FINDLAY PARK PARTNERS LLP

RESPONSIBLE INVESTMENT & ENGAGEMENT REPORT – 1H 2020

Findlay Park Partners LLP (Findlay Park) is an independent investment partnership based in London. The Investment team manage a single fund: the Findlay Park American Fund (the Fund). We aim to generate compelling compound returns for our investors, measured over decades. Our Investment Philosophy is grounded by the belief that, by managing the downside risk in each investment we make, we can generate higher compound returns for investors by taking *less* risk. Consideration of ESG issues, thorough engagement, and voting are key to our investment approach.

1H 2020 highlights

- 100% voting record
- Over 150 one-on-one meetings with companies
- Over 70 engagements with our companies where ESG issues were a focus

Overview

The social impact of COVID-19 has been profound and how companies have managed COVID-19 can be seen as a barometer of their culture. Culture is one of the key aspects we assess with our Investment Philosophy checklist. Since the start of April we've been tracking the responses of companies in our Fund from a social perspective. We've been highly encouraged. Not only have our holdings in the Health Care sector been on the front-line, but we've also seen many of our companies harnessing the power of technology to address this crisis. As **Microsoft's** CEO Satya Nadella put it, these technology companies have become 'digital first responders.' We have purchased a number of new stocks for the Fund this year for whom technology is core to their business model. Highlights of our ESG research on **Activision Blizzard** and **Amazon** are included in this report.

Beyond technology, we've been following how each company in our Fund has been treating its employees during these difficult months. We've seen many raise wages and increase benefits, sometimes materially so for those on lower rates. Whilst we have been struck by the positive responses of many of our companies, in some instances we have challenged their approach. In the case of **Aon** this led us to voting action. Subsequently we saw a positive change in its policy; our engagement with the company is described in this report.

Overall, we felt more engaged than ever this voting season. Our discussions ranged across a variety of ESG issues, including diversity, food waste and climate change, as well as more traditional governance matters.

Our reporting

This report provides some detailed examples of our approach to ESG integration, engagement and voting. We encourage investors to read it in conjunction with our Responsible Investment & Engagement Policy. We reported on our voting and engagement for 2019, and this is available on our website (www.findlaypark.com).

In 2020 we also completed our first specific report in line with our commitment to the UN Principles for Responsible Investment (PRI). A transparency report was made available on PRI's website in July, and its assessment of us is summarised in the following scores: **A for overall strategy and governance, A for ESG integration, B for active ownership activities such as engagement and voting. Within the latter, it assessed our proxy voting to merit an A rating**. Given this is our first assessment, we are pleased with the result, as well as recognising opportunities for improvement.

We are signatories to the Stewardship Code, which was revised in October 2019 with a reporting deadline of March 2021. We will be reporting in line with this Code as part of our end of year reporting.

ESG Integration

Our Investment Philosophy helps us identify businesses that we believe will generate sustainable returns. Our starting point when looking at any company is not 'how much can we make if we get it right?' but 'how much could we lose if we're wrong?' We have a comprehensive list of questions that we use to analyse all aspects of a business including its financial and competitive position, management and valuation. This includes questions which explicitly address ESG issues.

This year we further evolved our portfolio-wide responsible investment report, which we use to help monitor all our companies. The report is reviewed on a regular basis by the Investment Committee and at our weekly Investment team meetings. The report focuses on five areas on which we combine internal and external analysis for all companies in the portfolio. Below we show these themes and the main questions from our Investment Philosophy with which they align.

Human Capital	Climate & Environmental	Corporate Governance	Cyber Security & Data Privacy	Business Ethics & Reputation
Rationale				
All businesses are people-driven	These risks are increasing and some are becoming systemic	Robust oversight is key to financial sustainability	Rapid digitalisation poses new challenges	Business conduct is under scrutiny in an age of transparency
Corresponding Investment Philosophy Questions				
Do we like the corporate culture? *Does it have strong and trusted brands?* *Will it be a stronger business in 3 to 5 years' time?*	*Is there a high degree of confidence in the inevitability of the long-term outcome?* *Does the business/industry face regulatory headwinds?* *Is the business susceptible to shifting consumer preferences?*	*Is management compensation aligned with shareholders?* *Do we like the corporate culture?* *Have management demonstrated good capital allocation?*	*Does it have strong and trusted brands?* *Will it be a stronger business in 3 to 5 years' time?* *Is there a high degree of confidence in the inevitability of the long-term outcome?*	*Does it have strong and trusted brands?* *Is the business susceptible to shifting consumer preferences?* *Does the business/industry face regulatory headwinds?*

When assessing companies we also review specific issues that are material to a sector or company.

