ALLAN GRAY

CONTRARIAN INVESTING

STATEMENT ON RESPONSIBLE INVESTING

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This document explains how we exercise shareholder responsibilities and voting, and includes our approach to environmental, social and governance (ESG) issues. We review this document annually.

As an investment manager, we have designed our investment process to maximise the chances that we can successfully implement our fundamental, long-term and contrarian investment philosophy with a view to maximising the interests of the funds we manage on behalf of our clients.

The Principles for Responsible Investment (PRI) initiative is the world's leading proponent of responsible investment which works to understand the investment implications of environmental, social and governance (ESG) factors. It is supported by the United Nations and is governed by six leading principles with the objective of developing and maintaining a more sustainable global financial system.

Allan Gray Australia supports the United Nations-supported Principles for Responsible Investment (PRI). We are also members of ESG Research Australia, a not-for-profit industry working group committed to, amongst other things, encouraging broker research to take into account ESG issues and raising the profile of ESG-inclusive research in the Australian investment industry.
You can find out more about the Principles for Responsible Investment initiative at www.unpri.org/
For any further information about our approach to responsible investing, please call our Client Services team on 1300 606 606.

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTMENT APPROACH

As part of the bottom-up investment research process, our analysts consider a range of factors that might affect a company's intrinsic value. We are long-term investors and consequently, companies we invest in need sustainable earnings streams. We believe that a company that acts in a way that is morally or socially irresponsible or acts in a way that damages the environment will eventually undermine its earnings and affect investment performance. For example, if a company makes money in a manner that is not sustainable from an environmental or social perspective, the analyst will not gain conviction in the sustainability of its current level of profits. Similarly the consideration of governance issues such as excessive or poorly structured executive remuneration is a critical part of an analyst's assessment of a company's intrinsic value. We describe below our approach to two particularly topical areas: environmental (specifically climate-related) issues and governance matters.

Just as there is scope for different views on the sustainability of a company's competitive advantage, there is scope for investors and individual analysts to have different views on ESG matters. We believe that by performing rigorous, fact-based research on ESG matters, we may from time to time form a divergent view from the consensus that may alert us to the opportunity to buy a security at a discount to its intrinsic value.

This approach to ESG is formalised through an ESG focus at all times during the research process including investment reports which are submitted by analysts for review by their peers before an investment in a company is made. See Appendix 1 for examples where ESG issues influenced our investment decision.

In addition, we keep track of ESG engagements with the Board or management of the companies in which we invest, as part of our continuing assessment and monitoring of those companies. These engagements are recorded in an ESG Register, and can be tracked and updated as matters are resolved. Appendices 2 and 3 provide further information about our recent ESG engagements.

SCREENING

From time to time, large institutional clients reach out asking for screens barring investment in particular stocks or sectors such as tobacco, thermal coal or controversial weapons which correspond with their own ESG policies. We seek to accommodate these requests where institutional clients have individual mandates with Allan Gray. We also work with clients to understand the reasoning behind screening requests and to ensure that screening is targeted to their area of concern and does not impact the potential for sustainable long-term change through shareholder engagement whilst enhancing returns and profitability.

ENVIRONMENTAL: CLIMATE RELATED RISKS

Climate change is one of the defining issues of our time and we recognise that it is one of the biggest threats facing our society.

Our approach to emissions-intensive companies is to understand the long-term sustainability of their practices by continuous engagement and agitation during the term of our investment. For example, significant research has taken place in the following areas: the future consumption of gas and its role in the displacement of coal; the transition risk associated with potential investments in thermal coal; long term trends in primary production of base metals versus recycling. Decisions to own or not own a particular company is not a function of this risk itself, but also our perception of price and whether those risks are adequately compensated for.

We also believe that the deployment of additional capital into emissions-intensive resources requires further engagement which we actively pursue. An effective way to expedite the transition to a low carbon footprint might be to assign a very high price to carbon emissions. This should quickly flow through to the cost of end products consumed and, where possible, shift consumption towards more sustainable lower carbon intensive substitutes. This is a useful lens which we use to assess a company's transition risk and its long-term sustainability.

We have long felt that platforms of ownership are the best avenues of change through consultation and agitation. The 'not in my backyard' approach (divestment) often shifts stakeholder interests towards the apathetic and morally unconscionable. In our view, this slows or reverses much needed change.

We feel that huge behavioural changes are needed across all facets of society to tackle climate change and we support efforts to expedite this change. However, we are wary of the at times superficial analysis that goes into channelling capital from one carbon intensive activity towards a seemingly less carbon intensive activity without regard for the upfront carbon sunk into the latter's assets.

GOVERNANCE

Corporate governance issues are particularly important to us. Understanding how the company is structured and governed allows us to properly value a company and ascertain how much a company is worth. Communication with a company's senior management and/or Board helps us understand how a company is managed and its capital deployed.

