical risks of climate change. In the same way, that Kiltearn endeavors to assess other investment considerations with scope to affect a company's intrinsic value progression, climate-based considerations form part of Kiltearn's fundamental investment analysis.

What climate-related and environmental factors do we consider?

Kiltearn's takes a bottom-up approach to fundamental analysis. In keeping with this, the assessment of climate-related and environmental factors is done on a company-by-company basis, with a focus on the financial materiality to a given company. Climate and environmental considerations include, but are not limited to, the following:

- Risk of stranded assets.
- The potential impact of carbon taxes or sanctions.
- Opportunities in renewable energy or green technologies.
- Development of products or services that enable customers to reduce their climate footprint.
- Investment required (capex, R&D, M&A) to reposition a business for a lower-carbon economy or to meet emission reduction ambitions.
- Risk of fines or mitigation fees for damage to ecosystems and biodiversity.
- Direct/indirect physical exposure to the adverse impact of more volatile climate events (Real Estate, P&C Insurance).
- Resource use and intensity (water intensity, etc.), and risk of disruption due to climate-related events (droughts, storms, etc.).

Emissions Data

Greenhouse gas (GHG) emissions are among a wide range of factors that may be considered when assessing climate and environmental issues as part of our evaluation of a business's fundamental quality. The focus of our analysis is the factors that are deemed most financially material to the company or industry in question. The emphasis is typically not on the raw GHG data, but rather understanding the implications of a carbon-intensive business model or supply chain on a given company's operating outlook and investment needs, to understand better if these factors are captured in the current valuation. GHG emissions are a consideration if Kiltearn deems that they may have material implications for the company's intrinsic value and long-term return potential.

Where significant challenges are posed by environmental considerations, or where the company is not managing the risks associated with these considerations, this feeds into a lower overall assessment of business quality, which in turn informs the level of valuation support required for investment. However, companies are not precluded from investment based on inherent carbon intensity or environmental risk exposure. By assessing climate-related risks, we strive to limit wealth erosion and protect our clients' capital. As active stewards, we can support a company's efforts to improve through engagement and voting. A weak starting point may be acceptable provided there is a credible plan for improvement.

In keeping with Kiltearn's returns-focused mandate, we do not have a GHG emissions target for the portfolio.

1.2 Stewardship

The discharge of Kiltearn's stewardship obligations is primarily the responsibility of its Investment Team, supported by other areas of the firm. Through the firm's investment process, which involves in-depth proprietary research into, and formal discussions of, every company considered for inclusion or already included in its clients' portfolio, Kiltearn looks to protect and grow its clients' capital. The information gained from such monitoring informs investment decisions and forms the basis for any necessary dialogue with companies' management teams and/or boards.

Kiltearn's Sustainability and Governance Group is comprised of two investors, the Head of Compliance and a member of the Administration Team. The role of this group is to support Kiltearn's investment-led approach to ESG integration and to execute on stewardship and engagement activities.

If the Investment Team determines that engagement with a portfolio company is in the best interests of Clients, the Investment Team requests that the Sustainability and Governance Group instigate the engagement with the relevant company. Kiltearn's Sustainability and Governance Group is also responsible for voting clients' portfolio-company shares, which involves reviewing a company's meeting materials and Kiltearn's own investment research. The advantage of this approach is that the stewardship message conveyed to the portfolio company is consistent with Kiltearn's investment thesis.

Kiltearn's Proxy Voting and Governance Principles guide – but do not restrict – Kiltearn's proxy-voting decisions and engagement priorities. A copy of these principles is sent directly to each company's board following Kiltearn's initial investment. One of the key principles is that a company's social and environmental practices should meet or exceed the regulatory standards and general practices of the markets in which it operates. In the interests of transparency and uniformity of reporting, we also request that companies report certain data on their environmental impact and policies (including TCFD reporting). Kiltearn hopes that an increase in the uniformity and transparency of reporting will further highlight the material issues that companies need to focus on and which we may need to engage to grow our clients' portfolio companies' intrinsic value.

