Findlay Park Partners LLP (Findlay Park) is an independent investment partnership based in London. The Investment team manages a single fund: the Findlay Park American Fund (Fund), which was launched in 1998. **Our purpose is to generate compelling compound returns for our investors, measured over decades**. We have a clear Investment Philosophy that is aligned to our purpose and rigorously applied through all market conditions. This philosophy aims to identify quality companies and control the downside risk in each investment. **We believe that we can generate higher compound returns for our investors by taking *less* risk.** Consideration of ESG issues, thorough engagement, and voting, are key to identifying opportunities and mitigating business risk in order to deliver strong risk-adjusted compound returns over time. We also believe we can play a role in helping companies improve. Our long-term aim is to help businesses increase their positive impact on society and the environment.

1H 2022 highlights

- Increasing our engagement ambitions
- Anti-greenwashing safeguards
- Proxy voting highlights

Increasing our engagement ambitions

More than ever, we believe it's important for firms to be clear about what they do and do not do. We see many benefits to businesses with a clear sense of purpose and culture and encourage a stakeholder-focused approach in the firms in which we invest. On the other hand, we've seen elevated concerns over greenwashing this year.

Like many businesses, the past few years have given us the opportunity to think. We have raised our ambition as an organisation as regards the role that we aim to play in society. We're at an early stage in our journey, and want to be careful to not overpromise, but we thought we would give you some insight into what our new mission entails.

You'll be glad to know that responsible investment plays a central role in our mission, supporting our primary objective which is to generate compelling compound returns for our investors over decades. We believe we have always approached investing in a thoughtful and responsible manner, and we now explicitly integrate ESG considerations in our decision-making. We also want to help companies improve their impact over time. We see engagement as key to achieving this, and have created a strategic, and hopefully impactful, engagement framework with five specific priorities. This is outlined below in our engagement section.

We are clear about the challenges of realising this aim, and the difficulties of evidencing this over short time periods. One of our tenets at Findlay Park is that we would far rather under-claim than over-claim. This has never been more relevant than in today's environment, with growing regulatory scrutiny. To quote a recent FCA consultation paper on ESG: "investment products that claim to achieve a positive impact on sustainability through stewardship are, currently, a minority. This is because, for example, decreasing greenhouse gas (GHG) emissions in the real world is significantly more difficult than buying the assets of companies involved in climate change mitigation or adaptation solutions".[1] Ultimately, we do not yet know the degree to which we'll succeed, but we're committed to try.

[1] FCA, Sustainability disclosure requirements (SDR) and investment labels, *Discussion Paper* (November, 2021) p. 19 [accessed: https://www.fca.org.uk/publication/discussion/dp21-4.pdf].

Anti-greenwashing safeguards

We've seen elevated concerns around 'greenwashing' in financial markets, where commitments to sustainability have been overstated, misrepresented or misleading. It's not our place to comment on the conduct of others but we do want to summarise the ways in which we seek to prevent greenwashing.

Firstly, we'd reiterate that we have kept our business very simple – we are all focused on one fund, currently invested in just forty companies – and are united by shared purpose and culture. We believe that all our risks, ESG included, are more manageable than would be the case at a larger, more complex business. We have robust risk and compliance checks in place, Board-level oversight of ESG metrics and KPIs, and challenge from our compliance team.

Secondly, our approach to responsible investment is investment-driven – not marketing-driven. Our Responsible Investment Lead is a member of our investment team and responsible investment is a team-wide responsibility. We believe that treating responsible investment as a siloed activity leads to inconsistency – potentially even misrepresentation. This is also why we chose the unusual title of 'Responsible Investment Lead', to emphasise that this is part of everyone's job. Our responsible investment reports aim to explain to our investors what we are doing.

Finally, we'd caution that the novelty, volume and complexity of new responsible investment regulation has been a challenge for the industry. We are not immune to these challenges, but we are advantaged in that we have a large team and only one fund. This really helps us focus our energy and means that we think long and hard when interpreting how regulation applies to us. We were not the first to classify our Fund as an 'Article 8' Fund under Sustainable Finance Disclosure Regulation. Instead, after careful consideration, further regulatory clarity and gathering investor feedback we came to the view that this was the best fit for the Fund. As regulatory frameworks evolve we will continue to make carefully considered decisions, interpreting them to the best of our ability.

Proxy voting highlights

Q2 made for another eventful voting season. Notably, Carl Ichan contested the McDonald's meeting, proposing two alternative candidates with sustainability experience, due to a missed animal welfare commitment on behalf of the company. Unlike many other investors, we decided to support the alternative candidates. This was due to the lack of specific sustainability expertise on the Board, as well as our belief that ESG commitments should be kept in a timely fashion, if at all possible. The full rationale of our voting at McDonald's is in our voting section below.

Another meeting which garnered attention this year was Amazon's AGM. This was partly due to the substantial award granted to the new CEO, as well as numerous ESG resolutions covering topics from plastics to tax transparency. After intensive discussion, we supported under half of the ESG resolutions, and voted against CEO pay. We deliberated over a number of resolutions, which we describe in full in our voting section.

We believe the complexity of both the meetings highlighted above underscores the value of an active approach to voting and engagement. These decisions require careful consideration of the specific circumstances, rather than a 'tick box' approach. We aim to apply both our in-depth knowledge of the companies in which we invest, and dedicated responsible investment expertise, to our stewardship. One caveat is that our people-intensive approach does make room for human error. We aim to give an honest overview of both our successes and mistakes in the proxy voting section below.

Sustainability Risks & Metrics

Below we outline our progress against some of the key indicators which we consider when assessing our performance against ESG and sustainability matters. We actually monitor a much wider range of factors in our Responsible Investment Gauge, but the indicators below are particularly important to us, and help evidence our ESG characteristics. [2]

	Environmental			Social & Governance		ESG
Metric	Science-Based Targets	Implied Temperature Rise	Weighted Carbon Intensity	Glassdoor Score	UN Global Compact	MSCI ESG Fund Rating
American Fund measure	50%[3]	2.5[4]	Below benchmark[5]	4 / 5 star rating[6]	One ISS identified breach[7]	AA[8]

Environmental

We monitor and engage on a number of environmental issues and report information on biodiversity, water pollution, energy and hazardous waste as part of our consideration of principal adverse impacts. We also note the interconnectedness of climate and other environmental issues. For instance, the extraction and combustion of coal can lead to material air and water pollution, as well as greenhouse gas emissions.[9] However, we have spent more time on climate than any other environmental theme, and consider related risks, opportunities and impacts to apply most broadly across the Fund.

We strongly believe that business and finance must help ensure a long-term sustainable transition. At a minimum this requires robust planning and well-considered targets, complemented by a near-term focus on

[2] Worsening or poor performance on these metrics, depending on the metric in question, is flagged for review.
[3] 50% of invested AUM has committed or set Scienced-Based Targets, validated by SBTi.
[4] This metric is the successor to MSCI's previous warming potential metric. The latter was developed to better align with best practice on forward-looking climate metrics. The measure we are using includes all emissions scopes (Scope 1 = direct emissions, Scope 2 = indirect emissions from the purchase of electricity, Scope 3 = all other indirect emissions in a company's value chain e.g. products, investments, supply chain), whereas the metric we previously used focused on Scope 1 alone. Implied temperature rise is also focused on financed emissions overshoot of carbon budgets, rather than a weighted average temperature rise.
[5] A type of commonly referenced carbon footprint that focuses on weighted average carbon intensity (tonnes Scope 1 & 2 CO2 / $USD revenue) and can be compared to the benchmark. As at 30th June 2022 this was 97 tonnes / million USD vs 127 tonnes / million USD for the Russell 1000.
[6] Glassdoor, as at 30th June 2022.
[7] ISS ESG as at 30th June 2022.
[8] Although Findlay Park's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.
[9] Activities which we have excluded when they make up 10% or more of a firm's revenue.

immediate carbon reduction opportunities. Two of the metrics we highlight above are forward-looking in nature. The first measure is our analysis of companies which have set or committed to science-based climate targets validated by the Science Based Targets Initiative (SBTi).[10] This helps us assess our exposure to companies with climate transition targets which are aligned with the Paris Agreement, follow best-practice, and have a degree of external oversight and validation. We believe that companies with such targets, backed by actionable climate plans, will benefit over the long-term by anticipating regulatory changes and societal pressure. Currently, **50%** of our invested portfolio has committed to or set such targets.[11] **In December 2021 the team contacted all companies which had not committed to such targets, encouraging them to do so**, and have followed up with many companies on this theme in 1H 2022. We expect that this type of engagement will be core to our Net Zero Asset Managers Initiative commitment. Our efforts towards this are highlighted in our engagement section.