Shareholders' interests

Our aim is to discourage senior management and Boards from making decisions that are not in line with shareholders' interests. Where we feel that the Board's/senior management's views are not aligned with those of the company's shareholders, we will voice our concern to ensure that shareholders' interests are not marginalised or disregarded.

Based on this principle, when we research a company and engage with senior management, we pay particular attention to their skills and conduct as well as ownership/personal investment in the company and management remuneration. We recognise that every company is different and that there may be many corporate governance issues which may be relevant. This includes whether the presence of independent directors would be beneficial or whether the company has appropriate employee relations.

Active engagement

To be able to properly engage with management on the above, we conduct thorough research on the company and its practices. This includes engaging with the company's Board/senior management to discuss various matters, including the company's:

- structure;
- prospects including strategic and sustainability concerns;
- performance and financial health; and
- remuneration and corporate governance policies/framework.

In conjunction with the above, we review the company's financial statements, broker/analyst research reports and other public data or information that could be relevant (for example, the use of quantitative modeling).

In terms of prioritising company engagements, first and foremost we meet with companies in which we are invested. In each calendar year we typically meet with senior management twice (as part of the Australian half-yearly reporting seasons), and the Board once. On occasion, it is important to set up out-of-cycle meetings to address unexpected issues, often of an ESG nature as described above. See Appendix 3 for examples. Next in terms of priority are meetings with management teams of companies in which we are interested in investing, or who may provide valuable insight into a portfolio-owned company.

When evaluating any concerns raised in this research, we will take into account widely-accepted guidelines considered relevant at the time including both current and proposed laws and regulations. Ultimately, we rely on our internal assessments of what is in our clients' best interests in any given engagement. If engagement outcomes are not addressed or resolved in meetings, we will follow up with management or the Board. When escalation is unsuccessful, we will look to other alternatives, which can include discussing our objections openly and promoting media coverage, voting against directors who are up for re-election or exercising other shareholder rights.

We have also engaged and collaborated with other asset managers, industry consultants and stakeholders to agitate for change on topical matters to the industry. For example, we conducted a roundtable discussion on what we believe is an appropriate remuneration framework considering the long-term interests of shareholders and the company.

The broader group's Policy on Engagement can be found here: https://www.orbis.com/au/institutional/resources/policies-and-forms

Compliance with the law

We are conscious that our active engagement with companies may see us:

- speak to the company's institutional or major shareholders. If so, we will always act independently from these shareholders and have regard to regulatory guidance regarding collective shareholder action; and
- come into possession of materially price sensitive information. If so, we will ensure strict compliance/adherence to Australia's insider trading and market manipulation laws.

SHAREHOLDER VOTING

Equally important as the integration of an ESG approach into our research process, is the exercise of our voting rights in respect of the companies in which we invest. Our guiding principle in voting is that we will strive to act in what we believe are the best long-term economic interests of our investments in the funds and their investors. We will consider all aspects of proposals being put to the vote. This includes broader social and political ramifications but in the context of their impact on the long-term value of the companies in which the funds are invested. We vote on all resolutions that we consider important however we do not have a prescriptive set of rules for proxy voting as we believe this would limit our flexibility to maximise the interests of our clients.

Our voting approach is based on the principle of considered investigation and transparency. It can be broken up into the following three stages:

Investigate and communicate

We thoroughly consider all proposed resolutions prior to submitting our voting instructions. Our instructions could be in the form of supporting, opposing or abstaining from voting on resolutions.

As such, we cast our vote based on what we consider to be justifiable and reasonable, in light of the present facts and circumstances surrounding the resolution and what is in the interest of our clients, as a whole. We do not analyse how our voting decision may be preferred by, or will provide a benefit to, a particular client.

Our approach may mean supporting or opposing a resolution, even if it is contrary to the recommendation by the company's Board. We do not "blindly" follow the voting recommendations by a company's Board or proxy adviser. Where we are inclined to vote contrary to the Board's recommendation, we may contact the company's management to advise them of the proposed view and engage in a discussion regarding why we are proposing to vote in a particular way. If our view remains unchanged after such discussion, we may elect to attend the meeting to give voice to our view.

See Appendix 3 for proxy voting statistics and examples.

Submit vote

We support the principle of "one share, one vote" and are reluctant to engage in "borrowing" stock to increase our voting rights/power in any proposed resolution. We also actively engage with the external voting service providers to ensure that we meet the custodial cut-off voting timelines and our votes are not disenfranchised due to such cut-off procedures.

Report to clients

Clients are able to send us bespoke requests for information and we always try to meet these requests to the best of our ability. We are able to provide a voting summary and reasons on how we voted as requested.

