KILTEARN PARTNERS LLP | FCA REF: 540470

Stewardship Code Statement

Introduction

Investment managers that are authorised by the Financial Conduct Authority (the FCA) are required under the FCA's Conduct of Business Rules (COBS) to produce a statement of commitment to the Financial Reporting Council's (FRC) Stewardship Code (the Stewardship Code) or explain why it is not appropriate to their business model. This document describes how Kiltearn Partners LLP (Kiltearn) applies the 12 principles of the Stewardship Code in its role as a discretionary asset manager of publicly traded equities. This statement is also intended to inform the unitholders in Kiltearn's commingled funds, Kiltearn's separate-account clients (if any), portfolio companies and other market participants of Kiltearn's philosophy and practices regarding stewardship.

Kiltearn looks to ensure portfolio companies are run in the best interests of its commingled funds and separate-account clients (if any) (collectively referred to as Clients). To achieve this, Kiltearn actively monitors how its Clients' portfolio companies operate. Kiltearn expect the management teams and boards of portfolio companies to be good stewards of their businesses. Further, Kiltearn expects them to maximise the long-term prosperity of their companies and their companies' shareholders by applying capital in the most effective manner.

Principle 1 –

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Ownership and Structure

Kiltearn is a boutique investment manager. The firm has 22 members of staff, with a nine-member Investment Team. Biographies for all members of the Investment Team are available on the firm's website (www.kiltearnpartners.com). Eleven members of staff are partners in the firm, and 18 of 22 members of staff own shares in the firm's holding company.

Kiltearn's Supervisory Group is ultimately responsible for the firm's governance. Kiltearn's Investment Team and Sustainability & Governance Group (described in Kiltearn's response to Principle 2) report directly to the Supervisory Group.

Purpose

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

Business Model, Values and Strategy

Kiltearn's business model is simple and straightforward. The firm has remained focused on one asset class since inception. It looks to maintain a small number of staff, with the non-investment staff in place to ensure that distractions to the Investment Team are kept to a minimum. We believe this best serves our Clients, as our Investment Team can focus its time on investment research and portfolio implementation. All investment professionals, with the exception of the newest members, are also owners of the business. This aligns Kiltearn's long-term interests with those of our Clients.

As more fully described in Kiltearn's response to Principle 6, Kiltearn's separate-account clients (if any) and unitholders in its commingled funds are institutional investors. Most of these investors are charities, foundations, endowments, corporate pension plans, church plans and state pension plans. As a result, Kiltearn believes that generating investment returns for its Clients and their beneficiaries has sustainable benefits for society.

Culture

Kiltearn's culture is a critical part of our firm. We are, primarily, a research organisation, and everyone on the Investment Team passionately believes in the benefits of value investing. As our business is majority-owned by our staff, everyone has a key role to play in our long-term success.

Investment Beliefs

Kiltearn believes that the greatest opportunities lie with undervalued companies and that stock-market volatility frequently creates opportunities for the patient, long-term investor. Further, Kiltearn believes that securities with low market price-to-earnings ratios, cash flow, asset value, sales ratios or dividends typically, but not necessarily, offer fundamental investment value. Kiltearn identifies investments meeting the above criteria in part by using database screens.

Activity

Kiltearn ensures that its business model, values, strategy, culture and investment beliefs enable effective stewardship through its investment process and governance structures.

Investment Process: The discharge of Kiltearn's stewardship obligations is primarily the responsibility of its Investment Team, supported by other areas of the firm. Through the firm's investment process, which involves in-depth proprietary research into, and formal discussions of, every company considered for inclusion or already included in its Clients' portfolio, Kiltearn looks to protect and grow its Clients' capital. Any material matters – including environmental, social and governance (ESG) concerns – that might affect the valuation of a company are relevant to Kiltearn's investment process. The information gained from such monitoring informs investment decisions and forms the basis for any necessary dialogue with companies' management teams and/or boards.

Engagement: If the Investment Team determines that engagement with a portfolio company is in the best interests of Clients, the Investment Team requests that the Sustainability & Governance Group (discussed in Kiltearn's response to Principle 2) instigate the engagement with the relevant company. The advantage of this approach is that the stewardship message conveyed to the portfolio company is consistent with Kiltearn's investment thesis.

Proxy Voting: Kiltearn's Sustainability & Governance Group is responsible for voting Clients' portfolio-company shares. In addition to reviewing Kiltearn's Proxy Voting and Governance Principles (see Appendix 2), Kiltearn's proxy-voting process involves the Sustainability & Governance Group reviewing a company's meeting materials and Kiltearn's own investment research. The advantage of this approach is that Kiltearn's proxy votes are cast in a manner consistent with Kiltearn's investment perspectives.

Outcome

Influenced by Kiltearn's value investment philosophy, stewardship is a significant component of the firm's investment process and culture. This is evidenced in the firm's responses to Principles 4, 9, 10, 11 and 12. It is also demonstrated by the summary of Kiltearn's material engagement and voting activities throughout 2023, included in its Annual Engagement Disclosure (see Appendix 5).

This year, the firm continued to consider material environmental and social factors in its investment process. For a discussion of its integration of sustainability factors into its investment process, please see the Kiltearn's response to Principle 7 and the firm's Responsible Investment Policy (Appendix 3). For a discussion of its reporting on such matters, please see Kiltearn's response to Principle 6.

As noted in the last three years, one of the positive features of the market environment has been the broadening of the value opportunity set and, consequently, the chance to improve the aggregate quality of the portfolio. Specifically, in 2023 we were able to establish positions in several higher quality consumer staples and cyclical companies that had previously been outside of the quartile.

Kiltearn's execution of its disciplined investment process – including its stewardship activities – led to Kiltearn's Clients' portfolio generating absolute returns throughout 2023. The portfolio returned 12.4% on a net of fees basis versus the 1.7% achieved by the ACWI Value and the 22.2% achieved by the ACWI (the latter being driven the returns generated by the "Magnificent Seven", to which, as a value manager, we have limited exposure). In future years, Kiltearn will continue to implement its investment process while making incremental improvements in areas such as sustainability integration.

Please contact Kiltearn's Head of Marketing and Client Service, Ed Clarke ***(eclarke@kiltearnpartners.com)****, if you require more information on Kiltearn's investment programme.*

Principle 2 –

Signatories' governance, resources and incentives support stewardship.

Governance

Kiltearn's stewardship efforts are and always have been investment-led; however, Kiltearn established a Governance Group in early 2018. The purpose of establishing the Governance Group was to put Kiltearn's approach to stewardship on a more formal and structured footing than it previously had been.

Over the previous year, Kiltearn has continued to focus on environmental and social factors in its investment process. A member of Kiltearn's Investment Team, Nell Franklin, has led these efforts. As noted in 2021, to ensure that Kiltearn's stewardship activities fully integrate the Investment Team's perspective on material environmental and social issues affecting companies in the portfolio, Nell Franklin joined the Governance Group, and its remit was expanded to incorporate consideration of such matters. The Governance Group was subsequently renamed the Sustainability & Governance Group.

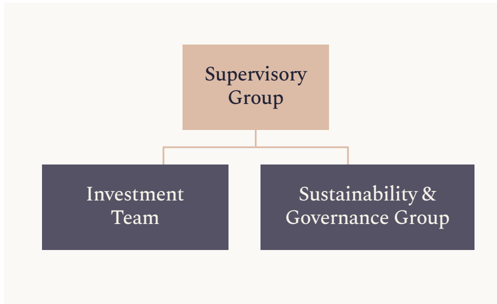
The Sustainability & Governance Group includes members of the Investment Team (two Portfolio Managers), a member of the Investment Administration Team and the Head of Sustainability & Corporate Governance. Three of the four members are also Partners in the firm.

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

The Sustainability & Governance Group took over responsibility for voting and engagement in 2018. This was followed by an uptick in discussions with portfolio companies as the Sustainability & Governance Group began to formalise the process. The Sustainability & Governance Group is also responsible for updating the following firm documents:

- ✓ the UK Stewardship Code Statement;
- ✓ the Proxy Voting Policy (see Appendix 1);
- ✓ the Proxy Voting and Governance Principles (see Appendix 2);
- ✓ the Responsible Investment Policy (see Appendix 3);
- ✓ the Annual Engagement Disclosure (see Appendix 5);
- ✓ the UN Principles for Responsible Investment (UN PRI) report;
- ✓ the six-monthly ESG report for unitholders (discussed below); and
- ✓ the annual Task Force on Climate-related Financial Disclosure (TCFD) report (discussed below and available on the firm's website).

The Sustainability & 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 members of the Sustainability & Governance Group are:

Craig Collins

Craig Collins is an Investment Manager, Partner and member of the Supervisory Group at Kiltearn. Craig graduated with a First-Class Honours degree in Chemical Physics from Glasgow University and went on to gain his PhD at Robinson College, Cambridge. Craig began his career in investment with Baillie Gifford & Co. in 2000. Craig was an Investment Manager and Analyst for the Long-Term Global Growth, Emerging Markets, North American and UK equity departments, and held the post of Global Technology Analyst before joining Kiltearn in 2011. Craig is a CFA Charterholder.

Helen (Nell) Franklin

Nell joined Kiltearn in July 2018 and is an Investment Manager and Partner in the firm. She graduated from the University of St. Andrews with an MA (Honours) in Arabic and Middle Eastern Studies and then earned her MSc in International Management for the Middle East and North Africa from the School of Oriental and African Studies, University of London. Nell spent her entire career (11 years), prior to Kiltearn, at Baillie Gifford, starting in their investment-manager training programme before moving over to the fixed-income team, which culminated in her becoming a Portfolio Manager for the Global Credit Fund and the US High Yield strategy. Nell holds the CFA Certificate in ESG Investing.

Iain McMillan

Iain joined Kiltearn in 2014 and is a member of the Investment Administration Team. Before Kiltearn, Iain spent eight years at Franklin Templeton, latterly as a Supervisor in the Portfolio Administration department. Iain graduated from Heriot Watt University with a degree in Economics and Finance.

Douglas McArthur

Douglas is the Head of Legal, Compliance and Sustainability & Corporate Governance. He is a Partner and member of the Supervisory Group at Kiltearn. He began his career in 2009 at Morgan Stanley in the Transaction Tax and Tax Interpretation teams before joining Kiltearn in 2013 (following a year training with Silchester). Douglas advises all areas of the firm on compliance and legal matters. Douglas graduated from the University of Glasgow with a Bachelor of Law (Honours) degree. He holds the CFA Certificate in ESG Investing and the CFA Certificate in Climate and Investing.

Resourcing

Kiltearn believes having four people in the Sustainability & Governance Group is appropriate, given the size of the firm. This takes into account the fact that the wider Investment Team is frequently involved with stewardship, through monitoring of portfolio companies, input into engagements and proxy voting. Furthermore, Kiltearn is effectively managing one portfolio of 50–90 companies. It is consequently reasonable for a relatively small number of people to have knowledge of those companies. This is not a structure that can be easily replicated at larger, multi-product managers.

Seniority

The Sustainability & Governance Group includes three of Kiltearn's 11 Partners. One of the three Partners is a founder of the firm, Portfolio Manager and a member of the Supervisory Group. The second is a Portfolio Manager. The third is member of the Supervisory Group and Kiltearn's Head of Legal, Compliance, Sustainability and Corporate Governance. We consequently believe that the level of seniority in the Sustainability & Governance Group is appropriate.

Experience

The four members of the Sustainability & Governance Group have more than 70 years of industry experience between them and ~35 years of experience with Kiltearn. We consequently believe that the level of experience in the Sustainability & Governance Group is appropriate.

Qualifications and Training

As noted above, both Nell Franklin and Douglas McArthur hold the CFA Certificate in ESG Investing and Douglas holds the CFA Certificate in Climate and Investing. Kiltearn considered rolling this out as a training requirement for members of its Investment Team; however, while the CFA Certificates in ESG Investing and Climate are widely recognised, the concepts contained within them are high-level and have limited application to our day-to-day investment process. Instead, in 2022, Kiltearn's Sustainability & Governance Group began organising tailored six-monthly ESG training for the Investment Team.

While Nell brought experience on the sustainability side, she has since been trained in Kiltearn's proxy-voting process. For the second year in a row, Nell voted at several companies' meetings, with Douglas acting as the authoriser of those votes and providing oversight.

Diversity

As noted above, Nell Franklin joined the Sustainability & Governance Group in 2021. Nell joined as Kiltearn deemed that she would add valuable insight and experience, rather than to meet a diversity quota that may be deemed necessary at a larger organisation.

Gender diversity is an area of focus at the firm. Researchers have shown that teams with higher gender diversity display higher levels of collective intelligence. Despite our slightly above-average female representation as a firm[1], there is room to improve gender diversity at Kiltearn. We rank as average (14%[2]) in terms of female Portfolio Managers, but that merely reflects a sub-par industry starting point. To widen our applicant pool, Kiltearn's recruitment process now includes the Women Returners network in the UK, which provides an avenue for return to work following extended career breaks. We have also signed up to the Future Asset initiative, to encourage higher female participation in the investment-management industry in Scotland. These efforts are an important consideration in our longer-term succession planning.

External Resources

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

Company Research and Reports	Specialist ESG Research	Sell-side Research	Other
Annual Reports Non-financial Disclosures Company Meetings	MSCI ESG Ratings MSCI Climate MSCI Controversies ISS Governance and Proxy Voting	Industry-level Themes ESG Specific Materiality Matrices	NGOs Press Reports Credit Rating Agency Commentary

[1] Diversity Wins: How Inclusion Matters; McKinsey & Co, 2020. Average female participation within Finance roles was 24%, vs. 25% at Kiltearn.
[2] Women Get Top Jobs at Funds, Just Not the Ones That Manage Money: Bloomberg May 2021

Kiltearn believes that, given the limited reliance it places on third-party material, these levels of external resource are appropriate for its purposes. For a discussion of the limited role third-party research plays in Kiltearn's investment process, please see our response to Principle 7. For a discussion of how Kiltearn determines its external resources are adequate, please see our response to Principle 8.

Systems

Kiltearn's investment process is bottom-up and relies on fundamental analysis. Consequently, the firm's system resourcing is relatively straightforward. Members of the Investment Team all have access to company information and third-party research through FactSet. All members of the Investment Team can access ESG data through MSCI's portal and FactSet. Finally, internet-search portals remain one of the most fundamental elements of information gathering for research and stewardship activities.

Incentives

All Kiltearn's staff are evaluated on their contribution to Kiltearn in a formal written appraisal carried out once each year. This is used as the basis for advancement and remuneration. Kiltearn's goal is to keep base salary and monthly partner drawing levels competitive with industry standards. The total compensation pool is determined by the firm's profitability. Individual bonus and salary levels are reviewed annually. They are based on that individual's contribution, which is an overall assessment of their work quality and commitment rather than any set performance criteria or algorithms. In the case of members of the Investment Team, this includes an assessment of the quality of their research, which explicitly incorporates consideration of companies' sustainability practices. Similarly, for members of the Sustainability & Governance Group, this includes an assessment of the quality of the execution of the firm's engagement and proxy voting activities.

Outcome

Kiltearn applied its approach to stewardship in a considered and consistent manner throughout the year under review. This is illustrated by the summary of the material engagement and voting activities included in the firm's Annual Engagement Disclosure (see Appendix 5) during the year. The firm's relatively flat hierarchy and the fact that two members of the Investment Team were also members of the Sustainability & Governance Group contributed significantly to this outcome.

As noted above, over the previous year, Kiltearn continued to focus on the consideration material environmental and social factors in its investment process. As discussed briefly above and in more detail below, we replaced Sustainalytics with MSCI on our list of ESG data and ratings providers during 2022. One of the benefits of MSCI's data and ratings is that it considers both the risks and the opportunities that arise from sustainability issues. Further, MSCI's carbon data and TCFD reporting offering appears to be the best on the market. Kiltearn also hired an external female candidate to join the Investment Team in January 2022. Jennifer Reid has brought high-quality experience and improved the gender balance, which we believe will give rise to an increase in collective intelligence. Although Kiltearn believes its governance structures and processes functioned well in 2023, it is looking to improve on these further in 2024.

Principle 3 –

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Controls

Kiltearn recognises the importance of identifying potential material conflicts and the need to have adequate systems and controls to avoid or mitigate their impact on unitholders and Clients. Our approach to conflicts of interest is straightforward. Wherever possible, we will try to remove the potential for conflict. We would far rather eliminate a potential conflict than pursue a complicated policy to address that conflict. For example, partners and employees are not permitted to buy any public listed securities. It is a clear and simple approach. As fiduciaries, we understand we have a responsibility to put the interests of Clients first. Not all conflicts can be avoided entirely but given that Kiltearn is a boutique manager with 22 members of staff, with one investment strategy and a small number of Clients, conflicts are likely to be more limited than at larger, more complex industry participants.

Kiltearn's Compliance Manual incorporates the firm's Conflicts of Interest Policy and Inventory. All members of staff are required attest that they will adhere to Kiltearn's Compliance Manual on an annual basis. The Legal and Compliance Group reviews and updates the Conflicts of Interest Policy and Inventory on an annual basis.

Although rare, Conflicts of interest have most often arisen when we held the securities of a company in our Clients' portfolio and the company was also a service provider. As noted last year, Kiltearn reviewed and amended its process for voting proxies in 2020. Previously, when Kiltearn had knowledge that a potential conflict of interest with a company was present, Kiltearn would consider proxy-voting decisions in relation to that company 'material'. Such decisions consequently required authorisation by two individuals with sufficient authority, rather than the usual one. These situations may have arisen:

(i) if a portfolio's company's retirement-plan assets were invested in one of Kiltearn's commingled funds;

(ii) if a portfolio company or one of its affiliated entities was also a brokerage counterparty (as was the case with one US investment bank until November 2021); or

(iii) where the person responsible for overseeing investments at a unitholder was also a director or officer of a portfolio company that would have materially benefited from any executive compensation or incentive scheme subject to a shareholder vote.

The purpose of the process was to demonstrate that two individuals had independently determined that the voting decision made was in the best interests of Clients, in line with all other voting decisions.

Having reviewed its proxy-voting process, Kiltearn determined that to make this process more robust, it would require all proxy-voting decisions – whether material or not – to be reviewed and authorised by two individuals with sufficient authority (see Kiltearn's Proxy Voting Policy in Appendix 1).

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 its engagement with the company's management.

During the year, Kiltearn sought to identify potential conflicts using several processes. These included the following:

- The Legal and Compliance Group reviewed all material contracts with service providers.
- The Legal and Compliance Group reviewed all prospective unitholders' subscription agreements.
- The Legal and Compliance Group reviewed all trading activity daily.
- The Risk Management Group reviewed all material areas of the business as part of the firm's internal audit programme. Through this programme, the Risk Management Group looks to identify any conflicts of interest and their impact.

Material Non-Public Information

Portfolio companies may wish to make Kiltearn an insider when a significant event is pending. Being an insider prevents Kiltearn from trading in the securities 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. Kiltearn makes portfolio companies aware that material non-public information should not be communicated to Kiltearn unless the firm provides prior explicit consent to receiving such information. Further, Kiltearn's Chief Compliance Officer regularly reviews minutes from meetings with portfolio companies and prospective portfolio companies to ensure that no material non-public information was shared during those meetings.

If Kiltearn is made an insider, the firm adheres to its robust policy regarding the treatment of such material non-public information. This policy is set out in the firm's Code of Ethics, which forms part of the firm's Compliance Manual. All members of staff are required to attest that they will adhere to Kiltearn's Compliance Manual on an annual basis. The Legal and Compliance Group reviews and updates the policy on an annual basis.

Outcome

The firm identified no new actual or potential conflicts during the year.

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

Principle 4 –

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Fundamental research is one of the primary components of Kiltearn's investment process. Market-wide and systemic risks are directly relevant to the valuation of portfolio companies and, therefore, are considered by the Investment Team during their analysis. Emerging systemic risks and their impact on companies and/or industries are discussed at investment meetings. If a market-wide issue has relevance to Kiltearn itself, the Supervisory Group discusses it, and actions are taken as appropriate.

Actions

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

Climate Change

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.

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.).

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.