One of the other metrics we assess – the 'implied temperature rise' of our companies, as modelled by MSCI – helps us gauge alignment with the Paris Agreement. This metric indicates that if projected emissions performance of our holdings (across Scope 1, 2 and 3 emissions) was representative of the emissions performance of corporates globally, the world would experience **2.5 degrees** of warming.[12] This is evidently higher than the aim of the Paris Agreement, but is also reflective of the current state of the global economy and short-term policy. According to Climate Action Tracker (CAT), today's policies are aligned with roughly 2.7 degrees of warming. However, a lower score is no cause for complacency hence the engagement outlined above.

We are also mindful of the impact of future regulation, and the importance of companies being alert to new developments. As shown below, CAT assesses that long-term national policy targets, including net zero commitments, imply a warming scenario of roughly 1.8 degrees.[13] This speaks to the potentially stark shift both in regulatory expectations, as governments legislate to meet their long-term goals, and in societal expectations over the coming decades. This presents both risk and opportunities, and companies need to be prepared. Accordingly, one of the new questions we embedded in our Investment Philosophy checklist in 2021 reads: "Is the company a net beneficiary of climate economics?" Over time we expect that this will make us more alert to *opportunities* from climate change, as well as risks, in addition to being complementary to the forward-looking metrics we have outlined in this report.

[10] Science-based targets provide a clearly-defined pathway for companies to reduce greenhouse gas (GHG) emissions.
[11] Ex cash.
[12] As at 30th June 2022. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.
[13] Climate Analytics and NewClimate Institute (all rights, including copyright, reserved), 'The CAT Thermometer Explained', Climate Action Tracker (November, 2021) [accessed: https://climateactiontracker.org/global/cat-thermometer/].

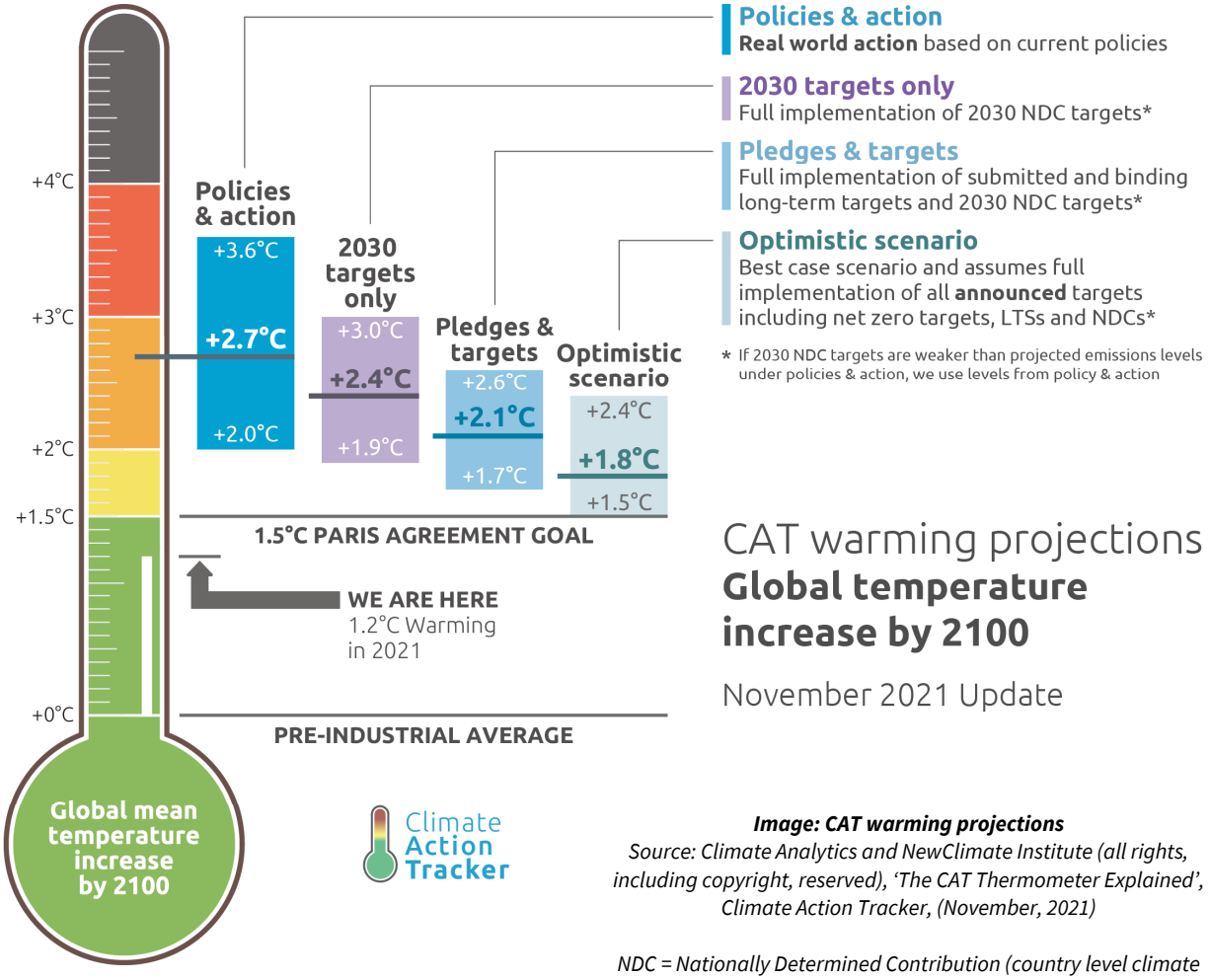

Image: CAT warming projections
Source: Climate Analytics and NewClimate Institute (all rights, including copyright, reserved), 'The CAT Thermometer Explained', Climate Action Tracker, (November, 2021)

NDC = Nationally Determined Contribution (country level climate agreement under the Paris Agreement)

Alongside these climate measures, we have started to more systematically monitor the current carbon footprint of our Fund. We use several methods to assess this, but a core metric is the weighted average carbon intensity of the Fund. This is among a set of metrics proposed by the FCA and Taskforce on Climate-Related Financial Disclosure (TCFD), and gives an insight into the operational carbon efficiency of the companies in the Fund through assessing tonnes of Scope 1 & 2 emissions on a per unit of revenue basis. **As at 30th June 2022 this weighted average carbon intensity was 97 tonnes per million USD vs 127 tonnes/million USD for the Russell 1000 index.**

Social & governance

Consideration of social and governance factors is key to our approach. On the social side we have strong conviction that companies' purpose and culture can impact their long-term performance, and we double score a question on corporate purpose and culture in our Investment Philosophy checklist to reflect this. Likewise, governance and management are critical to the long-term value of a business, its corporate strategy, and risk management. Our Investment Philosophy checklist also includes three questions dedicated to management quality, including as to whether management incentives are aligned with those of shareholders.[14] We undertake our own rigorous voting analysis which requires detailed assessment of governance, as well as wider ESG factors.

Human capital

Key to understanding a company's purpose and culture is its relationship with its employees.[15] In today's tight labour market, companies with engaged employees benefit from improved retention and lower recruitment expense.

Strong human capital management is also associated with better stock performance over time.[16] One study evaluating 28 years of data on companies ranked among the "100 Best Companies to Work For in America" found they generated 2.3 - 3.8% higher stock returns per year than their peers.[17]

Although this area is inherently qualitative and difficult to assess, we can at least monitor aspects of human capital in a data-driven manner. Glassdoor is a web platform allowing employees to comment on their experiences with employers and to give them a score from 1 - 5. We review these scores for all our companies on a monthly basis. The weighted average rating for companies in the Fund is 4.[18] By way of context, Glassdoor describes 3.51 to 4 as a "satisfied" score and anything above that as "very satisfied".[19]

Business ethics & reputation

Many questions on our Investment Philosophy checklist specifically relate to reputation, management and governance issues. Any major reputational issue can damage a firm's brand and weaken its relationship with key stakeholders such as customers, regulators, employees or wider society.[20]

Our Investment Philosophy guides us towards well-run companies with a good reputation. We ask whether firms have trusted brands, regulatory headwinds, as well as a corporate purpose and culture that we value. We also monitor firms' behaviour and any controversies associated with them, especially those which are severe or rapidly escalating. We often raise related issues through engagement and voting.