Sources

We make use of a wide range of sources to aid our research. Many of the key providers which we use, and open sourced data which we have found helpful to our systematic analysis, are listed in our 2H 2019 Responsible Investment & Engagement Report, which can be found on our website (www.findlaypark.com).This year we analysed review sites dedicated to female employees, initially to aid our analysis of diversity related policies, then incorporated into part of our wider research and monitoring. The website **InHerSight**[1] is particularly insightful in enabling us to gauge employee sentiment about equality of opportunity, as it asks employees about this question in particular.

[1] https://www.inhersight.com/.

Amazon

We added Amazon to the Fund in April, after many months of careful consideration, assessment against our Investment Philosophy, and detailed analysis of ESG issues. It's a company which divides opinion, but one which has some of the greatest opportunities for improvement. We believe we are seeing signs of this.

For instance in 2019 the company developed stringent climate targets, committing to become 'net zero' by 2040, including by using 100,000 EVs by 2030. More recently it announced a $2 Billion Venture Capital Fund for Clean Energy. Following an investigation in Germany, it has also taken some action regarding competition concerns which German officials noted were 'far-reaching'.

We are of course mindful of allegations of poor treatment of employees in warehouses. It's hard to conclude that none of these instances have occurred. Positively, the firm are transferring some of the more mundane tasks to robots. It has committed to retrain a third of its US workforce impacted by incremental automation by 2025. Overall employee reviews of the company on employee review site Glassdoor are above average; although reviews for more labour intensive jobs, fall to average. This indicates that many employees do not consider it to be a bad employer.

Amazon's treatment of employees during COVID-19 is another interesting example. There has been some negative press, and legitimate concerns about conditions and the handling of employee criticism; but the firm have gone to great lengths to protect employees at this time. The company has made over 150 process improvements, mainly to enhance health and safety, and has developed its own testing capabilities. It also gave employees a pay rise ($2 per hour from mid-March to the end of May) to compensate them at this time and, during a time of high unemployment, it also provided 175,000 new jobs.

In this crisis, we have seen the company work collaboratively with governments and institutions, delivering NHS tests, supporting the World Health Organisation ('WHO') in diagnostic development, and health researchers with high-speed computing. Amazon is also donating to small businesses and schools, and set up a $25m fund for business partners impacted by the crisis. From a consumer perspective, the company became a life-line for many in the height of lockdown – prioritising the delivery of essential goods, which benefitted those shielding in particular. Whilst Amazon has always seen 'customer obsession' as its driving force, this has taken on a new, social dimension at this time.

Its response in the wake of protests catalysed by George Floyd's death also indicated a more responsive and stakeholder focused approach. It committed to stop selling facial recognition software to routine law enforcement for a year; reversing its position a month before when it opposed resolutions asking for a review of the use of such technologies at its annual general meeting (our voting at Amazon is noted on page 11).

Overall, we think this experience can help enhance the company's reputation, and build goodwill. It strengthens our confidence that this business can continue to thrive in the long-term.

Activision Blizzard

Similarly to Amazon, Activision Blizzard is a company which we followed for some time before including in our Fund. COVID-19 provided an interesting lens through which to see the social benefits of gaming, in contrast to the debate around its potentially negative impacts. Notably the WHO, which classified 'gaming addiction' as a disease in 2018 (albeit one it saw as only applying to a very small percentage of players), is now collaborating with the gaming industry to promote physical distancing while maintaining social connection. The UK's Department for Culture Media and Sport has also initiated a similar collaboration.

Even aside from COVID-19, Activision Blizzard's games are considered less controversial in respect to their potential to trigger addiction. Particular concern has been raised regarding addictive behaviours in children, whereas Activision Blizzard's games are targeted at older audiences (with average player ages ranging from 18-55, depending on the franchise). Its games are also less dependent on functions called 'loot-boxes' (a feature where a player usually pays for a type of item or character, but there is a randomised element to what they will receive). This feature has been singled out as most similar to gambling.

Considering Activision Blizzard's corporate culture, we were interested in the balance being struck between commercialism and creativity – both key ingredients of success in this industry. As a standalone company Blizzard had once been too focused on the latter, rather than the former, and the company has made a number of changes in management as a consequence (although the head of combined Activision Blizzard is still a Blizzard veteran).

We were also interested in how culture and identity are retained throughout post-merger integration. There are now somewhat unique cultures at Activision, Blizzard and their newest acquisition King. Beyond maintaining the appropriate balance of creativity and commercial awareness, Activision Blizzard wants employees at all three entities to feel a sense of autonomy and empowerment.

The firm has also found inventive ways to link its brand to community outreach and hiring. Activision's most famous franchise, Call of Duty, involves gamers playing as military characters. Correspondingly, the firm has strong community and hiring programmes focused on veterans, including a Call of Duty Endowment which aims to place 100,000 veterans in work by 2024.

The company's ability to demonstrate its social worth may help embed increased gaming as a long-term trend – which is a pillar of our investment thesis.

