Findlay Park

2H 2022

Responsible Investment & Engagement Report

Findlay Park Partners LLP (Findlay Park)

An independent investment partnership based in London

The Investment team manages a single strategy available through one 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.

REFLECTIONS ON 2022

The past year was challenging from a responsible investment perspective. In the real economy, we saw rising energy prices, geopolitical instability, and inflation. In the US stock market, we saw negative performance for every sector apart from energy. In the media, ESG itself was debated.

But we also saw important efforts to grow the markets for sustainable finance, new energy and infrastructure – from the Inflation Reduction Act in the US to the emerging Sustainable Disclosure Regulation in the UK. In terms of global policy, a rather uneventful climate meeting (COP27) was followed by one more promising on biodiversity (COP15). This included a target for companies and financial institutions to monitor and disclose on biodiversity.[1]

The year presented a potentially confusing picture for investors, and for companies. In the midst of this, we maintained a consistent approach to responsible investment – balancing rigor, aspiration and pragmatism. We continued to implement the selective list of exclusions which we adopted in 2021. This allows us to invest in conventional energy, whilst avoiding some of the highest climate risks and impacts – for instance those associated with coal. We increased our exposure to energy companies, but pursued this in a highly considered manner, with intensified collaboration between co-coverage and responsible investment team members. Whilst being responsive to the changing current environment, we also reinforced our focus on long term themes – including climate and social equality.

Similarly, we somewhat increased our exposure to conventional defence – whilst avoiding investing in companies producing controversial weapons.[2] But we have not favoured any 'pure-play' defence companies, instead finding better opportunities in those exposed to longer term issues, as well as the current geopolitical outlook. For instance, we invested in Teledyne, which is a leader in defense electronics. However, it is also the leader in the sensors required for temperature, ocean health, weather, methane, water and pollution monitoring. The firm has estimated that $2-2.5 billion of revenue relates to sustainable themes (up to around 45% revenue exposure).

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[1] Require large and transnational companies and financial institutions to monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity through their operations, supply and value chains and portfolios. 'COP15 : Nations adopt four goals, 23 targets for 2030 in landmark UK biodiversity agreement', *Official CBD Press Release* (19 December, 2022).

[2] Cluster munitions, antipersonnel mines, biological and chemical weapons, as per the EU's principal adverse impact framework. 'C 2022 1931 Annex 1 Principle Adverse Sustainability Impacts Statement', Principle adverse impact and product templates for the Sustainable Finance Disclosure Regulation, *European Insurance and Occupational Pensions Authority,* p. 10.

Finally, throughout 2022, we sought to re-emphasise our commitment to ESG to companies. In December we wrote the following letter to the CEOs of all the companies in which we invest, highlighting the importance of a thoughtful approach to ESG issues.[3] We wanted to share this with our investors, and it is copied below.

LETTER TO CEOS

As the year draws to a close, we wanted to send you a word of encouragement, on behalf of all of us at Findlay Park. Businesses, investors and society have been subject to a number of shocks in the past few years. With these have come sometimes competing pressures, and polarised opinions about the best way forward. We wanted to focus on some aspects of this, in particular what we see as the important cluster of material - but not classically financial issues - which have come to be known as "ESG".

We understand that this term means different things to different people. We firmly believe that paying careful attention to ESG issues is good for business, investors and society. We also recognise that the vast majority of businesses in which we invest have, in recent years, made real progress on ESG issues in a way which is beneficial to their businesses.

Of course, this does not mean exclusively pursuing environmental or social goals, to the exclusion of other strategic priorities. It does not mean un-economic transformation of business models, nor overhauling of workforces solely to improve statistics. This is naturally bad for business. If change is not sustainable in the economic sense, we do not believe it can be sustainable in an environmental or social sense.

We want to see this progress continue in a rational, thoughtful, and intentional way. For us, this does mean considering science-based climate targets, which can help enable both energy transition and security – as businesses find ways to become less dependent on natural resources. But climate is only one major ESG issue for businesses to consider. Engaged, inclusive and productive workforces are key to all businesses – perhaps particularly so at times of labour inflation and shortages. Resilient supply chains are more in focus than ever, and with them an awareness of their associated human rights risks, as recent legislation in the US and elsewhere has highlighted. Good governance, leadership and risk management, are fundamental to the "G" of ESG, and have always been of keen interest to all but the most short-term of investors.

We believe that a pragmatic, sincere approach to these critical issues will emerge in time, as political and economic headwinds subside. Public investor commitment to the principles underlying ESG remains high – well over $100 trillion of AUM has signed up to the Principles for Responsible Investment. Asset managers with around $60 trillion in AUM have signed up to the goal of supporting the transition to net zero – through the Net Zero Asset Managers initiative.

Despite these numbers, we do recognise that not all your investor base may be as engaged on these issues in 2022 as they were in 2021.

We want to encourage you to continue on the journey you've started. Importantly, we want to recognise the hard work of many in your organisation, across a number of different teams, who work on these critical issues, and help drive improvements. We add our voice to theirs as they continue to help you better manage your key risks, and create benefits for your shareholders, society and the environment.

[3] As at 1st December 2022.

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.[4] We are also providing a comparison with our 31st December 2021 metrics for additional context. Changes are explained in the following sections.