Kiltearn is supportive of decarbonisation efforts where it believes those efforts are aligned with portfolio companies' long-term development and 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 such strategic and operational 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 oversite. Where companies have net-zero or similar decarbonisation targets, it is important that management and boards are held accountable for meeting those targets.

As noted in the Annual Engagement Report (Appendix 5), we voted in favour of:

- progress on the execution of an energy transition plan by a British multinational oil and gas company;
- progress on the execution of an energy transition plan by a French multinational oil and gas company;
- a shareholder resolution that would have required a US bank to publish annual reports analysing whether its lobbying is aligned with its commitment to achieve net zero by 2050; and
- a shareholder resolution proposing that a US multinational oil and gas company issue a report analysing the reliability of its methane emissions disclosure.

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.

For example, Kiltearn's Clients' portfolio is invested in a Japanese power tools and garden equipment company. 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. The Investment Team's assessment is that this company's environmentally superior product offering, demand for which is ultimately linked to growth in electrification, provides a positive skew for the business. This skew does not appear to be reflected in the valuation multiples, which sit in the bottom quartile of global listed equities.

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. This can be illustrated by an example relating to a company currently held in our Clients' portfolio:

- By way of background, it is worth noting that the five public energy majors have typically contributed ~15% of the world's production of oil and gas [3]. The vast majority comes from national oil companies and smaller independent producers.

  A shareholder brought a proposal requesting that a US multinational oil and gas 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 seen 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 did not appear to be in the interests of shareholders and may not have benefited planet. Kiltearn did not support the proposal. The proposal failed.

Kiltearn believes that 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.[4]

3 *Why Shaking Up Big Oil Could Be a Pyrrhic Victory*; Jason Bordoff. Columbia Climate School, Founding Director of the Center on Global Energy Policy, and Professor of Professional Practice in International and Public Relations at Columbia University SIPA.

4 *Net Zero by 2050: A Roadmap for the Global Energy Sector*; International Energy Agency. The International Energy Agency estimates that around 55% of the cumulative emissions reductions required are linked to consumer choices (for example, purchasing EVs and installing heat pumps) and behavioural changes account for a further 4% (for example, a reduction in the use of cars and replacing short-haul flights with high speed train journeys).

Principle 4

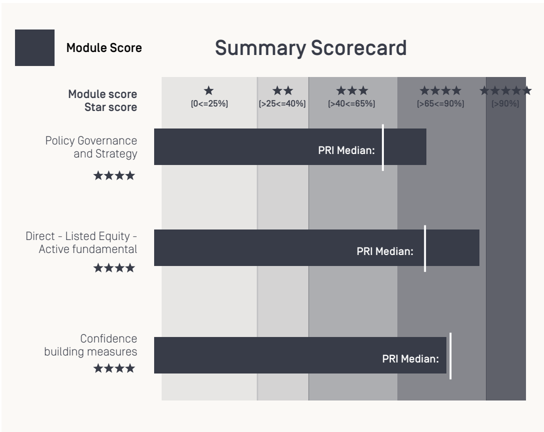
Japanese Companies

Japanese companies are typically laggards on governance by global standards. As noted in our response to Principles 9 and 11, this continues to be an area of focus for Kiltearn's engagement efforts. Broadly, we are focused on companies with poor capital-discipline practices and non-independent boards. These companies typically have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low returns on equity and may pursue wasteful capital expenditure. As discussed in the Annual Engagement Disclosure (Appendix 5), in early 2023, we introduced our first shareholder resolutions at a Japanese company's annual general meeting (AGM). The resolutions were aimed at improving shareholder returns. As part of this process, we had discussions with the company and engaged with other stakeholders on the issue.

Industry Initiatives

UN PRI

Kiltearn is a signatory to the UN PRI. The firm became a signatory in late 2020; it filed its first voluntary report in early 2021. Kiltearn filed its first mandatory report in 2023. It received confirmation in December 2023 of its Summary Scorecard. Kiltearn achieved the median score in one module and exceeded it in two modules. The Summary Scorecard is below and the full Transparency Report is available here.



The UN PRI requires Kiltearn to incorporate ESG issues into investment analysis and decision-making processes. For a discussion of its integration of these factors into its investment process, please see Kiltearn's response to Principle 7 and the firm's Responsible Investment Policy (Appendix 3). Further, the UN PRI requires Kiltearn to incorporate ESG issues into ownership policies and practice. For a discussion of its integration of these factors into its ownership practices, please see Kiltearn's response to Principles 5, 9, 10, 11 and 12, its Proxy Voting and Governance Principles (see Appendix 2) and its Annual Engagement Disclosure (see Appendix 5).

UK Stewardship Code 2020

Kiltearn is a signatory to the UK Stewardship Code 2020. Reporting to the FRC in response to the Code, in Kiltearn's view, ensures a degree of accountability for its stewardship efforts. Some unitholders and separate-account clients may rely on Kiltearn's signatory status when assessing whether they are meeting their own requirements to hold asset managers accountable. The Code also encourages continuous improvement, which is sensible in an area that is quickly evolving.

Independent Investment Management Initiative (IIMI)

Kiltearn is a member of the IIMI. The IIMI is a think tank that offers an independent voice in the debate over the future of financial regulation. The IIMI's stated aims include (i) restoring society's trust in the financial sector; (ii) promoting the values and practices of owner-managed firms that align their interests with those of their clients; and (iii) raising awareness of the positive, stabilising contribution small entrepreneurial firms make to the economy and society as a whole. The IIMI publishes policy papers, issues regular updates and contributes evidence to relevant political and regulatory commissions. One of the aspects of membership that Kiltearn finds most helpful is the access it provides to speakers from organisations such as the Intergovernmental Panel on Climate Change and the FRC.

Women Returners and Future Asset Initiatives

As noted above, to widen our applicant pool for recruitment, Kiltearn's process now includes the Women Returners network in the UK, which provides an avenue for return to work following extended career breaks. We have also signed up to the Future Asset initiative, to encourage higher female participation in the investment-management industry in Scotland. These efforts are an important consideration in our longer-term succession planning.

Silchester Group

Kiltearn is one of eight boutique asset managers that form the Silchester Group. As part of its membership of the Silchester Group, Kiltearn regularly shares information on non-investment issues such as operational best practices and challenges facing the industry. Information on investment is not shared as a matter of policy. The sharing of information allows Kiltearn to leverage the resources of managers of a similar size and mind-set. Similarly, Kiltearn will, on occasion, participate in forums or share information on best practices with other Edinburgh-based investment managers.

Future Participation in Initiatives and Aligning Investments

As a boutique manager, we have limited resources to participate in initiatives, so we are highly selective about which initiatives we join. Furthermore, Kiltearn offers a single product with a financial-returns-based objective. We are continually looking to improve the intrinsic value of our Clients' portfolio. Kiltearn would not participate in any initiative that would require us to align the Clients' portfolio with a non-financial objective. We do not have a mandate to do so, and such a requirement risks cutting across the investment objective. Therefore, we believe that our current participation in initiatives is appropriate for our size and investment objective.

Outcome

Kiltearn's approach to investment, based on fundamental analysis, puts it in a good position to identify and assess systemic and market-wide risks. This was demonstrated during 2023 by the firm's evolving thinking on environmental considerations and its consistent messaging to, and escalating engagement with, Japanese portfolio companies. The risks – and opportunities – associated with these areas were also integrated into our investment process, as part of our quality and valuation analysis.

As noted above, Kiltearn believes its current participation in initiatives is sensible, accounting for its size and single product's investment objective. Kiltearn will continue to engage with other stakeholders on market-wide and systemic risks where such action seems likely to improve the investment outcomes for its Clients. As discussed further below, in 2023, the firm published its second TCFD report (without targets).

Principle 5 –

Signatories review their policies, assure their processes and assess the effectiveness of their activities

As noted above, the Sustainability & Governance Group is responsible for updating the following firm documents:

- ✓ the UK Stewardship Code Statement;
- ✓ the Proxy Voting Policy (see Appendix 1);
- ✓ the Proxy Voting and Governance Principles (see Appendix 2);
- ✓ the Responsible Investment Policy (see Appendix 3);
- ✓ the Annual Engagement Disclosure (see Appendix 5);
- ✓ the UN PRI report;
- ✓ the six-monthly ESG report for unitholders (discussed below); and
- ✓ the annual TCFD report (discussed below and available on the firm's website).

The Sustainability & 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.

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

Kiltearn's Risk Management Group reviews the firm's proxy-voting process on an annual basis as part of the firm's internal audit programme. As noted above (Principle 3), Kiltearn determined in 2020 that to make its proxy-voting process more robust, it would require all proxy voting decisions – whether material or not – to be reviewed and authorised by two individuals with sufficient authority (see Kiltearn's Proxy Voting Policy in Appendix 1).

During the year, Kiltearn's Legal and Compliance Group reviewed all Client reporting – including stewardship reporting – to ensure it was fair, balanced and understandable. As demonstrated in Kiltearn's Annual Engagement Disclosure (see Appendix 5), Kiltearn includes reporting on case studies where desired outcomes have and have not been achieved.

As noted in the 2021 report, while reviewing the Proxy Voting and Governance Principles, we observed that there is academic evidence suggesting that the presence of female members on boards positively correlates with financial performance and compliance with ethical principles.[5] Additionally, a 2018 study concluded that diverse boards reduce stock-return volatility and take fewer financial – but not R&D – risks.[6]

With this in mind, as more fully described in Kiltearn's Response to Principle 9, in letters sent to portfolio companies after an initial investment in 2021, we included language setting out our expectations that boards are suitably diverse – in terms of each director's professional and educational background, gender, race, age, life experience and personal attitudes. We think of a company's board – much like an investment team – as one organism. Diversity in a board's members can help to minimise the risk of 'groupthink', offer suitable challenge to management and improve risk management.

We also decided to update the Proxy Voting and Governance Principles to reflect the continued need for transparency and uniformity of reporting from our Clients' portfolio companies. The updated document consequently requests that companies report certain data on their environmental impact and policies (including TCFD reporting), certain social factors, worker safety and governance practices. 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 on which we may need to engage to grow our Clients' portfolio companies' intrinsic value.

The Proxy Voting and Governance Principles were updated again in early 2023. As part of this update, we refined the sustainability information that we request companies publish for use as part of our own research. For example, requesting information on carbon emissions intensity, forward-looking targets, recognised third-party verification of targets and investment into sustainable products/solutions.

As discussed in our response to Principle 6, Kiltearn is continuously looking to improve its reporting to unitholders and Clients. Kiltearn retained MSCI, in part, due to its carbon-data offering during the year. This data was included in our second TCFD report (without targets), which we published in late 2023.

Finally, in line with the updated version of the Proxy Voting and Governance Principles, Kiltearn now considers the gender balance of portfolio companies' boards. To date, we have focused on recording the data and companies' direction of travel, rather than imposing absolute targets (something we previously considered).

5 Isidro, H., and Sobral, M. (2015). 'The effects of women on corporate boards on firm value, financial performance, and ethical and social compliance,' *Journal of Business Ethics, Springer*, 132(1). November.

6 Bernile, G., Bhagwat, V. and Yonker, S. (2018). 'Board diversity, firm risk, and corporate policies'. *Journal of Financial Economics*, 127(3).

Principle 6 –

Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.

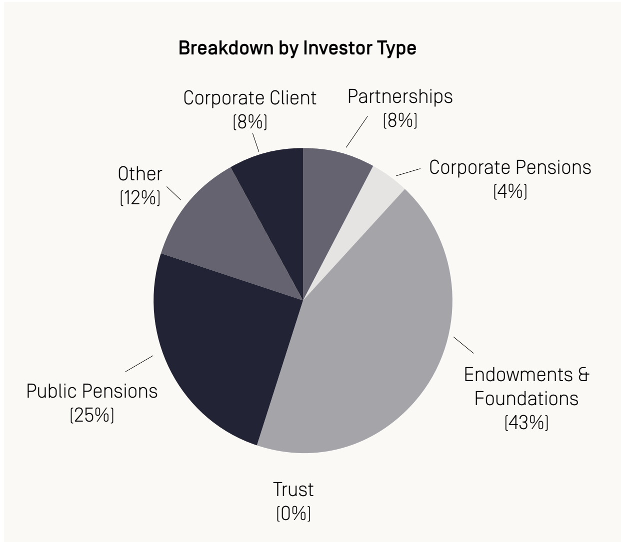
As noted above, Kiltearn offers a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Kiltearn does not manage any other asset class on behalf of its Clients.

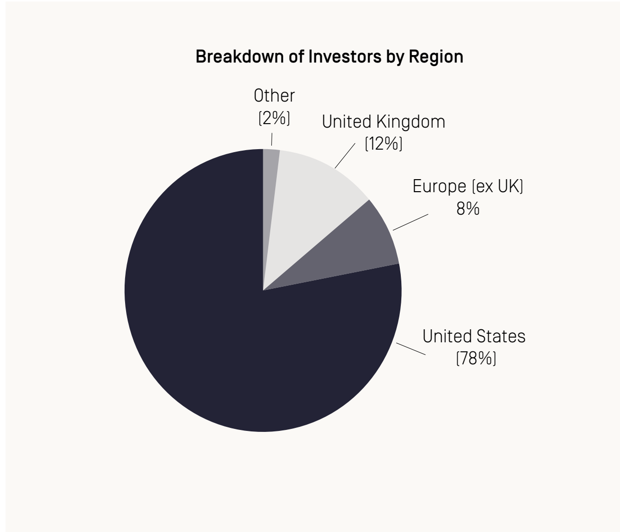
Kiltearn has a small number of Clients. As of 31 December 2023, Kiltearn managed two US-based commingled funds and acted as the delegated investment manager for a Dublin-based UCITS vehicle. Kiltearn currently manages ~US$3.4 billion of assets on behalf of its Clients.

As of 31 December 2023, the breakdowns by region and investor type of the unitholders by AUM were as follows:

Unitholders in Kiltearn's US-based commingled funds are required to be Accredited Investors and Qualified Purchasers as defined by the US Securities and Exchange Commission. By AUM, unitholders in Kiltearn's US-based commingled funds were 85-90% tax-exempt organisations: foundations, endowments, corporate pension plans, church plans and state pension plans. All unitholders in the US-based commingled funds are US persons.

As of 31 December 2023, by AUM, unitholders in the Dublin-based UCITS vehicle were ~54% UK-based, ~37% based in other European countries and the rest were based outside Europe. US persons are not permitted to invest in the UCITS vehicle.





Principle 6

Time Horizon

There are three relevant but distinct time horizons at Kiltearn: (i) the period appropriate to meet the needs of its Clients and their underlying beneficiaries; (ii) the period over which potential investments are assessed; and (iii) holding periods due to portfolio management considerations.

Kiltearn considers that a long-time horizon, of at least three to five years, is appropriate to meet the needs of its Clients and their underlying beneficiaries. Over a shorter period, there would be a greater risk of volatility from economic and stock market cycles. The value investment philosophy followed by the firm can have relatively prolonged periods out of favour. A longer time horizon also accords with how Kiltearn assesses the prospects of the companies in which its Clients invest.

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. Our value investment philosophy requires us to stick to a disciplined valuation-support requirement; rapid share-price appreciation can mean that some companies are held for relatively short periods. This reflects opportunities presented by the stock market to realise profits and recycle the proceeds into more attractively valued companies.

Reporting

Kiltearn communicates with unitholders, separate-account clients and consultants through meetings and correspondence. During the past year, Kiltearn engaged with unitholders, separate-account clients, prospects and consultants on 88 occasions, including 57 face-to-face meetings. The primary purpose of these meetings was to discuss performance against stated investment objectives, portfolio decisions and Kiltearn's investment process. However, these meetings also gave unitholders, separate-account clients and consultants the opportunity to provide feedback to Kiltearn and for Kiltearn to understand their requirements.

Kiltearn regularly completes questionnaires from consultants, unitholders and separate-account clients. These typically include questions on Kiltearn's investment process and its approach to stewardship.

Unitholders receive a monthly newsletter from Kiltearn discussing items such as the firm's investment philosophy and process, holdings and performance. Separate-account clients (if any) receive quarterly investment commentary.

Unitholders and separate-account clients can receive a quarterly summary of proxies voted by contacting Kiltearn's Client Services representatives and asking to be included on the quarterly proxy-voting-summary distribution list.

From 2021, unitholders and separate-account clients have been able to receive a semi-annual engagement report and a six-monthly ESG-dedicated report by contacting Kiltearn's Client Services representatives. Finally, beginning 2022, unitholders and separate-account clients have been able to receive Kiltearn's TCFD report. The semi-annual engagement reports and TCFD report are also available on the firm's website (www.kiltearnpartners.com).

Kiltearn circulates its:

- ✓ UK Stewardship Code Statement;
- ✓ Proxy Voting Policy (see Appendix 1);
- ✓ Proxy Voting and Governance Principles (see Appendix 2);
- ✓ Responsible Investment Policy (see Appendix 3); and
- ✓ Annual Engagement Disclosure (see Appendix 5) to unitholders and separate-account clients (if any) annually.

All five documents are also available on Kiltearn's website (www.kiltearnpartners.com).

Unitholders' and Clients' Views

There have been circumstances in the past where unitholders and separate-account clients have expressed a preference for Kiltearn to cause its Clients to disinvest from companies involved in certain practices or manufacturing and supplying certain products. While Kiltearn recognises these concerns, we ultimately have an overriding duty to act in the best interests of all Clients when making investment decisions. Not all unitholders and separate-account clients may share the same view, and some may hold opposing views. Kiltearn has consequently not agreed to any unitholder-specific investment restrictions or caused its Clients to dispose of any existing holdings that meet our valuation and quality criteria. Further, Kiltearn does not accept unitholder or separate-account client direction on proxy voting or ESG issues.

For prospective investors with exclusion policies based on religious beliefs, we have previously steered them to our commingled fund that has Catholic-focused exclusions in its investment guidelines.

Separate-account clients (if any) may impose their own investment restrictions on the securities that can be held in the separate account's portfolio. In recent years, one separate-account client asked to exclude tobacco companies from its account. Securities of tobacco securities have not been held in any Client's portfolio since the inception of the firm. Nevertheless, Kiltearn subsequently setup the exclusion for the separate-account client's account as part of its operational processes. The client also expressed a preference for a higher weighting in US securities to replicate the benchmark more closely. Kiltearn increased the weighting of US securities in the separate-account client's account by pro-rating cash across the existing US securities. No such requests were made in 2023.

Actions

As noted above, during the year, Kiltearn engaged with unitholders, separate-account clients, prospects and consultants on 88 occasions, including 57 face-to-face meetings. The meetings gave unitholders and separate-account clients the opportunity to challenge Kiltearn's investment philosophy and decisions or seek assurance from Kiltearn regarding the same during periods of pronounced uncertainty. However, these meetings also gave unitholders, separate-account clients and consultants the opportunity to provide feedback to Kiltearn and for Kiltearn to understand their requirements.

Kiltearn has increased its stewardship reporting in recent years based on feedback from separate-account clients and unitholders. As a result, Kiltearn has:

- committed to writing at least one monthly newsletter on responsible investing each year;
- become a signatory to the UN PRI;
- become a signatory to the UK Stewardship Code;
- produced semi-annual engagement reports;
- produced six-monthly ESG-dedicated reports; and
- produced its first TCFD report.

Evaluation

As a boutique manager offering a single product to institutional investors – predominantly through commingled funds – with a financial returns-based objective, Kiltearn can find it difficult to determine whether our chosen methods have been effective in understanding the needs of unitholders and separate-account clients. This is because we cannot amend our investment objective or stewardship approach based on the preferences of an individual unitholder's views, as noted above, and we do not offer a suite of investment products.

The decision to invest in Kiltearn's programme will typically be part of a wider asset-allocation plan for institutional investors. The institutional investor or its consultant, not Kiltearn, will put the plan together. With that said, as noted above, Kiltearn looks to ensure that it services separate accounts (if any) and unitholders to the best of its ability by accommodating requests for meetings and calls from clients, unitholders, consultants and prospects. Furthermore, Kiltearn looks to ensure that these parties have reasonable access to members of the Investment Team. Consultants have been positive about this stance, noting that it is not always the case with investment managers. Finally, while we cannot amend the investment objective or offer alternative products, we can offer increased transparency through increased reporting requested by unitholders and separate-account clients (if any).