Quarterly voting summaries for the Allan Gray Australia managed funds can be found here:
https://www.allangray.com.au/b/product-update/

A copy of the broader group's Proxy Voting Policy can be found here:
https://www.orbis.com/au/institutional/resources/policies-and-forms

OTHER RELEVANT POLICIES

In implementing our ESG approach to investment research, and in exercising shareholder rights, Allan Gray Australia ensures that it complies with the group's Code of Conduct policies, including Conflicts of Interest, and Bribery and Corruption policies. The Conflicts of Interest Policy can be found here: https://www.orbis.com/au/institutional/resources/policies-and-forms and governs the way in which we engage with company Boards and senior management, and ensures that any conflicts arising in connection with such engagement or the exercise of proxy votes are appropriately disclosed and managed.

APPENDIX 1: EXAMPLES OF WHEN ESG ISSUES INFLUENCED OUR INVESTMENT DECISIONS

In late 2019, significant environmental and social concerns contributed to us not investing in an Australian producer of coal. In particular, the generation of electricity via thermal coal, which causes materially more carbon dioxide (and other related greenhouse gases) was an issue for us. Recognising the long-term risks that climate change presents, we felt these and other risks were not discounted enough in the share price to warrant an investment.

We identified water usage as an important issue when researching a horticultural company that supplies produce to food retailers in Australia. Specifically, the longer-term risks associated with regions where their water-hungry products are grown. Furthermore, the potential for labour exploitation given the labour intensive nature of the work was also a concern for us. These concerns contributed to us not investing in the company.

APPENDIX 2: ESG COMPANY MEETINGS IN 2019

	Investee companies*
Total number of meetings where ESG factors were discussed	**30**
Environmental	5
Social	9
Governance	26

**Stocks held in the Allan Gray Australia Funds in 2019.*

Numerous other meetings with company management or Boards were also held as part of our usual investment research process.

APPENDIX 3: ENGAGEMENT AND PROXY VOTING EXAMPLES FROM 2019

Examples of when Allan Gray engaged with companies

In early 2019, we made a submission to the Senate Inquiry into the Treasury Laws Amendment relating to Energy Market Misconduct. As investors in a broad range of Australian companies, from industrial companies to electricity retailers impacted by higher electricity and gas prices, we have an interest in the long-term, sustainable health of these markets. We had serious reservations about the legislation contemplated, which we believed was unnecessary (particularly as it applied to retailers) and could make things worse for consumers and taxpayers in the long-term. A full copy of our submission can be found here:
https://www.aph.gov.au/DocumentStore.ashx?id=866f9f7a-7a0c-4496-be70-46a54ca630be&subId=665674

We met with members of the Board of an Australian-based retailer to discuss the use of plastic in its promotions and packaging, and shared our perspective that it is important to have measurable outcomes and targets in this space. Furthermore, we had discussions on the mental health of its workers, and the programmes they are currently running.

We engaged with an oil and gas company on the carbon footprint of their likely Browse and Scarborough liquefied natural gas (LNG) developments. In particular, we requested emissions data on how Browse gas stacks up relative to coal, which the company agreed to share with us.

We met with a health care provider to express our dissatisfaction with the performance of the Board and management team, particularly some poor capital allocation decisions that were not in the best interests of shareholders.

Allan Gray Australia Equity Fund: summary of votes in 2019

Many votes cover routine matters and in many other cases we would usually expect to support management's recommendation. But as with any long-term relationship, there will be some disagreement: in 2019 13% of all votes cast were against management recommendations.

Period	Number of meetings	Votes for	Votes against	Abstentions	Votes against management recommendation	Votes with management recommendation	% against management recommendation
Quarter 1	1	6	0	0	0	6	0%
Quarter 2	12	49	5	3	8	49	14%
Quarter 3	1	5	0	0	0	5	0%
Quarter 4	32	146	27	6	24	155	13%
2019	**46**	**206**	**32**	**9**	**32**	**215**	**13%**

Source: Broadridge Investor Communications Solutions, Allan Gray Australia.
Excludes meetings where the Fund sold its shares before the meeting record date.
"% against management recommendation" refers to those votes for which management made a recommendation (i.e. not all votes).

Examples of when Allan Gray voted against management's recommendation at a shareholder meeting

We did not support a number of proposals to approve executive compensation. Examples include an Australian-based global insurance company, where we felt the new remuneration scheme did not align with the long-term interests of shareholders, and a management financial services company, where the size of the CEO's remuneration in a typical year would be materially higher relative to other ASX-listed companies.

We voted against a number of director appointments, including a company involved in the manufacturing and distribution of building materials, and a leading global metals and electronics recycling company, where we felt the proposed candidates had a poor track-record of capital allocation at prior companies.

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