	ENVIRONMENTAL			SOCIAL & GOVERNANCE		ESG
METRIC	Science-Based Targets [5]	Implied Temperature Rise [6]	Weighted Carbon Intensity [7]	Glassdoor Score [8]	UN Global Compact [9]	MSCI ESG Fund Rating [10]
2022	**47%**	**3.2**	**Below benchmark**	**3.9 / 5 star rating**	**One ISS identified breach**	**AAA**
2021	**44%**	**2.5**	**Below benchmark**	**4 star rating**	**No ISS identified breach**	**AA**

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.[11] However, we spend more time on climate than any other environmental theme, given its broad application across the Fund.

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[4] Worsening or poor performance on these metrics, depending on the metric in question, is flagged for review. 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.

[5] 47% of invested AUM has committed or set Scienced-Based (change to science-based) Targets, validated by SBTi, as at 30th December 2022.

[6] 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.

[7] 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 December 2022 this was 133 tonnes / million USD vs 136 tonnes / million USD for the Russell 1000.

[8] Glassdoor, as at 30th December 2022.

[9] ISS ESG as at 30th December 2022.

[10] 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.

[11] Activities which we have excluded when they make up 10% or more of an investee firm's revenue.

The past year presented near-term challenges for the Energy Transition.[12] In the stock markets, listed energy companies saw strong performance. Energy companies in the S&P500 were collectively up over 50%, whilst no other sector saw positive performance.[13]

In the second half of the year, we increased our weighting in oil and gas, finishing with around 6%. We initiated investment in one energy company, ConocoPhillips, alongside our long-term holding in EOG Resources. We conducted thorough due diligence, including engaging with management on ESG issues. One positive element which we noted was the company's reduced exposure to oil sands – heavy-duty oil which is particularly carbon intensive (we have committed not to invest in companies with over 10% of revenue exposure to this source, as a result). The company is also one of the longer standing to disclose its Scope 3 emissions, as well as being an advocate of carbon pricing.

The higher weighting in oil and gas contributed to an increase in our Fund's implied temperature rise, **ending the year at an estimated 3.2°C vs 2.5°C at the end of 2021.** This reflects an increase in our overall exposure to the climate transition risk inherent in conventional energy stocks like ConocoPhillips and EOG. However, we believe this is in line with the wider market. At the end of the period, we remained **narrowly under the benchmark in terms of our Scope 1 & 2 GHG footprint – at 133 tonnes / million USD vs 136 tonnes / million USD for the Russell 1000.** We expect that this metric may vary between years as a result of changes to how the Fund is weighted. Over the long term, we anticipate our implied temperature rise metric to reduce. This reflects our expectations of an economy-wide transition towards net zero, as well as our own commitment to help achieve this by encouraging the companies in which we invest to set science-based climate targets.

Importantly, we are also committed to encouraging positive changes within firms from a broad range of industries – including those with higher current footprints. **The weighted average of the companies with science-based climate targets (SBTis) was at 47% at the end of the period.** This was an improvement year on year, although a slight decrease from our mid-year result of over half of companies committed to SBTi's.[14] This change was in part due to our increased exposure to mid-cap companies in the Fund towards the end of the year, as well as our greater exposure to some industries without SBTi approved targets.[15]

However, we did see some promising new commitments. **Four companies which we held during 2022 newly committed to science-based climate targets. These comprised: Alphabet, Marsh and McLennan, MSCI, and UnitedHealth Group.** Railroad company Union Pacific also increased the ambition of its science-based target from "well below 2'" to 1.5'. This followed pressure from over 30% of its investors during 2021 proxy season, including ourselves, asking for a more comprehensive climate transition plan.

Overall, it's difficult to calculate our overall exposure to climate risk.[16] However, as we outline in our TCFD reporting, one of the more interesting findings from our scenario analysis is that a better managed 'orderly' transition presents less financial risk than a 'disorderly' one (for instance if carbon pricing is applied earlier and more gradually, this is a better outcome than if this is aggressively applied at a late stage). This adds further support to the work we are doing to

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[12] 'Defying expectations, Co2 emissions from global fossil fuel combustion are set to grow in 2022 by only a fraction of last year's big increase' *International Energy Agency* (19 October, 2022).

[13] 'Performance 2023: S&P 500 Sectors + Industries', *Yardini Research* (27 March, 2023).

[14] We make these calculations ex-cash, and subject to portfolio weightings. In our H1 2022 report we disclosed 50% of companies with or committed to science-based targets. This missed one company which had an SBTi commitment noted on the SBTi platform in June 2022. Therefore the actual number was slightly higher, at 51%.

[15] We find mid-cap companies more challenged in formalising these targets, although SBTi has a lighter touch processes for very small companies. In addition, SBTi does not yet have a finalised target setting protocol for oil and gas companies.

[16] Although we have access to a Climate Value at Risk tool, we do not yet have confidence that this data is reliable (for instance the quantum per se).

a smoother transition to a low carbon economy – including co-signing a **global statement from the investment community to governments, supporting CDP's work on climate disclosure, and engaging with all companies without science-based targets.**[17]

HUMAN CAPITAL

Human capital is perhaps the best evidence of the materiality of ESG, likely for intuitive reasons: motivated employees work harder, stay longer and generally add more value to a firm.[18] Strong human capital management is associated with better stock performance over time.[19] 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.**[20]

One measure we closely monitor is a firm's Glassdoor score, which is an aggregation of employee and former employee reviews on Glassdoor. Research from Glassdoor looking from 2009-19 found that **US companies with Glassdoor awards outperformed the S&P 500 in nine of those eleven years.** Investing in Glassdoor's Best Places to Work list over the period would have yielded over twice the compound performance of the S&P 500.[21]

The weighted average **Glassdoor score of companies in our Fund at the end of 2022 was 3.9**, corresponding to the upper end of Glassdoor's "satisfied" classification.[22] This was very similar to the weighted average score of 4 at the end of 2021. We believe that we are relatively well positioned from a human capital perspective. One of the most distinctive questions on our Investment Philosophy checklist is "do we like the corporate purpose and culture" – evidencing the seriousness with which we take these issues.