Engagement

Engagement is essential to our investment strategy. Meeting frequently with company management on a range of topics, whether capital structure, corporate strategy, or incentives has always been key to our process. With ESG considerations embedded in our Investment Philosophy, and our frequent interactions with companies on a wide range of topics, isolating purely 'ESG engagements' is not always simple. However, we have identified over 70 engagements in the first half of the year where specific ESG issues formed all or part of the discussion.

For most of these meetings, this was alongside engagement on more traditional financial and business topics, and involved the whole Investment team. ESG conversations are not separate to, but an important part of, our investment approach. As we typically invest in around 50 companies in the Fund, we are able to delve into detail and spend time engaging with management. This helps us better understand our companies and better demonstrate our integrated approach to ESG.

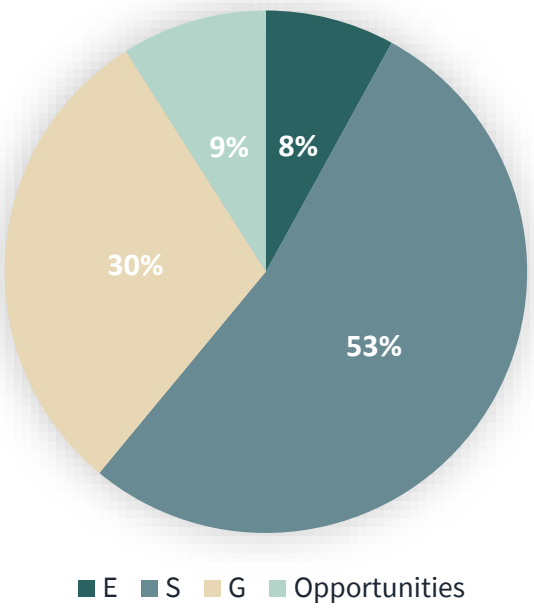
Below we list key ESG topics discussed in meetings with our companies so far this year. These are shown in order of frequency, highlighting that the social aspects of COVID-19 was the most commonly featured area of discussion. This increased the weighting towards social areas compared to last year. Another change from last year is that we expanded our voting process to include more formalised and recorded engagement; hence the governance element also increased.

We also show the type of topic we addressed in tracked discussions where ESG issues featured. These are divided into Environmental, Social and Governance topics, as well as revenue opportunities from sustainable products, services and innovation (Innovation & Sustainable Opportunities). [i]

Key ESG topics

- **Environmental Issues:** Climate was the most frequently discussed environmental issue
- **Social Issues:** The Social Implications of COVID-19 was the topic theme most discussed. Human Capital and Diversity were also frequent areas of discussion
- **Governance Issues**: Compensation featured most frequently in governance-related discussion, followed by Management Quality / Succession Planning
- **Innovation & Sustainability Opportunities:** These discussions covered a range of sustainability related opportunities, from Innovations in Health Care to Low Carbon Solutions

Topic type



Engagement Case Studies

Below we highlight two examples of engagement with **Aon** and **T-Mobile**. The former demonstrates the way in which shareholders can help raise concerns and encourage companies to create better outcomes for stakeholders. The latter shows the value of an active, integrated, and engaged approach to responsible investment.

Aon

We have been closely following the responses of companies to COVID-19 from an ESG perspective. In most cases we've been highly encouraged by their approaches, but in the case of Aon we were surprised to see it announce a 20% pay cut for 70% of its staff. This was contrary to the response of its largest competitors, and also not validated by its business and financial performance, which has been robust.

We had observed the negative comments from Aon employees on Glassdoor, and taken note of their concerns. For instance one reviewer listed as a Senior Manager in Chicago claimed that the company "recently cut most employees' pay 20%…most people understand the economy is currently going through a rough patch, but as the Marsh & McClennan [competitor] CEO put it: this is a very blunt instrument for a short-term issue." [2] Others pointed to lost confidence in Aon as an employer, and the disjunction between offering solutions and advice to clients on handling COVID-19, whilst feeling that the company's own response was unjust.

We discussed this matter with management, who pointed to current economic uncertainty, and emphasised that its commitment not to lay-off staff at this time was an important safeguard. We were underwhelmed by the response and decided to escalate our concerns on this topic, and the lack of transparency in executive bonus targets, to the Chair of the Compensation Committee. We were not given direct access, but did note our concerns in writing, to be passed on to this Board member. We decided to vote against executive compensation at the AGM given the lack of response to our concerns.

We were delighted to see Aon management reverse the policy implementing 20% pay cuts a few weeks later. Not only did the company reimburse employees, but it also gave them a 5% increase on the withheld amount. We congratulated the company on this change, and the strong signal sent to employees and stakeholders.

T-Mobile

T-Mobile is now one of the largest holdings in our Fund. The firm scores somewhat poorly on external ESG ratings. By contrast, our confidence in T-Mobile is partly based on its strong culture, long-term strategic shareholder (Deutsche Telekom), and excellent management. We have undertaken further engagement and research, the results explain much of this apparent disconnect and our differentiated approach.