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[14] The potential financial impacts include direct costs, for example excessive executive pay, and also opportunity costs through poor decision making. On the other hand, robust governance structures and appropriate incentives can enhance value. Ulf von Lilienfeld-Toal & Stefan Ruenzi, 'CEO Ownership and Stock Market Performance, and Managerial Discretion', *The Journal of Finance* (June, 2014).

[15] Whilst employees are key stakeholders within a business, we also assess corporate purpose in relation to a wider range of material stakeholders, such as customers, wider society and the environment.

[16] By contrast, poor human capital management entails a number of risks, including inferior productivity, customer service, employee retention and attraction of talent.

[17] Alex Edmans, 'The Link Between Job Satisfaction and Firm Value', *Academy of Management Perspectives* (2016).

[18] Glassdoor, as at 30th June 2022.

[19] As at 3rd March 2022. Glassdoor guidance as at 3rd November 2021. [accessed: https://help.glassdoor.com/s/article/Ratings-on-Glassdoor?language=en_US].

[20] Research from McKinsey has indicated that 30% of corporate earnings are reliant on effective connection with these external stakeholders. John Browne, Robin Nuttall &Tommy Stadlen, *Connect: How companies succeed by engaging radically with society* (PublicAffairs, 2016) p.X.

One tool we use to assess a company's conduct is ISS' norms research, which evaluates whether a company risks breaching fundamental norms outlined in frameworks such as the UN Global Compact which relate to human rights, labour rights, corruption and environmental degradation.

At 30th June 2022, one company in the Fund, Amazon, was flagged by ISS as in breach of these global norms, and not taking sufficient steps to remediate the underlying issue.[21] Having researched the issue at hand and engaged with management, we disagree with the outcome of ISS' assessment.

In December 2021 the Italian Competition Authority (AGCM) fined several Amazon.com subsidiaries €1.1 billion for abuse of its dominant market position. This was due to concerns over Amazon's promotion of its own logistics service and preferential treatment of sellers who use this service to ship their goods on the company's Italian platform. According to the AGCM, Amazon linked its logistics service —Fulfilment by Amazon (FBA) with exclusive benefits such as the Prime label. The AGCM asserted that sellers not using FBA are subject to stricter performance criteria, which in extreme cases can result in suspension of their account. The AGCM claims this harms both competition in e-commerce logistics and in marketplaces.

Amazon strongly disagrees with the order of the AGCM. The company filed an appeal, and in March 2022, a regional administrative court in Italy ruled in favour of Amazon's request to suspend the implementation of the decision, pending a final decision to be deliberated starting October 2022. Amazon stated during the AGCM's investigation, and in communication with ISS ESG, that third-party sellers can obtain all the benefits linked to Prime by joining the Seller-Managed Prime service (Seller Fulfilled Prime), which would represent an alternative to FBA for those purposes. However, the AGCM determined that the only way for third-party sellers to access Prime was by joining FBA. In our engagement with the firm, Amazon representatives illustrated strong evidence to the contrary.

ISS has concluded that this conduct violates the 10th principle of the UN Global Compact: "Businesses should work against corruption in all its forms, including extortion and bribery".[22] This determination seems to us both excessive and premature, given the nature of the controversy, and the fact that this will be subject to additional judicial oversight. ISS has also not been clear, either to ourselves or the company, about the steps they would like Amazon to take which would lead to a change in rating. Overall, we are confident that this issue does not present material risk, and in no way evidences corruption.

Wider ESG assessment

While our own assessment of corporate ESG risk and reward is instrumental to our process, we are aware that ESG rating agencies are valued by some investors as a 'sense check' of our approach. Therefore we are monitoring and disclosing the overall ESG risk score assigned to our Fund by MSCI. This currently stands at 'AA' which represents the upper end of their average assessment (on an AAA-CCC scale).

[21] ISS ESG (30th June, 2022).
[22] United Nations Global Compact [accessed: https://www.unglobalcompact.org/what-is-gc/mission/principles].

ESG Integration

Human capital and inflation

Another area where we believe our approach to responsible investment has helped us this year relates to the changes in the labour market. We've seen significant wage inflation and lack of labour availability. Whilst our companies have not been immune to these trends, we do feel that many of them have been better able to navigate this environment.

For instance, the culture at waste management business **Waste Connections** has played a part in helping to anticipate and manage costs. This is centred on its bottom-up approach, and "servant leadership" management style that we have discussed in prior reports. More than ever, we are now seeing the advantages of this approach, built on a history of listening to employees and their communities, being mindful of their safety and compensating them well long before the labour market tightened. The result is that staff defections in a tight, post-pandemic labour market have been well below the industry average, reducing hiring expenses.

Another example of this effect can be seen at **Sherwin Williams**, the US's largest paint and coatings supplier. While not immune to wage inflation, the firm has a legacy of treating employees well and this is reflected in a turnover rate of only 5-7% – well below average for a retail business. The company manages to an owner/operator philosophy and ~8% of its shares are held by employees. In a tight labour market we view the loyalty of Sherwin's workforce as a source of competitive differentiation.

Stock-specific research

In terms of stock specific ESG research, we have been busy over the past six months; however we are sadly limited as to what we can disclose at present as ideas continue to be under review.

Unusually, we have not added any stocks to the Fund so far this year. However, we have been evaluating a number of potential candidates across a variety of industries. We undertook ESG research on companies across the transportation, healthcare, entertainment, and industrials sectors. As part of our initial due diligence we spoke with three management teams on ESG issues, covering topics including climate change, human capital, product safety and quality, and reputation and business ethics.

In 2022 we have also been focusing on companies in which we have the greatest confidence – what we often term inevitability of outcome. In one case governance-related issues contributed to a decision to sell out of a company, where change in management was a factor. In another example, ongoing human capital and governance issues were key to our decision to defer investing a company, at least until we have greater clarity on these issues.

We decided to sell out of Agnico Eagle for a number of reasons, primarily due to a change in our view of the fundamental outlook for the company, augmented by governance factors. This decision followed Agnico's proposed merger with a mid-tier Canadian gold miner called Kirkland Lake. We had carried out ESG due diligence on the acquisition, including thorough analysis of mine-specific ESG metrics, and importantly management. One positive we identified was the lower carbon and energy profile of the Kirkland portfolio, which was superior to the industry average. However, we found the outlook of the combined company reflected lower production targets for some of

Kirkland's mines, and a worsening cost outlook (both company-specific and also reflecting industry-wide trends). An additional factor was governance related, given a sudden change just before the completion of the merger whereby the previous decision to instate the Kirkland CEO as CEO of the combined company was reversed. We continue to believe that Agnico is a ESG leader relative to peers, but the challenging environment (both for the company and the wider sector), augmented by the change in our management expectations, catalysed our decision to sell the company.

In addition, we decided to defer a potential decision to invest in a company due to human capital and governance concerns. We plan to return to this when we have more clarity on a number of issues.

Engagement & Monitoring

Engagement and monitoring are essential to our investment process in several different ways. We have come to define engagement as encompassing specific, direct requests to companies regarding issues which we believe will help reduce their ESG risk, create opportunities, or improve their positive impact on people and planet. Monitoring interactions tend to relate to discussions of ESG matters and questioning, for instance to inform our own decision making. This is a critical part of stewardship, but less specifically focused on corporate improvement.[23]

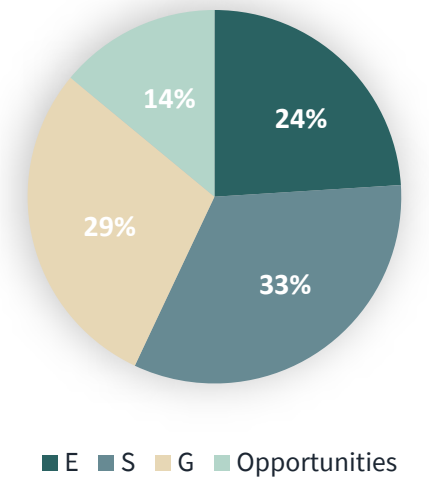
Over the past six months there were more than 60 recorded interactions with companies where ESG content was discussed. These were predominantly calls or meetings, but in some cases emails, faxes or letters.