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.[23] One recent study, based on data from RepRisk, an ESG controversy data provider we use, found that **negative ESG news led to analyst downgrades** over one and even three-year sales forecasts.[24]

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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[17] We encouraged all companies in the Fund without science-based commitments to set these - as at 1st December 2022. We added one company to the Fund in mid-December which was not specifically engaged on this matter till January, given the timing of our investment.

[18] 'Employee satisfaction, labor market flexibility, and stock returns around the world', European Corporate Governance Institute (ECGI) - *Finance Working Paper No. 433/2014, Jacobs Levy Equity Management Center for Quantitative Financial Research Paper* (6 June, 2022).

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

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

[21] Andrew Chamberlain & Zanele Munyikwa, ' What's culture worth? Stock performance of Glassdoor's best places to work 2009 to 2019', *Glassdoor Economic Research* (1 May, 2020).

[22] Glassdoor summarises the ratings on their platform as a "5-point scale", and bands 3.51-4 corresponding to a "satisfied" classification, while 4.01-5 translates to "Very Satisfied". 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].

[23] 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.

[24] François Derrien, Philipp Krueger, Augustin Landier, Tianhao Yao, 'ESG news, future cash flows, and firm value', *Swiss Finance Institute Research Paper No. 21-84, HEC Paris Research Paper No FIN-2021-1441* (13 August, 2021).

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. We would note that – ultimately – the decision of whether a company is in breach of these principles is subjective, and that different analysts, and ESG research providers, may come to different conclusions.

At 30th December 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.[25] Having researched the issue at hand and engaged with management, we disagree with the outcome of ISS' assessment.

We initially noted this flag in our 1H 2022 report. 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. Amazon strongly disagrees with the order of the AGCM, and is appealing the decision. An Italian administrative court has now suspended Amazon's appeal, pending a separate jurisdictional challenge brought by the technology giant to the European Court of Justice.[26]

We disagree that this is in breach of UN Global Compact Principle 10, concerning corruption. **We have twice engaged with the company on the matter, and discussed this with ISS**; we do not expect an update to this assessment in the near-term.

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; **"AAA" was MSCI's rating of our Fund, available at 30th December 2022.**[27] This is the best rating available to a Fund.

[25] ISS ESG (30 June, 2022).

[26] Julie Masson, 'Italian court stays Amazon's appeal against €1.13 billion abuse fine', *Global Competition Review* (31 October, 2022).

[27] MSCI assesses our holdings on a time lag, but this was the latest rating assessment available as at 30th December 2022.

ESG Integration

ROYALTY AND STREAMING COMPANIES

Gold royalty and streaming is an area which we have long been exploring. The business model itself is rather nuanced, and difficult to assess from an ESG perspective – these companies share some issues in common with mining companies, but are more like financial firms.

Royalty and streaming companies do not operate mines, develop projects, or conduct exploration. Instead, the business model is focused on managing and growing a portfolio of royalties and streams. A royalty is the right to receive a percentage of the value of minerals, or a portion of *revenue or profit generated from a mining operation* (usually provided in exchange for an upfront payment used to fund a project's development). A stream provides an upfront payment in exchange for a share of the *value of future metal production*.

As we came to learn more about the industry, we decided to focus not only on the practices and processes at the company level, **but to also undertake due diligence on the key mines driving revenue. We also engaged extensively with management teams from two firms.**

One of the companies with which we engaged derives significant revenues (the most of any one mine) from a copper mine in Panama called Cobre Panama. We soon identified a number of material ESG risks and impacts associated with this project. This is a coal powered mine in an area proximate to numerous endangered species; the mine has been noted as non-compliant by Panama's Ministry of the Environment. There have also been social issues at the mine, given proximity to indigenous lands and its apparently poor handling of COVID-19. Importantly, it has been alleged that the whole contract is unconstitutional. When engaging with the royalty and streaming company's management team, we found them to be somewhat dismissive of these risks. We decided not to pursue further research into the royalty and streaming company in question, given the saliency of this and other ESG risks, and due to our poor experience of engaging with the company on ESG matters. In mid-December 2022, Panama ordered the miner to make plans to temporarily suspend operations. As at 16th January an agreement is yet to be reached, risking the operation.[28]

By contrast, we identified a peer called **Royal Gold** which we believe has less exposure to operational ESG risk and has been highly responsive to engagement. In our earliest engagement with the company, we encouraged it to allocate resources towards its ESG efforts and improve its disclosure on this topic. We then met with the company's ESG consultant to provide feedback on material topics for inclusion. Many of these were incorporated into the firm's first ESG report. More recently, we've seen the firm add a dedicated expert in this area – with a background in ESG for mining related finance. Royal Gold has also signed up to a new ESG risk-related data platform (which we specifically recommended) to better inform its investment decision-making and risk management processes. We believe the firm is taking positive steps to better understand and improve on ESG matters.