The company acknowledges that it has not been proactive in communicating its own ESG story (it does not produce a regular ESG report). ESG data providers have been swift to assume the worst, and not looked closely at the strategy or overall culture of the firm. Below we outline how ESG factors build confidence in T-Mobile as an excellent fit with our Investment Philosophy.

This starts with its commitment to customers. The firm positions itself as distinct from its industry peers by focusing on customer value – it defines itself as an 'un-carrier.' As part of its latest commitments under the '5G for Good' plan, it has rolled out free ten year plans to first responders.

On a related note, it takes strong measures to secure the data security of customer information. The firm has been less clear about its approach to cyber security than some peers, however we were encouraged by its response on this issue. Highlights include annual training of employees, and quarterly updates from the Chief Information Security Officer to the Audit Committee. Every employee has privacy training, and the company has a network of security and privacy ambassadors.

[2] Senior Manager in Chicago, Glassdoor, 3rd May 2020.

T-Mobile's focus on diversity and inclusion stands out and is reflected in its workforce, comprised of 59% people of colour, and 41% women as of its last disclosure. Managers are also diverse: 48% ethnic diversity and 36% gender diversity. The firm also provides a range of benefits to employees including partnering with five universities to provide a low-to-no cost education through specialised grants and agreements.

Historically T-Mobile has had disagreements with a union, however we understand from the company that these have been resolved, and this is also reflected in its filing to the National Labour Relations Board, which oversees such disputes in the U.S. External ESG rating agencies are sometimes slow to incorporate such updates in their scores, whilst factors such as diversity and inclusion are not incorporated in the scoring of MSCI ESG Research, for instance.

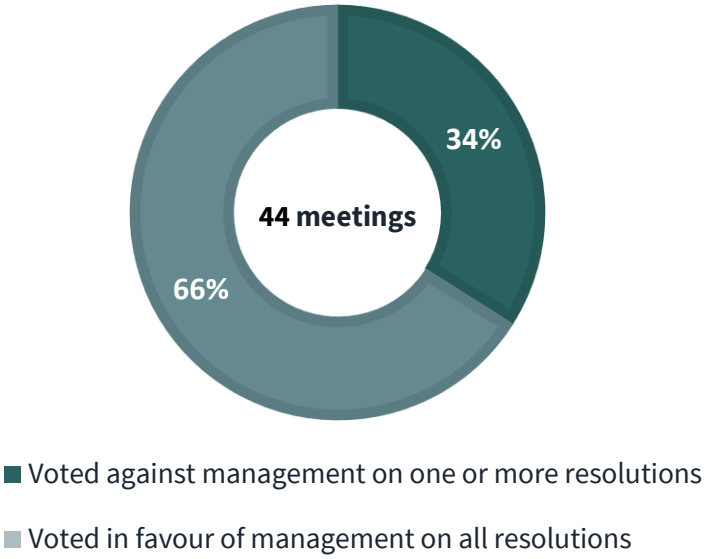
T-Mobile's governance structure is less conventional than most public companies. The Board is only 38% independent which might be seen as a cause for concern. This ratio is partly explained by the presence of Deutsche Telekom appointees on the Board, due to its 44% holding of T-Mobile. We see Deutsche Telekom as a committed, long-term shareholder, who has made considerable efforts to transform its strategy, brand and performance. Evidence of this includes its instrumental role in the highly accretive acquisition of its competitor Sprint, which completed in 1H 2020, and the appearance of long-term strategy documents revealed as part of the legal process around the acquisition.

Therefore, in contrast to last year where we voted against all non-independent directors, we supported the re-election of Deutsche Telekom Directors at the AGM. We did however vote against the re-election of the Board directors representing Softbank, who were placed on the Board due to the Sprint deal but who we did not consider to have long-term commitment to T-Mobile. Softbank sold its stake in the firm shortly afterwards.

Overall we see T-Mobile's commitments to customers, employees and shareholders as exceptional. Its focus on customers reduces risks of switching or disruption. We have confidence in its management, and its long-term strategy; all of these factors are considered in our investment process. One of the most important questions we ask of companies is 'do we like the corporate culture?' which addresses whether culture is a competitive advantage for the firm. For T-Mobile our answer is a resounding 'yes.'