Stewardship in the context of climate-related considerations:

Kiltearn is supportive of decarbonisation efforts where it believes those efforts are aligned with portfolio companies' long-term value creation. Kiltearn does not look to dictate the energy transition strategy of any portfolio company, believing that the company's board and management are best positioned to make strategic and operation decisions. However, Kiltearn encourages companies to proactively consider the risks and opportunities associated with climate change and, where appropriate, to set sensible targets, with sufficient accountability and oversight. Where companies have net-zero or similar decarbonisation targets, it is important that management and boards are held accountable for meeting those targets. See example 1 below.

Kiltearn also recognises that many emissions-, energy- and water-intensive industries (e.g., energy, cement, semiconductors, metals and mining) are necessary in the modern world – and may even be central to global decarbonisation efforts. While companies in industries such as these are currently meaningful contributors to climate-related challenges, they also have an important role to play in the successful transition to a lower carbon economy, with material investments being made in cleaner, less resource- and emission-intensive products and production. In particular, Kiltearn is supportive of portfolio companies investing in sustainable services or products in areas where they have competitive advantage, as this will ultimately be in the interest of long-term sustainable value generation. See example 2 below.

Finally, Kiltearn is wary of the unintended consequences of some well-meaning stakeholder efforts to bring about decarbonisation, specifically concerning divestment. Pressuring companies to dispose of certain emissions-intensive assets or set aggressive short-term reduction targets may not benefit the planet. Ambitious but sensible medium- and long-term decarbonisation targets, increased focus on capital expenditure in lower-carbon solutions in areas of competitive advantage and continuous reassessment in both areas appears to be a more viable solution to the unprecedented challenge facing the world. This also needs to be coupled with significant efforts from governments and society as a whole. See example 3 below.

Kiltearn's alignment with TCFD recommendations

2.1 Governance

TCFD Recommendation -
Describe Board Oversight of climate-related risks and opportunities.

Board-level oversight of climate-related risks and opportunities is formalised through the composition of Kiltearn's Sustainability and Governance Group, which has responsibility for overseeing Kiltearn's investment-led approach to the incorporation of environmental considerations into the investment process, as well as for executing on voting, engagement and reporting activities. The Sustainability and Governance Group includes members of the Investment Team (two Portfolio Managers), a member of the Investment Administration Team and the Head of Sustainability & Corporate Governance. Three of the four members are Partners in the firm and two sit on Kiltearn's Supervisory Group (the company's board).

The Sustainability and Governance Group meets regularly, and its head, the Head of Sustainability & Corporate Governance, reports directly to, and is a member of, Kiltearn's Supervisory Group. The Supervisory Group signs off the TCFD report.

Overall accountability with regard to ESG risks and strategy lies with Kiltearn's Chief Executive Officer (CEO), Murdoch Murchison. Murdoch Murchison reports directly to, and is a member of, Kiltearn's Supervisory Group.

TCFD Recommendation -
Describe management's role in assessing and managing climate-related risks and opportunities.

As noted above, Kiltearn's investment process is built on a bottom-up analysis of investment fundamentals, including climate-related risks and opportunities. All members of the Investment Team write structured investment research, using a consistent report framework that ensures the impact of climate-related considerations are incorporated into the assessment of quality and valuation opportunity, which underpin the decision to include a given investment in the portfolio.

The ultimate responsibility for the execution of the investment approach and management of portfolio, including assessing and managing climate-relate risk and opportunities, sits with Murdoch Murchison, the firm's CIO and CEO. As noted above, Murdoch Murchison reports directly to, and is a member of, Kiltearn's Supervisory Group.

2.2 Strategy

TCFD Recommendation -
Describe the climate-related risks and opportunities identified over the short, medium and long term.

Risks and opportunities, climate-related and otherwise, are identified through Kiltearn's structured assessment of business quality during the research process. The period over which potential investments are assessed tends to be longer than 10 years, both in terms of understanding the company's historic performance and its potential future risks and opportunities. In particular, Kiltearn seeks to understand whether historic operating performance provides a sensible guide to the future or whether there is a risk of material discontinuity.