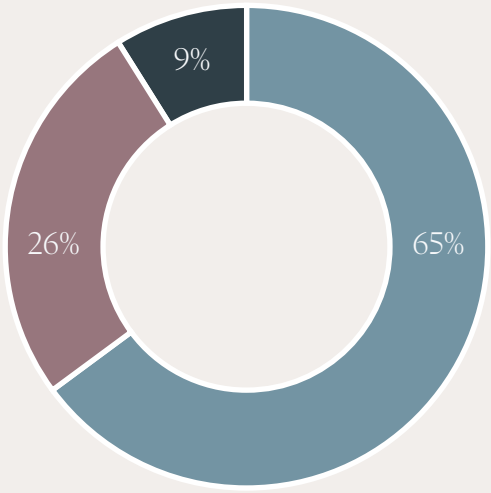
[28] Naimul Karim, 'Panama says clock is ticking on First Quantum mine deal' *Financial Post* (13 January, 2023).

Engagement & Monitoring

Engagement and monitoring are essential to our investment process in several different ways. We have come to define engagement as purposeful dialogue with a specific and targeted objective for a company regarding issues which we believe will help reduce its ESG risk, create opportunities, or improve its positive impact on people and planet. Monitoring interactions tend to feature 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.[29]

Throughout the course of 2022 we held around 120 recorded interactions with our investee companies where ESG-related topics were discussed. Around 40% of these entailed more specific engagement asks – for instance the recommendation to adopt a science-based climate target. This figure excludes the above CEO letter we sent to all companies as a general encouragement of continued progress on ESG issues. If these were included, the figures would be around 160 interactions, 55% of which entailed engagement-related asks.

Below we list key ESG topics discussed across our company engagements, which have been divided by theme – Environmental, Social, and Governance. In most meetings multiple ESG themes and topics were raised for engagement. We have also further categorised our engagements against the Sustainable Development Goals (SDGs) and Principal Adverse Impact (PAI) indicators under SFDR where relevant. These visualisations help to give a sense of the spread of the issues discussed.



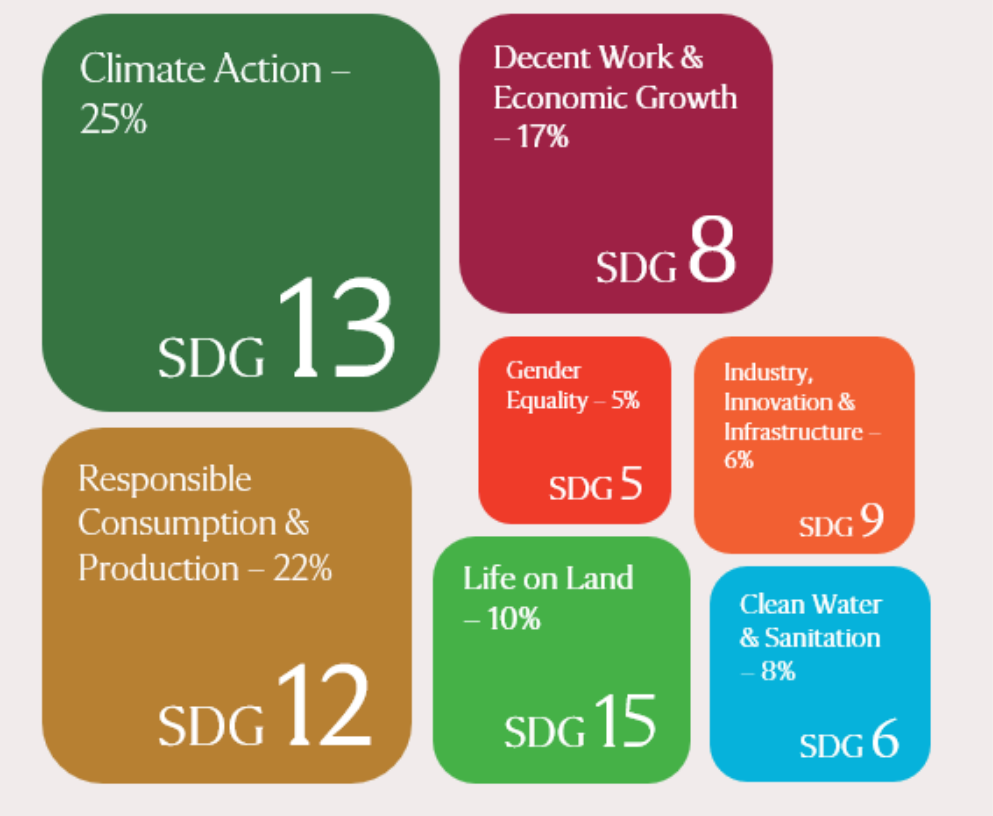
Environmental Issues: Climate related matters were the issue on which our companies were most frequently engaged. Other topics include biodiversity, water, waste, plastic, and sustainable opportunities.

Social Issues: Human capital was the most popular topic for engagements, followed by supply chain issues, and diversity and inclusion.