Voting

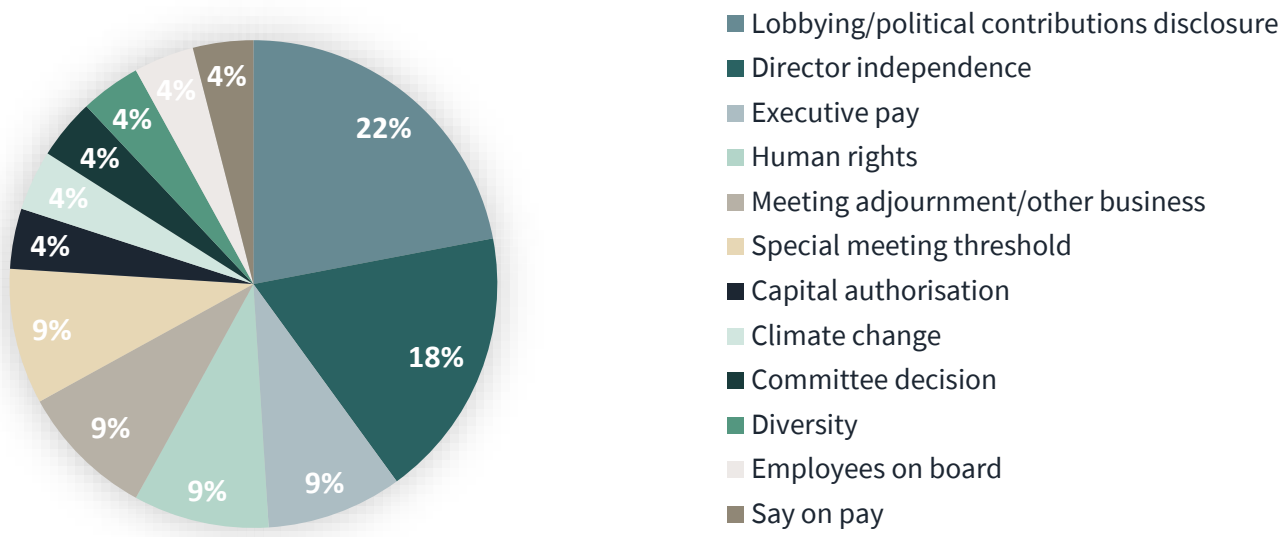
We have opposed management on at least one resolution at over one in three annual meetings. In 1H 2020 there were 47 meetings where we were eligible to vote as shareholders: 44 annual and 3 special or court. [ii]



Our policy is to abstain only in exceptional circumstances, accordingly we voted on all resolutions at all meetings this year. In line with our wider voting principles – which focus on remuneration, risk and culture – we voted to secure:

- Executive compensation aligned with shareholders' interests
- Effective boards with appropriate independent representation
- Transparency on material ESG issues including lobbying and political contributions

Below we show how we have voted against management over the year by issue.[iii] Votes related to lobbying/political contribution were most prevalent, followed by director independence, and executive pay.



Below we provide detail on significant votes across both management and shareholder resolutions. This includes a summary of all votes against management or the Board, and those where we did not vote in line with the recommendations of ISS. In accordance with the principles of the UK Stewardship Code, we also include a summary of our votes across all shareholder resolutions.

We did not abstain or withhold votes on any items (unless there was no option to vote against, in which case this is the equivalent). As outlined below, we voted in line with our formal policy commitments, which relate to lobbying/political contribution transparency, and on thresholds to call a special meeting which do not overly advantage one shareholder. More widely, we undertook thorough assessments of each company against our voting principles to aid our decision making.

Management Resolutions

Executive compensation

There were 39 meetings in which we were able to cast a vote on executive compensation. In the cases of **Becton Dickinson** and **Aon**, we directly opposed executive compensation (we cover Aon in the 'Engagement' section above, and provide further details on Becton below). Based on our own research and engagement, we considered voting in line with management appropriate in all other cases. Below we detail our rationale where we voted against management, and where we supported management but our vote differed from the recommendations of ISS.

Activision Blizzard

Performance related pay at Activision Blizzard is somewhat unusual for its inclusion of additional awards should stringent targets be met (for instance a 'Transformative Transaction' award for accretive M&A awards for significant share price increases). However, we considered the goals sufficiently stretching and aligned with shareholder interests. In discussion with the firm it was also able to provide a little more clarity on bonus targets, which ISS had flagged for lack of transparency.

Becton Dickinson

We identified that Becton Dickinson had excluded the impact of key safety and regulatory costs from metrics used to assess bonuses for senior executives. Had adjustments not been made, this would have resulted in a bonus award for below target performance. This was not highlighted by ISS, who recommended a vote in favour. We engaged with the company, outlining our view that management should have more consideration for shareholders and employees (who we learnt had been subject to a pay freeze) and voted against executive compensation.

Berkshire Hathaway

ISS recommended a vote against compensation as senior executive's pay is non-standard. Warren Buffet and Charlie Munger take a token base salary ($100,000) and no bonus. The two other most senior executives have large base salaries and a small, judgement-based bonus. Buffet and Munger's interests are aligned with shareholders given their considerable financial and personal stakes in the firm.

However, we did agree that this approach may not be suitable when they depart from the firm. We thought it would be preferable for shareholders to be able to vote on pay every year, as opposed to every three years which is corporate practice. We therefore voted to increase the frequency of such votes.

Comcast

ISS cited problematic above-market interest payments for a component of executive compensation, and recommended voting against the Compensation Committee on this basis. However we noted meaningful reforms to the company's policy, in force from this year, meaning that this issue will diminish over time.