Outcome

Kiltearn's approach to taking account of the needs of unitholders, separate-account clients (if any) and their beneficiaries is founded upon regular reporting and contact/dialogue with those parties and their investment consultants. As noted above, Kiltearn is continuously looking to improve its reporting. Kiltearn retained MSCI, in part, due to its carbon-data offering during the year. This data was included in our second TCFD report (without targets), which we published in 2023. Further, Kiltearn adhered to its disclosed investment philosophy, policies and processes when managing its Clients' assets throughout 2023. Kiltearn will continue have regular dialogue with unitholders, separate-account clients (if any), consultants and prospects throughout 2024 and beyond.

Principle 7 –

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate changes, to fulfil their responsibilities.

As noted above, Kiltearn offers a single global equity programme, managed with a disciplined value investment philosophy, to institutional investors. Kiltearn does not manage any other asset class on behalf of its Clients. As a result, the integration of stewardship and investment discussed in this document applies across the firm.

Researching Companies

Kiltearn's investment philosophy relies upon a long-term outlook. Consequently, researching each portfolio company and prospective portfolio company to assess the quality of its business is fundamental to Kiltearn's investment process. Kiltearn carries out financial and non-financial analysis on current and prospective investments, including reviews of their underlying business strengths and weaknesses, their plans, their practices and their management.

Kiltearn predominantly researches each company by reviewing the company's annual report and similar information published by the company. Kiltearn also monitors each company by, among other things, reviewing third-party research and news-flow. It may also have one-to-one meetings or calls with members of the company's management team, board and/or investor-relations representatives. Kiltearn's Investment Team prepares detailed reports on each portfolio company. Although Kiltearn's investment process is deliberately structured to discourage undue focus on short-term 'market noise', ongoing and vigilant monitoring of portfolio companies remains integral to our process.

As part of its research efforts, Kiltearn considers whether there are any issues of material concern with companies. Such issues may relate to companies' strategic, operational, sustainability or financial practices.

Sustainability Integration

Sustainability considerations may have a material impact on a business's intrinsic value and long-term return potential. Increasingly, sustainability factors like the global transition towards more sustainable energy sources and increasing standards for labour practices are a source of long-term structural change, shaping the capital allocation decisions, regulatory environment and competitive dynamics of the companies in which Kiltearn invests Clients' assets.

Kiltearn employs an evidenced-based approach to assessing business quality. Areas of focus include balance-sheet strength, cash-generation characteristics, return on invested capital and management's capital-allocation decisions. Within this framework, Kiltearn seeks to consider relevant sustainability issues, which it believes are financially material factors based on a company's industry and business model. Areas of focus include, but are not limited to, (i) energy transition and environmental impact; (ii) product safety and consumer protection; (iii) supply-chain management and oversight; (iv) labour relations and employee welfare; and (v) board structure and executive compensation.

Where issues have been deemed potentially material, Kiltearn considers what type of challenges or opportunities these factors pose (e.g., a change in competitive dynamics, an ongoing investment requirement or an existential threat to the business model). Kiltearn also considers whether a company's existing policies and practices appear sufficient to mitigate potential controversies and position the business on a sustainable path. As with other investment considerations, evidence of strong sustainability credentials can enhance Kiltearn's overall assessment of business quality while evidence of weak practices can detract.

Based on its analysis of a company's historic financial characteristics and performance over cycles, Kiltearn seeks to normalise the earnings, cash flow and balance sheet as appropriate and then consider the valuation relative to the global investment universe, the company's own history or a relevant peer group. Sustainability factors are considered during the normalisation process where Kiltearn believes that they are likely to have an ongoing impact (positive or negative) on earnings, cash flow or assets. The overall assessment of business quality, of which sustainability factors are components, may also dictate the margin of safety required for investment.

Time Horizon

As noted above, Kiltearn assesses the prospects of the companies in which its Clients invest over a long-time horizon. As long-term investors, Kiltearn's Clients have scope to benefit as these companies better position themselves for sustainable value creation over time. As active stewards, we can support these efforts through engagement and voting. A weak starting point may be acceptable provided there is a credible plan for improvement.

Additional information on Kiltearn's incorporation of sustainability considerations in its investment decision-making process can be found in the Responsible Investment Policy (Appendix 3).

Sustainability Integration Examples

New Buy – Taiwanese Chip Manufacturer

During 2023, Kiltearn decided to invest its Clients' assets in a Taiwanese Chip Manufacturer. Kiltearn's Investment Team determined that the company's application processor business is well positioned, given its application, to benefit from a growth in demand for electric vehicles. Kiltearn increased the weighting of the company's securities in its Clients' portfolio gradually throughout the year given the opportunity to invest in a quality business, operating in a high barrier market with a net cash balance sheet and valuation support in the bottom decile of the market.

New Buy – US Chemicals Company

During 2023, Kiltearn decided to invest its Clients' assets in a US chemicals company. The company faces significant challenges from the energy transition, such as the need to reduce the intensity of its emissions, water usage and waste. However, consistent with the knowledge gained from researching and actively engaging with an existing chemical company in the portfolio, the Investment Team determined that the company has an opportunity to benefit from its Clients' increased focus on sustainable products. The Investment Team came to this view on the basis that third-party forecasts project that the need for plastic will increase through the middle of the century and the company is positioning itself to benefit from the significant increase in demand for recycled and "zero emissions" plastic, particularly from its customers operating in the European fast-moving consumer goods sector. Kiltearn purchased the company's securities for its Clients' portfolio given the opportunity to invest in an average quality business, with a mean reversion tailwind and valuation support in the bottom quartile of the market.

Complete Sell – US Industrial Technology Company

Kiltearn updated its investment research on a US industrial technology company during late 2022. The company specialises in retail and commercial fuelling infrastructure, point-of-sale payment technologies, vehicle diagnostics and repair. As with its previous research on the company, Kiltearn determined that the company was facing significant environmental challenges. The Investment Team came to this view on the basis that demand for the company's core business in internal combustion engine (ICE) refuelling infrastructure will gradually fade as the global market moves to electric vehicles. Further, the Investment Team also took account of the fact that the company will need to allocate capital to M&A in the medium term, as the company looks to diversity away from its ICE exposure. Kiltearn consequently applied an explicit environmental charge as part of its most recent valuation, reflecting the substantial investment needed to reposition the business. Nevertheless, Kiltearn increased the weighting of the company's securities in its Clients' portfolio gradually throughout 2022 when general market pessimism provided opportunities to invest in a high-quality company with strong quartile valuation support – even after that the environmental charge had been applied. Kiltearn's assessment took account of the company's strong market positions, cash generation and current focus on shareholder returns via share buybacks.

During a subsequent engagement, Kiltearn noted its preference for the company to introduce a returns-focused key performance indicator for the determination of executive remuneration, as the repositioning of the company away from its ICE infrastructure business should be achieved in a manner consistent with value creation.

Kiltearn sold the portfolio's holding in the company during 2023 due to insufficient valuation support following strong share price performance.

Monitoring – Energy Companies

As a value manager, we see opportunity in out-of-favour companies. In keeping with this, our Clients' portfolio currently has an overweight exposure to the energy sector. Kiltearn updated its investment research on three energy majors held in the portfolio during 2022, addressing topics such as risks around stranded assets and potential carbon taxes. This assessment resulted in the application an environmental charge for each of the three companies. Specifically, the charge was applied to normalised cash earnings to reflect the financial headwinds associated with the global energy transition. Kiltearn also subjected the companies to climate-related scenario analysis and its impact on oil and gas supply and demand. 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.

While all three of the energy majors are taking different approaches to the energy transition, each will need to make material changes to its business model if it is to transition successfully in a world that is seeking to decarbonise. The two Europe-based companies have net-zero 2050 targets. As noted in Kiltearn's Annual Engagement Report (see Appendix 5), Kiltearn voted in favour of their energy transition plans at their 2023 AGMs. The third, a US company, has set a net-zero target for emissions from its own operations (Scope 1 and Scope 2) but successfully opposed a shareholder resolution to extend the target to emissions from customers using its products (Scope 3) through 2030 at its 2023 AGM. The challenge of transition had led to pronounced negative market sentiment around the energy sector, resulting in valuation multiples that placed these businesses in the lowest-rated decile of the global investment universe, particularly in terms of cash flow and dividend-based metrics. While the Investment Team assessed these businesses as facing significant challenges that demand a meaningful valuation discount, they also acknowledged that under the IEA's Stated Policies Scenario and a net-zero 2050 scenario, oil and gas would remain a significant percentage of the global energy mix in the medium term. Further, all three companies remain profitable, cash-generative businesses with a high level of focus on capital discipline and shareholder returns (at least in part due to external pressure to reduce capital expenditure on upstream hydrocarbons). Kiltearn made net sales from the portfolio's holdings in the US company and one of the two European majors, while making net purchase of the other European major's shares, during 2023.

Integration in Stewardship

A summary of Kiltearn's material engagement and voting activities throughout 2023 is included in its Annual Engagement Disclosure (see Appendix 5).

Service Providers

Third-party research, such as sell-side research, ESG-rating providers' data and rating and thematic research can be a valuable part of the information-gathering process before Kiltearn's proprietary research is written. Ultimately, however, Kiltearn relies solely on its own proprietary research to make investment decisions. Kiltearn's investment process is not dependent on any third-party research provider. Kiltearn consequently does not typically set 'clear and actionable criteria' for those providers. Instead, if Kiltearn's Investment Team deems that such research is no longer valuable – because of its quality, coverage or relevance – Kiltearn will end the relationship.

For further details on Kiltearn's service providers, see our response to Article 8.

Principle 8 –

Signatories monitor and hold to account managers and/or service providers.

Proxy Voting Research and Platform

Kiltearn most recently reviewed its provider of proxy-voting research in 2018, concluding that ISS remained its preferred provider. As part of the review, Kiltearn met the major proxy-research providers and reviewed sample reports from the same. Kiltearn will likely review the providers again in 2024 or 2025.

Kiltearn notes that ISS does appear willing to listen to its clients and adjust its policies to take account of their concerns. Kiltearn noted to ISS that its research on Japanese companies with foreign ownership limits did not include discussions of payments of dividends to unregistered shareholders. Despite ISS's initial resistance to changing this stance, it was willing to discuss the issue with Kiltearn. Following the discussion, it fully embraced a change in approach – conducting its own investigations on the issue, including discussions on the issue in the research on the relevant Japanese companies and making recommendations in respect of proxy voting that echoed Kiltearn's views on the matter.

Kiltearn believes ISS's research is of a reasonable quality.

ISS's voting guidelines vary considerably by region. Broadly speaking, ISS's guidelines are driven by ordinary market practice. This means there is a lack of consistency in ISS's advice in relation to companies resident in different jurisdictions. Kiltearn does not take this approach, preferring to apply a set of globally applicable principles to its proxy-voting decisions, to the extent practicable (for Kiltearn's Proxy Voting and Governance Principles, see Appendix 2).

Kiltearn does not provide a standard policy to ISS for casting proxy votes, preferring to vote each ballot individually and rely on Kiltearn's own internal controls to ensure that votes are cast correctly.

Specialist ESG Rating Providers

While we view third-party ESG data and ratings as useful tools, they have their limitations, such as over-simplification. Providers of ESG ratings typically follow a 'one size fits all' approach. This is understandable as they are trying to cover a very broad universe. The problem is that even companies within the same sector differ in terms of processes, markets they operate in and maturity. Therefore, it is not feasible to compare them in a standardised measure, highlighting the risk of focusing on disclosure rather than what companies do in practice.

In 2022, Kiltearn reviewed its ESG-ratings providers. Kiltearn previously used Sustainalytics' Risk Ratings and Controversies reporting and ISS's Ethixs reporting. Although both were reasonable for certain purposes, we replaced them with MSCI. One of the benefits of MSCI's data and ratings is that it considers both the risks and the opportunities that arise from sustainability issues. Further, MSCI's carbon-data and TCFD reporting appears to be the best on the market.

Irrespective of the addition of MSCI, such information is a crosscheck of, or an input into, Kiltearn's own proprietary research and quality assessments.

Sell-side Research

Kiltearn reviews its sell-side research requirements annually. The most recent review began in the third quarter of 2023, with all members of Kiltearn's Investment Team providing feedback on the usefulness and quality of each provider's research. In the fourth quarter, Kiltearn's Research Group notified the relevant providers that it was looking to continue or begin relationships in 2024.

The sell-side research marketplace is highly competitive. Therefore, when the quality, coverage or usefulness of a provider's research falls short of Kiltearn's expectations, Kiltearn removes the provider from its approved provider list, and the contract with the provider is not renewed.

Principle 9 –

Signatories engage with issuers to maintain or enhance the value of assets.

Consideration of corporate sustainability forms an important part of Kiltearn's assessment of a company's business quality. As part of the investment process, we seek to align ourselves with boards that act in the long-term interests of public shareholders. As a value manager, we see opportunity in out-of-favour companies, including those facing corporate sustainability challenges. In such instances, in line with the approaches outlined in our responses to Principles 1 and 7, Kiltearn may need to intervene to protect or enhance a company's long-term development and intrinsic value.

Initial Engagement

Kiltearn has established universal principles that set out our general expectations with respect to a company's governance practices. These principles guide – but do not restrict – Kiltearn's proxy-voting decisions and engagement priorities. A copy of these principles is sent directly to each company's board following Kiltearn's initial investment. These are some examples of the key principles:

- A sound balance sheet. Kiltearn expects a company to give due consideration to regulatory capital requirements, business-cycle issues and free-cash-flow characteristics. A company should not excessively leverage its balance sheet. Conversely, a company should not hold excessive net cash or investments on its balance sheet that are potentially dilutive to shareholders.
- A sensible and disciplined approach towards M&A. Any proposed M&A should be able to earn a return above the cost of capital.
- A company's shareholders should not be put at undue risk of dilution. Share issuance should be modest in scale and generally offer pre-emption rights to existing shareholders.
- Executives' remuneration should align their long-term interests with those of shareholders.
- A sufficiently independent and diverse – in terms of each director's professional and educational background, gender, race, age, life experience and personal attitudes – board to ensure that it is capable and motivated to supervise management's performance and remuneration, for the benefit of all shareholders.
- Independent directors should have the necessary knowledge, skills, professional expertise and experience to oversee companies and effectively represent the interests of minority shareholders.
- Shareholders should be afforded meaningful rights in respect of structural provisions, such as approval of, or amendments to, a company's corporate governing documents and a vote on takeover defences.
- A company's social and environmental practices should meet or exceed the regulatory standards and general practices of the markets in which it operates.
- Finally, in the interests of transparency and uniformity of reporting, companies should report certain data on their environmental impact and policies (including TCFD reporting), certain social factors, worker safety and governance practices.

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

Companies held in Kiltearn's portfolio may not always exhibit some of the preferred characteristics enshrined in the Principles. Kiltearn takes each company's facts and circumstances into account when voting proxies and engaging with management.

As noted above, engagements with companies, outside of discussions of matters to be voted on at meetings, are typically instigated by the Sustainability & Governance Group at the request of the Investment Team. However, Kiltearn has also engaged with activists, a trade union, and a not-for-profit organisation.

Prioritisation of Engagement

Beyond its standard initial engagement, Kiltearn's priorities for engagement for the year were split across three categories: (i) reactive; (ii) proactive 'run in the interests of public shareholders'; and (iii) proactive 'environmental and social' (E&S).

Reactive

Reactive engagement relates to issues that arise during the year but for which we are not actively planning or setting targets. They include issues, for example, that arise before AGMs or extraordinary general meetings (EGMs), or because of a public announcement by a portfolio company.

For example, on 25 May, Kiltearn had a call with an activist to discuss the experience of independent directors the activist was nominating and the sitting directors it was opposing at a Japanese food retail portfolio company. The activist noted that three of the individuals it was nominating had capital allocation experience and all four had knowledge in governance best practices.

At the company's AGM, Kiltearn voted in favour of all four of the activist's nominees. Kiltearn voted against the three non-executive board members that the activist targeted. Kiltearn did so on the basis that the relevant experience of the activist's candidates appeared stronger than the sitting non-executives.

At the AGM, the targeted sitting non-executives received shareholder support in the 64-68% range. The activist's nominees received support in the 26-34% range. As a result, the activist's campaign gathered significant support but ultimately failed.

There have been improvements in the company's governance structures in recent years. Kiltearn will continue to monitor the company's progress and any further action by activists. If it deems it of value, Kiltearn will engage with the company and/or activists in the future.

Proactive 'Run in the Interests of Public Shareholders'

Throughout 2023, we continued to focus on companies in Japan that are governance laggards. Broadly, we are focused on companies with poor capital-discipline practices and non-independent boards. These companies typically have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low returns on equity and may pursue wasteful capital expenditure. As of mid-January 2024, we have nine engagements at various stages with Japanese companies on these issues and a wider thematic strategy to push all Japan portfolio companies to have majority-independent boards.

To date, progress has been made, but it has been limited. This is expected given that we are asking these Japanese companies to accelerate away from an outdated but ingrained culture of holding excess value on balance sheets and putting the best interests of minority shareholders below those of other stakeholders. Kiltearn will continue to engage regularly with these companies and vote against management where little or no progress is made. We also escalated this issue with three Japanese companies during 2023. We brought two shareholder proposals at one of the companies' AGMs and publicly supported shareholder proposals at two other Japanese companies' AGMs. For a discussion of the process of bringing these proposals and the outcome, please see the Annual Engagement Disclosure (Appendix 5).

Proactive E&S

In late 2021, Kiltearn began an E&S engagement project. Although Kiltearn had previously engaged with portfolio companies on E&S issues as part of its regular and ongoing monitoring, this marked the first time that we had focused specifically on the E&S as the means for prioritising its engagements.

To ensure that we could engage in a meaningful manner, with the potential to lead to material improvements in the medium- to long-term, we limited the number of portfolio companies within the scope of the project, using several parameters:

- First, Kiltearn focused on portfolio companies that it considers below average on E&S.
- Second, Kiltearn limited the in-scope companies to those that had either a 1% + weighting in the portfolio or where Kiltearn's Clients collectively owned 1%+ of the issued share capital. The former was used with a view to targeting the most material to the portfolio's intrinsic value. The latter reflected our experience that engagements are more likely to be successful if you have a meaningful holding in a target company's shares. This is epitomised by the example of Kiltearn's successful engagement with a US consumer-staples company, as described in the 2021 report. In this example, throughout the engagement, Kiltearn's Clients' aggregated holding in the company fluctuated between 5% and more than 10% of its issued share capital. As both the weightings and percentage of shares owned change over time, Kiltearn will periodically review these to ensure that we capture all in-scope companies.
- Finally, Kiltearn excluded a small number of companies on the basis that E&S risk was inherent in their businesses, but we believed that the companies' management of those risks was reasonably satisfactory

This left Kiltearn with seven companies: three oil majors, a German automobile manufacturer, a Japanese manufacturing company (now sold), a Japanese cement company and a Taiwanese manufacturing company. We made progress on these engagements throughout 2022 and 2023. For examples of the progress so far, please see the Annual Engagement Disclosure (Appendix 5).

We reran the parameters across the portfolio in late 2022. This introduced four additional companies: a Dutch multinational chemical company, a Hong Kong-based multinational conglomerate, a US industrial technology company (now sold) and a US technology conglomerate. We made progress on these engagements throughout 2023. For examples of the progress so far, please see the Annual Engagement Disclosure (Appendix 5).

The areas of discussion and engagement with companies on E&S have typically included:

(i) producing suitable environmental disclosures (including TCFD reporting);

(ii) having carbon emissions targets verified by third parties (such as The Science Based Target initiative (SBTi));
(iii) having suitable board oversight of the execution of strategies intended to meet target levels of carbon emissions or other ESG-focused targets;
(iv) linking executive remuneration to the prospective positive financial outcomes of those targets;
(v) disclosure of internal carbon prices;
(vi) investment into sustainable products and services; and
(vii) labour practices and supply chain oversight.

Objectives

The objectives for an engagement are set following a discussion between the member of Investment Team covering the portfolio company and the Head of Sustainability & Corporate Governance. The input from members of the Investment Team ensures that the agreed objectives are informed by the profile of the company. The input from the Head of Sustainability & Corporate Governance ensures that the objectives are consistent with those being used by Kiltearn for similar engagements and are precise in nature, to the extent practicable.