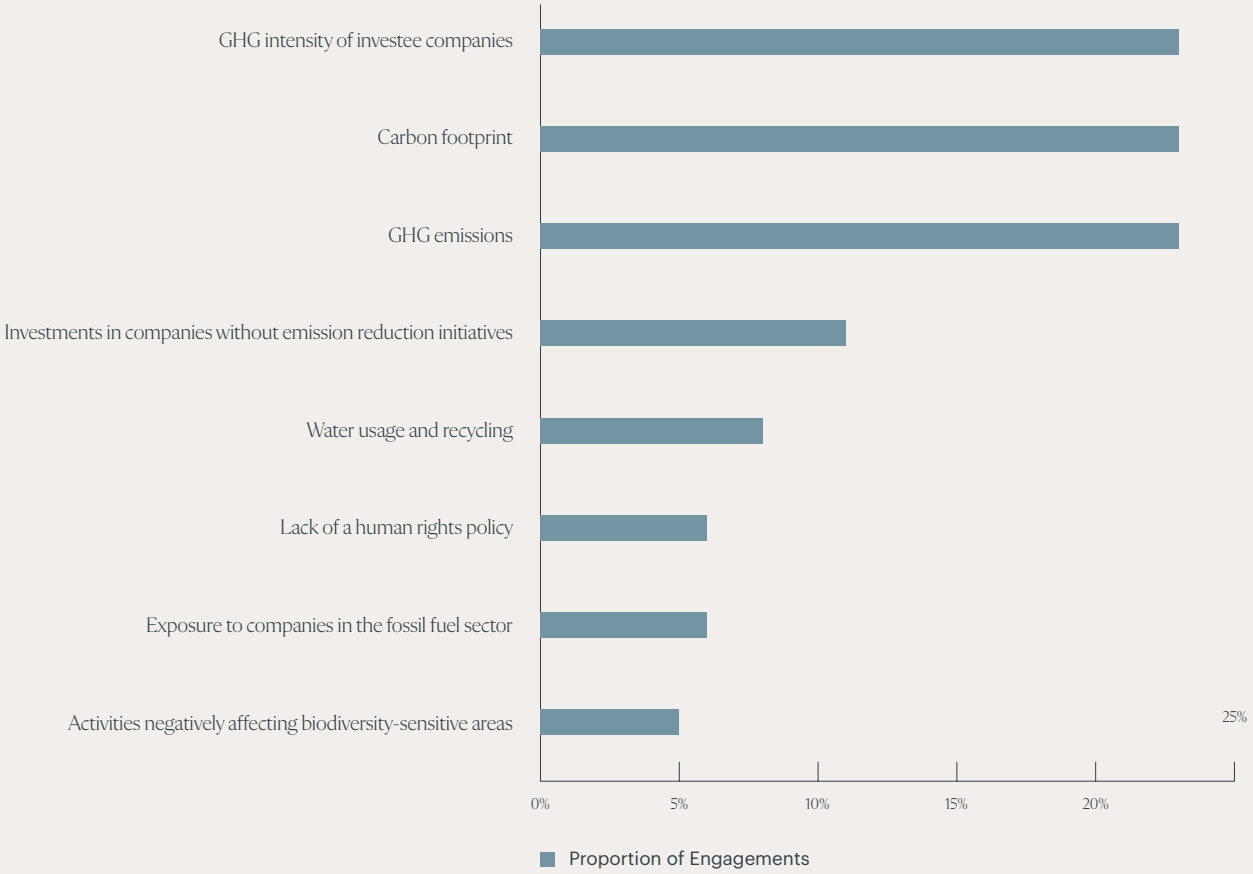
Governance Issues: Reputation and business ethics featured most frequently in governance-related engagements, along with management-related issues, compensation, and tax.

[29] 'Effective Stewardship Reporting', *Financial Reporting Council* (November, 2021) p. 58.

SDGs linked to engagements



PAIs linked to engagements



Engagement survey

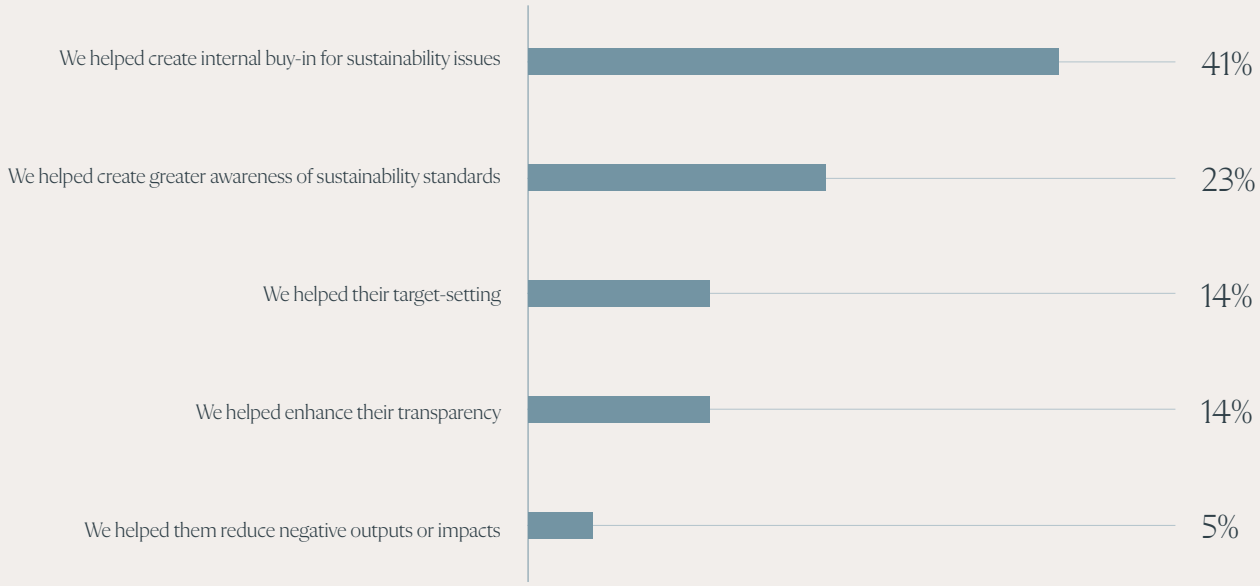
In 2022 we articulated an ambition to help our companies have a positive impact on people and planet. Key to achieving this is engagement with companies to help them progress on sustainability issues. We wanted to solicit feedback from companies as to whether we had helped them make such progress. In January 2023, we sent surveys to all companies held in the Fund as at 1st December 2022.