Below we list key ESG topics discussed across both types of stewardship activities – engagement and monitoring. We have divided these by theme – Environmental, Social and Governance, and Innovation & Sustainable Opportunities (i.e. revenue opportunities from sustainable products, services and innovation). In some meetings, multiple ESG themes and topics were raised, and in others conversations touched on just one or two. Under each theme, we also give an indication of the more precise topics addressed, listed in order of frequency of discussion. This overview helps give a sense of the spread of the issues discussed.

Key ESG topics

- **Environmental Issues:** Climate-related matters such as GHG emissions and science-based targets were the most frequently discussed environmental issues. Other topics discussed included water, waste, plastic and deforestation.
- **Social Issues:** Human capital was the topic most discussed, followed by diversity and inclusion, and purpose and culture. The interrelated nature of these topics means that these were often discussed at the same meeting. Supply chains, human rights and health & safety also featured in discussion.
- **Governance Issues**: Reputation and ethics was the topic most discussed. Compensation and a variety of other governance issues (M&A, audit, share pledging) were also discussed.
- **Innovation & Sustainable Opportunities:** These discussions covered a range of sustainability-related opportunities, particularly those related to climate change, but also socially-focused areas such as small-medium size enterprise development.

Topic type



[23] 'Effective Stewardship Reporting', Financial Reporting Council (November, 2021) [accessed: https://www.frc.org.uk/getattachment/42122e31-bc04-47ca-ad8c-23157e56c9a5/FRC-Effective-Stewardship-Reporting-Review_November-2021.pdf] p.58.

The vast majority of our engagement-focused interactions with companies can be mapped to a sustainability impact defined under SFDR (relating to areas including greenhouse gas emissions, water, waste, social and employee matters). **Around three quarters of our total stewardship interactions with companies related to these sustainable impact topics.** This indicates the extent to which our discussions with companies, and increasingly what we ask of them, goes beyond a narrow focus on ESG risk and opportunity – it includes real-world sustainability issues.

In terms of the split between meetings with at least one more tangible ask of companies, and those perhaps better defined as monitoring (e.g., information-gathering), we classify over a third as the former. We'd note that our style of engagement is often suggestive and collaborative in nature; therefore there are cases where it is difficult to delineate between monitoring and engagement. The former is also sometimes used to inform, or prepare for, the latter. For instance, what starts as a question around climate ambition, may lead to a subsequent conversation asking for a firm to set a science-based target.

We are sometimes asked questions around engagement which suggest the need for a more formulaic or didactic approach. However, we think it important to maintain flexibility, nuance and judgement in our approach for a variety of reasons.

We are selective about the companies in which we invest – ESG considerations and due diligence are conducted upfront. We are unlikely to invest in a highly controversial company, with a myriad of ESG issues to be addressed. We are much more likely to be working with companies to address systemic challenges such as climate change, or to focus on improving one or two aspects of their approach.

We also believe that change is more likely to be effective when starting from a point of mutual understanding and trust, rather than issuing generic, boiler plate "requirements" to companies regardless of their business. Similarly, we are sometimes asked by investors for a specific time frame that we give to companies – the idea being that after a length of time we may sell out of a company if we see no improvement. There are certainly cases where we have sold out of a company; in some cases this has been within days of a controversy, in some cases we have monitored an issue for months until deciding we were no longer comfortable with the approach. This will very much depend on the case at hand, the severity of the issue in terms of risk or impact, and the approach management takes towards it. The latter is perhaps particularly important, albeit difficult to measure and ultimately down to our judgement.

Finally, we'd emphasise that "facts" in responsible investment are often difficult to establish, and this cautions against a formulaic approach (especially an automatic change in position size and/or divestment). Sources have biases – which must be considered when reading about a controversy, or indeed engaging with a company. We also believe that ESG "data" is insufficiently reliable or consistent to solely drive decision making. In fact, we also believe this to be true with financial data, to a large extent (otherwise we'd be a quant fund!). Just as we are not formulaic in our approach to fundamental analysis, we are not formulaic in our approach to responsible investment.

This is not to say that we do not want to see improvement in the companies in which we invest; we absolutely do! We have even improved the structure of our approach to engagement, with the aim of better focusing our efforts to help drive change. This year we have created five priority impactful engagement areas. These cover a wide range of operational and value chain impacts, and are outlined below.

Science-based climate targets	Employee engagement	Nature-related targets	Supply chain responsibility	Economic solutions
Rationale				
Science-based targets help mitigate climate risk and impact	Treatment of employees has significant social and economic impact	Environmental impacts beyond climate are increasingly in focus[24]	Many of the most salient risks and impacts occur in supply chains[25]	Companies can create SDG-aligned products & services

To help inform our approach to these themes, and define engagement targets, we draw on the negative sustainability factors highlighted in the EU's principal adverse impact framework, as well as the positive targets highlighted in the UN's 17 Sustainable Development Goals (SDGs).

We hope to demonstrate more engagement towards all of these pillars. But we wanted to give investors an insight into our progress towards the first theme – science-based climate targets – in particular. As we outlined last year, in December 2021 we emailed all the companies in which we invest which had neither set nor committed to validated science-based targets. Over the past six months we have had follow up discussions with a number of these companies.

We would highlight particular progress with the following companies:

- Marsh McLennan indicated to us that it understood the importance of SBTi and committed to this around five months after our engagement with them.
- MSCI agreed with us that SBTi validation was an important step and committed to this three months after our engagement with them. However, for various investment related reasons we decided to divest from the company.

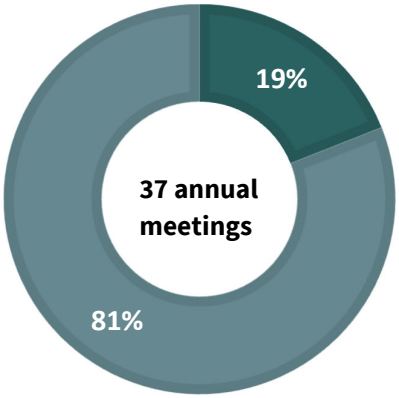
A number of companies indicated to us that science-based targets are an aim or consideration of theirs. Some of the companies in the hardest to decarbonise industries, unsurprisingly, outlined that this would be difficult, and noted that in some cases an SBTi methodology was absent for their sector. In general, we found the responses to be constructive. A summary of our related engagement is shown overleaf.

[24] For instance, as highlighted by the new Taskforce on Nature-related Financial Disclosures [accessed: https://tnfd.global/].
[25] These include human rights risks, [accessed: https://knowthechain.org/the-issue/].

SBTi engagement update			
Company	**Time of key discussion**	**Summary established via engagement**	**Likelihood of SBTi medium-term**
Arthur J Gallagher	**Q1 2022**	The firm is very much aware of the SBTi and will have reduction targets in the future. We introduced them to their sector lead at SBTi/CDP	More likely
Air Products & Services	**Q1 2022**	The firm is looking at increasing the stringency of its target. It noted that for the chemicals sector SBTi guidance is not fully developed.	Unclear
Berkshire Hathaway / Berkshire Hathaway Energy	**Q4 2021**	We wrote to, and received a response from, the utility subsidiary of Berkshire Hathaway (as well as writing to Warren Buffet on climate targets and disclosure). Berkshire Hathaway Energy noted that its UK-based electric distribution subsidiary recently obtained SBTi validation, but that it had not found this feasible in the US. We note that some other Berkshire Hathaway companies - Brooks, Fruit of the Loom, BNSF – have such a target.	Less likely / underlying company dependent
Cooper	**Q1 2022**	The firm noted to us that: "Science-based target is a target!"	*Very likely, no longer held*
Comcast	**Q1 2022**	We understand that Comcast plans to approach SBTi by end of year.	*Very likely, no longer held*
Danaher	**Q1 2022**	The firm is looking to set more stringent environmental goals. SBTi is in the mix, but the firm has not decided on a method as of yet.	More likely
EOG Resources	**Q2 2022**	EOG notes that the SBTi framework for oil and gas is still in development; EOG are struggling with the concept of scope 3 emissions and SBTi is struggling to develop guidance for the sector.	Less likely
Ferguson	**Q4 2021**	The CEO emphasised to us that SBTi is a medium to long-term ambition but that it's difficult to electrify the Ferguson's fleet. The firm subsequently wrote about this in their 2021 ESG report.	More likely
Fortive	**Q1 2022**	The firm is actively looking at this, but not committed to a timeframe.	More likely
Installed Building Products	**Q2 2022**	This insulation provider – the smallest company in the Fund - is mainly working on scope 1 & 2 emissions for now.	Unclear
ICE	**Q1 2022**	ICE is stopping short of committing now, but will make climate commitments this year. SBTi is very likely.	More likely
Marsh McLennan	**Q4 2021**	The firm indicated to us that it understood the importance of aligning with SBTi.	Committed in Q2 2022
Martin Marietta	**Q4 2021**	The firm believes it targets are similar to SBTi, and may explore this in the future.	Unclear
MSCI	**Q4 2021**	The firm outlined to us: "Today our targets are science-based aligned. We will absolutely consider going for SBTi certification."	*Committee, no longer held*
Sherwin Williams	**Q2 2022**	This paint company told us that this would not be possible this year but was on the radar for next year.	More likely
Texas Instruments	**Q4 2021**	We understand that the firm is working with the peers in the industry to create its own SBT standard.	Unclear