'Run in the Interests of Public Shareholders' Example
Kiltearn set objectives and communicated these to a Japanese specialist chemical company via a formal letter. The objective for the company was, by April 2023, to set out a plan to:

- increase its dividend payout ratio;
- set a repurchase programme target (we believe 10% of outstanding shares in a fiscal year is reasonable);
- cancel all treasury shares;
- disclose all cross-shareholdings and a timeframe over which they will be sold;
- set a return on equity target (we suggest >10%); and
- cancelling its "poison pill" provision; and
- improve board independence by adding qualified independent directors with no existing ties to the company or reducing the number of executive directors on its board.

The company has taken some action since our letter, including the removal of the "poison pill" provision. We are scheduled to have a follow-up call with the company in February 2024 to discuss its capital allocation plan.

E&S Example
Kiltearn set an objective and communicated it to a Dutch multinational chemical company. 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 its 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.

Approach for Different Funds

Kiltearn's approach is consistent across all commingled funds and separate accounts.

Approach for Different Asset Types

This is not applicable. Kiltearn only manages equities on behalf of Clients.

Approach in Different Geographies

In markets such the UK, the US and the EU, Kiltearn typically instigates engagement via a meeting with the company. For less material issues, companies in these markets tend to be relatively open to informal engagement and making incremental improves to their practices. For material issues, Kiltearn is likely to follow up with a formal letter to the company's board. Evidence suggests that it takes one and a half years, on average, and two to three engagements before such interventions are successful. We therefore accept that patience and appropriate escalation are required before we see tangible success in this area. As discussed in Kiltearn's response to Principle 10 and Principle 11, collaboration or escalation may be necessary.

In markets such as Japan and South Korea, companies tend to be governance laggards, and the quality of their engagement is poor. As a result, Kiltearn tends to have a more formal and structured approach to engagement with these companies. Once an issue has been identified, Kiltearn will write to the relevant company's board and set out:

✓ its concerns;
✓ where the company sits relative to its peers;
✓ Kiltearn's suggested action to address the issue;
✓ a timeline for putting a publicly disclosed action plan in place; and
✓ Kiltearn's future actions if the issue is not adequately addressed.

If the company fails to address these concerns, Kiltearn will escalate the issue. For details of escalation in relation to Asian companies, please see Kiltearn's response to Principle 11.

Actions

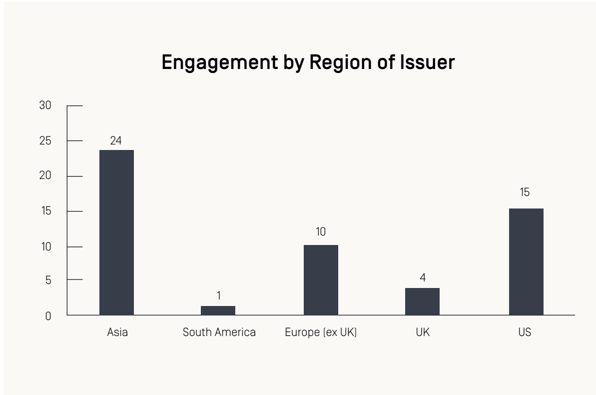
A summary of the Sustainability & Governance Group's engagement and monitoring activities with portfolio companies during 2023 is included in the tables and graph below:

Engagement Types*	Number of Votes
Proxy Voting and Governance Principles	20
Email Exchanges	8
Calls	17
Formal Escalation Letters	5
Public Support for Shareholder Proposals	2
Shareholder Proposals	2

*These numbers do not include interactions by members of the Investment Team as part of investment research and/or their monitoring efforts.

Engagement by Kiltearn Categories*	
RIPS (Governance)	50
E&S	26

*~61% of engagments included elements from both of Kiltearn's categories.



Outcome

A summary of Kiltearn's material engagement activities throughout 2023, including its collaborative efforts and escalated issues, is included in its Annual Engagement Disclosure (see Appendix 5).

Principle 10
&
Principle 11

Principle 10 –

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Kiltearn prefers to engage with portfolio companies on an individual basis; however, subject to regulatory restrictions, conflicts of interest and acting-in-concert restrictions – and where it is in the best interests of our Clients to do so – Kiltearn will participate in collaborative engagement activities. These are considered on a case-by-case basis and addressed in the context of the economic environment and other business issues.

Outcome

Examples of Kiltearn's collaborative engagement are included in the section of its Annual Engagement Disclosure entitled 'Collective Engagement' (see Appendix 5).

Principle 11 –

Signatories, where necessary, escalate stewardship activities to influence issuers.

Meetings and other communications with portfolio companies provides Kiltearn the opportunity to discuss matters of a material nature. Kiltearn prefers to keep these discussions private and confidential as this enables it 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 escalating the issue to influence portfolio companies.

Broadly speaking, for escalation purposes, Kiltearn categorises potential issues into three risk categories based on the likelihood of the potential for the material depreciation of Clients' capital or reputational damage.

Low Risk

Issues categorised as 'low risk' will typically be raised during routine calls, meetings or correspondence with the company. Kiltearn will vote accordingly at AGMs. No further escalation is required in ordinary circumstances. If the company continuously and consistently fails to address the issue, Kiltearn may wish to have a call or meeting with the head of the relevant board committee.

Medium Risk

Issues categorised as 'medium risk' will typically be raised during issue-specific calls with relevant member of the board, executive management or investor relations. Kiltearn will typically follow up with a formal letter addressed to the company's board. Any formal request should include a sensible timeframe for addressing the issue and note that perceptible progression towards the long-term goal will be looked upon favourably and reflected in our votes at the company's AGMs. Further, if the company does not adequately address the concerns, Kiltearn may vote against relevant board members when they are up for re-election.

Finally, at this stage, it would be reasonable for Kiltearn to have a call or meeting with the company's chair and/or senior non-executive director specifically to discuss the issue. Kiltearn may also look to express its concerns to the proxy-research providers with the intention of influencing their discussions with the company.

	Risk Category		
Category	Low	Medium	High
Auditor	Excessive tenure Replacement without explanaation Excessive fees	Reputational damage	
Dividends			Excessive pay-out Low pay-out
Board	No annual elections Inadequate information on composition Attendance Over boarding Excessive tenure of non-executives	Inadequate mechanism for removal Inadequate response to material votes Insufficient independence	Combined CEO and Chairman
Remuneration	Use of TSR as a measure	Structure Correlation to value creation Justification for levels and increases Executive share awares and ownership Remuneration targets Retention grants "Claw-back" provisions	
Capital Structure	Issuance with pre-emptive rights	Issuance without pre-emptive rights Price of issued shares Dilution Market repurchases	
Capital Allocation	Simple majority voting	Voting rights Takeover defences	Inadequate ROE M&A Excessive leverage Excessive net cash/investments Posion Pills
Sustainability			Practice below market standard Practice below regulatory standard
Activisits			Proposal plan
Investment Issues			Performance Strategy Operational practices Financial practices

High Risk

Issues categorised as 'high risk' will typically be raised during issue-specific calls with relevant member of the board, executive management or investor relations. Kiltearn will typically follow up with a formal letter addressed to the company's board. Any formal request should include a sensible timeframe for addressing the issue and note that perceptible progression towards the long-term goal will be looked upon favourably/ will be reflected in our votes at the company's AGMs. Further, if the company does not adequately address the concerns, Kiltearn may vote against relevant board members when they are up for re-election.

At this stage, it would be reasonable for Kiltearn to have a call or meeting with the company's chair and/or senior non-executive director specifically to discuss the issue. Kiltearn may also look to express its concerns to the proxy-research providers with the intention of influencing their discussions with the company.

If the company's response continues to fall below an acceptable standard, it would be reasonable for Kiltearn to consider engaging with other investors – either through a private 'exchange of views' or, where appropriate, publicly through an open letter to the company and/or press release. If other investors are supportive of Kiltearn's position, it would likely increase pressure on the company to put plans in place to address the issue. Additionally, if another stakeholder makes a public statement, Kiltearn may consider it reasonable to support the statement publicly. It is worth noting that it is unlikely to be appropriate to make a public statement if such a statement may increase the market's concern about the company and, consequently, potentially accelerate its decline. Further, a public statement is more likely to be effective where Kiltearn's Clients' collective ownership of the company's outstanding shares is significant (>5%/a top 20 shareholder).

Finally, where Kiltearn's other efforts have failed to gain traction with the company and/or Kiltearn Clients' holding in the company is 'material' (>10%), Kiltearn may consider looking into the process for submitting an AGM/ EGM resolution proposing the introduction of a formal plan to address the issue.

It is worth noting that the correct means of escalation in any given situation will be highly dependent on the facts and circumstances. Kiltearn's approach will consider a multitude of factors, including, but not limited to, (i) the percentage of a company owned; (ii) previous interactions; (iii) company performance; (iv) holding period; (v) weighting in the portfolio; and (vi) the jurisdiction of the company.

Where a portfolio company does not address 'medium risk' or 'high risk' issues to Kiltearn's satisfaction following sustained engagement efforts including escalation, Kiltearn may determine that it is in the best interest of Clients to allocate their capital elsewhere.

Approach for Different Funds

Kiltearn's approach is consistent across all commingled funds and separate accounts.

Approach for Different Asset Types

This is not applicable. Kiltearn only manages equities on behalf of Clients.

Approach in Different Geographies

As noted in its response to Principle 9, Kiltearn's approach to engagement does vary based on the jurisdiction of portfolio companies. In Kiltearn's experience, companies in the UK, the US and the EU tend to be more open to meaningful engagement. Companies in Japan and South Korea do not tend to be as open to engagement and, when they do engage, it is often of low quality. This means that Kiltearn's approach to escalation is different for Japanese and South Korean companies. Issues tend to be escalated quicker. For example, we are more likely to vote against senior executives and, in some cases, entire boards at these companies at an earlier stage in the engagement process. Further, as noted above, we did bring shareholder resolutions at a Japanese company's AGM and publicly supported shareholder proposals in 2023. We also put several Japanese companies on notice that we may target their AGMs in the future. We took these actions even though our Clients' collective holding in Japanese companies are well below the 10% threshold used in other markets. We believe this approach is becoming more common across the industry as asset managers seek to force Japanese companies to put certain issues on their board agendas and, if they persist in shareholder-unfriendly practices, risk the embarrassment of significant votes in favour of such proposals.

Escalation Example

Examples of Kiltearn's escalation during the period are included in the sections of its Annual Engagement Disclosure entitled 'Japanese Manufacturing Company' and 'Japanese Securities and Alarm Company' (see Appendix 5). Finally, as discussed under Principle 4 above and in the section of its Annual Engagement Disclosure entitled 'Japanese Materials Company' (see Appendix 5), in 2023, we introduced our first shareholder resolutions at the company's AGM. The resolutions were aimed at improving shareholder returns. As part of this process, we discussed the issues raised with the company and engaged with other stakeholders on the issue.

Principle 12 –

Signatories actively exercise their rights and responsibilities.

Approach for Different Funds

Kiltearn's approach is consistent across all commingled funds and separate accounts.

Approach for Different Asset Types

This is not applicable. Kiltearn only manages equities on behalf of Clients.

Approach in Different Geographies

As noted in our response to Principle 8 above, Kiltearn uses set of globally applicable principles for its proxy-voting decisions (see Kiltearn's Proxy Voting and Governance Principles in Appendix 2). However, Kiltearn's Clients' assets are invested in companies in a wide range of jurisdictions. These various jurisdictions have their own market standards, as in the following examples:

- In the US, executive remuneration is high, targets attached to those incentives are not always challenging, and companies tend to have long-serving non-executive directors. US companies also tend to lag their European and Asian peers in setting stretching sustainability targets. The roles of CEO and chairperson are frequently combined.
- Nordic companies tend to have progressive sustainability practices. However, their pay practices can be opaque, and their non-executives often sit on a high number of outside boards.
- Our French companies tend to be majority owned by founder families. Boards usually include several members of the family – sometimes in key positions – and may not be majority independent. The roles of CEO and chairperson are frequently combined. Executive remuneration tends to be relatively modest by global standards, but disclosure practices around the determination of the level of remuneration is frequently poor. French companies generally do not have clawbacks in place relating to executive bonuses.
- German companies have a dual-board structure, with a management board and supervisory board. Workers can hold a significant number of seats on the supervisory board. Positively, this can ensure workers' rights are suitably protected. Negatively, it can lead to significant resistance to changes that management deems necessary to compete in evolving markets.
- Hong Kong companies tend to have many long-serving non-executives, and they favour political influence over independence. Board diversity is frequently poor for similar reasons.
- Japan companies frequently have majority non-independent boards. In fact, only ~18% of Japanese listed companies have majority independent boards. Board diversity is frequently poor due to a small pool of female candidates in Japan. Directors considered independent by the companies often have existing business relationships with the companies or similar conflicts. Independent directors are frequently government officials or academics rather than individuals with relevant experience. Companies often continue to maintain archaic practices such as 'poison pills' and excess cross-shareholdings. Company disclosures tend to be poor, although executive remuneration is typically modest and sustainability practices are often progressive.

Kiltearn frequently votes against managements' proposals if they relate to practices that Kiltearn deems unacceptable in the context of its globally applicable standards, irrespective of the standards in companies' home jurisdictions. However, Kiltearn will also take a more pragmatic view where companies are making incremental improvements relative to global best practice or where companies actively engage with Kiltearn on the issues and provide reasonable justifications for existing practices. For example, Kiltearn will support a non-majority independent board at a Japanese company – all other things being equal – if the board's independence has improved year-over-year. Equally, Kiltearn may support the re-election of a chairperson that it would consider over-boarded on quantitative metrics if the chairperson or company engages on the matter and provides sufficient assurance that the individual can dedicate sufficient time to the role – both in ordinary and stressed situations.

Share Monitoring

Kiltearn's Administration Group monitor the firm's shares and voting rights through ISS's platform. The platform details information such as:

- the nature of the meeting;
- the number of votable shares both by Client and in aggregate;
- meeting dates;
- the electronic cut-off dates for voting;
- whether share blocking is relevant;
- the proposer of each balloted item;
- management's recommendation for each

balloted item; and

- whether Kiltearn has entered its voting instructions.

Once Kiltearn's votes have been determined internally, in accordance with the process described in Proxy Voting Policy (appendix 1), the votes are instructed and approved in ISS's platform. The votes are instructed by one member of Kiltearn's Administration Group and approved by a second member.

Kiltearn's Administration Group sends regular updates to the Sustainability & Governance Group on upcoming votes periodically and weekly during busy periods (typically April through June).

Decision-making Process

As noted above, in addition to reviewing Kiltearn's Proxy Voting and Governance Principles (see Appendix 2), Kiltearn's proxy-voting process involves the Sustainability & Governance Group reviewing a company's materials and our own investment research. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS's proxy-voting research. ISS is one of the two leading providers of proxy-voting research. Following the review, if we determine that there is a concern of a material nature, we request a call with the company in question. There are also occasions where companies request calls with Kiltearn. These usually follow a recommendation by one of the proxy-voting research providers to vote against an executive's pay or where Kiltearn's Clients hold a material stake in the company.

Voting Activity

A summary of Kiltearn's material voting activities throughout 2023 is included in its Annual Engagement Disclosure (see Appendix 5).

A summary of Kiltearn's 2023 voting activity is included in the table below:

Meetings Kiltearn voted at*	80
Resolutions Kiltearn voted on	1156
% of Resolutions where Kiltearn voted with Management	79%
% of Meetings where Kiltearn voted against Management at least Once	74%
% of Resolutions where Kiltearn voted contrary to the Recommendation of ISS	18%
% of Meetings where Kiltearn voted contrary to the Recommendation of ISS at least Once	71%

*Kiltearn did not vote at Bank of Ireland's meeting due to share blocking concerns. Kiltearn voted at all other company meetings.

On each occasion, Kiltearn deemed 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's recommendations where it believed those recommendations were in conflict with the firm's Proxy Voting and Governance Principles (see Appendix 2).

A summary of Kiltearn's votes against management's recommendations on management's proposals is included in the table below

Votes against Management on Management Proposals	Number of Votes
Appointment of Auditor	31
Election of Director/Chairman/ Comp Committee Members	123
Issuance of Capital above KP limit	27
Compensation/Remuneration Policy	12
Other	10
Total	203

A summary of Kiltearn's votes in favour of shareholder proposals and against management's recommendations is included in the table below:

Votes against Management on Shareholder Proposals	Number of Votes
Environmental	4
Social	4
Governance	31
Total	39

Following their AGMs, companies may enquire why Kiltearn voted against certain proposals. Other companies may enquire how Kiltearn intends to vote and why before their meetings. In these circumstances, Kiltearn provides responses to such requests.

Kiltearn provided unsolicited feedback to some companies before or after voting at their meetings. For example, Kiltearn:

✓ requested that a US bank to make its executive-compensation determination processes more objective;

✓ noted to a US airline that it would be voting against the re-election of number of long-tenured non-executive directors due to concerns about their independence; and

✓ requested that two South Korean companies add independent directors with relevant industry experience.

Voting Records

Unitholders and separate-account clients (if any) can receive quarterly summaries of proxies voted by contacting Kiltearn's Client Services representatives and asking to be included on the quarterly proxy-voting-summary distribution list. Further, Kiltearn retains the detailed rationale for every voting decision it makes for its internal records. An example is included in Appendix 4. These documents are retained and are an input into Kiltearn's investment research. Further, detailed rationale for Kiltearn's votes is available to unitholders and separate-account clients (if any) on request.

We are aware that the FRC would prefer signatories to publicly disclose all proxies and marked it as an area that 'needs improvement' in Kiltearn's 2020 and 2021 reports. However, as Kiltearn runs a concentrated portfolio on behalf of Clients, to protect the integrity of Kiltearn's investment programme and its Clients' best interests; it is Kiltearn's general policy not to publicly disclose information about securities held in its Clients' portfolio, except where required by law or regulation. This policy extends to the quarterly proxy-voting summaries. Kiltearn has no impending plans to change this policy.

Security Lending

Kiltearn does not engage in any security-lending transactions on behalf of its Client. It is worth noting, however, that separate-account clients themselves may cause their accounts' custodians to lend securities held in their accounts or engage in any security-lending transactions on their behalf. In such circumstances, the separate accounts may suffer losses or a diminution in value of the assets held in the accounts because of defaults or collateral investment losses on custodian security-lending portfolios. Separate-account clients at their own risk undertake all such activities. Kiltearn accepts no responsibility and has no liability in relation to such arrangements.

Fixed-Income Assets

Kiltearn does not invest in fixed-income assets on behalf of Clients.

Client Overrides

Kiltearn has an overriding duty to act in the best interests of Clients when voting proxies. Not all unitholders in Kiltearn's commingled fund may share the same view, and some may hold opposing views. As a result, Kiltearn does not permit unitholders to override its voting decisions or policies. Kiltearn managed assets on behalf of two separate-account clients until 2022. Both separate-account clients redeemed during 2022. One of the two clients voted its own shares. Kiltearn was obligated to vote the other separate-account client's shares (other than shares of companies in its home jurisdiction). Under the investment-management agreement with the client, if the client had directed Kiltearn how to vote its shares at a portfolio-company meeting (effectively having the potential to override Kiltearn's voting decisions and policies), Kiltearn would have been required to use its reasonable endeavours to implement that direction. The separate-account client never directed Kiltearn how to vote its shares during the relationship.

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

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

Murdoch Murchison
Chairman and Chief Investment Officer

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII). January 2024

Appendix 1

Appendix 1
Proxy Voting Policy and Procedures

Kiltearn Partners LLP (Kiltearn) consider it to be of paramount importance when assessing proxy-voting responsibilities on behalf of its privately offered commingled funds and separate-account clients (collectively defined as Clients) to recognise the fiduciary responsibility it assumes in acting as investment manager. Kiltearn also recognises the need to exercise its proxy-voting obligations with a view to enhancing its Clients' long-term investment value. 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) considerations of social and corporate responsibility.

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 US 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. To mitigate the risks of such potential conflicts, as described below, all proxy votes are reviewed and signed off by two (2) authorised persons.