We recognise that we are only one shareholder among many, and importantly that companies have other stakeholders which we'd encourage them to consider. Therefore, we think it natural that in the vast majority of cases our engagement alone will not set a sustainability strategy. There may be exceptions, where for instance companies are early on in their sustainability strategy and we are a top shareholder in them – we have highlighted our engagement with **TopBuild** below. Overall, we wanted to express nuance in this survey.

Therefore, we asked companies about the degree of our contribution, as well as the type (for instance, creating internal buy-in, enhanced transparency, target setting, improvement of positive outputs/impacts). We also asked respondents to estimate a counterfactual – whether without our engagement, change would have taken place.

Importantly, the detail of the underlying responses was not seen by the investment team, and this was communicated to the companies. Instead, the data was managed by our data team. This was communicated to the companies, in order to control for overly positive feedback.

83% of respondents said we have a moderate or significant impact on their efforts on sustainability



70% said we helped improve their focus on climate commitments

35% said we helped accelerate the pace of change related to sustainability

"Findlay Park's questions and commentary helped us frame additional discussions with senior management and our Board of Directors... [their] perspective on continued improvement and willingness to make connection is a differentiator."

Engagement case studies

TOPBUILD

As an investor valued for our constructive engagement and communications with **TopBuild**, we were invited to deliver a presentation to the Board. We took this opportunity to offer some insights and outline several areas upon which we believe the company could incrementally improve. This provides a good example of the reach we have as active shareholders and how engagement is an essential and ongoing part of our investment process. Our engagement with the Board in September 2022 covered multiple topics, including the setting of a science-based emissions reduction target, improved disclosure around its ESG policies, a more sustainable product offering, efforts on diversity and inclusion, and on shareholder rights. This built on previous engagements and monitoring meetings that were carried out throughout 2021 and 2022.

The Board was highly complementary about our presentation and agreed to consider each of the potential actions that we suggested. **We had a follow up from the CEO to emphasise this positive feedback, echoing comments made by the Chairman in the meeting.** It is slightly premature to claim any outcome but the engagement was successful in furthering our relationship as committed investors in TopBuild and was a good introduction to many of the topics that we will return to in our future engagements with the company.

EOG RESOURCES

As befits investment in an oil and gas company, we have long engaged with **EOG Resources** on climate change. We've seen material improvements to the firm's reporting and commitments in this regard; equally we see room for yet further progress and will continue to engage on this issue. However, we wanted to highlight positive developments on another material sustainability topic – biodiversity.

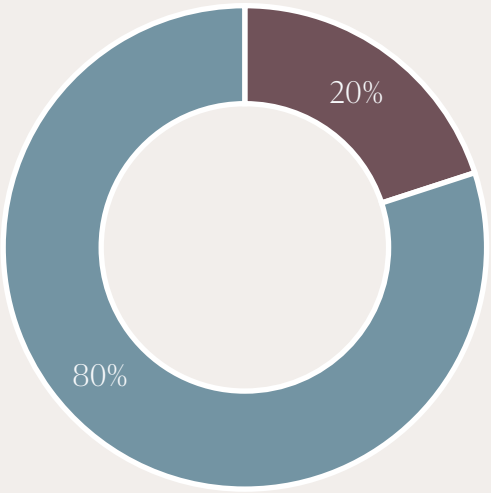
As a company operating with a significant physical footprint across the continental US, we identified biodiversity as a material topic on which to engage EOG, especially given its historic lack of disclosure on the topic. It also aligns with our approach to this area as a signatory to the Taskforce for Nature-related Financial Disclosures (TNFD), which aims to promote the effective risk management and disclosure of nature-related risks. We engaged with the members of the company's Senior Management team on the topic of biodiversity, including on IFC Performance Standard 6 and the concept of the biodiversity mitigation hierarchy, over a sustained period of time between 2021 and 2022, most recently speaking to them in 4Q 2022.

At our most recent engagement with members of EOG's Sustainability, Exploration & Production, and IR teams, the company confirmed that its approach and disclosure around biodiversity has been helped by the previous engagements we have had on the topic. It is now more explicitly referencing the mitigation hierarchy in its sustainability reporting, and aims to continue to enhance its processes and share best practice across the company.

In November 2022, we were also pleased to see **MSCI upgrade the firm to an 'A' rating** – putting it at the upper end of average, and one away from 'leader' rating. We reflect that, when we first invested, the company was rated as a laggard by MSCI – at B. This increase is reflective of the company's real progress, both in terms of practice and reporting, over the past few years. It is also testament to the firm's strong culture, which we have long valued.