Voting

In 1H 2022 we voted at 38 meetings: 37 annual meetings and 1 special meeting. **We opposed management on at least one resolution at 19% of annual meetings.**[26] This figure was lower than in 2021, which we believe is because of fewer pandemic-related adjustments, and our more concentrated portfolio with high conviction names. We also point to an operational error, leading to us not voting in a meeting where we would have supported a number of ESG resolutions. This is outlined on page 15 below.

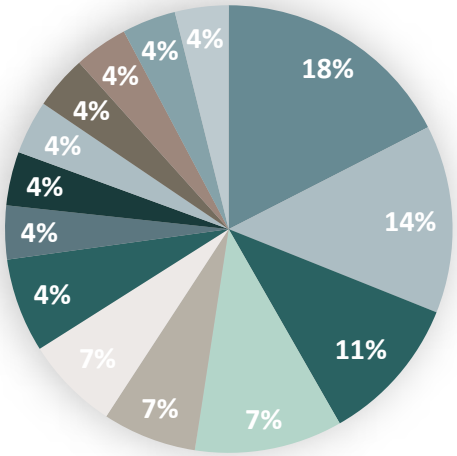


Voted against management on one or more resolutions
Voted in favour of management on all resolutions

In line with our Investment Philosophy and our voting principles – which focus on remuneration, risk and purpose & culture – we voted to secure:

- Executive compensation aligned with shareholders' interests
- Effective board oversight
- Transparency on material ESG issues including lobbying, diversity and environmental issues

Below we show how we voted against management over the year by issue.[27] Votes against Board members were the most common category (unlike other years we did not split this out by underlying topic and some votes were for mixed reasons).[28] Other topics included lobbying, diversity, and environmental issues such as plastic and deforestation.



- Board related
- Lobbying/political contributions
- Diversity & inclusion
- Other environmental
- Executive compensation
- Health
- Human & labour rights
- Climate change
- Simple majority
- Employees on board
- Animal welfare
- Independent chair
- Special meeting
- Other business

Figures may not add to 100% due to rounding.

[26] ISS ProxyExchange and Findlay Park analysis.
[27] *Ibid.*
[28] An example includes voting against a Board member due to both independence and compensation concerns.

Voting Case Studies

Below we detail a few case-studies of our most intensive voting-related decisions. But we want to start with a sincere apology to our investors, given two operational mistakes this season.

We did not vote in one meeting where we had the right, and held the company, due to an operational error. This was frustrating, particularly because this was one of the meetings about which we were most excited this year – the **Berkshire Hathaway** annual general meeting. The reason for this error, our voting intentions, and related communication with the company are described directly below.

In addition, we made an error on one item of voting at **Home Depot**, related to a proposal to lower the threshold to call a special meeting to 10%. All votes at this meeting were processed correctly. Although again a disappointment, the position was small and we have since sold out of this company. We also see pros and cons related to voting on this particular resolution. This is further detailed on page 24 below.

Berkshire Hathaway

The reason for this error stemmed from our original intention to physically attend and vote in person at the meeting.

Due to travel-related delays and extreme weather, we became concerned en route to the meeting that we might miss it, and decided to vote via proxy instead. We had thought we had been clear about the process for changing our voting approach, however it transpired that we had not clarified the matter, and it was not possible to change our voting approach at this late stage. We only became aware of this after the meeting.

This is of course a deep disappointment. We would, however, highlight a few mitigating factors. Firstly, and most importantly, we wrote to Warren Buffet ahead of the AGM signalling our voting intentions. Here is an excerpt of our email to him, which we hope outlines our intentions and the related rationale:

… Ahead of the AGM we wanted to outline our voting intentions.

As you may be aware, ISS is recommending that investors withhold their votes on compensation committee members, as well as Susan Decker. ISS is increasingly influential in swaying voting outcomes – perhaps a somewhat worrying sign about the state of investment management, and its real engagement on corporate strategy, governance, and wider ESG issues. We disagree with the recommendations against your Board members, especially on the grounds of compensation; we note the minimal short-term compensation granted to yourself, and believe that compensation is designed to enable long-term decision making. In addition, while we see many benefits of splitting the roles of CEO and Chair, we do not believe this to be right time for Berkshire Hathaway to make this division.[29]

However, we are intending to vote in favour of the other shareholder proposals, on the topics of climate change and diversity efforts.

As you know from our previous correspondence, we are supportive of climate disclosure. We appreciated the comments in your annual report which outlined some of the underlying corporate efforts on this topic; but we still feel that more could be done to encourage this across the company. The recent SEC proposal also highlights the growing state of expectation around climate disclosure. We would also urge you to prepare for the anticipated regulation well ahead of time, especially given the substantial task of gathering all this information across the company.

[29] This is not clear in the original letter, but ISS recommended in favour of a resolution for an independent chair. At the meeting itself the filer took the opportunity to criticise corporate America and "woke capitalism".

Relatedly, in order to help reduce the long-term risks of climate change we'd encourage you to consider climate targets. The science-based targets initiative (SBTi) provides a useful framework for this, which we know some of your underlying companies have adopted. We also note that the three largest holders of your B class stock (along with ourselves) have made climate commitments as part of the Net Zero Asset Managers Initiative; an initiative which endorses the SBTi approach.

As to the last proposal, we consider corporate culture a critical component of any business. In this context, we think that all companies can benefit from an appropriate focus on diversity and inclusion – which prioritises diversity of thought, equality of opportunity and employee engagement, rather than simply chasing statistics. As with climate, although we see examples of some Berkshire Hathaway firms addressing these complex issues, this could be more widespread.

…

On this occasion we did not receive a response. However, during the AGM, Warren Buffet did mention the practice of 'European investors' writing to him on ESG matters. We feel that having a presence at the front of the AGM, and applauding some of the ESG resolutions also showed support (especially given the negative reaction on some of these matters from the audience). Similarly, we'd note our ongoing commitment to engage with Berkshire Hathaway on ESG matters. This included being the lead investor on the 2022 CDP climate engagement with the firm (we were also the lead investor in 2021).[30] There we highlighted the urgent need for disclosure around - and action on – climate related issues, particularly given the SEC's proposal to start requiring comprehensive climate risk disclosure.

In terms of impact on the votes themselves, we'd also note that our class B shares have very limited voting rights, and that the resolutions we supported would have needed around twice the voting power behind them to pass.

Overall, we hope that investors will forgive this error, particularly in light of our substantial stewardship efforts, and the limited/minimal impact on final voting outcomes.

Of course, we always want to learn from our mistakes, and minimise the risks of their reoccurrence. We are updating procedures to clarify the process that needs to be followed should the decision be made to vote in person and the contingency plan in the event this is not possible.

McDonald's

This contested AGM was among the most exciting of the year. Carl Icahn, a veteran activist investor, proposed his own voting recommendations that called for two members of the firm's CSR and Sustainability Committee to be removed and replaced by ESG investing and sustainable food experts. His justification was that the firm had delayed and changed the scope of important elements in its animal welfare commitment.