The time horizon for assessing underlying business quality is distinct from time horizons related to portfolio management, because factors such as holding period for any given investment are a function of valuation opportunity and portfolio construction considerations.

As such, the comments on time horizon (below) relate to the identification of risks and opportunities as part of the assessment of business quality, which is part of Kiltearn's investment research process.

Short Term

At Kiltearn, we define short term as a one- to five-year period.

Rapid policy and regulatory change are a source near-term risk for many companies. This is true of non-climate-related considerations (e.g., drug pricing in health care, interest rate caps on consumer lending products, etc.). In the context of climate-related risk, rapid or unexpected policy changes to limit or reduce GHG emissions could lead to further costs to investments exposed to GHG-intensive industries and the stranding of assets. In extremis, policy or regulatory changes could challenge existing business models or the product mix in targeted industries. There may be opportunities for companies that have strong balance sheets and cash generation characteristics that can absorb the impact of unexpected shifts in policy, and make investments needed to navigate a rapidly evolving regulatory backdrop.

Physical impact of climate change appears to be a lesser risk in the short term; however, extreme weather events may affect the returns generated by insurance and reinsurance companies in the portfolio.

Medium Term

At Kiltearn, we define medium term as a five- to ten-year period.

Transition risk is the primary climate consideration for portfolio companies over the medium term. Many businesses, particularly those in energy- or emission-intensive industries, are repositioning themselves for a lower carbon economy, both to avoid risks (policy shifts that penalise environmental externalities) and to take advantage of opportunities (growth in clean energies and technologies). There may be material investment requirements, both organic (R&D, capex) and/or M&A needed to successfully manage this transition. Companies with products or solutions that enable the successful transition of other companies or industries (for example capital good companies with highly emission- and energy-efficient product portfolios) may benefit from a structural tailwind from the energy transition.

In terms of physical climate-related risks, certain geographies may be affected more than others and asset valuations will indicate the trajectory of climate change. Businesses located in regions where climate-related events are becoming more frequent and onerous may need to invest more either to mitigate the impact on existing facilities or to relocate operations over time. Companies developing climate-mitigating technologies, such as those aimed at reducing water intensity in dry climates, may benefit. Insurers will need to price climate risk effectively; those with deeper experience in pricing such risks may be at an advantage.

Long Term

Over longer-term horizons, where businesses fail to successfully transition towards lower emission and energy-intensive business models, the risk of stranded assets or (in extremis) business obsolescence increases. This is particularly true for businesses exposed to areas like thermal coal or extractive industries that sit at the high end of the cost curve. These headwinds may be mitigated by competing demands for energy security and an equitable transition to a lower carbon global economy.

Key investment opportunities might be found in clean energy and climate adaptation technologies.

Physical impacts may become more acute should the Paris Agreement's temperature pathway in line with well below 2°C be overshot. This could disrupt many economies and negatively affect capital markets. Those companies with operations confined to geographies most exposed to climate change risks may be disproportionately impacted, while those with the resources and ability to diversify geographic exposure may prove more resilient.

TCFD Recommendation -
Describe the potential impact of different scenarios on operations, strategy and financial planning.

Kiltearn's investment process is bottom-up, with each potential investment considered individually. As part of this approach, Kiltearn may subject companies to climate-related scenario analysis. For example, Kiltearn has done future oil and gas supply and demand analysis as part of its most recent research on the three energy majors held in the portfolio. As part of this analysis, Kiltearn considered transitions scenarios, such as BP's "Accelerated Scenario" (broadly aligned to the IPCC's <2°C scenario) and the current shortfall in spending on renewables that would be required through 2030 under the IEA's scenarios. Kiltearn also decided against purchasing securities of an Indonesian mining machinery manufacturer, in part, due to a consideration of the potential impact of transitioning away from coal. Kiltearn considered this in its valuation to reflect a fade in demand over a 10- to 40-year-period.