Fidelity National Information Services (FIS)

FIS bought WorldPay in 2019, amounting to the largest transaction in Fintech. A special award is tied to the success of the integration, particularly regarding timely attainment of synergy goals. ISS noted that these awards are considerable, however we felt that the scale of the deal and the importance of its success merited support.

Fiserv

Similarly to FIS, Fiserv undertook an important transaction last year with the acquisition of First Data. Terms of the deal included the on-boarding of the latter's CEO, initially as COO. The terms were very generous, and this was one of the core factors leading to ISS' recommendation against the package. However in discussion with the company we learned that much of this was only honouring commitments made to the individual at First Data, and that compromises had been struck by both parties. Moreover, shortly before the annual meeting, this individual was announced as the incoming CEO, signalling his worth to the new firm.

Director independence

As noted on pages 6 and 7, we supported representatives of Deutsche Telekom at **T-Mobile**, but did not support those of Sprint. ISS recommended voting against representatives from both parties. For our voting on shareholder calls for an independent chairperson, please see page 8.

Committee decision

We voted against the Head of the Audit committee at **Danaher**. As explained in previous reports, the firm historically allowed pledged shareholding, and the founding brothers still hold pledged shares. The firm explained some of its processes for overseeing related risks, and we also noted that many Audit Committee members had not been on the Board when this practice was allowed. As such, rather than voting against the whole Audit Committee, as recommended by ISS and undertaken in previous years, we took this more targeted action.

M&A related voting

We have voted at one special meeting supporting M&A activity. This related to **Charles Schwab's** acquisition of TD Ameritrade, which we see as strategically and financially accretive.

Meeting adjournment/other business

In some European markets it is common to ask shareholders to vote for other matters which may arise in the meeting. These are not known in advance, so we did not support such resolutions at **TE Connectivity** and **Alcon**.

Jurisdiction for disputes

Deere requested that certain disputes go through Delaware courts, given that it is subject to Delaware law. This seemed reasonable to us, although ISS disagreed.

Capital authorisation

TE Connectivity requested capital authorisation of an amount which would result in a potentially excessive dilution of more than 10%. We voted against this.

Shareholder resolutions

We supported 37% of shareholder resolutions. We evaluate these on a case-by-case basis, with only a few exceptions where we see issues as uniformly important to increasing public and investor trust in companies (such as lobbying transparency, detailed below). This approach allows us the flexibility to identify material areas to a particular company, engage constructively with management, and reward progress on an area. Above all, we act in line with our purpose: to create compelling compound returns for our investors over decades. We are therefore mindful of whether improved performance or transparency may lead to superior long-term returns.

Case Study: Amazon

Our approach to voting at Amazon is a particularly complex example, which is nevertheless illustrative of our approach to shareholder resolutions. In total we supported one third of shareholder resolutions.

Amazon Voting	
Resolution	**Voting Rationale**
Food Waste Report	We agree this is an important issue. During engagement we learned that it had hoped to produce such a report in 2020, but this was delayed to 2021 given COVID-19. We see this as a reasonable adjustment, and did not push for accelerated disclosure.
Environmental Racism Report	The concern is that Amazon's locations means that its environmental pollution disproportionality impacts ethnic minority communities. We noted that the firm has announced wide-ranging climate commitments which may mitigate some of the concerns with pollution in general. We decided not to support the resolution.
Human Rights Impact Report: Range of Technologies	This requested a third party report on Amazon's due diligence on customer use of surveillance, computer vision and cloud based products, given their potential human rights impacts. We assessed that greater focus on the interplay between human rights and technology was needed, and supported the resolution.
Human Rights Impact Report: Facial Recognition	This request was much like the former, but focused on only one product. We preferred the breadth of the former, and did not support this narrower version.
Human Rights Risk Assessment	This resolution calls for a human rights risk assessment of Amazon's supply chain. The firm's reporting on this area is below peers – for instance as expressed in its score on the Corporate Human Rights Benchmark.[3] We voted for the resolution.
Global Median Gender/Racial Pay Gap Report	Amazon outlines various diversity initiatives, workforce data, and information on pay equity. Nevertheless we considered voting in favour of this resolution. We discussed this matter with its new head of ESG engagement. She outlined how the company is closely monitoring data it has around female and minority advancement. It wants to continue to close gaps, and has a number of related initiatives, including intentional recruiting. Given its commitments, we decided not to vote in favour.
Promotion Velocity Report	The resolution called for disclosure of promotion velocity (times from hiring to promotion/ between promotions) for diverse employees. This is not a standard metric and Amazon's approach to diversity is outlined above. We chose not to vote in favour.
Report on Products Promoting Hate Speech and Sales of Offensive Products	This asked for greater clarity and governance over its approach to hate speech and offensive products. We assessed Amazon's policies in this area to be reasonable and did not vote for the resolution.
Ideological Discrimination Report	The resolution suggested that Amazon overly censors content (at odds with the resolution on hate speech outlined above). This shows the difficulty in balancing censorship and expression. We did not support the resolution.
Independent Chair	It is often advantageous to split these roles, and we considered a vote in favour. Amazon outlined that Bezos is not Chair because he is the CEO, but because he is a founder with a long-term vision. It also emphasised the importance of succession planning which permeates through the organisation. We decided not to support this resolution.
Reducing Threshold for Shareholders to Call Special Meeting	This requested that the threshold to call a special meeting be lowered to 20%. We have committed to support these types of resolutions at a reasonable threshold and as such voted in favour.
Lobbying Report	We voted for this resolution, in line with our policy.