The controversy relates to the use of gestation crates in the pork supply chain. Gestation crates are very small enclosures, in which pregnant sows are kept. These have been banned or restricted in a number of western countries, including in the UK.[31] Bans in the US are state led. Around ten states have chosen to introduce their own bans on pork production using crates, and the newer 2016 Massachusetts regulation and the 2018 Californian regulation go beyond this to ban in-state sale of pork reared from gestation crates.

In 2012, McDonald's made a commitment that "by the end of 2022, McDonald's USA will source pork only from supply chains that do not use gestation stalls for housing pregnant sows".[32] The firm is behind on this goal. It now states:

[30] CDP was formally known as the Carbon Disclosure Project. For more details please see https://www.cdp.net/en].
[31] 'Gestation crates: a growing financial risk', *Fairr* (February, 2022) [accessed: https://www.fairr.org/article/gestation-crates/].
[32] McDonald's corporate social responsibility and sustainability report 2012-2013 [accessed: https://corporate.mcdonalds.com/content/dam/AboutMcDonalds/2.0/pdfs/2012_2013_csr_report.pdf] p. 55.

"At the end of 2021, the U.S. pork supply chain is more than 61% of the way toward our target, which we are on track to achieve by the end of 2024. We expect to further reach 85 to 90% of our target by the end of 2022".[33]

Icahn maintains that this delay is unacceptable, and the statement above misleading as: "gestation crates are still being used by McDonald's suppliers—they have simply reduced the amount of time that sows are kept inside of them".[34] Therefore it is argued that: "McDonald's needs to include independent individuals that are capable of driving McDonald's commitments to animal welfare and ESG matters because the current Board has historically failed to do so".[35] We decided to support the election of the two alternative candidates, reflecting not only the delayed animal welfare commitment, but our belief that there was room for improvement in the scope and speed of other ESG targets (for instance related to health and nutrition, and antibiotics). We also agreed that the existing Board had insufficient sustainability expertise while the proposed new members would bring ESG, sustainable investment, supply chain, and customer expertise. ISS did not support the alternative candidates, however it did flag the potential merits of this move.

In addition, there were seven ESG resolutions at this AGM. We supported five, but did not support two. These are described below.

Shareholder resolutions supported

- **Reporting on efforts to reduce plastic.** The firm has made related commitments to source guest packaging from renewable, recycled or certified sources by 2025. However, there are potential concerns around scope as these only relate to centrally managed guest packaging and Happy Meal book and toy packaging.

- **Report on the implications of antibiotics use.** We supported this resolution last year, given the systemic health risks of overuse of antibiotics in animals. The company has some related policies in place but these do not cover all animals – for instance it does not have a pork policy.

- **Report on use of gestation crates in pork supply chains.** As Icahn argued, the firm is behind on this goal, and potentially misleading investors and consumers in terms of its scope. Increasing regulation in this area also poses some risk to the company.

- **Report on lobbying payments and policy.** We support all such resolutions by policy.

- **Racial equity audit.** Given the controversies the firm has experienced in terms of equal treatment in the workplace, we believe such an audit may be additive. As outlined below, Amazon is undertaking this.

Shareholder resolutions not supported

- **Lowering the threshold to call a special meeting to 10%.** This is lower than the level we usually support (15%) and risks one shareholder being able to call such a meeting.

[33] Animal health and welfare, [accessed: https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/food-quality-and-sourcing/animal-health-and-welfare.html].
[34] McDonalds Corporation proxy statement, United States securities and exchange commission (April, 2022) [accessed: https://www.sec.gov/Archives/edgar/data/0000063908/000119312522112029/d292171ddefc14a.htm].
[35] Ibid.

- **Issue Transparency Report on Global Public Policy and Political Influence.** Given the more straightforward lobbying disclosure resolution, we did not support this more expansive request for reporting, including charitable reporting.

Amazon

Amazon is never a simple AGM, and seemingly becomes more complex each year. One notable change this year was the increase in CEO pay related to the CEO transition. The new CEO Andy Jassy was awarded almost $215 million.[36] Although much of this was intended as an upfront award covering multiple years, we were still somewhat uncomfortable with this level for a new CEO. We also reflected that 2021 performance had not been exceptional. Overall, we did not support the compensation package.

This year there were also 14 ESG resolutions to discuss. We found many of these decisions straightforward, but some were harder to determine, requiring many hours of discussion among ourselves and with the company. Ultimately our CIO played an active role in helping determine our final decision.

Below we give an overview of our voting on each item, starting with those we supported, then ordered by E,S and G themes.

Supported

- **Plastics report.** This resolution called for Amazon to describe how it could reduce its plastics use. It was similar to a 2020/1 resolution on this theme, which we decided not to support largely due to Amazon's argument that the pandemic had created unprecedented challenges for sourcing sustainable packaging at sufficient scale. With much of the "worst" of the pandemic behind us, we did not see the relevance of that argument this year. Although we recognise that Amazon has made progress in right-sizing packaging, and eliminating some plastic in some markets, we believe their goals could be more holistic and ambitious on this theme. Better reporting on this issue may also be of interest to a wide range of stakeholders.

- **Labour rights report.** There are numerous allegations of the firm's anti-union behaviour, yet in discussion with us representatives from the firm explained how they felt some of their actions had been misinterpreted. For instance, they noted that reports that Amazon held excessive numbers of meetings with employees each day to explain the benefits of its current approach to employee relations missed that these meetings were organised in small to medium sized groups. Therefore even though a number of meetings were held each day, no one individual employee was expected to attend them all. The firm also described that it had published a post on its website explaining its approach to upholding labour rights. Amazon also alleged that the filers of the resolution wanted a complete commitment to neutrality in unionisation efforts, which the firm did not see as in the interests of its stakeholders. We have sympathy with this latter view. However, we concluded that publishing a more fulsome report covering their approach to unionisation in more detail, including the same explanation of their conduct that they provided to us, would be helpful for their reputation.

- **Warehouse audit.** This resolution asked for an independent audit of and report on the working conditions and treatment that Amazon warehouse workers face. We appreciate the firm's enhanced health and safety reporting, and also the new racial equity audit which the firm is undertaking. However, we also see room for improvement in terms of health and safety in fulfilment centres in particular (in fact, the new CEO singled out this area as one of underperformance in his shareholder letter).

[36] As per ISS valuation.

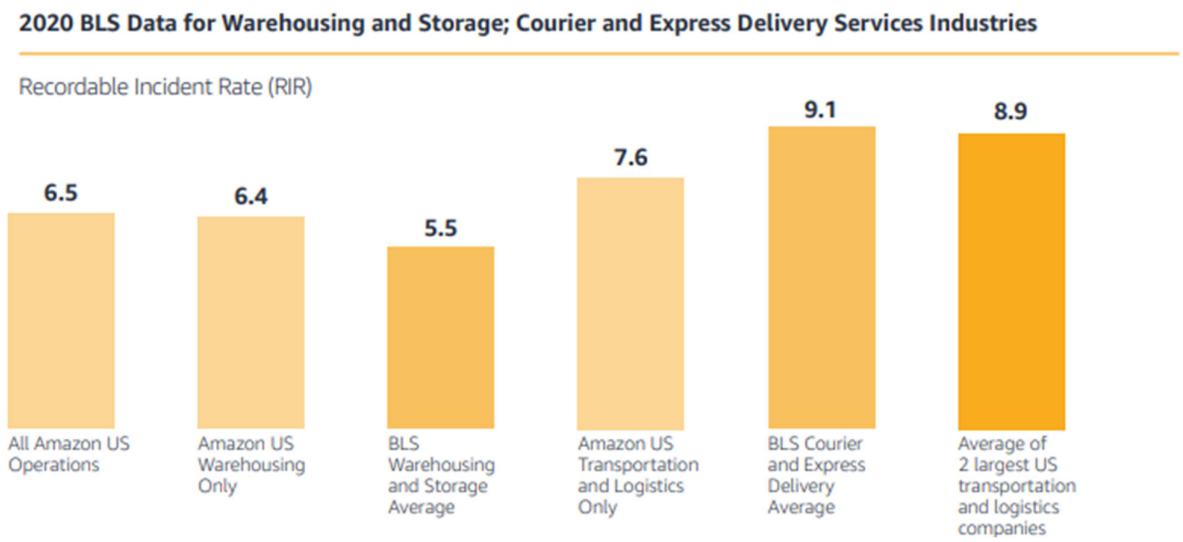


Image: Amazon, Recordable Incident Rate (RIR)
Source: 'Delivered with Care' Amazon safety report, (2021).
Accessed [https://safety.aboutamazon.com/delivered-with-care].