Kiltearn also subscribes to MSCI's Enhanced Climate Change Metrics tool. This tool allows us to subject the portfolio to transition and physical risk scenarios. We have included the output from these tools in this report, as required by TCFD. We do note that this portfolio-level analysis is not considered as part of our investment process. We question the value of the quantitative outputs of these climate scenario models, which rely heavily on estimates and assumptions of equilibrium and rationality. Such models present results (often translated into temperature scores or value-at-risk) which, we believe, are neither meaningful nor comparable.

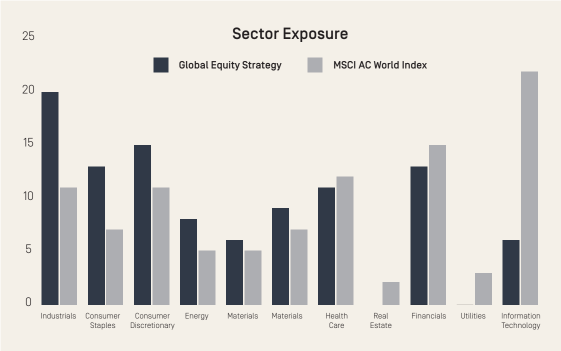
The temperature pathways provided by MSCI are as follows: 3°C, 2°C, and 1.5°C, which all have varying carbon budgets based on the UNFCCC National Emission Inventory Report and the UNEP Gap Reports demonstrating the difference in carbon budgets between the 3°C pathway and the Paris Agreement and Net-Zero pathways.

MSCI also includes specific scenarios such as the so-called 'late-action', which corresponds to a 'delayed policy action', 'inevitable policy response (PRI)' or 'disorderly transition'. This specifically meets the requirements from the Bank of England's 2021 Biennial Exploratory Scenario, which required investors to utilise specific pathways. Example results, based on 30 June 2023 information, are included below:

Temperature (°C)	Policy	Physical Risk	Climate VaR Kiltearn Portfolio (%)	Climate VaR MSCI ACWI Index (%)
1.5	Orderly	Average	-50.51	-21.14
2	Orderly	Average	-34.34	-14.16
2	Disorderly	Average	-43.49	-18.36
3	Hot House	Average	-32.39	-13.20

The current sector skew resulting from our investment strategy (which is itself a function of the opportunity set in the bottom quartile of the market in valuation terms) drives the more severe Climate VaR results for Kiltearn's portfolio relative to the index. The lowest valued quartile of the market is currently populated by sectors and stocks which are likely to benefit from an environment of recovering economies, rising inflation and which offer the greatest value. Such sectors include energy, consumer staples, consumer discretionary, industrials and materials.

This is illustrated in the table below, which shows the sector exposure of Kiltearn's portfolio relative to the index. The current overweight in the energy, consumer staples, consumer discretionary, industrials, materials and telecommunications sectors principally drive Climate VaR differential between the portfolio and the index.

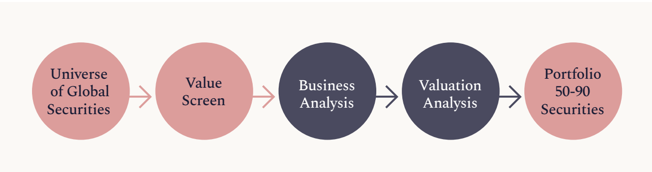


2.3 Risk

TCFD Recommendation -
Describe the process for assessing and identifying climate-related risks.

We consider climate-related risks and opportunities from a financial and economic perspective, focusing on areas that have a high probability of materially affecting a company's intrinsic value. The impact of material climate-related risks and opportunities factors can be positive or negative, reflecting risks or opportunities.

Our Climate-related Risks and Opportunities Integration Process



Business Analysis

We employ an evidenced-based approach to assessing business quality. Areas of focus include balance-sheet strength, cash-generation characteristics, ROIC and management's capital-allocation decisions. Within this framework, we seek to consider climate-related risks and opportunities: identifying relevant and financially material considerations based on a company's industry and business model.