Voting

In 2022 we voted at 41 meetings: 40 annual meetings and 1 special meeting. **We opposed management on at least one resolution at 20% of annual meetings**.[30] On an individual resolution basis, we opposed management on 5% of occasions. We point to an operational error at Berkshire Hathaway, leading to us not voting in a meeting where we would have supported a number of ESG resolutions on climate and diversity matters. This is outlined on page 15 of our H1 2022 report. This year we have also incorporated more statistics related to our voting, to better align with market standards around vote disclosure.[31]



Voted against management on one or more resolutions

Voted in favour of management on all resolutions

METRIC	OUTCOME
MEETINGS ELIGIBLE TO VOTE	41 (OF WHICH 1 SPECIAL)
MEETINGS VOTED	98%
MEETINGS VOTED AGAINST MANAGEMENT	20%
RESOLUTIONS VOTED AGAINST MANAGEMENT	5%
RESOLUTIONS VOTED AGAINST ISS RECOMMENDATIONS	6%

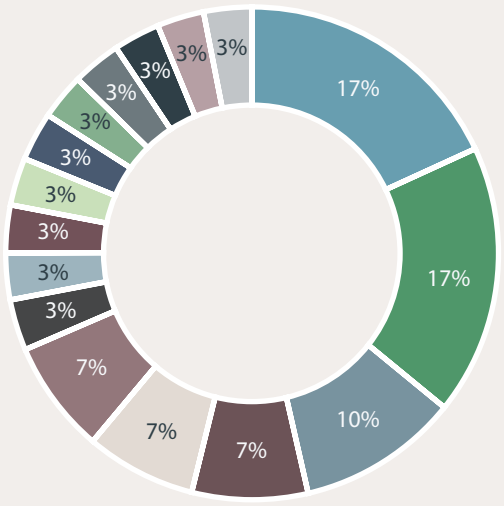
Overleaf we show how we voted against management over the year by issue.[32] Votes against Board members, and on lobbying / political contributions, were the most common category.[33] Other topics included diversity and inclusion, and environmental issues such as plastic and deforestation.

[30] ISS ProxyExchange and Findlay Park analysis.

[31] For instance the information requested under the Pensions and Lifetime Savings Association (PLSA) has Vote Reporting Template.

[32] Ibid.

[33] An example includes voting against a Board member due to both independence and compensation concerns.



- Board Related
- Lobbying/Political Contributions Disclosure
- Diversity & Inclusion
- Plastic
- Executive Compensation
- Health
- Employees on Board
- Climate Change
- Special Meeting Threshold
- Animal Welfare
- Other Business
- Human Rights
- Simple Majority
- Independent Chair
- Deforestation
- Labour Issues

Figures may not add to 100% due to rounding.

Voting case studies

All voting activity which we undertook in 2H 2022

CINTAS

We voted for a resolution asking for greater lobbying disclosure. It is our policy to vote for straightforward lobbying resolutions, and we informed the company of our intentions in advance.

FERGUSON

We voted with management and with ISS on all items at the Ferguson AGM, and no shareholders resolutions we put to vote. However, we wanted to note this meeting as it was the only one of the company AGMs in the UK, and therefore we made the point to attend. This allowed us to **meet a few Board members in person, including Alan Murray, who has been the lead director for employee engagement for a number of years.** We previously met him virtually and were impressed by his evident passion for employee engagement, and safety. One anecdote he gave us was when Canadian employees of Ferguson gave negative feedback, which was fed back to the Board and the then new CEO; led to management change and an improved employee experience in that geography.

After the AGM we asked informal questions about challenges related to climate targets and health and safety, and were encouraged by the firm's commitment to continue to make progress on these issues, including through the use of robotics where appropriate.

MICROSOFT

There were several shareholders resolutions at Microsoft, none of which we supported. These are described below.

Human capital

One resolution asked for an outline of the costs and benefits related to the firm's diversity, equity and inclusion efforts. The tone suggested that the company should not spend money on these initiatives. We disagree.

Another resolution asked for a report as to whether the firm's hiring of those with criminal records was in line with their commitments under the "Fair Chance Business Pledge", The pledge promotes "action to ensure that all Americans have the opportunity to succeed, including individuals who have had contact with the criminal justice system".[34] The firm contended that it has equitable policies in place and that 98% of applicants flagged as having a criminal record during pre-onboarding review proceeded to hiring. We agreed that this was good evidence that Microsoft is honouring this commitment.

Retirement plan climate options

Investor representative As You Sow asked the company to consider the climate risk inherent in its 401k retirement plans. Although the letter of the resolution called for enhanced climate reporting, it was clear from the supporting statement that the goal was to redirect 401k plans away from fossil fuel related investments. The filer contended: "Microsoft uses BlackRock LifePath funds as its 401(k) Plan's default retirement options, resulting in the vast majority of the $38 billion employee retirement dollars of its 401(k) Plan, as of December 31 2020, invested in funds that hold companies that create

[34] 'Factsheet: White House launches the fair chance business pledge', *White House, Briefing Room: Statements and Releases* (11 April, 2016).

substantial climate risk. A recent scorecard produced by As You Sow showed that the Microsoft 401(k) default option was rated Poor due to significant investment in fossil fuel companies and companies that cause deforestation risk.[35]

Microsoft noted a number of inaccuracies in the filers statement, and emphasised the independent advice needed for 401k decisions: "Microsoft's 401(k) plan is overseen by a management-level fiduciary committee, which utilizes several investment advisors, including a third-party fiduciary investment consultant." Further it noted: "almost all new participants in the plan are required to affirmatively elect their investments, and indeed most plan assets currently are not invested in the BlackRock LifePath funds". It also outlined the various green and ESG themed options open to employees.

We have committed to vote for all "reasonable" climate related resolutions, unless the company in question has already set a validated science-based target in line with a pathway to net zero, and already undertakes best-in-class climate reporting. Microsoft has an SBTi, and undertakes best in class climate reporting (for instance it was rated A by CDP in the last round of scored climate disclosures). Further, we question the reasonableness of the resolution itself, and some of the inaccuracies within the supporting statement.