[3] https://www.corporatebenchmark.org/download-benchmark-data.

Political Contributions/Lobbying

We voted for all resolutions relating to lobbying or political contribution transparency including at **Activision Blizzard**, **Amazon**, **Charles Schwab**, **Comcast** and **Fiserv**. We vote for these issues by policy given the benefit they provide in increasing corporate transparency to shareholders, and the public.

A resolution filed by a womens' health foundation requested an assessment of the consistency of **Home Depot's** lobbying with the foundation's ideology. The wording of the resolution was unusual in criticising not transparency per se but ideology, in a politically charged manner. Through engagement we discovered that the filer wanted Home Depot to take a public stance on women's health, above its internal benefits which included related contributions. We agreed that this was not in the best interests of shareholders, and also noted the firm's strong current disclosure of lobbying activities. On this basis we decided to vote against the resolution.

Reducing Threshold for Shareholders to Call Special Meeting

We voted for two of the five resolutions on lowering the threshold for shareholders to call a special meeting. Our decisions were based on a new protocol which we evolved – to vote for resolutions asking for this threshold at up to 15%, but not below. There are many cases where the largest shareholder holds significant amounts of a company: in the case of **Becton Dickinson** it holds more than the 10% requested by the proposal. We are wary of giving one single shareholder this kind of authority as their views may be unrepresentative. In contrast, where a number of shareholders come together with shared concerns, we think this is a helpful tool. On this basis we voted for resolutions at **Amazon** and **McDonald's**, but against those at **Anthem**, **Becton Dickinson** and **Danaher**.

Diversity

We voted for one of the five resolutions related to diversity disclosure. Our voting at **Amazon** is discussed above.

Home Depot was another case where we had a detailed discussion with the company. Its workforce is more ethnically diverse than the US working population (45% minority vs 39%).[4] It reports diversity at three levels. We also learned about some of its initiatives to create a level playing field, including unconscious bias training, and noted that one of its most senior executives is a woman from a minority background, who started at Home Depot as a cashier. We voted against the resolution.

Berkshire Hathaway was faced with a shareholder proposal to require diverse candidates on initial lists from which new members of its Board and subsidiary company CEOs are drawn, and that these should be put together by external consultants. Given its lack of IR function, we were not able to speak with the company about this issue. In its opposition statement, the Board stated:

Since 2006, Berkshire shareholders have elected five new directors. Two male managers (of whom one is ethnically diverse) were promoted to Vice Chairmen of Berkshire and added to the Board in 2018. In 2007 and 2013, two talented and qualified women became directors, and in 2009, an equally qualified male joined the Board. All five of the directors just described possess the four qualities we seek. Each was selected without regard to gender or race/ethnicity. For anyone to suggest otherwise would be both wrong and demeaning.

Given the diversity of the appointees outlined above, we were inclined to believe that it has made strides to minimise unwanted bias from its appointment processes. Furthermore, in the annual meeting the proponent was given 20 minutes to lay out its argument without any retort from the company. Buffet emphasised the importance of the issue whilst disagreeing about the means to achieve greater equality. We were left with no doubt that this is a company which thinks equality of opportunity is of crucial value.

[4] Home Depot Responsibility Report 2019 p25. Data for 2019. https://cloud.3dissue.net/17127/17182/17296/36349/index.html.

Consistent with our voting last year, we supported enhanced transparency at **Charles Schwab**. We learned of some of the positive initiatives which it has put in place. However we discovered that some information its website related to a partnership with an organisation promoting female careers was out of date. The company was not forthcoming on this point, and the issue had to be somewhat forced. Given the lack of transparency in approach, we voted in favour of the resolution and stated our rationale to the company.

Independent Chair

We supported two of the three resolutions calling for an Independent Chair; we supported that at **Comcast**, and **Union Pacific** but did not support that at **Amazon**. For the two former companies, we believe that shareholders would be well served by the decoupling of the roles of CEO and Chair. As outlined above, the case of Amazon is different; the CEO is not only a Founder, but a significant owner with a long-term vision.