Where an issue has been deemed potentially material, we consider these questions:

- What type of challenge or opportunity these factors pose (e.g., a change in competitive dynamics, an ongoing investment requirement or an existential threat to the business model).
- Whether existing policies and practices seem sufficient to mitigate potential controversies and position the business on a sustainable path.

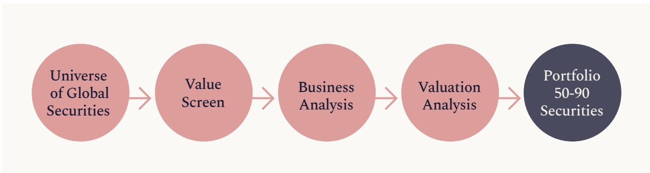
Our assessment of climate-related risks and opportunities is aided, but not dictated, by specialist third-party research. We use this research as one input into our analysis, which also draws on sources such as company disclosures, traditional sell-side analysis and the investment team's judgement and experience.

As with other investment consideration, evidence of strong climate-related credentials can enhance our overall assessment of business quality while evidence of weak practices can detract.

Valuation Analysis

Based on our analysis of a company's historic financial characteristics and performance over cycles, we seek to normalise the earnings, cash flow and balance sheet as appropriate and then consider the valuation relative to the global investment universe, the stock's own history or a relevant peer group. We take climate-related risks and opportunities into account during the normalisation process where there is likely to be an ongoing impact (positive or negative) on earnings, cash flow or assets. The overall assessment of business quality, of which climate-related risks and opportunities are explicit components, also dictates the margin of safety required for investment.

Stewardship: Our Approach



At Kiltearn, we view ourselves as long-term stewards of our clients' capital. Stewardship involves regular engagement with management and the board of our portfolio companies, as well as thoughtful execution of voting rights.

Engagement

We seek to engage with companies in which we invest to support governance practices that ultimately drive value accretion for shareholders. We accept that patience and appropriate escalation are required before we see tangible success in this realm.

Voting

Kiltearn recognises proxy voting as both its fiduciary responsibility as an investment manager and an opportunity enhance the value of its clients' investments over the long term. Kiltearn has a robust process for evaluating and executing proxy votes.

2.4 Metrics

TCFD Recommendation -
Describe the metrics used to assess climate-related risks and opportunities in line with strategy and risk management processes.

Kiltearn's investment research process involves the assessment of business fundamentals on a company-by-company basis. The range of metrics considered varies depending on the nature of the business.

Climate-related metrics may be taken into consideration to help calibrate a company's relative exposure to environmental risks and opportunities, such as emissions intensity and potential changes in carbon tax policies. Climate-related metrics may also be used to help calibrate the assessment of how well or poorly a given company is managing its exposure to such risks and opportunities.

A key challenge with climate-related metrics is the limited and/or inconsistent disclosure, though this is improving rapidly. Kiltearn recognises the recommendations of TCFD in terms of the additional transparency these disclosures encourage and requests its portfolio companies follow TCFD in their own reporting.

Given the challenges around consistency and disclosure, Kiltearn often views the direction of travel for a company's metrics and robustness of oversight and accountability (for example the existence of SBTi-verified net-zero targets) as more important than the absolute measure of any metric. The focus is on the appropriateness of management's response to the company's climate-related risks and opportunities.

Finally, the use and interpretation of climate-related metrics is rooted in the analyst's assessment of potential financial materiality, i.e., the potential to affect intrinsic value progression. For example, emissions intensity may be considered relevant for an energy major but is unlikely to be considered in the context of a cyber-security company.

Metrics used in our assessment may include but are not limited to:

- Carbon emission intensity (scope 1&2)
- Carbon emission intensity (scope 3)
- Water consumption intensity
- Net-zero Target
- SBTi-approved Target
- Hydrocarbon exposure as % revenue and profits
- Investment in low-emission products/solutions (R&D, Capex, M&A)

Where there is sufficient and consistent disclosure, we seek to understand company-level metrics in the context of the wider listed equity investment universe, using MSCI data.