Report on government use of technology & military products

Two resolutions related to similar issues – regarding Microsoft's work for government and military applications. The firm noted that Microsoft's Senior Leadership Team deliberated and "made a principled decision that we're not going to withhold technology from institutions that we have elected in democracies to protect the freedoms we enjoy." [36] It also argued that it is taking a proactive approach to addressing the ethical issues that new technologies pose for military applications. Microsoft stated that it 'respects' that some colleagues have different opinions on these matters, and suggests that there is flexibility for employees not to work on certain projects.[37] More generally, Microsoft is recognised for leadership on human rights issues among peers – for instance it ranks well on the most recent Corporate Human Rights Benchmark, and Digital Rights Benchmark.

Report in line with GRI tax standard

This resolution asked that Microsoft 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.

The PMs and the Responsible Investment Lead carefully considered a similar resolution on this topic, related to Amazon, in 1H 2022. We ultimately decided not to support this, given the overly proscriptive nature of the standard, and the lack of companies currently adopting such reporting. Microsoft also pointed to forthcoming country-by-country reporting, which it will adopt by 2025 due to EU rules.

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[35] 'Microsoft Corp: Report on Assessing Systemic Climate Risk from Retirement Plan Options' *As You Sow* (14 June, 2022).

[36] Charles Riley and Samuel Burke, 'Microsoft CEO defends US military contract that some employees say crosses a line' *CNN Business* (25 February, 2019).

[37] Brad Smith, 'Technology and the US military', *Microsoft Blogs* (26 October, 2018).

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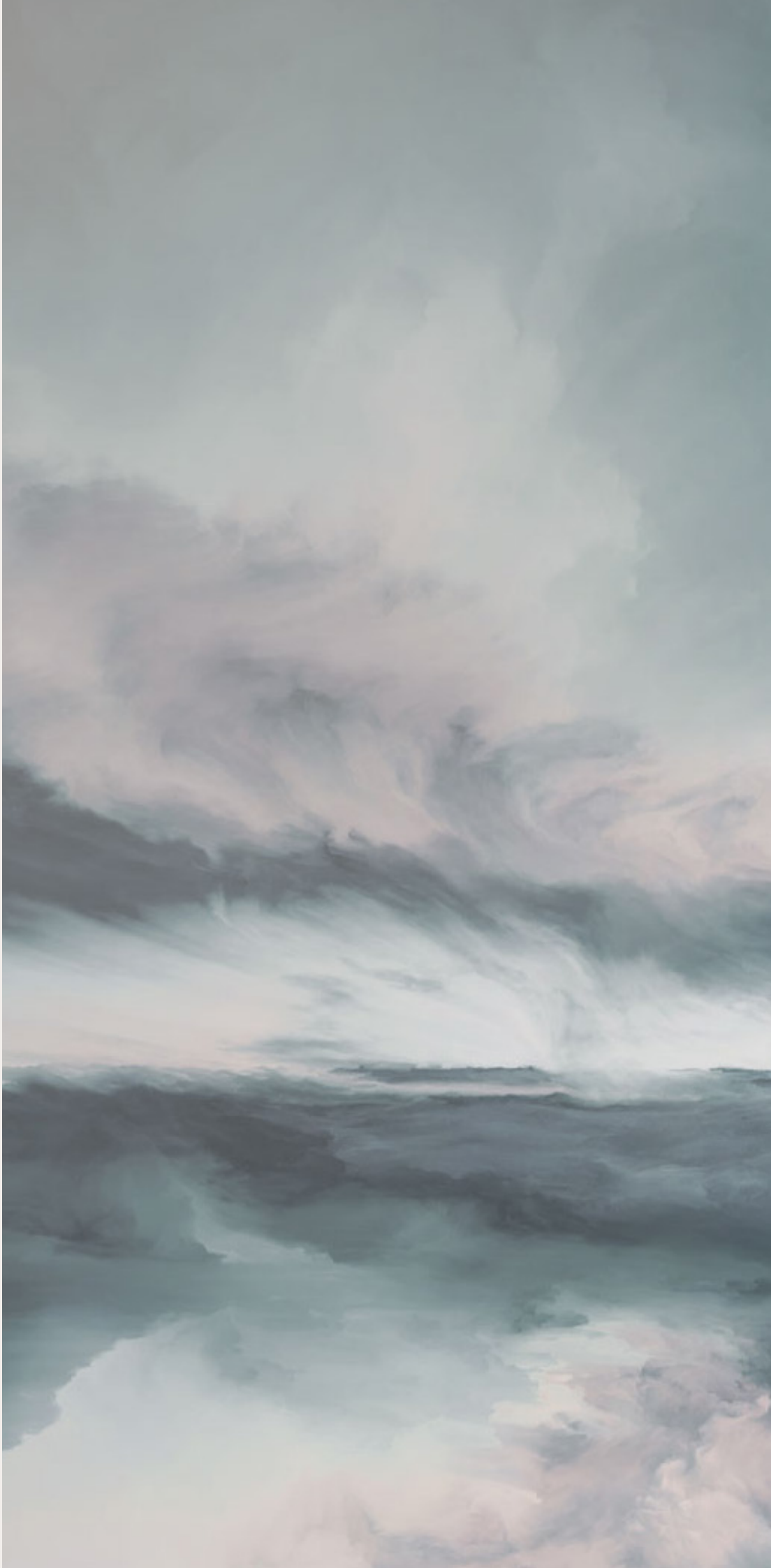
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