- **Employee board eligibility.** This asked for employees to be eligible for Board positions. Given Amazon's position as one of the US' largest employers, a history of employee-related controversies, and the firm's ambition to become Earth's Best Employer, we thought this governance arrangement might be merited.

- **Customer human rights risk.** The resolution asked for a third-party report on customer due diligence and related human rights risk. It pointed to the risks from surveillance, and increasingly from AI and machine learning products. Given the complexity and emerging nature of these human rights risks, we considered it appropriate to have heightened third-party monitoring.

- **Lobbying disclosure.** We supported a lobbying disclosure resolution, as per our policy to support all such resolutions focused on this issue.

Not supported

- **Retirement plan climate options.** This asked the Board to report on how the retirement plan options (in the 401k) aligned with the firm's stated climate goals. However, this plan is not administered by the Board for legal reasons, and the company noted that this plan does have a sustainable option.

- **Gender pay gap reporting.** This resolution asked for median, unadjusted gender pay gap disclosure across the group. The company in fact does this in the UK given pay gap regulation, and the outcomes here are among the best of all the companies in our Fund reporting under this framework (0.8% median pay gap).[37] The UK law gives us a comparable dataset for many companies in the Fund, which we use for our principal adverse impacts monitoring (in fact we use the mean, not the median, as the former aligns better with the European regulators' description). Given the materiality of many of the other employee-related issues

[37] Amazon gender pay gap reporting 2021, [accessed: https://assets.aboutamazon.com/1b/fd/bb6c500d43d7b6d8ff71ce44291f/y5-gender-pay-gap-reporting-2021-snapshot.pdf].

discussed above at Amazon, we decided to prioritise these areas this year, while continuing to monitor the UK part of the firm's gender pay gap. We also believe that disparities in the treatment of female employees may be determined through the warehouse audit which we requested, and the racial equity audit which the firm is undertaking.

- **Human rights risk for Rekognition**. This asked for the company to disclose a third-party report on the company's Rekognition facial recognition system. We noted that the firm has extended its moratorium on selling Rekognition to law enforcement agencies. In addition, we supported a more wide-ranging report on human rights risk associated with a number of technologies, which may be more relevant.

- **Diversity-related health & safety reporting.** This asked for a report on whether the firm's health and safety practices could lead to gender or racial disparities. We believe that disparities in the treatment of female employees may be determined through the warehouse audit which we requested, and the ongoing racial equity audit.

- **Report on use of concealment clauses.** This asked for a report assessing the potential risks to the company associated with its use of concealment clauses. However we understand from the company that this practice is no longer standard.

- **Report on charitable contributions.** This asked for a report on all donations of more than $999. However, the company's disclosure in terms of charitable activities is in line with industry practice, and we are not concerned about misuse of donations in this case.

- **Adopt more Board candidates than seats.** This resolution asked for a selection of directors from which investors might choose. This is not market practice. Investors also have the ability to contest elections (see McDonald's above).

- **Report in line with GRI tax standard.** This resolution asked that Amazon adopt the Global Reporting Initiative's standard for tax transparency. This standard goes into great detail around taxation, including the approach chosen; governance, risk & control; stakeholder engagement and concern management; country-level reporting. We typically trust the management of tax affairs to the companies in the Fund's portfolio. In Amazon's case, however, we did note the emerging issue of 'Big Tech' regulation in terms of tax, and the existence of related controversies. We discussed this extensively within the firm. One of Amazon's concerns related to the potential divulgence of competitively-sensitive information (which it noted is referenced in upcoming EU regulation which mandates more transparency but allows for a time-lag in some reporting if information is sensitive). In our research related to the resolution, we also saw relatively few examples of such reporting. We encouraged the firm to consider enhancing transparency, but ultimately did not vote for the resolution regarding this standard in particular.

All significant votes

Below we explain our vote on significant items. This includes an overview of each occasion where we voted on a shareholder resolution, voted against management, or were not aligned with the views of ISS. Votes related to special meetings are also noted, given their potential materiality to the future of a company.

Votes on ESG resolutions

Votes on ESG resolutions are explained, ordered by E, S and G themes.

Environment

Climate action

We voted for a proposal at **Charter Communications** asking for a climate action plan and GHG targets. Although the firm has made progress in its climate reporting in the last year, there is still room for improvement. The firm has also not adopted a science-based climate target. We have committed to supporting reasonable climate-related resolutions, unless a company has a best-in-class approach to climate.

Deforestation

We voted for a resolution asking **Home Depot** to assess how it could increase its ambition in terms of reducing deforestation in its supply chain. Corporate-aggravated deforestation is a material impact / risk with a number of implications, for instance climate and biodiversity. Although Home Depot is not a significant purchaser of wood, it is still involved in this value chain. We noted some gaps in the firm's wood sourcing policy, and also that the firm did not undertake best-in-class reporting on this issue (for instance it had not yet replied to CDP's forests survey, although we learned from the firm that it will do so going forwards).

Social

Diversity, equity and inclusion

A number of different proposals were put to us on this topic, and we voted differently depending on the specific cases at hand.

At **Charter Communications**, there were two diversity-related resolutions, one asking for the firm to disclose specific diversity data which it gives to the Equal Employment Opportunity Commission "EEO-1 data". Another resolution asked for data to help assess the effectiveness of the firm's diversity, equity and inclusion efforts. Charter has been involved in some employee-related controversies, including discrimination lawsuits, and its company-wide diversity disclosure efforts are somewhat limited. It also scores below other companies in the Fund on our own human capital metrics. We ultimately decided to support both resolutions.

At **Home Depot** there was a request for a racial equity audit, and another to report on steps to improve Board diversity. However, we see the company as strong performer on diversity, equity and inclusion. For instance the company's workforce statistics show higher than national average ethnic diversity – which has slightly increased in the last three years. Underrepresented groups also make up 35% of management. In terms of Board diversity, at the time of the vote 29% of the Board were female and 29% were racially/ethnically diverse; the company did not lag its

peers in these respects. Furthermore, both of the new Board nominees were female, and one Hispanic. Therefore, we decided not to support these resolutions.

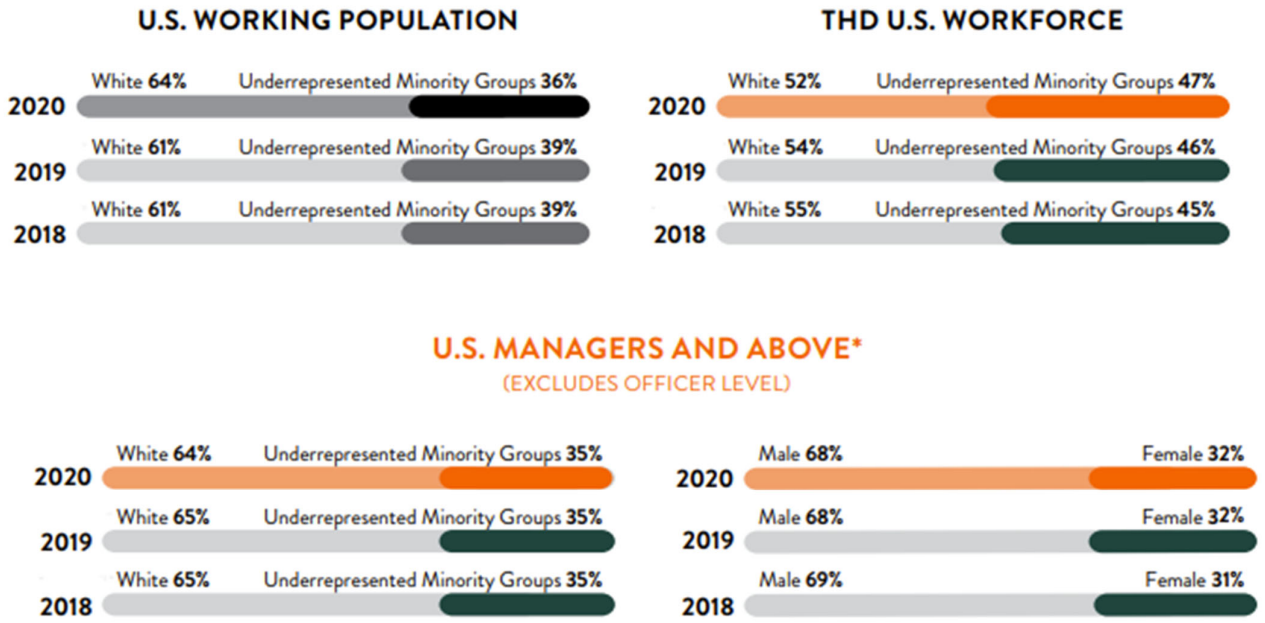


Image: Home Depot, US working population.
Source: Home Depot ESG Report (2021).
*Accessed [*https://corporate.homedepot.com/sites/default/files/THD_2021ESGReport.pdf]] p. 28-29.