While there are no portfolio-level targets, in the interest of disclosure, aggregate portfolio data for available metrics is included in the table below.

	Number of Companies	% of the Portfolio
Net Zero Target*	46	61.09
Commited to adopt SBTi Target	13	15.45
Has SBTi Approved Target	26	31.63
Involvement in Green Bonds	5	5.46
Coal Reserves	2	2.96

*as defined by the company

TCFD Recommendation -
Disclose the level of greenhouse gas emissions and the related risks.

Kiltearn subscribes to MSCI's Enhanced Climate Change Metrics tool. This tool allows us to subject the portfolio to transition and physical risk scenarios. We have included the output from these tools in this report, as required by TCFD.

These portfolio level metrics are an output of Kiltearn's value-based investment strategy and bottom-up stock selection process, which involves finding compelling opportunities within out-of-favour sections of the market. Kiltearn does not set targets at the aggregate portfolio level as the composition and the opportunity set within the bottom quartile of the market in terms of valuation multiples varies in terms of sectors and industries over time, which will be reflected in portfolio composition. Kiltearn's focus is on the individual companies, assessing whether each is responding appropriately to manage climate-risks and opportunities in the interest of generating long-term value.

Consolidated Key Metrics as Proposed by the FCA

Metrics	30 June 2023 (EVIC basis)	30 June 2023 (market cap basis)	30 June 2022 (market cap basis)
Total Carbon Emissions, Scope 1+2 (tons)	343,913	610,954	618,328
Scope 3 - Upstream (tons)	547,169	1,129,263	967,075
Scope 3 - Downstream (tons)	1,104,761	2,163,298	1,795,142
Carbon Footprint (Scope 1+2(tons)/$m invested)	132.7	235.7	251.2
Weighted Average Carbon Intensity (Scope 1+2(tons)/$m sales)	140.3		164.9
Implied Temperature Rise (with company targets) (°C)	2.2		
Aggregated Warming Potential (with company targets) (°C)	3.49		3.63

Source: MSCI as at 30 June 2023

In line with guidance, we have calculated the data above using enterprise value including cash (EVIC) to apportion emissions ownership, rather than using market capitalisation as the denominator (we used market capitalisation in 2022). In simple terms, EVIC adjusts for debt, whereas market capitalisation does not as it is a multiplication of the number of shares by the current market price. We have also included the 2022 data and this year's data using market capitalisation as the denominator for the purposes of comparability.

Note that data, particularly Scope 3 data, may be estimated by MSCI given the lack of consistency of company-level reporting. MSCI estimation model remains under development, with a particular weakness around emerging market companies. We are engaging with companies on direct reporting.

The data above relates to The Kiltearn Global Equity Fund as of 30 June 2023. For context, the implied temperature rise of the MSCI ACWI was 2.5°C and the aggregated warming potential of the MSCI ACWI was 3.28°C.

Example 1:

Issuer	Lyondellbasel
Objective(s)	Understanding how to the company intends to manage its climate risk, ensuring executive accountability for targets
Outcome	Improved understanding of how the company intends to manage its transition risk

In June 2023, Kiltearn had a call with Lyondellbasel to get a better understanding of how the company intends to manage its transition risk.

The engagement focused on investment needed to meet its environmental targets and manage its transition risk. The company is likely to generate value-accretive long-term returns on investment into industry-leading production of recycled plastic (customers in the fast-moving consumer goods sector have ambitious targets of increasing use of these products).

The representative of the company suggested that the shift to recycled plastics will have a relatively low capital intensity: ~15% of expected capital investment from 2023 – 2030. This implies $2.5 billion investment for the $1 billion+ of incremental EBITDA.

The company's net-zero 2050 target covers Scope 1 & 2 but not Scope 3 emissions. The company's Scope 3 target currently requires a 30% reduction by 2030; this is industry leading.