Action by Written Consent

We voted against resolutions regarding action by written consent (at **Home Depot** and **Nasdaq**). Action by written consent allows shareholders to pass motions by circulating 'consent solicitations' to each other. We have learned that it is usually possible for proponents with the support of a few shareholders to pass a resolution without notifying the others. There is also no time for research or for management to respond. As such, calling special meetings is a preferable alternative. We assess rights to call special meetings before making decisions on action by written consent. Both Home Depot and Nasdaq give shareholders the right to call such special meetings.

Sugar

Two companies, **Coca-Cola** and **McDonald's** received a shareholder proposal calling for greater detail on risks related to sugar in their products. We agree that health and nutrition are important considerations for these businesses, and considered voting for both. Coca-Cola emphasised its strong commitment and reporting on this issue, including through an external research and ratings body backed by the Bill and Melinda Gates Foundations as well as many governments: The Access to Nutrition Foundation. It did not see how more reporting on this topic would be additive. McDonald's also pointed to its health commitments, especially related to children, and how it had met initial targets ahead of time. On balance we considered that, at this time, both businesses were being sufficiently transparent on this issue. We will be vigilant of future developments.

Climate Change

A climate resolution was proposed at **Union Pacific**, requesting that the company outline its low carbon transition plan in line with the Paris Agreement. Given the higher carbon nature of its business on an absolute basis, although lower carbon relative to the alternative of trucking, we thought that more transparency on this issue was merited.

Sexual Harassment

Comcast was asked to issue a fully independent report on risks regarding sexual harassment. In 2017 there were credible, and severe, sexual harassment allegations related to "Today" host Matt Lauer, who was fired from the company. As a result Comcast conducted an investigation that, while not independent of the company, was independent of the NBC News organisation who employed him. Comcast was also assisted by two external law firms. The report outlined that there were no severe, systemic failings, but recommended additional training and communication on how to prevent and report such issues. We discussed this in detail with the firm, and also looked at recent reviews from its female employees. We decided to support the company on this occasion, although we remain vigilant of negative trends. As a result of voting on issues such as this, as well as diversity more broadly, we have added monitoring of views from female employees to our standard responsible investment data (which is updated and reviewed at least monthly).

Workers on Boards

One resolution, filed at **Idex Corporation**, requested consideration of placing workers on Boards. This practice is common in markets such as Germany and which has been considered as part of UK governance reform. In the case of Idex, we saw indications of strong human capital management practices, and a high Glassdoor score reflecting positive current and former employee reviews. Therefore, although the request was not unreasonable, we did not intend to support the resolution. Unfortunately, due to an ambiguity in the voting approval process in this case, we mistakenly supported this resolution. The motion received minimal (<5%) support, meaning that ours was far from a deciding vote. Nevertheless we always want to learn from our mistakes, and have put additional controls in place to prevent this type of error from reoccurring.

Other Matters

There were five other shareholder resolutions on various matters, none of which we supported:

Intuit was asked to channel employee disputes through a process called Mandatory Arbitration, which limits the abilities of employees to take legal action against the firm. We see legal action as an important last resource for employees, and did not support the resolution.

Deere was asked to disclose its Board members qualifications and ideology. The firm already provides relevant disclosure regarding Board skill mix, with factors including risk management and corporate governance.

Home Depot was asked to develop a policy on share retention which would apply post-retirement. Its compensation plans are long-term in nature, and this is not common practice among its peers, potentially putting it at a competitive disadvantage.

T-Mobile was asked to limit accelerated vesting upon a change in control. But its current vesting is not automatic after such a change: equity awards vest only upon a qualifying termination of employment.

UnitedHealth was asked to have every bylaw amendment put to a shareholder vote. Some minor amendments may not merit this kind of lengthy procedure.

Important Information

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i Engagement data does not include the routine engagement we have with companies, as a matter of policy, when we are voting against them.

ii Voting data includes both annual and special meetings, and excludes meetings were we did not vote because we no longer held a position at the time of the meeting. We have included special meetings because of the important role shareholders play in approving special measures such as M&A; we have excluded meetings where we were not owners because although technically eligible to vote, this is a right of ownership. In such circumstances we do not consider it proper to use a right without the foundation of ownership underpinning it. We intend to report consistently on this basis going forward. This is an update to the approach we disclosed in our previous voting and engagement report, which excluded special meetings, and included meetings where we did not vote for lack of ownership.

iii Director voting: We have included 'Withhold' votes on directors as votes against management, where companies have not given the option to vote against them. As this is common practice in the US, a withhold vote is generally considered the equivalent to an opposing vote. In our 1H 2019 report we did not include withheld votes in our analysis, but will do so going forwards. We have divided our votes into voting on directors into voting due to independence concerns, including shareholder calls for an independent chair, and voting due to a committee decision (other than related to pay, see below).

iv Executive pay: Where we did not have the option to directly vote against pay but our voting reflected dissatisfaction with it (at T-Mobile) we have included our vote against the Compensation Committee under 'Executive Pay'. Where we voted against a Compensation Committee Chair as an extension of our dissatisfaction with remuneration decision (at SS&C) this has also been included.