The Northern Trust Company (Northern Trust) acts as the custodial trustee/global sub-custodian for Kiltearn's privately offered commingled funds and holds all securities owned by these commingled funds for the benefit of their unitholders. Northern Trust has outsourced certain of its proxy-processing responsibilities to Broadridge, a leading provider of proxy-voting services. Broadridge provides ballot information to ISS's 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 forwards the

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 forward the materials to Kiltearn's Sustainability & Governance Group. A member of Kiltearn's Sustainability & Governance Group will review proxies. The reviewing member will also be an authorised person. The authorised person will make initial decisions as to how to vote the balloted items. For investment-specific issues (for example, mergers and other corporate restructurings), input will be sought from Kiltearn's Investment Group. A second authorised person will then review the initial decision and the rationale for the decision. The second authorised person will verify and confirm, via email, that they believe that the first authorised person's voting instructions are consistent with Clients' best interests. 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) when Northern Trust or its agent, in error, does not process a proxy or provide sufficient notice of a vote; or (iii) when 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) the costs of voting a specific proxy outweigh the economic benefit that Kiltearn believes would be derived by the Client; (iv) 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) 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 (if any) generally name their own custodians, who may have different proxy-voting processes and limitations in relation to those processes.

Unitholders and separate-account clients are advised that when voting proxies in certain markets, Kiltearn may be constrained by certain country or portfolio company-specific issues. For example, some companies in the portfolio impose voting caps on the maximum number of proxy votes that any single outside shareholder may control. Others require all board issues to be resolved by a show of hands rather than a poll. As one nominee may hold all shares, these restrictions have the effect of substantially limiting the impact of any proxies cast. Furthermore, some companies in the portfolio may restrict Kiltearn from voting proxies where disclosures of holdings or securities under their control have not been made on a timely basis or in a format required under their articles of incorporation.

Additional information on Kiltearn's proxy voting and corporate governance policies can be found in the Stewardship Code Statement on Kiltearn's website (www.kiltearnpartners.com). 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.

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII). January 2024

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 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 majority independent to ensure that the board is capable, and motivated, to supervise management's performance and remuneration, for the benefit of all shareholders.

Definition of Independence

Kiltearn notes that related parties, such as controlling shareholders (including individuals related to or a representative of a parent company), individuals with previous or current business relationships with a company and family members of officers or employees, are not impartial. They cannot be considered independent and are unlikely to protect the interests of shareholders. These parties are unsuitable candidates for independent directors. Kiltearn also believes that the independence and impartiality of a director is put at risk when they have served on a board for an extended period of time. As a result, where a non-executive director serves on a board for a period longer than fifteen years, Kiltearn will determine that the director lacks the desired level of objectivity and consequently will no longer consider the director to be independent.

Independent Directors' Experience and Backgrounds

Kiltearn believes that independent directors should have the necessary knowledge, skills, professional expertise and experience to oversee companies and effectively represent the interests of shareholders. Further, Kiltearn believes that a company's board functions best when it is suitably diverse – in terms of each director's professional and educational background, gender, race, age, life experience and personal attitudes. Such diversity can help to minimize the risk of 'groupthink', offer suitable challenge to management, improve risk management and represent the interests of minority shareholders.

Kiltearn believes that initiatives to promote diversity throughout organizations will, in time, increase the depth of the pool of high-quality candidates for independent director roles at listed companies.

Attendance and 'Over-boarding'

Kiltearn expects each of the company's directors to attend 75% of the board and relevant committee meetings each year and limit the number of positions they hold on the boards of other companies. Kiltearn will not support the election or re-election of a director where Kiltearn determines that the individual holds too many positions on boards. When making such a determination, Kiltearn may consider the complexity and regulatory environment of the company and the other companies, the positions held by the individual on the respective boards – Kiltearn would not expect an executive or chairman to hold more than one external non-executive directorship, without providing significant justification for holding the external position – and external proxy voting service providers' "over boarding" policies.

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 period 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 chair of the board.

Committees

A board should establish independent committees that focus on key governance concerns such as audit, executive remuneration, and the selection and evaluation of directors.

Audit Committee

A company's audit committee should be composed of a majority of independent directors to ensure there is suitable separation between the individuals responsible for running the company's business and those responsible for the oversight of the company's financial reporting and disclosure process. Kiltearn expects an audit committee to be chaired by an independent director – other than the chair of the board – with appropriate professional qualifications or accounting/fiscal 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. 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.

Clawback 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 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 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

Kiltearn believes that the sustainability (or otherwise) of a company's business model, products and practices has material implications for its intrinsic value and long-term return potential. As a result, Kiltearn

believes that a company's governance, social, and environmental practices should meet or exceed the regulatory standards and customary 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. To support shareholders' assessments in this regard, Kiltearn requests that each portfolio company publishes, and regularly updates (where applicable):
ly updates (where applicable), the following:

(i) a report that is consistent with recommendations of the TCFD – including scenario analysis, emissions and similar climate-change data and targets used to manage climate-related risks and opportunities (if any);

(ii) carbon emissions (Scope 1, 2 and 3);

(iii) carbon emission intensity (Scope 1, 2 and 3);

(iv) carbon footprint (Scope 1+2/value invested);

(v) weighted average carbon intensity (Scope 1+2/value sales);

(vi) whether a net-zero target exists and the extent of operations it covers, along with the pathway and near- to medium-term milestones;

(vii) whether the company has an internal carbon price and, if so, what it currently is and whether it will be increased over time;

(viii) whether there is existence of externally verified targets (e.g., by the Science Based Targets initiative (SBTi));

(ix) data on non-renewable and renewable energy consumed and/or produced;

(x) information on sites/operations located in or near to biodiversity sensitive areas where its activities of negatively affect those areas;

(xi) data on pollutants produced, including its hazardous waste production;

(xii) data on its water consumption, including intensity;

(xiii) proportion of revenue and profits derived from sustainable products/services;

(xiv) proportion of investment (R&D, capex) dedicated to sustainable products/services;

(xv) use of sustainability-linked financing;

(xvi) link between sustainability and executive remuneration;

(xvii) whether there is board oversight and accountability for achieving sustainability targets;

(xviii) information on the company's policy for monitoring its compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises and its grievance/complaints handling mechanisms relating to the same;

(xix) information on any violations the UNGC principles or OECD Guidelines for Multinational Enterprises involving the company;

(xx) data on its unadjusted gender pay gap;

(xxi) its rate of accidents among employees and workers;

(xxii) a supplier code of conduct;

(xxiii) its rate of incidents of discrimination reported;

(xxiv) its human rights policy and its processes to monitor and reduce the risk of forced labour or child labour in its operations/supply chain;

(xxv) a report on its lobbying and political expenditure;

(xxvi) its anti-corruption and anti-bribery policies; and

(xxvii) any other information regarding its governance, social and environmental practices that is likely to be of interest to its shareholders.

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

This policy meets the requirements of an 'engagement policy' under the amended EU Shareholders' Rights Directive (SRDII). January 2024

Appendix 3
Responsible Investment Policy

Responsible Investment Approach

At Kiltearn Partners LLP (Kiltearn), our approach to responsible investment is rooted in our broader investment philosophy and process. This document sets out the core beliefs that underpin our approach to ESG integration and stewardship and places these elements within the wider context of our investment approach.

Our Investment Philosophy

Kiltearn offers a single global equity programme, managed with a disciplined value investment philosophy.
Kiltearn's value philosophy is focused on fundamental business valuation. Stock-market values tend to fluctuate to a greater degree than underlying business values. Kiltearn's focus is on business values and, in particular, intrinsic value, which it defines as the assets, earnings and dividends that a company delivers to the investor over time. Kiltearn seeks to maximise intrinsic value by focusing on the price paid to own a piece of a business and the quality of that business. Kiltearn focuses its resources on fundamental analysis of individual companies that are valued within the bottom quartile of the market. Through disciplined and methodical research, and regular and methodical rebalancing of the portfolio towards undervalued stocks, the long-term intrinsic value of the portfolio is compounded.

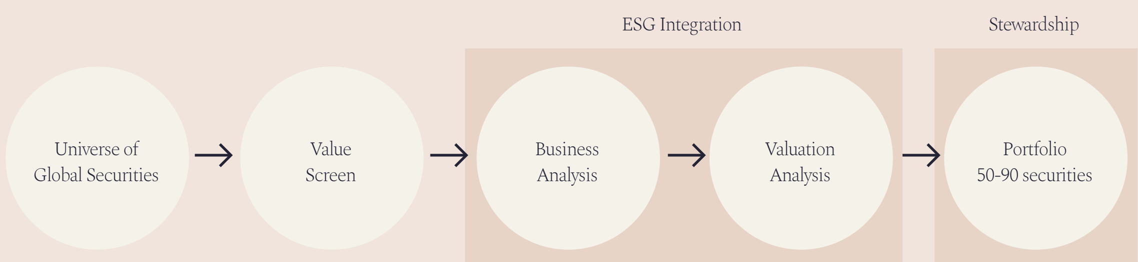
Kiltearn believes that the relevant period for assessing our abilities is three to five years. Individual stocks are purchased in the portfolio with this holding period in mind, as it frequently takes time for the value opportunity to be realised.

Responsible Investment at Kiltearn

At Kiltearn, we view responsible investment as the practice of systematically assessing issues of companies' sustainability within our investment process and encouraging those companies to improve their practices over time, with the aim of delivering attractive returns for clients over the long term. The sustainability (or otherwise) of a company's business model, products and practices has material implications for its intrinsic value and long-term return potential.

Our approach has two pillars:

- **ESG integration:** the explicit and systematic assessment of material ESG factors in our investment process.
- **Stewardship:** active stewardship of clients' capital through voting and company engagement. engagement.



ESG Integration

What is 'ESG'?

Environmental, social and governance considerations are collectively referred to as ESG factors. Combined, these factors can paint a picture of how a company interacts with a broad range of stakeholders, including its customers, suppliers, employees, lenders and equity holders, as well as the natural environment and society in which it operates. Common considerations are outlined below, but the relevance varies between regions, industries and business models.

Environmental
Exposure to energy transition Greenhouse-gas emissions Energy and resource usage Waste and water management
Social
Employee diversity and welfare Product and operational safety Supply-chain oversight Relations with local society
Governance
Board structure and independence Incentive structures Shareholder rights Disclosure practices

ESG data is typically considered 'non-financial' information and is often disclosed separately from accounting data because there are no uniform and enforceable reporting standards in most regions. While there are some quantifiable metrics, ESG data can also be highly qualitative and hard to measure consistently across companies.

Why do we integrate ESG factors into the investment process?

ESG considerations can have a material impact on a business's intrinsic value. Increasingly ESG factors such as the global transition towards more sustainable energy sources and improving labour-practice requirements are a source of long-term structural change. These considerations are shaping the capital-allocation decisions, regulatory environment and competitive dynamics of the companies in which we invest. Systematically exploring these considerations provides a more comprehensive assessment of factors including, but not limited to, the following:

- *Investment risk:* Preservation of capital is an important component in delivering a superior long-term return. Inadequate ESG practices and policies can lead to inefficiencies, operational disruption, litigation and reputational damage for companies. Robust ESG practices can mitigate these risks and enhance business quality.

- *Asset quality:* Assessing ESG factors can also provide a more comprehensive lens through which to assess the quality of intangible assets, which have reached record-high levels (~70% of book values for the S&P 500) in recent years. The value of intangible assets is often tied to brands or reputation, which tend to be closely linked to the perception of how a company treats various stakeholders (e.g., customers, employees and the local community).

- *Cost of capital*: A company's exposure to and management of ESG risks can affect its formal credit rating, a key factor that influences the company's cost of and access to capital, which in turn has implications for underlying intrinsic value.

Our Approach to ESG Integration

Our approach to ESG integration is based on the following principles:

- *We consider ESG factors from a returns-focused perspective:* At Kiltearn, our focus is on generating returns for our clients over the long term. Therefore, our approach to ESG integration is also returns-focused. Our investment process is based on rigorous fundamental analysis, which is designed to assess each investment's ability to protect and grow intrinsic value over the long term in order to drive returns. We view material ESG issues as investment factors like any other, with the scope to impact business quality and intrinsic value over time.
- *We focus on materiality:* We consider ESG factors from a financial and economic perspective, focusing on areas that have a high probability of materially affecting a company's intrinsic value. The impact of material ESG factors can be positive or negative, reflecting risks or opportunities.
- *ESG considerations are not necessarily investment constraints:* We do not view ESG factors as investment constraints. As value investors, we see opportunity in out-of-favour companies, including those facing ESG challenges. As long-term investors, we have scope to benefit as these companies better position themselves for sustainable value creation over time. As active stewards, we can support these efforts through engagement and voting. A weak starting point may be acceptable provided there is a credible plan for improvement.
- *ESG factors can be opportunities for intrinsic value growth.* Where companies have robust ESG practices and/or are positioned to benefit from changing ESG dynamics such as rising environmental standards or labour practices, this can contribute a positive skew to business quality and intrinsic-value growth.

Our ESG Integration Process

- In keeping with our view that ESG considerations should not be viewed as constraints, we do not apply exclusionary filters at the screening stage of our process.
- ESG factors are instead integrated into both our assessment of business quality and valuation.

Business Analysis: We employ an evidenced-based approach to assessing business quality. Areas of focus include balance-sheet strength, cash-generation characteristics, ROIC and management's capital-allocation decisions. Within this framework, we seek to consider ESG factors: identifying relevant and financially material considerations based on a company's industry and business model. Areas of focus include, but are not limited to, the following:

- Energy transition and environmental impact
- Product safety and consumer protection
- Supply-chain management and oversight
- Labour relations and employee welfare
- Board structure and executive compensation

Where an issue has been deemed potentially material, we consider 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 ESG factors is aided, but not dictated, by specialist third-party ESG 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 ESG credentials can enhance our overall assessment of business quality while evidence of weak practices can detract.

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

Stewardship: Our Approach

At 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 sustainability and governance practices that ultimately drive value accretion for shareholders.

Kiltearn has established universal principles that set out our general expectations with respect to a company's governance practices. These principles guide – but do not restrict – Kiltearn's proxy-voting decisions and engagement priorities. These principles are sent directly to each company's board following Kiltearn's initial investment. This framework provides companies with additional context around the drivers of our votes and lays the foundation for future engagement. These are some examples of the key principles:

- A sound balance sheet. Kiltearn expects a company to give due consideration to regulatory capital requirements, business-cycle issues and free-cash-flow characteristics. A company should not excessively leverage its balance sheet. Conversely, a company should not hold excessive net cash or investments on its balance sheet that are potentially dilutive to shareholders.
- A sensible and disciplined approach towards M&A. Any proposed M&A should be able to earn a return above the cost of capital.
- A company's shareholders should not be put at undue risk of dilution. Share issuance should be modest in scale and generally offer pre-emption rights to existing shareholders.
- Executives' remuneration should align their long-term interests with those of shareholders.
- A sufficiently independent board to ensure that it is capable and motivated to supervise management's performance and remuneration, for the benefit of all shareholders.
- Shareholders should be afforded meaningful rights in respect of structural provisions, such as approval of, or amendments to, a company's corporate governing documents and a vote on takeover defences.
- A company's social and environmental practices should meet or exceed the regulatory standards and general practices of the markets in which it operates.
- Finally, in the interests of transparency and uniformity of reporting, companies should report certain data on their environmental impact and policies (including TCFD reporting), certain social factors, worker safety and governance practices.

Companies held in Kiltearn's portfolio may not always exhibit some of the preferred characteristics enshrined in the principles. Consequently, Kiltearn takes each company's facts and circumstances into account when voting proxies and engaging with management.

Engagements with companies, outside of discussions of matters to be voted on at meetings, are typically instigated by the Sustainability and Governance Group at the request of the Investment Team. However, Kiltearn also engages with other stakeholders at their request.

We accept that patience and appropriate escalation are required before we see tangible success in this realm.

Voting: Kiltearn recognises proxy voting as both its fiduciary responsibility as an investment manager and an opportunity enhance the value of its clients' investments over the long term. Kiltearn has a robust process for evaluating and executing proxy votes. In addition to our governance principles, Kiltearn's proxy-voting process involves our Sustainability and Governance Group reviewing a company's materials and our own investment research – with a particular focus on the 'able and honest management', 'run in the interests of public shareholders' and E&S categories. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS's proxy-voting research. ISS is one of the two leading providers of proxy-voting research.

Internal Structures

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

Sustainability & Governance Group: As noted above, Kiltearn has a Sustainability & Governance Group that sets out our governance principles, is responsible for proxy voting and lead company engagement. This group consists of the Head of Sustainability & Corporate Governance/CCO, two members of the Investment Team and a member of Investment Administration

ESG Integration Spearhead: Kiltearn believes it is essential for the investment process to be 100% investor led. A member of the Investment Team spearheads integration efforts to ensure that ESG factors are evaluated and assessed within the same framework as traditional financial and economic considerations. All members of the Investment Team engage in research, analysis and assessment of ESG factors as part of the wider investment framework and decision-making process.

See below for ESG Resources.

ESG Resources:

Company Research and Reports	Specialist ESG Research	Sell-side Research	Other
Annual Reports Non-financial Disclosures Company Meetings	MSCI ESG Ratings MSCI Climate MSCI Controversies ISS Governance and Proxy Voting	Industry-level Themes ESG Specific Materiality Matrices	NGOs Press Reports Credit Rating Agency Commentary

Appendix 4

Proxy-Voting Example

French Multinational Oil & Gas Company – Deadline: 23 May

Please vote in line with the below.

Shareholder Proposal

Vote against Item A (*with management but against ISS*) Item A is a shareholder proposal filed by a consortium of shareholder representing 1.4% of the company's ISC. The proposal asks the company to align its 2030 Scope 3 reduction targets with the Paris Agreement (limit warming to well below 2°C).

Filers' views: The filers suggest that the company is not Paris aligned as it does not have an absolute Scope 1, 2 and 3 2030 target. The filers suggest setting such a target is in the best interests of the company as it will position it to pursue the opportunities the energy transition presents; this will also pre-empt risks of abrupt policy interventions, litigation, liability for the costs of climate change, disruptive innovation and stranded assets.

The company's views: The company suggests that the proposal provides no credible answer to the concept of reducing emissions. The company notes that it is the reduction of Scope 1 emission of customers in carbon-intensive industries which matter. It is a demand, rather a supply issue. The company notes that setting the target without an overall reduction in demand would simply shift demand to national oil companies. The company also argues that it would impact energy security and hindered the financial capacity necessary to lead transition. The company's 2030 targets include: (i) a reduction of at least 40% of net emissions compared to 2015 for its operated activities (Scope 1 & 2); (ii) reduce Scope 3 GHG emissions from the petroleum products sold by >40%; & (iii) reduce the lifecycle carbon intensity of energy products used by customers by >25%.

ISS Conclusion: ISS suggests supporting on the basis that the company's 2030 targets are not Paris aligned and it is advisory so does not infringe on strategy.

Kiltearn Conclusion: As the company states, 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. Further, it is questionable whether Paris-alignment should be applied at a company level, as it was intended for countries and not corporations. Finally, the company is committed to an ambitious amount of capital expenditure into renewables, with a target energy mix of 25% in hydrocarbons, 25% in bioenergy and 50% in renewables by 2050. Through 2030, the proposed energy mix is 30% to petrol products, 50% to gas and 20% to low-carbon energies. This 2030 mix seems sensible, given that gas is a transition that will reduce net emissions of countries (typically developing) that currently rely heavily on coal (for example, India and Vietnam). Gas is also necessary given that renewables are intermittent and limits on battery capacity for storage. Too rapid a move away from hydrocarbons risks issues with energy security and development in the developing world. As we have previously seen (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 shareholders 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. Support for the proposal is consequently not warranted.

Vote all other items in favour.

Notes:

- The board is 43% female (6/14). The average was 62. Average tenure is five.
- Item 4 relates to the authority to

repurchase up to 10% of the company's ISC. As of 23 March 2023, the company held 1.34% of its ISC in treasury.