After the engagement, Kiltearn noted its preference for any sustainability metric used by the company to determine executive remuneration to have a direct link to financial outcomes. For example, we'd prefer the company to use the incremental EBITDA target relating to the circular business, rather than a metric that is based on the underlying sustainability goal (the volume of plastic produced from recycling and renewable-based polymers).

Kiltearn will continue to monitor the company's progress. We will continue to push for a link between sustainability remuneration targets and financial outcomes.

Example 2:

Issuer	Makita
Category	E
Outcome	Adds during 2022

During 2022, Kiltearn decided to invest its clients' assets in a Japanese power tools and garden equipment company, Makita. Kiltearn's Investment Team determined that the company was above average in the environmental and social quality category. The Investment Team came to this view on the basis that the company is well positioned in electric tools (currently, 98% of the company's sales) at a time when there is expected to be growth in demand as the market moves away from more emissions-intensive gas-powered tools. Kiltearn increased the weighting of the company's securities in its clients' portfolio gradually throughout the year when general market pessimism provided opportunities to invest in an above-average quality business, with reasonable long-term growth prospects for a cyclical company, and valuation support in the bottom quartile of the market.

Example 3:

Issuer	**Exxon**
Category	**E**
Outcome	**Shareholder Proposal Failed**

A shareholder brought a proposal requesting that the company set and publish a medium-term target to reduced greenhouse gas (GHG) from the company's operations and energy products (Scope 1, 2 and 3), in a manner consistent with the Paris Agreement.

Opposing the proposal, the company pointed out that it has net-zero targets for its own operations by 2050 (Scope 1 and 2) and a 2030 target to cut emissions by 20%. It pointed out that it will spend $17 billion on low-carbon technologies through 2027. In respect of cutting Scope 3 emissions, the company pointed out that without a decrease in demand, consumers would just shift their demand elsewhere. It points out that it has disclosed its expected lifecycle emission reductions by 2030 (a 6% reduction in intensity and an 18% reduction in absolute emissions versus 2016). The company also pointed out that its Scope 3 emissions may increase, while overall emissions are reduced. For example, if its gas displaces coal. At its most recent investor day, the company emphasised its strategy of remaining flexible and being able to move in line with changing policy. At the investor day it noted that it will focus on providing solutions for customers in hard-to-abate carbon-intensive industries. There was a significant focus on the potential opportunity, given the size of the potential market ($6 trillion). The company noted that post-Inflation Reduction Act, the appetite from major customers for solutions has crystallised.

Kiltearn concluded that without a shift in global energy demand, the emissions will be outsourced to other companies (national oil companies, private companies and competitors) that are not subject to the same restrictions. The company is committed to of capital expenditure into low-carbon solutions. Too rapid a move away from hydrocarbons risks issues with energy security and development in the developing world. As we have previously (Anglo American spinning off Thungela and BP selling its Alaskan drilling rights), pressuring companies to dispose of certain emissions-intensive assets or set aggressive short-term reduction targets may not benefit the planet. At a company level, it risks hindering shareholder returns as it would limit the ability for the company to generate returns from its legacy assets and reduces the flexibility of in its business strategy and capital expenditure. BP's recent tribulations and walking back of goals illustrate this risk neatly. As a result, the proposal does not appear to be in the interests of shareholders and may not benefit planet. Kiltearn did not support the proposal.

Notes:

1. Kiltearn Partners LLP ('Kiltearn') is authorised and regulated by the Financial Conduct Authority in the United Kingdom (ref 540470). Kiltearn Partners LLP is registered with the United States Securities and Exchange Commission (ref 801-72673).

2. Unless otherwise noted, clients are advised that for administrative purposes, graphs, portfolio statistics included in this presentation utilise ratios and data from the Kiltearn Global Equity Fund (the 'Fund'), a portfolio Kiltearn believes is illustrative of commingled funds in the Kiltearn Global Equity Strategy. Information specific to each Kiltearn commingled fund is available upon request. The performance of any one stock, sector, currency or other portfolio component should not be construed as being representative of the overall returns of the Fund.

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