Ghost guns

A shareholder resolution asked for **Mastercard** to disclose how it is approaching facilitating the sale of 'ghost guns' – with the implication being that Mastercard should likely stop enabling payments for ghost guns.[38]

We carefully debated the merits of this resolution and the company's approach to this. Currently Mastercard applies a "lawfulness principle" whereby it aims to stick to the letter of the law in terms of what it moderates. Ghost guns are currently legal in many states, although there is a proposal to better regulate them at the federal level. Mastercard's concern is that by taking a position which does not align with legal requirements, the company sets itself up as an arbiter on ethical questions and is open to criticism by different sides of the political spectrum. Mastercard did, however, acknowledge the "crisis" brought about by lax gun laws in the US, and indicated that it publicly supported their strengthening. The firm also made an "undertaking" to us that they will be more transparent about ghost-gun related monitoring and enforcement. Overall, we decided not to support this resolution, given the company's promise of increased transparency on its approach to this issue.

[38] Ghost Guns: "Unserialised, privately-made firearms that law enforcement is increasingly recovering at crime scenes in cities across the country" . Source: Fact Sheet: The Biden administration cracks down on ghost guns, ensures that ATF has the leadership it needs to enforce our gun laws, *White house statements and releases* (April, 2022) [accessed: https://www.whitehouse.gov/briefing-room/statements-releases/2022/04/11/fact-sheet-the-biden-administration-cracks-down-on-ghost-guns-ensures-that-atf-has-the-leadership-it-needs-to-enforce-our-gun-laws/].

Governance

Lobbying disclosure

We supported a simple lobbying disclosure resolution at **Charter**; we have committed to supporting all such resolutions.

Lobbying ideology / practices

We voted against two resolutions asking for companies to declare the congruency between their political spending and company values. These were filed at **Home Depot** and **UnitedHealth**. From speaking with the companies, we understand the filers to be motivated by particular political priorities with which the companies do not want to overly engage. We decided not to vote for these resolutions.

However, we did support a similar resolution at Charter Communications, which more focused on anti-climate lobbying in particular; we also note that **Charter** has lower lobbying related disclosure than many other companies in the Fund.

At **Mastercard** a resolution asked for shareholder written approval for the company to make any direct or indirect donation to a politician who objected to the election of Biden. The firm has limited direct exposure to these individuals, but is unable to reliably prevent indirect exposure, for instance through trade associations. We decided not to support this resolution.

Chair independence

We did not support this resolution at **Home Depot.** The roles of CEO and Chair have now been split given a recent CEO transition. The Board also has an independent lead director and was 86% independent at the time of voting.

We however voted for a similar resolution at **Charter**. Here the CEO and Chair are the same individual, and a number of Board members have overlapping past experiences.

Charitable contributions

We did not support a shareholder resolution at **Mastercard** asking for a report on all donations of more than $999. The company's disclosure in terms of charitable activities is in line with industry practice. The firm also has one of the largest and well-respected Foundations.

Severance vote

Two resolutions, at **Fiserv** and **UnitedHealth**, asked for shareholder approval of change-in-control terms with respect to severance. We engaged in discussions with both firms on this issue. While we agree with oversight of change-in-control arrangements, we believe say-on-pay to be a good mechanism for this. Mandating prior approval of provisions might hamper a recruitment or promotion process.

Super majority

We voted for a resolution at **Fortive** to eliminate the supermajority voting requirement. The firm proposed its own resolution on this matter, but we noted the high percentage of votes needed to pass this (80% shareholder approval) and the value of ensuring this endeavor remained on the firm's agenda. We therefore decided to vote for both resolutions.

Threshold to call a special meeting

We did not support the majority of resolutions on this topic this year, as all those put before us by shareholders call for the threshold to be lowered to 10%. We had such resolutions at **CBRE, CoStar, Danaher, ICE, Mastercard, and Texas Instruments**. While we are in favour of a reasonably low threshold to call a special meeting, we generally see 10% as too low a threshold, which would enable one shareholder to unilaterally support such a resolution.

One exception was for **Home Depot**. Due to lack of clarity in vote instruction, we voted for this resolution in this case. The risk of this error occurring was exacerbated by a late response from the company, addressing our ESG questions. This made for a rather more rushed operational process than we would have liked. To add to the confusion, in previous years we have voted for many resolutions to lower the threshold to call a special meeting, as these have asked for a 15% threshold which we see as reasonable. Therefore, it has been common for us to vote for at least some resolutions on this topic. These issues compounded the risk of an error. Going forward, we will make additional efforts to ensure we double check instructions, whatever the circumstances. In this case the resolution failed by over 10% of votes meaning we did not influence the ultimate voting outcome.

Other votes against management

Board members

Due to a historic policy allowing for share pledging, two **Danaher** founders have a number of pledged shares. We voted against the Board member on the Audit Committee who was on the Board before the current policy to prevent share pledging was in place. This contrasts with ISS' recommendation to vote against all Audit Committee members, even those not responsible for the original issue.

We also voted against the Lead Director and **Head of the Compensation Committee** at **Charter**. There is no annual say-on-pay at the company, and we were somewhat concerned with the substantial option award and use of undefined bonus metrics. Many Board members also have overlapping career histories. Overall we see room for improvement in pay and governance practices. However, we did not vote against all the Compensation Committee, as per ISS' recommendation, taking the more targeted approach described above.

Executive pay

We voted against executive pay at **Fortive**, due to the around three-fold increase in total CEO pay from 2020 to 2021, which we felt was not justified by superior performance. In addition, the firm's returns targets linked to CEO pay seemed somewhat unambitious. We also noted a material sign-on bonus for another executive.

Other votes against ISS recommendations

Board members

ISS recommended against three **CBRE** Board members, due to their audit committee membership and the identification of a material weakness in the accounts – albeit one that had not resulted in a financial impact or misstatement. This was identified in 2019. We discussed this issue with management last voting season and again this voting season. We learned that the issue largely stemmed from the disparate systems inherited from a European division acquired as part of a firms acquisition strategy. Since this time there has been a significant organisational restructuring, including senior management change at the division responsible. But the firm noted that it had taken longer than it had anticipated to fully change processes. Of the seven specific remediation steps originally identified by the auditor, all but one have been taken. Both the group CEO and divisional CEO took a bonus reduction as a result of this issue, and the firm assured us that the Audit Committee is highly focused on this matter. Overall we

determined that leaders were being held to account for this issue, and decided to support the Board members in question.

ISS recommended against non-independent **T-Mobile** Board members. The firm is non-independent due to its majority ownership by Deutsche Telekom, whom we see as a committed, long-term shareholder. The parent has made considerable efforts to transform its strategy, brand and performance. Evidence of this includes its instrumental role in the 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, as we did last year, we supported the re-election of Deutsche Telekom Directors at the AGM. In a previous year we have voted against 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. Currently, the remaining Board member with links to Softbank is Marcelo Claure –the former CEO and Chairman of Sprint who held 0.5% of T-Mobile at the time of the annual general meeting. We thought such representation was reasonable, and so supported all directors this year.

Other voting

We voted for **Ferguson's** proposal to move its primary listing from the UK to the US. We believe that, given the firm's exclusive operational focus in North America, that this makes sense for the business and its shareholders.

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