- Item 6 relates to the re-election of [individual 1] as a non-director executive. She is considered non-independent due to tenure (12 years) under France-specific ISS guidelines. She is considered independent by Kiltearn (tenure of <15 years). The board is majority independent.
- Item 10 relates to the approval of remuneration report of corporate officers. This is covered in Item 12.
- Item 11 relates to the approval of remuneration policy of directors. The envelope under the proposed policy is EUR 1.95 million, up from EUR 1.75 million under the current policy. The increase reflects travel costs for the increase in non-French directors and an increased number of meetings, as opposed to increased rates per meeting.
- Item 13 relates to the remuneration policy of the chair/CEO. The weighting to measurable metrics will remain the same for the CEO's STI (78%, which is 140%/180%). Under the STI, the gearing ratio metric will be replaced by an underlying cash flow growth metric, based on variation in cash flow from operations. A clawback mechanism is being introduced. Under the LTI, the Scope 3 reduction metric will be replaced by a methane reduction metric. The max number of shares granted to the CEO under the LTI will increase from 100,000 shares to 110,000 shares.
- Item 14 relates to the approval of the company's sustainability development and energy transition plan. The company has set ambitious plans relative to other majors. It is targeting: (i) net-zero across Scope 1, 2 and 3 emissions by 2050; (ii) a 40% (u from 30% last year) reduction in Scope 3 emissions from the petroleum products it sells by 2030 (vs. 2015) & reduce the lifetime carbon intensity of energy used by customers by 25% (down from 20%); and (iii) hydrocarbons only constituting 25% of its energy mix by 2050 – with 50% in renewables. Gas will be the biggest percentage of the 2030 energy mix at 50%, as a transition energy. ISS notes that the continued near investment in oil (through 2030) is inconsistent with the IEA's net-zero scenario, which would require no new investment in oil fields.
- Item 15 relates to the authorisation up to 1% of ISC for use in restricted stock plans. The three-year unadj. burn rate is 0.26%.
- Item 16 relates to the authorisation up to 1.5% of ISC for use in employee stock purchase plans. Price must be equal to at least 70% of the trading price.
- Item 17 relates to the elimination of double-voting rights for long-term registered shares. The simplification of the share structure is a positive step.

Compensation Notes: Item 12 relates to the CEO's remuneration.

On balance: support. Financial and operational measures improved y/y. The CEO's STI award was ~61% based on financial metrics and disclosure in relation to the STI is good. The CEO's 2021 LTIP is 70% determined by financial and returns metrics.

Positives:

- Financial and operational measures improved y/y, including: revenue; net income; EBITDA; EPS, ROE and ROA.
- TSR was up. It outpaced the index/one-, three- and five-year periods. It trailed the sub-index/one year but outpaced it/ three- and five-year periods.
- The CEO's pay was 0.05% of net income.
- The CEO's STI was 61% based on financial metrics (110%/180% of base salary). The metrics were: ROE (30%/180%); gearing ratio (30%/180%); pre-dividend organic cash breakeven (30%/180%) and relative ROACE (20%/180%)
- Disclosure in relation to the financial metrics and the safety metric (20%/180%) and evolution of greenhouse gas (10%/180%) - the other measurable criteria - for the CEO's STI is good.
- 50% of shares vested under the CEO's LTI will be kept until he leaves the position.
- The CEO's 2022-2024 LTI is majority based on financial and returns metrics: relative TSR (25%); relative net cash flow/share (25%); and pre-dividend organic cash breakeven (20%). The balancing 30% is reductions of Scope 1, 2 (15%) and 3 (15%) emissions.
- Disclosure in relation to the LTI is good. Vesting scales and achievement against those scales is disclosed.

Neutrals:

- The CEO's total remuneration was up ~21% y/y. This was driven by the increase in the vesting of the LTI.
- The CEO's pay was 1.37x of the median of ISS' selected peers.
- The peer group used for the relative figures is the same peer group used by other energy majors (Exxon, Shell, BP, Total and Chevron).
- The 2019-2021 LTIP, which was split between relative TSR (33.3%), relative net cash flow/share (33.3%) and pre-dividend organic cash breakeven (33.3%), vested at 99%.
- The 2020-2022 LTIP, which was split between relative TSR (25%), net cash flow/share (25%), pre-dividend organic cash breakeven (25%) and reduction in Scopes 1 and 2 emissions (25%), vested at 100%.

Negatives:

- For the relative metrics under the LTIs, the vesting rates are high: for placing third out of the five peers, the vesting rate is 80%; for placing second out of the five peers, the vesting rate is 130%; and for placing first out of the five peers, the vesting rate is 180%. The company would likely argue – as other oil majors do - that the vesting rate for placing third is high because of the quality of the peers that the company is being measured against; placing third means that the company has finished above two high quality companies.

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

Appendix 5

Appendix 5
2023 Annual Engagement Disclosure

The Shareholder Rights Directive II requires Kiltearn Partners LLP (Kiltearn) to publish an annual disclosure on engagement, including a general description of proxy-voting behaviour and details of any significant votes, as well as use of proxy advisers. Kiltearn has determined that it will update its disclosure on a semi-annual basis in response to investor demand.

Establishment of a Sustainability and Governance Group
Kiltearn's stewardship efforts are and always have been investment-led; however, Kiltearn established a Governance Group in early 2018. The purpose in establishing the Governance Group was to put Kiltearn's approach to stewardship on a more formal and structured footing than it had previously been.

Over the previous years, Kiltearn has continued to focus on environmental and social factors in its investment process. A member of Kiltearn's Investment Team, Nell Franklin, has led this development. In 2021, to ensure that Kiltearn's stewardship activities fully integrate the Investment Team's perspective on material environmental and social issues affecting companies in the portfolio, Nell Franklin joined the Governance Group, and its remit was expanded to incorporate consideration of such matters. The Governance Group was subsequently renamed the Sustainability & Governance Group.

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

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

The proxy-voting process
In addition to reviewing Kiltearn's Proxy Voting and Governance Principles (available on the firm's website), Kiltearn's proxy-voting process involves the Sustainability & Governance Group reviewing a company's materials and our own investment research. Kiltearn also reviews, but does not necessarily follow, the recommendations of ISS's proxy-voting research. ISS is one of the two leading providers of proxy-voting research. Following the review, if we determine that there is a concern of a material nature, we request a call with the company in question. There are also occasions where companies request calls with Kiltearn. These usually follow one of the proxy-voting-research providers making a recommendation to vote against an executive's pay or where Kiltearn's commingled funds and separate-account clients (collectively, Clients) hold a material stake in the company.

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

High-level Voting Statistics
A summary of Kiltearn's 2023 voting activity is included in the table below:

Meetings Kiltearn voted at*	80
Resolutions Kiltearn voted on	1156
% of Resolutions where Kiltearn voted with Management	79%
% of Meetings where Kiltearn voted against Management at least Once	74%
% of Resolutions where Kiltearn voted contrary to the Recommendation of ISS	18%
% of Meetings where Kiltearn voted contrary to the Recommendation of ISS at least Once	71%

*Kiltearn did not vote at Bank of Ireland's meeting due to share blocking concerns. Kiltearn voted at all other company meetings.

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's recommendations where it believed those recommendations were in conflict with the firm's Proxy Voting and Governance Principles.

A summary of Kiltearn's votes against management's recommendations on management's proposals is included in the table below:

Votes against Management on Management Proposals	Number of Votes
Appointment of Auditor	31
Election of Director/Chairman/Comp Committee Members	123
Issuance of Capital above KP limit	27
Compensation/Remuneration Policy	12
Other	10
Total	208

A summary of Kiltearn's votes in favour of shareholder proposals and against management's recommendations is included in the table below:

Votes against Management on Shareholder Proposals	Number of Votes
Environmental	4
Social	4
Governance	31
Total	39

Material Votes
A summary of Kiltearn's 'material' votes throughout 2023 is included below.

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

Environment

In the face of growing concerns about the environment from a multitude of stakeholders, we have seen an increasing number of companies set out plans to align themselves with the goals of the Paris Agreement and/or introduce environmental-based key performance indicators into their executive-remuneration policies. We have also seen an increasing number of shareholder proposals that are intended to force companies to reduce their carbon emissions.

Issuer	US Multinational Oil and Gas Company
Quarter	Q2
Category	E
Proposer	Shareholder
Subject	Additional Direct Methane Measurement
Kiltearn Vote	For
Outcome	Failed but the company subsequently acted in accordance with the proposal
Votes in favour	36.4%

A shareholder brought a proposal requesting that the company issue a report analysing the reliability of its methane emissions disclosure. Specifically, the outcome of efforts to directly measure methane emissions. The shareholder noted that methane emissions are being underestimated by oil and gas producers. The shareholder recommended:

1. describing the types of source- and site-level measurements the company uses;
2. describing any material difference between the company's own- and third-party direct measurement results;
3. explaining the company's plans to validate its emissions estimates and disclose them through a third-party audit or evaluation; and
4. describing the company's plans to improve emission estimates over time, consistent with frameworks such as the Oil and Gas Methane Partnership 2.0 (OGMP).

The company stated that the report would be duplicative, noting that it has reported methane emissions since 2014 using internationally recognised methodologies. Further, the company's efforts at improving the data are included in the Advancing Climate Solutions 2023 Progress report. Finally, the company pointed to a number of limitations in methane emissions data reporting.

Given the limitations in reporting, it seemed reasonable for the company to report on the limitations and how they may impact the reliability of reported data. Further, a number of peers, including US peers, appear to report under the OGMP framework. As a result, Kiltearn supported the proposal. The proposal failed, gaining 36.4% of the vote.

In November, following the reasonably significant support for the proposal, the company announced that it would begin reporting under the OGMP framework.

Issuer	US Multinational Oil and Gas Company
Quarter	Q2
Category	E
Proposer	Shareholder
Subject	Emission Targets
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	10.5%

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 seen 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.

The proposal failed, gaining 10.5% of the vote.

Kiltearn voted against similar proposals at a US defence company and a US telecoms company in relation to their 2050 emissions, on the basis that the respective companies have made significant progress on decarbonisation. Both proposals failed, with the former gaining the support of ~33% of shares and the latter ~10%.

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

Issuer	US Multinational Oil and Gas Company
Quarter	Q2
Category	E
Proposer	Shareholder
Subject	Report on Assets
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	16%

A shareholder brought a proposal requesting that the company publish an audited report estimating the quantitative impact of the International Energy Agency's (IEA) net-zero scenario on all asset retirement obligations.

The company published its Advancing Climate Solutions 2023 Progress report. This report included an assessment of its resiliency under the IEA NZE scenario, and it enlisted Wood Mackenzie Inc. to conduct an independent audit and confirm the integrity of its model. The report focused on the potential growth in ability to reconfigure manufacturing sites to shift production towards the demand for non-combusted products like lubricants, basestocks and chemicals. It is noted that the company's strategy is to retain flexibility to change strategy in accordance with policy changes. The report did not provide the impact of the IEA NZE scenario on its current assets/investments. However, it is worth noting that IEA NZE scenario is a report that theorises how the world may get to net-zero. It is based on assumptions and consequently is not necessarily the basis for a business plan.

The company's assertion that such a report would not add value seems reasonable. Kiltearn consequently voted against the proposal.

Kiltearn voted against proposals that would have required the company to publish reports on the net amount of carbon dioxide (CO_2) stored from the company's carbon-capture activities, the impact of a worst-case oil spill from its operations in Guyana, the risks from environmental litigation and the social impact on workers and communities as a result of the company's efforts in respect of the energy transition. Kiltearn voted against the proposals on the basis that the company already provides sufficient disclosure on these issues. The proposals failed, each gaining less than 20% of votes.

Finally, Kiltearn voted against a shareholder proposal requesting that the company issue an audited report addressing how a significant reduction in virgin plastic demand would affect the company's financial position and assumptions in its financial statements.

The company pointed to its recycling efforts/research into further recycling. The company also highlighted the role of plastics in enabling new lower-emission technologies, such as electric vehicles, solar panels, wind turbine blades and high-performance building insulation. The company noted that under the IEA's net-zero by 2050 pathway, demand for chemicals, including plastics, would grow by 30% versus 2020.

Kiltearn determined that, given the likely value of plastic in the transition to a low-carbon world, it seemed reasonable to determine that the report would not add significant value for shareholders. The proposal failed, gaining 16% of votes.

Issuer	US Multinational Conglomerate Holding Company
Quarter	Q2
Category	E
Proposer	Shareholder
Subject	Annual Climate Assessment
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	26.62%

Kiltearn voted against a shareholder proposal requesting that the company publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities.

Supporting the proposal, the shareholder noted that all companies should recognise and appraise physical and transitional climate risks. These risks and the board's approach to their management, including any plans to achieve net-zero emissions, should be disclosed to enable these to be appraised by investors. The shareholder considered the company's current level of disclosure to be insufficient for investors to appraise fully its material climate-related risks and opportunities. The shareholder also referenced the climate disclosure rule recently proposal (disclosure of emissions).

Opposing the proposal, the board asserted that disclosure is appropriate at the subsidiary level. It suggested that these risks should be contextualised by their contribution to net income. It noted that two subsidiaries account for 90% of the portfolio's direct emissions. The first is "striving to achieve" net-zero by 2050. It has a 50% Scope 1 and Scope 2 reduction target for 2030 (vs 2005 baseline). The second has committed to the Science Based Target initiative (SBTi) and has a 30% Scope 1 and Scope 2 reduction target for 2030 (vs 2018 baseline).

In opposing the proposal, Kiltearn concluded that it was reasonable to determine that the company should be considering climate-related risks and opportunities in its capital allocation decisions; however, as the company pointed out, the two subsidiaries that account for the overwhelming majority of the company's emissions disclose their own emissions and are engaging with the process of decarbonising their businesses. Given that the company is a conglomerate with the responsibility for managing risks decentralised and the steps being taken by the largest emitting subsidiaries, support was not warranted on this occasion.

The shareholder resolution did not pass.

Issuer	US Multinational Conglomerate Holding Company
Quarter	Q2
Category	S
Proposer	Shareholder
Subject	Emissions Target Report
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	22.65%

Kiltearn voted against a shareholder proposal requesting that the company issue a report disclosing how it intends to measure, disclose and reduce emissions associated with its underwriting, insuring and investment activities, in alignment with Paris, requiring net-zero emissions.

The shareholder noted that the company faces risks by not making sufficient reductions in the climate footprint of its operations. The filer noted that the company made a pre-tax underwriting loss due to catastrophe claims.

Opposing, the company noted that the risks from climate change to its insurance operations are assessed through the enterprise risk management framework and by adopting climate-specific risk management procedures (stress testing, consideration of the frequency and severity of weather events and regulatory adjustments that may impact underwriting decisions or adversely impact future operations' results). The board gets regular reports on the risks and opportunities from the company's businesses. The CEO has previously noted that if the occurrence of catastrophic events increases, premiums will also rise. While the insurance businesses do not have decarbonisation targets, as noted above, the largest contributing subsidiaries do have targets.

In opposing the proposal, Kiltearn concluded that requiring the insurance businesses to set exclusions/targets against the board's judgement could have a detrimental impact on returns.

The shareholder resolution did not pass.

Issuer	US-based Financial Services Company
Quarter	Q2
Category	E
Proposer	Shareholder
Subject	Lending to Fossil Fuel Projects
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	8.5%

A shareholder brought a proposal requesting that the company adopt a policy committing to introducing proactive measures to ensure that the company's lending and underwriting do not contribute to new fossil fuel development.

The proponent stated that the company has no policy to stop financing new oil and gas exploration and development, despite climate science reports that state that investment in new fossil fuel development is not aligned with a 1.5-degree scenario. The proponent noted that this give rise to reputational risk and transition risk (financing stranded assets). It also noted that the European Central Bank and Bank of England have considered tying capital requirements to loan-to-book climate risk.

Opposing, the company notes that it has a net-zero 2050 target, including those related to financing. It has committed to disclose emissions and disclose interim reduction targets for "select carbon intensive portfolios" – including the oil and gas sector and the power sector – no later than the end of 2022. In 2021, it announced a commitment to lend or invest $500 billion to environmentally sustainable businesses by 2030. Regarding fossil fuel financing exclusions, the bank has said that it will not finance new coal-fired power plants or new or expanded coal mines. The company discloses its climate risk strategy in its Task Force on Climate-related Financial Disclosures (TCFD) report. The company joined the Net-Zero Banking Alliance in October 2021. As part of that commitment, it has 18 months to set 2030 targets.

In opposing the proposal, Kiltearn concluded that it is not market practice for banks to agree to exclude new fossil fuel supplies from financing and it could adversely affect shareholder returns.

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

Issuer	US-based Financial Services Company
Quarter	Q2
Category	E
Proposer	Shareholder
Subject	Transition Plan
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	30.79%

A shareholder brought a proposal requesting that the company issue a report disclosing a transition plan describing how it intends to align its financing activities with its 2030 GHG sector targets.

The company has 2030 reduction targets for its financed emissions in the oil & gas (absolute) and power (intensity) sectors. The company asserted that it is working on transition plans. In its May 2022 CO2 report, the company stated that it plans to follow the Net-Zero Banking Alliance's requirements. These include a requirement to:

- Publish high-level transition plans providing an overview of the categories of actions the company expects to take to meet its 2030 targets and an approximate timeline.
- Set additional interim five-year targets as the initial 2030 targets and other future target years approach.
- Report annually on progress against the 2030 and future targets.
- Review and, if needed, revise targets at least every five years to promote consistency with the latest climate science.
- Recalculate and revise targets as needed to reflect significant changes that might compromise the relevance and consistency of the existing targets

Given that the company has publicly committed to publishing transition plans and has publicly asserted that it is working on those plans, the shareholder proposal seemed redundant.

Issuer	US-based Courier Company
Quarter	Q3
Category	E
Proposer	Shareholder
Subject	Transition Plan
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	29.7%

A shareholder brought a proposal requesting that the board prepare a report disclosing how the company is addressing the impact of its climate change strategy on relevant stakeholders, including employees, supply chain staff and communities in which it operates. Opposing, the company points out that it produced an ESG report for 2023. This report includes information on investment in local communities. By 2040, the company aims to be carbon neutral across its Scope 1 and 2 emissions and Scope 3 contracted transportation emissions. The company has designated USD 2 billion toward this commitment and has established a carbon neutral pathway. It has committed to transition 100% of its parcel pickup and delivery fleet to zero-tailpipe emissions by 2040, with interim goals of 50% of fleet purchases being electric by 2025 and 100% electric by 2030. It has pledged USD100 million to the Yale Center for Natural Carbon Capture. It issued its first sustainability bond in 2021. The company appears to have suitably stretching goals and offers reasonable disclosure, relative to peers.

As such, Kiltearn did not support the proposal.

Social

Kiltearn saw a large number of social issue-focused shareholder proposals in 2023. The vast majority of these were proposals were brought at US companies' AGMs, where the divisive political landscape has pushed these issues up the agenda of some stakeholders. Kiltearn voted each of these proposals on a case-by-case basis. Notable examples where we supported the proposals are included below.

Issuer	US-based Financial Services Company
Quarter	Q2
Category	S
Proposer	Shareholder
Subject	Annual Harassment and Discrimination Report
Kiltearn Vote	For
Outcome	Pass
Votes in favour	~50%

A shareholder brought a proposal requesting that the company publishes an annual report describing and quantifying the effectiveness and outcomes of its efforts to prevent harassment and discrimination against employees. The company does have policies in place prohibiting harassment and discrimination. However, the company is currently facing a federal investigation for conducting interviews with diverse candidates for roles that had already been filled, the US Securities and Exchange Commission (SEC) is investigating it over its hiring practices relating to diversity and, in 2020, the company settled for $8 million with the US Department of Labor in relation to a claim that it had discriminated against 30,000 black job applicants.

Kiltearn supported the proposal on the basis that, given the recent controversies and associated costs, it seemed reasonable for the company to report to shareholders on how its efforts at managing risk related to harassment and discrimination are going.

The proposal was successful, gaining >50% of the vote. The company will be required to produce an annual report on the issue.

Issuer	US Hospitals Company
Quarter	Q2
Category	S
Proposer	Shareholder
Subject	Amendment of Patient Safety Charter
Kiltearn Vote	For
Outcome	Failed
Votes in favour	18.81%

A shareholder brought a proposal requesting that the company's board amend the patient safety committee's charter to give it the power and duty to review staffing levels and the impact on patient safety and care.

Kiltearn supported the proposal on the basis that inadequate staffing can lead to lower quality service and excess staff turnover, which could in turn impact long-term value. Further, the company argued that the committee already has this power. Given that the company argued that such power already existed, Kiltearn determined that it was reasonable for the charter to explicitly state it.

The proposal was unsuccessful, gaining ~19% of the vote.

Issuer	US Internet and Communication Services Company
Quarter	Q2
Category	S
Proposer	Shareholder
Subject	Report on Siting of Data Centres
Kiltearn Vote	For
Outcome	Failed
Votes in favour	15.1%

A shareholder brought a proposal requesting that the company's publish a report assessing the siting of cloud data centres in countries of significant human rights concern (Indonesia, Qatar, India and Saudi Arabia), and the company's strategies for mitigating the related impacts. The company reportedly conducted an independent human rights assessment of its decision to place operations in Saudi Arabia and took steps following the review but did not disclose the actions it had taken.

Kiltearn supported the proposal on the basis that it seemed reasonable for the company to disclose further information on its due diligence process and mitigation of related risks.

The proposal was unsuccessful, gaining ~15% of the vote.

Issuer	US Health Care Conglomerate
Quarter	Q2
Category	S
Proposer	Shareholder
Subject	Paid Sick Leave
Kiltearn Vote	For
Outcome	Failed
Votes in favour	25.63%

A shareholder brought a proposal requesting that the company adopt a policy to offer employees' paid sick leave.

Going against management's and ISS's recommendations, Kiltearn supported the proposal on the basis that it seemed like a reasonable stance that could have, in turn, improved workforce morale/reduce turnover rates, etc., irrespective of the fact that it is not common practice for the market.

The proposal failed, gaining ~26% of the vote. This suggests the attitude to workers' rights in the US continues to diverge significantly from the UK and Europe.

Political Contributions and Lobbying Payments

Kiltearn voted in favour of seven shareholder proposals requesting that five different US companies increase disclosure concerning the companies' political contributions or lobbying payments. Kiltearn supported such proposals, as it believed the companies' existing disclosures were insufficient and additional disclosures would allow shareholders to better assess the companies' political or lobbying spending practices, management of the related risks and alignment with publicly stated policies (human rights, the Paris Agreement and commitments to net zero). All proposals failed, with support ranging from ~16.5% to ~32%.

Opposition to Shareholder Proposals

Kiltearn voted against a number of shareholder proposals at US companies' AGMs. Kiltearn voted against the proposals on the basis that the target companies were deemed to be taking sufficient action on the issues raised in the proposals (third-party racial equality audits, etc.) or the proposals were not deemed to be in the best interests of shareholders (disclosure of an internet and communications services company's algorithm, etc.). All these proposals failed by significant margins.

Remuneration

Kiltearn voted against 12 remuneration reports or policies at companies' meetings during 2023. An example is included below.

Issuer	US Card Services Company
Quarter	Q2
Category	G
Proposer	Issuer
Subject	Remuneration Advisory Vote
Kiltearn Vote	Against
Outcome	Passed
Votes in favour	54.16%

The CEO's remuneration remained very high and increased considerably in 2022. The effective weighting to financial metrics or the CEO's short-term incentive was still less than 50% and decreased year-over-year. Other measures appeared largely subjective and non-financial in nature. Kiltearn asked the company to review this in 2020 and it had failed to do so.

The CEO was awarded a significant one-time award. The award requires an absolute total shareholder return increase of 40% over four years but there is no commitment for it to offset future annual awards (compares unfavourably to other portfolio companies' alignment awards that we supported). Overall, the award seemed egregious.

Kiltearn notified the company in advance of the meeting that it was going to vote against remuneration. Kiltearn will engage with the company on the issue in the future, if necessary.

Kiltearn also voted in favour of some remuneration practices – going against the recommendations of ISS – during the period. An example is included below.

Votes in favour	US Internet Marketplace Company
Quarter	Q2
Category	G
Proposer	Issuer
Subject	Omnibus Stock Plan
Kiltearn Vote	For
Outcome	Passed
Votes in favour	58.3%

Kiltearn determined that it would support the amendment to the company's omnibus stock plan. The company requested authority to issue up to 30 million additional shares under the plan. This was equivalent to 5.61% of issued share capital and ~$1.3 billion (as valued by ISS). Based on a three-year average, the company issued 2.24% of issued share capital per year under the plan. ISS deemed this was unacceptable as the dilution rate was too high.

Kiltearn felt that ISS's decision not to consider that the company has significant repurchase programme in place led to unwarranted determination. The company repurchased ~62 million shares with a value of ~$3.1 billion in 2022. Kiltearn determined that the potential dilution under a multi-year plan was more than offset by repurchases. Kiltearn consequently voted in favour of the proposal.

Kiltearn, unlike ISS, followed the practice of considering offsetting repurchases when determining whether it would support amendments to other companies' omnibus stock plans.

Governance

Reducing Voting Thresholds and Simplifying Voting Structures

Kiltearn voted in favour of shareholder proposals that would have reduced the ownership thresholds to request special meetings. Given the market capitalisation of the companies in question, the risk of abuse was minimal and therefore the reductions would have increased shareholder power. These proposals do not typically pass; however, in some cases, if support is at a sufficient level, companies will reduce ownership thresholds of their own volition. Kiltearn also voted in favour of other shareholder proposals aimed at simplifying voting structures and strengthening minority shareholder power. An example is noted below.

Issuer	US Internet and Communication Services Company
Quarter	Q2
Category	S
Proposer	Shareholder
Subject	Simplify Voting Structure
Kiltearn Vote	For
Outcome	Failed
Votes in favour	30.73%

A shareholder brought a proposal requesting that the company take all practicable steps in its control to initiate and adopt a recapitalisation plan for all outstanding stock to have one vote per share. Class B shares have 10x the voting rights of Class A shares. The founders currently control 51% of voting rights with 12% of shares. The company argues that the structure gives the company stability, allowing it to focus on long-term interests.

Kiltearn supported the proposal on the basis that providing equal rights would improve minority shareholder rights and improve the accountability of management and the board.

The proposal was unsuccessful, gaining ~31% of the vote (this increases to ~63% if the founders' shares are excluded). Given, that the founders hold the balance of voting rights, the likelihood of these votes successfully bringing about change in the composition of the company's share structure is low. Kiltearn factors this into its investment analysis.

Capital Discipline

For a more detailed discussion of Kiltearn's engagement efforts on capital discipline, see the engagement section of this report below. However, there are examples where we have been supportive of management due to their capital allocation plans, irrespective of adverse voting recommendations from ISS:

Issuer	Japanese Cement Company
Quarter	Q2
Category	G
Proposer	Issuer
Subject	Re-election of Chair and President
Kiltearn Vote	For
Outcome	Passed
Votes in favour	Currently Unknown

ISS recommended voting against the re-election of the company's president and chair as executive directors. ISS did so on the basis that cross-shareholdings constituted in excess of 20% of the company's net assets (26%). However, after discussions with the company last year, Kiltearn supported their re-election on the basis that the company does have a plan to reduce cross-shareholdings to 20% of net assets in the next two years and 10% of net assets in the next five years.

Kiltearn supported the re-election of the president of a Japanese regional bank – despite ISS's recommendation – on a similar basis. The regional bank also increased the shareholder return ratio to 50%, bought back ¥10 billion of stock and increased the dividend by ¥1 per share.

We will continue to monitor the execution of the plans and the ambition of future targets.

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

Combined CEO and Chair

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

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

The separation of the roles has been explicitly stated as best practice for UK companies since the UK Corporate Governance Code was first established in 1992. However, in some markets – notably, the US and France – the combining of the roles is still commonplace under the guise of strong and focused leadership. In fact, roughly 47% of S&P 500 companies and >50% of CAC 40 companies still combine these roles. Based on company performance or an individual's track record, Kiltearn may support a combined CEO and chair or express concern about the combination of the roles.

Issuer	US Defence Company
Quarter	Q2
Category	G
Proposer	Shareholder
Subject	Separation of roles of CEO and chair, appoint independent chair
Kiltearn Vote	Against
Outcome	Failed
Votes in favour	~28%

Kiltearn voted against the separation of the roles of CEO and chair at a US defence company. Going against the ISS recommendation, Kiltearn opposed the separation on the basis that the current structure is reasonable. Kiltearn also took into account the fact that the company has a lead independent director.

The proposal failed, gathering ~28% of votes.

Kiltearn voted against the same proposal at another US defence company, a US pharmaceutical company and a US multinational conglomerate holding company based on similar rationales. All these proposals were also unsuccessful.

The Engagement Process

Consideration of corporate sustainability forms an important part of Kiltearn's assessment of a company's business quality. As part of the investment process, we seek to align ourselves with boards that act in the long-term interests of public shareholders. As a value manager, we see opportunity in out-of-favour companies, including those facing corporate sustainability challenges. In such instances, intervention to protect or enhance a company's long-term development and intrinsic value may be necessary.

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 & Governance Group engage with the relevant company. The advantage of this approach is that the stewardship message conveyed to the portfolio company is consistent with Kiltearn's investment thesis. However, Kiltearn has also engaged with activists, a trade union and a not-for-profit organisation.

In markets such the UK, the US and the EU, Kiltearn typically instigates engagement via a meeting with the company. For less material issues, companies in these markets tend to be relatively open to informal engagement and making incremental improves to their practices. For material issues, Kiltearn is likely to follow up with a formal letter to the company's board. Evidence suggests that it takes one and a half years, on average, and two to three engagements before such interventions are successful. We therefore accept that patience and appropriate escalation are required before we see tangible success in this area.

In markets such as Japan and South Korea, companies tend to be governance laggards, and the quality of their engagement is poor. As a result, Kiltearn tends to have a more formal and structured approach to engagement with these companies. Once an issued has been identified, Kiltearn will write to the relevant company's board and set out:

(i) its concerns;
(ii) where the company sits relative to its peers;
(iii) Kiltearn's suggested action to address the issue;
(iv) a timeline for putting a publicly disclosed action plan in place; and
(v) Kiltearn's future actions if the issue is not adequately addressed.

If the company fails to address the issues, Kiltearn will escalate the issue.

High-Level Engagement Statistics
A summary of the Sustainability & Governance Group's engagement and monitoring activities with portfolio companies during 2023 is included in the tables and graph below:

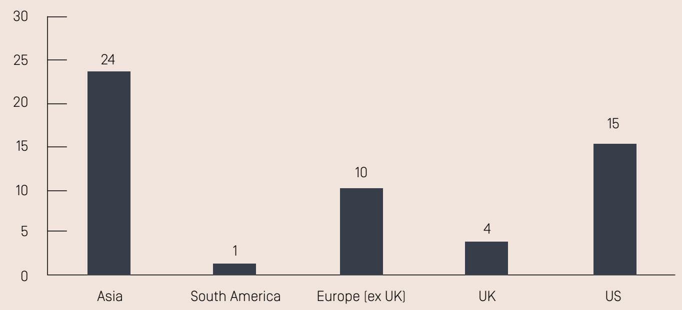
Engagement Types*	Number of Votes
Proxy Voting and Governance Principles	20
Email Exchanges	8
Calls	17
Formal Escalation Letters	5
Public Support for Shareholder Proposals	2
Shareholder Proposals	2

* These numbers do not include interactions by members of the Investment Team as part of investment research and/or their monitoring efforts.

Engagement by Kiltearn Categories*	
RIPS (Governance)	50
E&S	26

*~41% of engagements included elements from both of Kiltearn's categories.

Engagement by Region of Issuer



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

Material Engagements

A summary of Kiltearn's 'material' engagement activities in 2023, including its collaborative efforts and escalated issues, is included below:

Environmental

See table to the right

Issuer	British Multinational Oil and Gas Company
Quarter	Q2 (vote)
Category	E
Proposer	Issuer
Subject	Energy Transition Plan Progress
Kiltearn Vote	For
Outcome	Passed
Votes in Favour	80.01%

In February 2022, Kiltearn had a call with a British multinational oil and gas company to discuss its energy transition plan and its execution of the strategy. Notably, the company pointed out the potential growth it sees in liquefied natural gas, chemicals and biofuels as part of the transition.

The shareholder proposal for the upcoming AGM that would have required the company to cut Scope 1, 2 and 3 emissions was discussed. The company outlined it stance that the proposal did not serve the best interests of shareholders or the energy transition (at it distracts from the real issue, which is demand).

The Dutch court case was also discussed. In 2021, a Dutch court ordered the company to reduce its worldwide emissions (Scope 1, 2 and 3) by 45% by 2030. The company is appealing the decision. The company's position is that the court case – which will drag on for two to three years – is a distraction and, again, because it is about supply, will not help in the battle against climate change. If the company loses the appeal and needs to cut its Scope 3 emissions more aggressively, it could do so by selling its aviation fuel business. It holds the largest market share at 8%. It is not material in terms of profits ($100-200 million/year). However, it wants to keep the business as biofuels offers opportunity as part of transition.

We also discussed the IEA's net-zero emissions by 2050 scenario. The company noted that the IEA report is not the only net-zero model and it is not a blueprint for setting business strategy. Finally, the company committed to increased disclosure on carbon pricing in its annual report.

At its May 2023 AGM, Kiltearn supported an item relating to the energy-transition progress by the British multinational oil and gas company.

Every three years until 2050, the company will publish its updated strategy and submit it to a shareholder vote. The company's target is to become a net-zero emissions company by 2050. The company's executive remuneration targets include consideration of energy transition.

We believe that the company's increased focus on liquefied natural gas, which is considered to have superior environmental attributes to traditional oil, is sensible given its market-leading position in this area.

The resolution passed, with ~80% of votes cast in favour of the proposal.

The British-Dutch multinational oil and gas company has set a target of reducing its Scope 1 and Scope 2 emissions by 50% by 2030, compared with 2016 levels. Its target was previous a reduction of 20%. It will continue to face pressure to set emission-reductions targets that are more ambitious.

The company intends to reduce its Scope 1 and 2 emissions by:

(i) developing carbon capture and storage (CCS);

(ii) using natured-based solutions as offsets (if necessary);

(iii) using more renewable electricity;

(iv) transforming its remaining five refineries into low-carbon energy and chemical parks;

(v) improving the energy efficiency of operations; and

(vi) changing its portfolio by investing in low-carbon projects and divesting/natural decline of oil fields.

It intends to reduce Scope 3 emissions by working with customers to change their energy needs/demands (renewables, biofuels and natural gas).

As at the end of 2022, the company reduced its Scope 1 and 2 emissions by 30% and the net-carbon intensity of energy products by 3.8%.

Kiltearn voted against a competing shareholder proposal on the basis that the company, in Kiltearn's view, had taken reasonable action to address shareholders' environmental concerns, taking into account relevant factors that may affect significantly the company's long-term development and value creation. The shareholder resolution did not pass, with ~80% of votes cast against the proposal.

As with all portfolio companies' emission-reduction targets, it will be necessary for the company to continue to report its progress against its targets.

Kiltearn had a call with the company's chair in September. On the call, we discussed the company's June announcement that the company will keep oil production stable until 2030 and invest $40 billion in oil and gas production through to 2025.

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

Issuer	French Multinational Oil and Gas Company
Quarter	Q2 (vote)
Category	E
Proposer	Issuer
Subject	Energy Transition Plan Progress
Kiltearn Vote	For
Outcome	Passed
Votes in Favour	91.88%

In January 2022 and April 2023, Kiltearn had calls with a French multinational oil and gas company to discuss its energy transition plan and its execution of the strategy.

The company has set more aggressive emissions' reduction targets than its competitors. Notably, the company pointed out that oil will only account for 30% of its sales mix by 2030, while liquefied natural gas will account for 50% and renewables will account for 15%.

The potential renewables bubble was discussed. The company noted that it is a risk but the company is looking to build out capacity organically and is targeting an internal rate of return in excess of 10% from renewables projects.

We also discussed the IEA's net-zero emissions by 2050 scenario. Kiltearn enquired how the company squares its continued exploration with the IEA's stance that investors should halt funding for new oil, gas and coal supply projects if the world wants to reach net zero emissions by 2050. The company stated that while it agrees with the IEA's long-term trajectory, the scenario presumes demand of 70 million barrels/day will be needed by 2030. This would constitute a 30% fall from today, when demand is actually continuing to grow.

The company believes that demand for oil will fall 1-2%/year from its peak. However, oil fields see a 4-5% natural decrease/year. As a result, exploration is still required. The company requires all new projects to have lower CO2 emissions that its portfolio average, consistent with the company's ambition of more energy but lower emissions. The company's decision to exit Venezuela was based on this ethos.

The company noted that Scope 3 emissions from gas will increase; however, the company believes it can prove its gas will disclose coal and consequently the net global impact will be positive (Scope 4 is the measure of displaced emissions).

We discussed whether the company was pivoting from short-cycle projects to frontier basins. The company stated that it is more about the combination of cost and emissions. If the world gets to a level where it only needs 25 million barrels of oil/day in 2050, those with the lowest production costs will benefit. The company believes it is well positioned due to its presence in the Middle East. The company stated that the cost of production and emissions are lowest from that region.

The company used Iraq as an example. The company collects the gas from its own and other participants' oil fields and uses it for a new power plant. The plant produces electricity for the region (Iraq was previously an exported of oil but an importer of electricity). The company also built solar capability of one gigawatt at the plant. Finally, the company is also constructing a large-scale seawater treatment unit to increase water injection capacities in the southern Iraqi fields without increasing water withdrawals as the country is currently facing a water-stress situation.

We discussed the need for a just transition in the context of global population that will grow to 10 billion. The company noted that this is why it is focusing on gas – which will displace coal in countries such as India, China and Vietnam – and reducing energy intensity.

Finally, we discussed the company's internal carbon pricing and the company's lobbying efforts.

At its May AGM, Kiltearn supported the energy-transition resolution proposed by the French multinational oil and gas company.

The company has set ambitious plans relative to other majors. It is targeting: (i) net-zero across Scope 1, 2 and 3 emissions by 2050; (ii) a 40% reduction in Scope 3 emissions from the petroleum products it sells by 2030 (vs. 2015) (up from 30% previously); and (iii) hydrocarbons only constituting 25% of its energy mix by 2050 – with 50% in renewables.

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

As with all portfolio companies' emission-reduction targets, it will be necessary for the company to report its progress against its targets.

Issuer	US Industrial Technology Company
Quarter	Q1 2023
Category	E
Objective(s)	Understand Transition Risk
Status	Open
Outcome	Improved understanding of how the company intends to manage its transition risk. Continued need to focus on the need for a returns-based remuneration target

In January 2023, Kiltearn had a call with a US industrial technology portfolio company to get a better understanding of how the company intends to manage its transition risk.

The company specialises in retail and commercial fuelling infrastructure, point-of-sale payment technologies, vehicle diagnostics and repair. Kiltearn has determined that the company is "below

average" in the environmental and social quality category. Kiltearn came to this view on the basis that demand for the company's core business in internal combustion engine (ICE) refuelling infrastructure will gradually fade as the global market moves to electric vehicles (EVs). Further, Kiltearn also took account of the fact that the company will need to allocate capital to mergers and acquisitions (M&A) in the medium term, as the company looks to diversity away from its ICE exposure.

During the engagement, the individual representing the company stated that the company sees a long tail of demand for ICE refuelling infrastructure, modelling low growth near term, then a gradual decline through 2040. Even with the most aggressive EV targets being met, the company expects that 55% of cars will still have ICEs in 2040.

The company has observed that despite the pivots to EVs in Norway, the frequency of customers' visits to petrol station convenience stores has not declined, nor has the rate of spending while there. The company believes that these stores will consequently remain viable despite the reduced need for drivers to refuel or recharge. Further, emerging markets will continue to be dependant on fossil fuels, meaning EV adoption will be between 10-20 years behind developed markets. In developed markets, gird capacity will curtail the development of fast charging networks for EVs.

The company continues to diversity into software for convenience store operating systems that it hopes will see a return-on-investment capital in three-to-five years. The company will need to continue to allocate capital to M&A in the long term, as the company can't diversify its revenue away from ICE dependence on an organic basis.

During the engagement, Kiltearn noted its preference for the company to introduce a returns-focused key performance indicator for the determination of executive remuneration, as the repositioning of the company away from its ICE infrastructure business should be achieved in a manner consistent with value creation.

Kiltearn subsequently sold the portfolio's holding in the company due to insufficient valuation support following strong share price performance.

Issuer	US Chemicals Company
Quarter	Q2 2023
Category	E
Objective(s)	Understand Transition Risk
Status	Open
Outcome	Improved understanding of how the company intends to manage its transition risk. Continued need to focus on the need for sustainability remuneration targets to have a direct link to financial outcomes

In June 2023, Kiltearn had a call with a US chemicals company 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.

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

Capital Discipline

Throughout 2023, we continued to focus on companies in Japan that are governance laggards. Broadly, we are focused on companies with poor capital-discipline practices and non-independent boards. These companies typically have excess cash holdings and/or cross-shareholdings – which are an outdated concept and adversely impact shareholder returns – offer low return on equity (ROE) and may pursue wasteful capital expenditure. As of January 2024, we have nine engagements at various stages with Japanese companies on these issues and a wider thematic strategy to push all Japan portfolio companies to have majority-independent boards.

To date, progress has been made, but it has been limited. This is expected given that we are asking these Japanese companies to accelerate away from an outdated but ingrained culture of holding excess value on balance sheets and putting the best interests of minority shareholders below those of other stakeholders. Kiltearn will continue to engage regularly with these companies and vote against management where little or no progress is made. We also escalated the issue in relation to a number of Japanese companies in 2023, bringing two shareholder resolutions and publicly supporting four shareholder resolutions brought by other investment fiduciaries.

Issuer	Japanese Securities and Alarm Company	In December 2022, Kiltearn sent a formal letter to the company's chair. The letter requested that the company set out a plan to: • increase its dividend pay-out ratio; • set a repurchase programme target (we believe 10% of outstanding shares in a fiscal year is reasonable); • cancel all treasury shares; • disclose all cross-shareholdings and a timeframe over which they will be sold; • set an ROE target (we suggest >10%); and • improve board independence by adding qualified independent directors with no existing ties to the company or reducing the number of executive directors on its board. Another investment fiduciary brought shareholder resolutions at the company's June AGM. One of the proposals was a request for the company's board to repurchase up to 10% of outstanding shares. Another of the proposals was for the company to amend its articles to require it to have a majority independent board. The proposals were consistent with our own engagement with the company. Management opposed the proposals but did not offer a reasonable rationale for doing so. Kiltearn believed that the proposals were sensible given the overcapitalisation of the balance sheet, the supressed ROE and improvement in accountability that a majority independent board would bring. Kiltearn consequently decided to support the proposals. Further, Japanese regulators do not currently require Japanese companies to disclose the engagement matters investors have initiated. Consequently, it is difficult for an investor filing a shareholder proposal to determine in advance whether fellow investors are likely to support the proposal. We believe this favours management. Market transparency needs to improve. To this end, we issued a press release stating that we would support the proposals and included the rationale for the support. The press release is available on our website. This gave the proposing investor the assurance that they are not the only parties agitating for change. We also hope it added weight to the proposing investor's arguments and increased pressure on the management team to reconsider their proposed shareholder returns policy before or in the wake of the AGM. Kiltearn following the same process in relation to a Japanese regional bank, where a fellow investment fiduciary brought two proposals. The proposals were for the company to pay a special dividend of ¥62/share and repurchase up to 1% of outstanding shares. The proposals were consistent with our own engagement with the company. The proposals were unsuccessful, illustrating the entrenched nature of the Japanese financial system. As noted above, Kiltearn believes that it is in Clients' best interests for the companies to take action to improve shareholder returns. Kiltearn will continue to monitor the companies' progress, and if the companies do not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.
Quarter	Q2	
Category	G	
Objective(s)	Improve shareholder returns and board independence	
Status	Open	
Outcome	Some improvement in ambition of shareholder returns, ROE and reduction in cross-shareholding targets	

Issuer	Japanese Media Conglomerate & Property Company	Kiltearn sent a formal letter to a Japanese media conglomerate's chair in early July 2021. In the letter, Kiltearn commended the company for listening to shareholders, acknowledging that its balance sheet is overcapitalised and taking steps to address that overcapitalisation by repurchasing ~JPY 10 billion of shares between July 2020 and the end of March 2021. Kiltearn did note, however, that it did not consider the action taken by the company adequate to address fully the issue, given the magnitude of the overcapitalisation (the company's investment securities equate to 30% of its equity). In recent years, the company has also allocated significant capital to a capital-intensive low-returning property business. This is an area of concern for Kiltearn. We consequently asked the company to reduce its holdings in investment securities, improve capital efficiency by focusing on the core media business and further enhance shareholder returns. We also asked the company to improve its level of board independence. The company had not made any material improvement in its level of cross-shareholdings or level of board independence by its 2023 AGM. As a result, Kiltearn voted against the re-election of the chair, president and all other executive directors on the board. Kiltearn voted similarly at a Japanese wholesale distributor company's, a Japanese food producer's and a Japanese speciality chemical manufacturer's AGMs for the same reasons. As noted above, Kiltearn believes that it is in Clients' best interests for the company to take action to improve shareholder returns. Kiltearn will continue to monitor the companies' progress, and if the companies' do not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.
Quarter	Q2 (Vote)	
Category	G	
Objective(s)	Improve shareholder returns, board independence	
Status	Open	
Outcome	Some improvement in ambition of shareholder returns, ROE and reduction in cross-shareholding targets	

Issuer	Japanese Manufacturing Company	Kiltearn sent a formal letter to the company's chair in November 2021. The letter requested that the company: (i) reduce its cross-shareholdings, as prescribed by the Japanese Corporate Governance Code; (ii) buy back its shares with the proceeds and cancel the repurchased shares; (iii) set an ROE target of >10%; (iv) increase its dividend pay-out ratio; and (v) improve the level of independence on the company's board by adding independent directors with relevant industry experience. Kiltearn voted against the re-election of the chairman of the manufacturing company as the person ultimately responsible for the company repeatedly missing its ROE target and dropping it entirely in its new medium-term business plan, while having what Kiltearn considers to be an overcapitalised balance sheet. The company had not made any material improvement in its level of cross-shareholdings or level of board independence by its 2022 AGM. As noted above, Kiltearn believes that it is in Clients' best interests for the company to take action to improve shareholder returns. Kiltearn sold out of the company in H1 2023 due to insufficient valuation support following strong share price performance.
Quarter	Q1	
Category	G	
Objective(s)	Improve shareholder returns, improve board independence	
Status	Closed	
Outcome	Disposed of Position	

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

Remuneration

Issuer	US Financial Companies	The US is a very high compensation market relative to global standards. As a result, Kiltearn's expectation is that US companies follow best practice when making remuneration decisions. The determination of executives' remuneration at US financial companies, however, typically lack two elements that Kiltearn looks for: objectivity and transparency. US financial companies' remuneration committees typically use a high level of discretion to determine executives' annual bonuses, rather than disclosed objective financial targets. Kiltearn is sceptical about such arrangements, believing that they do not adequately address the need for accountability and alignment on behalf of management. Kiltearn has consequently sought to engage directly, by way of correspondence and discussion, with US financial companies to see an improvement in their executive-remuneration practices. Perhaps unsurprising given that a study has shown that remuneration policy is the area with the lowest successful rates for engagement, US financial companies have often been resistant to meaningful change. Where there have been incremental improvements in US financial companies' executive-remuneration-determination practices, such as improvement in disclosure, Kiltearn has supported the relevant companies. For example, between 2021-2023, Kiltearn has supported a US financial services company following improved disclosure practices, having voted against the company in 2020. Where there have been no improvements or where incremental improvements have stalled, Kiltearn has had additional discussions with the relevant companies and, in some cases, voted against remuneration and the re-election of the remuneration-committee chairs. For example, in 2023, Kiltearn did not support remuneration and/or the re-election of the remuneration-committee chair at a US-based card services company. Kiltearn will continue to monitor the company's remuneration practices and disclosures.
Category	G	
Objective(s)	Improve executive remuneration practices	
Status	Ongoing	
Outcome	Companies are generally improving disclosure	

Board Independence

Issuer	Japan Companies	Kiltearn previously wrote to all Japanese portfolio companies asking them to increase the number of independent directors on their boards – with the end-goal of having majority-independent boards – and introduce board committees that are made up of a majority of independent directors. Kiltearn believes that it is ordinarily in the best interests of its Clients for portfolio companies to have majority-independent boards, as they can look to ensure that there is effective oversight of and challenge to the executive management teams. Since 2019, we have seen a number of the Japanese portfolio companies increase independent representation on their board and/or introduce board committees. Kiltearn commended companies where the level of independence is improving but noted that it believes they should be targeting majority-independent boards. Kiltearn consequently supported those companies. Kiltearn will likely only continue to do so, however, where it sees continued improvement. Where Japanese companies did not make any such improvements, Kiltearn voted against the inside directors – other than those deemed to be key executives and board participants.
Category	G	
Objective(s)	Improve board independence	
Status	Ongoing	
Outcome	Some companies have made incremental improvements to the balance of independent directors on their boards	

Related Parties on Boards

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

These situations often arise in the case of family-controlled public companies. The founder's family typically retains a large ownership stake and voting rights. Kiltearn will vote in line with its policy and engage companies on the issue; however, the likelihood of these interactions successfully bringing about change in the composition of these companies' boards is low. Kiltearn factors this into its investment analysis.

Long-Serving Non-Executives

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

Kiltearn will typically vote in line with its policy and engage companies on the issue; however, the likelihood of these interactions successfully bringing about change in the composition of these companies' boards is highly variable. Often, other shareholders – particularly domestic shareholders – will take the position that a high weighting to long-serving non-executives on boards is favourable as it increases experience (US) or ensures that political influence can be exerted (Asia).

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

Collective Engagement

A discussion of Kiltearn's public support of other investment fiduciaries' shareholder proposals is included above. Examples of other collaborative engagements are included below.

Issuer	Japanese Communication-Services Company	The Japanese communication-services company is required to limit the number of its voting rights held by foreign entities to 20%. Consequently, the company does not register foreign-owned shares that would cause this threshold to be exceeded. However, the company does not pay dividends in respect of the unregistered shares despite the fact that there is no law or rule that prohibits it from doing so. Kiltearn's Clients own shares in the company, including unregistered shares, and consequently receive reduced dividend payments because of the company's unequal treatment of foreign investors. Further, the policy makes the company potentially less attractive to foreign investors and so may be suppressing the share price. As a result, Kiltearn believes it is in its Clients' best interests for the company to change its policy. Kiltearn has interacted, by way of a call and formal follow-up letter, with the company to outline Kiltearn's concerns about, and requesting the company make changes to, its dividend-distribution policy. The company refused to change its policy and did not give an adequate explanation for its stance. Kiltearn also engaged with ISS to set out the firm's position on the same issue and to seek its support. Despite ISS's initial resistance to changing its stance, it was willing to discuss the issue with Kiltearn. Following the discussion, ISS changed its approach: (i) conducting its own investigations on the issue; (ii) including a discussion of the issue in its proxy research on the company; and (iii) making a proxy-voting recommendation reflecting its stance on the issue. ISS's specific recommendation was to vote against the re-election of the company's chair at the company's recent AGMs, as he was deemed the individual with the greatest responsibility for the company's continued refusal to pay dividends to non-registered foreign shareholders. Based on the recommendation, ~27% of the company's shareholders voted against his re-election at the 2022 AGM. Kiltearn voted against the re-election of the chair and all other members of the board. Kiltearn contacted the company in the second half of 2021 to obtain a copy of its procedures for bringing shareholder resolutions. The company subsequently asked for a call to discuss the proposals. During the call, Kiltearn suggested that if company puts a publicly disclosed plan in place to deal with Kiltearn's concerns, with meaningful targets. Kiltearn had a follow-up in early 2022 with the company. The company confirmed that, while it would not change its policy regarding the payments of dividends in respect of unregistered shares, it would continue to wind down its cross-shareholdings. Further the company now has a majority independent board, which remains rare in Japan. Despite the improvements, Kiltearn voted against the re-election of the chair and president at the 2023 AGM due to the dividend policy. Kiltearn will continue to monitor the company's progress and if the company does not take action that Kiltearn deems appropriate, Kiltearn may re-engage or escalate the issue.
Quarter	Q2 (vote)	
Category	G	
Objective(s)	Improve shareholder returns, improve board independence	
Status	Ongoing	
Outcome	Cross-shareholdings being reduced, majority independent board	

Issuer	Japanese Food Retail Company	The food retail company has been subject to an ongoing activist campaign in recent years. The activist is looking to improve the company's governance and create value. In 2022, the activist went down the route of public engagement. However, it was the view of the activist that the company's board was not able enforce independent processes to evaluate the company's current holding company structure and alternatives to that structure due to the continued interference of management. The activist had consequently got to a position where it believed the board needs overhauled to implement the independent processes. The activist put forward four independent director candidates that it considered had expertise in capital allocation and governance for election at the company's AGM. The company's board can have a maximum of 15 participants. As a result, to get the activist's four nominees on the board, the activist targeted four+ sitting board members. The activist consequently opposed the re-election of the CEO and vice-chair (both executives) and three non-executive board members as part of its campaign. On 25 May, Kiltearn had a call with the activist to discuss the experience of independent directors the activist was nominating and the sitting directors it was opposing. The activist noted that three of the individuals it was nominating had capital allocation experience and all four had knowledge in governance best practices. At the company's AGM, Kiltearn voted in favour of all four of the activist's nominees. Kiltearn voted against the three non-executive board members that the activist targeted. Kiltearn did so on the basis that the relevant experience of the activist's candidates appeared stronger than the sitting non-executives. However, contrary to ISS's recommendation and the activist's strategy, Kiltearn did not oppose the re-election of the CEO or vice-chair. This reflected Kiltearn's view that the company has offer good shareholder distributions and its convenience store business is well run. At the AGM, the targeted sitting non-executives received shareholder support in the 64-68% range. The activist's nominees received support in the 26-34% range. The CEO and vice-chair received support in the 75-76% range. As a result, the activist's campaign gathered significant support but ultimately failed. There have been improvements in the board's governance structures in recent years. Kiltearn will continue to monitor the company's progress and any further action by the activist. If it deems it of value, Kiltearn will engage with the company and/or the activist in the future.
Quarter	A2	
Category	G	
Objective(s)	Improve the quality of the board by supporting nominees with commercial experience	
Status	Ongoing	
Outcome	Significant support for nominees at the company's AGM but failure to win any seats	

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

Escalation

As noted above, we brought two shareholder proposals this year as part of the escalation of our ongoing engagements. The proposals are discussed below.

Issuer	Japanese Materials Company
Quarter	Q1 (vote)
Category	G
Objective(s)	Improve shareholder returns, improve board independence
Status	Ongoing
Outcome	Some buyback activity, board independence has improved.

Kiltearn holds a Japanese chemicals company in its Clients' portfolios. Like many of Kiltearn's other Japanese holdings, the company has excess capital on its balance sheet. Kiltearn has engaged with the company on these issues on several occasions. Encouragingly, these efforts on behalf of shareholders led to the company acknowledging in its 2020-2022 medium-term plan that its balance sheet was overcapitalised and it needed to take action to address shareholder returns. Management subsequently committed to a buyback programme and repurchased ¥12.2 billion of shares over the lifetime of the plan. However, Kiltearn continued to stress that share repurchases of this size were not adequate, given the level of overcapitalisation. The company's ROE – a key measure of shareholder value creation – remained depressed. In fact, the ROE has averaged just 6% over the last five years. Kiltearn's view was expressed with our votes at the company's AGMs. We supported the re-election of the management team at its 2020 AGM primarily due to the introduction of its buyback programme. However, we opposed the CEO's re-election at the 2021 and 2022 AGMs to reflect our view that the buybacks were not ambitious enough.

During a discussion with the company in March 2022, the company asked for Kiltearn's thoughts on the key performance indicators that should be included in the company's next medium-term plan. Kiltearn pointed out that the company was, at the time, effectively running to stand still. Its dividend and buybacks were covered by the company's free cash flow and were not making a dent in the overcapitalised balance sheet. We suggested that the company set an annual ROE target >10%, increase the dividend pay-out to 50% (as opposed to the 30%, with a 50% total shareholder return ratio target currently stated in the company's corporate governance policy) and repurchase 10% of issued share capital annually for the life of the plan.

During the discussion, the company stated the focus for cash was capital expenditure, including research and development, as it wanted to grow the business and make the company bigger. While Kiltearn is supportive of a sensible level of capital expenditure in a company's profitable business segments, we were sceptical of a management team that has a record of promising substantial growth, but no track record of delivering on those promises. Further, there is always a concern when a company talks about aspirations for growth without a concurrent reference to increased profitability.

Kiltearn had private conversations with the company and other Japanese companies for several years regarding their overcapitalised balance sheets, supressed ROE ratios and low shareholder returns. As discussed above, these efforts led to some modest successes. However, progress was slow and frequently the companies' plans and execution lacked the necessary level of ambition and urgency. Consequently, we initiated the process of bringing shareholder proposals at the company's AGM.

The issues requiring simple majority votes that you can address in shareholder proposals are relatively narrow in Japan. We consequently took advice from local Japanese counsel on the construction of our proposals. In relation to the company, we considered offering two proposals: 1) increase the dividend pay-out ratio to 50% and 2) require the company to repurchase 10% of its issued share capital in the year following the AGM. While our dividend pay-out ratio proposal fell within the narrow parameters, requiring a company to repurchase a percentage of outstanding shares did not. Therefore, based on advice from Japanese counsel, we agreed to reformulate the latter proposal to give the company's board permission to repurchase up to 10% of its issued share capital.

Following the filing of the two shareholder proposals with the company, the company asked for a call. On the call, the company stated that, as part of its new upcoming medium-term plan, it was considering introducing a new buyback target. The company asked if we would consider withdrawing the proposals. We told the company that, while we would commend the company if it increased the buyback target relative to the previous plan, we would not withdraw our proposals unless we believed their new buyback targets were compelling enough.

Following the call, the company published a new medium-term plan for 2023-2025. It called for targets of ¥20 billion of buybacks, a total return ratio of 50%, a dividend pay-out ratio of at least 30%, an ROE of 7.3% and ¥68 billion capital expenditure over the three years. We found the plan underwhelming. The buybacks and dividend pay-out ratio targets were not at a level where we considered withdrawing our proposals. The magnitude of the proposed capital expenditure, with no spending details, was also a concern. It felt, and still feels like management is just throwing lots of money at a problem (lack of growth) in the hope that something will work.

Following the filing, Kiltearn issued a press release on the shareholder proposals. The press release served two purposes. First, given that the language in the proposals had to conform to relatively narrow legal parameters, it allowed us to provide more detail on why we were bringing the proposals. Second, and more importantly, it allowed us to contextualise our proposals in the context of the company's new medium-term plan, which had been released after our proposals were filed and included the more ambitious proposed shareholder returns targets. We published the press release and sent copies of the release to other significant investors, the two major proxy voting research providers, sell-side firms and the Government Pension Fund of Japan. A copy of the press release remains available on Kiltearn's website here.

Proxy voting research provider ISS came out in favour of both our proposals. ISS recommended voting in favour of the proposal to increase the dividend pay-out ratio on the basis that the company's net cash and long-term investments accounted for 55% of its market capitalisation (December 2022). Therefore, since the company consistently trades on a price-to-book (P/B) ratio in the 0.7- 0.8x range, the increase in the pay-out ratio would not impact the company's financial health. ISS recommended voting in favour of the proposal to repurchase 10% of issued share capital on the basis that the company's net cash position, suppressed P/B ratio and, most interestingly, the fact that the proposal would grant the board the ability to repurchase up to 10% of issued share capital, without require use of the full authority. As such, the reformulation of the latter proposal aided in gaining ISS' support.

The AGM took place on 30 March. A total of 33.39% of shares were voted in favour our proposal to increase the dividend and 30.52% of shares were voted in favour of our buyback proposal. As expected, neither passed; however, the level of support exceeded our expectations. The most encouraging aspect, given the shareholder base, is that an element of support for our proposals came from Japanese domestic shareholders. All too frequently in Japan, domestic shareholders are willing to support management irrespective of performance.

On 4 August 2023, the company publicly committed to: a P/B ratio of 1x or more by 2027; 8% ROE by 2027 and 100% total shareholder returns over the 2023-2025 medium term plan (inclusive of ¥4/share increase from ¥36/share to ¥40/share).